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REGIONAL ECONOMIC INTEGRATION IN ASIA: THE TRACK RECORD AND PROSPECTS

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EXECUTIVE SUMMARY

THIS IS THE season for regional-integration initiatives in Asia. There is talk of region-wide FTAs, and there are east-Asian initiatives on financial and monetary cooperation. But grand visions for Asian regional blocs are not achievable. Regional economic integration is most developed in east Asia, but only because of manufacturing supply chains linked to *global* markets.

South Asia is the most malintegrated region in the world. And east and south Asia are much less integrated in finance than they are in trade and FDI – due to highly restrictive national policies governing financial markets.

Asia's existing FTAs are "trade light". They are largely limited to tariff cuts, but have barely tackled non-tariff regulatory barriers in goods, services and investment, and are bedevilled by complex rules of origin requirements.

An APEC FTA initiative has gone nowhere – entirely predictable given such a large, heterogeneous grouping. An east-Asian or a pan-Asian FTA, by discriminating against third countries, would compromise regional production networks linked to global supply chains. Moreover, huge economic gaps and enduring political differences will stymie Asian regional integration for some time to come. As for regional monetary and financial cooperation, it is embryonic, very soft and confined to east Asia.

Asian regional integration is not likely to come about through top-down regional policy initiatives. The key to future regional *and* global integration is renewed unilateral, non-discriminatory liberalisation, this time going beyond border barriers to tackle behind-the-border regulatory barriers. That, more than anything else, would extend multinationals' supply chains in the region, and open up regional markets for domestic producers and consumers.

Asian regional institutions can be useful at the margin. They can be "chat forums" for policy dialogue and exchange of information, gradually improve mutual surveillance and transparency, promote trade facilitation and "best-practice" measures, and (at best) cement unilateral liberalisation and help to prevent its reversal in difficult times. But more ambitious regional initiatives are inadvisable, indeed unachievable. Better, therefore, to be pragmatic and realistic – and stick to *terra firma*.

INTRODUCTION[1]

REGIONAL ECONOMIC INTEGRATION in Asia is barely developed compared with North America and Western Europe. Its recent track record is patchy: increasing integration is confined pretty much to east Asia. Correspondingly, regional economic institutions are thin on the ground, weak or embryonic. But changing realities in Asia and beyond are stirring initiatives to spur regional economic integration. Do they make sense? And what are their prospects?

Geographically, this paper focuses on east and south Asia – globalised and globalising Asia. It omits north and west Asia, which are much less globalised or non-globalised (except for natural resources, notably oil). On issues, it covers trade, finance and monetary policy. More attention is given to trade and foreign direct investment (FDI) and associated trade policies, where integration is more advanced and policies less restrictive than they are on financial and exchange-rate matters.

REGIONAL ECONOMIC INTEGRATION: BASIC PATTERNS

East and south Asia are home to breathtaking economic diversity. At one end of the spectrum are the advanced economies of Japan, South Korea, Taiwan, Hong Kong and Singapore. At the other end are least-developed economies such as Nepal, Bangladesh, Cambodia, Laos and Myanmar. Then there are low-income countries, notably China and India but also including Sri Lanka, Vietnam, Indonesia and the Philippines. In between are upper-middle and middle-income Malaysia and Thailand. Finally, there are anomalies like North Korea and Brunei. Huge differences in politics, institutions and historical legacies accentuate the diversity. Hence it is not surprising that Asian economic integration, even in "globalising Asia",[2] is rather weak.

Economic integration is most evident in east Asia (Japan, South Korea, Taiwan, Hong Kong, China and the ASEAN countries). Intra-regional trade as a share of east Asia's total trade increased from 36.8% in 1980 to 54.5% in 2006. That is lower than the comparable share for the EU (65.8%), but higher than for NAFTA (44.3%) and much higher than for other developing-country regions (e.g. 15.7% in MERCOSUR) (Table 1). Intra-regional FDI has also become more important. Asia's newly-industrialised economies account for 29.2% of FDI going to ASEAN and 54% of FDI in China (Table 2).[3]

Such regional integration is a direct product of *global* economic integration, particularly in manufacturing. East Asia's share of global manufacturing exports rose from about 20% in 1980 to 35.5% in 2005/6. What started with Japan spread to South Korea, Taiwan, Hong Kong and Singapore; then to Malaysia, Thailand, Indonesia and the Philippines; and on to China, Vietnam and Cambodia. First came light industrial exports to Western markets – consumer goods such as garments, toys and leather goods. Then followed capital-intensive exports of cars, steel and ships. And then came transport-and-machinery equipment, especially in ICT products. The wheels of export production in southeast Asia and then China were greased with FDI, starting with American and Japanese MNEs and spreading to European and now even Asian MNEs.

East-Asian integration is strongest in trade in transport and machinery (SITC 7 in the UN trade data reporting system), which accounts for over half of global manufacturing trade. At the heart of trade in these products is "processing" trade (also called "fragmentation" or "network" trade), which is trade in parts and components. Different parts of the production process are located in different countries, all linked together by FDI and intra-and inter-firm trade in components. These production chains culminate in final, labour-intensive assembly operations -- concentrated in China from the 1990s – before export to final consumer markets in the West. Processing trade started in electronics and has spread to other industries such as sports footwear, cars, televisions, radio receivers, sewing machines, office equipment, electrical machinery, power and machine tools, cameras and watches, printing and publishing, furniture, clothing, and chemicals and pharmaceuticals. It remains most pronounced in ICT products.[4]

Until the global economic crisis, processing trade grew faster than any other part of trade in the region. By 2005/6, Asia (almost entirely east Asia) accounted for over two-thirds of global ICT exports. And components accounted for almost 60% of exports from the old ASEAN countries (overwhelmingly Singapore, Malaysia, Thailand and Philippines).[5] When the crisis broke, trade contracted even more sharply in east Asia than it did elsewhere, with an average export contraction of 20 per cent in the last quarter of 2008 and the first quarter of 2009. It was worst in machinery exports, in which processing trade is heavily concentrated. ICT and electronics products in this category are predominantly consumer durables for which demand is highly vulnerable to income contraction.[6]

Processing trade is central to understanding the partial, skewed nature of east-Asian integration. East Asia may be more integrated than other parts of the developing world, but it remains highly *malintegrated* compared with North America and Western Europe. The latter, particularly the EU, are characterised by high levels of regional production for regional consumption. That is not true of east Asia. The region has highly fragmented markets in agriculture, services and swathes of manufacturing, mainly due to policy barriers. There is remarkably little regional production for regional consumption.

The parts of regional activity that are integrated are trade-and-FDI networks linked to global supply chains and final markets in the West. Though east-Asian intra-regional trade as a share of total manufacturing trade was 52.1% in 2006/7 (40% if Japan is excluded), it came down to 46.4% for trade in final goods (34% excluding Japan), i.e. if processing trade is stripped out. The comparable figure for 1994/5 was 50.25% (35.7% excluding Japan) (Table 3). In other words, intra-regional shares of total manufacturing trade *minus* processing trade *decreased* from the mid 1990s; and processing trade accounted for a significant share of the increase in total intra-regional trade (for east Asia excluding Japan) during this period. Also, the intra-regional share of final goods exports decreased from 46% in 1994/5 to 37% in 2006/7 (37% to 28.3% if Japan is excluded). But the intra-regional share of final goods imports increased from 55.4% to 63% (34.7% to 42.8% excluding Japan) in the same period (Table 3). This confirms that intra-regional processing trade mainly serves final markets in the West. About half of developing east Asia's final exports go to the EU and NAFTA, and less than 10% to Japan. Finally, note that intra-regional trade shares for the EU and NAFTA hardly change when processing trade is excluded (Table 3).

In sum, at least until the global economic crisis, east Asia became *increasingly* dependent on final markets outside the region *in tandem with* increasing intra-regional trade integration. In the wake of the crisis, the severe contraction in east-Asian trade showed its continued dependence on extra-regional demand.[7] I labour these points because they have a crucial bearing on new regional-integration initiatives, especially regional FTA initiatives. More on that later.

Now turn to south Asia. It has also seen an increase in manufactured exports and FDI inflows since the 1970s – but that is a drop in the bucket compared with east Asia. South Asia accounted for 1.4% of world trade and less than 5% of Asia's trade in 2005/6. Unlike east Asia, south Asia has barely inserted itself into global manufacturing supply chains. Garments are the main exception, especially for Sri Lanka and Bangladesh. South Asia is conspicuously absent from global processing trade and ICT supply chains. Hence it lacks global integration, including trade-and-FDI links with east Asia.[8]

South Asia is also the least integrated region in the world. Intra-regional trade as a share of the region's total trade is 4% (Figure 1). It represents about 2% of regional GDP, compared with above 30% in east Asia. It even lags behind sub-Saharan Africa, the Middle East and north Africa (Figure 2). High intra-regional trade and FDI barriers are very much part of the problem. Trade is heavily biased towards extra-regional markets. India's trade with its neighbours, for example, is under 3% of its total trade.[9]

Figure 3 on intra-regional trade intensities captures these trends for "integrating Asia" (east Asia plus India), and compares them with NAFTA and the EU. The regional trade intensity index measures the bias for trading with regional partners as opposed to trading with extra-regional partners.[10] Asian regional trade intensity declined consistently until the mid-1990s, and remained flattish until 2005. In contrast, regional trade intensity rose consistently in the EU and NAFTA.

