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ABSTRACT

Recent financial and economic crisis in Asia and its management have produced dismal outcomes, economically, politically and socially, in many respects in several crisis economies. The paper focuses on a critical analysis of this crisis' diagnostics, prescriptions and outcomes, and discusses initiatives to avoid or better manage future and similar crises. The role played by increasing globalisation in economic crisis management at the country level is also assessed. The recent emergence of new Asian regionalisms such as the ASEAN+3 is argued as a promising initiative to overcome some external problems encountered in recent years and to effectively promote trade, investment, development and growth in the region.

1 Overview

Coming on not long after the Mexico crisis in South America, the Asia economic and financial turmoil of 1997 starting in July in Thailand has created serious economic policy, social and political problems to the once 'miracle' economies of East and South East Asia over the last five years. More than 200 million people in this region have been made poor (not poorer according to the World Bank poverty benchmark of $1 per day), massive corporate collapses taking place, and more than one governments have been toppled as a result (see Tran Van Hoa and Harvie, 2000a, Tran Van Hoa, 2000b, and 2000c). Prescriptions from such international organisations such as the International Monetary Fund (IMF) and imposed on some crisis economies have turned out to be inappropriate and ineffective, because they were based on inappropriate diagnoses and remedial measures (see Desai, 2000, Tran Van Hoa, 2000e, 2001). National prescriptions from some crisis countries (including the world's second largest economy, Japan, with its economic problems going back earlier to the mid-1990s) have also been found to be inappropriate in formulation and ineffective as solutions to the lingering crisis effect and a decent recovery to high (even not the pre-crisis level) and sustainable growth or not suitable to modern international economic principles and practices and increasing globalisation and international competitiveness (see Tran Van Hoa, 2002a).

Despite some (and as usual) over-optimistic assessments by the involved international organisations on the emerging promising progress and state of crisis economies (see Asian Development Bank, 2001a, 2001b, 2002a, 2002b, and World Bank, 2002), these economies are still facing serious crisis-related problems and, fundamentally, in a precarious or ill-equipped position to solve them in totality and to restore their desirable development and growth.

As at the third quarter of 2002, the damaging impact of the Asia crisis is still present in many crisis economies in East and South East Asia, and various restructuring and reform policies and economic goals that have been put in place by these countries with international organisation collaboration over the past 5 years are still not delivering or unable to solve problems. Trends in development and growth in this region even as predicted by the ADB, IMF and WB show no definite pattern of economic recovery (ADB, 2002b, WB, 2002) and are still subject to numerous downside risks. These risks are substantial when we have to factor in the impact of 11 September 2001 and other perceived future terrorist attacks on the Western economic bases and the crowding-out effect of the war on Afghanistan. Our assessment is that crisis economies in East and South East Asia (with the exception of Korea perhaps) still have a rough road ahead to deal with the lingering effect of the 1997 crisis and the emerging problems of the early 2000s. These problems include IT and global slowdown, increasing globalisation, international competitiveness, the unexpected quick recovery of Korea and its possible reform model or paradigm, the still stagnant state of the Japanese economy and its inability to muster and implement quick and appropriate reforms, and the current economic slowdown of the NAFTA area and the European Union (IMF, 2002) and their benign neglect on Asia's economic crisis concerns and issues.

Within this environment of desperate need for solutions to restore development and growth, to achieve poverty reduction and to attain social and political stability for Asian crisis economies, would a new Asian regionalism based on the concept of an ASEAN+3 (or even ASEAN+5 where Australia and New Zealand are also members) to improve trade and investment liberalisation and to enhance member countries' welfare be able to provide some plausible macroeconomic policy and rejuvenating welfare hope for the region? We think that the initiative which has already had the endorsement of the 13 ASEAN+3 leaders in Brunei late in 2001 is worth serious consideration and investigation. Recently, this concept also has the strong empirical support based on an analysis of ASEAN+3 trends in trade and investment and their causal relationships with development and growth in the ASEAN+3 over the past 35 years. The findings of this analysis and their important implications at least for ASEAN+3 economic and trade policy and development and growth in the foreseeable future have been reported (see Tran Van Hoa, 2002b, 2002c, 2002d).

In the following sections, a review of crisis issues and recent developments in the state of crisis economies and the international environment that may seriously affect these countries' reform and recovery will be briefly presented and discussed.

