



NEW ASIA MONITOR

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Emerging New Asia

Asia has been a centre of attention due to rapid growth over the past decades. The economic progress achieved by Asia in the fifty years has been the fastest in human history. The Japanese example of rapid growth in the 1960s and 1970s was followed in rapid succession by several other Asian countries such as South Korea, Singapore, Taiwan, Malaysia, Thailand and Indonesia and annual growth rate of around 7 per cent became a routine affair in Asia. China has been registering an average growth rate of about 9 per cent per year since 1980. India, once considered as a laggard in Asia, is now also displaying tremendous growth momentum with growth rate approaching 8 per cent in 2003/04 after growing at an average rate of about 6 per cent over the past two decades. Catching up with the developed world in per capita incomes that seemed as an impossible target earlier has now been achieved by several Asian countries and is achievable by several others. With the rise of China and India, it is now clear that the center of gravity of the world economy will shift to Asia in the 21st century. A recent study by Goldman Sachs shows that China and India would emerge among the top three economies of the world in the next 50 years.

Alongside the rapid growth, a new transformation is taking place in Asia in terms of regional economic integration. The importance of the regional economic cooperation was highlighted by the East Asian Crisis of 1997 that affected some of the best performing economies of the region. As a response to the crisis, the ASEAN countries expedited the programme of formation of ASEAN Free Trade Area (AFTA) and moved on to further deepen the economic integration.

Many schemes of economic integration are currently taking shape in Asia at a regional or bilateral level. For instance, China, Japan and India are working with ASEAN countries on comprehensive economic cooperation pacts covering free trade agreements to be implemented within

ten years. At the sub-regional level, South Asian countries are moving towards a free trade agreement, SAFTA. BIMST-EC, a grouping combining most of the South Asian countries and Thailand and Myanmar has also adopted a framework treaty for a free trade agreement.

These broader agreements are complemented by a number of bilateral free trade or comprehensive economic cooperation agreements which are at different levels of evolution such as Japan-Singapore, India-Thailand, India-Singapore, Japan-Malaysia, Japan-The Philippines, Japan-Thailand, among others.

A number of proposals of cooperation in the monetary and financial sectors are also taking shape. Although the proposal to set up an Asian Monetary Fund did not take off, the Chiang-Mai Initiative involving the linking of reserves between ASEAN+3 countries for achieving exchange rate stability has come up. The Asian Bond Fund floated in 2003 is also taking shape.

It is clear that at last Asian countries have begun to look at the regional economic integration as a strategy for development more seriously than ever before.

A New Asia seems to be emerging from these efforts which is not only dynamic in terms of growth but also in exploiting the synergies between the neighbours for mutual development.

There is also a growing realisation within the region on the relevance of a broad overarching framework to consolidate the various sub-regional and bilateral initiatives into some sort of a pan-Asian grouping or an Asian Economic Community. It has been argued that such a framework is necessary for exploiting the potential of regional economic integration in the continent more fully as the complementarities are more profound between the sub-regions rather than within them. Indeed the Asian Economic Community could be built in a gradual manner to begin with Japan, ASEAN, China, India and Korea (JACIK).

RIS studies have shown that economic integration within JACIK has the potential to create a grouping as large as EU in terms of income, or as large as NAFTA in terms of trade. With roughly half of world's population and the bulk of foreign exchange reserves, JACIK has the potential to emerge as one of the major regional economic groupings. Simulation studies suggest substantial welfare effects resulting from economic integration. Surveys conducted among the new Asian leaders find support for deeper economic integration between JACIK countries.

The *New Asia Monitor* hopes to contribute to this process of regional economic integration and thus building of a New Asia with dissemination of ideas.

The 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 *New Asia Monitor*, as a newsletter of the Forum, 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 Forum is setting 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.

Ninth ASEAN Summit: Leaders Agree to Establish ASEAN Community

The leaders of the ASEAN countries met for the Ninth ASEAN summit in Bali, Indonesia from 6-8 October, 2003. The event also included summit level meetings between the leaders of ASEAN and China, ASEAN and Japan, ASEAN and Korea and ASEAN and India.

In the ASEAN leaders meet, the Declaration of ASEAN Concord II (Bali Concord II) was signed.

The leaders agreed to establish an ASEAN Community that would be supported by the three pillars of "political and security cooperation", "economic cooperation", and "socio-cultural cooperation." To this end, they adopted the framework to achieve this ASEAN Community through ASEAN Security Community, ASEAN Economic Community and ASEAN Socio-Cultural Community and agreed to task their ministers to

implement the Declaration of ASEAN Concord II.

With a view to further deepening cooperation with East Asia, the ASEAN leaders held discussions with colleagues from China, Japan and the Republic of Korea on regional and international political, security and economic issues.

The ASEAN+3 Leaders welcomed and firmly supported the adoption of the Bali Concord II. They also exchanged views on the situation in the Korean Peninsula and reaffirmed their commitment to a peaceful solution of the nuclear issue facing the Korean Peninsula through dialogue and welcomed the convening of the Six-Party Talk as a positive step towards this end. The leaders also endorsed the Implementation Strategy of the Short-Term Measures of the Final Report of the East Asia Study

Group (EASG). They also held discussions on the progress of the Initiative for Development in East Asia in the framework of ASEAN+3 Cooperation and explored some new ideas such as to study the feasibility of East Asia Free Trade Area.

During their meetings with each of the leaders of China, India, Japan and Korea, the ASEAN leaders welcomed the commitment of the ASEAN Dialogue Partners to support a numbers of areas of ASEAN cooperation which are as follows:

- Counter terrorism and other form of trans-national crimes;
- Economic integration of ASEAN, such as the Initiative for ASEAN Integration (IAI), and sub-regional initiatives such as GMS and BIMP-EAGA;

- Establishment of Asian Bond as an alternative for regional financing;
- Efforts on containing and avoiding of SARS, HIV/AIDS and other communicable diseases.

Amongst several important agreements, signed by the ASEAN leaders with each of their dialogue partners were the Framework Agreement on Comprehensive Economic Cooperation between the Association of South East Asian Nations and the Republic of India, the Protocol to Amend the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China and the accession of China and India to the Treaty of Amity and Cooperation.

(Source: http://www.9aseansummit.com/doc_page.php, October 8, 2003)

Twelfth SAARC Summit: Leaders Seal SAFTA Agreement

The Heads of Governments of the seven South Asian countries met for the Twelfth South Asian Association for Regional Cooperation (SAARC) summit in Islamabad from January 4-6, 2004. The summit was hailed as one of the most successful in the history of SAARC as the leaders of the Twelfth SAARC summit adopted the Islamabad Declaration, the South Asia Free Trade Area (SAFTA) Framework Treaty and the Additional Protocol to the Regional Convention on Suppression of Terrorism.

SAFTA

The landmark South Asian Free Trade Area (SAFTA) agreement was a pledge to scale down tariffs in the region in two phases to 0-5 percent by January 1, 2006, which will be fully implemented by December 31, 2015.

The agreement, signed at the start of the concluding session of the three-day SAARC summit, seeks to allow free cross-border movement of goods within the region. The accord will be implemented through the following instruments: trade liberalization programme; rules of origin; institutional arrangements; consultations and dispute settlement procedures; safeguard measures and

any other instrument that may be agreed. Under the trade liberalization programme, the member countries agreed that Non-Least Developed States - India, Pakistan and Sri Lanka - will reduce their tariffs from their existing levels to 20 per-cent within a timeframe of two years from the date the agreement is coming into force. It was agreed that the Least Developed Countries (LDCs) - Bangladesh, Nepal, the Maldives and Bhutan - will reduce their existing tariff rates to 30 per-cent within two years of the coming into force of the agreement.

