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***Regional Economic Cooperation in Asia:
Relevance and a Possible Roadmap for a Broader Asian
Economic Community***

by

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Outline

- Regionalism in the World and Asia
- Status of regional economic cooperation in Asia and its limitations
- Relevance of a pan-Asian Framework
- Approaches to pan-Asian Economic cooperation
- Gains from Asian economic integration
- Relevance of India for East Asian Integration
- Concluding Remarks and the way forward

Regionalism in the World and Asia

- 1990s: strong trend of regionalism in the world
 - Rise of the economics of neighbourhood: to facilitate efficiency-seeking restructuring across the region to improve competitiveness and stimulate growth
 - Emergence of strong regional trade blocs such as EU, NAFTA, MERCOSUR a.o.
 - High proportion of world trade conducted on a preferential basis
 - Threat of trade diversion away from Asia
- Asia continued to broadly follow multilateralism in trade policy

Regional Economic Cooperation in Asia (1)

- Early attempts at regional economic cooperation
 - Bangkok Agreement, 1975
- Economic Integration in ASEAN
 - AFTA (1992) and beyond
- Economic Cooperation in South Asia
 - SAPTA (1993); SAFTA Agreement (2004)
 - BIMSTEC Framework Agreement (2004)

Regional Economic Cooperation in Asia (2)

- Economic cooperation in the framework of ASEAN+3 and ASEAN+1 and bilateral FTAs
 - Chiang-Mai Initiative for monetary and financial cooperation between 10+3 countries
 - Framework Agreements for Comprehensive Economic Cooperation signed between China-ASEAN (2002), India-ASEAN (2003), Japan-ASEAN (2003), a.o.
 - A number of bilateral FTAs in different stages of evolution e.g. Japan-Singapore (2002), Japan-Korea, India-Thailand, India-Singapore CECA, China-Malaysia, Japan-Malaysia, Japan-Philippines, India-Malaysia, India-China, India-Japan, and India-Korea, a.o.

Regional Economic Cooperation in Asia (3)

- **Limitations of Sub-regional Cooperation**
 - Similar factor endowments and economic structures in the sub-region provide for limited complementarities
 - Do not provide a seamless market to businesses to region-wide industrial restructuring
 - Sub-regional cooperation cannot enable Asia to exploit the full potential of regional economic integration
- **Need for an over-arching, pan-Asian framework to facilitate exploitation of considerable synergies for mutual benefit**

Relevance of a Pan-Asian Framework for Economic Cooperation

- Opportunity cost of not integrating is very high
 - Potential of investment of Asian savings for Asian development remains unexploited
- Growing realization of the benefits of regional economic integration in Asia
 - Sudden interest in FTAs among Asian countries
 - Rising share of intra-regional trade and investments
 - A pan-Asian grouping will also do away with the need for concluding multiple bilateral FTAs

Relevance of an Asian Economic Economic Community(2)

- Voices emanating from different quarters: ACD, Boao Forum of Asia, AEC, a.o.
- Distinct Asian identity evolved with cultural exchanges lasting over several centuries
- Unique Asian model of development based on public-private partnership and mobilization of domestic resources to the fullest
- Asian model of industrial restructuring based on flying geese theory
- Will give to Asia a more effective role in shaping the world trading and financial system responsive to its needs

Approaches to pan-Asian Economic Cooperation (1)

