

# New Asia Monitor



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## FEATURE ARTICLES

### Relevance of Gandhian Economics in the Context of Financial Crisis

Shri Pranab Mukherjee

External Affairs and Finance Minister of India

The course of the current crisis would profoundly alter the structure of the global economy and have far-reaching implications for the future governance of the world: sovereign wealth funds have injected more capital into the emerging markets than the IMF and the World Bank combined. First, the structure of global economic governance would need to be changed profoundly with major developing economies having a say in it; failure to create a new architecture would lead countries towards competitive monetary policies and new investment barriers, increasing the potential for global market fragmentation. Second, as the G-20 Summit Declaration in Washington states, far greater economic coordination - at regional and global levels - would be needed to be achieved about the movement of capital. Last and not the least important, the aid and trade flows to the developing world must be maintained, as the Prime Minister said in his intervention at the Summit, to help stabilize the situation there where the vast majority of the world population lives.

The global financial institutions need to put more resources for the developing countries in the rural economy, build social infrastructure and connectivities and to strengthen local communities. The resources must be put in institutional capacity-building and skills' development. It should be a veritable Marshall Plan for the economic uplift of the poorest sections of societies world-wide. To me, there is a necessity, once again, to revisit Gandhian economics with its emphasis on rural self-help and sustainable economic development. Anything contrary would be disastrous.

I find it most difficult to subscribe to the thesis that the current economic crisis is due in part or in its entirety to high savings rate in Asia. The current circumstances make it imperative for the developing countries to enhance regional cooperation to mitigate the adverse impact of this crisis. We have the capability to do so and we need to be creative in our cooperation.

Asian regional cooperation structures have evolved significantly in recent years with important geo-political portents. India attaches great importance to deepening and diversifying South Asian Cooperation and with ASEAN. SAFTA symbolises the progress in regional free trade area. At the same time, ASEAN has made significant progress in regional economic integration. A regional financial architecture, drawing upon the high currency balances in Asia, would mitigate the severity of the economic crisis for us.

We, in Asia, have the capacity to undertake significant contra-cyclical steps to drive the economy forward on the strength of the domestic demand by investing more on infrastructure, on labour intensive sectors and on the improvement of the social safety nets.

(Excerpted from the Inaugural Statement delivered at the RIS's Silver Jubilee Conference, 6 February 2009, New Delhi, India).

### Asia and the Global Financial Crisis

Haruhiko Kuroda

President, Asian Development Bank

By now, we are all well aware of the origins of the present global economic crisis. It's a measure of global financial integration and economic inter-dependence that the crisis has spread from one industry to the whole economy and then rapidly transcended national boundaries. Central banks across the globe have taken unprecedented measures to ease the liquidity crunch while Governments across continents have unveiled stimulus packages.

Given the degree of financial integration and global economic inter-dependence, Asia was bound to be at least somewhat impacted by the crisis. However, the corrective measures undertaken earlier have helped the Asian economies to face the latest turmoil with greater confidence and on a much stronger footing. There are four inter-related developments on Asia as a result of global economic downturn. These are: (i) the impact via the trade channel, (ii) impact on the financial system, (iii) liquidity constraint in domestic financial markets, and (iv) reduced remittances received from overseas migrant workers, though this impact is not fully evident yet. The economic slowdown is already being experienced by Asian countries through one or more of these transmission channels. Continued financial instability could adversely impact the large financing needs for developing Asia's high priority development objectives.

At this stage, the question arises as to what mechanism and which regional format is most appropriate to drive the Asian agenda forward? India has an important role to play in further promoting regional cooperation in South Asia. India's role is significant in linking South Asia with East and Southeast Asia and reaping the benefits or closer regional integration and cooperation.

By strengthening regional ties, India together with other Asian countries can build more resilience against the effects of a global slowdown. As I have been suggesting the creation of an "Asian Financial Facility Dialogue," among many finance ministries, central banks, and other market regulatory and supervisory agencies. Such dialogue would be an important tool to promote longer-term financial market development. In response to the current crisis, many Asian Governments have introduced measures to support their banking systems, help stabilize financial markets and facilitate recovery. Through an "Asian Financial Facility Dialogue," countries could further develop a coordinated plan of action to internalize regional spillovers.

ADB is implementing measures to assist its member countries to contain the immediate effects of the global crisis, and is stepping up its operations by several billion dollars from its originally planned \$12 billion in 2009. ADB also supports the regional trend toward deeper integration. Ultimately, a global crisis requires a global solution. With a sense of cooperation and coordination, Asia can indeed turn this challenge into an opportunity to rebalance the sources of growth by revitalizing domestic investment and consumption, thereby contributing significantly to the global recovery.

(Excerpted from the Keynote Address delivered at the RIS's Silver Jubilee Conference, 6 February 2009, New Delhi, India).

## Experts at the RIS Silver Jubilee Conference Seek Deeper Regional Cooperation in Asia to Deal with Financial Crisis

To mark its Silver Jubilee Celebrations, RIS organized a High Level Conference on Financial Crisis, Global Economic Governance and Development: Responses of Asia and the Global South on 6-7 February 2009 in New Delhi. The Conference was organized in collaboration with a number of eminent think tanks and international organizations, viz. ISEAS, Singapore; ERIA, Indonesia; Global Development and Environment (GDAE) Institute at Tufts University, Medford, USA; Centro De Investigaciones Para La Transformacion, (CENIT), Buenos Aires, Argentina; Commonwealth Secretariat, UK; ADB, Manila, Sasakawa Peace Foundation, Japan and Ford Foundation, USA.

On the occasion, Shri Pranab Mukherjee, Hon'ble External Affairs and Finance Minister of India, in his Inaugural Address stated that a regional coordination mechanism can help in better surveillance to prevent further crisis by taking timely action. H.E. Haruhiko Kuroda, President, ADB, in his keynote address in the Inaugural Session, said that a global crisis requires a global solution and Asia can turn this challenge into an opportunity to rebalance the source of growth by revitalizing domestic investment and consumption. Ambassador K. Kesavapany, Director, ISEAS, praised RIS contribution in promoting regional integration and placing India at the high table of East Asian regionalism where it is in a position to contribute to the making of the new Asia. Dr. Nagesh Kumar, DG, RIS welcomed all the distinguished participants of the Conference.

Mr. Kamlesh Sharma, Commonwealth Secretary-General, delivered a Special Dinner Address on the first day of the Conference. Dr. Sheel Kant Sharma, SAARC, Secretary-General, delivered a Keynote Address on the second day of the Conference. Ambassador H.S.Puri, Secretary (ER), MEA delivered the Valedictory Address.

The Conference had participation of senior high level government officials, eminent scholars and academicians from policy think-tanks across the world and international development agencies with whom RIS has developed institutional networking links. It had a representation of more than 35 prominent regional development institutions from both India as well as abroad. The main themes of the Conference were the Global Economic Crisis and Asia: Challenges Faced by the Real Economies in Select Asian Countries and their Responses; Responding



(From left) : Shri Pranab Mukherjee, Hon'ble External Affairs Minister delivering the Inaugural Address; Dr. Nagesh Kumar, DG, RIS; H.E. Mr. Haruhiko Kuroda, President, ADB, Manila; Dr. Arjun Sengupta, M.P. and Chairman, RIS; Ambassador K. Kesavapany, Director, ISEAS, Singapore; Dr. Junko Chano, Executive Director, Sasakawa Peace Foundation, Tokyo at the inaugural session of the Conference.

to the Financial Crisis: Towards a More Development-Friendly and Democratic Global Financial Architecture; Crisis and the Broader Regional Cooperation in Asia: Architecture for Regional Keynesianism and Narrowing Development Gaps; Deepening South Asian Economic Integration in an Era of Crisis: Role of SAARC and BIMSTEC; Sharing Each Other's Dynamism and Development Experiences: Role of South-South Cooperation; and Financial Crisis and Trade, Industrial and IPR Policies for Development : Towards a Southern Consensus.

In order to address the impact of financial crisis, the Conference unanimously recognized the potential of the emerging economies in helping to avoid a global recession over an elongated period. The experts put forth the national responses to the crisis in terms of their country experiences, and emphasized that instead of looking exports as the main engine for their economic growth, Asia should focus on domestic demand, investment in infrastructure development, labour intensive sectors and creation of social safety nets. As these steps are significant in terms of tackling the problems of unemployment and working poor.

Against the background of Asia emerging as an centre of gravity of the world economy, the Conference welcomed the evolution of East Asia Summit (EAS) as an annual forum for dialogue on regional issues comprising the members of ASEAN and Japan, China, India, Korea, Australia and New Zealand. The Conference lauded a Track-II feasibility study of a CEPEA, which emphasized on economic cooperation as a key pillar of the regional arrangement and appreciated the progress made by ERIA, a regional economic

think-tank created within the framework of the EAS.

The Conference realized the need for institutional intermediation between growing foreign exchange reserves of Asian countries and widening infrastructure deficits in Asia, for that they recommended that there is need to study whether such an institutional intermediation could be provided by ADB and other existing regional institutions.

In order to deepen regional cooperation in South Asia, the Conference emphasized that the work on greater economic integration in the region on trade in goods needs to be complemented by expanding its scope to cover trade in services at the policy level. They also recommended strengthening trade facilitation infrastructure along with physical infrastructural connectivity. Apart from this, the Conference suggested strengthening of the IBSA trilateral Commission, the GSTP-III and South Bank among other initiatives.

