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University Category

**Asia's Role in the Global Economy and the
International Financial System -
Promising Powerhouse but Unready Leader?**

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Abstract

The rapid growth of emerging market economies in Asia has been an important feature of the global economy in recent years. This growth has been spurred mostly by China, and increasingly, India. Asia's growing economic clout has translated into greater roles and responsibilities for the region in the global environment. For example, China and India are already key players in the global economy. China, having achieved the status of factory of the world, is now poised to take on the role of a market for the world. India also plays the twin role of a 'software superpower' and a global outsourcing hub. Liberalization and regional cooperation in ASEAN and the Middle East are also providing a platform for them to bolster their influence globally.

More importantly, Asia, as a region, is gaining wealth and power rapidly. Hence, Asia looks set to take over the U.S. as the new engine of growth in the global economy. The need to secure energy to power Asia's economic engine also translates into greater responsibilities for Asia in ensuring global energy security, especially in the Middle East. With the failure of the current purported leader of the world, the U.S., in leading the world in promoting sustainable economic development, Asia also holds the potential to assume leadership in this domain. To reflect the new economic realities, there is also a need for Asia to assume a larger role in international financial bodies, and to play a more proactive role in the funding and advisory domains of bodies like the IMF.

However, challenges and difficulties facing Asia in the new era can potentially derail Asia's promising future. Hence, there is a need to promote greater consensus and cooperation among Asian countries in order for Asia to realize her potential as an international economic and financial leader.

(300 words)

Asia in the New World Order

The trend of globalization has swept across the whole world. The last few decades have witnessed a rapid integration of the world economy, fuelled by the trend of developing technologies and the Internet. With increased consumer knowledge (and hence power) brought about by this advancement in technology, there has also been a rise in investor demand for shareholder value and consumer demand for integrated financial services. The above factors, coupled with increased market liberalization measures adopted by various governments, have played an integral role in accelerating the consolidation and globalization of financial institutions and markets. Globalization of markets is no longer a passing phenomenon. It is here to stay. As Kofi Annan once cited, "Arguing against globalization is like arguing against the laws of gravity." Hence, isolation is no longer a viable option for any region in the world, including Asia. To become competitive and economically vibrant, Asia must remain firmly plugged into the global economy.

Asia has often been cited as the showcase of the benefits of globalization. For example, Asia's share of world merchandise exports has more than doubled from 10% in 1985 to 26% in 2003.¹ In the financial sector, nearly half of all private capital flows to developing and transition economies in 1996 (which reached an all time high of 235 billion) went to Asia.² Indeed, Asia is emerging as one of the most dynamic and fastest growing regions in

¹ Donald Tsang. "Boao Forum: Prospects of a Single Asian Currency in the Age of Economic Globalisation." 13th May 2005.

² Michael Camedessus. "Australia and Asia in the Global Economy." Australia Unlimited Round Table. 5th May 1998.

the world. As Kishore Mahbubani once pointed out, it took Britain and the US fifty-eight years and forty-seven years respectively to double their per capital output, but Japan did it in thirty-three years, South Korea in eleven, and China in ten.³ Along with greater economic weight, Asia is also expected to take on a larger role and assume more responsibilities in the global arena. Ex-Malaysian Deputy Prime Minister Anwar Ibrahim best sums up Asia's rising profile in the international community when he said, "Asia's increasing prosperity means that it is now in position to offer serious alternatives to the dominant global economic, political and social arrangements."⁴

China

Factory of the World

China today already produces two-thirds of the world's photocopiers, shoes, toys and microwave ovens, and much of this production caters to foreign importers. In 2004, China became the world's second largest exporter, just behind the United States.⁵ The China we see today has definitely undergone massive transformations since Deng Xiaoping decided to open the country's doors to the world over twenty years ago. Standing as the world's factory, as some economists like to call her, China has taken globalization into her own hands and turned it into a whole new ball game – one based on low cost manufacturing.

