

Regional Economic Integration in Asia-Pacific: Relevance, Potential, Areas and Institutions

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by

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Key messages

- The Asia-Pacific region's rapid growth over the past six decades has been supported by favourable external economic environment and opportunities thrown by globalization.
- In a dramatically altered post-global crisis scenario, realization of the **Asia-Pacific century** and region's dynamism, so crucial for elimination of poverty and hunger, will critically depend on its ability to harness the potential of regional economic integration.
- The region, a late starter in regionalism, has many underexploited opportunities for mutually beneficial regional integration given its many complementarities arising from its diversity.
- Regional economic integration can also assist in a balanced regional development with the lagging economies receiving a boost by stronger connectivity and integration with the region's economic growth poles such as China and India.
- Besides fostering peace, such cooperation would also assist the region address shared vulnerabilities and risks, and exercise its influence in global economic governance commensurate with its rising economic weight.
- Japan and India as two major economies and democracies of the region have much to contribute to and benefit from regional economic integration.

Changed new international context

- A-P's rapid growth supported by favourable external economic environment in the past
- External economic environment changed dramatically since the onset of 2008/09 crisis
 - Business-as-usual not an option
- Regionalism as a dominant trend in the world economy
- Stalemate in WTO negotiations
- Shared vulnerabilities and risks

Lessons from regionalism worldwide

- Regionalism driven by strategic industrial policy considerations geared to strengthen competitiveness and growth
 - Leads to efficiency-seeking industrial restructuring to exploit economies of scale and specialization
 - Substantial welfare gains result from such restructuring
 - Creates productive capacities in poorer countries
- More Equitable Development: relatively smaller and poorer Economies grow faster because of production restructuring; economic convergence: lessons from EU, NAFTA, Asia
- Smaller economies also get extra-regional investments as domestic markets size constraint is obviated
- Trade even with extra-regional countries increases as a result of trade facilitation measures

Asia-Pacific a late starter but now a growing recognition is attached to regionalism

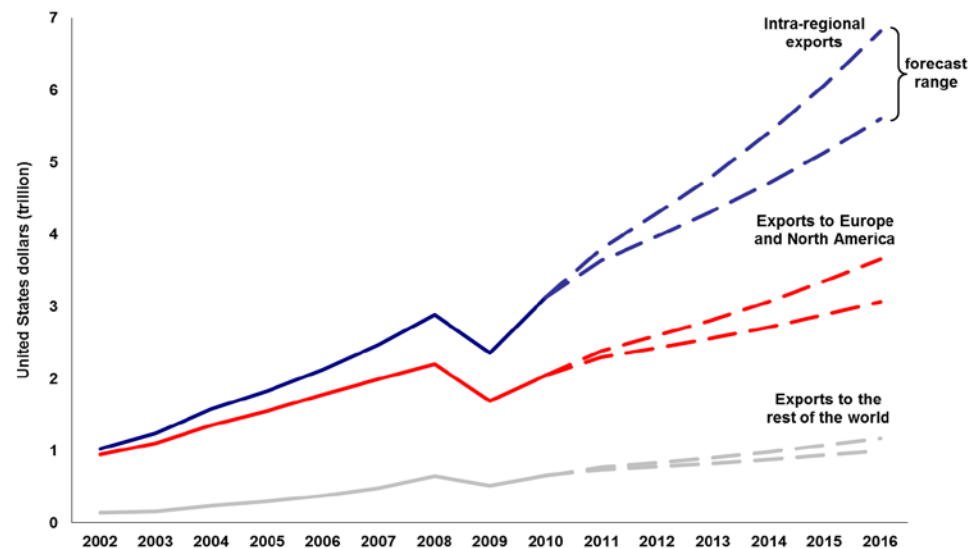
- Asia-Pacific countries begin to pay serious attention to regionalism since 1997-98 crisis
 - Japan's review of trade policy in 1999; Japan-Singapore FTA in 2002
 - ASEAN advances AFTA implementation and adopts a vision of ASEAN Economic Community
 - » ASEAN dialogue partnership process strengthened with Summit level annual dialogue
 - » Leads to ASEAN+1 FTAs
 - » Broader forums of ASEAN and dialogue partners: ASEAN+3 and the East Asia Summit (ASEAN+6)
 - SAARC concluded SAFTA in 2004 and then SATIS (2010)
 - BIMSTEC is formed and adopts BIMSTEC FTA
 - ECO adopts ECOTA;
 - PICTA and PACER
 - Numerous bilateral FTAs are initiated across the length and breadth of the region to create the Asian Noodle Bowl
 - several functional groupings initiated: ACD, CICA, SCO,
- Several Asia-Pacific leaders articulate visions of integrated Asia Relevance of a broader framework with a long run goal of creating an Asian economic community is widely shared

