# Zeti Akhtar Aziz: Asia's new development strategy – where now?

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the ASEM Conference "Asia's New Development Strategy: Where Now?", Kuala Lumpur, 19 October 2009.

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## Introduction

The experience of economic development in Asia - home to more than half of the world population and one of the most diverse regions - for more than half a century has been remarkable. Despite being interrupted by turbulence from time to time, Asia has, in general, attained and sustained high growth rates during this period, experienced rapid structural economic transformation and shifted from economies based on agriculture to capital-intensive production of modern goods and services. From a mix of poor and less developed economies after the Second World War, Asia today features five of the twenty largest economies in the world and several of the fastest-growing economies, contributing around one-third of global output and world trade.

The objective of economic development is, however, not solely based on trade, finance or even wealth. Economic development is fundamentally about the welfare of people, where growth is but a means to achieve continued improvements in the standards of living. Viewed within this context, Asia has achieved significant progress too. Asia's rapid development has led to a more than four fold increase in average per capita income, lifting more than 500 million people out of poverty and destitution since the 1980s. The poverty rate in Asia has markedly declined from 80% in 1981 to 16% of the total population in 2005. Beyond dramatically improving basic social conditions, significant strides have also been made in the provision and access to quality healthcare and education. Whilst Asia's urban population has increased by more than six fold, average life expectancy has risen by 25 years to 72 years and average literacy rate to above 90%. What makes these considerable improvements remarkable is that they were all achieved in a relatively short span of less than two generations.

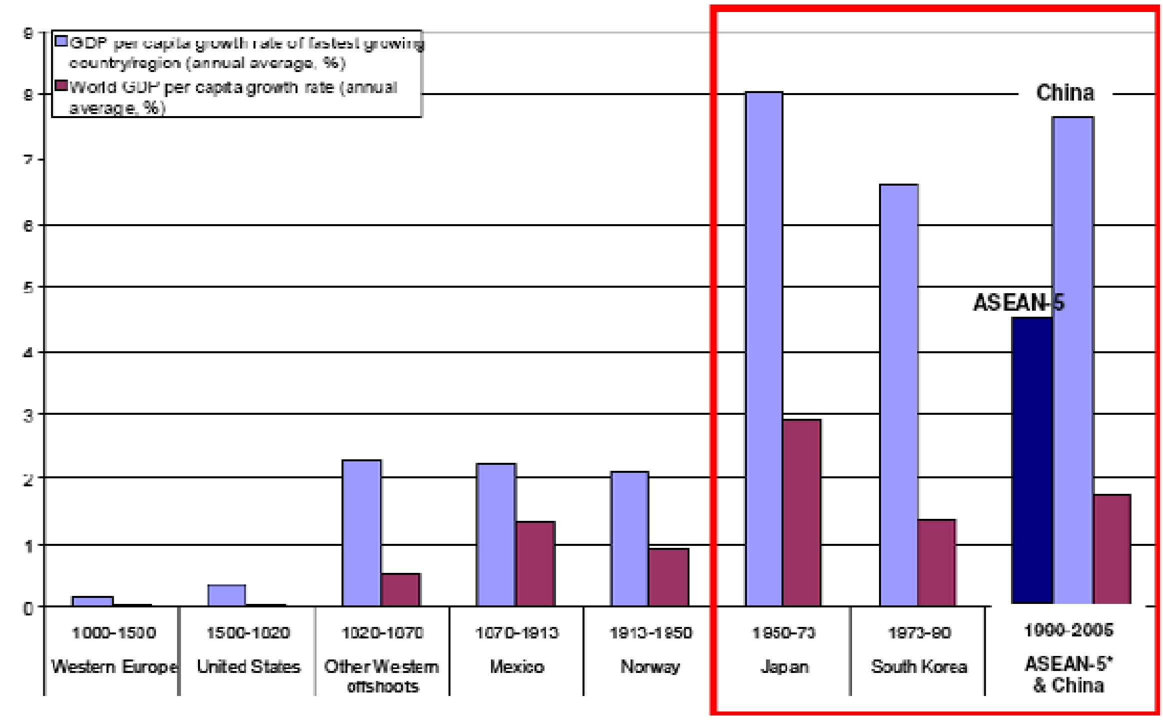
This paper consists of two parts. The first explores the development strategies that have contributed to Asia's successful economic transformation in the post-World War II period, with particular emphasis on the recent decade after the Asian financial crisis. The paper then discusses broadly how Asia's development strategies needs to be adapted going forward, especially in light of the current global crisis which has brought significant changes to the global economic and financial environment.

## Asia's development strategy over the last 50 years

### *Asia in the post-World War II period*

What is exceptional about the performance of Asia is the relatively high growth rates achieved by the best performing Asian economies when compared to the champions of earlier eras (Figure 1). The rapid transformation of Asia was led by three global growth leaders over the past 50 years, beginning with Japan in the 1950-70s, South Korea from the 1970s and currently, China. Their average annual per capita growth rates of 6-8% are historically unprecedented and greatly exceed those attained by the present advanced economies at their earlier stage of economic development by at least three folds. Similarly, ASEAN-5 experienced growth rates of more than doubled that of world average during the past two decades. Nevertheless, Asia's growth path is no different from those of the other economies. Asia too follows a similar industrialisation process of moving from traditional to modern activity, from the production of low value-added goods to incrementally higher value-added products to eventually the services sector. What makes Asia different, however, is that this process has been considerably accelerated.

*Figure 1: Asia IS different - Historical experience with growth*




** Figure for ASEAN-5 excludes 1998*

Source: Maddison (2001), World Bank (World Development Indicators), Penn World Table Version 6.3

The success of Asia has not been a result of one single factor, but instead, a confluence of factors that has promoted, facilitated and driven economic development. Given the immense diversity of the continent, it would not be possible to draw on exact and specific development strategies that have contributed to the rapid economic progress and transformation. Nevertheless, four general but salient features have been critical in the development strategies of most of the Asian economies.

