Chapter 1

Why Asian Regionalism?
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Why Asian regionalism?

The center of gravity of the global economy is shifting to Asia. The region’s economy is already similar in size to those of Europe and North America, and its influence in the world continues to increase. In many Asian countries, the cycle of poverty has been broken; in others, this historic aim is within sight. Asia’s extraordinary success has brought new challenges—while rapid economic growth remains a priority, citizens demand that it also be sustainable and more inclusive. And Asia is now so important to the world economy that it must also play a larger role in global economic leadership. Regional economic cooperation is essential for addressing these challenges.

Asia’s economic rise is unprecedented. The region is home to over half the world’s population, produces three tenths of global output (in terms of purchasing power), and consistently records the world’s highest economic growth rates. The Asian “miracle” (World Bank 1993) did not end with the 1997/98 financial crisis a decade ago; for some countries, it marked the beginning of renewed acceleration. The question is no longer whether Asia will be central to the 21st century economy, but rather how it will exercise its prominent role and how its dependence on the rest of the world has decreased.

Regionalism is a relatively new aspect of Asia’s rise.¹ Asia’s economies are increasingly connected through trade, financial transactions, direct investment, technology, labor and tourist flows, and other economic relationships. This study focuses on 16 Asian economies that are already, in some respects, as closely intertwined as Europe’s single market. This “Integrating Asia” (see definitions in the appendix to this chapter) accounts for 87% of the region’s population and 96% of its output (Table 1.1)—hence, it is often

¹ “Regionalism” and related terms used in this study are defined in the Glossary.
Why Asian Regionalism?

East Asian economies dominate the list of Integrating Asia because of their long-standing commitment to outward-oriented development. Their regional links are deeper than those of South, West, or Central Asia. However, this is changing. India has substantially realigned its policies toward integration with global and Asian markets, and other Asian countries are also following suit.

Asian economies are principally connected through markets—but where markets lead, governments are following. Asian leaders have committed to work together more closely and have already taken concrete steps in some areas. The 1997/98 financial crisis, in particular, was an important catalyst for this new regionalism and gave rise to a range of new initiatives. These have not sought to replicate the institutions of the European Union (EU), but have rather focused on finding new and flexible forms of cooperation that reflect the region’s diversity and pragmatism. Nor are Asia’s regional initiatives intended to replace global relationships, but rather to complement them. It is not a matter of pulling up the drawbridge, but of building bridges that connect Asian economies together as well as to the rest of the world.

The stakes could not be higher. A dynamic and outward-looking Asian regionalism could bring huge benefits not just to Asia, but to the world. It could help sustain the region’s growth, underpin its stability, and—with the right policies—reduce inequality. And it could help marshal a common response to major new challenges that often arise suddenly and unexpectedly. As this study goes to press, for instance, Asia is grappling with the wrenching economic and financial uncertainty sparked by the global credit crunch since August 2007, several devastating natural disasters, and the pressing need to ensure affordable food supplies throughout Asia. A vibrant, integrated Asia could bring the region’s immense intellectual and economic resources to bear on these and tomorrow’s challenges. And it could help power and stabilize the global economy by boosting productivity, raising living standards, and reducing poverty everywhere. A stable, cohesive, and productive Asia is thus in everyone’s interest.

This study draws on the 42 years of experience of the Asian

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2 East Asian economies dominate the list of Integrating Asia because of their long-standing commitment to outward-oriented development. Their regional links are deeper than those of South, West, or Central Asia. However, this is changing. India has substantially realigned its policies toward integration with global and Asian markets, and other Asian countries are also following suit.
Table 1.1. Integrating Asia: basic indicators 2007

