

"STRATEGIC CHALLENGES AND OPPORTUNITIES FOR ASIA'S DEVELOPING ECONOMIES IN FINANCE AND TRADE DEVELOPMENT"

*For the Second YLP's "International Trade and Economic Policy" Session,
Northeast Asia Economic Forum, October 19, 2007, Toyama, Japan
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Abstract: According to ADB, growth in Asia excluding Japan and Australia is predicted to be 8.3 percent this year and the region will expand 8.2 percent in 2008 faster than earlier forecast. Rising economies of China, India, the world's two fastest growing major economies, are bolstering consumer and corporate spending. China's growth in 2007 is predicted to be 11.5 percent, India's - 8.5 percent.

External debt has fallen since the 1997 Asian financial crisis while foreign exchange reserves have risen fourfold from \$497 billion to \$2,3 trillion, led by China alone with more than 1 trillion.

In the aftermath of 1997 financial crises, in protection of their fast growing economies from future financial turmoil, the major economies in the region have been stepping up the financial cooperation. In May 2007, ASEAN+3 (10 ASEAN countries and China, Japan, Korea) have reached an agreement to build up a pooling fund from their foreign reserves, a liquidity support mechanism in case of short term currency difficulties. This was a multilateralisation of Chiang Mai initiative, a bilateral currency swaps arrangement-BSA that has been in place since 2000. Under the arrangement now US\$ 80 billion is available for the tackling any difficulties.

However, the new multilateral swaps agreement lacked specifics, including a timeline for realization, how much money should be committed and, most importantly, how the pool would be managed.

One of the principle reasons behind why this new financial framework of cooperation will not operate soon, could be found in argument that guarding against possible speculative attacks on currencies in Asia is no longer a priority today. There are too much reserves and now need to be channeled into investments in developing infrastructure, reduce poverty. Governments of developing countries in Asia must be encouraged to take a pro-active monetary policy approach rather than building up a wall of foreign reserves in a fear of crisis.

In my view, the multilateral swap agreement is important in two aspects, firstly Asian countries have built a financial cooperation mechanism to better protect their economies, secondly, that is positive move toward making convertible the huge foreign reserve in the region for the own developmental needs. The region soon would be able to lend their own funds to develop their economies, infrastructure, including the small and developing economies, not necessarily looking up IMF, World Bank and other world lenders.

In May 2007 in Kyoto during the ADB's annual meeting, its chief economist Ifzal Ali said that "... now the reserves in Asia can be invested in financial markets, so they can use the return to develop their economies, fight poverty. Today, under very conservative estimates, about 50 percent of reserves that are held by developing Asia are in excess of what would be required under very adverse conditions". Casting doubt on the current situation in which a major part of those

reserves are held in "very low-yielding U.S. Treasuries and euro bond issues, he said that it could be channeled into higher yielding assets or spent on infrastructure or other worthwhile projects.

Governments in Asia should set up government-affiliated investment corporations to invest excess reserves in global financial markets. The Asian developing economies need financial sector reform, more currency flexibility, and more independent monetary regimes to respond to economic shocks, rather than just shelter behind the wall of reserves.

In ASEAN, Temasek in Singapore is a good example of pro-active monetary policy taken by the governments in developing Asia. Following the suit, recently Vietnam made a modest step toward empowering government investment hand, through setting up Vietnam Development Fund-VDF, a government investment banking institution.

Increased Assistance to Developing Economies to Improve Trade Infrastructure and information Sharing is the Key

To effectively deal with the drastically changing global trade environment by such means as launching the WTO Doha Development Agenda, further negotiating FTAs, promoting financial cooperation it is important the small and middle economies, a disadvantaged group of countries that are so far greatly marginalized from the globalization process into the mainstream trade and economic development. It is particularly important in two aspects. It will contribute to a trade expansion, secondly, most of the small economies at least in the region are mineral resources rich and the prices for the raw materials have risen quite sharply in the recent years and eventually it will lower high trade costs.

