

ASIA'S DEVELOPMENT CHALLENGES

The Asian Century : Plausible But Not Pre-ordained

...a five lecture series

Rajat M. Nag

Distinguished Fellow, NCAER

May 28, 2015



ASIA'S DEVELOPMENT CHALLENGES

The Asian Century : Plausible But Not Pre-ordained

...a five lecture series

Rajat M. Nag





NCAER LECTURES
2015

LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

3



1. Why Regional Cooperation?

- Expanded market size
- Synergies and positive spillovers
- Better management of regional commons for Asia's long -term stability and prosperity
- A stepping stone for poorer countries to move up the value chain and maximize their growth potential.
- Greater voice and influence in the global agenda.



2. Quantitative estimates of the benefits of Regional Cooperation

- Difficult to quantify impact on economic growth accurately because of difficulty in assessing the indirect (dynamic) benefits beyond the more easily estimable direct (static) welfare benefits.



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

- Estimates of the benefits of cooperation in reducing trade tariffs under free trade arrangements generally find modest benefits (Ando, 2009; Hertel et al., 2004).
- Infrastructure investments and quality improvements have been estimated to have growth impacts of about 1–2 percentage points a year (Fay et al., 2011).



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

- Estimates of the benefits of comprehensive regional cooperation have shown larger potential benefits.
- For example, a scenario of economic cooperation in the Maghreb (western North Africa) that combines the creation of a trading bloc with the EU, the liberalization of services, and investment climate reforms shows benefits of some 40–60 percent of GDP over 10 years (World Bank, 2010).



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

- An estimate for **Central Asia** that combined cooperation on trade and trade facilitation, investment climate, transport, energy, disaster and conflict mitigation, yielded benefits of a GDP increase of 100 percent or more over 10 years (UNDP, 2005).



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

Countries need to cooperate in their own self interest : not as an act of altruism or neighborly love

Cooperation pays, conflict does not



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

- Win win proposition but asymmetry of benefits and costs:
- Sharing of benefits and costs: need to intermediate on the incidence of benefits and costs
- Example of the North South Corridor in GMS



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

GMS Economic Corridors





3. The state of play 40 years ago and now

PRC: cultural revolution; Vietnam War; India
Pakistan War;

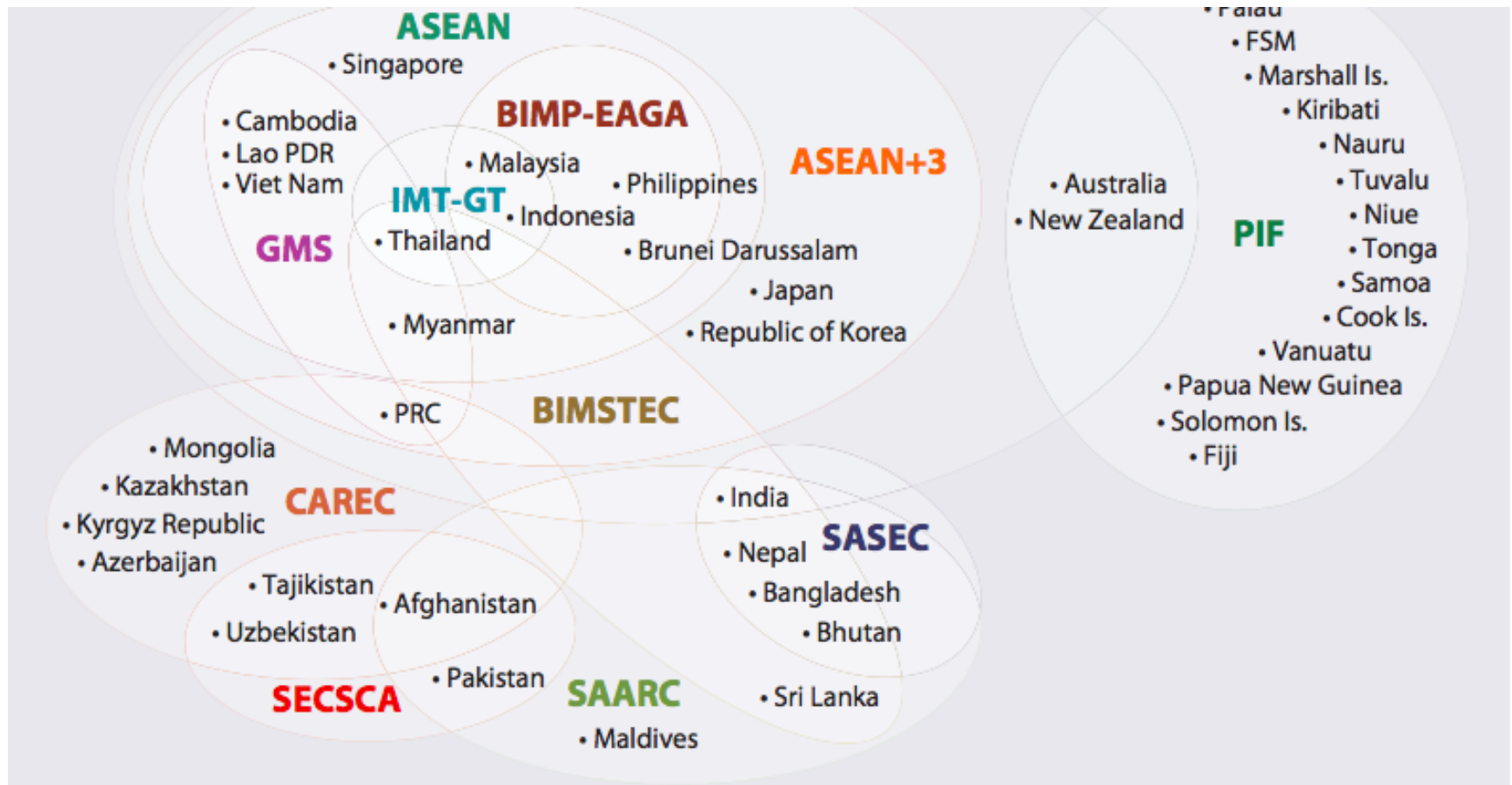
Indonesia: in dire poverty; India had become
inward looking: CARs sealed off

Only exception was Japan

Asia in disarray



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION



ASEAN = Association of Southeast Asian Nations; ASEAN+3 = ASEAN plus three countries, as shown; BIMP-EAGA = Brunei Darussalam Indonesia



4. Drivers of economic cooperation

- Costs of trading
- Infrastructure
- Competitiveness
- Quality of institutions
- Avoiding Conflict



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

Asia as a whole has been increasingly open to trade. Its ratio of trade to gross domestic product (GDP) has increased over time and its costs decreased.