Finally, look at finance. To begin with, there is a mismatch between trade (and also FDI) openness and financial openness across Asia. Most east-Asian countries, particularly China and in southeast Asia, have high trade-to-GDP and FDI-to-GDP ratios; and south Asia, starting from a much lower base, has seen fast-increasing trade and FDI openness. But openness for both east and south Asia lags behind in finance. That is because policies governing financial markets – capital-account restrictions and domestic regulatory barriers to trade in assets – are far more restrictive than policies governing trade and FDI, particularly in industrial goods. Such protectionism also applies to other Asian countries. Hence regional financial integration is even less developed than regional trade integration. For example, east Asia has a low share of intra-regional portfolio investment as part of its total portfolio investment (6% in 2005), while the EU and NAFTA have much larger shares (62% for the EU-15 and 16% for NAFTA in 2005) (Table 4).[11]

Moreover, Asian countries are far more connected with global financial centres in Europe and North America than they are with each other. Asia's portfolio liabilities to other Asian countries were 2.25% of regional GDP in 2004, less than a third the liabilities to either North America or the EU. The ADB estimates that Asia had less than 10% of its portfolio assets invested in the region in 2006, compared with 30% held in the US. The US accounted for nearly 40% of Asia's portfolio liabilities compared with 11% in other Asian countries. A considerable portion of Asia's savings are recycled back to the region through financial centres in the US and Europe.[12]

POLICY TRENDS AND REGIONAL ECONOMIC INTEGRATION

TRADE POLICY

Asia fits the global trade-policy pattern. First, trade and FDI liberalisation had its heyday in the 1980s and '90s. But it has slowed down or stalled since the Asian crisis, with marginal reversals in some countries in the wake of the recent global economic crisis. Overall, however, the massive external liberalisation of the Washington Consensus era has not been rolled back. Also, given the long-drawn-out failure of the WTO's Doha Round, there has been no multilateral liberalisation or rule-strengthening for over a decade. Second, the thrust of trade policy has shifted from non-discriminatory unilateral liberalisation, backed up by the Uruguay Round agreements (and WTO accessions for China and Vietnam), to *discriminatory* FTAs. Note that FTAs, unlike previous unilateral measures, have not been a motor of additional liberalisation (see below).

The following sections first cover Asian FTAs, and then Asian regional-integration initiatives.

1. Asian FTAs

In essence, Asia has played FTA catch-up with other regions. FTAs have proliferated like wildfire. By June 2009, east Asia plus India (the ADB's "integrating Asia") had concluded 54

FTAs, up from 3 in 2000. 40 FTAs are currently in effect, and another 78 are either under negotiation or proposed (Table 5). Most of these (74% of concluded FTAs) are bilateral FTAs rather than plurilateral or regional negotiations and agreements. Many – indeed the majority for China, India, Singapore and South Korea -- are with extra-regional partners.[13] The major Asian players – China, India and Japan – are involved, as are South Korea, Australia, New Zealand, the ASEAN countries, as well as other south-Asian countries. The USA is involved with individual Asian countries, as are some Latin American countries and South Africa. The EU has FTA negotiations with South Korea, India and ASEAN.

What do these FTAs look like? It is important to distinguish hype from reality. FTA hype comes from politicians, officials, and indeed academics and consultants commissioned to do computable-general-equilibrium (CGE) modelling to demonstrate big welfare gains from FTAs. CGE models tend to assume clean and comprehensive FTAs. The reality is that these agreements are weak-to-very weak: they are partial, somewhat dirty and mostly "trade-light". At the weaker end of the spectrum, FTAs are limited to preferential tariff cuts on a limited range of goods. The stronger FTAs take 90 per cent of tariff lines down to zero (more or less). They also contain provisions on tackling non-tariff barriers (NTBs) and liberalising services and investment. But these are very weak and have resulted in hardly any net liberalisation. Many Asian FTAs – indeed the majority of east-Asian FTAs -- are advertised as "WTO-plus", by the Asian Development Bank.[14] This might be literally true. But that means little in practice, for WTO disciplines on export restrictions, services, investment, government procurement and a host of other regulatory barriers are also weak-to-very weak.

In sum, most FTAs have been limited to tariff cuts, but have made little dent into non-tariff regulatory barriers. The latter, more than the former, impede regional economic integration – for MNEs with their cross-border manufacturing supply chains, for home-based firms, for agricultural and services suppliers, and for final consumers. That applies particularly to east Asia, where tariffs have come down to relatively low levels. Tariffs in south Asia are higher, though they too have been decreasing. And NTBs in south Asia remain stubbornly high; indeed among the highest in the world.

Japan, China, the ASEAN countries, South Korea and India have trade-light FTAs. India is perhaps the worst offender, with widespread carve-outs and very restrictive rules-of-origin (ROO) requirements. Australia and New Zealand have less weak FTAs with Asian partners, but these are hardly strong, "deep-integration" agreements that seriously liberalise trade and FDI, particularly by tackling NTBs and regulatory barriers. Some US and EU FTAs come closer to the deep-integration benchmark, e.g. the US-Singapore, US-Korea and US-Australia FTAs, and the EU-Korea FTA. (The US-Korea and EU-Korea FTAs have not yet been ratified.) In addition, there are collective ASEAN FTAs with third countries (China, Japan, India, South Korea, Australia-New Zealand, and ongoing negotiations with the EU). These mirror trade-light bilateral FTAs.[15]

In addition, Asian FTAs are bedevilled by differing ROOs within and between agreements. Asia now has a cornucopia of ROOs, using different criteria for different products, and of varying complexity and restrictiveness. This occurs within the same agreement, with stricter ROOs for "sensitive" imports that threaten domestic producers. And it is compounded by widely differing ROOs between agreements. For example, Japan's FTAs with Malaysia and Thailand have different ROOs for automobiles. This is the "noodle- bowl", the Asian equivalent of the global "spaghetti bowl" of overlapping FTAs with myriad discriminatory provisions. Learning about FTA provisions, dealing with complex tariff schedules, and complying with ROOs, all raise business costs. Not surprisingly, business utilisation of FTA tariff preferences is rather low, with estimates ranging from 3-22% in east-Asian FTAs. MNEs with regional and global production networks usually pay the MFN duty, which costs them less than complying with ROOs in multiple FTAs, or move production into duty-free export-processing zones. Smaller firms are even more burdened by compliance costs.[16] Hence even headline tariff elimination – the core of Asian FTAs – is not likely to deliver advertised gains.

In short, with few exceptions, Asian FTAs are not strong enough to change existing national practice in a liberalising or trade-facilitating direction. Clearly, they have not proved to be a force for regional integration – at least not so far. Nevertheless, FTA proponents argue that they are stepping-stones to wider regional-integration initiatives. Let us take a look at these: APEC, ASEAN, SAFTA and "ASEAN-plus" initiatives.

2. APEC

APEC's membership is diverse and unwieldy; its agenda has become impossibly broad and unfocused; its vaunted Open (i.e. non-discriminatory) Regionalism is dead in the water; and these days it is driven by shallow conferencitis and summitry. It cannot be expected to contribute anything serious to regional economic integration. An APEC FTA initiative (FTAAP – Free Trade Area of the Asia Pacific) was launched at the APEC Hanoi Summit in 2006.[17] It has gone nowhere: political and economic divisions in such a large, heterogeneous grouping are manifold and intractable. The best APEC can hope for is to encourage "best-practice" trade-related policies through research, mutual surveillance and exchange of information – akin to what the OECD does for its members. But even that may be too much to expect.

3. ASEAN

The ASEAN Free Trade Area (AFTA) has an accelerated timetable for intra-ASEAN tariff elimination, but seen little progress on "AFTA-plus" items such as services, investment, non-tariff barriers, and mutual recognition and harmonisation of standards. An ASEAN Economic Community (AEC), a single market for goods, services, capital and the movement of skilled labour, with a fast track for "priority sectors", is supposed to be achieved by 2015. A new ASEAN Charter gives the group a common legal personality. On the economic front, the Charter contains two new agreements, the ASEAN Trade in Goods Agreement (ATIGA) and the ASEAN Comprehensive Investment Agreement (ACIA).[18] These integrate separate agreements into single consolidated legal texts on trade in goods and FDI respectively. The ASEAN Agreement in Services (AFAS) remains unchanged.

Will these initiatives spur intra-regional integration and be a viable collective force in Asian and wider international relations? The track record indicates otherwise. AFTA is among the strongest Asian FTAs, but it is also trade-light. Its vaunted success is the Common Effective Preferential Tariff (CEPT). Intra-regional tariffs have come down close to zero in the old ASEAN members, with longer transition periods for the poorer new ASEAN members. But the CEPT is mostly a paper exercise: ASEAN countries' tariffs have been coming down unilaterally in any case; and there has been minimal take-up of CEPT preferences by firms. ASEAN also has agreements on tackling non-tariff barriers and liberalising services and investment, but these are very weak and have resulted in hardly any net liberalisation. In sum, ASEAN economic integration has been limited to tariff cuts, but it has a pathetic record in tackling intra-regional regulatory barriers.

