

## Chapter 9: The Asian Century

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### 9.1 *Economic Cooperation vis-à-vis Economic Integration*

Literature on economic cooperation amongst sovereign nation state economies has been extensive. In the post-WWII decades, the two Breton Woods institutions, the International Monetary Fund and the World Bank, each with 184 member states, have been instituted to sustain the global financial system for the non-communist free-market economies. Under the umbrella of the United Nations, the institutions such as the United Nations Conference on Trade, Aid and Development, United Nations Educational, Scientific and Cultural Organization, United Nations Institute for Research and Training, the World Health Organization and the World Food Organization (“WFO”) have their respective economic assignments. The World Trade Organization, currently with 148 sovereign nation state members, plays a large role in the negotiation of global trade agreements; an

international regime of free and competitive trade has been a subject of numerous substantive negotiations. In 2008, the WTO failed to bridge the gap between the developed nations led by the EU and the USA, and the developing nations led by China, India and Brazil, leaving the Doha Agreement still unsuccessful. Negotiations may resume in 2009.

In the context of Asia we made reference to the Asia-Pacific Economic Cooperation, the Association of South East Nations, the South Asian Association for Regional Cooperation and the Australian-New Zealand Closer Economic Relations (“ANZ-CER”) Agreement. Recently, the proposal for an East Asian Economic Compact including Japan, China, Korea, Chinese Taipei, Brunei Darussalam, Myanmar, Cambodia, Laos, Vietnam, Thailand, the Philippines, Indonesia, Malaysia and Hong Kong is under review.

Free Trade Areas and Economic Partnership Agreements (“EPA”) amongst sovereign nation state economies have witnessed a proliferation in Asia (Kawai 2007). Following Kawai, notable mentions of FTAs in the region are: ASEAN (1993), Malaysia-Pakistan (2007), ASEAN-Korea (2006), China-Pakistan (2006), India-Thailand (2004), Korea-Singapore (2006) and Japan-Singapore (2002). For the EPAs, reference may be made to Japan-Indonesia, Japan-Thailand, Japan-Brunei (all in 2007), and Japan-

Philippines (2006). Led by the ADB team consisting of Masahiro Kawai, Jong-Wha Lee, Srinivasa Madhur, and Giovanni Capannelli, the Asian Development Bank has compiled a volume, Emerging Asian Regionalism (Ed. Legrain Philippe 2008; see also Dutta 1999).

The ADB study presents a case for economic cooperation amongst a set of Asia's sovereign nation state economies, Japan, Korea, China and India, and a set of Southeast Asian countries as well as Chinese Taipei. The study is an analytic presentation of intra-Asian trade and investment, financial markets, macroeconomic policies, social and environmental issues. Of course, the study draws on the years of work of the ADB relative to Asia's economic development.

The present study, the AE-22, offers a different model of grouping of twenty-two member economies, based on the principle of inclusion of all economies belonging to the regional map of the continent of Asia. The European Union has been accepted as the learning model. The Asianization of Asia, it is argued, is the way to meet the challenge of the Europeanization of Europe.

The ADB study must be distinguished from the new paradigm of integration of economies belonging to the map of a continent. The EU offers the challenge for our study. Member states of the EU, each formerly a

sovereign nation state, accepted the new order which required the surrender of the traditional concept of sovereignty by each member state. A comprehensive evaluation of the revolutionary change warrants appreciation. The EU is one integrated economy with one common membership of the WTO with one vote. The member states have all surrendered their economic sovereignty insofar as international trade is concerned. Those members that are part of the Eurozone have also, of course, surrendered their monetary sovereignty. Different programs for the functional integration of the EU concerning the environment, competition in the markets, transportation, EU's open sky, immigration and naturalization intra-EU security and threats of terrorism, have continued to strengthen the bond of the continent of Europe. The commonly recognized fundamental right to life in the EU ensures that no member state may impose the death penalty. The EU's commitment to the Kyoto Protocol is an event of global significance.

