



The Future of Asia: Charting a Course for Asian Economic Integration

— Montek Singh Ahluwalia

Deputy Chairman, Planning Commission of India

In the last fifteen years or so Asian countries have opened their economies to foreign trade and investment and have aggressively integrated with the global economy. They have generally done well in this process and Asia has the best record of economic development and poverty reduction compared with any other region. This has given us confidence to think of deeper economic integration among ourselves. Regional integration is taking place in Europe and in North America in parallel with the steps to achieve multilateral liberalisation. The concept of Asian economic integration is therefore a logical development as a means of promoting the common prosperity and well-being of the people of Asia.

In other parts of the world, successful regional integration has been driven by prior political closeness. Asia is different in this respect because it includes a much greater diversity of countries at very different levels of development and also with very different political systems. However, commonality of economic interests is also a powerful driver and there are strong economic forces, which justify greater integration.

We, in India, have long admired the remarkable economic performance of many Asian countries, which led people all over the world to view Asia as a success story in development. In fact, when India embarked on a process of economic reforms in the 1980s, the move was in part stimulated by the demonstrably superior performance of East Asian countries such as South Korea, the Taiwan province of China and later China itself and the countries of South-East Asia, all of which demonstrated that market oriented policies, with a particular focus on exports, could be a recipe for rapid economic growth and poverty reduction.

Economic reforms in India have been successful in raising India's growth rate from 3.5 per cent in the 1960s and 1970s to just under 6 per cent in the 1980s and 1990s. The economy has grown at an average rate of 6.5 per cent in the last three years and we expect to

Feature Article

average 7.5 per cent in the next two years. We are aiming at taking the economy to an 8 per cent growth path thereafter.

Our assessment that India has the capacity to grow at 8 per cent per year is shared by many observers. A much quoted recent study by Goldman Sachs has identified Brazil, Russia, India and China as the set of large emerging markets projected to grow rapidly over the next thirty years.

The transformation that has taken place in our policies has given us a new perspective on the importance of the Asian region. We have always attached emotional importance to the concept of Asian unity and identity. Our first Prime Minister, Pandit Jawaharlal Nehru was perhaps ahead of his times when he saw the mighty possibilities that Asian unity could offer to its nations. Many of the factors that drive Asian cooperation and inter-dependence today, such as globalization and trade liberalization, had not emerged in his lifetime. Nevertheless, he was clearly driven by a common vision of Asia when he spearheaded two important Asian movements of his time - the Asian Relations Conference in Delhi in 1947 and the Bandung Conference in 1955.

The dynamics of globalization and the growing economic potential of Asia, justifies the resurrection of that vision of Pan-Asian regionalism. Driven by this vision, India has been striving to strengthen relations with its Asian partners - with Japan, China, Korea and countries in the ASEAN region.

We believe that cooperation between India and East Asian countries in the 21st century is economically logical and will help to make this century the century of Asia. It was in this context, and with this vision of an Asian century, that a decade ago, our Government unveiled the "Look East" policy, which is now a vital part of India's foreign policy.

This is not a mere political slogan. Our "Look East" policy has a strong economic rationale. East Asia - including Japan, China, South Korea and ASEAN - is now India's largest trade partner, ahead of EU and also ahead of the US. This region is an important source of Foreign Direct Investment into India.

India seeks friendly and cooperative ties with China, during the visit of the Chinese Premier Wen Jiabao to India last month, India and China agreed to establish a "strategic and cooperative partnership for peace and prosperity". Trade and economic ties between the two countries are expanding rapidly and the two countries have now decided to examine the feasibility and benefits of an India-China Regional Trading Arrangement.

At the third India-ASEAN Summit, we signed an agreement on India-ASEAN Partnership for Peace, Progress and Shared Prosperity. We have started evolving a Free Trade Agreement with ASEAN. We already have an FTA with Thailand and a Comprehensive Economic Cooperation Agreement with Singapore.

These policy initiatives vis-à-vis Asia are the logical consequence of our new economic policies which emphasise openness and integration. An open and fast growing India will, we believe, have much to offer to Asia, helping to knit the continent together in a manner never seen before. It is with this conviction that India espouses a vision of an Asian Economic Community, which encompasses ASEAN, Japan, China, South Korea, and India - the five pillars which may form the initial core to drive Asia's emergence as the epicentre of global economy.

Studies by a leading Indian think-tank show that economic integration within the East Asian Community has the potential to generate welfare gains of up to US\$ 210 billion. Another recent joint study by Asian Development Bank, World Bank and the Japan Bank for International Cooperation concludes that developing countries in Asia need to spend

India-Singapore CECA to take India Closer to ASEAN

India signed its first Comprehensive Economic Cooperation Agreement (CECA) with Singapore on June 29, 2005. The CECA was signed by the prime ministers of the two countries on the occasion of the visit of the Prime Minister of Singapore, Mr. Lee Hsien Loong to New Delhi.

The CECA is an integrated package comprising of an FTA, a bilateral agreement on investment promotion and protection, an improved double taxation avoidance agreement and a work programme of cooperation in healthcare, education, media and tourism between India and Singapore.

Speaking on the occasion, Prime Minister of India, Dr. Manmohan Singh said that the

India-Singapore CECA would take India another step closer to CECA with ASEAN. Stressing on India's commitment to bring its tariffs in line with ASEAN, Dr. Singh said that while this would benefit all of India's trade partners, it is necessary to place trade and investment liberalization with respect to India's neighbours and ASEAN countries on a "faster track".

He also pledged to enlarge India's economic interaction and integration with SAARC, BIMSTEC and ASEAN, and find creative solutions to overcome existing hurdles. "We must become a partner in the economic progress of our neighbours", he added.

Prime Minister of Singapore Lee Hsein Loong described this

agreement as "a big step forward" in the bilateral relations and reiterated his Government's commitment to a broad based development of ties with India.

On the occasion, Prime Minister Lee said that "There will be many opportunities for business people on both sides to take advantage of the doors which will open up. But more importantly, it is a significant step towards an India-ASEAN FTA, and deeper engagement between India and Southeast Asia".

Later commenting on the CECA, at the lunch forum hosted by the CII and others, he added that the "CECA is the first comprehensive free trade agreement that India has signed with any

country. It is a strong signal that India is committed to continuing economic liberalization and market reforms and that Indian companies are confident that they can compete and hold their own against international competition."

"The CECA sets the stage for a burgeoning bilateral relationship between Singapore and India, and wider and deeper co-operation between India and Southeast Asia", he concluded.

The Asian Wall Street Journal (June 30, 2005) reported that India is stepping up cooperation with Southeast Asian countries as part of its "Look East" policy.

(Source: Press and Information Bureau of India, Press Release, June 29-30, 2005) ■

ADB Seminar on Economic Cooperation and Integration in Asia

On the occasion of the 38th Annual Meeting of the Board of Governors in Istanbul, Turkey, ADB organized a seminar, "A Roadmap for Asia's Economic Cooperation and Integration" on May 3, 2005. The main speakers at this year's seminar were Governor for Japan at ADB and Japan's Minister of Finance, Mr. Sadakazu Tanigaki, the Alternate Governor for India, Mr. Rakesh Mohan, the Governor for Denmark, Mr. Ole Moesby, and the Alternate Governor for Canada, Mr. Alister Smith.

In his opening remarks, ADB President Haruhiko Kuroda noted that economies that are more market oriented and integrated with the outside world are more likely to achieve sustained high rates of growth and poverty reduction. Asian countries' recent efforts at greater economic cooperation and integration can be seen as a stepping stone to their integration with the rest of the world. Various schemes have materialized, including free trade agreements (FTAs); initiatives to develop cross-border infrastructure, trade facilitation measures and increased connectivity among markets; and the arrangements for monetary and financial cooperation especially in

East Asia have been developed.