Will the ASEAN Charter change matters? ATIGA codifies ASEAN's existing provisions on tariffs, NTBs, trade facilitation and other trade-related measures. But it does not appear to contain new initiatives or legal instruments to tackle NTBs. ACIA does have some novelties, in addition to bringing together a range of FDI instruments in different legal texts. These include the extension of national treatment to ASEAN-based foreign investors from the start, with a shorter deadline for full liberalisation (2015); wider scope of investments covered; a single negative list for scheduling reservations; and a new investor-to-state dispute settlement mechanism to complement existing ASEAN state-to-state dispute settlement.

Potentially, these new instruments could strengthen investment liberalisation and investor protection compared with the old Asian Investment Area (AIA). But it leaves big questions and gaps. And it all depends on how provisions are fleshed out, interpreted and implemented. What will be the criteria for ASEAN-based MNEs to qualify for non-discriminatory treatment? How will investments covered by ACIA relate to services covered by AFAS, especially through "commercial presence" (i.e. FDI through "mode three of supply" in WTO jargon)? Bear in mind that AFAS, a weak agreement that is barely stronger than the WTO's very weak General Agreement on Trade in Services (GATS), remains unchanged. Will disciplines cover both pre- and post-establishment regulatory barriers? "Post-establishment" regulatory barriers, e.g. licensing and operating requirements for foreign service-providers, are the biggest obstacles to trade in services; and they are also the most difficult to discipline through multilateral, bilateral and regional agreements. How will governments use (or abuse) the single negative list? Finally, what shape will investor-to-state dispute settlement take – if it is implemented?

In general, it is open to doubt whether the AEC and the Charter will really change commercial facts on the ground, especially on non-tariff regulatory barriers that are the major obstacles to ASEAN economic integration. In general, I do not hold out much hope for these new agreements to be a vehicle for trade and FDI liberalisation in ASEAN. That is too much to ask of the ASEAN Charter.

If the Charter is to have additional value, I think it lies in the modest goal of improving transparency rather than out-of-reach ambitions to directly accelerate liberalisation and regional integration. ATIGA's one small innovation is its call for the establishment of an ASEAN Trade Repository (ATR). This is supposed to be a comprehensive database and a single reference point for all tariff and non-tariff measures on cross-border trade in the region. That is a good idea, as is one for an ASEAN "implementation scorecard". If designed and implemented properly, they could inject much-needed transparency into trade policies in ASEAN. But that is a big "if". The resulting information and analysis must be available to the public, and business constituencies must be encouraged to plug in, if these ideas are to work. It would be no use to smother such mechanisms within the safe bounds of ASEAN intergovernmentalism, cut off from business and the public.

Given ASEAN's track record, it has no prospect of coming close to a "single market" by the AEC's 2015 deadline – or even by 2020 or 2025. To talk EU-style Single Market language is risible. It is also way off-track to talk of emulating the "EU model" in terms of building common institutions and strengthening common policies. The EU model is almost totally irrelevant to ASEAN. Political, economic, cultural and institutional gaps in southeast Asia are historically larger than they are in Europe; and there is precious little of a common tradition, cultural and otherwise, to draw on for anything more than quite shallow integration. And to a cynic, ASEAN initiatives come across as rhetorical or paper-tiger exercises. "The ASEAN

Way" subsumes lofty rhetoric, ambitions, visions and blueprints, all convenient window-dressing to cover intergovernmental cracks and present the appearance of harmony – while governments get on separately with their national agendas.

4. SAFTA

South Asia's regional-integration initiatives are even weaker than in east Asia – not surprising given its abysmal record on intra-regional trade. South Asia's strongest FTA is that between India and Sri Lanka. But this is actually weak, with carve-outs, tariff-rate quotas and stringent ROOs effectively excluding or restricting up to half of bilateral trade. The South Asian Association of Regional Cooperation (SAARC) was founded in 1985, and a South Asian Preferential Trade Area (SAPTA) became operational in 1995. The latter had limited product coverage. The South Asian Free Trade Area (SAFTA), operational since 2006, is supposed to be a full-fledged FTA by 2015. To date it is restricted to trade in goods. But tariff lines in members' "sensitive lists" exclude just over half of intra-regional trade, in addition to very restrictive ROOs on products targeted for tariff reduction. Other NTBs make matters worse. For example, a "rule of destination" restricts entry of covered imports to specified Indian ports and land customs stations. Finally, trade between SAFTA's two largest members, India and Pakistan, is minuscule. Bilateral trade is throttled because neither country effectively accords the other most-favoured-nation (MFN) status. It is extraordinary that two countries with such a long shared border, and which, pre-independence, were a unified political-economic space, should have bilateral trade that amounts to less than 1 per cent of their total trade.[19]

The economic case for SAFTA is weak to begin with. SAFTA members are low-income and least-developed countries with roughly similar trade structures. Hence they trade in similar, competing low-value products. That means the welfare benefits of FTA liberalisation will be limited – more so than FTAs with advanced, more efficient and dynamic economies in which complementary (North-South) trade can be liberalised, with attendant technology transfer and FDI. Also, SAFTA members have relatively high tariffs with respect to each other and third countries (not to mention high NTBs and FDI restrictions). That makes significant trade diversion much more likely when intra-regional trade is liberalised in a discriminatory manner. These distortive effects will be compounded by the partial, messy nature of intra-regional trade liberalisation.[20]

5. Wider regional-integration initiatives: ASEAN Plus Three, ASEAN Plus Six, APC, TPP

Lastly, there is much talk in the region of folding bilateral FTAs and collective ASEAN FTAs with third countries into larger, integrated FTAs that would cover east Asia, perhaps include south Asia, and even stretch across the Pacific. At the more modest end of the scale, the Trans-Pacific Strategic Economic Partnership Agreement is a four-way FTA (dubbed "P4") that brings together Singapore, Brunei, New Zealand and Chile, all small, open economies with a network of pre-existing bilateral FTAs. Australia, Peru and Vietnam – and now the USA – have agreed to negotiate with the P4 to enter an expanded Trans-Pacific Partnership (TPP). More ambitiously in terms of geographic coverage, an "ASEAN Plus Three" (APT) FTA (the "three" being Japan, South Korea and China) has been touted. There is talk of an "ASEAN Plus Six" FTA that would subsume APT plus India, Australia and New Zealand. The first East Asia Summit (EAS), held in Kuala Lumpur in 2005, gave impetus to these ideas. An ASEAN-Plus-Six FTA has been promoted by the Japanese government – as a counter to what Japan sees as an inevitably China-centred APT. And now the Australian prime minister, Kevin Rudd, has floated the idea of an Asia-Pacific Community, probably reaching across to North America and some South American countries. This would be an overarching forum that would cover political, security and economic issues.

The ADB advocates a region-wide FTA as part of its general promotion of Asian regional economic integration. In *Emerging Asian Regionalism,* it argues that the consolidation of Asian FTAs into a single FTA would yield substantial welfare gains.[21] CGE modelling shows large income gains to FTA members, with small losses for the rest of the world and an overall gain to world income. The gains from an ASEAN-Plus-Six FTA or an east Asia-plus-India FTA would be larger than from an east-Asian FTA due to the inclusion of more countries with more complementary trade possibilities, e.g. between India and east Asia (Table 6). These gains would flow from greater specialisation, economies of scale, FDI and technology transfer that free access to a much bigger market would facilitate. A region-wide FTA would also substantially reduce trade diversion and other market-distorting effects from the noodle bowl of overlapping bilateral and sub-regional FTAs. ASEAN-Plus-Six, with half the world's population and one third of global GDP, would be the third pole of the global economy (Table 7). This logic prompts some observers to call for an APT FTA, connecting ASEAN's AEC, ASEAN-Plus-One FTAs and possibly a northeast-Asian FTA (China, Japan and South Korea). An APT FTA could then be expanded into an ASEAN-Plus-Six FTA.[22]

I am sceptical of region-wide FTAs, just as I am sceptical of bilateral and sub-regional FTAs in Asia. True, a clean, comprehensive, deep-integration east-Asian or pan-Asian FTA would yield benefits – up to a point. Such an FTA would have: comprehensive goods coverage; comprehensive coverage of services and investment; strong, WTO-plus provisions on government procurement, competition rules, customs procedures and product standards; strong cooperation on a wide range of trade-related regulatory issues to improve transparency, facilitate market access and boost competition; and simple, generous and harmonised ROOs to minimise trade diversion and red tape. Finally, non-preferential (MFN) tariffs should be low in order to minimise any trade diversion resulting from the FTA.[23]