³ Samuel P. Huntington. "The Clash of Civilizations and the Remaking of World Order." USA: Simon & Schuster. 1997. p.103.

⁴ Anwar Ibrahim. "Asians, Suddenly in the Spotlight Will Now Have to Do Better." International Herald Tribune. 31 January 1994. p.6.

⁵ David Hale and Lyric Hughes Hale. "China Takes Off." Foreign Affairs. November-December 2003. p.38.

For many foreseeable decades to come, China's low production costs are likely to make her an attractive location of choice for global manufacturing. As the pace of globalization quickens, severe profit margin pressures brought about by increased global competition will continue to force many more industries to consider moving production bases to China.

Market for the World

Besides serving as a factory of the world by offering production sites, China can also become a market for the world, as PM Lee Hsien Loong once pointed out. With China's large population size and the growing affluence of her people, it comes as little surprise that China should develop into a dynamic import engine in the global economic system. Furthermore, within the framework of the WTO, China is making steps to further liberalize her trade policy. For example, in November 2000, ex-Chinese Premier Zhu Rongji offered ASEAN a Free Trade Area (FTA) agreement which would give ASEAN the benefits of "early harvesting".⁶ Such a trade agreement would allow ASEAN to expand production and maximize its exports to China. Outside Asia, Nokia also recently indicated that given China's demographic potential, the Chinese market would become the company's single most important market in three years.⁷ In fact, with more than 300 million subscribers in China, the country is already the biggest mobile phone market

⁶ With early harvesting, ASEAN will get to enjoy free trade benefits before China exercises her trading rights. Lee Kuan Yew. "Win-win Approach for China's Peaceful Rise". 13th May 2005.

⁷ Global Strategic Analysis. "Asia's Role in Macroeconomic Independence." Oxford Analytica. 3rd Mar 2005. <http://www.forbes.com/home/business/2005/03/01/cz_0301oxan_macrointerdependence.html>

in the world. Thus, to speak of China as a 'global market' is definitely not an overstatement.

India

Software Superpower and Global Outsourcing Hub

In the early 1990s, when Mamohan Singh addressed the Indian parliament, he firmly declared that in the foreseeable future, the business of India would be business. Quoting Victor Hugo, he said "No power on earth can stop an idea whose time has come." Indeed, like China, India's economy is also rapidly on the rise, after efforts have been made to open up the Indian economy and integrate it with the rest of the world. With the phenomenon of the license *raj* fast becoming a thing of the past, and an active trade policy being pursued by Indian leaders, India's economy has grown at an average rate of over 6 percent annually for the last ten years. With a growth rate of almost 7 percent last year, India was also ranked one of the fastest growing economies in the world.⁸

With a flourishing economy that is expected to make further growth, India offers a significant global economic opportunity for foreign investment, especially in the field of information technology (IT). In the words of Bill Gates, India has emerged as a 'software superpower', and is now recognized as the undisputed IT leader among emerging economies. On top of her IT capabilities, India's abundant pool of cheap (skilled) labor has also enabled

⁸ This growth rate is also expected to rise to 11 percent by 2025, which would make India the third pole in the global economy along with America and China. Kenneth A. Cutshaw. "India: A Future Global Engine of Growth." NACD - Directors Monthly. 16th November 2005.

her to capture 85 percent of the global outsourcing market.^{9 10} For example, a third of Microsoft employees are of Indian origin, and Hollywood hits like Spiderman and Lord of the Rings are also animated not in the U.S., but in India.¹¹ Demographically, India is also a younger country than China.¹² Furthermore, India has no one-child policy to restrict her population growth, thus ensuring the continued presence of an economically dynamic human resource pool which will help India retain her role as a technological leader and a global outsourcing hub.

Rest of Asia

Regional Integration and Liberalisation

China and India's economic development has had a beneficial impact on the rest of Asia, and PM Lee Hsien Loong once equated these Asian giants to "two wings which will give Southeast Asia an extra boost". Their efforts to woo other Asian neighbours (e.g. India's 'Look East' policy and the China Opportunity Theory¹³) have created many opportunities for mutual trade and investment; and these initiatives have helped many Asian countries

⁹ Michael Smith. "India's Chance to Lead the World for a Change."
<<http://www.forachange.co.uk/index.php?stoid=168>>.