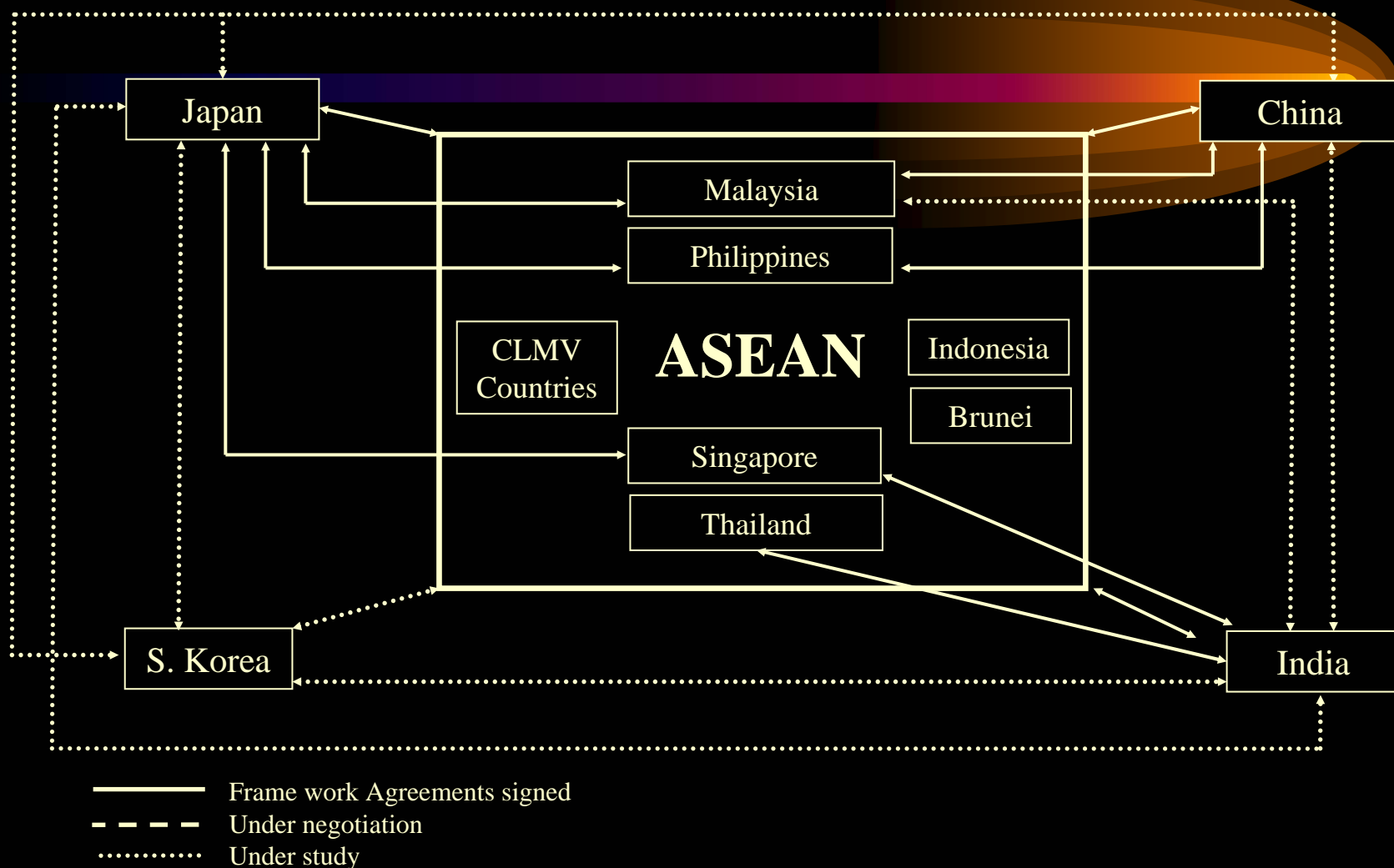


- Consolidate the ongoing sub-regional schemes of cooperation
- Evolving a pan-Asian framework for cooperation: Asian Economic Community in a phased manner
- In the first phase: evolve a structure with a core group of countries
- Once the grouping has consolidated, extend the membership to other countries in the region

Approaches to pan-Asian Regional Economic Cooperation (2)

- Taking advantage of the fact that some cooperation is already on in ASEAN+1 frameworks, Japan, ASEAN, China, India and Korea (JACIK) or ASEAN+3+India could form the core group

A Virtual JACIK Trade Arrangement is already emerging from a complex web of FTAs



Approaches to pan-Asian Regional Economic Cooperation (3)

