

ADB

# EMERGING ASIAN REGIONALISM

A Partnership for Shared Prosperity



Asian Development Bank

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# EMERGING ASIAN REGIONALISM

A Partnership for Shared Prosperity



A Study by the Asian Development Bank

Asia learned the hard way in 1998 that the absence of regional cooperation can cost an economic misfortune. We now understand how enhancing regional integration and cooperation is important to build stronger and more resilient economies.

This excellent study summarizes well the important issues related to Asian regionalism. It is a book everybody will enjoy reading, from policy makers, to business leaders, scholars, and anyone interested to understand the dynamics of Asian economic interdependence.

Sri Mulyani Indrawati  
Minister of Finance, Republic of Indonesia



# Foreword



**A**sia today is an economic dynamo. But Asia's success story is about more than rapid development, poverty reduction, and an ever-expanding middle class. It is more than the production and distribution networks that place Asian goods within easy reach of consumers around the globe. It is more than labor-intensive industries, high-tech production of intermediate goods, or the final products assembled in Asia's myriad plants and industrial estates.

Part of Asia's success story is also growing integration—a phenomenon that is increasingly garnering the attention of observers outside the region and, more importantly, the policy makers and the public they serve. The trend toward integration is gaining momentum through enhanced dialogue between countries and people—from the simple contact brought about by intraregional tourism to formal meetings of government officials, ministers, and political leaders. Intraregional trade and investment are expanding rapidly, financial markets are becoming closer and more efficient, and economies are becoming more interdependent. Regional infrastructure projects are increasing connectivity, and countries are working together to provide regional public goods in areas such as the environment and health.

Emerging Asian regionalism offers a new platform for economic development that is good for individual economies, good for Asia, and good for the world. It is a “partnership for shared prosperity.”

The evolving approach to integration in Asia is market-friendly, multitrack, and multispeed, allowing for a healthy dose of pragmatism among a collegial group of economies. This approach is workable for a region of such size and diversity, and holds several advantages. First, any group of territories, economies, or subregions can integrate according to its particular levels of development and the specific opportunities that regionalism offers. Second, as partnerships strengthen, smaller groups are more likely to merge into larger ones, leading to wider and deeper relations across an ever-growing swathe of Asia. Third, this approach ensures that Asia's economic integration remains market-friendly—that its framework continues to be responsive to private sector needs as expanding business and open markets power Asian economies ahead.

Subregional cooperation is the building block of Asia's regional integration, and a logical way to move forward, given the region's diversity and size. Whether in the Greater Mekong Subregion, East Asia in its entirety, South Asia, Central Asia, or the Pacific Island nations, the scope and speed of regional cooperation will inevitably differ. As partnerships develop, bridges naturally form across subregional boundaries, leading eventually to wider and more comprehensive cooperation and integration. Such cooperation and integration have been seen most clearly in the aftermath of the Asian financial crisis, which triggered a period of significant progress in regional cooperation as much out of necessity as opportunity.

This study analyzes the nature of Asia's emerging regionalism, providing a basis for understanding its dimensions and further discussion on ways to move forward. The dynamic and outward-looking style of Asian regionalism can have a significant impact in an increasingly globalized world. Regionalism can be a stabilizing factor when shocks arise, whether region-based or externally imposed. Being pragmatic and flexible does not mean taking a laissez faire outlook. Regionalism carries the responsibility of proper management, effective communication, and (when required) policy coordination or the creation of common regional institutions. Regionalism can also be an effective policy tool to help markets adjust and adapt when a crisis looms.

Whether providing new regional public goods, managing natural disasters and epidemics, easing trade in products and services, moving capital and people, building common positions in international forums, or working together in correcting global market failures, emerging Asian regionalism will rely on the sort of experience, research, and analysis that make up this study so they can develop and properly manage strategies that can effectively deal with the challenges Asia will face.

This study, led by the Office of Regional Economic Integration, is a flagship project of the knowledge departments of the Asian Development Bank. It builds on the Eminent Persons Group report of March 2007, which suggests as one of its three complementary themes that ADB shift its focus from a primarily national one to a regional and ultimately global focus. It also contributes to the achievement of ADB's long-term strategic framework by helping to define the relevance of regional integration and cooperation as a platform for poverty reduction and promotion of economic development.