¹⁰ Notably, in 2000, the collapse of the US investment bubble left many industries with massive excess capacity and an urgent need to reduce costs drastically; and one way out for these industries was to outsource software and IT services to India. As a result, business in India soared from \$5.6 billion to \$8.4 billion in one year. Clyde Prestowitz. "Three Billion New Capitalists. The Great Shift of Wealth and Power to the East." New York: Basic Books. 2005. p.93.

¹¹ India's Chance to Lead the World for a Change.

¹² The average age of Indians is 26 compared to China's 33.

¹³ The 'Look East' policy was introduced in 1992 as part of India's liberalization plan to engage the nations of South Asia and Southeast Asia. The China Opportunity Theory has also recently overtaken the China Threat Theory, due to efforts by Chinese leaders to convince ASEAN members that China 'is a good neighbor, good friend and good partner' and has no wish to dominate ASEAN affairs. Chua Chin Hon. "China Keeps up Effort to Win over its Neighbors." The Straits Times. p.6. 14th December 2005.

to expand their market-constrained domestic economies.

However, more importantly, for Asian nations, competitive market pressures introduced by China and India have compelled them to re-orientate their economies towards greater market liberalisation and regional integration. In ASEAN, this has led to a burgeoning regional network of cooperation¹⁴ which has in turn provided a solid groundwork for ASEAN to bolster its influence globally. The complementary strengths of ASEAN nations make the region an attractive investment destination. Thus, with greater regional integration, MNCs can easily harness the wide-ranging assets of the ten ASEAN countries.¹⁵ However, for ASEAN to become a stronger global competitor for investment, the organization has to integrate further and forge closer economic ties among its member nations.

On the other hand, regional integration within Asia should not be confined to ASEAN members only. As PM Lee once opined, 'Cooperation amongst other Asian countries will produce a multi-focal, multi-connected pattern of growth, broader and more robust than a 'hub and spokes' configuration where every link either starts from or ends in China.'¹⁶ Hence,

¹⁴ In East Asia alone, intra-regional trade as a share of East Asia's trade rose from 35 percent in 1980 to 54 percent in 2003, which is comparable with the 64 per cent in the European Union. Why Economics Will Top Agenda. Denis Hew and Rahul Sen. The Straits Times. p.22. 30th November 2005.

¹⁵ Countries such as Indonesia and Malaysia are blessed with a wide range of natural resources while others such as Singapore has earned a reputation for her good governance and infrastructure. As a result, the ASEAN region is highly attractive to MNCs. For example, Nissan has its regional headquarters in Singapore, its manufacturing operations in Thailand and Indonesia, and makes significant sales all over Southeast Asia. PM Lee Hsien Loong. "The Future of East Asian Cooperation." 11th International Conference on "The Future of Asia" 25th May 2005.

¹⁶ The Future of East Asian Cooperation.

there is a need to develop other growth engines in Asia, such as Japan (which alone accounts for 52 percent of Asian GDP), to prevent Asia from developing an over-reliance on China's economy.

In the Middle East, a new mood has also emerged – one that is shifting “from the politics of anger to the economics of development¹⁷”. By liberalising trade and investments, the Middle East is now moving away from development models financed by petrodollars towards a more outward-oriented market approach. For example, the UAE, Kuwait, Qatar, Oman, Saudi Arabia and Bahrain are already members of the WTO. Saudi Arabia also allows 100 percent foreign-owned companies in many of her sectors. With growing populations and income levels, the Middle East has also become an important market for Asian businesses, thus leading to engagements between both sides in the form of FTAs.¹⁸

Global Growth Engine

As shown above, the rise of China and India as key global players has strengthened Asia, and at the same time, spurred development in other Asian countries. This phenomenon, coupled with the intensifying of intra-regional economic cooperation among Asian states, has made Asia an attractive investment destination. With large amounts of investments and capital

¹⁷ George Yeo. “A New Asia.” 5th April 2005.

