

Greetings from RIS!



The *New Asia Monitor* so far has been disseminating the news, viewpoints and information about resources among the policy circles and think-tanks to promote the cause of regional economic integration in Asia. Beginning from this issue, the *New Asia Monitor* will also carry feature articles from the members of the RIS faculty.

This issue of the *New Asia Monitor* has the feature article on 'Global Financial Crisis and Trade Costs in Asia' by Dr. Prabir De, Fellow, RIS. We hope that you will find the article, along with other contents of the *Monitor*, interesting and useful.

Biswajit Dhar
Director-General, RIS

FEATURE ARTICLE

Global Financial Crisis and Trade Costs in Asia

Prabir De, Fellow, RIS

Contraction of world output has led to decline in the volume of trade. According to the World Trade Organisation (WTO), global trade flows has been contracted by a catastrophic 12 per cent in 2009, the fastest pace since the Second World War. This latest estimate is considerably worse than the WTO's previous forecast of a 10 per cent decline for last year, underlining the hefty costs of the financial crisis for the world economy. It was reported in the latest issue of the *Economic Survey* of the Government of India, that there was a collapse of US\$ 16 trillion of trade in 2008, reaching US\$ 5.8 trillion in the first half of 2009, compared to US\$ 8.2 trillion in the corresponding period of 2008.

Developing Asia will continue to suffer from demand decline in advanced economies, with the China and India being the most impacted. Though South and Southeast Asia face reduced exports to the advanced economies, its exports are reduced significantly to other Asian exporters, demonstrating the indirect trade linkages that now exist in the global economy. Regional trade in such a situation will eventually rise in Asia and there is thus a need for regional demand-driven growth rebalancing. Therefore, the current export slowdown surely has some long-term implications for trade and industrial development.

In world today, three views are now most discussed: First, enormous current account deficits in the US, which have facilitated export-led growth in Asia in past, would likely to fall. Second, the ongoing global economic crisis has put tremendous pressure on Asian exporters to increase their productivity and reduce costs so as to secure their share of a shrinking global market. Third, rapid economic growth in China and India will

continue to rise, thus continuing the re-orientation of trade toward Asia. Domestic market would be the leading reasons for future development of China and India.

There is a need to understand the globalization and regional demand in the short and long run. The key trends are as follows : rapid economic growth in China and India will continue, continuing the re-orientation of trade toward Asia and pushing up demand for and prices of oil. Oil price rises will continue to disadvantage air shipping as they have done since 2000. Enormous current account deficits in the US, which have facilitated export-led growth in Asia and led to major cargo imbalances, will narrow. Finally, firms and individuals will find alternative channels – trade in technology, foreign direct investment, and immigration - other than moving goods for realizing the gains from trade. Several studies show that infrastructure bottlenecks within countries and lack of cross-border infrastructure network are the important ones that are holding back deeper integration in Asia.

Trade costs are often cited as an important determinant of trade volume. High trade costs create obstacles to trade and impede the realization of gains from trade liberalization. Most of the studies on trade costs show that integration is the result of reduced costs of transportation in particular and other infrastructure services in general. Supply constraints are the primary factors that have limited the capacity of many developing and least developed countries to exploit the trade opportunities arising from trade liberalization. An optimal gain from trade, therefore, depends not only on tariff liberalization but also on the quality of infrastructure and related services associated with cross-border trading.

In many cases, the effective rate of protection provided by the international transport costs was found to be higher than that provided by tariffs. Thus, international transportation costs represent a greater barrier than tariffs, and, in turn, a more binding constraint to greater participation in international trade. However, progress has been made in reducing international transport costs in pre-crisis period. Among the Asian countries, international transport costs vary widely from less than 5 per cent for most of the Southeast Asian countries to over 20 per cent for Bhutan.

The difference between import and export prices has been used as an indicator of trade costs, capturing broadly defined international transport costs. A progressive reduction in the import and export prices gap can be interpreted as an increase in international trade and transport efficiency, particularly if this is achieved through improved port and related international transport infrastructure and services available in the exporting country. However, slowdown in import demand in US during the crisis years has made the exports to US more expensive in relative terms.

The price barriers have now taken a new shape which may likely to generate differential impacts on trade flows. The size and shape of price barriers would be higher if NTBs, applied by the countries in the crisis period, were counted. As Asian economies have liberalized their trade policies, transport costs appearing from infrastructure deficiencies have become a significant impediment to trade. Therefore, complementary trade policies focusing on price and non-price barriers have immense importance in enhancing international trade and integration. There are three important challenges that Asia faces today.

First, in a supply-constrained region like Asia, promoting exports has always been a challenge particularly at a time when trade has been severely affected by lack of external demand. The whole set of empirical studies show that Asia has been suffering more due to high costs of transportation, and countries in Asia with better trade-supporting infrastructure trade more than those lack in it. Any slowdown in trade thus might influence trade costs differently across countries due to volume, value and scale effects of trade. More importantly, 'price' barriers have become stronger in post-crisis period, thus having the tendency to negate the benefits of trade liberalization initiated in the pre-crisis period, to bring the trade cost in countries to the pre-crisis level, and to encourage further external distortions.

Second, when production becomes increasingly fragmented and traded internationally, cooperation among the economies participating in those production networks becomes more crucial to maintain or raise an individual host country industry's competitiveness in supplying trade services.

Third, infrastructure investment that reduces trade costs facilitates regional economic integration through trade and investment expansion, which motivates regional cooperation, including cooperation in infrastructure development, generating a virtuous cycle. The infrastructure investment (which many countries have undertaken as stimulus package in the crisis period) may not lead to facilitate trade flows if it is not supported by lower trade costs. Countries eventually will lose their journey in gaining comparative advantages due to rise in trade costs – price and otherwise. Besides, rising trade procedures and processes would ruin trade transaction. Importantly, inefficient trade procedures may lead to the *de facto* exclusion of a country from regional and global production networks and value

chains, significantly affecting that country's trade and investment prospects as well as opportunities for its enterprises to climb up the value chain.

As Asia multiplies its efforts to broaden and deepen regional trade through subregional forums such as ASEAN as well as wider ones such as ASEAN+3, or ASEAN+6 there is a growing need for regional cooperation to maximize the gains from the positive spillovers of infrastructure networks. The prize is expected to be huge: a virtuous cycle whereby enhanced regional cooperation in trade and logistics bolsters Asia's economic growth and integration, which in turn fosters greater investment in regional infrastructure, reduces trade costs, and so on.

Asia's trade-supporting infrastructure therefore needs massive improvements to maintain the competitiveness of existing production networks and widen their benefits, notably to inland parts of Asia. It is more important to address inland rather than international transportation cost if the goal is to enhance Asian trade in the post-crisis period. Costlier inland transportation limits and taxes trade in the way tariffs do. Reductions in inland transportation costs should be a priority in any new policy for Asia's infrastructure development, since a decrease in inland transportation costs, as an outcome of improved infrastructure, will stimulate trade. The challenge for Asian countries is thus to identify improvements in logistics services and related infrastructure that can be achieved in the short-to-medium term and that would have a significant impact on the competitiveness of Asian countries.

Factors like high freight costs, delays in customs clearance, unofficial payments, slow port handling and poor governance create barriers to trade. Institutional bottlenecks (administrative, legal, financial, regulatory, and other logistics infrastructure), information asymmetries, and discretionary powers that give rise to rent seeking activities by government officials at various steps of trade transactions also impose costs. These costs can be lowered through cooperation that facilitates trade logistics for merchandise and services in both inbound and outbound shipments.

We can say that with the rise of regionalism (and also bilateralism) in Asia, any attempt towards regional demand-driven growth rebalancing of the region holds high promise if accompanied by initiatives that help improve trade efficiency and reduce trade costs.

At the international level, cooperation through trade and investment agreements (read EPA) that strengthen structural reforms and increase the attractiveness of a location for foreign investment can leverage domestic policy actions and their impacts on growth, equity and efficiency, and may help to reduce corruption. Cross-border cooperation in building and maintaining soft infrastructure can therefore lead synergistically to a reduction in trade costs and stimulate further investment in physical infrastructure, trade, production and employment and growth.

Finally, efforts to promote regional and global integration need to address policy reform across a number of areas, and should not be limited to traditional trade policy measures such as tariffs. Thus, trade facilitation has an important complementary role to play, in the broad sense, in enhancing Asia's trade and integration in the post-crisis period.

**Views expressed by the Author are his personal. Usual disclaimers apply.*

Fourth East Asia Summit Reaffirmed Commitment to Work Together

At the Fourth East Asia Summit (EAS) held in Thailand, the Heads of State showed their commitment to work together to implement the Joint Press Statement of the EAS on the 'Global Economic and Financial Crisis' issued by Thailand, as the ASEAN Chair and the EAS Coordinator, on behalf of the EAS Leaders on 3rd June 2009. They were of the view that the EAS participating countries should remain vigilant on the trade financing situation and continue to further enhance cooperation in this area.

The leaders also expressed their commitment to continue to contribute actively in bringing about a successful outcome of the Copenhagen Conference and shared the view that it is important to work closely to ensure that such outcome should incorporate long-term cooperative actions to address climate change.

In this endeavour, the leaders appreciated initiatives promoted by the EAS participating countries, such as "Low Carbon Society," "Clean Asia Initiatives" and "East Asia Climate Change Partnership." They also recognized an urgent need to enhance their cooperation to effectively respond to natural disasters which have increased in frequency

and intensity over the past few years. They also reaffirmed their support for the development of alternative sources of energy, especially new and renewable energy sources, such as bio-fuels to reduce their reliance on fossil fuel.