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei Darussalam</td>
<td>0.4</td>
<td>12</td>
<td>1.5</td>
<td>30,750</td>
<td>-1.1</td>
<td>90.4</td>
</tr>
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<td>Cambodia</td>
<td>14.2</td>
<td>8</td>
<td>8.5</td>
<td>579</td>
<td>6.2</td>
<td>120.5</td>
</tr>
<tr>
<td>China, People’s Republic of</td>
<td>1,321.5</td>
<td>3,241</td>
<td>9.7</td>
<td>2,452</td>
<td>8.6</td>
<td>66.0</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>6.9</td>
<td>207</td>
<td>5.3</td>
<td>29,846</td>
<td>4.2</td>
<td>346.9</td>
</tr>
<tr>
<td>India</td>
<td>1,138.0</td>
<td>1,166</td>
<td>6.3</td>
<td>1,025</td>
<td>4.4</td>
<td>32.5</td>
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<td>Indonesia</td>
<td>225.4</td>
<td>433</td>
<td>5.2</td>
<td>1,922</td>
<td>3.7</td>
<td>50.0</td>
</tr>
<tr>
<td>Japan</td>
<td>127.9</td>
<td>4,380</td>
<td>2.2</td>
<td>34,246</td>
<td>1.9</td>
<td>28.2</td>
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<td>Korea, Republic of</td>
<td>48.5</td>
<td>970</td>
<td>6.5</td>
<td>20,246</td>
<td>5.7</td>
<td>71.5</td>
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<td>Lao People’s Democratic Republic</td>
<td>5.8</td>
<td>4</td>
<td>6.0</td>
<td>696</td>
<td>3.6</td>
<td>60.8</td>
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<td>Malaysia</td>
<td>27.2</td>
<td>187</td>
<td>6.4</td>
<td>6,868</td>
<td>3.8</td>
<td>195.7</td>
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<td>Myanmar</td>
<td>57.0</td>
<td>11</td>
<td>5.2</td>
<td>193</td>
<td>3.6</td>
<td>56.9</td>
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<tr>
<td>Philippines</td>
<td>88.7</td>
<td>145</td>
<td>4.1</td>
<td>1,634</td>
<td>1.8</td>
<td>84.7</td>
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<td>Singapore</td>
<td>4.6</td>
<td>161</td>
<td>7.0</td>
<td>35,076</td>
<td>4.5</td>
<td>386.2</td>
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<td>Taipei, China</td>
<td>23.0</td>
<td>383</td>
<td>5.6</td>
<td>16,680</td>
<td>4.7</td>
<td>130.3</td>
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<td>Thailand</td>
<td>65.7</td>
<td>246</td>
<td>6.1</td>
<td>3,737</td>
<td>4.8</td>
<td>125.7</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>86.4</td>
<td>71</td>
<td>7.0</td>
<td>824</td>
<td>5.2</td>
<td>138.0</td>
</tr>
<tr>
<td>Integrating Asia</td>
<td>3,241.4</td>
<td>11,626</td>
<td>4.1</td>
<td>3,587</td>
<td>2.6</td>
<td>62.5</td>
</tr>
<tr>
<td>Total Asia</td>
<td>3,714.0</td>
<td>12,081</td>
<td>4.0</td>
<td>3,253</td>
<td>2.5</td>
<td>62.9</td>
</tr>
<tr>
<td>European Union</td>
<td>461.3</td>
<td>16,586</td>
<td>2.4</td>
<td>35,958</td>
<td>2.0</td>
<td>64.3</td>
</tr>
<tr>
<td>United States</td>
<td>301.1</td>
<td>13,841</td>
<td>3.1</td>
<td>45,963</td>
<td>2.0</td>
<td>22.4</td>
</tr>
<tr>
<td>World</td>
<td>6,615.0</td>
<td>50,609</td>
<td>3.8</td>
<td>7,651</td>
<td>1.7</td>
<td>50.5</td>
</tr>
</tbody>
</table>

GDP = gross domestic product.
Notes:
GDP growth rates are calculated at constant 2000 US dollar prices.
World GDP for 2007 was estimated by ADB staff based on IMF 2008.
Total Asia includes Integrating Asia plus Afghanistan, Bangladesh, Bhutan, Fiji Islands, Georgia, Kiribati, Kyrgyz Republic, Marshall Islands, Federated States of Micronesia, Mongolia, Nepal, Pakistan, Papua New Guinea, Samoa, Solomon Islands, Sri Lanka, Tajikistan, Tonga, Uzbekistan, and Vanuatu.
GDP data for Brunei Darussalam for 2006 and 2007 are ADB staff estimates based on national sources.
GDP series for Cambodia start from 1994.
Development Bank (ADB) in financing, analyzing, and advising on Asian economic growth. This knowledge base provides a unique perspective on Asia’s economic integration and the potential contributions of its emerging regionalism. The report examines the drivers of integration, explores options for cooperation, and develops realistic strategies for building a dynamic and open Asian economic community. It thus provides insight on the great issues that will help to shape Asia’s future.

