

# **Title: Towards Economic Cooperation in Asia**

Essay Written for the Institute of International Affairs (IIMA)  
IIMA Essay Contest for Regional Cooperation

Submitted on September 20, 2005  
Number of Words: 4,082  
Paper Format: A4 Size, Arial font, size 11

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## **TOWARDS ECONOMIC COOPERATION IN ASIA**

Every year, leaders of member-nations of ASEAN, APEC or SAARC among others, meet with each other donning their country's traditional costumes or wearing their usual business suits. Old and familiar faces dominate these meetings but at the same time new personalities appear. Each year the venue for these meetings changes, new issues are discussed, urgent policies are made. But one thing has never changed. Over the years, these meetings revolve around a central theme- that all-too familiar theme on "Economic Cooperation in Asia".

Asia is fast becoming a dominant if not already an influential player in the global economy. It now accounts for about a third of the world GDP, about a quarter of world trade, and more than half of the world's international reserves. Over the past decade, there has been an increase in trade flows among Asian economies and a growing interdependence with each other. Because of this, the world's decision-makers have come to realize that the world economy is highly interdependent and important steps to advance economic cooperation initiatives should be significantly taken into consideration.

What explains this growing awareness for economic partnership in the region? On the other hand, what are the complexities that challenge this undertaking? And while these countries aim to promote and strengthen economic cooperation among each other, the most pressing question is- 'what should be done about it'?

This academic essay aims to address these questions. It shall discuss the factors behind this increasing sense of economic collaboration in the region; identify the issues that confronts this endeavor; and recommend possible directions and proposals as well as suggest regional approach for the promotion and strengthening of economic cooperation in Asia.

While this is a recurring theme among world leaders, policy-makers and academicians, an analysis on 'economic cooperation in Asia' is a very challenging task to pursue. For one, Asia is composed of various sub-regions categorized geographically- Northeast, Southeast, South, and West Asia- that have diverse economic conditions and unique features. Secondly, the subject on economic cooperation has a very wide scope. Trade, investment, infrastructure, energy, technology, monetary and financial cooperation among others, are factors to consider when discussing about this matter. However, this paper attempts to pursue its objectives stated above as extensively as possible. Because of this, this essay shall treat Asia as an entire geographical region despite its sub-regional groupings. It will also discuss proposals for the region's economic cooperation in general, highlighting some of these economic factors which are deemed necessary to attain this paper's objectives.

### **Growing Sense of Economic Cooperation in Asia**

The past few years saw a growing sense of 'cooperation' among economies in Asia, particularly in its sub-regions. North and Southeast Asian economies have experienced a more active trade among each other in recent years especially since Northeast Asian countries are active participants in the Association of Southeast Asian Nations (ASEAN) summits. South Asia is also promoting regional trade and investment arrangements through the South Asian Association for Regional Cooperation (SAARC). On the other hand, West Asia is continuing to bridge the gap between the differences in the development of the economies of oil-producing and non-oil-producing countries. The following are the factors that are considered to contribute to this active economic collaboration of these countries in the region.

### Market and Trade Liberalization

As seen from the economic cooperation of these groups, market-led forces and the proliferation of global free trade have caused this need for wider cooperation among Asian economies. Economic interdependence and trade complementarities among Asian countries have intensified the call to promote regional cooperation. With most of the Asian economies already members of the World Trade Organization (WTO), trade barriers and quotas have been lifted making way for further efforts of leaders to develop economic collaboration among each other.

### Aftermath of the Asian Financial Crisis

The economic setbacks after the Asian Financial Crisis in 1997-1998 have demonstrated the need for a more comprehensive cooperation. The crisis spread quickly around the region particularly in East Asia with little regard to the differences on economic fundamentals of these economies (Tay 2001). The kind of economic collaboration that already exists in the East Asian region has fallen short to help its members. In fact, the lack of coordination in the response of the affected economies themselves contributed to the spread of the crisis. This realization, together with their frustration with the perceived lack of understanding of the region by the International Monetary Fund (IMF) as demonstrated by the widespread view that the latter's rescue program worsened the situation of the economies in crisis, increased the awareness of the economies that something should be done by them as a region (Austria 2002).

