

Potential and Challenges of East Asian Cooperation

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The Look East Policy followed by India since 1991 has made the east Asian region the country's largest trade partner. This article examines, from an Indian perspective, the prospects and challenges for the annual East Asian Summit, which was launched in 2005, to pave the way for broader regional cooperation in Asia that could become the third pole of the world economy.

Regional economic integration has been adopted as a strategy for development in different parts of the world over the 1990s, following the formation of single market by the European Union and North American Free Trade Agreement (NAFTA). With the growing popularity of regional economic integration worldwide, more than half of the world trade is now conducted between members of regional trading arrangements (viz, on preferential basis) and not on most favoured nation (MFN) basis. Having been the faithful adherents of multilateralism till nearly the turn of the millennium, these countries have been slow to respond to the global trend of regionalism. Over the past few years, these countries have also recognised the potential of regional economic integration as is clear from numerous free trade arrangements (FTAs) that are taking shape, especially a dense web of FTAs linking the Association of South-East Asian Nations (ASEAN) and its dialogue partners. However, a broader arrangement coalescing these various initiatives is desirable for expanding and reaping the potential of regional cooperation for mutual benefit. An important initiative in that direction was the launch of the East Asian Summit (EAS) in December 2005 in Kuala Lumpur, Malaysia, as an annual forum participated by ASEAN and all its dialogue partners. Bringing together 16 of the largest and fastest growing economies in an annual summit level dialogue, the EAS is widely expected to pave the way for broader regional arrangement in Asia that could be the third pole of the world economy.

The EAS is of particular significance to India giving it a due role in the emerging regional architecture. India has much to contribute to and gain from a regional arrangement in Asia such as a Comprehensive Economic Partnership of East Asia (CEPEA) evolved within the framework of the EAS. This article examines the prospects

and challenges for EAS from an Indian perspective.

Impetus for Cooperation

The east Asian crisis of 1997 highlighted the importance of regional economic cooperation provided a much-needed stimulus for regional economic integration in the region. The ASEAN countries expedited implementation of ASEAN Free Trade Area (AFTA) from 2008 to 2002 and moved on to further deepen the economic integration. The crisis also led to Chiang-Mai Initiative for monetary cooperation which involves ASEAN+3 (Japan, China and South Korea) countries. A more important stimulus for regionalism seems to have come from the emergence of Asia as the centre of final demand. With the emergence of large populous economies, viz, China and India as powerful growth drivers of the world economy, Asia is quickly becoming the centre of gravity of the world economy. For many products from jet planes to motor cars to mobiles, the biggest markets of the world are now in Asia rather than in the west. As a result more than 55 per cent of Asia's trade is now intra-regional thus making regional economic integration as an increasingly viable trade strategy.

Global investment banks such as Goldman Sachs are projecting China and India to emerge as the two largest economies in the world by 2050.¹ The booming intra-regional trade is suggestive of the complementarity or synergies that have developed between economic structures of the Asian economies. Regional economic integration could help in their exploitation for mutual benefit. Although regional production networks have begun to be developed across Asia to exploit the synergies through vertical specialisation, regional economic integration could help in expanding such opportunities and exploiting the potential of such rationalisation or restructuring more fully. The slow progress of the multilateral trade negotiations and its inability to live up to the expectations of Asian countries have also contributed to the importance attached to regionalism by them.

Besides deepening the sub-regional cooperation between its 10-member states, the ASEAN has also served to bring major

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Asian countries, viz, Japan, China, South Korea and India together as annual summit-level dialogue partners leading to the so-called ASEAN+1FTAs. The dialogue partners are also evolving FTAs between themselves, e g, India-Japan and India-South Korea, presently under negotiation, and India-China, under study. From this complex web of free trade arrangements linking all these countries (and Australia-New Zealand Closer Economic Relations (CER)) and the ASEAN countries a virtual Asian or east Asian economic community is emerging [Kumar 2005]. It has been argued however that the sub-regional or bilateral attempts at regional cooperation such as these while desirable are unlikely to exploit the full potential of the regional economic integration in Asia, and hence are suboptimal (ibid). This is because the extent of complementarities are limited at the sub-regional levels because of similar factor endowments and economic structures within an immediate neighbourhood as is clear from low proportions of intra-subregional trade such as within ASEAN or the South Asian Association for Regional Cooperation (SAARC). At the broader Asian level, on the other hand, the diversities in the levels of economic development and capabilities are quite wide thus providing for more extensive and mutually beneficial linkages. Secondly, the bilateral arrangements do not provide a seamless market because of different scopes and coverage and rules applicable to different FTAs. As one observer has pointed out, without some form of overall regional framework within which to work, capital, human and natural resources may all be deployed at less than their optimal value [Rowley 2004].

