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Challenges to Economic Cooperation in the Asia-Pacific Region*

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More than a year has passed since the depreciation of the Thai baht in July 1997 triggered Asia's financial crisis. The spillover of turmoil into other parts of East Asia has been greater than initially expected. Recently, even Russia and some Latin American countries have seemed to be facing similar difficulties, a fact which has added uncertainty to the prospects for recovery in East Asia.

Due to the fact that the crisis broke out in the Asia-Pacific, prospects for recovery thus depend largely on the performance of several important economies in the region. This paper therefore seeks to uncover any possible cooperative schemes which may increase economic stability in the region and perhaps for the world as a whole.

KEYWORDS: **financial crisis; economic cooperation; Asia-Pacific region; exchange rate regimes; capital movement**

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Introduction

More than a year has passed since the depreciation of the Thai baht in July 1997 triggered Asia's financial crisis. The spillover of turmoil into other parts of East Asia has been greater than initially expected. Affected countries in the region have seen not only their currencies drop to their lowest value in a decade, but also their stock markets plunged into chaos. The fact that Russia and some Latin American countries seem to be facing similar difficulties only adds uncertainty to the prospects for recovery in East Asia. At present, no one can reliably forecast when the crisis will end.

Can the "Asian miracle" be revived? What is the outlook for Asia-Pacific economies? Whether the region is able to return to high growth rates depends not only on domestic restructuring but also to a large extent on international factors. In the very short run, the key factor is whether the excessive fluctuation of international financial markets can be curbed, especially the exchange rate of major currencies such as the Japanese yen. Such a stabilization is key not only because those currencies are major transaction vehicles in the world market, but also because continuing devaluation in some markets may have spillover effects into others.

Another factor of particular importance for the region is whether the Chinese *renminbi* and the Hong Kong dollar can maintain parity in the near term. Given China's importance as a partner and competitor for regional economies, its commitment not to devaluate the *renminbi* is considered a crucial element in preventing another wave of crises from sweeping across the region. In defending their currencies, however, both China and Hong Kong are paying a high price in terms of decreasing exports and rising unemployment. As a small open economy with free capital movement, Hong Kong has been under heavy speculative attack by international hedge funds. To avoid the collapse of its currency's U.S. dollar link, the Hong Kong government intervened actively in the stock and futures markets in September 1998 in response to heavy attacks by speculators. Soon thereafter, Hong Kong implemented measures to increase both transparency and transaction costs for international speculators. Although these strategies

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seem to be proving effective in the short run, they have been widely criticized by economists as likely to create long-run difficulties for the Hong Kong economy.

Given that the crisis broke out in, and the prospects for resolution depend largely on the performance of, several important economies in the Asia-Pacific region, one might ask whether there are possible cooperative schemes which might be helpful to the situation in the region and perhaps for the world as a whole. The purpose of this paper is to try to answer this question and propose some ideas that may be helpful to the region.

The structure of the paper is as follows: section two gives a brief explanation of the economic interdependence in the region and its role in the crisis. Section three examines the roots of the crisis and then focuses on discussion of possible regional economic cooperation in response to the crisis. Section four considers how the world is responding and how the effects of the crisis may be mitigated. Section five provides a summary and concluding remarks.

Regional Interdependence and the Recent Performance in Asia

Casual observation confirms that interdependence in terms of trade and capital flows has increased in the Asia-Pacific region. Table 1 shows that the intraregional export and import shares exceed 70 percent in most economies. The statistics indicate a high degree of interdependence in merchandise trade among these economies. A high degree of interdependence implies that events in one country will cause disturbances in others. Therefore a crisis occurring in one particular country, e.g., Thailand, could be spread to other countries through trade channels and then fed back into its own economy.[1]

[1]We focus on the trade side only for illustration. Interdependence in the form of capital flows is another and maybe more important channel allowing the crisis to spill over. Equally important is the psychological factor of contagious panic.