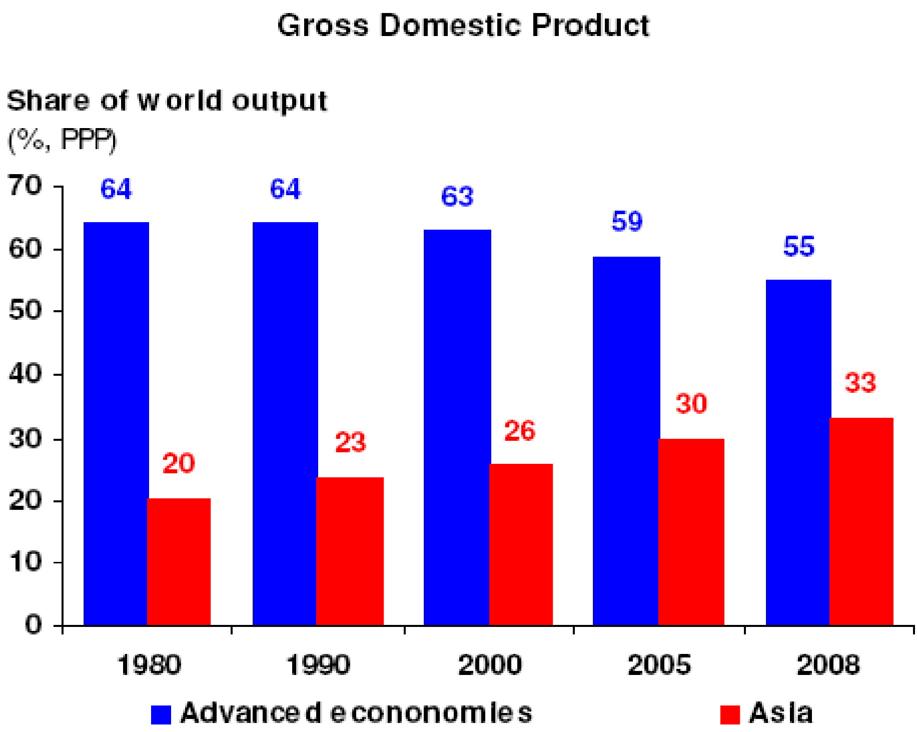
First, sustained economic growth has always been given a steadfast priority in the Asian economies. The governments in most South-East Asian and East Asian countries have focused on institution-building and promoting industrialisation. Institutions have been established to plan, drive and monitor the laying of necessary economic foundations, including enabling infrastructure, in the broader economy, while potential impediments have been addressed. These institutions in effect aim to promote an environment that is conducive for growth. Equally vital are the institutions to maintain macroeconomic and financial stability stability, as well as to promote inclusion and socio-economic stability. To accelerate the movement of resources from traditional to modern activity in the new industrialised economies in Asia (South Korea, Chinese Taipei, Hong Kong and Singapore), industrial policies have been targeted at enhancing efficiency, higher-productivity and competitiveness. Incentives and some domestic protectionism had an important role at the initial stage of the industrialisation process to advance the industrialisation process. These features are exemplified in the experiences of Japan and the newly industrialised Asian economies (South Korea, Chinese Taipei, Hong Kong and Singapore), as well as later, in the other Asian economies such as ASEAN and China.

Although the Asian Governments participate directly in economic development, the emphasis is on the private sector leading growth, particularly after industrial and infrastructure foundations have been laid. The role of the Government has been to support the private sector through developing an environment for the private sector to undertake higher productivity activity, with the actual production of goods and services is ultimately driven by the private sector. Governments, together with the established institutions, draw up industrial plans and set targets to guide the industrialisation process for the private sector to embark to realise these goals.

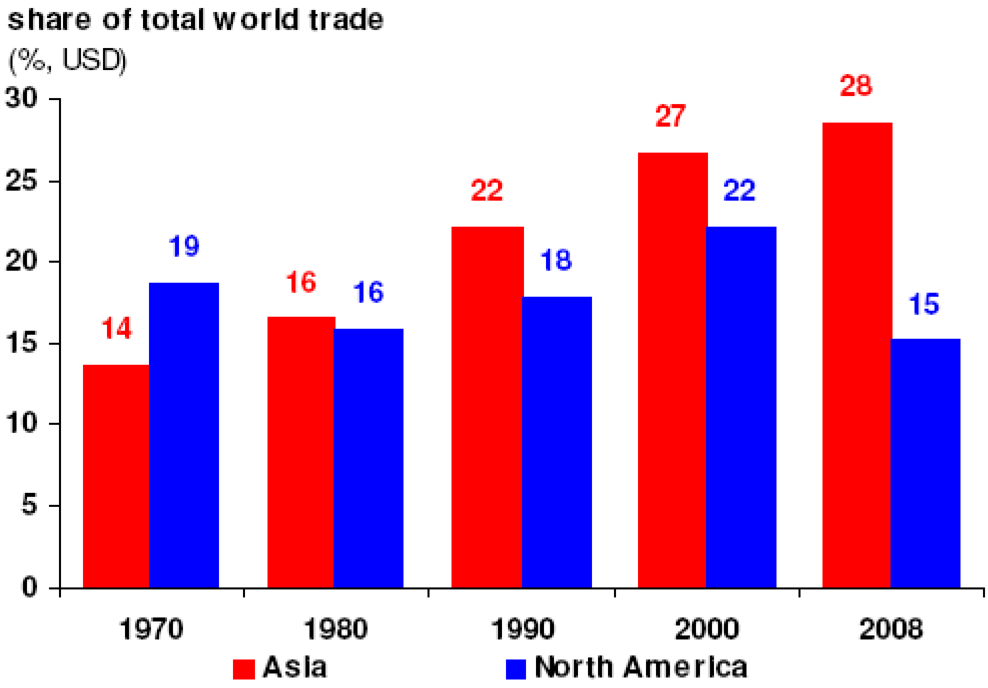
The second salient feature is Asia's high rate of savings, exceeding 30% of gross national product (GNP) in most Asian economies, which have enabled the private and public sectors to fund capital accumulation from domestic sources. While the private sector focuses on investing in physical capital and adopting new technologies to raise productive efficiency, governments across Asia place commensurate emphasis on developing infrastructure, such as roads, ports and utilities, as well as on healthcare and education. The combination of efficient capital and productive labour in turn generates more higher-value-added activity, thereby accelerating economic growth.

