



Asian Economies Work Well Together

— Eric Teo Chu Cheow*

The third High-Level Conference on Asian Economic Integration was jointly organized on September 15-16, 2005 in Taiyuan, Shanxi, by Shanxi University for Economics and Finance and the Research and Information System for Developing Countries (RIS) of New Delhi, India. This initiative was supported by the Sasakawa Foundation in Tokyo, which was also an active partner in the first two conferences.

This series of high-level conferences is thus an initiative of the three big Asian powers, who are rightly leading Asian economic integration. What stood out was a clear feeling of optimism that Asia is poised to accelerate its economic integration, especially in the lead-up to the East Asia Summit (EAS), which will take place in Kuala Lumpur in December.

At least five major themes emerged in Taiyuan, giving rise to this optimism.

First, it was stressed in the official opening remarks that the time was right for the launch of Asian economic integration, as economies in the region take off. The mood in Asia is optimistic, as economic growth has proven to be sound and buoyant, despite the rise of oil prices and economic slowdowns in the United States and Europe. China and India, and eventually Japan, will be the much-needed engines of growth, especially in trade.

Indeed, Asia's economic integration will be more and more trade, investment and consumption-led, as these three pillars will no doubt constitute the key elements of Asian growth and integration.

It was also pointed out that sub-regional entities have perhaps reached their limits, as they may not be able to exploit the full potential of growth through the synergy of these economies alone.

This is perhaps the case for ASEAN, as the financial needs in terms of infrastructure-building, as well as the potential of markets, may have reached their limits.

It is here that Japan - and even the Republic of Korea, Australia and New Zealand - could step up in the first place, with China and India providing a later boost.

Complementary elements would definitely offer even greater potential in an all-



From left: Dr. Eric Teo, Council Secretary, Singapore Institute of International Affairs; Dr. Nagesh Kumar, Director-General, RIS; Prof. Takehiko Kondo, President, Hamamatsu Gakuin University, Japan; Prof. Aftab Seth, President, GSEC, Keio University, Tokyo; and Dr. Tiziana Bonapace, Chief, Trade Policy, TTD, UN-ESCAP at the Taiyuan Conference.

Feature Article

inclusive "ASEAN plus China, India, Japan, South Korea, Australia and New Zealand" grouping, when launched in Kuala Lumpur.

Asia is coming to realize its interdependence is growing very quickly - not only economically and financially, but also in other social areas, ranging from health and education to environment and social development. Asian countries have become fully aware of their total interdependence and common vulnerability, as the past three years have adequately and unfortunately proven.

Moreover, the scourge of terrorism and piracy have also locked Asian countries together in the Melaka Straits and the adjoining Indonesian maritime domains, as well as in the South China Sea.

This common vulnerability and interdependence that binds Asia together is progressively emerging in the common consciousness of Asians.

There is an urgent need for Asians to adopt a pragmatic, progressive and open approach to growing regionalism and economic integration. Asian economic integration must be progressive so as not to

give the feeling of a heavy handed top-down government-only approach, but should be pragmatic, as the economies evolve towards integration, with the process balancing both social and economic imperatives.

Moreover, Asian economic integration must be undertaken in an inclusive way, in line with Asia's goal of "open regionalism," as its economies also depend heavily on external trade. Asians must therefore assure Americans and Europeans that Asian integration is not undertaken at their expense, as Asian economic integration should not be seen as a threat.

One way to promote economic integration developed during the conference consists of joining the existing and negotiated Free Trade Agreements (FTAs) into a region-wide Asian FTA.

Lastly, there is also a need to create a "oneness" or an "Asian-ness" within the region - a feeling of "one Asia." The crucial question of an emerging Asian identity arises, as Asians should feel a certain togetherness as a people, forging a common destiny. But an Asian identity of togetherness and commonality must be built progressively, if Asian integration is to be based on a solid foundation.

(Excerpted from *China Daily*, September 22, 2005)

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China-India Ties will Bring GOLDEN CENTURY for Asia

Strong China-India ties could usher in a "golden century" for Asia - and Southeast Asia should help bridge the two giant nations to reap the benefits and safeguard its own economic future - Singapore's Foreign Minister George Yeo said at the Global Leadership Forum, a meeting of corporate leaders, government officials and academics, in Kuala Lumpur.

George Yeo said the 10-country Association of Southeast Asian Nations will use a December summit in Kuala Lumpur to draw up a plan to speed up Asia's integration and help ASEAN ride on China's and India's growth.

"If China and India are able to maintain good relations with each other - and the signs are good - this will be a golden century for Asia," Yeo said.

"We have to think and act strategically so that Southeast Asia becomes a major intermediary between China and India," he said. "In this way, the Chinese and Indian engines of growth will also pull us along."

Yeo said he believed English

will eventually become the "de facto lingua franca for Asia." ASEAN has begun free trade talks with the two giants, and must also improve transportation links and strengthen energy cooperation amid the currently unstable global oil supply, he also said.

He further said that making it easier to fly between Asian countries would be an important step. China has greatly liberalised its skies. India is liberalising too, although not fast enough. We must not be left behind in ASEAN, because good and cheap air links are absolutely essential for the operation of the modern economy.

"There are many things that we have to do to build the highways between China and India on land, at sea and in the air," Yeo said.

He also said that an inaugural East Asia Summit between ASEAN, China, Japan, Korea, India, Australia and New Zealand - to be held in conjunction with December's ASEAN summit - will accelerate economic integration and a new future for Asia.

(Excerpted from *Khaleej Times*, September 6, 2005). ■

China, India Drive Asia's Growth: Singapore PM

China and India, the two rapidly emerging economies, are twin engines for Asia's growth, Singapore Prime Minister Lee Hsien Loong reiterated at the opening of the annual event of Global Entropolis @ Singapore.

Addressing the event, which comprises a record 41 conferences and events for more than 10,000 participants including leaders of multinational corporations, entrepreneurs and investors, Lee said China has taken effective steps to prevent its economy from overheating and to deepen structural reforms. "As China continues to open up its economy, it will create more opportunities for the rest of Asia and indeed the world," he said.

The Comprehensive Economic Cooperation Agreement (CECA) between India and Singapore, concluded early 2005, will not only create opportunities for businesses in the two countries, but also help to establish economic ties between India and Southeast Asia, he added.

Members of the Association of Southeast Asian Nations (ASEAN) including Singapore need to "tap the growth and prosperity of the region" on the one hand, and on the other, strengthen integration among themselves and enhance cooperation with other economic partners, so as to reinforce ASEAN's role as a hub in Asia, he further said.

He pointed out that terrorism and maritime security are two major issues which pose threat to Asia's growth and stability in the future.

As for Singapore, Lee said it will be made "a vibrant global city, a hub of talent, enterprise and innovation, and a leading center of Asia".

(Excerpted from *China View* (Xinhua News Agency) September 26, 2005). ■

India, Japan to Explore Oil and Gas

India and Japan agreed to promote joint oil and gas exploration ventures in third world countries, besides enhancing bilateral cooperation with regard to energy conservation, strategic crude reserves and undertaking joint research to develop an Asian oil market.

Indian Petroleum Minister Mr. Mani Shankar Aiyar, during his recent visit to Japan, met Mr. Shoichi Nakagawa Japan's Minister for Economy, Trade and Industry, and decided to work on a plan of action for deepening bilateral cooperation in the crucial hydrocarbons sector. The two countries agreed to encourage Japanese companies to invest in India and explore possibility of an MOU between India's ONGC Videsh Ltd and Japan Oil and Gas and Metals National Cooperation (JOGMEC).