Major economies and the financial institutions in the region must be encouraged to adopt a policy of increasing their assistance toward integration of regional developing economies into the mainstream of global trade. Some of the small and weak economies in Northeast Asia, such as Mongolia and North Korea are strategically well located, rich in natural resources. Given the rising demand for raw materials, inflationary pressure because of their high prices, developing economies in the region must be a part of trade development strategy.

ADB's Aid for Trade work program must be mentioned positively in relation to the facilitating trade among the nations. The initiative was launched in December 2005 during the Sixth WTO Ministerial Conference in Hong Kong. Major world economies pledged about \$15 billion in new funding over the next 3 years in development assistance for trade, production, distribution and infrastructure.

To understand the real situation of the Asia-Pacific region, identify risks for its sustainable growth and discuss measures to be taken to manage such risks, it is necessary to have a mechanism for information sharing for this region's critical challenges, while making the best use of the existing data bases of international organizations as appropriate (e.g. ADB, WB, IMF, APEC, PECC, ASEM and ACD).

FTAs vs EPAs

Another important aspect of the economic development particularly contributing to the trade expansion is the growing number of Free Trade Agreements or FTA, EPAs and RTAs among the major economies and blocks.

To increase trade, it is fundamental to create legal environment that is comprehensive by concluding WTO Doha round negotiation, proceed along with negotiating EPA or FTAs. According to WTO, around 300 FTAs are negotiated globally, of which 119 are in the Asia Pacific. Percentage of world trade occurring through FTAs is 50 percent.

The agreements are an important mechanism towards full integration into a global free market economy based on assumptions that free trade and removal of regulations on investment will lead to economic growth, the reduction of poverty, increased living standards and employment opportunities. The prospect that the elimination of tariffs, greater access to government procurement, and investment opportunities in some additional sectors.

There is also counter argument among the experts and officials, particularly with regard to the interest of developing economies. For example, many view FTAs as a discriminatory approach and they damage the MFN principles in international trade, thus go in violation of WTO trade rules.

Some economists such as Nobel laureate Jozeph Stiglitz, even go further arguing that FTAs are advantageous to developed economies as they only allow TNCs more freedom in business than their partner economies, particularly developing economies, he believes that the tariffs now are so low, that they no longer serve as an impediment to trade. He says if you have good infrastructure and educated people, goods, investment, services will come. The tariff of 3%-5% is not going to make any difference.

There are some arguments that FTAs severely constrain future governments in their policy options.

In my view, each FTA is unique and must be assessed in very careful manner. Some FTAs must cover only a narrow range of traded goods, or narrow range of services, or investment, some must function for a limited time period even distinct for each parties. There are many options and variations.

As for as Northeast Asia, Korea, Japan, and China have not yet initiated any official negotiation for an FTA (Free Trade Agreement) on their own. Korea and Japan are negotiating for FTA but since November 2004 the talks have been stalled. Korea and China are showing some interest for a Korea-China FTA. Japan and China have not started discussion for the possibility of FTA. The only tangible involvement for the three Northeast Asian major economies is with the ASEAN under the ASEAN+3 umbrella. Under this framework, Korea, Japan, and China individually are pursuing cooperative relations with the ASEAN, respectively.

Japan currently has an EPA with Singapore, Malaysia, and negotiations have come to a close in substance in the case of Thailand. Japan is also in discussions with Indonesia and with ASEAN as a whole, and it plans to launch negotiations with Vietnam and Brunei in the near future.

The fact that the partner countries that have come to make use of these benefits are concentrated in the countries of ASEAN is hardly a coincidence. The amount of direct investment undertaken by

Japan, China, and Korea towards the countries of ASEAN between 1995 and 2003, and according to these, the amount of ASEAN-directed investment conducted by Japan was 44 times the amount undertaken by China and 11 times the amount invested by Korea.

So, EPAs are opportunities not for chats across national borders, but rather a dialogue of involved partners to devise or improve upon economic systems, and in many cases the process involves assistance in the fostering of human resources on the other side.