### China's Rise as an Economic Power

China is a burgeoning economic power, not only in Asia but also around the globe. The country is a huge market by itself now that it has joined the WTO. The world market has already been flooded with cheap labor-intensive China products. Because of this, China's new approach of preferential trading with the rest of the region could therefore open the door for the country to seize the opportunity to advance economic cooperation in the region (Austria 2002). At the same time, economies in the region doing trade with China will work out efforts for further cooperation to both seize opportunities and combat threats posed by this economic giant.

### India's Increasing Role in the Region

Aside from the increasing importance of China, India also leads an increasing economic influence in Asia. India is the largest country and arguably the pre-eminent power in the South Asian region and its economic and trade importance will definitely spill-over to the rest of Asia (Rahman 2004). Apart from having one of the biggest number of consumers in the world, its relatively young and competent labor force and its booming software and technology industry have become attractive contributing factors to include India as a country that will play a significant role in the further economic cooperation among Asian nations.

## Issues Confronting the Development of Economic Cooperation in Asia

Before providing suggestions for the advancement of economic cooperation in the region, it is better to confront first the issues that complicate efforts towards this goal. Despite the factors towards a growing sense of cooperation in the region, there are many challenges towards a more integrated regional cooperation in Asia, of the kind that already exists in Europe and America.

### Regional Diversity

The countries in Asia in spite of numerous similarities are far from being homogeneous. Asia, in general, has no enduring history of unity and accepted commonality (Tay 2001). Diversity in culture, religion, language, politics, and levels of development among the Asian economies present an enormous obstacle to the development of a

regional identity for Asia. The wide economic gap between developed and developed countries in its industrial structure and resource endowment structure conditions among others is very evident.

#### Trade Priorities outside the Region

The trading interests of Asian economies have been traditionally outside of the region which is basically North America and Europe. These two regions serve as the primary export markets and sources of foreign direct investment for the majority of Asian economies. The US economy in particular, is the single country that has dominated much of the trade among the sub-regions in Asia. It is also a major investor for most of the economies in the region. This trade priority among Asian economies outside the region has become a limiting factor towards advancement of trade collaboration among themselves.

#### Lack of Economic Leadership

This has always been a question, for the region lacks a clear leadership that is acceptable by all economies in the region. No leadership exists in the region of the kind that the US played in NAFTA or Germany in EU (Austria 2002). For now, the two Asian economic giants, China and Japan, are showing rivalry and competition in assuming that role. These countries continue to view each other as economic or political rival more than potential partners. Japan has always been the economic power influencing the economic development of Asia. However, it has recently been anxious over the economic ascendancy of China and its increasing dominance with trade in the region. China, on the other hand, given its phenomenal growth, hopes to replace Japan as the primary driving force for economic growth in the region. The China-Japan relation is always troubled by suspicions and differences. Add to this is India's increasing economic role in the region which may also spark perception of leadership threats in Asia. Unless these economies accept and support each other's roles in the region, an Asian regional economic cooperation cannot move forward.

#### Propositions towards a Better Economic Cooperation in Asia

Some of these recommendations are already being proposed by the countries of the different sub-regions in Asia. Mention of these proposals again only proves to show that these are indeed crucial to Asia's economic cooperation and regional development. As stated earlier, there are many economic factors and suggestions that must be considered but this paper shall only dwell on economic aspects that are deemed necessary for the medium and long-term developments towards a more comprehensive economic cooperation in the region.

