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**FOCUS GLOBALISATION
Globalisation through Asian eyes**

Peter Wilson reviews Economic Globalization and Asia, which looks at the different strands of the globalisation debate within an Asian context

THIS book is a mixture of self-contained but interrelated essays (some co-authored) on finance, trade and taxation, about economic globalisation with special reference to Asia.

Often, such collections produce unsatisfactory results, but in the present case, it works very well.

Professor Rajan starts by defining globalisation broadly as the shrinkage of economic distances (ie. costs of doing business) between nations. He distinguishes between the 'first-wave' globalisation of the nineteenth century revolving around the mass movement of capital and people from the old to the new world and the growth in tradeable goods and services; and the 'second-wave globalisation' after 1945, based more on specialisation in manufactured goods and increased trade in services.

More familiar characteristics of globalisation are also discussed, including the growth in intra-firm and intra-product trade, the spread of economic liberalisation through multilateral agencies such as the World Trade Organization and increased financial interdependencies through capital and currency markets.

Less obvious is how trade in services has blurred the boundary between traded and non-traded goods. Globalisation means it is now possible to enjoy a German beer or a Brazilian coffee in a Mexican restaurant in Holland Village while simultaneously having a foot massage and closing a business deal with an American partner on a Swedish cell phone manufactured in Taiwan!

The second section comprises three chapters on international monetary and financial issues. What to do about the contagion from international capital flows? Opening up to capital markets is a double-edged sword offering the tantalising possibility of sharing the benefits of trade and capital liberalisation and the spillover effects between growing neighbours, but capital and currency markets can be a potent transmitter of regional crises, as the Asian crisis amply demonstrated.

What is the best choice of exchange rate regime for small open economies in Asia? Implicit dollar pegging failed to insulate Asian economies from the currency contagion of 1997-8, but the knee-jerk reaction that emerging economies must either float their currency freely or adopt a 'hard' peg, preferably backed up by a currency board, is persuasively de-bunked.

It was naive to imagine that Malaysia would close its central bank, as a currency board would dictate, that Thailand would adopt a free float in the presence of financial market imperfections, or that Singapore would abandon its unorthodox, but highly successful, managed float.

Most regional economies have returned to the middle-way in exchange rate policy while Malaysia has, for the moment, reverted to an orthodox fixed peg to the dollar.

An important theme here is the paradox that the crisis increased the economic disparities between countries in Asia but simultaneously strengthened the rationale for regional monetary cooperation. This was partly a reaction to the perceived failure of multilateral institutions, such as the International Monetary Fund, to foresee the crisis and diagnose it as a capital account, rather than a Latin American-type current account crisis and to the heavy-handed reforms imposed on Indonesia, whose domestic political environment was extremely fragile.

But a regional solution and institutions are also appropriate if the problems which arose during the crisis, such as imperfections in currency or capital markets, are essentially regional in nature. The pooling of reserves, the development of an Asian bond market, some kind of Asian Monetary Fund to deal with future crises and reduce intra-Asian exchange rate volatility all become more credible. Monetary union or a common exchange rate policy, even for a small sub-set of Asian countries, is a long way off, not least because of the absence of European-style supranational institutions. But the wheels of regional monetary cooperation are beginning to turn.

Parts III and IV deal with international trade and tax issues in Asia. One chapter analyses the complex links between economic growth and poverty. Openness to trade and factor flows may generate faster growth and the resources to reduce poverty but may also raise the frequency of crises which tend to impact most on the poor.

Another traces India's catch-up since the reforms of July 1991, driven by information and communications technology. Another explains how international competition in tax systems has made it harder for governments to preserve fiscal autonomy. Revenues are squeezed as countries compete to attract business while domestic demands for more social services, such as healthcare and pensions, increase.

More controversial is Singapore's conversion to the American doctrine of bilateral trade agreements and decision to go it alone and negotiate bilateral deals with countries such as Australia, Japan and the USA, despite hostility from some of her Asean partners.

Although sold as free trade agreements they are, in fact, discriminatory and their proliferation hugely complicates the legal aspects of trade relations. Nonetheless, the gamble seems to have paid off. Indeed, many countries in the region are now copying Singapore's example.

Again we return to the theme that globalisation has increased inter-dependencies and the imperative for countries to cooperate on economic matters to maximise the net benefits. For example, to guard against backsliding in the liberalisation of services and to make bilateral trade deals building blocks and not stumbling blocks along the road to freer trade by extending them quickly to other countries and ensuring that they are comprehensive rather than narrowly sectoral in coverage.

This book is a must read for anyone interested in globalisation. It is not just a collection of essays but skilfully pieces together different strands of the debate within

an Asian context - and it does not shy away from concrete policy recommendations, in contrast to the usual bland list of policy options.

Alas, there is nothing in this book for China scholars but the inclusion of India is a welcome addition to the plethora of books dealing only with the more successful economies in East and South-east Asia.

What this reviewer liked most about this book is that it is more than the sum of its parts. This is to some extent by design, since it is organised around the overarching theme of globalisation, but there may also be an unintended interconnection between the various chapters.

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Economic Globalization and Asia: Essays on Finance, Trade and Taxation is available at major bookstores or direct from World Scientific Publishing Company. Tel: 6466-5775. Price: S\$32.