

Preface

When Jan Dutta asked me to write a book about Asia's future for the series that he edits entitled *Advanced Research in Asian Economic Studies*, my first reaction was "Wow!!" It is such a broad and challenging topic. How do I approach it? And then later, I thought: what are the most important subjects for Asian economists and policy makers to consider in the coming decades?

As I reflected on these questions, I settled on seven major topical issues. Each of them is critical and could easily be the subject of a volume on its own. Together, they represent a broad spectrum of economic, political and social issues that confront Asia in 2007.

Economic growth and technological change is the subject of Chapter 1. Both of these aspects — growth and technology — are critical if Asia is to continue to raise living standards for its citizens. The region has benefited handsomely from international trade and the transfer of technology from industrial countries. This process has to continue and deepen to include more local innovation and research. At the same time, economic efficiency also has to improve if the region is to meet future challenges. The chapter explores potential for further development in key sectors including electronics and information technology, as well as the importance of production platforms and the contribution of total factor productivity to growth. Future projections are developed based on performance in recent decades.

Chapter 2 addresses the subject of regional cooperation. As efforts to reach a new global agreement on trade within the framework of the World Trade Organization have faltered, regional organizations have become more active in Asia, and a series of bilateral regional preferential trade agreements are being negotiated and finalized. These and

other regional cooperation initiatives in areas such as infrastructure, transportation and telecommunications are important components of development plans in Asia and are discussed and analyzed in this chapter. Prospects for further regional cooperation are assessed and evaluated as well.

Chapter 3 deals with issues facing the global economy with particular reference to the interface between industrial economies in North America and Europe and the developing countries of Asia. The chapter focuses on several important economic issues including international trade and global imbalances, immigration, health, genetic engineering and environment. It also considers pertinent political problem areas such as issues related to the PRC and Taipei, China, as well as India and Pakistan. The chapter describes developments in the past decade and then moves on to explore possible scenarios for the future.

Chapter 4 explores poverty and income distribution. The main focus of the chapter is on policies to reduce poverty with special reference to South Asia, where the bulk of the poor reside. Initially, the poor are identified and their characteristics are discussed. Policy initiatives and success rates for reducing poverty are reviewed, including macroeconomic adjustments to achieve lower inflation and greater stability as well as micro-policies for achieving more flexible labor markets and human resource development. Poverty reduction strategies and millennium development objectives are discussed, along with prospects for reducing poverty and lifting living standards over the next two decades.

Chapter 5 deals with corruption and the ethical foundations of government. At the outset, the nature of corruption and the role of government in deterring and reducing corruption are discussed. General determinants of corruption are reviewed, followed by a discussion of trends in corruption in Asia. The cost of corruption on growth, investment and to the poor is surveyed, followed by a discussion of methods for controlling corruption, including higher pay for government officials and legal and bureaucratic reform. Individual countries' experiences are reviewed and future prospects are analyzed

by regions and economies. General policies for the future are discussed along with governance issues.

Chapter 6 considers the environmental impact of economic activity in Asia. Various forms of pollution including air, water, soil and global warming are discussed in the Asian context. Reasons for the rapid increase in environmental degradation in Asia are analyzed, and costs of pollution and economic mechanisms for reducing it are reviewed. The interaction between pollution, economic growth and structural change is explored, and scientific evidence is presented for possible new technologies that reduce pollution, together with suggestions on how these might be implemented. Key suggestions for reducing pollution and slowing global warming are reviewed and a set of policy initiatives suggested.

Chapter 7 focuses on the two giant Asian economies of China and India. Agriculture, industry, foreign trade and exchange rates (including global developments and WTO) and special economic zone developments and policies as well as environmental and financial sector issues are reviewed for both countries. Labor market and population developments and policies are also discussed. All of these topics are presented from historical perspectives as well as future perspectives. The chapter concludes with a comparison between the two countries from perspectives of aggregate and sectoral economic growth potential, environmental impact, international trade, poverty and income distribution, financial sector performance and savings and investment.

Future prospects for the Asian region cannot be neatly compartmentalized into exclusive and self-contained topics. There are many overlappings and spillovers that create interactions among the different topics in the book. Developing policies and programs to reduce environmental degradation have potential impacts on the level and structure of economic activity. Corruption slows the rate of economic progress and distorts the allocation of resources. Innovation creates potential for new products, greater economic efficiency and the potential for more international trade. Regional cooperation influences the pace and structure of international trade. These relationships are not

spelled out in any depth since they are difficult to easily establish and quantify precisely without a fully specified regional econometric or computable general equilibrium model. Furthermore, making future projections are even more tenuous. Rather, the approach taken here is to note within each chapter the potential interactions that may exist with different parts of the economic and political system and to note which chapter the reader can consult for further discussion.