

“Emerging Asian Regionalism: Ten Years after the Crisis”

A study by the Asian Development Bank

OVERVIEW

A decade after the 1997/98 financial crisis, East Asia is again seen as one of the world’s most successful development models. The region has turned the crisis into an opportunity to undertake extensive financial sector restructuring, to improve the productivity of its trade and corporate sectors, and to strengthen governance and institutional reforms. Although pre-crisis levels are yet to be reached in several areas¹ and some countries still struggle to improve governance, overall economic dynamism has returned, with some notable new dimensions. Japan has recovered from a decade of stagnation and the People’s Republic of China has emerged as a major economic power. There is unprecedented interest in economic regionalism, reflecting deep, market-driven interactions as well as new government-led initiatives. And South Asia is now also growing rapidly and is forging closer ties with East Asia. Despite their diverse economic structures, income levels, and resource endowments, Asian economies are starting to use closer regional ties to provide a new platform for their development process—one that helps build and reinforce economic resilience and sustainability, and works toward the ultimate goal of poverty reduction.

The tenth anniversary of the crisis provides a unique opportunity to take stock of these remarkable achievements and to analyze the new dimensions of Asian interdependence, including their effects on the region’s policy choices. Building on insights from regional leaders, international scholars, analytical studies by experts, technical workshops, and high-profile conferences, ADB will prepare a study focused on the emergence of Asian regionalism in order to examine the new architecture of the regional economy and to offer lessons to a wide range of developing member countries (DMCs) that are also liberalizing their social and economic systems and increasing their involvement in the global economy. Our working hypothesis is that East Asia’s renewed dynamism is due to a combination of far-reaching reforms, economic openness and entrepreneurialism, and growing regionalism. Closer regional interdependence, in particular, has the potential to increase dramatically the productivity and resilience of the region’s individual economies. A number of challenges, however, remain: unresolved structural weaknesses could generate new crises, the benefits of recent progress have not been evenly shared within and among economies, and regionalism itself could evolve in undesirable directions. The study aims to analyze these trends and challenges by examining emerging economic institutions, exploring options in the changing policy environment, and identifying lessons for DMCs that seek to emulate East Asia’s success.

The study will be structured in: (i) a general report of approximately 300 pages prepared by a team of leading economic experts under the supervision of ADB staff; (ii) a volume including several analytical and background papers published under the name of respective authors; and (iii) an overview booklet with short essays by influential economic and political figures on the key challenges facing Asian regionalism and highlights of the central themes of the study. The study will commence in January 2007 and will be completed by April 2008. A high-profile international conference will be organized in July 2007 to commemorate the 10th anniversary of the Asian financial crisis. The overview booklet will be distributed during this conference. The general report will be published in the form of a book and will be launched during the 2008 ADB Annual Meeting. The volume including analytical and background papers will be ready at the same time as the general report. In addition to the high-profile conference, an inception workshop, a technical workshop, and a finalization workshop will be organized in February, July and November 2007, respectively in Manila, Bangkok, and Tokyo. To receive inputs from various experts and to diffuse the study outcomes effectively in different parts of the world, a series of workshops and conferences will be also organized with leading international institutions and research centers. An external advisory board will be also formed among experts to ensure the overall quality of the report.

¹ For example, average growth in GDP, while generally robust, still has not risen to the peaks of the mid-1990s and investment remains weak throughout most of the region, although the PRC, Viet Nam, and some other economies are notable exceptions.

KEY ISSUES

While the causes of the 1997/98 Asian financial crisis have been widely studied, analyzing the decade of experience since the eruption of the crisis can help us understand how the affected countries turned crisis into opportunity, and draw appropriate lessons for future policies in these and other countries. At the same time, analyzing the major new dimension of the recovery--economic regionalism--is important for charting the region's future development strategy. In this context, key issues to be studied include the management of macroeconomic policies as well as changes in the financial, real, and social sectors. In particular, although the immediate cause of the crisis lies in the financial sector, real sector weaknesses exacerbated the extent and significance of the crisis and, eventually, real sector productivity gains played an important role in the recovery. Moreover, a lack of adequate social safety nets and other mechanisms to protect the most vulnerable economic groups contributed to a rapid increase in poverty indicators and amplified the negative impact of the crisis on income distribution. These are significant issues to be addressed to better understand future directions and provide relevant lessons for DMCs.