Enhancing regional economic integration

- Key elements of a plan to enhance regional economic integration could include the following
 - **An integrated Asia-Pacific Market**
 - **Seamless Connectivity for goods, energy and people**
 - **Financial cooperation to facilitate redeployment of region's savings**
 - **Addressing shared vulnerabilities such as energy and food security, natural disasters and environment sustainability**
- Adopting a **long-term vision** of Economic community of Asia-Pacific [or Asia-Pacific economic community]

Towards an Integrated regional market

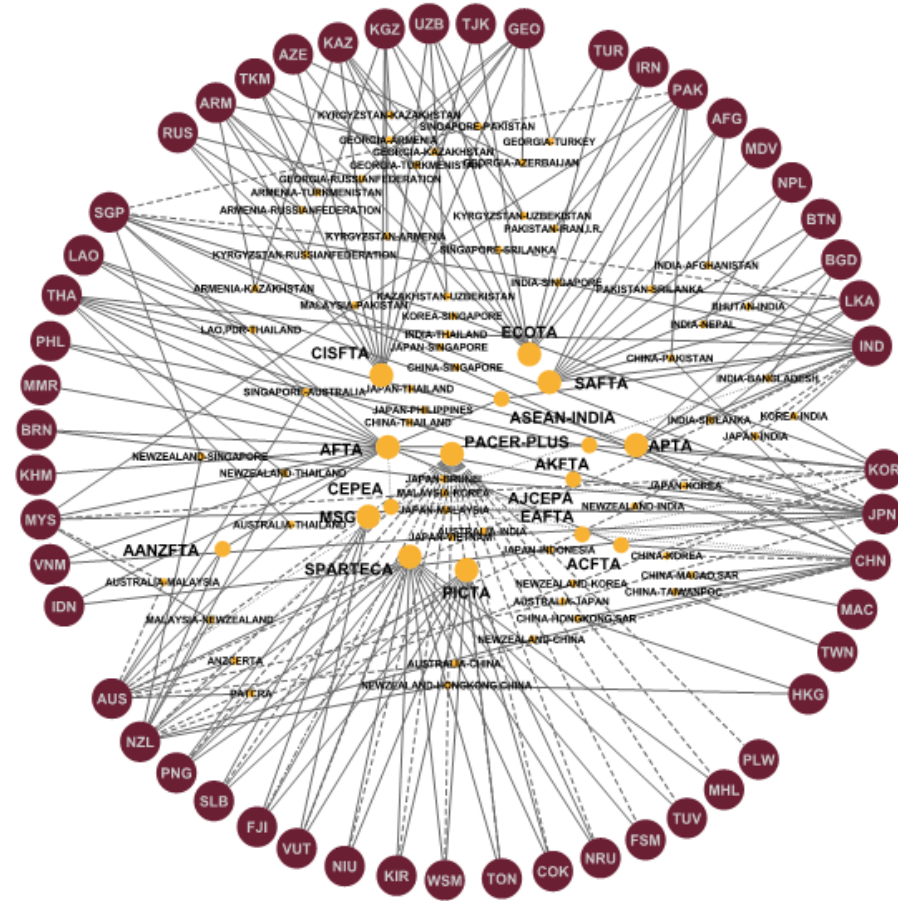
- Intraregional trade expanding fast; can grow faster with some facilitation
- Potential in subregions but often across the subregions
- potential of intraregional trade in services remains to be exploited
- Intraregional FDI flows have started to grow with the emergence of China, India, Hong Kong, Singapore, Malaysia, Thailand as new sources of FDI