On the education front, the leaders of the member-states issued a Joint Press Statement of the 4th EAS on the Revival of the Nalanda University to express their political support to India's effort to revive the Nalanda University. They appreciated the ERIA's contribution to regional cooperation, by providing useful research and policy recommendations. To this end, they encouraged ERIA to work with the ADB and the ASEAN Secretariat to accelerate the completion of a "Comprehensive Asia Development Plan" in order to enhance the connectivity of the region.

The Heads of States reaffirmed their conviction that the EAS should continue to help build a prosperous and harmonious East Asia with ASEAN as the driving force working in close partnership with other participants of the EAS.

(Excerpted from the Chairman's Statement of the 4th East Asia Summit, Cha-am Hua Hin, Thailand, 25 October 2009).

Dubai Crisis Underlines Fragility of Asian Recovery

According to the Tiziana Bonapace, Chief of Macroeconomic Policy at the ESCAP, the shock to global financial markets caused by Dubai World's failure to make interest payments is a 'timely reminder of the fragility of the (Asian) economic recovery. She also forecasted a V-shaped recovery for much of Asia, which is proving 'resilient' to the financial crisis in the West.

The agency predicts 6.3 per cent growth in the Asia-Pacific region next year after a generally efficient response to the global crisis by regional governments who briskly deployed looser monetary policies and fiscal stimulus packages to sustain their economies, its year-end economic report said.

However, the longer-term recovery remains based on the ability of Asian governments to wind down stimulus packages at the right moment, prevent asset bubbles and to find new engines of growth to replace several years of likely weak demand from Western economies, it said.

Given the 'very challenging task' facing

policy makers in Asia in achieving a smooth transition from crisis mode to more normal growth, this is the right time to promote the regional support mechanisms for greater economic, trade and investment integration, Nagesh Kumar, ESCAP's chief economist, said.

Further, he also added that the time has come to deepen and broaden these trade and economic pacts to reflect the shifting of the global growth axis towards Asia. The search for new sources of growth was both vital and difficult yet many opportunities existed to wean the region off an over reliance on exports to the West, notably the potential demand from the 860 million people in the region living in poverty. 'If they can be pushed out of poverty to join the mainstream of consumers, the impact would be considerable,' Kumar said.

The update forecast the fastest growth for China with a 9 per cent expansion in 2010 and robust performances from India - 7.5 per cent and Indonesia at 5 per cent.

(Excerpted from the *M&C*, 30 November 2009).
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Asia Urged to Mull Common Currency, Monetary Fund

Mr. Eisuke Sakakibara, who served as Japan's Vice Finance Minister for International Affairs during the Asian financial crisis, admitted that a common currency may be some time off but argued it was time to think about the idea. Asia should consider a common currency and push for a regional monetary fund as economic integration picks up speed.

"It may be several decades to create an Asian currency, but it may be the time to start thinking about it because Asian economic integration is gradually approaching the level of Europe," he told a regional forum in Singapore.

Networks of free trade agreements have already been signed and more are under negotiation. And on January 1, a giant free trade zone covering 1.7 billion consumers in China and ten Southeast Asian nations went into effect. He said an Asian version of the IMF has become more relevant given the region's deepening economic linkages. Such a fund will help ensure that central banks have enough to shield their currencies from speculative attacks like those during the 1997-1998 Asian crisis.

He further added that East Asian countries together now own close to five trillion dollars of foreign reserves, and if we could use about five per cent of those foreign reserves, it would be around 250 billion dollars which is enough to create the common fund.

He added that a regional monetary fund "today is possible and probably desirable." He also said the United States opposed the idea, fearing an Asian fund could dilute the influence of the Washington-based IMF. He told the forum that a 120 billion dollar currency swap fund to be launched by East Asian economies in March could be developed to become an Asian Monetary Fund, adding it could be "supplementary" to the IMF and not replace it.

(Excerpted from *The Economic Times*, 7 January 2010).

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Take a Look at Asia, Arroyo Urges Investors

The President of Philippines, Gloria Macapagal-Arroyo, speaking at The Economist's "Emerging Markets Summit" in London, urged government and business leaders meeting in the United Kingdom to take a serious look at emerging markets in Asia, including the Philippines, for investments. She said that the region was "well-positioned" for the global economic recovery and that the growth prospects of Southeast Asian countries were strong.

In her speech, the President said that when the region would have recovered from the downturn in 2010, the high-performing economies of China and India, as well as countries like the Philippines which boast high consumption levels, would emerge as the region's "outperformers." By contrast, the trade-dependent Asian economies that have been the worst hit by the recession, like Singapore, Hong Kong, Taiwan, Thailand, South Korea, and Malaysia will continue to "under-perform" in 2010, she said.

The President cited the region's healthy financial systems, banks that are free of toxic assets, high foreign reserves, and falling inflation and interest rates, commitment to policy reforms, and determination to address challenges in the bureaucracy and infrastructure.

"Most of emerging Asia is addressing these areas and we will return to high rates of economic growth. Because of that, now is the time to prepare for the significant opportunities that will accompany this growth," she said. And there is "no better emerging market to take advantage of that growth" than the Philippines, the President said.

The President said those who were setting their sights on traditional global financial capitals, would be surprised to find the quiet successes being made by smaller countries like the Philippines, which she said has demonstrated the "resiliency of emerging market economies" amid the global economic downturn.

"Capital is returning to the region," she said, pointing out that a resilient economy, improved credit ratings, and continued fiscal consolidation efforts have produced "a country with an economy that should be in every emerging market investors' portfolio."

(Excerpted from the *Philippine Daily Inquirer*, 20 September 2009).

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Asian Economies Should Adopt Unilateral Liberalization, Widen Supply Chains

While speaking at a seminar organized by Institute of South East Asian Studies (ISEAS), Dr. Razeen Sally, Director, European Centre for International Political Economy, said that Asia needs to widen and deepen its supply chains with the global economy as it moves beyond the financial crisis. But regional and bilateral FTA may not be the best tool for this.

Further, Dr. Razeen said that the track record in Asia, particularly East Asia, is one of unilateral liberalization. That's how countries in the region have opened up to the world by autonomously removing or reducing their barriers on trade and foreign direct investments. That's how global supply chains have arrived in the region. So in terms of liberalization in the future, it wouldn't happen in any significant way, either through the WTO or through bilateral or regional FTAs. It will have to happen the unilateral way as it did in the past.

He also said many FTAs have been built upon foreign policies dominated by politicians, officials and academics. All these have resulted

in FTAs being disconnected with the realities of the business world. He added that region-wide agreements like the ASEAN+ 3 or ASEAN + 6 may be unlikely due to political and economic differences within the region.

He added that there's not a serious and compelling case for region-wide FTAs because they hold the danger of discriminating against global integration. Now, East Asia in particular is highly plugged to the global economy through manufacturing supply chains in particular. "The task ahead is to widen and deepen these supply chains beyond the crisis not just in manufacturing but extending into agriculture and services as well. Now, that requires open trade and other policies, preferably not discriminatory. "What might set it back are discriminatory policies. And region wide policies may add another layer of discrimination, which is why I think they're not necessarily a good idea," he commented.

(Excerpted from the *channelnewsasia.com*, 30 July 2009).

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India to Lend \$10 bn to IMF for Rescuing Crisis-hit Nations

Recently, India had agreed to lend up to \$ 10 billion to the IMF to help the financial institution raise enough funds to rescue nations facing financial trouble. India, which had to resort to IMF financing on few occasions till the early Nineties, is now doing its bit to help the lender raise \$500 billion to help crisis-stricken countries as part of a consensus to stimulate world economy. It was stated that this participation in IMF' debt would not load the Government of India and not further stretch its resources.

India has shareholding of 1.91 per cent in the IMF with a quota of \$ 4,158.20 million in SDRs, a corpus used to give overdraft facility for any of its 185 members facing a balance of payment crisis. India, however, does not require any assistance from this corpus now.

Mr. Pranab Mukherjee, Finance Minister felt that through this decision, India would demonstrate its commitment to fulfill its responsibility as a significant partner in the global economic and financial framework.

(Excerpted from *The Economic Times*, 5 September 2009).

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China, India Key in Controlling Economic Crisis, Says World Bank

The World Bank President, Robert Zoellick, said at the press conference at Beijing, that India, China and other developing nations have played a key role in checking the economic crisis. He also added that there is need for multiple poles of growth as the global economy can no longer rely on the US consumers.

The President was also of the opinion that we can no longer rely on the US consumer to sustain global growth. China, India and other developing countries have been key players in stopping the crisis from getting worse and laying the foundations for a broad based recovery, but other developing countries can also offer other pools of growth. Further, he also added that the core lesson of this financial crisis is that we are all in this together, and we all need an international cooperation to get out of it and to build a platform for the future.

(Excerpted from *The Economic Times*, 5 September 2009).

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Regional Integration Is Key to Asia's Success

According to Mr. Rajat Nag, Managing Director General, ADB, Asian countries need to integrate their economies in order to compete better with the rest of the world. "For more sustainable, inclusive and rapid growth, Asia needs to become more integrated as a region while integrating into the global economy. Integration is a win-win situation," he added.

"Asia's output today roughly equals that of Europe or North America, and may become 50 per cent larger by 2020, in terms of purchasing power parity owing to its populous countries," added Nag. He also said that this will only happen when Asia can bridge the "glaring disparities" between prosperous cities and "desperate slums" detrimental to the region's long-term economic growth and social stability.

He noted the progress Asia has achieved in the three decades as a trading partner, exporting two-thirds of products to the Americas and Europe. "Today, Asia should export within itself and redistribute growth to its countries by leveraging access to opportunities among people," said Nag.

Citing statistics, he said around 900 million people in Asia are living under the \$1.25 a day poverty line, with 700 million without access to improved drinking water, 1.9 billion without access to improved sanitation.

