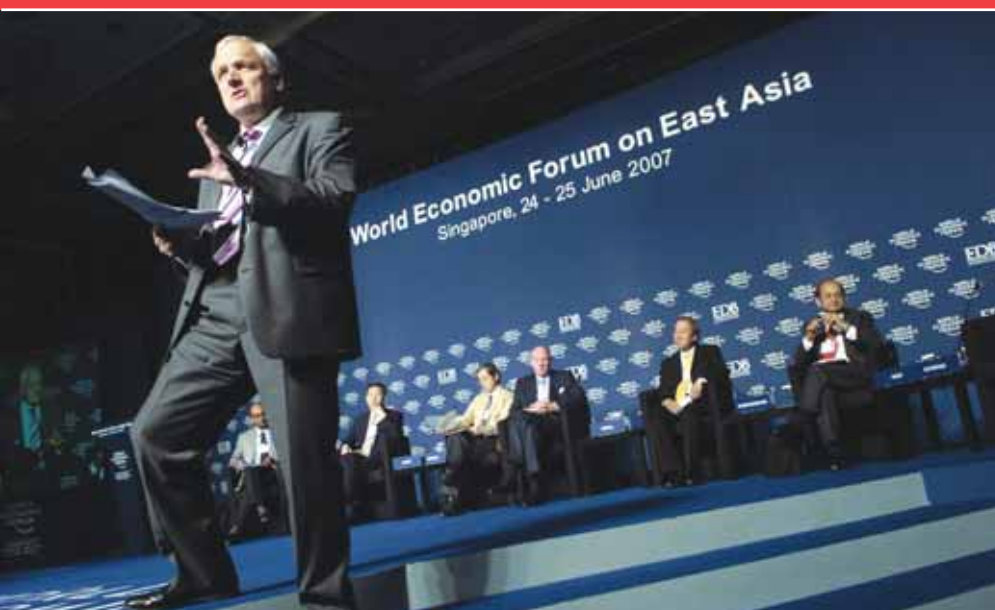


World Economic Forum on East Asia

The Leadership Imperative for an Asian Century

Singapore, 24-25 June 2007



Report

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World Economic Forum

91-93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland
Tel.: +41 (0)22 869 1212
Fax: +41 (0)22 786 2744
E-mail: contact@weforum.org
www.weforum.org

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Preface

"The Leadership Imperative for an Asian Century," was the theme for the 16th World Economic Forum on East Asia which was held in Singapore. As such 300 leaders from 26 countries examined and discussed the challenges and priorities that ultimately shape the region's future agenda.

Implicit in this year's theme were two fundamental assumptions going forward. One is that a global shift in power and influence is taking place whereby the lead actors are increasingly from the Asia-Pacific region. This will not be a seamless transition, as change will need to be managed between nations as well as within global institutions to adapt to this shift. Therefore, the programme of the World Economic Forum on East Asia was designed to generate insight and guide action to improve the alignment of the region's industry, political and economic agendas in a period of transition.

The second assumption is that Asia is able and willing to assume the global leadership responsibilities that will flow from this shifting power equation. Its ability to assume a greater role in the near future will be predicated on fulfilling the political and economic expectation of an ASEAN community, building stronger trilateral relations among China, Japan and Korea and integrating India further into East Asia. Yet, the region will need to act quickly as Japan, Korea and China face the task of adapting to rapidly ageing populations, while India and ASEAN nations will need to create jobs for growing numbers of young workers, mainly from rural areas.

We hope you find the report of this year's proceedings to be an insightful and timely guide to explore how the region's stakeholders can work together to address the leadership imperative for an Asian Century.

Lee Howell
Director, Head of Asia

Sushant Palakurthi Rao
Associate Director,
Global Leadership Fellow,
Asia

Summary – The Leadership Imperative for an Asian Century



“ East Asia’s renewed economic buoyancy is a unique story of growth and transformation that will improve the lives of billions of people in the region, and also benefit the rest of the world. But while the overall outlook is good, there are major risks and uncertainties to watch out for. Forums like this are valuable opportunities for us to look over the horizon, discuss possible scenarios and exchange ideas on how we can minimize the chances of bad outcomes. For the better informed we are, the less likely we are to be taken by surprise or make mistakes. ”

Prime Minister **Lee Hsien-Loong** of Singapore

Memories of the Asian financial crisis loomed large over the World Economic Forum on East Asia as it took place on the eve of its 10 year anniversary. Some 300 leaders from 26 countries representing business, government and civil society gathered in Singapore for the Forum’s 16th such meeting to discuss which issues should be at the top of Asia’s agenda. While Asia’s resurgence in the past decade has much stronger economic foundations, leaders will need to pay closer attention to a creeping complacency over having accumulated massive foreign currency reserves, over the growing cost of climate change and over the potentially destabilizing income disparities growing across the region. “It’s precisely because everyone’s feeling so good that we know something’s coming,” observed Tharman Shanmugaratnam, Singapore’s Minister of Education.

Shaking off such complacency requires action, but inspiring and taking action when times are indeed good is the hallmark of true leadership. To reflect this, the theme for the 2007 World Economic Forum on East Asia meeting was *The Leadership Imperative for an Asian Century*. The emergence of China and India as major international players has thrust Asia to the forefront of global economic growth and political change. No longer can Asia be content to respond to global trends. It now shapes them. For example, the challenge of climate change is clearly global in scope but certain regions, most notably Asia, will have to assume much greater responsibility in implementing solutions than others. There is indeed an emerging social consciousness in Asia to do more to address



Nor Mohamed Yakcop, Second Minister of Finance of Malaysia, making the closing remarks, with Carlos Ghosn, President and Chief Executive Officer, Renault, France; President and Chief Executive Officer, Nissan, Japan; Member of the Foundation Board of the World Economic Forum and Co-Chair of the World Economic Forum on East Asia; Goh Chok Tong, Senior Minister of Singapore and Chairman, Monetary Authority of Singapore; James T. Riady, Chief Executive Officer, Lippo Group of Companies, Singapore; Co-Chair of the World Economic Forum on East Asia; Jim Goodnight, Chief Executive Officer, SAS, USA; Co-Chair of the World Economic Forum on East Asia; and Christopher J. Graves, President and Chief Executive Officer, Ogilvy Public Relations Worldwide, Hong Kong SAR

such pressing global challenges. It comes not only from those left behind by globalization, but also among globalization's greatest beneficiaries in Asia who are responding with rapidly growing philanthropic activities.