Third, the Asian economies have adopted an outward-oriented development path, rather than depended only on domestic demand, to expand industrial production. Just five decades ago, Asia was amongst the world's poorest regions. Asia recognised that its development process would be slow and marginal should low-income-driven domestic demand be relied upon to incrementally stimulate industrial activity. It accelerated the movement of resources from low-productivity traditional activity to high-productivity modern activity. Most of Asia, early among the developing economies, has been very open to international trade and foreign direct investment (FDI), resulting in Asia to be rapidly integrated with the global economy. The trade volume of Asia as a share of total world trade increased from 14% in 1970 to 22% in 1990, and subsequently to 28% in 2008. Furthermore, Asia has also been a major recipient of FDI, with FDI flows into Asia increasing from 7% of total global FDI to 20% in 2007.

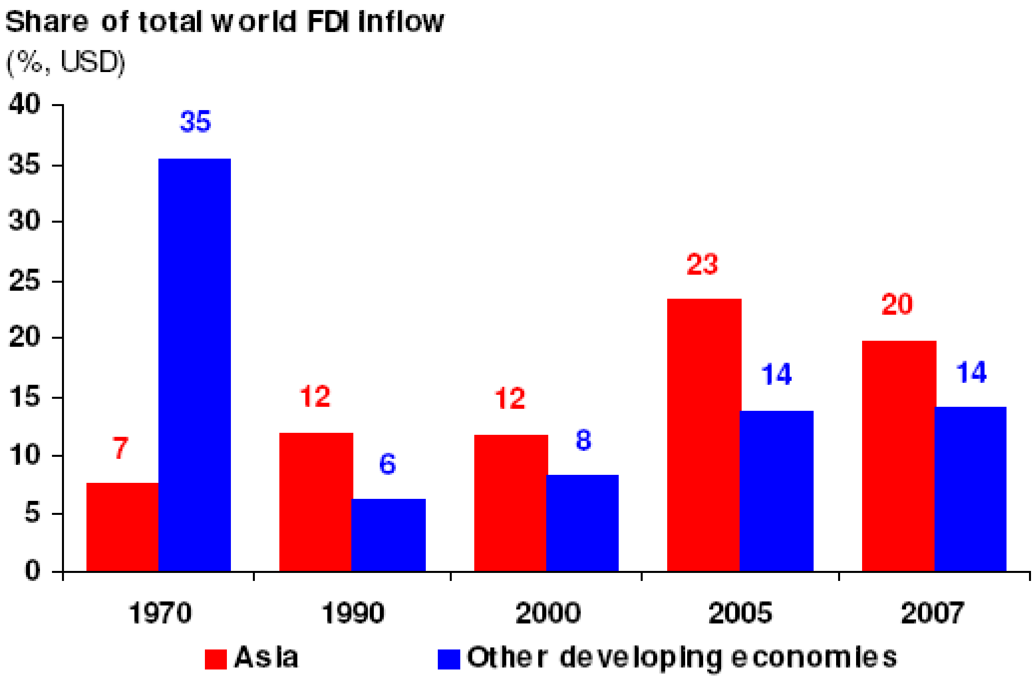
*Figure 2: Growing importance of Asia in the world economy*