If such conditions were met, regional supply and demand would be stimulated, and there would be stronger regional market integration. But the economic case for a region-wide FTA is still not cut-and-dried – and indeed is flawed. That is because of the continuing dependence of existing (east-Asian) regional integration on extra-regional (Western) demand, mediated by regional production networks, processing trade and global supply chains. Regional FTA advocates argue that the bulk of trade involved, especially in ICT products, takes place duty-free as it is covered by the WTO's Information Technology Agreement (ITA) and export-processing zones. But the ITA's coverage is partial and outdated: it does not cover electrical appliances and some transport equipment, for example. In addition, Asian countries retain not-insignificant tariffs in several product categories outside ICT in which processing trade is emerging.[24] Hence a region-wide FTA, while promoting intra-regional trade in finished goods, would compromise processing trade linked to extra-regional markets where tariff barriers still exist. Negative effects would be worse with complicated ROOs: identifying products for tariff classification, tracing their origin, measuring their value-added, among other compliance issues, are time-consuming and costly for trade in parts and components in which production is fragmented and shared across many countries – much more so than for trade in final goods with simpler, "start-to-finish" production concentrated in one or two countries. The biggest risk is that a region-wide FTA, by maintaining barriers to nonmembers while freeing up trade among members, would thwart the expansion of global supply chains beyond ICT into other areas of manufacturing, and indeed into services and agriculture.[25]

Economic holes in the case for a region-wide FTA become gaping when political factors are brought into play. As I have argued, the politics of existing FTAs in Asia has produced an alphabet soup (or noodle bowl) of trade-light FTAs with ROO complications. Foreign-policy motives have loomed large, though with justifications that are all too often vague, muddled and trivial, having little relevance to commercial realities. This can amount to little more than symbolic copycatting of other countries' FTA activity and otherwise empty gesture politics. In such cases, economic strategy – a serious assessment of FTA costs and benefits – is conspicuous by its absence. The lobbying void tends to be filled by import-competing producer interests who seek restrictive ROOs and exemptions from tariff elimination.[26]

Such is the reality in ASEAN, northeast Asia and south Asia. It is entirely predictable, given countries at widely different stages of development with competing producer interests, significant barriers to trade with each other, and without a culture of deep cross-border cooperation. Moreover, bitter nationalist rivalries (especially between China, Japan and South Korea, and between India and Pakistan), will continue to stymie Asian regional-integration efforts for a long time to come. This applies to east Asia; it applies even more to south Asia.

Therefore it is pie-in-the-sky – psychedelic cloud-nine politics – to expect very large-group cooperation to produce a strong, clean, comprehensive FTA in Asia – not for a long time to come. It will take Herculean policy-making to iron out wide differences in tariff rates, treatment of quantitative restrictions, sectoral exemptions, ROOs and other provisions spread across so many bilateral and plurilateral FTAs, and fold them into a sensible regional FTA. Rather the result is likely to be a very low common denominator – another trade-light FTA with complicated ROOs, adding to (not subtracting from) an expanding noodle bowl.[27] Finally, such FTA activity distracts attention from further unilateral liberalisation and domestic reforms – as it has done elsewhere, e.g. in Latin America and Africa. That will probably hinder, not help, the cause of regional economic integration.

MONETARY AND FINANCIAL POLICIES

There are three main sets of regional initiatives on monetary and financial cooperation, all centred on east Asia: the Chiang Mai Initiative on currency swaps; the Asian Bond Fund and the Asian Bond Market Initiative; and the Asian Currency Unit. These are all "soft" or "middle-strength" ideas, not "hard" proposals for exchange-rate and monetary coordination or harmonisation of financial regulations. One harder proposal – for an Asian Monetary Fund – was tabled by the Japanese government in response to the Asian financial crisis in 1997/8. It was promptly shot down by the US administration as an unwelcome rival to the IMF. Also note that, to date, none of these initiatives includes India or the rest of south Asia.

The Chiang Mai Initiative (CMI) was a direct response to the Asian crisis. Established in 2000, it is a network of currency-swap arrangements among ASEAN countries, and more widely among the ASEAN Plus Three. It is intended as a precautionary crisis-preventing measure by increasing the availability of liquidity and instilling market confidence. But it is very "soft". Its aggregate size is tiny compared with foreign-exchange reserves in the region (the major Asian countries have a total of almost USD 4 trillion in reserves); and it has not yet been "multilateralised" – it has no collective mechanism to approve or coordinate bilateral swaps. It remains voluntary and uncoordinated. Revealingly, the CMI was not used in response to the recent global economic crisis.

In May 2009, APT finance ministers agreed to establish a regional pool of foreign-exchange reserves amounting to USD 120 billion, with equal contributions from Japan and China. But large issues remain to be resolved, notably a weighted voting mechanism, surveillance of national monetary and exchange-rate policies, and the location of a secretariat. Sino-Japanese agreement will be crucial to sorting out these issues.[28]

The Asian Bond Fund (ABF) was established by the eleven members of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP). It is intended to contribute to the development of (highly underdeveloped) bond markets in the region and to diversify from overwhelming reliance on bank lending. It is restricted to eight potential debtor countries, remains very small (about USD 3 billion) and is managed by the Bank of International Settlements in Basle. APT finance ministers announced an Asian Bond Market Initiative (ABMI) in 2003, but it has not yet got off the ground.[29]

The ADB has proposed the establishment of an Asian Currency Unit (ACU) among the APT. The ACU would be a weighted average of regional currencies and would be a vehicle for financial and trade transactions, thereby reducing dependence on the US dollar and other external currencies. It is modelled on the ECU, the parallel currency unit in the EU which existed before the adoption of the Euro in 2000. If adopted, it could be the springboard for harder monetary and exchange-rate cooperation.[30]

The ACU is unlikely to fly in the near future. It presupposes regional agreement to set up transactions in such a unit of account, which in turn presupposes some convergence in national policies. Not least given entrenched national currency restrictions on capital-account transactions, that is probably some way off.

Finally, a group of east-Asian economists has proposed the establishment of an Asian Financial Stability Dialogue (AFSD), an Asian equivalent of the Financial Stability Forum. This would be a forum for policy dialogue on financial regulation, perhaps leading to gradually harder regional monetary and financial cooperation. It could dovetail with coordination among the Asian members of the G20 (China, India, Japan, South Korea, Indonesia and Australia) on global issues such as IMF reform and the regulation of financial markets.[31]

So what are the prospects for Asian monetary and financial-policy cooperation and, by extension, on-the-ground regional financial integration? The European experience in monetary and financial integration is instructive for comparison. In the EU, trade integration came first; then followed gradually harder monetary cooperation, culminating in European Monetary Integration (EMU) and a common currency among a subset of EU members. That took place in 2000, over forty years after the founding of the European Economic Community (EEC). Financial integration still lags behind: financial-market regulation is still overwhelmingly a national affair; and European financial markets remain rather fragmented. Finally, the political context for post-war European economic integration (at least until eastward enlargement in 2004) is one of convergence among countries with roughly similar levels of economic and institutional development, with a shared cultural heritage.

The east-Asian and south-Asian experience is radically different. As argued earlier, regional trade integration, even in east Asia, is recent and poorly developed compared with Western Europe and North America. Political, economic, institutional, historical and cultural differences are many, many times larger.[32] Regional financial and monetary cooperation – so far confined to east Asia – is embryonic and very soft. It is Utopian to expect it to become much harder anytime soon. Realistically, it can only firm up gradually through modest steps such as increasing regional liquidity arrangements, improving regional economic policy dialogue, information-sharing and surveillance, and extending initiatives to India and other countries in south Asia. This is still soft cooperation.

The ADB proposes a new Asian Economic Secretariat for the APT to house these functions, building on the APT's Economic Review and Policy Dialogue. It also sees a new secretariat as the vehicle for harder policy cooperation, such as regional agreements on payments settlement, financing arrangements, exchange-rate management, and coordinated action in times of crisis. But that is a long way off. And it would be folly to jump-start harder policy cooperation without soft-cooperation foundations.[33]

THE GLOBAL AND REGIONAL POLITICAL CONTEXT

Those who favour a big push for regional economic integration in Asia now have their day in the sun. They say that the global economic crisis has accelerated the decline of the US and the rise of China, India and other parts of Asia. Power is shifting inexorably from the West to Asia.[34] The new Japanese government also wants to accelerate east-Asian economic integration. In geopolitics, security relations have altered since the end of the Cold War. The end of communism, the rise of new powers (China and India), and the questioning of security dependence on the US (in South Korea and Japan), have opened up new ground. Now, therefore, is the time to strengthen regional institutions and regional economic integration.

But I have doubts. The foundations for Asian regionalism are still weak. In east Asia, trade-and-investment integration has been market-led and bottom-up. It has *not* been driven by top-down policy initiatives such as FTAs or regional institutions like ASEAN and APT – let alone "international regimes" or "global governance". Rather it has been led by *unilateral,* country-by-country liberalisation of trade and FDI. This opened the door to first American and Japanese and then other MNEs to set up vertically-integrated production networks, linked to global supply chains and final markets in the West. This happened in southeast Asia in the 1980s (earlier in Singapore), with China inserting itself into regional production networks from the 1990s. China's massive unilateral liberalisation in the 1990s, before it joined the WTO, spurred additional unilateral liberalisation in southeast Asia. They moved up to higher-value production of parts and components while labour-intensive production migrated to China, and more recently to Vietnam.[35]

That still leaves partial and skewed regional integration in east Asia. It is nowhere near being a single market; financial and monetary cooperation are still in their infancy; and regional institutions are little more than talking shops. As for south Asia, it is difficult to talk about regional integration with a straight face: the region is one of the most malintegrated in the world.