2 Economic and Financial Crises

Economic and financial crises are not new to contemporary economies or even to the economies of the colonial days in the Oceania. Some of the crisis management tools or policies adopted since 1890 or even in 1930s have not substantially changed. The bank-run crisis in Australia in the 1890s is one such early example of financial turmoil with its subsequent great damages and hardship on the Australian involved then (Goodhart, 2000). Recent economic and financial crises with their widespread impact on the region could however be traced back to the early 1980s and 1990s, and Mexico is one such example for Latin America.

The economic and financial crisis that started in July 1997 in Thailand and, subsequently, spread to other once 'miracle economies' in East and South East Asia, then to a lesser extent, Russia, South and North Americas, and the European Union is another example of recent crises with great impact worldwide. This so-called Asia crisis has brought about untold damages to the prestige, growth, development and social improvement plans of the crisis countries. It has now become well known that the high-growth Asian economies of the 1970s, 1980s, and early 1990s, had not only experienced a negative growth and a stunt development in the late 1990s, but, according to an early assessment, they have become really the needing ones desperately asking for urgent outside help (McLeod and Garnaut, 1998).

A summary of the rates of growth of gross domestic product (GDP) in a number of developing member countries of the ADB during the period 1994-1999 is given in Table 1 below. From this table we note the great decline in growth rates of all except 3 countries under study. These three countries are located in the subcontinent and include India, Pakistan and Myanmar. While India and Myanmar were slightly affected by the crisis in 1999, Pakistan managed even a rise from 1.2 per cent to 2.7 per cent. As is well known, these countries have had their own economic, social, religious and political problems but the Asia crisis and its damaging contagion to

other economies are not one of their problems to overtly worry about at least in the short term. The long term impact of the Asia crisis is another problem even India and Pakistan may not be able avoid due to the effect of globalisation and its crucial requirement, international competitiveness.

It is also interesting to note that both groups of countries in the table, namely developing free-market (such as Singapore and Taiwan) and developing transition economies (such as China and Vietnam), equally suffered from the impact of the Asia crisis. This kind of factual observations seem to contradict the perception and assessment by various organisations and institutions, national and international, over the years that these countries had avoided the effect of this unusual financial turmoil and economic meltdown in the crisis economies in Asia.

Some form of economic recovery (in terms of a small GDP growth) was observed for crisis economies listed in Table 1. However this recovery was really small and nowhere near the rate of the pre-crisis growth. In addition, new developments in the world economy during 2000 and 2001 and even early in 2002 (such as a continuing stagnant Japanese economy and a slowed-down US market) would make this recovery short-lived and unsustainable.

On the social aspect, the number of people in Asia alone made poor (not only poorer) by the crisis was earlier estimated by the international organisations and agencies to be 200 million (Tran Van Hoa, 2000c). This poverty-rendering effect was associated with social harmony deterioration, rising ethnic unrest and region-wide political instability which have had untold damaging impact on the region.

As of March 2001, the crisis economies in Asia seemed to be still in the midst of their economic turmoil with widespread economic slowdowns, political instability, social unrest and an uncertain immediate future (see below). In addition, the major trading blocs of the world (especially NAFTA and the EU) seemed to have lost its interest in and enthusiasm for financial reforms and well-being in the Asian region. This attitude, pervasive in agenda, meetings, fora and publications of international organisations in recent years, was based on the erroneous assumption that the impact, short and long term, of the Asia crisis had been benign or irrelevant on other economies especially in North America and the EU (see Tran Van Hoa, 2002b). The chief international organisation responsible for assisting in managing Asian crisis economies had been under fierce attacks for having initiated inappropriate remedial policies and, subsequently, met with failures not only in Asia but also in Turkey, Russia and Mexico. 'IMF (International Monetary Fund) needs bail-out' had been the banner of some influential media in Asia, crying out for urgent reform of the organisation (*The Straits Times*, 15 March 2001, and 21 March 2001).