On the issue of democratization of the IMF, the Conference advocated addressing the democracy-deficit in the decision-making processes in the multilateral financial institutions. They also proposed that multilateral trade negotiations should also take into account the need for policy space for developing countries in the negotiating proposals and incorporate them in special and differential treatment programmes.

Lastly, the Conference agreed that a closer and sustained academic collaboration among think-tanks of the South on global economic issues is imperative to help translating visionary ideas into practical policy prescriptions.

(Source: Summary Report of the Conference available at <http://www.ris.org.in>).

## Japan And India Move Ahead On Strategic Partnership

At the Japan-India Annual Summit, held on 22<sup>nd</sup> October 2008 in Tokyo, the Prime Ministers of Japan and India shared the view that Japan and India, as major countries in Asia, that share common values and interests, must advance bilateral cooperation as well as cooperation in regional and multilateral areas with the objective of promoting peace, stability and prosperity in Asia and the world.

They reviewed the implementation of the Roadmap for New Dimensions to the Strategic and Global Partnership and were satisfied with the sustained progress and also recognized that there is still immense untapped potential for the further expansion of bilateral relations. The two Prime Ministers welcomed the substantive progress achieved on the EPA/CEPA and hoped that it would be mutually beneficial in order to harness the true potential of economic partnership.

The two leaders welcomed the efforts of JETRO and other organizations to support investment by the Japanese SMEs to India. In that context, they shared the view that the Japanese ODA has contributed to India's economic development and should continue to play an increasing role in India's poverty reduction, economic and social infrastructure development, tackling environmental issues and human resource development.

The two Prime Ministers reaffirmed their commitment to the realization of the Western Corridor of the Dedicated Freight Corridor (DFC) project, as the new flagship project of Japan-India cooperation, with the Japanese ODA Loan utilizing Japan's Special Terms of Economic Partnership (STEP) scheme and confirmed their readiness to jointly initiate the first phase (Rewari-Vadodara sector) of the project. They also expressed the view that the Delhi-Mumbai Industrial Corridor Project (DMIC), which is linked to the Western Corridor of DFC Project, has the potential to transform the dynamics of the Japan-India economic engagement, and decided to pursue this further.

They welcomed progress achieved under the Japan-India Ministerial-level Energy Dialogue which confirmed the strengthening of cooperation in energy efficiency and conservation sector particularly through cooperation in establishing Regional Energy Efficiency Centres in India, and the development of a comprehensive cooperation in the coal and power sectors. They shared the view that they will enhance cooperation in the field of ICT and recognized the crucial role played by business and industry of both the countries in intensifying trade, investment and economic relations. They noted with satisfaction the enhanced people-to-people

exchange between the two countries under the Aso Programme, including through the Japan-East Asia Network of Exchange for Students and Youth (JENESYS) Programme, and shared their renewed commitment to maintain the upward trend.

They confirmed their commitment to collaborate in the establishment of a new Indian Institute of Technology (IIT) in Hyderabad and acknowledged the need to make all efforts to take forward the collaboration for the development of the Indian Institute of Information Technology, Design and Manufacturing at Jabalpur, in accordance with the Memorandum signed in December 2006 on this subject.

The two Prime Ministers reaffirmed their support for the East Asia Summit as an open, inclusive, transparent and Leaders' led forum to promote cooperation on issues of common interest and to deepen regional economic integration towards the progressive realization of an East Asia Community. They also welcomed the establishment of the Economic Research Institute for ASEAN and East Asia (ERIA) and referred to the report of the study on the Comprehensive Economic Partnership in East Asia (CEPEA) to be submitted.

(Excerpted from the Joint Statement on the Advancement of the Strategic and Global Partnership between Japan and India, Tokyo, 22 October 2008).

## RIS Organizes ERIA Capacity Building Programme on Global and Regional Economic Cooperation Issues

Under the Economic Research Institute for ASEAN and East Asia (ERIA) framework, RIS in collaboration with IDE/JETRO, Tokyo organized the second Capacity Building Programme on Global and Regional Economic Cooperation Issues (GRECI) in order to strengthen the analytical capacity building among the developing country professionals, including diplomats, researchers, journalists and others from the Asian developing countries during 6 February to 6 March 2009 in New Delhi.

The GRECI Programme is designed to expose the participants to the growing complexities of global economic governance, including regional economic cooperation and negotiations and provide opportunities for meaningful peer interactions among the fellow participants from the East Asian countries especially from the CLMV (Cambodia, Laos, Myanmar and Vietnam) countries. Like previous year, the participation in 2009 batch was fairly representative of the ERIA region and diverse in terms of specializations of the participants from countries like Australia, Cambodia, China, Indonesia, Lao PDR, Malaysia, Myanmar, New Zealand, Philippines, Thailand and Vietnam respectively.

The programme included lectures by RIS faculty and renowned experts and participants' presentations on three main issues such as Global Economic Governance; Regional Economic Integration and Trends in Indian Economy. Besides course inputs, more emphasis was given on debate and interactions on key economic issues of global importance.

On successful completion of the programme, the participants expressed their deep satisfaction regarding the course contents and the usefulness of such training programmes for capacity building programmes in developing countries. They also opined that in view of the renewed emphasis on South-South cooperation, more thrust should be given to such capacity building programmes.

(Source : [www.ris.org.in](http://www.ris.org.in))

## Southeast Asian Nations Talk of Economic Union

Southeast Asian governments want to speed up the formation of an economic group modeled on the European Union as the global recession slows their export-driven economies. ASEAN at their annual meeting, signed trade deals and agreements to form an integrated economic community, without a common currency, by 2015. But analysts said that absent from the agenda were the concessions they said were necessary to increase growth in the region.

Michael Montesano, a visiting research fellow at the ISEAS, said that ASEAN'S biggest problem is that individual members haven't been willing to sacrifice for the common good. On the other hand, every European Union member has given up sovereignty to be part of a stronger union, and we haven't seen that in ASEAN.

Wide economic disparity among ASEAN members has hindered the region's ability to leverage its market of 570 million people and compete for investments with China and India, the world's fastest growing economies. Thailand's Prime Minister, Abhisit Vejjajiva, who led the meeting, called on the bloc to "accelerate" the formation of an "attractive single market."

According to the Thailand's Finance Minister, Korn Chatikavanij, Southeast Asian leaders agree that closer regional integration would help growth, but still, the large differences in wealth among ASEAN members make it difficult to create common standards because our national standards remain so far apart.

(Excerpted from *The New York Times*, 2 March 2009).

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## Emerging Asian Countries in Need of Structured Cooperation

In order to celebrate 50 years of relations between Japan and Indonesia, in a seminar organized by Japanese Embassy, there was a general opinion that emerging Asian countries would need to restructure their regional cooperation for better integration amid rapid geopolitical change and a looming economic crisis.

Jusuf Wanandi, of the Centre for Strategic and International Studies (CSIS) Foundation, told the seminar that the existing regional cooperation in Asia was established in response to a situation far different from that observed today. He pointed to the APEC, that operates on the basis of non-binding commitments, and unlike the WTO or other multilateral trade bodies, APEC has no treaty and enforces no obligations on its members. He also said that APEC as an economic forum would not be able to accommodate the world's big powers like China, India, Japan and the United States. It is a non-ministerial forum, and as a result, the forum cannot include strategic and security issues.

Jusuf said that, any new model to replace APEC should only be made after stakeholders in Asian regional architecture drew a distinct line between the purpose of ASEAN+3 and EAS forums as both focused on similar areas of interest. He called for either "ASEAN+3 to be dissolved into EAS or be given a clear scope of work. ASEAN+3

can work on functional cooperation, including economic cooperation, while the EAS is given charge of strategic issues," he added.

On the same platform, Umar Juoro, Chairman of the Center for Information and Development Studies (CIDES), said the integration of the Asian region hinged on the success of economic and monetary cooperation. Japan as the most advanced economy in Asia has concentrated on economic cooperation, with not much attention paid to political or military issues. And this has been seen to be the prevailing model for future Asian integration, he said. Asian integration could be constructed as a monetary union, in which stakeholders benefited from the more solid and consolidated monetary system of the whole bloc. This is the most realistic and pragmatic model.

Fukunari Kimura, Chief Economist at the ERIA, told the forum that Indonesia and other Asian countries should work to tackle their economic bottleneck at home, lower unemployment rates and enhance political stability in the face of a more competitive environment in a more integrated region.

(Excerpted from *The Jakarta Post*, 5 November 2008).

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## Southeast Asia's Political Clout Grows With The Rise Of China And India

Southeast Asia has played a pivotal role in creating regional political stability in Asia amid the rise of China and India in the continent that has seen economic domination by Japan for decades.

ASEAN leaders have managed to bring Japan, China and South Korea under one umbrella - the ASEAN +3, after decades of prolonged hostility among the three. India, Australia and New Zealand later joined the ASEAN +3 to form the East Asian Summit.

With its success in balancing between Japan, China, South Korea and India, ASEAN now has to defend its leverage on the global stage and prove its ability to manage the imminent delivery of a new US political and economic agenda for the bloc.

ASEAN, Secretary-General, Surin Pitsuwan said, as many as eleven countries have appointed ambassadors to ASEAN, beginning with the US.