How regionalism can benefit Asia
Regional cooperation, effectively structured and implemented, is a powerful new tool in Asia’s policy arsenal. It can help Asia address regional challenges as well as provide stronger foundations for its global role. An integrated Asia can

- link the competitive strengths of its diverse economies in order to boost their productivity and sustain the region’s exceptional growth;
- connect the region’s capital markets to enhance financial stability, reduce the cost of capital, and improve opportunities for sharing risks;
- cooperate in setting exchange rate and macroeconomic policies in order to minimize the effects of global and regional shocks and to facilitate the resolution of global imbalances;
- pool the region’s foreign exchange reserves to make more resources available for investment and development;
- exercise leadership in global decision making to sustain the open global trade and financial systems that have supported a half century of unparalleled economic development;
- build connected infrastructure and collaborate on inclusive development to reduce inequalities within and across economies and thus to strengthen support for pro-growth policies; and
- create regional mechanisms to manage cross-border health, safety, and environmental issues better.

The opportunities are clear, which is why regional integration deserves a high priority in national policy making. Yet the challenge of cooperation should not be underestimated; it will require trust, innovation, and compromise—and, most likely, time. Policy makers at the highest levels appear committed to pushing the regional agenda forward, but considerable leadership and energy are needed to achieve results.
These benefits from cooperation could extend also to developing Asian economies that are not yet part of the region’s integrating core. Indeed, in relative terms, newcomers to regional integration have the most to gain from the expanded opportunities for economic development that it provides. Hence, an important aim of this study is to make the case for integration to countries that have not yet adopted an outward-oriented development strategy and to provide guidance on how to build stronger regional connections.

How Asian regionalism can benefit the world

The rest of the world could benefit, too. So long as Asia’s economies continue to integrate not just with each other, but also with the rest of the world, sustained Asian dynamism, strengthened by regional cooperation, could bolster Asia’s role as a new and stabilizing engine of global economic growth. There are many reasons why Asia is likely to remain outward-looking—not least because its economy is in large part built on economies of scale and scope in manufacturing and so requires global markets to perform at its potential. Indeed, because an integrated Asia will continue to have a powerful stake in the global economy, it would have both an incentive and the leverage to play a bigger role in keeping global markets open and vibrant. An integrated Asia can

- generate productivity gains, new ideas, and competition that boost economic growth and raise incomes across the world;
- contribute to the efficiency and stability of global financial markets by making Asian capital markets stronger and safer, and by maximizing the productive use of Asian savings;
- diversify sources of global demand, helping to stabilize the world economy and diminish the risks posed by global imbalances and downturns in other major economies;
- provide leadership to help sustain open global trade and financial systems; and
- create regional mechanisms to manage health, safety, and environmental issues better, and thus contribute to more effective global solutions of these problems.

While Asian regionalism is primarily motivated by the desire to advance welfare in the region, it would not do so by detracting from development elsewhere. On the contrary, Asian regionalism can help to sustain global economic progress at a time when other major regions are reaching economic maturity.
1.1. The economics of regionalism

The economics of regionalism have a complex and troubled history. In the 1930s, countries created preferential trade blocs in an attempt to shelter their economies from the Great Depression. Several countries established discriminatory currency blocs with strict exchange controls against outsiders. Far from helping, these arrangements led to the collapse of international trade and financial flows, accelerating the downward spiral of economic activity. This experience was foremost in the mind of the architects of the post-war global economic system as they adopted the principle of nondiscrimination as a central pillar of the General Agreement on Tariffs and Trade (GATT), the forerunner of the World Trade Organization (WTO). Many economists and policymakers remain skeptical about regionalism because of its potentially negative impact on the multilateral trade and financial system.

