



**Pacific Economic Cooperation Council (PECC)  
Strategic Meeting and State of the Region Discussion  
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## **Introduction**

1. For some years, PECC has held meetings in Osaka early each year, with the support of the Kansai Institute for Economic and Social Research. The prime business was a discussion of the forecasts being developed for the Pacific Economic Outlook although there was always some input from the “structural” group which was based in the Kansai and which struggled to keep alive within PECC a more Japanese approach to understanding long-term economic changes through inductive study since the “forecast” group was dominated by “western” notions of policy-dominated economic management. (This simplification exaggerates the difference and the discussion among economists could readily bridge the gap, but non-economists often found the “structural” group esoteric and introverted – but then they often thought the forecasters specialized and out of touch with business and political opinion.) In recent years, the Osaka meetings have also been used to discuss the annual State of the Region report. The agenda for this year’s meeting included a recommendation from the chair, Woo Yuen Pau, that we should discontinue the Pacific Economic Outlook forecasts and build on the recognition that has been achieved by the surveys undertaken for the State of the Region report.

2. In addition, the global financial and economic crisis brought into sharp relief the need for PECC to demonstrate its relevance to the regional agenda. The 1997 Asian Crisis showed that Western ideas that organizations like APEC and PECC should confine themselves to their precise mandates were inconsistent with Asian ideas that communities should respond to the needs of their members; in practice, the Asian approach prevailed, and APEC and PECC suffered from a slow realization of that. Furthermore, since 1997-98, Asian regionalism has grown much more strongly than the PECC-APEC vision of “open regionalism” throughout the wider Asia-Pacific region. The two agendas are not incompatible, but neither does Asian regionalism guarantee continuation of the APEC-PECC vision. There is

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therefore an urgent need for PECC to demonstrate that it can provide leadership in the Asia-Pacific response to current circumstances.

3. It quickly became apparent that the gathering in Osaka brought together people with diverse ideas. The idea of “global imbalances” surfaced immediately. In the area of international trade, “imbalances” are what generates exports and imports, and almost nobody suggests that such imbalances should be eliminated. (One participant did infer from advocacy of putting less emphasis on export-led growth, that exports should be diminished, but as one would expect in a PECC gathering, most realized that the appropriate target is more consumption-led growth without any diminution in the process of regional economic integration.) Why should we not expect some specialisation in saving and some in investing and would that not appear to be persistence of “imbalances”? Even when we acknowledge that financial flows are currently from poorer countries to affluent countries like the US, we should not think we have identified something anomalous. International capital flows have always been from regions where there is net saving to regions where there is a net demand for investment funds and the latter have often had higher incomes; they have not been flows of charity from rich to poor. The US had a higher income level than most of Europe when the largest financial flows in the international economy in the nineteenth century were from Europe to the US. (This is especially obvious to a New Zealand economic historian since New Zealand’s economic growth depended above all on being a minor component of the same capital flow to relatively rich communities.)

4. Similarly, it was suggested that the evolution of a US banking problem into a global economic and financial crisis shows that “decoupling” has not occurred. The international economy guarantees interdependence will not reduce to zero, but it is only a primitive notion of “decoupling” that is inconsistent with a reduction in the direct importance of the US economy for world trends. Most reviews of the Asian economies suggest that while far from unaffected by the current international issues, they are not as much affected as many American observers believe.

### **Symposium on the current economic situation**

5. Divergent starting positions, along with a collaborative atmosphere, generated good discussions of both current and prospective developments, and the positioning of PECC in the regional debate. The symposium was conducted under Chatham House rules and so attributions to individuals are not made here.

## **The Impact of the Crisis on the Region**

6. In the first session, the key presentation was by Akira Ariyoshi, director of the regional office for Asia and the Pacific of the IMF, and comments were provided by Yoshihisa Inada, Konan University, Li Jing, deputy director of the Economic Institute, Capital University of Economics and Business, Beijing, Peter Petri, Brandeis University, currently with the ADBI, and Jusuf Wanandi of INCPEC.

7. The IMF has been continually downgrading its forecasts - by about 1% a month - but hopefully this has bottomed. The reductions have been imposed from the top, bottom up forecasters being too optimistic and not consistent. The IMF still expects recovery, but that is largely an implication of the methodology and there remain key risks from the US housing market and the finance sector. The impact on Asia has been through the traditional channel of trade linkages rather than through financial links

## **Policy Responses to the Economic Crisis**

8. The second session featured a presentation by Masahiro Kawai of ADBI with comments by Peter Petri, Tan Khee Giap of SINPEC and Nanyang Technological University, Soogil Young of KOPEC, Li Jing and me. The notes I used as a basis for my comments are appended.

