



## Building the Asian Community: India's Role

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Fifty years ago, Pandit Nehru had already spoken about the need for Asian regionalism. Nehru followed up his vision by organising the Asian Relations Conference in Delhi in March 1947, and later played a key role at the Bandung Conference.

India also supported the freedom struggles of Indonesia, Myanmar and Sri Lanka. It was only much later, with the outbreak of the Sino-Indian War of 1962 and Pakistan's forging of a military-political alliance with China that the Nehru vision of Asian unity, harmony and resurgence broke down. However now, Asia, partly due to the dynamics of globalisation and trade liberalisation, has rediscovered old connections, old friendships, old traditions and new ways of doing business.

Under such circumstances, on looking back and acknowledging Nehru's foresight, India has both the credentials and the wherewithal to be a natural partner in this enterprise of forging Asian regionalism in the 21<sup>st</sup> century.

### Increasing Trade and Infrastructure Linkages

According to Citibank, intra-Asian trade since 2001 has increased from 38 per cent of world trade to more than 47 per cent. In 2002, total Asian trade amounted to US\$3587 billion, or about a quarter of world trade. Intra-Asian trade has thus expanded to record heights. Trade between India and China has jumped from a few hundred millions in the early 1990s to US\$13 billion in 2004. India-ASEAN trade is also worth about US\$13 billion annually.

Another evidence of the Asian boom is provided by the huge piles of Asian foreign exchange reserves. Indian forex reserves in February 2005 totaled US\$130 billion; Japan held some \$845 billion; China about \$600 billion; Taiwan and Hong Kong each had above \$200 billion. By 2003, Asia's forex reserves had increased from about \$800 billion to over \$2 trillion or two-thirds of the global total. With this huge level of forex

**"We are of Asia and the peoples of Asia are nearer and closer to us than others. India is so situated that she is the pivot of western, southern and south east Asia."**

*Pandit Jawahar Lal Nehru*

reserves, Asian countries have immense financial power.

There are large-scale ongoing efforts to link the various rail and road transport projects to link infrastructures that connect the various Asian regions and countries together. There is the Asian Highway project linking Istanbul to Singapore; the Kunming-Singapore railway, which is aimed at connecting the Southeast Asian mainland to China and through the Trans-Siberian Railway, onwards to Europe; there is the Trans-Korea rail links to connect with the Trans-Siberia line. Recently, from Northeast India, some cars drove all the way to Singapore, to show the connection between India and ASEAN.

In addition to road and railway construction there are other aspects of infrastructure development. In Indonesia, in January 2005 at an Infrastructure Summit, the government offered 91 infrastructure projects worth about \$22.5 billion needed to revive its long neglected infrastructure.

Huge infrastructure projects are under construction in China: the US\$25 billion Three Gorges Dam; the US\$20 billion West-East oil pipeline from the Tarim Basin to Shanghai, completed in 2004; the pipelines to bring water to the water-deficit areas in North China; numerous dams; nuclear power plants; 32 stadia and other projects worth \$23 billion for the Beijing Olympics; new highways and railways as in the Qinghai-Tibet project: all these add up to billions of dollars worth of construction. In the Ninth Five year Plan from 1996-2000, China is said to have spent an estimated \$300 billion on infrastructure projects.

In India, Finance Minister P. Chidambaram had recently announced in Parliament the budget allocations for big projects like highways, metro rail, ports,

airports, power and telecommunications to fill what he called the infrastructure deficit. India apparently needs to spend \$150 billion over the next five years on infrastructure: \$75 billion on power projects; \$25

billion in telecomms; \$50 billion on airports and seaports and roads. These huge spendings are repeated all over Asia.

### The Lack of a Pan-Asian Regional Organisation

Despite these strong trade and financial positions, it is most noticeable that Asia, alone amongst the various regions, lacks a continent-wide regional organisation. The Europeans have the expanded EU; the Africans have the African Union; the Latin Americans have the South American Union (established in 2004); the North Americans have NAFTA. Asians have instead an alphabetic soup: ESCAP; BIMSTEC; ACD; SCO; BFA; JACIK; GCC; EAS; ASEAN plus 3; SAARC; AMED; Indian Ocean Rim Association; Greater Mekong Cooperation schemes, etc.

### The Need for a New Regional Architecture

With so much economic progress, and with so many efforts ongoing elsewhere to set up regional bodies such as NAFTA, EU, the rationale for a new regional architecture for Asian cooperation is becoming compelling by the day.

Two basic approaches have emerged with regard to regional community building. The first approach, which is termed "the Exclusive school", argues that any proposed grouping should comprise only ASEAN plus Three (Japan, China and S. Korea). The second approach, which is called "the Inclusive school", argues that the Asian community should comprise ASEAN plus China, Japan, S. Korea, India, Australia and New Zealand. Adherents to the latter school

## ACD Leaders Aspire for Region Wide Free Trade and Asian Community

The Ministers of Foreign Affairs and other Heads of Delegations from 26 member countries of the Asian Cooperation Dialogue (ACD) gathered in Islamabad, Pakistan for the Fourth ACD Ministerial Meeting on April 6, 2005.

Calling for the establishment of an Asian Community the ministers agreed that the most effective response to globalisation is through greater regional economic and commercial cooperation.

Chinese Prime Minister Wen Jiabao in his inaugural address also called upon Asian leaders to create a Pan Asian free trade area. "We should move ahead with regional free trade arrangement step by step, properly address trade frictions and work to bring about a new cooperation pattern", he explained. He also pledged China's full support to such a move and also sought to dispel fears about China's rise.

Prime Minister of Pakistan, Mr Shaukat Aziz, whose country chairs

the forum, also voiced support to Mr Jiabao's remark saying that "our ultimate goal should be an Asian free trade arrangement".

For enhancement of mutual trust and understanding and the promotion of regional economic cooperation and integration, the ACD Ministers pledged their commitment for the following: i) Render firm political support to the Asian Bond Market Development Initiative, ii) Reduce the high incidence of poverty in Asia, iii) Fully implement the joint initiative of ACD Agricultural Ministers on priority areas and modalities for agricultural cooperation, iv) Strengthen cooperation in energy security as described in the Qingdao Initiative, v) Identify steps designed to bridge the digital divide among the ACD countries, vi) Ensure the provision of easily accessible and expanded educational opportunities with the proposal for the establishment of an Asia e-

University, vii) Reinforce the role of SMEs in economic development, viii) Increase efforts for the harmonisation of standards amongst the ACD countries with a view to establishing an Asian Institute of Standards, ix) Identify focal points in biotechnology to operationalise the proposed Biotechnology Consortium, x) To facilitate transport linkages among ACD member countries, xi) Promote the implementation of the United Nations Decade of Education for Sustainable Development, and xii) Promote cooperation in the field of science and technology and to that end hold a Science Congress focused on Life Science Technology in 2006.

Furthermore, in the meet, Saudi Arabia was added to the ACD as a full member country. Also, Thailand offered to hold the first ACD Summit in the near future.

(Source: Text of the Fourth ACD Ministerial Meet, Islamabad, April 6, 2005) ■

## India to be an Integral Part of the East Asia Summit

India is likely to participate in the First East Asia Summit to be held in Malaysia at the end of this year, *The Asian Wall Street Journal* reported on April 13, 2005. The ASEAN Foreign Ministers paved the way for the entry of India along with Australia and New Zealand by setting up a three-point criterion for countries outside the region joining the summit, the paper detailed.

According to the three-point criterion, for attending the summit, the non-ASEAN countries must have substantive relations with ASEAN, have full dialogue partnership with ASEAN and be signatories to ASEAN's Treaty of Amity and Cooperation.

Since India qualifies at all the three criterions, it will definitely be included in the first Summit, while the other two contending countries Australia and New Zealand will have to sign the TAC for their inclusion, said, Singapore's Foreign Minister, George Yeo, on the occasion.