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Table 1
Intraregional Export/Import Share in 1992

Country	Intraregional Exports/ Total Exports	Intraregional Imports/ Total Imports
Canada	87.6	82.3
China	78.7	74.8
Hong Kong	72.9	83.9
Japan	67.4	64.4
South Korea	69.4	69.1
Indonesia	77.7	68.8
Malaysia	77.5*	78.5*
Philippines	76.1	71.8
Singapore	71.6	73.4
Taiwan	75.1	73.3
Thailand	64.1*	69.9*

*Figures for 1991.

Source: APEC Economic Committee, *1995 APEC Economic Outlook* (Singapore: APEC Secretariat, 1995).

As China, Hong Kong, and Taiwan are all located in proximity and have been playing significant roles in the regional economy, it is worthwhile to examine the trend of regional economic interdependence. Table 2 presents the data on cross-Strait trade, which shows a rapid upward trend in both export and import values. This reflects the fact that a market-led and vertically integrated growth triangle is forming.[2] As shown in table 3, Taiwan's export dependence ratio on China increased from 1.7 percent in 1981 to 18.39 percent in 1997, while the total trade ratio rose from 1.05 percent to 11.15 percent in the same period. The corresponding figures for China are not as high as Taiwan's due to the mainland's large economy. Nevertheless, table 4 shows a similar rising trend during this period.

The sharp falls in currencies and stock markets caused by the East Asian financial crisis have had a resounding impact not only in the region but on the world economy as well. The International Monetary Fund (IMF)

[2]Public policies on both sides of the Taiwan Strait have also played an important role in determining the extent to which economic integration has advanced. See APEC Economic Committee, *The Impact of Subregionalism on APEC* (Singapore: APEC Secretariat, 1997).

Table 2
Estimated Figures for Cross-Strait Trade

Unit: US$ million

Year	Exports to China	Imports from China	Total Trade
1981	384.8	75.2	460.0
1985	986.8	115.9	1,102.7
1990	4,394.6	765.4	5,160.0
1995	19,433.8	3,091.4	22,525.2
1996	20,727.3	3,059.8	23,787.1
1997	22,455.2	3,915.4	26,370.6

Source: Mainland Affairs Council, *Liang'an jingji tongji yuebao* (Monthly Report on Cross-Strait Economic Statistics) (Taipei: Mainland Affairs Council, August 1998).

Table 3
Degree of Taiwan's Trade Dependence on China (%)

Year	Exports	Imports	Total Trade
1981	1.70	0.35	1.05
1985	3.21	0.58	2.17
1990	6.54	1.40	4.23
1995	17.40	2.98	10.46
1996	17.87	3.02	10.95
1997	18.39	3.42	11.15

Note: Degree of dependence indicates ratio of Taiwan's exports to/imports from China over Taiwan's total exports/imports.

Source: Same as table 2.

Table 4
Degree of China's Trade Dependence on Taiwan (%)

Year	Exports	Imports	Total Trade
1981	0.34	1.75	1.04
1985	0.42	2.34	1.58
1990	1.23	8.24	4.47
1995	2.08	14.71	8.02
1996	2.03	14.93	8.21
1997	2.14	15.77	8.11

Note: Degree of dependence indicates ratio of China's exports to/imports from Taiwan over China's total exports/imports.

Source: Same as table 2.

Table 5
GDP Growth Rates for Selected APEC Economies (%)

	1996	1997	1998	1998 by WEFA
South Korea	7.1	5.5	–5.0	–3.8
Singapore	7.0	7.8	1.0	1.5
Hong Kong	4.9	5.3	–4.0	–3.5*
Taiwan	5.7	6.8	5.3	5.75*
Thailand	6.7	–0.4	–7.0	–5.8
Indonesia	7.8	5.0	–13.5	–13.5
Malaysia	8.6	7.8	–4.8	–1.3
Philippines	5.7	5.1	1.0	1.5
China	9.7	8.8	8.0	7.2

*Actual figures for the first half of 1998.