Islamabad Declaration

A few important declarations that were signed as the part of the Islamabad text are as follows:

The leaders reiterated their commitment for the creation of a South Asian Economic Union and stressed on the examination of prospects for setting up of a South Asian Development Bank by the SAARC finance through the Council of Ministers.

The twentieth year of the establishment of the SAARC, the year 2005 has been designated as South Asia Tourism Year.

The leaders hailed the signing of the SAARC Social Charter as a

historic development. Issues covered under the Charter such as poverty alleviation, population stabilisation, empowerment of women, youth mobilisation, human resources development, promotion of health, nutrition and protection of children are key to the welfare and well being of all South Asians.

The leaders declared the Year 2004 as the SAARC Awareness Year.

They welcomed the establishment of a SAARC Cultural Centre in Kandy and the early establishment of the Coast Zone Management Centre in the Maldives.

The leaders agreed to the

institution of the SAARC Award and decided to present it during the summits in future as well as the establishment of a SAARC Information Centre in Kathmandu.

Lastly, the leaders expressed the determination to develop mutually beneficial links between SAARC and other regional and international organisations, bodies and entities and agreed to establish dialogue partnership with other regional bodies and with states outside the region, interested in SAARC activities.

(Source: The Islamabad Declaration and SAFTA Text)

An Asian Currency Bloc

The idea of not only an Asian Economic Community, but also of an Asian currency on the lines of European Monetary Union is in discussion. After the floating of the concepts of Asian bonds and the Asian Monetary Fund, within both academic and policy circles, the ideas for establishing an Asian currency bloc are beginning to take shape. A distant idea it might seem, but the active interest of regional leaders like Japan and China may indeed make it a reality, in the near future.

As reported by the *The Economic Times* (December 9, 2003), Japan is keen on establishing an Asian currency bloc, including key regional economies, even China. The reason behind Japanese interests in establishing a regional currency bloc are principally backed by the fears emerging out of the trade imbalances created by the fluctuations of Chinese currency to the US Dollar. The talks for formulating such a currency bloc are already underway between the ASEAN+3.

ASEAN-Japan Commemorative Summit

During the period of December 11-12, 2003 Japan hosted the Association of Southeast Asian Nations (ASEAN)-Japan Commemorative Summit in Tokyo. The summit marked the first ASEAN+1 meeting to be held out of the member region.

During the two-day conference, leaders pledged to create a common East Asian community with the signing of the Tokyo Declaration for a Dynamic and Enduring ASEAN-Japan Partnership in the new millennium. In addition, the leaders signed the ASEAN-Japan Plan of Action, which included approximately 120 items to implement encompassing the basic directions for future cooperation and Japan's pledge of US \$3 billion of aid for Southeast Asia over the next three years. This included \$1.5 billion of funds to

promote human resources development programmes and the other half to go to projects aimed at the Mekong River region, promoting a growth area that includes Brunei, Indonesia, Malaysia and the Philippines. Japan also took steps to strengthen security by signing a document confirming its intent to accede to the Treaty of Amity and Cooperation in Southeast Asia (TAC). Before the main session, Japan agreed to start bilateral free trade agreements (FTA) talks with Malaysia, the Philippines and Thailand early next year. The negotiations are beginning steps by Japan and ASEAN members to conclude a regional FTA in 2012. Singapore has already signed an FTA with Japan.

(Source: Virtual Information Centre, December 16, 2003) www.vic-info.org ■

BIMST-EC Countries Sign FTA Framework

The Sixth BIMST-EC (Bangladesh, India, Myanmar, Sri Lanka, Thailand-Economic Cooperation) Ministerial Meeting held in Phuket, Thailand, on February 8, 2004, marked the signing of Framework Agreement for the BIMST-EC Free Trade Area. Other prominent aspect of the meeting was the attendance of Nepal and Bhutan as full members for the first time.

The ministers agreed that in addition to the existing areas of cooperation, special emphasis should also be placed on the development of hydrocarbon and hydropower potential and people-to-people contact in the region.

Further on in the meeting, the ministers recommended working towards greater air transport

liberalisation, short-sea shipping and highway linkages among BIMST-EC countries. The Ministers further recommended working together for Trans-BIMST-

Future Directions of BIMST-EC

RIS in consultation with the Institute for Policy Studies, Colombo, International Institute for Trade and Development, Bangkok and Centre for Policy Dialogue, Dhaka prepared a paper, *Future Directions of BIMST-EC: Towards a Bay of Bengal Economic Community (BoBEC)*, as per the mandate provided by the Fourth BIMST-EC Ministerial Meeting held in Yangon on December 21, 2001.

EC natural gas pipeline, technical cooperation/human resources development, management and sustainable utilisation of fisheries resources in the Bay of Bengal, and facilitation of business travel.

The group commended the "Visit BIMST-EC 2004" initiative and encouraged more activities. They also decided

to extend this project to 2005. The first BIMST-EC Summit has been scheduled for July 30-31, 2004 in Bangkok, Thailand.

(Source: The Joint Statement, Sixth BIMST-EC Ministerial Meeting, Available at www.mfa.gov.th)

Indian PM Backs Asian Economic Community

Prime Minister Vajpayee's visit to the 2nd India-ASEAN Summit in Bali (October 6-8, 2003) ended on a high note with the institutionalisation of the annual summit level dialogue between India and ASEAN.

The event was marked by several important agreements between the India and ASEAN, the most important being the finalisation of the Framework Agreement on Comprehensive Economic Cooperation.

The Prime Minister offered ASEAN countries additional flight services from airlines of ASEAN countries to major Indian metropolitan cities and other tourist destinations and suggested strengthening India-ASEAN road links. He also proposed to the ASEAN countries the liberalization of the air cargo services sector. The Prime Minister also proposed an India ASEAN car rally. All the offers were warmly welcomed by his ASEAN counterparts.

On the other hand, several ASEAN leaders underlined the potential for cooperation with India in the field of public health, through pharmaceutical imports from India

and joint research for medicines and measures to deal with diseases like HIV/AIDS, TB and Malaria.

Taking cue from the agreement between ASEAN countries to establish an ASEAN economic community, Prime Minister Vajpayee put forward the idea that ASEAN needs to be more closely integrated with India, China, Japan and Korea. He said, "An Asian Economic Community, including the 14 countries of ASEAN + 3 + 1, would more efficiently exploit our synergies."

The Indian-ASEAN leaders also agreed to ask their think tanks to submit to the next (Laos) India-ASEAN Summit a "Vision 2020" document, which would lay out the road map for future development of India's relations with ASEAN.

India also acceded to the Treaty of Amity and Cooperation with ASEAN, there by initiating a new level of political cooperation with ASEAN. India also reiterated its willingness to support new projects for training, education and capacity building to hasten the process of integration of the new ASEAN members.

(Source: Press Information Bureau, New Delhi, Press Release, October 12, 2003) ■

Asian IT Ministers Summit

Information technology (ICT) ministers of over 40 countries met in Hyderabad on January 12-13, 2004 to discuss core ICT (Information and Communication Technology) issues at the second Asian IT Ministers Summit.

Recognizing the urgent need to undertake definitive and firm steps to spread the benefits of ICT widely and equitably through increased cooperation at a regional level, the ministers reiterated their resolve to work together on initiatives to promote and strengthen ICT in the region, having due consideration for the needs of the less developed countries. With this shared understanding, they adopted the Hyderabad Declaration.

The Hyderabad Declaration adopted concerted plans of action

on various issues that were agreed as falling under the areas of prime concern. These included programmes on bridging the digital divide, standardising for ICT development in Asia, digitisation of culture, construction of broadband environment in Asia and internal affordability, management and security.

The Summit provided a useful opportunity and mechanism to crystallize and articulate common regional concerns, while facilitating the identification of common strategies and approaches by learning from each other in a regional perspective.