Indicator of opportunities to export from	To					Asia and the Pacific	Rest of the World		
	East & North-East Asia	South-East Asia	South & South-West Asia	North & Central Asia	Pacific		Europe	North America	Rest of the World
East & North-East Asia	23.3	3.7	5.3	3.6	0.8	36.8	20.8	3.9	11.8
South-East Asia	19.4	2.3	4.1	1.7	0.6	28.1	16.2	5.4	6.9
South & South-West Asia	9.1	2.1	2.8	1.9	0.5	16.5	12.9	3.6	7.0
North & Central Asia	13.5	3.1	6.1	1.0	0.7	24.4	18.1	7.9	6.8
Pacific	5.2	1.4	2.5	0.7	0.3	10.1	7.3	1.8	3.5
Asia and the Pacific	13.0	2.4	3.9	1.6	0.6	21.4	14.1	4.3	6.7
Europe	13.8	3.8	5.6	4.5	1.0	28.6	29.7	6.1	13.7
North America	32.1	6.6	11.1	4.3	1.5	55.6	40.3	10.9	16.5
Rest of the World	9.5	2.2	3.9	1.3	0.6	17.5	12.1	4.9	5.6

Towards an Integrated regional market

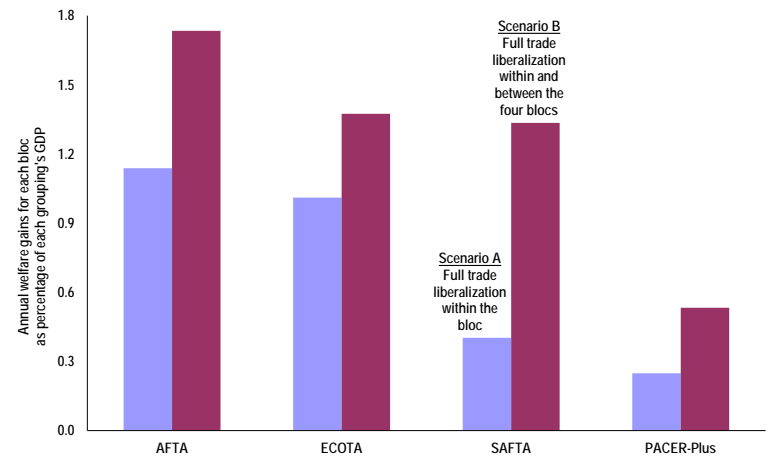
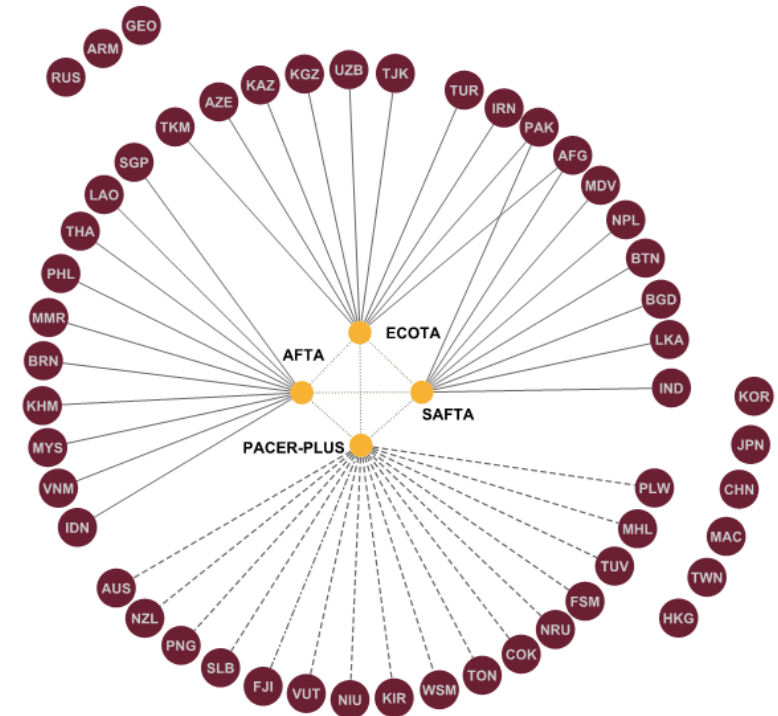
- High trade costs in intraregional trade: tariffs and non-tariff barriers
- Barriers to trade in services and investments also remain
- Approaches to liberalization limited to subregional and bilateral arrangements-**Asian Noodle Bowl**
 - Do not provide an integrated broader market
 - Poor facilitation of trade between subregions
- Coverage also varies with most agreements liberalizing trade in goods and are gradually extending their coverage to trade in services and investment. Some provisions for migration covered in a few agreements
- **Need to complement the subregional groupings by a broader arrangement to lead to a pan-Asia-Pacific regional trade agreement**
 - Broader, comprehensive (substantially all trade), deeper
 - Liberalization, facilitation and cooperation
 - Can be evolved in a progressive manner
 - Equitable: S&DT
 - Economic cooperation should cover assistance for lagging regions and vulnerable sections



