

# India and Broader Asian Economic Integration

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# Outline

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- ❑ Impetus for Asian Regionalism
- ❑ 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
- ❑ Areas for Regional Cooperation
- ❑ Concluding Remarks

# Impetus for Asian regionalism

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- Response to western regionalism
- East Asian Crisis of 1997
- Slow progress of multilateral trade negotiations

# Changing economic geography

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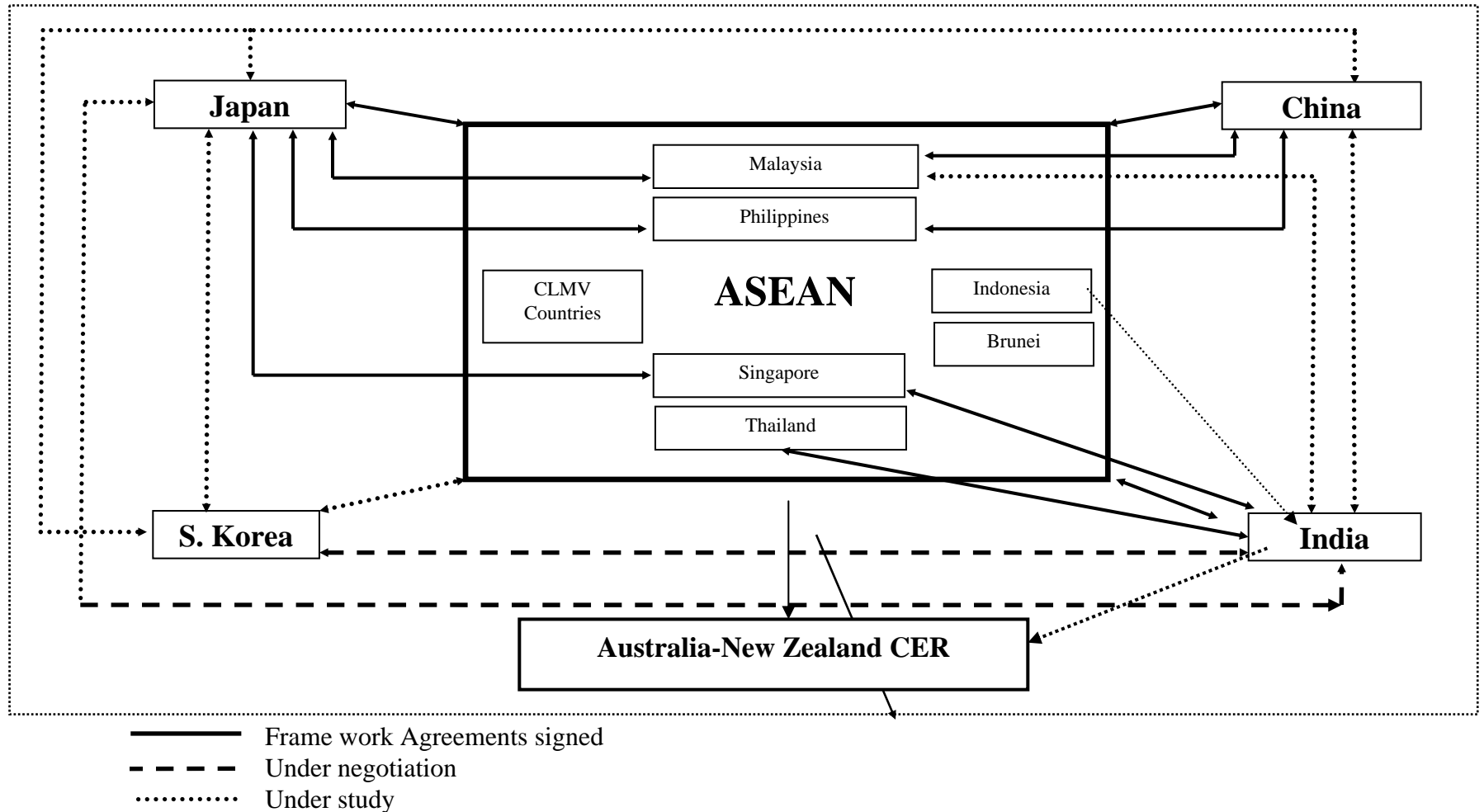
- Emergence of Asia as a new growth pole
  - Emerging Asian economies growth average 7.8% compared to rich countries' average of 2.7% over 2004-07 [IMF's *WEO*]
  - Disproportionately high share of incremental output in the world coming from Asia
    - Asia emerging as the centre of gravity of the world economy with 3 of the 4 largest economies in the world
    - Rise of Asian middle class as a final consumer
    - Largest markets for a growing number of products
  - Asia replacing the US as the growth locomotive
    - China and India contributing 40% of global incremental output (in ppp)
- ⇒ Regional economic integration could be a viable strategy
  