The next summit is scheduled to be held in Bahrain, next year.

(Source: Press and Information Bureau, New Delhi, Press Release, January 15, 2004) ■

Greater Mekong Sub Regional Economic Cooperation Programme Twelfth Ministerial Conference

Ministers of the six Greater Mekong Sub region (GMS) countries in a drive to attract private sector participation in the GMS Economic Cooperation Program (GMS Programme), held their first meeting with representatives from the private sector at the Twelfth Ministerial Conference, in mid September. The meeting underscored the importance of speeding up priority GMS projects, including trans border road effort.

The countries – Cambodia, People's Republic of China, Lao

People's Democratic Republic (Lao PDR), Myanmar, Thailand and Vietnam- are already reinforcing links through roads, telecommunications networks, and the promotion of power trade.

The GMS Programme assisted by ADB since its inception in 1992, aims to create a better integrated, more prosperous, and equitable region. ADB and its partners have financed 15 major infrastructure projects, representing investments totaling over \$2 billion.

All mainland South East Asian countries will be landlinked by

2007 when all sub-regional infrastructure initiatives in the Mekong countries are expected to be completed.

A major step toward further opening up the borders in the GMS was taken as Myanmar joined the other five countries in reducing non-physical barriers to the free movement of people and goods across international borders. At the end of the meet, Myanmar signed the Cross-Border Transport Agreement.

(Source: ADB Review, Nov-Dec 2003) ■

China and ASEAN Sign MoU

China and the Association of Southeast Asian Nations (ASEAN) have signed a memorandum of understanding (MoU) on cooperation in the field of non-traditional crime issues, pressing ahead their joint efforts in combating trans-national crime. The memorandum was signed at a ceremony on January 10, 2003 at the end of the one-day ASEAN plus China, Japan and South Korea ministerial meeting on combating trans-national crime held in Bangkok.

Under the memorandum, China and ASEAN would improve their joint efforts to combat non-traditional crimes through information sharing, personnel exchange and training and law-enforcement cooperation. The memorandum put China and ASEAN's ongoing cooperation programme and workshop on combating non-traditional crimes into words and set down medium- and long-term goals for further cooperation in this field.

(Source: www.aseansec.org, Press Releases, January 2004) ■

RIS/ADB Seminar on Monetary and Financial Cooperation in Asia

The Research and Information for Non Aligned and Other Developing Countries (RIS), jointly with Asian Development Bank, New Delhi, organized a Seminar on Monetary and Financial Cooperation in Asia in New Delhi on December 11, 2003. Shripad Naik, Hon'ble Minister of State for Finance, Government of India delivered the inaugural speech in which he said that the issues of regional importance in the global context merit serious thought and collective action. The Asian community now needs to focus on the economic cooperation front which can tilt the balance of power in our favour.

The first business session on Monetary and Financial Cooperation in Asia, chaired by Ambassador S T Devare, had three presentations: Economic Integration and Re-emergence of Asia (with focus on Monetary and Financial Cooperation) by Dr Pradumna B. Rana, Director, Regional Economic Monitoring Unit, ADB, Manila; Financial and Monetary Cooperation in Asia: Problems and Prospects by Dr Mihir Rakshit, Project Director, ICRA; and Towards an Asian Economic Community by Dr Nagesh Kumar.

Dr Ashok Lahiri, Chief Economic Advisor, Ministry of

Finance, Government of India chaired the second session on Global and Regional Economic Outlook. This session had two presentations: Asian Economic Monitor by Dr Srinivasa Madhur, Principal Economist, ADB/REMU; and India's Long-run Growth Performance by Dr Sudipto Mundle, Chief Economist, ADB/INRM.

Dr Suman Berry, Director-General, NCEAR and Dr Shubhashis Gangopadhyay, Director, IDF were the main discussants. The participants, among others, included representatives from business and industry circles, research institutes, academia, government departments, and media. ■

(Source: www.aseansec.org, Press Releases, January 2004) ■

Asian Boomers Set to Drive World Economic Growth

The Asian Financial Crisis had buried the notion that the 21st century would belong to Asia. However, the crisis can really be put behind as history. The new emerging economic order would see the lands of the East, set to drive world economic growth for the next decade or two, argues the study, 'Asia's Billion Boomers', conducted by the CLSA Asia Pacific Markets.

According to the study, the Second World War acted as a growth catalyst for the Americans. Similarly, the Asian Financial Crisis has acted as a catalyst for the Asian economies. The study argues that the Asian Crisis represented the economic equivalent of Second World War. Family wealth was destroyed on a massive scale in Korea, Indonesia, Thailand and Malaysia. More insulated economies such as China and India were spared the full brunt but suffered nonetheless. Five years, on there has

been a massive consolidation and recapitalisation of the regional banking system (an on going story) and perhaps for the first time a reluctant acceptance by the governments to let the market decide on efficient capital allocation.

Today, there is ample anecdotal evidence to support the view that Asians feel confident about their prospects and are embarking on a consumption and life style boom that strongly echoes the American Baby Boomer era. Only bigger. Interestingly, Asian families have saved up a lot – often upto 35% of household income. As saving rates are high, there is plenty of money to be spent without debt, unlike the American boomers.

The Asia-US boomer parallel is based largely on the common aspirations of individuals living their lives in world of higher personal confidence, job security and future

optimism – and not, of course on Asia mirroring an American-style "baby boom" per se. Many of China's new affluent consumers, for example, are in their late 30s and 40s – beneficiaries of economic liberalization rather than pure demographics. It is the effects of the phenomenon, not its cause, which are important. Two-thirds of any economy is about consumption so the study's Asian boomers theme is really about a long-term underwriting of Asian economic growth. And this growth is increasingly intra-regional and much less dependent on whether European or American consumers are buying Asian goods. Indeed, Asia is no longer a warrant on world trade – rather, it is an asset class that should be held and added to as this boomer theme unfolds.

(Source: CLSA, The Real Pacific Century, Emerging Markets Reports, September 2002) ■

New Asian Leaders Support ASEAN+4 Economic Integration

The World Economic Forum's New Asian Leaders (NALs) Retreat opened on June 19, 2003, in Seoul, South Korea. The objective of the retreat was to focus on 'Blueprints for a New Asia', representing visions for change in China, Korea, Japan, India and South-East Asia. The leaders at the retreat also identified Asia's key concerns for the future which included issues like transparency and productivity in the corporate and public sectors, human capital and education, trade and economic integration for the Asian region, the next steps for technology, entrepreneurship and financing.

At the retreat, the World Economic Forum and Taylor Nelson Sofres conducted a web-based survey, covering all participants and invitees and other Asia-based Global Leaders for Tomorrow. The groundbreaking survey revealed that

Asia's new generations of leaders were very supportive of regional integration, and mindful of the region's need to decisively deal with nationalism, corruption and poverty.

Over 51 per-cent of survey respondents – who came from India, Southeast Asia, China, Korea and Japan – said that the level of economic cooperation in Asia is "adequate, but more is desirable." Over 37 per-cent said that there is "too little cooperation" existing now. Only 8.9 per-cent say that the current level of cooperation is "just right." Over 37 per-cent of New Asian Leaders view an extended Asia – Asean+4, including China, Japan, India, and Korea – as the most desirable model of economic integration, with 26.8 per-cent preferring Asean+3.

When asked about the

obstacles to reaching a high level of economic cooperation, New Asian Leaders identified national interests (46 per-cent) as being the primary obstacle, well ahead of historical, social or cultural differences or income disparities.

The New Asian Leaders (NALs) are Asia's foremost young change-makers from business, government, academia and civil society in Asia. The group was founded at the East Asia Economic Summit 2002 in Kuala Lumpur under the auspices of the World Economic Forum and Malaysian Deputy Prime Minister Abdullah Ahmad Badawi. The community has extended the idea of a "Blueprint for Japan" to China, India, Korea and South-East Asia and are thus, now collectively known as "Blueprints for a New Asia".

