

Economic Institution Building in Asia

Masahiro Kawai
Dean
Asian Development Bank Institute

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Outline

- 1. Does Asia Have Adequate Economic Institutions?**
- 2. Trade and Investment**
- 3. Development, Infrastructure and the Environment**
- 4. Money and Finance**
- 5. Evolving Economic Architecture in Asia**
- 6. Way Forward**

1. Does Asia Have Adequate Economic Institutions?

Asia is “institution light”

- Asia has seen significant market-driven, *de facto* economic integration but without much support of adequate economic institutions
- Asia has a few economic institutions, like the ASEAN, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the Asian Development Bank (ADB)
- Asia has several forums, like ASEAN+3, East Asia Summit (EAS), APEC and ASEM
- Asia needs much more solid economic institutions to deal with trade and investment, infrastructure planning and financing, environmental and climate change management, and money and finance

Rising global responsibility of Asia for sustainable global growth

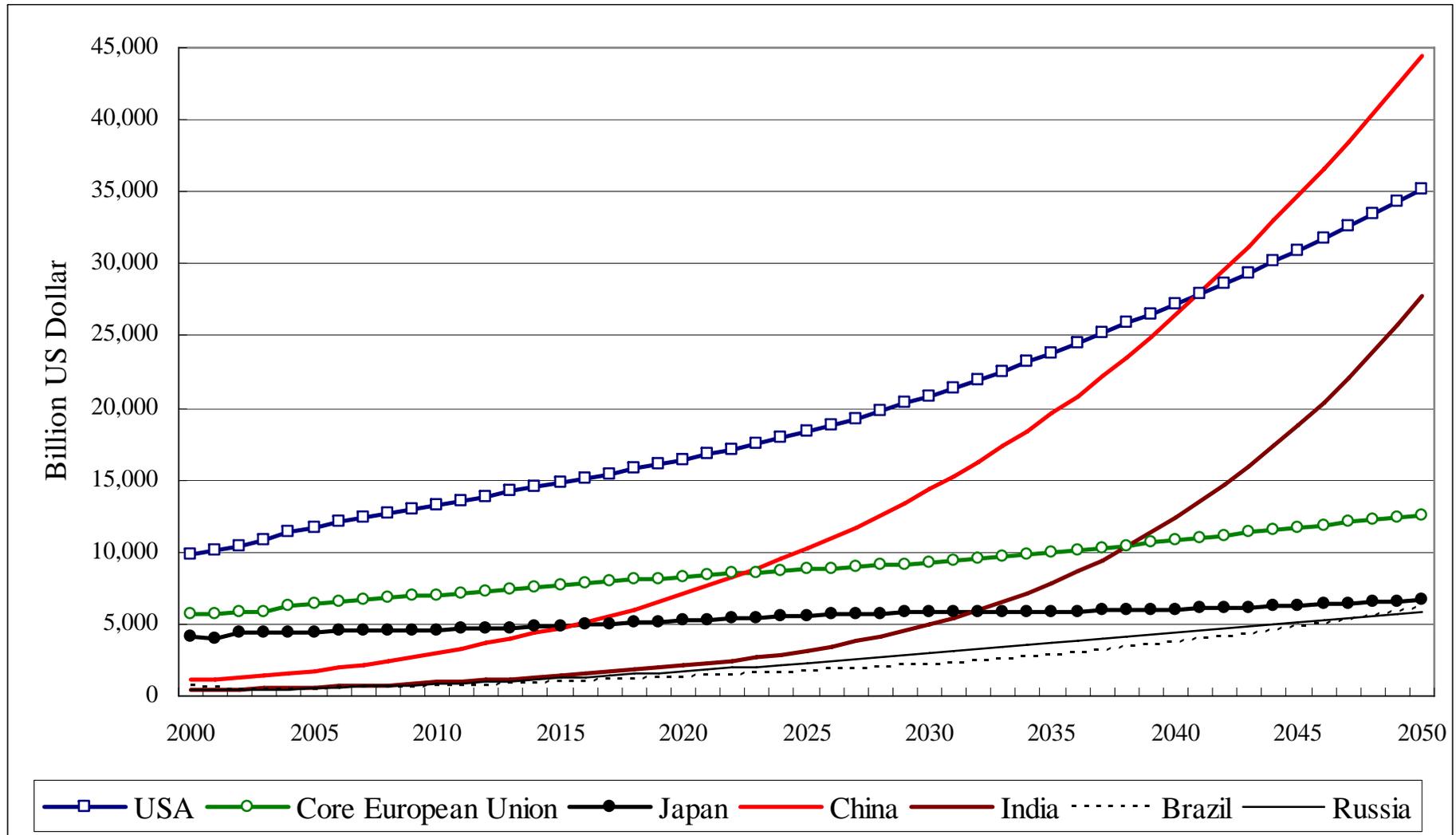
Changing global economic landscape

- Rapid expansion of GDP, trade and FDI (factory Asia) and foreign reserves (global financier)