Next, an effort is made to critically examine the provocative statement that the EU has failed to ensure the uniformity of economic development amongst all member states. We have argued that in terms of aggregate and per capita GDP, each member state has made significant progress. Though the fact is that the rate of growth has not been uniform, the rate of growth for

more industrialized member economies to be at a rate lower than that of the less industrialized member states is a pattern that is expected.

The restructuring of the post-WWII institutions, especially the two financial institutions, the IMF and the WB, has become a subject of great debate. The EU has, with its competitive shares of world GDP, command of a competitive share of voting rights. How will the establishment of the AE-22 add to the debate?

Finally, the Asian economic integration with one money, based on the AE-22, will have to define its interaction with the Western Asia, now referred to as the Middle East, inclusive of all sovereign countries from Turkey to Afghanistan, plus the newly independent countries in Central Asia, formerly under the Soviet hegemony; notable mentions must be made of Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan and Tajikistan. Belarus, Ukraine and Moldova are in Eastern Europe on the map of Europe. The belonging of Georgia, Armenia and Azerbaijan in the Caucasus in Central Asia to the continental map of Asia should be a subject of research. The economic relationship of the AE-22 with the Pacific economies of Australia, New Zealand and the Pacific island Economies remains a subject of further research. I have proposed the case for the Pacific Economic Fraternity (Chapter 7).

## **9.2 *Integration of the Sovereign Nation State Economies***

Accidents of history gave birth to the United Nations. Currently, the UN claims 192 sovereign nation states on its roster.

In the context of the AE-22, one wonders how to explain the historic state of the two of the member states of the AE-22, Nepal and Mongolia, each with a very small population base, sandwiched between some of the most populous states of the world - Nepal in the south between India and China, and Mongolia in the north between China and Russia. Following the liquidation of the British imperial rule, Malaysia and Singapore constituted to become separate sovereign states in the 1950s. In the 1960s, they both elected to become members of the ASEAN, and they now both, as members of the 4+10 model of the Asian compact, champion the cause of greater Asian economic integration. The history of the United States of America, beginning with the thirteen colonies in 1776 progressed to become the United States of America with 50 constituent states as of 1959, is quite familiar. The sovereign nation states of the continent of Europe fought two world wars and suffered extensive death and destruction in defense of the

sovereign rights of their respective nation states before finally electing to become one Europe. The EU is well on their way to becoming one common integrated economy with one common money and its current agenda is long term economic viability with competitive shares of the world output. It is instructive to note that many European states in the east and southeast, albeit unable to sustain their traditional one sovereign state structure, have elected to join the EU. The separation by mutual consent of the Czech Republic and Slovakia has been a divorce by consent. The recent disintegration of the former state of Serbia and Montenegro, earlier the state of Yugoslavia, was a source of much internal conflict. However, in both of these cases, all the dissenting units poured support into their country's application to the membership of the EU.

The case for one world with one money based on euro-dollar parity has been made by others. We have argued that if this will be a plan for the euro-dollar domination of the world economy, it will fail (Dutta 2007). A vast majority of the sovereign nation states on the roster of the United Nations, each with a very marginal individual shares of the world GDP, will be unable to be competitive actors in the global market dominated by the USA and the EU. The two economies alone command some 58 % percent of world GDP (2006). One world with one money will be a viable agenda

when the scheme of continental integration will have each integrated unit with competitive shares of world GDP. Europe has offered a format of continental economic integration. The globalization of the world economy where the richer nations in the continent of Europe and North America with their much larger shares of world GDP and trade will have a dominant voice will mean that the poorer peoples of other continents will remain unable to be competitive actors in the world market. One world economy with one money anchored to the US dollar and the euro will not be an optimal international arrangement.

Membership of the one world economy must include the bi-continental, resource-rich sovereign state of Russia, plus the multitude of wealthy sovereign nation states on the map of the Middle East. The lesson to take from this is that the old concept of sovereignty is no longer sustainable (Dutta 1995, 1992). A review of the issue of sovereignty in the context of the EU framework is in order. The EU has progressed through a series of agreements and treaties (Chapter 3. See also Dutta 2007).

1. The most fundamental decision was to agree that any and all decisions by the European Community would be effective only after it would have been approved of by all member countries, irrespective of their divergences in terms of area, population

and economic magnitude. Each sovereign nation state member thus retained a sense of its sovereign authority.