Three options to evolve a broader pan-Asia-Pacific RTA

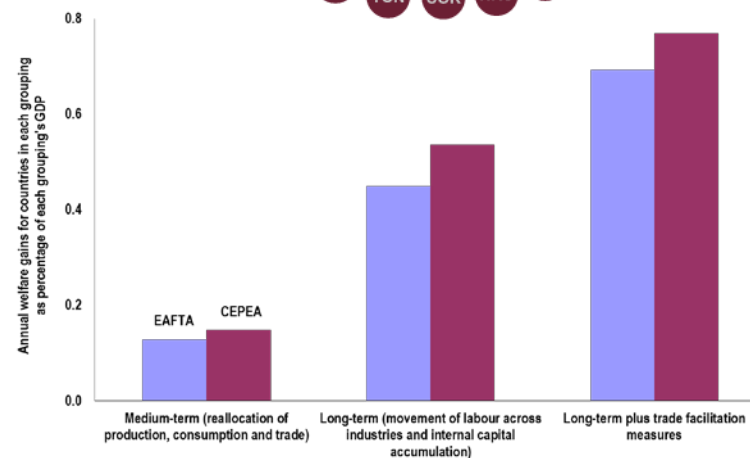
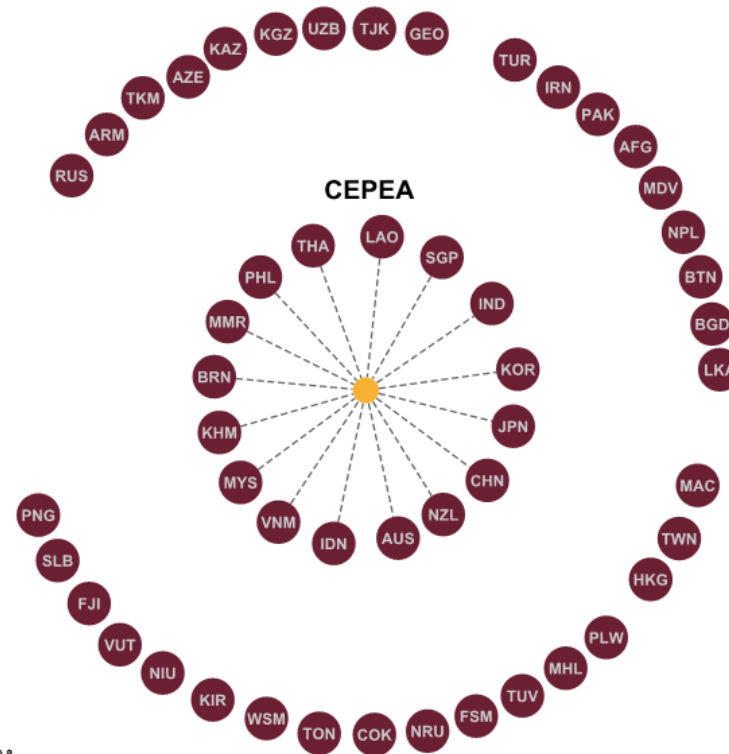
1. Creating an Asian Economic Area to join the sub-regional groupings

