

## **ERIA Progress Report**

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ERIA, the Economic Research Institute for ASEAN and East Asia, is a newly established international organization that conducts research activities and provides policy recommendations in support of the economic integration of ASEAN and beyond. In this report I shall explain the background of ERIA's establishment, its major activities, and its expected contributions in this economic crisis.

### **1. Background and History to the Establishment of ERIA**

The establishment of ERIA was one of the results of a long history of effort to establish a firm basis for Asian regional cooperation. There were several important milestones along the way.

The Association of Southeast Asian Nations (ASEAN) was founded in 1967, and after 40 years cooperation, it established a new Charter, which came into effect at the end of last year. The Asia-Pacific Economic Cooperation (APEC) forum was established in 1989, to foster open regionalism. The first APEC Economic Leaders' Meeting was held on Blake Island, near Seattle in 1993 at the invitation of US President Bill Clinton.

Around that time, I was engaged in the task of bringing Cambodia, Laos, Myanmar and Vietnam into the ASEAN fold, in an effort to change the basic concept and structure of ASEAN and to adapt it to the post Cold War era. In the end, ASEAN succeeded in overcoming the divisions created by ideas, beliefs and political ideologies, to expand into a 10-nation grouping with a market of some 500 million people.

The first challenge for an expanded ASEAN was the Asian currency crisis. ASEAN, and the ASEAN+3 Summit, began to provide an effective framework for regional cooperation to cope with the crisis. Subsequently, Korean President Kim Dae Jung called for an East Asia Summit (EAS).

Building on that concept, then-METI Minister Toshihiro Nikai announced a Global Economic Strategy, proposing that Japan take the initiative in realizing Kim Dae Jung's idea of EAS, involving ASEAN+6 countries, namely ASEAN members and Australia, China, India, Japan, Korea and New Zealand. The idea of establishing ERIA came into being at that time. The First East Asia Summit (EAS) was held in December 2005, and in 2007 in Cebu, Philippines, then-Prime Minister Shinzo Abe put forward the ERIA concept to the national leaders. The Summit recorded that Japan's proposal had been welcomed, but more work had to be done before leaders agree to the establishment of ERIA.

## **2. The Test Run Projects and Establishment of ERIA**

After the Cebu EAS meeting, Ministers in the region were very interested in the concept, and asked for demonstration projects to show the competence, effectiveness and expected contribution of ERIA. Experts and researchers from 16 countries therefore congregated under the leadership of Dr. Marwoto Hadi Soesastro of CSIS. Datuk Dr Mohamed Ariff of MIER, Dr. Nagesh Kumar of RIS, Dr. Hank Lim Giok-Hay of SIIA and other leading scholars in the region conducted intensive discussions. They agreed to start test run projects, and established the fundamental concept that ERIA was to pursue the simultaneous achievement of three targets, namely “deepening economic integration”, “narrowing development gaps”, and “encouraging sustainable economic development”.

The actual test run research projects were grouped into major two categories. One was “Developing a Roadmap toward East Asian Economic Integration”, which mainly examines the issues of deepening economic integration and narrowing development gaps, and another was “Energy Security in East Asia”, which relates to sustainable development.

In the category of “Developing a Roadmap toward East Asian Economic Integration”, experts worked on comprehensive policy issues connected with ASEAN Economic Community Building, plus various frameworks for East Asian economic integration beyond ASEAN, and tried to establish a strategic framework for East Asian economic integration. This covered various issues including the liberalization of trade and investment, infrastructure development, development of small and medium enterprises, energy security, and economic development in CLMV (Cambodia, Lao PDR, Myanmar and Vietnam). These works were coordinated and compiled by prominent scholars of the Institute of Developing Economies, JETRO, including Dr. Akifumi Kuchiki and Mr. Toyojiro Maruya, Executive Vice-President of IDE-JETRO.

In the category of “Energy Security in East Asia”, researchers carried out follow-up projects to provide an analytical basis for realizing the “Cebu Declaration on East Asian Energy Security”, which was issued at the time of the 2<sup>nd</sup> East Asia Summit. Issues included impact analysis of energy saving goals in the EAS region, benchmarking of biodiesel fuel standardization in East Asia, and the achievement of a sustainable biomass utilization vision in East Asia.

After intensive research work involving around 300 researchers and seven months’ field works and discussions, ERIA compiled 55 volumes of research results with several concrete policy recommendations. As a result of its research activities, and led by the efforts of then-Japanese Prime Minister Mr. Yasuo Fukuda, the National Leaders of the 16 EAS member countries finally agreed to ERIA’s physical establishment. In addition, because many countries in the region expressed an interest in hosting ERIA, it was decided that this new organization would be accommodated temporarily in the ASEAN Secretariat. The Chairman’s Statement of the 3<sup>rd</sup> EAS, paragraph 13 reads as follows.