The onus therefore is on governments and companies to channel this awareness into tangible action in areas that enjoy broad-based support. "The region's leaders are up to the challenge," said Philippine President Gloria Macapagal Arroyo. "Our time has come," she said. "Asia will be up to the task of leading our people and our region into a more dominant role in world economic and political affairs." In this context, leaders at the World Economic Forum on East Asia were asked in a survey to identify the one action item that should be a priority for the region in the areas of Asian Leadership, Risk Management, Sustainable Growth and Competitiveness.

- In the area of Asian Leadership: "Building a common agenda shared by China, Japan, India, Korea and ASEAN on key regional challenges" was considered the top action item.
- In the area of Risk Management: "Putting energy and environmental issues at the top of the agenda of regional institutions" was selected as priority number one.
- On the topic of Sustainable Growth: "Improving energy security and efficiency in major consuming countries in Asia" was the top action item.
- On the topic of Competitiveness: "Adapting to the continued growth and rising economic influence of China and India" was considered the top priority going forward.

Asian Leadership

Globalization and the continued rise of China and India are putting pressure on Asian leaders to speed up regional integration but it requires balancing national interests with regional and global responsibilities. This in turn calls for authentic and pragmatic leadership that is focused on delivering results at the national, regional and global levels.

- The times demand that leaders focus less on grand plans and more on implementing commitments. They need to take action on priorities such as regional integration and problems that require regional solutions.
- While East Asia has recorded significant economic and social progress over the past two decades, income disparities are growing. As countries attain middle-income status, the region's shortcomings will become more glaring.
- How Asia responds to these widening income gaps will be a critical test of its leadership. Leadership means not waiting for the next crisis but rather pursuing critical reforms needed to prevent or prepare for one. It means taking a long-term view – not governing with the next election or the next earnings announcement in mind.
- To prepare the next generation of leaders, countries have to improve education to promote creativity, innovation and an understanding of globalization and global issues.



Goh Chok Tong,
Senior Minister of
Singapore, and
Chairman, Monetary
Authority of Singapore

“ In economies like India, the growing demand for financial services from local firms and households, the large opportunities for international investors and increasing economic integration provide the basis for the creation of new regional financial centres. ”

K. V. Kamath, Managing Director and Chief Executive Officer, ICICI Bank, India; Co-Chair of the World Economic Forum on East Asia

Risk Management

Asia has recovered from the financial crisis of 1997 and 1998 and inoculated itself from future contagions of similar origin. But the world has changed, and so the fruits of Asia's present success may hold within them the seeds of future crises. Thanks to globalization, preventing a future crisis will require unprecedented coordination between governments and businesses.

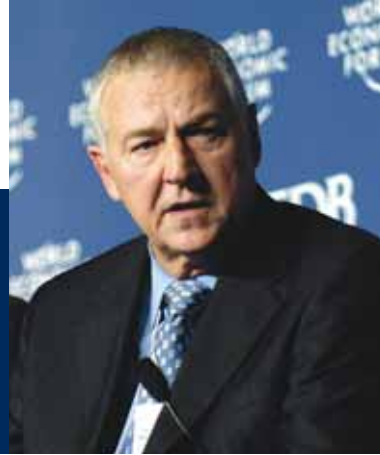
- The vast accumulation of dollars in East Asia is a symptom of an over-reliance on exports and investment for growth. Low borrowing costs have stimulated the growth of complex derivatives that could unravel unpredictably in the event of a downturn in the US economy or the dollar.
- Elections across the region pose a risk to policy stability as new actors, parties and priorities come into play. Protectionism is feared to be on the rise in the wake of a weakening Doha Round of trade negotiations. There is uncertainty regarding the outcome of nuclear non-proliferation negotiations in North Korea and Iran.

- East Asia can reduce its vulnerability to dollar-related volatility and to US political backlash by stimulating domestic consumption and liberalizing exchange rates. Unlocking domestic savings and promoting the service sector could also slow the widening income gap.
- Energy security and environmental damage pose the biggest risk to East Asia's future. Every nation needs to become more energy efficient and reduce emissions. Poverty alleviation may be a priority, but it will be moot if global warming and climate change worsen.

Sustainable Growth

The Asian model of growth – channelling high public savings and foreign investment into export industries – has combined with the opening of China and India to produce remarkable growth in the past decade. But this model is also taking an unsustainable toll on the environment and is producing rising income disparities that threaten the region's long-term stability.

- While it is counterproductive to blame developing nations for climate change, it is nonetheless imperative that they improve their energy efficiency, so that environmental costs do not squander economic gains.
- Asia's energy importers stand to gain more from cooperating than competing to secure energy supplies. In the long run, Asia needs to reduce its reliance on fossil fuels and invest in developing renewable energy.



Jim Goodnight, Chief Executive Officer, SAS, USA; Co-Chair of the World Economic Forum on East Asia

// I would appeal to members of ASEAN to become more involved and their voices to be made more clearly heard within the Doha Round. //

Neville Isdell, Chairman and Chief Executive Officer, The Coca-Cola Company; Co-Chair of the World Economic Forum on East Asia

- Flush with reserves, national governments need to devise creative fiscal measures to help alleviate income disparities. Metropolitan governments will play an increasingly important role as Asia becomes increasingly urbanized.
- Infrastructure investments stand out as the most effective means of spreading the benefits of growth. Governments and companies alike need to invest in projects that stimulate the poorest sectors of the economy while reducing inefficiencies that impede income growth.

Competitiveness

After the Asian financial crisis, investors shunned the ASEAN economies, wary of their vulnerabilities. The rise of China and India prompted some analysts to conclude that South-East Asia could not compete.

- Reports of ASEAN's demise have been greatly exaggerated. The region has held its own and many of the 10 economies have managed to carve niches of opportunity.
- Business strategists now talk of a "China Plus One" strategy – don't put all your eggs in one basket. It

makes sense for investors to spread risk, adopt a global business approach and take advantage of the growing attractiveness of different economies. China and India's neighbours have to work harder and exploit their competitive advantages.

- Countries need to adjust and be flexible in response to changing cost structures at home and in rival economies. Innovation and skills development could be key success factors.
- The ultimate test of competitive success for an economy or region may be the quality of its leadership and governance – how well ambitious plans are actually implemented.

Asian Leadership



“ The issue isn’t about a leadership deficit. The region has any number of able leaders of strong nations, as well as institutions like ASEAN, to provide individual, regional and multilateral leadership. The real issue is the rapid economic rise of the region at a time when the global order has undergone enormous swings. ”

Gloria Macapagal Arroyo, President of the Philippines

One of the challenges analysts of Asia have is that the continent is a place where it is often difficult to discern rhetoric from fact – perception from reality. The gap between what is at the surface and what lies beneath, between what is said in public and what is admitted behind closed doors, can be significant.