9. There has been growing independence of trends in the US and Asia, but cycles have not been becoming more distinct. Furthermore, Asian exports are now about 50% Asian and 50% non-Asian but the growth of intra-Asian trade in intermediate goods means that exports are still two-thirds non-Asian by final demand. This has been a long-term development rather than one associated with the current situation.

10. Standard economic modeling of a decline in the US balance of payments deficit shows that Asian output of vehicles, machinery and electronics declines while services and agriculture increases. The real exchange rate change works! Growth and productivity effects which could alter these conclusions might not be negligible.

11. The US may not return to its previous trend and US consumption may not return as a driver of world growth.

## **Implications for International Cooperation**

12. The principal presentation was by Hadi Soesastro, read in his absence by Jusuf Wanandi, with commentaries by Charles Morrison, Giovanni Campanelli, a senior economist with the Office of Regional Economic Integration at ADB, Yoshiji Nogami of JANCPEC and Mei Ping of CNCPEC.

13. There was useful discussion of Asian co-ordination in preparation for the G20, which was characterized by realism about what could be expected from the G20 and a wish for practical measures rather than rhetoric about international architecture.

## **Restoring Confidence in the US Global Trading System**

14. The main presentation was by Peter Petri with commentaries by Jusuf Wanandi, Ippei Yamazawa of JANPEC and me. The notes from which I constructed my comments are attached.

15. It is not immediately obvious why the downturn in trade is so large. Income elasticities do not provide an adequate answer; protectionism is mostly prospective; trade finance might contribute but there is not any evidence for assessing a very large effect; to suggest a permanent demand shock associated with an end to the "world factory" seems to be premature; and that leaves us with a transitory demand shock, made large by the fact that we are dealing with consumer durables so that there is a kind of marginal-average relationship between annual sales and stock levels. That means the absence of sales could go on for some time yet.

16. The World Bank report on rising protection is worrying. Doug Irwin has reassessed Smoot Hawley as accounting for about a 4-6% decline in imports whereas the drop in the 1930s was 66%, but the protectionism of the 30s was in exchange rates, capital market interventions and quotas rather than tariffs.

17. Whereas I argued that a surveillance mechanism should deal with economic integration as a whole rather than only with trade, others would prefer more specialization. I remain of the view that the greater interdependence of economies makes any attempt to separate trade from other interactions unwise. There was widespread support for the notion that a surveillance mechanism needs independence from governments, but it was also observed that access to government information would be required. We need something like the role of experts in IAP reviews, but with even more independence. We have to be realistic

and accept that politics will intrude. Nevertheless, there should be concern with long-term implications. In the 1934 Reciprocal Trade Act, reciprocity was a worthwhile price to pay for securing some freedom of US trade policy from political pressures in Congress. That freedom has now been undermined, but the nonsense of “reciprocity” remains as a long-term drag on the progress of economic integration. Some small elements of protection may be a reasonable price to pay for development, but even Hawley-Smoot was rationalized as an instrument of development.

18. There was some support for arguments like those of Dani Rodrik, that the WTO disciplines should be applied flexibly. National peculiarities have to be understood, but flexibility should not be allowed to undermine agreed disciplines.

19. It was suggested that a post-2020 APEC agenda should enable economies to “graduate” from the IAP process. Creating an incentive to achieve a sensible interpretation of “free and open trade and investment” is sensible, but the widening agenda of economic integration guarantees that the process is permanent.

20. It is easy to assume that recession promotes social cohesion, but experience in the 1930s and in subsequent recessions was that alleged cohesion was often a disguise for intensified social tension. In any depression, some people gain, others are unaffected, and some lose, often greatly. Differential individual outcomes, and even more uncertainty about whether one was going to slide into a more disadvantaged group, is the core of depression experiences.

21. These tensions may be international rather than domestic. There were some thoughts along the lines of “letting the Chinese get away with it”, seeing them as the only ones exempt from sharing the losses on toxic assets. I can see no reason for China to share the results of US actions.

### **Visiting speakers**

22. A luncheon speaker was Yoshihiro Watanabe, chief risk officer for Mitsubishi UFJ Financial Group and Chair of the Finance and Economics Working Group of ABAC. He was very interesting on the different cultures of Japanese and American banking which makes it difficult for the former to substitute if the latter reduce their exposure in Asia.

