ECONOMIC COOPERATION IN ASIA

Ishrat Husain*

During the past five decades developing countries in Asia have provided the most persuasive and credible story as to how poor countries can progress and bring about prosperity for their downtrodden people. Beginning with Japan, followed by NICs particularly Korea, ASEAN countries and now China, these countries have not only doubled or quadrupled per capita incomes in a record time but also significantly reduced the incidence of poverty.

There are several different interpretations of the East Asian miracle and every school of thought has taken the credit for the unprecedented success of more than 1.5 billion people inhabiting this region.

Those who believe in the supremacy of state led industrialization have attributed the turn around to the selective interventions by the Government through directed credit, subsidized foreign exchange, tax concessions, tariff exemptions and picking the winners. Those whose faith in pure market mechanism remains unblemished argue that unilateral trade liberalization, integration with the global economy, attracting foreign investment and technology and generally pursuing market friendly economic policies were responsible for these spectacular results. A more dispassionate analysis would reveal that no single extreme model can satisfactorily explain this phenomenon. There are,

* Chairman's address at the high level seminar organized on the occasion of the Asian Cooperation Dialogue held at Islamabad on April 5, 2005

however, several common elements of strategy that have also been practiced outside East Asia and have also generated similar results. There is now a wide consensus that participation in international, inter-regional and intra-regional trade enhances the market size for sale of goods and services substantially relative to those who remain confined to the domestic markets. This added purchasing power accelerates the pace of economic growth and shortens the period required for doubling incomes. Second, as the poor countries have low domestic savings in relation of their investment needs they have to draw on foreign savings either in form of official flows, commercial loans or foreign direct investment to supplement this inadequate pool of domestic savings. The only exception is China whose citizens save a remarkable 40 percent of their income in form of savings. The contrast between China and other comparators is evident in the time it took China to double its per capita income. Third, even if the countries have large pool of domestic savings they cannot transform this pool into productive and remunerative investment over sustained period unless they acquire, assimilate and disseminate the latest technology in production, process and marketing. Embodied in foreign investment is the transfer of technology that can be adapted and internalized to suit the local conditions. Fourth, the state has a major role to play and cannot retreat to the sidelines as a disinterested by-stander. Maintenance of macroeconomic stability, pursuit of sound economic policies, provision of physical infrastructure, assuring security of property and person, adjudicating disputes, respecting property rights and enforcing contracts, investing in research and development and more generally in public goods are some of the elements of the enabling environment that Governments create for private businesses to flourish. Fifth, no country in the world can aspire to achieve sustainable improvement in the living standards of its people unless it has invested in education health, nutrition, drinking water, in other words, in human development. This is going to be even more pressing in the 21st century as the world becomes a knowledge-based economy. A literate, healthy, educated and continuously learning and adapting labor force will make the difference between the success and failure of countries.

It is against this background that we should examine the future course of Economic Cooperation in Asia. There is no way that increased cooperation can be wished. It has to be embedded in the confluence of interests of all the participants and anchored in ground realities. Intra-regional trade and investment among the ASEAN + 3 countries has insulated this region from the vagaries, vicissitudes and volatility of the western economies. The correlation and dependence of the region's economy on the rest of the world is weakening and as the share of intra-regional trade and investment flows further increase the link will become unimportant. South Asia and Central Asia, on the other hand, have neither benefited from integration within their respective regions nor with the ASEAN + 3 region. The market size, the increased purchasing power, the nature of economic reforms and pursuit of liberal and open door policies, a large pool of trained manpower and the emergence of India as the reservoir of scientific and technological manpower do create a win-win situation for all the participants in the Asian Cooperation Dialogue. Pakistan has completely turned its economy around during the last five years and is now experiencing 7 percent plus growth rate with a fast emerging middle class of 15 million people. Similarly, the other countries of South Asia are also making considerable progress economically. Thus together the South Asia and Central Asia offer an expanding and buoyant market and also provide source of supplies to the value chain for the more advanced countries of the region. Japan and Korea are already using ASEAN Countries and China as the platform for production of goods in a cost effective way while providing design, technology, specifications and taking care of marketing and sales. Malaysia is beginning to feel the pinch of labor shortages and is looking towards South Asian Countries for relieving this pressure. Singapore and Malaysia are capital surplus countries with high foreign trade-GDP ratios and limited domestic markets. They are now looking towards the middle classes of South Asia whose incomes are rising fast and whose appetite for goods and services is voracious. India alone is adding about 2 million cellular phone subscribers every month while Pakistan has increased the size of cellular phone market from 3 million to 8 million within just one year. This example can be multiplied for fast moving consumer goods, energy, infrastructure, services of all kinds. Thus investment in these countries can be beneficial for both the capital surplus and large market size countries. Central Asia has huge energy resources but is geographically disadvantaged as it is landlocked. Infrastructure development providing access to seaports as well as gas pipelines, hydroelectric power transmission lines can make their economies more competitive and at the same time ease the energy shortages in India and Pakistan. China, because of its tremendous success, is facing or likely to face growing restraints and impediments in expanding access to the Western markets for its manufactured goods. Joint

Ventures between Chinese companies and relocation in other parts of the region with low costs of production combined with availability of ample labor would be in the economic interest of both China as well as the recipient countries. India's proven prowess in information technology, Internet-related services, Biotechnology and other intellectual fields can be used to enhance the productivity across the board in all the countries of Asia. Given the growing demand of skills among the Asian economies the inter operability of skilled manpower across the territorial boundaries of each individual country will help meet this demand.

This above scenario is doable in my view but it requires a shared vision, a long term strategy, political will and commitment, a time bound action plan, an institutional mechanism for implementation and monitoring, and a machinery for follow up, dispute resolution, and problem solving. If the foreign ministers present at Islamabad this week can proceed along this road map I am quite confident that all the countries in region will be winner and nobody will be loser. Historians will then rightly describe 21st Century as the Asian Century just like the past three centuries were the American and European centuries.

Thank you very much.