The case for regionalism therefore has to be carefully formulated. Regionalism must not lead to protectionist blocs—a “fortress Asia” is no more desirable than a “fortress Europe” or a “fortress North America” would be. But the open, outward-oriented regionalism that is emerging in Asia can avoid posing such a threat. Just as the absence of barriers to commerce within national economies—that is, among the states and provinces of countries such as the People’s Republic of China (PRC), India, Germany, and the United States (US)—is generally beneficial, so too is the creation of a market spanning several national economies. Much of the evidence assembled in this report suggests that Asia has—and will continue to have—a fundamental stake in both regional and global integration.

The case for collective action arises from market failures that reduce economic welfare in the absence of official measures. The case for regional cooperation is still more specific: it addresses problems that are inherently regional in scope or, for other reasons, cannot be solved at a global or national level. Rapid regional growth and integration generate new commercial opportunities and demands for governmental cooperation and institutional development. But

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3 The 1834 Zollverein, a customs union of the 18 small states that eventually formed Germany, is an early example of the elimination of barriers in territories that later also formed a political union.

4 The potential value of this approach is recognized in the multilateral trading system: Article XXIV of the General Agreement on Tariffs and Trade (GATT) permits the establishment of free trade areas, provided that they encompass “substantially all the trade between the constituent territories” and do not increase the barriers faced by excluded countries.
because regional action could introduce new distortions, global cooperation is often preferable. In practice, though, reaching and implementing global agreements is difficult, and international market failures that ideally ought to be addressed globally often are not. Regional solutions can be better targeted and are often more achievable. Important priorities for regional collective action are as follows:

- **Provide public goods that are unlikely to be produced by markets or individual economies.** These include measures to head off international epidemics, respond to natural disasters, and develop and disseminate knowledge, including technological and scientific findings as well as policy experience in areas such as financial regulation, pensions, and poverty reduction.

- **Manage the spillover effects of economic activity and policy among connected economies.** These inevitably grow with deeper economic integration. The regional contagion observed during the 1997/98 financial crisis is an important example, as concerns about liquidity and financial management in one country led to runs, speculative attacks, and dislocation in others. But routine macroeconomic changes—such as interest rate or currency movements—can also have significant impacts. This calls for monitoring regional macroeconomic activity as well as for policy dialogue. Cross-border effects may also be significant in many other policy areas, notably the environment and migration.

- **Coordinate regional policy approaches to projects or decisions that affect several economies.** Such efforts can range from the palpable need to cooperate on investments in trade-oriented transport, communications, and policy infrastructure links to more complex initiatives, such as harmonizing regional approaches in international forums. For instance, the combined efforts of Asian economies could significantly enhance the prospects for a successful conclusion of WTO’s Doha Round, an outcome that would benefit Asia and the world at large.

- **Liberalize trade and investment beyond levels achievable through global negotiations.** This can be accomplished by establishing rules and institutions that enable countries to further integrate markets and by helping to harmonize standards, regulations, and processes so that businesses can operate more effectively in different economies.
Why Asian Regionalism?

- **Add value to national policy making.** Efforts can include sharing best practices and highlighting priorities that may run counter to domestic special interests, such as measures to enhance competition and regulatory oversight, reduce poverty and inequality, and control environmental externalities.

The case for regionalism is neither automatic nor self-evident; goodwill among countries does not necessarily make for good economic policy. Regional cooperation may be less desirable than global cooperation, and it may even be worse than inaction. Theoretically, removing some barriers could reduce welfare rather than increase it. Regional cooperation is therefore not a goal to be pursued for its own sake; it is a means for achieving more fundamental objectives. But, subject to these cautions, concerted regional action is a powerful—and, in some cases, essential—tool for promoting efficient regional economic development.

1.2. The challenge of cooperation

Asia’s growing economic interdependence provides many opportunities for cooperation. These are divided into four major areas in this study: (1) trade, investment, and the integration of “real” economic activity; (2) financial integration; (3) macroeconomic policy links; and (4) shared social and environmental concerns. The study analyzes the progress of market-based integration in each of these areas. It also explores opportunities for intergovernmental cooperation—or, in economic terminology, identifies potential market failures and coordination problems that are best addressed through regional collective action. It additionally examines the architecture of arrangements that might enable such collaborations. The framework of this analysis is summarized in Table 1.2.