Governor for Japan Sadakazu Tanigaki emphasized that, considering Asia's advantages of great diversity, vast pool of savings, and capable human resources, regional economic integration can promote economic growth by expanding markets, exploiting the synergies in complementary resource endowments and production structures and by making the region more resilient to global economic shocks.

Alternate Governor for India Rakesh Mohan noted that, although the degree of integration has been increasing in recent years, Asia remains one of the least integrated regions. Forging closer links between Asian nations by implementing appropriate institutional mechanism can lead to substantial enhancement of national, regional and global productivity and output. A number of areas could benefit from regional cooperation, including trade, finance, cross-border infrastructure, joint harnessing of common resources, initiatives for environmental sustainability and energy needs, and common natural disaster warning and management systems. It is clear that Asia will be

the fulcrum of global growth in the coming decades, partly because of favorable demographic trends, and India, which initiated its "look east" policy 1991, intends to be an active participant in regional initiatives.

The Governor for Denmark Ole Moesby pointing at the origins of the European Union suggested that Asia would need to develop ways of interacting that spur collaboration rather than competition between countries.

Alternate Governor for Canada, Alister Smith affirmed that there are different models of cooperation and integration and in drawing lessons for Asia from other regions, it should be recognized that "one size does not fit all". Whichever model Asia adopts, it is important to achieve a balanced approach that preserves national interests given the relative weight of partners.

There was a broad consensus among speakers that Asia's regionalism should be open and complementary to global initiatives such as those taken by the World Trade Organization. In particular, cooperative agreements should be managed so that trade and investment diversion is minimized.

(Source: ADB Report on the Seminar) ■

Japan calls for wider Asian Role in IMF

Mr. Sadakazu Tanigaki, the Japanese Finance Minister in his speech to the International Monetary and Financial Committee meeting in April, said a review of Asia's IMF quotas, which form the basis for each members' voting power at the organization was necessary.

"Since Asian countries have been increasing their relative importance in the world economy, Asia's support is essential in improving the mechanism for international cooperation to ensure international monetary and financial stability", he said.

Further, he added, "I believe that a review of the distribution of quotas is an urgent issue that demands prompt action." According to the finance ministry official, this idea was backed by the US and South Korea for now, and Japan would seek further support from IMF members before a regular review of quotas in January 2008.

In the runup to the IMF's semiannual meeting in Washington, Japan would press,

Continued on page 4

Global Economic Focus Shifts to Asia: World Economic Forum

The World Economic Forum organised a Roundtable to discuss the strategic implications of growth in Asia in Singapore on April 27-28, 2005. Under the working theme, 'Tilting the global balance: the strategic implications of Asia's growth', more than 250 leaders from business, government, civil society and the media from 34 countries convened to identify critical issues and generate insights necessary to develop the right strategic response to the region's growing global economic and political influence.

The Roundtable discussions were held on various themes such as the business impact of the geopolitics of Asia, the impact of China and India on Asian competitiveness and future growth,

the future supply of key natural resources and its impact on regional relations, the growing trade and investment ties between the Middle East and Asia, and the prospects for Asia's financial integration and strategies to address the possible revaluation of the Chinese Yuan.

The participants agreed that two nations China and India would be the new economic juggernauts that would outstrip the US and Europe to drive global growth. "The rise of China and the opening up of India is probably the biggest story of this century. China and India are the fastest growing economies in the world," said Raymond Lim Siang Keat, Minister in the Prime Minister's Office.

Speaking on the shift of Global

economic focus to Asia, Claude R. Béglé, Chief Executive Officer, GeoPost International Management & Development Holding, Germany, agreed that Asia would indeed play a vital role on the world economic stage. "Before you had basically one tonne of cargo from Europe towards Asia and vice versa; three years ago it was a ratio of one to Asia and two from Asia; this year, it's already one from Europe, three from Asia."

Peter Mandelson, trade commissioner of the European Commission agreed by highlighting that if the story of the last century were the rise of the United States as a global power, the main story of the present century would be the rise of Asia.

Singapore Prime Minister Lee Hsien Loong saw the changing of

the economic landscape in Asia. "In the past, our economies would prosper by attracting investments from the United States, Europe or Japan, and then manufacture and export goods back to these markets. But now the pattern is shifting. The developed countries are still the major source of investments, but China has become the major export market for many Asian countries, overtaking the United States," he argued.

Lee also saw the growing integration of Asian economies. He said because of greater interaction in trade and investments, Asian countries are institutionalizing and cementing their mutual dependence.

(Source: World Economic Forum, Press Release, April 28-29, 2005) ■

Conference on the Future of Asia Focuses on Economic Integration

The cause of economic integration in Asia is now being heavily championed all across Asia. Asian leaders are meeting frequently and expressing open support and commitment to the integration process. Espousing the similar agenda, 'The Future of Asia 2005' conference was held in Tokyo on May 25-26. The conference was organised by Nihon Keizai Shimbun Inc. and had participation of several heads of state and senior ministers.

Speaking on the occasion, Prime Minister of Singapore Lee Hsein Loong argued that it was important to work on specific goals to sustain growth and prosperity for countries in the Asian region.

Emphasising on India's role in the Asian integration process, Prime Minister Loong also said that India is a key player, which is opening up to the world, and can potentially play as large a role as China. The momentum for reform is building in India, and there is a growing sense that the changes taking place are irreversible, he added.

Indian Deputy Chairman of the Planning Commission, Dr. Montek Singh Ahluwalia reiterated India's call to establish an Asia

Economic Community as envisaged by its Prime Minister Dr. Manmohan Singh at the recent ASEAN Summit.

The Conference was also addressed by state leaders such as Chinese Vice Premier Wu Yi who stressed upon the need for Sino Japanese cooperation as essential to promoting peace, stability and further development in Asia and Malaysian Prime Minister Badawi stressed that the process of economic integration should be led by ASEAN+3.

Indonesian Finance Minister Jusuf Anwar added that East Asian economic integration should be pursued by "weaving a web of bilateral and multilateral FTAs. "I strongly believe that economic integration of Asia is well under way and this process will ultimately bring about 'a single production zone, single market' for the benefit of its member countries", he added.

Prime Minister Koizumi of Japan said that he wants all Asian nations to "confirm the basic philosophy of regional cooperation with an eye toward creating an East Asian Community."

(Source: The Future of Asia 2005, Conference Report, available at Nikkei Net Interactive) ■

ASEAN+3 Taking Big Step Toward Economic Integration

The measures to strengthen financial cooperation were announced by ASEAN+3 on May 4, 2005 at the ADB Annual Meet in Istanbul. The measures are a significant step forward toward East Asia's economic integration.

The ASEAN+3 ministers agreed to strengthen the Chiang Mai Initiative (CMI), under which there are 16 bilateral swap arrangements totaling about \$40 billion, into "a more effective and disciplined framework" by:

- integrating the CMI with an enhanced economic surveillance process for the ASEAN+3 countries;
- adopting a collective activation and decision making process on the current network of bilateral swap arrangements within ASEAN+3, as a first step toward multilateralization;
- increasing the size of the available swaps by up to 100%, from \$1 billion to \$2 billion, while noting exact size could be decided by bilateral negotiations; and
- doubling the size of the swaps that could be withdrawn without them coming under an IMF program from 10 per cent

to 20 per cent.

Speaking on the occasion Masahiro Kawai, Economic Advisor to ADB President Haruhiko Kuroda, said, "The strengthening of the Chiang Mai Initiative and the enhancement of the ASEAN surveillance process will boost resilience and economic growth of the region".

"Joint activation is one way to reduce problems of bilateral swap arrangements. The new arrangement is a first step toward multilateralism, under which all countries would pool resources", he further added.

After the 1997 Asian financial crisis, ADB has been supporting ASEAN+3 initiatives such as the ASEAN+3 Informal Policy Dialogue Process, the CMI, the Asian Bond Market Initiative, and the ASEAN+3 Research Group.