2. As the economic integration with free flow of trade and investment and free movement of labor made the EU one common integrated economy; with one common international trade policy, the EU became one member of the WTO with one vote. The economic sovereignty of member states became effectively limited.
3. The natural evolution was to institute intra-EU macroeconomic integration with one common monetary and fiscal policy norms. On January 1, 1999, one common currency, the euro, managed by one common central bank, the European Central Bank (ECB), became a fact, even though several EU-member states elected not to join the eurozone. The majority, however, did join and surrendered their monetary sovereignty, and all new members were required to adopt the euro as part of the accession protocol to the EU.
4. The intra-EU agreements on functional integration, be it environment, transportation, immigration and naturalization,

followed and continued to further compromise the sovereignty of member states.

5. The EU's effort to adopt the Constitution for Europe remains unsuccessful. The latest effort is the Lisbon Treaty, which will provide for the election of one president leading one government of the EU, who will represent the EU at all international forums. Clearly, the EU has managed the issue of sovereignty in its own unique way.

The case for the 3-G's – one Global Currency, one Global Monetary Union and one Global Central Bank has been articulated as an answer to the problems the world naturally experiences as a result of the existence of some 200 sovereign nation states, each with its own sovereign currency. This would eliminate the proverbial exchange rate fluctuation problems whereby the IMF will become functionis officio (Morrison Bonapasse 2006). The World Bank may be reconstituted as a Global Central Bank ("GCB"). Its organizational structure may follow that of the ECB. The heads of the 200-some sovereign nation states will jointly appoint the President of the GCB who will preside over monetary policy for the world. An Executive Board consisting of the Heads of the 200-some Central Banks of the member states as ex-officio members may follow to facilitate the global transmission of the

monetary policy. The GCB will need the cooperation of the Finance Ministers of all its member states, who may consider signing a compact for growth with stability. It is true that the monetary policy of the GCB will not be successfully implemented without a globally cooperative fiscal policy. The European Union is struggling to institute a political oneness for the EU member states, but the more challenging issue is how this paradigm of continental oneness can be transposed to the global level. Following the Breton Wood-born international financial institutions, the allocation of each member state its due share-holdings and voting rights in the GCB will be expectedly based on its share of world GDP. This continues to put those states with low GDP at a disadvantage.

We have noted that based on their respective shares of world GDP, the overwhelming majority of the 200-some sovereign nation states are marginal. Based on data as of 2006, the EU is the largest economy in the world, and the USA is a close second. The AE-22, as discussed in this volume, would be considered the third largest economy. The continental economic integration will give each continental economic unit a competitively large share of world GDP, and thus competitive share-holdings and voting rights. The case for one global currency, managed by one global central bank would be all too easy if there will be one global

sovereign nation state with one flag and one national song. Let the debate continue.

### **9.3 *Intra-Regional Diversity of Economic Gains***

A great deal of debate has taken place regarding the intra-regional diversity in economic gains. It has been pointed out that some member states of the EU gained economic growth at a much higher rate, while others continued to lag behind. Over the years following economic integration, the rate of growth of family median income in the select group of EU members, Ireland, Portugal and Spain, was much higher than that of Germany. It certainly pointed to the success of the story as income gaps amongst the EU member states came to be minimized. However, the economy of Germany gained from the free flow of investment in these relatively savings-poor and low-wage rate member economies of the Union. The Treaty of Rome in 2004 admitted ten new members of Eastern Europe to the EU membership and the economic game plan of intra-EU free flow of investment has already begun to industrialize and enrich these economies, as expected. It is no wonder then, that other qualified economies have clamored to join the EU, regardless of the rigorous conditions of their accession as each new member sign up,, ceding its national sovereignty, particularly the case of national currencies.