(Source: The World Economic Forum, Press Release, June 18, 2003) ■

RIS/SACEPS Workshop on Monetary Cooperation in South Asia

The RIS in collaboration with South Asia Centre for Policy Studies (SACEPS), Dhaka, Bangladesh organised a Workshop on Monetary Cooperation in South Asia: Potential and Prospects on December 23, 2003 in New Delhi. The workshop began with remarks by Dr Nagesh Kumar, Director-General, RIS; Prof Rehman Sobhan, Executive Director, SACEPS, Dhaka; and Dr Arjun Sengupta, Chairman, SACEPS.

Monetary cooperation among the SAARC countries has attracted a lot of attention as one of the areas of potential cooperation. RIS had prepared a study on this subject.

The workshop was organized to discuss the issues raised in this study, as well as to discuss the issue of macroeconomic coordination in Asia. Among the various proposals discussed included a proposal of creating a parallel currency as a way towards a single currency, prepared by RIS.

Prof. Muchkund Dubey, President, CSD, New Delhi chaired the first session on monetary cooperation in South Asia: potential and prospects. Dr Mirza Allim Baig, Research Associate, RIS made the thematic presentation. Dr Saman Kelegama, Executive Director, Institute for Policy Studies, Sri Lanka; Professor I N Mukherji, School of International Studies, JNU; Professor Sunanda Sen of Academy for Third World Studies and Dr Ramgopal Agarwala, Senior Advisor, RIS were the panelists.

The second session on macroeconomic coordination in South Asia was chaired by Dr Sudipto Mundle, Chief Economist, ADB, New Delhi. The panelists in this session were: Dr Ramgopal Agarwala, Senior Advisor, RIS; Dr Arjun Sengupta and Prof Rehman Sobhan. ■

Study Backs East Asian Free-trade Zone

A high-level feasibility study has concluded that the time is ripe to set up a free-trade zone between China, Japan and South Korea.

China proposed a free-trade zone with Japan and South Korea last November at a meeting of the Association of Southeast Asian Nations in Cambodia. Xu Changwen - a researcher with the Chinese Academy of International Trade and Economic Cooperation led the study.

According to the study, the increased interflow of trade and investment among the three states made it necessary to set up a free-trade zone to streamline such trade and investment. A free-trade zone can give full play to trade and investment between the three economies and make the zone one of the most competitive regions of the world.

Japan's adjustment of its economy made the zone more possible, the study points. The main obstacle to such a free-trade zone used to be Japan's protection of its agricultural products. The Japanese government has been afraid that a further opening of the country's

market will hurt its fragile high cost agricultural sector. Its 3 million farmers constitute a political base for its ruling Liberal Democratic Party.

As a result Japan has made little progress in its free trade negotiations with Thailand, Mexico and South Korea in recent years.

But now, Japan is adjusting its industrial structure in a bid to revive its sluggish economy.

Since its narrow domestic market leaves little room for adjustment, Japan must use the international market through economic cooperation with neighbouring countries.

Currently, 20 per-cent of Japan's foreign trade is with China and South Korea, and 10 per-cent of its overseas investment goes to the two countries.

The situation is driving Japan to push forward economic cooperation with China and South Korea. Unlike Japan, South Korea is willing to accept China into the planned Japan-South Korea free-trade zone.

South Korea needs China's participation to remedy its

advantages in Japanese-South Korean trade in machinery, electronic products and chemical industrial products.

The study also said there was no need to be apprehensive that industrial goods from Japan and South Korea will flood the Chinese market once the zone is set up and tariffs are lowered.

China's current tariff rate of 11 per-cent compares to Japan's 2.9 per-cent and South Korea's 7.9 per-cent.

But when China's tax wavers are taken into consideration the actual rate is not much higher.

So the Chinese economy will not be hurt, if the free trade zone cuts tariff rates to the same level.

Zhao Jinping, a researcher with the State Council Development Research Centre, said a China-Japan-South Korea free-trade zone would facilitate the emergence of an East Asian trade bloc with in 20 years.

China signed a free-trade agreement with ASEAN last November and the zone is scheduled to be set up by 2010.

(Source: Based upon the study conducted by the Development Research Centre of the State Council of P.R. China) ■

Asian Integration Needs an Overarching Framework

Anthony Rowley

Twenty years ago, the *Far Eastern Economic Review* published a cover story titled 'What is Asia?' The question is as relevant today - if not more so - than it was then as 'Asia' struggles to find an economic and political identity matching that of North America and Europe. The latest manifestation of this search is the meeting in Islamabad of Pakistani and Indian leaders under the aegis of the South Asia Association for Regional Cooperation or SAARC. The assiduous courting of ASEAN by both Japan and China was bound to provoke a response in South Asia, which is in danger of being left out as East Asia begins to coalesce towards some kind of economic union. But can Asia really be divided into autonomous competing (or even cooperating) sub-regional blocs in this way?

Some would say no. One such is Thai Prime Minister Thaksin Shinawatra, who has matched belief with action by promoting the Asian Cooperation Dialogue (ACD), an 18-nation group stretching from East and Southeast to South Asia and on into the Gulf States forming the westernmost tip of the region. Within Asia (which also includes the Central Asian Republics and parts of the Russian Far East), there are now almost too many sub-regional cooperation pacts to be counted. Some argue that this is a natural reflection of the geographic and ethnic diversity of the far-flung region. But this is simply an attempt to rationalise what at present is an irrational approach towards Asian cooperation. Asians at least need to agree on a broad overall strategy. Ethnicity is not a good basis for defining areas of cooperation. The economies of South Asia and of Southeast Asia are of too much of a competing nature to allow natural synergy via free trade agreements (FTAs). Nor do the economic giants of East Asia - Japan, China and Korea - have the complementarity needed to benefit from similar arrangements. Both sub-regions need each other's raw material, and industrial, technological and financial endowments in order to prosper.

What complicates matters for Asian nations is their extreme dependence - in most cases - upon Western markets. Trade flows predominantly from East to West across the Pacific, rather than across regions, and again

from South to North towards Europe rather than within the borders of Asia.

Any attempt to achieve regional economic union is hindered by these historic, colonial structures because they prevent Asia from developing internal demand within the framework of a common external tariff, as the European Union did.

The prevailing philosophy - it cannot be dignified as a strategy - in Asia appears to be that the road towards pan-regional union should be paved with bilateral FTAs or economic partnership agreements (EPAs).

These may have their value but they badly need to be placed within some form of wider regional context if they are to contribute to long-term economic and political welfare.

Without some form of overall regional framework within which to work, capital, human and natural resources may all be deployed at less than their optimum value. Trade patterns may develop in a way that ill suits the physical endowments of the Asia region, and investment in both infrastructure and industry may develop in an ad hoc fashion which fails to optimise its full economic potential.

Drawing up an inventory of these various resources would be a valuable first step.

Pan-regional cooperation that attempts to address some, if not all, of these issues may be dismissed as a Utopian dream. This is a cop-out, however, and reflects the lack of the statesmanship needed to make cooperation a reality. What is needed is for one or two Asian leaders to propose a pan-regional summit that focuses on envisioning what Asia might become once its use of resources is rationalised. An inventory of possibilities would allow bilateral and sub-regional cooperation to develop within a rational framework. The question 'What is Asia?' needs to be posed anew as 'What Could Asia Become?' in future.

(Excerpted from *The Business Times*, Online Edition, January 7, 2004.)

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The New Great Game

Sanjay Baru

The Asian financial crisis of 1997-1998 provided the context for a change in equations in Asia. China's emergence as a major economic power, a force for stability and stabilisation, Japan's initiative to react and act imaginatively and US backing for a

dubious role played by the ideologues of the International Monetary Fund completely altered the chessboard in Asia.