#### Wider Regional Trading Arrangements

Regional Trading Arrangements (RTAs) can take various forms, either as preferential trade area, free trade area, customs union, common market or economic market (Low 2000). At the moment, Asia's RTA's are mostly in the form of free trade area either in bilateral or plurilateral arrangements among economies in the different sub-regions in Asia. Unlike the economic market state in Europe, there are so many factors to be considered for the economies of Asia to follow suit. What is important is for Asian countries to strengthen its bilateral and inter-regional trade ties. While most of the economies in the region are already part of the WTO and trade complementarities among each other are further enhanced, it is wise for countries' to focus on the markets of its Asian neighbors first than look beyond its shores.

Currently, ASEAN Free Trade Area is partnering with China and leaders are promoting firm commitments into the development of a South Asian Free Trade Area (SAFTA). With this, it is important that inter-regional trade among the countries in Asia will

be further enhanced, for example between countries in East Asia and South Asia or in the oil-rich countries in the Middle East. Also, a more extensive scope of economic exchange should be encouraged. Aside from tariff elimination and trade on a number of products among the parties, a more complex form of exchange in services, investment, competition policy, etc. must be taken into consideration.

#### Regional Surveillance

The Asian crisis in 1997 suggests the following: first, macroeconomic crisis produce negative spillover effects that tend to affect entire regions; and second most foreign institutional investors tend to indiscriminately lump emerging markets together instead of making country-specific analysis and investments (Buenaventura 2000). This only shows that losses in one market may lead investors to pull out their funds in other regional markets. The financial crisis has spurred interest in policies to promote greater regional economic stability. Particular attention has been paid to, among other things, arrangements to ensure exchange rate stability and improved regional surveillance.

Sussangkarn (2002) also identified two areas by which the current surveillance process should be supplemented to make it more effective in preventing a future crisis. One is cross-regional surveillance where there will be a direct interaction between countries from various regions. Given the different experiences of various regions on financial crisis, the process will lead to a broader perspective on factors that may cause a financial crisis. Two is a surveillance that is carried out by non-government think tanks and institutions independent of government. This can provide perspectives independent of the official government line.

In East Asia, the Chiang Mai Initiatives in 2000 has been considered a major step forward in the efforts to strengthen official financial cooperation in the region. Because of the financial crisis suffered by economies within the area, proposals to provide a short-term financial safety net for countries in distress and regional support mechanism are made. With this, efforts to further develop the Chiang Mai arrangements into a long-term scheme are embodied in the current plan for a Regional Financing Agreement (RFA). The RFA is intended to complement existing international financing facilities by bridging the gap between short-term financial arrangements and medium-term schemes such as those of the IMF. Aside from regional surveillance, the mechanisms and features of the RFA like funding source and conditionalities should be seriously studied and evaluated.

#### Coordination of Monetary and Exchange Rate Policies

Given the high degree of trade and investment flows in the region, there are proposals for an exchange rate arrangement for Asia, including a monetary union for the region. The objective is to promote intra-regional exchange rate stability and regional growth. The volatility of the exchange rates in the region adversely affects the relative competitiveness of the economies and hence, the flow of trade and investment (Lamberte 2005). The reduction of currency risks in intra-regional transactions, through an exchange rate arrangement, could therefore lead to a more efficient integration of the region.

One such exchange rate arrangement proposed is the adoption of a regional currency basket system, with the common currency basket consisting of the US Dollar, Japanese Yen, and the Euro, which is broadly representative of the diversity of trade and investment structure of the economies in the region (Kawai and Takagi 2000). A common basket peg would reduce the possibility that changes in one exchange rate would destabilize effective exchange rates.

#### Proposal to Study the Feasibility of an Asian Common Currency

Aside from the coordination of monetary and exchange rate policies, a more complex financial integration has been suggested by a number of countries in the region. The

continued expansion of regional arrangements in other parts of the world has prompted many Asian leaders to ask why Asia cannot work together toward creating a common currency of its own. With a single currency and its own mechanism for responding to macroeconomic crisis, the Euro is seen as a model for the Asian region's economic future.