Another economic glaring statistic is access to formal education - 100 million children are not enrolled in primary schools and 107 million children who are under the age of five are underweight. When everyone is given

access to basic services such as education, citizens are equipped with skills to seek better job opportunities and thus, participate in the economy and benefit from the process of growth, Nag explained.

To ensure access to basic services such as basic utilities, education and health care, ADB suggests Asia needs to invest about \$750 billion each year from 2010 to 2020 in national and regional infrastructure, according to Nag. He also added that Asia must adopt new patterns of urban development, energy production and consumption, land use and waste management to adopt a "more environmentally sustainable course" of growth.

(Excerpted from the *Inquirer.net*, 30 July 2009).

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RIS-ADB Organised a Seminar on Pan-Asian Integration: Linking East and South Asia

RIS in collaboration with Asian Development Bank (ADB) organised a seminar and launch of books on *Pan-Asian Integration: Linking East and South Asia* and *National Strategies for Regional Integration: South and East Asian Case Studies* in New Delhi on 20 November 2009. The seminar examined the current status and prospects for Pan-Asian integration, which is rapidly linking East Asia and South Asia against the backdrop of a global economic crisis.

Dr. Ram Upendra Das, Senior Fellow,

RIS gave the welcome remarks and Dr. Srinivas Madhur, Senior Director, Office of Regional Economic Integration, ADB made the opening remarks. Dr. Biswajit Dhar, Director-General, RIS addressed the participants at the seminar on the theme of linking South Asia with East Asia. Dr. Isher Ahluwalia, Chairperson, ICRIER delivered the keynote address, and Dr. Ganeshan Wignaraja, Principal Economist, Office of Regional Economic Integration, ADB made presentation on Pan-Asian Integration: Main Findings of the Book.

Asian Execs in Push for More Regional Integration

Asian business leaders called for deeper regional economic integration through trade and investment liberalization, saying vibrant demand will drive global economic growth. Representatives of 13 private-sector organizations from 11 Asian economies, including China, India, Singapore and South Korea, gathered in Tokyo for the one-day Asian Business Summit, hosted for the first time by the Japan Business Federation (Nippon Keidanren).

"The wind for economic growth has shifted from the West to the East on the back of this major financial crisis," Keidanren Chairman Fujio Mitarai said at a joint press conference following the summit. "As the world economy recovers, the Asian economies — with their huge growth potential — need to exercise leadership."

In recommendations compiled in a joint statement, the business leaders called for the removal of "foreign capital restrictions and

opaque domestic regulations" for smoother flow of goods, services and personnel.

"It is necessary to further promote the free flow of people, goods, services and information within the (Asian) region," Foreign Minister Katsuya Okada said at the outset of the summit. The participants shared generally positive views on expanding regional economic integration.

The region "must pursue measures which strengthen both economic growth, in general, and the Asian economic community in particular," said Tony Chew, Chairman of the Singapore Business Federation. He also emphasized the need to ensure that the envisaged integration benefits not only big companies, but small and medium-size enterprises as well.

(Excerpted from *The Japan Times*, 16 March 2010).

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RIS Organised Second South Asia Economic Summit

RIS organised the Second South Asia Economic Summit (SAES) in New Delhi on 11-12 December 2009 in collaboration with South Asia Centre for Policy Studies (SACEPS) Kathmandu, UNDP, UN ESCAP, Bangkok, ADB, Manila and New Delhi and FICCI, New Delhi. The other Partner Institutions of RIS for this Summit were Institute of Policy Studies (IPS), Colombo, Centre for Policy Dialogue (CPD), Dhaka, Institute of Integrated Development Studies (IIDS), Kathmandu and South Asia Watch on Trade, Economic and Environment (SAWTEE), Kathmandu. The theme of the Summit was *South Asia in the Context of Global Financial Meltdown*.

The main objectives of the Second SAES had been to generate new thinking on South Asian economic integration and development, especially in the context of the global economic meltdown, with the help of new rigorous policy-oriented research. The Summit aimed to synthesize the cross-cutting views of the policy-makers, businesses and the academia, both from within the region and outside and synergise the thinking on South Asian integration and to take the process further with think-tanks in the region.

(The Concept Paper, Agenda and the Documents of the Summit are available at the RIS website: www.ris.org.in).

ASEAN+6 Countries Moving Closer to Intra-Regional FTA

The 41st ASEAN Economic Ministers Meeting (AEM) and related meetings under the theme: "Walk Together, Work Together Towards AEC," held in Bangkok, were participated by ten Economic Ministers from the ASEAN and from six dialogue countries, including China, Japan, the Republic of Korea, India, Australia, and New Zealand.

The meetings had focused on the economic integration within the ASEAN region as the ASEAN Economic Community is expected to complete in 2015, in which investment, capital and skilled labour can flow freely.

Later, Thai Commerce Minister, Pornniva Nakasai said in a news statement that the meetings were concluded successfully as the intra-regional FTA policy is aimed "to be less dependable on Western markets and interact with Asian countries." According to a feasibility study released at the ASEAN+6 Economic Ministers' meeting, it is indicated that establishment of the FTA would result in 1.3 per cent increase in their GDP.

In a bid to get closer to the Asian economic integration, a number of progresses were made

at the 41st AEM meeting and related meetings. China's Commerce Minister, Chen Deming and the ASEAN Economic Ministers signed the ASEAN-China Investment Agreement. And, together with already-signed China-ASEAN agreements of the trade in goods and services, the two sides have completed the negotiation process of China-ASEAN FTA, which is to be realized by January 1, 2010.

Prior to this, the ASEAN Economic Ministers and Indian Minister of Commerce and Industry, Anand Sharma signed a long-awaited FTA for trade in goods after over six years of intense negotiations. The Minister said that this is a historic development given the increasing engagement between India and ASEAN countries and the enhanced economic cooperation and this agreement definitely would open new opportunities.

Meanwhile, ASEAN and Republic of Korea (ROK) signed a letter of understanding on the Product Specific Rules of Origin to facilitate trade between two sides, one of the outcome documents from the AEM meeting and related meetings.

Further, the ASEAN member countries, Australia and New Zealand are moving closer to realization of ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA), as the 10th ASEAN Economic Ministers (AEM)-Closer Economic Relations (CER) Consultation was held.

All of the FTA agreements signed here would take effect from January 1, 2010. Moreover, the sixteen Economic Ministers had agreed to set up a working group to explore various approaches of economic integration by examining three main issues: the Products Rules of Origin in each framework; classification of customs tariffs and customs procedures; and various economic cooperation, Pornniva said.

Furthermore, some including Japan and India have offered capacity building for ASEAN so as to strengthen 10 ASEAN's capacity towards the East Asia integration, the Thai Commerce Minister said.

(Excerpted from the *www.chinaview.cn*, 16 August 2009).

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East Asian Energy Ministers Call for Closer Regional Energy Cooperation

The East Asian Energy Ministers at a series of meetings held in the city of Mandalay, Myanmar, called for deeper and closer regional energy cooperation and integration.

The Ministers from ASEAN, China, Japan, Korea, New Zealand, Australia and India attended the one-day meetings of the 27th ASEAN Ministers on Energy Meeting (AMEM), the 6th ASEAN+3 (China, Japan, Korea) Ministers on Energy Meeting (AMEM+3) and the 3rd East Asia Summit of Energy Ministers' Meeting (EAS-EMM).

In the joint statement issued by the AMEM+3, the Ministers stressed the importance of enhancing regional cooperation and appropriate regional actions to build a secure, stable and sustainable energy future.

It also said that the Ministers agreed to strengthen the energy cooperation in the energy security, oil market, oil stockpiling, natural gas, and new and renewable energy (NRE) and energy efficiency and conservation (EEC).

They also expressed their serious concerns that the highly volatile oil prices which pose a great challenge to the global economy and are against the interest of both consuming and

producing countries, emphasized the need to strengthen cooperation among those responsible for energy policy, energy supplies, oil market and transport routes.

According to the Joint Statement, the Minister commended the ongoing activities and preparation for future activities and look forward to review further updates and recommendations at the next ASEAN+3 Ministers on Energy Meeting in Vietnam in 2010.

The other joint statement issued by the 3rd EAS-EMM stated that the Ministers stressed the importance of international cooperation under the EAS process to ensure greater security and sustainability of energy for sustainable economic growth, adding that the Ministers reiterated their strong commitment to intensify on-going efforts and cooperation in order to improve energy efficiency, to increase the use of cleaner energy, including renewable and alternative sources of energy such as bio-fuels, and to promote energy market integration in the region.

(Excerpted from the *www.chinaview.cn*, 29 July 2009).

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India-ASEAN Trade May Go Up to \$60bn

Trade between India and member countries of ASEAN, now at \$40 billion, could increase to \$60 billion following the FTA, according to the Minister of State for Commerce and Industry. He told the members of the FIEO that the Ministry would simplify the process and avoid multiplicity of organizations in the area of transaction cost. In addition, it would increase the use of information technology to expedite administrative procedures.

On exports, he said the last ten months were "visibly disturbing" as they fell from \$15 billion to \$10.7 billion in April though there has been a steady increase to \$12.8 billion in June and \$13.6 billion last month. In percentage terms, though the export figures were alarming. Last quarter, we were down 32 per cent, and in July, exports dipped to 26 per cent compared to the same period last year, the Minister said.

According to him, Indian exporters should explore opportunities in West Asia, North Africa, ASEAN and the CIS.

(Excerpted from the *Hindu Business Line*, 21 August 2009).