Take South-East Asia and the region’s integration. On one hand, ASEAN countries have hailed their efforts to create a free trade area and to conclude a plethora of bilateral deals in the face of setbacks at the multilateral level. On the other, ministers tacitly acknowledge that much of the work so far has been focused on lowering tariffs, while certain sensitive sectors remain protected. The heavy lifting required to eliminate non-tariff barriers, facilitate trade and create a single and seamless market remains undone. For example, there is no harmonization of rules in the trade of services in the 10 ASEAN economies. This deficiency means that global services companies have

“ What ASEAN is doing today is building a community. The other thing we are doing is maintaining the centrality of ASEAN. ”

Ong Keng-Yong, Secretary-General, ASEAN, Jakarta

no ASEAN business strategy; it would make no sense to have one. “What we need is for ASEAN to have a free trade agreement with itself,” said Steven Okun, Vice-President, Public Affairs, for global package and document distribution company UPS in Singapore.

Behind Okun’s somewhat jocular statement was a very serious plea for authenticity, for leaders to focus less on grand visions and more on pragmatic policies that have real impact. “We need less planning and more doing,” said meeting Co-Chair Carlos Ghosn, who is President and Chief Executive Officer of both Japanese automaker Nissan and French car manufacturer Renault. “ASEAN has more of a facility for planning and less of a facility for execution. We may have wonderful plans but execution is 5%.”

ASEAN officials usually bristle at charges, particularly from the business sector, that the organization is all talk and no action. But today, with the pressures of globalization mounting and China and India continuing their market-shaking rise, the chips are down and South-East Asian leaders are speaking more plainly. “The step-by-step way they are handling the integration of ASEAN and East Asia is slow by the reckoning of many of us, too slow by the reckoning of business people,” Singapore Senior Minister Goh



“ We need less planning and more doing. We may have wonderful plans but execution is 5%. ”

Carlos Ghosn, President and Chief Executive Officer, Renault, France, and President and Chief Executive Officer, Nissan, Japan; Member of the Foundation Board of the World Economic Forum; and Co-Chair of the World Economic Forum on East Asia

“ The step-by-step way they are handling the integration of ASEAN and East Asia is slow by the reckoning of many of us, too slow by the reckoning of business people. ”

Goh Chok Tong, Senior Minister of Singapore

Chok Tong conceded. Vowed Ong Keng-Yong, Secretary-General of ASEAN: “In the coming year or two you will see the leadership focus on implementation.”

The collective record of Asian leaders over the past two decades has been laudable. Asia has performed extraordinarily well, the financial crisis notwithstanding. According to the World Bank, the number of East Asians living on less than a dollar a day was halved from 300 million to about 150 million between 1990 and 2004, a decline in the incidence of poverty from 29% of the population to just 8%.

In Asia as a whole, however, about 20% of the population is still poor. As Asia progresses and many of its countries become middle-income economies, the shortcomings of the region will stand out more sharply. Already, a new set of problems has emerged – infrastructure deficits, environmental degradation, energy security, technological development and innovation, and ageing populations. The most urgent priority will have to be the growing gap between the rich and poor, particularly in countries such as China and India, where the ranks of the middle class have

swelled and some have become rich while hundreds of millions remain in poverty. “Differential responses to globalization are leading to income inequality that is becoming a more serious problem in every country, every city and maybe every family around the world,” warned George Yeo Yong-Boon, Singaporean Minister of Foreign Affairs. “Unless we have global leadership, this problem will become even more acute.”

Therein lies, however, a major challenge. Today, there are no clear lines of global or regional authority. In a world of global threats that require regional and global solutions, there is a lack of regional and global leadership with any clear mandate. In the absence of such an agenda-setting force in Asia, it is up to each country to balance their national interests with their regional and global responsibilities. Authentic leadership means acting to prevent or prepare for crises, not merely responding to them. It means staying ahead by pursuing reforms constantly, not reacting to competitive pressures or public criticism. It means taking a long view, not governing with the next election or quarterly results in mind.



Indeed, how a government responds to widening disparities in income that are stirring a sense of insecurity, fear and resentment among citizens could be a real test. "Governments may be pressured to roll back reforms and liberalizations and revert to nationalistic rules for foreign investments or protectionist policies for trade," Singapore Prime Minister Lee Hsien-Loong told participants. "This will not only choke off growth in the region but lead to tensions and souring of relationships," he said.

How can East Asian countries ensure that they develop the necessary leadership? One way is to invest in education that encourages creativity, innovation and a global perspective, attributes that future leaders of the region will need. "The educational system is not responsive enough to the new world that we are facing," said meeting Co-Chair James T. Riady, CEO, Lippo Group of Companies, Singapore. Minister Yeo also stressed the importance of preparing the next generation for globalization. "We can't just feed them rules and regulations or canned knowledge," he concluded. "Countries which pay attention to education and value systems will do well. Those which neglect this area are not in the game."

Dealing with the Asianization Backlash

The growing clout of Asian exporters on world markets has triggered a disturbing tide of economic nationalism in the West, panellists in a session on the Asianization of global markets and institutions agreed. The challenge this presents to business, which has embraced the new economic powers in the East and the profits from their emergence, is to counter a rising clamour for protectionist measures to save western jobs from cheap Asian exports.

Business needs to better explain the benefits of free trade to politicians to counter mounting economic nationalism in the current political debate. "Engagement in international commerce is the 21st century's most powerful development tool," said Coca-Cola Chairman and CEO E. Neville Isdell. "As we look to ensure the sustainable growth of the world's economy, it is vital that we promptly conclude the WTO Doha Round. It will be a significant step in the process of reducing the gap between wealthy and poorer nations," he said.

Detractors of free trade, panellists in the session agreed, found fertile ground for their calls for protection in the face of superior growth rates in Asian economies, the accumulation of massive currency reserves by Asian governments, and the reverse engineering that is seeing the transfer of corporate culture from Asian-based subsidiaries back to their western head offices.

It is up to business, universities and think tanks to counter the fears that this presents and demonstrate that the process is not a zero-sum game that will deliver benefits to the East at the expense of the West.



Masatoshi Wakabayashi, Minister of the Environment of Japan, and Ralph R. Peterson, Chairman and Chief Executive Officer, CH2M HILL Companies, USA

Left page: Asia Forum on The Innovation Mantra with Lim Siong-Guan, Singapore Economic Development Board Chairman; Kiyoshi Kurokawa, Science Adviser to the Prime Minister of Japan; K. V. Kamath, Managing Director and Chief Executive Officer, ICICI Bank, India, and Co-Chair of the World Economic Forum on East Asia; Jim Goodnight, Chief Executive Officer, SAS, USA, and Co-Chair of the World Economic Forum on East Asia; Liu Jiren, Chairman and Chief Executive Officer, Neusoft, People's Republic of China; Lamon Rutten, Joint Managing Director, Multi Commodity Exchange of India, India; and John K. Deferios, Group Vice-President, Content, and Anchor, United Kingdom, FBC Media, United Kingdom

Climate Change: Is Asia Avoiding “an Inconvenient Truth”?