Source: APEC Economic Committee, *1998 APEC Economic Outlook* (Singapore: APEC Secretariat, 1998).

WEFA: Wharton Econometric Forecasting Associates.

estimates that world growth will be reduced by more than one percentage point in 1998. Although the impact on the developed countries appears to be limited, economies in the Asia-Pacific region have been severely disrupted. The figures in table 5 indicate the extent of the damage in various Asian economies.

South Korea appears to have fared the worst of the "four little tigers," with an estimated growth in real gross domestic product (GDP) at –4 percent to –5 percent for 1998—a sharp contrast with the high growth rates of the past. Hong Kong, with –2 percent growth in the first quarter and –5 percent in the second, has had its projected growth rate for the year cut from 3.5 percent to –4 percent. Due to the uncertainty of its neighbors, Singapore, considered as having the soundest economic fundamentals in the region, is expected to achieve a growth rate of only 1.0 percent (compared with 7.8 percent in 1997). As an active player in world trade, Taiwan has also been adversely affected, although not the same extent as have the other tigers. Having recorded a growth rate of 5.75 percent for the first half of 1998, its official growth rate forecast for the whole year has now been revised downward to only 5.3 percent—though some pessimistic forecasts by private research institutes put the figure as low as 5.0 percent.

In the case of other member countries of the Association of Southeast Asian Nations (ASEAN), the situation is even worse. Estimates predict a –13.5 percent growth rate for Indonesia in 1998. In Thailand, where the figures for manufacturing output in March 1998 showed a drop of 21 percent over the previous year, the outlook has become even more pessimistic, with the forecast for 1998's economic growth having been revised downward by two and half percentage points from –4.5 percent to –7.0 percent.

The high degree of economic interdependence has been pinpointed as one factor that may have caused the crisis to spread, bringing an economic downturn to the region. Some argue that the threat of such an outcome could hypothetically be minimized if we could reduce the degree of interdependence between economies. In theory, one way to reduce economic interdependence involves steps toward disintegration.[3] This is not a feasible recommendation, however, given the fact that, since the establishment of the Asia-Pacific Economic Cooperation (APEC) forum in 1989, most East Asian economies have benefitted from liberalization and open regionalism in the Asia-Pacific.

An alternative involves attempts to coordinate policy actions through collaboration among economies. But the difficulty here lies in deciding what exactly is to be coordinated. Richard Cooper proposed several aspects that could be coordinated: goals; information; or the choice, magnitude, and timing of policy actions.[4] We will return to these issues later.

Causes of the Crisis[5]

Before addressing the aforementioned issue of cooperation, a look at the roots of the crisis is helpful. As the literature in this area is voluminous,

[3]Richard N. Cooper, "Economic Interdependence and Coordination of Economic Policies," in *Handbook of International Economics*, ed. Ronald W. Jones and Peter B. Kenen (New York: Elsevier Science Publishers, 1985), B:V.

[4]Ibid.

[5]Part of this section was also in Christina Y. Liu and Chun-tien Hu, "How Has Taiwan Withstood Asia's Financial Crisis?" (Paper presented at the Conference of Taiwan's Evolution at the Turn of the Century, Center for Applied Policy Research, Ludwig-Maximilians University, Munich, Germany, June 19, 1998).

it is beyond the scope of this paper to reconcile differing points of view on this issue. In this section, we simply draw attention to those points that are less controversial[6] and are relevant to our discussion in the next section.

