Asian Perspectives on Global Development Challenges

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Pressure from global crisis

• Domestic:
  – Increased uncertainty and lack of social/financial safety nets lead to high precautionary motives to save
  – This makes saving high and investment low, especially in developing economies (many in Asia)
  – Hence contributes to the persistent global imbalance

• External:
  – Future global growth relies on emerging economies
  – But EM needs financing, and hence good IFI governance
  – The existing ones aren’t reliable (IMF difficult, CMI not working), so EMs (esp. Asians) have to accumulate own reserves
  – Which exacerbates global imbalance
Capital flow and coordination

• Capital inflows to emerging economies lead to currency appreciation and inflationary pressure
• This motivates capital control or exchange rates intervention
• Which contributes to reduced stability in the region
• Hence the need for coordination
What kind of coordination?

- Especially for Asians, the proper coordination might not be in the form of common currency – considering the recent crisis in Europe
- Common currency or monetary union: too strong
- Policy dialogue: too light
- Need something in between.
  - Asian Monetary Unit? Improved SDR system?
  - Use a regional currency basket, not one single currency
  - While adopting safeguard mechanism so as not to develop into the European model
  - At the moment, likely currencies for the regional basket: yuan (note: limited success) and yen (note: convertibility issue)? Trade-weighted (i.e. market-driven basket)? Will China be more interested in Europe and US than in Asia?
Asia in the World

• Asia, home to 2.5 billion people, accounts for 35% of the world economy – highest world growth rates

• But 37 poor countries are left behind (mostly resource-rich, low income, LDCs and small states) -- hence the “Two Faces of Asia”

• Poverty index down in a few countries, but up in many other. More than 900 million still trapped in poverty (i.e. under US$1.25/day).

• Income inequality increases
Some of Asia’s key issues

<table>
<thead>
<tr>
<th>Short-run</th>
<th>Long-run (ADB 2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sound financial structure: ASEAN Infrastructure Fund, CMIM, ASEAN+3 Bond Market Forum</td>
<td>Maintaining high growth, narrowing the gap of the two faces of Asia</td>
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<tr>
<td>Infrastructure development</td>
<td>Avoiding middle-income trap</td>
</tr>
<tr>
<td>Factor market reform</td>
<td>Strengthening domestic demand without resorting to protectionism</td>
</tr>
<tr>
<td>Social safety nets (incl. exit policies)</td>
<td>Demographic: population ageing, rising of middle class, urbanization, migration</td>
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<td>Political and territorial disputes</td>
<td>Food and energy security</td>
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<td>Adaptation and mitigation of the climate change</td>
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<td>Good governance and public services</td>
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## Key issues in some Asian countries

<table>
<thead>
<tr>
<th>Country</th>
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<th>Long-run</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>Economic rebalancing</td>
<td>Ageing population</td>
</tr>
<tr>
<td>India</td>
<td>Slowdown in industrial and service sectors</td>
<td>Ageing population</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Infrastructure</td>
<td>Education and health</td>
</tr>
<tr>
<td>Japan</td>
<td>Economic recovery</td>
<td>Ageing population</td>
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<tr>
<td>S. Korea</td>
<td>Political stability, security</td>
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</tr>
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<td>Malaysia</td>
<td>Investment slowdown</td>
<td>Middle income trap</td>
</tr>
<tr>
<td>Myanmar</td>
<td>Political stability</td>
<td>Economic reform</td>
</tr>
<tr>
<td>Thailand</td>
<td>Political stability</td>
<td>Export dependence</td>
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<tr>
<td>Vietnam</td>
<td>Macroeconomic stability</td>
<td>Debt dependence</td>
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Common challenges

1. Global rebalancing: making use of the increasing intra-regional trade (dismantle any barriers), stimulating domestic demand (but avoid protectionism)

2. Macroeconomic stability and financial reform: improving coordination in banking and financial systems; currency stabilization - make the best use of the excess savings (create markets for Asian money without dollar intermediation?, Asian money for Asia?)
Common challenges

3. Open regionalism in line with global cooperation: ASEAN+X approach (APEC and ASEM can be starting points); sync of the proliferating FTAs. Most important of all: supporting the completion of the Doha Round (multilateralize the FTAs)

4. Aid for trade: Asia (and Pacific) gets less per capita and per poor AfT flows than Latin American and Caribbean and Sub-Saharan Africa (ADB 2011). Related issue: institutions; recent GFC makes ODA less favorable by developed countries’ constituencies
Common challenges

5. Financial inclusion: access through innovation, finance for SMEs

6. Key areas for cooperation: natural resource management (food security, energy security), trade policy, transport infrastructure (recycle the huge reserves to regional infrastructure network), conflict resolution, natural disaster mitigation, social safety nets
Caveats

• Even though global imbalance is not as severe, there is still no guarantee that its decline will continue
• Almost all agenda needs political willingness from each party. For example, leaders from more advanced countries are facing difficulty to convince their constituencies with regards to assisting the emerging markets
• The pursuit of Asian interests should also use other forums beyond Asia, e.g. G20
Thank you