As of October 2002, the situation has not been much better. This is due not only to the brutal attacks with severe contagious effects on economies in all regions by terrorists on the symbol of America's global trading centre in New York, but also on the lingering internal and external problems still faced by crisis economies more than five years after the Asia meltdown. What are then the systemic problems faced by crisis economies and the possible solutions for them to restore high and sustainable growth and welfare improvement in the years to come? Are they the inherent structural problems that need major reform in crisis economies? Are they the inadequacies of

economic crisis management imposed by international organisations and adopted by crisis economies? Are they the incidence of unexpected external shocks that has affected the crisis economies and also hampered their recovery? These issues are to be briefly discussed below.

3 Long-term Impact of Economic and Financial Crises in Asia (including Japan) and Crisis Management

Early in 2002, the damages of the 1997 Asia crisis were still lingering and troubling a great number of people and societies in the region (even though not so in other regions outside Asia). This long-term impact of economic and financial crises is well documented by national or in-country economic experts and analysts (see for example, Tran Van Hoa, 2000b and 2001) despite the claims by international organisations and agencies with interest in Asian economies that the crisis was over and the recovery was well in sight or was coming with increasing downside risks (ADB, 2001a). Our assessment of the long-term impact of the Asia crisis and obstacles to a recovery in East Asia can be amplified further below for a number of countries involved in or affected by the meltdown.

In Thailand in February 2001 for example, the new government of Prime Minister Thaksin Shinawatra announced a plan to buy out 1.2 trillion bath of bad loans from the state-owned and private banks. The plan was necessary to jumpstart the economy which was still in the doldrums with falling exports and rising government debt almost four years after the emergence of the Asia crisis. According to Thailand's Prime Minister, the country still needed to pursue a (more effective) crisis management strategy (*Australian Financial Review*, 2001). Thailand's growth rate in 2000 was 4.3 per cent, almost a percentage point higher than that forecast earlier. A rate of 4.6 per cent had been predicted earlier for 2001, but this rate was cut down to between three and four per cent in April 2001. Early in March 2001, Prime Minister Thaksin also set up an economic 'dream team' to expand GDP growth in the year, in defiance of projections that Thailand's main engine of growth, namely, exports, will run out of steam due to slowdowns in the US and Japan. Late in April 2001, he went further by announcing his government's intention to adopt new 'inward-looking' economic policies and to reject the attempts of the G7 nations to introduce greater transparency to Asian economies through tougher banking and financial regulations. As at October 2002, Thailand's 2001 growth was posted at 1.8 per cent, less than half of the predicted rate (ADB, 2002b, and Table 3).

Late in 2000, in Indonesia, ethnic and social unrest was so vicious and widespread that plans by the government of then President Wahid and international organisations and agencies to introduce democratic reforms and to restore the seriously damaged economy as a result of the crisis may not be carried out as they were originally intended. The problem appeared to get worse if not better in April 2001 with the prospect of impeachment of the President on corruption and economic plundering charges. The economic situation in Indonesia seemed in a better shape early in 2000 with a posted growth rate of 3.6 per cent for 2000:1 and 4.1 per cent for 2000:2, and, for the whole year, 5.8 per cent (compared to 0.31 per cent in 1999). An update in November 2000 revised this figure to four per cent. Before the emergence of a US slowdown, the ADB predicted a robust growth rate of 5 per cent for Indonesia in

2001. This figure has to be revised downwards later on to take into account the US economy's health and increasing domestic economic and social problems. Added to Indonesia's woes early in April 2001 was the announcement that Toyota Motor Corporation's Indonesian partner, Astra International, South East Asia's biggest car maker, had suspended its production on 19 March 2001 as a result of a strike at a local car seat maker. As at October 2002, the ADB recorded a growth rate of 3.5 per cent for 2001 for Indonesia (ABD, 2002b, and Table 3).

Late in 2000, the giant company of Daewoo in Korea was declared bankrupt and thousands of workers took to the street early in 2001 to protest against what can be described as slow and ineffective reforms by the government. In March 2001, South Korea then Finance Minister, Mr Jin Nyum, predicted that his country's growth could dip to less than 4 per cent also as a result of domestic restructuring obstacles and the downturn in the US and Japan. The forecast figures for Korea's growth rate were five to six per cent only a week or so before. In 1999 and 2000, Korea's GDP growth rates were higher at 10.7 and 7.5 per cent respectively (Wong, 2001). In April 2001 however, various indicators did not augur well for the Korean economy. The first week in April saw the Korean currency, the won, fall in one week by 2.7 per cent to a new low (since October 1998) at KW1368 to a US dollar. This new financial crisis had spurred the country's President, Kim Dae Jung, to summon his economic ministers and advisers to an urgent meeting and to come up with measures to stabilise the worsening trend in the economy. As at October 2002, the ABD recorded a growth rate of 3 per cent for 2001 for Korea (ABD, 2002b, and Table 3).