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

East Asia does much better than South Asia and Central Asia on most drivers. ASEAN performs especially well where overall trading costs are concerned.



5. Priority areas to facilitate regional cooperation

5.1 Trade policy

5.2 Infrastructure : hardware and software

5.3 Macroeconomic cooperation on integration and financial stability

5.4 Access to natural resources



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

5.5 Climate Change

5.6 Responding to common regional threats: Natural disasters, epidemics, and the drug trade

5.7 Conflict prevention

5.8 Institutions for regional cooperation

5.9 Strong political support and leadership



5.1 Trade policy

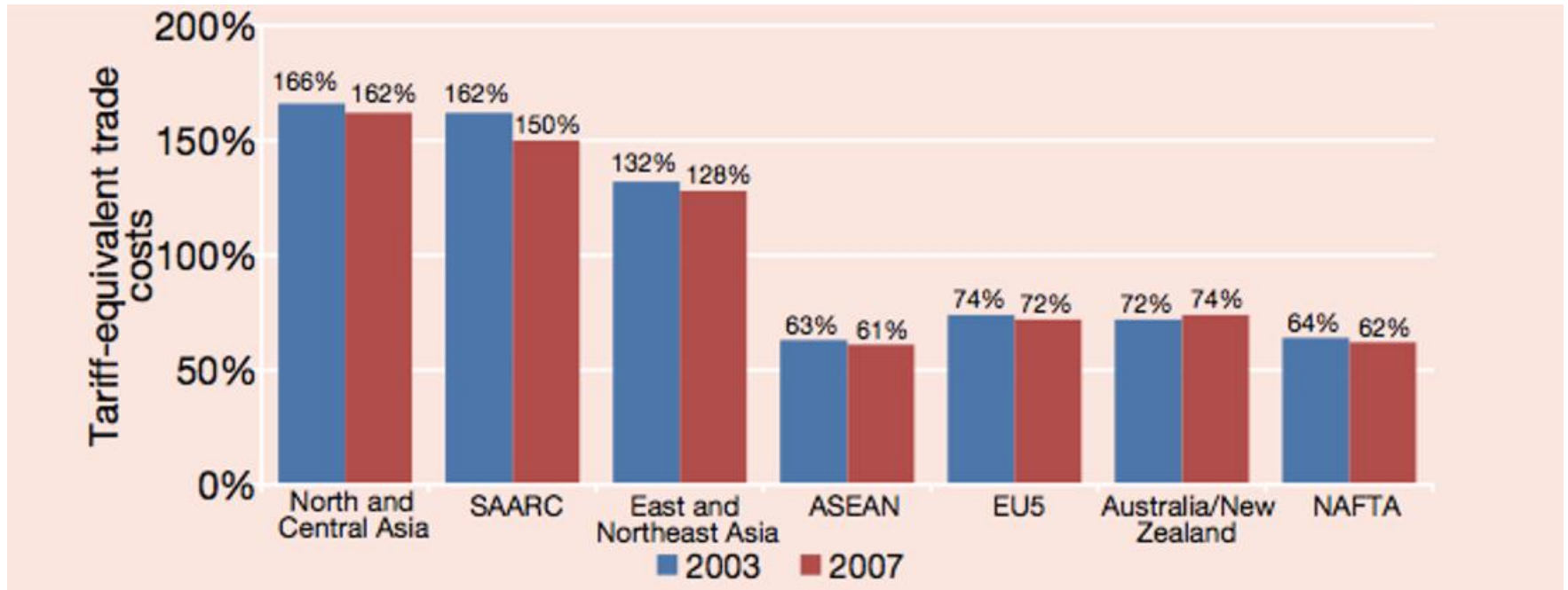
First best against the second best

FTAs: the noodle bowl effect