Global responsibilities

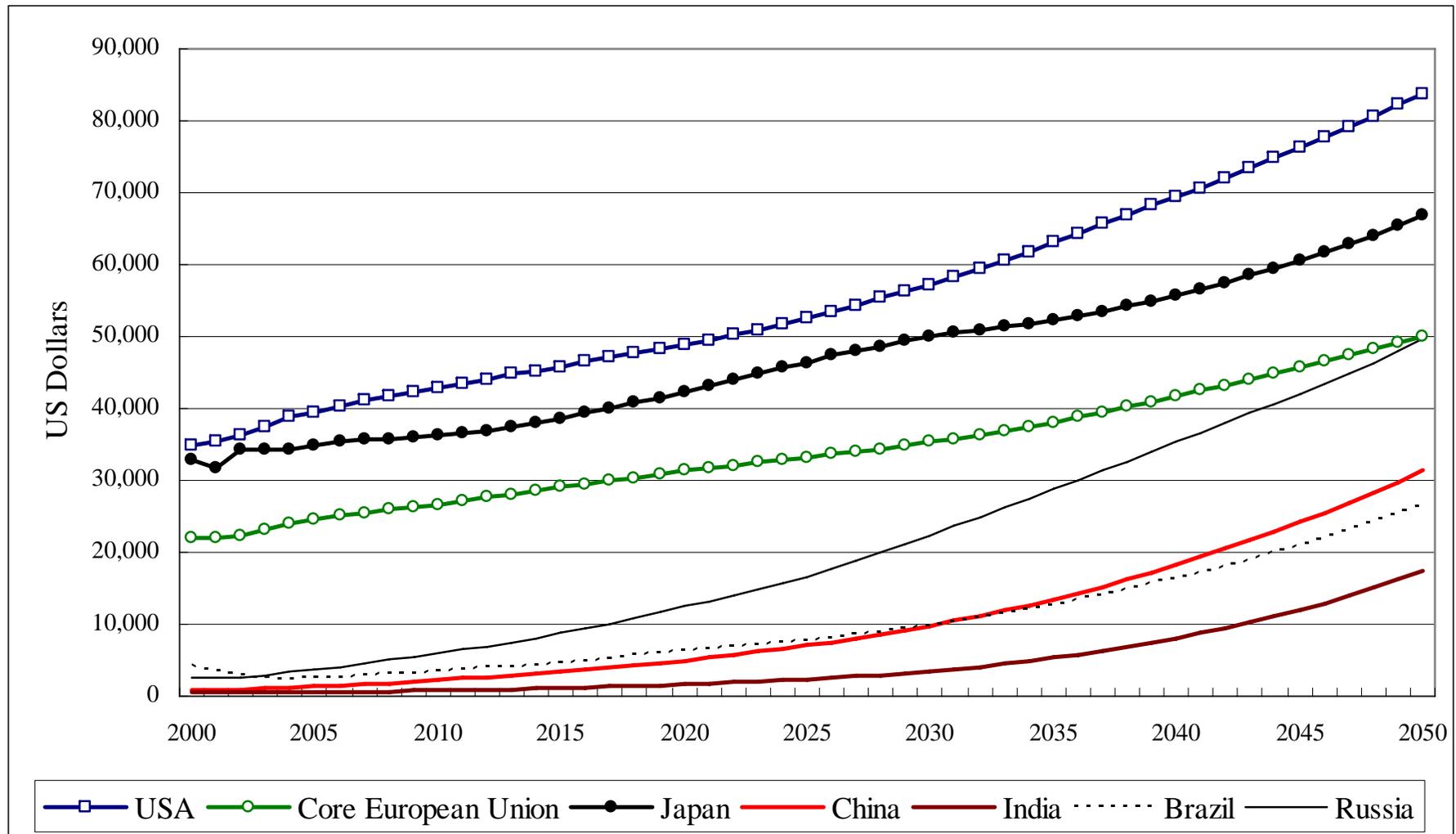
- Asia's resilience in global economic recovery and its leadership in restoring balanced growth
- IMF resource increase and effectiveness
- WTO Doha Development round
- Rising GHG emissions Climate change mitigation

GDP projections: USA, Europe, Japan, and BRICs



Goldman Sachs, "Dreaming with BRICs: The Path to 2050" (October 2003).

