Recent Economic trends in the Asia-Pacific Region

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The Far East
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LONDON AND NEW YORK
The 36th edition of THE FAR EAST AND AUSTRALASIA encompasses another year of important events in the region. As the volume went to press in October 2004, King Sihanouk of Cambodia abdicated and was succeeded by his son, Prince Norodom Sihamoni. The Prime Minister of Myanmar, Gen. Khin Nyunt, was dismissed and reportedly placed under house arrest. At legislative elections in Australia, also in October, Prime Minister John Howard was returned to office for a fourth consecutive term. The Philippine electorate voted to return President Gloria Macapagal Arroyo to office at the elections of May. In Indonesia, however, the country's first direct presidential election resulted in the replacement in October of President Megawati Sukarnoputri by Susilo Bambang Yudhoyono. Controversy surrounded the re-election of Taiwanese President Chen Shui-bian in March, compounded by the repercussions of a dramatic shooting incident in which both Chen and his Vice-President had been injured. Following legislative elections in French Polynesia in May, the pro-independence Oscar Temaru replaced the long-standing conservative Gaston Flosse as President, only to be removed from office four months later in a highly controversial motion of censure. During 2004 legislative elections were also held in Hong Kong, Japan, the Republic of Korea, Malaysia, Mongolia, the Cook Islands, Nauru, New Caledonia and Vanuatu.

A calendar of the key political events between November 2003 and October 2004 provides a convenient reference guide to the developments of the last 12 months. Specially commissioned introductory articles on human rights, on population and development issues, on Asian environmental issues, on recent economic trends and on security issues examine subjects of particular relevance to the Asia-Pacific region. A newly commissioned essay on the environmental issues of the Pacific Islands surveys in detail the particular problems of that region. All essays are updated annually by specialist authors and researchers. The statistical surveys, directories and bibliographies have also been extensively revised. Detailed coverage of international organizations and their recent activities in the Far East and Australasia is provided, along with a directory of research institutes and a general bibliography. Information on the region's major commodities, including a new section on cocoa, is also incorporated.

The editors are once again grateful to all the contributors for their articles and advice and to the numerous governments and organizations that have provided statistical and other information.

October 2004
ACKNOWLEDGEMENTS

The editors gratefully acknowledge the co-operation, interest and advice of all the authors who have contributed to this volume. We are also greatly indebted to innumerable organizations connected with the Asia-Pacific region, especially the national statistical and information offices, whose valued co-operation in providing information is greatly appreciated.


We are also grateful to the International Institute for Strategic Studies, Arundel House, 13-15 Arundel Street, London, WC2R 3DX, United Kingdom, for the use of defence statistics from The Military Balance 2003-2004.

The following publications have been of special value in providing regular coverage of the affairs of the Asian and Pacific region: The Far Eastern Economic Review, Hong Kong; IMF Survey, Washington, DC, USA; and Keesing's Record of World Events, Cambridge, United Kingdom.

HEALTH AND WELFARE STATISTICS: SOURCES AND DEFINITIONS


HIV/AIDS Source: UNAIDS. Estimated percentage of adults aged 15 to 49 years living with HIV/AIDS. *p* indicates 'fewer than'.


US $ per head (PPP) International dollar estimates, derived by dividing local currency units by an estimate of their purchasing-power parity (PPP) compared with the US dollar. PPPs are the rates of currency conversion that equalize the purchasing power of different currencies by eliminating the differences in price levels between countries.

% of GDP GDP levels for OECD countries follow the most recent UN System of National Accounts. For non-OECD countries a value was estimated by utilizing existing UN, IMF and World Bank data.

Public expenditure Government health-related outlays plus expenditure by social schemes compulsorily affiliated with a sizeable share of the population, and extrabudgetary funds allocated to health services. Figures include grants or loans provided by international agencies, other national authorities, and sometimes commercial banks.

Access to water and sanitation Source: WHO, Global Water Supply and Sanitation Assessment (2000 Report). Defined in terms of the type of technology and levels of service afforded. For water, this includes house connections, public standpipes, boreholes with handpumps, protected dug wells, protected spring and rainwater collection; allowance is also made for other locally defined technologies. Access is broadly defined as the availability of at least 20 litres per person per day from a source within 1 km of the user’s dwelling. Sanitation is defined to include connection to a sewer or septic tank system, pour-flush latrine, simple pit or ventilated improved pit latrine, again with allowance for acceptable local technologies. Access to water and sanitation does not imply that the level of service or quality of water is 'adequate' or 'safe'.

Human Development Index (HDI) Source: UNDP, Human Development Report (2004). A summary of human development measured by three basic dimensions: prospects for a long and healthy life, measured by life expectancy at birth; knowledge, measured by adult literacy rate (two-thirds' weight) and the combined gross enrolment ratio in primary, secondary and tertiary education (one-third weight); and standard of living, measured by GDP per head (PPP US $). The index value obtained lies between zero and one. A value above 0.8 indicates high human development, between 0.5 and 0.8 medium human development, and below 0.5 low human development. Countries with insufficient data were excluded from the HDI. In total, 177 countries were ranked for 2001.
<table>
<thead>
<tr>
<th>CONTENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>List of Maps</td>
</tr>
<tr>
<td>The Contributors</td>
</tr>
<tr>
<td>Abbreviations</td>
</tr>
<tr>
<td>International Telephone Codes</td>
</tr>
<tr>
<td>Explanatory Note on the Directory Section</td>
</tr>
<tr>
<td>Calendar of Political Events, November 2003–October 2004</td>
</tr>
</tbody>
</table>

**PART ONE**

**General Survey**

Human Rights in the Asia-Pacific Region
KENNETH CHRISTIE

Population and Human Development Issues in the Asia-Pacific Region
RONALD SKELDON

Environmental Issues of Asia
ROSS STEELE

Recent Economic Trends in the Asia-Pacific Region
TRAN VAN HOA

Current Security Issues in the Asia-Pacific Region
ZACHARY ASUZA

<table>
<thead>
<tr>
<th>Partial Table of Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statistical Survey</td>
</tr>
<tr>
<td>Directory</td>
</tr>
<tr>
<td>Bibliography</td>
</tr>
</tbody>
</table>

**THE PEOPLE'S REPUBLIC OF CHINA**

Physical and Social Geography  MICHAEL FRESEBERGE (with additions by the editorial staff)

History up to 1966  C. P. FITZGERALD

Recent History  MICHAEL YAHUDA

Economy  ROBERT P. ASH
(based on an earlier article by HANS HENDRISCHKE)