The Philippines late in 2000 and early in 2001 still suffered from the impact of a slowed down economy and the associated uncertainties on its future direction. It had also to put up with political unrest and corruption charges and arrest at the highest level of the government (culminating in a traumatic transfer of executive power) and increasing religiously motivated armed terrorism (the Mindanao crisis and the status of and relief efforts for displaced persons). In the past two years, the country achieved a small but steady growth rate of 3.3 (1999) and 3.8 per cent (2000). The forecast growth for 2001 was slightly higher at 4.3 per cent. But this forecast was made before the prospect of an economic slowdown in the US and Japan. Judged from the country's historical demographic, social and especially trade make-up, this slowdown will have more profound adverse effects on the Philippine economy and society. In April 2001, the National Statistical Office reported an expected inflation rate of over six per cent for the year. This forecast has deflated the Philippine economy further and limited the central bank's ability to use its monetary policy to cut interest rates to spur economic growth in a faltering economy (*Australian Financial Review*, 2001). As at October 2002, the ABD recorded a growth rate of 3.2 per cent in 2001 for the Philippines (ADB, 2002b, and Table 3).

Malaysia, after its adoption of the controversial currency control policy during the Asia crisis, seemed to have weathered out some of the worst of the crisis impact. On the other hand, its long-term growth and development policy in an increasingly globalised economy appears to be at odds with this non-market initiative by the government that has been deemed to have adverse trade and investment prospects with its investors and trading partners (see also Jomo, 2000). The ramifications of the long-running and still growing political instability in the country and rising security issues have also causes for concern in relation to Malaysia's economic development

and growth. In spite of these concerns, the country posted a good growth rate of six per cent (compared to an earlier estimate of 3.8 per cent) in 2000 and the forecast by the ADB for 2001 is of similar magnitude (or 6.1 per cent). In April 2001, Malaysia's credit-rating outlook was cut by Standard & Poor on concern that its foreign reserves were shrinking, growing political uncertainty, slippage in external position, and the government had not done enough to reduce its budget deficit. The revised outlook has the effect of making it harder and more costly for Malaysia to raise money through debt sale and funds through international market. It also came at a time when the country planned to spend an extra three billion ringgit to build schools and houses and to boost domestic consumption in a bid to stimulate the economy as global growth slowed (*Australian Financial Review*, 2001). The actual 2001growth rate for Malaysia was only 0.4 per cent, according to the ADB (ADB, 2002b, and Table 3).

Singapore, whose economy and growth depend principally on international trade, had predicted an expansion of total trade of between seven and nine per cent in 2001, compared to 22.9 per cent in 2000, a sharp decline. Real GDP growth was forecast at nine per cent for 2000 but an update in November 2000 put it more realistically at 67 per cent of this forecast or 5.9 per cent. For 2001, Singapore's GDP growth rate was forecast at five to seven per cent but the ADB (2000) admitted that a figure of about 6.2 per cent was more reasonable. Singapore's non-oil retained imports of intermediate goods, a short-term indicator for manufacturing activities, have turned in slower growth rates late in 2000. The greatest risk for Singapore's economy in 2001 was that the US economy may go into a recession. Under this scenario, the global economy will fall sharply and the growth prospects of Singapore's exports could be severely affected (Singapore Trade Development Board, 2001). In fact, Singapore posted a growth rate of –2.0 per cent in 2001 (ADB, 2002b, and Table 3).

Japan, the world's second richest economy and the major economic force in Asia and an alleged trigger of the Asian turmoil in 1997 with its devaluation of the yen, had suffered a period of crisis in terms of its dramatic income per head decline a year or so before the Asia crisis (see Chapter 11 in Tran Van Hoa, 2002a), and an economy in the doldrums during 1998-2000. It had not done well early in 2001 either. As of March 2001, Japan's various fiscal stimulus packages and reforms in the past decade seemed to have failed to revive the economy. But these packages and reforms had created massive public debts that reached the highest level in the developed world of 666 trillion yen or 130 per cent of its nominal gross domestic product. In addition, the cost of debt servicing had soared from 30 per cent of tax revenue to nearly 70 per cent in just over a decade. In Japan's crisis of 1998, it was accepted that exports and public-works were all that had kept the economy above water. Without government money, bankruptcies, already at a record level, were likely to surge further (Callick, 2001 and Cornell, 2001).