Climate change has the greatest impact on the poorest people. While the UN Security Council debate on global warming in April was a historic event that signified the seriousness with which the world considers the issue, concrete results coming from this concern will depend on “whether we have a common perception and work together,” said Japanese Minister of the Environment Masatoshi Wakabayashi.

Existing technology will not be enough, according to Wakabayashi. Developed nations need to commit resources to developing new technologies to achieve a low-carbon society. Solar power and nuclear power will be essential, he said in a session on climate change.

Achieving reductions in emissions is possible using existing technologies, responded Jamshyd N. Godrej, Chairman and Managing Director, Godrej & Boyce, India. Referring to Al Gore’s film on the threat of climate change and global warming, he said Asia was avoiding “an inconvenient truth” by increasing carbon emissions in the name of economic growth and poverty reduction, and pointing to their lower per-capita carbon emissions as justification. “The fact is that both China and India and other developing countries in Asia can not go on talking about per capital emissions. This is just a cop-out. We have to get on with what we have to do for global warming.”

Ralph Peterson, Chairman and Chief Executive Officer, CH2M Hill Companies, USA, said it was not right to point fingers in the climate change debate: many of the goods coming out of Asia’s polluting factories after all are destined for American consumers. The focus, he said, should be on improving energy efficiency and lowering energy intensity. Multinational corporations have a special obligation in this regard to invest in more efficient technologies and make sure they are adopting them wherever they operate in the world, he said. Peterson is optimistic that the world will succeed in lowering emissions in the face of global warming. “Public opinion is galvanizing in a way that makes me very hopeful,” he concluded.

Risk Management



“ It’s precisely because everyone’s feeling so good that we know something’s coming. ”

Tharman Shanmugaratnam, Minister of Education, Second Minister of Finance of Singapore

Compared with the Asia of 1997 – the Asia of the financial crisis, of tumbling currencies and bank bailouts – Asia today appears to be on much more solid footing. Governments have learned the lessons of the crisis, precautions have been taken, and each knows what to do under such circumstances.

But the circumstances have changed dramatically since then. Globalization and free trade have generated unprecedented wealth, while at the same time exposing widespread inequities and the risk of deadly pandemics. The Internet has transformed the way we live and work; so too has radical Islam and terrorism. Uppermost in the minds of participants was the realization that Asia is choking on its very growth, producing pollution that is contributing to global warming and climate change.

The next crisis, therefore, is unlikely to be one that anyone is prepared for, or one that any single government can cope with. “The nation state cannot handle these issues,” said Masaharu Kohno, Japan’s Deputy Minister for Foreign Affairs. “They are intercontinental, trans-generational.”

A new level of cooperation is needed in Asia, one in which not only governments, but also businesses forge a shared agenda and common mechanisms for

“ We’re in a situation where there’s no real correction mechanism and we’re hoping one day that the market will perform the correction. If you let the market correct the mechanism, it will snap and bring about a huge amount of economic chaos. ”

Chalongphob Sussangkarn, Minister of Finance of Thailand

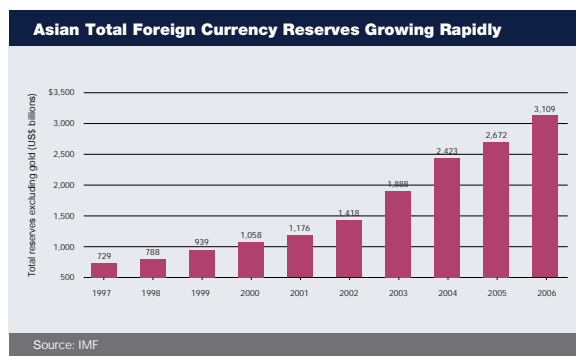
meeting it. Businesses have a special responsibility to help bridge national interests. “It’s about what we do for society, about how we build that social license, how we remember that the value we add back to society is what allows us to operate,” said meeting Co-Chair E. Neville Isdell, Chairman and CEO of Coca-Cola.

Asia is fortunately well-positioned to tackle these issues. Corporate profits and tax revenues are booming, interest rates and inflation are low and foreign exchange reserves are at record highs.

Unfortunately, this same accumulation of wealth has become a source of new risks. Easy credit and undervalued currencies have produced a torrent of capital across the region. While Asian companies and governments have learned the perils of excessive offshore borrowing, much of the capital pouring into Asian markets is borrowed from abroad. Many of Asia’s own reserves are in turn lent to the US, whose demand for exports is still crucial to Asian growth. The rise of complex derivatives to hedge these



Panel on Global Risks: Managing Threats to Asia's Prosperity: Tharman Shanmugaratnam, Minister of Education, Second Minister of Finance of Singapore; James T. Riady, Chief Executive Officer, Lippo Group of Companies, Singapore; Co-Chair of the World Economic Forum on East Asia; Masaharu Kohno, Deputy Minister for Foreign Affairs of Japan; E. Neville Isdell, Chairman and Chief Executive Officer, The Coca-Cola Company, USA; Co-Chair of the World Economic Forum on East Asia; Chalongphob Sussangkarn, Minister of Finance of Thailand; and Rajat M. Nag, Managing Director-General, Asian Development Bank, Manila



investments has made the situation even more complicated. If some shock were to come, these positions would unwind in ways few can predict.

North Korea remains a perennial wild card. Polls around the region could create populist tensions: general elections are scheduled this year in Australia, South Korea and Thailand, with key parliamentary elections due in Japan. Taiwan is planning a presidential election as China prepares for the Olympics in 2008, and any pro-independence moves by the ruling party could provoke Beijing. Farther afield it is protectionism that wins votes: The US Congress is levelling legislation aimed at China's trade surplus that could have repercussions around the region.

Ultimately, Asia needs to defuse trans-Pacific tensions by further stimulating domestic consumption and reducing its reliance on exports to the US for growth. Exchange rate regimes need to be gradually made flexible and financial sectors liberalized. Some also

suggest the establishment of an Asian reserve bank to complement existing currency swap arrangements and help coordinate monetary policy across the region. Efforts also need to be made to reduce the growing disparities between Asia's haves and have-nots.