The most active player in this "New Great Game" is understandably China.

The arena of the new game spans the entire region from the Pacific to the Persian Gulf. The game revolves around energy flows, control of sea lanes and access to markets.

China used the goodwill it won after the Asian Financial crisis by encouraging the creation of various economic forums like ASEAN+3 (China, Japan and Korea) and the Boao Forum and floated the idea of an Asian Monetary Fund.

While India responded fairly early to the incipient signs of a New Great Game with its "Look East policy" enunciated as early as in 1992, we failed to give the policy much economic content without our hesitant external liberalisation. It is only the past two years that India has engaged the region to its east more vigorously but it has some distance to travel in catching up with China and Japan. There has been a paradigm shift with ASEAN and the relationship is grounded both in economics and security, with maritime security emerging as an important area of regional cooperation.

We hope to widen ASEAN+ 3 into an Asian Economic Community, and as a first step into JACIK, a forum of Japan, ASEAN, China, India and Korea.

One thing is, however, clear. While there is no doubt that China has emerged as a major economic power and military power in the region, almost everybody else wants India to be actively engaged as well. For the first time after Jawaharlal Nehru's tried to encourage India's Asian identity, we are once again being welcomed in Asia to our East, but to sustain this process we need to increase our economic interaction with all Asian Economies. This means lower tariffs, more trade and increased investment flows and increased interaction with the region. Economics is the corner stone of the New Great Game.

(Excerpted from *The Indian Express*, November 24, 2003.)

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Japan Should Spearhead Asian Integration

The Asian Development Bank President, Tadao Chino, taking up the case of Japan, expressed his view that protectionism was slowing up the process of Asian integration.

In his speech on 18th December 2003, the ADB president said that Japan should spearhead economic integration efforts in Asia while pushing ahead the reforms of its tightly protected agricultural sector.

Welcoming the recent moves toward forging bilateral and regional free-trade agreements across Asia, he expressed that delay in reforming the domestic farm sector has hampered Japan's active involvement in the trend.

He opined that Japan's future hinges on its partnership with other Asian countries and that it needs to play a more proactive role in helping integrate Asian economies.

He argued that with the global talks under the World Trade Organisation deadlock, pursuing bilateral or regional FTA's is an option for freeing up trade. He said that in Japan's case, the inefficient but politically powerful agricultural sector had been a major obstacle to any FTA negotiation.

He further argued that Tokyo's FTA policy should be linked to domestic farm sector reforms by raising productivity and sharpening the competitive edge, while taking into account agriculture's various functions such as preserving the environment.

He claimed that one can see a lot of phenomenon every day that are shaping the new order of Asia and Japan must mobilise all its human capital, financial resources and ideas for Asia.

Turning to regional bond market development, Mr Chino said that the ADB was preparing to issue local currency-denominated bonds in countries such as China, Thailand and India early next year. (Excerpts from *The Japan Times Online's* interview with ADB President Tadao Chino, December 19, 2003)

© *The Japan Times*, Online Edition.

Re-emergence of Asia in 21st Century: China and India to Lead the Way

With rapid growth of major countries such as China, India among others, Asia is expected to become the center of gravity of the world economy that it was in the eighteenth century. An OECD study by Angus Maddison shows that in 1000AD, Asia (except Japan) accounted for more than two thirds of world GDP based on the strengths of the Chinese and Indian civilizations. China and India were the leaders

of the world in terms of technological and economic development during the most of the period from 500AD to 1500AD. By early 15th century India had evolved into a sophisticated agrarian economy that sustained a large empire. Textile industry was fairly well developed, overseas trade was impressive, and the talent in science and mathematics were well known. By fifteenth century, China had also established first unified and a centralized political administration and early emergence of a commercial society helped by temperate climate, rapid population growth, and alluvial agriculture and voyages. In terms of innovation, they invented the compass, gunpowder, printing press, and paper currency. In 1500, China and India alone accounted for 50 per cent of world GDP with each sharing roughly 25 per cent. Because of rising incomes of western Europe, by 1820 AD Asia's share in world GDP had come down but was still substantial at 56 per cent. Asian incomes stagnated during the period 1820 to 1950 bringing its share in world GDP down to only about 20 per cent. However, led by the dynamism of Japan, China, and India, Asia's share in the

world GDP has risen and today it stands at around 40 per cent.

A recent study by Goldman Sachs shows that Asia is on its way to regain its lost share in the world economy by 2050. As recording to these estimations share of China, India and Japan in world GDP is expected to reach 57 per cent by 2050.

Goldman Sachs expect that led by rapid growth, 'India's economy, for instance, could be larger than Japan's by 2032, and China's larger than the US by 2041'. 'In US dollar terms, China could overtake Germany in the next four years, Japan by 2015 and the US by 2039. India's economy could be larger than all but the US and China in 30 years'.

Using the latest demographic projections and a model of capital accumulation and productivity growth, Goldman and Sachs find that 'India has the potential to show the fastest growth over the next 30 and 50 years. Growth could be higher than 5 per cent over the next 30 years and close to 5 per cent as late as 2050 if development proceeds successfully'.

(Source: RIS, *South Asia Development and Cooperation Report 2004*)

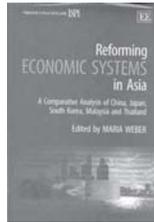
Further Readings

- **A New Asian Economic Integration**, S. D Naik, *The Hindu Business Line*, October 22, 2003.
- **An Asian Bond Fund? ET in the Classroom**, *The Economic Times*, December 22, 2003.
- **India-ASEAN Partnership**, Nagesh Kumar, *The Hindu*, October 7, 2003.
- **For an Ocean Outlook**, B.G Verghese, *The Hindu*, November 25, 2003.
- **Nightmare on Wall Street: Asian Capital Flight**, William Pesek Jr, *International Herald Tribune*, June 17, 2003.
- **Is Japan to mainland Asia what Britain is to Europe?** Ramesh Thakur and Takashi Inoguchi, *The Japan Times Online*, November 9, 2003.
- **Strengthening ASEAN as a Security Community**, Amitav Acharya, *The Ashai Shimbun*, June 17, 2003.
- **India's Economic Diplomacy**, C. Raja Mohan, *The Hindu*, August 14, 2003.
- **Towards an Asian Economic Community**, S.L Rao, *The Telegraph*, March 24, 2003.
- **Tomorrow, The World**, Paromita Shastri, *The Outlook*, December 15, 2003.
- **East Asia on Economic Integration Road**, *The Japan Times Online*, November 13 2003.
- **India Looks Eastward**, G. Parthasarthy, *The Tribune*, October 23, 2003.
- **Looking East and Beyond**, Nagesh Kumar, *The Financial Express*, December 28, 2003.
- **Through the Looking Glass**, Mythili Bhusnurmath, *The Economic Times*, December, 15, 2003.
- **Momentum is Shifting to Emerging Asia**, William Pesek Jr., *International Herald Tribune*, June 19, 2003.

Reforming Economic Systems in Asia: A Comparative Analysis of China, Japan, South Korea, Malaysia and Thailand

Editor – Maria Weber, Edward Elgar Publishing Ltd. 2001.

After the 1997 Asian crisis, most Asian countries embarked on a serious process of reform to revitalize their economies. This book begins with an analysis of the reforms proposed and implemented in China, Japan, South Korea, Malaysia and Thailand. This analyses focuses on financial and corporate sector reforms and on the changing role of public administrations. The authors argue that the chain effects of the Asian crisis are not only confined to a regional economic context: the evolution of the role of regional associations and of the security scenario in East Asia outlines the beginning of a deep and comprehensive political, economic and social change.



