



Asian Economic Outlook

Japanese recovery and strong expansion of intra-regional trade present optimistic scenario

The economic outlook for Asia for the current year has considerably brightened. There are signs that Japan's economy has finally recovered from a decade long recession. In the last quarter of 2003, it grew by 7 per cent, the fastest quarterly growth in more than a decade. Overall Japan's economy grew by 2.7 per cent in 2003. The projected growth rate of Japanese economy in 2004/05 has been constantly revised upwards. While the cabinet office expects it to grow by 3.5 per cent, the private forecasters are more bullish and the Consensus Forecasts has put the mean growth rate for the year 2004 at 4.2 per cent. Various surveys conducted by the Ministry of Finance and other organizations have corroborated the news of recovery. The Bank of Japan's Tankan survey of business sentiments showed a rise in the level of confidence of manufacturers in Japan from 12 points in March to 22 points in June, which is much above the expected level of about 17. It is also the highest level of confidence displayed since August 1991.

Chinese economy, on the other hand, has been growing at the rates that are too high to be sustainable. China has reported a growth rate of 9.9 per cent in the last quarter of 2003. Pressure has been building on China to slow down the economy to avoid overheating. China is also under pressure to float yuan which has been pegged to the dollar at a rate fixed a decade ago. However, this has to be done in a manner to avoid a hard landing which can be highly disruptive and damaging for the whole region. The government took steps to moderate growth including control of credit among others. These measures are paying off in the form of taming the runaway investment growth. The GDP growth in the second quarter of 2004 was 9.6 per cent compared to 9.8 per cent in the first quarter suggesting that the growth has begun to moderate and achieve a soft landing.

India, another large economy in the region, reported a robust growth rate of 8.1 per cent for the financial year 2003/04 on the back of a strong agricultural recovery of 9.1 per cent from the drought-affected

previous year but also due to acceleration in industry and services. The growth momentum generated in 2003/04 is likely to continue in 2004/05 with the new UPA government trying to give a fillip to the agriculture and rural sector as a part of its common minimum programme although below normal monsoon in certain parts of the country may adversely affect the growth.

Other economies in the region have been doing well generally. South Korea reported a 5.3 per cent growth in the first quarter of 2004, although the country is currently facing some uncertainty due to domestic political problems. Among the ASEAN countries, Indonesia's economy grew at 4.5 per cent in 2004, Malaysia's at 7.6 per cent, Philippines at 6.4 per cent and Thailand at 6.5 per cent. Singapore's economy seems to be heating up with a hefty 11.7 per cent growth in the second quarter of 2004, much stronger than the 7.4 per cent growth recorded in April 2003-March 2004. With all the major economies in Asia-Pacific generally doing better, the outlook for the region in 2004 has brightened. The Consensus Forecasts has projected Asia-Pacific growth rate for 2004 at 5.1 per cent compared to 3.7 per cent recorded in 2003. The downside risks to

the outlook stem from rising oil prices currently ruling at US\$ 40 per barrel. Given a high dependence of major Asian economies on oil imports, high oil prices have the potential to adversely affect their growth outlook. Oil prices are under pressure from uncertainty over the Russian oil supplies in the wake of the US\$ 8 billion tax claim imposed on the oil major Yukos by the government.

To sum up, the Asian economic outlook in 2004 appears distinctly optimistic in view of recovery of Japanese economy. The Japanese recovery has been facilitated by the rising intra-regional trade in Asia. As much as 47 per cent of Japan's exports are now destined to other Asian countries with 13 per cent absorbed by China. Japan's recovery is a good news for Asia and is likely to spillover to other parts of the continent as 46 per cent of Japan's imports are also sourced within Asia. Intra-regional trade is emerging as a major growth industry in Asia. The India-China trade, for instance, has grown by nearly 54 per cent in a year to cross US\$ 7.5 billion in 2003 and is poised to cross the US\$ 10 billion mark in 2004 given the strong expansion in the first half of the year. The same can be said of ASEAN-India trade as well as ASEAN-China trade. The ongoing attempts at regional economic integration, as reported in this issue of *New Asia Monitor*, are likely to give a further fillip to the intra-regional trade and investment in the region and serve as engines of growth.

— Nagesh Kumar
Director-General, RIS

RIS Announces High-Level Conference on Building a New Asia: Towards an Asian Economic Community, Tokyo: November 2004

RIS will be organizing the Second New Asia Conference in Tokyo tentatively scheduled on November 18-19, 2004 in collaboration with Development Research Centre (DRC) of the State Council of China, Beijing, among other policy think-tanks in Asia and with the support of the Sasakawa Peace Foundation.

This Conference is organized as a part of the RIS Work Programme on Asian economic integration. Earlier, RIS had organized an International Conference on 'Building a New Asia: Towards an Asian Economic Community', in New Delhi on March 10-11, 2003.

The Tokyo Conference, like the New Delhi Conference will have a high level of participation involving heads or senior experts from premier policy think-tanks and policy makers from the major Asian countries. The Conference is likely to discuss the relevance, challenges and the way forward for the Asian economic integration to advance its agenda. RIS is in the process of finalizing the tentative agenda which will be posted at the New Asia Forum's website www.newasiaforum.org. For participation enquiries and other information, please contact dgoffice@ris.org.in.

ADB Annual Meet Focuses on Regional Cooperation

Having learnt from the financial crisis, Asian countries are now on a more solid and sustainable growth path, but further structural reforms and increased regional cooperation are crucial to maintain progress, peace and prosperity. Thus, the prime concentration of the governors and member participants at the 37th Annual Meeting of the Board of Governors of the Asian Development Bank, held at Jeju, South Korea from May 15-17 was primarily on increasing both structural reforms and regional cooperation in Asia.

In a wide ranging speech entitled "*Inclusive Development and Closer Economic Integration: Keys to a Peaceful, Prosperous, Poverty-free Asia and Pacific Region*", ADB President Tadao Chino said that it was imperative to accelerate harmonious economic growth of the region as a whole, with special

regard to smaller or less developed countries and to strengthen regional cooperation. Mr. Chino delivered this speech at the opening of the ADB annual meet.

"Given the region's strong economic fundamentals, the economies of developing Asia and Pacific are expected to show robust growth", he said. However, several risks remain. At the global level these include geopolitical concerns, rising oil prices and imbalances in industrial economies. Other risks such as a slowing of financial and corporate reforms are related to the region. "All of these risks underscore the importance of close cooperation and continued implementation of key policy and structural reforms in the region", he said.

To counter another Asian financial crisis, regional cooperation has been expanded to cover information exchange and economic

surveillance, currency swap arrangements and regional bond market initiatives, said Mr. Chino. "Combating corruption is another area where regional cooperation plays an increasingly important role", he added.

Looking ahead, the ADB President noted a distinct trend towards broader Asia-wide economic cooperation and integration. He said that the number of free trade agreements and other regional cooperation arrangements are increasing and there is a growing view that the region as a whole should strive for closer economic integration.

"ADB's work in regional cooperation over the decades, and particularly since the early 1990s, places it in a unique position to help the region rise to this historic challenge", he said.

(Source: ADB News Release, May 15, 2004) ■

Asians Nations Promote Energy Cooperation

On June 21 and 22, 2004, the Third Asian Cooperation Dialogue (ACD) Foreign Ministers' Meeting was convened in Qingdao, China. The Foreign Ministers from 19 of the 22 member countries of the ACD were present, with the remaining three being represented by heads of delegation. The Meeting concluded with the adoption of two documents, the "Declaration on Asian Cooperation" and the "Qingdao Initiative" which sets out cooperation in the energy sector.

The meeting was convened in the form of a retreat, in which only foreign ministers and other heads of delegation took part.

The Agenda issues included: (a) new membership; (b) the host country for the next meeting; (c) exchange of views on regional and international political and economic situations; (d) implementation status of the Prime Mover Projects; and (e) adoption of the "Declaration" and "Qingdao Initiative".

