

Financial Crisis, Global Economic Governance and Development: Responses of Asia and the Global South

RIS Policy Briefs

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The High-Level Conference on Financial Crisis, Global Economic Governance and Development: Responses of Asia and the Global South was organized on 6-7 February 2009 by RIS in New Delhi to mark its Silver Jubilee. The Conference was organized in collaboration with the Institute of Southeast Asian Studies (ISEAS), Singapore; Economic Research Institute for ASEAN and East Asia (ERIA), Indonesia; Global Development and Environment (GDAE) Institute at Tufts University, Medford, USA; Centro De Investigaciones Para La Transformacion (CENIT), Buenos Aires, Argentina; Commonwealth Secretariat, UK; Asian Development Bank, Manila; Sasakawa Peace Foundation, Japan and Ford Foundation, USA.

The main objective of the Conference was to understand the impact of the global financial crisis on developing countries and discuss the policy responses by Asian countries and the global South at national, regional and global levels.

Mr. Pranab Mukherjee, Hon'ble External Affairs Minister delivered the Inaugural Address, H.E. Mr. Haruhiko Kuroda, President, Asian Development Bank delivered a Keynote address in the Inaugural Session chaired by Dr. Arjun Sengupta, M.P. and Chairman, RIS. In addition, the Commonwealth Secretary-General H.E. Mr. Kamlesh Sharma delivered a dinner address on 6 February, the SAARC Secretary-General H.E. Dr. Sheel Kant Sharma delivered a Keynote Address on 7 February, and Ambassador H. S. Puri, Secretary (ER), Ministry of External Affairs, delivered the Valedictory Address at the Session chaired by Ambassador Leela Ponappa, Vice-Chairperson, RIS.

The High-Level Conference brought together heads or senior experts from policy think-tanks across the world and international development agencies with whom RIS has developed institutional networking links. It had a representation of more than 35 institutions from outside India and numerous institutions within the country.

This Report presents a summary record of the presentations and discussions at the Conference.

The conference took note of the magnitude and the nature of the impact of the financial crisis resulting in liquidity crunch, economic slowdown and crisis of confidence in different parts of the world. It was felt that this is a watershed moment in the history of the modern world. The conference also recognised the potential of the emerging economies in helping to avoid a global recession over an elongated period. Since typically, major reforms actually take place in the times of crisis, the theme that emerged at the Conference was that adequate efforts should be made to convert the crisis into an opportunity.

Experts at the Conference presented the national responses to the crisis in terms of country-experiences, especially the national-level stimulus packages but realised that a lot more needs to be done, nationally. It was emphasised that it may be risky for Asia to keep looking at exports out of Asia as the main driver for economic growth. Some of the dimensions on which efforts are needed include: focusing on the domestic demand, investment in infrastructure development, special attention on the labour-intensive sectors and creation of social-safety nets. Unemployment has emerged as one of the most pressing problems as an offshoot of the crisis and needs to be addressed.

It was highlighted that in a decade or so, the South may well account for more than 50 per cent of the world income in purchasing power parity terms and more than 50 per cent of the world trade, savings and investment as well as labour force and capital. Considering the resurgent South and the fact that the Asian and emerging economies would be the major growth drivers in the world economy, the relevance of the South-South cooperation and specifically regional economic integration in Asia was highlighted by the conference. It was noted, however, even though the rise of the South is weakening the linkages with the North, it does not mean a complete de-coupling from the North.

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It was also noted that during the crisis several countries of the South have demonstrated some areas of strengths such as having prudently managed sound banking system that could withstand the stress created by the collapse of the financial system in the western world. Also the corrective measures undertaken by the Asian countries in the wake of the Asian financial crisis have helped them face the current crisis with greater confidence with comfortable foreign exchange reserves and sound fundamentals.

This crisis has highlighted the relevance and urgency of long pending reform of the international financial architecture and governance. Although emerging countries in Asia are contributing a disproportionately higher share of the dynamism of the world economy, the decision-making structures have continued to be dominated by the North. Thus, it was considered crucial to put forth proposals of reforms and building an international financial architecture which is in tune with the present day realities and the needs of the developing countries.