The benefits of a single Asian currency are in the form of increased economic integration, higher levels of investment and trade, and lower transaction costs as a result of the elimination of multiple exchange rates and the convergence towards a single price for each good. Lower transaction costs for businesses translate into increased efficiency in regional trade activity (Buenaventura 2000). However, a single Asian currency indicates that a single monetary policy will be implemented by an independent Asian central bank. This means that member countries will have to contend to the loss of each of its monetary autonomy under such an institution. But then, such an institution will also have a large amount of international reserves at its disposal, which will help prevent speculative attacks against this common currency.

All these benefits are still well into the future tense. This is because one of the main requirements for successful monetary union is that member economies should be on broadly similar cycles and have similar structures. The various economies of the Asian region are at very different stages of development and operate under differing political cultures and government regimes. These economic disparities, therefore, may require a lengthy period of time for allowing members to comply with the economic preconditions for a currency union. These preconditions include, among other things, economic convergence criteria, an interim exchange rate arrangement, rules for fiscal policy, a regional competition policy and labor market integration. Therefore, these things will take a long time to put forward. Thus, in view of the extensive preconditions for monetary integration, a currency union for Asia may be more of a long-term priority for Asian leaders (Buenaventura 2000).

#### Regional Approach toward Economic Cooperation in Asia

While recommendations and suggestions towards comprehensive economic collaboration in the region have been enumerated, it is also important to look at approaches and processes to foster this cooperation. How the economies should apply these economic proposals should also be seriously taken into consideration by these governments and its policy-makers.

##### Build a 'Coalition of the Willing'

The process of economic cooperation in the region has always been a consensus-based decision-making process. Over the years, however, this approach is becoming a weakness, limiting the growth of ASEAN and APEC organizations in particular. Especially the so-called "ASEAN Way", the process is slow and time-consuming producing decisions that are neither swift nor drastic which has been very much evident during the crucial period of the financial crisis in East Asia. For APEC, the approach has frustrated the efforts of some of its member economies to speed up the process of trade liberalization as the least willing member can hold the pace of liberalization and integration back.

With more difficult and complex issues facing economic organizations in the region, there are doubts that this method of doing things will still be effective. This becomes much more difficult especially for the ASEAN given its increasing membership. Hence for these organizations to remain relevant and effective, the decision-making rules should be more flexible, adopting a "coalition of the willing" approach for the entire Asian region. A flexible consensus approach could expedite liberalization among the "like minded" economies in the

region that are willing to proceed with liberalization ahead of the others and hence, overcome the “convoy problem” (Austria 2002).

#### Establish Economic Initiatives for Developing Countries in the Region

Most of the countries in Asia are developing economies except for Japan, South Korea, and Singapore. Thus, for economic cooperation to foster throughout Asia, regional government policies should cater to the demands and needs of majority of the countries in the region.

For example, economic cooperation among these developing countries has to be viewed in terms of its potential impact on the process of development, on the diversification of the productive base of each country, and the possibilities that this would open for the efficient use of resources and greater economies of scale. This only goes to show that for the advancement of economic cooperation among developing countries in the region, it should start from a position very different from similar schemes in developed countries. In the latter, cooperation schemes and integration programs followed a natural process of inter-enterprise integration, which in the case of developing countries, has to be sought consciously at the inter-governmental level (Fu and Salih 1987). To specifically understand the nature and characteristics of trade and exchange among developing economies is a constructive step forward towards a better regional approach among the economies in the region.

#### Strengthen Leadership and Political Commitment

Asian leaders have come to realize that the world economy is inter-reliant with one another and for further economic cooperation to prosper in the regions ultimately requires a coordinated effort. In addition to that, whether or not a more economically integrated Asia will become a reality or remain a vision depends crucially on the strength of political commitment of the economies involved. Regional arrangements are economic associations that are politically driven, although this is not often recognized. In the final analysis, what matters most in seeking regional economic cooperation is the political will to do so rather than the economic incentives to do such (Wang 2002). Thus, a more serious and firmer leadership and political commitment towards economic regionalism must be required to push through with these economic recommendations towards the development of cooperation in Asia.