India and Japan, among the world's largest energy consumers,

would also promote cooperation in heavy oils and coordinate research in gas hydrates, according to the joint statement released after the meeting.

The action plan includes encouraging Japanese companies with help from JOGMEC to develop exploration and production opportunities in India, exchange information and experience on commercial and strategic crude oil reserves, promoting India-Japan ventures in Canada, Australia, West Asia, West and Central Africa and Russia. The action plan envisages undertaking joint research and study between a Japanese organisation and Indian organisations such as The Energy Research Institute on developing an Asian crude oil and petroleum products markets and measures to stabilise the Asian oil market, the statement said.

(Excerpted from *The Economic Times*, September 30, 2005). ■

India and China Spearhead the Rebirth of Asia

The recent economic growth and political stability in India and China, as well as in other developing Asian countries, marks the reversal of the historical trend that the West raced ahead in knowledge and social organization.

Both India and China have built comparative advantage in the world economy that can take them far. The Chinese manufacturing and Indian Information services sectors have won enough access to the core of the world economy that they will receive early notice of changes in demand and be able to adjust their production accordingly. They have rejoined the process of technological innovation. In both countries, the political system has channeled growth in certain directions and not others.

In India, the information services sector, boom in construction, and more effective taxation have been the driving forces for the growth of the economy. Further the broadening of the

political class has deepened the democratic order, despite the inevitable corruption.

Likewise, in China a strong Chinese overseas investor class and multinational corporations from developed countries have been the leading forces. After the capitalist reforms, Chinese people cutting across a variety of social divisions have embraced a national identity and are expecting restoration of China's traditional glory.

The continued rise of the two civilizational states and their neighbours would sweep away the distributions of power and wealth of the last quarter millennium. The Western response will shape the character of global politics. Raising political integration and risk sharing among Western countries would be the most constructive. It would provide the greatest economic and military security for the West itself, while minimizing the need for external interventions.

(Excerpted from *Pacific News Service*, July 29, 2005) ■

ASEAN on Track to Achieve Zero-tariff Goals, but Challenges Remain

The Association of Southeast Asian Nations (ASEAN) is on track to achieve a zero-tariff regime by 2015, a key ingredient for its ambitious plan to create a single market and production base by 2020.

The process has been fraught with problems due to the wide variations in economic development of the nations, from wealthy Singapore at one end of the spectrum to Cambodia, Laos, Myanmar and Vietnam at the other.

Overall, AFTA aims to abolish tariffs on traded goods by 2010 for Singapore, Malaysia, the Philippines, Indonesia, Brunei and Thailand, the most developed nations of the group collectively known as the "ASEAN 6". Tariffs for the four poorer countries, who are known in trade circles by the acronym of "CMLV" will be wiped out by 2015.

"By and large, AFTA remains on track towards achieving zero tariffs by 2010 for ASEAN-6 and 2015 for CMLV," according to Singapore trade ministry.

Vietnam was given until 2006 to slash tariffs to 0-5 percent, Laos has until 2008, while Myanmar and Cambodia have until 2010.

Moreover, ASEAN should also speed up implementation of non-tariff measures another pillar in the overall goal to create a **European Union-style ASEAN Economic Community by 2020 or earlier.**

"ASEAN has a window of opportunity in which it is still viewed as a major and important trading bloc," said Ernest Bower, a US business consultant and former president of the US-ASEAN Business Council.

"China and India are growing fast, and in the process they are drawing attention away from an ASEAN viewed as not entirely serious about economic integration."

Further, Bower said ASEAN should put a stop to "backsliding and side-deals" if it wished to be seen as a dynamic, unified market, especially as it negotiates free-trade deals with its bigger neighbours like China, Japan and India.

"ASEAN can be strong but it needs to follow through on its commitments to itself." "ASEAN needs to refocus the AFTA commitment," he said.

(Excerpted from *Daily Express* (Malaysia) July 21, 2005). ■

New Asia Bloc Stretching from India to New Zealand may become Free Trade Area by 2020: Downer

An embryonic Asian regional bloc could develop by 2020 into a "free trade area" stretching from India to New Zealand, according to the Australian Foreign Minister.

The 16-member East Asian community, designed to foster closer links among countries in Asia and the Pacific, will hold its inaugural summit meeting in Malaysia in December.

Alexander Downer, the Australian foreign minister who successfully lobbied for his country's inclusion, said it was possible that the **community could develop over the long term into a trade area stretching "from Mumbai to Christchurch".**

The community will consist of the 10 Association of South East Asian Nations members plus Japan, China, South Korea, India, Australia and New Zealand and cover about half of the world's population.

Mr Downer said: "The countries have a lot to do with each other and increased co-operation can build practical outcomes on issues such as counter terrorism and

avian flu. Over the longer term it could become a large free trade area."

Australia has signed a number of bilateral trade agreements with neighbouring countries and has opened negotiations with China for a wide-ranging trade deal. Officials in Canberra are pessimistic that progress can be made on the Doha trade round at a ministerial meeting in Hong Kong in December.

(Excerpted from *Financial Times*, September 14, 2005). ■

India-Korea to Ink Economic Pact

The final round of consultations of India-Korea Joint Study Group will be held soon to finalize its report on the formulation of a Comprehensive Economic Partnership Agreement (CEPA) between the two countries, said, Mr. Ban Ki-Moon Korean Minister of Foreign Affairs & Trade.

Addressing a meeting at FICCI, Mr. Moon, said, "one of the most effective ways to augment the vast potential that exists between the two countries from their complementary trade and industrial structures is to speed up efforts to establish institutional framework such as relevant laws, systems and consultations between the two governments".

He called upon Indian businessmen to look at Korea as a base for venturing into Northeast Asian market in the same manner as Korean companies consider India to be central in their entry into the South Asian region.

Korea-India relations went beyond trade and investment ties, as both governments were strongly emphasizing political and strategic relations with the objective of reinforcing the foreign policy and security dialogue, cooperation in defence and for engaging in more frequent consultations on regional and global issues.

(Excerpted from *Deccan Herald*, August 2, 2005). ■

Currency Union in Asia is Viable

In Seoul, in an international seminar on "Asian Currency Integration", the Korean Vice Finance-Economy Minister Mr. Kwon Tae-shin said that "(Regional) economic integration sounds much greater than a mere dream."

However, he pointed out that there are several prerequisites to form a currency union like the European Union, before such actions can materialize. "Firstly, increasing free trade agreements (FTAs) and cooperation in the region will strengthen the interdependence of member countries' trade and investment and further integrate markets," he said.

"Secondly, exchange rates must accurately reflect the economic situations of each country," and thirdly, "regional cooperation must be advanced to the extent that members could implement common policy responses through macroeconomic policy coordination," he added.

In particular, he stressed that Korea, China and Japan must collaborate to effectively lead the cooperation in the ASEAN+3.

Regarding the Asian bond market, under the Asian Bond Market Initiative (ABMI), ASEAN+3

members seek to develop the regional bond market into a matured bond market, thereby enabling regional enterprises to attract more capital at lower costs, he said.

"The year 2006 will be important for assessing the possibility of financial and monetary cooperation in East Asia because we will decide the long-term direction for the development of the Chiang Mai Initiative (CMI) and discuss the frame of the Asian Bond Standards," he said.

Meanwhile, Kwon suggested that **East Asian countries adopt the "Blue Ocean" theory to their research that refers to an uncontested market space that holds great opportunities.**

"I believe financial cooperation and integration in East Asia could be the 'Blue Ocean' in the research area, considering the many topics that could be explored and the effects that policy studies will have on the real economy," he said.