Against this backdrop, some of the major themes that the Conference deliberated upon included Global Economic Crisis and Asia: Challenges faced by the Real Economies in Select Asian Countries and their Responses; Responding to the Financial Crisis: Towards a More Development-Friendly and Democratic Global Financial Architecture; Crisis and the Broader Regional Cooperation in Asia: Architecture for Regional Keynesianism and Narrowing Development Gaps; Deepening South Asian Economic Integration in an Era of Crisis: Role of SAARC and BIMSTEC; Sharing Each Other's Dynamism and Development Experiences: Role of the South-South Cooperation; and Financial Crisis and the Trade, Industrial and IPR Policies for Development: Beyond the Washington Consensus (see programme).

Some of the major policy issues and proposals made and discussed at the Conference include:

Shifting the Development Paradigm: Focus on Internal Demand and Coordinated Expansion in Demand among Developing Countries

The Conference considered the present crisis as an opportunity to rethink the existing development paradigms. To this end, it was suggested to focus on the internal demand as a key source of growth stimulus. One of the ways to increase the domestic demand is to enhance the purchasing power of the poor sections of society which include poor and small farmers, micro, small and medium enterprises and those belonging to the unorganized sector

through provisions of adequate developmental incentives. In this regard, the relevance of Gandhian economics focusing on self-help in the present era was underscored but with an adaptation in the contemporary context. It was suggested that attempts should be made towards generating domestic demand by massive investments in social infrastructure like health and education and by sectoral-targeting in the labour-intensive activities. This is particularly important in the light of the fact that the problems of unemployment and working poor are expected to deteriorate further due to the present crisis. Making efforts towards creating mechanisms for a coordinated expansion in demand among the developing countries was also put forth as a dimension on which further work is required. This will make the growth process not only more sustainable but also more inclusive across the South.

The Conference also took note of the virtuous relationships among human development, trade and economic growth as also the linkages between macroeconomic policies and trade competitiveness. The paradigm shift was also evident when the Conference justifiably cautioned against too fast and too much of capital account liberalisation as well as financial sector openness, especially when its relationship with capital formation has not been robust. It was noted that financial globalisation did not translate itself to investments in terms of capital formation. In this context, a programme of cooperation in the South and regional cooperation and integration assumes greater significance.

Building a Broader Regional Architecture for Economic Cooperation in Asia

The Conference deliberated upon the economic, strategic and business perspectives on the relevance of Asian economic integration in the EAS framework and the specific issues concerning integration of trade and investment regimes, and monetary and financial cooperation, among other issues, against the background of emergence of Asia as the new locomotive and an emerging centre of gravity of the world economy. China and India are together contributing an overwhelming proportion of the global incremental output now. The Asian economies have also developed profound synergies that have helped in expanding the intra-regional trade in Asia to more than 55 per cent. The new Asian dynamism and the emergence of the Asian middle classes as a centre of final demand, and the synergies make regional economic integration in Asia a viable strategy besides enabling Asia to exercise its influence in global economic governance commensurate with its rapidly growing economic weight. In that context, the Conference welcomed

