

Chapter 7

Creating an architecture for cooperation

The case for greater regional cooperation in Asia is broad, deep and compelling, as previous chapters make clear. During the last decade, valuable new initiatives and institutions have been launched as awareness of the need for Asian regionalism has grown. Yet marshaling collective efforts across this vast, diverse region is a huge challenge. The examples of the EU and, to a lesser extent, of NAFTA, highlight some of the possible developments—and challenges—of regional cooperation. But Asia is not Europe or North America. Its economics, politics, and history are different. In some respects—particularly trade and investment in regional production networks—Asia’s economies are today more closely intertwined than Europe’s were in the early stages of European regionalism in the 1950s and 1960s. In other areas—such as financial markets—Asian economies remain much more integrated globally than within themselves.

As market-led regional economic integration deepens—especially in East Asia—greater policy cooperation is needed, notably in trade, finance, and macroeconomic management, as well as in social and environmental issues. Domestic regulatory and institutional reforms—such as pro-competitive deregulation, improvements in financial standards, enhancement of governance, and stronger social safety nets—are essential for accomplishing these objectives. More effective national institutions and closer regional intergovernmental cooperation complement each other.

Integrating Asia’s growing importance in the global economy also demands more ambitious and coherent regional cooperation. To play an appropriately greater role in addressing global economic issues, the region must increasingly act together—not only out of self-interest, but also to help maintain global economic prosperity. Asia has a huge stake in bolstering global economic stability and

promoting open international markets. By pooling its strengths, it could have significant influences on global economic institutions, such as the WTO or the IMF, to Asia's benefit and the world's.

But while interdependence is strengthening in Asia and economic cooperation intensifies, the region's great diversity and complex politics argue for flexibility and pragmatism in the scope, speed, sequencing, and style of economic cooperation. The architecture of Integrating Asia's regional cooperation is multitrack and multispeed, follows a bottom-up approach, and has so far developed only few, lean regional institutions. While this flexibility is often seen as a weakness—not least because European regionalism is mistakenly taken as the benchmark—it is in fact both a necessary and a desirable feature of the Asian model.

Asia's distinctive approach to cooperation allows any group of countries, economies, subregions, or territories to join the integration process and share in its benefits, regardless of its level of development. As partnerships strengthen, they can lead to deeper and wider collaboration. Asia's emerging open, gradual, and flexible regionalism ensures that Asia's economic integration remains market-friendly and responsive to the region's diverse economic, political, social, and cultural realities.

This chapter is structured as follows. Section 7.1 defines Asia's objectives for cooperation and section 7.2 analyzes its distinctive model of regionalism. Section 7.3 sets out the nature and role of emerging regional and transregional organizations and how they interact. Section 7.4 concludes with suggestions on how the architecture of regional cooperation could—and should—evolve. East Asia's experience in regional integration and intergovernmental cooperation, which is uniquely adapted to the needs of developing countries, can provide important lessons to many countries in other parts of Asia and the Pacific, Latin America, and Africa.

7.1. Regional goals and global interests

While market forces are mainly responsible for Asia's integration, this study has shown that economic, social, and environmental spillovers are increasing and, without purposeful cooperation, could undermine the benefits of integration. To sustain economic integration and to maximize gains from it, the region will need to work together in all three levels of policy making: regional, national, and global.

First, at the regional level, cooperation is needed on setting regional policies in trade, investment, and finance to deepen Asia's growing and wide-ranging economic links. To build such a framework, Asia has relied mainly on unilateral or global trade liberalization strategies in the past and its economies today are substantially—and in some cases dramatically—more open than they were a decade ago. Yet significant barriers remain in some economies and sectors, and reducing the most entrenched barriers becomes difficult on a unilateral basis. Regional cooperation will be needed for deepening and extending the liberalization process; it will be necessary for streamlining the proliferation of bilateral negotiations and consolidating them into a single regional agreement; and it can provide a complementary multilateral framework for liberalization to support global integration), as discussed in Chapter 3.

Regional cooperation is especially important for achieving further integration in financial markets, where market-based processes have not worked as well. This study has shown that deeper financial integration will require strengthening the financial systems of individual economies. An important priority will be to institutionalize a dialogue among the principal architects of domestic financial markets, with the objective of strengthening supervision and surveillance; coordinating regulatory frameworks; and creating minimum, common standards—efforts that could be tackled through high-level cooperation, as proposed in Chapter 4. Future economic pressures are also likely to develop around the region's exchange rate system, macroeconomic policies, and mechanisms for channeling savings into investments. In all these areas, stronger regional institutions will be required to keep pace with the growing scale and complexity of the Asian economy.

Second, on national policies, cooperation is needed to create a coherent and efficient regional environment for doing business. As a result of successful past liberalizations, the principal constraints on the region's integration are no longer barriers to international transactions (border measures), but have increasingly become regulatory and institutional factors that result in discriminatory outcomes within economies (behind the border measures). Addressing these more complex barriers is a key challenge for a new generation of policy reforms, aimed at making regulations and standards more transparent and consistent across economies (Drysdale 2007). Studies by Dee (2007) demonstrate that the benefits of broad reforms can be substantial—even exceeding the benefits of some types of trade liberalization. Regional cooperation is essential

for achieving such harmonization—it can provide models of best practice; it can support policy choices that would be difficult to make in any one economy; and it can coordinate national decisions to build consistent regional frameworks.

Finally, on the global level, cooperation is needed on initiatives that help the region secure a major constructive role in global economic decision making. Asia's ongoing economic transformation is so rapid and extensive that it generates large impacts and a need for adjustment around the world. The management of these adjustments will ultimately require global cooperation—it cannot be resolved only within the region's individual economies, or even within the region as a whole. Asia's economies can best address this challenge by working together—that is, by undertaking adjustments within the region as well as encouraging complementary adjustments by countries outside it. Although Asia's major economies already play a prominent role in global economic affairs—and are committed to global integration—their influence can be amplified through regional cooperation. To be sure, it will be important to prevent the misperception that the goal of regional cooperation works against the global interest. Accordingly, the region needs to sustain—and, whenever possible, demonstrate—its continuing support for open global markets.