In the meeting President Kuroda told the ASEAN+3 ministers that ADB stands ready to work with them and their governments in whatever way it can in their regional integration efforts.

(Source: ADB Press Release, May 5, 2005) ■

India-Thailand to Cooperate on Bilateral and Regional Fronts

Thai Prime Minister Dr. Thaksin Shinawatra paid a working visit to India on June 3, 2005. During the visit Indian Prime Minister Dr. Manmohan Singh and the Thai Prime Minister held talks and discussed a wide range of bilateral issues including the exchange of high level visits, trade and economic relations as well as cooperation in the areas of defence, security, culture, education, tourism, civil aviation, science and technology and disaster relief. India-Thai cooperation in regional forums like ASEAN and BIMSTEC as well as on multilateral issues also figured in the discussions.

During the meeting, it was agreed to set a target of a bilateral trade volume of US \$4 billion by 2007. The two Prime Ministers also agreed to continue cooperation in the setting up of an Asian Bond market. New areas of collaboration identified during the meeting included cyber security. The Prime Minister of Thailand expressed an interest in attracting knowledge workers from India to Thailand and invited the Indian private sector to set up technical, educational institutions in Thailand.

An Educational Exchange Programme (EEP) was signed by Shri Arjun Singh, Minister for Human Resource Development and the Thai Foreign Minister Dr. Kantathi Suphamongkhon during the visit. The EEP is a comprehensive document covering exchange of conferences, exhibitions, seminars, joint research programmes, publications, training programmes, exchange of academics, scholars, twinning arrangements between institutions of higher learning, mutual recognition of educational qualifications, setting up chairs of contemporary studies, mutual assistance in information technology, computer science, mathematics and sciences.

(Source: Press Release, Ministry of External Affairs, India, June 4, 2005) ■

India and Japan to work together to Promote Asian Economic Community

Mr. Junichiro Koizumi, the Prime Minister of Japan, paid an official visit to India from April 28 to 30, 2005. Mr. Koizumi and Dr. Manmohan Singh, the Prime Minister of India, held in-depth discussions that focused in particular on adding greater substance to bilateral relations and on measures to further deepen the India-Japan Global Partnership

Recognising the need for concerted efforts among Asian countries to translate the positive developments into an 'Arc of Advantage and Prosperity' involving growth, prosperity, stability and closer integration in Asia, the two leaders acknowledged the responsibility that the two countries have in this new emerging Asian era and thus committed to work together to promote the vision of an Asian Economic Community. The Japanese side also conveyed its support for India's membership in the East Asia Summit.

Agreeing that a global partnership between India and Japan would reflect a broad convergence of their long-term

political, economic and strategic interests as the two countries accepted each other as partners.

The renewed partnership between India and Japan will feature the following three layers of cooperation:

- Bilaterally, the two countries will further strengthen their cooperation and pursue an all round and comprehensive development of bilateral relations.

- Regionally, the two countries will strive to develop closer dialogue and collaboration to secure peace, stability, and prosperity in Asia, promote democracy and development, and explore a new architecture for closer regional cooperation in Asia.

- Globally, the two countries will strengthen cooperation in diverse areas such as environment, energy, disarmament, non-proliferation and security, taking advantage of, and further building on, their strategic convergences.

In order to realise the full potential of their global partnership, the two leaders decided on an Eight-fold

Initiative and decided to make their utmost effort to implement this Initiative, which comprises of measures for cooperation in eight key areas of interaction, namely: (i) enhanced and upgraded dialogue architecture; (ii) comprehensive economic engagement, through expansion of trade in goods and services, investment flows and other areas of economic cooperation, and exploration of an India-Japan economic partnership agreement; (iii) enhanced security dialogue and cooperation; (iv) science and technology initiative; (v) cultural and academic initiatives and strengthening of people-to-people contacts; (vi) cooperation in ushering a new Asian era; (vii) cooperation in the UN and other international organizations, including cooperation for the early realization of UN reforms, particularly Security Council reform; and (viii) cooperation in responding to global challenges and opportunities.

(Source: Press Release, Ministry of External Affairs, India, April 30, 2005) ■

Asian Economic Giants Leading Regional Growth

Top government and business leaders gathered in Bangkok to examine Southeast Asia's rise in the global economy, at the Asia Society's 15th Asian Corporate Conference held on June 8-10, 2005. The conference, "Southeast Asia Rising: A Region Booming Among Asia's Economic Giants," explored a range of issues affecting Southeast Asia's growth potential and the region's economic future.

Panel topics included Thailand's economic resurgence as a sustainable growth model; Southeast Asia's energy and infrastructure needs; trade liberalization and foreign investment in Southeast Asia's key sectors; enhanced economic partnerships between India and Southeast Asia; and implications of China's rise and Japan's recovery.

Speaking on the occasion Thai Prime Minister, Mr. Thaksin Shinawatra said that Asia's rise is sustainable. "The 1997 crisis was a setback, but it was also a valuable learning experience. Asia has risen from the ashes, it is poised to take wing once more. The rise of China and India as major economic players is a new development that should be welcomed as an opportunity, not as a threat as some may perceive," he added.

Singapore's Senior Minister Goh Chok Tong emphasized that the trend of economic integration will gather speed. "East Asia's growth is also set against the backdrop of a rising China, India's re-emergence and Japan's role as an economic powerhouse," he added.

(Source: Asia Society Press Release) ■

Continued from page 2 (Japan calls for wider Asian role in IMF)

along with China, South Korea and the 10-member Association of Southeast Asian Nations, to boost their financing of the organization. The countries quotas add up to 13% of IMF quotas, compared with their 19% share of the global economy.

Tanigaki reiterated that Japan was against uniform debt relief for poor countries, as proposed by Britain.

Japan has been reluctant to forgive debt, with its aid program heavily focused on loans. Such an approach would result in reducing debt beyond the level necessary to maintain debt sustainability, and create moral hazard on the part of the debtor countries concerned, he also said.

(Source : *Economic Times*, April 18th 2005) ■

India as an Engine of Growth for ASEAN

Lee Hsein Loong,
Prime Minister of Singapore

In the 1980's, the East Asian story was about Japan and the Newly Industrialising Economies, what was called the "flying geese formation". Today, the nature of East Asian cooperation has changed. The whole of East Asia is taking off. China is rapidly emerging. Japan is growing again. After the Asian Financial Crisis, Korea is remaking and reforming itself. In Southeast Asia, ASEAN countries have undergone political transitions, restored confidence and resumed growth. Beyond East Asia, countries such as India, Australia and New Zealand are also growing and adding to the vibrancy of the whole region.

The question is: how can we strengthen co-operation in East Asia, so as to sustain growth and prosperity for countries all across the region? I believe that we need to do four things to achieve this goal.

First, we need to manage China's integration into the region. China's growth into a heavyweight economic player is the central reality in Asia. It brings tremendous opportunities to all, but also causes major changes to the status quo. Countries must also make difficult adjustments to adapt to the changes and benefit from the rise of China.

Second, we must strengthen co-operation amongst other Asian countries, so that even as China's economic weight grows, it does not become the only growth engine in East Asia. Cooperation amongst other Asian countries will produce a multi-focal, multi-connected pattern of growth, broader and more robust than a 'hub and spokes' configuration where every link either starts from or ends in China.

Third, East Asia must stay outward looking, and not become closed or protectionist. Dynamic and vibrant as it is, East Asia depends critically on its links to other parts of the world.

Within Asia, India is a key player which is opening up to the world, and which can potentially play as large a role as China. The momentum for reform is building in India, and there is a growing sense that the changes taking place are irreversible. For ASEAN, India is an additional engine of growth. Economic links are intensifying. India is also developing direct economic links with China. Bilateral trade has grown rapidly. Both countries are now considering the possibility

of an FTA, which will have huge implications for the whole of Asia. The links between Japan and India are not fully developed. Psychologically, many Japanese companies think of India as a far away and unfamiliar country. But India presents opportunities that are not to be missed. ASEAN can serve as the bridge between Japan and India. Geographically, ASEAN and India are close regional neighbours.

