

# *Towards an Asian Economic Community: Relevance, Approaches and a Way Forward*

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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
- Comparison of alternative approaches to cooperation
- 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
  - Expanding coverage of existing RTAs to cover the whole continents
  - RTAs are important factors in shaping investment patterns as well
- Asia continued to broadly follow multilateralism in trade policy

# *Regional Economic Cooperation in Asia (1)*

- Early attempts at regional economic cooperation
  - Bangkok Agreement, 1975
    - limited country coverage (6 countries), small product coverage, small margins of preferences, NTBs out of the scope; hence marginal impact
  - Asian Clearing Union, 1975
    - Small volume of trade taking advantage of the facility
- Economic Integration in ASEAN
  - AFTA (1992) and beyond
- Economic Cooperation in South Asia
  - SAPTA (1993); SAFTA Framework Agreement (2004)
  - BIMST-EC Framework Agreement (2004)

## *Regional Economic Cooperation in Asia (2)*

- Economic cooperation in the framework of ASEAN+3 and ASEAN+1
  - 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, 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
- 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 Community(2)*

- Voices emanating from different quarters: ACD, Boao Forum of Asia, 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

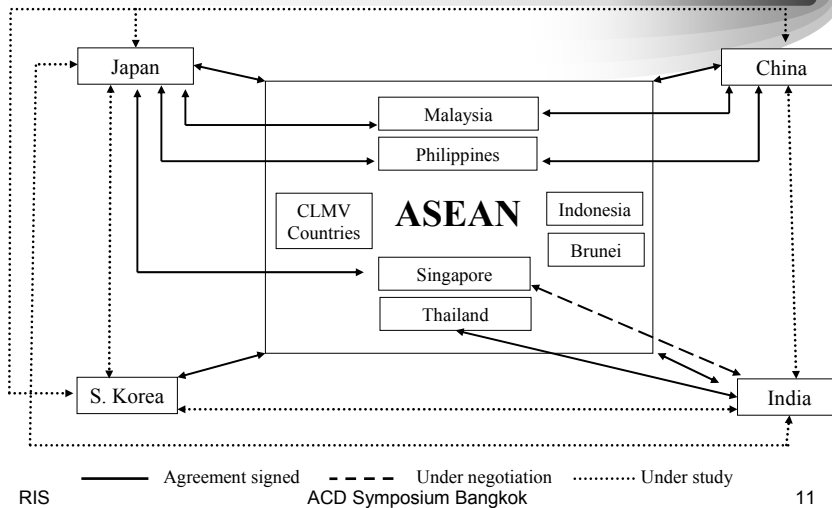
## *Approaches to pan-Asian Economic Cooperation (1)*

- Consolidate the ongoing sub-regional schemes of cooperation
- Evolving a pan-Asian framework for cooperation
- A phased approach is desirable
- 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) 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 a JACIK RTA framework subsuming various FTAs between different poles of JACIK
- 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

- 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

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

## *Gains from Economic Integration in JACIK*

- 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
<b>JACIK</b>	<b>147418</b>	<b>153156</b>	<b>210441</b>
Rest of the world	-27293	-45306	109916
World	120125	107849	320357

## *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 an RBA
  - Exchange rate stability
  - An Asian SDR as a unit of account backed by the Asian Reserve
    - Not much loss of monetary sovereignty
  - Asian Bond market development for financing huge infrastructure investments and regional public goods
  - Huge requirement for infrastructure investments in JACIK region: RIS estimates US\$ 4 trillion in five years
  - Additional demand generation to enable fuller utilization of capacity
  - Assist in adjustment of imminent currency realignments in Asia
  - Opportunities for other financial cooperation such as cooperation between Asian Export-Import Banks; cross listing of securities; a.o.

## *Role of an Asian Energy Community*

- All the major Asian countries dependent on energy imports especially oil and gas
- Potential for fruitful regional cooperation
  - Joint exploration/ oil equity in third countries as well as within the region
  - Regional oil/gas grid
  - Common strategic reserve
  - Asian energy market
  - Energy conservation
  - Maritime security/ protection of sea lanes

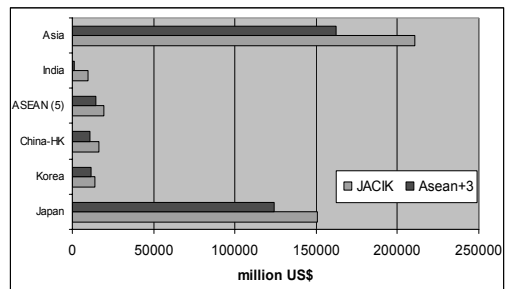


# Cooperation in Core Technologies

- 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
- Need to set up institutional modalities for regional S&T cooperation

## JACIK in comparison of ASEAN+3 Roadmap

- Welfare gains are significantly higher for all partners in JACIK compared to ASEAN+3 approach
- Gains to the region higher than India's gains
- Possibly due to strong complementary strengths India brings to the grouping in terms of services and software to the hardware and manufacturing prowess of East Asia



## *JACIK in comparison of ASEAN+3 Roadmap (2)*

- India's integration with East Asia a win-win
  - East Asia's share in India's trade already more than a quarter and is growing fast
  - Indian economy getting increasingly integrated with East Asian production chains especially in knowledge-based segments such as chip design, embedded software, R&D
- JACIK designed to be a starting point of the broader continent-wide grouping in a phased manner *a la* EU.
- WEF opinion poll of young Asian leaders suggest preference for JACIK model over the ASEAN+3 model

## *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**
- Growing economic interdependence will also promote peace and reconciliation
- Need to make a beginning in evolving an Asian Economic Community in a phased manner
- Greater potential of broader approaches

## *Concluding Remarks and the Way Forward (2)*

- Need for continued cooperation among think-tanks
  - a New Asia Commission II?
  - Coordination between different networks of think-tanks such as New Asia Forum, NEAT, ASEAN-ISIS, a.o.
- Larger countries need to provide leadership
- Time for moving from 'Functional' to 'Institutionalized' cooperation
- Evolving a Framework *JACIK FTA* by subsuming different bilateral FTAs evolved by partners and deepen and broaden it in a phased manner
  - Substantial potential of augmenting output and welfare of all the participating countries and the world at large

## *Concluding Remarks and the Way Forward (3)*

- Several opportunities for fruitful monetary and financial cooperation:
  - AMF (or a RBA) to build upon CMI by pooling a small part for region's reserves for providing exchange rate stability and financing large regional public goods;
  - Asian Bond Market development,
  - Exim banks cooperation,
  - Capital markets networking

## *Concluding Remarks and the Way Forward (4)*

- Rich potential of cooperation in energy security
  - A Working Group on Asian Energy Community could work out detailed plans of cooperation
- Cooperation in high technology to address digital divide and rural development, malnutrition and poverty alleviation besides promotion of international competitiveness
  - Meetings of Technology Ministers
  - Framework Programmes for regional R&D cooperation like Eureka, ESPIRIT, EURAM in EU
  - Will promote collaborations among business enterprises as well

*Thank you*