As a result of discussion on agenda items, it was agreed to admit three new members: Islamic Republic of Iran, Mongolia and the United Arab Emirates

The Declaration of Asian Cooperation sets out 13 areas for priority action by the ACD (policy dialogue, economy and the WTO, agriculture, financial services, IT, energy, cultural exchange, tourism, environment, public health and disease control and prevention, media, industry-government-academia cooperation, and person-to-person exchanges).

The "Qingdao Initiative" covers regional energy cooperation, on 11 areas among ACD members. The members agreed to cooperate in the construction of oil and gas pipelines, storage stockpiling and hydro power stations and establishing a regional network to facilitate the efficient transport and transmission of energy. They set up a working group to coordinate energy cooperation.

(Source: The Ministry of Foreign Affairs, Japan, Press Communiqué.) ■

Strategic Initiatives for Asia: Building Asia's New Growth Partnership

The World Economic Forum organized the Asia Strategic Initiative Round Table on June 4, 2004 in Seoul, South Korea. The Asia Strategic Insight Roundtable is a platform for regional business and political leaders to share lessons, strategies and future directions so that they may - together - build sustainable and equitable growth for both regional and global economies. This year's Strategic Initiative Roundtable's focus was on addressing uncertainties and developing plans for building a strong Asia through partnership.

At the opening of the Seoul Roundtable, Martin Sorrell, Group Chief Executive of WPP said that Asia now finds itself on a solid economic growth path and in an environment of greater regional stability.

The longer-term, faster-growing economies of China, India and South Korea as well as a re-energized Japan have contributed to regional and global economic health, he noted.

Nonetheless there may be potential challenges that could hinder Asia's further development. These areas of concern can best be addressed by holding a genuine,

inclusive dialogue among government, business and social leaders, explained Sorrell.

The roundtable involved comprehensive discussions on all aspects of Asian cooperation, growth and integration. The various sessions focused on Banking and Capital Markets: Asia's Other Infrastructure; New Japan; Building Asia's Global Companies; China-India: A Win-Win Blueprint; Dynamic North-East Asia; Feeding Growth: Asia's Natural Resources Needs; Global Threats, The Known Unknowns in Asia; ICT: Orchestrating Asia's Next Leap Forward; Keys to Competitiveness: Innovation and Education in Asia; Managing Asia's New Uncertainties; The New Asian Leaders; Outsourcing Myth and Reality; Synthesis and Critical Emerging Issues; The Future of Korean Peninsula; Trade and South East Asia and finally the Outlook for Asia.

After an all encompassing Roundtable, at the close, the participants identified the three most important questions facing Asia over the next six to twelve months: Is Japan's recovery sustainable; is China's economy past

the tipping point and is greater regional integration possible without a compelling new vision from political leaders?

"The whole world is waiting on Japan to see if it truly is reinventing itself", said Mervyn Davies, Group Chief Executive of Standard Chartered Bank and a Roundtable Co-Chair.

Earlier, Korean Deputy Prime Minister and Minister of Economy and Finance Lee Hun-Jai outlined four priorities for Asia: to boost transparency and accountability, to promote creative entrepreneurship, to deepen regional cooperation, and to narrow income gaps and reduce poverty.

Panelists agreed that in coming years, Chinese and other Asian companies will make waves internationally. "Chinese companies going global is a new phenomenon we have to wake up to", concluded Davies.

The Roundtable was attended by various leaders, ministers and corporate heads from all over the world.

(Source: The World Economic Forum, Releases, June 3, 2004) ■

India-ASEAN Vision 2020: Road Map for an Evolving Partnership

The Second ASEAN-India Summit held in Bali in October 2003 had endorsed the idea of a network of Think-Tanks from India and ASEAN preparing a *ASEAN-India Vision 2020* paper to provide a long-term vision and road map for the evolving India-ASEAN partnership. RIS had been assigned by the Indian Ministry of External Affairs (MEA) to coordinate this Network and prepare the Vision Paper in consultation with the think-tanks from the ASEAN countries to be adopted at the third ASEAN-India Summit in Laos.

RIS organized a high-level Meeting of ASEAN Think-Tanks in New Delhi on March 4-5, 2004 to finalize the draft "ASEAN-India Vision 2020: Working Together for Shared Prosperity" with ASEAN inputs. This meeting was attended by heads or senior representatives of the ASEAN Think-Tanks associated with ASEAN-ISIS network and other policy institutions. RIS had held extensive consultations with think-tanks and other stakeholders within the country in the course of preparation of the Draft paper.

Ambassador S.T. Devare, Vice-Chairman, RIS welcomed the delegates from ASEAN countries to the Meeting. Mr Rajiv Sikri, Special

Secretary (ER), Ministry of External Affairs, Government of India made opening remarks at the inaugural session.

The Meeting covered five sessions: "ASEAN-India Vision 2020 Broad Contours", chaired by Ambassador S.T. Devare; "Roadmap for ASEAN-India Economic Cooperation: Trade, Investment, Monetary and Finance", chaired by Dr Chookiat Panaspornprasit, Director, Institute of Security and International Studies, Thailand; "Transport, Infrastructure and Energy", chaired by Ms Nguyen Thu Huong, Deputy Director, Institute of International Relations, Vietnam; "Science and Technology, Exchange of Development Experience, HRD, Pharma, Agriculture, and SMEs", chaired by Mr. Bounnheuang Songnavong, Deputy Director, Institute of Foreign Affairs, Lao PDR; and "Tourism and Culture, People-to-People Contacts and Coordination in International Negotiations", chaired by Ms Felia Salim, Member of Board of Governors of the Centre for Strategic and International Studies, Jakarta. The final section to adopt the revised version of the draft

vision paper was chaired by Ambassador Devare on 5 March.

The ASEAN Think-Tanks represented at the Meeting from the ASEAN countries included: Institute of International Relations, Vietnam; Centre for Strategic and International Studies, Indonesia; University Brunei Darussalam; The Institute of Security and International Studies, Thailand; Institute of Strategic and International Studies, Malaysia; Asia Centre, University of the Philippines; Institute of Strategy and Development Studies, Philippines; Singapore Institute of International Affairs; Institute of Southeast Asian Studies (ISEAS), Singapore; Cambodian Institute for Cooperation and Peace, Cambodia; Institute of Foreign Affairs, Lao PDR; besides officials of the Ministries of Foreign Affairs and the local Missions. RIS proposes to keep the Network of ASEAN-India Think-Tanks, thus evolved, active by regular interactions. ■

IMF Welcomes Asia Bond Initiative

The International Monetary Fund displaying a positive approach towards the Second Asian Bond Fund Initiative welcomed the progress on the development of its second phase. David Burton, Director of the International Monetary Fund's Asia and Pacific Department issued a statement with reference to the release of a progress report on the development of the second phase of the Asian Bond Fund initiative (ABF2), which will invest in local currency denominated Asian bonds, by the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP) Group.

Mr Burton said, "The establishment of ABF2 represents another important step in strengthening regional financial cooperation in East Asia and in promoting the development of

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Twenty Three Nations Sign Accord on Asian Highway Network

Exceeding early estimates, 23 Asian countries signed an international agreement for completing a transcontinental network of standardized roadways, at a Shanghai meeting of the UN Economic and Social Commission for Asia and the Pacific (UNESCAP).

"From Tokyo to Tehran, from Singapore to Samarkand, and from points beyond to those in between, the network now spans 32 countries and encompasses more than 140,000 km", United Nations Secretary-General Kofi Annan said in a message delivered to the signing ceremony at the UNESCAP economic summit in Shanghai.

The completed highway will further facilitate border-crossing for people, vehicles and goods, and also impart crucial benefits to landlocked countries, as provided for in a United Nations conference last August in Almaty, Kazakhstan, the Secretary-General noted. His message was delivered by

UNESCAP Executive Secretary Kim Hak-Su to ministerial-level Asian leaders at today's signing ceremony.

