

Suman Bery: India in Asia

How far has the global crisis altered India's role in Asia?

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The concept of Asia has ever been fluid and elusive, for outsiders as much as within the region. The Romans invented the name to refer to the lands beyond the Mediterranean explored by Alexander. Asia Minor, Rome's "near abroad", is current day Anatolia in Turkey.

In the medieval era, it would have been more appropriate to talk in terms of Muslim, Chinese and Indian spheres of influence rather than a common Asian consciousness. However, as pointed out by Nayan Chanda (in his book *Bound Together*), a fragile cultural unity had earlier been established through the tireless efforts of Buddhist itinerant monks.

Post-war Asia as an economic entity was shaped by the triple influences of America's victory over Japan, the American presence in South-East Asia during the war in Viet Nam, and Japan's stunning post-war recovery and growth. Underpinned by the security alliance between Japan and the United States, and with the successful resolution of the insurgency in the Malay peninsula in the 1960s, the region embarked on an era of sustained, high economic growth that came to be seen by the early 1990s as the "East Asia miracle".

Through this period, India remained for the most part an envious bystander as it was steadily outstripped by former peers. China also remained substantially aloof. "Asia" in the popular discourse of the time began at the Thai-Burmese border and extended as far as Hokkaido in Japan.

That the boundaries are once again shifting became clear to me in a recent conference hosted by the Federal Reserve Bank of San Francisco that I was privileged to attend. As readers would be aware, US central banking is operated as a federal system of 12 regional Federal Reserve banks. These, in turn, participate as members of the Board of Governors located in Washington. Ben Bernanke is the current chairman of the Board of Governors of the Federal Reserve.

Entitled the "Asia Economic Policy Conference", the conference is envisaged as the first in an annual series to discuss economic and financial developments in Asia; the theme for this first conference was "Asia and the global financial crisis". The significance attached to the conference was symbolised by the presence of Chairman Bernanke for the entire first day of the conference, including the delivery of a keynote speech to which I will refer in a minute.

Of particular interest to me was the prominent role accorded to the Indian economy in the conference proceedings and papers. Rakesh Mohan, currently a visiting professor at Stanford, chaired the entire first morning and had the privilege of introducing Chairman Bernanke. The academic papers similarly gave India central prominence in their discussions of emerging Asia.

Even as recently as five years ago, India would not necessarily have been included in this group. The shift in attitudes reflects several years of fast Indian growth, and the expectation that the economy will recover quickly following the crisis. I also sensed considerable respect for the management of the Indian economy, both in the run-up to the crisis and in its aftermath. While central banks from throughout Asia were present, the absence of any Chinese participation was striking.

The conference was held in mid-October, somewhat more than a year after the fateful decision to permit Lehman Brothers to declare bankruptcy, the event that really brought the crisis to Asia. Chairman Bernanke's speech and other papers at the conference accordingly looked at the past year to see how individual Asian countries had fared, who had been most hurt, and why Asian emerging economies were now recovering relatively quickly. Other papers

examined the issue in greater depth, comparing various Asian countries with each other, with other regions and important emerging markets, and with the experience of some Asian countries.

There are many ways of measuring the impact of the crisis, and much depends on the choice of dates used to define the crisis period. It is clear that some parts of Asia — particularly the “newly” industrialised economies of Hong Kong, Korea, Singapore and Taiwan — were hit very hard, just as hard as the countries of central and eastern Europe. In terms of external trade, their distress was no less than in the Asian crisis of 1997.

Indeed, for a crisis that originated outside the region, the biggest surprise was the dramatic fall in exports in the two quarters following the Lehman collapse. With hindsight, this had less to do with the drying up of trade finance, and more with the region’s dependence on manufactured goods, particularly consumer durables and electronics which were sensitive to consumer demand in the United States. The widely dispersed supply chains through the region, in turn, served as a powerful transmission device.

An additional factor was the degree of financial openness of each economy. This had its effect less through direct exposure to toxic securities overseas or even credit problems domestically, and more through the sudden switching of credit by foreign institutions in response to capital and liquidity squeezes in their home markets.

Three large countries in the region — China, India and Indonesia — while also badly affected when compared to their earlier trend growth, were the only countries which managed to avoid slipping into negative growth, largely because their financial markets are among the least financially open.

What lies ahead for the region and for India? Chairman Bernanke once again expressed the view that global imbalances had been important in generating the crisis. By implication, the global financial system will remain vulnerable if the return to rapid growth leads to a reappearance of these imbalances. If the US current account deficit is to decline, then surpluses elsewhere — notably in Japan, Germany and China — will need to adjust. This is largely a matter of adjusting domestic policy in these countries. Monetary arrangements and exchange rate regimes, though helpful, are secondary.

India’s recent policy performance has given it the legitimacy to engage in these debates at both global and regional levels through its membership in the G-20, and through its participation in the East Asian Summit/Asean+6 grouping as that evolves. While at present Japan, China and the US are the major shapers of Asia’s economic destiny, India’s counsel will increasingly be welcome. Till then, sound domestic management, a balanced economy and a return to fast growth are the most important challenges for our economic managers.

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