The study has greatly benefited from the work and contributions of many people. I wish to express deep appreciation to the excellent team of authors, advisers, reviewers, and editors, both outside and within ADB, who worked on the report and provided guidance and innovative ideas. The principal consultant, Peter Petri, coordinated the work of chapter authors and drafted the introduction, the chapter on deepening interdependence, the conclusion, and the *Highlights*. Michael Plummer drafted the chapter on integrating production; Jenny Corbett and Maria Socorro Gochoco-Bautista, that on financial systems; Shinji Takagi, that on macroeconomic links; Shiladitya Chatterjee and Aniceto Orbeta, that on social and environmental issues; and Peter Drysdale that on the architecture of cooperation. Philippe Legrain served as economics editor. The study was conceived and led by an ADB team comprising Masahiro Kawai, Jong-Wha Lee, Srinivasa Madhur, and Giovanni Capannelli. The financial contribution of the Government of Japan for this project is gratefully acknowledged.

How Asian regionalism evolves will affect the lives of the 3.7 billion people who inhabit the region, and will impact the world as a whole. Asia's contribution to the global economy is growing faster than that of any other region. The emergence of Asian regionalism, powered by new generations of Asians who have been raised amid exceptional economic progress and cooperation among nations, will help establish a lasting prosperity and peace.



Haruhiko Kuroda  
President  
Asian Development Bank

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An international group of consultants and ADB staff drafted the chapters. Peter Petri of Brandeis University served as principal consultant. He was overall coordinator of the study and played a pivotal role in drafting the final report, especially chapters 1, 2, and 8. Chapter 3 was drafted by Michael Plummer of the Johns Hopkins University, and Chapter 4 by Jenny Corbett of the Australian National University and Maria Socorro Gochoco-Bautista of the University of the Philippines (with the assistance of R. V. Fabella, M. Debuque-Gonzales, M. S. Milo, and R. E. Reside). Shinji Takagi of Osaka University drafted Chapter 5. ADB's Shiladitya Chatterjee and Aniceto Orbeta of the Philippine Institute for Development Studies drafted Chapter 6. And Peter Drysdale of the Australian National University drafted Chapter 7. Philippe Legrain prepared the executive summary and was economics editor for the study.

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# Abbreviations and Acronyms

ABF	–	Asian Bond Fund
ABMI	–	Asian Bond Markets Initiative
ADB	–	Asian Development Bank
AFTA	–	ASEAN Free Trade Area
AMC	–	asset-management company
APEC	–	Asia-Pacific Economic Cooperation
ASA	–	ASEAN Swap Arrangement
ASEAN	–	Association of Southeast Asian Nations
ASEAN+3	–	ASEAN plus People’s Republic of China, Japan, and Republic of Korea
ASEM	–	Asia-Europe Meeting
BCP	–	Basel II Core Principles
BIMP-EAGA	–	Brunei Darussalam-Indonesia-Malaysia-Philippines – East Asia Growth Area
BSA	–	bilateral swap arrangement
CMI	–	Chiang Mai Initiative
EAS	–	East Asian Summit
EASG	–	East Asian Study Group
EMEAP	–	Executives’ Meeting of East Asia and Pacific Central Banks
ESCAP	–	Economic and Social Commission for Asia and the Pacific
EU	–	European Union
FDI	–	foreign direct investment
FTA	–	free trade agreement
GATT	–	General Agreement on Tariffs and Trade
GDP	–	gross domestic product
GMS	–	Greater Mekong Subregion
HIV/AIDS	–	human immunodeficiency virus/acquired immunodeficiency syndrome
IA	–	Integrating Asia
IAIS	–	International Association of Insurance Supervisors
IMF	–	International Monetary Fund
IOSCO	–	International Organization for Securities Commission

MDG	-	Millennium Development Goal
MNC	-	multinational corporation
NAFTA	-	North American Free Trade Agreement
NIE	-	newly industrializing economy
NTB	-	non-tariff barriers
OECD	-	Organisation for Economic Co-operation and Development
PCT	-	parts and components trade
PPP	-	purchasing power parity
PRC	-	People's Republic of China
ROORs	-	rules-of-origin requirements
SARS	-	severe acute respiratory syndrome
SWF	-	sovereign wealth fund
US	-	United States
VAR	-	vector autoregression
WHO	-	World Health Organization
WTO	-	World Trade Organization