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**Economic Relations Between  
South and East Asia:  
The Evolution of Pan-Asian Integration**

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# Objectives of the Paper

- Review regionalism between South and East Asia
- Provide quantitative measures of integration between South and East Asia
- Highlight ADB's catalytic role

# Outline

- I. Introduction
- II. Regionalism in Asia
- III. Benefits of Integration between South and East Asia
- IV. Next Steps

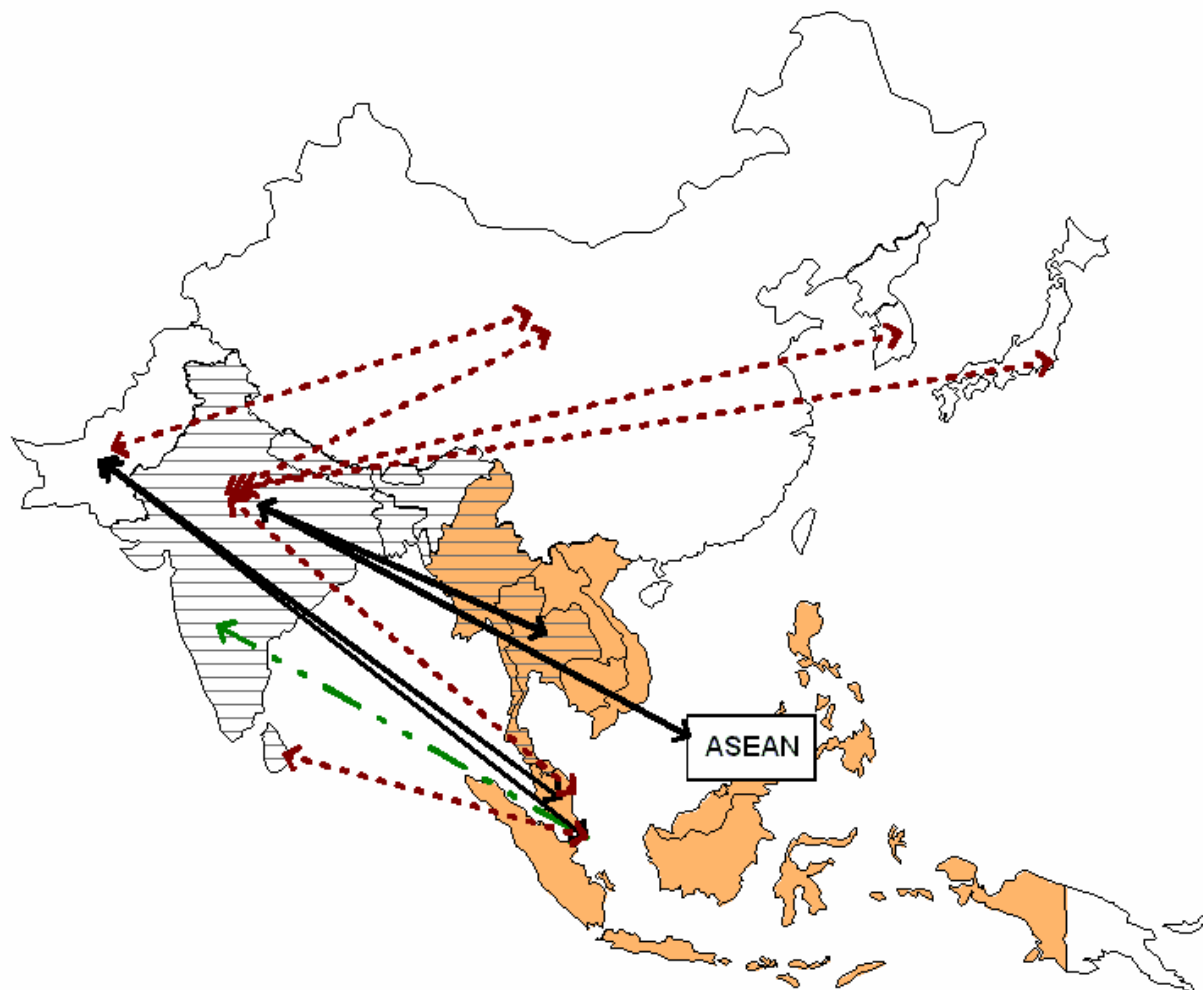
## **II. Regionalism Between South and East Asia**

- **The India-Singapore Comprehensive Economic Cooperation Agreement was signed on June 2005**
- **In addition, 5 FTA framework agreements have been signed and FTAs are under negotiation**
- **And 6 FTAs have been proposed and/or framework agreements are under negotiation**