Despite ASEAN's success in avoiding tilting toward any one major power, the threat of ASEAN becoming the ground for a "proxy war" could be imminent, as some member states have actually moved closer toward certain major powers.

Myanmar has developed strong trade ties with China and India amid economic sanctions from the West; countries along the Mekong River, including Cambodia, Vietnam and Laos have seen heavy investments from Chinese companies, while Thailand and the Philippines have leaned more toward the United States with their close defense ties.

Many believe that Washington will join the East Asian Summit to exert more influence in the region by signing the prerequisite Treaty of Amity and Cooperation (TAC), which is now under review by the government. The EAS is among a number of forums in Asia where the US has been left out, allowing China to be the single major power.

(Excerpted from *The Jakarta Post*, 24 February 2009).

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## Asia Urged To Deepen Economic Integration in the Wake of Crisis

Export-dependent Asia should hasten regional economic integration to bolster trade and keep a crucial engine of growth running as it braces for fallout from the global financial crisis, officials and experts at an international trade forum urged.

Many of the region's nations have pursued export-led industrialization and growth to quickly lift living standards but are now facing a prolonged slowdown as demand from Europe and the US wanes as the credit crunch morphs into an economic meltdown.

Dozens of free trade agreements are being pursued in Asia but these should be unified under a regional umbrella to avoid overlapping pacts and to reap maximum benefit, experts at the forum said.

"In the current economic situation, the threat of much slower global trade appears to be real. It is important to convince the world that expanding trade through economic integration is one of the ways to restore global economic growth," said Malaysia's Trade Minister, Muhyiddin Yassin. More than 70 free trade agreements have been concluded by the ASEAN with another 70 or more still being negotiated, he said. But regional or multilateral pacts are preferred in order to maximize trade, minimize distortions and to relieve the administrative burden on smaller developing countries that have limited resources, Muhyiddin said.

Dr. Nagesh Kumar, Director General, RIS, said, Asia must seek to boost trade within the region to reduce reliance on Western countries as demand slows and exports dwindle amid the global economic meltdown. He also said that to make up for the losses, Asia needs to find new sources of demand. Regional economic integration is the real option to pursue now with more vigor to enable it to overcome this crisis.

Despite concerns over a "noodle or spaghetti bowl" effect due to overlapping Asian trade agreements, Philippines Senior Trade Under-Secretary, Thomas G. Aquino, said, the pacts are crucial as they allow countries to enter into dialogue on contentious trade issues. In these troubled times, the value of new and deeper free trade agreements models is that they enlarge the menu to beyond spaghetti and noodles. They provide logical reasons, specific opportunities and productive occasions for parties to continue engaging in meaningful cooperation," he said.

Dr. Nagesh Kumar, said, a wider free trade agreements incorporating both Asian giants China and India would be the best option even though negotiations become tougher when the number of participating nations increases.

(Excerpted from *The Jakarta Post*, 30 October 2008).

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## India Reiterates Commitment To Economic Integration In Asia

India's External Affairs Minister, Pranab Mukherjee, while speaking at the International Conference on 'Sub-regionalism Approach to Regional Integration in South Asia: Prospects and Opportunities' hosted by the Sikkim University, said India was committed to promote economic integration with other Asian countries through a host of regional mechanisms like SAFTA and other bilateral mechanisms.

The Minister also said that India's growth in the last few decades provided an opportunity to accelerate this process (economic integration with SAARC countries) and to transform economic interdependence into productive co-existence.

He also said that India has been working bilaterally through unilateral gestures and asymmetrical economic concessions to integrate their immediate neighbours into their economy.

Emphasising on cross-border infrastructure for long term economic integration among countries in South Asia, he said the government was in the process of setting up 13 integrated check posts (ICPs) on land borders with Bangladesh, Nepal and Myanmar with immediate priority being given to Petrapole, Moreh and Raxaul.

(Excerpted from *The Hindu*, 19 December, 2008).

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## India Keen To Open Up New Trade Avenues With ASEAN

Looking at consolidating its 'Look East' policy, India was keen to open up of new avenues of regional trade cooperation and further strengthen bonds of understanding with the ASEAN.

President of India, Smt. Pratibha Patil, said intensifying bilateral cooperation with the two countries, important members in the 10-nation grouping, has been a priority area for New Delhi. As a part of India's 'Look East Policy,' it has been our endeavour to forge close relations with countries of ASEAN, of which Vietnam and Indonesia are important countries. She also added that New Delhi looked forward to further strengthening its historical association and bonds of understanding with these ASEAN nations.

She said the recently concluded India-ASEAN Trade in Goods agreement would open up new avenues of regional inter-linkages in commerce between India and these countries. Further, Vietnam and Indonesia as well as India have witnessed impressive growth rate, which has enabled higher interaction not only in the traditional areas of cooperation like trade and investment but also in fields like capacity building, science and technology, entrepreneurship development, among others.

(Excerpted from *The Hindu*, 25 November 2008).

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## India Infrastructure Fund Gets Nod

During a meeting in Tokyo, the Minister of Economy, Trade and Industry, Toshihiro Nikai and India's Commerce and Industry Minister, Mr. Kamal Nath agreed that the two countries would set up a fund for improving India's infrastructure. Accordingly, they would split the cost 50-50 for the roughly ¥15 billion fund. In this context, the Japan Bank for International Cooperation would finance Japan's share of the fund, which is designed to support the development of infrastructure and logistic functions between New Delhi and Bombay.

(Excerpted from *The Japan Times*, 22 October 2008).

© *The Japan Times*.

## Australia Keen On Comprehensive Free Trade Pact With India

Australian Minister of Trade, Mr. Simon Crean, said, that Australia is seeking a comprehensive FTA with India covering agriculture, manufacture and services and investments, so that efficiency gains could be ensured. He also said that it is far better to be more comprehensive in one's ambition and see what the particular difficulties are.

He said among the six countries in the sub-continent, India has a well-developed and an advanced manufacturing base and half of the Indian economy is accounted for by services. He said that agriculture is a sensitive issue but Australia has successfully forged an FTA with ASEAN which consist of countries of subsistence agriculture and different level of development. The present global economic downturn provides an opportunity as people "are seeking access to capital for expansion, to try and build component parts to the world economy and this accords with the high economic growth of the Asian region."

"If we can get through the uncertainty surrounding the global economic crisis, the surest way is demonstrating our commitment to expand trading opportunity for which we have to build components," Mr. Crean said.

(Excerpted from the *Hindu Business Line*, 5 November 2008).

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## Fifth Nalanda Mentor Group Meeting

At the 5th Nalanda Mentor Group meeting in India, in February 2009, Minister for Foreign Affairs George Yeo, Nobel Laureate Professor Amartya Sen and members of the Nalanda Mentor Group examined the framework and structure governing the establishment of the Nalanda University. They recommended an inaugural Rector for the Nalanda University to the Indian Government. The Group also decided to add the School of Information Sciences and Technology to the earlier proposed six schools that would form part of the forthcoming University. It was decided that the University should have affiliations with academic institutions of distinction in other countries such as Chulalongkorn University of Thailand and the ISEAS of Singapore.

(Excerpted from the Press Statement of the Ministry of Foreign Affairs, Singapore, 21 February 2009).

## India-New Zealand FTA Set For Potential For Enhancing Bilateral Trade

Shri Kamal Nath, Union Minister for Commerce and Industry, and Mr. Tim Groser, Trade Minister of New Zealand, during the bilateral meeting, agreed for an early commencement of FTA negotiations between India and New Zealand. They noted that the Joint Study Group (JSG) Report demonstrates considerable potential that exists to substantially develop the bilateral trade and economic relationship further, and that this would be significantly enhanced by a bilateral FTA.

During the interaction, the Indian Minister, informed that during 2007-08, India's exports to New Zealand was valued at US \$ 159 million and imports from New Zealand were US \$ 336 million taking the total trade to around US \$ 0.5 billion and added that in the current financial year, the bilateral trade has already reached US \$ 394 million in the first 7 months at a growth rate of 40 per cent. Major items of India's exports to New Zealand are gems and jewellery, medicines, textiles, iron and steel products, tyres and parts of aeroplanes/helicopters. Major items of New Zealand's exports are coal, wool, wood, metal waste/scrap, and raw skins/hides. FDI inflows from New Zealand to India have been US \$ 16.8 million. This investment has been mainly in power, food processing industries and computer software/hardware sectors. Presently, CMC, Mahindra and HCL Technologies have a presence in New Zealand market. Dr Reddy's Laboratories are also in the process of making an investment in New Zealand.

(Excerpted from the *PIB Press Release*, Ministry of Commerce and Industry, 20 February 2009).

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## India And China To Strengthen Trade Relations

At the India-China bilateral meeting, Shri G.K. Pillai, Commerce Secretary, stated that in order to minimize the effects of global slowdown, both India and China need to strengthen the bilateral trade and economic relations and requested the Chinese side to explore the possibility of more diversified exports from India. He also said that given the immense potential the two countries have, in both production and the consumption capabilities, we need to work more closely to remove all the minor irritants that creep into our economic and trade relations.