In his report in March 2001 to the Parliament of Japan, the Finance Minister, Mr Kiichi Miyazawa, admitted that the country had run out of money to support growth, its fiscal situation was close to collapse, and fundamental financial restructuring was desperately needed. He also admitted that fixing the fiscal mess in Japan would take from ten to twenty years, and an immediate dose of fiscal discipline was unlikely with the economy being so weak and the political situation so volatile and uncertain. Early in 2001, the country saw a worse machinery order, a still slowing economy, slipping household spending and more pessimistic corporate confidence survey data.

Unemployment which already was at a record high may be pushed up further. Following the celebration of a new easier money policy from the Bank of Japan that was announced a few weeks earlier, latest commitments to push aggressively ahead with corporate reforms and clean up a decades-old mess in the banking system also began to sour in March 2001.

Japan, which has powerful impact on the rest of the world's economies (developed and developing), has to rethink and redesign its macroeconomic policy to suit its contemporary economic environment and its fundamental status as an economy dependent on trade (exports and imports). The new approach which focuses more forcefully on implementing reform even with painful short-term hardships on the country's population has been announced by Japan's new Prime Minister, Mr Junichiro Koizumi, late in April 2001, may assist it in restructuring and managing the economy better. It should be clear by now that Japan's adopted fiscal (demand management) and monetary (zero interest rates) policy and its outcomes during the 1990s had not been appropriate and effective in managing its economy. The OECD-calculated actual-potential output gaps for Japan were -1.4 in 2001, -3.0 in 2002 and -3.5 in 2003, reflecting a continuing decline in the economy's activity (OECD, 2002a). In addition, the IMF continues to raise issues with Japan's current core economic problems (bank and corporate restructuring, unprecedented deflation for a developed country, and monetary easing) and its process of muddling through to reform which have reduced Japan's output per capita by 10 per cent in relation to Europe and more in relation to the US in the past decade (IMF, 2002).

All the new developments in major Asian economies described above were occurring in the climate of a deteriorating relationship between China and the US over the 1 April 2001 US spy-plane incidence and the subsequent US arms sale to Taiwan, and, in addition, between China and Japan amidst the signs that Japan planned to remove the constitutional restrictions on its military. The latest statistics also show that, as a region, East Asia's actual growth fell from 8.2 per cent in 2000 to 3.9 per cent in 2001, that of South East Asia from 6.0 per cent to 2.0 per cent (ADB, 2002a). The IMF also saw many long-standing macroeconomic problems in developing countries, Asian not excluded. These include the economies' growth dependence on industrial economies, their vulnerabilities to external financial crises and external demand from developed countries, and the volatility of debt-creating capital inflows (IMF, 2002). In this economic indicator context, the problems of economic development, growth and recovery in Asia seem to have many obstacles to have to overcome in the near future.

4 Economic and Financial Crises Outside Asia

Outside Asia, the whole world was troubled with a slowdown in the growth of high-tech industries and its impact on employment, high crude oil prices from the OPEC (Organization of the Petroleum Exporting Countries), and the rise of conflicts in the Middle East and the Balkans and, recently, the 11 September 2001 terrorist attacks in the US (see OECD, 2002b).

Early in 2001, the US Federal Reserve Board successively introduced interest rate cuts in its apparently desperate attempt to arrest the economy's slowdown. This slow down would certainly bring with it damaging impact on the global scale. In fact, in

March 2001, the IMF predicted that the US Federal Reserve Board was likely to cut its key federal fund rates to 4.5 per cent in the near term as the recent steep dive in US equity prices could dampen consumer spending for up to two years and the US economy was in danger of a hard landing. The statistics reported in April 2001 by the US Commerce Department did not bring good news. It showed instead a slackening demand for industrial equipment, including computers and machine tools, that helped to drive orders to US factories in February to their lowest point in 16 months (since October 1999). Factory orders fell by an unusually large 0.4 per cent (or US$363 billion in seasonally adjusted value) while many analysts had expected only 0.2 per cent (*Australian Financial Review*, 2001). The problem is compounded when placed in the context of the 11 September 2001 terrorist attacks and the subsequent war in Afghanistan and other potential expenditures on world conflicts.