All of these objectives require that Asia achieve greater cohesion in its economic dealings within itself and with global institutions. While new initiatives in ASEAN and ASEAN+3 in the aftermath of the crisis gave Asia a sense of common purpose, these institutions have not yet acquired high policy impact. This is due to their early stage of development as well as the tendency for countries to act bilaterally (Soesastro 2007a). Platforms for generating and testing regional policy initiatives are just beginning to emerge. This is important: cementing the region's economic ties will ultimately require confident political cooperation as well as economic logic. Asia's economic progress will depend on the region's ability to continue to reduce political tensions both among its economies and with the rest of the world. Effective mechanisms of consultation and cooperation will be essential for achieving these goals.

7.2. Regionalism with Asian characteristics

Europe is generally seen as the benchmark for modern regionalism. From the Pan-European Movement of 1923 to the six signatories of the Treaty of Rome in 1957 through to today's 27-member EU and 15-member eurozone, European integration and cooperation has a long history of close interactions. It is the outcome of intensive political debate and compromise aimed to increase economic growth and prosperity through the systematic development of integrated trade, investment, fiscal, financial, and monetary arrangements. The European model has shown that, in a wide realm of areas, national sovereignty can be successfully ceded to regional institutions, with clear benefits to member countries.

But while Europe's experience provides some lessons for Asia's integration and cooperation, Asia is not Europe and circumstances have changed dramatically since 1957, when the European project began (Eichengreen 2007). Several differences stand out.

- Because economic integration intensified later in Asia than in Europe, it has emerged in the context of greater global interdependence. Asian economies are closely integrated with countries both inside and outside Asia and retain a critical stake in their global relationships.
- Financial cooperation in Asia is especially recent, with the first significant initiatives following the 1997/98 crisis. By that time, many Asian economies had well-developed ties with global financial markets. In contrast, capital markets in many European economies developed in parallel with regional cooperation.
- European regionalism began with a small group of economies at similar stages of development, and only gradually expanded to include more diverse ones. By contrast, Asia's market-led integration already connects a much more diverse set of economies.
- At critical stages in European regionalism, prominent national leaders—often in partnership with each other—played an important role in fostering cooperation. In Asia, cooperation has most often been stimulated by economic forces.
- While cooperation in Asia has focused primarily on economics, European integration has also involved political and social issues, with media and civil society playing a significant role.

European experience may provide helpful insights for Asia in these areas.

Thus, Asia's emerging regionalism reflects very different realities than Europe's. It needs to span considerably greater economic, political, and cultural diversity, and it needs to develop in the context of a far more globalized economy. Some of the economic issues addressed by Asia are similar to those that Europe faced, and Asia can derive valuable lessons from the European experience. Nevertheless, the scope, speed, sequencing, and style of Asian regionalism will naturally differ. In particular, as Box 7.1 explains, Europe's often

Box 7.1. Europe and Asia: contrasting approaches to regionalism

Europe's often supranational, rules-based structure does not sit comfortably with Asia's history, circumstances, and varying stages of development. Whereas building a united Europe is among the European Union's priorities, there is no appetite in Asia for creating a united Asia. While the Second World War delegitimized nationalism in Europe, in Asia it led to decolonization and the birth of new Asian nations. National autonomy is highly prized; nonintervention in others' sovereign affairs has been the rule.

Community method

Could Asia's limited tolerance for ceding national prerogatives stymie Asian regionalism? It would certainly be very difficult for Asia to adopt what in Europe is called the community method, the pooling of national sovereignty in certain areas within supranational regional entities. Conceivably, the Association of Southeast Asian Nations (ASEAN), the region's most established cooperative institution, and perhaps others might eventually accept specific rules-based requirements in certain economic areas. But since even ASEAN currently adopts a flexible approach depending on the development status

of its members, a strict community method is not the way ahead for Asia at least for now.

Open coordination

But Asia, while maintaining its flexible approach, still needs some form of institutional development and there are alternative routes forward. The common institutions needed for integrated markets could, for instance, be established through incentive-compatible agreements on regulatory standards, which would allow for flexible participation of regional members. This open method of coordination—which involves an intergovernmental approach to regulation, guidelines, benchmarking, and peer pressure to achieve policy convergence—is also used in Europe and seems much more appropriate for Asia, given its diversity and economic circumstances. As countries interact more deeply—by creating wider free trade agreements, administering pooled regional reserves multilaterally, and developing regional credit rating agencies or harmonizing bond issuances—the momentum for standardization of the regulatory environment and even harmonizing regulations is likely to grow in Asia.

supranational approach, is inappropriate for Asia at least in the near future. Asian regionalism needs to be evaluated not by how closely it follows the European model, but by how appropriate and effective it is for Asia (and the world).

The Asian model

Asia's approach to regionalism is pragmatic and flexible. It is based on the principle of "variable geometry," which indicates a willingness to adapt the structure of cooperation to the priorities of different groups of members. Asian regionalism is thus multitrack and multispeed. It is based on a bottom-up approach that supports markets and subregional cooperation as the building blocks of an eventual broader, deeper, and more unified regional architecture.