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At UN Forum, Asian Ministers Agree to Set Up Inland Transport Hubs for Landlocked States

Transport Ministers from across Asia agreed to work on a treaty to develop so-called dry ports – inland transport and logistics hubs – as part of a UN-backed network of more than 250,000 kilometers of railways and roads to spur intra-regional trade and growth, especially for landlocked countries.

The accord on dry ports, which would play a major role in integrating modes of transport, reducing border and transit delays, facilitating energy-efficient means of transport and creating new clusters of economic growth and jobs in local areas, came at the end of the first session of the Forum of Asian Ministers of Transport at the UN ESCAP in Bangkok.

In the Bangkok Declaration on Transport Development in Asia, the Ministers agreed to develop an inter-governmental pact on such ports “to provide connectivity and integration of the Asian Highway and the Trans-Asian Railway networks, creating an international integrated inter-modal transport and logistics system,” ESCAP said in a news release.

Under ESCAP auspices, countries in the region have already adopted two inter-governmental agreements on the Asian Highway and the Trans-Asian Railway

networks to promote the development and standardization of 141,000 kilometers of roadways and 114,000 kilometers of railways, linking the continent with Europe and serving as arteries for international trade, in particular for landlocked countries.

The first session of the Forum brought together 27 countries including Afghanistan, Bangladesh, India, Nepal, Pakistan, Tajikistan and Turkey. The UN Secretary-General, Ban Ki-moon, in his opening message, stressed that “enhanced regional connectivity is especially important” in addressing development issues. Further, ESCAP Executive Secretary, Noeleen Heyzer spoke of the vital role of the transport sector in providing the physical connectivity needed to promote domestic demand and intra-regional trade as new sources of growth. She also said that the economic crisis has shown that relying mainly on exports to Western markets comes with inherent risks. Our region will need to diversify the drivers of growth. This must include strategies for promoting increased intra-regional trade and domestic consumption.

(Excerpted from the *UN News Centre*, 18 December 2009).

© *UN News Centre*.

India Signs CEPA with Korea

India signed a Comprehensive Economic Partnership Agreement (CEPA) with Republic of Korea. The Agreement on behalf of Government of India was signed by Shri Anand Sharma, Commerce and Industry Minister and Mr. Kim Jong-hoon, Korean Trade Minister in Seoul. This is India’s second comprehensive deal with any country, first being with Singapore in 2005. This is also India’s first FTA with an OECD country. CEPA is more than FTA as it covers not only Trade in Goods but also Investments, Services and Bilateral Cooperation in other areas of common interest.

Under the CEPA Agreement, tariffs will be reduced or eliminated on 93 per cent of Korea’s tariff lines and 85 per cent of India’s tariff lines. It will facilitate Trade in Services through additional commitments made by both countries to ease movement of independent professional and contractual service suppliers. Both countries have committed to provide national treatment and

Asian Integration Could Reduce Dollar Role

The role of the dollar in Asia could be diminished should the region pursue closer economic integration, said a former top Japanese currency official who is expected to advise the new Finance Minister.

According to the Toyoo Gyohten, in the case of Europe, the introduction of the euro lead to a reduced role for the dollar, so you could imagine the same thing happening with Asian economic integration. Japanese Finance Minister Hirohisa Fujii said that this could actually be helpful for the United States.

(Excerpted from the *wiadomosci.onet.pl*, 24 September 2009).

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protect each other’s investments to give a boost to bilateral investments in all sectors except those specifically exempted from it.

(Excerpted from the *commerce.nic.in*, 7 August 2009).

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India-ASEAN Relations Set to Grow As India Develops Economically

At the 5th International Conference on South Asia, Singapore’s Law Minister, K Shanmugam, in his keynote address, said that India-ASEAN relations are poised to grow as India develops economically with the private sector likely to lead the way. His main thrust was that Asia’s third-largest economy has weathered the crisis better than most countries and is expected to grow at 6 per cent or more this year, a rate second only to China, among the region’s major economies.

“How will India do, post-crisis? The answer is fairly straightforward. The crisis is transient and temporary. Indian growth is a permanent story,” said Mr Shanmugam. Still, despite the optimism, analysts said India has a number of issues, such as infrastructure reform to deal with.

As outsiders, we have to accept the system as it is and work with it. Make a realistic assessment of what is doable in India, given the nature of the political system. Understand the difficulties and accept the realities. Then there will be no gap between expectations and actualisation. Or at least, the gap will be smaller, the Law Minister said.

Going forward, prospects for the Asian region are bright, with ASEAN now India’s third-largest trading partner. Singapore has also become India’s most important ASEAN trading partner, accounting for US\$ 15.5 billion or 40 per cent of trade.

(Excerpted from the *Channelnewsasia.com*, 4 November 2009).

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India Contributes 1 million US Dollar to ERIA

In a very significant recognition of ERIA’s research in the East Asia region, the Prime Minister of India announced in his statement at the 4th East Asia Summit a contribution of 1 million US \$ from India to ERIA.

The proposals generated by the ERIA to develop a blueprint for financial and economic integration of the EAS region, especially in the area of infrastructure development and connectivity, are promising, and deserve India’s encouragement. At the outset, India would be happy to contribute 1 million US dollars over a period of ten years for enlarging the activities of ERIA.

(Excerpted from the *www.eria.org*, October 2009).

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Asia to Lead the Global Economic Revival

Dr. Manmohan Singh, Hon'ble Prime Minister of India

The launching of the EAS process was an act of foresight. It was also an act of faith in our collective potential. Today, the world's eyes are on Asia as the region which can lead the global economic revival from the front.

We must learn lessons from the global economic crisis. One of these is the need to ensure coordination in our growth policies. The other is to keep the real economy strong and sound. We agree with Japan that greater emphasis has to be laid on growth of domestic demand. And the third is to keep the flows of trade, technology and investment open, orderly and predictable. The evolution of the EAS process should conform to our first Declaration issued in Kuala Lumpur which called for the EAS to be an open, inclusive, transparent and outward looking forum. We need to move forward in this direction, and exhibit the requisite political will. Economic integration among us could generate billions of dollars of additional output.

The vision of Asian economic integration by coalescing the FTAs among member Asian countries into an Asian RTA is a pivotal step towards the integration of Asia into a common unit. This can lead to the creation of a broader Asian Economic Community. Our focus should be on generation of stronger domestic demand in Asian economies through investment in infrastructure, creation and strengthening of the social welfare net, skill development of our workforce and environmentally sustainable and inclusive growth.

India welcomes the recommendations of the Phase II Report on a Comprehensive Economic Partnership in East Asia with regard to the three pillars of economic cooperation, facilitation and liberalisation. An early realisation of its roadmap for economic and financial integration, we believe, would be the right step forward for our grouping.

India is playing its part in this process. We have signed CEPA with Singapore and the Republic of Korea and recently a Trade in Good

Agreements with the ASEAN. We are in discussions with Japan, China, Thailand and Malaysia and other countries to conclude agreements of a similar nature.

The proposals generated by the Economic Research Institute of ASEAN and East Asia [ERIA] to develop a blueprint for financial and economic integration of the EAS region, especially in the area of infrastructure development and connectivity, are promising, and deserve our encouragement. India would be happy to contribute 1 million US dollars over a period of ten years for enlarging the activities of ERIA.

We are greatly encouraged that the Summit would adopt a Statement on the establishment of the Nalanda University in the State of Bihar in India. This has been the product of many months of hard work put in by the Nalanda Mentor Group, and will be a shining example of cooperative action in the field of education. I thank our Singapore colleague for his pioneering zeal in pursuit of this idea.

Climate change is a major challenge facing the world, but it is particularly so for the developing and fast growing economies in Asia. The EAS process should come up with a workable model of sustainable development. Financing and technology transfers are its key elements. The challenge before us is to find a global mechanism which, while safeguarding the incentives for innovation and development of environment friendly technologies in the private sector, also simultaneously ensures the availability of such technology to developing countries at an affordable cost.

The EAS holds great potential. If we pool our collective wisdom and resources, there is little doubt that the EAS will emerge as an oasis of peace, stability and prosperity in a fast changing world.

(Excerpted from the Speech delivered at the 4th East Asia Summit (Retreat Session) Thailand, 25 October 2009).

India-Japan Bilateral Summit

The two Prime Ministers reaffirmed their support for the East Asia Summit as an open, inclusive, transparent and forward looking forum. The two Prime Ministers welcomed the decision of the EAS Economic Ministers to task the Senior Economic Officials to discuss and consider the recommendations in the Phase I and Phase II reports on Comprehensive Economic Partnership in East Asia (CEPEA). The two Prime Ministers welcomed the efforts by Economic Research Institute for ASEAN and East Asia (ERIA) for promoting economic growth in East Asia, focusing on such areas as facilitating subregional development, expanding the middle class and stimulating consumer market, and for working with the ADB and the ASEAN Secretariat to accelerate the completion of a "Comprehensive Asian Development Plan" in order to enhance the connectivity of the region.

— Joint Statement by Prime Minister Dr. Yukio Hatoyama and Prime Minister Dr. Manmohan Singh - New Stage of Japan- India Strategic and Global Partnership, New Delhi, 29 December 2009.

India-ASEAN Relations

India's engagement with the ASEAN is at the heart of our 'Look East Policy.' We are convinced that India's future and our economic interests are best served by greater integration with our Asian partners.

The conclusion of the India-ASEAN Trade-in-Goods Agreement in August 2009 is a major first step in our objective of creating an India-ASEAN Regional Trade and Investment Area. The journey was not easy, but we have succeeded in overcoming several difficulties, and this gives us hope for the future.

— Prime Minister of India, Dr. Manmohan Singh at the 7th India-ASEAN Summit, Thailand, 24 October 2009.