The output gaps for the US have been calculated by the OECD as –0.7 in 2001, -1.2 in 2002 and –0.9 in 2003 (OECD, 2002b). As at October 2002, the IMF also saw persistent problems in the US economy with low growth (2.2 per cent in 2002 and 2.6 per cent in 2003), low level of consumer sentiment, sharp drop in stock prices, uncertainty over war in the Middle East, and weak evidence of recovery in business fixed investment (IMF, 2002).

According to a report by the Munich-based Ifo economic research institute, German business confidence sank in February 2001 to an 18-month (from July 1999) low and the nation's leading companies were issuing warnings about the impact of contracting global growth (especially a slowing US demand) on earnings. This had put pressure on the European Central Bank to act swiftly to cut interest rates to counter slowing economic growth on the continent. Late in March 2001, European leaders were however confident that the fallout from the deteriorating economic condition in the US and Japan (see above) would have minimal effect on the EU (the economic safe haven of the developed world). This is in spite of a slowing of their own economies and divisions on all but one item from an ambitious agenda for microeconomic reform. However, the European economic commissioner, Mr Pedro Solbes, had to admit late in March 2001 that even a limited fallout effect from the US alone would mean that the EU had to revise downwards its forecast three per cent growth rate for 2001.

Again, the OECD has predicted a continuing decline in terms of output gaps for the EU for the next 2 years, with -0.5 in 2001, -1.4 in 2002 and –0.8 in 2003 (OECD, 2002a). The IMF also predicted a small growth for the Euro area: 0.9 per cent in 2002 and 2.3 per cent in 2003. The EU which traditionally had posted higher growth than the US, has continually falling, because of weak domestic demand, weak labour markets and rapidly aging population, behind it especially since 1995. A higher growth from the EU is necessary for global economic recovery (IMF, 2002).

5 Major Issues on Economic and Financial Crisis Management, Reforms and Recovery in Asia

With a focus on the major Asian crisis countries alone and their problems since the emergence of the economic turmoil in 1997 (or slightly earlier as is the case with Japan), it appears that, the governments of these countries have not an appropriate and

effective management plan to deal with economic and financial crises. Since the international organisations such as the IMF, the WB, and the ADB assisted, directly or indirectly, the non-Japan governments in crisis management, it is therefore reasonable to infer that the cures and remedies proposed or imposed by these international organisations on Asian crisis economies seem to have been inappropriate and ineffective.

For Japan which had adopted both neo-Keynesian (with budget deficits) and orthodox monetary (with almost zero interest rates) policies, the discussions above also show that its economic and financial crisis management had not been appropriate or effective.

A recently published book *Economic Crisis Management* (see Tran Van Hoa, 2002a) is a collection of country-by-country studies of the economic and financial crisis and its issues in economic crisis management in general, and with particular emphasis on a number of major Asian economies in trouble since 1997. A number of major issues investigated and reported in the book are relevant to the major aspects of the theme of the conference, namely economic recovery, reforms and management, can be summarised below.

It first provides a critical survey of the traditional tools (or methodologies) in economic management that can be used by contemporary governments for their countries' fiscal and monetary policy. These tools can and have been adopted by international organisations with economic management responsibilities worldwide as essential part of their assistance to crisis economies. It then critically analyses the adoption, implementation, and success or failure of these tools in the countries in crisis. Finally and more importantly, the book provides suggestions and recommendations in economic crisis management for the countries under study with a view to improve the suitability, quality and effectiveness of crisis management either in crisis economies in Asia or, equally, in other regions. The book is a useful document to provide an agenda for better regional economic and financial strategy (World Bank, 2001) to deal with future crises of the kind we have experienced in Latin America or East Asia during the 1990s.