Despite the compelling case for cooperation, marshaling governments’ efforts across this vast, diverse region is a daunting challenge. The examples of the EU and, to a lesser extent, the North American Free Trade Agreement (NAFTA) highlight some of the difficulties involved. But Asia is not Europe or North America; its economy, history, and politics are different. Some types of integration—for example, trade—are deeper in Asia today than they were in Europe in the early stages of European regionalism in the 1950s and 1960s. But other areas—monetary policy, for instance—still involve largely independent national decisions. While Asia can draw on other regions’ experience, Asian regionalism is ultimately likely to
Emerging Asian Regionalism

Table 1.2. Analytical framework for regional cooperation

<table>
<thead>
<tr>
<th>Manage regional spillovers and externalities</th>
<th>Provide regional public goods</th>
<th>Address regional coordination problems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Establish compatible product standards.</td>
<td>• Maintain an open, predictable, and fair framework for trade and cross-border investment.</td>
<td>• Represent regional views in global trade and investment forums.</td>
</tr>
<tr>
<td>• Establish rules to protect regional markets against financial contagion.</td>
<td>• Establish institutions and reserves to avert and manage financial crises.</td>
<td>• Facilitate investment in infrastructure (hard and soft) for connectivity.</td>
</tr>
<tr>
<td>• Establish compatible financial regulations.</td>
<td>• Improve the legal and informational environment for regional investment.</td>
<td></td>
</tr>
<tr>
<td>Financial markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Coordinate macroeconomic and exchange rate policies.</td>
<td>• Monitor macroeconomic activity, trends, and risks.</td>
<td>• Represent regional views in global financial forums.</td>
</tr>
<tr>
<td>• Control cross-border environmental externalities.</td>
<td>• Prevent or manage spread of diseases and other public threats.</td>
<td>• Develop compatible trading platforms and institutions.</td>
</tr>
<tr>
<td>• Ensure fair treatment of migrant workers.</td>
<td>• Pool know-how and experience on policy making.</td>
<td></td>
</tr>
<tr>
<td>• Share environmental technology.</td>
<td>• Generate concerted commitment to Millennium Development Goals.</td>
<td></td>
</tr>
<tr>
<td>Macroeconomic policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Monitor macroeconomic activity, trends, and risks.</td>
<td>• Facilitate solutions to global imbalances and other macroeconomic issues.</td>
<td></td>
</tr>
</tbody>
</table>

Social and environmental policy

• Control cross-border environmental externalities.
• Ensure fair treatment of migrant workers.
• Prevent or manage spread of diseases and other public threats.
• Pool know-how and experience on policy making.
• Share environmental technology.
• Generate concerted commitment to Millennium Development Goals.
• Promote social progress through regional initiatives.


follow a distinctive blueprint, building on Asian economic priorities and based on an Asian vision for building a regional community.

Asia’s complexity

This vision is just beginning to take shape, amid spirited debate. Asia comprises several powerful countries and centers of economic activity, with many shared economic priorities, but also some diverging ones. At times, these differences are amplified by history and politics. The price of cooperation is the loss of some national sovereignty and the narrowing of policy options for pursuing purely national objectives. It is understandably difficult for large, successful, and independent economies to make such compromises, and ultimately to pool some
sovereignty within regional institutions. Cooperation is therefore likely to evolve gradually, with different groups of countries progressing at varying speeds, using several frameworks and forums to address subsets of policy interests. Such a multitrack, multispeed approach is likely to offer the most efficient framework for cooperation in Asia.

Asia’s approach to regionalism is likely to have other distinct characteristics as well. The region’s policy-making style is typically pragmatic and cautious. Cooperation is primarily aimed at making markets work better and tends to be limited to specific initiatives and objectives. Although intergovernmental dialogue at all levels has greatly increased, formal regional institutions remain relatively underdeveloped. These are likely to gain traction only insofar as they promise and, eventually, deliver tangible benefits—not just to elite groups, but to the population as a whole. The public appears to have positive expectations of regionalism. A study conducted for this report, based on a region-wide survey of opinion leaders, indicates that Asians generally see regional integration as beneficial, a strategy for enhancing the welfare of participating countries while leaving others no worse off. The survey is discussed in Box 1.1.