23. The dinner speaker was Kenji Hiramatsu, Japan's Senior Official for APEC who discussed how Singapore, Japan and US are trying to work together on the next three years of APEC. Japan's year of 2010 is significant for the Bogor Goals and Japan will seek to enunciate a new vision for APEC. It is not likely to be a very economic one as he has little hope for the integration of the original trinity of trade and investment liberalization, trade and investment facilitation and economic & technical co-operation, with the structural reform agenda of the Economic Committee and the financial integration agenda of the FMP. PECC is probably 10 years ahead of APEC on labour mobility but APEC's hand may be forced by provisions about labour mobility in RTAs. He wants APEC to rethink the balance of binding and voluntary and to work on FTAAP. In the following two years APEC will be chaired by Russia and Indonesia.

### **PECC plans**

24. I presented the proposal for PECC work on trade issues which has been developed mostly by Rob Scollay. It has two parts: responses to the crisis, and medium term developments, The former would include protectionism, explaining the drop in trade, Asia Pacific perspective on Doha, and new issues like climate change. The latter could include cumulation in rules of origin, logistics (an ABAC priority), convergences and divergences, food security (another ABAC priority) and steps towards a comprehensive integration agreement. There was some resistance to a technical economic discussion but I argued that we need people who know what they are talking about but who can address a wider audience.

25. KOPEC is keen that PECC should discuss the idea of a "green economic community" and although there are pressures to focus on matters closely related to the crisis, we should not disdain medium term issues. Nor should we forget the "value of message" – there is a case for something like the Miyakawa Quality of Life report.

26. The symposium generated widespread support for PECC work on how to revive the global economy - fiscal stimuli, bad debts, and the trade system along the lines of surveillance.

27. For the State of the Region Report there is a desire for the survey of opinion leaders to be more frequent and more centralized. I think it is easy to underestimate how much legwork is required in each economy - a more frequent survey would have to be more centralised, but I am not sure that response rates will be maintained.

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28. I do not oppose abandoning the forecasts in the PEO – other forecasts are more timely and no less consistent than those which can be assembled by PECC. However, we need within PECC economic expertise such as the forecasters provided and which is not otherwise present in PECC networks. The forecasters were far from narrow specialists concerned only with the technical issues of forecasting; they ensured a spread of knowledge of institutions in processes throughout PECC economies and they brought economic expertise to bear on regional issues.

## **Conclusions**

29. The conclusions of the symposium and other discussions will be input to the PECC General Meeting in Washington in May.

30. This report has been rather delayed by my travel in Europe. I was interested that my comments in session 2 on the London Summit were an accurate forecast. I was even more interested that reporting of the Summit in the European media treated it as essentially a meeting of the US President, the British PM, the French president, and the German Chancellor. There was hardly any mention of China, let alone any other part of Asia. The Asia Pacific Region has to ensure that the main issue for the world economy is not seen as finding a compromise between US desire for other countries to burden their taxpayers to support US exporters and European wishes to revive the fabled past when the world was ruled by European intelligence and American wealth. There is plenty of room for PECC to lead towards an Asia-Pacific strategy.

31. I would still advocate the overwhelming importance of employing up-to-date analysis, and not relying on conventional beliefs from past political and journalistic reflections. PECC work should be characterised by

- Serious analysis of how the Asia Pacific region has been affected by recent economic and financial developments and how these are likely to develop in the future; this would follow up on the importance of trade linkages relative to financial ones. It would also address the question of whether our ability to monitor world and regional developments can be improved.
- It would focus on the continuation of market-led integration within Asia. Promoting a transparency mechanism to distinguish adaptation to change from protectionism would be a component of this.
- It would avoid outdated debate about whether or not RTAs are stumbling blocks or building blocks, and would recognize that economic integration now has a wide agenda that makes it inconceivable that all members of the WTO are going

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to integrate in the same way; RTAs will be the vehicle of groups of economies which wish to move forward.

- FTAAP is unlikely to be a traditional free trade agreement, but may well be the key mechanism whereby East Asian regional integration is reconciled with the vision of free and open trade and investment in the Asia Pacific Region.