Leading scholars with in-depth knowledge of each country focus on these international variables, in particular; the role of APEC in the wake of the Asian crisis and the Seattle debacle, the process of economic integration in East Asia and the evolution in East Asian regional security.

India-ASEAN Partnership in An Era of Globalisation: Reflections by Eminent Persons

RIS. 2002.

This Volume puts together the texts of most of the lectures delivered under the India-ASEAN Eminent Persons Lecture Series so far. The India-ASEAN Eminent Person Lecture Series was launched by Government of India in December 1996 to enhance people-to-people interaction between India and ASEAN countries to complement the growing India-ASEAN partnership.



Put together in this form these reflections present visionary perspectives and a body of current thinking in the region on many issues of current development concerns in this part of the world that will be found useful by policy makers and scholars.

The lectures have been classified into four broad parts. Part I presents a visionary

perspective on the India-ASEAN relations as articulated by Prime Minister Mahathir Bin Mohamad of Malaysia in his inaugural India-ASEAN lecture. Part II includes lectures reflecting on the globalization and the East Asian Economic crisis of 1997. They also draw lessons from it and discuss implications of it for the India-ASEAN cooperation. Part III covers lectures dealing with the broad theme of Indian-ASEAN partnership and opportunities and challenges facing it. Finally Part IV combines lectures dealing with sectoral issues such as science and technology in general and as applied to food and nutrition, sustainable development and health. It also deals with such important issues as corporate governance and cultural sovereignty in the context of globalization.

Regionalism in East Asia: Paradigm Shifting?

Editors – Fu-Kuo Liu and Philippe Regnier Routledge Curzon. 2003.

The book attempts to review contemporary trends relating to the concept of regionalism and to explore developing and changing trends of regionalism in East Asia, especially the impact of changing regional context of regionalism *per se*. The argument of this book brings together the varying approaches of this field and covers critical issues that generate regional development in Southeast and Northeast Asia. This book tries to pinpoint the emergence of new paradigms of regionalism in the region. It has been strongly suggested that the post-Cold War scenario has changed in terms of fundamental ingredients of regional cooperation. Given the natural course of East Asian regionalism, the demands for an economic momentum have come to rejuvenate and newly shape the utility of regionalism, with greater emphasis on the approaches of inter-regionalism, exclusiveness and networking.



Above all, the most updated move by regional countries has evolved in a new form of regional cooperation: 'ASEAN plus three'. This also has potential implications for future development.

The book concludes by suggesting a few emerging paradigm of regionalism in East Asia, which would in all likelihood come to determine the future direction of regional cooperation in the region. The book draws attention to the most recent developments

of inter-regionalism, exclusive regionalism, and regional networking in East Asia.

Speeches from 2002 Annual Conference of Boao Forum for Asia

Secretariat of Boao Forum for Asia. 2002.

This book presents the first collection of speeches out of Boao Forum for Asia, which shows the most essential part of its first annual conferences. "New Century, New Challenge and New Asia- Asian Economic Cooperation and Development" was the theme of the 2002 Annual Conference of the Boao Forum for Asia. During the conference, 16 seminars were held in various forms of Plenary Sessions, Thematic Luncheons and Panel Discussions, on which the speeches and dialogues presented by political leaders, entrepreneurs, experts and scholars touched a wide array of topics, realizing the in depth review and exchange on Asian economic cooperation and exchange from different perspectives and areas. Political leaders of Asian countries and regions addressed pressing issues like strengthening of economic cooperation and promotion of economic development of each country in their speeches. Various dialogues on the Annual conference have covered hot issues like the impact of global economic trend upon Asia's economy, Asia's economic recovery and cooperation, China's accession into WTO and Asia's economic development, all of which are issues of common interest of Asian countries and regions. The speeches also include some major global issues, such as environment and sustainable development, future global trend of energy, globalization and industrialization of media.



Restructuring Asian Economics for the New Millennium

Research in Asian Studies, Volume 9-A, 9-B Editors – Jere R. BehrMann, Manoranjan Dutta, Steve L. Husted, Pityanon Sumalee, Chirathivat Suthipand, Paitoon Wiboonchutikala. Elsevier Science. 2001.

The Asian economic crisis and future development is a hot subject among academics and policy makers worldwide. Several countries in Asia came to face severe economic



recession in the wake of their financial and foreign exchange crisis which began in 1997. The recession was deep and the challenges for managers of respective economies for an optimum specification of monetary and fiscal policy guidelines became all too great. Many came to wonder whether the so-called "Asian Miracle" all of a sudden became a part of history. If so, how will Asia recover from the crisis and experience high growth and continuing development as in the past quarter of the century? Can such a crisis be forewarned? Which developments paths should Asia seek so that the crisis will not be repeated in future? In other words, the challenge is to formulate rational policies for Asia's newly industrialized/industrializing economies so that their industrialization and development can sustainably progress as Asia enters the twenty first century.

This book addresses the above issues by covering many topics including financial meltdowns and industrial development, money and financial markets, exchange rates, capital flows, economic reforms, human capital development, impact of financial crisis on growth and poverty incidence, as well as other development problems in Asia Pacific countries.

The Changing Economic Environment in Asia: Firms' Strategies in the Region

Editors-Bernadette Andreosso-O'Callaghan, Jean-Pascal Bassino and Jacques Jaussad. Palgrave. 2001.

This books offers a critical appraisal of the causes of the 1997 Asian crisis and of its impact on the strategies of the firms and explains how firms have responded to the changes brought about by the crisis, and what the major structural developments have been in the Asian economies since the late 1990s. Through the use of up-to-date statistical data and theoretical tools, the contributors convey the excitement that pervades development in Asia.



Subregionalism in Asia: ASEAN and SAARC Experiences

Abul Kalam. UBS Publishers Limited. 2001. The book presents a three-part study of new geo-economic model of growth in Asia, namely, subregional cooperation. Part I deals

with ASEAN Growth Triangle, with the hindsight of similar efforts in southern China. Conceptually, it views ASEAN's model for subregional growth as modified structuralism that is supported by appropriate vision and followed by serious efforts to make operational a blueprint of action towards cooperative security/interdependent development.

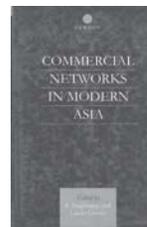
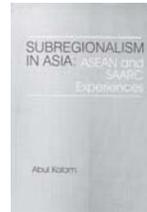
As the findings in Part II of the book suggest, subregional effort in South Asia lacked the necessary conceptual element to serve as guidepost either as a model or offer any coherent plan of action to replicate growth effort in South East Asia. Official launching of South Asian Growth Quadrangle (SAGQ) appeared more as a tool of political fanfare than a growth mechanism, the private sector seems still unimpressed, and the multilateral donor agencies have been sidelined.

The policy recommendations in Part III of the book include the framework for a conceptual model, to be supported by a coherent plan of action for both subregional and regional development, that would draw both the private sector as an engine of growth and the multilateral donors as supportive agencies.

Commercial Networks in Modern Asia

Editors – S. Sugiyama and Linda Grove Curzon. 2001.

This volume brings together an international team of scholars who examine the development of commercial networks in Asia from the 18th century to the 20th century on a stage that stretches from Yokohama and Pusan to Istanbul. The studies, based on extensive archival research, focus on the trading firms and merchant groups that were the chief actors in the creation of the commercial networks that criss-crossed Asia, linking the various Asian economies to each other and to Europe and the Americas. Whilst some of this work has been available in Chinese and Dutch, this is the first time that such a broad range of essays has been made available to an English-speaking audience.