Statistical Survey

Directory

Bibliography

<table>
<thead>
<tr>
<th>CHINESE SPECIAL ADMINISTRATIVE REGIONS—HONG KONG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical and Social Geography  MICHAEL FRESEBERGE (with additions by the editorial staff)</td>
</tr>
<tr>
<td>History  H. J. MINERS (revised by JAMES TANG)</td>
</tr>
<tr>
<td>Economy  FRANÇOIS GIPPOULOUX</td>
</tr>
<tr>
<td>Statistical Survey</td>
</tr>
<tr>
<td>Directory</td>
</tr>
<tr>
<td>Bibliography</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MACAO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical and Social Geography</td>
</tr>
<tr>
<td>History  FRANK H. H. KING (revised by the editorial staff)</td>
</tr>
<tr>
<td>Economy (revised by the editorial staff)</td>
</tr>
<tr>
<td>Statistical Survey</td>
</tr>
<tr>
<td>Directory</td>
</tr>
<tr>
<td>Bibliography</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHINA (TAIWAN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical and Social Geography</td>
</tr>
<tr>
<td>History</td>
</tr>
<tr>
<td>Economy  ROBERT P. ASH</td>
</tr>
</tbody>
</table>
(based on earlier contributions by PHILIP E. T. LEWIS and ATHAR HUSSAIN)
| Statistical Survey |
| Directory |
| Bibliography |

<table>
<thead>
<tr>
<th>EAST TIMOR/TIMOR LORO SAE—See TIMOR LESTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDONESIA</td>
</tr>
<tr>
<td>Physical and Social Geography  HARVEY DEMAIN</td>
</tr>
</tbody>
</table>
(with revisions by ROBERT CRIBBE) |
| History  ROBERT CRIBBE |
| Economy  SARWAR O. H. HOBOHM |
(revised for this edition by the editorial staff) |
| Statistical Survey |
| Directory |
| Bibliography |

<table>
<thead>
<tr>
<th>JAPAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical and Social Geography  JOHN SARRENT</td>
</tr>
<tr>
<td>History up to 1952  RICHARD STORRY</td>
</tr>
</tbody>
</table>
CONTENTS

Statistical Survey ........................................ page 730
Directory ................................................................ page 734
Bibliography ..................................................... page 742

NEW ZEALAND

Physical and Social Geography A. E. McQueen ............................... 745
History Jeanine Graham ........................................... page 746
Economy Kenneth E. Jackson (based on an earlier article by J. W. Rowe) 753
Statistical Survey ................................................ page 759
Directory ......................................................... page 765
Bibliography ..................................................... page 777

THE PACIFIC ISLANDS

Background to the Region Bryant J. Allen (with subsequent revisions by Jenny J. Bryant and the editorial staff) .......... 781
Environmental Issues of the Pacific Islands George Steen .......................... page 787
Australian Pacific Territories
Great Australian Bight
Norfolk Island ................................................. 800
Fiji ................................................................. 804
French Pacific Territory
Walls and Futuna Islands ........................................ 819
French Pacific Overseas Countries
French Polynesia ................................................. 824
New Caledonia ................................................... page 833
Kiribati ................................................................. page 845
Marshall Islands ................................................ page 853
The Federated States of Micronesia ............................................ 861
Nauru ............................................................... 867
New Zealand Pacific Territory
Tokelau .............................................................. page 874
New Zealand Pacific Islands
Cook Islands ....................................................... page 878
Niue ................................................................. page 885
Palau ............................................................... page 891
Papua New Guinea .............................................. page 897
Samoa ................................................................ page 918
Solomon Islands ................................................ page 926
Tonga ............................................................... page 938
Tuvalu ............................................................... page 946
United Kingdom Pacific Territory
Pitcairn Islands ................................................ page 962
US Commonwealth Territory in the Pacific
Northern Mariana Islands .................................... page 955
US External Territories in the Pacific
American Samoa ................................................ page 962
Guam ................................................................ page 968
Other Territories
Baker and Howland Islands ...................................... page 974
Jarvis Island ..................................................... page 974
Johnston Atoll ................................................ page 974
Kingman Reef ................................................ page 975

LAOS

Physical and Social Geography Harvey Demaine ............................ 583
History Martin Stuart-Fox ........................................... 583
Economy Nick Freeman .............................................. 591
Statistical Survey ................................................ 600
Directory .......................................................... page 604
Bibliography ..................................................... page 609

MALAYSIA

Physical and Social Geography Harvey Demaine ............................ 611
History Robert Criss (based on an earlier article by Ian Brown) ........ 612
Economy Chris Edwards (revised by Srikumar Alavi) ..................... 624
Statistical Survey ................................................ 638
Directory .......................................................... 643
Bibliography ..................................................... page 667

MONGOLIA

Physical and Social Geography Alan J. K. Sanders ......................... 670
History Alan J. K. Sanders ......................................... 670
Economy Alan J. K. Sanders ........................................ 678
Statistical Survey (revised by Alan J. K. Sanders) ....................... 684
Directory .......................................................... 688
Bibliography ..................................................... page 699

MYANMAR (BURMA)

Physical and Social Geography Harvey Demaine ............................ 701
History Robert Criss (based on an earlier article by Josep Silverstein) 702
Economy Richard Yokes (revised for this edition by Mya Than) ........ 718