¹⁸ For example, Bahrain has already signed an FTA with Thailand, while Jordan also concluded one with Singapore recently.

gravitating towards the region, Asia looks set to take over the U.S. to become the main growth locomotive for the global economy.

Currently, the U.S. is the biggest net consumer in the world. By spending more on imports than she produces, the U.S. has been creating export-led growth for the rest of the world. However, the enormous U.S. trade deficit has also created an enormous imbalance in the global economy. In 2004, the U.S. imported \$600 billion more than her economy produced. This amount rose to almost \$700 billion last year.¹⁹ The U.S. has been able to finance her excess spending by borrowing heavily, particularly from Asia, where substantial pools of world savings are concentrated. However, this equation is unlikely to hold forever. For example, with increased standards of living in China, the Chinese people are likely to realize the fruits of their economic labor through increased consumption, hence leading to lower savings rates. In Japan, the aging of her population has already cut savings rates from 15 to 6.4 percent.²⁰ In short, there is unlikely to be enough global savings to fund U.S. expenditure in the future. Instead, the responsibility of powering global economic growth is likely to fall onto Asia, whom, with her emerging market economics and her enormous pool of domestic savings, is likely to capture a bigger share of global trade in years to come. Signs of Asia moving into this leadership position are already showing. . For example, Asia today accounts for more than 30% of global GDP and contributes to half of global growth. India is also Cameroon's biggest export destination for cotton,

¹⁹ Three Billion New Capitalists. p.167.

²⁰Teruhiko Mano. "Decline in Savings Rate a Warning to Reform-Resistant Politicians." Japan Times Online, June 28, 2004. <http://www.202.221.217.59/print/business/nb06_2004/nb20040628a1.htm>

and Senegal's most important market for her phosphates exports.²¹ Also, the enormous appetite of the Chinese domestic market is another vital engine that is spurring development of economies everywhere in the world from Korea²² to Brazil.²³

However, Asia needs an open world trading system if it is to continue to grow. Similarly, the world needs Asia to play a positive and leading role in the promotion of multilateral trade liberalization. By spelling out the benefits of trade liberalization in the Doha Round talks, and by making commitments to open domestic sectors which are still protected²⁴, Asia can help to promote a strong multilateral trading system, and hence, unlock more gains to trade for other open economies.

Of course, the role of the European Union (EU) as a giant economic entity cannot be neglected. However, the EU faces its fair share of problems too. As Clyde Prestowitz puts it, "with high unemployment, aging populations, soaring social welfare expenses, little venture capital activity, low rates of adoption of information technology, and rigid labor laws coupled with low labor mobility, Europe will have trouble adjusting to the world of Asia."²⁵ Hence, the

²¹ Helmut Reisen. "Asia's Growing Presence in the Global Economy: What's in for Africa?" OECD Development Centre Paris. 23rd May 2005.

²² Korea has a trade surplus of \$29 billion with China and is gaining most of its growth from the Chinese market. World Trade Organization. "International Trade Statistics 2004."

²³ Brazil's exports to China jumped from \$2.5 billion to over \$10 billion between 2000 and 2003, and Brazil's growth is expected to put her economy on track to overtake Germany by 2035. Three Billion New Capitalists. p.241.

²⁴ Anne O.Krueger. 'Still Achieving, Still Pursuing: The Global Consequences of Asian Growth.' 14th Dec 2005.

²⁵ Three Billion New Capitalists. p.215.

rest of the world is likely to be drawn into the orbit of Asia in the new economic order.