Bangkok-based UNESCAP has been negotiating routes and road specifications for the network since 1992. The text of an agreement for upgrading sub-standard stretches and making provisions for new routes was agreed by 32 participating countries in November of 2003. At that time, United Nations officials estimated that 10-15 nations would have completed the necessary approval processes to be ready to sign at the UNESCAP annual meeting in April 2004. Last week, up to 20 signings were projected.

The early show of support for the project "clearly demonstrates the desire and capacity of Asian countries to work together, now and for the future, to achieve common goals", said UNESCAP Executive Secretary Kim.

(Source: UNESCAP Press Release, April 26, 2004) ■

New Study Examines Emerging "Asian Union"

The Progressive Policy Institute (PPI), Washington D.C., US, released a study examining the dramatic increase in Asian economic integration, highlighting mainland China's rapid economic fusion with its wealthy neighbours. In, *'The Emerging Asian Union? China Trade, Asian Economic Integration and a New Competitive Challenge'*, Ed Gresser, director of PPI's Trade and Global Markets Project, argues that this budding informal "Asian Union" has created a powerful new competitive challenge for the US.

In this new policy report, Gresser argues that a chain of political and economic events began in the 1990s have led to a boom in investment on the Asian Mainland and greater Asian competitiveness. These events are

now combining the wealth and technological sophistication of Japan, Korea, Taiwan, Hong Kong and Singapore with the low costs and vast manpower reserves of mainland China.

The PPI report further illustrates that the results of the new Asian economic integration are already transforming trade patterns worldwide. As for example, American imports from the five wealthy Asian economies have dropped by \$47 billion, reflecting their movement of final processing into China, and American imports from China have jumped by \$52 billion and diversified into a range of sophisticated and increasingly high-tech manufactured goods.

(Source: Progressive Policy Institute, Press Release, May 13, 2004) ■

Tenth EU-Japan Asia Journalists Conference on Asian Integration

The 2004 EU-Japan Asia Journalists Conference held in Furokawa, Japan on April 7, 2004 significantly focused on topics of Asian Integration with regards to lessons from the EU.

As reported by *The Japan Times* (April 17, 2004), Ambassador Bernhard Zepter, head of the Delegation of the European Commission in Japan said, "The European Union is convinced that a certain amount of integration is necessary for enhanced intergovernmental cooperation".

However, many participants agreed the EU model was just one option for regional cooperation and need not be the only choice for Asia, should the region decide to pursue stronger bonds. Unlike the EU, which further expanded with the accession of 10 Central and Eastern European countries on May 1,

political and business leaders shoot down notions that Asia can be integrated more deeply, due to the region's diversity, and lack of a common culture, history or religion, *The Japan Times* further reported.

According to *The Japan Times*, Rodolfo C. Severino, a former secretary general of the Association of Southeast Asian Nations and a professor at the Asian Institute of Management in the Philippines, said in a keynote speech that this diversity has prompted the various parts of Asia to take a more "pragmatic approach" to regional cooperation than Europe.

He also noted that various platforms for communication in the Asia-Pacific region, including the ASEAN Regional Forum, bring potential adversaries such as China, Japan and the two Koreas together under one roof.

The conference further discussed issues of China Japan relations, China Taiwan relations and issues of terrorism that prevent a successful integration of the region. However, most of the participants concluded that Asia would do well to look beyond such diversities and distrust.

"Asia's societies should search out common interests from which a cooperative framework might be erected, they said, noting the foundations of European integration were laid in part due to the shared understanding that the pursuit of mutual interdependence could become the strongest factor for regional stability", the participants agreed, as reported by *The Japan Times*.

(Source: Delegation of the European Commission in Japan, Press Information and *The Japan Times*, April 17, 2004) ■

Twentieth ASEAN Japan Forum

The strengthening relationship between ASEAN and Japan augurs well for the future of East Asian Cooperation.

In the last summit meeting (ASEAN-Japan Commemorative Summit, December 2003), the two sides had adopted the ASEAN-Japan Plan of Action. Moving ahead in this direction the senior officials from ASEAN and Japan met for finding ways of implementation of the Plan of Action in Kuala Lumpur on April 7, 2004. The Meeting was officially called the twentieth ASEAN-Japan Forum.

During the meet, the senior officials agreed to develop concrete project proposals based on the 120 measures identified in the plan of action covering broad political, security, economic and socio-cultural cooperation.

Some of the priority areas that had been identified were the development of the Mekong region, Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA), human resource development, information and communication technology within the ASEAN-Japan Comprehensive Economic Partnership and cooperation in non-traditional security issues.

The meeting was co-chaired by Japan and Malaysia as country coordinators of ASEAN-Japan relations.

The senior officials also exchanged views on the prospects for an East Asian Summit and an East Asian Community. In addition, they talked about Japan's accession to the ASEAN Treaty of Amity and Cooperation (TAC). Japan signed the Declaration on the Accession to TAC during the Tokyo summit.

Japan also reaffirmed its determination to fulfill its commitment made in Tokyo when it pledged 1.5 billion US dollars for the implementation of human resource development and another 1.5 billion US dollars for the Mekong Basin Cooperation through bilateral and regional activities under the action plan.

(Source: Malaysian Ministry of Foreign Affairs, Press Statement, April 7, 2004) ■

ASEAN- China Foreign Ministers Meet

The Foreign Ministers from China and ten Members Countries of the Association of Southeast Asian Nations (ASEAN) held an informal meeting in Qingdao, China on June 21, 2004 to exchange views on regional and global issues.

On the cooperation front, the ministers exchanged views on Asian regional cooperation, East Asian cooperation in particular. Both sides agreed that an East Asian community is a long-term objective for East Asian cooperation to be developed through the existing ASEAN+3 mechanism and supported the idea of convening the East Asia Summit at an appropriate time. The Chinese side reaffirmed its support for ASEAN's role as the major driving force in East Asia cooperation.

Signifying China's importance in the regional process, the Ministers agreed that ASEAN and China could play a key role in deepening and widening Asian Cooperation, including the development of Asian Bond Market in both demand and supply sides. The on-going process of bilateral,

sub-regional and regional arrangements would be the building blocks for the region-wide and multilateral cooperation, agreed the ministers.

It was commonly viewed that the efforts should be continued to promote the role of the Treaty of Amity and Cooperation in Southeast Asia (TAC) as a code of conduct for state-to-state relations in this region. The Chinese side reiterated its willingness to sign the Protocol to the Treaty of the Southeast Asia Nuclear Weapon-Free Zone (SEANWFZ), which was highly commended by ASEAN given China's status as a Permanent Member of the United Nations Security Council.

A decision was taken by the ministers on the formulation of the Plan of Action on Strengthening China-ASEAN Strategic Partnership, to be adopted by ASEAN-China Leaders in Vientiane in November 2004, with a view to implementing the Joint Declaration on Strategic Partnership for Peace and Prosperity signed by leaders of the two sides in October 2003. The

Ministers also agreed that ASEAN and China should develop comprehensive frameworks for their cooperation in the five key areas, namely agriculture, ICT, HRD, Mekong basin development and mutual investment, as well as SMEs, public health and science and technology.

China reiterated its support for ASEAN's integration process including efforts to establish the ASEAN Community, comprising the ASEAN Security Community (ASC), the ASEAN Economic Community (AEC) and the ASEAN Socio-Cultural Community (ASCC), and the Initiative for ASEAN Integration (IAI). Both sides agreed to step up cooperation in the Mekong River Basin development, Brunei Darussalam-Indonesia-Malaysia-Philippines-East ASEAN Growth Area (BIMP-EAGA), the development of China's west and the revitalization of China's northeast region, with a view to promoting common development.