The thirteen essays can be roughly divided into two groups. The first group includes essays that look at the development of large scale networks and plot the competition between competing indigenous and foreign merchant groups in the trade in products such as sugar and cotton yarn in China, cotton goods in Japan, silk in Iran, Japanese manufactures in Dutch Indonesia and rice and cotton in India. The second group pf essays focuses on the activities of specific firms as a way to explore the development of trading networks. The group includes studies that look at the activities of Chinese and Japanese merchants in Korea, at the growth of a commercial empire built on the sale of patent drugs in South East Asia and the activities of European trading firms in Asia.

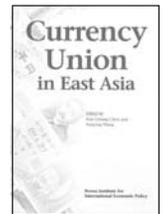
Currency Union In East Asia

Editors- Han Gwang Choo and Yunjong Wang. Korea Institute For International Economic Policy (KIEP) 2002.

The growing interdependence in the world through trade and finance integration has heightened the need to engage in international and regional economic cooperation. This was never demonstrated more clearly than during the Asian crisis of 1997. Furthermore, the launch of the euro in 1997 made the possibility and desirability of introducing a regional currency union in East Asia a point of debate. In particular, there has been voluminous literature on the topic of forming a currency union in East Asia. However, on the empirical findings and policy implications of previous studies are mixed.

Though many East Asian countries are now under various exchange rate systems, there also appears to be strong interest in the hard pegs in the region. In view of the recent tendency for a polarization of exchange rate systems – a hard peg for exchange rate stability on one extreme or pure floating on the other extreme- East Asian countries may be tempted collectively to try a hard peg once they are not dissatisfied with their current individual exchange rate systems.

Nevertheless, many misgivings have been voices in recent years about the introduction of a common currency arrangement in East Asia. East Asian governments hold divergent preferences with respect to pace, extent and direction of



regional financial and monetary cooperation. This is mainly due to the fact that East Asian economic systems, patterns of trade and levels of economic development are far more diverse than those manifest in Europe. Although political willingness could be the most important trigger, as shown

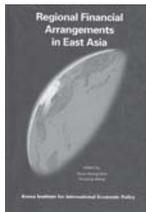
In the experience of post war Europe, such a political will may not be conceivable without a smooth convergence of the economic attainment level. In this regard, East Asia has a long way to go beyond the Chiang Mai Initiative and other types of regional arrangements.

This edited volume identifies major issues related to regional monetary cooperation and provides comprehensive analyses, policy implications, and some recommendations.

Regional Financial Arrangements in East Asia

*Editors – Yoon Hyung Kim and Yunjong Wang
Korea Institute for International Economic Policy. KIEP 2001.*

The Asian financial crises provided a strong impetus for East Asia to reform and strengthen its domestic financial systems. At the same time, a strong need has arisen for developing a framework to support regional financial cooperation to prevent and manage such crises in the future.



The Chiang Mai Initiative (CMI), agreed among ASEAN+3 countries (China, Japan and South Korea), is now widely perceived as a major step toward strengthening financial cooperation in East Asia. However, if the ASEAN+3 countries continue to explore further development beyond the CMI, they will face much tougher challenges and tasks. East Asian countries need to tell the international community clearly what they are motivated to do, how they will develop an action plan, and how they believe it fits in the existing global financial system.

This book identifies major issues related to regional financial cooperation and provides comprehensive analyses, policy implications, and recommendations. It discusses obstacles and misgivings to overcome in the process of building a regional architecture. It highlights challenging tasks in order to achieve plan, and how they believe it fits in the existing global financial system.

The Idea of An “Asian Monetary Fund”: The Problems of Financial Institutionalism in the Asia-Pacific by Shaun Narine

Asian observers attribute the Asian economic crisis of 1997-1999 to the instability inherent in the global financial system. In response, Asians have discussed creating an Asian Monetary Fund (AMF) to manage future financial crises and have demanded the reform of the global financial architects. However, the New International Financial Architecture developed since the crisis fails to address the fundamental sources of instability in the present global financial system. This system poses economic and ideological threats to the stability of East Asia. Therefore, regional states have powerful incentives to create an effective AMF. However, traditional security concerns, historical grievances, and political rivalries between the major Asia-Pacific powers limit the prospects of regional cooperation. Under these conditions, it is unlikely that East Asian states can create an effective regional financial institution. However, Asian states still need to protect themselves from global financial volatility. They will probably pursue this goal through bilateral and multilateral arrangements with the regional powers. The Asia-Pacific will maintain a distinctive East Asian political economy.

(Asian Perspective, Vol 27, No. 2, 2003)

Energy Security in Asia and Japanese Policy by Tsutomu Toichi

To satisfy its demand for energy, Japan continues to rely heavily on oil imported from the Middle East. Increasing geopolitical uncertainty in the region has underscored the urgent need for new initiatives in national energy security policy. Projecting a continuing steep rise in oil consumption by the rapidly industrializing nations of Asia (notably China and India), Tsutomu Toichi, managing director of the Institute of Energy Economics in Tokyo, proposes various alternative sources of energy for Japan and its neighbours. Sounding a cautiously optimistic note, Toichi argues that increasing levels of cooperation between the nations of the East Asia could serve as a basis for joint development projects that might allow Japan to loosen the shackles of dependence on Middle Eastern oil, but cautions that Japan must first place greater emphasis on building good relationships with neighbouring countries, and must also more

closely align its energy, security, and environmental policies.
(Asia Pacific Review, Vol.10, No.1, 2003)

Japan’s Twin Challenges: Dealing with an ASEAN at the Crossroads and East Asian Regionalism by Eric Teo Chu Cheow

Still reeling from the aftershocks of the Asian economic crisis of the late 1990s, the ten members of the Association of Southeast Asian Nations find themselves confronting both internal structural problems and external challenges, such as, the threats to the Southeast Asian region posed by Islamic fundamentalism and terrorism. Japan, currently searching for ways to escape its own economic mire, is also faced with challenges from beyond its own borders, not least the unstoppable onward economic march of China. In this article Eric Teo, council secretary of the Singapore Institute of International Affairs, argues that, just as the ASEAN nations must seek to heal their own internal division, Japan must resist the temptation to focus solely on its own domestic woes and instead actively engage its ASEAN neighbours, as well as South Korea and China, in order to forge a role for itself as a member of the greater East Asian Community.

(Asia Pacific Review, Vol.10, No.1, 2003)

The US, Japan, and Trade Liberalization: From Bilateralism to Regional Multilateralism to Regionalism by Ellis S. Krauss

Japan’s foreign economic policy has undergone two crucial changes in the past decade and a half: first the shift from predominantly US-Japan bilateralism to the addition of regional multilateralism, and then the recent extension to regional FTAs for the first time. To what extent did these shifts in Japan’s behaviour in the trade area represent a deep shift in the purposes and goals of Japanese foreign economic policy? This article looks at how American policy changes and development in the US-Japan relationship, and economic globalization, produced the changes in Japan’s domestic policy thinking and process that led to these outcomes and to particular patterns of development of these policy shifts. Using a simple version and modification of ‘strategic interaction theory’ it concludes that despite recent arguments that the shift to bilateral FTAs

may presage a turning point toward an Asian bloc, instead it reflects a remarkable continuity in Japan's foreign economic goals in the post war period. Although an important change, it indicates only using new means to adapt to the changed regional economic security environment after the East Asian Financial crisis and the debacle of trade liberalization in EVSL in APEC. Japan now has a full 'multi-tiered' range of trade alternatives to advance its constant goals of maintaining a US 'military shield' and promoting its own 'economic sword' in the region.
(*The Pacific Review*, Vol.16, No.3 2003)

Is East Asia Under-represented in the International Monetary Fund? by David P. Rapkin and Jonathan R. Strand