- One option could be to create an umbrella agreement AEA, negotiated under the auspices of ESCAP to provide a framework for subregional groupings to exchange tariff preferences on a reciprocal basis and share experiences
- May be complicated by different stages of evolution of the subregional groupings
- Potential for substantial welfare gains
- Leaves out some major economies e.g. China, Japan, RoK
- Creating a Consultative Group of the Subregional Groupings on Economic Cooperation to facilitate sharing of best practices between them



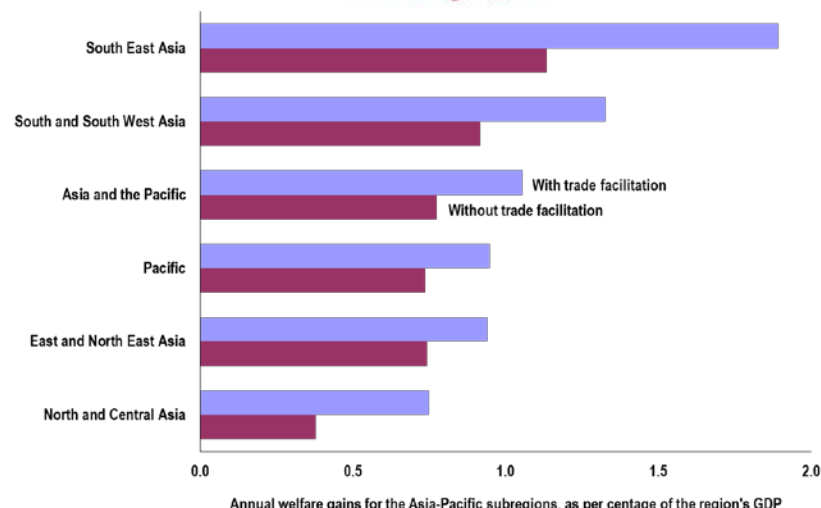
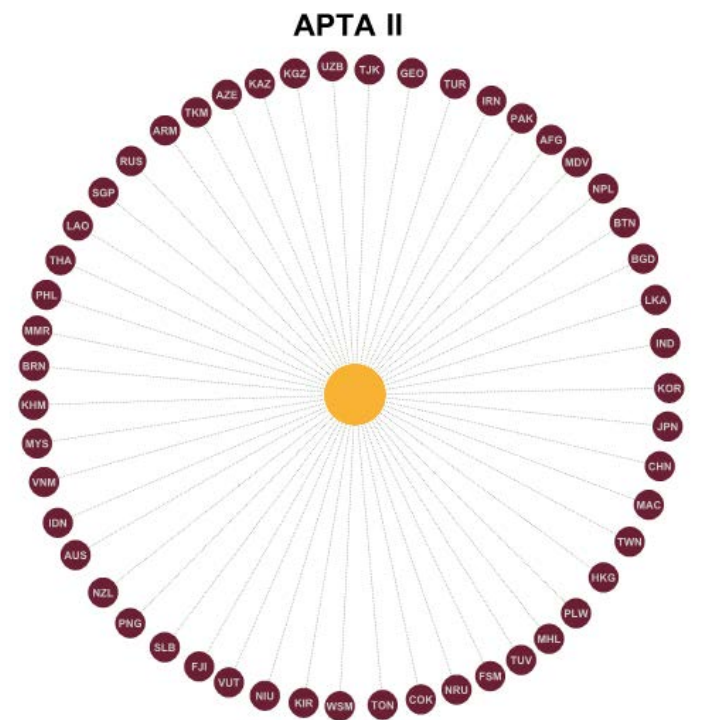
2. Building on ASEAN+ approach