# South and East Asia



# FTA: Linkages



BIMSTC



FTA Signed and Under Implementation



Framework Agreement Signed and FTA Under Negotiation



FTA Proposed and Framework Agreement Under Negotiation

# II. Potential Benefits and Integration Measures

- **Complementarities**

East Asia's Strengths	India's Strengths
IT Hardware and Electronic Equipment	Computer Software
Heavy Engineering	Light Engineering and Pharmaceuticals
Product Development and Marketing	Process Development
Underutilised Capacity in Construction	Huge Potential Demand for Infrastructure
Need and Ability to invest in R and D	Well Developed R & D Infrastructure and Manpower

- **Economic dynamism of the region will contribute to further complementarities.**

# Benefits of closer economic cooperation between South and East Asia

- Cooperation and integration leads to the expansion of the market for goods and services and increases the scope for both economies of scale and greater competition.
- Increased competition within the integrated region could lead producers outside the region to reduce their prices as well, lowering prices of imports to the region and improving its terms of trade.
- A more integrated region could attract more foreign direct investment with its attendant benefits of technology and knowledge transfer and higher productivity.

# Studies on South and East Asia's economic cooperation:

- Mohanty, Pohit, and Roy (2004) estimate that a free trade area among JACIK countries (Japan, five middle-income ASEAN countries, PRC, India, and Korea) could lead to a 2.2% of GNP increase in welfare gains for the region, ranging from 0.6% of GNP for the PRC to 3.1% of GNP for Singapore. When free trade is supplemented with free movement of investment and labor, welfare gains for the region rise to 3% of GNP.
- An ADB Study which encompasses a larger number of countries in the two sub-regions, suggests that free trade by 2025 will increase real income in the region by 0.3% in India to 6.6% in Malaysia above the baseline. When other trade costs are assumed to decline by 50% by 2025 (e.g., through trade facilitation measures and improved efficiency of transport and communications, among others), real income increases above the baseline range from 8% in Japan to 116% in Malaysia by 2025.

# Integration between South and East Asia

- **South Asia's exports to East Asia increased from \$5.1 billion in 1990 (or 19% of South Asia's exports) to \$21.3 billion (or 20.7%) in 2004. Similarly, East Asia's exports to South Asia increased from \$10.6 billion (1.5% of East Asia's exports) to \$43.2 (or 1.8%). This suggests that despite rising export shares, East Asian markets are more important to South Asia than vice versa. For South and East Asia as a whole (pan-Asia), intra-regional exports increased from 40.4% in 1990 to 51.7% of total exports in 2004, reflecting largely trade within East Asia.**

# Integration between South and East Asia (cont'd)

- Data on bilateral flows of FDI are more difficult to obtain. Those available from UNCTAD show that net inflows of FDI from East Asia to South increased from \$12.9 million in 1990 to \$256.5 million in 2002 but East Asia still accounts for only 12% of South Asia's FDI inflows

# III. Next Steps:

- An important next step is to ensure that the proliferation of FTAs between South Asia and East Asia becomes a “stepping stone” to multilateralism rather than a “stumbling block”
- There is also a need to identify sectors and sub-sectors where countries have relative comparative advantages and the policies required to realize the benefits of such comparative advantage.

# ADB Study on Economic Cooperation Between East and South Asia

- The purpose of our study is to provide a roadmap of policy options to enhance economic cooperation and integration between East and South Asia.
- Our study will assess the (a) potential benefits from enhanced cooperation between East and South Asia under a set of plausible scenarios, (b) distribution of those benefits by countries and sectors, (c) measures to enhance cooperation in merchandise trade and investment, trade in services, and infrastructure and trade facilitation, (d) consistency among different bilateral cooperation agreements that are in effect or proposed, (e) consistency with WTO obligations and (f) lessons from experience of economic cooperation in other regions, where applicable.
- The roadmap should help countries and ADB to devise strategies for effective regional economic cooperation and integration.

- A number of studies will be commissioned - one on the potential benefits of regional economic cooperation between East and South Asia and their distribution, and three studies on specific areas of cooperation, including merchandise trade and investment, trade in services, and infrastructure and trade facilitation.
- ADB will also commission four country case studies to provide unique perspectives of individual countries or group of countries.
- The findings of the studies will be discussed at a senior-level policy seminar, with representation of high-ranking policymakers, and academics from various countries.

**Thank You.**

**ADB**