CONTENTS

<table>
<thead>
<tr>
<th>CONTENTS</th>
<th>page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midway Island</td>
<td>975</td>
</tr>
<tr>
<td>Palmyra</td>
<td></td>
</tr>
<tr>
<td>Wake Island</td>
<td></td>
</tr>
<tr>
<td>Vanuatu</td>
<td>976</td>
</tr>
<tr>
<td>Western Samoa—See Samoa</td>
<td></td>
</tr>
<tr>
<td>Bibliography</td>
<td>987</td>
</tr>
<tr>
<td>THE PHILIPPINES</td>
<td></td>
</tr>
<tr>
<td>Physical and Social Geography</td>
<td>992</td>
</tr>
<tr>
<td>Harvey Demaine</td>
<td></td>
</tr>
<tr>
<td>History Michael Pinches (based on an earlier article by Ian Brown)</td>
<td>993</td>
</tr>
<tr>
<td>Economy Edith Hodkinson</td>
<td>1011</td>
</tr>
<tr>
<td>Statistical Survey</td>
<td>1018</td>
</tr>
<tr>
<td>Directory</td>
<td>1024</td>
</tr>
<tr>
<td>Bibliography</td>
<td>1043</td>
</tr>
<tr>
<td>SINGAPORE</td>
<td></td>
</tr>
<tr>
<td>Physical and Social Geography</td>
<td>1046</td>
</tr>
<tr>
<td>Harvey Demaine</td>
<td></td>
</tr>
<tr>
<td>History C. M. Turnbull (revised by Michael Barr)</td>
<td>1046</td>
</tr>
<tr>
<td>Economy Gavin Freihers (revised for this edition by Peter Wilson)</td>
<td>1058</td>
</tr>
<tr>
<td>Statistical Survey</td>
<td>1069</td>
</tr>
<tr>
<td>Directory</td>
<td>1074</td>
</tr>
<tr>
<td>Bibliography</td>
<td>1091</td>
</tr>
<tr>
<td>THAILAND</td>
<td></td>
</tr>
<tr>
<td>Physical and Social Geography</td>
<td>1094</td>
</tr>
<tr>
<td>Harvey Demaine</td>
<td></td>
</tr>
<tr>
<td>History Ruth Moyer (revised by Patrick Jory)</td>
<td>1095</td>
</tr>
<tr>
<td>Economy Chris Dixon</td>
<td>1113</td>
</tr>
<tr>
<td>Statistical Survey</td>
<td>1124</td>
</tr>
<tr>
<td>Directory</td>
<td>1129</td>
</tr>
<tr>
<td>Bibliography</td>
<td>1145</td>
</tr>
<tr>
<td>TIMOR-LESTE (EAST TIMOR)</td>
<td></td>
</tr>
<tr>
<td>Physical and Social Geography</td>
<td>1147</td>
</tr>
<tr>
<td>Harvey Demaine</td>
<td></td>
</tr>
<tr>
<td>History Robert Cribb</td>
<td>1147</td>
</tr>
<tr>
<td>Economy</td>
<td>1155</td>
</tr>
<tr>
<td>Statistical Survey</td>
<td>1163</td>
</tr>
<tr>
<td>Directory</td>
<td>1164</td>
</tr>
<tr>
<td>Bibliography</td>
<td>1168</td>
</tr>
<tr>
<td>VIETNAM</td>
<td></td>
</tr>
<tr>
<td>Physical and Social Geography</td>
<td>1171</td>
</tr>
<tr>
<td>Harvey Demaine</td>
<td></td>
</tr>
<tr>
<td>History Ralph Smith (revised by Zachary Abarza)</td>
<td>1172</td>
</tr>
<tr>
<td>Economy Adam McGarty (revised for this edition by Colin Staley)</td>
<td>1191</td>
</tr>
<tr>
<td>Statistical Survey</td>
<td>1203</td>
</tr>
<tr>
<td>Directory</td>
<td>1208</td>
</tr>
<tr>
<td>Bibliography</td>
<td>1219</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PART THREE</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Information</td>
<td></td>
</tr>
<tr>
<td>REGIONAL ORGANIZATIONS</td>
<td></td>
</tr>
<tr>
<td>The United Nations in the Far East and Australasia</td>
<td>1225</td>
</tr>
<tr>
<td>Members, Contributions, Year of Admission</td>
<td>1225</td>
</tr>
<tr>
<td>Permanent Missions</td>
<td>1225</td>
</tr>
<tr>
<td>United Nations Information Centres/Services</td>
<td>1226</td>
</tr>
<tr>
<td>Economic and Social Commission for Asia and the Pacific—ESCAP</td>
<td>1227</td>
</tr>
<tr>
<td>United Nations Children’s Fund—UNICEF</td>
<td>1229</td>
</tr>
<tr>
<td>United Nations Development Programme—UNDP</td>
<td>1231</td>
</tr>
<tr>
<td>United Nations Environment Programme—UNEP</td>
<td>1235</td>
</tr>
<tr>
<td>United Nations High Commissioner for Refugees—UNHCR</td>
<td>1239</td>
</tr>
<tr>
<td>United Nations Peace-keeping</td>
<td>1242</td>
</tr>
<tr>
<td>World Food Programme—WFP</td>
<td>1243</td>
</tr>
<tr>
<td>Food and Agriculture Organization—FAO</td>
<td>1244</td>
</tr>
<tr>
<td>International Bank for Reconstruction and Development—IBRD (World Bank)</td>
<td>1248</td>
</tr>
<tr>
<td>International Development Association—IDA</td>
<td>1251</td>
</tr>
<tr>
<td>International Finance Corporation—IFC</td>
<td>1252</td>
</tr>
<tr>
<td>Multilateral Investment Guarantee Agency—MIGA</td>
<td>1253</td>
</tr>
<tr>
<td>International Fund for Agricultural Development—IFAD</td>
<td>1254</td>
</tr>
<tr>
<td>International Monetary Fund—IMF</td>
<td>1256</td>
</tr>
<tr>
<td>United Nations Educational, Scientific and Cultural Organization—UNESCO</td>
<td>1259</td>
</tr>
<tr>
<td>World Health Organization—WHO</td>
<td>1263</td>
</tr>
<tr>
<td>Other UN Organizations active in the region</td>
<td>1268</td>
</tr>
<tr>
<td>Asia-Pacific Economic Co-operation—APEC</td>
<td>1270</td>
</tr>
<tr>
<td>Asian Development Bank—ABD</td>
<td>1274</td>
</tr>
<tr>
<td>Association of South East Asian Nations—ASEAN</td>
<td>1277</td>
</tr>
<tr>
<td>The Commonwealth</td>
<td>1285</td>
</tr>
<tr>
<td>European Union</td>
<td>1292</td>
</tr>
<tr>
<td>Organization of the Islamic Conference—OIC</td>
<td>1296</td>
</tr>
<tr>
<td>Pacific Community</td>
<td>1300</td>
</tr>
<tr>
<td>Pacific Islands Forum</td>
<td>1302</td>
</tr>
<tr>
<td>Pacific Islands Forum Secretariat</td>
<td>1304</td>
</tr>
<tr>
<td>Other Regional Organizations</td>
<td>1306</td>
</tr>
<tr>
<td>MAJOR COMMODITIES OF ASIA AND THE PACIFIC</td>
<td></td>
</tr>
<tr>
<td>CALENDARS, TIME RECKONING, AND WEIGHTS AND MEASURES</td>
<td>1315</td>
</tr>
<tr>
<td>RESEARCH INSTITUTES STUDYING THE FAR EAST AND AUSTRALASIA</td>
<td>1370</td>
</tr>
<tr>
<td>SELECT BIBLIOGRAPHY—BOOKS</td>
<td>1383</td>
</tr>
<tr>
<td>SELECT BIBLIOGRAPHY—PERIODICALS</td>
<td>1392</td>
</tr>
<tr>
<td>Index of Regional Organizations</td>
<td>1398</td>
</tr>
<tr>
<td>Index of Territories</td>
<td>1401</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>List of Maps</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ORIGINAL MAPS</td>
<td></td>
</tr>
<tr>
<td>The People’s Republic of China</td>
<td>168</td>
</tr>
<tr>
<td>The Pacific Islands</td>
<td>780</td>
</tr>
</tbody>
</table>

ix
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Michael Yahuda. Sigur Center, Elliott School of International Relations, George Washington University, Washington, DC, USA.