Perhaps the biggest threat to prosperity, however, stems from the race to secure adequate hydrocarbons for Asia's energy needs and the toll that burning them is having on the environment. Competition for resources is raising the price for oil, gas and coal, even as emissions contribute to climate change that could ravage Asia's coasts, poison its fresh-water supply and wilt its crops. Energy security and climate change are now two sides of the same coin.

With China reckoned by some to have already surpassed the US in carbon emissions – and India closing fast – questions are rising as to whether poverty reduction can still be used to justify rising pollution by developing countries. "The fact is that both China and India and other developing countries in Asia cannot go on talking about per-capita emissions. This is just a cop-out," said Jamshyd N. Godrej, Chairman and Managing Director of India's Godrej & Boyce. "We have to get on with what we have to do for global warming."

Many call for dramatic new investments in energy-saving technologies and in renewable energy such as biofuels and solar power. Some even say Asia will need to pursue nuclear power, with several South-East Asian nations already launching nuclear



“ The fact is that both China and India and other developing countries in Asia cannot go on talking about per-capita emissions. This is just a cop-out. We have to get on with what we have to do for global warming. ”

Jamshyd N. Godrej, Chairman and Managing Director, Godrej & Boyce, India

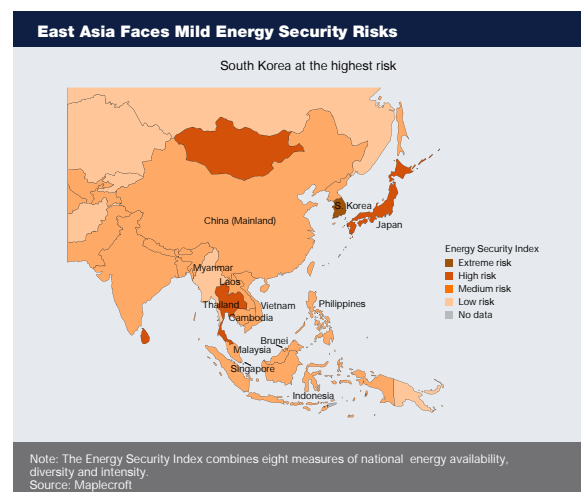
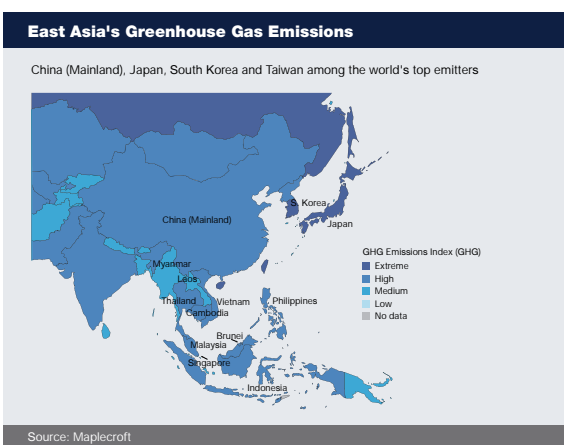
programmes. Concerns abound, however, about the safety of this and about the risk that such programmes could lead to further proliferation of nuclear weapons.

Instead, some say, Asia can make an immediate dent in its emissions just by improving the way it uses energy now, from switching to “clean coal” technology to replacing incandescent bulbs with low energy ones.

“ For Korea and most other Asian countries, the major challenge will be education and the continuing build up of a pool of managers. ”

Chung-Won Kang, President and CEO, Kookmin Bank, Republic of Korea

The money to finance the switch could come from carbon trading under the Clean Development Mechanism of the Kyoto Protocol, suggested Nic Frances, Chairman and Chief Executive Officer of Australian company Coolnrg International. Not only can boosting energy efficiency lower emissions, it can increase company profits and reduce utility costs for the poor. “We haven’t done enough on energy efficiency,” said Frances. “We have to think of solutions in unusual ways.”





Panel on Energy Security: Will It Drive or Divide Asian Integration?: Tokio Kanoh, Chief Director, Committee on Economy and Industry, House of Councillors, Japan; Idris Jusoh, Chief Minister of Terengganu, Malaysia; John K. Deferios, Group Vice-President, Content, and Anchor, United Kingdom, FBC Media, United Kingdom; Rajat M. Nag, Managing Director-General, Asian Development Bank, Manila; Hilmi Panigoro, Chief Executive Officer, Medco Energi Internasional Tbk, Indonesia Ralph A. Cossa, President, Pacific Forum CSIS, USA

Energy Security Gives Power to Asian Integration

Despite abundant natural resources, Asia remains a net energy importer. With the price of oil rising amid increasing scarcity and mounting concerns about carbon emissions and global warming, it is clear that countries in the region must adopt measures to achieve greater energy security. Questions on how to secure new sources, build strategic reserves and develop alternative sources such as nuclear power, however, ensure that no country can consider energy security without doing so in concert with its neighbours.

The issues surrounding energy security pit Asian nations against each other, said Managing Director-General of the Asian Development Bank Rajat M. Nag. But ultimately, Asian nations will realize that they stand to benefit more from cooperation than from competition, he said. "Therefore I think energy security in the long run will actually deepen and hasten Asian integration," Nag said. Already, China and India have signed agreements to cooperate in their search for new energy sources.

Asian nations need to work to reduce their dependence on fossil fuels by promoting renewable energy, said Idris Jusoh, Chief Minister of Terengganu, Malaysia. Malaysian palm oil is one alternative, he said, and solar power is a "gift from God." Tokio Kanoh, Chief Director, Committee on Economy and Industry, House of Councillors, Japan, stressed the need to use technology to make existing industry cleaner and reduce carbon emissions. For the sake of both energy security and the environment, Asia must develop more energy conservation technologies, he said.

Ultimately, though, Asia's energy security may depend on its willingness to develop nuclear power as an alternative source, said Kanoh. Though it remains controversial, many communities have embraced nuclear power and even nuclear waste as a necessary alternative, he said. Weak political support and strong resistance from society may mean that nuclear power as a means of enhancing security is decades away.

Sustainable Growth



“ While one Asia is growing and growing very well, the other Asia that is falling behind has in it the seeds of social and political tensions that can threaten the prosperity that we’re seeing. ”

Rajat M. Nag, Managing Director-General, Asian Development Bank, Manila

Asia has achieved unparalleled rates of growth in the last decade, driven by the continued economic dynamism of China and India, a revitalized Japan and increased competitiveness of Korea and ASEAN countries. But even as the region plays catch-up with the developed world, it faces new challenges in sustaining the momentum of that growth. Asia’s model of growth – combining high savings rates with heavy foreign direct investment, export promotion and state intervention in strategic sectors – are taking an increasingly costly toll on the environment and producing rising disparities in income and affluence.