**High-Level Conference on
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6-7 February 2009, New Delhi**

Programme

Day 1 **Friday, 6 February 2009**

- 10.00-10.45** **1. Inaugural Session**
Welcome remarks by Dr. Nagesh Kumar
Brief Observations by Ambassador K. Kesavapany, Director, Institute of Southeast Asian Studies, Singapore
Dr. Junko Chano, Executive Director, Sasakawa Peace Foundation, Tokyo
Chairperson's Remarks: Dr. Arjun Sengupta, M.P. and Chairman, RIS
Keynote Address: H.E. Mr. Haruhiko Kuroda, President, Asian Development Bank, Manila
Inaugural Address: Mr. Pranab Mukherjee, Hon'ble External Affairs Minister and In-charge of Finance Ministry
Vote of Thanks
- 11.15-13.00** **2. Global Economic Crisis and Asia: Challenges Faced by the Real Economies in Select Asian Countries and their Responses**
Chair: Dr. Arjun Sengupta, M.P. and Chairman, RIS
Distinguished Speakers:
 1. **Dr. Jomo Sundaram**, Asst. Secretary General for Development, United Nations, New York
 2. **Dr. Duncan Campbell**, Director, ILO, Geneva
 3. China: **Dr. Long Guoqiang**, Deputy Director General, Department of Foreign Economic Relations, DRC of the State Council, Beijing
 4. Malaysia: **Dr. Mahani Zainal-Abidin**, Director-General, Institute of Strategic and International Studies (ISIS), Kuala Lumpur
 5. India: **Professor K.P. Kannan**, Member, NCEUS*Open Discussion*
Rapporteur: Dr. G.S. Bhatia, Associate Fellow, RIS
- 14.00-15.30** **3. Responding to the Financial Crisis: Towards a More Development-Friendly and Democratic Global Financial Architecture**
Chair: Dr. C. Rangarajan, M.P. and former Governor, Reserve Bank of India
Distinguished Speakers:
 1. **Dr. Cyrus Rustomjee**, Director, Economic Affairs Division, Commonwealth Secretariat, London
 2. **Dr. Amar Bhattacharya**, Director, G-24 Secretariat, Washington, D.C.
 3. **Dr. Detlef Kotte**, Head, Macroeconomic and Development Policy, UNCTAD
 4. **Dr. Jayati Ghosh**, Jawaharlal Nehru University
 5. **Mr. M.K. Venu**, Editor (Edit Page), *The Economic Times**Open Discussion*
Rapporteur: Mr. Priyadarshi Dash, Research Associate, RIS
- 15.45-17.15** **4. Crisis and the Broader Regional Cooperation in Asia: Architecture for Regional Keynesianism and Narrowing Development Gaps**
Chair: Ambassador K. Kesavapany, Director, ISEAS, Singapore
Distinguished Speakers
 1. **Dr. Jusuf Wanandi**, Vice-Chairman, CSIS, Jakarta
 2. **Dr. H. Nishimura**, Executive Director, ERIA, Japan
 3. **Dr. Ram Agarwala**, Distinguished Fellow, RIS
 4. **Dr. Suthipand Chirathivat**, formerly Dean, Faculty of Economics, Chulalongkorn University, Bangkok*Open Discussion*
Rapporteur: Dr. Prabir De, Fellow, RIS