(Source: ASEAN Press Release, April 21, 2004) ■

BOAO Forum Promotes Asian Family

The Boao Forum for Asia's Annual Conference for 2004 was held on April 24-25, at Boao, in Hainan Province of China. The theme for the conference was, 'Asia Searching for Win-Win: An Asia Open to the World'. "It provided a platform for the heavyweights figures of the region to discuss closer cooperation among Asian countries and between Asia and the rest of the world", said Fidel Ramos, board director of the forum and former president of the Philippines. Over 1000 senior politicians, scholars and business people from Asia and other parts of the world attended the meeting in Boao.

The conference focused on trade and cooperation issues in Asia. The trade officials participating in the forum reached a common understanding on regional economic cooperation in Asia. Regional economic integration has been rising in East Asia through trade, foreign direct investment and finance.

The Chinese Vice Commerce Minister Yu Guangzhou said that China always engages in regional economic cooperation and that it will spur the establishment of Sino-ASEAN Free Trade Area and will continue to take part in all kinds of technological cooperation in Asia. Japanese trade officials reaffirmed that their country would continue to develop close economic ties with Asia, while the South Korean Trade Minister suggested the development

of a greater free trade zone in Asia.

On the cooperation front, it was stressed that the Asian nations should try to catch up with Europe and America in uniting themselves. "Compared to Europe and America, Asia is lagging behind in terms of integration", said Ramos. It is about time that Asian countries have a feeling of being members of the Asian Family.

The economic growth of Asia's major developing countries such as China, India, Thailand, all exceeded 8 per cent in 2003, pulling the Asian economy to a new high, since the outbreak of the financial crisis in 1997. Japan, the biggest economy in the region is also showing signs of recovery.

"The region, which is becoming the third most important pillar of the global economy after Europe and America has an undoubted potential", said Ramos.

Chinese Premier, Hu Jintao in his speech, stressed on the peaceful rise of China and the opportunities that the process would offer Asia. Meanwhile, Vaclav Klaus, President of the Czech Republic, talked about the European Union's expansion, from which Asia could learn. Ernesto Zedillo's (Former President of the Mexico) comments on free trade arrangements in America were also received with immense interest by the participants of the Forum.

(Source: BOAO Forum, News Releases, April 24-25, 2004) ■

China and India in the Global Economy: An RIS/DRC Policy Dialogue

RIS hosted a high level delegation from Development Research Centre (DRC) of the State Council of China which visited India from March 9-15. The delegation was led by H.E. Dr. Sun Xiaoyu, Vice-President (Vice Minister), DRC. The other members of the delegation were: Dr. Guo Lihong, Director-General, Research Dept. of Technology Economy, DRC; Dr. Zhang Xiaoji, Director-General, Research Dept. of Foreign Economic Relations, DRC; Dr. Han Jun, Director-General, Research Dept. of Rural Economy, DRC; Ms. Sun Lanlan, Director-General, International Cooperation Department, DRC; Ms. Zhang Qi, Division-Chief, Research Dept. of Foreign Economic Relations, DRC; and Mr. Zhao Shenghua, Division Chief, International Cooperation Department, DRC.

The delegation held detailed discussions with RIS on issues of establishing exchange and cooperation between RIS and DRC on March 10. The session was co-chaired by H.E. Dr. Sun Xiaoyu and Ambassador S.T. Devare, Vice-Chairman, RIS. It was followed by "RIS/DRC Policy Dialogue on China and India in the Global Economy". The programme of the Dialogue included three sessions.

The first session on Economic

Development in China and India in the context of Globalization was co-chaired by Dr. Sun Xiaoyu and Ambassador S.T. Devare. It had two presentations: Implications of China's Opening-up Policy on Economic Development (DRC), and India's Economic Performance under Liberalization (RIS). The second session on Regional Economic Integration in Asia was co-chaired by Dr. Sun Xiaoyu and Dr. Sanjaya Baru, Editor, *Financial Express* and had presentations on India's Strategy towards Regional Economic Integration in Asia (RIS) and on the Chinese Strategy towards Regional Economic Integration (DRC). The third session was on WTO and Agriculture in China and India. Dr. Sun Xiaoyu and Professor G.K. Chadha, Vice-Chancellor, Jawaharlal Nehru University, New Delhi co-chaired it. It had two presentations: China's Agricultural Development after WTO Accession (DRC) and India's Agricultural Trade Policy and WTO (by Dr. Rajiv Mehta, Member-Secretary, Commission on Agriculture Costs and Prices).

DRC and RIS have entered into an MoU to continue the Policy Dialogue initiated in Delhi in March 2004. DRC has also invited RIS to bring a delegation to DRC. ■

ASEAN+3 Finance Ministers Meet

Held in parallel with the opening of ADB's 37th Annual Meeting of the Board of Governors, was the ASEAN+3 Finance Ministers meet, which focused on regional cooperation beyond trade and investment to include monetary and financial cooperation. This new cooperation fell into three broad categories: greater information exchange and policy dialogue, reserve sharing and pooling, and regional bond market development.

In view of this line of focus, took place the launching of the *AsianBondsOnline* website, a one-stop clearing house of information on the rapidly growing sovereign and corporate bond markets in

the region. Supported by ADB and financed by the Government of Japan, *AsianBondsOnline* is part of the ASEAN+3 Asian Bond Markets Initiative (ABMI), a cooperative effort to help develop mature bond markets in the region.

The web site provides a common format for accessing information on market infrastructure, rules and regulations, market activities, market data, and new policies and initiatives for each market as well as the region as a whole. It also provides news and commentary on regional bond markets, and recent economic releases, research, and analysis

For the first time, concrete

steps are being taken at the regional level, by the ASEAN+3 and other groups, to complement individual country efforts in developing bond markets.

The ABMI aims to enable private as well as public sectors to raise and invest long-term capital while effectively managing maturity and currency risks. Deep, liquid bond markets mitigate over-reliance on bank lending for corporate financing requirements, a situation that exacerbated the Asian financial crisis in 1997. They also help governments and businesses manage their own debt portfolios and reserves.

(Source: ADB News Release, May 15, 2004) ■

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bond markets. The ABF2 will help to encourage the development of index bond funds in regional markets; it can also be a useful catalyst for the improvement of domestic bond markets and for greater harmonization of bond market infrastructure and legal, regulatory, and tax arrangements across the region".

The EMEAP Group comprises 11 central banks and monetary authorities in the East Asia and Pacific region, including Australia, China, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, and Thailand.

(Source: IMF Press Release, April 18, 2004) ■

Asia Needs the Freedom of Its Own Monetary Fund

Martin Wolf

Today, Asian governments are exporting astonishing quantities of capital, overwhelmingly to the US. This is just not absurd. It is also economically destabilizing.

In 2002 and 2003, the principal economies of the Asian region ran a combined current account surplus of \$540bn, of which \$249bn was Japan's. It would be natural to assume that these huge current account surpluses were the means through which the region exported its excess private savings. But most Asian economies have not been net exporters of private capital.

In aggregate the net capital inflow into the principal economies of the region was \$178billion. Hong Kong and Singapore had large net capital outflows and there were also small net outflows from Malaysia, Thailand, Indonesia and the Philippines. But Japan, China, Taiwan, India and South Korea all had sizeable net capital inflows, and sent it back as official reserves. That is why the gross reserve of these economies rose by the astonishing total of \$718bn over these two years.

Why did Asian governments behave in this way? The answer is that they wished to avoid a collapse of the US dollar. They feared a collapse for several reasons: it would have generated additional deflationary pressure, particularly important to Japan and China; it would have reduced their current account surpluses or even generated sizeable deficits, rendering them vulnerable, they feared, to another financial crisis.