Many studies conclude that, among others, the following factors play a prime role in triggering a crisis:

* *Unsustainable economic fundamentals*[7]: Huge external debt together with continuing current account deficit had made some of the economies in East Asia unsustainable. At the end of June 1997, short-term external debt as a percentage of foreign exchange reserves stood at 182, 214, and 153 for Indonesia, South Korea, and Thailand, respectively. The corresponding rates for the Philippines and Malaysia were 88 and 62. High debt ratios imply that the economy is highly vulnerable to speculative attacks, as did in fact happen in those economies.
* *Overinvestment*: In some affected countries, domestic savings had not been sufficient to finance their investments. By the national income identity, this is equivalent to the current account deficit, which has to be financed by foreign capital inflow. In some of the economies, however, the components of their foreign capital inflows contained a large share of short-term loans. Short-term capital flows are vulnerable to current events and may be reversed suddenly. Therefore, when Japan had troubles with its own financial sector, loans might not have been rolled over as before. This might have created serious difficulties for those economies that had used the money for long-term and irreversible investments.
* *Inflexible pegged exchange rate regime*: Many of the hardest hit

[6]It is still debatable even in this regard.

[7]Here it may be necessary to define what the term "fundamentals" encompasses. Some use it to include such elements as economic growth rate, unemployment rate, inflation, and money growth rate, and accordingly do not acknowledge poor fundamentals as a cause of the crisis. See, for example: Paul Krugman, "What Happened to Asia?" (Mimeo, MIT, January 1998); idem, "Saving Asia: It's Time to Get Radical," *Fortune*, September 7, 1998; Jeffrey D. Sachs, "IMF is a Power unto Itself," *Financial Times*, December 11, 1997. We here refer to the debt problem only.

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economies had maintained a rigid dollar-pegged system over a long period. A pegged exchange rate system together with capital account convertibility is prone to attack by speculators.[8] In addition to the lack of sustainability of such a system, a long period of pegged exchange rates may encourage borrowers to ignore exchange rate risk. It also may invite speculative attacks on foreign exchange reserves if fundamentals are weak.

* *Weak financial system and governance*: Most of the affected countries had opened their capital account without having a prudential and adequate monitoring system in place. Moreover, government involvement in the private sector and banks loans only made matters worse.[9] In those badly-affected countries, sharp currency depreciation together with their banking problems propelled the whole financial sector into crisis.
* *Contagion*: Improvements in international transportation and communications give rise to greater economic interdependence. Official barriers to trade and investment have been reduced significantly among regional economies. Financial innovation and open capital mobility make domestic markets inseparable from the world. Shocks to a single economy spill quickly over to other economies, especially to those that have similar fundamentals. Self-fulfilling expectations also cause further panic in the region.
* *Political instability*: Political stability is always a vital cornerstone for a sound economy. Domestic issues in some countries exacerbated their financial problems.

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[8]In theory, there is no a prior preference between a flexible exchange rate system versus a fixed one. What matters is that once a choice is made, the country must then follow consistent policies. See Ramon Mareno and Mark M. Spiegel, "Are Asian Economies Exempt from the 'Impossible Trinity'?: Evidence from Singapore" (Working Paper, no. PB97-01, Center for Pacific Basin Monetary and Economic Studies, Federal Reserve Bank of San Francisco, 1997).

[9]Paul Krugman, in "Saving Asia: It's Time to Get Radical," uses a simple example to show how moral hazard distorts investment. In his example, "over-guaranteed and under-regulated intermediaries can lead to excess investment by the economy as a whole."

World Response and Economic Cooperation

From the viewpoint of the industrialized countries (especially those in Europe), it initially seemed that the impact of the East Asian financial crisis would be limited.[10] Although the IMF called for rescue of the badly-affected economies, regional or multilateral cooperation among APEC members seemed to be discouraged. Although Japan advocated an initiative to form an Asia Fund to help the suffering economies in the early stage of the crisis in 1997, the proposal was not adopted at the Vancouver APEC Leaders Meeting. It was believed then that the IMF could resolve the problem as they had done in the case of Mexico in 1994. However, the IMF rescue packages have since been increasingly questioned and criticized for having failed to restore stability.[11]

Recent developments in Russia and Latin America have wakened the developed countries to the fact that they themselves are not going to escape the crisis unscathed unless they act collectively to mitigate the situation and improve the world economy. At a meeting in London in September 1998, the finance ministers of the Group of Seven launched a concerted drive to stem the turmoil in the global financial markets. In their statement the ministers pledged "close cooperation" in the face of the threat to the world economy posed by the Asian financial crisis. Although the statement itself did not address specific forms of cooperation, many anticipated that the United States and other leading countries would coordinate an expansionary monetary policy in order to stimulate global demand.