Box 1.1. Perceptions of economic interdependence in Asia

Are Asian leaders positive about regional cooperation? Yes, according to a recent survey of 600 Asian opinion leaders conducted by the Asian Development Bank. Respondents believe that the advantages of closer economic relations within Asia outweigh the costs, and they support the creation of an Asian economic community. Their approach is pragmatic: they favor a step-by-step approach to integration and believe that regionalism provides opportunities for “win-win” outcomes throughout the region (Capannelli 2008).1

Assessment of current economic interdependence

Asian opinion leaders see regional economic relations as strongest in trade and investment, and reasonably significant in money and finance. They believe that governments are not sufficiently active in developing regional mechanisms for coping with health, environmental, and other cross-border challenges. And they see great potential, but relatively little progress, in developing cross-border infrastructure. Respondents from Southeast Asia generally see economic relations with neighbors as more intense than those from other subregions do.

Regional integration is viewed as benefiting Asia through faster economic growth, deeper integration with the world economy, and a

1 The survey was conducted in August–September 2007 and collected responses from 600 Asian opinion leaders in business, media, government, and academia. The study covered 12 countries, with roughly equal representation from East Asia, Southeast Asia, and South Asia.
stronger Asian voice in global economic forums (Figure B1.1). The potential costs of integration—such as a greater economic divide between rich and poor and the loss of some autonomy in national economic policy making—are judged to be substantially smaller than its benefits.

Moving ahead: a path for integration
Respondents see market forces as the main driver of regional integration. But they believe that intergovernmental forums can complement them and see value in creating new regional institutions and strengthening existing ones. These institutions should focus on macroeconomic surveillance and facilitating regional economic policy dialogue, providing liquidity and other financial support in times of crisis, and developing a regional common market. They also favor common solutions to environmental problems; developing regional infrastructure in

Figure B1.1. The benefits of regional integration outweigh its costs
Asian opinion leaders’ replies to survey questionnaire (Aug–Sep 2007)
Percent of respondents answering “high” or “very high”

<table>
<thead>
<tr>
<th>Costs</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater divide between rich and poor as opportunities are unevenly distributed</td>
<td>Faster and more dynamic economic growth</td>
</tr>
<tr>
<td>Weaker economic linkages with non-Asian countries</td>
<td>Stronger Asian voice in international negotiations</td>
</tr>
<tr>
<td>Loss of independence of national economic policies</td>
<td>Deeper integration with the global economy</td>
</tr>
<tr>
<td>Loss of national culture and identity</td>
<td>Alternative to global multilateral institutions such as IMF, WTO, etc.</td>
</tr>
</tbody>
</table>

0 10 20 30 40 50 60 70 80
Percent
transport, energy, and telecommunications; and bilateral and plurilateral free trade agreements among Asian economies.

While over four fifths of respondents favor creating an Asian free trade and investment area and an Asian economic community, less than two fifths support a common Asian currency. Among potential regional groupings, ASEAN+3 was considered in the best position to build an Asian economic community (Figure B1.2).

While the survey mainly focused on economic issues, respondents were also asked about their sense of belonging to the region. Most rated their attachment to their own country as strongest, and that to the global community as their weakest. A sense of belonging to Asia or its subregions was not usually particularly strong, suggesting that for now regional cooperation is mainly favored for pragmatic reasons.

2 ASEAN+3 comprises the ASEAN members Brunei Darussalam, Cambodia, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam—plus the People’s Republic of China, Japan, and the Republic of Korea. The East Asian Summit includes ASEAN+3 members plus Australia, India, and New Zealand.

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**Figure B1.2. Creation of an Asian economic community**

Asian opinion leaders’ replies to survey questionnaire (Aug–Sep 2007)

Percent of responses

<table>
<thead>
<tr>
<th>Will Asia gain from creating an Asian economic community?</th>
<th>Best regional groupings to build an Asian economic community</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, it will produce large benefits 83%</td>
<td>ASEAN+3 36%</td>
</tr>
<tr>
<td>No, costs are too high 13%</td>
<td>East Asian Summit 13%</td>
</tr>
<tr>
<td>Do not know 4%</td>
<td>Others 2%</td>
</tr>
</tbody>
</table>

ASEAN = Association of Southeast Asian Nations.