Per capita GDP projections: USA, Europe, Japan, and BRICs

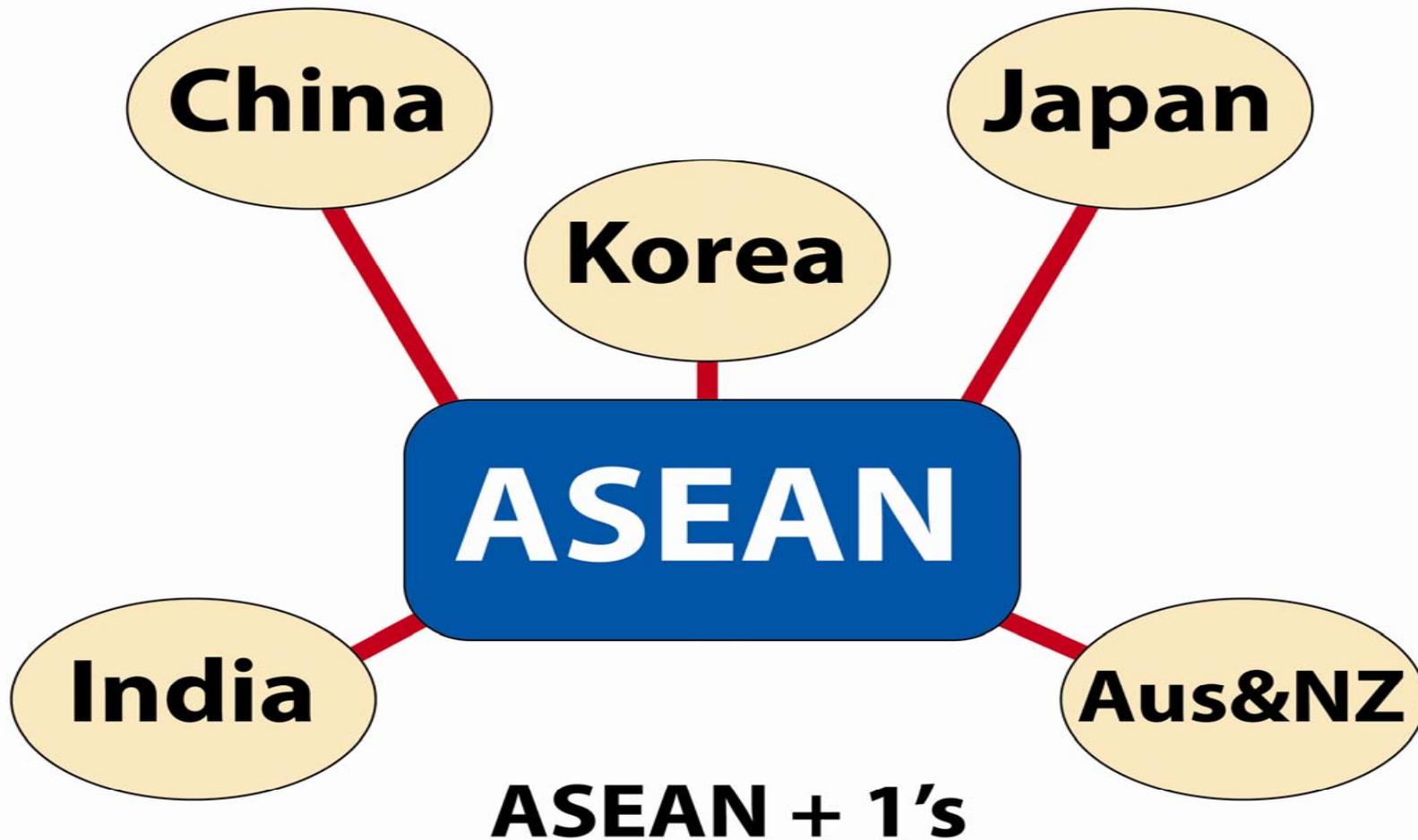


2. Trade and Investment

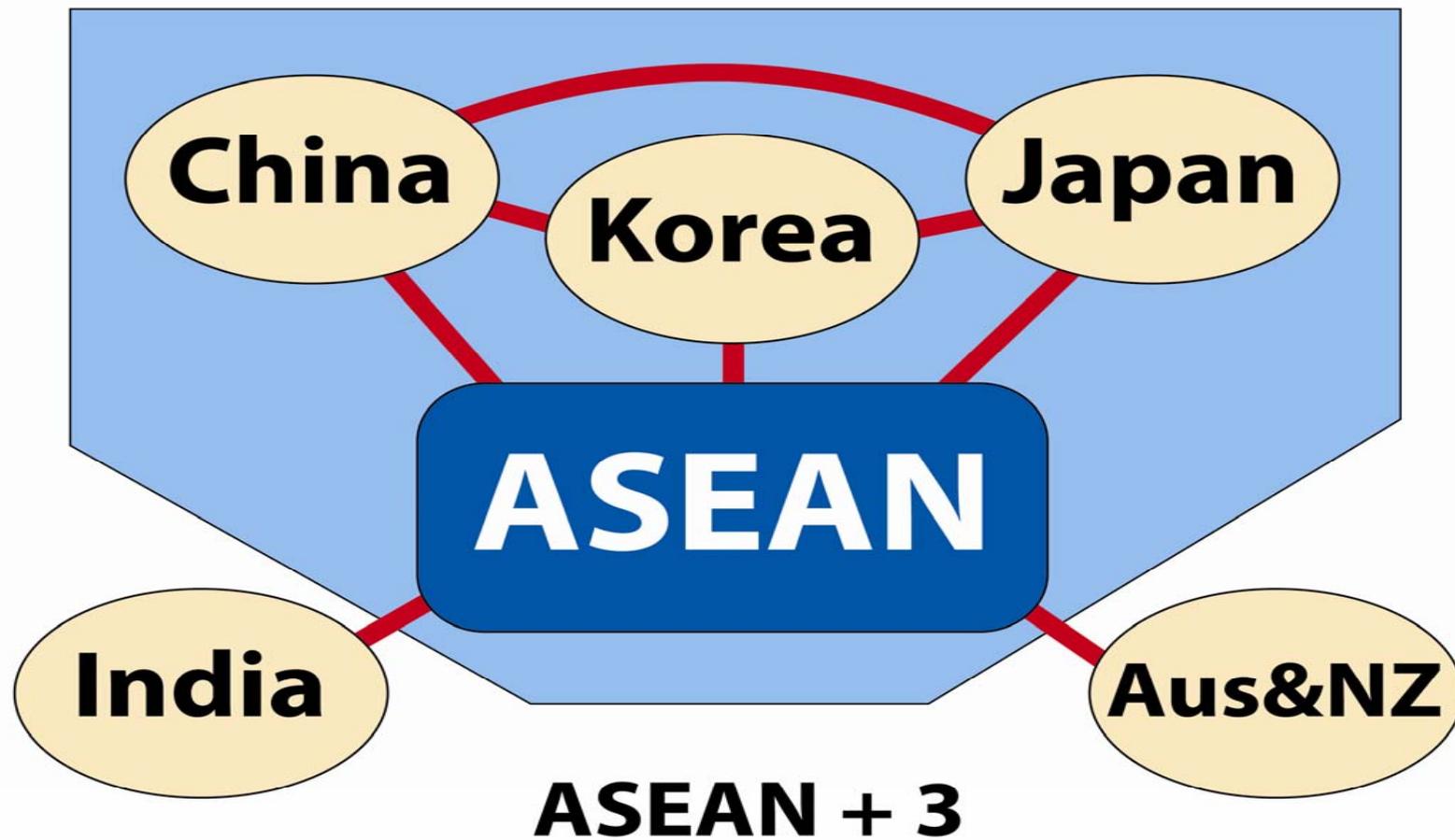
Consolidation of FTAs into a Single East Asia-wide FTA—ASEAN+3 or ASEAN6?