## **Session 2 Policy responses to the Economic Crisis: Notes for commentary by Gary Hawke (see para 8)**

Short-term and long term, but fundamentally, we need to think. We might well turn to Keynes, but not to the simplifications of Keynesian thought that was barely a guide to policy in the 1930s and is certainly not now, but to thoughts like The more do I fear seeing men like you in authority responding to today's problems with yesterday's ideas

Or

Keynes, "The Great Slump of 1930" (December, 1930)

We have involved ourselves in a colossal muddle, having blundered in the control of a delicate machine, the working of which we do not understand.

Note, "we do not understand". And proceeding to policy responses without understanding is stupid.

Kennedy in 1962:

Most of us are conditioned for many years to have a political viewpoint, Republican or Democratic, liberal, conservative, moderate. . . . [But] the fact of the matter is that most of the problems, or at least many of them, that we now face are technical problems, are administrative problems. They are very sophisticated judgments which do not lend themselves to the great sort of 'passionate movements' which have stirred this country so often in the past. Now they deal with questions which are beyond the comprehension of most men. Kennedy's point was about the physical sciences but it should now be asked about social sciences too. Political rhetoric is no substitute for knowledge. We might even say that the biggest challenge to the world now is not terrorism but economic illiteracy, especially in the US Congress.

It is understandable that there should be a lot of emotion, whether it be American complaints about executives receiving bonuses or Chinese anxiety about who is being blamed. I note especially a description which identified a

“throng of greedy speculators anxious to work the credit system, to the utmost extent, lenders [who were] utter[ly] reckless in making advances... borrowers [possessed by] unparalleled avidity in profiting by the occasion” all leaped at the ‘apparently boundless amount of capital waiting to be borrowed.” .

But that is Evans History of the Commercial Crisis in 1857-58 p. 257. We might note that much learning is temporary or that every generation has to learn by doing as much as by study of previous experiences – we might also realize that the media and public in one of its periodic fits of righteousness is no more attractive now than it was to Oscar Wilde.

Kevin Rudd “The Global Financial Crisis” The Monthly 42 (February 2009) rightly concluded that “Bewilderment, however, rapidly turns to anger” (p. 21) but the rest of his article might be interpreted as showing, rather than merely stating, that “emotion is a poor guide to diagnosis”.

The London Summit seems likely to have three agendas:

1. A US demand that everybody else inflate their economies to provide a market for US exports.
2. A European demand that we introduce new global regulatory systems to allow Europe to regain the ability it had in its glorious past to control decisions made in the US and the rest of the world, and
3. A Chinese demand that more attention be paid to the voices of China and of the developing world.

The first task of analysis is to discern what is sensible in each of these agendas.

### **Fiscal stimulus**

If government spending were the road to salvation we would not wait for a crisis before embarking on it with enthusiasm. We must expect the current enthusiasm for government expenditure funded by borrowing to raise interest rates and reduce living standards in the future. That is not a statement of political belief; it is a matter of economic analysis.

Government expenditure activity needs to be focused on informational and co-ordination issues. What can we do together than we cannot do separately? If investors and entrepreneurs are deterred from acting because their plans depend

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on the actions of other investors and entrepreneurs, collective action may provide desirable assurance. That is the core argument for fiscal stimulus now.

Note that that formulation is independent of consumption or investment. Robert B. Zoellick and Justin Yifu Lin "Recovery Rides on the 'G2'" Washington Post 6 March, 2009, p. A14 recently wrote:

"The United States is again relying on boosting consumption, and China is again channeling funds to investment. While this is a natural response to the immediate concerns, over time the United States must boost savings and investment while China increases consumption, not just capacity."

I doubt whether Chinese time-preference is easily subject to policy intervention. But it is not sensible to restrict future living standards in the search for a quick fix now. If the coordination issues relate to investment plans, Chinese fiscal policy is appropriately directed to investment rather than consumption.

## **Regulation**

Some financial decisions of the 1980s have proved to be wrong. We would now make a different assessment of the balance of advantage between flexibility and transparency in how we organize markets in derivatives. Rating agencies need new ways to assess securitized assets. But a generalized resort to simply more regulation would be absurd. There is no reason to think that more intense or more extensive application of regulation would have had any impact on the crisis – or any impact elsewhere other than to have reduced gains in living standards in the last twenty years.

Jerry Jordan, former President of the Federal Reserve Bank of Cleveland and member of the Open Market Committee, recently identified the two key causes of the crisis, excessively expansionary monetary policy after 9/11 continuing until 2006 before neutrality was reached, and politicization of the home mortgage market. Regulation figures only as part of that second cause.