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

Intra subregional trade costs in Asia and other regions

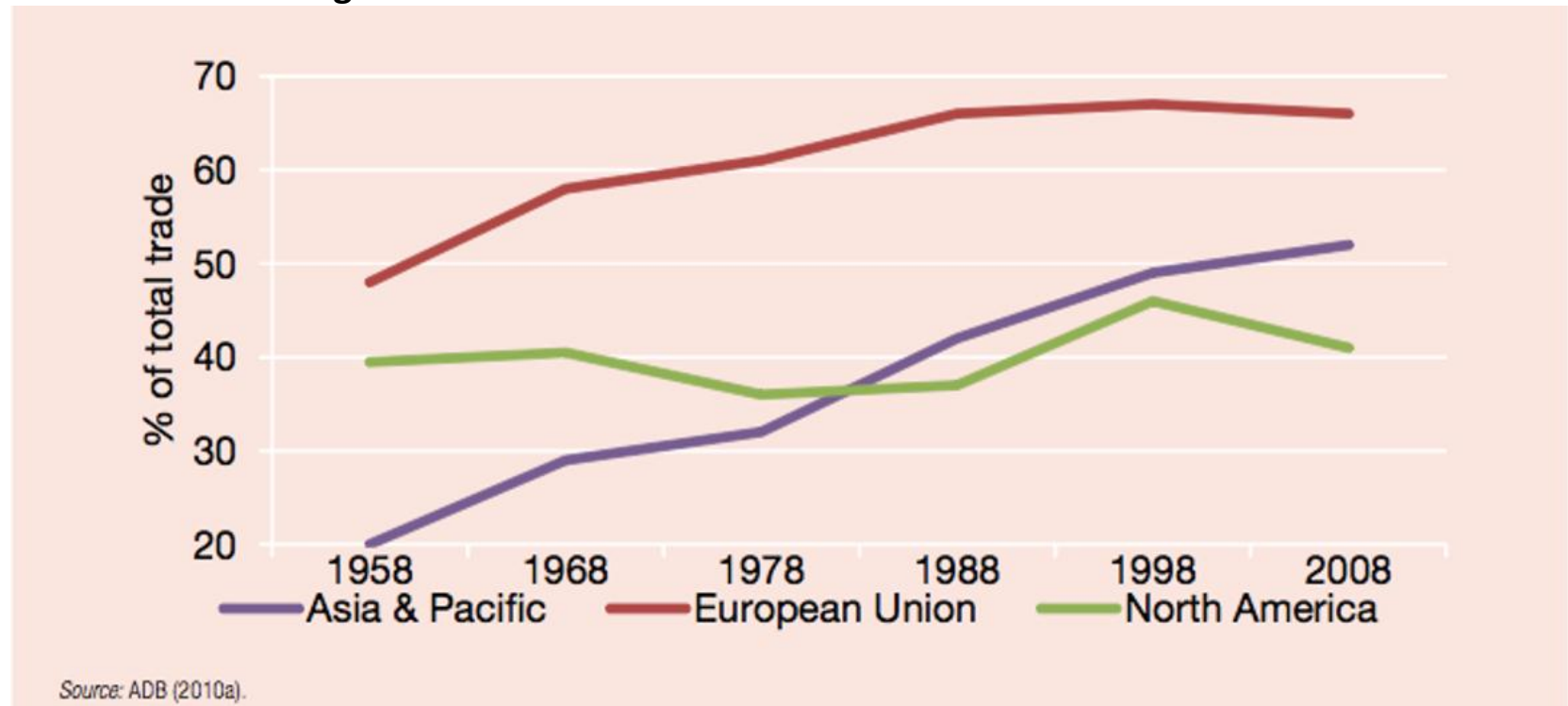


Source: Duval and Utoktham (2010).



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

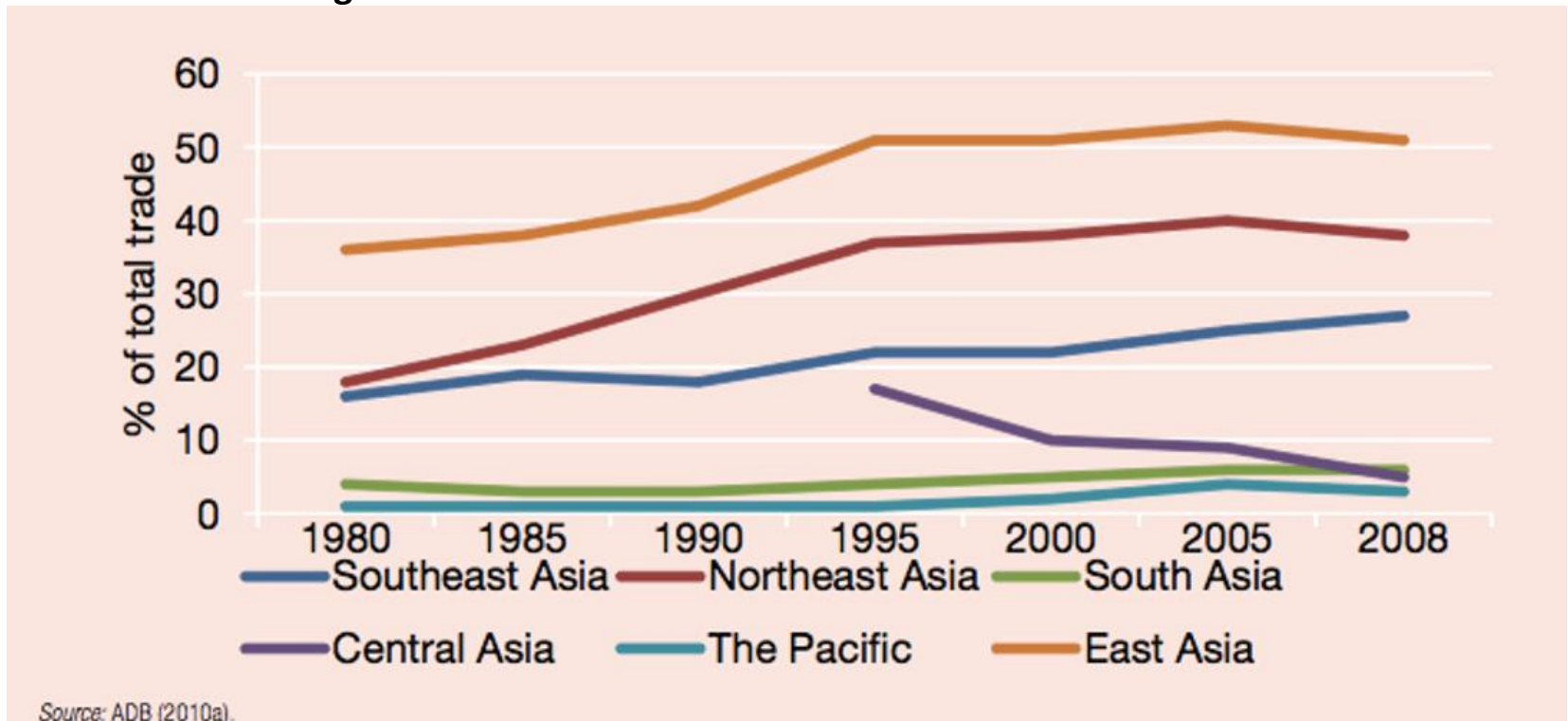
Evolution of intraregional trade shares: World





LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

Evolution of intraregional trade shares: Asia and the Pacific





LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

Uneven economic integration in Asia and the Pacific to date

	Production integration	Final goods integration	Services integration	Labor integration	Monetary and financial integration
East Asia	High	Moderate	Moderate	Low	Low
Central Asia	Low	Low	Low	Moderate	Low
South Asia	Low	Low	Low	Low	Low
Pacific	Low	Low	Low	Low	Low

Source: ADB (2010a).