## International Trade




## Foreign Direct Investment




Source: IMF, WTO and UNCTAD

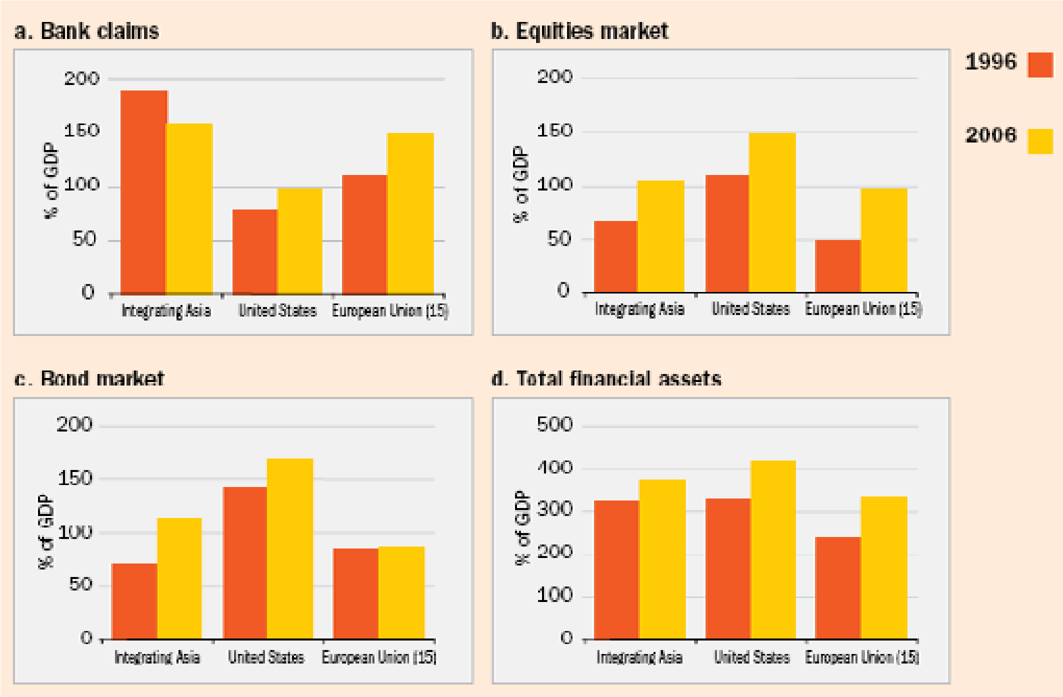
Fourth, the immense heterogeneity and diversity of the Asian economies have not been a restraint on progress, but have complemented and facilitated the region's economic development. The vast differences in the stage of development of the individual economies, such as from the advanced Japan to emerging China to developing Vietnam, together with the rich variety of natural resources and endowments throughout the region, have enabled Asia to capitalise on a multitude of strengths and comparative advantages. In particular, there are the region's different development levels and consequent technological capabilities, known commonly as the "Flying Geese Model". Such specialised division of labour is evident in the 1970s when Japan relocated the more labour-intensive stages of production processes to the newly industrialised Asian economies, such as South Korea and Singapore, and subsequently in the 1980s, to emerging Asia, including Malaysia, Indonesia and Thailand. The emergence of China in the recent decade has further provided significant impetus to this pattern of vertical specialisation, which has effectively resulted in a globalisation of the production chain across the network of regional economies. Whilst Asia's fragmented industrialisation has led to a considerable strengthening of trade links within the region, the transfer of capital, knowledge and technologies that are crucial for strengthening industrial capabilities have also been enhanced.

### *Asia after the Asian financial crisis*

The 1997-98 Asian financial crisis represents a significant juncture in the history of Asia. The crisis exposed several structural weaknesses both in the domestic economies of Asia and in the global financial architecture. Recognising the growing interlinkages and risks, a range of new initiatives both nationally and regionally, together with the parallel development of sound institutions and good governance, were introduced post-crisis to strengthen the resilience of the Asian economies and minimise regional systemic risks in order to ensure a more sustainable economic development. In retrospect, the Asian crisis marked not a halt, but the start of an even greater presence of Asia in the global landscape.

Following the crisis, Asia has undertaken wide-ranging financial reforms, aimed at developing more stable, resilient and efficient financial systems. This included restructuring as well as institutional development to strengthen the resilience of the financial sector. Amongst others, sound regulatory regimes have been established, prudential regulations strengthened, corporate governance and financial disclosure improved, and deposit insurance introduced. As the domestic financial systems strengthened, the environment for the banking sector has become increasingly more competitive through gradual deregulation and liberalisation. In addition, efforts have also been focused on developing the capital markets, in particular the bond market, which has also reduced over-reliance on the banking sector as a source of financing for large businesses. This has prompted the banking sector to broaden access to credit to other economic agents. Overall, what were once bank-dominated financial systems has become more diversified and competitive with strengthened governance, disclosure and regulation. Asian financial deepening has been faster than in the EU or US, while it starts from a lower base. The Asian bond market today, as a share of GDP, is higher than the EU.

*Figure 3: Faster financial deepening in Asia than in the US or EU*



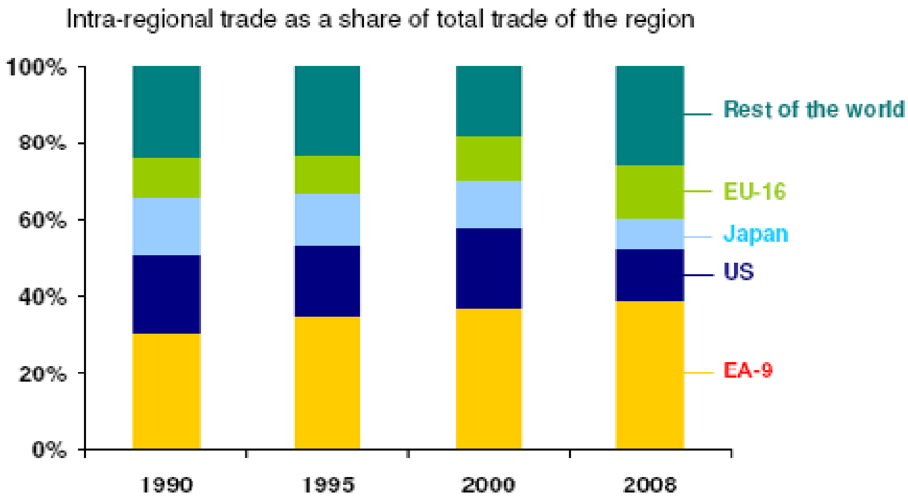

Source: Asian Development Bank (2008)

Note: Integrating Asia refers to the 11 economies for which data on financial markets are available: P. R. China; Hong Kong, China; India; Indonesia; Japan; South Korea; Malaysia; Philippines; Singapore; Chinese Taipei and Thailand. European Union refers to its first 15 members.