Enhancing Global Energy Security

To power Asia's dynamic economic engine, energy is an essential ingredient. Currently, energy remains as a high-stakes issue in Asia. The 'Middle Eastern' countries in Southwest Asia possess almost two-thirds of global oil reserves. As a result, the region stands as a strategic center of gravity in the global oil market, and any oil supply disruptions in the region caused by internal instability or inter-state conflict can potentially threaten other economies through their inflationary impact on global energy prices. With the growing dependence of Asian nations²⁶ on their southwestern neighbors for energy to drive their rapidly developing economies, Asia is also likely to take on greater responsibilities in securing energy supply in these oil-rich regions, and hence play a more proactive role in enhancing global energy security.

China has already taken a lead in deepening her ties with the Middle East. For example, mechanisms such as the newly established China-Arab Cooperation Forum and the China-GCC Framework Agreement (which sets the parameters for future economic cooperation) has helped to institutionalize Sino-Middle Eastern relations.²⁷ Now, being a significant stakeholder in the

²⁶ For example, China obtains almost 50 percent of her oil from the Middle East while Japan and Korea obtain between 70 and 80 percent. Kent E. Calder. Fueling Northeast Asia. Edwin O. Reischauer Center for East Asian Studies < <http://www.sais-jhu.edu/pubaffairs/publications/saisphere/winter04/Calder.html>>

²⁷ John Calabrese. "The Risks and Rewards of China's Deepening Ties with The Middle East." The

region's energy market, it is only a matter of time before Beijing makes the strategic decision to play a more assertive role in mediating regional disputes in the Middle East. Advances in this direction have already been made. In the past few years, Chinese leaders have made visits to Iran and Saudi Arabia to discuss regional issues of common concern, and at the same time, promote China's stand in supporting the early realization of lasting peace in the Middle East region.

India has also undertaken efforts to promote energy security in the Middle East. In 2005, India hosted the first-ever meeting of oil ministers from the major Asian oil importers and Middle Eastern exporters. During the conference, India called for cooperation on both sides to work towards a stable Asian oil market and a pan-Asian gas grid.²⁸ This call has resonated among Middle Eastern countries such as Saudi Arabia, which offered to co-host the second oil roundtable with Japan.

While the rise in trade and diplomatic ties between Asian states and the Middle East seemingly do not benefit energy importers from other parts of the world, the vested interests of these Asian states in the Middle East will ultimately translate into greater roles and responsibilities for Asia to play in the internal and regional security of the Middle East, especially in the safeguarding of oil installations from terrorist groups like the al-Qaeda. This will in turn reduce the likelihood of oil disruptions and help ensure greater security for other economies dependent on imported energy from the Middle

Jamestown Foundation. Volume 5, Issue 12. 25th May 2005.

²⁸ Ziad Haider. 'Oil Fuels Beijing's New Power Game'. *YaleGlobal*, 11 March 2005

East.²⁹ Given the importance of the Middle East in global energy markets, Asia's expanding engagements with the region is a step forward in the achievement of greater global energy security.

Green Leader

Closely tied to the issue of energy is the concern for environmental protection. Hence, another domain in the global economy where the region can assume leadership is in the promotion of environmental protection and sustainable development.³⁰ Deteriorating global environmental conditions have often been seen as constraints to economic growth all around the world. Increasingly, Asian cities have also seen how bad ecology can translate into bad economies. For example, in 2002, a regional assessment by the Asian Development Bank (ADB) warned that neglect of the environment is costing Asian economies as much as 8 percent of national growth.³¹

Despite environmental degradation often being touted by Western countries as a striking problem of Asian economies³², Asia has much potential to become a global leader in environmental protection. As Asian income

²⁹ As a side-note, another major energy exporter in Asia, Russia, (which is currently the largest energy supplier outside of OPEC) must also comprehend her escalated role in the global economy due to the world's rising dependence on imported energy. Using energy as a 'weapon', as demonstrated in the Russian President's decision to cut off gas supplies to Ukraine over a price dispute, should not be adopted due to its damaging impact on the country's reputability, as well as the costs it incurs to the exporting country's oil sectors.

³⁰ Sustainable development can be taken to imply economic development with the preservation of total productive capacity that also includes environmental values.