"The Korean government, for its part, will do what it takes to create a Blue Ocean in East Asia by supporting the activities of exports groups both at home and abroad," he added.

(Excerpted from *The Korea Times*, August, 19, 2005). ■



ASEAN Moves Closer to Economic Community

Speedier service liberalization, deeper integration of priority sectors, one-stop customs, and closer energy cooperation were the strong commitments made by the 10-member Association of Southeast Asian Nations (ASEAN) at the 37th ASEAN economic ministers meeting (AEM) held at Vientiane from September 28-30, 2005.

The economic ministers selected 2015 as the deadline for the liberalization of all service sectors.

They agreed that the integration of tourism and air travel would be completed before schedule: before 2007. Air travel is one of the designated 11 priority sectors for economic integration by 2007 for Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand (ASEAN-6), and 2012 for the other four ASEAN members — Cambodia, Laos, Myanmar and Vietnam (CLMV).

Regarding tourism also one of the priority sectors for economic

integration, ASEAN members have agreed to upgrade air, road and waterway transport, and considered a common set of regional standards for accommodations, tourist sites, and food and beverage services.

Member countries have agreed to advance the removal of tariffs on 85 percent of the goods and services in the priority sectors, namely agro-based product, air travel, electronics, e-ASEAN, fishery, healthcare, tourism, textile and apparel, rubber-based product, automotive product and wood-based product, by three years to 2007 for ASEAN-6 and 2012 for the CLMV. These deadlines are three years earlier than the deadlines of 2010 (for ASEAN-6) and 2015 (for the CLMV) under the ASEAN Free Trade Area.

At the meeting, the ministers noted that the ASEAN Single Window (ASW) Agreement would be inked in December 2005 in Malaysia. The most single important customs initiative, which includes electronic processing of trade

documents, the harmonization of product standards and technical regulations, and mutual recognition of test reports and certification, will speed up the clearance of imports at national and regional level.

“The ASW consists of two parts. The first part is applied by individual ASEAN members. The second by the whole ASEAN,” group’s General Secretary, Ong Keng Yong said, noting that it will be fully implemented by 2008, at the latest, for ASEAN-6, and by 2012 for the CLMV.

“Thailand and the Philippines will undergo pilot implementation late this year,” he added.

While focusing on intra-ASEAN economic integration, the block also continues to pursue closer economic ties with other countries, especially its dialogue partners. The ministers noted the progress in ASEAN’s negotiations with China, Japan, South Korea, India, Australia and New Zealand, on the establishment of free trade areas.

(Excerpted from *China View*, (Xinhua Online) September 30, 2005). ■

China keen on FTA to boost trade ties

CHINA has called for quickening of pace to create Sino-Indian free trade area (FTA) to trigger growth in bilateral trade.

Mr. Wang Jinzhen, Assistant Chairman of CCPIT (China Council for the Promotion of International Trade), said at the inaugural of the conference on China - A India opportunity, organised by the CII, FTA could be a way to increase the trade volumes that were too small considering the sizes of the two countries.

Talking on the evolution of China’s economy into the seventh largest one in the world, he said country’s Gross Domestic Product grew to \$1.649 trillion in 2004 from \$140 billion in 1978, showing an annual growth rate of 9.4 per cent all through.

China’s export and import volumes grew to \$1.14 trillion from \$20.6 billion during the same period.

On the foreign investment front, the country had approved foreign-invested projects worth \$1.16 trillion by May 2005. “Of this, the country could realise \$584 billion,” he said.

China’s foreign exchange reserves crossed \$711 billion by June 2005, 51 per cent more than the same period last year. “We expect this to cross the \$900-billion mark by the year end, overtaking Japan as number one in the list of countries with high foreign exchange reserves,” he said.

Outwards too, China has made strides. “By the end of 2004, China invested in 7,000 projects worth \$36.8 billion in non-financial sectors abroad,” Mr Wang said.

Opening up of economy and improved business environment helped China achieve these high growth rates.

Huge domestic market and rapid urbanisation too helped.

(Excerpted from *The Hindu Business Line*, August 11, 2005). ■

East Asian Community Won’t Hurt US Interests

The next East Asian Summit will be held in Malaysia, in December 2005, which will be attended by leaders from 16 countries – the ASEAN +3, comprising the members of ASEAN and Japan, China and South Korea as well as India, Australia and New Zealand.

The idea of an East Asian Community has evolved as a framework of regional cooperation, mainly economic, under the principles of mutual respect for sovereignty as well as amity and cooperation. The earlier summit meetings have all along emphasized on community building particularly to address region’s common problems.

However, concern are being expressed in the United States about the formation of a China-led regional order. Likewise in Japan questions are being asked about the compatibility of such a community with the Japan-US alliance.

The concept of “community” envisaged in the East Asian community is different from that of

the European Union.

Based on Koizumi’s proposals – a Japan-ASEAN Comprehensive Economic Partnership, Japan has already reached broad agreements on EPAs with the Philippines, Thailand and Malaysia, while negotiation for a Japan-South Korea EPA are ongoing.

Ever since the ASEAN 1992 pact on the AFTA trade has expanded phenomenally due to reduced tariffs and elimination of NTBs which could be achieved due to the expansion and deepening of across the border networks of production and distribution.

Nurturing the industrial hubs of these networks is vital to the economic development of every country in the region. Therefore it is in the interests of these countries to promote regional economic partnerships.

It is because of pivotal role of ASEAN, which has enabled the countries for enhancing regional cooperation, and not because of China and Japan alone.

China, for its part, proposed an FTA with ASEAN in 2000, leading to an agreement on the liberalisation of trade in goods in 2004. ASEAN also is expected to notch up FTAs with Australia, New Zealand, India and South Korea over the next two years.

Therefore, pragmatism will be needed to ensure compatibility between future East Asian community and cooperation from US on issues such as security and energy which effect both the stability and prosperity in East Asia. This calls for different institutional mix and/or combination of different structures which will effectively promote regional cooperation.

In this context, **it is expected that December summit will address various emerging security issues in addition to trade and investment matters particularly, without American involvement is not necessarily unfavourable to US interests.**

(Excerpted from *www.Sin Chew-i.com*, September 5, 2005). ■

ASEAN the EAEG and Beyond: The Future of Asian Integration

Fidel Valdez Ramos
Former President, Republic of the Philippines

Asia has been growing so fast that the center of global economic activity is beginning to tilt from the Atlantic to the Pacific. Before the year 2040, according to analysts, China is expected to become the largest economy; and India the third largest, after the United States.

Already China's manufacturing might and its growing middle-class are redrawing the geography of trade and investment. Meanwhile, India is emerging as a software and information technology hub, and outsourcing center for skills and services.

This shift in economic power is being accompanied by the greatest mass-emancipation from poverty the world has seen. From 1990 to 2002, more than 280 million East Asians, a number equivalent to the entire population of the United States, pulled themselves out from extreme poverty – as defined by the benchmarks of the UN human development program. China alone lifted 230 million poor people, and Southeast Asia 48 million. East Asia's growth has not only been good for East Asian poverty. It has also become less and less dependent on the rich countries – because of an expanding domestic market for consumer goods and a savings pool capable of sustaining economic growth from within. Indeed, East Asia is beginning to craft its own destiny, within the strictures that globalization imposes.