- However, bilateral FTAs do not allow full exploitation of regional synergies
- Hence, evolving an East Asian or JACIK RTA framework subsuming various FTAs between different poles of JACIK
- By providing to businesses a **seamless market**, an East Asian or JACIK FTA would be more rewarding than sum of its parts

Proposed Asian Economic Community in relation to EU and NAFTA

billion US\$ in 2000

Parameter	EU	NAFTA	JACIK
GDP	7260	11147	7262
% of World	23.17	35.57	23.17
GNI PPP	8315	11350	13361
% of World	18.68	25.50	30.02
Exports	2025	1226	1367
% of World	31.89	19.31	21.53
International Reserves (2004)	426	246	2000
Population Millions	354	411	3012
% of World	5.85	6.79	49.76

- JACIK is as large as EU in terms of GDP, trade bigger than NAFTA, half of world's population and more than two thirds of world's foreign exchange reserves

Gains from Economic Integration in Asia

- Substantial welfare gains from economic integration in scenarios of progressive integration
- All participants benefit
- Welfare gain up to 3% of region's GDP
- Even the rest of the world benefits from deeper integration

	million US\$		
	Scenario I	Scenario II	Scenario III
Japan	107626	111807	150695
Korea	13043	13317	14076
China-HK	6327	7100	16328
ASEAN (5)	13451	13553	19405
India	6971	7379	9937
JACIK	147418	153156	210441
Rest of the world	-27293	-45306	109916
World	120125	107849	320357

Gains from Economic Integration in Asia: Further Evidence

Brooks et al. 2005 ADB study

- Regional trade and integration offers Asia great potential for rapid and sustained growth
 - Much of Asia's benefits from global trade liberalization can be realized by regional initiative alone
 - Regional integration will lead to economic convergence, rising growth rates and benefit poorer countries
 - Transfer the growth stimulus from China and India to their neighbours
 - Increase trade and incomes for the rest of the world
- AEC could be an '*arc of advantage, peace and prosperity*' Prime Minister Dr Manmohan Singh

Monetary and financial cooperation could become another engine of growth

- Growing consensus on the importance of reserve pooling
 - Need to build on the Chiang-Mai Initiative
- A modest pooling of 5% of region's reserves in a regional institution: e.g. AMF, AIB, RBA
 - Exchange rate stability
 - An Asian SDR as a unit of account backed by the Asian Reserve
 - Asian Bond market development for financing huge infrastructure investments and regional public goods
 - Huge requirement for infrastructure investments in JACIK region
 - Additional demand generation to enable fuller utilization of capacity
- Opportunities for other financial cooperation such as **cooperation between Asian Export-Import Banks;**
- **cross listing of securities**

Role of an Asian Energy Cooperation

- Potential for fruitful regional cooperation
 - Joint exploration/ oil equity in third countries as well as within the region
 - Regional oil/gas grid
 - Common strategic reserves
 - Asian energy market
 - Energy conservation
 - Maritime security/ protection of sea lanes
- Asian Energy Ministers Meeting, New Delhi, January 2005

Cooperation in S&T and Disaster Management

- Addressing the digital divide
 - Exploit the hardware and software capabilities within the region to develop cheaper hardware and software interfaces for improving access by rural communities
 - Exchange of experiences in e-governance
 - Asian IT Ministers Meeting in Hyderabad in 2004
- Using biotechnology capability to address the nutritional and health related concerns
 - Regional projects for improving nutritional content in food crops and for addressing tropical diseases
- Cooperation for disaster management and early warning systems
- Institutional modalities for regional S&T cooperation
 - Joint R&D for common problems