Akira Yamazaki. Former Editorial Writer, Nihon Keizai Shimbon (Japan Economic Journal), Tokyo, Japan.
In the years leading to 2005 the major countries of the Asia-Pacific region have experienced significant economic trends and unexpected events. These deeply reflected a number of serious problems and issues that the countries had not encountered nor had to address in their recent history of economic growth and development and in their international relations. A major issue was the continuing effect of the 1997 Asian economic and financial crisis, with severely damaging regional repercussions and 'contagion' beyond Asia. These countries witnessed the sudden decline of high-technology industry around the globe, which adversely affected the export trade in, and income from, manufactured products. There was a perceived global economic deceleration, owing to reduced demand in the US market, the stagnant state of the economies of the European Union (EU) and the seemingly insoluble paralysis of the Japanese economy, the world's second largest. Moreover, the terrorist attacks of 11 September 2001 in the USA, the bombing incidents in the popular tourist resort of Bali in Indonesia on October 2002 and the Madrid bombings of 11 March 2004 seemed to have exacerbated this economic deceleration. From early 2003 the Asia-Pacific countries were further troubled by the US-led coalition's military campaign to remove the regime of Saddam Hussein from Iraq and by the subsequent problems; they were also concerned by the possibility of similar attacks on 'rogue' states in the Middle East and East Asia. Furthermore, only a few weeks after the start of the conflict in Iraq, the outbreak of Severe Acute Respiratory Syndrome (SARS), a pneumonia-like illness, affected thousands of people in more than 30 countries around the world but was most serious in Canada, the People's Republic of China, Hong Kong, Singapore, Taiwan, the Philippines and Viet Nam. In early 2004 and again in 2005 some of these countries, and even the USA, were affected by an outbreak of Avian influenza (bird flu), which had equally damaging consequences for their sectoral economic activities. In addition, the Association of South East Asian Nations (ASEAN) was reasserting its invitation to Australia and New Zealand to join long-awaited free-trade talks; and on 1 May 2004 a new regionalism resulted from the enlargement of the EU from 15 to 25 members, thus boosting and protecting Europe's trade and growth. Significantly, on 25 December 2004, the world's most powerful earthquake in more than 40 years struck deep under the Indian Ocean, creating a series of massive tsunamis that destroyed cities, coastal communities and holiday resorts, and killed hundreds of thousands of people in about 12 countries in South-East Asia, the Indian sub-continent and Africa. In 2005, furthermore, unprecendented oil price rises brought about ostensibly by increased demands from the USA, China and India, gave rise to some pessimism about development and growth prospects worldwide. This essay is an attempt to survey recent economic developments and trends in the major Asia-Pacific countries against a background of regional economic set-backs, management difficulties, persistent global slowdown, financial volatility and uncertainty, amid some good signs of recovery and better economic and trade relations in the region. Some discussion on the region's challenges, opportunities and prospects in the medium and long term, however, is also given.

RECENT DEVELOPMENTS

Period prior to the 1997 Asian Crisis

After more than two decades of 'miracle' rapid development and the robust growth that gave rise to what is known as the 'Asian (East Asian) Economic Development Model' (AEDM), adopted and emulated by other developing and developed countries alike in the relevant contemporary literature, the major countries of the Asia-Pacific region (including Oceania but excluding the subcontinent) experienced, early in 2003, a number of difficulties that were likely to have a profound short- and medium-term impact on their economic growth and development, trade and investment, and also on international economic relations.

During the 10-year period 1993-97, for example, the newly industrialised economies (NIEs) in Asia together recorded an extraordinary average annual growth rate of 7.12% and the countries of developing Asia a rate of 7.54%, while all advanced economies combined and the EU attained only 2.91% and 2.31% respectively. According to the IMF, during the same period Australia and New Zealand achieved respective growth rates of only 3.23% and 2.29%. While many arguments have been put forward by economic and business analysts to explain these achievements in Asia, the main reasons seem to be the 'open door policy' introduced in China in 1978, government economic reform, industrial restructuring and, most importantly, capital inflows and policies to attract foreign direct investments. Some observers have preferred to group all these together in the form of an AEDM, but this position has been challenged by others as an oversimplification of factors and policies that were often sequential in time but irregular in systemic policy formulation. Not all the gains above, however, were achieved without difficulty. The average annual inflation rates of the advanced economies and of the EU during the period were only 3.42% and 2.78% respectively, but those of the NIEs and developing Asia were 5.38% and 10.76% respectively. With their relatively low growth levels, Australia and New Zealand recorded inflation rates of 3.49% and 2.34% respectively. In addition, during this period, total outstanding and service interest and amortisation reached US $454,280m. and US $33,340m. respectively for developing Asia but only $358,170m. and US $85,470m. for all Western Hemisphere economies, according to the IMF. Furthermore, during the time of high development and growth, welfare, political and social stability, along with social harmony and religious tolerence, appeared generally to prevail in the countries of the Asia-Pacific region.

The Aftermath of the 1997 Asian Crisis

All the above achievements of the Asia-Pacific economies seemed to disipate in mid-1997 when Thailand suffered a massive capital outflow that resulted in the collapse of its exchange rate and currency, followed by the failure of its banking and financial systems and an end to the long-standing economic development and growth. The crisis swiftly spread to other economies in the region, such as those of Indonesia, Malaysia and the Philippines, and also to East Asia, affecting Hong Kong and the Republic of Korea (South Korea). In 1997, the countries of the Asian NIEs recorded a contraction of 2.4%, compared with a growth rate of 0.6% in 1997. Developing Asia similarly achieved growth of only 4.0% in 1998, compared with 6.6% in the previous year. Overall, during 1996-2003 Asian NIEs reached an average annual growth rate of only 3.9%, while developing Asia attained 5.9%. Inflationary pressure in Asia-Pacific economies was reduced in the post-crisis period, however, with an average annual inflation rate of 1.7% being recorded in the Asian NIEs and 3.2% in developing Asia. During this period Australia and New Zealand experienced relatively low average annual growth rates, of 3.7% and 2.8% respectively, and low inflation rates, of 2.8% and 2.1% respectively. Total debt outstanding and interest and amortisation, which were needed to supplement national and internationally inspired policies to reduce crisis economic parameters, increased in developing Asia, reaching US $704,200m. and $103,300m. respectively in 2003, or an average of $59,000m. and $9,030m. during 1996-2003. Net private capital flows to developing Asia, providing the necessary momentum for development
and growth, were as high as $123,200m. in 1996, but the countries then suffered massive outflows and such funds subsequently had to be substituted by $4,600m. in 1998, for example) and mustered only $16,400m. in 2000, thus yielding an annual average of $7,760m. during 1998-2000, according to the IMF. In the first quarter of 2005, the avian flu outbreaks, the Spanish train bombings, and the terrorist threat posed by al-Qaeda, the emerging geopolitical risks (for example, the confrontation between China and Taiwan; and North Korea’s nuclear ambitions) and the non-Asian countries' response to the terrorist threat posed by al-Qaeda, the emerging geopolitical risks (for example, the confrontation between China and Taiwan; and North Korea’s nuclear ambitions) and the non-Asian countries' response to the economic crisis in Asia have been the most pronounced in 2004, and was also evident globally. Within Asia, GDP growth was predicted to reach 7.4% in 2005 and 7.1% in 2006 for developing countries, 8.6% for China, 6.7% and 6.4% for India, and 5.6% and 5.5% for developing Asia, excluding China and India. For these same countries (excluding China and India), the current account surplus expected to ease slightly in 2005 and 2006 respectively to 3.2% and 2.5% in developing Asia, 3.0% and 2.5% in China, 4.0% and 3.6% in India, 0.0% and 0.8% in Southeast Asia, 0.8% and 1.2% in Latin America and the Caribbean, 0.8% and 1.2% in Sub-Saharan Africa, and 0.8% and 1.2% in the Middle East. In comparison, advanced countries were expected to record a modest growth rate of 2.0% in 2005 and 2.5% in 2006 (in contrast to 2.1% and 3.4% in 2003 and 2004 respectively).