There are many reasons – situational, political, and cultural – for Asia's remarkable success, but basically this it owes to intelligent and enlightened leadership and to a vigorous, innovative, and entrepreneurial workforce led by Confucian-oriented business elites.

But the economic traits that underlie Asian business practices – those of self-discipline, teamwork, thrift, focus, respect for hierarchy, and unremitting hard work – will continue to serve our peoples, wherever they may set up their business endeavors. Wherever in East Asia sustained development has taken hold, we find three preconditions present, namely: civic order and political stability; a deeply-ingrained work ethic; and a commitment by the political and economic elite to the common good.

For as long as our states are able to build on these three preconditions, Asia will

accordingly be able to sustain its development advantage. As James Wolfensohn of the World Bank used to say, **development requires people's effort, and development requires dedicated leaders – development requires intelligence and self-sacrifice.**

Over a period of time, ASEAN has become the core-region of East Asia's economic and political integration — and of a potentially pivotal East Asian Economic Grouping (EAEG).

By 2010, ASEAN 10 plus China will become the world's largest free-trade area in population terms. It will bring together a potential market of some 1.7 billion people; a combined GNP of US\$ 1.7 trillion; and total external trade valued at US\$1.3 trillion. For the ASEAN states, a free-trade area would soften China's competitive impact on Southeast Asia's already-frail labor-intensive economies.

And, obviously, East Asia's economic integration will not end there – because a free-trade area made up of ASEAN-10 plus China will be irresistible to Japan, India and South Korea. Neither of these three other industrial heavyweights can afford to stay away from such a large potential market at their doorstep. **If ASEAN 10 plus China takes off, an East Asian Economic Grouping cannot be far behind, with India as a potential partner for an even larger economic bloc.**

Therefore, we may expect three Asian economies — those of China, India and Japan — to be among the world's largest. Hence, we may reasonably expect the rest of the Asian economies also to thrive — because by then regional integration should be the global norm.

(Excerpted from the speech delivered at the Special Panel in '3rd Asia Economic Summit – Asia on the Move: Enhancing Competitiveness, Expanding Opportunities' organised by the Asian Strategy and Leadership Institute (ASLI) and the New Straits Times Press Malaysia, Malaysia, July 28, 2005)

Managing the Rise of Asia

Surakiart Sathirathai, Deputy Prime Minister, Thailand

The rise of Southeast Asia is changing Asia, and the rise of Asia is changing the world. We in Asia have a special responsibility now to ensure that these changes are peaceful, that they spread prosperity, and that they contribute to global respect for our common environment and for the values of our common humanity. In Asia, the engine for cooperation has been shaped more directly by economic opportunities and cultural links.

Throughout, economic arrangements were closer to the center of our collaborative imagination. At the same time, all major Asian powers have very significant cultural, economic and political alliances with powers outside Asia. "Asian identity" and "Asian integration" have not been at the center of our institutional collaboration.

Inside Asia, we find more diverse institutions and diplomatic arrangements for cooperation, spearheaded by various players. Many have been rooted in bilateral cooperation, often among the larger Asian states. We should be encouraged by the strengthening of bilateral cooperation between China and India, or India and Russia. Across Asia, the result is a complex landscape of long standing bilateral friendships and new partnerships.

Prosperity is more than economic performance. It is also, in Amartya Sen's words, a matter of "human flourishing" and the possibilities for human freedom. Health and education are not only important for development – their achievement defines development. The rise of Asia will be a boon for the world if we contribute to the global respect for human dignity.

We see new regional confidence-building measures and security cooperation paradigms taking shape. The conflict-prevention experience of the Asean Regional Forum serves as a significant security dialogue in the Asia-Pacific region. In this first ever pan-Asian framework, we have stressed inclusiveness and respect for diversity – rather than institutional form.

As we build the institutions to manage Asia's rise, accountability should be our motto: accountability of states to their citizens, of states to one another, of international institutions to their members, and of this present generation to future ones.

For Asia's rise to contribute to global peace and prosperity, our integration must not be inward-looking. The emerging Asian community will be inclusive, not exclusive. We seek not only our own prosperity, but global prosperity. Ours will be an open regionalism.

Asian cooperation must link our economies, cultures and politics to the broader world. Partnerships for peace and prosperity must extend beyond neighboring countries. South-South cooperation, regional solutions – all this can multiply the force of self-reliance and build habits of peaceful change.

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Masters of Our Own Destiny: Crafting Asia's Sustainable Advantage

Sri Mulyani Indrawati, Minister of State for National Development Planning/Chairperson of National Development Planning Agency, Indonesia

Asia is a region of great promise, amazing diversity and of unparalleled growth. From Japan's post-war performance, to the East Asian economic miracle, to the more recent emergence of the People's Republic of China and India, Asia is moving toward reclaiming the position it held in the world economy about 200 years ago.

During the past several years, Asian countries have become increasingly interdependent, and their economies increasingly integrated, which is driven by opportunity and necessity. In the 1980s and 1990s, Asia boosted intra-regional trade which has grown from less than 35 per cent of world trade in 1980 to 54 per cent in 2003.

At the same time, China's economy which has become an engine of growth for Asia and the global economy has shown a remarkable achievement, and has exerted a tremendous impact on economic development of East Asia. A powerful growth of China's economy helped to stimulate the economic recovery of East Asia due to the financial crisis of 1997. Recently, a similar pattern is occurring in India. Further progress with trade liberalization would allow India to benefit from the dynamism of East Asia, and *vice versa*.

The growth of China and India is fuelling a rapid increase in intra-Asian trade that is offsetting the region's exposure to economic cycles in the United States. The parallel emergence of these two countries offers enormous potential for regional development. The ASEAN response to the rise of India and China, through its AFTA, is to reduce trade barriers within the group with the view of eventually creating a European-style economic community.

Despite remarkable progress in Asia there are still significant challenges, as Asia is still a region of enormous disparity in income levels, living standards, and socio-economic conditions. Overall, the region's economic achievements have been accompanied by substantial reductions in poverty, but it still faces heavy development challenges.

I believe that sustained and rapid growth can only be achieved if Asian countries endeavor to synergize and to grow interdependence among themselves, and with the global economy. Countries in developing Asia should continue to pursue regional cooperation and economic integration, which are the keys to unlocking Asia's advantages, and improve the standard of living for its people. Growing interdependence among the world economies have created a new paradigm. Within this new paradigm, we must cooperate to compete.

Economic competition and cooperation among India, China and ASEAN and other Asian countries will make the region a stronger player in the economy.

The Asian financial crisis has highlighted the risk of the region's interdependence, as the crisis spreads from one country to another. To me, this signals the importance of our integrated efforts to protect Asian economies against the risks of interdependence.

Asia's increasing trade integration and China's success are driving Asian companies and economies to find new ways to compete. I believe the so-called "wild goose pattern" of East Asia economic development, based on intensive utilization of comparative advantage has come to an end. Globalization of business implies that the structure of modern industry is increasingly based on competitive advantage, and that competitive advantage is more and more based on knowledge, intellectual capital, and the management of information.

Moving from comparative to competitive advantage may be translated as moving from a traditional export portfolio towards trade led economic development.

How can we achieve the competitive advantage? How can we sustain our competitiveness? I believe our sustainable competitive advantage should be built upon our national capabilities and must constantly be reinvented by continuously developing existing and creating new resources and capabilities in response to rapidly changing market conditions.