As of the second half of 2002, the prospects of an economic recovery and effective and speedy reforms in the crisis economies in Asia were not that promising either. More specifically, during the period 1999-2001, many countries in East Asia and in the Mekong River region had achieved only either modest recovery in 1999 and 2000. However all of these countries had posted only a decline or even a negative rate in growth in 2001 (see ADB, 2002a, and Table 2 below). Earlier forecasts of a strong Asia recovery and fast economic, financial and corporate and government governance reforms seemed to be incorrect.

The current economic slowdown in all regions of the world (notably in Japan still) and the crowding-out effect in resources of the allied countries' counter-terrorist attack efforts in the subcontinent and possibly the Middle East (Iraq) in the near future would make an economic recovery, financial reforms and a restructuring of governance more difficult to achieve especially in the short term (OECD, 2002b). The fact most major Asian economies' growth have depended so much on external demand and sometimes on domestic demand has put these economies in a precarious

position to restore output rises as Asian exports are being threatened by war (Hyland, 2002) and terrorist attacks that have spread to the region.

All these are in addition to the recognised problems of unsustainable growth and point-source natural resources in many economies, civil conflicts in several major countries in the Asian region as well as global polarisation on major environmental issues and protocols (see World Bank, 2002), and finally, the spreading discoveries of corporate transgressions (the Emron case in the US, and the HIH case in Australia for example) with devastating effects on free-market institutions, their management style ands tools, and up-to-now benchmark models that are underlying globalisation and international competitiveness in Western nations.

6 Conclusions

In this context, a good national macroeconomic policy, while necessary for local economic management, may not be enough to counter-balance market or even government failures world-wide. And the recent call by the World Bank (2002) to developing countries to devote more attention and resources to innovation in ICT, while appropriate as a concept or even policy, may not be that effective, in terms of practical realism and operational implementation, to enhance competition of say all ASEAN+3 economies in global markets.

For the major economies in the Asian region, the recent trend towards economic regionalism and Asian economic integration (see ASEAN, 2002) seems, at least for the ASEAN+3 region and in the presence of the inherent slow progress of the World Trade Organisation negotiations, a good initiative to overcome the problems and obstacles to a strong and sustainable economic recovery through trade and reform (see Tran Van Hoa, 2002b, 2002c, and 2002d).

Developed during early 1990s (even its namesake was floated during the 1940s), ASEAN+3 is regarded as an answer to the damages of the Asia crisis in 1997 on major Asian high-growth ‘or once miracle’ economies and the subsequent benign neglect by NAFTA and the EU on this crisis-generated problems (see Desai, 2000, Jomo, 2000, and Tran Van Hoa, 2000e). It is also more than that, ASEAN+3 (and its so-far unsuccessful proposed expansion to include Oceanic suitors, Australia and New Zealand, see Tran Van Hoa, 2002a) has been developed mindful of the fact of great potential (in both physical and human resources and built-up free-market style infrastructure) still from Asian economies even after the crisis and, paradoxically, also of the quick economic recovery of Korea, the fast growing economy of China, and the stagnant state of the Japanese economy in nearly a decade. As a regional response to NAFTA, the EU and increasing globalisation, ASEAN+3 is a free trade agreement for the common objective of enhancement of trade and investment and, hence, development and growth and welfare (including poverty reduction) of the 13 member countries in Asia.

This initiative is by and for the East and South Asia economies and it has already had the endorsement of the ASEAN+3 leaders in Brunei in November 2001 as well as recent strong empirical support on the fundamental causality aspects of key economic components of this new free trade agreement (for further detail on this econometric

modelling support based on Frankel-Romer and Helpman-Krugman extended gravity theories using an SNA93 framework and World Bank and CHELEM harmonised time-series data context, see Tran Van Hoa, 2002c, 2002d). Extensive and intensive research and discussion on this initiative should be the agenda or plan for work by academics, economic advisers, government minders, and policy-makers in the next few years.