- Asia has many overlapping FTAs/EPAs, with Asian “noodle bowls”—different rules of origin, standards and procedures
- FTAs deepen integration through WTO-plus elements
- Building on ASEAN+1 FTAs, East Asia’s FTAs may be consolidated into an ASEAN+3 FTA (China’s proposal) or ASEAN+6 FTA (Japan’s proposal)
- The CGE analysis demonstrates that ASEAN+6 is better than ASEAN+3. Sequencing may matter.
- This ASEAN-centered approach requires deeper integration of ASEAN (i.e., ASEAN Econ. Comm.)
- An East Asia-North America FTA (or FTAAP) or an East Asia-EU FTA is the next agenda

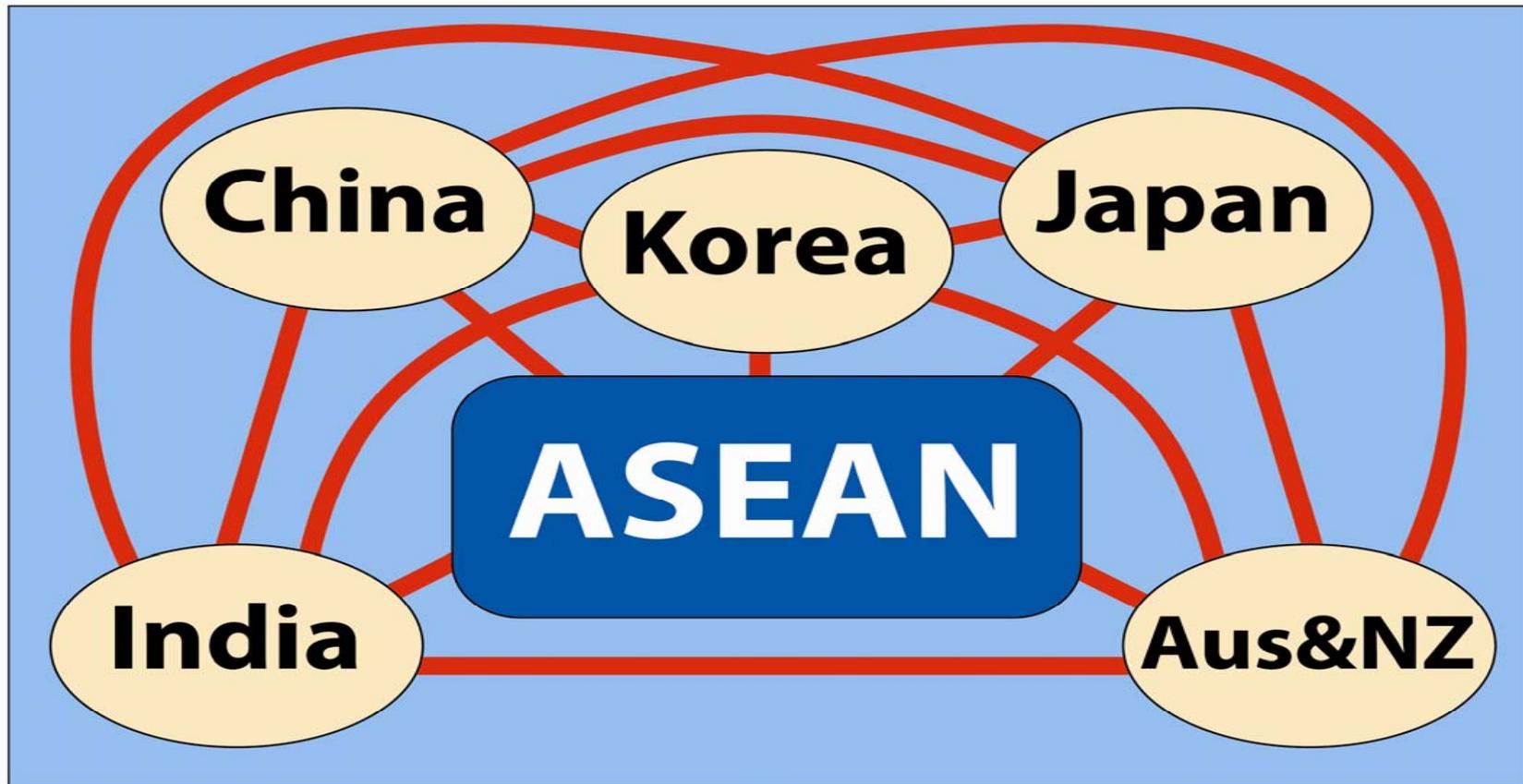
ASEAN + 1 Cooperation



ASEAN + 3 Cooperation

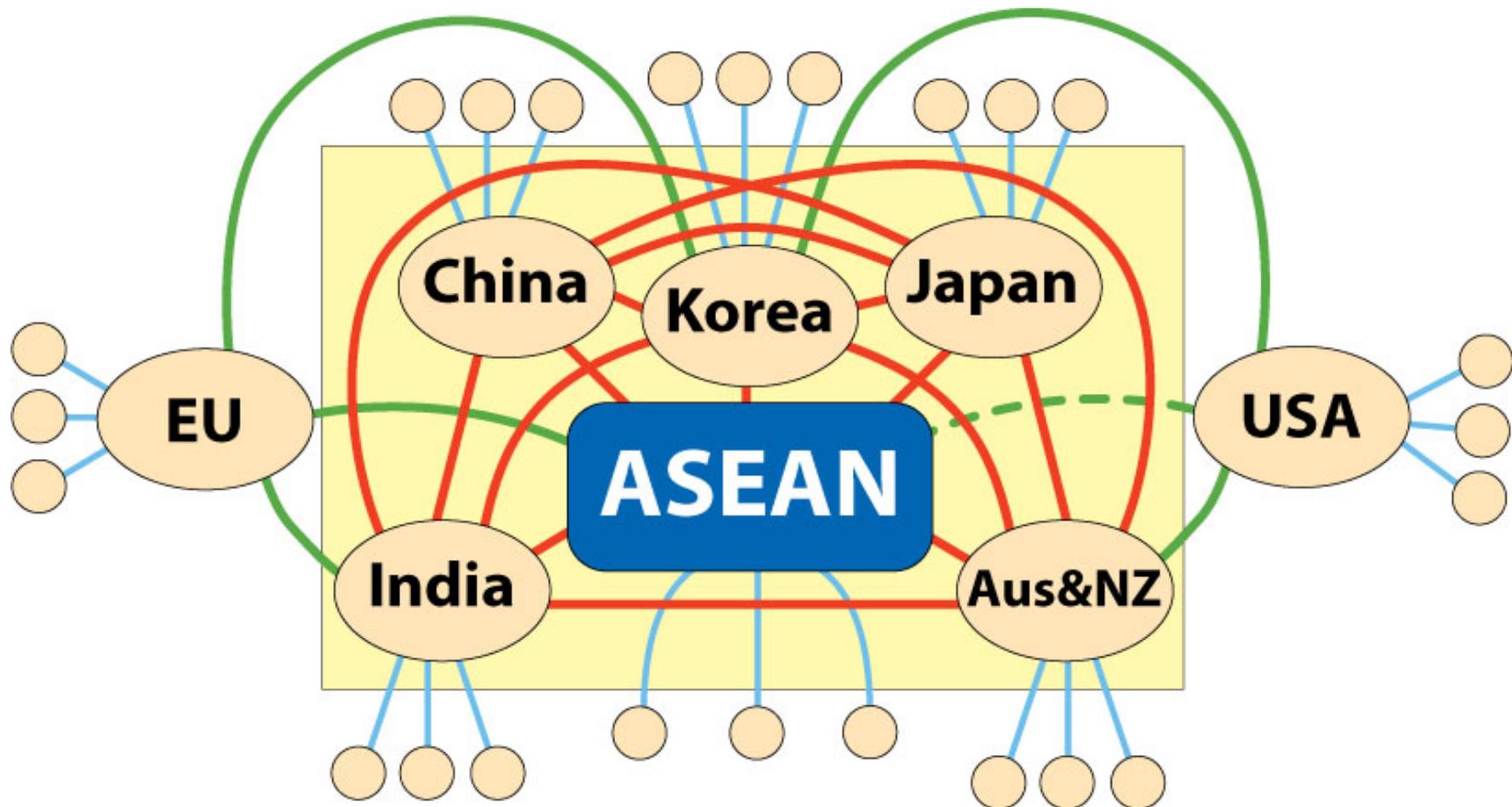


East Asia Summit (ASEAN + 6) Cooperation



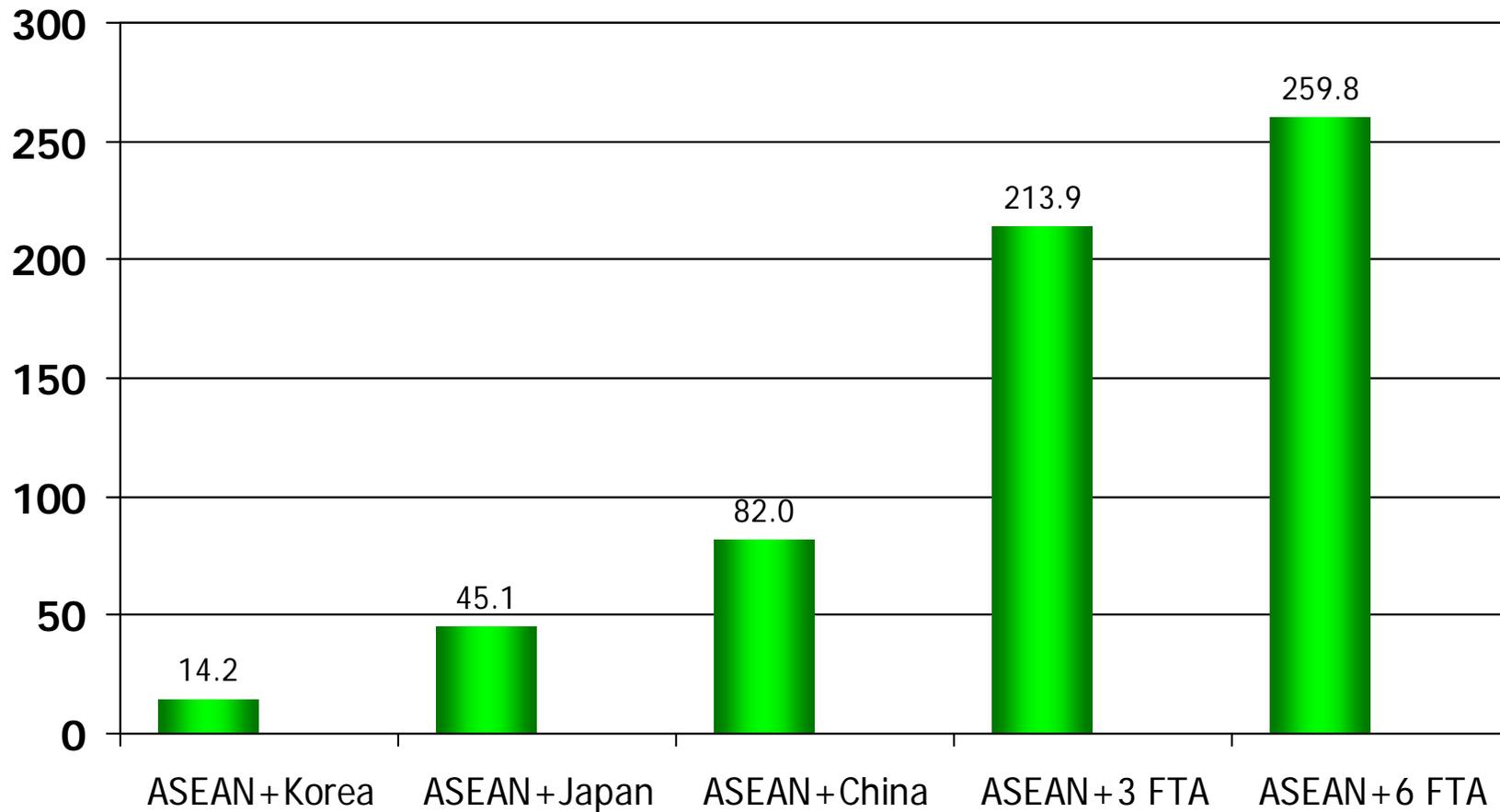
ASEAN + 6

Fig 5. Consolidating Asian FTAs into a Single Region-wide FTA (ASEAN+3 or 6) and Connecting it with the US and EU