During the discussions, Shri Pillai informed the visiting Chinese Minister that two countries could gain a lot by providing faster market access to pharmaceuticals and drugs. He also requested the Chinese side for granting market access to 14 fruits and vegetable at the earliest, as it was pending since long. Both sides felt that, there is a need for increasing bilateral investments between the two countries and the main sectors for investments could be petrochemicals, steel, healthcare, IT, automobiles, biotechnology, renewable energy and low-carbon technologies.

India-China bilateral trade during 2007-08 was to the tune of US \$ 37.9 billion (exports – US \$ 10.8 billion and imports US \$ 27.1 billion). The major items of exports from India to China are ores, cotton yarn and fabric, organic and inorganic chemicals, precious stones and metals and machinery while the major items of imports from China to India are electrical machinery, organic chemicals, iron and steel, fertilizers and mineral fuel.

(Excerpted from the *PIB Press Release*, Ministry of Commerce and Industry, 19 March 2009).

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## Asia's Big Economies Can Contribute A Lot To Tackle International Financial Crisis

According to Lee Jong-wha, Chief of the OREI, of ADB, Asia's big economies like China and India can contribute a lot to tackle international financial crisis. Asia countries' economy still rely on the United States, Europe and Japan. For these reasons, Asian economies would be affected by the current international financial crisis, but big economies like China and India would maintain their growth, he added.

He predicted that China's economic growth would slow down, from 11 per cent

in recent years to 9 per cent in 2009, and India to 7 per cent next year. According to him, China still has a large space to obtain a rapid growth, if it turns to the domestic side. The Chinese authorities are doing in the right sense, with positiveness and wisdom. And thus will help to overcome the international financial crisis.

(Excerpted from the *Chinaview.cn* 5 November 2008).

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## Asia : An Engine of the World Economic Growth

**The 21st century belongs to Asia. Asia will be the engine of the world economic growth. BIMSTEC is an important part of the wider Asian community. It has the potential of playing a vital role in the Asian community of nations linked by effective road, rail, air and shipping services across which there would be free movement of people, capital, ideas and goods.**

— Prime Minister of India, Dr. Manmohan Singh's Opening Remarks at the Second BIMSTEC Summit, November 13, 2008, New Delhi.

## India To Shape The Emerging East Asian Architecture

India's "Look East" policy has focused on economic engagement with ASEAN Member States and in the East Asian region. Given our buoyant trade and economic relations, India has key roles to play to shape the emerging East Asia architecture.

Specifically, India has talented pool of human resources and tremendous research capabilities. Bringing together researchers from India and other East Asian countries under ERIA would enable the region to tap the full potential in the area of policy-oriented and strategic economic research. Through ERIA, close links with the policy-making processes in ASEAN and East Asia could be forged which could in turn enhance the internal linkages of East Asian economies.

— H.E. Surin Pitsuwan, Secretary-General of ASEAN, Address delivered at the Regional Security and Cooperation Dialogue, 21 January 2009, FICCI, New Delhi.

## The Global Financial Crisis and Asia's Economic Integration

Masahiro Kawai, Dean and CEO, Asian Development Bank Institute

As we all know, the process of economic integration in Asia has been market-driven and private sector-led. The 1997–1998 Asian financial crisis underscored the already high level of economic interdependence and the importance of regional cooperation to deepen regional economic integration in Asia while securing financial stability.

Today, we are facing a global financial crisis and looming global recession that could have a severe and adverse impact on Asia. Asia needs to respond to mitigate the negative impact of the financial and economic crisis and to quickly put Asia back on its sustainable growth path. This may well give impetus to policymakers to accelerate Asia's move towards greater economic cooperation and further economic integration in the region.

There are arguments that the spillover effects of the US subprime mortgage crisis on Asian finance and its real economy have been and will be relatively limited, and that the growth prospects of Asian economies will remain robust. The primary reason for this is that Asian financial institutions' exposure to subprime-related products was limited. In addition, Asian banks and non-bank financial institutions have been fundamentally sound with well-capitalized balance sheets, low non-performing loan ratios, small exposure to real estate, and limited off-balance-sheet activities.

Recent developments, however, have raised concerns about the resilience of Asian financial and economic conditions. The global financial crisis is more acute and the real sector impact is likely to be more severe than was previously expected. The acute global financial crisis and looming recession in industrialized economies have had first round effects on Asia's financial markets through capital flow channels, and are beginning to exert second round effects on the real economy through trade channels.

The recession in industrialized countries has begun to exert negative effects on Asia's real economic activity. The rapid growth of Asia's intra-regional trade observed over the past few decades, driven largely by trade in parts and components within regional production networks has been supported by the region's exports of finished manufactured products to world markets. Asia's exports to the US and European markets, in particular, have been essential for

the region's sustained growth. The weakening demand for emerging Asia's products due to the contraction of US, European, and Japanese economies has already slowed Asia's exports and foreign direct investment inflows, further reducing its economic prospect.

Many countries in the region are trying to respond differently to the crisis in a serious way. Although these measures have been uncoordinated, there is now a strong sense in Asia of the urgent need for coordination to minimize the negative impact of the global financial and economic crisis on Asia's financial sectors and real economy. Indeed, a more integrated Asia could make the region more resilient to global shocks.

A notable feature of emerging Asia's intra-regional trade is the growing volume of shipments of parts and components across national borders. For all East Asian economies, the share of components in intra-regional exports and imports has increased at a much faster rate than in extra-regional exports and imports. Asia's growing intra-regional trade has been supported by increasing intra-regional FDI.

East Asian economies have also been working with countries outside the region to form FTAs and/or EPAs. On the financial side, market-driven financial integration has been taking place in East Asia. For East Asia's financial market integration and stability, there is a need to create deep, liquid financial markets in each country, integrate markets throughout the region, and strengthen regional frameworks for financial stability.

Finally, the region needs to establish an Asian version of the Financial Stability Forum to ensure regional financial market stability and development, and regional consistency of financial sector supervision and regulation. In my view, ASEAN+6 is a better grouping for this purpose. Asia must strengthen its cooperation mechanisms such as ASEAN+3 and the East Asia Summit and set up new institutions to ensure that its views can be effectively and fully reflected in the reform agenda.

(Excerpted from the Luncheon Speech at the International Conference on "The Future of Economic Integration in Asia: Challenges amid Global Financial Turmoil," 20 November 2008, Bangkok, Thailand).

## East Asia, The G20, And Global Economic Governance

Hadi Soesastro, Executive Director, CSIS, Indonesia

East Asian members of the G20 must participate strategically in this emerging global forum. They need to make sure that the G20 can produce policies and actions that will help bring the global economy out of the current crisis as soon as possible. As there is need to adopt a pro-active role to propose their ideas and voice the concerns of the region.

The key issues for East Asian members of the G20 are how measures for global recovery can be crafted collectively; what role the region can play to ensure a sustained and effective recovery; and how the G20 can be mobilised to re-shape global economic governance?

The crisis has created an opportunity for new players to bring their plights, interests, and aspirations to bear towards more inclusive global efforts to resolve it. Dani Rodrik suggested that developing countries should seize this opportunity. This will be important to a sustained recovery, but it is not clear how developing countries can best undertake the task.

Regional or sub-regional arrangements provide an alternative as they can be used to facilitate stronger voice and sense of ownership among smaller countries. Regional arrangements also include a mix of developed, emerging market, and less developing countries. The new global economic governance structure will need to be based on representative institutions.

There are demands to reform existing institutions to reflect the changing economic weight of emerging economies in the global economy. There are ideas that the IMF and the World Bank should be supervised by an over-arching and inclusive global institution, such as the UN global economic and social council as proposed by Germany's Chancellor. The better alternative would be to have networks of regional arrangements play into the global forums.

East Asia needs to be better coordinated if it is to develop a coherent regional agenda to contribute to resolving the global crisis. Meetings of East Asian leaders are scheduled to take place in April 2009 after the London Summit. Leaders can agree to direct their Finance Ministers to have regular "strategy meetings" to strengthen East Asia's engagement in formulating G20 policies and actions towards the recovery of the global economy and in shaping global economic governance.

East Asia's strategic participation in the G20 is aimed not only at securing its role in global economic governance but also at increasing its effectiveness in projecting the region's strategic efforts towards global economic recovery. East Asian countries overcame one major financial crisis a decade ago and undertook a raft of measures to reform and strengthen their financial sectors with a good deal of success. Moreover, they have not taken measures that backtrack on their commitment to promote regional financial and economic integration. Presenting these ambitions through the G20 could also help sharpen the focus in the region in undertaking regional infrastructure development projects that could help stimulate the regional economy and recycle the region's huge reserves as well as promote structural adjustments to redress the global financial imbalance.

The region could also more effectively exert leadership on the trade front to keep global markets open, one of East Asia's top priorities in the G20. The other objectives are ensuring adequate financial flows for development and purposeful coordination of their economic stimulus packages.

(Excerpted from the *VoxEU.org*, 10 March 2009).

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## The Financial Crisis And Asia

David Burton, Special Adviser, IMF

Despite emerging Asia's strong fundamentals, notably its substantial cushion in official reserve and robust corporate and banking sector balance sheets, any hope that the region would escape the crisis largely unscathed has evaporated. Weak global growth will depress demand for Asia's exports; indeed, a significant export slowdown is already under way. And the global financial turmoil is making itself felt strongly in the region, including through much tighter funding conditions, more volatile capital flows, sharply depressed equity prices, weakening currencies and higher sovereign and bank spreads.