Thoughts of global regulation are even more in need of careful focus. "The New International Economic Order" of the 1970s produced nothing new, was not international in focus, was not economic in motivation, and would have generated the reverse of order. There is no point in reviving it now. We should look at experience in developing co-operation among central banks - Claudia Borrio, Gianni Toniolo, and Piet Clement (eds) Past and Future of Central Bank

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Cooperation (Cambridge: CUP Studies in Macroeconomic History, 2008) and sort out the precise steps which would assist in allowing rating agencies and others to make better risk assessments. A good starting point is to remember that risk is reduced by diversification, not consolidation. Dani Rodrik "A Plan B for global finance", Economist 14 March 2009 p. 72 is right that global regulation is neither feasible nor desirable even if his plea that economies should be allowed to be distinctive is exaggerated.

### **Varied voices**

Voices should be assessed by the quality of the analysis underlying what they say.

But while the element of short term policy responses which has the strongest analytical support is means to detect and avoid protectionism, we must expect that to be greeted with suspicion. Whose protectionism? The context must be economic integration, not market access. The protectionism may be about the number of migrants permitted to enter an economy or about the ability of cross-border drivers to operate without spurious claims about safety.

And the developing world wants assurance against volatility. This is where financial response become relevant. The Asian issue is to defend reserves against being raided to support consumption elsewhere, not requiring increases in liquidity now. That was yesterday's problem. Cf Barry Eichengreen "The G20 and the Crisis" East Asia Forum 10 March 2009 including giving emerging markets with sound policies access to large, long-duration, unconditional credit lines at the IMF.

The "with sound policies" reintroduces conditionality. There is no doubt that governance of the IMF needs change – the entire role of executive directors as well as relative representation of economies – but that is not where we need intellectual analysis now. What difference does it make when the IMF is seen as an insurance against volatility rather than a financial monitor?

### **Conclusion**

Victor Fung recently wrote in Richard Baldwin and Simon Everett (eds) The collapse of global trade, murky protectionism and the crisis: recommendations for the G20. p.35:

“We want neither to underestimate the problem, nor to give in to exaggerations. Victor is right to emphasize confidence. Responding to changes in export markets is familiar ground; delaying with confidence in the monetary system, and using fiscal policy as an instrument for generating confidence requires more creative thinking.”

We must be realistic. In the course of a mostly misguided comment on the London Summit, the Economist 14 March 2009. p. 11 concluded:  
However well governments design their policies, unemployment is going to rise sharply for some time. At best it will blight millions of lives for years. The politicians’ task is to make sure misery is not measured in decades.  
That might be pessimistic, but it is sobering.

#### **Session 4 Restoring Confidence in the Global Trading System Notes for commentary by Gary Hawke (see para 14)**

“Global trading system” immediately makes us think of trade and protectionism.

A key requirement is a credible surveillance mechanism to track any additional protection. This is essentially a proposal for transparency. It should include even “WTO-consistent” increases in protection, not only because the well-known gap between actual tariffs and WTO-bound tariff rates creates a clear opportunity for “WTO consistent” protectionism, but also because there will be genuine uncertainty over whether incidental protective effects of assistance measures adopted for other reasons should be tolerated. Individual government leaders may be uncertain, and tensions between government agencies will enhance or even create uncertainty. Our thinking should not be in terms of legality, or even of name and shame. It should be a consultative approach to whether proposed interventions are best conceived as facilitating adjustment towards the comparative advantage of the future or as protection of existing interests.

Two major implications follow from this analysis:

1. Compilation of the surveillance record should be entrusted to an independent economic institution. We cannot expect governments, with their need to retain political support to be scrupulous in assessing what is unintended and reasonable from what is protectionist; and

2. The mechanism should be regarded as a basis for dialogue, and not a list of transgressions. It is unlikely that governments would agree to the mechanism on any other basis, but more important, there will be room for genuine disagreement on whether a particular measure is justified adjustment assistance or additional protectionism, and constructive dialogue offers the best prospects for mutual agreement. Asian processes of agreed objectives and peer review of progress, as used in PECC and APEC, offer better prospects than Anglo-Saxon notions of accountability and monitoring.