Good governance has to be put in many place in many areas. We have to move toward stronger economic cooperation and integration, for that we need a strong vision, political will and a deep understanding

(Excerpted from the speech delivered at the Special panel in 3rd Asia Economic Summit—Asia on the Move : Enhancing competitiveness, Expanding Opportunities organized by the Asian Strategy & Leadership Institute (ASLI) and the New Straits Times Press Malaysia, Malaysia, July 28, 2005)

Watching the East Asia Summit

Dana R. Dillon, Senior Policy Analyst, Asian Studies Center Heritage Foundation

At the recent Asean ministerial meeting in Laos, Malaysian Foreign Minister Datuk Seri Syed Hamid Albar announced that the first East Asian Summit (EAS) would be held in December and that invitations would be extended to the Asean countries, as well as China, Japan, South Korea, India, Australia and New Zealand — but not the U.S.

Members of the EAS envision it as a stepping stone to an East Asian Community (EAC) modeled on the European Community. China envisions a security element to the EAC and has proposed a blueprint for security integration — the nightmare scenario for every Sinophobe in Washington

No matter what happens, a number of factors will ameliorate China's influence and permit the U.S. to participate, albeit indirectly, in the new body.

First, the Asean countries claim to have the lead at the EAS and plan to retain it. The Malaysian foreign minister has said "Asean's in the driver's seat" as far as EAS is concerned. Indonesian President Susilo Bambang Yudhoyono calls Asean "the driving force of this East Asia process," and wants the EAS to work for democracy and human rights among member nations. Those sentiments don't go over well in Beijing, but they make perfect sense to the eight democracies — Japan, South Korea, India, Indonesia, Australia, Philippines, New Zealand and Thailand — that make up half of the 16 members of the new group.

China will be but one of many 800-pound gorillas at the EAS table. Japan has the largest economy, India has the second-largest population, and Indonesia ranks fourth in the world and third at the EAS. Five of the eight democracies — Australia, Japan, South Korea, Thailand and the Philippines — are formal treaty allies of the U.S., while India and Singapore have significant defense relationships with Washington. In the case of Australia, it has firmly stated that it won't sign anything that disrupts its defense relationship with the Americans.

It's even more difficult to see the EAS as an economic monolith when its members vary so widely in economic policy. Singapore, with the second-most-open economy in the world, seems an unlikely partner for Burma,

whose economy exists largely on the black market. Japan is trying to negotiate bilateral agreements with some members of the group, but those efforts are timid at best. China is working hard at regional economic integration, but its efforts are designed to get cheaper access to Southeast Asia's raw materials rather than to truly enhance trade. In international groupings, Asian countries make decisions by consensus, and it's hard to see consensus on anything substantive coming from so diverse a group.

In short, with or without the U.S. present, China won't get its way on everything and Washington's influence will be palpable. **The EAS could even work to America's benefit, if it accelerates economic integration and acts as a deterrent to military adventurism. Lower trade barriers in Asia would promote global trade, provided the region doesn't erect new barriers to those outside.**

(Excerpted from *Asian Wall Street Journal*, August 17, 2005.

© *Asian Wall Street Journal*.

"The Gorgeous East": What the Asian Economies Can Teach the World

Anne O. Krueger
First Deputy Managing Director,
IMF

The most striking feature of Asia's economic record in the past half century or so is the pace of sustained growth that we have seen in many countries across the region.

With appropriate policies and strong commitment, Asia has shown that it is possible for countries to grow rapidly over a long period of time. What's more, this impressive growth performance was often achieved against an unpromising backdrop: countries with few natural resources, or small populations, have grown at a pace that has consistently eluded some larger or more resource-rich countries elsewhere. Over the same period, life expectancy and literacy rates have seen similar impressive improvements.

So what can Asian economic performance tell us about delivering growth elsewhere in the world—and, indeed, what can the example set by more successful Asian economies teach those economies in the region that have hitherto experienced less rapid economic expansion?

An open trading system is crucial for economic success. It is possible for closed economies to achieve high growth spurts. But no country—in Asia or elsewhere—has

managed rapid growth over a sustained period without opening its economy to the rest of the world.

Trade brings competition—and this is a powerful force for increased economic efficiency. Protectionists worry about jobs lost to foreign competition. But protection costs jobs. It imposes costs on producers, especially those geared to export production. It raises the cost of protected intermediate products and thus puts producers competing with exporters in other countries at a cost disadvantage.

Competition helps increase efficiency and ensures that resources are allocated in the best possible way. It helps eliminate domestic monopolies. And so it drives down prices both for domestic consumers—as well as producers in import-consuming industries—and in the international marketplace. Prices fall because import-competing industries are no longer protected and because more competition forces monopolists to lower prices.

Trade also helps create employment, especially in emerging market countries. Open economies have an outlet for large pools of unskilled labor: instead of being a drain on resources, unskilled labor becomes an opportunity to benefit from export markets for goods whose production is labor intensive in the early stages of economic growth.

Asian policy makers have also shown the importance of focus. The impressive performance of many Asian economies owes much to the single-minded drive of governments and policymakers. Success has come in Asia in part because of the willingness of policymakers to learn from their mistakes—and, perhaps more unusually, from the mistakes of others.

The experience of the Asian economies has given us useful lessons. Monetary policy has become more focused. Fiscal policy reforms and flexible exchange rate regimes are now the order of the day in most countries in the region.

The Asian crisis taught us the importance of a healthy financial sector. A strong, well-regulated financial sector means addressing often difficult issues such as non-performing loans; capital adequacy; and effective supervision. Financial institutions need the appropriate incentives to develop the skills required to assess and manage credit risk and returns. Effective bankruptcy laws—that strike the right balance between creditors' and debtors' rights—need to be in place.

Government in Asia and the world have learned the benefits of transparent policy. **This continent's economic performance has been truly remarkable. Asia's ambition, determination, focus and, above all, commitment to economic liberalization are all important beacons for many parts of the world. Asian economies have shown what is possible if the right policies are applied in a rigorous manner.**

(Excerpted from the Keynote Address at the Harvard Project for Asian and International Relations (HPAIR) Business Conference Shanghai, China August 21, 2004).

Towards ASEAN via Singapore

Vispi T Patel, Partner, Deloitte
Haskins & Sells

The India-Singapore comprehensive economic cooperation agreement (CECA) is the forerunner to Asean cooperation and the development of an Asean market, which will be a harbinger of global growth.

The strategic importance of this agreement from India's perspective is best brought out in the words of Singapore Prime Minister Lee: **"India is now firmly anchored in the Asean region through its presence in Singapore. Singapore-India trade is already half of the Asean-India trade. Singapore, therefore, can play a useful role as a pathfinder for India in the region."**

Under the CECA, Singapore and India have agreed on a protocol to improve the existing double taxation agreement (DTA), which lends certainty in matters of tax, in cross-border flows of trade, finance, services, etc. This is accomplished by stating clearly the rights of both the parties to the DTA to tax revenue flows emanating from each country, and thus eliminating double taxation of income.

Further, such capital gains would not also suffer tax in Singapore due to the exemption in its tax laws. This is, however, subject to the condition that the entity investing into India through Singapore, is 'Resident', under the DTA of Singapore.

To give sanctity to the DTA not only from a tax perspective, but also from an economic-ethical perspective, the protocol to the DTA restricts the exemption of capital gains from Indian taxes, to residents of Singapore who display true economic substance. The intention is to debar entities who merely arrange their business affairs to take advantage of the DTA.



The CECA through the protocol has traversed the middle path rightly, by stating that the benefit under the DTA for shifting the right to tax capital gains to Singapore would be available only to companies who demonstrate a reasonable business presence in Singapore.