Note: Asian Development Bank staff elaborations of the perception survey (Capannelli 2008).
Risks

Asia’s bright economic prospects provide a supportive environment for regional cooperation. But building an Asian economic community is a long-term undertaking, and the economic climate cannot be expected to remain consistently favorable.

Some risks are known. Global demand and financial stability are important to Asia and could be compromised by a deepening credit crisis; a falling dollar; a sudden unwinding of current account imbalances; and/or rapidly rising energy, food, and other commodity prices. Other shocks, including adverse effects of global warming, could become more severe over time. In Asia as well, after a long period of economic expansion (in some countries stretching back nearly two decades), there are bound to be financial reversals and economic slowdowns due to business cycles whether they originate in the region or elsewhere, and to longer term challenges such as excess savings and population ageing. New health or security threats could make the flow of people and goods more difficult and expensive. Environmental damage could result in radical changes in economic policies. Social instability could generate tensions and uncertainty that overwhelm economic progress. Many of these risks can be diminished with adequate foresight and cooperation, and some strategies for doing so are addressed by this study. But not all risks can be known, and the unexpected often has the greatest impact.

Unanticipated developments could set Asian regionalism back—or accelerate it. The 1997/98 financial crisis stimulated greater regional cooperation and a greater commitment to integration. Asian governments now realize more clearly that they face a wide range of common challenges—such as financial contagion as well as deadly diseases like severe acute respiratory syndrome (SARS) and avian flu—and have much to gain from addressing them jointly.

In some respects, regional cooperation is a form of insurance. Potential problem areas can be monitored, for instance, through Asia’s new mechanisms for macroeconomic policy surveillance. Coordinated policy responses can head off problems or at least minimize their impact. Cooperative mechanisms can even limit the impact of risks that cannot be identified in advance. The dense network of consultative arrangements that Asia is building can provide an early warning system and rapid response mechanism for emerging threats.
1.3. Plan of the study

This study examines the economic rationale for Asian regionalism, with a focus on trade, financial, macroeconomic, social, and related issues such as the environment and population ageing. It assembles evidence on deepening ties among Asian economies and offers options for regional policy, including the architecture of regional cooperation. These are challenging tasks, in part because the ties that bind the region together are complex and interdependent. Regional cooperation must be viewed as a comprehensive strategy for achieving wide economic and social goals. The time horizon of the study is 2020, but it will be also necessary to look further ahead to set the context for the region’s policy in the longer term.

Chapter 2 provides an overview of Asian regional integration and opportunities for regional cooperation. The subsequent four chapters address the functional channels that connect Asian economies: trade and investment (Chapter 3), financial markets (Chapter 4), macroeconomic policies (Chapter 5), and social and environmental issues (Chapter 6). These threads are brought together in an analysis of the architecture of regional cooperation (Chapter 7). The concluding chapter (Chapter 8) considers the implications of the study for the way ahead.
Chapter 1: appendix

Integrating Asia: a definition

How far might an Asian economic community extend? Asia’s geographical boundaries are not generally agreed, and geography alone will not determine the locus of regional cooperation. Rather, the shape of “Integrating Asia” will be determined by the economic and political ties that connect its members and by the commitment that its governments make to cooperation. This study does not prejudge those patterns, although Chapter 7 provides an overview of some of the options. Cooperation is likely to remain fluid for some time, with different groups of countries using different structures to address shared interests.

This study focuses on a group of 16 economies that represent Integrating Asia in the sense that they already have substantial regional economic ties. The group includes the 10 members of the Association of Southeast Asian Nations (ASEAN)—Brunei Darussalam, Cambodia, Lao People’s Democratic Republic, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam—as well as People’s Republic of China; Hong Kong, China; India; Japan; the Republic of Korea; and Taipei, China.

This group is somewhat arbitrary. Some scholars might argue that it should include other West and South Asian economies, even though their primary economic connections are so far with other regions. A case could also be made for including countries in Central Asia that are developing subregional ties but are still only loosely integrated with the region as a whole. Some might also wish to include Australia, New Zealand, and the Pacific, because their economic ties to the region are very strong, even though they lie some distance from the Asian landmass. Indeed, all of these countries participate in one or more cooperative arrangements involving Asian economies.