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Crisis leads to regionalism

Asean shifts weight to peers from the West

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Published: 10/06/2009 at 12:00 AM
Newspaper section: Business

HANOI : It is undeniable that the financial meltdown in the United States has had a global impact, taking a toll on multinational corporations and wiping out millions of jobs worldwide.

This "hamburger" crisis led the Asia-Europe Foundation to gather more than two dozen journalists from both regions to assess the implications of the downturn started by sub-prime loans.

Asian countries have been major victims of this crisis because their exports are shipped toward western markets, a model initiated by Japan several decades ago.

A study by the World Bank showed that overseas production of multinational corporations (in Asia and elsewhere) is becoming more oriented toward exports rather than the domestic market of the host country, particularly for technologically complex products. These manufacturing countries do not have domestic markets large enough to absorb vast quantities.

Asian economies, therefore, have become hostage to the "global" markets that in fact consist largely of demand from credit-fed consumers in a relative few economically advanced nations. Asian countries now need to rethink and restructure their business models to build products that are more suitable to supply domestic markets.

Asia learned from the experience of the 1997 financial crisis and many countries established high levels of saving, but the amount was not placed directly into productive investment.

With more trust in foreign financial institutions, the savings flowed into supposedly safe Western banks or other financial institutions that came back to Asia in the form of foreign loans.

However, many Asian firms have this time limited their exposure to attractive US financial securities and have not been direct victims of the sub-prime crisis.

"It's more of an export shock to Asian nations than a financial shock," according to a senior journalist speaking under the Chatham House rules where no specific names are disclosed to ensure frank discussion.

Asia also learned to be less dependent on international financial arrangements during times of crisis as members of the Association of Southeast Asian Nations (Asean) plus China, Japan and South Korea agreed to implement a US$120 billion (4.23 trillion baht) foreign exchange reserve pool by the end of 2009.

The so-called Chiang Mai Initiative Multilateralisation (CMIM) aims to address short-term liquidity difficulties in the region and supplement the International Monetary Fund.

Japan and China agreed to contribute $38.4 billion each, with China's share including $4.2 billion from Hong Kong. Korea will put $19.2 billion into the scheme.

Among Asean countries, the biggest contributors are Indonesia, Singapore, Thailand and Malaysia, with $4.77 billion each.

The Philippines will add $3.68 billion, Vietnam $1 billion, Cambodia $120 million, Burma $60 million and Brunei and Laos $30 million each.

This CMIM arrangement indicates a significant move toward regionalism, which Asean members believe will strengthen their integration leading up to the Asean Economic Community in 2015.

Participants at the round table thought the global crisis would drive the world toward regionalism instead of multilateralism, as seen by the rising number of bilateral and regional free trade agreements after deadlocks in the world's multilateral trade institution - the World Trade Organisation.

As globalisation has advanced, traditionally powerful economies like the US and the European Union have experienced diminished negotiating strength as more countries assert their right to be heard and consulted, resulting in stalemates in the global trading forum.

However, some global issues like climate change will still require global efforts to solve the problem but effective solutions can be achieved through the implementation of the right domestic policies in each country.