Asia-Europe relations are another important linkage. Europe has a long history of engagement in the region, and European companies too are actively looking towards East Asia to tap opportunities in the region. It is in Asia's interest to engage the EU.

Finally, underpinning growth and prosperity in East Asia is a stable security environment. The key players shaping this environment are the US, China and Japan. The dynamic balance between these three players provides a tripod of stability for the region.

(Excerpted from the speech delivered at the Future of Asia 2005 Conference organized by Nihon Keizai Shimbun in Tokyo on May 25, 2005)

Infrastructure Development Initiative for Asian Economic Integration

Dato' Seri Abdullah Ahmad Badawi,
Prime Minister of Malaysia

For the foreseeable future, for the nations of Southeast Asia, the very highest priority must be given to rapidly building the Asean community of peace, prosperity and progress. As far as the East Asian community of peace, prosperity and progress is concerned, there will be times when it must and will command the very highest priority. There will of course also be occasions when promoting wider Asian cooperation and integration - in an ever widening neighbourhood of Asean - cooperation will come to the fore.

The agenda for the Kuala Lumpur East Asia summit could be a very exciting one. It could range from currency, energy and global growth issues to our common struggle on terrorism to 'how we can eradicate abject poverty' and become the first developing-country region in the world to achieve the millennium development goals, and to how we can enhance our capacity for Asian economic integration through the development of basic economic infrastructure which includes super-highways and super-railways linking and

binding our East Asian Community. This could come in the form of an Asian Infrastructure Development Initiative (AIDI). On this, I am heartened by the fact that Asia is on the move - its self-confidence boosted by strong and sustainable income growth and balance of payments surpluses. More significantly, Asia's savings in foreign exchange reserves are rising and indeed surpassing nationally set benchmarks. The ADB recently reported that Asian central banks today control more than two-thirds of global foreign exchange reserves, the aggregate held being in excess of US\$2.5 trillion. A fraction of the savings could be utilised to achieve this purpose. This is a matter that can be pursued further through the Asean process.

The great idea of building an East Asian community was first proposed not many more than a dozen years ago. What is remarkable is how fast the transition between scepticism to conventional wisdom has taken. At the same time, we must move forward on the basis that we have a responsibility to discharge and a contribution to make to the people in the wider world beyond East Asia.

(Excerpted from the speech delivered at the Future of Asia 2005 Conference organized by Nihon Keizai Shimbun in Tokyo on May 25, 2005)

The New East Asia: The Shape of Things to Come

Kavi Chongkittavorn,
Executive Editor, *The Nation*

ASEAN leaders agreed recently that the first East Asian Summit (EAS) will have a new beginning as a separate non-exclusive process from ASEAN plus three, which has been the preferred cooperative mechanism.

India has been invited to join the new forum as a founding member. As such, East Asia has incorporated the world's largest democracy, which will inject much dynamism into the region. For the first time, all key Asian countries will be gathered under one roof.

Will EAS be like the ASEAN Regional Forum, with 24 countries across the Asia-Pacific region? For the time being, this will not be the case. In the next few years, EAS leaders will need to consolidate their new forum to ensure their relevance, especially when it comes to articulating issues to be discussed. Global and transnational topics with regional ramifications will be the top of their agenda.

With India and the two from down

under on board, the EAS will become a pivotal driving force for the region, and will have much to do with ASEAN's future attitudes. If it remains outward-looking, as it appears to be now, the EAS will take off and fly. But some ASEAN members are still fearful of losing a grip on the process they initiated – so much so that they want to increase ASEAN's control, with proposals like ASEAN-chaired meetings and reserving the right to choose prospective EAS countries.

(Excerpted from *The Nation*, May 2, 2005)

© *The Nation*.

India-China FTA as a Starting Point of an Asian Bloc

Arvind Panagariya,
Jagdish Bhagwati Professor of
Indian Political Economy,
Columbia University

India-China trade is among the fastest growing bilateral trade relationships in the world currently. According to the Indian Commerce Ministry, India's exports to China rose from a paltry \$18 million in 1990-91 to approximately \$3 billion in 2003-04. India's imports from China expanded equally rapidly, from \$35 million to \$4 billion over the same period.

With this rapid expansion, China has replaced the United States as India's top source of imports. During April-December 2004, imports from China grew a phenomenal 70 percent over those during April-December 2003. That effectively overwhelmed the hefty 25 percent growth in imports from the United States during the same period.

This expansion is a healthy development since it represents a shift from costlier domestic or other foreign sources of supply. Nevertheless, the domestic import-competing firms (as opposed to the buyers of cheaper Chinese goods that include both consumers and firms) may be inclined to appeal to the import surge to demand increased barriers against Chinese goods. However, the fact that the competitive Indian firms have been equally successful in penetrating the Chinese market: India's exports to China during April-December 2004 grew 61 percent over those during April-December 2003. True, the bilateral balance is in favor of China and India too runs a huge trade surplus vis-à-vis the United States.

In this context, one question figured prominently during the recent visit by the

Chinese Prime Minister Wen Jiabao : is there a case for an India-China Free Trade Area? Though I have been critical of the discriminatory trade blocs not just because such arrangements fragment the global trading system but also because they often hurt economic efficiency within the countries forging the arrangements.

However, the case for an India-China FTA is based principally on its strategic value. **During the last decade, with the creation of the NAFTA, several expansions of the EU and a host of smaller FTAs in Latin America, Asia has suffered from a diversion of these regions' trade away from it. One response to this trade diversion for Asia would be to move towards a bloc of its own. Such a bloc may give Asia the necessary leverage to pry open the NAFTA and EU blocs to outsiders through multilateral liberalization.**

If one accepts this argument, an India-China FTA is probably the best starting point for such an Asian bloc. As an alternative, even if India and China both make good on their respective framework agreements with the members of the Association of Southeast Asian Nations (Asean) to forge FTAs with them, an effective Asian bloc will not form without these two countries signing an FTA agreement with each other.

On the other hand, if India and China signed an agreement, chances are much higher that the remaining countries in Asia will rush to sign agreements with them. Presently, the ASEAN is driving the integration process in Asia but with the emergence of India and China as major economic powerhouses and the relative stagnation faced by the most populous ASEAN country, Indonesia, its ability to serve as the engine of the Asian integration has substantially diminished.

An India-China FTA also has the advantage that it will help promote an alternative FTA template that focuses on trade integration rather than non-trade subjects including labor standards, intellectual property rights and even restrictions on the use of capital controls. These subjects are integral parts of the US FTA template that the US may eventually want to turn into the WTO template. An Asian bloc that relies on a "trade only" template will be an effective instrument of countering the US template in the future WTO negotiations

(Excerpted from *The Economic Times* April 20, 2005)

© *The Economic Times*.

India's Relations with its Eastern Neighbours

Rajiv Sikri, Secretary, MEA, India

India's relations with its eastern neighbours constitute an increasingly important dimension of India's foreign policy, and are subsumed under the catch phrase 'Look East' policy that has gained wide currency in India. Before this policy came into being, India was paying insufficient attention to its eastern neighbours.

India's 'Look East' policy is no mere political slogan. It has a strong economic rationale. Our changing economic policies, and our growing self-confidence to see globalization as not merely as a challenge but also as an opportunity, have given us a new perspective on the importance of the Asian region. As Prime Minister Dr. Manmohan Singh has put it, the world wants India to succeed. Other countries, including East Asian countries, want to plug into India's economic growth and opportunities. As India prospers and develops, we want to take our neighbours along with us. It is widely recognized that by 2020, globalization would have an Asian face. If the 19th century could be loosely termed as "European" and the 20th as "American", then the 21st century looks set to be "Asian". Thus growing cooperation between India and East Asian countries is economically logical, indeed essential, if Asia is to play a larger role in the world in the coming decades. The path of greater openness in trade and investment that India is following makes greater integration with Asia inevitable. Even today, East Asia (including Japan, China, South Korea and ASEAN) is India's largest trade partner, ahead of the EU as well as the US. It is an increasingly important source of foreign direct investment into India. As India's trade to GDP ratio increases (as we expect it to), the technologically advanced and highly competitive economies of Asia are bound to have a large share of this increase.