Geopolitical obstacles further complicate a regional-integration agenda. Post-1945, the US spread a security blanket over non-communist east Asia, forging bilateral "hub-and-spoke" alliances with its allies (Japan, South Korea, Taiwan and the ASEAN countries). The latter were given asymmetric access to the US market and integrated into post-war international institutions such as the UN, GATT, IMF and World Bank. These alliances remain intact post-Cold War. So do rivalries within Asia, notably between India and Pakistan, and between

China, South Korea and Japan. The US remains the vital "balancing power" in the region, not least with its overwhelming "hard power" (i.e. military capability). None of the three regional powers (China, India and Japan) is in a position to exercise outright leadership, and cooperation among them – crucial for regional integration – remains inhibited.[36]

China's phenomenal economic rise and its "smile diplomacy" have put it in the ascendant. But other countries in the region are wary of Chinese "hegemony", just as they are wary of a resurgent Japan. Generally, they prefer a regional multipolar balance of power, including a strong balancing role for the US. Neither China nor Japan is able to "lead" in geopolitics, either regionally or globally. Japan has eschewed that role since 1945; and others will not allow it to happen again. Contrary to those who promote "China hype" today, China too faces binding constraints on its ability to lead externally. It lacks a tradition of external leadership, and its recent opening to the world is simply too new for it to exercise leadership assuredly. Rather the Chinese governing elite is too preoccupied with domestic political and economic issues to be willing and able to wield external power strongly and responsibly. Its main concern is to help keep its external environment safe for China's economic development, not to act as a regional or global policeman.

Contrary to those who peddle "India hype", India is *not* a rising global power. It is not even a pan-Asian regional power. Rather it is a sub-regional, south-Asian power with a more visible presence on the wider regional and global stages. And it remains deeply mistrusted by neighbours in its backyard.

On a final geopolitical note, it is true that political tensions and conflict among the Big Three are contained by their stronger economic links. But security flashpoints remain, and they will present enduring threats, especially as China and India continue to rise and compete for external power, influence and natural resources.[37]

What about the "geoeconomic" context? There is much chatter about a power shift from West to East, and even of Asian leadership in the global economy, led by China in the first instance and then by India. This is "Asia hype", an amalgam of China Hype and India Hype, with a coating of pan-Asian hype.[38]

China is inhibited in exercising regional – let alone global – economic leadership, not just geopolitical leadership. This has much to do with defects in its economic model: an undervalued exchange rate and capital controls; over-saving, over-investment and under-consumption; financial-market repression; an overextended, heavily subsidised, capital-intensive public sector and a repressed labour-intensive private sector; and an inflexible, authoritarian political system that will find it very difficult to undertake further deep-seated reforms. These features spill over into the global economy and stoke international tensions on exchange rates, global imbalances and trade. China's response to the global economic crisis is a massive stimulus via an explosion of state-directed bank lending, mainly to SOEs and capital-intensive projects. It seems to have dealt with a short-term emergency successfully. But it has probably exacerbated the economy's fault-lines. That does not bode well for global economic relations. Nor does it bode well for Chinese regional and global leadership prospects.

The global economic crisis may have deepened Japan's economic *malaise*, which of course cramps its ability to be more active in regional and global economic affairs. As for India, it is simply too far behind in economic development to be more than a south-Asian power for some time to come. Its great economic potential is not realised due to huge gaps in market reforms – to fix parlous public finances, highly restrictive labour markets, decrepit infrastructure, remaining protectionist barriers, and an unreformed Indian state. All the latter conspire to prevent an east-Asian style development take-off.[39]

These, then, are major geopolitical and economic obstacles to regional cooperation and regional economic integration. They also cramp Asia's role in global economic governance.

China and India have greater power in international institutions such as the WTO, World Bank and IMF, and in bilateral relations with other powers, notably the US. Japan should be in the same category, but it is constrained by its post-war geopolitical settlement and internal sclerosis. Some of Asia's "middle powers", e.g. South Korea, Indonesia and Australia (to stretch the definition of Asia for a moment), have important niches to fill. But there remains no substitute for US leadership, whether in international institutions or in managing a series of key bilateral and plurilateral relationships. That is in large part because other powers – China, India, Japan, Russia, Brazil and the big members of the EU – are unwilling or unable to exercise onerous global – or even regional – responsibilities. And note that the EU collectively is in no position to play such a role. It has no "hard power" (a unified military capacity); it is divided on multiple economic issues; and its oft-touted "soft power" is mostly postmodern hot air.

Lastly, it is important to appraise international institutions coolly rather than emotionally. Too many people get carried away with global-governance chatter, blithely overlooking the severe limits of international institutions. By their very nature they have an extremely heterogeneous membership and are unwieldy. They are often dysfunctional and rarely yield concrete results. More often than not, they are a recipe for stalemate. As Leslie Gelb quips, a "stronger UN is an amusing notion" and "multilateral action" is an oxymoron. That was not true of a smaller, club-like GATT, but it is true of the WTO. And it is unrealistic to expect the G20 to be more than a global chat forum. Multilateralism has its uses. But in its wider, inclusive, participatory form, it is little more than a placebo. More important are US-led plurilateral concerts of cooperation to address global political and economic problems, whether inside or outside international institutions.[40] That is where Asian powers have vital global and regional roles to play.

CONCLUSION: A PLEA FOR MODESTY AND REALISM

WHERE NEXT FOR ASIAN ECONOMIC INTEGRATION?

To get real: Asian economic integration will only work bottom-up if policies and institutions improve in its individual members, particularly the leading ones. I do not foresee a realistic alternative to renewed unilateral liberalisation of trade and FDI, with accompanying competitive emulation, to accelerate regional *and* global economic integration. That is the key to extending MNE supply chains in the region, spreading wider across manufacturing and into parts of services and agriculture, and even opening up regional markets for domestic producers and consumers. The WTO is not going to deliver much, if any, liberalisation in the Doha Round or after it. Nor, I believe, are FTAs. And I think the same holds true for ASEAN as well as ASEAN "plus" initiatives (such as APT and ASEAN Plus Six). The challenge is to get country-by-country autonomous liberalisation revved up again in Asia, this time going beyond border barriers to tackle non-border regulatory barriers.[41] That is indeed a steep hill to climb. But, I think, one that is more scaleable than top-down liberalisation through trade negotiations and international and regional institutions.

Those who argue that Asia must draw more on domestic and regional sources of growth, and rely less on global markets, have a point. The severe "deglobalisation" during the global economic crisis, and a worrying medium-term global economic outlook, do strengthen this argument. But the latter is only credible if it is a complement, not a substitute, to existing and further global economic integration. That said, opening up domestic sources of growth is primarily a matter for unilateral, domestic structural reforms. It is highly unlikely to be driven by regional or global institutions.

Asian regional institutions such as APEC, ASEAN, SAFTA and APT can be useful at the margin. They can be chat forums, gradually improve mutual surveillance and transparency, promote trade-facilitation and "best-practice" measures, and (at best) cement unilateral liberalisation and help to prevent its reversal in difficult times. In short, in the regional economic context, they could be a mix of the G20, WTO and OECD.

But, in my view, more ambitious regional initiatives are inadvisable, indeed unachievable. That holds for regional FTAs. Their inherent discrimination threatens to compromise existing and future global economic integration, not least in global supply chains. They will be a diversion from the WTO and – more importantly – unilateral reforms. Given intra-Asian political and economic divisions, they are likely to end up either as paper-tiger exercises or as very partial, messy trade-light arrangements.

I look at Asian regional-integration initiatives the way I look at international institutions such as the WTO, IMF, World Bank, and the way I look at the new kid on the block, the G20. I view them as a realist, a pragmatic, empirical Anglo-Saxon and Asian. Such organisations can be of value at the margin, but only with realistic goals and instruments. I do not view them through a Cartesian, French-style or Brussels-style lens. To me they are not, nor should they be, grand designs with grand ambitions. Going down this route is more than a needless distraction; it is a recipe for misguided policies, bureaucratic mess and all-round stalemate in trying to achieve the impossible. Better, therefore, to lower ambitions and expectations and ground them in *terra firma*.

TABLE 1: INTRA-REGIONAL TRADE SHARE, 1980–2006 (%)[1]

REGION	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006
NIEs (4)[2]	8.6	9.2	11.9	15.5	15.5	15.3	15.8	15.2	14.6	13.9	13.6
ASEAN (10)[3]	17.9	20.3	18.8	24.0	24.7	24.1	24.4	26.6	26.7	27.2	27.2
ASEAN + PRC; Korea; Hong Kong, China; Taipei,China (14)	22.7	27.2	33.0	39.1	40.6	41.1	43.4	44.7	45.2	45.5	45.8
ASEAN+3 (13)[4]	30.2	30.2	29.4	37.6	37.3	37.1	37.9	39.0	39.2	38.9	38.3
ASEAN+3 + Hong Kong, China + Taipei,China (15)	36.8	39.0	43.1	51.9	52.1	51.9	53.8	55.4	55.9	55.4	54.5
ASEAN+6 (16) [5]	34.6	34.8	33.7	40.8	40.5	40.6	41.3	42.4	43.0	43.1	42.6
ASEAN+6 + Hong Kong, China + Taipei,China (18)	40.5	42.7	46.3	54.5	54.6	54.5	56.3	57.7	58.5	58.4	57.6
NAFTA (3)	33.8	38.7	37.9	43.1	48.8	49.1	48.4	47.4	46.4	46.1	44.3
MERCOSUR	11.1	7.2	10.9	19.2	20.3	17.9	13.6	14.7	15.2	15.5	15.7
Old EU (15)	60.7	59.8	66.2	64.2	62.3	62.2	62.5	63.0	62.2	60.4	59.5
New EU (27)	61.5	60.0	66.8	66.9	66.3	66.7	67.4	68.1	67.6	66.2	65.8

Notes:
1 Intra-regional trade share is computed as Xii / [(Xiw + Xwi) / 2], where Xii is the value of intraregional exports, Xiw is the value of total exports of the region to the world, and Xwi is the value of total exports of the world to the region.
2 NIEs = Hong Kong, China; Republic of Korea; Singapore; and Taipei,China.
3 ASEAN = Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.
4 ASEAN+3 = ASEAN plus People Republic of China, Japan, and Korea.
5 ASEAN+6 = ASEAN+3 plus Australia, India, and New Zealand.

