

ASEAN FTAs & Prospects of Broader Regional Cooperation in Asia

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Introduction

ASIA has emerged as the most dynamic region of the world with the rise of China and India as engines of growth, recovery of Japan from a decade-old recession and emergence of the Asian middle class as a source of final consumption. China and India are increasingly replacing the United States as new growth locomotives of the world economy. For many products from jet planes to motor cars to mobiles, the biggest markets are now in Asia.

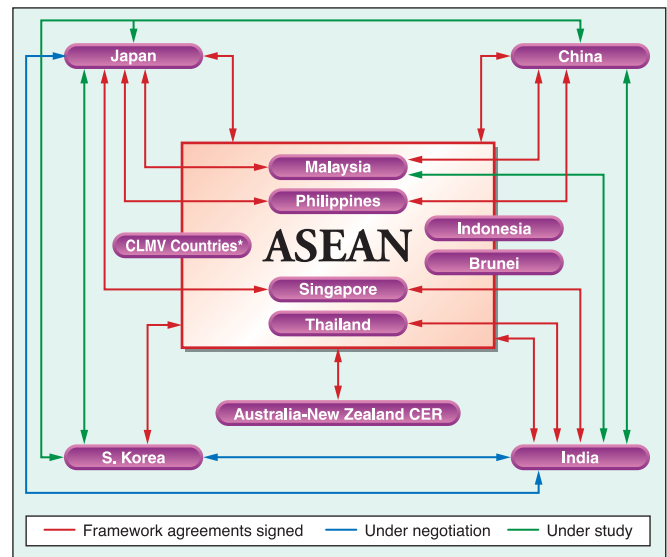
Asian economies have also developed profound synergies as suggested by a 55% share of intraregional trade. The new dynamism and synergies make regional economic integration a viable strategy. In the recent years Asian countries have begun to exploit the potential of regionalism for their development as suggested by the complex web of FTAs linking ASEAN countries and their dialog partners. There is now a consensus that a broader regional architecture is needed to complement these initiatives. The slow progress of the multilateral trade negotiations has also contributed to the importance attached to regionalism. Until recently Asia lacked a forum for pursuing broader regional cooperation bringing together all the ASEAN countries and their dialog partners. The ASEAN+3 (Japan, China and South Korea) cooperation largely remained limited to the Chiang-Mai Initiative designed to assist them in dealing with liquidity problems.

In that context, the launch of the East Asia Summit (EAS) in Kuala Lumpur in December 2005 bringing together the ASEAN 10 and six dialog partners, viz. Japan, China, India, Korea, Australia and New Zealand, is an important initiative. Bringing together 16 of the largest and fastest growing economies in an annual summit-level dialog, the EAS is widely expected to pave the way for broader regional architecture in Asia that could be the third pole of the world economy. In this article, we examine the relevance and prospects of a broader regionalism within the EAS framework.

Emerging Patterns of Regional Economic Integration in Asia

Besides deepening the subregional cooperation among its 10 member states, ASEAN has also served to bring major Asian countries, viz. Japan, China, India and South Korea (JACIK), together as annual summit-level partners, leading to the so-called ASEAN+1 FTAs. The partners are also evolving FTAs among themselves, e.g. India-Japan and India-S. Korea, presently under negotiation, and India-China under study. From this complex web of free trade arrangements linking all these countries (and the Australia-New Zealand Closer Economic

Chart Emerging (East) Asian Community



Note : *CLMV: Cambodia, Laos, Myanmar, Vietnam

Source : Research & Information System for Developing Countries (RIS)

Relations (CER) Agreement), a virtual East Asian economic community is emerging (Chart). However, these subregional or bilateral arrangements are unlikely to exploit the full potential of regional economic integration as they fail to provide a seamless market because of different scopes and coverage and rules of different FTAs producing a “noodle bowl syndrome.”

Hence, a case has been made for a broader regional arrangement coalescing various bilateral FTAs between ASEAN and its partners. As the EAS brings together all the JACIK countries as well as Australia and New Zealand, a start can be made on broader regional integration in the EAS forum. The second EAS held in Cebu, the Philippines, on January 15, 2007, endorsed the preparation of the track-II feasibility study of a Comprehensive Economic Partnership of East Asia (CEPEA) involving EAS countries.

Combining the 16 largest and fastest-growing economies of the Asia-Pacific region with significant complementarities, CEPEA of the EAS is a potential third pole of the world economy. With roughly half the world’s population, the EAS will have a combined income exceeding \$18 trillion (in purchasing power parity terms), accounting for a much larger proportion of the world than either NAFTA or the EU (see Table 1). The EAS’s exports at \$2.5 trillion exceed NAFTA’s. The combined official reserves of the EAS economies, at \$1.6 trillion in 2005, are much larger than those of NAFTA and the EU combined.