Various FTA Scenarios: Impact on World Income

Change in income compared to 2017 baseline, in \$ Bn
(at constant 2001 prices)



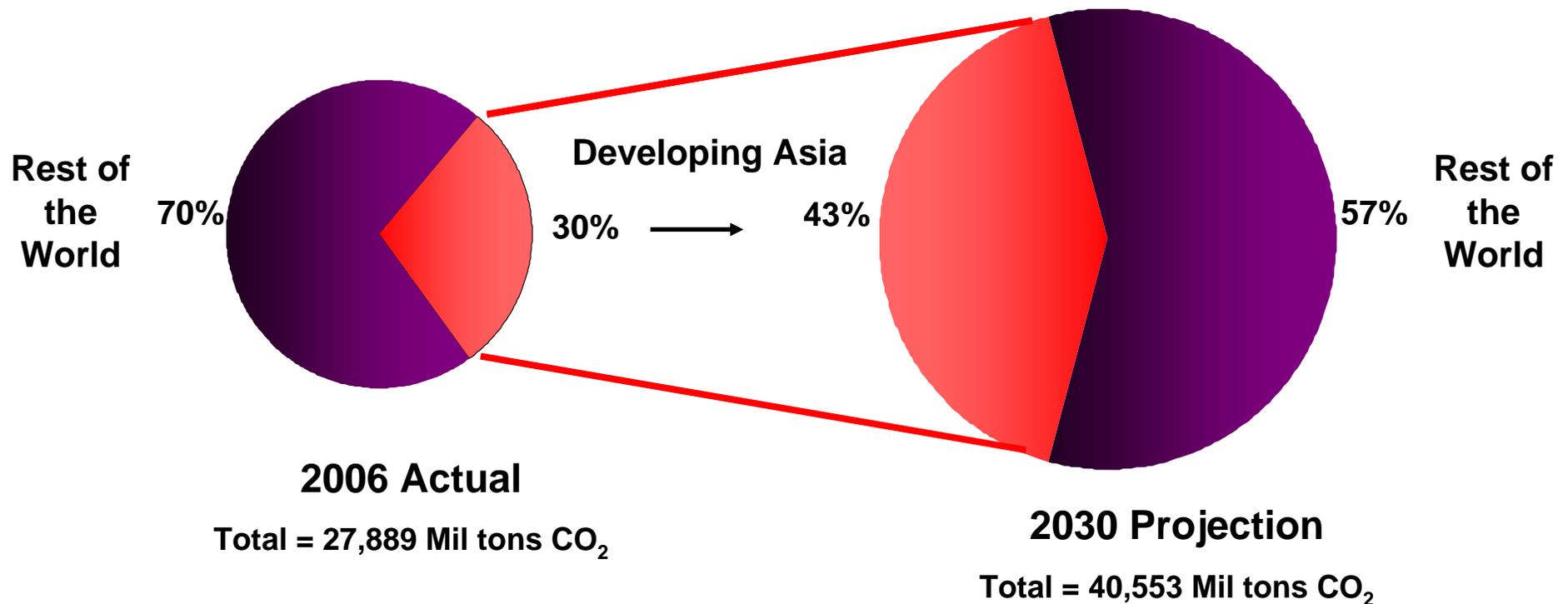
Source: ADB estimates

3. Development, Infrastructure and the Environment

Huge development needs in Asia

- A regional development bank like the ADB can support regional public goods (like bond market development, Asian infrastructure investment fund, sub-regional groups [ASEAN, CAREC, GMS, etc]) and mitigate regional public bads (like environmental degradation)
- Asia has huge infrastructure needs, particularly for connecting countries
- No consensus on the post-Kyoto framework for climate change mitigation (developed countries vs. developing countries, US vs. EU), but Asia's responsibility is huge
- ADB's capital increase from \$55 billion to \$165 billion is a big plus, and it will have to work with the World Bank, JICA/JBIC and other bilateral donors