East Asian countries perceive that their individual and collective positions in the world economy are not fairly represented in existing international institutions, which have yet to fully adjust to the region's rapid economic ascent over the last several decades. This problem seems especially acute in the International Monetary Fund (IMF), where in each country's participation in the organization's weighted voting scheme is supposed to reflect the number of votes. Are Asian countries' IMF quotas incommensurate with their relative economic weight and, if so, by what margin? And if Asian countries are indeed under-represented in the IMF, which other country, group of countries or region is correspondingly over represented? This paper examines these questions from several perspectives. It first discusses the purpose of quotas, and how they are determined. It then turns to the question of whether Asian perceptions concerning under representation are empirically corroborated. The first data analysis section compares current quotas to relative measures of economic weight in the world economy. In short, the data demonstrate that Asia does have a strong claim for a greater share of IMF quotas. The article concludes with a brief consideration of possible alternatives to the IMF's current use of quota to determine voting weights, and argue that the problem of Asian under-representation will probably not be corrected unless the IMF's quota-determination process is overhauled.
(*International Relations of the Asia-Pacific*, Vol.3 2003)

The Social Construction of International Institutions: The Case of ASEAN+3 by Dirk Nabers

This analysis of the multilateral forum seeks to answer two theoretical questions: (i) Why do states cooperate? (ii) What happens to their interests and identities once they communicate with each other? In view of this task, Nabers, offers a social constructivist variant of international relations theory to explain the instigation of the process on one hand and the processual construction of the institution on the other. The underlying belief is that not only do states influence the development of international institutions, but that institutions can also exert influence on foreign policy behaviour.
(*International Relations of the Asia-Pacific*, Vol.3, 2003)

China and Japan: Trouble Ahead? by Robert Sutter

Future stability in East Asia depends heavily on the relationship between the region's main powers China and Japan. After normalizing their diplomatic relations 30 years ago, these two countries downplayed their differences in favour of mutually beneficial economics and cooperation against Soviet Expansion. Following the demise of Union of Soviet Socialist Republic and its strategic influence in East Asia, Japan and China initially continues to conduct their bilateral relations amicably. Recent friction, however, has strained the balance between them.
(*The Washington Quarterly*, Autumn 2002)

Continued on page 12

Links to RIS Resources

Reports:

- *South Asia Development and Cooperation Report 2001/02.*
- *South Asia Development and Cooperation Report 2004.*

RIS Discussion Papers:

- *Establishment of FTA between BIMST-EC Countries*, Rajesh Mehta. No. 23, 2002.
- *Towards an Asian Economic Community – Vision of Closer Economic Cooperation in Asia: An Overview* by Nagesh Kumar. No. 32, 2002.
- *Towards an Asian Economic Community: Monetary and Financial Cooperation* by Ramgopal Agarwala. No. 33, 2002.
- *Towards an Asian Economic Community: The Relevance of India* by Nagesh Kumar. No. 34, 2002.
- *Economic Co-operation Between India and Singapore: A Feasibility Study* by Rajesh Mehta. No. 41, 2003.
- *Possibility of Close Economic Cooperation between India and Singapore* by S.K. Mohanty. No. 45, 2003.
- *Towards a Multipolar World of International Finance* by Ramgopal Agarwala and Gauri Modwel. No. 46, 2003.
- *Towards and Economic Community: Exploring the Past* by Vineeta Shanker. No. 47, 2003.
- *A Road to Common Prosperity – Examination of An FTA between India and China* by Li Wei. No. 49, 2003.
- *ASEAN'S Contribution Towards Building An Asian Economic Community*, K. Kesavapany. No. 50, 2003.
- *India and the Asian Economic Community*, by Mukul G. Asher and Sadhna Srivastava. No. 51, 2003.

RIS Policy Briefs:

- *Relevance of an Asian Economic Community*. No. 1, May 2003.
- *Initiative for Closer Economic Cooperation with Neighbouring Countries in South Asia*. No. 2, May 2003.
- *Reserve Bank of Asia: Institutional Framework for Regional and Monetary Financial Cooperation*. No. 3, May 2003.
- *Energy Cooperation in South Asia: Potential and Prospects*. No. 8, December 2003.
- *Road to a Single Currency for South Asia*. No. 9, December 2003.
- *Future Directions of BIMST-EC: Towards A Bay of Bengal Economic Community (BoBEC)*. No. 12, February 2004.

(All the RIS Discussion Papers and RIS Policy Briefs are available online at www.ris.org.in)

RIS Work Programme on the Asian Economic Community

RIS organized an International Conference on 'Building a New Asia: Towards an Asian Economic Community', held in New Delhi on 10-11 March 2003. This conference had participation of eminent scholars, experts and policy makers from China, India, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, and Thailand. The participants have been affiliated with premier think-tanks of Asia such as the Chinese Academy of International Trade and Economic Cooperation, Korea Institute for International Economic Policy, Centre for Strategic and International Studies, Jakarta, Malaysian Institute of Economic Research, Institute of South East Asian Studies, Singapore, National University of Singapore, Wee Kim Wee Centre Singapore, National Economic Action Council, Malaysia, Chulalongkorn University, Thailand, International Institute for Trade and Development, Bangkok, Reitaku University Japan, Tamagawa University Japan, Japan Centre for International Finance, RIS India, Indian Institute of Foreign Trade, Asian Development Bank, among a number of others.

There was a general consensus at the Conference that the Asian Economic Community is an idea whose time has come. Voices for more intensive economic cooperation among Asian countries are emanating from different places. It is also evident from the importance that is being attached by different Asian countries to regional economic integration at the bilateral or sub-regional levels. Formation of a broader pan-Asian economic community could enable the region to resume its rapid growth despite the uncertain global economic outlook and emerge as the centre of gravity in the world economy.

The think-tank community of Asia has a critical role to play in realizing the dream of building a New Asia by showing the way forward to the policy makers with specific proposals for implementation. The Conference emphasized on the need to keep the informal network of think-tanks created at this Conference alive and active as a springboard for generating new ideas. This Network (or New Asia network) should conduct research on different aspects of Asian economic integration to follow-up and further refine the ideas generated at this Conference. It should regularly exchange ideas among the participants and others interested in the subject and launch a Newsletter to serve as a forum of exchange of views and research. In view of its initiative taken to organize the Conference and assemble these think-tanks under one roof, RIS was asked to serve as a nodal point of the New Asia network and coordinate its work until alternative arrangements are made. The Conference also called for organization of follow-up conferences in Tokyo (2004) and New Delhi (2005) with possible government participation.

As a follow up of the above mandate, RIS has set up the New Asia Forum and has launched this Monitor. A volume based on the substantive contributions made at the 2003 conference is being published by RIS in collaboration with the Institute of Southeast Asian Studies in Spring 2004. The Second New Asia Conference will be organized in Tokyo in October/November 2004 by RIS in collaboration with a couple of other think-tanks in the region.

Continued from page 11

Trade Integration and Business Cycle Synchronization in East Asia by Kwanho Shin and Yunjong Wang

As trade integration deepens in East Asia, it is expected that there will be closer links in business cycles among East Asian countries. Theoretically, however, increased trade can lead business cycles across trading partners to shift in either direction: while inter-industry trade could overturn this tendency. By using the data for twelve Asian economies, this paper finds that intra-industry trade is the major channel through which business cycles become synchronized among Asian economies, although increased trade itself does not necessarily lead to close business cycle coherence. This result has important implications for the prospects of a currency union in the region.

(Korea Institute For International Economic Policy, *Working Paper 03-01*)

India's Monetary Integration with East Asia: A Feasibility Study

by Sweta Chaman Saxena

This paper examines the relevance of India's monetary integration with East Asia in particular the existence of the economic criteria for a common currency. The analysis in this paper shows that significant complementarities in trade exist among these countries, most of them experience similar

shocks and labour mobility is already present. These results point to the fact that the cost of adopting a single currency may be minimal, while huge benefits could accrue

from enhanced trade. The paper also recognizes the importance of yen for the success of the monetary union in Asia.

(*RIS Discussion Paper*, No. 64, 2003.)

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