Such a flexible and pragmatic approach is dictated by Asia's economic and political realities. As detailed in earlier chapters, some economies are much more open and economically advanced than others. Some have a long tradition of political stability; others have only just emerged from conflict. Some are more committed to regional cooperation than others—indeed, some have political regimes that strictly limit cross-border contact. The region's flexibility and pragmatism has many underappreciated advantages. It fosters experimentation with new approaches and healthy competition among them. It avoids costly and restrictive bureaucracy. It respects countries' differing needs and sensitivities. And it allows the region to remain open to newcomers and to the rest of the world. Regional cooperation is not an end in itself—and in many cases a flexible, pragmatic approach can deliver better results than a rigid, one-size-fits-all framework.

But following a model based only on flexibility and pragmatism has limitations. Governments may be reluctant to make commitments to regional institutions that do not generate early tangible results. They will also be more likely to negotiate bilaterally if they feel that regional cooperation is difficult—even if the benefits from regional initiatives are potentially greater. As a result, important regional objectives are less likely to be realized. Stronger mechanisms of cooperation are increasingly needed to manage Asia's expanding challenges and opportunities.

Asian cooperative arrangements

The scope of Asian cooperative arrangements is wide ranging. They stretch from subregional groups, such as the GMS, that focus on cross-border projects for infrastructure development, trade facilitation, and other focused initiatives, to transregional bodies, such as APEC and the Asia-Europe Meeting (ASEM). While their coverage varies, they tend to focus on trade, finance, macroeconomic policy, the environment, and energy. None involves supranational authorities; elements requiring formal or informal policy action remain extremely limited. While macroeconomic issues and policies are extensively discussed, there has so far been no formal cooperation in this domain.

The speed of integration varies across subregions and policy areas. Regionalism has advanced most in East Asia, but much less so in South or Central Asia, or across the Pacific islands. Within East Asia, integration is more advanced in trade and investment than in financial or monetary affairs. Integration is proceeding particularly fast in ASEAN ((Box 7.2), and more slowly outside East Asia. In South and Central Asia, for example, countries are only starting to focus on improving cross-border connectivity and stimulating trade integration.

The sequencing of integration also varies. While cooperation in Europe has scarcely been linear—it has been marked by long pauses followed by bursts of activity in many areas simultaneously—it broadly focused on trade integration first and monetary and financial integration later. But whereas many European economies maintained capital controls until the late 1980s—that is, for the first three decades of what has now become the EU—a majority of Asian economies already have relatively open capital accounts. Thus, Asian financial integration is occurring almost in tandem with—albeit more slowly than—trade integration.

Asia's regionalism is distinctive in other ways as well. The region's policy making style is pragmatic and cautious. Cooperation is aimed at making markets work better and is usually defined by specific initiatives and objectives. Intergovernmental dialogue at all levels has greatly increased, but formal regional institutions remain relatively underdeveloped. Yet there is wide recognition that the need for more effective institutions is growing—ASEAN, for example, has committed to increasing the capacity of its Secretariat along with implementing its new blueprint for establishing an ASEAN Economic Community.

Box 7.2. ASEAN: the hub for Asian integration?

The Association of Southeast Asian Nations (ASEAN) is well-placed to be the regional hub for closer economic cooperation within East Asia and beyond. It carries weight, but is not overwhelming—together, ASEAN’s 10 member economies had, in 2007, a population of 576 million and a combined gross domestic product of almost \$1.3 trillion, while their merchandise trade was worth about \$1.8 trillion and they attracted more than \$50 billion in inflows from foreign direct investment (FDI).

ASEAN is a reliable and equal Southeast Asian partner that is linked to many larger, more powerful economies and groups. Its economies helped anchor the launch of the Asia-Pacific Economic Cooperation (APEC), Asia-Europe Meeting (ASEM), and (later) ASEAN+3, and it is the coordinating point for the East Asian Summit (EAS). Cooperation within ASEAN is particularly advanced, and given its long experience in regional consultation and addressing common issues and concerns, ASEAN is a natural vehicle for consolidating regional cooperation in Asia—for instance, the creation of an Asia-wide free trade agreement (FTA).

Major developments

When it was founded with the Bangkok Declaration in 1967, ASEAN had five members—

Indonesia, Malaysia, the Philippines, Singapore, and Thailand—whose goals were primarily political. ASEAN has since broadened its membership and widened its ambition by admitting five (generally poorer) new members—Brunei Darussalam, Cambodia, the Lao People’s Democratic Republic, Myanmar, and Viet Nam. Instead of politics, ASEAN now focuses on economic and social objectives.

In 1992, members established the ASEAN Free Trade Area (AFTA), with a pledge to liberalize manufacturing trade within 15 years. AFTA’s scope has since been widened and the pace of liberalization accelerated, albeit with some derogations for Cambodia, the Lao People’s Democratic Republic, Myanmar, and Viet Nam. ASEAN has also made progress in cooperation on FDI—through one-stop investment centers; the ASEAN Investment Area; and trade facilitation, especially in customs cooperation.

In 2002, ASEAN heads of government agreed to create an ASEAN Economic Community by 2020. In early 2007 they advanced the deadline to 2015, and later that year signed the ASEAN Charter, while adopting a blueprint detailing steps for creating a single regional market and production base, as well as a region that is highly competitive, of equitable economic development, and fully integrated into the global economy.

In short, Asia’s regional policy agenda is too broad and too complex to be handled by any single institution, especially given its vast economies and diverse interests. Asia’s emerging regionalism is thus appropriately based on a flexible and pragmatic, multitrack, multispeed architecture that emphasizes the gradual intensification of cooperation: engagement in limited areas first, followed by the deepening and widening of the scope of cooperation. ASEAN, the most

A model for cooperation

ASEAN's experience provides an indication of how regional cooperation in Asia might deepen. While ASEAN has evolved greatly since its inception, its development has been gradual and pragmatic. While promoting regional links, it has avoided establishing a protectionist bloc. Conversely: its external barriers have declined (arguably, in part, due to the region's integration efforts). New members have joined despite wide political differences. ASEAN runs a relatively small but effective Secretariat, which is due to expand to manage the implementation of the ASEAN Economic Community.