India's inclusion was strongly championed by Singapore. *The Times of India* (April 13, 2005) reported that there were some objections to India's inclusion, notably by Malaysia. "But India's friends were led by Singapore which played the lead role in bringing the other ASEAN members around", the paper highlighted.

The decision was made at the ASEAN Foreign Ministers Retreat in Cebu Philippines. The formal announcement though will be made at the ASEAN Foreign Ministers Meeting in July to be held in Laos, the paper added.

India will need to do a lot of preparation, suggested an editorial from *The Hindustan Times* (Look East, Be Tough, April 15, 2005). Since the summit will discuss an Asian trade bloc, said the paper, India will have to be prepared for a stronger role, which is what the East Asians also want of India. ■

## Asia Needs \$1 Trillion in Roads, Water, Communications, and Power over Next Five Years

Developing countries in Asia need to spend more than a trillion dollars over the next five years in roads, water, communications, power, and other infrastructure to cope with rapidly expanding cities, increasing populations, and the growing demands of the private sector.

Developing countries in Asia face a massive infrastructure funding challenge. A study, "Connecting East Asia: A New Framework for Infrastructure", conducted by the ADB, World Bank and the Japan Bank for International Cooperation estimates that the 21 East Asian countries covered will need more than US\$200 billion per year to fund new investment and maintenance of roads, power plants, communications, and water and sanitation systems. China is expected to require 80 per cent of the total investment. India, another large economy of Asia would need around US\$150 billion over the next five years for infrastructure:

\$75 billion on power projects; \$225 billion in telecom; US\$50 billion on airports and seaports and roads. This estimate was put forward by the Union Finance Minister of India during his budget speech earlier this year.

The joint study by ADB, JBIC, and the World Bank also notes that companies investing in infrastructure, both inside and outside of the region, say they are keen to invest where government policies and regulations are predictable. Among the constraints to investment, the companies cited the lack of enforcement of contracts, inconsistencies in regulations and in the courts, and corruption.

"Governments clearly have significant incentives for improving their investment climates and making sure that reliable public policies are in place to attract the right kind of investment", said ADB Vice President Geert van der Linden, during the release of the joint study. "In the past,

infrastructure has been a key driver of economic growth and for reducing poverty. Getting the policies right is clearly going to be a priority for countries in the region to attract the private funds needed to promote economic growth and to share the benefits of that growth with poorer groups", he added. This is particularly important as the region is increasingly interconnected through supply chain production networks and expanding cross-border trade, fueled by China, which has served as a magnet for regional exports.

"Along with new investments, sustaining the current levels of growth will also require a new kind of regional cooperation, both in infrastructure and logistics, to maximise the benefits, particularly, for the poorer countries." said JBIC Governor, Kyosuke Shinozawa, at the release.

(Source: ADB Press Release, March 16, 2005 and Union Budget, 2005, Government of India) ■

## JP Morgan for an Asian Monetary System

JP Morgan, the US investment bank has called upon the Asian countries to create an Asian Monetary (Exchange Rate) System that would tie emerging Asian currencies together in a regional block, while allowing them to float against the dollar.

JP Morgan economists Phillip Suttle and David Fernandez in their research study, *Emerging Asia's Monetary Future*, argue that such a system could operate along the lines of the European exchange rate system (ERM) of the 1980s and 1990s and be modeled on the European Monetary System (EMS). At the heart of the EMS was the ECU (European Currency Unit). This was a composite currency constructed using absolute amounts of component currencies, with the starting weights of those currencies based on a set of economic criteria. For Emerging Asia, the authors project that the largest weight in a possible Asian Currency Unit (ACU), would belong to China at 30 per cent, followed by Hong Kong and India. Turning these weights

into absolute currency amounts would then be a matter of choosing the appropriate starting exchange rate for the ACU versus the dollar. As with the ECU before it, the creation of the ACU could promote the developments of a fully liquid regional synthetic currency, the study emphasises.

Asia, according to the study, would have multiple benefits from a move to coordinate Asian exchange rate policy (with its consequent implications for monetary policy). Firstly, it would not obviate the need for the region to proceed with deep-seated structural reforms in its financial systems, including strengthening local banking systems and deepening regional bond and other securities markets. In fact, more coordinated policies might well foster both of these developments, however, in part by promoting the emergence of more diversified regional financial institutions, less reliant on national economic fortunes. Secondly, it would increase the region's relative

economic clout, making for a true G-4 (US, Euro area, Japan, and Asian ERM) at international meetings.

The study backs currencies of India, China, Indonesia, South Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand for an initial membership of the system.

In its conclusion, the study underscores that as the 21st century progresses; the relative economic weight of Asia is likely to grow, ultimately making it the dominant economic region in terms of GDP size, to complement the region's established population dominance. In such a world, it is important that the region's currencies and financial markets do not lag behind. The time is fast approaching for regional policymakers to move away from a system based on following the dollar to one based around their own decision makers.

(The full report is available at <http://www.emergingmarkets.org/%5Cdownloads%5C163%5C1318/emergingasiamonetaryfuture.pdf>)

## World Economy needs to Reorder to keep Pace with China, India: Singapore PM

The world economy is reordering to respond to the rise of China and India, said Singapore Prime Minister Lee Hsien Loong on March 21, 2005.

Speaking at the official dinner hosted for visiting Bangladeshi Prime Minister Begum Khaleda Zia, Lee stressed that the opening up and transformation of China and India is shifting the center of gravity of the global economy toward Asia.

"Trade, investment and talent are all flowing in new directions", Lee said, adding that this is one of the major challenges all countries face.

He urged the Association of Southeast Asian Nations (ASEAN) and South Asia to deepen and broaden their cooperation, letting Singapore and Bangladesh play a role within and beyond their respective regions.

(Source: MoC, People's Republic of China Website, March 22, 2005)

## East Asia Emerges as the Largest Trade Partner of India

The *Economic Survey 2004-2005*, the annual white paper prepared and presented by the Ministry of Finance, Government of India, on the eve of Annual Budget, in the Parliament, has acknowledged that the countries of ASEAN, China, Japan and Korea together have replaced the European Union as India's dominant trading partner. The ASEAN+3, as the aforementioned countries are known collectively, now accounts for 19.9 per cent of India's external trade followed by EU at 19 and US at 12 per cent each.

The survey highlights that the marvelous increase in trade between India and China is largely responsible for this transformation. The trade between India and China has grown from almost nothing to over 13 billion US dollars in 2003-2004. China taken together with Hong Kong accounts for 8.4 per cent of India's total external trade, making China-Hong Kong the

second highest trading partner for India. The ASEAN bloc also boasts of a 9.3 per cent two-way trade with India.

Buoyant intra regional trade as highlighted by the *Economic Survey* has reiterated the need, often highlighted by scholars and leaders across Asia, to create a pan Asian economic bloc for a fuller exploitation of the opportunities available in the region. The studies conducted by RIS have found considerable evidence of complementarities between the JACIK (ASEAN+3 and India) countries' production and trade structures. Formation of an RTA will further help in exploitation of these complementarities for mutual advantage. The ever-increasing trade volumes between JACIK countries are only further augmenting the fact that the conditions are now ripe for initiating such a move.

## ADB Establishes Office for Regional Economic Integration

Recognising the vital role of regional cooperation and integration in Asia's future, Asian Development Bank (ADB) President Haruhiko Kuroda announced the establishment of an office mandated with this task on April 1, 2005.

"This new office will play an active role as catalyst, coordinator, and knowledge leader in the area of regional economic integration", said Mr. Kuroda. The new office - to be called the Office of Regional Economic Integration - will be headed by University of Tokyo economics professor Masahiro Kawai.

Mr. Kuroda has also appointed Mr. Rajat M. Nag, the Director General of ADB's Mekong Department, to concurrently hold the position of Special Advisor to the President in charge of regional economic cooperation and integration.