On the regional level, several initiatives have been undertaken to promote intra-regional trade and investment since as early as the 1990s. For example, in 1992, an ASEAN Free Trade Area (AFTA) was launched for intra-ASEAN tariffs to be lowered to 0-5% under the Common Effective Preferential Tariff (CEPT), with a target of establishing a tariff-free free trade area by 2015. Also, an ASEAN Framework Agreement on Services (AFAS) was signed in 1995 to eliminate intra-ASEAN restrictions to trade in services and facilitate free flow of services by 2015. Furthermore, in 1998, an ASEAN Investment Area (AIA) was adopted to promote greater flows of capital, skilled labour, professional expertise and technology within the region. These various initiatives have been further accelerated post-Asian crisis, with various free trade agreements (FTA) rapidly emerging between ASEAN and the North East Asian economies, namely China, Japan and South Korea. Recently in April this year, the FTA between ASEAN and China was broadened to encompass the removal of investment barriers from just restrictions in trade-in-goods since 2004 and in services since 2007, thereby creating the world's largest free trade area with a population of 1.8 billion and gross domestic product of USD2 trillion. In addition, negotiations on an FTA between ASEAN and Japan, South Korea, as well as India, Australia and New Zealand have been initiated.

Given these regional initiatives in trade and investment, Asia's export market has become increasingly diversified with intra-regional trade gaining a greater importance. Intra-regional trade in South, East and South-East Asia as a share of total trade of all three regions has risen from 25% in 1980 to 44% in 2006. More specifically, growth in intra-regional trade of East Asia-9 (EA-9) has been higher at 17% than that of total regional trade (15%) and world trade (12%) for the period of 1999-2008. Whilst EA-9's trade to the US as a share of the region's total trade has declined from 17% in 1990 to 11% in 2008, intra-regional trade rose from 28% to 39% during the same period. Overall, intra-regional trade in South-East Asia and East Asia has about the same volume as intra-regional trade in Europe and North, which is significantly more than either regions at the outset of their integration efforts. These developments reflect the deeper and considerably strengthened trade and investment linkages within the Asian region.

***Figure 4: Asian intra-regional export share has been increasing***




Source: Datastream

Of greater significance in this recent decade is that regional efforts have transcended trade and investment areas toward an intensification of financial cooperation. The importance of regional financial collaboration was recognised, not only to provide a platform for regional development through channelling part of the high savings in Asia to be invested in Asia, but also as a safeguard against the vagaries of global markets. Extensive efforts have now been put in place in the areas of surveillance, liquidity support arrangements, crisis management framework, the development of financial markets and other financial infrastructure, capital account liberalisation, financial services liberalisation, development of regional payment and settlement systems, as well as training and capacity-building.

Broadly, economic and financial surveillance, aimed at identifying regional risk sources and vulnerabilities have been undertaken to enhance vigilance as prevention to potential financial crises and enable prompt corrective actions. Several forums, including the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP), ASEAN and ASEAN+3, undertake extensive discussions on these issues. An integrated regional crisis containment, management and resolution framework has also been established, which is also complemented with mutual support arrangements and liquidity support mechanisms, such as the Chiang Mai Initiative (CMI) launched 2000. The CMI, comprising of the ASEAN Swap Arrangement and a network of bilateral swap arrangements among the ASEAN+3 countries, makes available financial resources in a timely manner to members facing temporary balance of payments and short-term liquidity constraints. It was first agreed in 2005 that the CMI would be multilateralised in all main components of the arrangement, and more recently in 2009, the total size of the facility has been increased to USD120 billion.

Considerable efforts have also been placed in regional financial market development, especially for a deeper and more liquid secondary bond market. On the supply side, the Asian Bond Market Initiatives (ABMI) seeks to develop deeper and more liquid capital markets that facilitate the channelling of the large pool of savings in the region to fund productive investments, thereby enabling further regional economic development. Recently, the establishment of a Credit Guarantee and Investment Mechanism by ASEAN+3 to support the issuance of local currency-denominated corporate bonds, with an initial capital of USD500 million, was announced. Meanwhile, the Asian Bond Fund (ABF) Initiative focuses on addressing demand-side issues by broadening and deepening domestic and regional bond markets through pooling reserves for investments into regional bond markets. Two funds, totalling USD3 billion, have been established to catalyse market development.

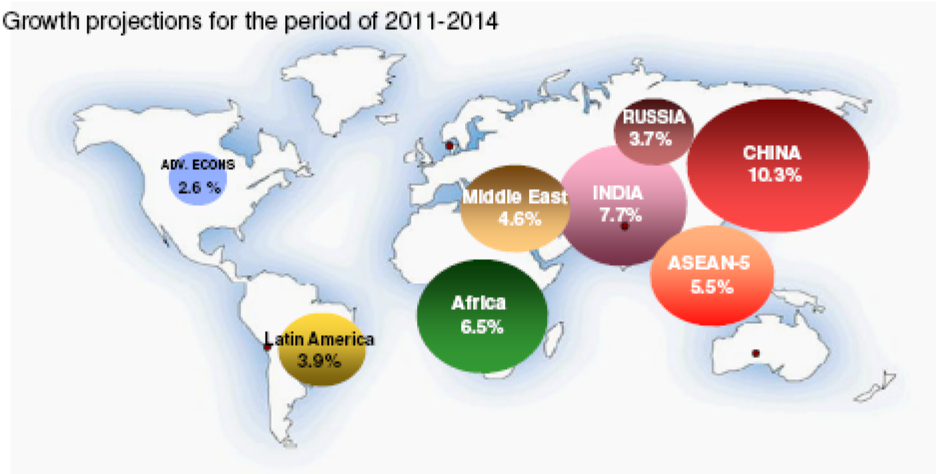
Regional financial integration has accelerated in this decade. A more diversified financial system, together with strengthened financial infrastructure and capital account liberalisation, have seen the share of intra-regional portfolio investment, in both debt and equity, as a share of total portfolio investment has increased to 24% in 2007 from 15% in 2001. Mergers and acquisitions (M&A) have also been growing, with intra-regional M&A as a share of total M&A in the region rising to 47% in 2006 from 32% in 2004. Most of the investments were into the services sector, such as financial services and real estate. However, despite the considerable progress in financial integration in Asia, it is still low compared to the European Union-16 (2007: 56% as a share of total portfolio investment).