ASEAN generally proceeds by unanimity. But it has also introduced an "ASEAN-minus-x" formula, whereby "x" countries (albeit always a small minority) could temporarily opt-out from complying with certain decisions or agreements that are particularly difficult or require a longer adjustment process. The initiative for ASEAN integration seeks to enhance growth with equity in the organization, accelerating the integration of the newer, poorer members.

The signing of the ASEAN Charter in Singapore in November 2007 is an important milestone. This shifts ASEAN's institutional framework from its traditional consensus-based approach toward a more rules-based one. Yet it

remains sufficiently pragmatic, acknowledging that national economic development and national priorities vary, particularly between the original five ASEAN members and the newer, less-developed economies that joined in the past decade.

The Charter gives ASEAN a formal legal personality, establishes greater institutional accountability and a system for compliance, and commits ASEAN to an important role in the future of Asia-Pacific and East Asia integration. It calls for a people-oriented ASEAN, the establishment of an ASEAN human-rights body, and gives an enhanced role to the ASEAN Secretary-General and Secretariat. The Charter also provides a way to promote ASEAN to all of the region's people, and to build the concept of "ownership" across ASEAN borders.

While the future of Asian regionalism is highly fluid, ASEAN is likely to be central to it, and the progress ASEAN has already made provides some indication of how broader efforts might proceed.

established regional organization, is likely to form the hub of closer cooperation and it provides an insight into how Asian regionalism might develop more broadly. ASEAN can also serve to spin regional initiatives to wider groups, such as ASEAN+3 or EAS, and to favor the development of new regional institutions as Asian leaders find them appropriate to the regional integration process.

7.3. Emerging architecture of regional cooperation

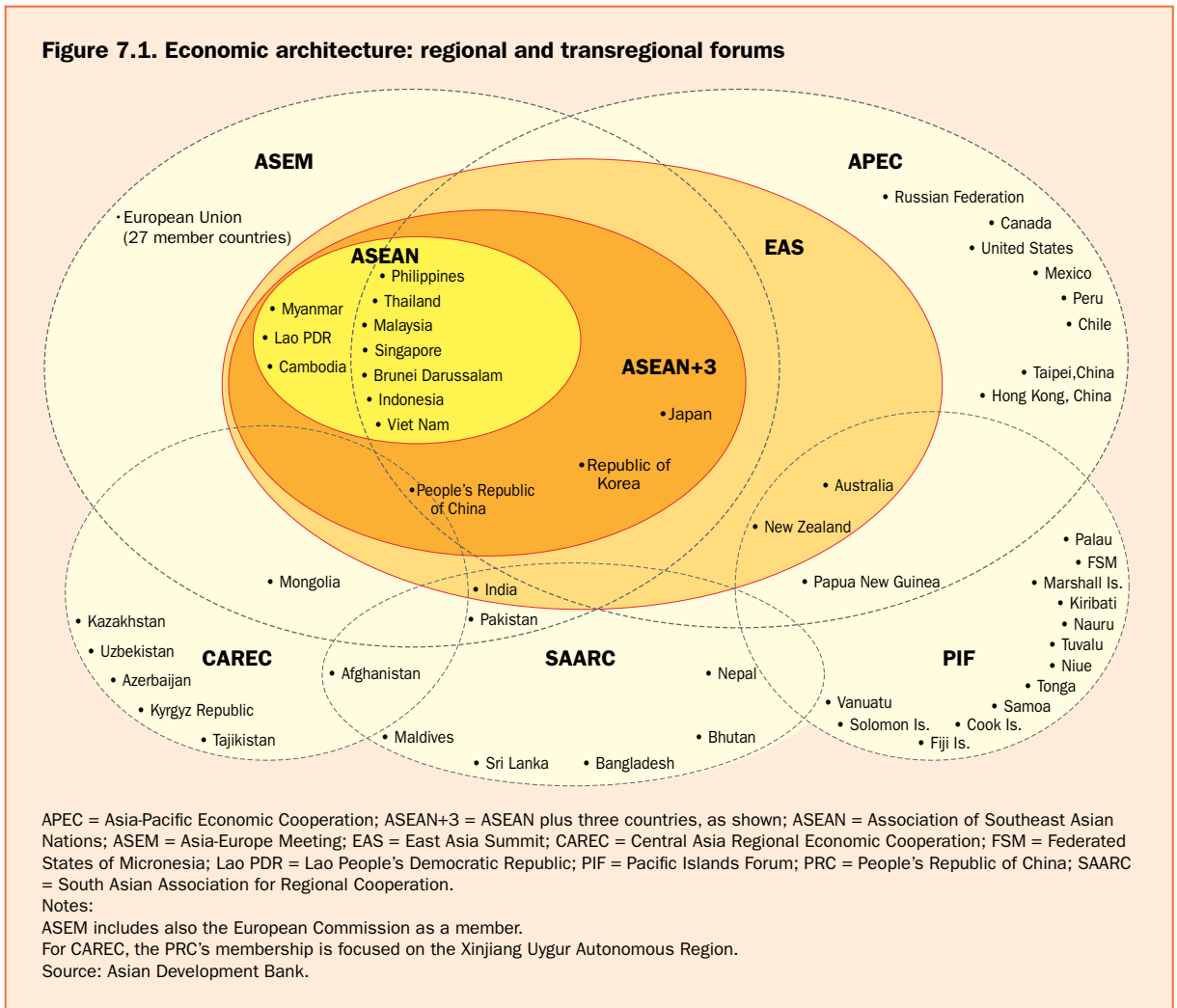
Asia's architecture of regional cooperation is broad, varied, and overlapping. Its principal forums involving Asian and non-Asian members are set out in Figure 7.1. They range widely in scope, from subregional institutions to ones that span continents. This diversity is consistent with and necessary for achieving the region's multiple policy objectives. For example, developing infrastructure to connect nearby communities through transport and energy links requires close subregional cooperation while ensuring that markets around the world remain open to each other requires dialogue in transregional and global institutions. The challenge is to maintain groups that are both effective and flexible while ensuring the coherence of their policy directions. While some institutional consolidation may be needed, overlap and competition among groups is not necessarily bad: it opens up options for addressing problems and encourages competing forums to become more effective (Drysdale 2007).