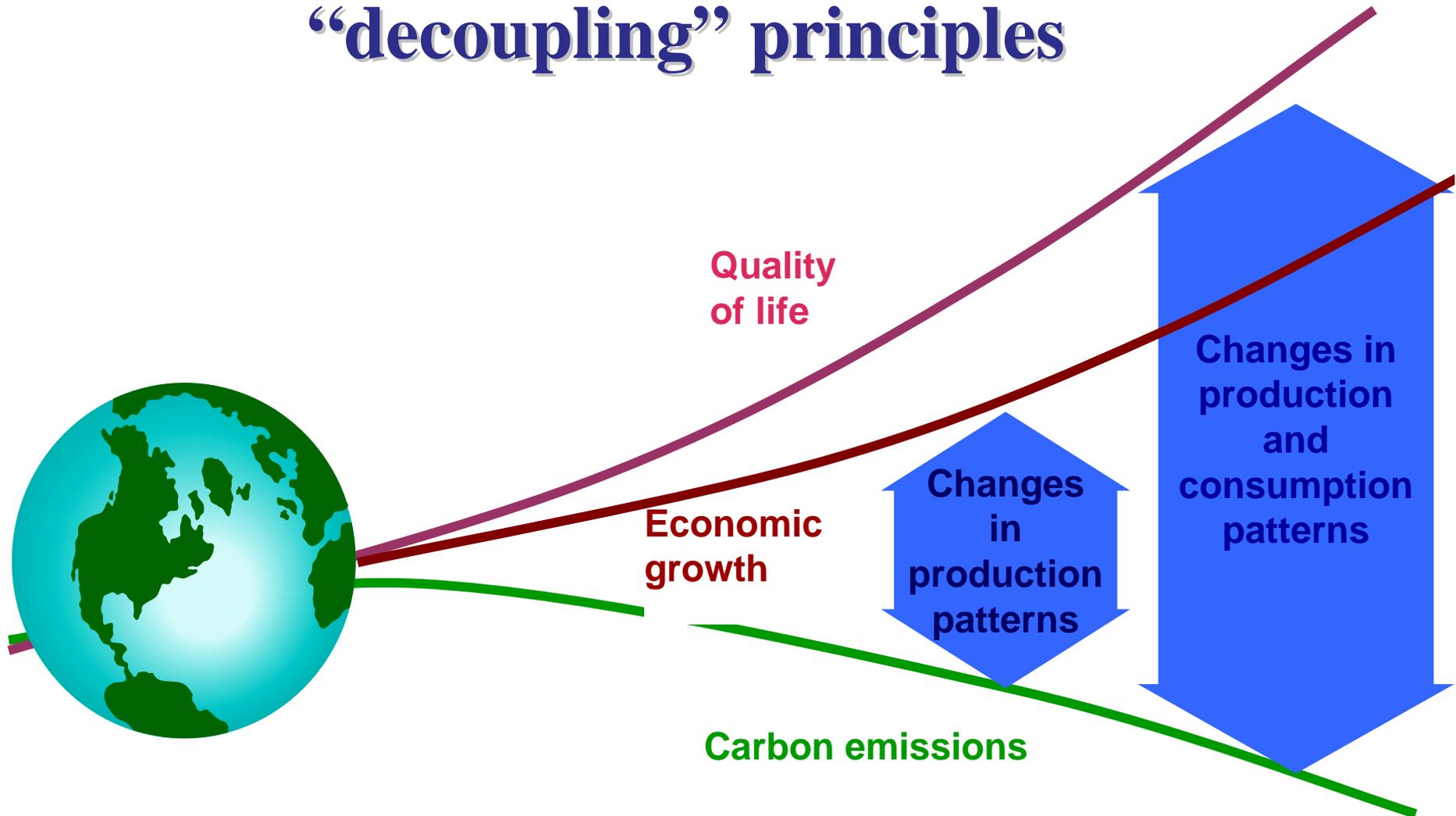
Developing Asia's share in global carbon emissions from energy consumption is expected to rise



Asia's development paradigm change is needed for Asia's own and global sustainable growth

- Asia needs to shift from a high- to low-carbon economy through the “decoupling” strategy and the “co-benefits” approach
- This paradigm shift is beneficial to Asia for sustainable growth, as well as to the global community
- Developing Asia's stance for “common but differentiated” responsibility should be appreciated
- The role of ADB and other institutions is crucial in supporting financing, technology transfers, and capacity building (to strengthen local institutions and policies)

A low carbon economy is based on “decoupling” principles



4. Money and Finance

ASEAN+3 as a core group for monetary and financial cooperation

- Heading towards full multilateralization of CMI, with \$120 billion
- Need to strengthen ERP/CD/CMI
 - ERP/CD: Now in transition from “information sharing” to “peer reviews,” and need to add “due diligence”
 - CMI: Ability to formulate independent conditionality
 - ERP/CD/CMI: Close collaboration between finance ministers and central bank governors needed
 - ERP/CD/CMI: A strong professional secretariat needed for objective regional macroeconomic surveillance (OECD type “peer review”) and “due diligence”
- Asian bond market initiative (ABMI), persistent progress

Institutions for Money and Finance

An Asian Monetary Fund

- Natural development of CMI multilateralization (country shares agreed), as a complement of the IMF
- A surveillance unit (*de facto* secretariat) for regional economic surveillance
- A panel of advisors (*de facto* board of EDs)

Asia needs own regional financial stability body

- An Asian Financial Stability Dialogue (AFSD), a regional complement of the Financial Stability Board (FSB) at the global level, to detect and address financial sector vulnerabilities in the region, harmonize financial market infrastructure, and work on financial system crises once they occur.
- AFSD needs to coordinate with an AMF

Exchange Rate Policy

Pressing issues: US dollar downward adjustment and capital inflows

- Due to global payments imbalances and the subprime crisis, Asia is vulnerable to rapid US dollar adjustment