Hence, a case was made of building a broader regional arrangement coalescing the various bilateral FTAs between Japan, ASEAN, China, India and South Korea (JACIK) countries [RIS 2003; RIS and ISEAS 2006; Kumar 2004, 2005]. Combining 14 of the largest and fastest growing economies of Asia with vast complementarities, east Asian or JACIK trade bloc could be a potential third pole of the world economy with roughly half of world population, combined income of \$ 16 trillion (in purchasing power parity (PPP) terms), much larger than either NAFTA or EU, and trade

larger than NAFTA's. The combined official reserves of the JACIK economies at over \$ 3 trillion are much larger than those of the US and the EU put together. Therefore, the region would have sufficiently large market and financial resources to support and sustain expedited development of the region's economies.

Importance of East Asia Summit

In this context, the launch of the East Asian Summit in December 2005 in Kuala Lumpur with leaders of ASEAN10 and their dialogue partners, viz, Japan, China, South Korea, India, Australia and New Zealand is an important initiative. As EAS brings together all the JACIK countries and CER countries, viz, Australia and New Zealand, a beginning of the broader regional integration can be made in EAS forum. The Japanese minister of economy, trade and industry (METI) at the economic ministers meeting of the EAS countries held in August 2006 proposed initiating a study on a Comprehensive Economic Partnership in East Asia (CEPEA) covering the EAS countries and a research institute to provide intellectual inputs to assist economic integration, viz, Economic Research Institute of ASEAN and East Asia (ERIA). The second EAS held in Cebu on January 15, 2007 has endorsed the launch of a track-II feasibility study of a CEPEA and setting up of ERIA.

EAS vis-a-vis ASEAN+3

There is some debate on whether ASEAN+3 (APT) is a better forum for evolving a broader scheme of economic integration in Asia than EAS. However, the research has shown that EAS has a greater potential to generate welfare gains for all the partners than ASEAN+3. The computable general equilibrium (CGE) simulations conducted to examine the potential gains from Asian economic integration reported earlier were repeated for ASEAN+3. Simulation results clearly bring out that welfare gains for each participant in EAS or JACIK are much higher than in an APT framework [Kumar 2005]. The explanation for considerable difference in welfare gains between EAS and APT-based approaches is possibly increased diversity due to inclusion of additional countries such as India with complementary strengths. Its

software and services-dominated economy complements well with hardware and manufacturing-driven economies of other east Asian countries. Obviously, India's inclusion is welfare-enhancing for all the partners and is a win-win for Asia.

Furthermore, EAS will be able to benefit from the dynamism and other strengths of India, Australia and New Zealand for mutual benefit.

Unlike many east Asian countries, India's economic growth is driven by domestic consumption and investment rather than external demand. With booming demand for infrastructure investments that are projected to be over \$ 500 billion, India can provide a huge market for east Asian investors and underutilised construction and engineering capacities. Malaysian companies, among others, have already won substantial projects in roads construction in open competitive bidding. Booming middle class in the country is increasingly becoming a source of final consumption with rising income levels. India, for instance, has emerged a major market for high spending tourists for a number of countries in east Asia.

Rapid integration with east Asia, as a part of the Look East Policy followed by India since 1991, has made the region as the largest trade partner of India ahead of the EU and the US. The share of east Asian countries in India's trade has increased from 17 per cent to 26 per cent over 2000-06 [Kumar 2007]. Furthermore, the importance of east Asia as a source of imports is much higher at 28 per cent than for exports at 22 per cent with India having a trade deficit with ASEAN and all other EAS member countries.

India is increasingly getting integrated with east Asian production networks especially in more critical knowledge-based segments such as research and development (R&D) and product design. Indeed, east Asian companies have begun to exploit India's strengths in R&D, software and design by locating their global R&D centres in India.

For instance, Samsung's R&D Centre in India, recently announced successful development of a hybrid mobile phone that works across GSM and CDMA environments. China's Huawei Technologies, like many others, employs hundreds of

engineers doing chip design or embedded software development in Bangalore. Hyundai uses its Indian operations as a sourcing base for compact cars. Toyota is sourcing engines from its Indian plant for south-east Asian markets. Furthermore, these production networks not only include those belonging to Japanese, Korean or Chinese companies, but also those being developed by Indian enterprises. For instance, Daewoo Trucks has become linked with the production chain of Tata Motors with its acquisition by the latter.

