A note from the Editor

More than five years after the financial crisis hit East and South-East Asia opinions are still divided about the appropriateness of the response of the four worst-affected countries. Three of the four, Indonesia, the Republic of Korea and Thailand, opted for IMF-led bailout packages with their attendant conditionalities; Malaysia alone opted to deal with the crisis with its own resources and its own policies. It is generally believed now that Malaysia was successful in striking out on its own. No emergency loans were needed to stabilize the situation and no externally imposed policy conditions had to be accepted. Moreover, Malaysia’s post-crisis economic performance has been no worse than the other three. A somewhat contrarian view is, however, advanced in the paper on Malaysia’s response to the financial crisis which highlights the dilemmas facing all policy makers, i.e. that there are no costless options in real life. Policies and their trade-offs have to be anchored in realism, with success often depending more on political nous than on sophisticated economic analysis.

Within the overall theme of macroeconomic management the role of fiscal policy stands alone. As countries grapple with the challenges of devising equitable and efficient taxation systems they have to cater also to the need to balance the pressures generated by the level of centralization in the revenue-raising and revenue-spending arrangements. While revenues are best raised centrally they are best spent locally as far as public services are concerned. These two maxims underline the major challenges that governments have to face in designing tax systems that simultaneously satisfy the two requirements of equity and efficiency. The paper on fiscal decentralization in China and India explains how these problems are being tackled in two economies making a transition from the old ‘command and control’ systems of a state-led economy to one where market-based policies and instruments hold sway. Whatever the level of centralization it is clear that in making the relevant judgements on a sound basis the totality of the fiscal system in any country has to be considered rather than its individual components, at least from a macroeconomic perspective.

In the real world some countries are deemed to be too ‘small’ in population or in land area to support economic activities at a viable level. If the disadvantage of remoteness is added to that of smallness the handicaps become very severe indeed. Most island economies fall in this category. Yet some small island economies have done quite well in terms of both GDP growth and the quality of life. On what has their relative success been based? Given that the Asian and Pacific region is home to some of the smallest and remotest island economies in the world the question is of great interest to this *Journal* and it is answered in the paper on small islands’ quest for economic development. The author suggests that developing traditional agriculture and/or depending on remittances is not the answer; rather that such countries should seek to find a niche in services or in light manufactures, i.e. to participate more effectively in globalization to ensure a better future for themselves.

Globalization has many components. Electronic commerce is one of them. Electronic commerce, especially in services, is theoretically assumed to overcome the disadvantage of distance and thus of remoteness. However, electronic commerce has
not satisfied the expectations of many of its proponents notwithstanding the rapid development of ICT over the last few years. Using India as a case study the authors conclude that factors intrinsic to the relevant organizations have been the primary influence in this regard. Organizations, whether private or public, often have an in-built bias towards conservatism which would be foolish to wish away. Participation in globalization, whatever its theoretical merits, will have to be sold with greater passion to make it overcome the inertia of history, geography and of corporate cultures and human inhibitions.

Finally, the phenomenon of ageing is analysed from the perspective of Japan. Not so long ago the rapid growth in population was the principal problem of development. Within 50 years, the problem of ageing and of declining populations has come to occupy centre-stage in several countries of the region with all its implications for saving, investment and long-term growth. How will these economies sustain their current living standards in the years ahead? The answers make for some rather uncomfortable reading.

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