The creation of the office, and the appointment of a new Special

Advisor on the issue, underscores the commitment to making regional economic integration a priority for ADB. The office will act as ADB's focal point for regional bodies, forums and initiatives on the issue, including: the ASEAN+3 Finance Ministers process (which includes the Economic Review and Policy Dialogue Process, the Chiang Mai Initiative, and the Asian Bond Markets Initiative); the ASEAN Surveillance Process; the APEC Finance Ministers Process; and the Asia-Europe Finance Ministers Process.

The new office will replace ADB's Regional Economic Monitoring Unit and will also handle publication of the Asia Economic Monitor and Asia Bond Monitor, as well as the management of the Asia Regional Information Center and Asia Bonds Online web sites.

(Source: ADB Press Release, April 1, 2005)

## China and India Strengthen Cooperation at all Levels

The Chinese Premier, Mr. Wen Jiabao, visited India for three days from April 9-11, 2005. His visit to India marked a new level of India-China relationship and opened a new chapter in the friendly relations and cooperation between the two countries. Mr. Jiabao began his journey from Bangalore where he met the Chief Minister of Karnataka and visited important scientific and industrial establishments in Bangalore, including ISRO, Indian Institute of Science, and TCS.

In New Delhi, the leaders of the two countries had an in-depth exchange of views and reached broad consensus on bilateral relations and international and regional issues of common concern.

On the trade and economic front both the sides stressed that an all-round expansion of India-China economic cooperation, including trade and investment, constitutes an important dimension of a stronger India-China relationship. The two countries agreed to make joint efforts to increase the bilateral trade volume to US\$ 20 billion or higher by 2008. The two sides released the report of the Joint Study Group (JSG) that was set up to examine the potential complementarities between the two countries in expanded trade and economic

cooperation. The JSG in its Report has identified a series of measures related to trade in goods, trade in services, investments and other areas of economic cooperation, and recommended their expeditious implementation to remove impediments and facilitate enhanced economic engagement between India and China.

The two Prime Ministers tasked the Ministerial-level India-China Joint Economic Group (JEG) to consider these recommendations and coordinate their implementation. The JSG has also recommended an India-China Regional Trading Arrangement, comprising of trade in goods and services, investments, identified understandings for trade and investment promotion and facilitation, and measures for promotion of economic cooperation in identified sectors. The Prime Ministers agreed to appoint a Joint Task Force to study in detail the feasibility of an India-China Regional Trading Arrangement.

During the visit, the two sides also exchanged views on the India-China boundary issues. They signed the Agreement on the Political Parameters and Guiding Principles for the Settlement of the Boundary Question. They also concluded a Protocol on Modalities for the Implementation of Confidence

Building Measures in the Military Field along the Line of Actual Control in the India-China Border Areas. These agreements should much ease the tensions between the two countries, which had up till now prevented effective and widespread cooperation between the two countries. Among other important political and security milestones China displayed its keenness on backing India's bid for a seat in the UN Security Council and also recognised Sikkim as a part of India.

A few other important documents that were signed or released during the visit included: Agreement on Mutual Administrative Assistance and Cooperation in Customs Matters; MOU on the Launch of the India-China Financial Dialogue; and the MOU on Civil Aviation.

Premier Wen's visit also marked the 55th anniversary year of the establishment of diplomatic relations between India and China. To commemorate the occasion a cultural festival of China is currently underway in India and a corresponding cultural festival of India would be organised later this year in China. The two sides have also declared 2006 as the year of India-China friendship.

(Source: Joint Statement of the Republic of India and the People's Republic of China, April 11, 2005)

## Asian Officials Agree to Forex Stability Panel

Senior officials from ASEAN+3 met in Bangkok in late February to discuss ways to stabilise Asia's volatile currency markets and deal with the global economic imbalances caused by the massive twin US deficits, the Dow Jones News Wires reported on February 24, 2005. The meeting of senior officials from central banks, finance ministries and universities was held amid concerns among the Asian central banks over their overexposure to the dollar through holdings of more than US\$ 2 trillion in their foreign reserves, the agency highlighted. The agency also reported that the participants have agreed to set up a working committee called the Asian Bellagio Group to help coordinate actions among central banks, finance ministries and academics to correct global imbalances. Commenting upon the meeting, Bloomberg columnist, William Pesek Junior, accentuated that the group is a formidable crowd, considering it holds well over \$1.1 trillion of U.S. Treasuries. He further wrote that while the meeting of the Asian Bellagio Group didn't mark a coordinated effort to abandon the dollar, it may prove to be a watershed event for a region looking to stand alone.

## India Could Emerge as an Economic Leader in the Pacific: Morgan Stanley

India could soon emerge as a strong leader in the Pacific, argues the Morgan Stanley report, 'Whither Pacific Century', by Daniel Lian, Southeast Asia economist.

Morgan Stanley argues that India's embrace of economic reform since the mid-1990s largely went unnoticed until recent years. India's economic potential is widely understood to lie in its English speaking educated work force and its acumen for IT services works. In recent years given the new wave of global IT and service outsourcing, its foray into the global economy has finally attracted attention. However, this foray is largely perceived to be of a "limited" impact relative to the manufacturing "big bang" created by

the China factory. Global merchandise trade is so vastly bigger than global trade in services; thus India's service-oriented economic development model is seen to pale in comparison to China's manufacturing-oriented economic development.

However, the report contends, India could spring a few significant upside surprises that may not have entered the calculation of global investors. Firstly, it argues that, there is no reason to believe India cannot or will not aggressively pursue export-oriented manufacturing. Its abundant and competitive labour pool fulfils the most critical basic requirement for a manufacturing-export growth strategy. The lack of economic

infrastructure and a conducive economic environment are often cited as obstacles. However, according to the Morgan Stanley, these impediments, while appearing to be quite deep-rooted, cannot permanently stall a reform-minded regime from economic development. China's experience is the best example as it faces perhaps more structural impediments than India at its initial stage of reform and development.

Secondly, the report claims that India has several advantages over its most sought competitor China, which could be of huge benefits in the long run. India has a well-established democracy and social-economic-political complex and institutions. India also provides

better protection to intellectual property rights. This is going to be a decisive factor in luring the capital and technology to India and enable the country to more rapidly climb the value-add chains in both manufacturing and services.

India, argues the Morgan Stanley, could elect to aggressively pursue a manufacturing model alongside its service and assume a much bigger role in this Pacific Century as it can better leverage capital, technology from the West and pursue a higher value-added development model that could allow it to eventually outgrow China.

(The full report is available at <http://www.morganstanley.com/GEFdata/digests/20050202-wed.html#anchor1>)

## East Asia Summit's Birthing Pains

Eric Teo Chu Cheow  
(Council Secretary, Singapore  
Institute of International Affairs)

Announcing the East Asian Summit in Vientiane, Malaysian Prime Minister Datuk Seri Abdullah said the decision was an ASEAN consensus. But recent indications point to differences of opinion and strategy among ASEAN members in fleshing out details of the EAS, notably in defining its future membership and the modalities of organisation.

Sources from Northeast Asia say ASEAN could not agree on which countries should be invited to the inaugural EAS apart from the ASEAN+3. One ASEAN member also pressed for India to join the 'new' East Asia, while another surprisingly pitched for the inclusion of Australia and New Zealand. The other countries remain non-committal and seem to advocate keeping the present ASEAN+3 formula. Malaysia, as the next ASEAN chair and host of the summit, has yet to seek a consensus, but chances are that it will eventually tilt towards a 14-member grouping, one that includes India.

Besides the membership list, ASEAN could face problems defining the EAS' organisational framework. Japan has pressed for a system of co-chairmanship (with the chair rotating between an ASEAN and a non-ASEAN country) and a 'tiered' system consisting of an inner core of ASEAN+3, a second tier of relations and cooperation with extra-regional players like India, Australia and New Zealand, and a third with the US. As of now, ASEAN is more inclined towards retaining the chair for its members (on a rotational basis). It is also disinclined to introduce a tiered system, which allows non-regional powers to join the exclusive club.