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

- Trade tariffs : generally not a significant barrier anymore
- But non tariff barriers are
- Border and behind the border barriers: processes, logistics, quantitative restrictions, inadequate infrastructure and weak institutions



5.2 INFRASTRUCTURE (Hardware and Software)

The coverage and quality of domestic and regional transport systems is a major determinant of the total cost of trading

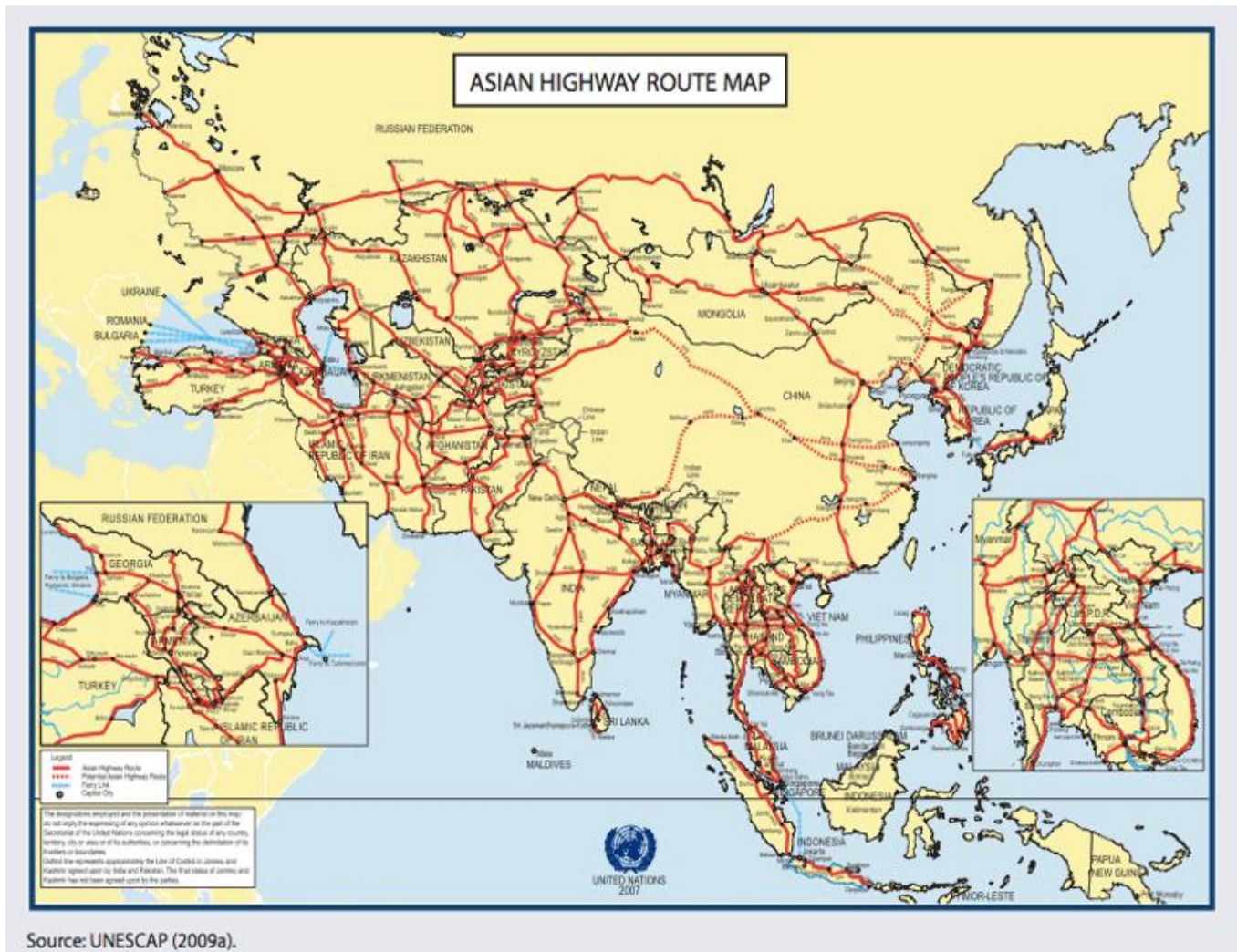


LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

- **Plans for Asian Highway and Asian Railway Network**

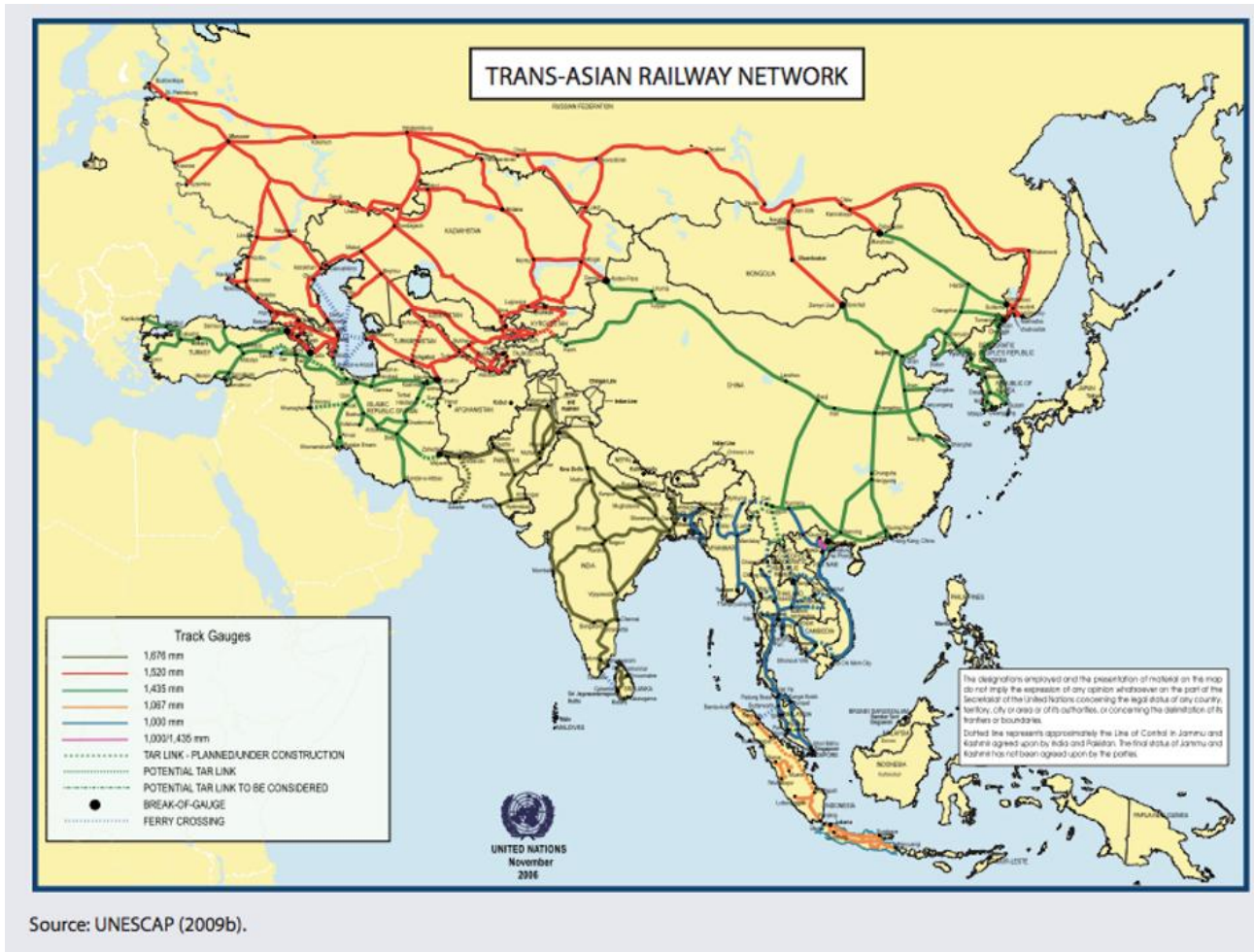


LECTURE 4: REGIONAL COOPERATION AND INTEGRATION





LECTURE 4: REGIONAL COOPERATION AND INTEGRATION



Source: UNESCAP (2009b).



5.3 Macroeconomic cooperation on integration and financial stability

- Increase the resilience of national economies by assuring sound macroeconomic fundamentals
- Accumulate high levels of foreign reserves
- Develop cooperative regional mechanisms, a la ASEAN and ASEAN+3.