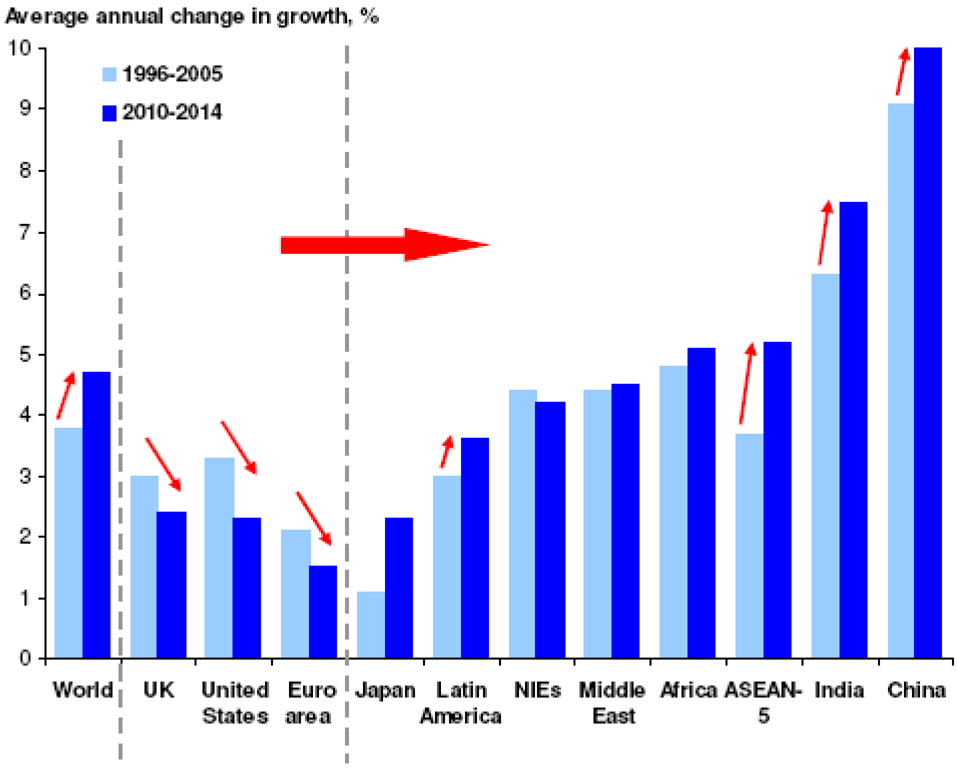
### Asia going forward

The current global crisis, considered to be the most severe in the post-World War II period, has revealed weaknesses to the current global system. In the aftermath of the crisis, the global economic and financial landscapes are expected to change significantly. While signs of stabilisation are now emerging, prospects for recovery in the advanced economies are expected to be gradual. The general consensus is that the emerging economies in Asia, in particular China and India, will lead the global recovery moving forward. Several structural factors will support growth in Asia, including the growth-enhancing reforms and greater regional integration that have been undertaken in the recent decade. In addition, Asia's relatively strong and resilient financial systems, which have remained relatively unaffected in this current global financial crisis, are in a sound position to provide financing to support domestic economic activity. Indeed, this trend will accelerate the formation of more multi-polar global landscape in the future.

For continued progress and development, the strategies for Asia are adapting to the changing landscape; leveraging on regional strengths and addressing current weaknesses and future risks. Two key principles have contributed to Asia's earlier success, namely the regional and global integration of the economy and inclusive development. Asia has always embraced openness. While greater integration beyond national borders will likely continue, the pattern of integration will change. It will become increasingly diversified among emerging economies, in particular within Asia. Similarly, to ensure sustainability of economic growth, it requires consideration of inclusion.

*Figure 5: Towards an increasingly multi-polar global landscape*




Source: International Monetary Fund (World Economic Outlook 2009)

### *Three key strategies for Asia*

Going forward, three areas are critical for Asia. The current crisis demonstrated the effects of Asia's reliance on trade and final demand from the advanced economies. While domestic demand and intra-regional trade has started to increased, it still shows the region's continued close trade connections with the global community. Exports performance in the Asian economies was dramatically adversely affected, causing the more open economies in the region to slip into recession, while other Asian economies experienced slowing economic growth. The decline in world trade followed the reduced final demand from the advanced economies. The outward-oriented policy across Asia and the internationalisation and vertical integration of manufacturing supply chains amplified the magnitude and speed of trade contraction in the Asian economies. An important strategy for Asia going forward is, therefore, to **intensify the balance of the outward-oriented development strategy with efforts to promote the greater role of domestic demand**. This economic diversification will provide increased resilience in the face of external shocks and will enhance the overall growth prospects for Asia.

Several preconditions are already in place to support domestic demand in Asia going forward. The first is the favourable demographic structures, fast-rising income levels, broadening affluence and the growing middle income class across most of the Asian economies. Estimates suggest that both China and India have large and growing domestic middle-class markets - estimated to be about USD1 trillion per year in China and USD250 billion annually in India. This trend is expected to continue given an increasing young population in Asia with new spending patterns, threreby leading to the rise of a modern retail sector across the region. In China, organised retail trade as a share of total retail trade has increased from 5% a decade ago to an estimated 17%, while in India, the retail market is growing by 7% per annum. The second factor is the relatively sound financial position of households in Asia, with high saving rates that exceed 30% of GNP in most countries and relatively low debt levels, thus providing the potential for rising consumption to be sustained. This is further supported by the ability of the financial sector to provide financing to support consumption. In this regard, Malaysia is an example, with household debt at 66.8% of GDP as at end-July 2009, while the growth of credit to the household sector has continued to increase in this recent decade. Of significance is the quality of these assets, measured by the level of non-performing loans, remains low.