In fact, Indonesian diplomats say that Jakarta has some reservations about launching the EAS formally. Jakarta fears that an EAS will mean ASEAN being 'diluted' into a much bigger grouping with bigger and more powerful countries in Northeast Asia holding clout and influence in the new grouping.

Malaysia, the main advocate of the EAS, sees in it the birth of a 'new' Asia and a lasting legacy for former Malaysian prime minister Mahathir Mohamed, who first promulgated the idea of an East Asian Economic Caucus back in 1990. Underpinning Kuala Lumpur's recently renewed push is a belief in a need to balance the US and the European

Union - a belief, which finds receptive ears in the Chinese leadership. Even as Kuala Lumpur is pitching to host the EAS Secretariat, China is also expected to lobby hard to host the second EAS next year on Chinese soil.

Japan, on the other hand, wants to keep the US engaged in the region and in this new entity in some form, which explains its proposed 'tiered' system of cooperation and relations within the new EAS framework. Washington, commonly deemed 'the most influential non-Asian East Asian participant', could prove the biggest divisive issue in any attempt to forge an East Asian grouping. Sino-Japanese rivalry, already rampant and obvious, could heighten over the strategic future of Washington in the region.

Of equal interest today is the firm intent of India to join any East Asian grouping. New Delhi is determined not to 'miss the first train' of Asian integration. India wants to avoid at all costs becoming a 'second-class member' of Asia and is seeking to be incorporated into the EAS' inner core - at whatever price.

(Excerpted from *The Strait Times*, February 22, 2005)

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## Asia Could Solve America's Debt Trap

Martin Wolf, *The Financial Times*

The huge deficits being run by the US are the mirror image of the surplus savings of the rest of the world. It is necessary to call a halt before serious injury occurs. The aim is to reduce the rest of the world's reliance on the spill over of excess demand from the US and from a few other high-income countries (particularly the UK, Spain and Australia), while sustaining global economic activity. To achieve this, we need two changes: a reduction in aggregate demand, relative to potential supply, in deficit countries (and offsetting increases in surplus ones); and a depreciation of the real exchange rate in deficit countries, to switch output towards - and demand from - tradeable goods and services.

Will then, by halving of the current account deficit, in relation to GDP, and a 30 per cent overall fall in the real exchange rate from the peak in early 2002, the adjustment we seek, the market deliver? The answer is: only if it is allowed to do so.

As economists at Deutsche Bank have argued, a new informal dollar area has emerged that contains countries that either run fixed exchange rates against the dollar

(notably China) or at least intervene heavily in foreign currency markets. This new dollar area contains over half the world economy. But it will also run an overall deficit of about \$260 billion (£133 billion) in 2004. It is not surprising the dollar area's currencies have been declining against the rest.

As the pain grows, argues Deutsche Bank, the eurozone may also embark on foreign exchange interventions and so join the informal dollar area, even in the teeth of opposition from the European Central Bank. Most of the world would then be underwriting the US external (and domestic) financial deficits. That would be a nirvana for US policymakers in the short term. But it would also postpone - and exacerbate - needed adjustments.

There is a better way: all round adjustment. The pivotal players here will be the Asian developing countries. Under almost any circumstances, Japan will run current account surpluses for years. The same is true for continental Europe. Both are regions with a natural tendency to save more than they can invest. But non-Japan Asia contains the world's fastest growing economies and biggest populations. These are the countries that would normally be expected to run current account deficits, financed by long-term capital inflows.

Yet that has not happened, largely because exchange rate intervention and monetary sterilisation are thwarting the natural adjustment. The result has been an astonishing accumulation of foreign currency reserves. By any conceivable standards, these countries have more reserves than they need. China, for example, holds reserves equal to a third of GDP, up from a sixth just four years ago. What is the point of exporting real goods in return for pieces of paper whose value will tumble when the Chinese seek to cash them in? It would be far more sensible to tolerate current account deficits equal at least to the inflow of foreign direct investment.

The world will only dispense with its dependence on the accumulation of mountainous US liabilities if non-Japan Asia - above all, China - play the role to be expected of the world's fastest growing and most populous countries. Continent-sized countries should not go on playing the mercantilist game of piling up reserves indefinitely.

Non-Japan Asia needs to become a large net importer of capital. Aggregate current account deficits of at least \$150bn a year, in today's prices, would be very helpful. Facilitating the emergence of the efficient capital markets and dynamic consumer

demand needed for this is much the highest priority in global macroeconomic policy. Such reforms not only offer the only durable escape from the US debt trap, they are also exactly the changes Asia needs for its own long-term development.

(Excerpted from *The Financial Times*, December 21, 2004)

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## Creeping Unification

Stephen Gain

*Newsweek International*

Asian governments are taking subtle steps toward a financial union that echoes the unification of Europe. True, an Asian central bank and unified currency could be more than a decade away, but financial integration is accelerating. Asian central banks are already moving to pool cash reserves in order to help bail out regional economies in times of crisis. Asian debt markets are starting to issue bonds in local currencies, rather than the dollar, while Asian stock exchanges have started to sell shares in companies from neighboring countries. The goal, say economists and bond specialists, is to put Asian capital to work in Asia, and to begin weaning Asia off its reliance on the increasingly wobbly dollar.

The changes date to the crisis of 1997-98, which exposed the fact that Asian companies rely too heavily on local bank loans, in large part because they can't raise capital on weak or nonexistent bond or stock markets. The crisis also sparked interest in an Asian monetary fund, but that idea was slapped down by the United States, the International Monetary Fund and China, which feared that any regional agency would be dominated by Japan.

By mid-2003, however, an increasingly confident Beijing was promoting an Asian Bond Fund. The central banks of Australia, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand pooled \$1 billion to launch the first Asian Bond Fund, invested in dollar-denominated Asian sovereign debt. A second fund, launched in December with \$2 billion in government capital, will invest in corporate debt issued in local currencies. The point is to bring back Asian reserves that were traditionally saved in Europe or in the U.S and enable one Asian country to create wealth in another.

Skeptics say these small Asian funds can't sow the seeds of deeper markets, so long as the region's currencies remain tied to

the U.S. dollar. Asia is still very much a part of the dollar bloc. However, a weak U.S. dollar militated in favor of a unified Asian monetary policy. Asian central banks, sitting on \$2 trillion in dollar reserves, can run their economy by other rules because have the muscle to do it.

Government bond offers are proliferating, as are new institutions, like local ratings agencies, necessary to make the markets efficient. Singapore and Japan are training monetary officials to appraise local bond issues. Asian central banks are also sharing portions of their reserves, creating a de facto regional monetary-stabilisation fund. Since 2001, Japan, China, South Korea, Thailand, Malaysia and the Philippines have "swapped" tens of billions of dollars' worth of local currency for U.S. dollars to help meet each other's emergency liquidity needs.

Greater Asian representation among the G7 nations and inside the IMF and World Bank is now only a matter of time. Asian leaders are knocking at the door, and increasingly with one fist.

(Excerpted from *Newsweek*, USA, January 29, 2005)

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## Why George Bush Should Heed Asia's Central Bankers?

Chris Giles, *The Financial Times*

The US must attract roughly \$2billion (£1billion) capital a day to finance its current account deficit. This has to come either from private investors or foreign governments. If not, the dollar would fall. In the past two years, the reliance on official purchases of US assets from Asian central banks has been enormous, and Asian central bank foreign exchange reserves have swelled.

Japan's official exchange reserves now exceed \$800bn; China holds more than \$600bn; Taiwan and South Korea each holds more than \$200bn; and Hong Kong and India are not far behind. Central banks are traditionally wary about revealing the proportion of their reserves held in US dollar assets, but the Bank for International Settlements, the "central bankers' bank", estimated that just over two-thirds of total central bank foreign exchange reserves were held in dollars at the end of 2003. A further indication of the US reliance on foreign governments can be seen in holdings of US government bonds. The US Bond Market Association estimates that foreigners held

46.8 per cent of US treasuries in 2004 compared with only 20 per cent in 1990.