There are some steps being taken in the recommended direction. Pascal Lamy has promoted a transparency mechanism at the WTO - but the WTO is essentially an inter-government body and it is governed by legalism. OECD has a focus is services and is developing a trade restrictiveness index which intended to play the role which PSEs achieved for agricultural trade in earlier times. Pilots are being developed on telecoms, business services and construction - but OECD is also governmental and air services are much too sensitive for PECC to tackle. Peter Gallagher and Andrew L. Stoler, in Richard Baldwin and Simon Everett (eds) *The collapse of global trade, murky protectionism and the crisis: recommendations for the G20* pp. 75-77, suggest a G20 web-based mechanism, but although they propose notification of complaints by governments or private persons (a welcome inclusion of the private sector) subject to moderation (by an unspecified authority), they allow too little for consideration of what measures can be justified even if they have an incidental protective effect. We need an intermediate step wherein a qualified independent agency stimulates a dialogue. So there is room for an Asia Pacific initiative.

Note services. The protectionism we are worrying about is not the protectionism of the 1930s. What we want is confidence in economic integration, not just in the global trading system.

Anthony Faiola Washington Post 18 March p. D01 publicised a World Bank report: At least 17 of the 20 major nations that vowed at a November summit to avoid protectionist steps that could spark a global trade war have violated that promise, with countries from Russia to the United States to China enacting measures aimed at limiting the flow of imported goods.

Only a third of the 47 measures listed by the World Bank concern tariffs - Ecuador has raised tariffs on 600 products - but most are taking more creative steps that fall into the gray area of what is considered legal under international trade law.

Argentina, for example, has put new licensing requirements on auto parts, textiles, televisions, toys, shoes and leather goods that create a new layer of bureaucracy for overseas exporters. The European Union announced new export subsidies on butter, cheese and milk powder. China and India have increased the tax rebates for domestic exporters, seen by critics as providing a stealth subsidy that makes their products unfairly cheaper abroad.

Although some measures raise questions of legality - New York Times editorial, 19 March, p. A30 argues that the US has NAFTA obligations to permit access by Mexican trucks and the safety issues raised by the Teamsters are spurious - but we do not want a long legal process. It is likely that not only did Obama not want to prejudice the spending bill as reported by the New York Times, but he probably did not think that the concession to the Teamsters had anything to do with the global trading system. It is more difficult to miss its connection with economic integration which might even fit into the political rhetoric as more positive than trade - as the New York Times said, "President Obama has so far shown a worrying ambivalence about trade." But we might also note that a rousing speech on protectionism by Rudd was followed by a statement that Australia was reducing immigration quotas.

If the thinking were about economic integration, would the nominee to be USTR have given evidence: "It is true that cheaper foreign products helped squeezed American families stretch their dollars, and the sale of our goods and services abroad support American families," he said. "But it is also true that the overarching benefits of trade are difficult to appreciate when a plant closes in a small community because of increased foreign competition."

Perhaps? Some NGOs and academics would happily move the attack from trade to globalization, but at least there would be a clearer distinction between analysis and advocacy.

The appropriate focus is indeed confidence. So we come back to financial co-operation as assurance about volatility. We also come to the social safety net.

Hard-headed thinking is just as necessary here as it is elsewhere. It is not only the US car industry which shows how opportunists are lining up to secure government subsidies for initiatives which are only loosely related to the global crisis. We should not forget what Asian economies taught us from the 1960s to the 1980s, that government should always facilitate adjustment and not protect

declining activities, and this applies to social protection as well industrial assistance.

The demand for a social safety net will come not only from the disadvantaged but from those who fear they might be about to become disadvantaged. We can learn from the Depression of the 1930s just as we can about protectionism and the likelihood that policy intervention can exacerbate problems even when well-intentioned. Depressions and crises generate thoughts of cohesion, a combined effort to deal with hardship. But they generate insecurity, especially because hardships are not shared equally. The experience of unemployment is not the same as apprehension about future employment. It is only too likely that poorly managed extension of social protection provides subsidy to those whose only problem is insecurity while doing nothing at all for those experiencing poverty. (I have no objection towards a response to apprehension by the relatively well off; the private insurance market is to be welcomed. The wisdom of collective intervention depends on identification of information or co-ordination issues as it does in any other market.)

In this, as in other aspects of responding to the crisis, we should always remember how much of Asian growth has been due to cross-border production and supply networks. The argument for co-operation is economic, not political confidence-building. The transparency mechanism of the Asia Pacific should deal with economic integration, not just because the trade agenda is now much wider than it was 50 years ago, but because the well-being of the community knows no artificial boundaries.

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