³¹ David Boyd. "Environmental Cost of Asia's Development." Asia Times. 26th Nov 2002.

³² For example, China has often been accused of attempting to "export itself into a healthy economy" by expediting increases in manufacturing capacity without the ecological temperance to balance industrial might with reasonable environmental controls.. A 1998 World Health Organization report on air quality in 272 cities worldwide concluded that seven of the world's 10 most polluted cities were in China. "Environment of China." <http://en.wikipedia.org/wiki/Environment_of_China>

levels rise, the demand for a cleaner and more sustainable environment has also gained a voice. Previously, the prevailing government mentality in most Asian countries was one of "grow now, clean up later." For example, until the 1992 Rio Earth Summit, China was reluctant to accept the concept of 'sustainable development'. This was because Chinese leaders gave explicit priority to China's economic development for many years to come, so that they could first solve domestic problems of over-population and poverty before adopting a more environmentally-sensitive national approach.³³ However, things have changed since the wave of economic dynamism was unleashed in China. Environment bodies are speaking out and demanding more action against previously unassailable national projects such as the Three Gorges Dam project. China, although an initial environmental laggard, has also become a more active participant in international environmental agreements. For example, a recent compendium edited by China's State Environmental Protection Administration listed 29 multilateral environmental agreements to which China has become a party.³⁴

Given Asia's rising global standing and her economic might, coupled with the technological strength of Japan and India, it would not be impossible for Asia to lead the world in devising constructive multilateral environmental strategies to promote sustainable development. After all, the current purported leader of the world, the United States, has failed in her role to direct the world in resolving pressing environmental issues. The United States' refusal to

³³ Louis Edmonds Richards. "Managing the Chinese Environment." US: Oxford University Press, 2000. p.67.

³⁴ Ibid. p.21.

support and abide by the Kyoto Protocol is a very telling example. On the other hand, China has recently carried out a pilot project in green GDP assessment to promote sustainable economic growth in China. Such initiatives should be propagated worldwide to address the growing global environmental problem. However, before this can be done, Asia's representation in global decision-making institutions should be increased. Currently, three of Asia's key members – China, India and Japan have a combined voting power of only around 10 percent in the World Bank's International Finance Corporation (IFC), which hosts a private sector window for the Global Environment Facility (GEF³⁵). This voting proportion does not measure even up to half of the 23.65 voting percentage the U.S. holds.³⁶ Hence, more representation (and hence more monetary contributions) from Asia is desired in order for Asia to move closer to realizing her role as an environmental leader.

A Larger Voice in the International Financial Community

With a savings rate of 38 percent of GDP in 2004, developing Asia is the region with the highest savings rate in the world.³⁷ A large part of this savings is placed with financial markets in the U.S. and Europe, and most of

³⁵ The Global Environment Facility (GEF), established in 1991, is an important body that helps developing countries fund projects and programs that protect the global environment. GEF grants support projects related to biodiversity, climate change, international waters, land degradation, the ozone layer, and persistent organic pollutants. "Global Environmental Facility." <<http://www.gefweb.org/>>

³⁶ "IFC: Votes and Subscriptions." <[³⁷ Ong Chong Tee. "Towards an Integrated ASEAN Capital Market." Bank Negara Euro Conference. 14th July 2005.](http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATION/BODEXT/0,,contentMDK:20124824~menuPK:64020035~pagePK:64020054~piPK:64020408~theSitePK:278036,00.html.></p></div><div data-bbox=)

these funds are reinvested in Asia in the form of foreign direct investment (FDI) and foreign portfolio investment (FPI). There is hence, an important total equity return swap relationship between Asia and the capital markets outside Asia. However, Asia is also moving towards independence from Western financial markets. Since the launch of Asian Bond Fund 1 in June 2003, Asia has also been working towards a deep and liquid Asian bond market. In a recent meeting of the Asian Development Bank, an Asian Monetary Fund was also mulled to accelerate the economic integration and self-sufficiency of Asia³⁸.