The second strategy is the **further diversification of the external markets, in particular, to accelerate the efforts to foster greater regional trade ties, for Asia**. It would also shift the composition of intra-regional trade from intermediate inputs for the production of goods for final demand to the traditional markets, to a more balanced composition with increased share to meet final demand within Asia. First, as the emerging economies, in particular Asia, gain importance as growth centres, the cumulative markets of Asia as export destinations will expand over time. The rapidly rising Asian middle income class will increase final demand for goods and services. Second, Asia can leverage on its immense diversity as a source of economic complementarities. The "Flying Geese Model" illustrates how Asia had, in the past, harness the diversity of the. Going forward, similar emphasis can be adapted beyond merely for the production of goods for final demand outside Asia, and draw on the different comparative advantages of the Asian economies.

### *Financial integration as a third strategy*

The third strategy is the **promotion of deeper financial integration**. This is important for further advancing the economic development of the region. Financial integration is generally associated with capital mobility and refers to the extent to which an economy's financial system is interconnected with other financial markets. A fully integrated financial system will be one in which potential market participants, both in the banking sector and financial markets, adopt a single set of rules, have equal access and are treated equally. This would in turn be reflected in an international convergence in the prices of financial products and assets, with low transaction costs that encourage the institutions, issuers and investors to venture beyond the domestic markets into foreign markets. Essentially, the end goal of financial integration is to establish a free flow of finance and capital, akin to trade integration which aims for the unrestricted mobility of goods and services. Deeper financial integration would further enhance the competitiveness and dynamism of Asia.

Broadly, greater financial integration would bring about three key benefits. First, financial integration fosters greater competition and economies of scale in the financial system, thereby improving the efficiency in the allocation of capital within the region and thus increase the capacity of the financial system to meet the differentiated and growing demands of investors. While the individual Asian financial markets, on their own, are small in size and fragmented, an integrated market would raise Asia's attractiveness to both regional and global investors. Second, financial integration would facilitate a more efficient transfer of surplus funds for investments within the region, with lower intermediation costs and thus more optimal returns. Through the greater opportunity for risk-sharing and diversification across a wider geographical area, country-specific shocks and financial vulnerabilities would be reduced, thus contributing towards enhanced regional financial stability. Third, financial integration enables countries to build on the complementarities between countries. Individually, different financial systems can leverage on the comparative advantages of the different markets that exist in the region. Thus, with greater integration, countries in the Asian region can expand on financial products and services.

Regional financial integration is particularly important at this stage of Asia's economic development. Indeed, a more integrated financial market within the region would lead Asia to a higher stage of economic development. First, while many of the Asian economies have large surplus funds, there also exists many development needs across the Asian economies, including more advanced infrastructure development including transportation, healthcare and education, which require substantial financing. However, cases of mismatched funding needs are not uncommon. In this regard, a more integrated regional financial system would enable for a **better matching of saving and investment in the region, thus effectively channelling Asia's large pool of savings into productive uses within the region** that would support growth and development in the region.

Second, the large and growing trade sector in Asia provides an expanding market for financial services. The ease of obtaining access to credit through financial integration, specialisation and exploitation of economies of scale would support the increasing trade and investment activities. Furthermore, the regional development of capital markets, both in bonds and equities, provides greater opportunity for firms to raise capital needed for future industrial expansion. More importantly, higher value-added goods and services tend to require more credit for more advanced production equipment and technology. As a result, the role of external finance becomes increasingly more important to facilitate regional trade and investment as economies move towards higher stages of development. Thus, deeper regional financial integration would **facilitate Asia's growing intra-regional trade and investment trends**. Third, Asia is home to more than half of the world population, with a growing middle income and young population in the region. This represents **a massive potential market for financial products and services. The high rate of savings also provides a large local investor base**.

Whilst extensive regional cooperation have been initiated and undertaken in the liberalisation of the Asian financial systems and in the development of financial infrastructure, there still exist several areas where efforts needs to be further strengthened to deepen financial integration in Asia. The important four areas include financial sector liberalisation, capital account liberalisation, regional payments and settlements systems, and cooperation among regulators and central banks. These priorities would, however, need to take into account the diversity of the various economies within the Asian region, in terms of the level of development both the financial system and broader economy. Therefore, reforms need to be sequenced and aligned to the heterogeneities of the various economies.

First is the further liberalisation of financial services undertaken to allow for the greater presence of regional institutions in the individual domestic markets, which would further facilitate trade and investment flows within the region. Beyond the General Agreement on Trade in Services (GATS) commitments, limits on licenses, branch networks, ownership share and voting rights still remain in most Asian financial sectors today. Gradually removing these restrictions to facilitate a greater presence of Asian financial institutions and investors in each other's economies would facilitate the integration process.

Second, the policies of gradually liberalising the capital account of the balance of payments would facilitate greater cross-border investment and capital flows. This would enable firms and investors to better tap the regional financial markets to find the lowest cost of funding and highest risk-adjusted return. Equally important is the appropriate prudential safeguards to manage short-term flows and for the liberalisation process to be appropriately sequenced and based on a well-functioning, well-regulated and adequately developed domestic financial systems.

Third, as payment and settlement systems are relatively well-developed in most of the Asian markets, the increased linkages of the national payments systems would enhance the efficiency and reduce the cost of financial transactions within the region. Several efforts have been initiated in this area. The Executive' Meeting of the East Asia and Pacific Central Banks (EMEAP) Working Group on Payment and Settlement Systems (WGPSS) - Working Group on Financial Markets (WGFM) Joint Taskforce has embarked on a cross-border collateral arrangement initiative to support and improve the liquidity management of internationally active financial institutions in the region. Second, the AseanPay Initiative of 2004 has led to a link-up of ATM networks across the region, allowing for convenient cash withdrawal to support Asia's increasing tourism activity. With wide participation by banking institutions in Malaysia, Indonesia, Thailand and Singapore, such infrastructure can be extended to enhance the efficiency and cost-effectiveness of intra-region card electronic payments and remittances. The Real Time Gross Settlement (RTGS) systems of Bank Negara Malaysia (RENTAS) and the Hong Kong Monetary Authority, have been linked to facilitate faster and more efficient forms of payments. Further linkages could be pursued among the broader Asian community to link more RTGS systems, thereby facilitating faster and more efficient form of payments.