- Urge to exploit synergies
  - Initially driven by flying geeze; now vertical specialization: regional production networks
  - 55% of Asia's trade with itself
  
- Shaping the global economic governance

# Regional Economic Cooperation in Asia

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- Bangkok Agreement, 1975
- Sub-regional
  - Economic Integration in ASEAN: AFTA and beyond
  - Economic Cooperation in South Asia:
    - SAPTA (1993)/ SAFTA Agreement (2004)
  - BIMSTEC Framework Agreement (2004)
- ASEAN+1 FTAs
  - FTAs between China-ASEAN, India-ASEAN, Japan-ASEAN, ASEAN-South Korea
  - FTAs between Individual ASEAN countries and +1 countries: Japan-Singapore, India-Thailand, India-Singapore CECA, China-Malaysia, Japan-Malaysia, Japan-Philippines, India-Malaysia
- Between +1 countries: e.g. India-Japan, India-Korea, India-China,
- Move towards broader arrangements:
  - APEC
  - ASEAN plus Three
  - **East Asia Summit** (EAS) or ASEAN plus six

# *A Virtual Asian Community is already emerging from a complex web of FTAs*



# Limitations of Existing Regional Arrangements

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- Limitations of Sub-regional/ bilateral Cooperation
  - Similar factor endowments and economic structures in the sub-region provide for limited complementarities
  - 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)

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- ❑ Consolidate the ongoing sub-regional/bilateral schemes of cooperation
- ❑ bilateral approaches as building blocs of a broader Asian Economic Community evolved in a phased manner:  
Indian Vision
- ❑ In the first phase: evolve a structure with a core group of countries
- ❑ 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
- ❑ Once the grouping has consolidated, extend the membership to other countries in the region



# Approaches to pan-Asian Regional Economic Cooperation (2)

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- Launch of East Asia Summit (EAS) in December 2005 in KL with ASEAN10, Japan, China, Korea, India, Australia and NZ: Annual Summit level forum
- Bringing together all the JACIK countries and Australia and New Zealand, EAS could be the right forum for evolving a broader regional arrangement in Asia

# Approaches to pan-Asian Regional Economic Cooperation (3)

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- EAS at Cebu Summit on 15 January 2007 agreed to launch a feasibility study for a comprehensive economic partnership arrangement (CEPEA) of EAS
  - A framework coalescing the growing web of FTAs linking the EAS members
  
- CEPEA could be extended in due course to other Asian countries to create a truly pan-Asian grouping

# Emerging EAS in relation to EU and NAFTA

*billion US\$ in 2005*

- EAS is larger than EU and NAFTA in terms of GDP, trade bigger than NAFTA, half of world's population and more than two thirds of world's foreign exchange reserves
- Basis for a viable regional grouping

| Parameter   | EU           | NAFTA        | EAS          |
|---|--------------|--------------|--------------|
| <b>Gross National Income, PPP</b><br>(in Purchasing Power Parity)<br>2004 | <b>10960</b> | <b>13679</b> | <b>18759</b> |
| % of World total  | 19.47        | 24.30        | 33.33        |
| <b>GDP 2004</b>   | <b>12213</b> | <b>13366</b> | <b>9443</b>  |
| % of World total  | 29.58        | 32.37        | 22.87        |
| <b>Exports (2002)</b>   | <b>3682</b>  | <b>1461</b>  | <b>2538</b>  |
| % of World total  | 35.42        | 14.05        | 24.42        |
| <b>International Reserves</b>   | <b>182</b>   | <b>122</b>   | <b>1757</b>  |
| <b>Population (millions)</b>  | <b>381</b>   | <b>425</b>   | <b>3089</b>  |
| % of World total  | 6.12         | 6.83         | 49.65        |