Moreover, an expanding network of forums, groups, and informal contacts brings the region's officials and business leaders together frequently. The overlapping memberships of the various core groups strengthen cooperation and spread ideas among them. As Figure 7.1 clearly indicates, ASEAN is central to this architecture, followed by ASEAN+3. But, as importantly, the people who meet and shape the dialogue in these forums also interact with policy makers in other, wider groups. These interactions among senior officials, trade ministers, finance ministers, central bank governors, and a wide range of other policy makers—who now meet through various groups almost monthly—is forging greater mutual understanding and stronger foundations for regional cooperative initiatives. And multiple forums provide a framework—if not yet explicit mechanisms—for achieving consistency among the region's many initiatives and varied partnerships.

Regional organizations for economic cooperation

The major groups involving Asian members are ASEAN, ASEAN+3, EAS, APEC, and ASEM (Table A7.1 in the appendix to this chapter provides a detailed list). ASEAN is furthest along the path toward integration, having established the ASEAN Free Trade Area (AFTA) and the ASEAN Investment Area, supported by economic partnership and cooperation agreements between ASEAN and each key non-

Figure 7.1. Economic architecture: regional and transregional forums



ASEAN economy in Integrating Asia. Given its history, scope, and institutional development, ASEAN remains the core of broader regional arrangements. It is integral to all of them and has a denser network of cooperative institutions, including a formal commitment to building an ASEAN Economic Community. While the approaches of individual members differ—some are less committed to the disciplines of regional association than others—all want to secure a role for ASEAN in any regional architecture. ASEAN is distinguished by its outward orientation toward the rest of Asia and the global economy. The larger ASEAN economies are among the most open economies in East Asia and the world (Armstrong, Drysdale, and Kalirajan 2008).

ASEAN+3 is a powerful extension of ASEAN: it includes the region's most dynamic economy (the PRC), its most advanced (Japan), and its largest newly industrialized economy (the Republic of Korea). ASEAN+3 was formally established in 1999 following the Asian crisis—the first informal leaders' summit was held in December 1997—and has created a dense network of regular meetings covering several broad-ranging areas of cooperation. It has also established several initiatives (as detailed in previous chapters) to boost economic monitoring and promote policy dialogues, enhance bilateral—and soon to be multilateral—reserve pooling (the CMI), promote the development of local currency bond markets (the Asian Bond Markets Initiative), and conduct research projects on economic cooperation and integration. ASEAN+3 is also considering the establishment of an East Asia Free Trade Agreement.

The final report in 2002 of the East Asia Study Group, commissioned by ASEAN+3, supported the creation of an East Asia Summit (EAS), defining it as “a desirable long-term objective... [as] part of an evolutionary process that builds on the substantive comfort levels of the existing ASEAN+3 framework.” The EAS, which was started in 2005, also includes Australia, India, and New Zealand—hence it is sometimes called ASEAN+6. The EAS has concentrated so far on wider issues that could be categorized as regional or global public goods, such as issuing a declaration on climate change, energy, and the environment, as well as on East Asian energy security. The EAS is also discussing a free-trade agreement called the Comprehensive Economic Partnership in East Asia.

Other bodies stretch beyond the region. APEC, established in 1989, initially focused on economic issues, but has recently broadened its agenda to include human security issues. It engages North America, the Latin American countries of the Pacific Rim, and the Russian Federation, giving them a stake in this growing area of the world (Drysdale and Terada 2007). ASEM—which includes the EU, ASEAN+3, India, Pakistan, and Mongolia—meets for informal discussions on a range of economic and social issues.

The Executive Meeting of East Asia-Pacific central banks (EMEAP), comprises 11 of the region's monetary authorities¹⁰³ and is another vehicle for regional policy dialogue and financial cooperation.

¹⁰³ The 11 EMEAP members are the Reserve Bank of Australia, People's Bank of China, Hong Kong Monetary Authority, Bank Indonesia, Bank of Japan, Bank of Korea, Bank Negara Malaysia, Reserve Bank of New Zealand, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore, and Bank of Thailand.

EMEAP's main achievement has been the launch of the Asian Bond Funds, which provide a catalyst for private investors to consider investment in Asian issues, particularly domestic currency bonds. EMEAP sits alongside these other arrangements but is not yet an integral part of them.

Intensifying regional cooperation in East Asia might gradually expand to include South Asia, and ultimately the formation of an Asian economic community, as advocated by Indian Prime Minister Manmohan Singh (2005). The regional strategies proposed in this report have been designed specifically to make it possible for economies new to the integration process to join the region's cooperative institutions. But this will necessarily be a gradual process that will ultimately depend on each subregion's pace of development and commitment to the open, outward-oriented policy strategies and economic reforms that are well entrenched in East Asia.