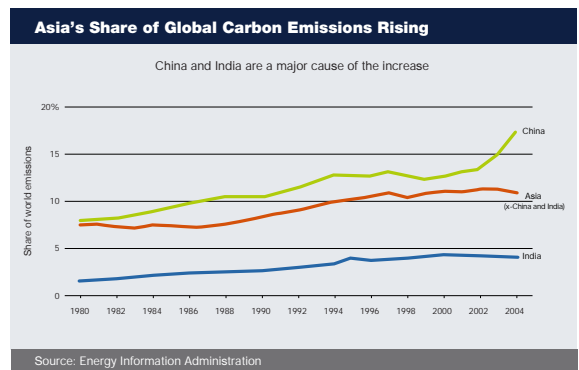
The environment was set to be a thorny topic in the wake of a Dutch government-funded study that ranked China as the number one polluter in the world in 2006, overtaking the US. Accusations of “green imperialism” abounded as many participants questioned what they called a blame game by the West. Nor Mohamed Yacop, Malaysia’s Second Minister of Finance, pointed out that the factories responsible for the carbon emissions were owned largely by European and American corporations producing goods for western consumers. “We can’t

“ East Asia has succeeded in integrating itself globally, but to succeed it needs to have equitable growth internally. ”

Mari Pangestu, Minister of Trade of Indonesia

slow down because we’ve got plenty of poverty,” the Malaysian minister said. “The growth momentum has to be kept up, the emphasis in sustainable growth must be in growth.”

While Ralph Peterson, Chairman and CEO of CH2M Hill Companies, agreed that the finger-pointing was unfair, he saw a worrying trend in the disproportionate consumption of energy relative to output. ASEAN and China are consuming significantly higher levels of energy than their global output warrants – 11% of global output, but 21% of energy consumption for ASEAN, while China consumes 15% of global energy to produce just 5.5% of global output.





// This is green imperialism. //

Nor Mohamed Yakcop, Second Finance Minister of Malaysia

Of greater concern, according to a poll of the leaders participating in the World Economic Forum on East Asia, is the question of improving energy security and efficiency in major consuming countries in Asia. Some 56% of respondents put this issue on the top of the agenda for sustainable growth, followed by 45% who voted for improving environmental protection at the national and regional level; 41% for managing the social, environmental and infrastructural implications of rapid urbanization; and 28% for directing Asia's vast savings to ensure sustainable and equitable distribution of the region's wealth.

To achieve greater security, participants said that Asian countries need to boost energy efficiency, reduce reliance on fossil fuels, and invest in the research and development of renewable energy. Mounting oil prices add urgency to this economic and political imperative. The region, despite being gifted with an abundance of natural resources, is a net importer of energy. The consensus is that countries are better off cooperating with one another than competing as they move to secure energy supplies. China and India embraced this approach by signing agreements to cooperate in research for new energy sources.

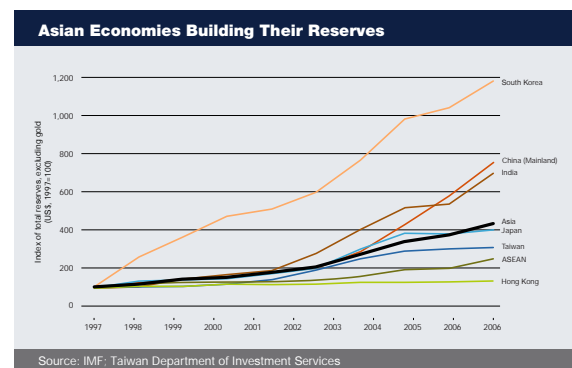
The widening gap between the haves and have-nots is a longer term but no less complex challenge to sustainable growth. "While one Asia is growing and growing very well, the other Asia that is falling behind has in it the seeds of social and political tensions

// Differential responses to globalization are leading to income inequality that is becoming a more serious problem in every country, every city and maybe every family around the world. Unless we have global leadership, this problem will become even more acute. //

George Yeo Yong-Boon, Minister of Foreign Affairs of Singapore

that can threaten the prosperity that we're seeing," said Rajat M. Nag, Managing Director-General of the Asian Development Bank.

With some 1.9 billion Asians living on less than US\$ 2 a day, and more than two billion people without adequate access to sanitation and clean water, the Herculean task of closing the income gap calls for urban leadership and perhaps more imaginative ways of reinvesting the region's more than US\$ 3 trillion in foreign exchange reserves.





Muhammad Lutfi,
Chairman,
Investment
Coordinating Board
(BKPM), Indonesia

“ We want to encourage foreign investors to come to Vietnam. We are changing from a command economy to a market economy which means big local groups are in the process of privatization. This will see the continuation not only of direct foreign investment, but also financial investment flows into the corporatization and privatization of companies. ”

Nguyen Sinh Hung, First Deputy Prime Minister of Vietnam

Some participants said that more of those reserves could be channelled towards infrastructure development and towards improving supply chain logistics that have resulted in high wastage in transporting agricultural produce from the farm to the port. They welcomed an idea advocated by Ong Keng-Yong, Secretary General of ASEAN, for an ASEAN infrastructure fund to invest in projects that would further spur economic growth in the region. Arjuna Mahendran, Director at Credit Suisse in Singapore, expressed a similar sentiment: “The only way in which you can see the bottom of the pyramid emerging as a significant consumer class is if governments do their job. And when I say do their job, in a nutshell, that means building infrastructure.”

Infrastructure investments necessarily involve hefty capital expenditure. The private sector, which has the expertise to undertake such infrastructure developments, will not step forward unless a large part of the funding risk for this long-term investment is borne by the government. With more countries in a better financial shape to do so, a private-public sector partnership seems the most sensible solution, said Antonino T. Aquino, President of the Manila Water Company.

Socially responsible investment, where social and environmental goals are aligned with corporate objectives, may just be the way forward as Asia grapples with runaway growth that threatens its delicate social fabric and ecosystems.



Thailand Minister of Finance Chalongphob Sussangkarn; Jim Goodnight, Chief Executive Officer, SAS, USA, and Co-Chair of the World Economic Forum on East Asia; and Yi Gang, Assistant Governor, People's Bank of China, People's Republic of China at the roundtable on WHAT IF Asia Is Hit by a Second Financial Crisis?

WHAT IF Asia Starts to Seriously Reduce Its Dollar Reserves?