It makes no sense for a region with huge current account surpluses and foreign currency reserves to be so desperate to avoid international financial crises. The US should feel vulnerable instead. A step towards reducing the region's perceived vulnerability would be to create a large Asian Monetary Fund. Armed with this insurance, Asian countries could allow their exchange rates to appreciate, generate greater internal demand and then run current account deficits. This would generate global balance of payment adjustment. Moreover, if Asians do wish to lend money generously, why not benefit their own people rather than Americans?

Asia should dare to take a big leap forward in trade, monetary and financial cooperation. Americans and Europeans may not like the results. They will have to live with them.

(Excerpted from *Financial Times*, May 19, 2004)
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Asian Financial Union: Thinking the Unthinkable

Michael Vatikiotis and Tom Holland

A proposal that is going round as a first step on the long, long road to Asian economic and monetary union is to unify existing bilateral agreements for lending foreign reserves and create a single multilateral facility across East Asia. If agreed upon, participating governments will have to accept common rules for monitoring each other's economies and for deciding when countries can draw on the fund.

In tandem, there are also other closer financial cooperation steps Asian finance ministers and central bankers are considering, including, ways to develop a regional bond market. An Asian Bond Fund was launched last year, a largely symbolic, \$1 billion fund to invest only in United States-dollar-denominated government debt. New proposals aim to go a stage further within the next year or so, and foster local-currency debt markets. The boldest of them envisage bonds denominated in a notional basket of regional currencies that could eventually become a single Asian currency unit.

Such sentiment has swirled around academic seminars for years. The difference now is that rapidly growing regional trade flows and closer business ties are forcing the hand of policymakers. A plethora of free-trade agreements is under negotiation within Asia as the focus of diplomacy in the region shifts away from political issues to economics and commerce.

Strategic factors are also driving things along. Any moves to build a regional financial mechanism like a monetary fund or single currency would at this point need to take into account the primacy of the Japanese yen, reflecting Japan's position as the region's largest economy. That may not be the case in a decade or so, assuming China's economy continues to grow.

Meanwhile, South Korea, favours the creation of regional institutions that would tie bigger economies like Japan and China into regional funding of any future unification of the Korean peninsula.

The hard part in all this is forging consensus among Asian economies that have traditionally competed for export markets and investment. International financial institutions like the International Monetary Fund are also suspicious; they witnessed the

financial meltdown in 1997 and still question Asia's commitment to structural reform and transparency.

On the other hand, the timing may be ripe for integration. Emerging Asia's economies are buoyant and should grow an average of 7 per cent in 2004, reserves are healthy and growing, and no one stands to lose. Intra-regional trade between China, South Korea and Japan is well over one-third of their total trade, and the region's reserves now exceed \$2 trillion.

If the Asian countries consider pooling of these reserves, they will need to strengthen monitoring mechanisms. Months of negotiation would be needed before all the participating countries can agree on how the fund could be used. Malaysia insists on an independent surveillance mechanism; Singapore and Japan are opposed to de-linking from the IMF. The IMF favours a more market-driven approach to integration and applauds the idea of a regional bond market.

Although Asian countries enjoy high savings rates, poor financial infrastructure in the region means much of that money—in the form of Asia's high foreign reserves—is channelled into low-yielding US-government debt.

To reduce the exchange-rate risk, some advocates have proposed issuing bonds denominated in a notional currency whose value is equal to a basket of Asian currencies. The money raised could then be lent onward to corporations in their own domestic currencies.

This initiative also reflects a desire among Asian governments to move away from reliance on the US dollar.

(Excerpted from *Far Eastern Economic Review*, April 8, 2004)

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When will Asian Dollar Dream Come true?

Xinhua

As the globalization goes deeper, the importance of small countries' currencies is diminishing in economic terms. The development of the European Community has brought about the Euro, while in Asia, people are talking more and more about "Asian Dollar" as economic cooperation in this region is increasing in each passing day.

Currently, Asia is experiencing the fastest economic growth in the world, and thus, a unitary currency for Asia is of great significance. If "Asian Dollar" comes true,

the “Asian Dollar Zone” members will enjoy zero tariff, resulting in a consolidated economy in the region; the unitary currency can also help the region avoid impacts of US Dollar and Euro when they fluctuate; and “Asian Dollar” may set prices for government bonds of Asian countries, which reduces risks for investment. Furthermore, the co-existence of US Dollar, Euro and Asian Dollar will be helpful for the stability of world economy.

Studies show that a unitary currency could triple the trade volume in the region, according to some researchers.

In recent years, Asian countries have adopted a series of actions to increase their cooperation and consensus on the issues, including an agreement between China, Japan, the Republic of Korea (ROK) and the ASEAN on exchange of currencies in 2000 and the establishment of a 1 billion US dollars worth fund for Asian bonds in 2003, by 11 Asian countries and regions.

(Excerpted from *Xinhua News Online*, April 25, 2004)

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China-Japan-India Trilateral Axis A Win-Win Deal

Feng Zhaokui

Different economic scales and strong economic complementarity indicate China, Japan and India can realize a win-win result in developing and consolidating strategic cooperation. To maintain a safe petroleum passage through the Indian Ocean, which undoubtedly bears great strategic significance to the three most influential Asian powers, also requires close coordination and cooperation between them.

In my opinion, promoting strategic cooperation between the three Asian powers not only serves as an important topic, but a brilliant prospect that needs long-time efforts from the three countries.

The three countries should see the competitive relations between them in a correct mentality, and that they should not pursue hegemony in the region or deliberately exaggerate threats posed by others.

The three countries, while dealing with the Association of Southeast Asian Nations (ASEAN), should form a healthy and benign competition and mutually strengthen their bonding through the glorification of oriental culture and civilization.

To accomplish these goals the three countries certainly need a long period of time

to overcome numerous difficulties, but they should work towards them.

China, Japan and India should attach importance to developing the three bilateral relationships between them. They should give priority to the settlement of the problems existing in bilateral relations, especially the problems existing in Sino-Japanese and Sino-Indian relations.

While appropriately handling bilateral relations, China, Japan and India, or in a larger scope, China, Japan and South Asia should also consider developing trilateral cooperation on issues of common concern.

Such an alluring prospect certainly needs a long period to develop, but the three countries should pursue that goal just as efforts have been made on the establishment of the East Asian community (EAC), and a free trade area in East Asia, which both require decades of work to implement.

(Excerpted from *China Daily*, May 26, 2004)

© *China Daily*.

Realizing the Asian Dream

Nagesh Kumar

There is a strong need to establish an institutional infrastructure to recycle Asian countries' substantial savings of foreign exchange into demand generation for the region to more than compensate for any loss of demand in the US, which could be very hazardous for all the economies of the region.

What could be such an institutional modality for monetary and financial cooperation in Asia? In the wake of the East Asian crisis in 1997, Japan's proposal to set up an Asian Monetary Fund did not take-off. Of all the other initiatives, the Chiang-Mai Initiative (CMI) is probably the most concrete and active regional financial arrangements to take off in Asia. CMI provides for linking the international reserves of these countries with a series of bilateral swaps to provide for exchange rate stability. Another significant attempt towards financial integration is creation of the Asian Bond Fund (ABF) floated in 2003 within the framework of Asian Cooperation Dialogue set up at the initiative of Thai Prime Minister Thaksin.

The steps taken so far in the direction of monetary and financial integration are in the right direction but are too modest and symbolic to make much difference to the development prospects. Just to put the scales in perspective, the swaps entered into under CMI total about \$40 billion and the initial target of the ABF was just \$1 billion

(although India alone contributed \$1 billion). These amounts are insignificant in comparison to the combined reserves of Asian countries that now reportedly exceed \$2 trillion. With these modest amounts at their disposal, these initiatives can hardly make a difference in terms of financing of large projects and thus create demand.