Sources: IMF Direction of Trade Statistics CD-ROM (June 2007). Data for Taipei,China 1989–2006 from the Bureau of Foreign Trade website, and 1980–1988 from the Statistical Yearbook published by the Directorate-General of Budget, Accounting and Statistics.

Table 1, [Kawai & Wignaraja 2008: 24]
Masahiro Kawai and Ganeshan Wignaraja, "Regionalism as an engine of multilateralism: a case for a single east-Asian FTA", ADB Working Paper Series on Regional Economic Integration no.14, February 2008,. http://www.adb.org/Documents/Papers/Regional-Economic-Integration/WP14-East-Asian-FTA.pdf .

TABLE 2: EMERGING EAST ASIA'S FOREIGN DIRECT INVESTMENT (FDI) INFLOWS, 1995–2005

FDI INFLOWS TO[1]	UNITED STATES %	EUROPEAN UNION%	JAPAN%	FDI SOURCE NIES %	ASEAN9 %	%	TOTAL ($ MILLION)
NIEs	16.8	15.8	8.1	5.2	3.9	100.0	(437,999)
Hong Kong, China	5.1	7.4	5.7	5.3	1.8	100.0	(215,999)
Korea, Rep. of	22.4	40.1	13.3	4.1	7.4	100.0	(55,975)
Singapore	31.7	19.3	8.5	4.0	5.8	100.0	(142,748)
Taipei,China	19.9	13.1	15.5	14.2	2.5	100.0	(23,277)
ASEAN9[2]	18.4	29.1	19.1	29.2	4.2	100.0	(116,413)
Indonesia	5.7	50.9	3.3	15.0	9.3	100.0	(11,839)
Malaysia	27.4	23.4	13.6	22.0	2.1	100.0	(44,651)
Philippines	23.4	10.3	23.1	16.9	1.1	100.0	(13,709)
Thailand	10.5	10.5	25.1	27.6	0.9	100.0	(37,428)
Viet Nam	4.8	19.1	14.4	39.2	6.6	100.0	(18,225)
China, People's Rep. of	8.1	8.1	8.6	54.0	1.6	100.0	(537,163)
TOTAL	**13.9**	**14.7**	**10.5**	**34.9**	**3.1**	**100.0**	**(992,516)**

Notes:
1 FDI recipient data compiled by IITI are adjusted for consistency with balance of payments figures.
2 ASEAN9= ASEAN minus Singapore.

Sources: UNCTAD, *World Investment Report* 2006; IMF, *International Financial Statistics*; ASEAN Secretariat for Singapore and ASEAN9 data; *China Statistical Yearbook* for People's Republic of China data; OECD data for Republic of Korea data; Institute for International Trade and Investment (IITI) for Hong Kong, China and Taipei,China data.

Table 2, [Kawai & Wignaraja 2008: 24]
Masahiro Kawai and Ganeshan Wignaraja, "Regionalism as an engine of multilateralism: a case for a single east-Asian FTA", ADB Working Paper Series on Regional Economic Integration no.14, February 2008, pp2-3. http://www.adb.org/Documents/Papers/Regional-Economic-Integration/WP14-East-Asian-FTA.pdf .

TABLE 3: INTRA-REGIONAL SHARES OF MANUFACTURING TRADE: TOTAL, PARTS AND COMPONENTS, AND FINAL TRADE (%), 1994/5 AND 2006/07[1]

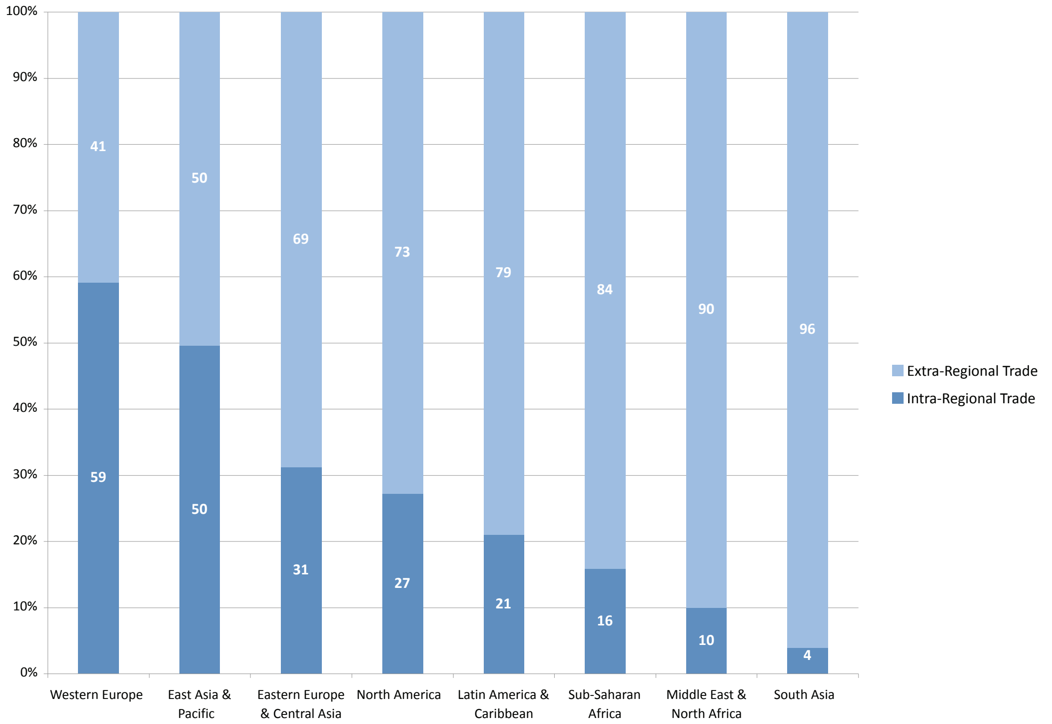
	East Asia[2]	Developing East Asia[2]	ASEAN+3[2]	ASEAN	NAFTA	EU15
4.1: Total manufacturing[3] 4.1 a: Total						
Exports 1994-95	47.15	38.15	15.25	20.7	44.35	61.15
2006-07	43.85	33.35	21.85	18.4	48.1	56.85
Imports						
1994-95	58.15	34.85	42.95	15.5	36.3	64.1
2006-07	64.4	46.7	49.25	20.75	31.95	57.85
Trade (exports + imports)						
1994-95	52.0	36.5	27	17.75	39.9	62.6
2006-07	52.1	40	30.4	20.05	38.4	57.35
b: Parts and components Exports						
1994-95	50.2	42.55	33.65	30.3	43.5	62.25
2006-07	61.1	53.9	35.3	25.4	46.85	55.9
Imports						
1994-95	65.85	35.3	39.55	20.15	39.45	58
2006-07	66.9	50.85	47.8	22.85	39.9	55.15
Trade						
1994-95						
2006-07	57.0	38.7	35.4	24.2	41.35	60.1
c: Final goods [4] Exports 1994-95	46.0	36.75	11.4	16.1	44.7	60.9
2006-07	36.85	28.3	16.95	15.9	48.65	57
Imports 1994-95	55.4	34.65	43.4	12.85	35.25	65.55
2006-07	62.95	42.75	50.15	20.55	30.15	58.45
Trade						
1994-95	50.25	35.7	25.4	14.3	39.4	63.15
2006-07	46.4	34	29.1	17.95	37.25	57.7

Notes:
1 See Notes to Table 1 for details on country classification. SITC classification numbers are given in brackets
2 Intra-regional trade shares have been calculated excluding bilateral flows between China and Hong Kong
3 SITC 5 to 8 less 68
4 Total (reported) - parts and components

Source: Compiled from UN Comtrade database, and Trade Data CD-ROM, Council for Economic Planning and Development, Taipei (for data on Taiwan)