Asia is unlikely to radically reduce its greenback reserves: This was the short answer from panellists at a session on dollar reserves. First, the close relations between the US and some Asian countries ensure that a US dollar sell-off is very unlikely. Second, it is not in the interest of export-oriented Asian countries to contribute to the weakening of the dollar vis-à-vis their own currencies as that will affect their ability to sell their products overseas. Third, preference for US treasury bills is likely to hold because of their safety, liquidity and return. Finally, as economies become more integrated, countries have become more measured and mindful of their actions because of their impact on the whole region. The Chiang Mai Initiative on currency swaps, the panellists said, points to that awareness of interdependence.

China received sympathy for the fire it has come under regarding the rapid growth of its foreign reserves. Japan was criticized for the same reason in the 1980s, one panellist observed. He believed the Chinese government is not deliberately piling up its foreign reserves, and added that the reserves of China and Japan will come down as their population ages over the next 10 to 20 years, mirroring the experience of Europe.

How should the reserves be used to ensure that capital wealth benefits the poorest citizens and least developed communities? Most of the panellists believed that a part of the accumulated reserves should be pumped back into domestic economies. The reserves, one panellist proposed, can be used to improve infrastructure. "Asian governments are not doing enough. The past focus has been on exports; reserves should be recycled back into building domestic economy, creating domestic demand and investing in infrastructure; the impact to Asia will be tremendous and positive," he said. Another panellist supported the idea mooted recently by ASEAN Secretary-General Ong Keng-Yong, who proposed the setting up of an ASEAN infrastructure fund in which member countries pool together a common fund to invest in infrastructure projects to further spur economic growth in the region.

Competitiveness



// Asian markets and institutions are much more robust and stronger than 10 years ago. The reason being institutions that survived the crash have implemented controls and liquidity systems to better manage the flow of money and currency. They have also communicated more clearly monetary policy so that the private sector can invest and plan with greater confidence. //

James T. Riady, Chief Executive Officer, Lippo Group of Companies, Singapore; Co-Chair of the World Economic Forum on East Asia

When South-East Asian economies were laid low by the financial crisis, their vulnerability to the swift movement of short-term capital and the weakness of their banking and corporate sectors were exposed. Investors fled. Then came a surge of China fever as investors discovered the mainland's second and third tier cities and the power of China's low-cost manufacturing. China would produce everything, some analysts predicted, relegating ASEAN to the role of purveyor of commodities and agricultural products to feed the hungry dragon. China would suck away FDI and South-East Asia's factories would close. Recently, India's rise has grabbed the attention of investors and raised questions about East Asia's competitiveness in the low-cost services sector.

// Everybody is trying to replace red tape with red carpets. //

Ko Kheng-Hwa, Managing Director, Singapore Economic Development Board

But South-East Asia held its own. ASEAN's exports grew along with China's, though raw material and natural resources demand from China was in no small measure responsible. Vietnam has emerged as a low-cost manufacturing platform with a skilled workforce, an attractive alternative for Japanese investors concerned about their country's tense relationship with Beijing. The Philippines, meanwhile, has managed to carve out a niche in electronics, software programming, back-office and call-centre operations. Thailand has continued to be a key automobile assembly hub, while Malaysia's electronics and semiconductor industries have thrived. Singapore has pushed itself further up the value chain, developing new industries such as biotechnology and strengthening its position as South-East Asia's premier financial hub. Even in Indonesia, shunned by investors for years after the crisis, FDI has started to rebound. "We have seen companies that left after the crisis come back," said Muhammad Lufti, Chairman of Indonesia's Investment Coordinating Board. Indeed, while investment levels in crisis-hit countries may not yet have recovered to pre-1997 levels, not all of the FDI heading to developing Asia is going to China.

Fears of an overwhelming China juggernaut have not been realized. Now business strategists talk of a "China Plus One" approach – don't put all your eggs in one basket. "China Plus One" makes sense for three reasons, said Ko Kheng-Hwa, Managing Director,



K. V. Kamath, Managing Director and Chief Executive Officer, ICICI Bank, India; Co-Chair of the World Economic Forum on East Asia; Jim Goodnight, Chief Executive Officer, SAS, USA; Co-Chair of the World Economic Forum on East Asia; and Liu Jiren, Chairman and Chief Executive Officer, Neusoft, People's Republic of China

// An Indian company recently bought a library of some 10,000 Indian movies and started selling them at less than a dollar each. That has removed the need for consumers to buy pirated movies. //

K. V. Kamath, Managing Director and Chief Executive Officer, ICICI Bank, India; Co-Chair of the World Economic Forum on East Asia

Singapore Economic Development Board, Singapore. First, there is the logical need to diversify operational risk. SARS, the tsunami and earthquakes that have hit the region underscore how a sudden crisis can disrupt supply chains. If China is knocked out, manufacturers will need reliable alternatives for production. This is especially true in these days of just-in-time production, delivery and inventory management. Second, there is a business optimization motive: many companies, including Chinese enterprises, know they have to be global to compete. Third, China and India's rise is forcing other economies in East Asia and elsewhere to find ways to be more competitive and more attractive to investors. "Everybody is trying to replace red tape with red carpets," said Ko.

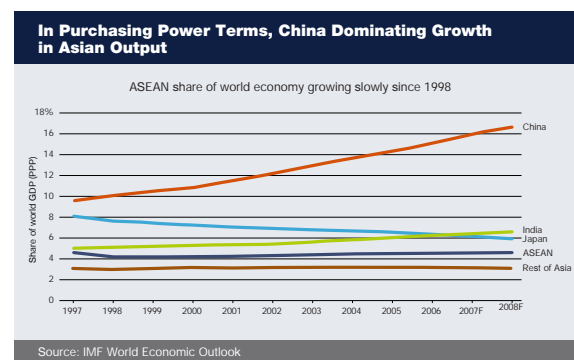
Marketing an economy to investors has become a global game. If an economy cannot beat China on labour costs, then it must try to do so in other ways – its availability of skills, the strength of its intellectual property regime, or its workforce's capacity for innovation. Investors setting up offshore operations do not necessarily flock to the lowest-cost market, said

// Regulatory regimes and global standards, particularly in the technology sector, mean that 'think globally, but act locally' no longer applies. //

Jim Goodnight, Chief Executive Officer, SAS; Co-Chair of the World Economic Forum on East Asia

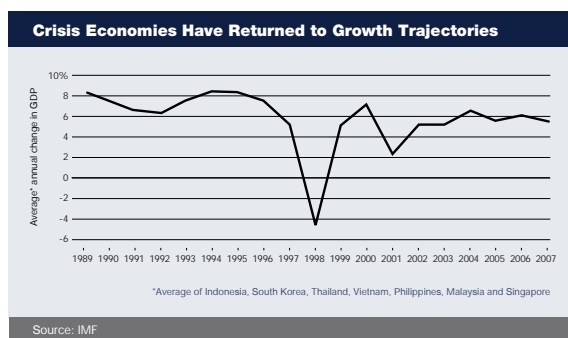
Joseph L. Rice III, Chairman of US direct investment group Clayton, Dubilier & Rice. Reliability and quality are important considerations since these companies want to maintain or even increase the quality of their products, not just make them more cheaply.

