



## INTRODUCTION

Globalization is a complex, multidimensional and uneven process through which goods and services, capital, people, information and ideas flow across borders, leading to greater integration of economies and societies. The benefits are clearly visible in the increased trade, higher growth and falling poverty of countries fully engaged in the process. Globalization, however, has become controversial precisely because of the uneven distribution of its benefits and its equally visible negative impacts in countries where it has caused job losses, rising income disparity and environmental challenges.

*Globalization is a complex, uneven and hence controversial process*

The Asia-Pacific region vividly illustrates this phenomenon. It spans countries which have been among the most vigorous adherents and major beneficiaries of globalization. The newly industrialized economies (NIEs) such as Hong Kong, China; the Republic of Korea; Singapore; and Taiwan Province of China, together with emerging South-East Asian countries, like Malaysia and Thailand have experienced high growth rates, improved living standards and an impressive drop in poverty. The number of poor in East Asia and the Pacific dropped from 457 million in 1990 to 282 million in 1999.<sup>1</sup>

However, the region contains many other countries, including least developed and landlocked countries, small islands and transitional economies, whose lack of infrastructure, resources and skills leaves them unable to compete in fast-paced world markets or exploit the opportunities presented by globalization. In the face of falling commodity prices and protectionist trading practices, they are at risk of becoming increasingly marginalized in the world economy.

Emerging socio-economic and geopolitical issues add to the complexity of the international business environment. The present global security climate and the associated costs it imposes on the free

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<sup>1</sup> World Bank, "East Asia update: regional overview, October 2003", <<http://www.worldbank.org.cn/English/Content/EAP10-03.pdf>>, 20 November 2003.

flow of goods, services and people threaten to act as further constraints on developing countries' ability to reap the benefits of globalization. Lack of regional and international cooperation arrangements has led to excessive transaction costs and rent-seeking in international migration, an important source of foreign exchange for many developing countries in the region and a source of low-cost labour for host economies. Outbreaks of disease in the absence of effective surveillance mechanisms, collaborative research or the supply of drugs at affordable prices could hurt or reverse the development process in affected countries, as seen in the case of HIV/AIDS.

*The challenge is how to manage globalization; regional cooperation can help*

So what options are available to policy makers? Is South-South cooperation useful either as a defence against the negative fallout from globalization or for exploiting its benefits? Should globalization be discarded altogether? The Millennium Summit made it clear that the important debate is not whether globalization is good or bad but how it should be managed to make it a vehicle for broad-based development. The present study analyses how strengthening regional development cooperation can contribute to that result.

The rewards from exploiting globalization can be substantial. Openness to international trade and investment facilitates the acquisition of inputs and technologies which strengthen growth and increase efficiency. Access to wider markets and more diverse exports reduce the risks of trade volatility and exclusion by particular country markets. Openness to the free flow of capital helps to attract FDI, which can stimulate domestic investment, thus contributing to employment generation and economic growth. Financial openness also helps to increase the depth and breadth of domestic financial markets, leading to increased efficiency in financial intermediation through lower costs and improved resource allocation.

But globalization also carries risks and sometimes heavy social and economic costs, as Asia's 1997 financial crisis starkly revealed. Openness to global capital markets leaves domestic financial markets vulnerable to sudden shocks, leading to greater volatility in exchange rates and abrupt reversal of financial flows, particularly in countries where financial systems are weak and economic policies lack credibility. Trade liberalization has left many developing countries marginalized as demand for their unskilled labour and real wages fell. Fear of job losses because of cheap labour in developing countries has heightened the sense of vulnerability among blue and white collar workers in industrialized countries. Many countries lack either the resources or the skills to upgrade production technologies, widening the technological gap between industrial and developing countries. This compels them to continue to depend on primary commodity exports, with the well-known structural problems

associated with them.<sup>2</sup> Moreover, developing countries' access to capital markets tends to be asymmetric: they are able to borrow only in "good" times and face severe credit constraints during "bad" times.