There is yet another aspect to take note of. It is a fact that even prior to economic integration in the form of the EU as it is now, a member economy with its own sovereign currency experienced uneven economic progress within its borders: the south of Italy lagged historically behind the north; the ethnic Basque separatist movement in Spain continues on; the Good Friday Agreement of 1998 has still not completely resolved the historic religious conflict in Northern Ireland; the linguistic diversity between the French speaking and the Flemish speaking peoples of Belgium has been responsible for so much political instability in the recent years; might Scotland one day demand to become an independent state of the UK, only to accede to membership of the EU and the euroregime? For one reason or another, different geographic areas within a given EU member country historically may have had regional economic divergences. The EU compact can, however, be expected to contribute to the intra-EU economic uniformity over a period of time.

#### **9.4 *The AE-22 and the Pacific Economic Fraternity***

The economic ties between the AE-22 and Australia, New Zealand and the Pacific Island Economies have been explained (Chapter 7). Geography is the base of the new paradigm of continent-based supra-national macro-

economies, as we learned from the European Union. Historically, the economies of the Mediterranean have much to share with each other. It is true for Turkey, though geographically it is very much in Asia. The format of the Mediterranean Club is of great pragmatic appeal.

Australia, New Zealand and the Pacific Island Economies do not belong to the map of Asia. Notwithstanding their European heritage, Australia and New Zealand were denied the membership of the EU as the map of the continent of Europe did not include them. Given the economic situation, these Pacific economies have developed substantive economic interactions with their Asian neighbors, most of whom will be members of the AE-22.

The AE-22 and the Pacific economies may constitute a Pacific Economic Fraternity. In this scenario, once the institutional arrangements for the AE-22 become operational, each of these three Pacific economic units could be invited to enjoy a non-voting observer status with full participation in debates and discussions. Once the AE-22 will have inaugurated the Asian Money, these economies with an observer status, will expectedly reassess as to whether they will continue to use their respective currencies (Chapter 7).

### **9.5 Restructuring the Breton Woods Organizations**

The restructuring of the post-WWII international financial institutions, especially the IMF and the WB, constituted at the Breton Wood Conference in 1944 has recently been a subject of much analytic review (Stiglitz 2001, Dutta 2007). In Asia's context, the situation became critical following the Asian Financial Crisis of 1997-98. Did they fail to act promptly? Even if late, did they act optimally? The debate continues. Asian economic cooperation became the theme, soon followed by the meetings of the Asian Economic Summits, attended by heads of major Asian economies.

For the present, the IMF and the WB, have their headquarters in Washington D.C., the capital city of the economy which contributed a majority share of capital to the two organizations and thus controlled majority voting rights. The EU has now emerged as the largest economy of the world with a larger share of capital and thus a larger share of voting rights in the IMF and the WB. A game plan to arrange share capitals and voting rights on a 50-50 basis between the EU and the USA has been presented. The AE-22 will have a competitive share of world output; its contribution to share capital will thus be competitively large, and so will be its voting rights. Accommodation for the supra-national economy of the African Union, the West Asia, and of the American Hemispheric Economic Union will remain to be explored. Indeed, the scheme for a shared control

of these international financial institutions by the EU and the USA will invite critics who will argue of the domination of the world by the rich.

### **9.6 *Western Asia, Africa and Latin America***

The new world economic order with the AE-22 must develop a strategy for the rational accommodation of the rest of the world. The countries in the Middle East from Turkey to Afghanistan, plus the newly independent sovereign nation states formerly under the Soviet hegemony, may constitute the West Asian economic compact. As of 2006, the West Asian economies, Bahrain, Cyprus, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, Syria, Turkey, the United Arab Emirates and Yemen, have a population of 259.91 million with a GDP total of US\$ 2,114.36 billion (PPP). Given the population and economic dimension of the West Asian economies, they will be able to enjoy a competitive status in the global market (Dutta 2007). Cyprus has a contested political situation and Turkey is a candidate for membership of the EU. It is true that the West Asia regional economy will be one where the majority of the people subscribe to the Islamic faith of many and varied affiliations, inclusive of Shia and Sunni, while the majority of the people of the EU belong to various denominations of Christianity (Dutta 2007). Regardless, it will be geography, not religion, to be the core for a regional economic compact. We

may refer to the earlier sub-regional cooperation efforts: the Arab Common Market (“ACM”) of 1964, the Gulf Cooperation Council (“GCC”) of 1981 and the Arab Maghreb Union (“AMU”) of 1989. Of course, these all had limited agendas.