So why should the US pay so much attention to the six leading central bank governors in Asia? Quite simply because if any one of them decided to diversify his country's exchange reserves aggressively out of dollars, the kind of currency market jitters witnessed in February end would pale into insignificance. Furthermore, if Asian central banks merely decide to follow South Korea in ceasing to buy new US assets, economists estimate that the interest rate on long-dated treasuries could rise by 0.4 to 2 percentage points. In short, one of the main drivers of monetary conditions in the US is the Asian central banker.

At present these banks have a strong incentive not to rock the boat. Any significant revaluation of an Asian currency against the dollar would blow a huge hole in their public finances because they hold hundreds of billions of dollars worth of foreign exchange reserves. The situation is not sustainable. It resembles a giant pyramid selling scheme. The US current account deficit is unlikely to shrink in the next few years so. Asian central banks will have to keep buying dollar-based assets to prevent their currencies rising and avoid the consequent capital losses on their reserves.

As their exposure rises, the incentive to seek an exit will also grow. Quietly and slowly, the medium-sized Asian central banks are likely to try to diversify their portfolios of foreign exchange reserves to limit their potential liabilities. But even China will have a point when it is no longer willing to offer cheap loans to the US. After this, all bets would be off. If a crisis ensued it would be a disaster for Asia, which would suffer huge capital losses and possibly an uncontrolled appreciation of local currencies. The US would suffer higher interest rates and possibly a sharp slowdown in growth as cheap finance dried up and the US consumer began to save again. And Europe would not escape, as it is too dependent on the rapid growth of the US and Asian economies.

The only solution is a concerted attempt to unwind the imbalances that have slowly developed between the three main global economic blocs. The conditions that have created the fragility in the international monetary system at one point suited all the economic areas for domestic reasons. But this favourable situation cannot last forever.

(Excerpted from *The Financial Times*, February 26, 2005)

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## India and Japan Should Deepen Strategic Engagement

Mukul Asher

(Professor, LKY School of Public Policy, National University of Singapore)

India has made good progress during the past decade in constructively engaging key countries and regional organisations. At this juncture, there is a strong case for India and Japan to broaden and deepen economic and political engagement to enhance strategic depth and leverage.

The following indicates the extent to which the bilateral economic relationship needs enhancing. Merchandise trade between the two has been relatively stagnant since 1997-98 at around \$4 to 4.5 billion. In contrast, India-China trade has accelerated, exceeding \$10 billion in 2004. In services trade also, perceptions are that India-Japan trade has not been buoyant, though bilateral country data for services trade are not available. India should urgently consider capturing and publishing disaggregated country-level data on services trade.

There are 265 firms from Japan which have invested in India, with total FDI stock of only \$2 billion. This is in sharp contrast to Japan's FDI stock of \$50 billion in Southeast Asia, and \$40 billion in China. This large imbalance cannot be solely explained by objective factors.

India ranks third in the world in FDI attractiveness. Harvard professor Tarun Khanna has observed that India's FDI policies are more attractive than China's, though India lacks marketing and soft skills to translate these into actual investments.

In sharp contrast to Japan, its traditional rival, South Korea, has been proactive in establishing a substantial manufacturing presence in India. At current rates, India's trade with South Korea is set to overtake its trade with Japan in the near future.

In a November 2004 seminar on 'Building a New Asia in Tokyo,' former economic ministry official, Professor E Sakakibara, argued that primary responsibility why many win-win opportunities have not been realised lies with the mindset of Japanese policy and business establishments, and with opinion-makers and researchers. They have not been monitoring India's unilateral liberalisation and rapid integration with the world economy. The fact that Indian IT companies

have been providing key support to manufacturing firms in Japan to become more competitive has not been recognised sufficiently in Japan; neither has the fact that the location (India) where some of the key (such as chips) are designed or further developed should be regarded as an integral part of the electronics chain. Japan's business rivals from US, and the EU as well as South Korea and China, have been using India as a location for design and R&D activity to become more competitive. He urged the Japanese establishment to make concerted efforts to broaden and deepen engagement with India.

First, Japan's energy security and trade flows are heavily dependent on secure routes through the Indian Ocean. India has common interests with Japan in keeping this route secure. Such cooperation will also be welcomed by the US, thereby fulfilling a key requirement for Japan's engagement.

Second, there are strong demographic complementarities. Japan's population in absolute terms will begin to decline by the end of this decade, and median age of its population will continue to increase due to individual ageing. India, in contrast, is entering a demographic gift phase resulting in rising proportion of population in the working age group. Japan can extend its economic space and technological capacities, particularly in biotech, pharma IT, space and certain manufacturing areas, such as auto design. This will permit Japan to access knowledge professionals from India without necessarily requiring their physical movement.

Third, India and Japan have teamed up with Germany and Brazil to coordinate efforts to become permanent members of the UN Security Council.

Fourth, there has been a perception that Japan has not reaped diplomatic and tangible economic benefits proportionate to its role as investor, aid provider and trading partner of Southeast Asia. The capability of Southeast Asia to absorb further large scale Japanese investments has diminished since the 1997 East Asian crisis. The risk of over-concentration by Japan on the performance of Southeast Asia (and China) has risen substantially. As a result, increasing comparatively miniscule FDI stock in India represents lowering of overall global risk for Japan. It will also open up opportunities for Japanese business to participate in a mega market.

India's economic growth is founded on a strong private sector that has set itself ambitious target of global competitiveness in many areas. FDI has a critical role to play in India's growth

strategy. FDI, particularly from the US, EU, and South Korea is already doing so. The longer the Japanese companies defer their decisions to invest in India, the greater will be the opportunity cost of the delay.

Foreign FIs have invested about \$60 billion in India's stock markets alone. Japanese presence in venture capital and private equity funds in India is limited. There are many small and medium-sized Indian companies and start-ups, which provide opportunities for private equity and venture capital firms. It would be useful if the joint study group agreed by the Prime Ministers of both countries gives priority to considering specific ways to bring about wider and deeper engagement.

India's policymakers, business community, media, and researchers need to make concerted efforts to mitigate substantial information and perception gaps in Japan about India. Proficiency in commercial diplomacy and soft power skills will be vital in this task. The ultimate determinants of India's success in engaging not only Japan, but also other major powers, will continue to be its economic and governance records, and perusal of strong and credible national security policies.

(Excerpted from *The Financial Express*, February 12, 2005)

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## Asian Currency is Inevitable

*The Shanghai Daily*

It took Europe about 40 years to produce the Euro, but full integration of East Asia's economies will occur in the next eight to 10 years - though the road to an Asian currency may be longer. There are various reasons to be optimistic.

First, the East Asia's economies are integrating swiftly. The complimentary nature of the region's economies allows the efficient allocation of capital, labour and natural resources. Singapore, Japan, Hong Kong and Taiwan are capital exporters. China's mainland is abundant in labour and land. Malaysia, Indonesia and Brunei are rich in oil reserves. Moreover, most of their external trade occurs among themselves. For example, trade with partners in the region accounts for about 60 per cent of both China's and Singapore's total foreign trade. About 70 per cent of foreign investment in China is from within the region. The "Asia House" concept is better accepted now than it was 10 years ago.

Secondly, the integration of economic policies in East Asia is increasing. In 2003, 11 Asian countries and regions pooled US\$1 billion from their forex reserves to set up the Asia Bond Fund.

Also, first-tier economies such as China's mainland, Hong Kong, Taiwan, and Singapore have converged their economic data systems for calculations on GDP growth, inflation, interest rates, currency rates and foreign debt-GDP ratio. These four economies will be the locomotive of Asia's economic integration process.