Crisis Opportunities and ADB's Role

Haruhiko Kuroda, President, Asian Development Bank

Individually and collectively, developing Asian countries have handled the financial crisis well. The region is now showing signs of a V-shaped recovery, with growth slowing this year but regaining its pace next year. In fact, developing Asia is leading the global recovery. Monetary and fiscal stimulus appears to have worked.

In keeping with this, ADB's forecasts have been revised upward. We expect developing Asia will grow by 3.9 per cent this year, up a half percentage point from our 3.4 per cent prediction in March. China is expected to grow by 8.2 per cent in 2009, India by 6 per cent, and Indonesia by 4.3 per cent. The recovery, including ASEAN as a whole and Korea, should continue apace next year, with Japan back to positive growth. New Zealand is already in positive territory, while the improved growth prospects in Australia have already led to a tightening of monetary policy. ADB has stepped up its lending in response to the crisis, committing an additional \$10 billion over 2009 and 2010.

We are working closely with our developing member countries to mobilize resources for national and regional infrastructure projects. Our Asian infrastructure financing initiative is critical for the region's long-term growth. Asia's infrastructure demand is huge—estimated at more than \$3 trillion over the coming decade. And, increased connectivity is essential for enhancing regional integration, sustaining robust growth and reducing poverty.

In the aftermath of the global crisis, the G20 has emerged as the leading global forum for reforming the international financial

architecture. Six of the 16 countries represented here are members of the G20. This provides a large window of opportunity for the East Asia Summit group to take its rightful role in restructuring the global financial architecture. It is critical that Asia contributes to an orderly transition to a new economic order—not only to restore global financial stability, but also to bring Asia back to its path of strong, sustainable, and inclusive economic growth.

Regional cooperation continues to bear fruit. The multilateralization of the Chiang Mai Initiative offers a viable institutional framework for future East Asian regional financial architecture. The credit guarantee and investment mechanism (CGIM), which is part of the roadmap, would help develop local-currency bond markets in the region. It is also crucial to move forward on regional policy coordination, especially on exchange rates. Along with national and global efforts, regional initiatives could form the building blocks for the 21st century global financial architecture.

The global recession provides the opportunity to rebalance the sources of Asia's growth. Indeed, it could add an impetus to build a regionally well-integrated and globally connected Asian economy. We must look beyond the crisis to maintain a higher growth trajectory and build a more vibrant and prosperous Asia.

(Excerpted from the Speech delivered at the 4th East Asia Summit, Thailand, 25 October 2009).

Under Economic Crisis, How Should Asia Promote Further Economic Integration

Shashi Tharoor, Minister of State for External Affairs

Developing a perspective on the future of Asia during and after the current global financial and economic crisis is a daunting task. In a way, the current crisis has questioned the very assumptions underlying the global economic order. Not only was this evident in the failure of analysts to understand the genesis and the nature of the gathering crisis but also in the realisation that the path to global recovery would be quite different from the recovery from earlier recessions. Even before the current crisis burst upon us, the non-sustainability of the global macro-economic imbalances was looming larger by the day. The pressure on the dollar, the low savings and high consumption in the western markets, shift of the manufacturing sector and some services to developing economies especially Asian, and the high agriculture subsidies in the western economies were the underlying causes for these growing imbalances.

The crisis spread to emerging economies through capital and current account routes of the BoP. The effect of the financial crisis on emerging economies thereafter was mainly through reversal of portfolio flows due to unwinding of stock positions by Foreign Institutional Investors (FIIs) to replenish cash balances at home. Withdrawal of FII investment led to stock market crash in many emerging economies and decline in the value of local currency vis-à-vis US dollar, as a result of supply-demand imbalances in domestic markets. Together with slackening global demand and declining commodity prices, it led to fall in exports, thereby transmitting the financial sector crisis to the real economy. Countries with export-led models of growth and those dependent on commodity exports were more severely affected. The direct impact of the financial crisis on the Asian financial market has been limited because Japan, Korea, Taiwan, China, and Singapore have relatively less toxic assets in the US financial market. However, indirect impacts have been significant, with large GDP contractions witnessed in Japan,

Korea, Malaysia, Thailand, and Singapore, whereas countries such as India, Indonesia and Vietnam are facing smaller GDP contractions. Job losses in Asia have been enormous.

The Indian economy was not significantly affected by the global financial crisis in the initial stages, which had set in around August 2007. In fact, the initial effect of the global financial crisis was positive, as India received huge FII investment inflows of US\$ 22.5 billion during September 2007 to January 2008, as against US\$ 11.8 billion during April-July 2007. In its more intense phase, the global financial crisis spread to India through capital and current account routes of the BoP.

The continuing resilience of Asia would depend on how well it manages the regional integration process. Asia's export-led growth model, centred on US and European markets in recent decades, can no longer be relied upon to sustain the region's economic growth beyond the crisis.

In order to promote further economic integration, Asia clearly needs to go beyond the ASEAN Free Trade and Investment Area. Currently, there is an array of overlapping bilateral and plurilateral FTAs in the region which could be taken to a higher level of economic integration. Even while re-starting the Doha round, the Asian leaders envisage an Asia-wide economic partnership agreement. Cooperation in the banking sector is a focus of EAS member countries. Trade integration and facilitation, especially encouragement for the small and medium-sized firms, is again another area whose potential is being recognized. Sustained economic growth, with national emphasis on poverty alleviation, infrastructural development needs to be the priority for all Asian countries and our collective endeavour should never lose focus on it.

(Excerpted from the Keynote Address delivered at the RIS-Japan Economic Foundation Symposium, New Delhi, 24 September 2009).

Making the ASEAN FTA Work

Biswajit Dhar, Director-General, Research and Information System for Developing Countries

The formalisation of ASEAN-India Free Trade Agreement (AIFTA) covering the goods sector marks an important step towards India's deepening trade links with its partners in the Asian region. Viewed as the cornerstone of India's 'look east' policy, this free trade agreement (FTA) would help the two partners unlock the tremendous growth potential that their closer economic integration could bring.

It must be noted here that the decision to engage with ASEAN for formalising an FTA marked a significant departure from our erstwhile position on bilateral agreements. The AIFTA, which will be implemented from January 1, 2010, has been a long time coming. In terms of its structure, the AIFTA is an example of one of the more complex FTAs that has been negotiated in recent years. In fact, the AIFTA is more in the nature of an umbrella agreement that seeks to operationalise the bilateral tariff arrangements that India has agreed to with each of the 10 ASEAN members. When fully functional, the FTA will eliminate tariffs, in a phased manner, on 80 per cent of all trade between India and ASEAN.

The tariff elimination schedule has five components: (i) Normal Track, (ii) Sensitive Track, (iii) Special Products, (iv) Highly-Sensitive Lists and (v) Exclusion List. These lists evolved as the two partner countries sought to maintain relatively higher tariffs in the "sensitive" sectors that were clamouring for more protection. Under the Normal Track, which has two sub-components, tariff elimination on identified products involving India and five ASEAN members would be completed between 2013 and 2016. For the remaining countries, the Philippines, Cambodia, Lao PDR, Myanmar and Vietnam — tariff elimination under Normal Track would be completed over several years. While India and the Philippines would mutually eliminate tariffs by 2019, Cambodia, Lao PDR, Myanmar and Vietnam would eliminate their tariffs on the products identified by 2021.

In case of products included in the Sensitive Track, there are three sets of tariff reduction schedules. For the first set of products in this category, tariffs would be reduced by India, Brunei Darussalam, Indonesia, Malaysia, Singapore and Thailand to 5 per cent by 2016 (2021 for Cambodia, Lao PDR, Myanmar and Vietnam), while for the second set of products, tariffs would be eliminated by 2019 (2024 for Cambodia, Lao PDR, Myanmar and Vietnam).

Tariffs on five products, viz. crude palm oil, refined palm oil, coffee, black tea and pepper, which have been in the vortex of much of the opposition to the AIFTA, particularly from Kerala, have been included in the category of Special Products. Tariffs on these products would be reduced by one-half from the level prevailing in 2008 by 2019 with the exception of pepper, which would see the level of tariff protection come down by around 27 per cent during the same period. In the two remaining categories of products, tariffs would not be eliminated, and in the Exclusion List, there is a commitment to annually review the tariffs with a "view to improving market access."

What prospects does the AIFTA hold for improving the trade links between the two partners? One view is that the Agreement was important when it was conceived in 2003 since the import tariff levels were much higher then. But in the intervening period, both India and ASEAN have unilaterally reduced their import tariffs. The contrasting view is that the AIFTA brings with it the political intent of the two partners to engage in a process of deepening their economic ties, which should augur well for the future. This is particularly important since the share of India's trade with its partners in the ASEAN region has remained nearly stagnant between 2002-03 and 2008-09, which coincides with the phase when the country's total trade increased more than four-fold. But, possibly the most significant contribution of the AIFTA would be to speed up the negotiations on services and investment, areas which are crucial for both India and ASEAN.

A crucial area in which the government and the industry would have to work together is to overcome the "behind-the-border measures" that are proving to be formidable market-access barriers in many countries. The existence of these barriers implies that elimination of import tariffs is but a small step towards ensuring larger market access. The ASEAN region is no exception: WTO data shows that in the past couple of years, ASEAN members have submitted more than 250 notifications, indicating use of such barriers. This is where India should now engage its ASEAN partners so as to ensure effective market access in these markets.

(Excerpted from the *Business Standard*, 14 November 2009).

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The Re-emergence of a Prosperous and Integrated Asia

Pradumna B. Rana, National University of Singapore

Much has been written on the economic rise of China and India and the deepening of integration between these two Asian giants and the rest of Asia more generally. Asia's emergence and integration is, no doubt, of contemporary interest. However, Asian integration is not without historical precedent and it would be more appropriate to refer to Asia's 're-emergence' and 're-integration.'