7.4. Toward closer cooperation

Asian regionalism is continually evolving. It will need to intensify as the region becomes more interdependent and as its global importance grows. Asia's rapid economic rise—notably that of giants such as the PRC and India—is having a huge impact on the world economy (Drysdale 2006). This will require large adjustments not only within Asia but also in the rest of the world. Smoothing this adjustment is in everyone's interests—and will require careful negotiation within Asia as well as with Asia's global partners. Clearly, Asia has a significant stake in keeping global markets open—and by acting together it will have greater leverage in global economic forums. The PRC, in particular, will have to assume a more prominent role in global economic affairs—and while its remarkable openness and engagement with Europe and North America stand it in good stead, close, strategic cooperation with its Asian partners—notably Japan, but also ASEAN and others—would help it negotiate these adjustments more effectively. As Asia's economic importance rises, it will also need to manage external pressures for greater exchange rate flexibility and coordinate reforms of the region's financial systems that will both facilitate these adjustments and channel regional savings to more productive investments.

Asia's powerful countries and centers of economic activity have many common priorities, but also differing ones. At times, the differences are amplified by history and politics. Regional cooperation

Box 7.3. Lessons for South Asia, Central Asia, and the Pacific

Measured by a number of yardsticks, East Asia is already a quite deeply integrated regional economy. And East Asian experience with deepening integration is of interest to other regions, such as South Asia, Central Asia, and the South Pacific, which are also pursuing closer economic integration.

The South Asian Association for Regional Cooperation (SAARC)—composed of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka and founded in 1985—has so far focused principally on cooperation in agriculture, rural development, and health. The Central Asia Regional Cooperation Program (CAREC) —established in 1997 and including Afghanistan, Azerbaijan, the People’s Republic of China (focusing on Xinjiang Uygur Autonomous Region), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan—promotes shared infrastructure projects and the improvement of the policy environment in priority areas, such as transport, energy, and trade. The Pacific Islands Forum (PIF), which comprises 16 self-governing islands, has developed the Pacific Plan, which covers areas ranging from fisheries to air transport safety.

Lessons

What can South Asia, Central Asia, or the South Pacific learn from East Asia (Chandra and Kumar 2007). In ASEAN and East Asia generally, economic development is a common and dominant political goal. The lesson for other Asian regions is that the primacy of proceeding with joint economic goals need not be derailed by political differences.

Rather, ongoing dialogue on regional economic cooperation can set a positive tone for discussing and even settling political disputes. It ensures an informal avenue for political contact always exists, as these issues can be broached on the sidelines of meetings on economic cooperation.

East Asia continues to pursue an “open regionalism” approach that stresses efficient competition in global markets and promotes the least discriminatory component with nonmember countries. But while the inward-looking “Fortress Asia” mindset has no appeal in East Asia, it remains strong in South Asia. The agreement on a South Asia Free Trade Area, for instance, involves large negative lists, tariff concessions on only a limited number of products, and restrictive rules of origin requirements, while excluding services and issues such as border charges, fees, and other nontariff barriers.

India's role

India could take on a greater role in fostering economic cooperation in South Asia. Given its growing economic strength, it could start by working within the SAARC framework toward open regionalism. India could also act as an important conduit for connecting South Asia to the rest of Asia, especially East Asia. And it could play an active role in integrating its northeastern region—which has lagged behind the rest of the country economically—with neighboring countries, following the model set by the Greater Mekong Subregion.

may also entail the loss of some national autonomy 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 through regional institutions.

Asia's trademark flexibility and pragmatism respond to this political challenge. Flexibility and pragmatism also enable newcomers to regional integration to develop relationships in line with their capabilities. Smaller developing economies that are not yet fully integrated into the region—in Central, South Asia, or the Pacific islands—often have the most to gain from internalizing the lessons of Asian dynamism. Joining regional and global production networks could dramatically raise their productivity, employment, and output levels. As the requirements and implications of integration are better understood, potential newcomers to integration can adopt vigorously outward-oriented policies to take advantage of existing cooperative structures and institutions.

Box 7.3 provides a closer look at the implications of the region's cooperative structure for economies that are not yet full-fledged members of Integrating Asia. The lessons outlined there have important implications for national policies to help accelerate integration, and for subregional policies that can build foundations for joining the region's wider cooperative mechanisms.

Against this background, cooperation is gradually deepening, as countries realize the benefits of concerted action and gain confidence in the processes of joint decision making. Different groups of countries are progressing at various speeds, as they develop frameworks to address subsets of policy interests. Suitable institutions for regional cooperation in Asia will reflect the complexity of relationships between countries, given the great diversity across the region and the differing roads to autonomy.

Elements of intensified cooperation

Ultimately, intensified cooperation will require stronger institutions and greater focus and coherence. The process of institutional development can be decomposed into several incremental stages, as suggested by de Brouwer, Ramayandi, and Turvey (2006):

- discussion of national, regional, and global economic issues and policy responses to a changing economic and strategic environment;
- informal or ad hoc cooperative action on national economic policies to ensure regional or global consistency;

- binding or contractual cooperative setting of national economic policies at the regional level; and
- unified economic policy making at a regional level to determine policy outcomes including at the national level.

The first stage describes transregional forums such as APEC and ASEM, whose activities are focused primarily on information sharing and discussion. APEC has committed to creating an open trade and investment regime in the Asia and Pacific region (the so-called “Bogor” goals), but it relies on voluntary, unilateral policy actions and operates on the basis of “non-binding commitments, open dialogue, and equal respect for the views of all participants” (APEC 2008). ASEM is also an informal, general platform for political, economic, and cultural exchange.

The second stage roughly applies to the ASEAN+3 group and the newer EAS. These forums seek to articulate national views in a coordinated manner and have adopted formal cooperative initiatives (such as the ABMI or CMI) or are studying new ones (such as the East Asia Free Trade Agreement or Comprehensive Economic Partnership in East Asia, for example).

The third stage is exemplified by ASEAN, which has formal agreements (including the ASEAN Free Trade Area), a commitment to establish regional communities focused on economic, security, and social and cultural issues, and now also a separate legal identity through its Charter.