Policymakers in the region have responded to the worsening economic environment with a range of measures. Several governments have broadened or increased guarantees on bank deposits or other liabilities, while central banks have taken steps to provide both domestic and foreign currency liquidity on an emergency basis. The focus of monetary policy in the region has been shifted decisively to supporting growth, and a number of fiscal stimulus packages have been adopted or announced.

These efforts should help limit damage to the region, but going forward, more will need to be done at both the global and national levels. First, Asian policymakers need to continue to focus on ensuring financial stability and the functioning of credit markets. Monetary authorities will need to continue to supply their banking systems with adequate domestic and foreign exchange liquidity, develop contingency plans to extend guarantees and recapitalize banks, if necessary, and consider steps to support trade credit should serious difficulties emerge. In all this, transparency and communication

will be the key to allowing both citizens and global investors to understand what is being done and why.

Secondly, monetary policy in almost all countries in the region should maintain an accommodative bias. Thirdly, fiscal policy can also play a key role. Infrastructure spending can be part of the mix provided projects are high quality and can begin to be implemented quickly. Fourthly, intervention in the foreign exchange markets should be limited. While some intervention may be warranted to smoothen excess exchange rate volatility and to address possible overshooting, sustained one-sided intervention may backfire, resulting in larger and more disruptive adjustments later. Moreover, given the potential need for further foreign exchange liquidity provision in some countries, international reserves should be marshalled for their most critical purposes.

Finally, despite Asia's generally strong fundamentals and appropriate policy response so far, it cannot be ruled out, especially if the global financial crisis intensifies, that some Asian economies may experience liquidity difficulties. The international community needs to stand ready to provide large-scale and rapid financial assistance in those circumstances. Given Asia's role in recent years as a global engine of growth, the region contributed at least half of global growth in recent years – an effective policy response will be critical both within the region and for the global economy.

(Excerpted from the *livemint.com*, 23 November 2008).

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## Develop Flexible and Inclusive Regional Financial Architecture

H.S. Puri, Secretary (ER), Ministry of External Affairs, Government of India

In a globalised world with inter-related economies, no continent or country is totally isolated or insulated from the impact of this crisis. Therefore, it is clear that real economies have been badly affected by the demand compression in the Western world and outflow of resources from all across the developing world. Economies that were highly dependent on exports or foreign investments have been more severely hit than others.

At the same time, it is true that the impact on Asia has clearly been limited in comparison with that on USA and Europe. This was due to many factors, as Asia did not receive or hold the toxic assets of the West to the extent these were found in the developed world. Secondly, Asia's experience of the financial crisis in the late 1990s helped to cushion the adverse impact to some extent.

Despite this, Asian economies have taken numerous steps to counter the impact of the global financial crisis. Liquidity packages to shore up credit availability have been announced. Numerous monetary and fiscal measures are being implemented. A major constraint remains the lack of demand including for credit and investment. One policy lesson highlighted in the Conference is that generation of domestic demand in developing countries by making the underprivileged sections a part of the mainstream will not only make the growth process more inclusive but also more sustainable. This constitutes an important input for policy formulation in developing countries. The fiscal stimulus packages being evolved by different Governments should be directed at these segments of society where the propensity for consumption is the highest, that is to say, the under-privileged segments of society.

Even though India had its prudential norms for the financial sector and our banking system was well regulated, Indian economic growth process has been adversely affected due to the crisis. It is now time to urgently take up a comprehensive reform and build a new financial architecture that will be more development friendly and more in tune with the present economic realities. As highlighted in the Conference, there is scope to explore ways to evolve regional and broader Southern architectures for monetary and financial cooperation. With such initiatives, developing countries will be able to play their due role in the process of reform.

Having learnt the right lessons, the Asian economies are in a better position to take measures to protect themselves. Asian economies, due to their high savings rate, have better currency reserves and can, therefore, provide structural solutions to the crisis which has left every citizen of the world affected in some measure. The Asian leaderships would need to look within the region and their own respective countries, without raising protectionist barriers, to generate demand for their goods and services. This would entail important alterations in their economic structures. Within the countries, the vulnerable sections of the society, rural populations, agrarian sector, self-help groups, etc. would need to be especially catered for to make economic growth inclusive and caring for the members of the local community.

This crisis has also altered the dynamics of economic growth in the world dramatically. Emergence of the South as a new growth pole is a remarkable phenomenon with considerable potential. It also puts in focus the critical need for South-South cooperation at various levels. Given the complexity of the crisis, the Asian response is still evolving and it is imperative that we deepen our mutual

cooperation and share our dynamism for mutual benefit. The Government attaches very high importance to deepening South Asian economic integration. Simultaneously, steps are on to extend the scope of trade liberalization in South Asia to trade in services in the form of a SAARC Agreement on Trade in Services (SATIS), on the basis of an initial draft proposed by RIS.

As the global economy goes through a churn, it is time to look beyond as to what kind of institutional architecture we would need to create to avoid such cataclysmic events like the current one. We should develop a regional financial architecture which is both flexible as well as inclusive. Prime Minister, in his intervention at G20 Summit, talked of swap arrangements. There are suggestions to have an Asian currency unit or an Asian basket of currencies. One needs to look at these issues more closely as they have the potential to become the building blocks for global structure.

India has been an active and productive partner in developing regional cooperation, certainly as far as South Asia and South East Asia are concerned. Whether it is the East Asia Summit, the India-ASEAN Summit mechanism or SAARC, India has made considerable contribution to these regional organisations. In these activities, RIS has played a significant role for policy inputs. It is now engaged in an exercise with its counterpart think tanks in East Asia to develop a blue print for Comprehensive Economic Partnership for East Asia.

Thus, South-South Cooperation remains a viable and an increasingly relevant development strategy, pursuant to continued growth in emerging markets and accumulation of valuable development experiences including more appropriate technology and expertise for other developing countries. India attaches importance to South-South Cooperation.

Finally, the financial crisis has also highlighted the importance of Government intervention and regulations. India has always believed in a middle path and followed a mixed economy with co-existence of private and public sectors and development friendly public intervention.

(Excerpted from the Valedictory Address delivered at the RIS's Silver Jubilee Conference, 7 February 2009, New Delhi, India).

### Universal Value of Democracy in Asia

It is our historical lesson that in order for democracy to develop in a stable manner, stability of economy and civil government of each country are essential. In this sense, full cooperation among countries to address current international financial crisis is also important for protecting democracy in the world. Japan has already announced some concrete measures for contribution at the recent G20 Summit and APEC. Toward coming East Asia Summit and ASEAN+3 Summit, Japan would like to put forward concrete cooperation with Asian countries so that Asia can make contribution to the world economy as an "open growing center."

— Statement by H.E. Mr. Masahiko Koumura, Special Envoy of the Prime Minister of Japan at Bali Democracy Forum, 10 December 2008.

## Remodeling Regional Architecture

Jusuf Wanandi, CSIS Foundation, Jakarta

The East Asian region is facing big challenges, especially the rise of China and India. The most effective way to maintain peace, stability, and economic dynamism is to establish a regional institution that could accommodate the three big powers, viz. China, India, and Japan – in a kind of concert of power that will be able to maintain future equilibrium in the region, together with the United States.

Therefore, efforts to develop East Asian cooperation and institution building are critical to the future of the region. While ASEAN has a good chance of supporting and even leading the process, ASEAN's limited cohesion has become a limiting factor as it is doubtful whether ASEAN can really get its act together to face future challenges (global or regional), for instance, on the impact of the financial meltdown and the challenge of competing with China's and India's economic dynamism.

It is also increasingly doubtful whether ASEAN will be able to take the lead in institution building in the East Asia region. ASEAN can only play this role if its members cooperate more closely. But unfortunately, the newly ratified ASEAN Charter is limited in its reach and is not equipped to make ASEAN a credible option for taking a lead role in East Asian regional cooperation.

In this context, Indonesia should take the lead, in cooperation with several ASEAN members, Northeast Asia and India, to push for the idea of a new regional institution. In the meantime, the regional architecture in East Asia and in the Asia-Pacific needs consolidation. For that, APEC should again concentrate on economic cooperation led by the Economic Ministers. The APEC Leaders Meeting has become a diversion and has in practice become decoupled from APEC. APEC also cannot include strategic and security issues because there are two non-state members (Taiwan and Hong Kong) while the Latin American members are not interested in East Asian strategic and security issues.

That is why the APEC Leaders Meeting should be abolished and instead the idea of an East Asian one should be entertained. East Asia states also should decide what they want to do with the two East Asian regional organizations: ASEAN Plus Three (APT) and East Asian Summit (EAS). Either the APT should be absorbed into the EAS or the division of labor between the two should be made very clear. APT should be for functional cooperation including economic cooperation and should be open to the other three members of the EAS, in areas where their involvement is relevant, while the EAS should be a forum for strategic dialogues for the region.

But above all, there is a need for an East Asian institution as an overarching body for strategic dialogues and for hard traditional security cooperation. Here, the US and Russia should be invited. And it should not be a large group. Based on size, strategic importance and GDP as criteria, the countries to be considered would be Australia, China, India, Indonesia, Japan, South Korea, Russia, and the United States. ASEAN should be included, represented by the chair and the Secretary-General, as an associate member. This could become the future concert of power for East Asia – the G8 for East Asia.