Three steps of Asian exchange rate policy coordination

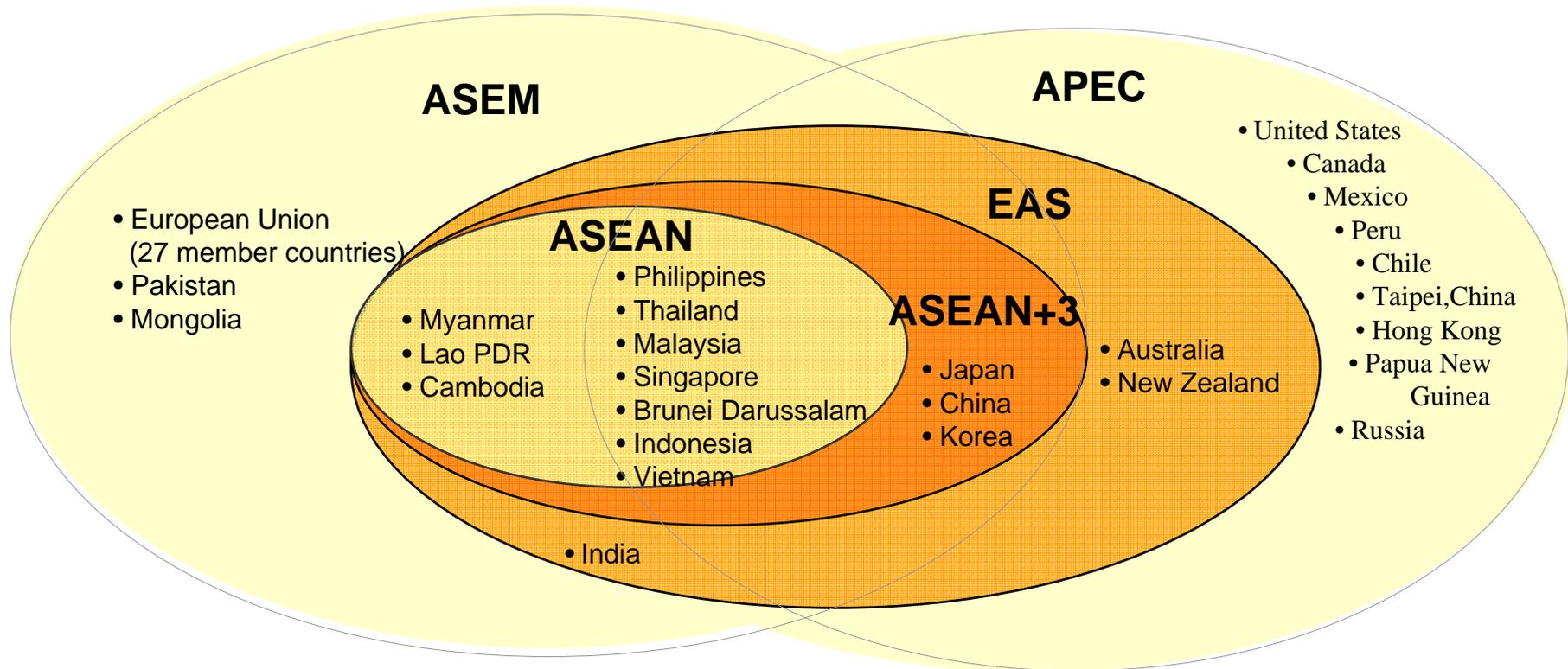
- Collective appreciation of East Asian currencies through informal coordination (regime choice coordination)
 - Creation of an ACU (for surveillance, initially)
 - Informal G3-plus (dollar, euro, ACU) basket system
- Loose coordination (exchange rate policy coordination)
 - Clearly defined G3-plus basket system
- Tight coordination (monetary policy coordination)

5. Evolving Economic Architecture

ASEAN, ASEAN+3, EAS (ASEAN+6) & APEC

- ASEAN as the integration hub in East Asia through ASEAN economic integration (ASEAN Economic Community by 2015 & ASEAN Charter in November 2007) and ASEAN+1 processes
- ASEAN+3 focuses on financial cooperation
- “East Asia Summit (EAS)” includes wider members like India, Australia & New Zealand
- ASEAN as the “driving force” and ASEAN+3 as the “vehicle” for realization of an East Asian Economic Community; and East Asia Summit as an integral part of the overall evolving regional architecture
- EAS can be an Asian voice caucus in international forums like IMF, WTO, G20, etc.

Asia's Evolving Economic Architecture



Regional institution building in Asia good for the global community

Regional institutions for regional public goods:

- Asian FTA (EAFTA for ASEAN+3 or CEPEA for +6?)
for sequenced global trade liberalization
- Pan-Asian Infrastructure Forum
- Asian Monetary Fund (CMIM, surveillance unit, and
Asian Currency Unit) for financial & currency stability
- Asian Financial Stability Dialogue for fin. stability

This requires:

- Strong collaboration between Japan and China
- Complementarity with, & changes in, global institutions

Changes in Global Institutions

WTO as a global coordinator of regional FTAs

- Should play a proactive role in ensuring consistency across bilateral, plurilateral & regional FTAs, and even facilitating linking of regional FTAs into a global agreement

WB focus on poverty and global issues

- Should focus on poverty, MDGs, climate change, global health, global financial crisis, etc., while delegating country and regional operations to regional MDBs (while AfDB needs WB support)

IMF needs significant reform

- To be effective and gain trust, IMF should strengthen surveillance by focusing on systemically important economies (like the US and Europe) and implement major governance reform (Europe's over-representation, US's veto power to be dismantled, and the next MD to be chosen from Asia)

Voice and representation of Asia in global governance

Asia needs to gain greater voice in global forums and institutions

- Creation of the G-20 process is a welcome development
 - but the G-20 agenda (fiscal policy, global financial supervision) seems set by US & Europe
- IMF reform needed and Asia's voice should rise
 - but perhaps only marginal changes expected
- Developing Asia's voice in climate change discussion essential: "common but differentiated" responsibility

Major groups' IMF and WB quotas, and their shares in GDP, GNI and trade

| Groups | IMF (%) | World Bank | | GDP (%) | GNI (at PPP) (%) | Trade (%) |
|-----------------------|------------|-------------|------------|------------|------------------------|--------------|
| | | IBRD (%) | IDA (%) | | | |
| USA | 17.1 | 16.8 | 12.2 | 25.4 | 21.2 | 11.2 |
| EU (27) | 32.4 | 29.0 | 32.6 | 30.8 | 22.2 | 37.3 |
| Euro Zone (16) | 23.2 | 20.3 | 20.5 | 22.5 | 16.1 | 28.2 |
| ASEAN+3 (13) | 14.6 | 14.7 | 14.8 | 18.2 | 23.3 | 20.3 |
| ASEAN+6 (16) | 18.4 | 19.5 | 19.5 | 22.1 | 29.3 | 21.6 |

6. Way Forward

- Asia has achieved market-driven economic integration through trade, FDI and finance
- Asia needs more regional institutions (like a single Asian FTA/CEPA, a stronger ADB, AMF, AFSD) to support the region's integration process as well as contribute to sustainable global growth
- ASEAN is the natural integration hub in shaping the new economic architecture in East Asia (variable geometry)
- Regional institutions (like ADB, AMF, AFSD) can support & strengthen global economic governance
- Global institutions have a coordinating role for global consistency, but this requires credibility of, and trust in, these institutions

Thank you
For more information:

Dr. Masahiro Kawai
Dean & CEO
Asian Development Bank Institute

mkawai@adbi.org

+81 3 3593 5527

www.adbi.org