The fourth stage of cooperation—supranational institutions—has no counterpart in Asia today. While some types of joint decision making could emerge, given the region’s diversity, there is likely to be very limited interest in yielding sovereignty to supranational entities in the intermediate future.

Nevertheless, as Asia’s cooperative challenges expand, more institutions will be needed at higher stages on this ladder. This could be accomplished by the gradual strengthening of existing institutions, or by the creation of new ones. In general, deeper cooperation will require the streamlining and deepening of existing mechanisms, as well as institutional innovation.

It will be useful to strengthen the functions and capacity of existing institutions of collaboration to increase the focus and accountability of the region’s cooperative efforts. For example, as Chapters 3 suggests, there would be value in concentrating dispersed negotiations on trade policies into a common framework, and in making sure that the region’s future trade agreements are compatible with each other and

so can be more readily rationalized. More explicit and comprehensive templates and procedures may be adopted in current cooperative mechanisms, as suggested in Chapter 5 in the case of macroeconomic surveillance under the economic review and policy dialogue process. It could mean expanding the resources and staffing of institutions that are overburdened by expanding responsibilities.

It will also be desirable to create some new mechanisms and institutions that would deepen cooperation. For example, the Economic Research Institute for ASEAN and East Asia has recently been created to provide essential intellectual foundations for cooperation and the coordination of development policies in ASEAN and the East Asian region. An Asian Financial Stability Dialogue could be created to bring together the principal agencies involved in managing financial markets (Chapter 4). An Asian Secretariat for Economic Cooperation could also be introduced to provide adequate professional expertise for addressing macroeconomic and financial issues and developing effective response mechanisms to shocks and crises (Chapter 5).

Maintaining the multitrack structure

Although there are important benefits to be gained from strengthening Asia's institutions, there are also good reasons to make sure that they remain lean, carefully structured to achieve stated purposes, and limited in authority. In other words, even as the region's institutional structure deepens, intergovernmental consultation and national decision making will likely remain the central feature of Asian cooperation.

Because the structure of regional cooperation in Asia remains very fluid, proposing firm assignments of institutional functions is premature. Nevertheless, as the detailed arguments of this study suggest, new institutions such as an Asian Financial Stability Forum or an Asian Secretariat for Economic Cooperation may be useful to strengthen Asia's integration. The cooperation process may naturally build on the ASEAN+3 structure, which benefits from a well-established working mechanism. ASEAN+3 is organized around ASEAN—which has the most experience with cooperation and operates the most advanced regional institutions. ASEAN+3 includes Asia's three large economies (the PRC, Japan, and the Republic of Korea) as the plus 3 members.

But Asian cooperation should not end there. Wider processes can be developed and structures for wider participation supported

by, for example, the EAS or other frameworks. Asian cooperation should involve strong complementary relationships with each other, due to unique histories and expertise for addressing different aspects of regional dialogue. This argues not only for maintaining multiple regional arrangements, but also for establishing close connections among them. Stronger cooperative mechanisms and greater coordination among them will be essential both for improving the effectiveness of regional initiatives and for maintaining their coherence.

The benefits of cooperation on multiple tracks could be substantial. In addition to ASEAN+3, which has proven quite effective in financial and macroeconomic policy dialogue, for example, ASEAN will be an especially useful proving ground for more advanced forms of regional cooperation. It will become an increasingly effective hub as it pursues deeper integration itself, following the recent adoption of the ASEAN Charter and the ASEAN Economic Community Blueprint (Kawai, 2007c). The GMS framework, on the other hand, could provide an ideal laboratory for sharply focused cooperative efforts in areas such as coordinated cross-border infrastructure development and initiatives for fighting poverty. The EAS, in turn, may prove to be an effective forum for addressing broad issues such as the environment, climate change, and energy security. And given their broad memberships, APEC and ASEM could be especially effective in addressing transregional cooperation. APEC and ASEM could also play useful roles in policy dialogue on domestic regulatory approaches and in ensuring that the region's expanding global role is effectively managed. These multiple tracks offer effective solutions to varied challenges; they also provide a natural way to extend the benefits of cooperation to economies in early stages of integration with the region.

In the final analysis, however, political considerations will shape the region's institutional development. But Asia's economics and politics are interdependent, even if they are not always aligned. Economic interests shape political positions, much as political will affects economic outcomes. Closer economic cooperation within Asia will provide a stronger framework for managing the economic adjustments within the region. Closer cooperation will make it easier to manage the region's complex, expanding interactions with the world economy. As long as the economic benefits of regional integration are substantial, political solutions remain possible.

The perception survey conducted for this study (see Box 1.1 in Chapter 1) confirms that the region's opinion leaders welcome regional engagement and are optimistic that political hurdles can be overcome (Capannelli 2008). Asia's approach emanates from—and neatly accommodates—its diversity. The approach allows countries to retain a great deal of independence and control over their internal affairs, yet fosters a sense of community—in essence, mutual trust and confidence—that is the foundation of lasting peace and stability. As emerging Asian regionalism develops and intensifies, its diversity will continue to be its strength.

Chapter 7: appendix

Table A7.1. Major economic cooperation groups in Asia and the Pacific

Name, Year established	Membership
Asia Cooperation Dialogue (ACD) 2002	Bahrain, Bangladesh, Brunei Darussalam, Bhutan, Cambodia, People's Republic of China (PRC), India, Indonesia, Iran, Japan, Kazakhstan, Republic of Korea, Kuwait, Lao People's Democratic Republic (Lao PDR), Malaysia, Mongolia, Myanmar, Oman, Pakistan, Philippines, Qatar, Russian Federation, Saudi Arabia, Singapore, Sri Lanka, Tajikistan, Thailand, United Arab Emirates, Uzbekistan, and Viet Nam.
Asia-Pacific Economic Cooperation (APEC) 1989	Australia; Brunei Darussalam; Canada; Chile; PRC; Hong Kong, China; Indonesia; Japan; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; Philippines; Republic of Korea; Russian Federation; Singapore; Taipei,China; Thailand; United States; and Viet Nam.
Asia-Europe Meeting (ASEM) 1996	Members of the Association of Southeast Asian Nations (ASEAN), European Union, and European Commission plus PRC, India, Japan, Republic of Korea, Mongolia, and Pakistan.
Association of Southeast Asian Nations (ASEAN) 1967	Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Thailand, Singapore, and Viet Nam.
ASEAN Plus Three (ASEAN+3) 1997	ASEAN members plus PRC, Japan, and Republic of Korea.
Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) 1997	Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand.