THE LONG-TERM IMPACT OF THE ASIAN CRISIS

The long-term impact of the Asian crisis has been serious, but its effects have varied in causal direction and intensity in the major countries of the Asia-Pacific region. More specifically, while all aspects of the Asian economies (except that of Japan, which had experienced a parallel in economic activity and, amidst the pace over a decade or so) have apparently been severely affected by the crisis, other countries in the region, such as Australia and New Zealand, benefited from the Asian crisis in terms of exports and tourism. The impact on Australia and New Zealand and on the transition economies of Asia can be assessed from other economic perspectives such as external debt, current accounts and unemployment rates. Overall for developing Asia, the impact is more severe in terms of the ratio of average post-crisis growth rates relative to pre-crisis growth rates ranges from 10% for Indonesia, 15% for Thailand, 20% for Malaysia, 30% for Viet Nam, 40% for Singapore, 50% for Korea, 60% for Malaysia, 70% for Thailand, 80% for the Philippines, 90% for Japan and 98% for Hong Kong, according to IMF estimates. For advanced Asia, the crisis resulted in the most severe impact on pre-crisis period, but the growth rate of 20% has subsequently declined. In early 2004 available indicators showed that a recovery for ASEAN+4 (notably Indonesia, Malaysia, Philippines and Thailand) and even the Asian NEDs that were the most badly affected by the Asian crisis had taken place with, according to the IMF, a predicted growth rate of up to 7% for ASEAN+4 and 4% for Asia-Pacific region were seen as having resulted in massive unemployment and a higher incidence of poverty. A figure of 250m. more people made poor (not poor) in the region while the incidence at the rate of 20% in 2005 can be calculated and put forward by various individual economists and international organizations, such as the Asian Development Bank (ADB). Here, the minimum reference standard of poverty was less than one US dollar per day. Unemployment then led to a diversion of education resources, affecting the skills and training of the population for the future (a concern even for the developing countries of Asia such as Singapore) and child labour exploitation or abuses affecting family harmony and stability (especially in Indonesia and Thailand). In Thailand, the crisis had resulted in a change of government. In Indonesia, urban and rural areas, as well as sectarian and religious conflict, occurred. In the Philippines, a consequence of the Asian economic turmoil was a criminal indictment at the highest level of government. In the Republic of Korea, the whole structure of the chaebol (large corporations), which for many decades had served as a model of corporate success and growth (in a manner similar to the conglomerates of Japan), was deemed largely responsible for the decline in experts and in growth and was totally reformed.

Recent Economic Trends in the Asia-Pacific Region

The sudden and substantial devaluation of the currencies of crisis economies in the Asia-Pacific region was initiated as the first line of defence against capital outflows. This was supposed to achieve its aim by expanding exports and export income and thus improving the balance account. However, in the case of some crisis economies, such as Thailand, exports were already beginning to stagnate several years before 1997. The devaluation did not seem to have any significant impact on restricting capital outflows or on increasing capital inflows. The same phenomenon was also observed in other crisis economies in Asia, such as Indonesia, Malaysia, the Philippines, Hong Kong and the Republic of Korea. Since the main impetus of development and growth was in capital inflows, it is possible that the past 15 years had been provided by capital inflows, along with technology or the transfer of expertise, a substantial decline in these inflows from 1997 damaged the volume and intensity of development and growth. In one member country of ASEAN, namely Viet Nam, for example, an amount of $40,000m. in foreign direct investment was regarded, after the 1997 crisis, as necessary to support and sustain the country's high average annual growth rate of 7.5% achieved during the pre-crisis period of 1988-97. In 1996, however, Viet Nam experienced a decline of more than 50% in this required level of foreign direct investment and, according to the IMF, the country's rate of growth was reduced to only 3.5% in that year.

Social and Political Effects

An early contribution to the analysis of the Asian turmoil was made in 1998 by two Australian observers, Rose McLeod and Rose Garnaut, in which case studies of 12 Asian economies and related experiences in the past (for example, Mexico), as well as the regulatory and prudential functions of various international organizations in crisis management, were investigated. A close examination of the social impact of the crisis, however, was not attempted to any meaningful extent in this work. A more recent detailed analysis was given by Tran Van Hia in 2000. In this study, the collapse of the banking system and the central market crisis in crisis economies and subsequent redundancies in the Asia-Pacific region were seen as having resulted in massive unemployment and a higher incidence of poverty. A figure of 250m. more people made poor (not poor) in the region while the incidence at the rate of 20% in 2005 can be calculated and put forward by various individual economists and international organizations, such as the Asian Development Bank (ADB). Here, the minimum reference standard of poverty was less than one US dollar per day. Unemployment then led to a diversion of education resources, affecting the skills and training of the population for the future (a concern even for the developing countries of Asia such as Singapore) and child labour exploitation or abuses affecting family harmony and stability (especially in Indonesia and Thailand). In Thailand, the crisis had resulted in a change of government. In Indonesia, urban and rural areas, as well as sectarian and religious conflict, occurred. In the Philippines, a consequence of the Asian economic turmoil was a criminal indictment at the highest level of government. In the Republic of Korea, the whole structure of the chaebol (large corporations), which for many decades had served as a model of corporate success and growth (in a manner similar to the conglomerates of Japan), was deemed largely responsible for the decline in experts and in growth and was totally reformed.
GENERAL SURVEY

ECONOMIC CRISIS MANAGEMENT

International Rescue Programmes and Their Effectiveness

While the damaging impact of the benchmark event, the Asian crisis, has been assessed as severe in the economic, financial, social, political and religious context in crisis economies, its causes have not been correctly or appropriately diagnosed either for the whole region or country-by-country, according to many economists. This apparent lack of insight or understanding on the part of the IMF of the causes of the crisis in Asian economies has given rise to heated debates on the suitability of so-called rescue prescriptions and policies imposed by the IMF as necessary conditionality for securing IMF rescue loans.

