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Time ripe for Asian Monetary Fund

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COUNTRIES in East Asia must co-operate to face the challenges of a transformed world. The region needs to be in a position to determine its own future with policy responses best suited to it.

For this East Asia needs its own institutions. The region has great potential and resilience. There are many factors pushing the region to create its own institutional identity even as it is increasingly being viewed as a third major pole of world economy, along with North America and Western Europe.

Currently it is the only large economic region that has no significant institutions of its own. Asean is a sub-regional grouping of countries in South East Asia which counts Japan, South Korea and China among its dialogue partners.

The East Asia Economic Caucus (EAEC) first proposed by Prime Minister Datuk Seri Dr Mahathir Mohamad a decade ago is beginning to see some light at the end of the tunnel. Opposed by the US, when it was first proposed, and with Japan reluctant to take the lead in it, EAEC is now being touted as "the most interesting exercise in regional community building to emerge in recent years".

Last week Japan, the second largest economy in the world, was urged to lead the region. There are many reasons for countries in East Asia to co-operate. Dr Mahathir said: "By co-operating with each other, trading, investing, transferring technologies and actually carrying out voluntary services on a massive scale, we can transform East Asia into a region of wealthy nations where there will be no poverty".

Then again the financial crisis of 1997-1998 and the response to it showed how ill prepared the region was to deal with its own regional problems.

A region, according to Fred Bergsten of the Institute for International Economics in Washington DC, which accounts for about one third of the world economy and more than half the world's monetary reserves was excessively dependent on the international financial institutions based in Washington, the authorities of the United States, and the private (predominantly Anglo-Saxon) markets that took their cues from both.

"It was the Washington consensus that guided the responses of all those crucial actors and therefore dictated policy requirements to the crisis countries".

This was in sharp contrast with the response to the European monetary crisis of 1992-1993 which forced a number of countries to devalue. As Bergsten points out, the "regional contagion was severe. Huge amounts were spent in market intervention, both to try to avoid the devaluations and then to limit the instability that came in their wake".

But that is where the similarity ended. The Europeans handled the crisis, at every stage, by themselves and "with modest economic costs".

The East Asian region which collectively has the highest foreign reserves can have its own mechanism in the form of the Asian Monetary Fund.

Beyond the crisis, the impending World Trade negotiations, require that countries in the region work together. Individually countries in the region do not have muscle to negotiate.

The lack of co-operation and co-ordination among the East Asian countries was very clear during the Uruguay Round. It was then that the

need for the EAEC was first aired.

The proposal was for countries in the region to work together in the face of difficulties in negotiations during the Uruguay Round of World Trade under the auspices of the General Agreement on Tariffs and Trade (Gatt), the predecessor of the World Trade Organisation (WTO).

Now the world is gearing up for another round of trade negotiations under the auspices of the WTO and there are moves by countries to look for alternatives.

Other regions are working towards closer integration and co-operation. The United States and Latin America, for example, are working towards a Free Trade Area of the Americas. The European Union is adding new members to its network.

East Asia must do the same. It has much to gain by working together. Among others, co-operation can accelerate economic recovery in the region.

Japan with financial and economic strength and technological knowhow can help speed up Asian recovery and growth, contribute to regional wealth, prosperity and unity. Japan's policies in the past benefitted not only Japan but the region and indeed the world.

In many parts of the world, regional economic groupings and institutions have been acknowledged as legitimate means for neighbours to improve their economic well being. Why should it be any different in East Asia?

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