Time has come to think about bolder approaches for monetary and financial integration in Asia. As a part of its studies on the Asian Economic Community, RIS has made a proposal for setting up a Reserve Bank of Asia (RBA) with at least \$ 100 bn of capital contributed by the member governments which may include all JACIK countries (viz Japan, ASEAN, China, India and Korea). On the strength of this capital, the RBA should be able to evolve a regional unit of account viz, an Asian Currency Unit (ACU) and be able to lend for large development projects in multiples and even earn seigniorage.

With a major programme of lending, RBA can contribute not only to development of regional infrastructure such as an Asian Gas Grid, or an Asian Satellite, Asian Railway among many others, but also generate enough demand in Asia to make up for any loss of it in the US. Hence, it will help Asia manage the adjustment smoothly besides enabling it to employ its savings for its own development. RBA will also help the countries in the region manage their foreign exchange reserves that at present are invested in low interest bearing securities in the US and elsewhere and earn a better return. CMI and ABF can be the building blocs for more ambitious approaches to monetary and financial integration in Asia as the RBA.

(Excerpted from *The Financial Express*, Edits and Columns, April 21, 2004)

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India and ASEAN could be Natural Partners for Trade

Sunanda K. Datta Ray

Sumatra, seat of the Sri Vijaya empire for six centuries, was literally swarnadwipa. Bali is farther India's last fragment; Singapore, a reminder of Britain's far-flung Indian empire. Myanmar, too, was a British Indian province. Somewhere along the way India lost — perhaps never had — the knack of converting historical privilege into political bonding and economic gain.

Where are the modern coefficients of these ancient linkages? There were none before 1991. India has become a full-

dialogue partner of the Association of South East Asian Nations since then; joined the ASEAN Regional Forum, Asia's embryonic crisis resolution mechanism; and participated in a series of annual summit conferences with ASEAN. A framework agreement for a free trade agreement with Thailand, another framework agreement on comprehensive economic cooperation with ASEAN as a whole, and the CECA negotiations led to the first ASEAN-India forum, organized in Singapore two months ago by the Institute of Southeast Asian Studies. Supported by the Confederation of Indian Industry and the Singapore Indian Chamber of Commerce, it highlighted how the CECA can be pursued in tandem with an aggressive Look East policy.

The thrust is simple enough — to increase trade, generate investment, pool resources in science and technology, set up joint ventures, and cooperate in a range of services to the benefit of a billion Indians as well as ASEAN's 500 million people. The forum identified healthcare, food and energy, infrastructure, outsourcing, information and communication, tourism, financial and education services and food-processing as areas of interest. A Singapore minister, Vivian Balakrishnan, himself a child of India's diaspora, trotted out India's growth figures as challenge and opportunity: "India, China and ASEAN are natural partners for trade and commerce."

India can use the economic space; ASEAN needs the expertise and market. But cooperation must be qualitatively different with each of ASEAN's ten members, many of them maritime states of strategic importance. Disparate political systems, different tariffs, the absence of common standards for excise, customs and rules of origin, national preferences, protectionism, trafficking in drugs and weapons, and varying levels of bureaucratic integrity and efficiency, impede uniformity.

Sub-regional cooperation can foster ties with these key players. Just as CECA will link India with Singapore, other initiatives like the Mekong-Ganga project and the Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation will strengthen ties with Thailand. Thaksin Shinawatra's critics accuse him of pursuing personal interests in India. But adapting the old adage about what is good for General Motors being good for America, what is good for Shin Satellites (controlled by the prime minister's clan, whose wealth is assessed at \$1.2 billion) may also be good for Thailand. (Excerpted from *The Telegraph*, April 10, 2004)
© *The Telegraph*.

A Single Asian Currency

Edgardo B. Espiritu

The rationale for a common currency lies in the high level of integration that the East Asian economies have, in terms of trade, investment, and even labour mobility.

There are already certain developments in the region, that indicate such a movement. First, there was the establishment of a network of "bilateral swap arrangements", by which participating countries will come to the aid of a neighbour in the region when its currency comes under speculative attacks and other sudden destabilizing influences. A second trend is the development of these countries' internal bond markets, gradually lessening overdependence on bank financing, and the initiatives toward the development of a regional bond market. The third trend is the formation of Free Trade Agreements within the region, such as the AFTA and the bilateral FTAs among the countries in the region.

The fourth step, though, still to be taken, is the putting in place a system for stabilizing intra-regional exchange rates. This is something similar to the Exchange

Rate Mechanism (ERM) under the European Monetary System that operated in Europe prior to the adoption of a single currency.

But, we have had a lot of experience with such systems, bad ones. First, when a country fixes the rate of exchange of its currency vis-à-vis others it loses its power to conduct independent monetary policy. Second, where foreign currency is scarce, means that it has to be rationed, is a recipe for increasing corruption.

But, of course, with such stability, intra-regional movements in goods and investments will increase further, leading to even faster economic growth in the individual countries and in the region as a whole.

The requirements for the next step, which is the adoption of a common regional currency, are even more difficult. These requirements are: that the markets for goods and services in the region are fully free and integrated; that human resources can move relatively freely within the region; that the capital market is developed and integrated; that the economic structures and level of economic development of countries in the region are similar.

(Excerpted from *The Manila Times*, June 16, 2004)
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Further Readings

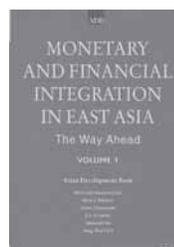
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Monetary and Financial Integration in East Asia: The Way Ahead

Volume 1 and 2, The Asian Development Bank.

Palgrave Mcmillan, 2004.

Since the 1997 Asian Financial crisis, countries in East Asia have made efforts to promote regional and monetary financial cooperation to complement the evolving international financial architecture. This



increased interest in regional monetary and financial cooperation has resulted in several initiatives – the ASEAN Surveillance Process, the ASEAN+3 Finance Ministers Process including its Chiang Mai Initiative of 2000, the Manila Framework Group and the Asia-Europe Finance Ministers Process to name a few. These developments in some ways represent a significant break from the past. Going forward the key challenge is how to set priorities and sequence developments so as to smooth the path to a new regional financial architecture.

This two-volume book takes up the issue of developing a road map of policy options, both at the regional and the country level, for carrying forward the ongoing efforts in monetary and financial cooperation in East Asia. Building on a series of core reports and background papers by eminent economists and policymakers around the world commissioned under an ADB technical assistance project, the book explores what is feasible and desirable in regional monetary and financial cooperation, and lays out a road map for putting the concept into action over the next several years. This book first examines the reasons for the intensified interest in monetary and financial cooperation with in Asia. It then considers the forms that regional cooperation could take in the future in four key areas: (i) information exchange and surveillance systems, (ii) resource coordination, (iii) exchange rate coordination, and (iv) coordination in financial sector reform and development. After extensive analysis of the issues involved in each area, the book lays out recommendations for feasible and desirable forms of enhanced cooperation and actions that could be taken in the short (with in next 2 years), medium (3-5 years), and longer term (over 5 years).

South Asia Development Cooperation Report 2004

RIS.

South Asia has sustained an average growth rate of 5.5 per cent per annum over the past two decades, despite many external and domestic shocks such as East Asian crisis, slow down of the world economy, Afghan and Iraq wars, oil price hikes, failure of monsoons, ethnic conflicts and threats of terrorism, among others, making it one of the most dynamic regions in the world. With more than a decade of reforms behind them, the region's economies are more intensively integrated with the global economy, growth of income and exports display promising outlook and inflation rates are in check. Despite such achievements in terms of economic performance, however, the region continues to be home for more than two-fifths of the world's poor. The region also fares very poorly in terms of different indicators of human development such as education, health, nutrition, among others. Therefore, the region needs to further accelerate its growth process with an emphasis on human development and strengthen competitiveness to deal with the daunting challenges of alleviation of poverty, hunger, illiteracy, and disease.