The African Union (“AU”) of 53 sovereign nation-states on the map of the continent of Africa was formally established in 2002, replacing the Organization for African Unity (“OAU”) which had been created in 1963. The AU has a plan to issue African money under the African Central Bank and is currently seeking to achieve this objective by 2023. With an Assembly, an Executive Council of Ministers, a Permanent Representative Committee, the Pan-African Parliament, the African Court of Justice and several Directorates, the AU has set up its organizational structure. The AU Commission, with a Chairperson and a Deputy Chairperson, serves as the secretariat of the AU with its seat at the AU Headquarters in Addis Ababa, Ethiopia. The AU has adopted the EU guideline that AU decisions will be operational only when it will have been approved by each member state. How it will work in Africa remains a question.

As of 2006, the AU has a population base of 876.62 million people, with a GDP total of US\$ 2,222.04 billion (World Factbook, July 2006). The West African Economic Community (1959), the Economic and Customs

Union of Central Africa (1964) and the Mano River Union (1973) were earlier efforts to constitute Customs Unions of selected group of regional economies. In 1975, the West African Economic Community progressed to the Economic Community of West African States (“ECOWAS”), adopting the broader agenda of the common market as was the case in the European Economic Community. In 1981, the Economic Community of Central African States adopted a broader agenda of establishing an economic common market.

In the American hemisphere, FTAs have received much attention. The North American Free Trade Area (1994) of the United States, Canada and Mexico has been a major step. In 1994, the American Hemispheric Economic Cooperation Conference, hosted by the USA in Florida, successfully assembled all countries of the Americas, excepting Cuba, and the proposal to form the Free Trade Area of the Americas (“FTAA”) continues to be under review. In Latin America, free trade areas such as MERCOSUR (1991) and the Andean Pact (1991) have been notable efforts. It should be noted that the focus in the Americas has been on the concept of traditional FTAs of sovereign nation state economies. The issue of one integrated economy with one money, as in the EU, remains unexplored,

though many nations in the Americas already use the US dollar and can be a starting point in establishing a single currency for the region.

The Asian economy with Asian money will follow the EU paradigm and will have to deal with the dynamic world situation accordingly. The AU will be welcome as one economy with one African money. The emerging situations in other continents will have to be studied. As is the case with the EU, the Asian Economy (AE) with Asian Money will not be a “fortress” economy and will deal with the economies of the world in a free competitive market. The principle of competition will be the norm, and the new paradigm of the global economic structure, based on continental integration, is the challenge.

### **9.7 *Some Concluding Remarks***

The earth is very definitely not flat. Following the liquidation of the imperial model and the collapse of the post-WWII Cold War regime, the world economy has been exponentially productive by the free flow of knowledge. The industrial revolution had its historic birth in Europe. It soon came to the USA and gloriously exploited the enormous economic potentials of the new continent. The continent of Asia, where more than fifty percent of the world's six and a half billion people have their ancestral

homes, now commands the game plan of technology and high-tech industrialization.

Beginning with Japan and a select-group of Northeast Asian economies, the process of industrialization of Asia spread throughout the rest of Asia, with China and India, the two most populous economies of the world, becoming its reference points. The direct flight from Beijing to Bangalore by the Chinese President was watched by the rest of the world. A history of war and mutual distrust apart, Japan and China have elected to come closer, and one can see that the two countries are working towards putting the building blocs for an “Asian entente cordiale” in place. The emerging economic engagements amongst Japan, Korea and China are adding bonds not to be severed by the challenging tragic history of imperialism.

The rest of the world has well received Asia’s success in space exploration and peaceful utilization of nuclear energy. The Asian century is now the headline, as the media economists and economic policy-makers in corporate and political leadership have elected to proclaim. A survey of Asian opinion leaders during August-September 2007 (ADB 2008, p. 21) reports that as high as 83 percent believe that the institution of the Asian economic community will produce large benefits, with only 13 percent

opposing it for high costs, and the remaining 4 percent recording no opinion.

Asia's chance to shine has come once again.