(Excerpted from the *PacNet Newsletter* No.13, 18 February 2009).

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## The Asian Economy

It is Asia that holds the greatest potential of anywhere in the world with about 40 per cent of the world's population and an average economic growth rate of roughly 4 per cent in recent years. It is important for this region to contribute to the world economy as a center of growth open to the world.

Furthermore, it will be necessary to strengthen regional cooperation towards strengthening Asia's growth potential and expanding domestic demand.

— H.E. Mr. Taro Aso, Prime Minister of Japan, on the occasion of Annual Meeting of the World Economic Forum, 31 January 2009, Davos, Switzerland.

## Room For Asian Influence In G20

Michael Richardson, ISEAS

The Heads of State of the Group of 20 in their recent summit agreed on a plan for tackling the financial crisis and the deepening slump. This gave an opportunity to Asia to increase its influence in managing the world economy, provided leading players China, India, Japan and South Korea could put aside long-standing geo-political rivalry and intensify coordination.

As a forum for consultation and cooperation, the G20 seems set to become a prominent feature of the global economic landscape. Though they have agreed to meet again to review their action plan, which ranges from reform of banking, accounting and credit-rating standards to stimulating economic recovery, sustaining world trade and investment flows, and ensuring that the IMF and the World Bank have enough resources to cope with future challenges.

The scope of the problems confronting many economies, both developed and developing, have propelled the G20 from obscurity to the front line. These problems can no longer be tackled by North American and European powers alone or in a dominant position, even though they retain hefty economic and financial clout. The interests of advanced and emerging economies are reasonably balanced in the G20. Members from the former include the US, EU, Britain, Canada, France, Germany, Italy, Japan, Russia, South Korea and Australia, while the developing world is represented by China, India, Indonesia, Brazil, South Africa, Mexico, Argentina, Saudi Arabia and Turkey.

The role of Asia broadly defined to include EAS membership (ASEAN+6) in the G20 is unique for two reasons. First, it cuts across the North-South divide, linking Japan, South Korea and Australia with China, India and Indonesia. Secondly, Asia's potential clout is huge. Measured by purchasing power, Asia accounts for more than 35 per cent of world GDP, compared with the U.S. and the EU at 20 per cent each.

Moreover, Asia has been contributing to around half of world growth in recent years. Although hurt by the current crisis, major Asian economies have not slowed as much as Western counterparts. Asian resilience and the fact that the region holds about one-third of the world's central bank reserves could play a key role in cushioning the recession and aiding recovery. A start has been made in this direction through the proposed expansion of the network of currency swaps in Asia and plans for a regional bond market and an Asian currency unit. This kind of cooperation needs to be intensified if Asia's punch is to reflect its true weight.

The current structure of the G20 leaves plenty of room for Asian influence. If Asia wants to reshape the global economy and financial system, there is no better opportunity to do so than now.

(Excerpted from *The Japan Times*, 25 November 2008).

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## For An Asian Financial Architecture

Nagesh Kumar, Director-General, RIS

The US financial crisis is turning into a global crisis leading to slowdown across the world. Like other economies, Asian economies are facing demand squeeze in the west. This is compounded by the foreign institutional investors liquidating their investments in emerging capital markets leading to sharp decline in stock prices and currencies.

Asia needs a mechanism for generating additional demand to moderate the effect of global slowdown for sustaining its dynamism. Financial cooperation in Asia becomes especially relevant in the current context of sluggish external demand and falling flow of funds. In the wake of the 1997 east-Asian crisis, Japan had proposed Asian monetary fund as a regional lender of last resort but abandoned under western resistance. Eventually, a more modest Chiang-Mai initiative (CMI) was launched by ASEAN+3 to provide liquidity assistance to countries in difficulty through a system of bilateral swaps. Subsequently, these bilateral swaps have been multilateralised into a pool of about \$80 billion of which only 20 per cent can be drawn without invoking IMF's conditionalities. However, there are many limitations of this arrangement.

Firstly, the size of the pool is small especially that without conditionality. Secondly, CMI is limited to only response to crisis and not generation of additional demand. It may be of limited use for the current crisis which is impacting the region through demand recession. Thirdly, it is not inclusive, being limited to the crisis-affected countries and Japan during the 1997 crisis.

In the current context, a more profound and bolder approach needs to be considered as well as feasible because Asian countries now collectively own foreign exchange reserves of more than US \$4 trillion and are mostly invested in US treasury bills in the absence of a regional mechanism for their productive deployment. As a result, many Governments are setting up sovereign wealth funds to manage their foreign exchange reserves.

Now, this is the crucial time for creating a regional mechanism like Reserve Bank of Asia (RBA) that will draw upon a very small part of the foreign exchange reserves of the region. Given the size of region's forex reserves, even their modest 5 per cent will create a pool of US \$200 billion. Besides providing BoP support to the member countries in the period of crisis, RBA would invest and co-finance infrastructure projects in the region. It could also provide for a basis for launching an Asian Currency Unit (ACU) for facilitating intra-regional trade by moderating the exchange rate volatility between the region's currencies. With a large capital base, RBA would have the potential of catalysing billions of dollars of additional investments in the region, not only generating demand to moderate the effect of the current crisis but also expediting the development of the region, improving the connectivity and bridging the development gaps between and within the countries.

East Asia Summit is the most relevant launching pad for this kind of an initiative. As it has already identified finance as an area of cooperation, hence it could be an ideal forum to create an Asian financial architecture. India has much to contribute to financial cooperation in Asia and benefit from it. With this kind of an approach, Asia will also be able to play its due role in shaping the global financial architecture.

(Excerpted from *The Economic Times*, 7 November 2008).

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## Nalanda Bringing Asia Together

We are hoping that by the 21st century, the Nalanda idea of bringing Asia together, of creating an universal spirit can be revived and it has a special relevance because it is based on the Buddhist philosophy of men living in harmony with men, men living in harmony with nature, men living as part of nature and this is what we need today, with all the problems of overpopulation and climate change and environmental pollution. We hope that this university will attract support from all over the world. The Indian government will be presenting it as a project for the East Asia Summit.

— Excerpted from the *Doorstep Interview with Minister George Yeo at the Dinner hosted for Nobel Laureate Professor Amartya Sen by Minister George Yeo, 18 February 2009.*

## Withering Global Imbalances: Implications for Asia

Ramkishan Rajan, George Mason University

Given the absence of any significant reform of the global financial system and the roadblocks Asia faced in creating a viable regional monetary facility, on the one hand, and an anxiety not to see a repeat of the crisis, on the other, many emerging economies in Asia started to rapidly accumulate reserves as a means of self-insurance against future financial crises.

The seemingly paradoxical situation in which emerging economies had excess national savings which were funding the excess consumption in the US was what became known the "global macro-economic imbalance." The predominant concern with regard to the global macro-economic imbalances pertained to why they persisted and how they could be resolved.

While the glut in the case of Japan has been due to the declining domestic investments, a result of the decade-long recession of the 1990s, that in China was largely due to sharply rising domestic savings which, in turn, were fuelled by corporate savings. In the case of the oil producing countries, it was also a sharp rise in national savings due to the commodity price boom. Most interesting and likely most relevant to the current situation in the US, is the case of ASEAN and the NIEs, where the pointed rise in the current account surplus was because of the decline in investments post 1998. The financial crisis and the consequent credit crunch seemed to lead to a persistent deleveraging of financial systems and corporate entities.

The issue of exchange rate coordination is very important for Asia. While Asian currencies have moved to a greater degree of flexibility, they remain far from being flexible *per se*. In fact, there appears to be a degree of asymmetry in the sense that, while many of them are willing to allow for sharp currency depreciations, they are much less willingly to tolerate sharp currency appreciations. Apart from keeping the currency relatively undervalued, this asymmetric exchange rate intervention has been one of the significant contributors to the reserve accumulation in the region. Given that Asia houses two-third's of the world's international reserves, it may well be time to revisit the 1997-98 proposals for an Asian monetary facility, though its objectives will have to be clearly spelled out.

(Excerpted from the *RGE Monitor.com*, 30 October 2008).

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## A Crisis And New Opportunities

Mukul G. Asher, National University of Singapore

Robust global economic growth and a benign external economic environment until recently are widely regarded as contributory factors in India registering annual real GDP growth of 8.8 per cent between 2003-04 and 2007-08. India, however, has not been immune to the current global financial and economic crisis, which arguably signifies the end of financial capitalism. This is reflected in sharp declines in asset valuations, high currency volatility, and in higher cost and reduced availability of credit for households and businesses.

India faces diminished growth prospects for at least a year or two. GDP growth is projected to be only 6.5-7.5 per cent in 2008-09. Even this may prove to be optimistic, if global recession becomes deeper and lasts longer than currently anticipated. India also has large trade and current account deficits, largely financed by foreign capital inflows and remittances. The current crisis is making it more difficult to sustain these twin deficits without high economic and social costs. In addressing the current economic and social challenges, the main priority should be on domestic economic and governance reforms.

India's Look East Policy (LEP), initiated in the early 1990s to revitalize age-old civilizational and economic links with the rest of Asia, could be a useful instrument in mitigating the adverse impact of the crisis, and could better position India to benefit from its aftermath. The LEP has enabled India to deepen its relations with the ASEAN, China, Japan, Korea and more recently with Australia. India has been a low-key but constructive participant as a full dialogue partner of ASEAN, the ARF devoted to security issues, the Asia-Europe meeting, and the East Asia summit (EAS).