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Table 1
Rates of Growth of GDP[a] in Selected Major Developing ADB-Member Countries (DMC) in Asia and Subcontinent (1994-1999)
(Percentage)

DMC	1994	1995	1996	1997	1998	1999
Cambodia c	3.9	6.7	5.5	3.7	1.8	5.0
China, People's Rep. Of	12.7	10.5	9.6	8.8	7.8	7.1
Hong Kong, China	5.4	3.9	4.5	5.0	-5.1	3.0
India b	7.8*	4.2	7.5	5.0	6.8	6.4
Indonesia	7.5	8.2	7.8	4.7	-13.2	0.2
Korea, Rep. Of	8.3	8.9	6.7	5.0	-6.7	10.7
Lao PDR d	8.1	7.0	6.9	6.9	4.0	5.2
Malaysia	9.2	9.8	10.0	7.5	-7.5	5.4
Mongolia	2.3	6.3	2.4	4.0	3.5	3.0
Myanmar	7.5	6.9	6.4	5.7	5.8	5.7
Pakistan d	3.9	5.1	5.0	1.2	1.2	2.7
Philippines	4.4	4.7	5.8	5.2	-0.6	3.3
Singapore	11.4	8.0	7.5	8.4	0.4	5.4
Sri Lanka b	5.6	5.5	3.8	6.3	4.7	4.3
Taipei,China	7.1	6.4	6.1	6.7	4.6	5.7
Thailand	9.0	8.9	5.9	-1.7	-10.2	4.2
Viet Nam	8.8	9.5	9.3	8.2	5.8	4.8

a Unless otherwise indicated, figures are based on constant market prices
b Data for real GDP and sectoral growth rates are all based on constant factor cost.
c Data for sectoral growth rates are based on constant basic prices
d Data for real GDP are based on constant market prices, while sectoral growth rates are based on constant factor cost

Sources: ADB Member Country sources
ADB datafile 2001

Table 2
GDP Growth Rates in Major Countries in Asia
(Percentage)

DMC	1996	1997	1998	1999	2000	2001
East Asia						
China, People's Rep. of	9.6	8.8	7.8	7.1	8.0	7.3
Hong Kong, China	4.5	5.0	-5.3	3.0	10.5	0.1
Korea, Rep. of	6.7	5.0	-6.7	10.9	9.3	3.0
Taipei,China	6.1	6.7	4.6	5.4	5.9	-1.9
Mekong						
Cambodia [e]	3.5	14.4	2.1	6.9	7.7	6.3
Lao PDR [f]	6.9	6.9	4.0	7.3	5.8	5.7
Myanmar	6.4	5.7	5.8	10.9	13.6	...
Thailand	5.9	-1.4	-10.5	4.4	4.6	1.8
Viet Nam	9.3	8.2	5.8	4.8	6.8	...

e Data for real GDP are based on producers' prices, while sectoral growth rates are based on constant basic prices.

f Data for real GDP are based on constant market prices, while sectoral growth rates are based on constant factor cost. Data for sectoral growth rates are based on constant basic prices.

Sources: ADB, Asian Development Outlook 2002. Country sources.

Table 3
Growth Rates of GDP in East and South East Asia
(Percentage)

	1999	2000	2001	2002		2003	
				ADO 2002 Update	*ADO 2002 Update*		
East Asia	7.6	8.2	3.9	5.2	5.7	6.2	6.1
China, People's Rep.	7.1	8.0	7.3	7.0	7.4	7.4	7.5
Hong Kong, China	3.4	10.2	0.6	2.1	1.4	4.8	3.5
Korea, Rep. of	10.9	9.3	3.0	4.8	6.0	6.0	5.8
Mongolia	3.2	1.1	1.5	3.0	3.0a	4.9	4.9a
Taipei,China	5.4	5.9	-2.2	2.8	3.0	4.0	4.0
Southeast Asia	3.8	6.0	2.0	3.4	3.8	4.3	4.6
Cambodia	6.9	7.7	6.3	4.5	5.0	6.1	6.0
Indonesia	0.9	4.8	3.5	3.0	3.2	3.6	4.4
Lao People's Dem. Rep.	7.3	5.8	5.7	5.8	5.8	6.1	5.8
Malaysia	6.1	8.3	0.4	4.2	4.5	5.8	5.0
Myanmar	10.9	6.2	—	—	—	—	—
Philippines	3.4	4.4	3.2	4.0	4.0	4.5	4.5
Singapore	6.9	10.3	-2.0	3.7	3.9	6.5	5.6
Thailand	4.4	4.6	1.8	2.5	3.8	3.0	4.0
Viet Nam	4.7	6.1	5.8	6.2	5.7	6.8	6.2

Source: Asian Development Outlook, 2002 Update. Note: @ estimated