About the same time, U.S. President Bill Clinton, in an address to the Council on Foreign Relations in New York, proposed a seven-step plan to bolster the world economy. One centerpiece of his plan is to provide "help for heavily indebted Asian corporations and expanded Export-Import Bank financing." While whether either Clinton's proposal or the G-7 statement

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[10]At the APEC Leaders Meeting in Vancouver, U.S. President Bill Clinton characterized the Asian crisis as just "a few small glitches in the road."

[11]See Sachs, "IMF is a Power unto Itself"; Steven Redelet and Jeffrey D. Sachs, "The East Asian Financial Crisis: Diagnosis, Remedies, Prospects" (Paper presented at the Brookings Panel, Washington, D.C., March 26-27, 1998); and Krugman, "What Happened to Asia?" among others.

will substantively ease the economic crisis is far from clear at present, many countries, especially those in Asia, nevertheless see it as an encouraging sign that world leaders are now dealing with the issue more seriously.

Irrespective of these encouraging signs from the developed economies, how Asian countries can cooperate is still a crucial matter for the region. An old Chinese saying holds that God helps those who help themselves. If Asian countries simply wait for help from the developed countries and do not respond actively and collectively to the crisis themselves, they may have to brace themselves for an even longer and rougher ride. But the crucial problems remain: Who and what are to be coordinated, and how is this cooperation to take place?

Although global resolutions should be respected, they should by no means rule out the possibility of regional cooperation. Leaders of APEC economies recognized that the "global dimensions of these problems suggest the need for a global response." But they also emphasized the need for "regional initiatives to complement and support these efforts" and that "APEC is particularly well suited to play a pivotal role in fostering the kind of dialogue and cooperation on a range of policies."[12] Another APEC document stresses that such subregional trading systems as the North American Free Trade Agreement (NAFTA), the ASEAN Free Trade Area (AFTA), and the Australia-New Zealand Closer Economic Relations and Trade Arrangement (CER) "have on balance advanced global liberalization."[13] It might indeed be easier to restore stability in the region by cooperation on a subregional basis first, with subsequent linkages made among the regions.

If the idea of cooperation on a regional basis is acceptable, what can be coordinated? As mentioned in section two, three possible candidates for coordination are goals, information, and policy. Goals, however, present particular problems of coordination among different economies given the free-rider problem[14] and conflicts of objectives and self-interests.[15] There-

[12]See APEC Economic Leaders Declaration: "Connecting the APEC Community" (Vancouver, Canada, November 25, 1997).

[13]See note 2 above.

[14]Sometimes economies may not want to pay the costs to attain a common goal. They hope to enjoy the benefits without sharing the burden by letting other economies take the actions.

[15]An example is using an export-led policy to stimulate the economy during a world re-

fore, both information and economic policy seem to be the most suitable candidates for cooperation.

Aside from political instability and policies that are considered as closely related to the exercise of sovereignty, there are several aspects of economic policy that could be coordinated. We can address this issue from two different angles: preventing the crisis ex ante and reducing the negative impact of the crisis ex post.[16]

Ex Ante Measures to Prevent the Crisis

1. *Reevaluating the global monetary system*: Since the IMF has been criticized both for its failure to anticipate the crisis and for its inability to restore stability afterward, there has been some discussion about reassessing the role of the IMF in the rapidly changing world, including whether the IMF should be restructured or even replaced with a new framework. President Clinton has spoken of the need for a global conference to plot global financial system reform.[17] This by no means implies that the IMF is incapable of functioning well but rather merely reflects the fact that the world monetary system may need to be restructured fifty years after its establishment.

