

A Note from the Editor

There are five papers in this issue, drawn from a diverse range of subjects. The first paper explores the very topical issue of the establishment of an East Asian Economic Community. There are three papers on India. Under this cluster, the first one looks at the extent of financial market integration in the wake of 1991 economic reforms. The second paper explores the interdependence of growth among Indian states. The third paper probes into the role of individual enterprise in recent Indian economic development. The last paper in this issue addresses some of the emerging health concerns in the region.

The first paper, "Is there a case for an East Asian Economic Community", looks at the long-discussed idea of forging greater economic cooperation and integration among the 10 members of the ASEAN Free Trade Area (AFTA) and three north-eastern countries, namely China, Japan and the Republic of Korea.¹ Together with subsidiary institutions relating to security and other regional concerns, the community would be expected to develop into a large trading bloc at par with other trading blocs found elsewhere. The main impetus for moving towards the creation of an East Asian Economic Community seems to have come from a desire to increase mutual trade. The recent proliferation of all sorts of trading agreements also seems to have influenced the move towards the formation of an East Asian Economic Community. The paper offers a menu of different propositions concerning the hypothetical East Asian Community and draws attention to some of the likely problems and difficulties. The author points out that the large volume of intra-trade in the Community could sustain such an arrangement. Intra-AFTA exports, for instance, doubled in value, from US\$ 44 billion to \$98 billion, between 1993 and 2000. The proposed community, with roughly a third of the world population and a combined GDP of over \$7 trillion at market prices, could rival the European Union and the North American Free Trade Association in several respects. With a surging China and a rebounding Japan, East Asia's share in world trade is rapidly rising. Foreign direct investment remains robust, and GDP per capita is increasing sharply. The core of the community could be patterned along a preferential trade area, such as the Common Market, but without a common external tariff regime. An economically and politically cohesive East Asia could also be attractive to the United States of America and the European Union, which might find it easier to deal with a single entity rather than contract and re-contract on trade issues with 13 different countries. However, the author cautions that there are several areas of concerns that would need further attention before firm conclusions could be drawn. One is the historical openness of East Asia to global trade and investments flows, in particular, its extensive trade with the United States of America and the European Union. The possibility of trade

¹ Australia also joined the first meeting of the East Asian Economic Community, convened by Malaysia in December 2005.

diversion cannot be entirely ruled out. On balance, the paper concludes that it would be worthwhile to pursue the possibility of forming an East Asian Economic Community.

The three papers on India examine issues related to its financial market integration, the interdependence of growth among states and the role of individual enterprise in its recent economic development. The paper, "Financial market integration in India", looks at possibilities for maximizing the benefits of growing capital inflows into India's domestic financial markets, particularly short-term capital flows. The growing integration of the global financial markets provides the backdrop for the paper's focus on Indian markets. With the liberalization of trade and financial markets, there has been a corresponding globalization of investment resources, seeking out markets and instruments for higher returns. Increased openness to financial flows provides opportunities for both diversification as well as financial deepening. A greater number of countries can secure access to global financial markets to meet their investment needs. However, openness to international financial markets does have its risks, most in the form of abrupt withdrawal of capital from the recipient country. India joined a growing number of countries in liberalizing its financial markets during the 1990s. Financial liberalization in India seems to have been designed to improve the productivity and efficiency of the economy as a whole and to make the economy more internationally competitive. The liberalization process included a whole range of reform measures with the important objective of developing an integrated financial market where arbitration opportunities could be reduced and the impact of monetary policy enhanced. Using a multiple co-integration model, the paper uses data on call money rates, 91-day Treasury Bill rates, Indian rupee/United States dollar exchange rates, and LIBOR for the post-1991 reform period to test for integration of domestic call money market with LIBOR. Three broad findings are presented in the paper. Firstly, the domestic call money market is strongly integrated with LIBOR. Secondly, there is a long-term co-movement between domestic foreign exchange market and LIBOR, although it is not robust. Thirdly, the government securities market is yet to be integrated with the international market. The authors issue the usual caution in interpreting their empirical results as there are difficulties both with the statistical techniques employed as well as the small sample size. Bearing that in mind, one could make the case for further integration of the financial markets both within India and with the rest of the world as there are significant benefits that can still be realized through such integration.