19.30	<p>Dinner hosted by Chairman, RIS</p> <p><i>Special Address:</i> H.E. Mr Kamlesh Sharma, Commonwealth Secretary-General</p>
Day 2	<p>Saturday, 7 February 2009</p>
10.00-11.30	<p>5. Deepening South Asian Economic Integration in an Era of Crisis: Role of SAARC and BIMSTEC</p> <p><i>Chair:</i> Professor Muchkund Dubey, Chairman, Research Advisory Council, RIS and President, CSD</p> <p><i>Keynote Address:</i> H.E. Dr Sheelkant Sharma, SAARC Secretary-General, Kathmandu</p> <p><i>Distinguished Speakers:</i></p> <ol style="list-style-type: none"> 1. Ambassador Farook Sobhan, Chairman, Bangladesh Enterprise Institute, Dhaka 2. Dr. Saman Kelegama, Institute for Policy Studies, Colombo 3. Dr. Prabir De, Fellow, RIS 4. Dr. Biplove Chaudhary, Officer-in-charge, APTII, UNDP-RCC Colombo <p><i>Open Discussion</i></p> <p><i>Rapporteur:</i> Dr. Beena Pandey and Mr. Sayan Samanta, Researchers, RIS</p>
11.45-13.15	<p>6. Sharing Each Other's Dynamism and Development Experiences: Role of South-South Cooperation</p> <p><i>Chair:</i> Dr. Nitin Desai, former Under-Secretary-General, United Nations</p> <p><i>Distinguished Panelists:</i></p> <ol style="list-style-type: none"> 1. Dr. Ludovico Alcorta, Director, Research and Statistics, UNIDO, Vienna 2. Dr. Samuel Wangwe, formerly Executive Director, Economic and Social Research Foundation, Dar-es-Salaam, Tanzania 3. Dr. Enrique Saravia, Getulio Vargas Foundation, EBAPE-FGV, Brazil 4. Dr. Newai Gebre-ab, Economic Adviser to the PM and Director, Ethiopian Development Research Institute, Addis Ababa 5. Ambassador Hussein El-Kamel, Senior Adviser, The Egyptian Cabinet Information and Decision Support Centre (IDSC), Cairo (<i>in absentia</i>) 6. Dr. S.K. Mohanty and Dr. Sachin Chaturvedi, Senior Fellows, RIS <p><i>Open Discussion</i></p> <p><i>Rapporteur:</i> Dr. Anshuman Gupta, Associate Fellow, RIS</p>
14.00-15.30	<p>7. Financial Crisis and Trade, Industrial and IPR Policies for Development: Beyond the Washington Consensus?</p> <p><i>Chair:</i> Prof. Ashok Parthasarathi, former Chairperson, CSSP, Jawaharlal Nehru University</p> <p><i>Distinguished Panelists:</i></p> <ol style="list-style-type: none"> 1. Mr. Kamal Malhotra, UN Resident Coordinator and UNDP Resident Representative, Kuala Lumpur 2. Dr. Tim Wise, Director, Research and Public Policy, GDAE, Tufts University 3. Dr. Ricardo Meléndez-Ortiz, CEO, ICTSD, Geneva 4. Dr. Andres Lopez, Director, CENIT, Argentina 5. Dr. Rajesh Mehta, Senior Fellow, RIS <p><i>Open Discussion</i></p> <p><i>Rapporteur:</i> Dr. K. Ravi Srinivas, Associate Fellow, RIS</p>
15.45-16.30	<p>8. Valedictory Session</p> <p><i>Chair:</i> Ambassador Leela Ponappa, Dy. NSA and Vice-Chairperson, RIS</p> <p><i>Presentation of the Report:</i> Dr. Ram Upendra Das, Senior Fellow, RIS</p> <p><i>Brief Comments/Remarks:</i></p> <ol style="list-style-type: none"> 1. Dr. H. Nishimura, Executive Director, ERIA 2. Dr. Cyrus Rustomjee, Director, Economic Affairs Division, Commonwealth Secretariat, London 3. Dr. Tim Wise, Director, Research and Public Policy, GDAE, Tufts University <p><i>Valedictory Address:</i> Ambassador H. S. Puri, Secretary (ER), Ministry of External Affairs</p> <p><i>Vote of Thanks:</i> Dr. Nagesh Kumar, Director-General, RIS</p>

the evolution of the EAS as an annual forum for dialogue on regional issues bringing together ASEAN10 and their six dialogue partners, viz. Japan, China, India, Korea, Australia and New Zealand. The Conference also lauded a Track-II feasibility study of a Comprehensive Economic Partnership Arrangement of East Asia (CEPEA) bringing together the 16 member countries of EAS emphasizing on economic cooperation as a key pillar of the regional arrangement rather than domination by trade liberalisation. They also appreciated the exemplary progress made by the regional economic think-tank called Economic Research Institute of ASEAN and East Asia (ERIA) created within the framework of the EAS.

Creating Regional Financial Architecture in Asia

The Conference realised the need for institutional intermediation between growing foreign exchange reserves of Asian countries and widening infrastructure deficits in Asia and for funding the cross-country infrastructure. There is a need to study whether such an institutional intermediation could be provided by the existing regional institutions such as the Asian Development Bank. Among other avenues for financial and monetary cooperation include creation of an Asian Currency Unit (ACU) as a unit of account for facilitating intra-regional trade and exchange rate stability within the EAS region, strengthening and development of Asian Bond Markets. EAS could also create a virtual EAS secretariat and an EAS Caucus for coordinating their positions at the global institutions. For facilitating regional financial cooperation, EAS could consider creating an annual meeting of EAS Finance Ministers and central bank governors alongside the Economic Ministers' Meetings. A creation of an Asian Financial Stability Dialogue as a regional coordination mechanism for surveillance and prevention of crisis was also deliberated upon and proposed.