The section on 'Trade in Goods' in the CECA will encourage easier access to the flow of goods to and from India. For goods entering India from Singapore, the goods eligible for tariff concessions have been divided into three categories: immediate elimination, phased elimination and phased reduction.

Goods falling into the first category will have no tariffs from the date the CECA comes into effect. While for goods in the other categories, the reduction to the final tariffs will be phased in over five years.

To facilitate the flow of trade, the CECA has a multi-pronged strategy. Coupled with tariff elimination/reduction, are measures to streamline customs procedures. The CECA also provides a framework for concluding Mutual Recognition Agreements, to eliminate duplicative testing and certification of products, to facilitate entry of goods for sale in respective markets.

The CECA thus heralds a new stage in India's bilateral relationship with Singapore. It will probably be a starting point in enhancing India's role in the Asean region. The comprehensive economic cooperation agreement will be a beacon of Asean's growing importance in the global economy.

(Excerpted from *The Economic Times*, August 6, 2005)
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An Asian Economic Community

M.K. Venu, Columnist

There is a lot of anxiety in the developed world that Asia, buttressed by markets such as China and India, might be emerging as a big free trade bloc by itself.

This anxiety was reflected in the recent visit to India by British Prime Minister Tony Blair, as the current president of the EU. The British trade minister was very much concerned that the EU in general and Britain in particular was at a big disadvantage on account of the CECA signed between India and Singapore. Singapore banks will now have a far greater access to the Indian market than the European banks.

But is the EU willing to give India what Singapore has accorded — recognising 127

Indian professional degrees ranging from engineering to architecture and bio-chemistry? Indian professionals in 127 vocations will now get temporary work visas to provide services in Singapore. Obviously, neither the EU nor the US can make such a bold offer as Singapore has done. Even at the WTO, India's core position is that it is willing to fully open up its services sector — financial, retail, telecom, etc. — if the EU and US allow greater scope for skilled Indians to provide temporary service in their country. The EU and US are not ready for this.

This is where the real import of the Singapore agreement lies: something that could not happen multilaterally is succeeding in a regional trade arrangement. **Singapore is just the beginning. Dr. Manmohan Singh has already instructed that a Singapore-type agreement covering goods and services must be signed with all the Asean countries.** Also, the PM has asked these agreements to be fast-tracked so that India gets the benefit of integration with the Asean bloc to begin with.

Earlier, the Singapore Prime Minister, Mr Lee Hsien-Loong, was of the opinion that he could visualise a larger open trade bloc emerging in Asia. **He said China and India would act as catalysts around which a larger trade bloc would intermesh together.** In some sense, this is already happening with both China and India separately hooking into the Asean.

The share of Asean plus China, Japan and South Korea in India's total trade is 20%. This will gallop further if a larger open trade bloc emerges in this region with China and India as the main drivers. In fact, such a community has already been mooted by China, Japan and the Asean countries. The Chinese ambassador in New Delhi, Mr Sun Yuxi, stated that India would be invited to an East Asian Summit later this year to discuss the broad contours of a larger Asian economic community.

(Excerpted from *The Economic Times*, September 20, 2005)
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Asian Financial Integration and the IMF

Rodrigo de Rato, Managing Director, International Monetary Fund

Asia has emerged as an engine of growth in the world economy. It accounts for more than 30% of world GDP and contributes half of global growth. This impressive performance

has been associated with the region's firm integration into the global economy, as well as its emergence as a leading producer of the goods the world demands.

Now, in order to further strengthen its global role, as well as to face its own challenges, Asia needs to integrate its financial markets internationally. Asia has successfully reduced vulnerabilities through the build-up of reserves. The next step should be to develop more resilient national and regional financial markets. This would further reduce vulnerabilities by improving the channeling of savings and investment.

The benefits from financial integration for Asia, and for the world are clear. They represent the next important step in Asia's increased, overall integration in the global economy. Regional and global financial integration will help deepen financial markets and strengthen the resilience of Asian economies to external shocks.

Asian countries have already made significant progress in regional financial integration, although local financial market development has progressed more rapidly than regional financial integration.

At a national level, countries are working on developing their capital markets by encouraging the issuance of investment-grade securities, strengthening corporate governance, and relaxing regulations that restrain the role of institutional investors.

At the regional level, initiatives are under way to strengthen financial ties: the Asean-plus-3 roadmap for spurring the development of a regional bond market, and the Chiang Mai network of bilateral swap arrangements. The IMF supports these efforts and is prepared to assist if it can.

Greater regional integration should not and need not come at the expense of Asia's increased engagement with the rest of the world. Indeed, Asia's economic success in the postwar era has been the result of its growing participation in the global economy.

The reality of Asia's role in the world economy should be reflected in its influence at international institutions like the IMF. Asia's representation in global institutions like the Fund falls short of the region's weight in the global economy. I firmly believe that Asia has a valid case for a stronger voice in the international community.

As Asia's role in global economic cooperation increases, there are opportunities ahead for partnership between the region and the IMF.

(Excerpted from *Bangkok Post*, September 6, 2005)
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Onward to Stronger Regional Trade

Nagesh Kumar, Director General, RIS

The relevance of broader regional economic integration in Asia recently received supporting evidence in its favour by an Asian Development Bank (ADB) study. The study, conducted by Douglas Brooks and Fan Zhai of ADB and David Roland-Holst of University of California-Berkeley, has come up with interesting findings and policy messages.

Using the familiar GTAP-6 database with a version of World Bank's Linkage model, the study generates projections of income and trade up to 2025 for different scenarios, to examine the relative relevance of regional integration vis-a-vis global trade liberalisation.

The baseline scenario projects income and trade, keeping the status quo. While the other scenarios assume global trade liberalisation and regional trade liberalisation. The findings suggest 'regional trade and integration offer Asia great potential for rapid and sustained growth.' They find much of Asia's benefits from global trade liberalisation can be realised by regional initiatives alone. Significantly, the study finds that combined gains from removing tariff and structural barriers to Asian trade far outweigh those of global tariff abolition. Hence, regionalism should be given high priority in Asia.

The ADB economists also find that regional integration can promote Asian economic convergence, raising average growth rates and benefiting poorer countries. Also, it will propagate commercial linkages and transfer the stimulus of Asia's rapid growth economies, particularly China and India, to their neighbors. Asian economic integration, in turn, will increase trade and incomes for the rest of the world. Hence, it is a win-win for the region and the world.

These findings are timely, as currently there is a lot of interest and discussion on the relevance of regional economic integration in Asia. The ADB's findings also corroborate earlier findings of an RIS study, using the GTAP data base in a CGE model, computing welfare gains from economic integration of major Asian economies, namely, Japan, Asean, China, India and Korea (JACIK). This study had found that economic integration in JACIK had the potential of generating welfare gains of up to \$210 billion. The study had also found that the JACIK integration also increased the welfare of rest of the world and, hence, was a win-win for everyone.

Regional economic integration has a much bigger potential than what is captured by both the studies summarised above. The models employed by them typically tend to capture the welfare gains from trade liberalisation and facilitation. They fail to estimate the enormous potential of monetary and financial cooperation in the region. Asian countries today hold combined foreign exchange reserves of over \$2 trillion. Most of these are invested in low-yielding US treasury bonds and other such securities. RIS studies show that even a moderate, say 5%, pooling of Asia's foreign exchange reserves in an institutional framework could facilitate financing of regional public goods and become an additional engine of growth, besides providing exchange rate stability.