Table 1 Proposed East Asian grouping in relation to the EU & NAFTA in 2005 (\$ billions)

Indicator	EU	NAFTA	CEPEA (EAS)
Gross national income* (% of world total) (2004)	10,960 (19.47)	13,679 (24.30)	18,759 (33.33)
GDP (% of world total) (2004)	12,213 (29.58)	13,366 (32.37)	9,443 (22.87)
Exports (% of world total)	3,682 (35.42)	1,461 (14.05)	2,538 (24.42)
International reserves	182	122	1,637
Population (millions) (% of world total)	381 (6.12)	425 (6.83)	3,089 (49.65)

Note : *Based on purchasing power parity (PPP)

Source : RIS based on World Bank, World Development Indicators 2007; IMF, Direction of Trade Statistics 2007; IMF, International Financial Statistics 2007

In 2007 the foreign exchange holdings of the EAS countries actually exceeded \$3 trillion. Clearly, the EAS has the potential to rival NAFTA and the EU with a sufficiently large market and financial resources to sustain expedited development.

Gains from Economic Integration in EAS Framework

A number of studies conducted independently of each other have reported substantial potential for regional cooperation in increasing welfare gains for the region (as summarized in Table 2). A study conducted by the Research and Information System for Developing Countries (RIS) using a computable general equilibrium (CGE) model has shown that trade liberalization within the framework of a regional trade agreement in the EAS region could produce welfare gains of up to \$178 billion for the participating countries. It also finds that gains are proportionately higher for relatively poorer countries, thus presenting a potential for economic convergence. These findings have been corroborated by Asian Development Bank (ADB) and ADB Institute studies as summarized in Table 2. Besides the potential welfare gains accruing from economic integration exploiting the synergies, such a grouping would help Asia play its due role in global economic governance commensurate with its increasing economic weight.

EAS vs. East Asian Economic Integration Based on ASEAN+3

There is some debate on whether ASEAN+3 is a better forum for developing a broader scheme of economic integration in Asia than the EAS. However, research has shown that a more inclusive EAS forum has greater potential welfare gains for all participants than ASEAN+3. The CGE simulations reported earlier were repeated for ASEAN+3. The results as summarized in Table 3 clearly demonstrate that welfare gains in the EAS are much higher than in an ASEAN+3 framework in each of the studies that compared the two alternative frameworks. A possible explanation for this considerable difference in welfare gains could lie in the greater economic diversity of the EAS owing to inclusion of India, Australia and New Zealand with complemen-

Table 2 Welfare gains from economic integration in East Asia

Study	Scope of economic integration	Estimated welfare gains from deeper integration	Remarks
RIS [Mohanty & Pohit 2007]	ASEAN+6 [EAS members]	\$ 178 billion	Welfare gains vary between 1.5% of GDP (Singapore) to 4.7% (Indonesia); much higher gains for poorer countries as % of GDP
ADB [Brooks et al 2005]	Developing Asia	Much larger gains than multilateral trade liberalization	Smaller countries can share the dynamism of China and India
ADB I [Kawai & Wignarajah 2007]	ASEAN+6 [EAS members]	\$ 284 billion	Every country benefits

Source : RIS based on respective studies

Table 3 Comparative welfare gains from economic integration in EAS and ASEAN+3

Study	Welfare gains arising from broader integration in \$ billion	
	ASEAN+3	EAS (ASEAN+6)
RIS [Mohanty-Pohit 2007]	92	178
ADB I [Kawai-Wignarajah 2007]	233	284

Source : RIS based on respective studies

tary strengths. For instance, India's software- and services-dominated economy complements well with the hardware- and manufacturing-driven economies of other East Asian countries and its inclusion appears to be welfare-enhancing for all partners in the EAS, a 'win-win' situation for Asia. Australia's natural resource endowments also complement well with the growing raw material requirements of the fast expanding EAS economies.

Relevance of India for Asian Economic Integration

The EAS will be able to benefit from the dynamism and other strengths of India for mutual benefit. India with a \$1 trillion economy growing 9% per annum and a 300 million-strong middle class is emerging as the second largest economy in the world. With foreign exchange reserves of more than \$270 billion, one of the best-performing stock markets in Asia, low rates of inflation, a market-determined exchange rate, abundant human capital and entrepreneurial resources, and a prudently managed financial system, India is attracting attention for its strong macroeconomic fundamentals.