One study in 2008 addressed in detail the economic and financial crisis management in a number of major NTFs and developing and transition countries alike in the Asian region. It presented assessments by well-known experts, knowledgeable in the countries under study, on the outcomes of this management as implemented by governments and monetary authorities in the crisis economies. A general evaluation of these outcomes indicates that economic and financial management policies, strongly recommended by international organizations and agencies and adopted voluntarily or involuntarily by crisis countries, have not been effective in crisis management and resolution. The obvious evidence was that, in 2000, eight years after the emergence of the Asian crisis, its impact was still causing havoc at all levels of activity in the crisis countries, with economic, financial, social, political and social repercussions. The study also discussed plausible and more effective alternative policies for similar crisis issues, and analyzed aspects of crisis management that would achieve better short-term and long-term resolutions in any similar future economic turmoil. The relevance of the discussion and analysis to economic and financial crises and management in other regions (such as Latin America) in the early years is straightforward.

Search for a New Crisis-Management Model

A general assessment of the outcomes of economic crisis management in the relevant Asian economies in recent years has been that, at a conceptual level, the simple one-instrument policy of the Keynesian theory (demand management or fiscal expansion and contraction or international loans) or monetarist (money supply and crisis management in a number of major NTFs and developing and transition countries alike in the Asian region). It presented assessments by well-known experts, knowledgeable in the countries under study, on the outcomes of this management as implemented by governments and monetary authorities in the crisis economies. A general evaluation of these outcomes indicates that economic and financial management policies, strongly recommended by international organizations and agencies and adopted voluntarily or involuntarily by crisis countries, have not been effective in crisis management and resolution. The obvious evidence was that, in 2000, eight years after the emergence of the Asian crisis, its impact was still causing havoc at all levels of activity in the crisis countries, with economic, financial, social, political and social repercussions. The study also discussed plausible and more effective alternative policies for similar crisis issues, and analyzed aspects of crisis management that would achieve better short-term and long-term resolutions in any similar future economic turmoil. The relevance of the discussion and analysis to economic and financial crises and management in other regions (such as Latin America) in the early years is straightforward.

ASIA'S RECOVERY

Signs of Revival

In the first half of 2000 there were signs that the Asian recovery had started. This could be seen from a number of general aspects, as judged from various reports and published statistics by the national and international organizations involved in the crisis analysis and in management advice. First, any further impact of the crisis in the Asian region had reportedly been halted. Second, emergency loans earmarked by such institutions as the IMF as financial assistance for some crisis economies had been rapid or not even used, owing to improvements in the countries' budgetary situations. Third, growth, along with various economic activities and especially exports, in most of the crisis economies in Asia had resumed, albeit at a hesitant pace and at a much lower rate than that attained by these economies in the 30 years or so before July 1997. From other relevant perspectives (for example, the social and political situations or even a closer examination of economic and financial activities at the sectoral level in detail), however, it would be rather premature to state that the countries affected by the Asian crisis have completely left the turmoil behind and can be said to have ended that the repercussions of the crisis will not remain in the months or years to come. There were many reasons for this assessment.

First, at the regional level, the Bank for International Settlements (BIS—which was established in the 1950s to promote cooperation among the major central banks around the world—reported in July 2000 that, in the first three months of that year, international bank lending to Asia had decreased by 2%, a decrease in foreign debt and as demand for new bank loans remained weak. In fact, lending to Asia averaged $6,000m. in this quarter to $297,000m., with $1,600m. coming from bank rolls repayments. Since foreign bank loans have been a main source of finance to support development, growth and technology transfer in the Asian-Pacific region, a shortage of this funding in the region would not bode well for its prospects in expanding trade, improving living standards, supporting national and individual welfare, and participating in international economic integration and globalization. Second, at the national level, the huge costs estimated to be about US $1,000m. for the part played by Australia alone of restoring and maintaining peace in and reconstructing Timor-Leste for example (see Timor) for the ethnic, religious, and racial conflict there in 1999 were seen as a new and additional financial burden on the countries of the region at a time (the post-crisis period) when they were least able to afford it. Timor-Leste was not the only problem affecting a full economic recovery by the crisis countries in Asia in 2000.
In 2004 the World Bank assessed the global growth rate for 2005 at 2.9%. Thus, for the third consecutive year the world economy was growing at a level well below its potential, owing to international events that had undermined confidence, such as the two shocks to the Iraq conflict and ensuing developments, trans-Atlantic trade tensions and concerns about SARS. In early 2005 the World Bank projected a growth rate of 6.0% for the year for the economies of East Asia (including tsunami-affected countries such as Indonesia and Thailand), compared with the rate of 7.2% predicted a year earlier. This downward revision was due to the reduced pace of global expansion, slowing growth in China and the higher oil prices and large dollar inflows to the region. This rate represented a reduction from the cyclical peak of 2004 but was expected to be more sustainable, with balanced central tendencies for consumption, investment and government spending.

Volatility of Recovery Prospects in the Asia-Pacific Region

In 2001 the Asian crisis economies were still individually beset with economic problems, and it is possible that some could find it difficult to achieve their recovery. Indonesia remained a country deeply embroiled in religious and ethnic violence, and widespread unrest arising from independence movements, general mistrust of the Government, power struggles among major political parties and continuing corruption. As an example, in mid-2000 the Indonesian Government's Supreme Audit Agency reported that the country was facing $16.000m in potential losses, owing to the misuse of emergency loans and financial abuses, and that this involved Bank Indonesia officials and several prominent business groups.

Malaysia in the early 2000s was still affected by internal political turmoil and allegations of cronyism, in addition to a severe shortage of skilled labor for its information technology (IT)-based economic development plan. In the Republic of Korea, the restructuring of the banking and financial system and of the stockmarket (the main targets for the country's reform programme during the crisis) has not been regarded by international economists as very successful.

The Philippines continued to be troubled by slow growth and the emergence of radical Islamist militants and separatists, who have resorted to violence and the kidnapping of foreign tourists to support their cause. Even Viet Nam, which after many years of negotiations signed an historic trade agreement with the USA in July 2000, continued to be negatively affected by the Asian turmoil and remained uneasy with free-market reforms. The country was quite apprehensive about the possible adverse consequences of this trade agreement and the perceived high costs and uncertain benefits (economic and social) of its accession to the World Trade Organization (WTO) in the near future. China, while being admitted to the WTO in 2001, still faced local and national problems in implementing the organization's numerous conditions and requirements.

In late 1999 Thailand was regarded, in the reports prepared by the International Monetary Fund, as a country with fairly successful economic and financial reforms and in which the long-term impact of the Asian crisis was relatively benign. However, this reported perception (and that of similar reports and assessments for other crisis countries in the Asia-Pacific region) was seen by economic and financial experts in Thailand as being overly optimistic, and what appeared to have been an overreaction in the run-up to the crisis, the impact of the major modern economic and financial crisis on the country was necessarily centered on the city/urban population. As a result, the weighted average impact on both the city/urban and rural populations of that country must be regarded as negligible. The harsh facts were that Thai business people and their relatives still continued to committ suicide, even publicly, as a result of the hardships and problems brought about by the Asian crisis. Meanwhile, strong growth in some sectors of the economy (such as exports), without adequate strong transmission devices benefit to other major sectors, was regarded as insufficient to rescue the economy from depression or stagnation and to lead it to a full recovery.