***“We (National Leaders) agreed to the establishment of the Economic Research Institute of ASEAN and East Asia (ERIA) to be accommodated temporarily at the ASEAN Secretariat. We welcomed the report submitted to us by the Expert Group,***

*which focuses on research topics of strategic interest to the EAS countries. We encouraged the Expert Group to continue its research work and we looked forward to practical policy recommendations to further regional integration and strengthen partnerships in East Asia.”*

The Inaugural Meeting of the Governing Board of ERIA was held at the ASEAN Secretariat on June 3, 2008, and ERIA was formally inaugurated. The Governing Board is the supreme decision making body of ERIA, and consists of 17 members, 16 of them are important persons from each member country, with various backgrounds covering policy making, research and business. From the world of business there are Mr. Ratan Tata, Chairman of the Tata Group, Mr. Tony Chew, Chairman of the Singapore Business Federation, Mr. Hiroshi Okuda, Honorary Chairman of Nippon Keidanren and Mr. Suk Rai Cho, Chairman of the Federation of Korean Industries, Mr. Tan Sri Azmat, Group Chairman of UMW Holdings Berhad in Malaysia and Mr. John McFarlane of the ANZ Banking Group. From academic society, Dr. Zhan Yunling of Chinese Academy of Social Sciences, Dr. Ramon Millar Quesada, University of Asia and the Pacific and Dr. Dihn Van An, President of Central Institute for Economic Management, Vietnam joined the Governing Board. Also the Secretary General of ASEAN, Dr. Surin Pitsuwan is a member of the Governing Board, and this provides a strong connection between ERIA and the ASEAN Secretariat.

Simultaneously on June 3<sup>rd</sup> 2008, in Tokyo, the Parliamentary League for ERIA was established in Japan, with Mr. Kazuo Aichi appointed as Chairman (Later, Mr. Yasuo Fukuda was appointed as Honorary Chairman), which made Japanese political support for ERIA more solid.

At the Inaugural Meeting of the Governing Board, Dr. Dihn Van An was appointed as Chairperson of the Governing Board and I, Hidetoshi Nishimura, was appointed as Executive Director of ERIA. Also, Dr. Takashi Shiraishi and Dr. Hadi were appointed as members of the Academic Advisory Council. At the Inaugural Meeting, several important documents were agreed, amongst them the “Statement on the Establishment of ERIA”. The Statement clarifies the characteristics and function of ERIA in its paragraph 2, which says “the Institute shall function as an independent research institute but shall maintain and develop strong communication ties with policy-making process. Especially, the Institute shall support ASEAN’s endeavor to build the ASEAN Economic Community and support its role as the driver of the wider economic integration.”

ERIA could be described as an East Asian OECD (Organization for Economic Cooperation and Development), an international organization where personnel from government, industry and academia are gathered to make policy recommendations. It is the only international organization in the region that is authorized to put policy recommendations directly to the EAS ministers and leaders, and that possesses the tools to have these recommendations reflected in national policy. However, for ERIA to be recognized as an East Asian OECD, the institute needed official designation based upon a consensus among the 16 member nations, and this hinged upon passing two major tests. The first vital test that would determine ERIA’s nature took place in August at a series of Ministerial meetings. It was at the EAS Energy Ministers’ Meeting on 7th August, 2008 and at the AEM+6 Working Lunch on 28th August, 2008 that ERIA’s role was absolutely critical.

ERIA submitted to these meetings the results of our test run projects. On the energy issue, ERIA presented three items at the EAS Energy Ministers' Meeting on 7<sup>th</sup> August. On the issue of energy saving, ERIA provided analytical data about the impact of member countries' individual voluntary energy saving plans, and displayed how the world would change if their ambitions were met. Looking at the results, it was apparent that carbon dioxide emissions would shrink by 30 percent. However, the level would still be 1.5 times that of 2005, and the question was whether this was acceptable. Based on this information, called the EAS Energy Outlook, ministers recognized the need for further promotion of energy efficiency and conservation. This recognition, and also the evaluation of other recommendations on the principles for biomass energy usage and bio-diesel fuel standards established by ERIA, signaled clearly that ministers from the 16 member countries welcomed the formal establishment of ERIA and expected the institution to play a key role in achieving common EAS goals. The ministers also encouraged ERIA to continue its research work and provision of valuable inputs in their policy consideration.

For Economic Ministers, the results of another test run project, "Developing a Roadmap toward East Asian Economic Integration", were presented to the ASEAN Economic Ministers+6 Working Lunch on 28<sup>th</sup> August. There, as is indicated in the Joint Media Statement, the Economic Ministers welcomed the research activities of ERIA and looked forward to ERIA's practical policy recommendations for deepening economic integration, narrowing development gaps and promoting sustainable development. Also, Economic Ministers particularly noted with appreciation the ERIA East Asia Industrial Corridor Project for region-wide comprehensive development, affirming the importance of linking infrastructure development and industrial development planning. Also the Economic Ministers welcomed the idea of holding a symposium on energy and food security in cooperation with ERIA. In this way, various tasks were allocated to ERIA and its role as the "OECD of East Asia" is steadily becoming reality.

### **3. ERIA as an International Organization**

With ERIA having "passed" the first test, the next step was the physical establishment of the organization. In addition to the headquarters office in the ASEAN Building which was generously offered and by the ASEAN Secretariat, the Annex Office was opened in the proximity of the ASEAN Secretariat on 17 September, 2008, to accommodate researchers and administrative staff. At this moment, the Institute has only around 20 staff, but we hope within two years, to triple its staff, including 10 to 15 researchers.