- Using CEPEA of ASEAN+6 as a nucleus of an incipient Asia-Pacific-wide FTA to which other Asia-Pacific countries could accede to in future
- CEPEA Study process completed; four ASEAN+ study groups have been set up to develop it further
- ASEAN+1 FTAs concluded with all the six dialogue partners that can be multilateralized with common rules of origin
 - Already based on Liberalization, Facilitation and Economic Cooperation
- Opening it up for accession for other Asia-Pacific countries
- Potential for substantial welfare gains
- Bali Summit of ASEAN in 2011 adopted framework for regional comprehensive economic partnership of East Asia (R-CEP)
- Need to expedite the process



3. A new Asia-Pacific Trade and Economic Cooperation Agreement

- A new agreement under the auspices of ESCAP open to all member states
- Based on substantially all trade (negative list basis) conforming to Article XXIV of GATT
- Comprehensive coverage: goods, services and investments, facilitation
- Special and differential treatment for poor countries and economic cooperation covering support to lagging regions and vulnerable sections
- Potential to raise welfare by more than one percent of the whole region with poorer countries benefiting more.
 - The three options are not mutually exclusive.



Annual welfare gains for the Asia-Pacific subregions, as per centage of the region's GDP



Towards a seamless connectivity

- Maritime and aviation links relatively better with advanced countries and often poor with neighbouring countries
- Land transport important for regional integration and balanced regional development
 - Simulation results show that improving connectivity has potential to increase economic growth especially for relatively poorer areas
 - Critical for the landlocked developing countries
- Asian Highway and Trans-Asian Railway networks not fully completed
 - Asian Highway routes: even though no missing links but uneven quality a constraint to connectivity
 - Significant missing links and non-standardized routes in Trans-Asian railway
- Countries can make greater use of these networks by:
 - Improving transport facilitation measures
 - Investing in intermodal facilities such as dry ports
 - Dry ports can build synergies by linking different modes of transport, also promote balanced spatial development because they help to relocate industries to inland areas from coastal zones
 - Network externalities grow disproportionately with bigger and versatile networks

Towards a seamless connectivity

- Some recent developments in terms of railway connectivity:
 - Under ECO a container trains runs between Istanbul-Tehran-Islamabad; also demo runs between Istanbul and Almaty
 - Proposed Kunming-Singapore Railway link
 - Recent agreement on Bangladesh-India-Nepal rail link
 - Connecting these links could revive a new silk route
Kazakhstan-Turkey-Iran-Pakistan-India-Bangladesh-Myanmar-China-Laos-Thailand-Malaysia-Singapore but also Afghanistan, Nepal and Bhutan and Cambodia and Vietnam
- To facilitate development of connectivity
 - Work with Asian Development Bank and other financial institutions for financing the construction of missing links in TAR and upgrading the AH links
- Set up
 - **Asian-Pacific Ministerial Council on Transport**
 - **Asia Highway Authority** as a regional association of national highway bodies for standard setting for transit facilitation and coordination, and take up projects
 - **TransAsian Railway Authority** as a regional association of national railway bodies for standard setting and coordination and facilitation , and take up projects

