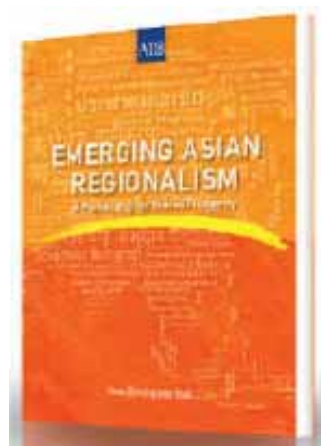


Emerging Asian Regionalism Contributes to Increasing Global Welfare: ADB Study

Emerging Asian regionalism is good for the region and good for the world as it contributes to increasing global welfare, the Asian Development Bank says in a new study on *"Emerging Asian Regionalism: A Partnership for Shared Prosperity"*.

Launched during the 41st Annual Meeting of its Board of Governors on 3-6 May 2008 in Madrid, the Study notes that as Asia grows and prospers, its economies are increasingly vital to each other - and to the world. It points out that as markets interconnect



the region, Asian governments need to work together more closely to sustain economic development, grasp common opportunities, and manage shared risks and problems.

Thus, the ADB says, the challenge for a more prosperous and interdependent Asia is how to strengthen and spread the benefits of regional cooperation and integration while paying a substantial and constructive role in global economic leadership.

Integrating production

According to the ADB, the regional integration of production has become central to Asia's leadership in global manufacturing. "As production chains are broken into smaller steps, with each step produced in the most cost-efficient location, Asia's interconnectivity has become a key asset in attracting global investment and production," the ADB says.

The challenge for regional cooperation is thus two-fold: to support the integration of Asia's production networks and to sustain an open, rules-based global system of trade and investment. The ADB says that substantial gains could be realized from consolidating the many free trade agreements (FTAs) into a single, region-wide one and from adopting best practices to guide future regional and sub-regional FTAs. "Fostering integration to connect the region's economies also requires further investments in cross-border infrastructure - transport, communications, and energy systems," the ADB adds.

Integrating financial markets

The ADB notes that regional financial cooperation has increased markedly since the Asian financial crisis, notably through innovations such as the Asian Bond Markets Initiatives (ABMI) and the Asian Bond Funds (ABF). But weaknesses remain. An immediate priority is to strengthen supervision, surveillance, and dialogue on financial markets. To this end, consideration should be given to creating a new, high-level “Asian Financial Stability Dialogue” to bring together finance ministries, central bank authorities, and other supervisors and regulators.

Other priorities include steps toward the harmonization of financial regulations and the adoption of minimum standards that permit early mutual recognition of the standards, at least among subsets of economies. It will also be important to deepen and expand the ABMI and ABF, and to build a strong regional infrastructure for payments, settlement, and information exchange systems. And efforts should intensify to make national financial systems more efficient through the measured and prudent liberalization of capital accounts and cross-border financial service flows where these are still controlled.

Managing macroeconomic interdependence

With the growth of trade and financial ties, Asia’s macroeconomic interdependence has also increased. The challenge to Asian policy makers, according to the ADB, is to monitor global and regional developments closely, and to be prepared to act together if region-wide responses are appropriate.

“Given its interdependence, Asia would benefit from strengthening its mechanisms for monitoring and potentially coordinating macroeconomic and exchange rate policies,” the ADB notes.

Making growth inclusive and sustainable

The ADB says that nearly all developing countries in the region share the challenge of making growth more inclusive. The battle for better lives begins with creating high-productivity jobs. Governments need to connect the poor to the thriving regional economy by eliminating labor market barriers, investing in workers’ capabilities, and building infrastructure to connect disadvantaged regions with economic centers.

Regional cooperation is equally essential for addressing a range of threats, including epidemics, natural disasters, and environmental degradation, the ADB stresses.

Creating an architecture for cooperation

The ADB says that the region's cooperative architecture today spans many forums, from subregional to interregional ones. They offer capabilities for addressing issues ranging from technical cooperation to broad global and interregional agreements. These efforts are often centered on the Association of Southeast Asian Nations (ASEAN).

The ADB observes that while it is premature to consider firm assignments of institutional functions to specific forums within the architecture, the ASEAN+3 (ASEAN and the PRC, Japan and Korea) is emerging as an especially useful coordinating unit: it benefits from ASEAN's experience and institutional support, incorporates Asia's three largest economies, and is generally closely integrated. Asia's integration needs to remain flexible to accommodate groups with different or changing priorities and to absorb new economies with different or changing priorities and to absorb new economies and issues into the process.

The ADB study concludes that "Dynamic and outward-looking Asian regionalism, consistent with the region's diversity and mindful of its stake in open global markets, will help to stabilize and power the world economy. Such regionalism is in everyone's interest. Indeed, in the global economic slowdown that is unfolding as this study goes to press, Asian cooperation - particularly on financial sector and macroeconomic policies - could provide an early example of Asia's growing capacity to contribute to economic progress both regionally and globally."