Coupled with the current global conditions discussed earlier, economic development and recovery in the Asia-Pacific (but excluding China) in early 2005 were conditional upon a number of uncertain factors—local, regional and international. The uncertain conditions included the recent violent clashes and fatalities between government security forces and Muslim rebels in the Mindanao province of southern Thailand and the more assertive direction Malaysia might take after the change of its long-standing leadership. Regional factors included the political turmoil in the Republic of Korea, the terrorist bombings in the Philippines, the outbreak of avian flu in Asia and North America, the re-emergence of SARS in the Chinese capital of Beijing and the Indian Ocean tsunami disaster of December 2004, which affected the provinces of Aceh in Indonesia and Phuket in Thailand particularly badly. Even the recent strong growth in China, which has boosted development and growth in the Asia-Pacific region as a whole and beyond, has also tended to 'overheat' the economy, with a damaging domestic, regional and global impact on resources and inflation. There were, as a result, regional and global calls for China to curb its development and growth in order to effect an economic 'cooling down' through government directives on bank lending before the May 2004 holiday and in policies to halt investment in 'hot' areas such as steel, cement, and property development. Globally, the continuing difficulties in Iraq, the spreading of terrorist attacks to Muslim countries in the Middle East and Asia, the economic deceleration of both Europe and Japan, the unprecedented oil price rises of 2005, the disagreement (by 23 to 166 members) between developed and developing countries at the UN on the organization's reform plans giving priority to security over development, along with the rising tensions related to Second World War issues between China, Japan and Taiwan, all contribute to a significant extent to the volatility and uncertainty in the economic recovery of the Asia-Pacific region in the near future.

The above observations for some major countries in the Asia-Pacific region and in a global context seem to indicate that, despite the good signs of an improvement in various economic and financial activities, as reported or expected by national and international organizations, by 2005 a full recovery in the major economies affected by the crisis had yet to emerge.

CHALLENGES AND PROSPECTS

Economic Recovery and the USA, Japan, the EU and Global Turmoil

The role played by the USA and Japan (the latter remaining the second largest economy in the world after the USA) in the Asian crisis and in the economic recovery in major crisis countries should not be underestimated. In the early 2000s the US economy, the main market for the Asia-Pacific countries' exports, remained buoyant by weak demand, slow growth and enormous corporate scandals. Repeated interest rate reductions during this period seemed ineffective in stimulating the US economy. It was recognized that, while Japan's often generous foreign aid was important as an interim measure to help the region develop, the region's recovery crucially depended on the Japanese economy, especially with regard to Japan's fiscal and monetary policies. In mid-2000, however, the Governor of the Bank of Japan, Masaaki Hayami, stipulated that the country's economic fiscal and monetary policy measures, which included an interest rate, were not as aggressive as possible to the normal positive level. The effect of such a shift in policy might result in depressed private demand and therefore reduce exports, not only in Japan but also in the neighbouring countries of the Asia-Pacific region and beyond. Even in Japan, the then-Director-General of what was the country's Economic Planning Agency, Taichi Saito, and a number of cabinet ministers had urged caution in this policy shift, since it was too early to be optimistic about the Government's efforts to allow private demand to succeed government spending as a source of economic stimulus. At May 2003 Japan's most senior financial official, Hideto Takenaka, planned to use public funds to boost capital holdings at the nation's still debt-ridden banks, as their bad loans and questionable debts were still affecting all small and medium-sized enterprises again curbed growth.
Recent Economic Trends in the Asia-Pacific Region

The Effects of the Iraq Conflict, of SARS, of Avian Flu and of Tsunamis

Economic Development and Terrorist Attacks

merce, electronic trade and even electronic government, and previous experience with the Asian crisis is any guide, the repercussions will continue for years to come.

Some of the damage caused by these terrorist attacks can be evaluated more specifically and numerically. For example, as a result of the attacks in 2001, in that year, according to the IMF, the impact of the terrorist attacks on the economies developing and transition economies in the Asia-Pacific region (where 'safety net' and social security systems are not yet well developed or even seriously considered by many governments), a proper crisis management policy should also impart an aspect of urgency to all national governments and international organizations responsible for effectively crisis resolution.

The terrorist attacks on the World Trade Center in New York and on the Pentagon in Washington, DC, on 11 September 2001 and by the bombing on the Indonesian island of Bali, a resort popular with Australian tourists, on 12 October 2002. The impact of the attacks was particularly deep in the whole world, and especially in the economies of the Asian-Pacific region, at that time seemed to have been voluntarily or involuntarily involved in, and to be accepting, the process of inevitable and increasing globalization for better or for worse. To many analysts, the terrorist attacks in particular had an impact on development and growth of at least the some magnitude as that of the Asian crisis of the late 1990s and affected not only the economies of the Asia-Pacific region but also the rest of the developed and developing world, through the traditional trade and investment links between these blocs. The impact was almost immediate through the new transmission mechanism of globalization, including electronic commerce, electronic trade and even electronic government, and previous experience with the Asian crisis is any guide, the repercussions will continue for years to come.

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Recent Economic Trends in the Asia-Pacific Region

APEC. However, the pace of progress of successful negotiations on multilateral free-trade agreements, such as those of the WTO, and of economic integration, such as that proposed by APEC, has been notoriously slow. Therefore, alternative conceptual and policy models with more immediate expected outcomes on trade and growth, including the ASEAN and plurilateral free-trade agreements or new Asian regionalism such as ASEAN + 3 (that is, ASEAN + China, the Republic of Korea and Japan) and ASEAN + 5 (ASEAN + 3, along with Australia and New Zealand), have been eagerly promoted and supported by political leaders of the major countries of the Asia-Pacific region since the 1990s. Notably within the ASEAN countries themselves is the ASEAN or Bali Concord II, which was approved in October 2002, and which has the broader objective of security, economic and agricultural co-operation for all members.

Growth of Plurilateral and Bilateral Free Trade Agreements

The ASEAN + 3 proposal (also known as the Kim Young-Hee proposal, named after the Republic of Korea’s former Minister of Commerce who first presented it) was initially discussed in the mid-1990s. A number of factors can be attributed to its emergence. First, it was the result of decades of fast growth and a number of economic, financial and restructuring developments in North-East Asia and in other major trading blocs in the world. Second, it arose from developments and shifts in focus in North America (through the North American Free Trade Agreement—NAFTA) and the EU in the aftermath of the damaging Asian crisis, which although originating in Japan in 1997, ultimately spread to a number of once ‘miracle’ economies in East and South-East Asia, the former USSR, and to a lesser extent, North and South America and the Middle East. The result of a benign neglect by such international organizations as the IMF and by the economic powers of North America and the EU regarding the plight of crisis countries in Asia and their lack of interest in seriously helping to solve the economic, financial and social problems arising from the Asian crisis. In 2001 and in early 2002 other new developments in East and South-East Asia (for example, the quick recovery and resumption of growth in the Republic of Korea and the continuing stagnation of the economy of Japan) gained prominence and gave rise to a number of new Asian regional economic integrations and to Asian free-trade agreements (FTAs) either in a plurilateral or bilateral framework.