2. *Bilateral or multilateral programs to deal with current account deficits*: As argued earlier, large current account deficits are considered as one of the factors that triggered the crisis. Experience of the debt problem in Latin America during the 1980s showed that a solution can be achieved by finding ways to help the debtor economies reduce their interest payments, restructure their debts, and so on. Clinton's plan to expand Export-Import Bank financing reflects the urgent need to help viable businesses emerge from their crippling debt problems. This idea can be implemented

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cession. If each country employs the same strategy, recovery is likely to be delayed. See note 3 above.

[16]APEC leaders, in their Vancouver Declaration, "believe it is critically important that [they] move quickly to enhance the capacity of the international system to prevent or, if necessary, to respond to financial crises."

[17]ABAC also recommends convening a regional forum to promote financial and economic stability in the region. See ABAC, "Financial Crisis Task Force Report" (Draft report, APEC Business Advisory Council, 1998).

and enhanced on a bilateral or subregional basis.[18] Similarly, the APEC Business Advisory Council (ABAC) recommends the use of securitization structures for trade receivables and increased lending by the developed country export credit agencies.[19] As long as the problem of current account deficit can be eased, the possibility of mounting a successful attack on the basis of an economy's unsustainability may be at least partially reduced.

3. *Information sharing*: In reality, no individual and no country can obtain perfect information. Each country may possess superior information, especially about their individual policy responses, that can be usefully shared with others. An instance that occurred in Taiwan in 1997 is illustrative. Some observers have argued that the devaluation of the New Taiwan dollar in October 1997 was politically motivated and blame the NT dollar depreciation for triggering subsequent speculative attacks on the Korean won and the Hong Kong dollar. While these events did coincide, it is very difficult to establish political motivation or intervention. If there had been some way to exchange information among the central banks or monetary authorities in the region with regard to their policy actions, unnecessary fluctuation could have been avoided, thus helping to improve the performance of regional economies.[20]

4. *Strengthening the financial and banking systems*: Inappropriate loans and weak supervision of banks have intensified the fallout from the crisis in some economies. The financial and banking sectors in emerging markets, having yet to reach maturity, need to be thoroughly reformed. The necessary restructuring could be carried out with assistance from international institutions such as the IMF and Asian Development Bank (ADB) as well as from the world's leading private banks.

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[18]Taiwan has offered more than US$1.2 billion in the form of low-interest loans, through the local branches of Taiwan's banks, to the overseas Chinese in those suffering economies.

[19]See note 17 above.

[20]Liu and Hu do not believe that is the case. Their argument is based on three aspects: (1) the capability of the Central Bank in Taiwan to anticipate what would happen in response to the NT dollar devaluation; (2) the cost and benefit for Taiwan of devaluating its currency if there would be competitive devaluation in the region; and (3) the objectives of Taiwan's Central Bank. See note 5 above.

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Ex Post Cooperative Measures to Mitigate the Impact of the Crisis

1. *Exchange rate coordination*: Ronald McKinnon argues that the exchange rates in some countries have been overdevalued since the crisis broke out, and that some country needs to take the lead in preventing further devaluation.[21] Economists may not totally agree with this proposal, however. If people do think that stable exchange rates are necessary to a regional economy, the proposal as an option merits open discussion among both government officials and economists. Actually, the recommendation of multilateral currency swaps in ABAC's proposals is considered as a way to reduce exchange fluctuation and could be regarded as a way to coordinate exchange rates in a broader sense.

2. *Bilateral repurchase agreement*: When international speculators launch an attack, it is internationally convertible currency which people need for transactions, while the central banks usually keep their foreign exchange reserves largely in the form of securities. If there is some way to swap security for currency when an emergency occurs, the possibility of collapse can be reduced. Actually, huge foreign exchange reserves exist among several economies in the region, which could in some way be used to defend a specific currency should it come under attack. This kind of agreement could be reached on a bilateral or multilateral basis.