India's relationship with ASEAN is central to our 'Look East' policy. India and ASEAN have agreed on a roadmap of 'Partnership for Peace, Progress and Shared Prosperity' over the next 10-15 years that would take forward India-ASEAN cooperation in diverse areas such as energy, agriculture, health, science and technology, culture, tourism, and entertainment. The India-ASEAN Comprehensive Economic Cooperation Framework Agreement signed in 2003 envisages the full implementation

of a Free Trade Area in goods, services and investment between 2011 and 2016. Our bilateral trade with ASEAN has reached US\$13 billion and is growing rapidly, with a target of US\$ 30 billion by 2007.

The 'Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation', or BIMSTEC, that brings together countries around the Bay of Bengal, viz. Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand can play an important role in this regard. It can also act as a bridge between the countries of South and Southeast Asia. As in the case of ASEAN, a Free Trade Area lies at the core of BIMSTEC activities. All BIMSTEC countries have agreed to work towards a Free Trade Area in goods, services and investment that will come into effect between 2006 and 2017.

Energy understandably figures high on the agenda, since there is so much potential for developing and exploiting to mutual benefit the rich hydropower and hydrocarbons (especially gas) reserves in the region. Myanmar, Bangladesh and India have recently taken the initiative to look at the possibility of a gas pipeline project to transmit gas from Myanmar to India through Bangladesh. This could become the model for future regional cooperation projects with potential benefit for all members.

As China is India's largest neighbour, developing friendly cooperation with China is an important priority in our foreign policy. The positive trends in our ties with China are most vividly manifest in our rapidly increasing trade and economic relations.

India's participation – together with the ASEAN countries, China, Japan, South Korea, and possibly Australia and New Zealand too – in the first East Asia Summit to be held in Kuala Lumpur this year flows from our significantly accelerated engagement with the ASEAN and other East Asian countries over the past decade. Growing multifaceted cooperation, economic integration as well as improved connectivity between India and its neighbours to the east make India a natural participant in the East Asia Summit process that has the potential of changing strategic equations in Asia and the world, and facilitating the emergence of Asia as a new pole of growth and influence in the world. An open and fast growing India has much to offer Asia and will help to create unprecedented interdependence and opportunities for mutually beneficial growth and prosperity.

Prime Minister Dr. Manmohan Singh has spoken of his vision of an Asian Economic Community, bringing together the largest Asian economies of ASEAN, Japan, China, South Korea and India at its core that would constitute a new driver of growth in the world economy. He envisages an integrated market from the Himalayas to the Pacific Ocean linked by efficient road, rail, air and shipping services. This would be a community of nations, roughly the size of the European Union in terms of income and bigger than NAFTA in terms of trade, that would bring together half the world's population, and would have foreign exchange reserves exceeding those of the EU and NAFTA put together. Such a community would constitute an 'arc of advantage' across which there would be large-scale movement of people, capital, ideas and creativity.

India is actively seeking closer and wider engagement with its Asian neighbours, including its immediate neighbours. India's 'Look East' train has an exciting journey ahead.

(Excerpted from the speech delivered at the Bangladesh Enterprise Institute, Dhaka, May 31, 2005)

EU Lessons for East Asian Regionalism

Eric Teo Chu Cheow,
Council Secretary, Singapore
Institute for International Affairs

The surprising opposition to the EU Constitution, which had taken months of negotiations to create, could set back EU integration, weaken the EU economically (as shown in the euro's plunge on world markets) and diminish the EU's credibility and reputation.

How can East Asian leaders, who will hold an inaugural East Asian Summit in Kuala Lumpur this December to discuss the creation of an EU-style regional trade bloc, avoid a similar debacle in the future? There appear to be at least four lessons that they can draw from recent European developments.

First, the massive rejection of the EU Constitution by French and Dutch voters appears to be linked to the fact that the process of European integration lies solely in the hands of the European elite rather than in the hands of common voters. A fundamental lesson for East Asian leaders is the importance of building a regional bloc around the common citizenry, involving a majority of the people in the process of

constructing the grouping's economic, social, cultural and political pillars.

Second, those who rejected the EU constitution reminisce about the days when the union was a small and tightly knit entity. They view the EU Constitution as a "political project" aimed at absorbing the post-Cold War Central and Eastern European states into the union rather than bringing concrete benefits to the citizens of current members. This brings to mind another lesson for East Asia: A small entity may be better than a massive grouping.

Third, as a regional identity evolves, nationalist sentiments must be reduced.

East Asians, especially Northeast Asians, would have enormous difficulties trying to mold an "Asian identity" today. Because of historical, territorial and political disputes, a wave of nationalism is sweeping Japan, the Koreas and China. The situation is not necessarily better in Southeast Asia, given the poor relations between Thailand and Cambodia, and the standoff between Indonesia and Malaysia.

Fourth, regional integration is always easier during good economic times, as the citizens of member countries are more open to accepting regional projects.

(Excerpted from *The Japan Times*, June 25, 2005)

© *The Japan Times*.

Warmly Welcome India into East Asia Summit (EAS)

Ramkishan S. Rajan,
Visiting Associate Professor,
National University of Singapore
and Sunil Rongala, Economist, HCL
Technologies, India

India's invitation to join the EAS has also not been without controversy. After decades of neglect, India has shown a strong desire to integrate and interact more intensively with ASEAN and the larger East Asia bloc since the early 1990s.

ASEAN has only recently started to adjust its views, in light of India's economic emergence on the world stage. In the post-Cold War world, the process of more intensive engagement in Indo-ASEAN relations began with India becoming a sectoral dialogue partner of ASEAN in 1992, a full dialogue partner in 1995, and a member of the ASEAN Regional Forum (ARF) in 1996.

However, India had to wait for a decade since the launch of its 'Look East' policy to have its first summit with ASEAN. It was at

the second ASEAN-India summit that the two parties agreed to start talks on a free trade agreement (FTA) by 2011. Meanwhile, India has also negotiated an FTA with Thailand and is close to completing a far more comprehensive trade agreement with Singapore.

Indeed, despite the new closeness between India and ASEAN, it has not gone unnoticed in India that ASEAN still remains far more focused on its North Asian neighbours and Australia, and - with the possible exception of Singapore - India is rarely mentioned in speeches and background papers by policy makers and academics in the region (the change has also only been somewhat recent in Singapore). So while India has been belatedly inducted into the ASEAN+3 integration framework, and some countries like Indonesia and Singapore are strong advocates of India's inclusion in the EAS, it has been reported that some other ASEAN members (Malaysia most obviously) have remained stubbornly reluctant to embrace India as part of the inner core of a larger and inclusive Asian alliance.

This is despite: the enormous economic potential of the emerging Asian giant; the enormous complementarities that exist between ASEAN and India; and the sound geostrategic reasons to align more closely with India.

(Excerpted from *The Business Times*, May 14, 2005)

© *The Business Times*.

Courting India

The Asian Wall Street Journal

India has no shortage of international suitors these days, as visits by Chinese and Pakistani leaders highlighted over the past few weeks. Amid all this high level attention, perhaps the most consequential visitor will turn out to be Japanese Prime Minister Junichiro Koizumi, who came courting at the end of April.

Though India has revelled in the spotlight, there is a sense that Japan's attention carries further meaning because it help bring about a fundamental change in the India-Japan relationship and in the security architecture of Asia.