Energy highway for energy security

- Energy resources unevenly distributed with some major net exporters and others net importers
- Rapid expansion of energy trade in the region
- Energy connectivity unevenly developed, mostly bilateral or subregional
 - Many pipelines connecting Central Asian oil and gas reserves, South-West Asia
 - ASEAN moving towards Trans-ASEAN gas pipeline and ASEAN power grid
 - SAARC also is considering a SAARC Energy Ring to connect power grids across the subregion
 - Several pipelines projects under consideration
- Need for an Asian Energy Highway
- Lack of a regional energy market and agreements setting out consistent rules for energy trade
- Geopolitical and security considerations discourage investors from exploiting potentially profitable opportunities
- A regional framework is needed for energy connectivity and trade
 - ESCAP's Asia-Pacific Ministerial Energy Forum, Vladivostok, May 2013 could provide a basis for institutional cooperation, harmonization of policies, exchange of knowledge and physical connectivity
 - Need to make **Asia-Pacific Energy Ministers Conferences**, a regular annual forum (as a council) to move the agenda forward.

Enhancing regional financial cooperation

- Missed opportunities
 - Large reserves of over \$6 trillion mostly invested outside the region
 - Private savings by Asian wealthy \$7.4 trillion in 2008 also largely invested outside the region
 - AP countries' needs for funds are also provided by western capital markets
 - Intermediation of Asia's savings and investments is done by the western capital markets
- Could benefit from pooling regional funds to provide liquidity, boost trade financing and invest in infrastructure

Initiatives for regional financial cooperation

- Over time a number of initiatives have been taken for different objectives
 - Asian Clearing Union
 - Asian Development Bank
 - Chiang-Mai Initiative – Multilateralization
 - Asian Bond Fund and Asian Bond Market Initiative
 - SAARC Development Fund (SDF)
 - ASEAN Infrastructure Fund (AIF)
 - Associations of central banks viz. SEANZA, SEACEN, EMEAP, SAARC Finance
 - Asian Exim Banks Forum
 - Association of Credit Rating Agencies in Asia
 - Financial cooperation in the framework of East Asia Summit and ACD
- Most initiatives at early stages and generally with limited scope and coverage
- Cooperation could build on existing arrangements to
 - strengthen resilience to external shocks,
 - Mechanism to mobilize regional savings to foster a programme of infrastructure development
 - Capital markets cooperation

Crisis prevention and management

- Chiang-Mai Initiative Multilateralization (CMIM)
 - US\$ 120 billion,
 - Limited to ASEAN+3 countries
 - lending linked to IMF conditionalities
 - AMRO

Need for expanding the scope and coverage to evolve into a truly regional emergency response mechanism

Mechanism for infrastructure development

- Existing mechanisms (AIF, SDF) relatively small and with limited scope for the region's needs
- Creating a regional fund with a large capital base backed by region's governments with the ability to issue secure and liquid securities
- Ability to provide technical assistance for development of viable projects for attracting co-financing by other financial institutions and private sector

Regional cooperation for capital markets development

- Well developed equity and bond markets in a number of countries
- No facilitation of cross-border listings and IPOs
- SWFs and private equity funds make cross-border short-term investments in emerging markets
- Deepening equity and bond markets
- Facilitation of cross-border listings and IPOs
- Establishment of regional stock exchanges
- Regional mutual funds

Addressing shared risks and vulnerabilities

Food insecurity

- AP home to 65 per cent of the world's hungry
- Some reasons: poverty, natural disasters, conflict and war, lack of employment opportunities, underinvestment in agriculture
- Areas for regional cooperation:
 - regional food reserves: ASEAN and SAARC reserves
 - sharing information,
 - Joint agricultural research,
 - Cooperation in post-harvest technology and meeting food safety regulations
 - managing trans-boundary resources,
 - Regional common agricultural policy
 - Regional cooperation and capacity building in spread of advanced technology such as satellite monitoring of weather and food production patterns
 - Asia-Pacific Ministerial Council for Food Security and Agriculture to oversee the programmes of cooperation