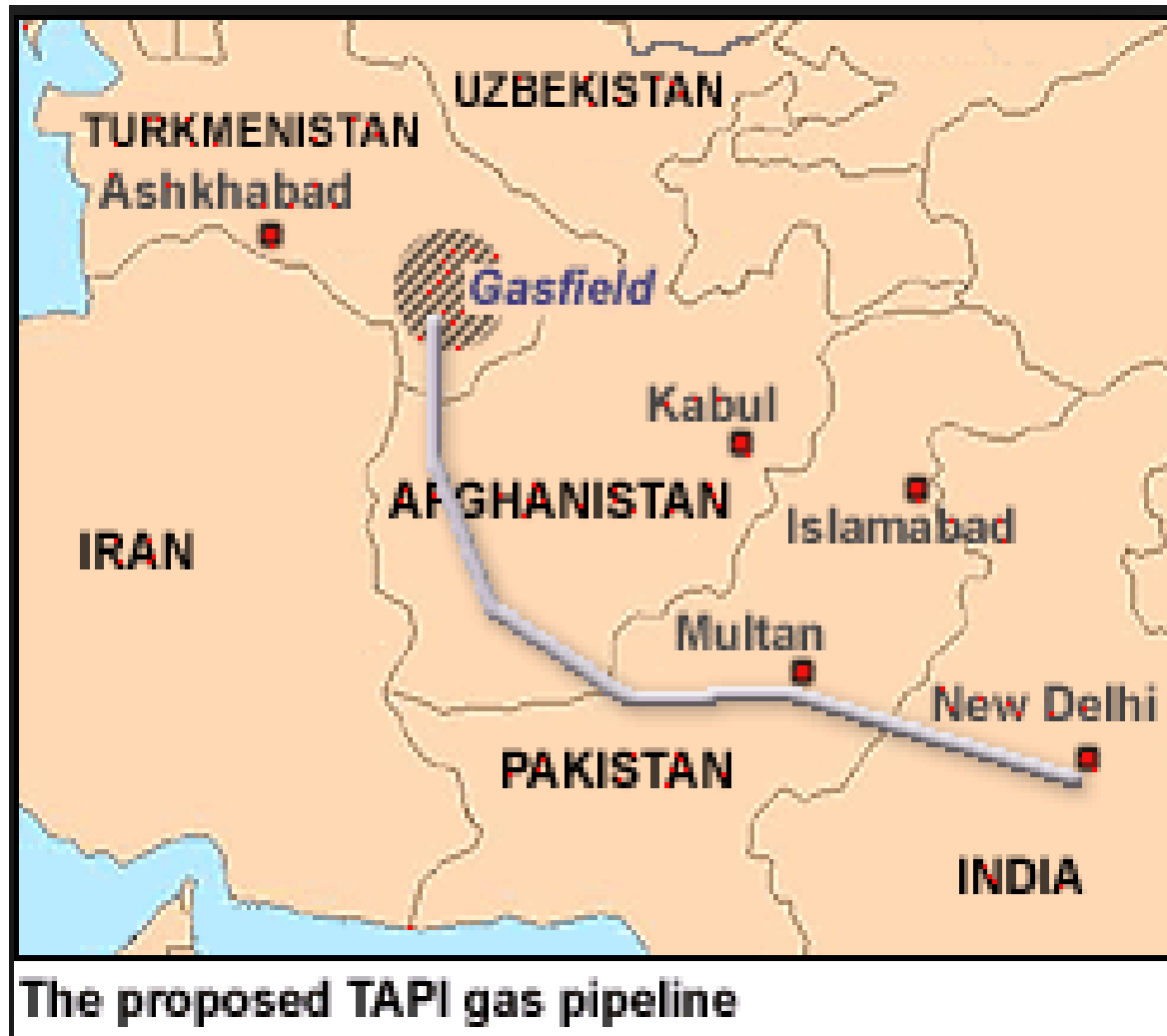


5.4 Access to natural resources

particularly energy, water, maritime and seabed resources



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION





LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

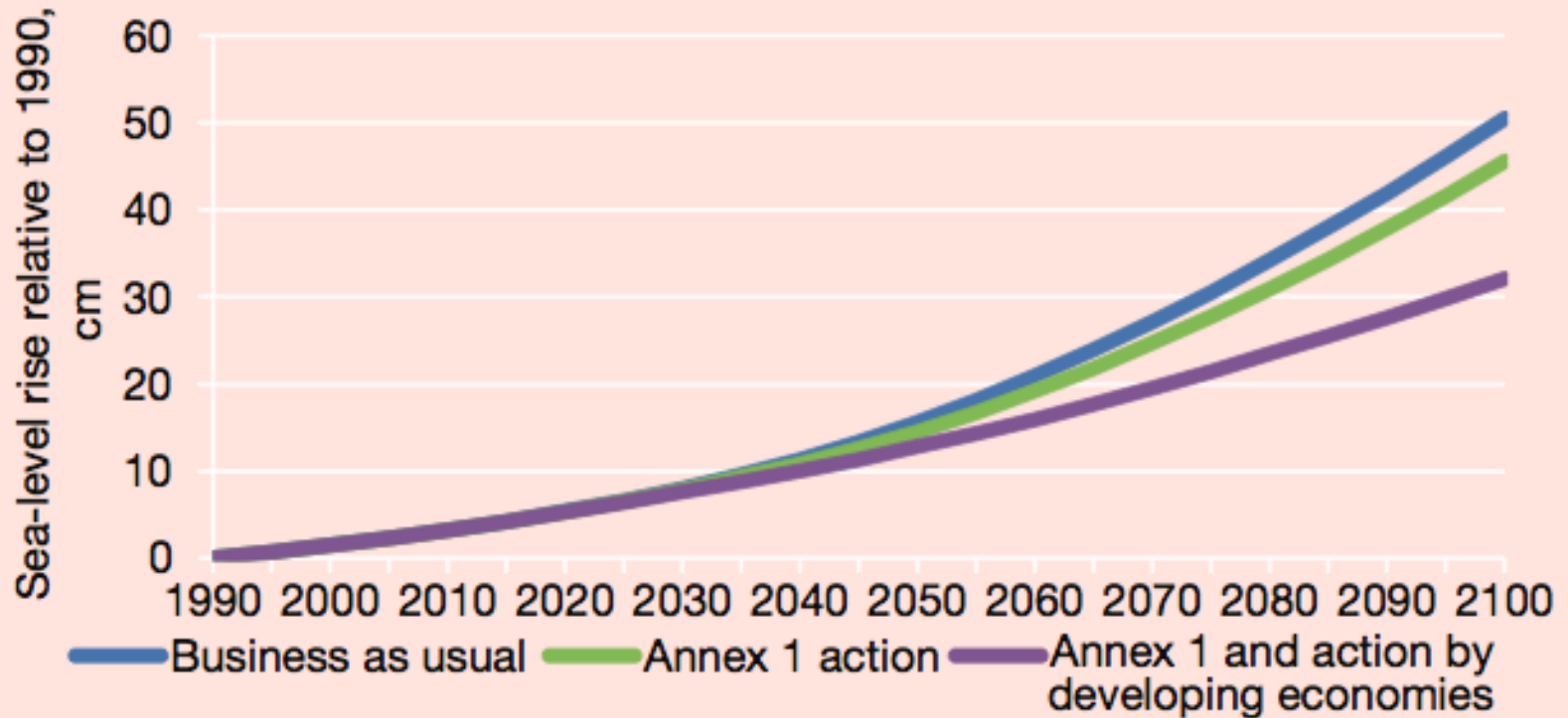
5.5 Climate Change



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

Figure
12.5

