Fund boost

Continued from page 1

the rest of the world" and hailed the achievement of the ASEAN +3 group – which includes the three East Asian in agreeing to "accelerated cooperation" on the CMIM and other issues.

The 13 ministers also agreed yesterday to step up the scope of their long-standing Asian Bond Market Initiative (ABMI) and to examine "the use of local [Asian] currencies in settlement of trade transactions."

The CMIM will continue to collaborate closely with the IMF but the portion of its funds that can be lent without a borrower having an IMF programme in place will be increased from 20% to 30% and this could be a raised later to 40% or more, Bahk indicated.

The speed at which ASEAN+3 ministers have moved contrasts with the relatively slow pace at which IMF plans for a $430 billion resource boost have proceeded.

IMF Deputy Managing Director Naoyuki Shonihara told *Emerging Markets* that it would "take a little time" for the resource expansion to take effect.

"We have bilateral contracts with those countries that showed willingness to contribute and we will have a Board meeting on how to proceed. It will take a little time for the whole scheme to be effective," he said.

He noted that while a global sum of $430 billion has been agreed by way of additional resources "there are some countries [such as the BRICS] that have not made specific commitments yet. For those countries the G20 leaders meeting could be a target."

The IMF is still treated with resentment by some Southeast Asian nations who are still angry at the policy prescriptions the funds imposed on the region during the 1990s Asian financial crisis.

Yu Yongding, a former member of the People's Bank of China (PBOC) monetary policy committee, told Emerging Markets in Manila yesterday that lending to the IMF was "better" than investing in US Treasuries or European sovereign bonds but China should insist the US should drop its power of veto over the IMF since "no country" should hold such power at the institution.

The IMF's recent shift away from a "dogmatic, market fundamentalist" ideology, the dangers of monetary integration as laid bare by the eurozone crisis and the technical hurdles in advancing co-operation in the region mean policy-makers will pursue a "less ambitious" approach to regional monetary integration.

The changes agreed yesterday are due to be endorsed by ASEAN+3 deputies meeting in Seoul in November, at which time the CMIM will be poised to go into operation as needed.

Under yesterday's agreement the 13 members of ASEAN+3 (plus also Hong Kong) will double the size of the CMIM from $120 billion to $240 billion and introduce an IMF-style crisis prevention facility known as the CMIM Precautionary Line or CMIM-PL.

THE final word

Asia may not be decoupled from the West but it has plenty of room for manoeuvre

© Rob Murray

By Gerard Lyons

In recent years the annual Asian Development Bank (ADB) meetings have addressed some of the key issues confronting the region. Three years ago, in Indonesia, in the wake of the Western financial crisis, it identified that for Asia to switch from export-led to domestic-driven growth it needed: better social safety nets to discourage excess savings; help to small and medium sized firms to encourage employment; and deeper and broader bond markets. All were seen as important ingredients to boost consumption and to allow firms to raise finance.

The following year, at the annual meeting in Tashkent, the ADB's focus was on the need for regional institutions. Then, last year, in Vietnam, attention was on avoiding the middle-income trap, with the release of a major report on Asia's potential growth. As the World Bank has pointed out, of 106 economies across the globe that achieved middle income status by 1960, only 13 subsequently went on to reach high income levels and five of those were in Asia: Japan, South Korea, Taiwan, Singapore and Hong Kong.

> "Although some European banks are scaling back their lending in Asia, others are stepping in, and the region will cope

This year, in Manila, attention is on inclusive growth, ensuring that more people share in the region's success. This focus is necessary. But there are other important areas that also warrant immediate attention.

First, and foremost, is where is Asia's economy heading? Latest data suggest a slowdown to a steadier pace of growth, as a result of previous policy tightening and as exports slow. Although some European banks are scaling back their lending in Asia, others are stepping in, and the region will cope. But Europe's problems may reinforce Asia's focus towards the US and other regions.

China's economy is cooling, not collapsing. The good news for China, and for many other Asian economies, is that they have ample room for policy manoeuvre if needed.

That leads directly onto the issue of infrastructure. Usually attention is on hard infrastructure such as building roads and dams. The cost of Asia's infrastructure needs is huge, estimated at $8 trillion over the next decade. Funding this raises many challenges, including building Asia's institutional savings base so that domestic funds can be more easily directed into financing long-term projects.

But, in my view, infrastructure covers three areas: hard, soft and institutional. All are vital across Asia. Soft infrastructure is about building skills and educational levels, as this too is a key part of delivering potential across the region's vastly different economies and moving them up the value-curve.

Building the institutional infrastructure is essential. This is particularly important in delivering China's future growth. Across Asia, it is vital to address the independence, powers and accountability of institutions, both to eradicate corruption as well as to ensure difficult, longer-term issues are addressed. Having the right institutional infrastructure is as vital as having the right growth model in place and in ensuring that a middle-income trap is avoided, as well as helping those countries on even lower incomes to continue to develop. So hard, soft and institutional infrastructure are key.

The continued challenges confronting Western economies means that Asia needs to build domestic-driven growth. Yet, at the same time, with interest rates low in the West, Asia needs to keep on top of potential inflationary pressures.

A year ago, rising food and energy prices were a major concern. Both are still worrying factors. In addition, rising wages provide an environment in which firms can pass on higher costs and prices, creating a potential inflationary spiral.

Low interest rates in the US and Europe will provide another push factor for money to flow from the West to Asia, feeding asset price inflation across Asia, particularly in real estate and equity markets. All of this will add to pressure to further deepen Asia's financial markets so that such inflows can be absorbed. And it will reawaken future concerns about currency wars and capital controls.

Overall, when one looks at Asia it is vital to appreciate not only the vast scale of the region but the diverse nature of the economies within it. The small and medium-sized open economies can be subject to volatile fluctuations in their growth rates, largely because of international trade. In contrast the larger economies tend to see more stable growth.

"Not decoupled but better insulated". That is how I defined Asia ahead of the financial crisis. And so it proved. Asia was hit hard by the collapse in world trade but was able to rebound, helped by its policy response. Now, Asia is still not decoupled from the crisis in Europe and events in the West, but it is much better diversified. That diversification reflects both rising intra-regional trade and rising shares of domestic demand.

Dr Gerard Lyons is Chief Economist and Group Head of Global Research at Standard Chartered.

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