India has recently been ranked among the top two investment destinations in the world by AT Kearney in terms of their foreign direct investment (FDI) confidence index. India is seen as having the potential to show the fastest growth over the

next 30 and 50 years with very few downside risks by Goldman Sachs and the IMF. The growing openness of the Indian economy enables other economies to benefit from this dynamism. The IMF found India contributing nearly 10% to global growth and 20% to Asian growth. India's burgeoning demand for infrastructure investments, projected at more than \$500 billion, can provide a huge market for East Asian companies. Malaysian companies, among others, have already won substantial projects for road construction in open bidding. India has also emerged as a major source of high-spending tourists for a number of countries in East Asia.

Rapid integration with East Asia as part of the "Look East" policy followed by India since 1991 has made the region India's largest trade partner, ahead of the EU and the United States. India is increasingly being integrated into East Asian production chains especially in more critical knowledge-based segments such as R&D and product design. For instance, Samsung's R&D Centre in India developed the hybrid phone that can operate across different mobile technologies. China's Huawei Technologies, like many others, employs hundreds of engineers doing embedded software development in Bangalore. Hyundai uses its Indian operations as a sourcing base for compact cars. Toyota is sourcing gearboxes from its Indian plant for Asian plants.

Furthermore, Indian companies are also developing regional production networks. For instance, Daewoo Trucks has become linked with the production chain of Tata Motors following its acquisition by the latter. India is very much part of the ASEAN network of FTAs. It is finalizing FTAs with ASEAN, South Korea and Japan and is studying an FTA with China. With its excellent connectivity trading arrangements with South Asian, and the Gulf and other West Asian countries, India could act as a bridge for East Asia to markets in South, West and Central Asian countries. Lastly, it can be argued that an EAS-based grouping will be more balanced than ASEAN+3 as there are two rather than one large populous countries.

Priority Areas of Cooperation in EAS Framework

Some promising areas for cooperation within the EAS framework are as follows.

Comprehensive Economic Partnership of East Asia (CEPEA)

A most important priority for the EAS would be to complete the CEPEA feasibility study and implement it. CEPEA could target liberalizing regional trade and investment regimes in a phased manner by 2020 with provisions for safeguards for sensitive products, and special and differential treatment for countries at different levels of development. An attempt should be made to narrow the development gaps between countries and regions through capacity building and resource transfers. Care must be taken in designing the programs of regional economic integration in such a manner that they keep equity, employment generation and social safety nets for the vulnerable sections of society at their heart so that it represents regionalism with an 'Asian face'.

Monetary & Financial Cooperation in Asia

Financial and monetary cooperation between the EAS countries could be an area of fruitful cooperation in view of their combined foreign exchange reserves exceeding \$3 trillion. RIS has developed proposals for creating an Asian financial architecture that would facilitate partial mobilization of these reserves for narrowing the development gaps in Asia while spurring the growth. The other initiatives could include creation of an Asian Currency Unit as a unit of account to facilitate intraregional trade and production networking.

Cooperation for Energy Security

The EAS has identified energy security as an important area of its work and has instituted an EAS Energy Ministers Meeting as a forum for dialog on energy security. The regional cooperation in the area of energy could cover ensuring security and sustainability of energy supply, efficient utilization of energy resources in the region, rational management of energy demand, with due consideration of the environment, and establishing a policy framework and implementation modalities for setting up energy networks in the region such as a region-wide oil or gas grid.

Think-tanks & Institutions

To support the aforementioned initiatives Asia needs think-tanks to brainstorm on the policy challenges for regional economic integration and provide a road map for the official processes. In that direction, the EAS at its Singapore meeting has decided to start a regional economic think-tank called an Economic Research Institute of ASEAN and East Asia (ERIA) provisionally operating from the ASEAN Secretariat. ERIA is expected to foster analytical capability building in the EAS region through cooperation with national think-tanks in these countries. The EAS could take initiatives for greater people-to-people exchanges, cultural interactions, and educational and media exchanges for allowing an Asian identity or 'Asianness' or 'One Asia' to take hold.

Concluding Remarks

Broader regional economic integration in Asia within the EAS framework not only could be an engine of growth for the participating countries but also has the potential to enhance the welfare of the rest of the world by unleashing the synergies of Asian countries for trade creation. India and East Asian countries need to deepen their ongoing cooperation further and cooperate in shaping CEPEA towards creation of an integrated or seamless Asian market which could emerge as the third pole of the world economy after NAFTA and the EU. By forming credible schemes of regional economic integration, Asia will be able to seek its due place in the global economic governance and contribute to building a more democratic and multipolar world economy. **J S**

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