Deepening and Expanding Regional Cooperation in South Asia

The Conference emphasized that the SAARC region cannot be exclusively driven by a defensive response to the pressures of globalisation but must rediscover for itself the compelling logic underlining a process of constructive regionalism. This is of paramount importance especially in the wake of the current financial meltdown. In this context, the work on greater economic integration in the region on trade in goods needs to be complemented by expanding its scope to cover trade in services at the policy level. Focus should be given on

efficiency-seeking industrial restructuring especially through investment cooperation and facilitation in the region by concentrating on vertical integration and horizontal specialisation in different sectors in order to build supply capacities across the countries in the region. Further, the Conference emphasised on strengthening trade facilitation infrastructure along with physical infrastructural connectivity. Eventually, these efforts should lead towards a 'South Asian Economic Union'.

South-South Trade and Cooperation financed by Southern Resources

The Conference took cognizance of the fact that the crisis has also highlighted the importance of South-South Cooperation and discussed the initiatives to promote South-South Cooperation in trade, investment, finance, technology, sharing of development experiences and capacity-building. The Conference suggested strengthening of the IBSA Trilateral Commission, the GSTP-III and the South Bank among other initiatives. In this context of S-S cooperation, one of the proposals for invigorating South-South trade and development of supply capacities was made in terms of tapping the Southern financial resources, especially through the South-South FDI flows, foreign exchange reserves and technology transfers. Exploring the opportunities for monetary and financial cooperation including a South Bank was also proposed. Capability building for harnessing fruits of modern science and technologies, cooperation for energy security, exchange of development experiences and for increasing South's bargaining power in multilateral negotiations were also suggested.

Democratisation of the IMF

The Conference advocated addressing the democracy-deficit in the decision-making processes in the multilateral financial institutions. Adequate consideration needs to be given to the proposal that the quota/subscription of the IMF members should be in proportion to a combination of population and the GDP in Purchasing Power Parity (PPP) terms and subject to modification every ten years or so. No country should have a veto power on major decisions which should be subject to support of the standard two-thirds majority. The new IMF must represent the

economic power structure of today not of 1944. It must come closer to becoming a central bank of the world, with power to issue world currency and regulatory authority over the financial systems of the world.

Rethinking on the Relative Roles of State and Markets

The Conference underscored the role of public investment, strategic national trade and industrial policies and agricultural and services sectors policies in the light of development experiences available from developed countries, newly industrialized countries in Asia and others.

The case of selective and time bound infant industry promotion and protection is now well established besides interventions for building technological capabilities by promoting R&D activity, appropriate IPR regimes and selective approaches to foreign direct investment. In the light of these, there is need to redefine the conditionalities imposed by the Bretton Woods Institutions as a part of the structural adjustment programmes that have tended to emphasize the role of markets and liberalisation of trade and investment policies under the so-called Washington Consensus. The multilateral trade negotiations

should also take into account the need for policy space for developing countries in the negotiating proposals and incorporate them in special and differential treatment programmes adequately.

Collaboration and Coordination among Think-Tanks on Global Developmental Issues

The conference felt that a closer and sustained academic collaboration among think tanks of the South on global economic issues is imperative to help translating visionary ideas into practical policy prescriptions. To this end, policy-training and capacity-building in research among the Southern think-tanks would be crucial. This could be envisaged as a part of wider efforts to cooperate in terms of sharing of developmental experiences, including the responses to crisis, understanding the transmission mechanisms and crisis-prevention in future. This would also give an opportunity to build on the existing cultural linkages across the developing world.

Hopefully, these efforts would make the world economically more equitable and sustainable in future. Towards this goal, imperatives of designing a 'Southern Consensus' on a new development paradigm cannot be overemphasised.

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- #36 *Back to the Drawing Board: No Basis for Concluding the Doha Round of Negotiations*, April 2008
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- #33 *Broader Regional Economic Integration in Asia: An Agenda for the East Asia Summit – Report of the RIS-ISEAS-IDE Sixth High-Level Conference on Asian Economic Integration*, November 2007.
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RIS
Research and Information System
for Developing Countries

Core IV-B, Fourth Floor
India Habitat Centre
Lodhi Road, New Delhi-110 003, India.
Ph. 91-11-24682177-80
Fax: 91-11-24682173-74-75
Email: dgoffice@ris.org.in
Websites: <http://www.ris.org.in>
<http://www.newasiaforum.org>