Soon after the Industrial Revolution of the late 18th century, the world's center of gravity shifted away from Asia to Europe and eventually to America in the 20th century. During the 19th and the first half of the 20th centuries, the colonial masters divided up Asia into spheres of influence, took control of trade and customs, and restricted access to inland waterways. They fragmented Asia and damaged intra-Asian trading systems. Also soon after independence in the late 1940s, for over four decades, South Asia adopted an inward-looking Soviet type development strategy and continued its isolation from the rest of Asia and the world. The world's focus was, therefore, on East Asia and the miracle economies in the region.

Since the 1990s, we have witnessed the 're-emergence' of Asia led mainly by the economic dynamism of China and India. Asia's integration within itself is also intensifying, driven by market-oriented production networks in East Asia and economic reforms including the implementation of 'Look East' policies in South Asia. Asia is starting to be 're-centered' as trade between South Asia and East Asia surges. China recently became the largest trading partner of India. Increased linkage between South Asia and East Asia has led to economic prosperity all over the Asian region.

After a break of two centuries, Asia is once again trying to return to its glorious past. The pace of its 're-emergence' and 're-integration' will depend on many different factors including how well individual nations manage relations with each other. But there is now a confidence that Asia is headed on the right direction.

(Excerpted from the *East Asia Forum*, 5 December 2009).

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Why the Shift of Economic Gravity to Asia is not a Power Shift

Wendy Dobson, University of Toronto

China and India are the world's only large economies with positive growth in 2009. Future projections show China catching up with the U.S. economy by 2020 and India doing so by 2035 or 2040. In contrast, the US, digging out from the financial crisis, faces slower growth, a less leveraged financial sector and rising taxes and savings rates. The Asians' size and ability to maintain economic momentum seem to only strengthen predictions of the US' decline.

Yet this kind of zero sum thinking is not credible. Both China and India face large challenges at home. China has embarked on a second transformation as it seeks to rebalance its lopsided economy more towards consumption and domestic demand. To accomplish this shift, the Communist Party faces numerous sensitive political and structural issues. India, despite the successes of its IT services and technology manufacturing industries, has to transform the economy to create alternatives for the 60 per cent of its population still confined to rural agriculture.

China aims to shift its growth strategy from the heavy reliance on investment more towards consumption, relying on services and less energy and capital intensive production to do so. With a less capital intensive industrial structure, growth will rely more on productivity than capital investment.

Looking at how all of this can be done emphasizes the magnitude of the task. Promoting consumption requires the government to take over from households the costs of health, education and pensions which rural households have to finance on their own.

It requires better returns on their savings by deregulating deposit interest rates, creating more jobs closer to home by channelling finance to smaller enterprises with little collateral and few government connections as well as reducing the cost of imported goods.

While Chinese government spending on social programs tripled between 2002 to 2008, and SME lending units are being added at state banks, there is no action on deposit rates.

While there is no sign yet of reform of the monetary and financial system to allow exchange rate flexibility, energy prices have increased, state owned enterprises (SOEs) are beginning to pay dividends and China aims to source 15 to 20 per cent of its energy from renewable by 2020.

Meanwhile, India's Achilles heel is its labour market institutions. The UN estimates that in 2020 India's potential labour force will be 900 million people. About 250 million will be in the 15 to 24 age group, looking for jobs that will have to come from labour intensive manufacturing, as they have in other successful developing economies.

Yet, lack of modern infrastructure and restrictive labour laws deny entrepreneurs economies of scale and the opportunity to participate in Asia's dynamic cross border production networks. While infrastructure investment is moving along, labour laws prevent employers with more than ten workers from adjusting the labour force without government permission and pile on employment costs as the number of workers grows.

India's telecom revolution shows reform is possible when the central government has a mandate to govern and the PM is willing to push from the top. Government's role was pruned back and service provision opened to the private sector. Intense competition followed in the mobile phone market, adding over 200 million mobile phone users in 2007 and 2008.

Each country's leaders will remain deeply preoccupied with these domestic challenges for the foreseeable future. Their growing economic prominence will play out mainly in Asia, where their East Asian neighbours seek to engage them in regional cooperation.

By choice, and by default, the US would continue to be first among equals and more multilateral and consultative out of necessity. The gravity shift to Asia is about economics, it is not a power shift.

(Excerpted from the *East Asia Forum*, 20 November 2009).

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India Looks to East for Market Opportunities

Salil Tripathi, *Far Eastern Economic Review*

The global economic crisis has led many governments into adopting, or at least considering, protectionist measures. At such a time, it is refreshing to see India signing a trade pact with the ASEAN, one which had been under negotiation for six years.

To be sure, this is not a game-changing moment in global trade: bilateral trade between India and ASEAN is relatively small by international standards; national parliaments will have to approve the pact; and like many trade liberalisation measures, domestic lobbies have ensured that national champions are protected. But it remains a remarkable achievement of perseverance and sends a strong, positive signal.

East Asia was known for being an economic miracle. India sought membership of the APEC forum and waited at the doorstep of ASEAN for stronger ties: sectoral partnership; dialogue partnership; and a seat in the ASEAN Regional Forum.

Then the Asian economic crisis of 1997-1998 changed its mood. It realised that investments were headed towards India and China, and unless it developed a strategy to co-exist with both, and acted nimbly, its economic potential would not be met. ASEAN had to become more competitive and embrace the opportunities that India and China represented.

The new pact will eliminate tariffs to zero, between 2013 and 2016, on more than 80 per cent of the total trade between the two sides, including industries such as textiles, electronics and chemicals. Services are not included. Software and the broader IT sector, which is India's strength, is not yet covered because ASEAN fears being swamped, although India has several bilateral IT initiatives with Singapore. ASEAN's major exports include rubber, palm oil and coffee, which are areas of concern for India as there is strong domestic lobby that fears job losses if those sectors are not shielded.

There are broader, regional implications, as has been said by economists, that this agreement gives a positive signal of India's engagement with the rest of Asia. As India's tariffs on goods are higher than in ASEAN, tariff reduction will likely to benefit ASEAN more than India. Other economist opined that India has important economic and strategic interests in the rest of Asia as this agreement is of immense significance in Asia's economic integration.

(Excerpted from *The National*, 31 August 2009).

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It's Time for a 'Look Further East Policy'

Sanjaya Baru, *Business Standard*

India has to catch up with East Asian regional economic integration, it is must. In China, you dial 10+3 for Asia. However recently, Australian Prime Minister Kevin Rudd has gathered thinkers from around the world to let China know that the sun rises from Australia too.

Even though US President Barack Obama forgot to mention India in his vision for Asia at Tokyo last month, Japan's Prime Minister Yukio Hatoyama didn't forget doing so in his own vision statement on Asian regional cooperation. The east is going red working itself up on what constitutes Asia. China has decided to cut through the clutter and declare the ten member nations of ASEAN and Japan, Korea and itself as the new East.

Back home, India is just about coming to terms with a FTA with ASEAN and has finalised a FTA with South Korea, but few in the East are taking note. India has to catch up, is a common refrain in these parts as ASEAN+3 work feverishly to create a new regional financial architecture.

China is fast consolidating the opportunity created by the global financial crisis and is building on the legacy of the Asian financial crisis of 1997 to make the case for an Asian Monetary Fund (AMF). Dr Xu even wants an Asian Bank for Cooperation and Development. Both proposals being Asian parallels to the IMF and the World Bank. When Japan first mooted the idea of an AMF, in the early 1990s, the United States scuttled it. Today, China has taken both Japan and Korea on board and is rapidly stitching up support in south-east Asia for a regional financial institution, building on the multilateralised Chiang Mai Initiative (CMIM), which already has a fund of US\$120 billion.

Apart from the idea of a regional financial institution, the 10+3 are actively engaged in the Asian Bond Markets Initiative and China is

busy making the case for an Asian Monetary Unit (AMU).

The AMU proposal is as yet at a nascent stage. Economist at the Shanghai University proposes that the AMU be defined by a basket of currencies of the 10+3 countries, with predominant weightage given to the Chinese yuan, the Japanese yen, the Korean won and the Singapore dollar. He sees the renminbi's "internationalisation" as a three-step process. First, it will emerge as a common currency of "Greater China," including mainland China, Hong Kong and Taiwan; second, it will become the major component of an Asian currency unit and finally, acquire a global profile. "The first step towards internationalisation of the Chinese yuan starts in Asia," the Economist says, reminding us of the various currency-swap arrangements

Clearly, the action has moved from FTAs and investment treaties to financial integration. Chinese scholars made no reference to India, but when asked, each of them said they saw India as a future entrant at a point in time when India felt more confident. "Right now India is not ready to open its markets to China. When India is ready, it can also join" was a common refrain.

It is true that India has taken its time entering into an FTA with ASEAN and Korea, and will need more time to consider one with China. But even as India grapples with the challenge of an FTA, the action has moved to financial integration. While India need not get rushed into this process, and has some advantage in keeping its focus on the global financial architecture rather than a regional architecture. In that context India's "Look East Policy" has to be revitalised.

(Excerpted from the *Business Standard*, 7 December 2009).

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Asian Integration, but Which One?

Jason Miks, Editor, *The Diplomat*

Asia may already have an alphabet soup of regional economic and security arrangements, but Australian Prime Minister Kevin Rudd seems to believe there is room for at least one more. At a gathering of regional ministers, media and think tanks, Rudd argued that the region risked drifting in the face of challenges ahead.

"We need to plan — we need to plan with each other, rather than against each other, as has often been the custom in times past," he said, addressing a conference, "Asia Pacific: A Community for the 21st Century," held in Sydney. Rudd is not alone in seeking to create a new Asian bloc. Since coming to power, Japanese Prime Minister Yukio Hatoyama has been pressing his vision of an East Asia community. Both proposals come at a time when RTAs have been proliferating.