Asia's role in Global Governance

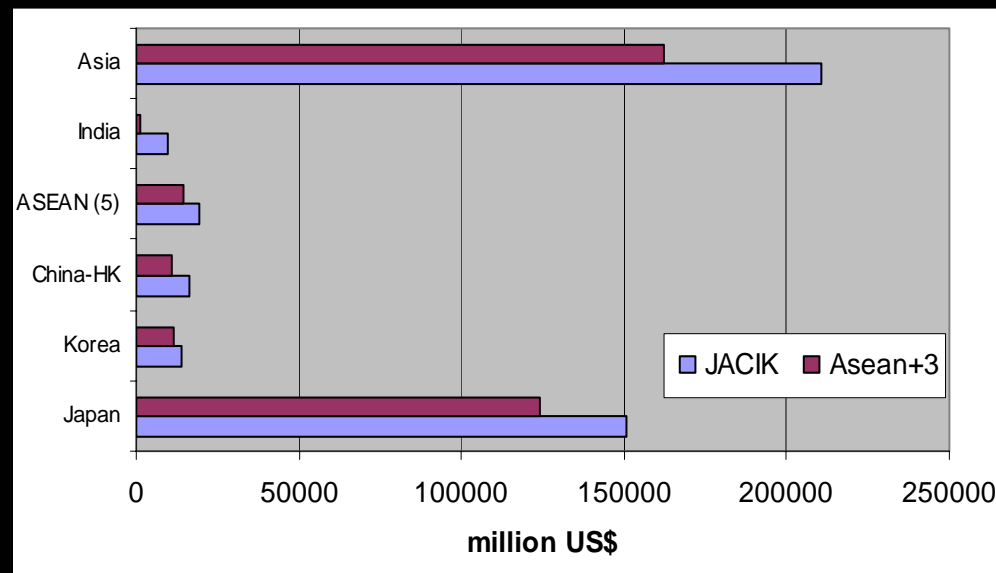
- An integrated Asia will be able to seek its due place in shaping the global economic governance
 - Brettonwoods institutions
 - Multilateral trade negotiations
- Economic interdependence
 - Peace, stability and shared prosperity

Relevance of India for East Asian Integration

- India's emergence as a dynamic economy of Asia with strong macro-fundamentals
- East Asia's share in India's trade already more than a quarter and is growing fast
- Evolving FTAs with ASEAN and China, Japan and South Korea
- Strong complementarities between India and other East Asian economies
- Indian economy getting increasingly integrated with East Asian production chains especially in knowledge-based segments such as chip design, embedded software, R&D
- Complementary demographic trends
- Geographic, historical and cultural bonds with East Asia
- A bridge between East and West Asia

India-East Asia Integration, a win-win for Asia

- Welfare gains are significantly higher for all partners in JACIK are higher than in a framework excluding India
- Gains to the region higher than India's gains
 - Possibly due to dynamism and synergies that India brings to the grouping in terms of services and software to the hardware and manufacturing prowess of East Asia



The Way Forward

- East Asian Summit 2005 a landmark event is likely to push the agenda of broader Asian economic integration by bringing together ASEAN and its dialogue partners (viz. Japan, China, Korea and India, and possibly Australia and New Zealand) in an East Asian Community (EAC)
- Eventually EAC can be expanded to include other Asian countries to form an Asian Economic Community (AEC)
- Hence, EAC is an important building bloc of a broader Asian regional economic integration

Concluding Remarks and the Way Forward (1)

- Substantial potential of pan-Asian economic integration in helping Asia resume a high growth path by complementing ongoing sub-regional approaches in realizing the **Asian Dream**
- Also a win-win for the rest of the world
- Growing economic interdependence will also promote peace and reconciliation and disaster management

Concluding Remarks and the Way Forward (2)

- **Priorities for EAS**
 - An East Asian FTA (EAFTA) by coalescing different bilateral FTAs between the EAS participants for freeing intra-regional trade and investment flows in a phased manner by 2020
 - A Asian Monetary Architecture for reserve pooling by building upon the Chiang-Mai Initiative and expanding it to cover EAS members and creating a unit of account ACU
 - Development of Financing Mechanisms for funding development of regional public goods
 - Setting up an Asian Energy Dialogue or Forum for strengthening the energy security in Asia through regional cooperation
 - Regional institutional infrastructure for cooperation in new technologies
 - Coordination between Asian think-tanks and networks
 - Movement towards developing an Asian identity or a feeling of Asian ness or 'One Asia'



Thank you