In addition to containing Beijing, New Delhi and Tokyo share other goals. In a joint statement, Mr. Koizumi and Indian Prime Minister Manmohan Singh reiterated their countries' support for each other's bids for permanent seats on the United Nations Security Council. The two leaders also agreed

to deepen economic ties. It is also possible that the two countries may join forces in the fight against maritime terrorism in the Indian Sea, which is a strategic sea-lane for Japanese marine transport.

Above all, there is much room for growth on the economic front, leading to questions about why there is so much untapped potential on Indo-Japanese trade relations, "New Delhi must reflect on why trade with Japan has stagnated for six years at around \$4 billion while that with China has raced ahead in the same period from a near zero level to \$14 billion last years," writes Jasjit Singh in *The Times of India*. Mr. Singh also points out that there is much potential for an increase in India's exports to Japan in textiles, electronics, chemicals, and automotive parts, all of which are high on Japan's list of priorities. The two countries could cooperate in the field of information technology too. Over in Tokyo, the *Daily Yomiuri* pointed out, "India is good at creating software, while Japan is competitive in creating hardware."

Why it has been so hard for these two countries to tap the economic potential in their relationship? The economic sanctions that Tokyo slapped on New Delhi in response to India's nuclear tests in 1998 didn't help, but the broader issue is that in the past, Tokyo just didn't take India seriously. Before the reforms of the 1990s Japan was understandably turned off by India's socialist economy. In recent years as well, however, cautious Japanese investors have continued to be wary of India's notorious bureaucracy and red tape.

It is not just India and Japan that stand to gain from stronger ties. An alliance between the two democracies could make a valuable contribution to stability in Asia.

(Excerpted from *The Asian Wall Street Journal*, May 2, 2005).

© *The Asian Wall Street Journal*.

Asia Needs to Create More of Its Own Growth

Guy de Jonquieres,
The Financial Times

Eight years on, Asia's financial crisis seems a distant memory. Despite higher oil prices, growth has rebounded in many countries, private investment is gradually recovering, consumer confidence is strengthening and rising current account surpluses are swelling foreign exchange reserves.

However, the party could quickly end. The reason is that so much of East Asia's recovery, like its pre-crisis growth, has been export-led. Its main motor is exports to China, whose own growth depends significantly on markets in the US and Europe. That leaves the region uncomfortably exposed to external shocks.

The risks are, first, that simmering protectionist pressures will boil over in the US and Europe; and second, that East Asia will exhaust its capacity to fund the twin US deficits by acquiring US assets, so triggering a dollar collapse, soaring US interest rates and recession.

Asia needs to guard against those dangers. The best way to do so is to generate more of its own growth by stimulating domestic demand. East Asia is awash with capital, created by the high household savings rates that generate its current account surpluses. Most of the money, above all in China, is in bank accounts yielding puny returns. It needs to be put to better use. Bigger investment in infrastructure is a priority.

One possible objection is that higher government spending could undermine the fiscal rectitude that many Asian governments have striven for since the crisis. But with so much cheap domestic capital available, there is room for more borrowing. And Asia has plenty of scope to expand private financing. As for pension funding, much of it will come from re-allocating existing savings.

But micro-reforms should go further. There is potentially huge untapped domestic demand in Asia for more diverse and efficient services, particularly financial services. But in many countries, their development is thwarted by rigid market barriers, primitive and anti-competitive regulation and poor corporate governance.

Finally, Asia needs to liberalise trade further. Much intra-regional trade today consists of capital goods and products being shunted through cross-border supply networks on their way to China. The region needs to deepen integration by creating bigger local markets for finished products and for services.

(Excerpted from *The Financial Times*, May 17, 2005).

© *The Financial Times*.

Is the IMF an Endangered Species in Asia?

William Pesek Jr., Bloomberg News

The creation of an Asian Monetary Fund could have major consequences for the

global elites and the so-called “Washington Consensus” on how developing nations should go about raising living standards for their swelling and often poor populations.

The idea came up in September 1997, amid worsening crises in Thailand, Indonesia and South Korea. At the time, the IMF was demanding high interest rates and fiscal tightening, policies that worsened the crisis.

Fueling speculation the Asian Monetary Fund is back was a statement by a top ADB official that currency-swap arrangements agreed to by the region have “the potential to become an Asian monetary fund.” That it was made by Masahiro Kawai, an adviser to ADB President Haruhiko Kuroda, made it all the more significant.

Japan was arguably the most vocal advocate of an IMF-like organization for Asia, and Kuroda is a former Vice Finance Minister. To connect the dots a bit, Kuroda plans to use his time at the ADB to accelerate the economic integration and self-sufficiency of Asia. An Asian Monetary Fund seems a natural step in that direction.

Yet Kawai agrees “full IMF delinkage would not be desirable at this point.” One reason: Nations involved in the Chiang Mai Initiative don’t have the bureaucratic infrastructure to conduct the kinds of economic surveillance and data collection done by the IMF. Kawai says creating a secretariat to do just that is “clearly on the table.”

In its dealings in Asia, the IMF has taken on a less public and preachy air. There’s also less of a perception in markets that the U.S. Treasury controls the IMF’s puppet strings to the extent it did in the late 1990s.

IMF reform is still needed, of course. It needs to do a better job reading the signs of crisis before it’s too late and be more perceptive to the unique challenges of each economy. And it needs to give Asia a bigger voice in its policies.

For all its warts, the IMF may still have more credibility in markets than an Asian Monetary Fund, at least for a while. It means Asia should be careful about sidelining an organization it may need in the not-so-distant future. There should be little doubt, though, that Asia wants its own monetary fund. Taken together, these steps will not only move Asia further down the path of integration, but also reduce its reliance on the dollar.

(Excerpted from Bloomberg News, May 9, 2005).

© Bloomberg News.

Pulling Together in East Asia

Liu Weiling, *China Daily*

In a region in which the people are traditionally fond of saving money, determining where and how to invest idle capital is a long-standing puzzle. East Asia, with the world’s highest savings ratio, is facing this dilemma now, despite a thirst for funds brought about by galloping growth. The latest report released by the World Bank indicates developing nations in East Asia face a massive funding challenge, as they need to spend more than US\$1 trillion over the next five years in infrastructure construction.

Such a situation creates huge potential for better investment co-operation among East Asian nations. Moreover, an effective economic co-operation mechanism will steer the creation of the East Asian community a bright outlook painted by regional leaders last year. Integration will create a huge fortune for the nations involved, and more and more savvy business people in the region are keeping their eyes open.

Free Trade Areas (FTA) will be another important driving force in East Asian economic integration. Several FTAs including those between the Association of Southeast Asian Nations (ASEAN) and China, Japan and South Korea are being negotiated. Chinese Premier Wen Jiabao in 2003 proposed an East Asia FTA, which would cover China, Japan, South Korea and the 10 members of ASEAN.

The proposal received responses from leaders of the nations. Earlier this year, China announced it will begin an FTA feasibility study with relevant countries.

A common currency could follow trade and investment integration. Economic co-operation will be the easiest step in building the East Asia community, as nations can seek the most common interests in this area.

(Excerpted from *China Daily*, June 20, 2005)

© *China Daily*.

The Role of EAS in an East Asian Community

Makmur Keliat, Executive Director,
East Asian Cooperation Studies,
University of Indonesia

The AFM meeting in Cebu only succeeded in reaching a minimal consensus on the modality of the EAS. Based on the idea of inclusiveness, it was thought ASEAN would agree to invite other countries

beyond the ASEAN+3 framework to participate in the EAS.

On the grounds that it dissipated the divergent views of member countries of ASEAN on the membership of the EAS, some regarded the consensus as a significant breakthrough. However, the agreed modality seems to have also conveyed confusing signals on the future direction of East Asia regional integration.