With Asia's rising financial independence and her growing ability to dominate global trends, her role in the international financial community must also increase to reflect the new economic realities. Given the IMF's role in fostering international economic and financial stability, deepening the two-way dialogue with Asia on national, regional, and global issues is crucial.

To start with, Asia should take on a greater financial stake in the IMF. While some Asian countries (e.g. Middle Eastern countries) still remain as long-term recipients of aid from the Fund, others have transformed from being users of these funds to financiers of the IMF. For example, it has been some time since Singapore and Malaysia made use of IMF resources. Instead, they now assist in financing the Fund's operations through their participation in the

³⁸ A step towards the self-sufficiency of Asian financial markets was seen in the signing of the Chiang Mai Initiative - the 27.5 billion USD bilateral swap arrangement signed among Singapore, Thailand, Malaysia, Indonesia, Philippines, Japan, Korea and China. The mechanism of currency swap arrangements manifests the spirit of close cooperation among these governments and also provides a reliable funding support to participating countries in case they need such assistance. "Boao Forum: Prospects of a Single Asian Currency in the Age of Economic Globalisation."

operational budget. Under the Fund's New Arrangements to Borrow (NAB), several Asian countries have also committed themselves to providing supplementary resources to double IMF's credit lines in times of crises to cope with any impairment or threat to the stability of the international monetary system.³⁹ While Asia's financial stake in these international groupings has been growing, action must be taken to increase Asia's representation in these bodies in order to achieve the stronger voice in international monetary affairs that Asia rightfully deserves.

A recent Brookings Institution study observed, "There is a fundamental asymmetry between today's global reality and the existing mechanisms of global governance, with the G-7/8 -- an exclusive club of industrialized countries that primarily represents Western culture -- the prime expression of this anachronism."⁴⁰ Apart from the fact that the G-7 oligopoly represent a small and declining proportion of the world's population, the rising economic clout of Asia is another compelling reason for more equal representation to be reflected in global financial bodies⁴¹. The last quota increase under a general review took place in January 1999; and since then, there have been no proposals by the Board of Governors to increase quotas, despite the rise in economic positions of many Asian countries relative to their Western

³⁹ Notably, according to the credit amount pledged by Japan, she stands as the second largest participant of the NAB (after the U.S.). IMF. <<http://www.imf.org/external/np/exr/facts/gabnab.htm>>

⁴⁰ James F.Hoge, Jr. "A Global Power Shift in the Making." New York Times. 24th June 2004. The inclusion of China in last year's G-7 meeting also highlighted China's growing importance in the world economy, and the need for G-7 to be more inclusive if it wants to remain effective in coordinating global economic policies

⁴¹ Japan, China, South Korea and the ASEAN (ASEAN Plus Three) - together control only a 13 percent voting stake in the monetary fund despite accounting for almost 20 percent of global GDP. Rob Delaney. "Asian Leaders to Seek More Clout in IMF." Bloomberg News. 5th May 2005.

counterparts.⁴² Hence, there is a clear need to bring quotas (i.e. capital shares) and voting power in the IMF more closely in line with economic weights of member nations.

However, Asia's role can extend beyond the financial domain. Asia should also be allowed to take on an advisory position in global financial bodies. For example, the Asian Financial Crisis has provided valuable lessons for many Asian economies.⁴³ These lessons, as well as the experience of the Asian economies in adopting painful reforms during the recovery process, provide an important case study for other countries seeking to reform or develop their financial systems.⁴⁴ Furthermore, Asia's economic dynamism can also serve as a model for other regions to emulate; and this is especially relevant for regions that have yet to attain the sustained rapid growth that Asia has achieved. Sustained rapid growth is essential for poverty reduction: and Asia's experience is a good reminder of what growth can do. Hence, Asia should speak out more forcefully about the benefits of having sound financial markets and prudent economic policies to meet up with the challenges in the globalized world. Moreover, by exercising her influence within these global

⁴² IMF Quotas. <<http://www.imf.org/external/np/exr/facts/quotas.htm>>

⁴³ According to SM Goh Chok Tong, the crisis has produced "four positive outcomes": it has speeded up the opening of economies, forced Asians to be more aware of good corporate governance, made the region concentrate on its real competitive strengths, and provided a hard lesson about globalization. *The Economist*. "The Tigers that Changed their Stripes." 10th Feb 2000.