Areas of focus	Major initiatives
<ul style="list-style-type: none"> • Technology • Tourism • Trade and investment • Money and finance • Energy • Health and education • Politics • Agriculture 	<ul style="list-style-type: none"> • Annual ministerial meetings • Projects in 19 areas involving cooperation between various members • Think tank (symposium and network) to support ACD projects
<ul style="list-style-type: none"> • Business facilitation • Economic and technical cooperation • Trade and investment liberalization 	<ul style="list-style-type: none"> • Bogor goals of “free and open trade and investment” • APEC Business Travel Card • Best practices for regional trade agreements and free trade agreements • Declaration on Climate Change, Energy Security and Clean Development
<ul style="list-style-type: none"> • Cultural and intellectual issues • Financial and social reform • Political issues • Trade and investment barriers 	<ul style="list-style-type: none"> • Asia-Europe Cooperation Framework • Asia-Europe Foundation • Trans-Eurasian Information Network
<ul style="list-style-type: none"> • Economic cooperation • Trade and investment • Regional security • Sociocultural exchange 	<ul style="list-style-type: none"> • Treaty of Amity and Cooperation in Southeast Asia • ASEAN Free Trade Area • ASEAN Economic Community • ASEAN Security Community • ASEAN Social and Cultural Community
<ul style="list-style-type: none"> • Finance • Macroeconomics 	<ul style="list-style-type: none"> • Economic Review and Policy Dialogue • Chiang Mai Initiative • Asian Bond Markets Initiative • Research Group
<ul style="list-style-type: none"> • Transport • Tourism • Trade and investment • Energy • Health • Agriculture 	<ul style="list-style-type: none"> • Link South and Southeast Asia • Commitment to liberalize trade by 2012 (3 members) • Plan for free trade pact by 2017

Table A7.1. continued.

Name, Year established	Membership
Brunei Darussalam-Indonesia-Malaysia-Philippines–East ASEAN Growth Area (BIMP-EAGA) 1994	Brunei Darussalam plus provinces of Indonesia, Malaysia, and Philippines.
Central Asia Regional Economic Cooperation (CAREC) 1997	Afghanistan, Azerbaijan, PRC provinces, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.
East Asia Summit (EAS) 2005	ASEAN members, Australia, PRC, India, Japan, Republic of Korea, and New Zealand.
Greater Mekong Subregion (GMS) 1992	Cambodia, two provinces of PRC, Lao PDR, Myanmar, Thailand, and Viet Nam.
Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) 1993	Provinces in Indonesia, Malaysia, and Thailand.
Pacific Islands Forum (PIF) 1971	Australia, Cook Islands, Federated States of Micronesia, Fiji Islands, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.
Shanghai Cooperation Organisation (SCO) 2001	PRC, Kazakhstan, Kyrgyz Republic, Russian Federation, Tajikistan, and Uzbekistan.
South Asian Association for Regional Cooperation (SAARC) 1985	Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

Areas of focus	Major initiatives
<ul style="list-style-type: none"> • Agro-industry • Environment • Tourism • Transportation 	<ul style="list-style-type: none"> • Roadmap to Development (2006–2010) • Agreements on air transport, other transport, trade facilitation, and tourism
<ul style="list-style-type: none"> • Energy • Trade facilitation • Trade policy • Transport 	<ul style="list-style-type: none"> • Comprehensive Action Plan (CAP 2006) • Transport and Trade Facilitation Strategy • CAREC Institute
<ul style="list-style-type: none"> • Economic community • Energy and environment • Trade and finance 	<ul style="list-style-type: none"> • Declaration on Climate Change, Energy and the Environment • Declaration on East Asian Energy Security
<ul style="list-style-type: none"> • Agriculture • Environment • Human resource development • Tourism • Trade and investment • Transport, energy, telecommunications 	<ul style="list-style-type: none"> • East-West Economic Corridor • Ten-Year Strategic Framework
<ul style="list-style-type: none"> • Agriculture and fisheries • Environment • Human resource development • Tourism • Trade and investment • Infrastructure 	<ul style="list-style-type: none"> • IMT-GT Roadmap to promote trade and investments, agriculture, agro-industry, tourism, infrastructure, human resource development, mobility of labor, and natural resource management • Joint tourism promotion
<ul style="list-style-type: none"> • Energy • Information and communication technology • Transport 	<ul style="list-style-type: none"> • Pacific Agreement on Closer Economic Relations • Pacific Aviation and Safety Office • Pacific Island Countries Trade Agreement
<ul style="list-style-type: none"> • Political issues • Culture and education • Energy and transport • Environment protection • Science and technology • Trade and economy 	<ul style="list-style-type: none"> • Action plan on implementation of the program for multilateral trade and economic cooperation • Regional Antiterrorist Structure • SCO Business Council and Interbank Consortium
<ul style="list-style-type: none"> • Agriculture and rural development • Environment and forestry • Health and population • Human resource development • Science, technology, and meteorology • Transport • Women, youth, and children 	<ul style="list-style-type: none"> • SAARC Development Fund • South Asian Free Trade Area