The ADB study points to the creation of an institutional framework for facilitating this, namely, an 'Asian OECD.' Discussions to launch broader regional groupings, such as an Asian economic community, as championed by Prime Minister Manmohan Singh, have also taken place. This should be evolved in a phased manner, with JACIK as the core.

An East Asian Summit is to be organised in December 2005 in Malaysia, to be attended by the Asean countries and their full dialogue partners, namely Japan, China, Korea and India. The Summit is likely to launch an East Asian Community (EAC). The proposed EAC, combining ASEAN+3+India, is expected to be close to Dr Singh's vision of building an Asian Economic Community (AEC) with the JACIK countries.

By expediting growth and economic convergence, regional economic integration will help in realisation of the Asian dream of re-emerging as the centre of gravity of the world economy. It is also likely to enhance Asia's role in global governance. It is for this reason that Dr Singh termed the Asian Economic Community as constituting an 'arc of advantage' in terms of prosperity, stability and closer economic integration.

(Excerpted from *Financial Express*, July 23, 2005)

© *Financial Express*.

Integrating Asia Through Free Trade

Makio Miyagawa, Director, Japan Institute of International Affairs

Asia and the world are now firmly in the Aera of the free trade agreement. The WTO recognizes more than 200 FTAs, with more than 140 already in force, and the

volume of trade under preferential agreements has increased to more than half of the world total. Moreover, FTAs were once viewed with suspicion, as potential precursors to economic blocs, and therefore as stumbling blocks to the WTO. Now they are seen instead as an essential vehicle of international trade policy, complementing the multilateral trading system, as well as providing a test bed for new and innovative ways of governing bilateral or regional economic activity.

Strengthening bilateral or regional financial systems would, therefore, be one of the critical elements of FTAs created among countries in this region. The crisis experience suggests that Asian countries should strengthen cooperation and linkages to increase resilience of their financial markets.

In Asia, the Asian financial crisis highlighted the critical importance of establishing an effective regional financing facility so that the economies in this region can respond more effectively to the needs of Asian countries. This consideration led East Asian countries' monetary authorities to create the so-called Chiang Mai Initiative, the expansion of the existing Association of Southeast Asian Nations swap agreement, and the creation of a new network of bilateral swap agreements among Asean, Japan, China and South Korea.

Asia needs frequent exchanges of views among Asian countries, and economic surveillance involving not only analyses of macroeconomic and financial policies of members, but also identification of the vulnerabilities of their economic and financial systems.

From this viewpoint, the Asian bond market proposal is extremely important. The importance lies in the readiness of Asian countries to consider how to create a regional equivalent of the European Currency Unit, which should help to stabilize the participating countries' currency-exchange rates.

FTAs could also include cooperation initiatives in many diverse areas such as information and communications technology, science and technology development, human capacity building, media and broadcasting, development of small- and medium-sized industries, tourism, postal services and transport. Cooperation for the joint development in science and technology field would, particularly, create a robust framework to protect and promote the use of intellectual property, to identify



and invest in promising start-ups, and to undertake research in the life sciences.

FTAs could help to develop human capital, through exchanges between educational institutes, professional bodies and government agencies, and through mutual recognition of degrees and credits. Cooperation in the area of information and communication services would serve to enhance the security of the communications infrastructure, improve the legal and regulatory certainty for electronic transactions, and promote the development of e-governments.

The scope of such FTAs is deeper in terms of legal requirements, broader than a mere trade agreement, better at addressing the developmental stages of parties, and less damaging for fragile embryonic or sensitive producers as compared to the sudden elimination of barriers to all the countries around the world.

(Excerpted from *Far Eastern Economic Review*, Volume 168, No.7, July/August 2005)

© *Far Eastern Economic Review*.

Why the rise of China and India can benefit us all

Roger Kerr, Executive Director, New Zealand Business Roundtable

The rise of China and India have been met with a mix of excitement and fear in Britain, Europe and the United States. The rest of the world stands to benefit from this dramatic change, just as it benefited from the rise of the US in the 19th century.

In many respects China is following the earlier Asian success stories, with their prowess in low cost manufacturing and acquisitions of western assets. The opportunities flowing from China's economic growth are manifold. China is already a very open economy. Its weighted average tariff has been fallen to 6 per cent mainly due to unilateral liberalization and also its commitments to the WTO. China is also becoming an increasingly important market for tourism and for services such as education, having a workforce of 750m hardworking Chinese adding to world output of quality products at low prices is an enormous overall benefit. Their rising incomes are also adding to the demand for non-Chinese products. The combination of lower prices for manufactures and higher prices for the food, energy and raw materials has led to favorable movements in the terms of trade of many countries. Opportunities to outsource production to

India and China should also be counted as a benefit.

To reap maximum advantage from China's growth, other economies will need to continuously adapt. Countries with big welfare states and high levels of taxation may struggle to attract investment and grow. Burdensome and ill-justified environmental regulations, such as the Kyoto protocol, will disadvantage countries in the face of competition from China and India, whose immediate priorities are greater prosperity for the people.

New Zealand is the best example that is well placed to benefit from the arrival of China and India on the world economic stage. It has substantially liberalized its economy, including its labour markets and is now close to eliminating its remaining low tariffs.

China's development and integration into the world economy may not be without tensions, its "undervalued" currency has been an issue for the US and other governments. India has lagged behind China, but it has advantages over China which may count in the next 50 years: A British legal system, the English language and democracy.

There are grounds for optimism. Capitalism, democracy and freedom are spreading around the world. People are the world's ultimate resource. The increasingly educated and sophisticated citizen's of the world's two most populous countries seem

set to add hugely to the world's stock of knowledge, scientific breakthroughs and technological innovation in coming decades.

(Excerpted from *Business Online*, September 18, 2005).

Asia is in better shape than they say

Philip Bowring, Hong Kong based Journalist and Commentator

It has been suggested that we could be in for a repeat, on a minor scale, of the 1997-98 Asian financial crisis.

With the exceptions of Malaysia and Indonesia, Asian countries are heavily dependent on imported oil. Most also have high ratios of energy use to gross domestic product, partly attributable to low energy prices. In China, Thailand, Indonesia, India and elsewhere, these have been held at or below world market levels. The cost of energy subsidies has had a serious negative impact on government budgets and on the profitability of energy distributors. It is recognized that prices have been held down primarily for short-term political reasons and that most subsidies should be removed as soon as possible.

Take Indonesia, said to be the immediate cause of the current mini-crisis. It is an energy exporter - small net oil imports are more than offset by gas and coal

Continued on page 12

Further Readings

- **Britain Pushes Economic Reforms to Take on Asia**, *Peninsula Online*, September 12, 2005.
- **Academic Urges Korea-China-Japan Unity**, *Digital Chosun*, September 6, 2005.
- **The Japan-China-U.S. Club**, Ling Xingguang, *Japan Times*, September 6, 2005.
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- **Don't Take Your Eye Off Asia**, Greg, Sheridan, *Asian Wall Street Journal*, July 29-31, 2005.
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- **Dragon Breathes down the Tigers' Neck in Textiles**, Ng Boon Yian, *Asia Times*, July 20, 2005.
- **Trading shift 'needed to avoid crisis' : Importance of FTA with Japan Stressed**, Bhanravec Tansubhapol, *Bangkok Post*, July 19, 2005.
- **Interdependence between ASEAN and China**, Thitapha Wattanaprutipaisan, *Bangkok Post*, July 9, 2005.
- **Making the Most of Globalisation**, Nagesh Kumar, *Financial Express*, July 5, 2005.
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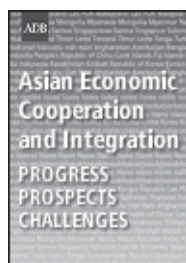
Asian Economic Cooperation and Integration : Progress, Prospects, and Challenges

Asian Development Bank, 2005

ISBN 971-561-549-X

Based on the papers presented during the High-Level Conference on Asia's Economic Cooperation and Integration organized by ADB in July 2004, the book evaluates the current state of economic cooperation and integration in Asia; explores the potential benefits, complexities and challenges of regional cooperation and integration; and discusses possible directions for enhancing economic integration within the region.