Fourth, while greater financial integration brings about many benefits, its associated risks have to be anticipated and managed. In relation to this, cooperation among the region's financial regulators and central banks need to be further strengthened. There is already extensive cooperation and collaborative mechanisms in place. More specifically, there is improved regional surveillance that facilitates early detection of emerging risks and potential contagion at the regional level. In addition, institutional arrangements and a framework for financial crisis containment, management and resolution is now being put in place. These infrastructure have been reinforced by infrastructure development in the areas of financial markets, payments systems, and regulatory framework. With significant strides already accomplished, a key challenge for Asia will be in intensifying this positive momentum for cooperation and collaboration. Over the next few years, the focus will be on the implementation of the next set of recommendations that are embodied in the region's road map produced in 2006, which outlines the strategic direction of regional cooperation. These include the development of a vibrant and efficient foreign exchange market, a deeper and more liquid secondary bond market, the further strengthening of the mutual support arrangements and liquidity support mechanisms to deal with crises, as well as the intensification of capacity and capability in reserve management and the overall capacity building. The institutional arrangements that are now established to deal with financial stresses and crises must be complemented with collaborative arrangements and frameworks to deal with an economic crisis *within* and *of* the region. Given the growing depth and magnitude of economic and trade interlinkages within Asia, this will be fundamental towards preserving the overall macroeconomic, financial and social stability of the region.

Deeper financial integration within Asia will also facilitate in advancing the strategic positioning of the region in the global financial landscape. In addition, Asia is now having a voice in shaping the direction of international financial reforms and setting of international standards. This represents a positive development and presents the opportunity for the interests of emerging economies, in particular Asia, so that more balanced and comprehensive solutions that will strengthen global financial stability will be achieved. The expanded Asian membership in the international financial institutions would open doors for a more inclusive process in international standard setting and decision making. To support this process, the role of existing Asian collaborative platforms has been strengthened to consolidate Asia's position in providing responses to global issues that reflect Asia's concerns and perspectives.

## Conclusion

In a short span of just fifty years, Asia, with its vast diversity in population, ethnicity, social structure and political regime, has made remarkable progress throughout the region. Despite broad and different challenges from urbanisation and rising income inequality to economic crises and social instabilities, Asia has time and time again risen to the occasion and resumed the economic progress. The "Asian miracle" was achieved not by chance, but by pragmatic policies, ensuring sound economic fundamentals and strong institutions.

Today, a global shift, triggered by a severe global economic and financial crisis is resulting in an increasingly multi-polar world. In this new phase of globalisation, the concentration of economic power in the global economy will become more dispersed. Asia will very much be a part of this new emerging future. With growth in the advanced economies expected to remain slow and with the emerging economies increasingly becoming the growth centres in the global economy, Asia must review and accordingly change its existing development in this new environment. Of significance, strengthening of the domestic Asian economies supported by the necessary institutions, the further development of the financial markets, and greater regional financial integration that is reinforced with overall regional cooperation. As these trends become more pronounced, it will not only contribute towards unlocking Asia's full potential, but it will also contribute towards a more balanced growth in the global economy.

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In this paper, Asia generally refers to the entire geographical region of Asia, but with specific emphasis on East Asia and South-East Asia. However, when the latter two are referred to in the paper, it is explicitly stated.

Refers to Japan (rank: 2), P. R. China (3), India (12), Korea (15) and Indonesia (19) based on 2008 nominal GDP in USD terms.

Rodrik, Dani, 2009, "Growth after the Crisis", Prepared for the Commission on Growth and Development.

ASEAN-5 refers to Indonesia, Malaysia, Philippines, Thailand and Vietnam.

For example, for the newly industrialised Asian economies, private sector-driven growth began in earnest since the 1980s (Rodrik, Dani, 1994, "Getting Interventions Right: How South Korea and Taiwan Grew Rich", NBER Working Paper No. 4964, November).

It is common to argue that the emergence of China has significantly changed the functioning of the “Flying Geese Model”, such that vertical specialisation now occurs within China as opposed to the earlier experience of Asia where specialisation was across the network of various Asian economies. However, it is important to note that given the immense size and diversity within China itself, together with the openness of the Chinese economy, this development is not inconsistent with the “Flying Geese Model”, in which the key central idea is that vertical specialisation based on different comparative advantages can result from diversity in different stages of development. For example, Kwan, C. H., 2002, "The Rise of China and Asia's Flying-Geese Pattern of Economic Development: An Empirical Analysis Based on US Import Statistics", REITI Discussion Series 02-E-009 provides further discussion on this debate.

For more detailed evidence of strengthened financial systems, refer to Aziz, Zeti A., 2007, "Asia is Moving Forward: Ten Years after the Crisis", prepared for the ADB International Symposium in Manila.

The ASEAN countries have agreed to enact zero tariff rates on virtually all imports by 2010 for the original six AFTA signatories, and 2015 for the four newer ASEAN members (Vietnam, Laos, Myanmar and Cambodia).

EA-9 refers to EA-10 excluding Japan.

World Bank, 2006, "Dancing with Giants. China, India and the Global Economy", Eds, L, Alan Winters and Shahid Yusuf.

For example, in the latest World Bank's Doing Business in 2010, Malaysia ranks first in the category of ease of getting credit.

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