Managing macroeconomic interdependence

With East Asian economies becoming increasingly interdependent, the regional dimension of macroeconomic management takes on greater significance. Relevant issues for building regional economic resilience range from the adoption of monetary and fiscal policies, the management of domestic and international debt, the progressive liberalization of the capital account, the choice of exchange rate regimes, the management of international reserves, and ways to address global payments imbalances.

Building integrated financial markets

Because the crisis highlighted financial sector weaknesses throughout the region, an essential task of the study is to analyze how domestic financial systems can be strengthened and how savings can be better mobilized for regional investments through new initiatives. Major topics to be investigated include the progress of reforms and regulation in the financial--especially banking--sector, the new national and regional mechanisms for economic and financial surveillance as well as banking supervision, developments in the capital--especially bond--markets, and corporate governance issues.

Harnessing productivity and competitiveness

Identifying ways to increase firms' productivity and competitiveness is important when assessing the real sector vulnerabilities that contributed to the 1997/98 crisis. As firms face the challenges of competing in the global economy, they need to embrace innovation, invest in human capital, improve energy efficiency, and introduce environment-friendly technologies. Given the new pattern of regional production, the study will thus analyze relevant factors to maintain high productivity and competitiveness, such as enhancing infrastructure and connectivity and improving services that facilitate trade and drive investment.

Achieving inclusive social progress

Governance reforms are needed to ensure that economic growth does not exclude the most vulnerable sectors of society from development. To address the impact of the crisis and its recovery path on poverty reduction, the study will include an analysis of income disparities, the challenges of aging societies, and ways of strengthening social protection through safety nets. These issues are increasingly discussed in regional policy dialogues and are becoming more relevant as economic regionalism grows.

A final objective of the study--to be addressed in its concluding section--is to integrate these specific findings into a comprehensive menu of policy choices that will enable individual economies to capitalize on the opportunities generated by the region's dynamic economic environment.

GENERAL REPORT OUTLINE

Emerging Asian Regionalism: Ten Years after the Crisis

Part One: Miracle, Crisis, and Emerging Regionalism

- I. **Introduction**
- II. **Turning Crisis into Opportunity**
 - II-1 Recovery, reforms and restructuring
 - II-2 Evolving landscapes
 - II-3 Regional dynamism

Part Two: Key Elements of Regional Dynamism

- III. **Managing macroeconomic interdependence**
 - III-1 Macroeconomic policies
 - III-2 Managing exchange rates and international reserves
 - III-3 Capital account liberalization
 - III-4 Global payments imbalances
- IV. **Building integrated financial markets**
 - IV-1 Savings and investment
 - IV-2 Financial sector regulation, monitoring, and supervision
 - IV-3 Banking sector reforms and capital market development
 - IV-4 Corporate governance
- V. **Harnessing productivity and competitiveness**
 - V-1 Investment and trade: Economics of fragmented production
 - V-2 Infrastructure and connectivity
 - V-3 Knowledge economy: Human capital, innovation, and productivity
 - V-4 Energy efficiency and environmental improvement
- VI. **Strengthening social protection**
 - VI-1 Poverty and human development challenges: Their regional dimension
 - VI-2 Income disparities and inequalities
 - VI-3 Empowering people for economic integration: Health, education, access
 - VI-4 Facilitating adjustment through social protection

Part Three: Policy Challenges

- VII. **Deepening Asian Integration**
 - VII-1 Challenges of globalization
 - VII-2 Private and public sector governance
 - VII-3 A new regional economic architecture
- VIII. **Conclusions**

ANALYTICAL AND BACKGROUND PAPERS OUTLINE
(Preliminary suggestions – Maximal list – Total approximate 15-20 papers)

II. Turning Crisis into Opportunity

- A Perceptions of regional identity: A survey
- B Impediments and progress in regional economic cooperation

III. Managing macroeconomic interdependence

- A Is there evidence of growing regional correlation of economic activity?
- B Fiscal policies and economic growth: A regional perspective
- C How have monetary policy frameworks evolved since the crisis?
- D Why are Asian foreign exchange reserves so large? What effects will they have?
- E Exchange rate regimes and policies: A regional perspective