At the 3<sup>rd</sup> East Asia Summit, the agreement was only for the establishment of ERIA. After that, by the Inaugural Meeting of its Governing Board where its basic configuration was conceptualized, and by passing the tests at Ministerial Meetings and at National Leaders' level to show its competency as a research institute, and finally by establishing the office, ERIA really came into existence.

Based on this development, on 30<sup>th</sup> December 2008, the Indonesian Government and the ASEAN Secretariat concluded an Agreement on the establishment of ERIA as an

international organization, the basis for ERIA to conduct independent research activities was finalized, and ERIA was accorded the status of an independent international organization.

While ERIA evolved with its organizational structure, the economic crisis was aggravated with the bankruptcy of Lehman Brothers collapsed and the financial crisis was aggravated, leading to an increased expectation of policy recommendations from ERIA. This was the second test for ERIA, which was assigned the task of writing a master plan to promote sub-regional development at the EAS summit in Pattaya, together with ADB and the ASEAN Secretariat. It was also asked to prepare as soon as possible a coherent master plan, which would contribute to coordinating, expediting, upgrading and expanding sub-regional initiatives, and promoting private sector participation. In addition, ERIA was asked to provide policy recommendations to stimulate economic growth in the region, deepen regional integration and strengthen partnership in East Asia.

#### **4. ERIA's Research Works and Other Activities**

Turning to ERIA's various research activities, as I have mentioned before, these are conducted along the three main tracks of "deepening economic integration", "narrowing development gaps", and "promoting sustainable economic development". ERIA has its theoretical background in the simultaneous achievement of integration and narrowing gaps, based on the latest theory of the "Spatial Economy" developed by Dr. Krugman, Dr. Venables and Dr Fujita, and trying to apply and develop the theory, providing researchers with challenges and opportunities to connect the theory with the reality of economic activities, led by Dr. Fukunari Kimura, Chief Economist of ERIA.

For "deepening economic integration", ERIA is working on the promotion of further Free Trade Area (FTA) utilization, by improving the Rules of Origin procedure and promoting business-friendly trade facilitation. ERIA is also working on ERIA scorecards and a framework for assessments in trade facilitation, services, and investment, which will supplement the efforts of ASEAN members to form an ASEAN Economic Community by the year 2015, and facilitate further integration.

For "narrowing development gaps", ERIA is working on the East Asia Industrial Corridor project, which will support and accelerate ongoing wider-regional, cross-border comprehensive development initiatives, including the establishment of implementable master-plans for key infrastructure development. The theories of "Fragmentation" and "New Economic Geography" give a strong background for equitable development in the region. ERIA is examining the real movement of business activities, in which agglomeration in certain areas creates pressure for industries to disperse. Combined with certain policies, the fragmented portions of industries can settle in less developed areas. ERIA will also work on the implementation side of these plans, including financing. In the present economic crisis, these efforts are expected to revitalize the region, providing the confidence to invest for future growth in the region, so that the region can contribute to the recovery of the global economy.

In addition, we are also working on capacity-building programs in collaboration with Dr. Kumar of RIS, Dr. Mitsuhiro Kagami of IDE-JETRO and other researchers and institutes in the region, to develop the human resources which Cambodia, Laos, Myanmar and Vietnam in particular need to take them into the future development. In this sense, ERIA and RIS are very close and important partners. ERIA, in cooperation with the ASEAN Secretariat, is promoting the ERIA/JENESYS Next Leaders Program, to provide scholarships for future leaders in the East Asian Region.

For “sustainable economic development”, ERIA is undertaking research on the prospects for a sustainable automobile society in East Asia, confirming once again the significance of automobile manufacture, and preparing recommendations in terms of regulations and society, and the environment, in a form which also takes into consideration the automobiles of the future. ERIA is also developing its research work on Energy Outlook, Biomass Principles and Bio-Diesel Fuel Standardization. Also ERIA is conducting joint research work with IEA.

ERIA is also building up a track record of symposiums on a range of themes such as “East Asian Industrial Corridor Development” and “Energy and Food Strategy” etc. responding to direction from the AEM+6, while also continuing to coordinate with the various member countries to become established formally as an international organization.

#### **5. The Next Stage ERIA - More Contributions to Further Community Building**

ERIA will conduct a wide range of policy studies based on the above-mentioned three tracks and will provide practical policy recommendations, leading to enriched policy discussion among the various stakeholders. ERIA will also lead the region in its academic quality as an influential research center and will seek constructive collaboration with researchers and research institutions including RIS in East Asia and the world. At a time of economic crisis, and right after the G20 Summit, securing the basis for growth in emerging markets is important, and the role tasked to ERIA in providing a master plan equivalent to the “New Deal” policy is very onerous. However, I take the view that it is a task of historical importance, requiring ERIA’s best efforts.

#### **6. For Your Reference**

Our **Policy Briefs** and **Discussion Papers** are available on the ERIA website <http://www.eria.org>