The book opens by describing Asia's increasing importance in the world economy and the significance of regional integration to sustain equitable growth, and then delves into issues related to cooperation in the areas of trade and investment, money and finance, and infrastructure.



Transforming East Asia: The Evolution of Regional Economic Integration

Naoko Munakata

Brookings Institution Press and the Research Institute of Economy, Trade, and Industry (Japan) 2005 c. 240 pp.

Paper Text, 0-8157-5887-1.



East Asian economic integration is on the rise. In the past decade, all of the region powers have begun negotiating free trade agreements with their neighbors. They are also exploring broader regional options, such as the creation of an East Asian summit or free trade area. These developments have not always been welcomed by observers in other parts of the world. Some fear that they mark a turn away from integration into the global economy and herald the emergence of a closed, inward-looking bloc. In this timely and important book, Naoko Munakata offers an alternative perspective, East Asian integration, she argues, is not driven by defensiveness or anti-Western sentiment. Instead, it reflects pragmatic calculations of economic interest, as well as a desire for mutual trust and a sense of community.

East Asian Economic Regionalism: Feasibilities and Challenges

Editors - Ahn, Choong Yong; Baldwin, Richard E.; Cheong, Inkyo 2005,

XXIV, 194 p ISBN: 0-387-24330-5,

October 2005

Economic regionalism has become a worldwide phenomenon. Since the Asian financial crisis, East Asian countries are accelerating the ongoing market-driven economic integration as well as institutional economic integration. The question is whether East Asia can reach an East Asian FTA (EAFTA), which is the first step towards institutional economic integration.

East Asian Economic Regionalism attempts to analyze the feasibilities of economic integration in East Asia and to discuss emerging economic integration efforts in East Asia with special reference to an East Asian FTA. Although economic integration is desirable economically, positions and approaches of each regional economy toward East Asian economic integration may differ depending on the circumstances of the countries concerned. East Asian Economic Regionalism provides diverse positions on East Asian economic integration by ASEAN countries, as well as the Northeastern countries of China, Japan and Korea. The volume also provides economic assessment of EAFTA and evaluates East Asian economic integration. East Asian Economic Regionalism may be the first book on East Asian economic integration with positions toward economic integration of major players in the region.



East Asia Integrates : A Trade Policy Agenda for Shared Growth

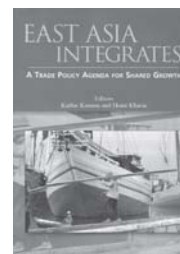
Editors – Kathie Krumm and Homi Kharas

IBRD/World Bank, 2004

ISBN 0-8213-5514-7

East Asian policymakers seek to develop a coherent set of economic policies that can deliver stability, growth and regional integration. Without attempting to be comprehensive, the book offers fundamental strategies that promote cross-border flows of trade, globally and regionally, along with

domestic policies on logistics, trade facilitation, standards and institutions to maximize the impact of these flows on development and to distribute the gains from trade widely.

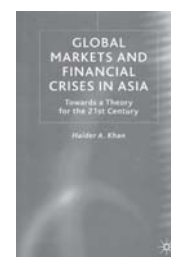


Global Markets and Financial Crises in Asia : Towards a Theory for the 21st Century

Haider A. Khan

Palgrave Macmillan, 2004

ISBN 0-333-76076-X



This book presents a new theory of financial crises in the age of globalization from an evolutionary perspective and suggests policies that may be necessary for averting or managing new financial crisis. It also identifies new types of financial crisis that result from a combination of liberalization, weak domestic institutions for economic governance and a chaotic global market system without global governance institutions,

Open Economy Macroeconomics in East Asia

Ahmad Zubaidi Baharumshah

Ashgate, 2005

ISBN: 0 7546 4400 6



The East Asia countries were among the fastest growing economies in the world and of increasing importance to the world economy. These countries have taken the lead in adopting outward-oriented development policies.

This volume focuses on the major issues on open economy macro-economics in the East Asia economies that will be instructive to both academics and policymakers. The emphasis is on the countries that were severely affected by the 1997/98 Asian financial crises. Several aspects of exchange rate, current account, budget deficits, monetary and financial issues are considered in this book. In addition, several chapters are devoted to discussion on the issues of economic integration in the region. The contagion and the currency crisis are also discussed thoroughly. Most



of the chapters are empirical in nature and the empirical evidence provided is based on the recent development in time series econometrics methods.

The Search for Regional Architecture:

The Role of ASEAN as Strange Attractor

Djisman S. Simanjuntak

There is one other important reason for arguing that a deep comprehensive ASEAN integration is indispensable under

the current network of initiatives on external relations. Using ASEAN as a “strange attractor” for an East Asian integration is unlikely to bear fruits unless ASEAN is willing to set example. Even a deeply integrated ASEAN may still find it difficult to persuade the rest of East Asia on the merits of East Asian integration, given the very limited muscle of ASEAN in terms of its external trade and investments. Being a recipient rather than a donor of official development assistance ASEAN is handicapped in playing the role of champion in trade and investment

liberalization. What ASEAN most realistically can do is to serve as the “hub for post offices” while major Asian countries seek to put aside differences in order to promote economic co-operation and integration. ASEAN has once missed the opportunity of playing the role of a champion of the ambitious regional integration of APEC. It should avoid committing the same mistake while endeavoring to promote an East Asian integration or even an Asia-wide integration.

(RIS Discussion Paper, No 95, 2005)

Continued from page 10 (OPINIONS)

exports. The impact of high prices is not on its balance of payments but on the budget, thanks to a subsidy for domestic gasoline and kerosene users. For sure, Indonesia's energy subsidy would be better spent on new roads and schools. But price hikes would cut domestic consumer demand, which is the main source of economic growth.

In Thailand a small current account deficit, is partly attributable not to oil but to the tsunami's damage to tourism income. Malaysia, too, is said to be acting irresponsibly by not letting local oil prices rise to international levels. But again, this helps sustain consumption at a time when the current account surplus is running at more than 15 percent of GDP, money mostly going to prop up the spending of deeply indebted households in the United States, Britain and other developed countries.

The biggest energy importers of Asia viz : Japan, China, South Korea and Taiwan, their trade balances have shrunk. But despite energy costs, they all continue to run huge trade surpluses.

Most of Asia still needs domestic demand stimulus - including China, where growth in consumption is lagging far behind investment in capacity. The demand of markets run by and for Western investment institutions is for higher interest rates, lower fiscal deficits and higher domestic energy prices - all of which would crimp consumption. This may be a good way of sustaining debt excesses in the West, but it is no way to right global trade imbalances by stimulating Asian consumption and investment.

The reality is that most of Asia is, despite oil prices, in far better shape.

(Excerpted from *International Herald Tribune*, September 9, 2005)

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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. Interested readers may join the forum and send relevant material for publications.

RIS

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The *New Asia Monitor* is a quarterly 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, purely for educational and dissemination, and not commercial, purposes. 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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