According to Masahiro Kawai, Dean of the ADBI, in terms of free trade agreements and economic partnership agreements, a lot of deals have been concluded and put in place. He noted that ASEAN already has agreements in place with China, Korea and Japan, and has concluded deals with India, Australia and New Zealand. "So basically, among the ASEAN Plus Six countries, the basic components are there for closer regional integration." Kawai says that market-driven economic integration in East Asia especially in terms of finance, investment and trade have deepened so much that closer economic cooperation by governments is a necessary next step. And he adds that although the international community has responded to the global financial crisis, the

turmoil has made clear the need for stronger collective action among Asian nations.

However, Guy de Jonquières, from *The Financial Times*, says that although there has been a proliferation in FTAs in recent years, they have generally been politically, rather than commercially driven. He argues that devising a new structure for closer regional economic integration would not only be difficult, but perhaps also ill-advised. "In Asia you've got some of the very, very poorest countries and in Japan you've got one of the richest."

Undeterred by the obstacles, Southeast Asian leaders in March pledged to push ahead with plans to develop an EU-like bloc by 2015, in Thailand. But Jonquières warns that comparisons between Asia and the EU are misleading, as EU is a supranational institution.

Further, in Asia, there are still numerous unresolved border and ownership questions, and the sensitivities surrounding them complicate security ties.

The fact that the EU is still wrestling with the implications of having a truly common foreign policy and defense posture suggests that both Hatoyama's and Rudd's visions will, for now, remain just that.

(Excerpted from the *World Politics Review*, 10 December 2009).

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Come Closer, All Asians

Ramkishan S. Rajan, Visiting Senior Fellow, ISEAS, Singapore

Asia has clearly not been spared from the global economic slump and dislocations, particularly post the Lehman Brothers collapse in September 2008 when global credit markets seized and risk aversion shot through the roof and there was an indiscriminate and disorderly sell-off of assets worldwide. However, the large international reserve holdings in Asia, the region's relatively more flexible exchange rates, the lower levels of leverage especially with regard to external short-term foreign currency debt in the region—along with stronger balance sheets of Asian corporates and financial institutions, all seem to have worked in tandem to ensure that the capital account shock did not have any long-lasting effects on Asia this time, unlike in 1997-98. The crisis has, however, once again brought to the forefront the importance of intensifying regional monetary and financial cooperation.

Against this background, recognising that financial stability has the characteristics of a regional public good, it is understandable that Asian countries have been eager to promote regional monetary cooperation. The Chiang-Mai Initiative (CMI) has taken centre stage in this regard. As part of the 8th APT's Finance Ministers' meeting in 2005, there was an agreement to explore the feasibility of developing a collective mechanism to activate the swaps. There was also recognition of the need to expand the scope and extent of regional dialogue and surveillance and link these more closely and effectively to the CMI.

Despite this, though, there was not much forward movement on these issues until when, in the latest meeting of APT (Asia plus Three) Finance Ministers in Thailand, in 2009, APT countries finally reached an agreement to transform existing bilateral arrangements into a regional foreign reserve pool of \$120 billion to "address short-term liquidity difficulties in the region and to supplement the existing international financial arrangements."

The 'Plus Three' countries of China, Japan and South Korea would contribute 80 per cent, with the ten ASEAN countries sharing the remaining 20 per cent. What is important is that the regional economies have agreed to create a stronger regional surveillance system in conjunction with the ADB and the ASEAN Secretariat to provide oversight of the fund and help with its operation. Presumably, if and when this surveillance system is effectively established, the 20 per

cent of reserve that can be tapped without IMF conditionality will be increased, though one will have to wait and see if this will happen.

Given that the region holds well over \$3,500 billion of reserves, the proposed reserve fund is modest as of now, but has the potential for significant expansion over time, especially if countries like India are included as well. While the membership issues need to be resolved, the CMIM has provided much-needed impetus to monetary regionalism in Asia and is an important step in creating pools of liquidity. A regional reserve pool could involve three tiers of liquidity. The first tier would be owned reserves that offer the highest degree of liquidity and have zero conditionality, but this is costly. The second tier would be subdivided into a country's own reserves placed with a regional pool and other members' reserves with the pool (CMIM). The third tier would be conventional IMF lending via its various facilities.

The announcement of the strengthening of surveillance alongside the creation of the CMIM is, therefore, an important step. There is also the other equally hard issue of what such a regional liquidity arrangement would imply for exchange rate coordination. Countries with relatively fixed exchange rates will require larger reserves to manage their currencies and/or pursue more disciplined domestic economic policies, while countries running more flexible regimes could potentially cause or be faced with competitiveness pressures in the near-term vis-à-vis the other countries if their currencies appreciate or depreciate sharply. Neither surveillance nor exchange rate coordination is an issue that has seen much progress in Asia to date, leaving one somewhat sceptical about how viable or effective the CMIM or any sort of regional liquidity arrangement might be in going forward.

It is fair to say that one needs to look beyond the CMIM to consider more intensive forms of regional cooperation to boost regional demand and development. While intra-regional trade in Asia has appreciated markedly, the bulk of the trade is in intermediate products with the final demand still being in/or from the US and Europe. In this regard, the region should redouble its efforts to pursue various FTAs, particularly with China and India. Schemes to assist cross-border infrastructural development, the development of regional tourism, and other such initiatives should all be pursued with renewed vigour.

(Excerpted from *The Financial Express*, 14 December 2009).

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Further Readings

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Pan-Asian Integration: Linking East and South Asia

Editors: Joseph Francois, Pradumna B. Rana, and Ganeshan Wignaraja
ADB, 2009
ISBN: 978-0-230-22178-9

In today's globalized world where the economic fates of nations are inevitably linked, weathering the present economic storm for Asia will increasingly depend on harnessing regional dynamics? Particularly on the trade front. The present book is a rich volume of perspectives from leading thematic experts on regional patterns of trade and investment, trade-related infrastructure, trade facilitation, among others. This book dissects the growing economic ties between China and India and makes a compelling case for Pan-Asian integration? With an eye on the two giants as not only the critical growth poles in Asia, but as the focal points for trade-led recovery. Recommendations for maximizing the benefits of trade and integration include increasing investment in trade-related infrastructure and pushing for the consolidation of FTAs. Stronger economic ties and more open trade regimes between East and South Asia can be stabilizing forces to future shocks by boosting trade and investment and bolstering inter-regional collaboration.

National Strategies for Regional Integration: South and East Asian Case Studies



Editors: Joseph Francois, Pradumna B. Rana, and Ganeshan Wignaraja
ADB, 2009
ISBN: 9781843317890

Regional integration is gathering momentum in Asia. This study examines the diverse experience of regional integration of South and East Asian economies during the last two decades and offers lessons for latecomers. The global economic crisis is expected to merely dampen rather than halt the pace of Asian integration. Global recovery will give renewed impetus to Asian integration.

East and South Asia include the world's largest and most dynamic open economies alongside several least developed countries. Using a set of country cases based on a similar framework, the study addresses an important policy question: how can each country's integration with its neighbours and more distant regional economies be improved? Of the eight country studies, five are from South and three are from East Asia. The country cases—which differ by per capita income, country size and location—provide fascinating insights on the relationship between regional economic performance and strategies for regional integration at the country level.



Economic and Environmental Impact of Free Trade in East and South East Asia

Kakali Mukhopadhyay and Paul J. Thomassin
Springer, 2010
ISBN-10: 9048135060
ISBN-13: 978-9048135066

In recent years, the East and South East Asian region has witnessed a rapid expansion of regional economic cooperation through bilateral and plurilateral FTAs. The current book attempts to comprehensively analyze the economic and environmental impacts of regional economic integration in East and South East Asia to the year 2020. This region has some of the fastest growing economies of the world. A global economic model was used to undertake the analysis. A

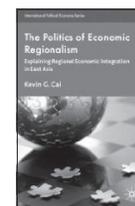
rare feature of the book is the detailed environmental implications of the RTAs focusing on air, water, and waste pollution. Economic integration among the East and South East Asian region has been an important agenda item for the academic and policy communities in recent years. The study provides insight into pursuing a concrete multilateral trade liberalization policy and throws more light on the on-going trade and environment debate.



Competitive Regionalism: FTA Diffusion in the Pacific Rim

Editors: Mireya Solis, Barbara Stallings and Saori N. Katada
Palgrave Macmillan, 2009
ISBN-10: 0230577784
ISBN-13: 978-0230577787

Despite abundant scepticism about their economic benefits, FTAs have proliferated at a rapid pace. Policy diffusion models explain how different sets of preferential trade agreements are inter-connected and establish under what conditions FTAs can work for or against the emergence of coherent regional blocs.



The Politics of Economic Regionalism: Explaining Regional Economic Integration in East Asia

Kevin G. Cai
Palgrave Macmillan, 2010
ISBN-10: 0230576540
ISBN-13: 978-0230576544

Economic regionalism has taken a different path in East Asia. In contrast to the government-engineered and highly institutionalized regionalism of Europe and North America, economic regionalism in East Asia started as an autonomous and uninstitutionalized process of rapidly rising intra-regional trade and FDI flows, driven by market forces and economic imperatives. Over time, this process gradually involved a new dimension of increasingly institutionalized regional economic cooperation between states in the region, particularly in the wake of the 1997-98 Asian financial crisis, in response to the changing conditions at the global, regional and national levels brought about by globalization. However, despite such development, Cai demonstrates how a true regional grouping of East Asian states is still far from being formed.