First, by focusing on the issue of membership, it is difficult to erase the impression that the idea of East Asian regional integration seems to have shifted and become more directed toward addressing the question of broadening and engaging more actors. Little attention has been paid to coping with the question of how to deepen the cooperations already put on the agenda, as recommended by the East Asia Study Group (EASG) in 2001.

There are two main factors that may have driven ASEAN to pay more attention to the question of broadening compared to that of deepening. The first factor may relate to the complexity of the globalization process. There are those who argue that member countries of ASEAN might be aware that under the objective nature of globalization, the agendas for functional cooperation, ranging from trade, finance and investment to energy, would be ineffective if evolved through a closed regional cooperation framework.

Those who are proponents of this view also point out that countries beyond the ASEAN+3 framework, such as India, Australia and New Zealand, have already left their footprints in the economic, political and security dynamics of the East Asian region. The second factor may relate to strategic compulsions. There has been a fear that the idea of limiting East Asia cooperation to the ASEAN+3 framework would create difficulty in realizing East Asia as a true community.

This difficulty is said to have arisen from traditionally hostile relations between China and Japan. It is argued that under these circumstances, ASEAN could possibly become entangled in Sino-Japanese animosity which in turn could divide the solidity of ASEAN as a group. Almost similar to this view, there has been speculation that the United States would give a negative response if the idea of accomplishing East Asia regional integration was conducted through an exclusive framework.

Indeed, if the membership of EAS is conceptualized as different and larger than that of the ASEAN+3, then as a logical consequence

there is an urgent need for the ASEAN Secretariat to establish a new specific section beyond the ASEAN+3 unit. If this is not done, it would be natural to pose the question of which unit of the ASEAN Secretariat will be responsible for following up the outcome of the coming EAS in Kuala Lumpur?

Member countries of ASEAN need to answer this question since there has been speculation that in the future there will be an opportunity to establish a specific secretariat outside ASEAN to deal with the outcome of the EAS. It is also for this reason that member countries of ASEAN should take innovative steps to reach a consensus on the agenda for the EAS.

(Excerpted from *The Jakarta Post*, June 24, 2005)

© *The Jakarta Post*.

Time to Promote Intra-Asian Capital Flows

S. Balakrishnan,
The Hindu Business Line

The US transgresses all canons of economic and fiscal prudence which, in other cases, would force a country to knock at the doors of the IMF and into penance. But the market is in no mood to punish the world's largest economy. On the contrary, recklessness seems to have its rewards. The latest figures show that foreign purchases of US securities are well above the trade deficit.

The booming economies of Asia have hardly lost their appetite for treasuries. Their holdings keep growing and account for perhaps half of the ownership of US Government debt. In what could only be described as comical, portfolio flows to emerging markets for higher returns are received and reinvested in their home countries at lower yields — a case of the poor subsidising the investments of the rich.

Naturally, the suggestion of an "Asian Monetary Fund", made from time to time and especially in the 1997-98 crisis, evokes no enthusiasm in the US. The export surpluses of Asia are captive to American treasuries and keep their yields low.

But Asia is as much to blame for the state of affairs. It does not offer as much safety of capital and returns as do the rich countries of the Western world. Buy US treasuries and you are assured of these and also liquidity, any time you want to sell them. But they do not come cheap. Yields are meagre. But that is the price Asians are paying for the security of their investments.

We have a long way to go in these

matters but it is high time a beginning is made. With all the financial brains around — after all Asians too have made it big on Wall Street — it should not be difficult to build adequate safety and liquidity nets to promote intra-Asian capital flows offering much better returns than US Government securities and cutting intermediation costs. Our investment needs in infrastructure, both of the physical and social kinds, are massive. There is no place like home but Asian governments, savers and fund managers must be convinced of that.

(Excerpted from *The Hindu Business Line*, April 28, 2005)

© *The Hindu Business Line*.

Looking Beyond Free Trade Agreements

Rajiv Kumar, Chief Economist,
Confederation of Indian Industry

In the wake of Prime Minister Wen Jiabao's historic visit, the media has been agog with discussions on the pros and cons of a free trade agreement between India and China. In my view, they are narrow in focus and miss the point. They should, instead, help shape India's external economic policy in Asia on more strategic issues.

Expansion of trade, technology and investment flows will come as a natural corollary of a stronger understanding among the three countries. More important, this will provide a robust framework for greater

economic dynamism across Asia and an impetus for expanded economic cooperation that could lead to the emergence of an Asian economic community.

The first important step in this direction will have to be better understanding among the three largest economies in Asia. India will have to demonstrate its willingness and diplomatic acumen to forge a trilateral coalition with Japan and China that can become a solid basis for a pan-Asian economic cooperation. This will also induce Japan to recognise that its future interests lie in a collective Asia, rather than across the Pacific. For India, a move towards a trilateral coalition with Japan and China will help minimise the possibility of India ending up as the frontline state in any future move to contain China.

A start can be made at the forthcoming East Asia summit in November. However, for this initiative to succeed, India has to recognise its crucial role in bringing about a pan-Asian economic community. It would have to handle its relationship with China and Japan in that strategic context. This will require that Indian economic diplomacy move beyond narrow concerns of protecting the domestic market or finding niches for our exports in these markets, towards identifying the contours of an Asian economic community and pressing the case for it to the Japanese and Chinese leadership.

(Excerpted from *The Financial Express*, April 28, 2005)

© *The Financial Express*.

Further Readings

- **Toward an Asian Union?** Philip Bowring, *International Herald Tribune*, June 18, 2005.
- **Japan's Beneficent Potential**, Makoto Taniguchi, *The Japan Times*, June 14, 2005.
- **An Asian 'Economic 9/11' for U.S. Economy**, William Pesek Jr., Bloomberg News, June 5, 2005.
- **Off Balance**, *Newsweek International*, May 30, 2005.
- **Facing India's Challenges**, Manmohan Singh, *The Asian Wall Street Journal*, May 19, 2005.
- **Asia Joins Hands for New Century**, Yu Sui, *China Daily*, May 19, 2005.
- **Be a Role Model of Diversity and Depth**, *China Daily*, May 17, 2005.
- **Asia's Growing Role in Global Economy**, David Burton, *The Japan Times*, May 14, 2005.
- **One Asian Currency?** Michael Vatikiotis, *The International Herald Tribune*, May 13, 2005.
- **Another Call to the Big League**, Shabori Ganguly, *Daily Pioneer*, May 2, 2005.
- **India and the Asian Balance of Power**, C. Raja Mohan, *Daily Times*, April 27, 2005.
- **Towards Greater Asian Economic Integration**, Nagesh Kumar, *The Financial Express*, April 26, 2005.
- **Single Asian Currency Key to Stability**, Donald Tsang, Hong Kong Information Services Website, April 23, 2005.
- **Integration Helps Deliver Asian Dreams**, *China Daily*, April 23, 2005.
- **Asia Marches to Drum of Economic Integration**, Zhu Qiwen, *China Daily*, April 22, 2005.
- **Emerging Asia Looking for Bigger Role**, Xu Binglan, *China Daily*, April 22, 2005.
- **Japan, China Wasting Time**, Keizo Nabeshima, *The Japan Times*, April 18, 2005.

RESOURCES

East Asia's Monetary Future: Integration in the Global Economy

Editors - Suthiphand Chirathivat, Emilia Maria Claassen and Jürgen Schroeder
Edward Elgar Publishing, 2004
ISBN: 1 84376 462 8



East Asia's Monetary Future is an illuminating and valuable work which uniquely focuses on a long-term monetary view of the region. There are multiple and varied future scenarios which can be applied to this region – an enlarged Singapore–Brunei currency area, a greater China monetary bloc and even a Northeast Asian bloc comprising Japan and Korea.

Leading scholars from East Asia, Europe and the US contribute valuable new insights to the key questions facing the organization and future of the monetary system in East Asia. Central questions discussed and analysed in the book include amongst others: Should the region move towards monetary union? Should countries peg their exchange rates to the US dollar? Is complete dollarization an option for East Asia? The authors argue that, having realized price stability over the last twenty years, in contrast to Latin America and Africa, the next logical step would be the gradual formation of various currency blocs within the region.