### Summary and Conclusion

The speed at which the renewed interest on regionalism in Asia is developing, clearly demonstrates the seriousness that economies in the region must work more closely together toward strengthening economic cooperation. Market and trade liberalization in the global economy, the aftermath of the Asian financial crisis, China and India’s strategic importance in the Asian economy have all been factors towards the need for economic collaboration in the region.

Hence, the Asian region must have a good architecture for economic cooperation for the interest of the region as a whole. This paper suggests that a wider regional trading arrangement should be prioritized, regional surveillance must be put into place, coordination of monetary and exchange rate policies have to be studied, and a proposal to examine the possibility of a common currency in Asia should be taken into serious consideration towards a more intensive economic cooperation in the region.

However, despite serious aspiration for this economic collaboration in Asia, there are issues and challenges that hamper this regional objective. The countries in the region and its economies are different and its priority partners in trade are mostly outside Asia, particularly North America and Europe. At the same time, there is currently a lack of clear leadership that will pilot these Asian economies especially when these countries see each other as economic rivals rather than partners within the region.

Because of these challenging issues facing the region today, a more strategic approach should be implemented to confront these problems and move forward the proposals for further collaboration in the region. When dealing with the economies in the region, building a “coalition of the willing” method of association must be employed to streamline its policy-initiatives and decision-making processes. Aside from this, most of the economies in Asia are developing economies and economic initiatives for development of these countries should be utilized taking into consideration the distinct characteristics and features of each economy. Yet the most important of all this is the political commitment of leaders in the region that is crucial towards regional economic integration. Building long-term institutions and seeing to it that whatever proposals and suggestions towards economic cooperation require firm political commitment and the determination of Asian leaders to make it work.

#### The Future is in Asia

When we consider the future of the world today, our thoughts inevitably turn to Asia. Economic prospects in the region are bright. Virtually every article written in the region included the words “emerging markets” and “tiger nations”. Enthusiasm for Asia is inevitably boundless despite the financial crisis and natural disasters that affected most of the countries in the region.

Asia will become the center of the world’s economic activities in the near future. As a result, Asia as a whole has to be involved to a greater extent in extra-regional economic relations. The slowing down of Western developed economies will make it more important than before for Asian economies to engage in some form of economic cooperation among themselves and to undertake some kind of collective action against the many economic challenges confronting the region (Von Pierrer 2002) . Because of this, Asian economies must make progress towards a more comprehensive economic collaboration.

While economics and politics are separate entities, both are undeniably interrelated. Thereby to push through with these economic proposals, Asian leaders must put into action studies and policies toward economic development and regional cooperation. Venues like the ASEAN, APEC, SAARC and other regional organizations are occasions not only for them to have photo opportunities smiling and shaking hands with each other. It should not only be a glossy diplomatic show of unity and cooperation in Asia. Annual meetings like these should be made as venues for government leaders and policy-makers to enable them to collectively chart the region’s economic strategies for the future.

What should be done to promote regional economic cooperation in Asia? As described earlier in this paper, it is indeed the urgent question that tops the priority list of discussions among the countries in the region during economic summits and meetings year after year. However, no amount of recommendations and economic policies will produce benefits as long as the leaders remain complacent. For the development of their individual economies and for the advancement of economic cooperation in the region, Asian leaders must focus on pragmatism and action rather than abstract theories and thesis.



Asia is indeed walking into the road of future prosperity. For it to be a reality and not just a hopeful vision, an integrated economic cooperation must be put into place. The world's eyes are already looking at Asia, particularly its drive to future economic success. After Europe and the United States, it is now time for the region to take economic center stage. To sum up the future of the region in a single sentence, an American Foreign Minister has this prophetic description of Asia, "the Mediterranean is the ocean of the past, the Atlantic is the ocean of the present, and the Pacific is the ocean of the future."

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