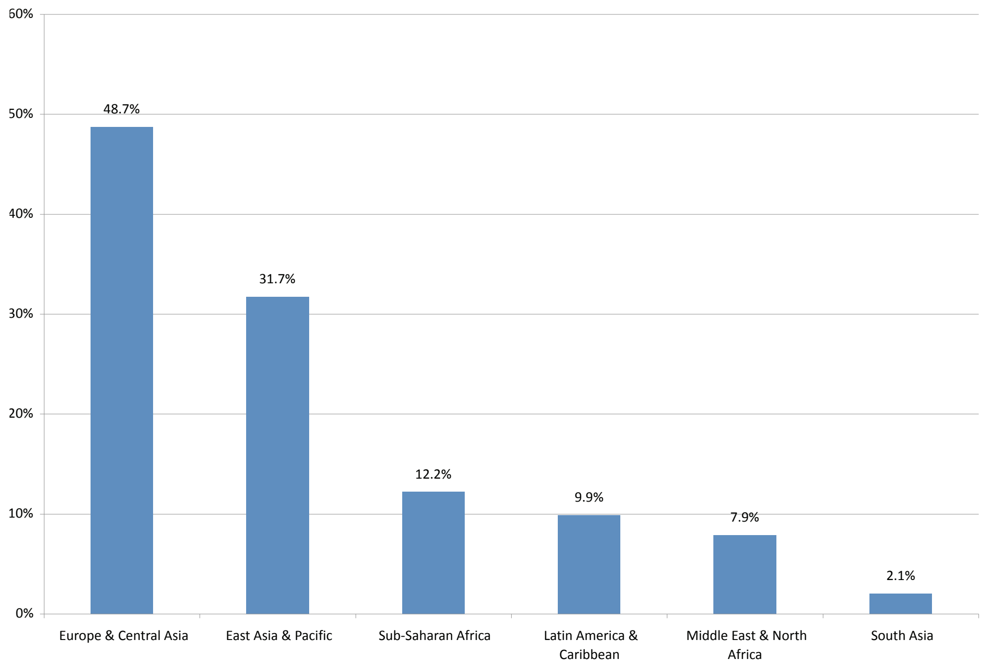
Table 3, [Kawai 2007: 16]
Masahiro Kawai, "Evolving economic architecture in east Asia", The Kyoto Economic Review 76,1, June 2007, pp. 9-52. http://d01-404.kulib.kyoto-u.ac.jp/dspace/bitstream/2433/65619/1/76_9.pdf ;

FIGURE 1: INTRA- AND EXTRA-REGIONAL TRADE, 2008



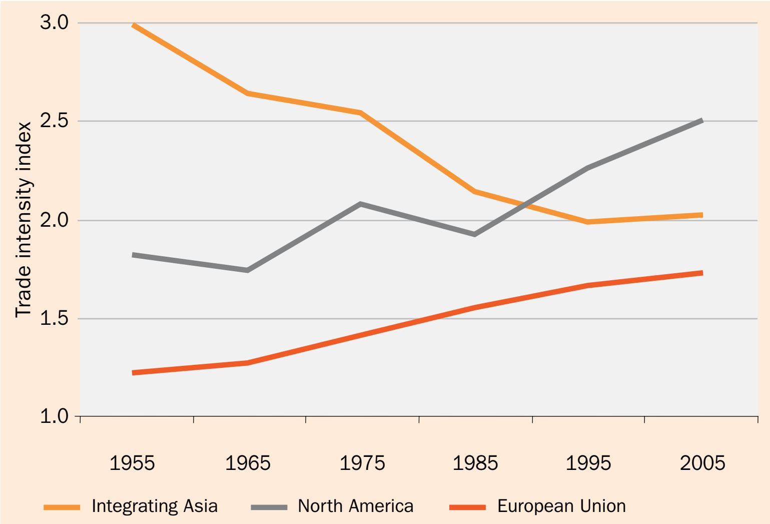
Based on Figure 2.7, [Newfarmer & Pierola 2007: 34]
Richard Newfarmer and Martha Denisse Pierola, "SAFTA: promise and pitfalls of preferential trade arrangements", chapter 2 in Zareen Fatima Naqvi and Philip Schuler eds., The Challenges and Potential of Pakistan-India Trade, World Bank, June 2007, pp. 1-2. http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2007/07/11/000020953_20070711135032/Rendered/PDF/402730P07493901India1Trade01PUBLIC1.pdf#page=35

FIGURE 2: INTRA-REGIONAL TRADE AS A SHARE OF GDP, 2008



Based on Figure 2.3, [Newfarmer & Pierola 2007: 30]

FIGURE 3: ADJUSTING INTRAREGIONAL TRADE INTENSITIES
Long-term trend: 1955-2005



Notes:
European Union includes all 25 members as of 2005. Integrating Asia includes Brunei Darussalam; Cambodia; People's Republic of China; Hong Kong, China; India; Indonesia; Japan; Republic of Korea; Lao People's Democratic Republic; Malaysia; Myanmar; Philippines; Singapore; Taipei,China; Thailand; and Viet Nam. Intraregional trade intensity is defined as: [(Xii+Mii) / (Xi.+Mi.)] / [(X.i+M.i) / (X..+M..)] where Xii is exports of region i to region i; Mii is imports of region i from region i; Xi. is total exports of region i; Mi. is total imports of region i; X.i is total exports of region i to the world; M.i is total imports of the region to the world; X.. is total world exports; and M.. is total world imports.
Source: Data from IMF various years. Direction of Trade Statistics. Available: http://www.imf.org (accessed October 2007).

Figure 2.6, [ADB 2009: 41]
Emerging Asian Regionalism, Asian Development Bank, 2009, pp. 10-12. http://www.adb.org/Documents/Books/Emerging-Asian-Regionalism/final-report.pdf

TABLE 4: CROSS-BORDER PORTFOLIO INVESTMENT FLOWS, 2005 (US$ BILLIONS, PERCENTAGE OF TOTAL)

Investment From	Investment To				
	NAFTA	EU15	East Asia	ROW	World Total
Total Portfolio Investment					
NAFTA	743 (15.6)	1890 (39.6)	827 (17.2)	1315 (27.5)	4775 (100.0)
EU15	2127 (17.6)	7592 (61.6)	661 (5.4)	1937 (15.7)	12316 (100.0)
East Asia	895 (33.2)	914 (33.9)	157 (5.8)	729 (27.1)	2693 (100.0)
Rest of World	1716 (44.2)	1505 (37.0)	146 (3.6)	697 (17.2)	4064 (100.0)
World Total	5480 (23.0)	11901 (49.9)	1790 (7.5)	4677 (19.6)	23848 (100.0)
Long-Term Debt Securities Investment					
NAFTA	244 (22.4)	441 (40.4)	58 (5.3)	348 (31.9)	1091 (100.0)
EU15	1100 (14.8)	5008 (67.5)	151 (2.0)	1157 (15.6)	7415 (100.0)
East Asia	669 (33.9)	717 (36.4)	51 (2.6)	536 (27.2)	1972 (100.0)
Rest of World	1432 (48.9)	1041 (35.5)	73 (2.5)	386 (13.2)	2931 (100.0)
World Total	3444 (25.7)	7207 (53.7)	332 (2.5)	2427 (18.1)	13409 (100.0)
Equity Securities Investment					
NAFTA	499 (13.5)	1449 (39.3)	769 (20.9)	967 (26.2)	3684 (100.0)
EU15	1027 (21.0)	2584 (52.7)	510 (10.4)	780 (15.9)	4901 (100.0)
East Asia	226 (31.3)	197 (27.3)	106 (14.7)	193 (26.8)	721 (100.0)
Rest of World	284 (25.1)	464 (41.0)	73 (6.4)	311 (27.4)	1133 (100.0)
World Total	2036 (19.5)	4694 (45.0)	1458 (14.0)	2250 (21.6)	10439 (100.0)

Note: NAFTA = North American Free Trade Area; EU 15 = Old European-15 countries; East Asia = Japan, Korea, China, Hong Kong, Singapore, Indonesia, Malaysia,Philippines, Thailand and Vietnam

Source: International Monetary Fund, Coordinated Portfolio Investment Survey, December 2005

Table 4, [Athukorala & Kohpaiboon: 29]
Prema-chandra Athukorala and Archanun Kohpaiboon, “Intra-regional trade in east Asia: the decoupling fallacy, crisis and policy challenges”, Working Paper no. 2009/09, August 2009, ANU Working Papers in Trade and Development, pp. 10-12. http://rspas.anu.edu.au/economics/publish/papers/wp2009/wp_econ_2009_09.pdf

TABLE 5: GROWTH OF CONCLUDED FTAS IN INTEGRATING ASIA BETWEEN 2000 AND 2009 (NUMBER OF FTAS)

Country	First FTA	In effect		Signed		Concluded			Under Negotiation			Proposed	
	Year	2000	2009	2000	2009	2000	2009		2000	2009		2000	2009
		(a)		(b)		(a)+(b)							
ASEAN		1	4	–	1	1	5		–	1		–	1
Brunei Darussalam	1993	1	6	–	1	1	7		–	1		–	4
Cambodia	1993	1	4	–	1	1	5		–	1		–	3
China, People's Republic of	1976	1	9	–	1	1	10		–	3		–	8
Hong Kong, China	2004	–	1	–		–	1		–	1		–	
India	1976	1	5	–	4	1	9		–	12		–	10
Indonesia	1993	1	5	–	1	1	6		–	2		1	8
Japan	2002	–	9	–	2	–	11		–	5		–	4
Korea, Republic of	1976	1	5	–	1	1	6		–	9		–	6
Lao People's Dem. Republic	1991	3	5	–	1	3	6		–	1		–	3
Malaysia	1993	1	5	–	3	1	8		–	7		–	4
Myanmar	1993	1	3	–	2	1	5		–	2		–	3
Philippines	1993	1	5	–	1	1	6		–	1		1	4
Singapore	1993	1	14	–	4	1	18		1	7		–	5
Taipei,China	2004	–	3	–	1	–	4		–	2		–	
Thailand	1991	2	9	–	2	2	10		–	6		–	7
Viet Nam	1993	1	4	–	2	1	6		–	2		–	3
Integrating Asia		3	40	–	14	3	54		1	46		2	32

– = none.