Managing globalization to maximize the benefits and minimize these potential costs depends as much on political will as on market forces and new technologies. The factors within the control of policy makers, such as structural reforms, ensuring consistency in policies, transparency and good governance, support this strategic aim. The economies that gained the most from globalization are those, like East Asia's NIEs, that adjusted their policies and institutions to exploit it.

At the Fourth WTO Ministerial Conference, the International Conference on Financing for Development and the World Summit on Sustainable Development, a global consensus was forged on priorities and policies for a new partnership for development between developed and developing countries aimed at accelerating economic growth, reducing poverty and promoting sustainable development so that the benefits of globalization could be shared by all. The Doha Development Agenda is aimed at establishing a development-friendly multilateral trading system. The Monterrey Consensus pledged action on domestic, international and systemic policy issues, in particular those relating to financing for development. It made a further commitment to enhance the role of regional and subregional agreements and free trade areas consistent with the multilateral trading system. The World Summit also supported the emergence of stronger regional groupings and alliances to promote regional cooperation, improved international cooperation and sustainable development.

The Asia-Pacific region can draw on considerable strengths in the task of bringing poor and marginalized countries into the development process and ensuring that global development agendas work for them. First, the region's level of savings has been the highest in the world. Over the past five years, the total combined savings of the 10-country Association of Southeast Asian Nations together with China, the Republic of Korea and Japan (ASEAN+3) have accounted, on average, for 19.7 per cent of global savings and are larger in absolute terms than those of the European Union. Second, the region has a large accumulation of foreign reserves. The total foreign reserves of ASEAN+3 alone amounted to \$1.9 trillion at the end of 2003. Third, the region contains Japan, the second-largest economy in the world, and two large and populous economies, China and India, which could serve as stimuli to growth in the region. Growth in income and demand arising within Asia and the Pacific is expected to provide a powerful driving force for development in the region.

*The Asia-Pacific region needs to build on its strengths, which are many*

<sup>2</sup> The structural problems faced by primary commodities producers include falling relative prices and increasing protectionist measures by industrialized countries, which negate the benefits of competition for developing countries.

*Region's reserves  
invested abroad while  
poorer countries face  
resource gap*

But the region also contends with weaknesses. It is home to two thirds of the world's poor. Many countries in the region have yet to introduce the economic policies, institutions and standards of governance needed to exploit the benefits of globalization. The lack of physical and social infrastructure and limited access to financial capital hinder many of the region's developing countries. So do poor standards of governance, transparency and accountability and low regard for the environment. The region continues to lend a large part of its savings to the industrialized world to finance their investments at the same time as many developing countries in the region face difficulties in mobilizing development finance. The region's large foreign exchange reserves have been invested mainly in low-return safe assets in more advanced countries, particularly the United States of America, and are recycled back into the region at a higher cost in the form of short-term capital, with potentially destabilizing effects on financial markets in times of distress.

In a period of growing global economic interdependence, regional cooperation offers Asia-Pacific countries an effective vehicle for promoting sustainable development. It would enable Asia-Pacific countries, particularly small island economies and least developed countries, to overcome the limited size of their domestic markets, achieve economies of scale in production and diversify exports, reducing their vulnerability to external shocks. More efficient use of the financial resources and technology available within the region would also help to shield countries in the region from the kind of volatility in the global economic and financial environment experienced in the 1997 financial crisis.

The present study examines some of the existing regional cooperation mechanisms to identify ways Asia-Pacific countries can achieve these objectives. Regional approaches to dealing with social and environmental impacts of globalization have already been covered by other reports.<sup>3</sup> As a result, this study focuses on the four growth-enhancing areas of trade, finance, information and communication technology and infrastructure, and explores how they are facilitated by subregional organizations, including ASEAN, the Economic Cooperation Organization (ECO), the Pacific Islands Forum and the South Asian Association for Regional Cooperation (SAARC). The conclusions derived from this analysis should be valid for any cooperation arrangement in these four areas.

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<sup>3</sup> These include "Sustainable social development in a period of rapid globalization: challenges, opportunities and policy options" (E/ESCAP/1233) and "Integrating economic and social concerns, especially HIV/AIDS, in meeting the needs of the region" (E/ESCAP/1267).