⁴⁴ As a side-point, the Asian crisis had another important global dimension as well. The shockwaves the crisis sent around global financial markets were an important reminder of how much more significant Asia had become for the world economy.

bodies, Asia can also achieve a higher profile in the international community, and gain a larger voice in the policies of these international bodies.⁴⁵

Unready Leader?

While Asia definitely looks sets to play a larger and more important role in the new global environment, we must recognize that there are still challenges and difficulties facing Asia in the new era; and these challenges can potentially derail Asia's promising future. Besides the changes to the international arena that we have identified, there are also issues within Asia which must be addressed. The first problem identified is that of regional security. Traditional and non-traditional security threats, ranging from regional hot-spots⁴⁶ and terrorism to organized crimes have added another layer of risk to the economic and business environment, thus making foreign businesses more hesitant about investing in Asia. These threats can potentially upset Asia's stability and destroy her prospects of moving towards global leadership. For example, the Islamic global terrorist counter-current is a particularly serious threat which can only be combated with transnational action. Hence, Asian members must complement their cooperation in the economic sphere with collaboration in the security sphere to maintain peace and to restore investor confidence in the region.

Also, from the European Union model, we learnt that strong political leadership and multilateral cooperation were essential for European economic

⁴⁵ The holding of the 2006 Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank Group in an Asian country (Singapore) are also an indication of Asia's rising profile in the global financial arena.

⁴⁶ Examples of regional hotspots include the Korean Peninsular and the Taiwan Strait.

integration. If the leaders of Germany and France had not overcome the tensions rooted in their past history through concerted efforts, European economic integration would not have taken place. However, the same cannot be said for Asian leaders. Some Asian countries, especially China and Japan, are still chained to their legacy of past history. Current friction and hostility between China and Japan leaders, which rules out any bilateral cooperation, is a serious impediment to progress in Asia. In the Middle East, the prospects of the roadmap to peace between Israel and Palestine still remain an issue. Hence, despite initiatives being made to achieve greater levels of cooperation in Asia, it is unlikely for the region to achieve the same level of integration that has been achieved in the European Union.

The lack of mutual trust and cooperation is also likely to make regional financial cooperation an uphill task. However, greater regional financial integration is essential for Asia to strengthen her global role. Asia has already reduced her economic vulnerabilities through the build-up of reserves. However, greater regional financial integration will help deepen Asia's financial markets and strengthen the resilience of Asian economies to external shocks. Financial integration will also improve the channeling of savings and investment within Asia, thus promoting a more efficient regional financial system. Regional initiatives such as the Asean-plus-3 roadmap⁴⁷, and the Chiang Mai network of bilateral swap arrangements, which facilitate cross-border activities, have helped to strengthen regional cooperation. However, other initiatives to promote intra-Asian trade and investments, such as the

⁴⁷ The roadmap was introduced to spur the development of a regional bond market.

idea of a common Asian currency, should also continue to be mulled to develop Asia into a stronger and more cohesive financial body.

Finally, it is important to realize that Asia constitutes countries and regions in varying stages of economic development, and harmonizing changes within Asian countries is not an easy task. While we cannot understate Asia's potential in the global economy; we must also not overstate her role as a global economic and financial leader as there are still exogenous and endogenous factors that challenge Asia's rise to power. For Asia to realize her full potential, there is a need to have an open and stable regional architecture in Asia, where all Asian countries can have their legitimate interests accommodated. There must also be a consensus amongst the people of each country - that they need to embrace globalization and free markets; and continually adapt to an ever-changing world. The strength of this consensus will determine how fast Asia can progress in this exciting new era.

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