There are many other factors for success that countries have to keep in mind. China, for example, has already found that it must adjust as labour costs go up in parts of the country as skilled managers become scarce and the workforce more affluent. Affected businesses have moved inland. Others have moved up the value chain. Indeed, China has





Lim Siong-Guan, Chairman, Singapore Economic Development Board, and Kiyoshi Kurokawa, Science Adviser to the Prime Minister of Japan



surprised competitors with how quickly it has moved from low-end manufacturing to more sophisticated mid-range and even high-end products. The Chinese leadership also understands that as energy costs and environmental costs mount, the country's industries must become more efficient and innovative.

To be competitive, every economy has to take up the innovation mantra. Singapore, which regularly performs well on global competitiveness rankings, has put the cause of innovation at the forefront of government policy. "If we leave out education and skills training, then we will be stuck with the old ways of growing the economy," explained Goh Chok Tong, Senior Minister of Singapore and Chairman of the Monetary Authority of Singapore. "For the future, you have to create wealth. To create wealth, you have to innovate."

Concluded meeting Co-Chair Carlos Ghosn, President and Chief Executive Officer of both French carmaker Renault and Japanese automobile manufacturer Nissan: "Because of the increasing weight of Asia, the number of industries and sectors where Asia is leading in innovation has got to increase."

The winners in the globalization age will be those economies and regions that put their competitive advantages together correctly and make the right policy choices. The challenge for a region such as ASEAN is that the going is only going to get tougher. South-East Asia will have to make good on its regionalization commitments and go beyond lowering tariffs to achieve much deeper integration that truly makes the area a single, seamless market. In this respect, quality leadership and governance could be the essential ingredient of a globally competitive economy or region. As Goh said: "If you don't have a government that understands the importance of macroeconomic policies, investment in education and how to manage socioeconomic divisions in a country, it would be difficult for an economy to thrive." This plain truth applies as much to the giants of Asia – China and India – as it does to the smaller neighbours scrambling to keep up.



Private discussion on Technology and Innovation

Technology and Innovation in Financial Services: Scenarios to 2020

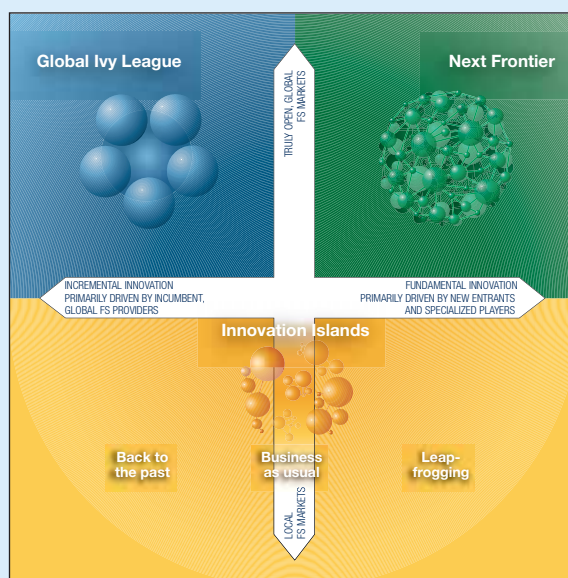
Technology-led innovation and globalization is changing the financial services landscape, ushering in new opportunities for incumbent financial institutions, but also enabling new entrants to reshape markets and disrupt value chains. The Forum's latest scenario report, *Technology and Innovation in Financial Services: Scenarios to 2020*, explores just how globalization and innovation will reshape the financial services sector over the coming years. Commissioned by the CEOs of the World Economic Forum Industry Partners of the Financial Services, IT and Telecoms industries, the report is the result of 12 months of research aimed at developing a tool to challenge business leaders and policy-makers with a set of plausible and provocative alternative futures of the financial services industry by 2020.

The report describes three scenarios, "Global Ivy League", "Next Frontier" and "Innovation Islands", each distinguished by the degree to which innovation is incremental vs fundamental, as well as the level of regionalization vs globalization of financial services markets. The scenarios examine a range of emerging technologies and innovations including peer-to-peer financial services platforms, biometric authentication, Internet-based identity protection solutions, as well as low-cost channels and solutions to bank the 4 billion people currently unbanked.

ICICI Bank was one of the key contributors to the development of the scenarios. Referring to the impact of technology innovations on the developing world, ICICI Managing Director and CEO K. V. Kamath explained:

"Could banking the unbanked end broadened access to financial services become reality? Advances in technology and innovations will percolate down and make this possible."

At a session at the World Economic Forum on East Asia in Singapore, which brought together leading financial services and IT firms, SAS CEO Jim Goodnight noted: "There is no question that technology is accelerating innovation in financial services. The Forum's scenario work is critical to establishing a clearer picture of the potential of technology to create increased value in both industries."





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A large, illuminated spherical balloon is the central focus of the image. It is lit from within, creating a warm glow. The balloon has a grid of vertical and horizontal lines. The text 'WORLD ECONOMIC FORUM' is printed in a bold, black, sans-serif font across the upper portion. A blue logo, consisting of a circle with a horizontal line through it, is positioned to the right of the text. Below the logo, a thin horizontal line separates the main text from the tagline. The tagline 'COMMITTED TO IMPROVING THE STATE OF THE WORLD' is written in a smaller, black, serif font. At the bottom of the balloon, the text 'East Asia 2007' is written in a black, italicized serif font. The background is a clear blue sky at dusk, with the silhouettes of city buildings visible in the distance.

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East Asia 2007

Contributors

Peter Torreale is Managing Director of the World Economic Forum. Lee Howell is Director, Head of Asia, at the Forum. Sushant Palakurthi Rao is Associate Director, Global Leadership Fellow, Asia. The World Economic Forum on East Asia was under their direct responsibility, with Chantal Adamson, Event Manager and Meeting Coordinator; and Kate Lau, Community Relations Manager, Asia.

Samantha Tonkin, Senior Media Manager at the World Economic Forum worked with Wayne Arnold, Catherine Ong and Alejandro Reyes to produce this report.

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The logo consists of a thick black line that starts as a horizontal line on the left, curves upwards and then downwards to form a partial circle on the right, passing behind the text.

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