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Towards an Asian Economic Community**

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**Economic Integration and
Asia's New Role in the Global Economy**

By

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I. Asia is an Engine of Growth for the World Economy

- Asia's shares in world output: 22.6% (*Martin Wolf*)
 - US: 30.4 - Other Anglo: 8.8 - Old Europe: 22.7
 - Japan: 11.9 - Asian NIEs: 3.2 - China + India: 7.5
- Asia is the fastest growing region (*IMF*).
 - Accounts for half of world's economic growth since 1999.
 - Inflation low, and external positions strong.
- Asia's rise is the 4th big transformation since Industrial Revolution (*Martin Wolf*).
 - A “new Asia” is emerging.

II. Asian Dynamism has been Spreading South-West

- Asia's rise began with Japan, has spread to NIEs, and further on to ASEAN-4.
- China emerged as a new, supercharged NIE, reorganizing Asia into a China-centered manufacturing network.
- India is now joining East Asia in this network:
 - The economy growing 6% p.a. since 1991
 - East Asia is India's largest trade partner, and an increasingly important source of FDI in India.
- So are the newer ASEAN countries

III. Regional Dimension of Asian Dynamism: Market-Driven Integration

- Dynamism been spreading through market-driven regional integration:
 - Increasing flows of direct investment to south-west
 - Rapid growth of intra-regional trade in parts, components and resources
 - Creating a vertically integrated production block in Asia
- This process been driven by dynamically changing comparative advantages.
- The process has been facilitated by the shared “Asian-ness”:
 - Geographical and cultural proximities
 - Susceptibilities to the same development strategy

IV. The Asian Recipe: Outward-oriented Market-based Development Strategy

- Strong export-orientation
- Foreign technologies
- Labor and education
- Private entrepreneurship
- High investment, high saving
- Open markets in US and Europe
- Government commitment to growth
- Willingness to learn from others and past mistakes

V. Facilitator of the Market-Driven Integration: “TILF”

- Governments been implementing policies to support the market-driven integration in Asia
 - Gradual liberalization of trade and cross-border direct investment
 - Unilateral
 - Multilateral
 - A series of measures to facilitate trade and investment
 - Many market-oriented economic reforms at home
 - Investment in infrastructure to support trade and investment
 - Post-Crisis exchange-rate policy, financial and corporate reforms

VI. Need for Institutional Cooperation to Enhance T&I Flows

- To counter the discriminatory impact of regional integration elsewhere as well as sub-regional integration
- Asian financial crisis as a reminder of shared vulnerabilities, interdependence, and inadequate IFA
 - ▶ Need for cooperative responses
- The rapid growth of new giant economies, China and India
 - ▶ Need to support as well as harness this growth
- Geopolitical risks presented by politico-security tensions and historical animosities
 - ▶ Need to promote economic cooperation as facilitator of reconciliation

VII. The Existing Scheme: APEC

- Focusing on T&I liberation under the Bogor Goals, subject to “open regionalism” and “concerted unilateralism”
- Promoting various T&I facilitation measures, including anti-terrorism (“secure trade”)
- Promoting capacity-building for the developing under Eco-Tech programs
- The FMM process promoting consultation on macroeconomic and financial issues
- Provides for the annual meeting of the Economic Leaders

VIII. The Existing Scheme: APEC, *cont'd*

■ Evaluation (*Hugh Patrick*)

- Voluntarism and peer pressure as the key compliance mechanism been ineffective
- Bogor Goals are proving too ambitious to be achievable
- Despite commitment to WTO, failing to contribute to DDA or to restrain FTAs
- Failed to help Asia on financial crisis; relative neglect on financial issues continues, including on the exchange-rates.
- US has been lukewarm toward APEC

■ APEC is in a crisis, and in search of its new identity

- The Busan Roadmap likely to seek convergence of FTAs and new comprehensive work programs for trade facilitation and secure trade

IX. The Existing Scheme: ASEAN Plus Three

- The only East Asian venue
 - extending the ASEAN Dialogue to Japan, China and Korea
 - bringing Leaders together annually
- Major triggers
 - The Asian financial crisis
 - EU, FTAA, and the faltering APEC
 - Resentment on the US hegemony
- Two specific goals towards an East Asian community
 - East Asia Free Trade and Investment Area
 - Regional financial cooperation: CMI and ABMI

X. The Existing Scheme: ASEAN Plus Three, *cont'd*

Evaluation

- No visible progress yet toward the EAFTA/EAFIA
 - Members intent on proliferating bilateral FTAs
 - ASEAN also engaged in ASEAN projects, e.g. an ASEAN Community
- Progress towards an Asian Monetary Fund stuck over surveillance
- Progress towards an Asian bond market slow because of:
 - domestic bond market and other financial weaknesses at home
 - many cross-border investment impediments in individual economies
- Major obstacles
 - Progress constrained by structural and institutional problems at home
 - A shared political leadership is not forthcoming due to lack of trust

XI. Critiques on the Existing Schemes

- Are failing to check regionalism elsewhere as well as bilateral FTAs ► weakening of the multilateral trading system globally, and the spaghetti bowls effects, regionally
 - Asian dynamism crucially depends on trade and investment relations with ROW
- ABI is probably a wrong priority for financial cooperation: Asian economies should be engaged in the global capital markets

XII. Critiques on the Existing Schemes, *cont'd*

- No effective cooperation on the payments imbalances issue, i.e., macroeconomic and exchange-rate policy coordination ► The most urgent threat to Asia's economic stability remains inappropriately addressed
- Too much focus on liberalization (as a goal), to the neglect of facilitation and capacity-building ► Many important realizable benefits left unexplored
- There has been no effective coordination among APEC, ASEAN Plus Three and ASEAN

XIII. Towards a New Role in the Global Economy: Need for a New Approach

- The most serious threat to the continuation of the Asian dynamism are those posed by those which threaten the stability of the open and liberal global economic system:
 - Proliferation of FTAs with the spaghetti bowl effects
 - Failure of the DDA negotiations
 - Continued stalemate over the global payments imbalances
- The priority objective of Asian cooperation should be to project Asia's development goals, interests, and due influences in the management of the global economic system
 - Any regional scheme, such as free trade schemes, should be consistent with this objective

XIV. Towards a New Role in the Global Economy: Need for a New Approach, *cont'd*

- Another threat to the continuation of the dynamism comes from within each economy: structural imbalances, institutional and human capital weaknesses at home
 - Mutual development cooperation to address these weaknesses should be given due emphasis
- The East Asian Summit should play the role of coordinating the various schemes to pursue these goals effectively and consistently
- The ultimate goal should be to help Asia provide a new leadership role in the management of the global development process