The second paper on India, "Growth interdependence among Indian states", revisits the issue of economic growth and its trickle-down effects. Earlier writings in development economics postulated that economic growth would, by itself, lead to trickle-down effects, obviating the need for any redistribution policies. As a variation of this line of development thinking, geographically contiguous states or regions, placed "horizontally" across a nation state, could be expected to benefit from each

other's growth impulses. Based on that expectation, balanced development has long been a policy objective in India. Such an objective can be achieved by harnessing multiple linkages that potentially exist between a set of states/provinces operating within an overall economic, political and regulatory framework. These linkages can manifest themselves in the form of input-output linkages, production-consumption linkages and savings-investment linkages. A high-growth state would therefore stimulate the growth in a neighbouring state. But subsequent evidence, both from cross-country and time series analyses, showed that growth was necessary but not sufficient to achieve economic growth as well as socially desirable goals, such as poverty eradication. In other words, top-to-bottom trickle-down effects of economic growth were in no way guaranteed. Several studies also cast doubt on the existence of spillover effects across regions. This paper looks at spillover effects of economic growth across states in India. Using data from 1971 to 1998, and employing standard statistical test of causality, the authors find limited transmission of growth impulses across Indian states. The paper finds that the structure of state economies, their growth rates, and the quality of institutions operating in those states critically determine the extent of trickle-down effects (i.e., spillover effects). These findings easily lend themselves to policy implications. While it may not be very easy to change the structure of a state economy in the short-term, measures can be taken to boost economic growth and improve the functioning of state institutions. Measures can also be taken to exploit the inter-state linkages in production, consumption and investment, thereby enhancing the possibilities for greater spillover effects of economic growth.

The third paper in this cluster, "Economic development in India: the role of individual enterprise (and entrepreneurial spirit)", suggests that recent market reforms in India aimed at encouraging individual enterprise have contributed to its higher economic growth. The authors chose India as a case study as it offered a contrast between how individual entrepreneurs reacted when they moved from a government-controlled investment environment to a market-based environment. The authors revisit some of the old issues in development economics which, one would have thought, were well settled in the light of recent development experiences. The authors also seem to use the roles of the state and the government interchangeably, although a distinction between those two roles would have added clarity to their analyses. In the case of India, a democratic country from its very inception, equating the role of state with that of government is a bit confusing. However, the authors do provide a useful though widely documented view of the economic policies pursued by India in recent decades. From this review, they try to distill the role of individual entrepreneurship and come to the conclusion that enhanced entrepreneurial activity could generate additional growth for India. For this to happen, India would need to create opportunities in several areas, including education directed specifically at creating entrepreneurial skills, financing entrepreneurship and networking among

potential entrepreneurs and their more experienced counterparts. The authors also suggest that the Government of India should minimize its overall role in the economy so that the potential of the free market can be fully harnessed for individual enterprises to flourish.

The last paper in this issue is on health. The paper entitled, "Emerging health issues in Asia and the Pacific: implications for public health policy", promises little but delivers a lot. Based entirely on a single source for data and information, i.e., the *World Health Report 2004* by WHO, the paper raises a wide range of health-related issues from prevailing communicable and non-communicable diseases to issues related to health-care personnel, infrastructure, financial resources, and health systems. It is a broad sweep, complicated by the fact that the Asian and Pacific region is as diverse in its health-care systems as it is in terms of economic development and the severity of diseases in a specific country. A further complication is that different income groups would need access to different types of health-care systems, not just across countries but also within a specific country. The author faces these issues quite boldly and provides a menu of health policy options which, on the whole, would appear to be useful for a range of countries for selected health-related challenges. The proposal for a dual track-approach to health intervention is interesting. The paper advocates a greater role for the private sector, although it should be remembered that this role needs continuous monitoring, keeping in view both the needs of the specific groups of patients and the stage of economic development of a particular country. The paper also provides a good summary of the different kinds of diseases and the associated consequences currently confronting the region.

This issue of the *Asia-Pacific Development Journal* ends with a book review. The review is on the second of the two publications dealing with the Millennium Development Goals (MDGs) since 2003, entitled *A Future Within Reach: Reshaping institutions in a region of disparities to meet the Millennium Development Goals in Asia and the Pacific*. This brief review is rather descriptive and fails to convey the richness of the publication. Published by ESCAP, UNDP and ADB in 2005, the report provides an excellent empirical analysis of the progress of Asian and Pacific countries in achieving the MDGs. Using a classification scheme that categorizes countries into four groups according to the progress made so far and the probability of reaching each of the selected targets, the publication makes a valuable contribution for the policymakers in designing and implementing appropriate policy responses in reaching the MDG targets by 2015. The report finds that the region has made a significant overall progress in reducing poverty. The region is also well on its way to halving poverty by 2015. It has made good progress in achieving gender parity in primary and secondary school enrolment rates. However, very grave challenges remain in the areas of reducing maternal mortality and child mortality rates, combating HIV/AIDS

and other communicable diseases, and ensuring environmental security. In terms of policy response, the report argues for strengthening and scaling up institutions, particularly those engaged in the delivery of service to the poor and other disadvantaged groups of the society. The report ends with some innovative recommendations for regional cooperation with a view to achieving the MDGs by 2015.

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