The day of a unified Asian currency is in sight as East Asia's economies find themselves more integrated with India and other South Asian countries. A unified Asian currency needs to be based on the back of a strong core currency. Japan is not a suitable candidate for this position since the Yen is unstable and its economy sluggish. Although the Singaporean dollar is strong, the country's economy is too small. It isn't a good choice either. China, backed by a strong domestic economy and robust foreign trade, is a natural candidate. And the currency is already strong. With the opening of Renminbi services to foreign banks next year, it will become an international currency that is freely exchanged within five years. If the Renminbi remains stable, it is likely to become the core currency of a unified Asian currency, which will come in two steps. First, forex control is lifted and foreign exchange rates remain stable within the region. The economies then can open capital accounts with one another. During this initial stage, a peg to the US dollar will help avert international speculation. The second stage features a unified currency. This period can be further divided into several steps, such as allowing forex rates to fluctuate within a certain band, and establishing a policy coordination organisation.

(Excerpted from *The Shanghai Daily*, February 25, 2005. The author is Dean of the Business School at East China University of Politics & Law.)

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## Will Asia Come Together?

Ramkishan S Rajan

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Despite the attention paid to the issue of Asian economic cooperation, a fundamental question has remained unanswered: How should one define 'Asia' as an economic entity?

While everyone would recognise the infeasibility of including all the 40-plus 'Asian' members of ADB or the UNESCAP even something narrower like the 22-member Asian Cooperation Dialogue (ACD) Forum inspired by the Thai Prime Minister, Thaksin Shinawatra, may be too broad. As has been made apparent by the Asia Pacific Economic Cooperation (APEC) Forum, an overly broad-based membership will make any sort of Asian economic alliance far too unwieldy and ineffective.

Assuming there is genuine interest in truly pan-Asian, as opposed to sub-regional, economic cooperation, there is a growing recognition that a logical starting point might be the so-called JACIK - Japan, ASEAN-10, China, India and Korea. The JACIK would constitute 40 per cent of the world's population and one-third of global national income (in terms of purchasing power parity).

ASEAN is negotiating, or intends to negotiate, comprehensive trade agreements with China, India, Japan and Korea. All four are full dialogue partners of ASEAN. There is also a high degree of complementarity in development strategies between ASEAN and China (highly dependent on foreign direct investment and labour-intensive manufacturing), on the one hand, and Japan, India and Korea (strong domestic corporations and local entrepreneurship), on the other.

India has rapidly emerged as a leading provider of offshore services. Less well known is the country's growing competitiveness in some segments of manufacturing such as auto components. India is slowly but most definitely becoming a key component of the regional value-added chain. With India's favourable demographics (a rising proportion of the population will be in the working age group over the next few decades), and latent potential, if India continues on its path of economic reforms, tackles governance issues, and alleviates some of the supply-side constraints and microeconomic distortions, it promises to continue to be the best - or at least second best - performing major economy over the medium and longer-terms.

Apart from the issue of whether India should be included in regional initiatives in Asia on a systematic basis, others have suggested that, geography - as well as culture perhaps - notwithstanding, Australia and New Zealand should also be included in view of the close economic ties these two countries have with the rest of Asia. The case

for their inclusion is strong. Clearly this membership issue will remain a live wire that will not be resolved easily.

However, it is important to keep in mind that attempts to exclude important Asian players in any alliance could lead the spurned parties to take defensive or reactionary strategies whereby they attempt to create their own intra- or extra-regional groups. This in turn could spawn a number of cross-memberships between alliances, giving rise to a highly complex, and rather untidy, patchwork quilt of ineffectual and competing alliances in Asia.

The inability to develop a cohesive Pan-Asian alliance will always limit the potential influence Asia might have in global affairs - compared to Europe, for instance.

(Excerpted from *The Business Times*, February 1, 2005)

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## Rocks Roil Waves for Korea, Japan Economies

William Pesek Jr., Bloomberg News

Japan, Korea and China should be joining hands to ensure that today's rapid growth continues. They should be creating free-trade zones and a euro-like single currency. They should be building a regional bond market, linking stock markets, launching an Asian credit-rating system for debt and adopting standardised accounting. They should be working together to cool tensions with North Korea.

At a time when Asia parks hundreds of billions of dollars in U.S. Treasuries, it's mulling ways to keep its vast savings at home. Creating a regional debt market would help Asia do just that. The funds could support local entrepreneurs and help improve infrastructure. Japan also has been trying to convince Asian investors to buy more of its government securities.

However, none of this is possible if Asia's biggest powers (Japan and South Korea) are feuding. That the latest dustup is over 57 acres of uninhabited volcanic rocks sticking out of the ocean shows the depth of animosity between Japan and Korea. A shortsighted dispute over those rocks threatens to undermine long-term trade between Japan and Korea and, ultimately, economic growth.

It's a reminder of how historical baggage from World War II undermines Asia's growth potential. Japan's failure to atone for its past, for example, hovers over just about every



aspect of economic and business ties in Asia. Chinese and Koreans consumers also aren't about to forget the past.

Koizumi's visits to Tokyo's Yasukuni Shrine — which honors several class-A war criminals — and textbooks that whitewash history only perpetuate antipathy and mistrust. That Japan's leader can't even set foot in China, Asia's most vibrant economy and the key to Japan's economic future, hurts regional cooperation.

Japan isn't alone in letting stubbornness trump regional progress. Case in point: China's recent passage of a law authorising a military attack against Taiwan if it declares independence. That's hardly good news for Asian stability.

Yet Japan's leaders don't seem to realise the extent to which the past haunts the future. The reaction to Shimane's toothless claim to a couple of rocks in the ocean amply underlines the point.

It exposes the hollowness of Asian rhetoric about closer ties. Don't be surprised if this and other flash points begin working their way into bond yields and stock valuations. Remember that in 2004 the biggest surprises in Asian markets came not from economics, but geopolitics. This year may be no different.

(Excerpted from *Bloomberg News*, March 28, 2005)

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## China-Japan Mutual Trust: Key to a Common Currency

Mamoru Ishida

(Guest Fellow, Institute of Asia-Pacific Studies, Zhengzhou University, China, and Adviser, Itochu Corp)

The *Economist* magazine forecast in a recent issue that a future multiple reserve currency system could include the Chinese Yuan. Meanwhile, the *Nihon Keizai Shimbun* reported that 37 per cent of the Chinese business executives who responded to a survey believed that the Yuan would become a "key currency" by 2020.

As for the Yen, the paper said it would remain an international currency but would not become a key currency because Japan is unlikely to possess sufficient national power in terms of politics, the scale of its economy and market size in the years to come; has not succeeded in internationalising the Yen due to a lack of currency strategies; and faces lingering animosities dating back to World War II.

On the other hand, China already has a potential national power advantage, and can strengthen it by maintaining high economic growth and active diplomacy.

The Yuan is becoming widely used in China's neighbouring countries. However, most Chinese academics do not view the Yuan as a key currency. The majority support collaboration among Japan, China, South Korea and the ASEAN countries to create a common currency.

China believes that Japan's participation in an East Asian Community and an Asian currency system is crucial for Asia's peace and prosperity, but that Japan might not be very enthusiastic about such participation while giving priority to its military alliance with the U.S.

Around 1990, few doubted that the Yen would become a key currency, but it has not happened because, first of all, Japan has failed to develop effective currency strategies. Reform measures for the Tokyo financial market were too little, too late. Japanese and foreign companies chose to conduct their international transactions abroad rather than at home. And Japan plunged into structural recession while the Yen's internationalisation was far from adequate.

Japan has also kept its distance from serious talks on an East Asian community and a common currency, probably due to questions about how its alliance with the U.S. would be affected. However, the integration of Asia is the order of the day. If Japan does not join, it will give way to Chinese leadership. It is, therefore, in the interest not only of Japan, but of the U.S., that Japan help guide a new Asia from within. China would also benefit, as a good relationship with the U.S. is indispensable for economic development and security.

The Japanese government, as if awakened from a long slumber, has decided that it should pursue free trade agreements to create a favorable international environment for Japan's political and diplomatic strategies, including an East Asian Community.