The *South Asia Development and Cooperation Report 2004 (SADCR 2004)* argues that the region can face these challenges much more effectively as a group rather than individually. The regional economic integration can, by exploiting the synergies, expand the economic opportunities available and strengthen the growth prospects. The recent experiences with economic integration in the region suggest that it leads to expansion of trade and development in a balanced and sustainable manner. In the light of these experiences and against the backdrop of mushrooming regional trading blocs in different parts of the world, the Report finds a compelling case for the region effecting its transition into an economic and monetary union by implementing SAFTA, forming a SAARC Customs Union and introducing a South Asian parallel currency, as an intermediate step to a single currency, in an expeditious manner. Among the key sectors presenting

opportunities for mutually beneficial cooperation, *SADCR 2004* selects transport infrastructure for a detailed analysis. Transport infrastructure is not only an important determinant of economic development but is also critical in exploiting the gains of economic integration resulting from geographical proximity. Earlier *SADCR 2002* focused on energy sector for a detailed analysis of the potential and challenges of cooperation. Among the core technologies that have emerged as the key drivers of development, the present Report selects biotechnology for detailed analysis in view of its tremendous promise for promoting food security and hence alleviation of poverty and hunger in the region. *SADCR 2002* has already covered the potential and challenges for cooperation in the other core technology, viz. information and communication technologies.

Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation

UNESCAP, 2004.

Globalisation has been a complex and uneven process. Several countries in the Asia-Pacific region have reaped substantial benefits, but many others, particularly the least developed, have been left behind. The



fundamental vision of the United Nations Millennium Declaration is that better management of globalisation is central to the achieving the Millennium Development Goals. This study examines the state of globalisation and regional cooperation on the Asia-Pacific region, focusing on four areas that are the key driving forces in globalisation, i.e. Trade, Finance, Transport and Information and Communication Technology.

The study explores how regional cooperation in these areas can help to make globalisation a positive force for all people. In the spirit of the Monterrey Consensus, it reviews a number of recent initiatives: the growing array of preferential trade agreements, the Asian Bond Market Proposals, the Digital Solidarity Agenda, the Asian Highway and the Trans-Asian Railway.

The study poses the questions: Can the EU model work for Asia Pacific integration? How can better synergy be achieved by

regional cooperation arrangements such as ASEAN, ASEAN+3, ECO, the Pacific Islands Forum Secretariat and SAARC? How can regional economy help countries to integrate with global economy?

In this way the study guides stakeholders to address the policy dilemmas in managing globalisation.

East Asian Economic Perspectives: Recent Trends and Perspectives for Major East Asian Economies

The International Centre for the Study of East Asian Economic Development, Kitakyushu, Volume 15, Number 1, Special issue, February 2004.

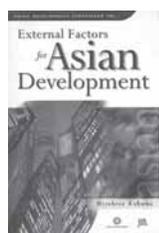
This volume examines recent trends and prospects in eleven of East Asia's major economies, Japan, China, Hong Kong, Korea, Taiwan, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. The report analyses important short-run economic changes in the context of related medium- and long-term trends, as well as relevant political and social developments. The volume is designed to be a concise reference for interested individuals in academia, business and government. It tries to highlight major issues, while at the same time providing a set of basic information about the region's economies.



External Factors for Asian Development

Editor – Hirohisa Kohama
Asian Development Experience Vol. 1, Japan Institute of International Affairs, ASEAN Foundation, Institute of Southeast Asian Studies, Singapore, 2003.

This book investigates the effects of Japan's foreign aid for development, trade and FDI in ASEAN economies from various perspectives, including: the historical implication of Japan's involvement; agricultural exports; the development patterns of the Southeast Asian economies; the formation of international production and distribution networks; poverty



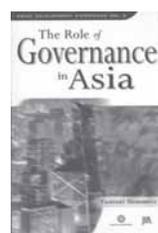
reduction; upgrading technology; and industrial agglomeration.

The contributors analyse trade, FDI and foreign aid from the standpoint of policy coherence at the interface between development, cooperation, and many other policy areas: trade, agriculture, food safety, fisheries, intellectual property, the environment, international finance, tax, policy, migration, and peace and security.

The Role of Governance in Asia

Editor – Yasutami Shimomura
Asian Development Experience Vol. 2 Japan Institute of International Affairs, ASEAN Foundation, Institute of Southeast Asian Studies, Singapore, 2003.

This book investigates the "missing link", the complicated realities of the relations between governance and development through case studies of ASEAN countries. Its main objective is to explore a theoretical framework to overcoming the limitations of mainstream approaches by employing case studies on decentralization, crisis management, corporate governance and foreign aid management of both public and private entities.



Regional Cooperation in Asia

Editor – Ryokichi Hirono
Asian Development Experience Vol. 3, Japan Institute of International Affairs, ASEAN Foundation, Institute of Southeast Asian Studies, Singapore, 2003.

This book reviews the domestic reforms effectively introduced by ASEAN members after the 1997 financial crisis and what could be done to accelerate such reforms. With the entry of the 4 new members into ASEAN, possible measures to strengthen both intra- and extra-ASEAN regional cooperation frameworks are sought so that the 10 ASEAN members can make a smooth economic and social transformation to tackle globalisation and accommodate the two highly competitive giant economies, China and India.



This study also seeks to identify what could be the role of Japan in promoting its

economic relations with ASEAN-10 under the ongoing framework of the WTO and the ASEAN-Plus-Three in the light of the current trend towards greater regionalism in Europe and the Americas.

Toward ASEAN-Japan Comprehensive Economic Partnership

Editors – Ippei Yamazawa, Daisuke Hiratsuka
Institute of Developing Economies, Japan External Trade Organisation, 2003.

This volume is a compilation of all the papers in the background report *ASEAN - Japan Comprehensive Economic Partnership: Vision and Tasks Ahead*. Part I of this volume contains three papers. Yamazawa discusses economic partnerships between ASEAN and Japan and considers what elements need to be incorporated in AJCEP. Oyamada presents a simulation of the results of an ASEAN-Japan FTA, based on a forward-looking applied general equilibrium model. The study shows some interesting results. For example, the reduction of barriers to primary products, including agricultural products, would benefit both ASEAN and Japan. Nipon emphasizes the reduction of barriers to agricultural trade on the Japanese side, because many ASEAN members, including CLMV, have potential comparative advantages in agricultural products.



Part II collects the responses to the Yamazawa's paper from the research institutes of the ten ASEAN countries. They welcome the initiative of AJCEP, but differ in degree of support for AJCEP. For example, Malaysia supports AJCEP strongly and regards Japan as a reliable partner, while Thailand supports it as a step towards a broader East Asian Economic Community. In contrast, CLMV express interest in bilateral assistance from Japan as well.

ASEAN-Japan Competitive Strategy

Editors – Ippei Yamazawa, Daisuke Hiratsuka
Institute of Developing Economies, Japan External Trade Organisation, 2003.

This volume is a compilation of all the papers presented in the background report titled *ASEAN-Japan Competitive Strategy Report*.



Chapter 1 summarizes the individual papers from the ASEAN members. It discusses the competitive-enhancing policies to be emphasised in the course of economic integration.

Chapters 2-7 discuss the strategy for upgrading industries and enhancing the competitiveness of the six ASEAN countries, with attention paid to the remarkable rise of China, which has intensified market competition, and emphasis on the need for competitive-enhancing policies.

Chapter 8 discusses Japan's industrial structure and structural reforms. Japan has been introducing coherent policies to respond to the economic integration that has rapidly progressed in the East Asian region.

Chapter 9 measures the competitiveness of ASEAN, China and Japan by industry and conclude that ASEAN countries are competing against one another within the region as well as with China, while Japan has complementary trade relationships with both ASEAN and China. In chapter 10, emphasis is on the strengthening the fundamentals to determine competitiveness and developed a quantitative measure of the fundamentals in order to prioritise for policy implementation.