ADB = Asian Development Bank; ASEAN = Association of Southeast Asian Nations; FTA = free trade agreement.

Note: FTAs in Integrating Asia cover all FTAs with at least one integrating Asia country as a partner.

Source: ADB's Asia Regional Integration Center (ARIC) FTA Database (www.aric.adb.org); data as of June 2009.

TABLE 6: COMPARATIVE WELFARE GAINS FROM ECONOMIC INTEGRATION IN EAS AND ASEAN+3

Study	Welfare gains arising from broader integration in US$ bn	
	ASEAN+3	**EAS (ASEAN+6)**
RIS [Mohanty et al 2003]	162	210*
ADBI [Kawai-Wignarajah 2007]	233	284
RIS [Mohanty-Pohit 2007]	92	178

*in JACIK framework.

Source: RIS based on respective studies

TABLE 7: PROPOSED EAST ASIAN OR JACIK COMMUNITY IN RELATION TO THE EU AND NAFTA (US$ BILLIONS)

INDICATOR	EU	NAFTA	JACIK (14)	ASEAN+6 (16)
Gross national income (PPP)	15157	17006	19730	20564
(percent of world total) (2008)	21.87	24.54	28.47	29.67
GDP	18254	16690	12340	13486
(percent of world total) (2008)	30.37	27.76	20.53	22.43
Exports	5768	2169	3245	3421
(percent of world total)	42.09	15.83	23.67	24.96
International reserves	971	187	4204	4259
Population (millions)	482	444	3216	3242
(percent of world total) (2006)	7.46	6.87	49.77	50.17

Source: World Bank Development Indicators (WDI), IMF International Reserves Statistics, People's Bank of China

Based on Table 1, [Kumar 2007: 12] with updated data taken from the WDI database, IMF.org and the People's Bank of China Nagesh Kumar, "Towards broader regional cooperation in Asia", RIS/UNDP Discussion Paper, December 2007, pp. 11-15. http://www.ris.org.in/tbrcia.pdf

FOOTNOTES

1. This paper was originally prepared for the 33rd Pacific Trade and Development (PAFTAD) conference in Taipei in October 2009. I am grateful to conference participants for lively discussion. And I thank Li Tiezheng and Alwyn Spencer, both at ECIPE, for able research assistance.
2. The countries in "globalising Asia" are those in the Asian Development Bank's "integrating Asia" category, except Bangladesh and Sri Lanka. The ADB omits the latter two countries. Its "integrating Asia" is basically east Asia plus India. See *Emerging Asian Regionalism*, Asian Development Bank, 2009, pp. 10-12. http://www.adb.org/Documents/Books/Emerging-Asian-Regionalism/final-report.pdf
3. Masahiro Kawai and Ganeshan Wignaraja, "Regionalism as an engine of multilateralism: a case for a single east-Asian FTA", *ADB Working Paper Series on Regional Economic Integration* no.14, February 2008, pp. 2-3. http://www.adb.org/Documents/Papers/Regional-Economic-Integration/WP14-East-Asian-FTA.pdf
4. Prema-chandra Athukorala and Hal Hill, "Asian trade and investment: patterns and trends", Paper for the workshop, "Emerging trends and patterns of trade and investment in Asia", February 1-2 2008, Brisbane.
5. *Ibid*., pp. 17, 20.
6. Prema-chandra Athukorala and Archanun Kohpaiboon, "Intra-regional trade in east Asia: the decoupling fallacy, crisis and policy challenges", Working Paper no. 2009/09, August 2009, *ANU Working Papers in Trade and Development*, pp. 10-12.
7. *Ibid*., pp. 7-8.
8. Athukorala and Hill, *op cit*., pp. 16-19.
9. Richard Newfarmer and Martha Denisse Pierola, "SAFTA: promise and pitfalls of preferential trade arrangements", chapter 2 in Zareen Fatima Naqvi and Philip Schuler eds., *The Challenges and Potential of Pakistan-India Trade*, World Bank, June 2007, pp. 1-2. http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2007/07/11/000020953_20070711135032/Rendered/PDF/402730P07493901India1Trade01PUBLIC1.pdf#page=35 ; Aparna Sawhney and Rajiv Kumar, "Why SAFTA?" Commonwealth Secretariat/CUTS International, pp. 3-5. http://genderandtrade.org/files/178432/FileName/WhySAFTA-Final.doc2.pdf

10. It does this by dividing the share of intra-regional trade in the region's overall trade by the share of its trade in global trade.

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12. Takagi, *op cit.*, pp. 8-9.

13. Masahiro Kawai and Ganeshan Wignaraja, "Asian FTAs: trends and challenges", *ADBI Working Paper Series* no. 144, August 2009, pp. 5-8.http://www.adbi.org/files/2009.08.04.wp144.asian.fta.trends.challenges.pdf

14. See, for example, Kawai and Wignaraja, 2008, op cit., pp. 12-13; Kawai and Wignaraja, 2009, *op cit.*, pp. 15-18.

15. Razeen Sally, *Trade Policy, New Century: the WTO, FTAs and Asia Rising*, London: Institute of Economic Affairs, 2007,pp. 133-139.

16. Jayant Menon, "Dealing with the proliferation of bilateral trade agreements: consolidation, multilateralisation, harmonisation or dilution?" *ERD Working Paper* no. 123, Asian Development Bank, September 2008, pp. 19-21. http://www.adb.org/Documents/ERD/Working_Papers/WP123.pdf ; Kawai and Wignaraja 2009, op cit., pp. 11-14.

17. See C. Fred Bergsten, "Toward a Free Trade Area of the Asia Pacific", *Policy Briefs in International Economics* no. PB 07-2, Peterson Institute for International Economics, February 2007, www.petersoninstitute,org

18. See http://www.aseansec.org/21069.pdf; http://www.aseansec.org/16646.htm; http://www.aseansec.org/22218.htm

19. Tercan Baysan, Arvind Panagariya and Nihal Pitigala, "Preferential trading in south Asia", *World Bank Policy Research Working Paper* 3813, January 2006, pp. 4-9. http://siteresources.worldbank.org/INTSARREGTOPINTECOTRA/34004126-1139260665548/20810415/SAFTApaper.pdf ; Newfarmer and Pierola, op cit., pp. 35, 43-46.

20. Baysan et al, *op cit.*, pp. 9-14; Newfarmer and Pierola, *op cit.*, p. 37.

21. *Op cit.*, p. 3.

22. Kawai and Wignaraja, 2009, op cit., pp. 18-25; Nagesh Kumar, "Towards broader regional cooperation in Asia", *RIS/UNDP Discussion Paper*, December 2007, pp. 11-15. http://www.ris.org.in/tbrcia.pdf

23. ADB, *Emerging Asian Regionalism, op cit.*, p. 93.

24. Brian Hindley and Iana Dreyer, "Trade in information technology goods: adapting the ITA to 21st-century technological change", *ECIPE Working Paper* no. 6, 2008 http://www.ecipe.org/publications/ecipe-working-papers/trade-in-information-technology-goods-adapting-the-itata-to-21st-century-technological-change/PDF

25. Athukorala and Kohpaiboon, *op cit.*, pp. 15-17.

26. See the discussion in Sally, 2008, *op cit.*, pp. 126-132.

27. Menon, *op cit.*, p. 14.

28. Rajan, *op cit.*, pp. 4-9; Joel Rathus, "The Chiang Mai Initiative: China, Japan and financial regionalism, 11th May 2009. http://www.eastasiaforum.org/2009/05/11/the-chiang-mai-initiative-china-japan-and-financial-regionalism

29. Rajan, *op cit.*, pp. 9-14.

30. *Ibid.*, pp. 16-18.

31. Peter Drysdale and Hadi Soesastro, "East Asia and the new world economic order", 5th April 2009. http://www.eastasiaforum.org/2009/04/05/east-asia-and-the-new-world-economic-order; Peter Drysdale, ""Getting east Asia's act together on the G20 summit", 22nd March 2009. ; http://www.eastasiaforum.org/2009/03/22/getting-east-asias-act-together-on-the-g20-summitHadi Soesastro, "Architectural mo-

mentum in Asia and the Pacific", 14th June 2009. http://www.eastasiaforum.org/2009/06/14/architectural-momentum-in-asia-and-the-pacific ; "East Asia, the G20 and global economic governance", 8th March 2009. http://www.eastasiaforum.org/2009/03/08/east-asia-the-g20-and-global-economic-governance .

32. The ADB readily accepts these differences. Consequently, at least in theory, it advocates bottom-up, market-led, multi-track and multi-speed Asian regionalism. *Emerging Asian Regionalism, op cit.*, pp. 240-242.

33. *Ibid.*, pp. 5, 137-138, 177-179.

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