Emerging market action significantly reduces sea-level rise

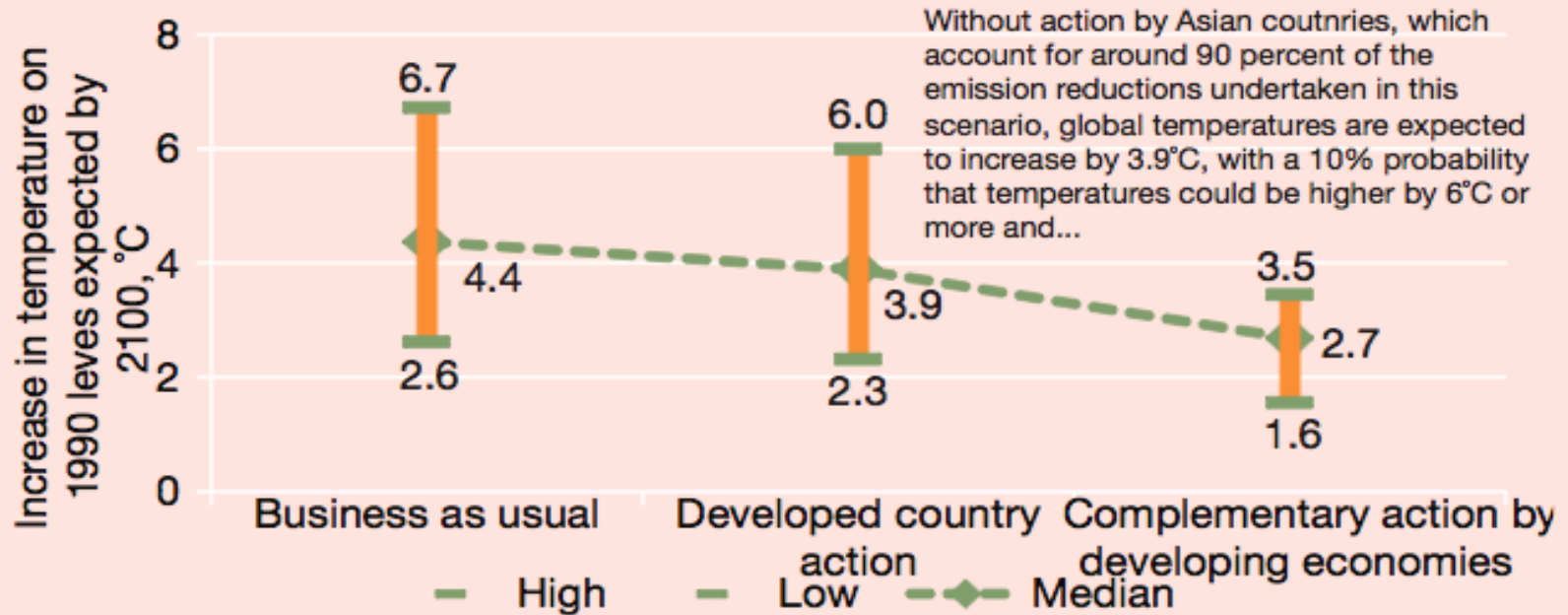


Source: Vivid Economics and MAGICC 5.3 and Centennial Group International forecasts.



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

Figure 12.4 | **Action by Asian countries can significantly mitigate damage from climate change**



Source: Centennial Group International calculations, 2011.