The EAS is increasingly regarded as the most appropriate forum for articulating and structuring Asia's role in reforming global governance and institutions. Even during the current global crisis, the EAS as a group likely to grow at considerably higher rates than

the average growth in developed countries, and in other regions. Deeper integration with the EAS members, therefore, could help sustain India's external sector as an engine of growth.

Three recent developments augur well for the use of the LEP to cope with the current crisis. The first is the India-ASEAN PTA covering merchandise trade, which would be formalized at the recent India-ASEAN Summit. It provides for gradual elimination of tariffs on 80 per cent of tariff lines by 2015, while bringing the rate to 5 per cent on certain sensitive items. Secondly, major development has been the affirmation of the India-Japan strategic and global partnership which has economic, strategic, and environmental dimensions. Affirmation by both countries of the EAS as the primary forum for articulating Asia's views of global affairs is of particular importance to India. The challenge is now for both countries to develop greater economic and technological substance to their relationship.

Finally, the removal of obstacles that enable India to resume civilian nuclear trade and commerce. This could provide an added dimension to India-South-East Asia; and in smoothening India's relations with Japan and Australia. To realize the full potential of these positive developments, India must develop much greater expertise in geo-economics, for that they can consider to expand post-graduation education in strategic studies, international relations and public policy and secondly, consider establishing a well-funded, private-sector-led think tank, located outside New Delhi, for researching, debating and influencing foreign policy issues and options. The current global crisis is far more serious than envisaged. While the primary focus should be on domestic reforms, the recent developments augur well for India's LEP to play a role in meeting the current economic challenges.

(Excerpted from the *livemint.com*, 29 October 2008).  
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## Time To Push For An East Asia Economic Community

Endy M. Bayuni, *The Jakarta Post*

There is no doubt that the financial turmoil hitting the United States will impact globally. Much of Asia's economic fate and fortune is tied to the United States. So these countries too must prepare for the gathering storm. All Asian countries owe their rapid economic expansion to the seemingly insatiable American market and to a lesser extent, to its financial institutions and corporate investments.

The most frequently asked question in Asian capitals today is not so much about how it will impact them, but how they are preparing themselves? Sadly, some of the policy responses seem to be self-destructive, and may even prolong the crisis. Some Asian countries are retreating into protectionism, or are seriously looking into that option to fend off the crisis. Blaming the crisis on the greed of America's unbridled capitalism, many in Asia are now turning their back on the economic system that gave them their current prosperity. Free trade is only good as long as it benefits them.

Protectionism is a sure recipe for economic disaster as far as Asia is concerned. On the other hand, protectionism will also throw the idea of an Asian free trade and the larger vision of an East Asian economic community out of the window. More than at any other time, this crisis should give Asian countries the impetus, or at the very least a renewed interest in pushing for the idea of a borderless East Asia.

However, it seems that this crisis shows that we in Asia have become too dependent on the American market for exports and for our economic growth. If Asia can detach itself, or reduce its dependence on the US, who can we turn to? United Europe is too

small to replace the United States. Besides, Europe has its own financial problems to deal with.

Asia needs to look at the untapped potentials of trading and dealing with other Asian countries. Asia has a huge market unmatched in any other region in the world, it has the financial muscle in Japan and China, and it has the pool of skilled workers necessary to expand their economies.

The current financial crisis has deflated the notion that this is the Asian century. In spite of impressive growth in the last two or three decades, Asia is still unable to stand on its own two feet to claim the ground as the new center of global economic activities. This economic recession will dampen the recent rapid rise of China and India as the new global economic players. Sadly, no one in Asian capitals today is talking about greater economic integration within the region, but they are too busy to fending for themselves in the face of the financial turmoil. A decade back, Asia went through a similar massive financial meltdown like we are now seeing in the US and Europe. That episode triggered talks about the need for greater economic integration within Asia. There were even talks of launching an Asian fund and an Asian currency.

Now this is the right time to bring back the idea of building an East Asian community from the drawing board. This is certainly much more productive and useful than indulging in self-defeating protectionism.

(Excerpted from *The Jakarta Post*, 28 October 2008).  
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## Can Asia Emerge Stronger?

Ajay Chhibber, Director, UNDP Regional Bureau for Asia and the Pacific

Asia is being hit by financial tsunami whose epicenter is in the developed countries, but which has had an impact so far on hundreds of millions of people worldwide. In this context, there are three immediate needs for Asia: first, to have an Asian monetary facility which builds on the Chiang Mai Initiative and whose establishment will help stabilize markets and ease pressure on exchange rates. Secondly, to have better coordination on financial and trade policies in Asia and more intra-Asian trade. Finally, Asian nations need to boost demand in 2009 and strengthen targeted programs to help the poor and needy. Asia cannot hope to export its way out of the impending crisis, but instead must find its own solutions.

For sustaining growth, Asia has so far relied relatively more on exports than any other region in the world. The Asian export-led model has worked well. The headline story is that the direct financial impact of the crisis on Asia has been small, but a closer look reveals that Asia's financial integration with Western economies, particularly with the U.S. has increased dramatically over the last decade. The growing integration of Asian financial markets with the rest of the world explains why equity markets in Asia have fallen as sharply as elsewhere. Nevertheless, the overall impact on real markets in Asia will not be as bad as in 1997-99, when the crisis was largely home-grown. What's needed is a new, domestic demand-led recovery, instead of the old reliance on an export-led recovery.

There's already a silver lining for Asia, and that is falling food and fuel prices. These price drops will reduce trade imbalances by helping contain inflation, which allows Asian countries to ease monetary policy. Using this to their benefit, Asia can take some confident steps forward. More intra-Asian trade will generate demand and help the smaller Asian countries deal with lower export demand.

Sharp increases in emerging-market spreads reflect a generalized retreat from emerging markets not weak macro-economic fundamentals. To deal with this, Asia needs an expanded monetary facility. The IMF has announced a new \$100 billion credit facility to help emerging markets; however, most Asian countries reluctant to engage with the organization. In the absence of such a multilateral body, bilateral swap arrangements are being hotly pursued but remain

an ad hoc mechanism. The Chiang Mai Initiative, which has pooled \$80 billion to help the ASEAN +3 in crisis, needs to be expanded.

After expensive cleanups, Asian countries in general face this crisis with relatively clean banks and corporations. They are not undercapitalized or overleveraged, but are nevertheless vulnerable if there are sharp currency swings which will lead to mismatches.

In addition to a larger currency facility, what's also needed is better coordination on financial and monetary policies. Finally, there is an urgent need for stronger social programs that will ensure Asia's future. Asian countries need to help children stay in school, ensure that basic health care and vaccination initiatives are maintained, and provide food to the very needy to help them deal with the downturn. Targeted conditional cash programs which give cash to families to ensure that children, especially girls, remain in school and are vaccinated have not been tried much in Asia, but are a good way forward.

Asia lacks well-developed social-security systems, such as those in Europe, and so a decline in growth will deepen the social effects of this crisis. As jobs are cut and workers have lost their rural links, many in China increasingly wish for the "iron rice bowl" policies of the Mao era, which at the very least provided basic food, health care and education. India recently launched a massive rural-employment guarantee scheme expected to cost about 2 per cent of its GDP. If successful, the scheme could be the answer to increasing unemployment, at least in rural areas, and help keep people from adding to the ranks of the urban unemployed. Such programs will also help keep Asia on track to meet the MDG by 2015 by helping children stay in school and ensuring that health care is not neglected.

If Asian nations can work together, keep trade open and strengthen social-safety nets, they will not only be able to deal with this financial tsunami, but also lay the groundwork for a powerful future, one in which greater coordination prepares the path for the eagerly awaited Asian century.

(Excerpted from the *Far Eastern Economic Review*, December 2008).

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## Time To Realise The Dream Of An East Asian Community

Kavi Chongkittavorn, *The Nation*

The global financial tsunami is a blessing in disguise for East Asia. It helps to highlight the changes and dynamism taking place after the wake-up call of the 1997 financial turmoil. With the region at the centre-stage, the call for speedier realisation of an East Asia Community (EAC) is more urgent. Hence, economic crises do serve as glue bonding major East Asian countries together.

The credit crunch in the West has miraculously led to closer relations in East Asia. A decade ago, each country in search of its own solution came together. Now, there is a sense of regional confidence with positive and constructive herd instincts among the East Asian leaders. Recently, they agreed on measures to promote the region's financial resilience by enlarging the pooling of funds and a more efficient surveillance regime. The East Asian leaders would also mull over the possibility of deepening and widening the Asian Bond Market to mobilize Asian savings to augment investment in the region.

However, as China-Japan ties grow deeper, their development policies towards ASEAN and the GMS could work in tandem instead of undermining each other. In the near future, such dialogue could transform their development aid policies changing relations with

the region as a whole from competition to cooperation.

Stable Japan-China relations would have a far-reaching impact on the EAC. If necessary, ASEAN has to redefine the ASEAN-plus-three process as the only forum for community building in East Asia. Meanwhile, ASEAN needs to reconcile with the growing dynamic EAS, which includes Australia, New Zealand and India. The three-year-old forum has already agreed on key measures on climate change, energy and food securities. Recently, advisers on Asian affairs of the Obama-Biden team have already expressed the US interest in joining the EAS.