These FTAs and FTAs are currently indeed numerous and are proliferating at an amazing speed at the behest of government leaders, especially in the Asia-Pacific region. They include: ASEAN + 3; ASEAN + 5; ASEAN + 3 + 5 + Taiwan; Japan + Singapore; Japan + the Republic of Korea; Japan + Mexico; Korea + Mexico + Chile; Singapore + New Zealand; China + Japan + Korea; Hong Kong + New Zealand; and finally, Viet Nam + USA. There was even some discussion on the establishment of a North Asian FTA, in which Japan would play an important part. In May 2002 a protocol was also being negotiated between Washington and Canberra, among other compliments about the Australian market and to prepare for the setting up of a radical Australia-US FTA (AUSFTA), as proposed by the Australian Government, to the dismay of New Zealand and the Union and its trilateral ‘closer economic relationship’ with the USA (along the lines of the GDR between Australia and New Zealand—a bilateral agreement reached in 1983). The AUSFTA came into force on 1 April, 2005. In May 2002, the New Zealand Prime Minister, Helen Clark, suggested the establishment of an Australia-New Zealand Economic Co-operation (ANZSCO) to revitalise the CER.

The main focus and objective of these FTAs is to highlight the benefits and mutual gains of economic integration, and to offset the adverse effects of economic integration, such as those of the WTO, on intra-regional trade and economic development, to enhance the welfare of the population, to alleviate poverty and to create new opportunities for economic development. Therefore, the ASEAN + 3 proposal has been welcomed by the Asian region as a new and promising approach to regional economic integration. The ASEAN + 5 proposal is seen as a more comprehensive approach to regional economic integration, as it includes not only the ASEAN countries but also Australia and New Zealand, which are important trading partners of the ASEAN countries. The ASEAN + 5 proposal is also seen as a way to promote economic integration and to create new opportunities for economic development, and to address the challenges of globalization and to promote sustainable development. The ASEAN + 5 proposal is also seen as a way to promote economic integration and to create new opportunities for economic development, and to address the challenges of globalization and to promote sustainable development.
countries at a meeting in Brunei in November 2001, and the
details were worked out at a negotiating session in Beijing in
May 2002.
In view of the establishment of the APEC, and the
Asian financial crisis, and the Asian economic issues and
problems politically, socially, politically and religiously,
along with the emerging concerns, are expected in the future,
one may legitimately ask whether the structure or policies of
some functions of the existing international organizations,
such as APEC, the WTO or the IMF, can be amended or whether
special divisions of them should be established to accommodate
the concerns and designs of the APEC + 3 trade strategists and
policy-makers in dealing with Asia’s contemporary economic
issues and problems. The perceived effect of the argument often
advanced by these organizations is that an APEC + 3 FTA is
not necessary or will not ultimately be endorsed by the WTO.
The reasons for this proposition are that, first, to some
observers, the emergence of the Asian crisis in 1997 and its
subsequent ‘cure’ were simply the outcome of a volatile
international capital market that did not have proper regulatory
controls. This can be rectified, however, by appropriate financial
reform. Second, it is the view of this crisis was still lingering in
Asia, more than six years later, because the rescue and reform
programmes imposed by the IMF on the crisis economies were
based on wrong diagnosis. As a result, incorrect and ineffective
prescriptions were recommended. It has been argued that this
problem can be solved with more appropriate rescue policies by
the IMF and, as a result, not by creating an APEC + 3 FTA or
economic integration that may have the effect of diminishing
some of the principal functions of the IMF, the WTO or even
APEC.

The advocates of this solution suggest the establishment of a
specialist division at APEC, the WTO or IMF, with a deep and
proper understanding of, and expertise in, Asian economies and
the whole of regional and of APEC + 3 aspects and issues in
particular. To them, this solution may go a long way towards
promoting economic growth and development, along with trade
and investment, in Asia itself and in relation to the rest of the
world.
The debate on what has been known in the contemporary
literature on Asian economic development and growth as a
repositioning of dialogue between the existing and dominant
US- and EU-oriented international institutions (such as the
IMF on the one hand and the emerging and powerful economies
in South-East and North-East Asia on the other), will increase
in the future. Development, growth patterns and trends in trade
and economic activities and international relations in the
countries of the Asia-Pacific region will be strongly influenced
by the outcome of this debate and by the international geo-
political climate of inevitable dynamic change world-wide in
the years to come. In early 2004, there was a distinct trend among
the countries of the Asia-Pacific region to develop bilateral and
multilateral FTAs and to ‘fast-track’ the major objectives of the
WTO (which currently has 148 members and requires agreement
from all of them on trade issues) without the participation
of the WTO. The groupings’ 5th Ministerial Conference
in Cancun, Mexico, in September 2003, yielded no tangible
results- this was due to disagreement on the question of liberal-
isation of agricultural products for WTO members, put forward
by the Cairns Group (or similarly composed agricultural trading
associations) and the emergence of the Singapore Issues. Recent bilateral FTAs in the Asia-Pacific region include the
Australia-Singapore FTA which was signed in July 2003 and the
Australia-Thailand FTA signed in October 2005. Japan, which
over the years has had a distaste for FTAs, nevertheless
concluded a New Age Economic Partnership Agreement with Singa-
apore in November 2002, followed by the Japan-Thailand Eco-
nomic Co-operation Partnership Agreement in December 2003,
and in October 2003 started a joint feasibility study for a Japan-
Korea FTA. An ASEAN and India Framework on Comprehensive Economic Cooperation existed since 2004, while a joint feasibility study was being carried out for a
proposed Australia-China Trade and Economic Framework. In
view of the ongoing debate between the North America and the EU of Asia and its problems and issues, this proliferation of FTAs reflects the need of the countries in the Asia-Pacific region to expand trade, enhance development and growth, to build
up economic integration and, at the same time, to pro
regional co-operation, political stability and security, and a
improved welfare for mutual benefits. Strategically the tre
is a good way for the countries in the region, led perhaps b
East Asia. China, Japan and the Republic of Korea
position themselves against the economic and trade power
consequently, the global influence of the other major tr
bloc such as the NAFTA and the enlarged EU. A stronger
and economic relations link between Australia and ASE/
currently being sought at the highest political level, bu
effort is being hampered by Australia’s persistent refusal to
ASEAN’s Treaty on Amity and Co-operation, owing to its
standing commitment to its military and security arrangemen
with the USA.

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