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The IMF/WB Meeting in Singapore: ASIA AND EUROPE'S ROLE IN THE WORLD ECONOMY

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AS the world's central bank governors and finance ministers gather in Singapore for their annual meeting, Asian and European leaders were already in Helsinki for their regular summit. There is value in this "coincidence". The timing underscores the roles that Asia and Europe can play at a time when the International Monetary Fund seeks to finetune the global system of financial and economic cooperation. What Asia and Europe can do, besides sustaining their respective growths, is to strengthen further their bloc-to-bloc cooperation, particularly through the Asia-Europe Meeting or ASEM.

Europe's growth

The major economies of the European Union or those linked to the euro -- the Eurozone -- are recovering well lately, notably Germany and France, its two largest members. The 25-member EU was already Singapore's largest trading partner (in trade value) in 2005, surpassing the United States and Japan, and this may hold true again in 2006. Similarly, the EU counts as one of developing Asia's top three trading partners, alongside the United States and Japan. A "recovering EU" is thus a boon to Asia and the latter's economic growth.

Moreover, with the newer member-economies poised to enter "Euroland", there would be further vibrancy, although fears of original members being "swamped" by cheap Central and Eastern European labour still persist. In fact, the original members of the Eurozone are also probably experiencing a spurt of competitiveness from this potential "injection" of new members into the zone, as indicated by their bullish stock markets. But as the UK's growth slows (thanks to the British economic cycle being more closely tied to that of the US), German, French, Spanish, Dutch and Italian growths all appear to be steaming ahead, propelling the Eurozone towards one of its best economic performances in recent years.

It has thus emerged that the second quarter of 2006 had indeed been the Eurozone's best economic achievement, whilst European job prospects hold up well. This upside potential puts the EU well-ahead of the world's largest and second largest economies in terms of economic growth -- the first time in the past six years. In the last quarter, the Eurozone managed a 1% growth, outperforming the US, Britain and Japan, and is now forecast to grow by at least 2.5% this year, up from 1.3% in 2005.

In fact, in a recent Newsweek article, the Eurozone is even exalted to be creating more jobs than America, primarily led by Germany and France. In particular, buoyed by strong

consumption, France and Germany have recorded strong employment growth figures this spring and summer, as interest rates, set by the European Central Bank (ECB), remain low and conducive towards stronger growth ahead. Indeed, with employment taking off soundly, consumption demand should remain high in the 12 to 18 months, just as savings decline and the business climate remains well-sustained.

Moreover, European exports are now more diversified, as Asia (and not the US alone) takes in a larger share, given the indomitable rise of middle-class consumption in Asia. Asia would also benefit greatly from this sustained European economic boom, as its exports (like what Singapore had experienced in its 2005 trade with the Eurozone) find favour with increasingly confident European consumers.

Why Europe's boom is good for Asia

More importantly, this mutually-reinforcing economic relationship between Europe and Asia comes at a time when Asian economies would be accorded more say and clout within the IMF, and as the Euro strengthens further as a world currency. Asia has also amassed enormous foreign exchange reserves, which should further increase its financial clout and propel consumption and growth, to Europe's benefit.

This conducive business climate in Europe is partially attributed to favourable cost reductions in European businesses, as they have pared down production and business costs, thanks to painful adjustments despite huge social fall-outs. Even the French are slowly becoming more amenable to restructure, as they realize the impending socio-economic costs, which will dawn upon them, given their huge social security burdens, coupled with a declining population. In fact, productivity has actually gone up in both Germany and France, and this trend should continue, leading the Eurozone to a healthier and more sustainable growth in the coming months.

It was also in this same context of Europe's recent "recovery" and Asia's spectacular economic "rise" that the Sixth ASEM summit took place on 10-11 September in Helsinki, Finland. ASEM today groups the 25 EU countries, the European Commission and 13 Asian economies, comprising the ASEAN-10 plus China, Japan and South Korea, thus bringing together a formidable grouping of 39 participants from the two continents.

ASEM was first proposed in 1994, when the then-Singapore Prime Minister, Mr Goh Chok Tong, first launched this idea in Paris. He had felt then that Asia-Euro relations were weak, even though many of the European powers had been actively involved in Asia since the 18th century. Meanwhile, relations were already developing well between the US and Asia across the Pacific, just as sound trans-Atlantic relations reigned between Washington and the EU.

Goh mooted this idea with the then-French Premier Edouard Balladur in Paris and then expounded on it at a lunch talk to the prestigious *Institut Francais des Relations Internationales* or IFRI. It underscored the timeliness to "bridge" the missing third side of the US-EU-Asia triangle, namely between Europe and Asia, by holding a regular series of meetings amongst European and Asian leaders, along the lines of the Asia Pacific Economic Cooperation (APEC) forum for the Asia-Pacific.

The Singapore idea was undoubtedly for Asia to "re-engage Europe actively" at a time when it was preoccupied by its own internal transition and expansion towards Central and Eastern

Europe. Actively building bridges between Asia and Europe has augured well for economic cooperation and growth, and greater stability in the international order. This objective appears to be an *acquis* today after ten years of the ASEM process. The spectacular recovery of Europe now clearly gels with Asia's impressive "rise", which should help in Asia's drive to build up its reserves.

Economic cooperation has indeed been going on well, although not necessarily under the aegis of ASEM alone, as businessmen contacts have developed extensively between Asia and Europe. Investments have flourished, but as Asian investors begin to take stakes in European economies, unnecessary alarm sounded, provoking some European resistance. This is where the "mutual understanding" role that ASEM undoubtedly plays must kick in, especially in creating mutual trust between Asians and Europeans, thus reducing stereo-typed threat perceptions.

In a world wrecked by misunderstandings, both Asia and Europe have a crucial role to bridge their gulf over controversial issues, ranging from globalization, the environment and immigration to democracy and human rights. A constant dialogue between Asian and European leaders, intellectuals and public opinion-makers could truly enhance mutual understanding and cooperation between the two peoples.

A case must now be clearly made for Europe and ASEM, as their role and place in international economics and politics undoubtedly increase in the coming years. This is especially so as the Eurozone powers ahead within the developed world, together with a "rising Asia", amid an international financial system in search of a new formula for cooperation.

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