If the government means what it says, one of the first things it must do is improve Sino-Japanese relations. Mutual trust between Japan and China is a prerequisite for the creation of an East Asian community and a common currency. Political leaders should be trying harder to establish mutual trust.

(Excerpted from *The Japan Times*, January 31, 2005)

© *The Japan Times*.

## Further Readings

- **What is Asia?** *Christian Science Monitor*, April 14, 2005.
- **The Roar of a New Asia is on the Global Horizon**, Roger Cohen, *International Herald Tribune*, April 13, 2005.
- **Moving Towards a Strategic Partnership**, Nagesh Kumar, *The Financial Express*, India, April 12, 2005.
- **From Peace to Sino-Indian Prosperity**, C. Raja Mohan, *Daily Times*, Pakistan, April 11, 2005.
- **China and India: Cooperation or Conflict**, Harsh V Pant, *The Statesman*, April 11, 2005.
- **East Asia Summit: Exclusive or Inclusive**, Barry Wain, *The Asian Wall Street Journal*, April 5, 2005.
- **Reinventing the Silk Route**, M.K Venu, *The Economic Times*, April 4, 2005.
- **Asia's Financial Act**, Tom Plate, *The Korea Times*, April 4, 2005.
- **Concert of Asia**, Sunanda K. Datta Ray, *Business Standard*, April 2, 2005.
- **Regional Economic Integration Benefits All**, Xinhua Online, March 31, 2005.
- **Asia's Answer to the IMF**, Alan Boyd, *The Asia Times*, February 19, 2005.
- **Time to Institutionalise East Asian Cooperation**, C.P.F. Luhulima, *The Jakarta Post*, February 18, 2005
- **China and India Aim to Extend Cooperation**, Ramtanu Maitra, *Executive Intelligence Review*, February 18, 2005
- **India Looks Beyond Successful 'Look East' Policy**, Endy M. Bayuni, *The Jakarta Post*, February 15, 2005.
- **Major Step in Region's Financial Development**, *The Standard*, China, February 12, 2005.
- **The Emerging Bay of Bengal**, Donald L Berlin, *The Asia Times*, January 25, 2005.
- **Lineage of the Asian Community Concept**, George Sioris, *The Japan Times*, January 24, 2005.

# RESOURCES

## **Regional Economic Integration: Case for a Regional Export Credit Agency**

Editor – Rahul Sen

Institute of Southeast Asian Studies, Singapore Capital Publishing Company, New Delhi, 2005. ISBN: 981-230-277-8

Export Credit Agencies or Exim Banks play vital role in promoting and facilitating exports. Such services are essential to exporters if they are to compete effectively in the global market. However, emerging markets of Asia depend on financing from industrial economies and this has risks. Such dependence could be minimised if there was access to trade credit at a regional level.

This book looks at the merits of setting up a Regional Export Credit Agency for Asia not only to mobilise private sector funding but also to promote regional economic cooperation.

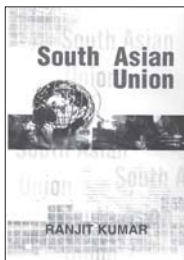


## **South Asian Union**

Ranjit Kumar

Manas Publications, New Delhi, 2005.

ISBN: 81-7049-219-X



The South Asian countries need to learn lessons from the European Union. An integrated economy of South Asia with open borders and visa regime as prevailing in Europe would go a long way in addressing much of the problems of South Asian poverty, malnutrition and literacy. For this a South Asian Economic Union on the lines of the European Union is envisaged by the SAARC leaders. It seems to be a pipe dream for South Asians now but Europeans also saw such dream long back. The South Asians can also realise the dream of not only economic union but a fully fledged South Asian Union as EU is going to take shape. This book discusses the problems, prospects and possibilities of such Union for Asia.

## **China and Southeast Asia: Global Changes and Regional Challenges**

Editors - Ho Khai Leong, Samuel C Y Kus  
Institute of Southeast Asian Studies, Singapore, 2005. ISBN: 981-230-298-0

The relations between ASEAN and China occupy a unique and important position in

the foreign relations of the Asia-Pacific region. China and Southeast Asia's political, strategic and economic importance in the realm of international relations has been transformed by the regions unprecedented economic growth, unexpected financial crisis, and turbulent political changes.

This volume investigates the impacts of global changes and regional challenges confronting the contemporary developments of China-ASEAN relations. Topics include: changes in strategic perceptions, the economic challenges and legal considerations of the China-ASEAN FTA in the context of a multilateral trading system, the role of East Asia, non-traditional security issues, prospects of regionalism, China-Taiwan-ASEAN triangular relations, and Malaysias and Singapores diplomatic engagement with China. It offers authoritative arguments and a rich collection of ideas for policy-makers and interested readers to mull over.



## **Evolution of ASEAN-Japan Relations**

Institute of Southeast Asian Studies, Singapore, Suelo Sudo, 2005.

ISBN 981-230-281-6

This book charts the progress of ASEAN-Japan relations from their difficult wartime legacy to post-war moves at diplomatic and economic rapprochement through successive governments.



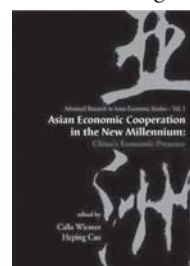
## **Asian Economic Cooperation In The New Millennium: China's Economic Presence**

Editors - Calla Wiemer and Heping Cao  
World Scientific Publishing Company, 2004.

ISBN: 9812387625

This volume is the outgrowth of a conference held at Peking University in May 2002,

jointly sponsored by the American Committee on Asian Economic Studies, the Peking University School of Economics, and the China Reform Forum. The contributors include leading scholars from Asia as well as



specialists on Asia from the US, Europe, and Australia. The book delves into issues of trade and investment, exchange rates and macroeconomic policy, and preferential trade agreements and other forms of economic cooperation. The overall message is one of regional dynamism animated by concerted efforts to build a favourable institutional environment. China is a great motivating force in this dynamism and a key player in the development of regional agreements.

## **East Asian Economic Regionalism**

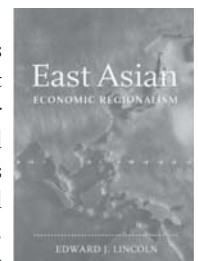
Edward J. Lincoln

Brookings Institution Press, 2004.

ISBN: 0815752164

Something new is happening across East Asia. A region notable for its lack of internal economic links is discussing regional cooperation on trade, investment, and exchange rates. Because of negotiations elsewhere around the globe on regional trade—such as those that led to the consolidation of the European Union, the formation of the North American Free Trade Area, and the rapid proliferation of bilateral free trade areas—the talk is not surprising. Nevertheless, East Asia's past inertia with regard to forming a regional partnership raises many questions about its emerging regionalism. Why has the region suddenly shifted from taking a global approach to economic issues to discussing a regional bloc? How fast and how far will the new regionalism progress? Will the region become a version of the European Union, or something far less? What is the probable impact on American economic and strategic interests—are the likely developments something that the U.S. government should encourage or discourage? Edward Lincoln takes up these questions, exploring what is happening to regional trade and investment flows and what sort of regional arrangements are the most sensible.

Lincoln argues that an exclusive grouping is unlikely. Free trade negotiations have brought some economies in the region together, but they also have led to links with nations outside the region. Some regional governments most notably Japan, continue to have difficulty embracing the concept of free trade, even with favored regional partners. In the wake of the Asian financial crisis, governments also have looked at cooperating on exchange rates, but they have done little to move forward.



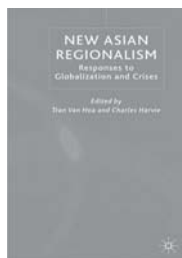
The U.S. government must decide how to respond to these developments in East Asia. An exclusively Asian form of regionalism could run counter to American economic interests, and the U.S. government has reacted negatively to some of these proposals in the past. Because trade and investment links between the countries of the Asia Pacific region and the United States remain very strong, Lincoln argues that the Asia Pacific Economic Cooperation forum remains the appropriate institution for pursuing regional trade and investment issues.