Dealing with disasters

- AP is highly prone to disasters
 - Floods and earthquakes costing 430 billion/year on average over 1990-2010
 - Regional dimensions of disasters amplified by growing economic interconnectedness
- Hyogo Framework for Action provides a framework
- Some cooperation at sub-regional level taking place
 - ASEAN Agreement on Disaster Management and Emergency Response, 2009
 - SAARC Disaster Knowledge Network; SAARC Disaster Management Centre, New Delhi
 - ESCAP/WMO Typhoon Committee; ESCAP/WMO Panel on Tropical Cyclones
 - Pacific Disaster Net
 - Regional Early Warning Systems: RIMES supported by ESCAP
- AP could benefit from more comprehensive regional agreements and cooperation
- Some areas for cooperation:
 - Strengthening regional centres for capacity building and research
 - Producing regional baseline assessments and periodic reviews
 - increase options for prevention, preparedness and recovery
 - Cooperation in satellite technology for DRR
- Biennial **Asian Ministerial Conferences on DRR** are important regional forums to take action at regional level to be regularized as Ministerial Councils

Cross-cutting issues

Technological cooperation for addressing shared vulnerabilities

- Joint technology development emerges as a key theme for addressing all the shared vulnerabilities
- Institutional architecture for promoting joint R&D
- Asia-Pacific Technology Development Council (APTECH)
 - An regional apex body of national innovation institutions
 - Will foster cooperation and coordination in innovation to address common issues and shared problems with sectoral bureaus
 - Cooperation in precompetitive R&D
 - Will administer a regional fund for funding joint innovation proposals
 - Intellectual property will be owned by APTECH and shared free with member national innovation bureaus for onward sharing with national and regional enterprises for further competitive research
 - Innovative mechanism for raising resources: a 2% tax on royalties paid and remitted abroad by region

To conclude

- A compelling case for deepening and broadening economic integration in Asia-Pacific region and move towards formation of an economic community of Asia-Pacific as a **long term goal**
 - Critical for achieving Asia-Pacific Century by 2050 and avoiding middle income trap of a low growth scenario
- Great potential of enhancing intraregional trade and investment by exploiting the synergies beyond those within the subregions through broader regionalism
- Fruitful cooperation possibilities exist also in connectivity, finance, and in addressing the shared risks and vulnerabilities as in food and energy security, disaster risk reduction, and for enhancing environmental sustainability, among other areas
- Deeper cooperation would also assist the region to play its due role in global economic governance and emerge as the centre of gravity of the world economy
- Time for the region to get its act together and exploit more fully the potential of regionalism for mutual benefit
- The region will need an elaborate **institutional architecture** to take this agenda forward
- Regional economic integration is an important agenda for India-Japan cooperation in view of their high stakes.

Supportive institutional architecture

- **Council for Asia-Pacific Economic Integration (CAPEI)**
 - » Highest (**Summit**) level political umbrella body for broad vision and agenda setting, adopt a long-term vision of an Economic Community of the Asia-Pacific and its contours, reflects on global challenges and global affairs and region's response, cooperation with other agencies and international organizations; meets annually
- **Ministerial Councils** on trade and investment, finance, transport, energy, food and agriculture, environment, disaster risk reduction, technology: develop specific agenda of work in the specific sector
 - » E.g. Ministerial Council on Trade and Investment to review the three proposals made for evolving a broader regional trading arrangement
 - » Council on Transport will also oversee the work of its operational arms like Asian Highway Authority and Trans Asian Railway Authority
 - It is proposed that ESCAP ministerial conferences are reorganized into the sectoral ministerial councils
- **Consultative Group** of Subregional Associations for Regional Cooperation: brings together all subregional bodies such as ASEAN, SAARC, ECO, PIF; meets annually on the sidelines of CAPEI
- **Asia-Pacific Business Advisory Council**
- **Asia-Pacific Network of Think-Tanks**
- ESCAP to convene the *Asia-Pacific Ministerial Conference on Regional Economic Cooperation and Integration* in 2013



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Thank you