

*Emerging Asian Regionalism:
Trends, Patterns, and Prospects*



by

Nagesh Kumar

RIS

www.ris.org.in

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.
 - Deepening of the RTAs
 - Broadening of the coverage
 - High proportion of world trade conducted on a preferential basis
 - Threat of trade diversion away from Asia

Regional Economic Cooperation in Asia (1)

- Major Asian countries continued to broadly follow multilateralism in trade policy through 1990s except for sub-regional attempts such as AFTA and SAPTA
- Review of trade policy by Japan towards the end of 1990s giving a due place to regionalism
 - Japan-Singapore FTA signed in 2002
- Trend of regionalism begins to take hold in Asia

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), Japan-ASEAN (2003), India-ASEAN (2003), South Korea-ASEAN a.o.
 - A number of bilateral FTAs in different stages of evolution e.g. Japan-Korea, China-Malaysia, Japan-Malaysia, Japan-Philippines, India-Thailand, India-Singapore CECA, India-Malaysia, India-China, India-Japan, and India-Korea, a.o.
 - Studies of **Japan-China-South Korea** FTA
 - East Asia Vision Group 2001: Feasibility of an **East Asian Economic Community** combining ASEAN+3

Proposal of an Asian Economic Community



- Response to the EAEC proposal
- Threat of trade diversion away from India

Case for broader Regional Economic Cooperation in Asia

- **Limitations of Sub-regional/ bilateral Cooperation**
 - Similar factor endowments and economic structures in the sub-region provide for limited complementarities
 - Bilaterals do not provide a seamless market to businesses to region-wide industrial restructuring
 - Sub-regional/bilateral 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**

Approaches to pan-Asian Economic Cooperation (1)