5.6 Responding to common regional threats: Natural disasters, epidemics, and the drug trade

5.7 Conflict prevention

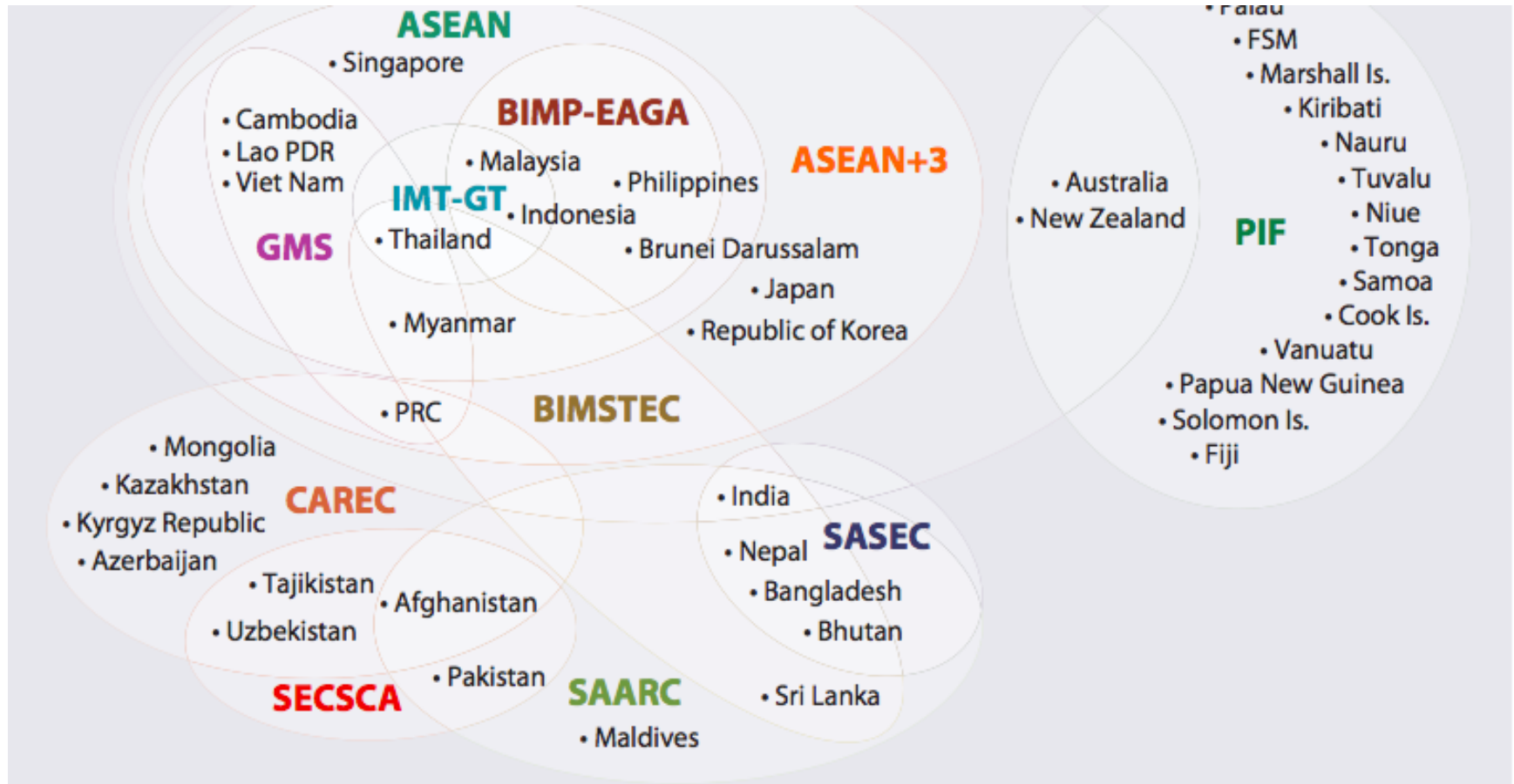


5.8 Institutions for regional cooperation

- A multitude of regional, transregional, and subregional organizations, forums, and programs over the last 40 years.



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION



ASEAN = Association of Southeast Asian Nations; ASEAN+3 = ASEAN plus three countries, as shown; BIMP-EAGA = Brunei Darussalam Indonesia



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

Characteristics of ASEAN cooperation and integration

- a market-driven, bottom-up, and pragmatic approach supported by an evolving institutional framework
- multi track, multi speed
- ASEAN model of consensus
- No centralized EU style bureaucracy
- No ceding of sovereignty



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

- The GMS Model: No need for consensus (n+1)



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

Infrastructure Development in GMS (1992)

-  Roads
-  Telecommunications
-  Power Transmission Line





LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

Infrastructure Development in GMS (2010)

- Roads
- Telecommunications
- Power Transmission Line

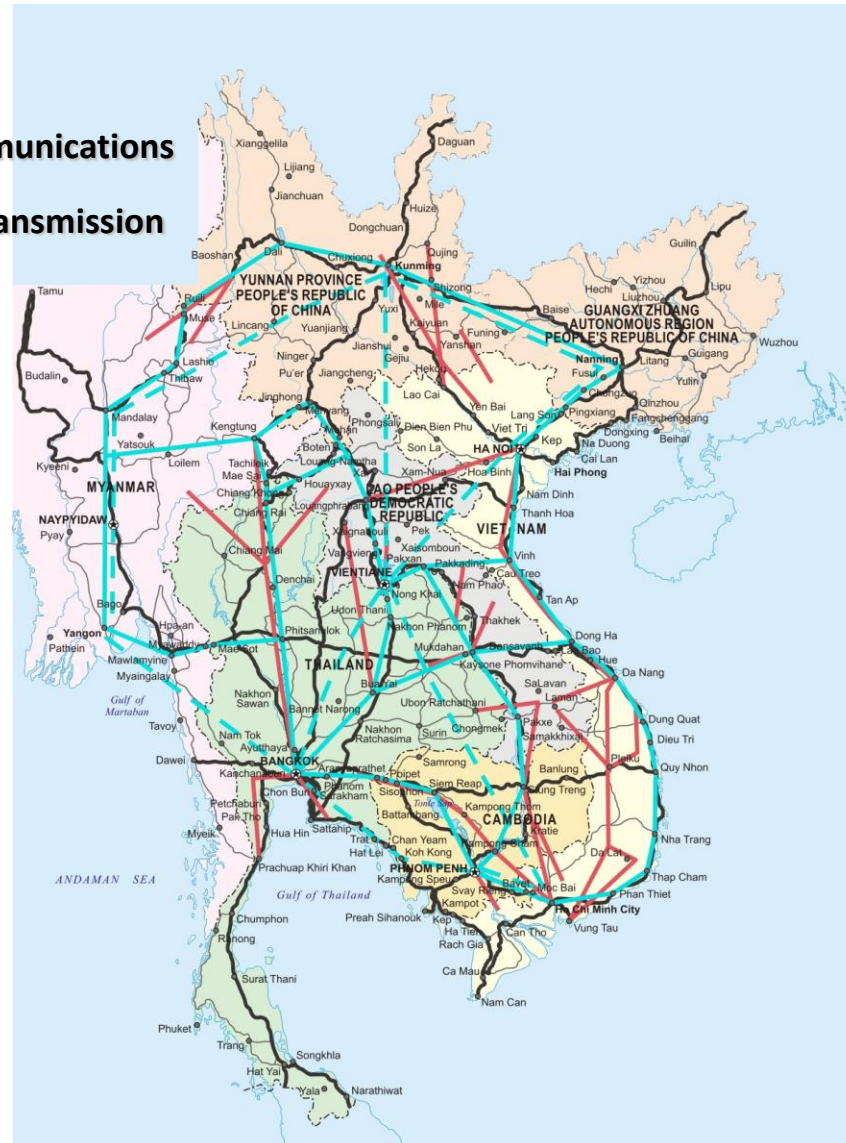




LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

Infrastructure Development in GMS (2020)

- Roads
- Telecommunications
- Power Transmission Line





LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

- South Asian regional organizations have traditionally been weak and ineffective, but there are signs that subregional cooperation and institution building is on the rise in South Asia..



A possible model for Asian Cooperation and Integration

- East Asian Model: production networks and supply chain facilitated by the free flow of goods and services



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

- Open regionalism—the creation of institutions that are open to extraregional participation and do not discriminate against nonregional economies in the long term—is the most successful strategy.



5.9 Strong political support and leadership.

Collaboration between the three mega-economies—PRC, Japan, and India— remains crucial.



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

- Build on the successes of the past and find ways to maintain or establish mutual trust.
- Without a minimum degree of trust, little can be achieved in regional cooperation, institution building, or conflict prevention.
- **But not Fortress Asia: Open Regionalism**



LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

To paraphrase Tagore:

“ Dibe aar nibe; milabe milibe”

**“ You will give and
you will take;
You will integrate and
get integrated”**





LECTURE 4: REGIONAL COOPERATION AND INTEGRATION