A New Financial Market Structure For East Asia

Editors - Yung Chul Park, Takatoshi Ito, and Yunjong Wang
Edward Elgar Publishing, 2005
ISBN : 1 84376 943

This book contends that the East Asian financial constitution lacks an appropriate infrastructure, resulting in inefficient allocation of high savings and an over-inflated short-term debt market. It goes on to point out that despite high savings, East Asia's dependency on financial centers outside the region is also relatively high, and that there is no strong region-wide network to connect various financial centers in East Asia.

Regional Integration in the Asia Pacific: Issues and Prospects

OECD Publishing, 2005
ISBN: 9264009167

This report, published by the OECD's International Futures Programme in co-

operation with the Bob Hawke Prime Ministerial Centre in Australia, aims to stimulate informed debate about the main integration issues facing the Asia-Pacific region in the decades ahead. It examines such issues as how the region compares to other regions of the world in terms of economic and political integration; regional co-operation on trade, investment and environment; and security and transportation concerns. The book concludes with Mike Moore's "Reflections on Asia Pacific Integration".



IMF and the Politics of Financial Globalization

Ben Thirkell-White
Palgrave Macmillan, 2005
ISBN: 1403920788



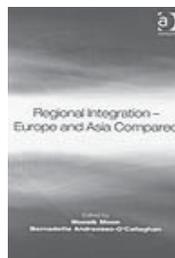
The Asian crisis triggered ongoing controversy over the IMF's role in a 'new international financial architecture'. This book argues for a political approach to crisis and reform, placing current debates in the context of

the politics of financial regulation since Bretton Woods. It explores links between domestic political controversy over IMF policy in Indonesia, Korea, Malaysia and the United States and the broader politics of IMF decision-making. It argues that, unless political arrangements are reformed, the IMF will face further political challenges.

Regional Integration – Europe and Asia Compared

Woosik Moon and Bernadette Andreosso-O'Callaghan
Ashgate, 2005, ISBN: 0 7546 4230 5

The aim of this book is to examine and compare the integration process in both Europe and Asia, and to draw some possible lessons for East Asia from the European experience, which culminated with the establishment of the economic and monetary union. The book embraces the political dimension of integration (peace and security), economic, trade and monetary aspects, and cultural aspects.



Written by well-known experts in the field of integration, this book represents one of the first attempts at comparing Europe and Asia in the process of integration, by incorporating the latest developments in the field.

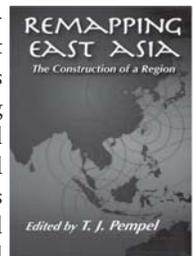
The main theme of the book - integration in Asia from a comparative perspective - has been relatively unexplored as most experts in the field of integration are also 'area experts' (i.e. European integration experts or Asian experts). The contributors to the book provide a distinctive perspective based upon their understanding of integration (political, economic, and socio-cultural) across various regions of the world.

Remapping East Asia: The Construction of A Region

Editor – T.J Pempel
Cornell University Press, 2005
ISBN: 0801489091

An overarching ambiguity characterizes East Asia today. The region has at least a century-long history of internal divisiveness, war, and conflict, and it remains the site of several nettlesome territorial disputes. However, a mixture of complex and often competing agents and processes has been knitting together various segments of East Asia. In *Remapping East Asia*, T. J. Pempel suggests that the region is ripe for cooperation rather than rivalry and that recent "region-building" developments in East Asia have had a substantial cumulative effect on the broader canvas of international politics.

This collection is about the people, processes, and institutions behind that region-building. In it, experts on the area take a broad approach to the dynamics and implications of regionalism. Instead of limiting their focus to security matters, they extend their discussions to topics as diverse as the mercurial nature of Japan's leadership role in the region, Southeast Asian business networks, the war on terrorism in Asia, and the political economy of environmental regionalism. Throughout, they show how nation-states, corporations, and problem-specific coalitions have furthered regional cohesion not only by establishing formal institutions, but also by operating informally, semiformal, or even secretly.



RESOURCES

Advancing the ASEAN-India Partnership in the New Millennium

Ong Keng Yong

India has a web of cooperation with East Asian countries, especially ASEAN through the ASEAN-India dialogue process, the bilateral free trade agreements with

Singapore and Thailand and sub-regional initiatives such as the Mekong-Ganga cooperation and the BIMST-EC.

H.E. Secretary General, ASEAN, in the discussion paper has focuses on the need to develop a partnership between ASEAN and India that has the dual objectives of addressing the challenges of globalisation and working closely to reap the opportunities of

the same universal phenomena. There are enough opportunities and challenges to compel ASEAN and India to work closely in maintaining peace and stability, expanding economic linkages and improving the critical human capacities. The paper also presents ten points for Advancing ASEAN-India People-to-People Partnership.

(RIS Discussion Paper, No.96, 2005)

Continued from page 1 (The Future of Asia.....)

more than a trillion dollars over the next five years on roads, water, communications, power and other infrastructure to cope with the rapidly expanding cities, increasing populations, and the growing demands of the private sector. Monetary and financial cooperation in Asia, designed to mobilize the huge foreign exchange reserves of Asian countries for development of regional commons and regional infrastructure, could have the potential of creating hundreds of billions of dollars of additional output to overcome these constraints.

The major countries of Asia are already engaged in developing preferential trading arrangements between themselves. India too is actively pursuing these possibilities. This should continue, but we must also keep in mind that the larger East Asian Community offers the opportunity to build a broader regional trade and investment architecture which can overcome the sub-optimal benefits of bilateral arrangements and build stronger synergies and deeper complementarities for greater mutual advantage.

Cooperation for ensuring energy security can be another highly lucrative collective endeavour for the East Asian Community as many of its members are amongst the largest consumers and importers of energy in the world. Two possible areas of such an Asian energy cooperation could be building an Asian Strategic Petroleum Reserve and creating an Asian Emergency Response System. The cooperation could also extend to cover the joint patrolling of the sea-lanes through which pass the bulk of the oil and gas supplies for the region.

Cooperation in the development of transport infrastructure and connectivity is another area of promise for the East Asian Community. In addition, collective venture in core technologies for addressing the digital divide and nutritional and health related issues also presents opportunities for fruitful cooperation especially in fighting the common challenges of poverty and

underdevelopment in the region.

Today, Asia stands at the cusp of exciting times, which hold a bright promise for our future collective endeavours. We share the responsibility to shape our collaboration to liberate the creative energies of the entire region. We must put in place a political and economic architecture which is conducive to Asia's emergence as a pre-eminent region

of stability and prosperity. This can make the 21st century the Asian century in the truest sense. India seeks closer and wider engagement with her Asian neighbourhood and is willing to work closely with them to realize this shared aspiration.

(Excerpted from the speech delivered at The Future of Asia 2005 Conference organized by Nihon Keizai Shimbun in Tokyo on May 25, 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 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

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

The *New Asia Monitor* is a quarterly of the New Asia Forum launched by RIS. It seeks to disseminate the news, viewpoints and information about resources among the policy circles and think-tanks to promote the cause of regional economic integration. The information contained has been compiled from various sources, as cited, purely for educational and dissemination, and not commercial, purposes. The copyrights of the material included remain with the original sources. The *New Asia Monitor* is available free from RIS or can be downloaded from www.newasiaforum.org.



RIS
Research and Information System
for Developing Countries

Core IV-B, Fourth Floor,
India Habitat Centre
Lodhi Road, New Delhi-110 003
India.
Ph. 91-11-24682177-80
Fax: 91-11-24682173-74
Email: dgoffice@ris.org.in
Website: <http://www.ris.org.in>

Associate Editors: Arti Shukla and Beena Pandey