## ***New Asian Regionalism: Responses to Globalisation and Crises***

Editors - Tran Van Hoa and Charles Harvie  
Palgrave Macmillan, 2004.

ISBN: 1403917981

This collection of selected studies by well-known experts in major Asian countries surveys, discusses and analyzes emerging problems and challenges facing them. It proposes prescriptions for better regional economic integration and more effective economic management in the future. The book's area of study includes economics and business development, development economics, trade and investment, global competitiveness economics policy in Asia, globalisation, the WTO, and regional and international economic integration.



## ***Asian Energy Outlook to 2020: Trends, Patterns and Imperatives of Regional Cooperation***

Kokichi Ito, Li Zhidong, and Ryoichi Komiyama

Abstract: With booming economic growth Asia will play increasingly important role in global economic and energy matters. World primary energy consumption is projected to expand at an average annual growth rate of 2.1 percent by 2020. About 70 percent of the increase would be accounted for by non-OECD member economies, two thirds of which are from the Asian region. The increase in demand for oil in Asia will most likely amplify the dependency on shipments from other regions (particularly the Middle East). Ensuring energy security would therefore turn out to be a vital task. In Asia (particularly East Asia), the achievement of the "three Es"

(economic development, energy security, and environmental preservation) could no longer be viewed as a task to be addressed by each economy separately. Instead, it should be approached through region-wide cooperation - a goal of common interest.

(RIS Discussion Paper, No. 93, 2005)

## ***Regional Trade and Investment Architecture in Asia-Pacific: Emerging Trends and Imperatives***

Tiziana Bonapace

Abstract: Regionalism has become a key component of the new international order. It offers to the governments of developed and developing countries a new and attractive complementary strategy to multilateralism. Most countries of the world today belong to one or more regional trading arrangements of some kind covering more than two-thirds of the trade conducted. The Asia Pacific region is no exception to this trend. This paper examines the evolving regional trading panorama in the Asia Pacific region with its recent surge in bilateralism and its implications for evolving a regional trade and investment architecture. It argues that by facilitating the development of a seamless, region-wide zone of trade and investment, the region will enhance its prospects for becoming world's center of economic growth and prosperity by 2020.

(RIS Discussion Paper, No. 92, 2005)

## ***India-East Asia Integration: A Win-Win for Asia***

Mukul G. Asher and Rahul Sen

Abstract: This paper argues that India's unilateral liberalisation policies since the early 1990s, and purposeful and strategic pursuit of its Look East Policy has resulted in considerably greater integration with the rest of Asia than is commonly realised or acknowledged. Moreover, the enabling conditions for greater economic integration among major Asian economies have been laid. If Asia is to increase its economic and political weight in the world affairs, India's involvement would have to be an integral part of the Asia-wide cooperation. It is in this context that closer cooperation among Japan, ASEAN, South Korea, India, and China would provide considerable win-win opportunities and will have far ranging implications for the world.

(RIS Discussion Paper, No. 91, 2005)

## ***Strategic Relevance of Asian Economic Integration***

Eric Teo Chu Cheow

Abstract: As the spread of SARS had shown last year, the longer-term goal of an East Asian Community (ASEAN, China, Japan and South Korea) may already be crystallizing much faster than was initially thought, thanks to increasing people-to-people contacts and the freer movement of goods, services, tourists and expatriates across the whole region. India appears poised to be joining this Asian movement too.

(RIS Discussion Paper, No. 90, 2005)

## ***China's Role in the Asian Economic Unification Process***

Yao Chao Cheng

Abstract: The 21st century, as being said the world over will belong to Asia. The regional economic cooperation in Asia is developing fast and well with the ASEAN as a center and with the positive participations of major Asian nations such as China, India and Japan. The cooperation has shown that the Asian economic unification is in process. We believe that the economic unification process shall result in an Asian economic community. The integrated cooperation is the best way for Asian nations to make common development and the "fault lines" as proposed in Samuel Huntington's paradigm can be repaired and transcended in the unification process.

(RIS Discussion Paper, No. 89, 2005)

## ***Regional Cooperation for Poverty Alleviation and Food Security in South Asia***

Sachin Chaturvedi

Abstract: This paper explores the various options available within the framework of regional cooperation for addressing issues like poverty alleviation and food security in the Asian region. This becomes important in context of Doha Development Agenda (DDA) which has called for linking up trade with poverty reduction efforts. The paper suggests joint marketing of various products from Asian developing countries for increasing the market profile, apart from collectively addressing issues like introduction of new technologies for enhancing productivity. The paper also addresses some of the policy constraints such as restricted market access, growing digital divide and emerging non-tariff barriers to be attended on a priority basis.

(RIS Discussion Paper, No. 87, 2004)

feel that in embarking on the creation of a new architecture for the region, all those countries who can make a contribution should be brought in. In this enterprise, the following guidelines can be taken into consideration.

### Some Principles

It is important to formulate some principles, in order to guide the region-building efforts over the long term. (i) **Inclusiveness.** Those countries that can contribute and be active, and are important regional actors should be brought in. (ii) **Likemindedness.** This is necessary because harmony amongst those who share the same values and visions, is necessary for progress, and minimises disputes. (iii) **Recruiting key players.** Without the major actors, the group will be weak, and the entity might find itself hamstrung. If some or most members are free riders, then the group will not last long, or will become inactive. (iv) **Balance and non-dominance.** Obviously, if one or two members are over-dominant, the rest will resent this and the group dynamics will be affected. (v) **Open regionalism.** This is crucial as otherwise the world might split into competing trade blocs.

Based on these considerations, ASEAN and its Dialogue Partners, which includes India, have a stake in ensuring that the emerging Asian regional entity would be a non-dominant, non-threatening body.

### Disputes and Obstacles

Some cynical observers would no doubt argue that any proposed Asian Community is an exercise in futility. They would point to historical and cultural animosities between and among countries in the region. Japan and China are still at odds over many Second World War issues. Current frictions over the Senkakus, energy supplies, Taiwan, etc. resurface now and then. Likewise the two Koreas have not reconciled both between themselves and with Japan, and many political problems remain unresolved. The rapid rise of China as an economic power, which while seen as an opportunity for propelling regional growth, is also viewed with concerns in some quarters. In the case of Russia, it is still grasping with the painful process of integrating itself with the global community. In the case of India, while cricket diplomacy has improved its relations with its immediate neighbour, Pakistan, SAARC has yet to fulfill the promise of its founding. In the light of all these problems, it is quite natural to wonder whether an Asian Community can be realised.

However, there is no reason to be discouraged. Just look at the European Union. Putting the horrific experience of two world wars and the isolationism brought about by the Cold War behind them, the 25 member countries are well on the way to creating an harmonised community. In Latin America, historic animosities and fear of the gringo have been set aside and both continents are moving closer to each other.

Be that as it may, the trend towards Asian regionalism is becoming more pronounced day by day. Developments such as the Chiang Mai Initiative, the creation of an Asian Bond market, the proposal for an Asian Eximbank, serve to highlight the emergence of an Asian consciousness.

### Conclusion

At this juncture, when important decisions are being made which will shape the form of Asian regional cooperation, India's voice needs to be heard clearly. **India would bring much experience, useful contributions and international and political weight to any Asian grouping. Any such group without India in it will seem unbalanced, as though one leg of the table is missing. Also, one can well ask why we should deny ourselves the benefits to be derived from one of the two major dynamos propelling regional growth – the other being China.**

(Excerpted from the public lecture on 'A New Regional Architecture: Building The Asian Community' delivered at the Annual General Meeting of The Asian Institute of Transport Development, New Delhi, Thursday, March 31, 2005)

## 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](http://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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12 NEW ASIA MONITOR April 2005