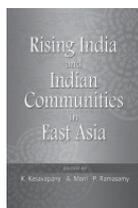
More than the ASEAN leaders would like to admit, ASEAN does not have the much-needed intellectual capacity or organisational capability to lead all regional architects, even though the grouping remains its centrality. In the future, when ASEAN is more confident, with the gap between old and new members narrower, other non-ASEAN EAC or EAS members would be able to play bigger roles. And that is the way it should be, the sooner the better.

(Excerpted from *The Nation*, Bangkok, 10 November 2008).

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## Rising India and Indian Communities in East Asia

Editors: K. Kesavapany, A. Mani and P. Ramasamy  
Institute of Southeast Asian Studies, 2009  
ISBN: 9789812308689



This edited volume focuses on three main contemporary issues: the phenomenon of 'new Indians' in the past five decades, the impact of rising India on settled Indian communities, and the recent migrants. By examining these interrelated aspects, this study seeks to address questions like: What does 'Rising India' mean to Indian communities in East Asia? How are members of Indian communities responding to India's rise? Will India pay greater attention to people of Indian origin? And last but not least, will Indians in East Asia identify themselves with their ancestral land or view such identification as problematic?

## India: The Rise of an Asian Giant

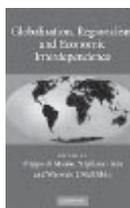
Dietmar Rothermund  
Yale University Press, 2008  
ISBN-10: 0300113099  
ISBN-13: 978-0300113099



Dietmar Rothermund offers a new perspective on India today and a fascinating look into the nation's future. The author explores the diverse roots of India's economic robustness, from agriculture to the export boom. He looks closely at the country's democratic system, nuclear decisions, and alliance with the U.S. against terror. In his review of social changes, Rothermund discusses the institution of caste, the rise of a new middle class, the persistence of poverty, the media and Bollywood, and the significance of the global diaspora of twenty million Indians.

## Globalisation, Regionalism and Economic Interdependence

Editors: Filippo di Mauro, Stephane Dees and Warwick J. McKibbin  
Cambridge University Press, 2009  
ISBN-10: 0521886066  
ISBN-13: 978-0521886062



The present book explores the relationship between globalisation and regionalism from both academic and policy-making perspectives. It assesses the extent to which increased global and regional integration has changed the functioning of the world economy and analyses the implications for global trade, relocation of production, structural changes and the international transmission of shocks. With contributions from both academics and professionals, this book is an invaluable guide to the increasingly important effects of the interaction between globalisation and various different forms of regional integration.

## Human Security in East Asia: Challenges for Collaborative Action

Editor: Sorpong Peou  
Routledge, 2008  
ISBN-10: 0415467969  
ISBN-13: 978-0415467964

This book explores human security in East Asia, focusing in



particular on the challenges to collaboration among actors involved in the process of human security promotion. It examines the theoretical complexities of conceptual arguments about human security, drawing on the ideas of scholars from Asia and the West, to provide a global perspective on what causes human insecurity and how security can best be achieved.

## Energy Security: Visions from Asia and Europe

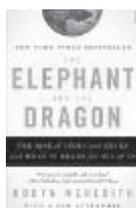
Editor: Antonio Marguina  
Palgrave Macmillan, 2008  
ISBN-10: 0230219705  
ISBN-13: 978-0230219700



This book is a new look at the different perspectives on energy security policies of European and Asian countries. The book explains the reasons for the failure of EU common energy policies and the deficiencies in the policies towards Central Asia. It examines Chinese energy diplomacy, and the possibility of energy competition and cooperation in Northeast Asia.

## The Elephant and the Dragon: The Rise of India and China and What It Means for All of Us

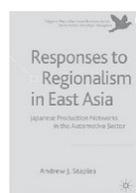
Robyn Meredith  
W. W. Norton, 2008  
ISBN-10: 0393331938



In this book, the author argues that the U.S. shouldn't fear these two rising economic powers. The U.S. (buyer to the world) and China (factory to the world) have, respectively, the largest and fourth largest economies, but they will reach parity in 2015. Meredith makes a compelling argument that China is doing better than India because it moved toward a market economy in 1978, while India began to liberalize in 1991. She also looks critically at each country's plans for the future, noting that China's citizens save more, while India's infrastructure and education system are falling behind.

## The Responses to Regionalism in East Asia: Japanese Production Networks in the Automotive Sector

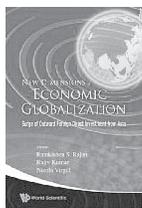
Andrew Staples  
Palgrave Macmillan, 2008  
ISBN-10: 0230516254  
ISBN-13: 978-0230516250



This book is a timely examination of the impact of deepening regional economic integration and regionalism in East Asia on corporate strategy in the Japanese automotive sector. The book presents new knowledge by drawing on empirical research undertaken with corporate executives, public officials and academics. It offers a cogent analysis of the post-crisis transformation of the region and of Japan's pivotal role within this.

## New Dimensions of Economic Globalization: Surge of Outward Foreign Direct Investment from Asia

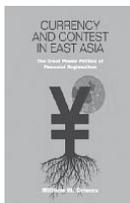
Editors: Ramkishan Rajan, Rajiv Kumar and Nicola Virgill  
World Scientific Publishing Company, 2008  
ISBN-10: 9812793100  
ISBN-13: 978-9812793102



What is the rationale for motivations behind the rise of intra-regional flows and the investment and diversification strategies of Asian multinationals? What is the magnitude of such flows, and can they be expected to persist/accelerate over time? What are the challenges faced by emerging market multinationals and future prospects of intra-Asian FDI flows? These are some of the questions raised in the book. It is unique in country coverage in terms of focusing on Greater China, India, Japan and Southeast Asia rather than just having a sub regional or country-specific focus.

## Currency and Contest in East Asia: The Great Power Politics of Financial Regionalism

William W. Grimes  
Cornell University Press, 2008  
ISBN-10: 0801446899  
ISBN-13: 978-0801446894



In this book, William W. Grimes builds on years of primary research and scores of interviews with participants and policy analysts to provide the most accurate, complete, and detailed description available of attempts to build financial cooperation among East Asian countries. Adapting realist political economy theory to the realities of contemporary global finance, Grimes places regional issues firmly in the wider

context of great-power rivalries. He argues that financial regionalism can best be understood as one arena for competition among Japan, the United States, and China. Despite their mutual desire for regional prosperity and economic stability, these three powers have conflicting political interests. Their struggles for regional leadership raise questions about the long-term feasibility of regional financial cooperation. The possible effects on Sino-Japanese rivalry on regional financial stability, and the potential for East Asian financial regionalism to undermine the long-established-albeit waning-global and regional dominance of the United States and the dollar.

## Asia's New Multilateralism: Cooperation, Competition, and the Search for Community

Editors : Michael J. Green and Bates Gill  
Columbia University Press, 2009  
ISBN-10: 0231144431  
ISBN-13: 978-0231144438



The present book, provide national perspectives on regional institutional architecture and their functional challenges. The authors illuminate areas of cooperation that will move the region toward substantive collaboration, convergence of norms, and strengthened domestic institutions. They also highlight the degree to which institution building in Asia, a region composed of liberal democracies, authoritarian regimes, and anachronistic dictatorships has become an arena for competition among major powers and conflicting norms, and assess the future shape of Asian security architecture.

## (Re)Negotiating East and Southeast Asia: Region, Regionalism, and the Association of Southeast Asian Nations

Alice Ba  
Stanford University Press, 2009  
ISBN-10: 0804760705  
ISBN-13: 978-0804760706



This book seeks to explain two core paradoxes associated with the ASEAN: How have diverse states hung together and stabilized relations in the face of competing interests, divergent preferences, and arguably weak cooperation? How has a group of lesser, self-identified Southeast Asian powers gone beyond its original regional purview to shape the form and content of Asian Pacific and East Asian regionalisms? According to Alice Ba, the answers lie in the paradoxical fact that the region's inherent disunity makes unity imperative. She demonstrates how the critical causal connections that underpin Southeast Asian regionalism are both a necessary response to regional problems, and yet ultimately constrain ASEAN's defining informality and consensus-seeking process.

## South-South and Triangular Cooperation in Asia-Pacific: Towards a New Paradigm in Development Cooperation

Nagesh Kumar

Asian emerging countries have been cooperating with their partner countries within and outside the region primarily through sharing of development experiences, cooperation projects, capacity building, technical assistance, but increasingly also including subsidized lines of credit and grants, preferential market access on unilateral and reciprocal basis. Against this background, this paper reviews the relevance of SSC and TDC and the emerging trends and patterns in Asian context.

(*RIS Discussion Paper No. 145, September 2008*).

## Further Readings

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# Five Years of New Asia Monitor



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Vol. 1 No. 1, March 2004

## New Asia Forum

RIS has been supporting the process of regional economic integration in Asia with its studies and research. Besides its pioneering contribution to the process of economic integration in South Asia, it has been supporting the ASEAN-India economic partnership. It has been developing proposals of a broader pan-Asian economic integration as a part of a research programme supported by the Sasakawa Peace Foundation. As its most recent initiative, The RIS has set up a 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 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.

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