Moving Forward on the Establishment of an Effective Surveillance System and an Improved Financial Architecture for East Asia

Yungjong Wang and Wing Thye Woo, Discussion Paper 03-05, Korea Institute for International Economic Policy, 2003.

The goal of this study is to contribute to the efforts to construct regional financial arrangements that would reduce the occurrences of financial crisis, and lower their costs. This study confines itself to the issues related to crisis prevention through mutual surveillance. This study will review and assess existing regional or sub-regional arrangements covering information exchange, surveillance systems, and institutions. In particular, in relation to the current development of the Chiang Mai Initiative (CMI) the analysis focuses on how to strengthen mutual surveillance processes through regional policy dialogue.



ASEAN-Japan Cooperation: A Foundation for East Asian Community

Japan Center for International Exchange, 2003

This volume contributes to the exploration of the future course of ASEAN-Japan relations as a critical element to the emerging East Asian Community at the governmental level as among the intellectual leaders and the broader public.



BIMST-EC Initiative: A Study of India's Trade and Investment Potential with Select Asian Countries

Occasional Paper No. 100, Export-Import Bank of India

The study traces the evolution, activities and points towards future milestones of the BIMST-EC. It studies the domestic economies, foreign trade and foreign direct investment in all the BIMST-EC countries.



It then focuses on India's trade relations with all BIMST-EC members including informal trade. The study concludes with strategies to enhance BIMST-EC Trade and Investment Relations.

Economic Cooperation and Integration in East Asia

by Chia Siow Yue

Abstract: Recent developments in the relationship between East Asian countries and prospects for further cooperation are discussed, together with analysis of the driving forces for proliferation of free trade areas (FTAs) and preferential trade arrangements (PTAs), as well as the different types of arrangements. The evolution of the key features of such economic cooperation agreements are outlined and the challenges and issues facing more extensive East Asian economic integration are reviewed. The paper concludes with recommendations for bringing about a viable, effective East Asian economic community that will benefit member countries and contribute positively to global trade.

Asia Pacific Review, Volume: 11, Number 1 / May 2004

Challenges for Currency Cooperation in East Asia

by Kiyohiko Fukushima

Abstract: The defects of the current international financial system are creating tremendous distortions in the economies of East Asia. For the time being, most of the developing countries in East Asia have no choice but to adopt some sort of a flexible, wider band system (crawling band) while resorting to capital control when necessary, in order to avoid the recurrence of the Asian currency crisis. Japan's approach to building a stable international financial system in East Asia has gone through several stages since the late 1970s. Though the latest approach of setting up the Asian Bond Fund (ABF) is a step in the right direction, the ABF has severe limitations in reducing the risks for the developing countries in Asia. The ABF needs to be replaced by the Asian Bond Corporation (ABC) in order to develop an international capital market in Asia and use the abundant saving in Asia for financing the growth of Asia. In the process of expanding the activities of the ABC, Asia can adopt the notional common currency based on a basket of major currencies. That notional currency will pave the way toward introducing the Asian common currency, which can be the ultimate goal for the economic cooperation and integration in East Asia. In the meantime, while enhancing currency cooperation, East Asia needs a lender of the last resort in order to keep its economy from collapsing from another currency attack. Japan has been trying to play that role and is poised to take that responsibility as the largest and the most developed economy in the region. International capital markets and a truly international currency must be supported by numerous institutions and intellectual frameworks. Asia is yet to build those institutions. To help build those institutions, we in East Asia need to establish a new international research institution which would coordinate the strenuous intellectual efforts needed for building institutions that bolster the international capital market in Asia. The envisaged new institute can be dubbed the "Asian Monetary Institute", or "AMI".

Asia Pacific Review, Volume: 11, Number 1 / May 2004.

RESOURCES

In Defence of FTAs: from purity to pragmatism in East Asia

by Barry Desker

Abstract: This paper discusses the shift in East Asia from a focus on multilateral trade liberalization through the WTO to a pragmatic approach since 1999 favouring bilateral and regional FTAs while continuing to support the WTO system. It is argued that such FTAs are a second-best option compared to WTO agreements. However, while economists may seek the ideal solution, governments will focus on the politically attainable, especially as new multilateral agreements require lengthy negotiations beyond the life span of governments. As the WTO negotiating process has become bogged down, even once sceptical governments in East Asia are turning to FTAs. It is contended that such FTAs could form a lattice network within and across regions. In this context, the paper discusses the underlying security rationale for the conclusion of FTAs, highlighting the nexus between security interests and international economic policy in East Asia.

The Pacific Review, Volume: 17, Number 1 / March 2004.

Complex Regional Multilateralism: 'Strategising' Japan's Responses to Southeast Asia by Julie Gilson

Abstract: Japanese government interests in Southeast Asia continue to expand. Official speeches refer to the growth of a 'community that acts together', while institutional linkages have been strengthened with the creation of the ASEAN Plus Three process and by a proliferation of bilateral arrangements. These developing networks raise questions about Japan's future orientation towards its wider region.

This article assesses recent developments, by challenging some of the fundamental assumptions about Japan's regional behaviour. First, it examines how a tendency to render mutually exclusive bilateral and multilateral forms of behaviour serves to obfuscate a focus on the fundamental processes of regional engagement. Second, this article delineates Japan's changing orientation towards the region as part of a process of 'complex regional multilateralism', in which a range of often ad hoc engagements have resulted in a loose framework for interaction. In so doing, it suggests that Japan's current policy-making

approach towards Southeast Asia may be regarded as a continuation of policy that is, nevertheless, being buffeted by a range of - primarily regional - external influences. The resulting set of perceived strategies demonstrates not an either/or approach to regional engagement but, rather, shows how the Japanese government manages changing circumstances to carve out a new role for itself in Southeast Asia.

The Pacific Review, Volume: Volume 17, Number 1 / March 2004.

European Union Integration Lessons For ASEAN + 3: The Importance of Contextual Specificity by James Angresano

Abstract: This paper will argue that EU integration appears to offer ASEAN and three

Northeast Asian Countries (China, Japan and South Korea) political and security lessons concerning maintenance of regional stability, as well as some economic lessons. There is not, however, any institutional blueprint for integration that these countries could emulate. This is in part because economies are characterized by "contextual specificity" of chosen institutions and their corresponding working rules. These institutions and rules evolve in particular cultural and historical settings and are shaped by the specific country's philosophical basis, political structure, and attitudes of authorities towards alternative types of economic institutions and the types of corresponding rules they could choose to establish for those institutions.

Journal of Asian Economics, Volume: Jan 2004

New Asia Forum

RIS has been supporting the process of regional economic integration in Asia with its studies and research. Besides its pioneering contribution to the process of economic integration in South Asia, it has been supporting the ASEAN-India economic partnership. It has been developing proposals of a broader pan-Asian economic integration as a part of a research programme supported by the Sasakawa Peace Foundation. As its most recent initiative, the RIS has set up the New Asia Forum as a dedicated network of think-tanks in Asia devoted to assist this process of regional integration and thus help in building a New Asia with ideas. The Forum has set up a dedicated website www.newasiaforum.org as the melting pot for all the relevant information and resources on the subject.

Feedback and contributions are invited from all concerned.

RIS

RIS is an autonomous policy think-tank, based in New Delhi, specialized in trade and development issues. Its work programme focuses on multilateral trade negotiations, regional economic integration in Asia, new technologies and development, and South-South cooperation in general, among other issues. The work of RIS is published in the form of research Reports, books, discussion papers and journals. For more information about RIS and its work programme, please visit its website: www.ris.org.in.

The New Asia Monitor is a newsletter of the New Asia Forum launched by RIS. It seeks to disseminate the news, viewpoints and information about resources among the policy circles and think-tanks to promote the cause of regional economic integration. The information contained has been compiled from various sources as cited, for the purpose of generating debate. The copyrights of the material included remain with the original sources. The *New Asia Monitor* is available free from RIS or can be downloaded from www.newasiaforum.org.



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