Several Indian companies have also begun to take advantage of cheaper manufacturing costs for hardware in China and other east Asian countries by rationalising their production. The trend is likely to be more firmly entrenched as the emerging free trade arrangements between India and east Asian countries come into effect.

The economic integration arrangement of EAS, once consolidated could be extended to cover other parts of southern Asia, west Asia and central Asia. India should actively assist south Asian countries and other sub-regions to find their place in the emerging pan-Asian architecture in due course. It would indeed strengthen south Asian countries' claim in joining the emerging broader architecture, if their economic integration with India had deepened by then.

Priority Areas of Cooperation

Besides regional trade and investment arrangement, there are a number of other areas of fruitful cooperation such as monetary and financial cooperation, cooperation for energy security, science and technology, among others. Some of these areas have been identified for cooperation within EAS framework, as follows.

Comprehensive Economic Partnership of East Asia: Most important priority for the EAS would be to complete the CEPEA feasibility study and get started towards implement that in a phased manner. The above discussion as shown that the EAS RTA or CEPEA would be highly welfare enhancing for not only the participating countries, but also for the rest of the world. The CEPEA could target to liberalise regional trade and investment regimes in a phased manner by 2020 with provisions

for safeguards for sensitive products, special and differential treatment for countries at different levels of development and dispute resolution. The agricultural trade liberalisation should be attempted on a separate track from that of industrial goods to allow supremacy to considerations of food security and livelihood issues. Care must be taken in designing the programmes of regional economic integration in such a manner that they keep equity, employment generation and necessary social transformation and social safety nets for the vulnerable sections of the society at their heart so that it represents regionalism with an "Asian Face". By balancing the interests of efficiency and equity, the Asian arrangement could well emerge as a role model for trade liberalisation in multilateral as well as regional contexts in the whole world [RIS 2006].

Monetary and Financial Cooperation in Asia: Financial and monetary cooperation between ASEAN+6 or EAS countries could be an area of fruitful cooperation in view of the fact that their combined foreign exchange reserves exceed \$ 3 trillion. Steps can be taken towards creating an Asian financial architecture that would facilitate partial mobilisation of these reserves for narrowing the development gaps in Asia while spurring the growth as argued by

some proposals developed by the RIS [Agarwala 2004; RIS and ISEAS 2006; RIS 2007]. The other initiatives could include creation of an Asian currency unit as a unit of account to facilitate intra-regional trade and production networking. The EAS held at Cebu in January 2007 identified finance as one of the areas of cooperation and has sought proposals from officials for consideration at the third summit in Singapore.

Cooperation for Energy Security: Major countries of Asia, namely, Japan, China, India, Korea, among others, are highly dependent upon oil and gas imports and could benefit by mutual cooperation in the area. The regional cooperation in the area of energy could cover, for instance, to ensure security and sustainability of energy supply, efficient utilisation of energy resource in the region, rational management of energy demand, with due consideration of the environment, establishing policy framework and implementation modalities for setting up energy networks in the region such as regionwide oil or gas grids. The Asian energy ministers have met on January 2005 in New Delhi to advance cooperation in this area.² The Cebu Summit of EAS has identified energy security as an important area of its work and issued a Cebu Declaration on Asian energy security.

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Think Tanks and Institutions: To support the aforementioned initiatives, Asia needs think tanks to brain-storm on the policy challenges for regional economic integration and provide a road map for the official processes. In that direction, the Japanese proposal of an Economic Research Institute of ASEAN and East Asia (ERIA) has been endorsed by the EAS at its Cebu Summit. The ERIA is expected to foster analytical capability-building in EAS region through cooperation with national think tanks in these countries.

Concluding Remarks

A broader regional economic integration in Asia within the EAS framework could be an engine of growth for not only 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 co-operation 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 multi-polar world economy. The Asian economic integration by increasing the interdependence of countries in the region will also ensure peace and stability.

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Notes

- 1 See Goldman Sachs BRICs study (2003), D Wilson, R Purushothaman (2003), Dreaming with BRICs: The Path to 2050, Global Economics Paper No 99, Goldman Sachs, Global Economics Web site available at www.gs.com/insight/research/reports/99.pdf.
- 2 India hosted a meeting of Asian energy ministers in

New Delhi in early 2005 to discuss issues of mutual concern. See New Asia Monitor, January 2005 for details.

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