IV. Building integrated financial markets

- A Regional financial interdependence: Trends and implications
- B Patterns of savings and investment: Cross-border impediments to financial services and capital flows
- C Developing and deepening Asian financial markets: An international perspective
- D What are the financial implications of the region's demography?
- E Benefits and costs of regional monetary and exchange rate policy coordination

V. Harnessing productivity and competitiveness

- A Patterns of trade and foreign direct investment: Indicators of regional interdependence
- B Developing regional infrastructure: Indicators of regional interdependence
- C How does production fragmentation play out in East Asia?
- D Are Chinese and other Asian exports competitive or complementary?
- E Knowledge economy: Human capital and total factor productivity
- F Energy and environment issues for productivity increase

VI. Achieving inclusive social progress

- A Progress in human development indicators
- B Institutional developments in governance to improve social protection
- C Has the recovery facilitated social inclusiveness? Changing social safety nets and labor mobility
- D Addressing the challenges of income disparities and poverty
- E Challenges of urbanization, migration and ageing, including their regional aspects

VII. Deepening Asian Integration

- A Sequencing economic regionalism in Asia
- E A roadmap for a single Asian currency
- C How could Asian FTAs be connected?
- D Financial sector regulatory coordination and supervision
- F Lessons from the European experience in regionalism

TIMELINE

	January 07	February 07	March 07	April 07
Selection of consultants				
Contracts preparation				
Papers' outline preparation				
Papers' outline review				
Inception Workshop (Manila)				
Papers' first draft preparation				
Overview booklet preparation				

	May 07	June 07	July 07	August 07
Overview booklet preparation (cont')				
Papers' first draft preparation (cont'd)				
Papers' first draft review				
Annual Meeting Seminar (Kyoto)				
High-Profile Conference (Manila)				
Technical Workshops (Bangkok)				
Papers' final draft preparation				
Editing of manuscripts				
Workshop in Berlin				
Joint-conference in Tokyo				
Workshop in Canada				

	September 07	October 07	November 07	December 07
Papers' final draft preparation (cont)				
Papers' final draft review				
Finalization Workshop (Tokyo)				
Editing of manuscripts (cont'd)				

	January 08	February 08	March 08	April 08	May
Editing of manuscripts (cont'd)					
Book Production					
Book Launch					
Workshop in Manila					
Workshop in Jakarta					
Workshop in Kuala Lumpur					
Workshop in Bangkok					
Workshop in Seoul					
Workshop in Delhi					
Workshop in Beijing					
Conference in Brussels					
Conference in Canada					

CONTACT DETAILS

PROJECT MANAGEMENT TEAM

Masahiro Kawai
Dean, Asian Development Bank Institute, Tokyo
Tel. +813 3593 5500
mkawai@adbi.org

Jong-Wha Lee
Head, Office of Regional Economic Integration
(*designate from 1 March 2007)
Asian Development Bank, Manila

Srinivasa Madhur
Director
Office of Regional Economic Integration
Asian Development Bank, Manila
Tel. +632 632 5744
smadhur@adb.org

Giovanni Capannelli
Senior Economist
Office of Regional Economic Integration
Asian Development Bank, Manila
Tel. +632 632 5965
gcapannelli@adb.org

PRINCIPAL CONSULTANT

Peter A. Petri
Carl Shapiro Professor of International Finance
International Business School, Brandeis University
ppetri@brandeis.edu

PROJECT COORDINATOR

Victoria T. Viterbo-Quimbo
Project Consultant
Office of Regional Economic Integration
Asian Development Bank, Manila
+632 632 70451
vquimbo@adb.org

ECONOMIC OFFICER

Richard Supangan
Economic Officer, Office of Regional Economic Integration
Asian Development Bank, Manila
+632 632 4101
rsupangan@adb.org

SECRETARY

Ruby Grace N. Santiago
Administrative Assistant, Office of Regional Economic Integration
Asian Development Bank, Manila
Tel. +632 632 6253
Fax. +632 636 2183
grsantiago@adb.org