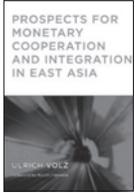


The Future of Asian Trade and Growth: Economic Development with the Emergence of China

Editor: Linda Yueh
Routledge, 2010
ISBN-10: 0415368111
ISBN-13: 978-0415368117

This book presents a comprehensive analysis of current trends of trade and economic growth in Asia, assessing how they are likely to develop in the future. It examines the evolving patterns of Asian economic development with the emergence of China, including since China's accession to the WTO in 2001. It discusses the significance of a export-oriented growth strategy on the Asian region, and the likely patterns of intra-regional specialisation given China's rise. The book examines the degree to which the remarkable growth of China is likely to affect other Asian countries in terms of global market share, and growth prospects. The book explores how the rise of intra-industry trade is affecting patterns of specialisation in the region, and appraises the role of multinational corporations and foreign direct investment.

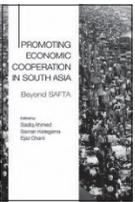
Informed by the latest empirical economic thinking, this book is a rigorous examination of the influence of an emerging economic superpower, and the future for economic growth in Asia.



Prospects for Monetary Cooperation and Integration in East Asia

Ulrich Volz
The MIT Press, 2010
ISBN-10: 0262013991
ISBN-13: 978-0262013994

In this book, Ulrich Volz investigates the prospects for monetary cooperation and integration in East Asia, using state-of-the-art theoretical and empirical tools to analyze the most promising policy options. He points out that monetary cooperation can be defined broadly to include options ranging from informal policy consultations to European-style monetary union. He recommends a gradual approach toward monetary integration in East Asia, one that pursues less extensive forms of monetary cooperation before tackling such highly challenging projects as a regional exchange rate system or a regional monetary union. The simpler, less demanding forms of policy coordination would, the author argues, allow East Asian countries to develop an integrationist spirit and gain experience in cooperation. After providing an in-depth analysis of the costs and benefits of monetary integration, Volz examines different options for East Asian countries. He then proposes a strategy whereby countries first opt for a managed float of exchange rates guided by a regional currency basket into which an "Asian currency unit" is introduced as a virtual parallel currency to circulate alongside national currencies.



Promoting Economic Cooperation in South Asia

Editors: Sadiq Ahmed, Saman Kelegama and Ejaz Ghani
Sage Publications Pvt. Ltd, 2010
ISBN-10: 8132103114
ISBN-13: 978-8132103110

This volume examines the dichotomy between the two faces of South Asia - one poverty stricken and lagging in development, the other highly urbanized and growing rapidly - and tries to find a workable solution to bridge this gap. It looks at the many policy and institutional constraints that contribute to this dichotomy, especially regional conflict that has made South Asia one of the least integrated regions of the world. This volume argues that in addition to policy and institutional reforms aimed at removing domestic constraints to growth and job creation, market integration and regional cooperation ought to be key elements of a regional strategy for removing this dichotomy and eliminating poverty over the longer term. The authors establish the need for two types of market integration in South Asia-providing countries, especially the land-locked ones, with broader access to regional and global markets; and integrating the lagging regions within each country with growth centers without regard to boundaries.

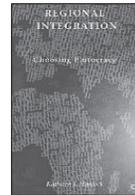


Monetary and Financial Integration in East Asia: The Relevance of European Experience

Yung Chul Park and Charles Wyplosz
Oxford University Press, 2010
ISBN-10: 0199587124
ISBN-13: 978-0199587124

This book looks at East Asia's monetary and financial integration from both Asian and European perspectives. It analyses

the Euro area's framework for monetary policy implementation, introduced in 1999. It reviews the efforts to foster regional monetary and financial integration and relates them to Europe's own evolution. It highlights successes and failures in both cases and offers a careful assessment of the state of play. A central theme of the volume is that the East Asian reliance on markets is not enough to promote the kind of deep integration that Europe has achieved and that provides protection against exchange rate turbulence. The implications of the recent global crisis are also examined.



Regional Integration: Choosing Plutocracy

Kathleen J. Hancock
Palgrave Macmillan, 2009
ISBN-10: 0230616739
ISBN-13: 978-0230616738

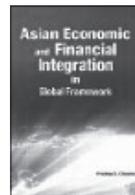
Regional Integration answers the plutocracy question with a novel theory focusing on the political survival of the leadership. In narratives laced with kings, diamonds, revolutions, and hyper-nationalism, Hancock traces the stories of these states and their paths to plutocracy.



The Next Asia: Opportunities and Challenges for a New Globalization

Stephen Roach
John Wiley & Sons, 2009
ISBN-10: 0470446994
ISBN-13: 978-0470446997

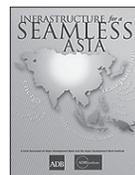
The book is a collection of essays written by Roach over the past three years reporting how the Asia story has played out to date, and how it looks for the future. Most of the book focuses on China, providing a wealth of background for understanding Roach's recommendations for the U.S. and China, and the direction of China's leadership.



Asian Economic and Financial Integration in Global Framework

Pradeep Chauhan
New Century Publications, 2009
ISBN-10: 8177082248
ISBN-13: 978-8177082241

Reflecting the diversity of economies and their histories, regional integration follows markedly different patterns across the world. In Asia, trade integration has progressed at a rapid pace, based on the exploitation of intra-regional comparative advantages. This book analyzes the nature of Asia's merging regionalism, which can have a significant impact in an increasingly globalized world. Regionalism can be a stabilizing factor when economic shocks arise, whether regional-based or externally-imposed. The book examines these global economic and monetary integration processes. What is the status of Asian integration in monetary, financial, trade, and production networks? These aspects are discussed and compared with successful European economic and monetary integration.



Infrastructure for a Seamless Asia

ADB & ADBI, 2009
ISBN: 978-4-89974-028-5

This ADB and ADBI flagship study analyzes the major challenges in developing regional infrastructure, particularly transport and energy—both hard and soft infrastructure—through fostering regional cooperation towards a



seamless Asia. It evaluates existing regional infrastructure programs, policies, and institutions, and makes recommendations on what the region needs to address to meet these challenges and provides a framework for pan-Asian infrastructure cooperation.

The key message of the book is that now is the time to forge ahead with the goal of integrating this vast and diverse region for the benefit of all its citizens and for a lasting and shared prosperity through building pan-Asia infrastructure connectivity.



ASEAN-India-Australia: Towards Closer Engagement in a New Asia

Editors : William T. Tow and Chin Kin Wah

Institute of Southeast Asian Studies, 2009

ISBN-10: 9812309632

ISBN-13: 978-9812309631

India's emergence of a great power has sensitized its regional neighbours to its growing role as a key security actor in an increasingly interdependent world. Both Australia and ASEAN now view India as a major player in the formulation and application of their own broad security agendas. This emerging trilateral compendium is particularly evident in such policy areas as maritime security, climate change, energy security, law enforcement, 'good governance' and the politics of security institutions or 'architectures.' This book represents one of the first systematic efforts to consolidate these diverse but important concerns into an overarching framework for ascertaining and cross-comparing how these three entities are approaching these policy challenges, individually and collectively. It argues that the dynamics underlying their intensifying security relations are sufficiently important to conceptualize them as a distinct analytical framework that needs to be understood in the larger context of Asia-Pacific security politics.

Regional Economic Integration in South Asia: Prospects and Challenges

Ram Upendra Das

Realizing its importance, the South Asian region has also embarked upon various processes of regional economic integration. However, the South Asian regional integration process is fraught with difficulties, especially due to a lack of understanding about the very economics of regional economic integration. Thus, this paper dwells upon some of the conceptual issues pertaining to regional economic cooperation in general and specific to the South Asian region. It also documents the progress made in SAARC, the SAFTA trade liberalization and associated mechanisms alongside the nature of safeguards provided for. In this respect, developmental perspectives of safeguards are put forth. Some fresh insights on the status of SAARC trade integration process in a dynamic setting are also brought out. The paper also highlights the potentials for deeper economic integration in the region. The paper further illustrates some of the areas wherein project-based cooperation is feasible in the region. Finally, the paper makes an objective assessment of the regional integration process and identifies certain policy-induced and structural constraints that have important policy-implications.

(RIS Discussion Paper No. 157, September 2009).

Regional Cooperation for Regional Infrastructure Development: Challenges and Policy Options for South Asia

Prabir De

Regional infrastructure is one of the major determinants of economic integration process. It enhances international and regional connectivity

through the free flow of goods and factors across borders, allowing countries to benefit from a better relocation of resources. Efficient transportation networks linking neighbouring countries enlarge market size and help national economies to grow further through higher trade and production. The South Asian merchandise trade due to South Asia Free Trade Agreement (SAFTA) is expected to increase by manifolds in coming years. Accompanying this growth will be an increase in demand of both national and regional infrastructure services, for both production and consumption, and international trade purposes. A failure to respond to this demand will slow down South Asia's trade and hamper the growth process. Thus, the infrastructure challenges, both hardware and software, before the South Asian countries, particularly for those are land-locked and island, require better understanding and adequate support. This paper discusses the emerging scenario in regional infrastructure development in South Asia, identifies the infrastructure challenges for the future, and provides some policy options in order to better integrate the South Asian region.

(RIS Discussion Paper No. 160, December 2009).

NEW ASIA MONITOR

Research and Information System for Developing Countries (RIS) was established in 1984 in New Delhi as an autonomous policy think tank, specialising in trade and development issues. The work programme of RIS focuses on multilateral trade negotiations, regional economic integration in Asia, new technologies and development, South-South Cooperation and strategic responses to globalization.

RIS has been supporting the process of regional economic integration in Asia through in-depth policy studies. Besides the pioneering work on economic integration in South Asia, RIS has been making significant contributions to the debate on India's economic integration with its major partner countries in Asia.

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

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