# Gains from broader Economic Integration in Asia

- Robust evidence on the potential of broader regionalism
  - A number of studies simulating broader Asian economic integration using CGE models report substantial welfare gains scenarios of progressive integration in Asia:
    - RIS [Mohanty et al 2003]: upto US\$ 210 billion
    - ADB [Brooks et al]: much larger gains than multilateral trade liberalization
    - ADBI [Kawai & Wignaraja 2007]: US\$ 284 billion
    - Urata [2007]: US\$ 191 billion
    - RIS [Mohanty & Pohit 2007]: US\$ 178 billion
- All participating countries benefit
- Welfare gain up to 3% of region's GDP
- 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
- Even the rest of the world benefits from deeper integration in the scenarios of deeper integration
  - **AEC could be an *'arc of advantage, peace and prosperity'* Prime Minister Dr Manmohan Singh**

## EAS versus ASEAN plus Three

| Study                                 | Welfare gains arising from broader integration<br>in US\$ bn |                      |
|---------------------------------------|--|----------------------|
|                                       | <b>ASEAN+3</b>   | <b>EAS (ASEAN+6)</b> |
| <b>ADBI</b><br>[Kawai-Wignaraja 2007] | 233  | 284                  |
| <b>RIS</b><br>[Mohanty-Pohit 2007]    | 82   | 178                  |
| <b>CEPEA Study</b><br>[Urata 2007]    | 129  | 192                  |

- Welfare gains are significantly higher for all partners in EAS than in an APT framework in all the studies comparing the two approaches
- Gains to the region higher than India's and A-NZ's gains
  - Possibly due to dynamism and synergies that India and A-NZ bring to the grouping in terms of services and software to the hardware and manufacturing prowess of East Asia and in terms of natural resources

# Relevance of India for East Asian Integration

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- India's emergence as a dynamic economy of Asia with strong macro-fundamentals: *a trillion dollar economy growing at 9%*
- East Asia has emerged as the largest trade partner of India with rapid growth of trade: US\$ 81 billion two way trade between India-East Asia in 2006
- Look East Policy: Evolving FTAs with ASEAN, Japan, South Korea, China, Australia and NZ
- Strong complementarities between India and other East Asian economies
- Indian economy getting increasingly integrated with East Asian production chains especially in knowledge-based segments such as chip design, embedded software, R&D
  - Indian companies are also evolving Asian production networks
- Complementary demographic trends
- Geographic, historical and cultural bonds with East Asia
- A bridge between East and South and West Asia

## Areas of cooperation for EAS

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- A Broader Framework for Regional Trade and Investment Liberalization CEPEA
- Monetary and Financial Cooperation
- Energy Security
- Education, S&T and Disaster Management
- Regional institution-building
  - ERIA
  - evolving an Asian Identity
- Global Economic Governance

# CEPEA: A Broader Framework for Regional Trade and Investment Liberalization

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- Should develop a Framework for economic integration with **‘Asian face’**
  - Comprehensive coverage: goods, services, investments; + eco. coop. for narrowing development gaps
  - Phased implementation by 2020
  - Harmonized rules of origin
  - Trade facilitation
  - Special and differential treatment for developing countries and LDCs
  - Safeguards for sensitive products
    - Agriculture liberalization on a separate track
  - Social safety nets for vulnerable groups
  - Policies for balanced regional development based on capacity building and resource transfers to backward regions
  - Provisions for review and dispute resolution
- Ambition to create a **seamless** Asian market



# Monetary and financial cooperation

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- 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 a regional institution: e.g. ARB, AIB, RBA
  - Exchange rate stability
  - An ACU as a unit of account backed by the Asian Reserve
  - Asian Fund for financing huge infrastructure investments and regional public goods
  - Huge requirement for infrastructure investments in EAS region
  - Additional demand generation to enable fuller utilization of capacity
  - Development of Asian Bond Market
  
- Finance is on the EAS agenda

# Cooperation for Energy Security

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- Potential for fruitful regional cooperation
  - Development of Asian Energy Market
  - Joint exploration/ oil equity in third countries as well as within the region
  - Regional infrastructure e.g. oil/gas grid
  - Common strategic reserves
  - Energy conservation
  - Maritime security/ protection of sea lanes
- Cebu Declaration on East Asian Security

## Concluding Remarks

- Substantial potential of broader Asian economic integration in helping Asia sustain a high growth path by complementing ongoing sub-regional approaches in realizing the **Asian Dream**
- Also a win-win for the rest of the world
- Growing economic interdependence will also promote peace and reconciliation and disaster management
- EAS can play an important role in fostering broader regional cooperation in Asia by evolving a CEPEA and exploiting opportunities for cooperation in finance, energy security, in shaping the global governance etc.
- With its dynamic economy and synergies with East Asian countries, India is in a position to contribute to such cooperation



*Thank you*