3. *Labor migration policy*: Since July 1997, some countries that are large employers of foreign labor have revised and tightened their policy toward foreign workers.[22] Although designed to reduce domestic unemployment caused by the crisis, this change may not solve the problem because, as argued above, a beggar-thy-neighbor policy is likely to have a rebounding effect in a world of mutually interdependent economies. On the other hand, from a theoretical point of view, a decrease of foreign labor

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[21]Ronald I. McKinnon, "Exchange Rate Coordination for Surmounting the East Asian Currency Crisis" (Paper presented at the Sixth Convention of the East Asian Economic Association, Kitakyushu, Japan, September 4-5, 1998).

[22]See Francis T.M. Lui and Larry D. Qiu, "Cost and Productivity: Trends and Patterns of Specialization in APEC" (Working paper for APEC SOM III Meeting in Kuantan, Economic Committee, 1998).

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would reduce world output as a whole.[23] Therefore, how to coordinate foreign labor policy with steps to tackle domestic unemployment is a challenging task for those economies.

4. *Investment projects revival*: While there were many nonproductive investment projects in the damaged economies, some productive projects which would have been conducive to future growth were canceled or halted as a result of the crisis. International cooperation, in either the public or the private domain, could help to revive those projects[24] through loans, opening to foreign BOT (Build-Operation-Transfer) implementation, and other means. This paper argues that the continuation of such productive projects would not only minimize the damage of the crisis but would also create long-term benefits for both sides.

5. *Reevaluating short-term capital control policy*: Recently, Malaysia has imposed exchange controls in response to the fast movement of short-term capital. Hong Kong and Taiwan have also implemented new regulations on foreign capital, which have been considered as a sort of capital control policy.[25] It has been widely claimed, especially among developing countries, that the rapid movement of short-term capital has been a source of considerable economic disturbance. Before the economy is ready to adapt itself to the turbulent world capital market, those countries rather choose to disintegrate their markets from others so that their economies can be insulated and protected from contagion. Exchange control policy is considered radical, as argued by Paul Krugman,[26] and will in the long run exert negative side-effects on the economy. Malaysia understands this, as do other economies. However, do we have options for those economies in addition to this desperate remedy? Efforts are indeed necessary to reconcile the benefits to an individual economy with the costs to the global market.

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[23]See Paul Krugman and Maurice Obstfeld, *International Economics: Theory and Policy*, third edition (New York: Harper-Collins, 1994), chap. 7.

[24]For instance, with government encouragement, a holding company was set up in Taiwan to promote investment in the East Asia region.

[25]Chile is considered as effective in implementing capital inflow controls. See Rudiger Dornbusch, "Capital Control: An Idea Whose Time is Gone" (Mimeo, Massachusetts Institute of Technology, 1998).

[26]Krugman, "Saving Asia: It's Time to Get Radical."

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And for the individual economy, analyses and evaluation are also needed to compare the short-term benefits with the long-term costs.

Concluding Remarks

This paper has sought to review economic interdependence and the recent economic situation in the East Asia region following the outbreak of the financial crisis. The whole area still seems to be in bad shape and shows no clear sign of rebound. Beginning with a discussion of the roots of the crisis, this paper has attempted to propose some ways of cooperation for the region. The proposal here is only a preliminary step and should not be considered as complete. However, this author believes conclusively that the world ought not to be restricted to just the umbrella of the IMF framework, but that there should also be some room for some means of regional cooperation.

We have asserted that regional cooperation is contributive and complementary to world organization toward the goal of global free trade. It is essential for the region's economies to work out ways together to surmount the crisis. Only if the region can pull through the crisis will the Asia-Pacific continue to play a leading role in the global economy. Only then will the region be able to achieve the goals of sustainable growth and equitable development set out in the Bogor Declaration.

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