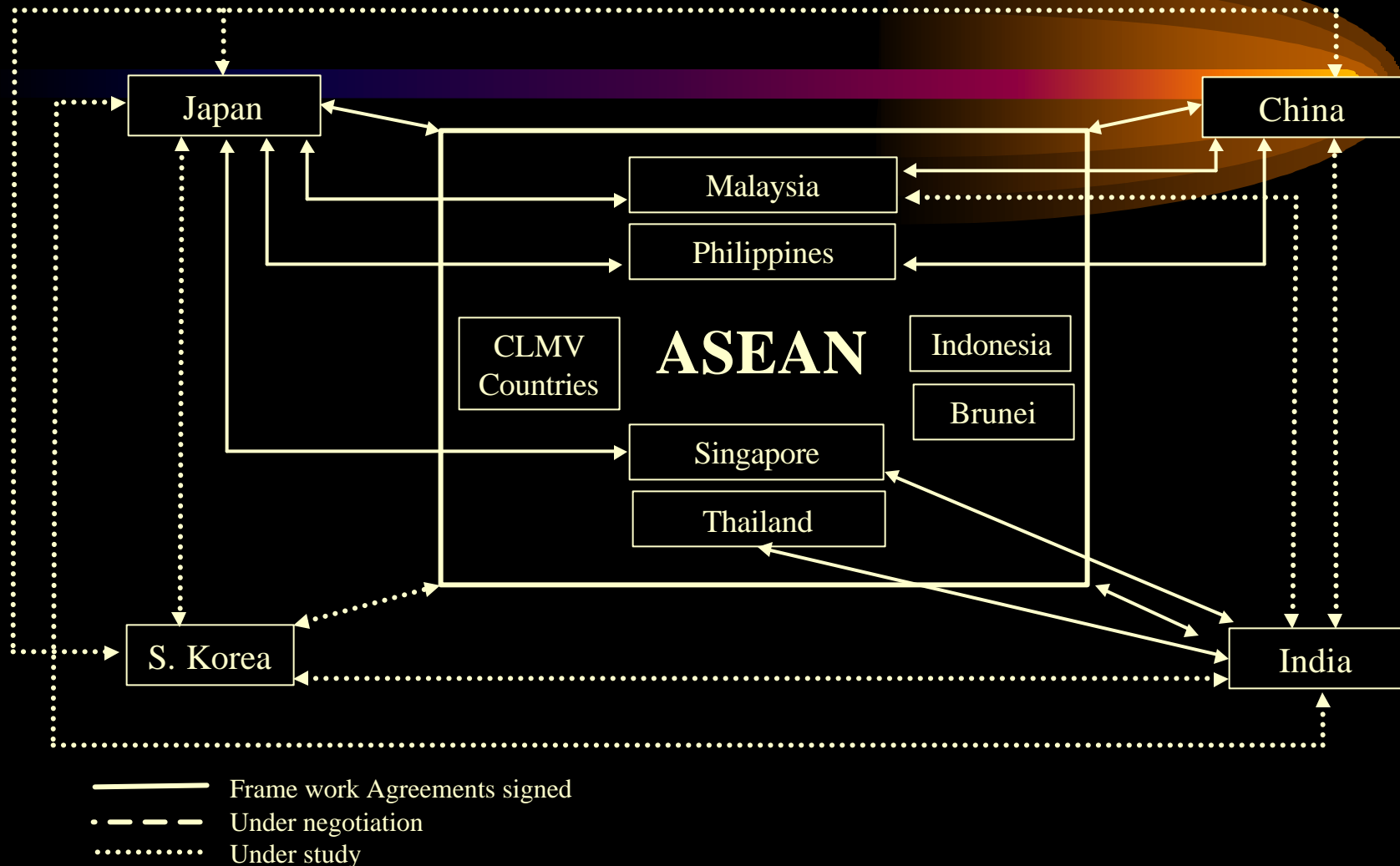


- Consolidate the ongoing sub-regional schemes of cooperation
- Evolving a pan-Asian framework for cooperation: Asian Economic Community in a phased manner
- In the first phase: evolve a structure with a core group of countries
- Once the grouping has consolidated, extend the membership to other countries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

Gains from Economic Integration in Asia

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

	million US\$
Japan	150695
Korea	14076
China-HK	16328
ASEAN (5)	19405
India	9937
JACIK	210441
Rest of the world	109916
World	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
- Asian economic integration a win-win for Asia and the world

Relevance of India for East Asian Integration

- Bringing Indian dynamism to the grouping
- Growing integration with East Asia
- Strong complementarities between India and other East Asian economies; production networking
- Evolving FTAs with ASEAN and China, Japan and South Korea
- Complementary demographic trends
- Geographic, historical and cultural bonds with East Asia
- A bridge between East and South and West Asia
- India, a balancing force in Asia

The Indian proposal

- AEC proposal first unveiled in March 2003 at a conference of Asian policy think-tanks in New Delhi
- India proposed the Asian Economic Community as the long-term vision of ASEAN-India partnership at the ASEAN-India Summit in Bali 2003
- Reiterated at the Laos Summit in 2004
- Also endorsed in India-Japan Joint Statement, April 2005
- RIS dialogue with Asian think-tanks has continued; Tokyo (2004), China (2005); New Delhi (2005)

Present status

- A new forum of EAS (East Asia Summit) created at ASEAN Summit 2004
- India invited to participate in EAS along with ASEAN, China, Japan, South Korea and Australia and New Zealand
- EAS 2005: Forum for dialogue
- Presence of all major Asian countries makes it a useful vehicle to launch broader scheme of Asian economic cooperation: EAC or AEC
- a slow and long process

Functional cooperation in other areas



- Money and finance: Chiang-Mai and beyond
- Energy security
- IT Ministers Conference
- Disaster management
- Asian Cooperation Dialogue
- Asian Bond Funds
- Boao Forum of Asia

Concluding Remarks

- Substantial potential of pan-Asian economic integration in helping Asia resume a high growth path
- Also a win-win for the rest of the world
- Growing economic interdependence will also promote peace and reconciliation and disaster management
- By bringing together leaders of JACIK countries (and also Australia and New Zealand), EAS provide a useful forum to promote pan-Asian cooperation
- It can take a lead to form an East Asian Community (EAC) combining the participants of EAS
- Eventually EAC can be expanded to include other Asian countries to form an Asian Economic Community (AEC)



Thank you