

# Comprehensive Economic Cooperation in Asia

*Would EAS be the Optimal Grouping?*

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India-Japan-China Dialogue on East Asia Summit Process

*ICRIER International Conference*

April 6-7 2010

New Delhi

# Context

- ASEAN as the driving force in Asian economic integration
- Integration of 'Plus' countries in the ASEAN process
- Production chain – moving up in the value chain – integration in the international value chain
- Improved division of labour
- FDI and acquisition of technology
- Global recession and recovery
- Further economic liberalization towards AEC – Key issue

# Economic Interest of ASEAN

- ASEAN economic interest at the core
- Limited gains from shallow integration
- Deep integration- Long term objective
- Other key issues
  - Trade creating effects
  - What happens to other regions?
  - What about the 'rest of the world'?

# Appropriate Grouping for AEC

- Integration in Asia keeping economic interest of ASEAN economies
- ASEAN+3: Chinese proposal
- ASEAN+6: Japanese proposal
- ASEAN+4: Another alternative view
- ASEAN's view on the choice of ideal grouping

# Schemes for Deep Integration

- Vast literature on regional integration: Shallow versus deeper integration
- Many countries acquire competitiveness in several lines of production- becoming production power house
- Free Trade Agreements (FTAs): Declining relevance in a liberalized global trading environment
- Investment Liberalization: Inward and outward flow; recycling of profits
- Several Asian countries strengthened their skilled manpower through massive investment in human development; and management of human resources
- Free movement of skilled labour has immense potential for the development of the region- temporary engagement may prevent permanent migration
- Free movement of skilled labour: Area of interest for developing countries
- Existing literature: Comprehensive analysis using CGE

# Analytical Issues in Asian Integration

- Optimal size of the regional caucus
  - Vibrant economies with strong growth potential and complementarities with the region
- Choice of appropriate level of integration
  - Deeper integration and cost aspect
  - Suitable module of deep integration
- Use of CGE models for impact assessment
  - Monopolistic and dynamic models for calibrations
- Studies
  - Urata and Kiyota (2003)
  - Zhang et al (2006)
  - Plummer and Wignaraja (2006)
  - Kawai and Wignaraja (2007 and 2008)
  - Mohanty and Pohit (2004, 2007 and 2010)
  - Mohanty (2007)

# CGE Model Specification

- Monopolistic competition
  - Assumed monopolistic in Manufacturing Sector
- 26 Sectors/ 15 regions
- Different combinations of
  - Regional formation
  - Levels of regional integration: shallow to deeper integration
  - Liberalization schemes: Tariff, investment and movement of natural persons
- Specification for alternative regions
  - ASEAN+3, ASEAN+4 and ASEAN+6
- Specification for liberalization
  - FTA
  - FTA+ Investment
  - FTA+ Investment + Skilled Labour
- Nine alternative simulations attempted in this paper

# Towards Further Liberalization in Asia

<b>Alternative Scenarios for Liberalization</b>			
<b>Simulations</b>	<b>ASEAN+3</b>	<b>ASEAN+4</b>	<b>ASEAN+6</b>
Free Trade Area (FTA)	I	II	III
FTA+ Investment	IV	V	IV
FTA+ Investment +Services	VII	VIII	IX

# Welfare Effects from Trade Liberalization

- Regional cooperation improves **allocative efficiency** of factor endowments – alteration in real factor prices - reflected in welfare gains
- Trade **creating effects** in all simulations
- Additional **global welfare** could range between US\$ 6.7 billion to US\$ 740.1 billion in a year
- Welfare gain improves with deeper level of liberalization
- With the deepening of regional cooperation, the **regional welfare** gains could range between US\$ 40 billion to US\$ 176.1 billion
- Extra-regional countries make welfare gains in certain cases
- FTA – Welfare enhancing (regional & global)
- Welfare gains – net increase 0.5-3.5% of GNP

## Welfare Effects: ASEAN+3 versus EAS

- ASEAN and 'Plus 3' countries make **limited welfare gain** when regional liberalization takes the shape of ASEAN+3, and their overall regional gain increases when they move from shallow to deeper level of integration.
- **India's inclusion** makes significant difference to the whole region and welfare rises between 30.5% to more than 34% in various schemes.
- The gains could be further high with ASEAN+6
- With ASEAN+3 - additional welfare gain for the region could be US\$ 87.3 billion per annum
- When India joins the group, the likely EV to go up to US\$ 113.6 billion
- The welfare gains under the comprehensive trading arrangement would be US\$ 176.1 billion per annum.

# Welfare Effects of Deeper Integration

## Absolute Change in Welfare Gains

Million US\$

	I	II	III	IV	V	VI	VII	VIII	IX
	FTA			FTA and Investment			FTA, Investment and GATS		
	ASEAN+3	ASEAN+4	ASEAN+6	ASEAN+3	ASEAN+4	ASEAN+6	ASEAN+3	ASEAN+4	ASEAN+6
<b>Indonesia</b>	<b>2091</b>	<b>2434</b>	<b>2670</b>	<b>903</b>	<b>995</b>	<b>2320</b>	<b>13004</b>	<b>15806</b>	<b>22300</b>
<b>Malaysia</b>	<b>1942</b>	<b>2270</b>	<b>2435</b>	<b>1897</b>	<b>2992</b>	<b>3243</b>	<b>1692</b>	<b>1956</b>	<b>2670</b>
<b>Philippines</b>	<b>597</b>	<b>733</b>	<b>809</b>	<b>806</b>	<b>981</b>	<b>1076</b>	<b>1179</b>	<b>1383</b>	<b>2005</b>
<b>Singapore</b>	<b>1060</b>	<b>1281</b>	<b>1300</b>	<b>1180</b>	<b>1457</b>	<b>1483</b>	<b>698</b>	<b>755</b>	<b>1164</b>
<b>Thailand</b>	<b>2554</b>	<b>2981</b>	<b>3272</b>	<b>3202</b>	<b>3806</b>	<b>4236</b>	<b>1958</b>	<b>2520</b>	<b>3765</b>
<b>Japan</b>	<b>22090</b>	<b>24786</b>	<b>27804</b>	<b>56639</b>	<b>66118</b>	<b>40236</b>	<b>40236</b>	<b>61313</b>	<b>91029</b>
<b>Korea, S.</b>	<b>4857</b>	<b>5749</b>	<b>6271</b>	<b>8382</b>	<b>9971</b>	<b>10716</b>	<b>6503</b>	<b>7650</b>	<b>10976</b>
<b>China</b>	<b>7402</b>	<b>9362</b>	<b>10832</b>	<b>380</b>	<b>4683</b>	<b>8571</b>	<b>11561</b>	<b>17193</b>	<b>30128</b>
<b>India</b>	<b>-122</b>	<b>2680</b>	<b>2947</b>	<b>124</b>	<b>5352</b>	<b>5803</b>	<b>3428</b>	<b>5026</b>	<b>6462</b>
<b>Australia</b>	<b>-222</b>	<b>-225</b>	<b>3683</b>	<b>-308</b>	<b>-221</b>	<b>6534</b>	<b>1477</b>	<b>5369</b>	<b>5926</b>
<b>New Zealand</b>	<b>-21</b>	<b>-3</b>	<b>893</b>	<b>5</b>	<b>52</b>	<b>1582</b>	<b>224</b>	<b>655</b>	<b>1667</b>

# Welfare Effects of Deeper Integration

## Absolute Change in Welfare Gains to GDP Per cent

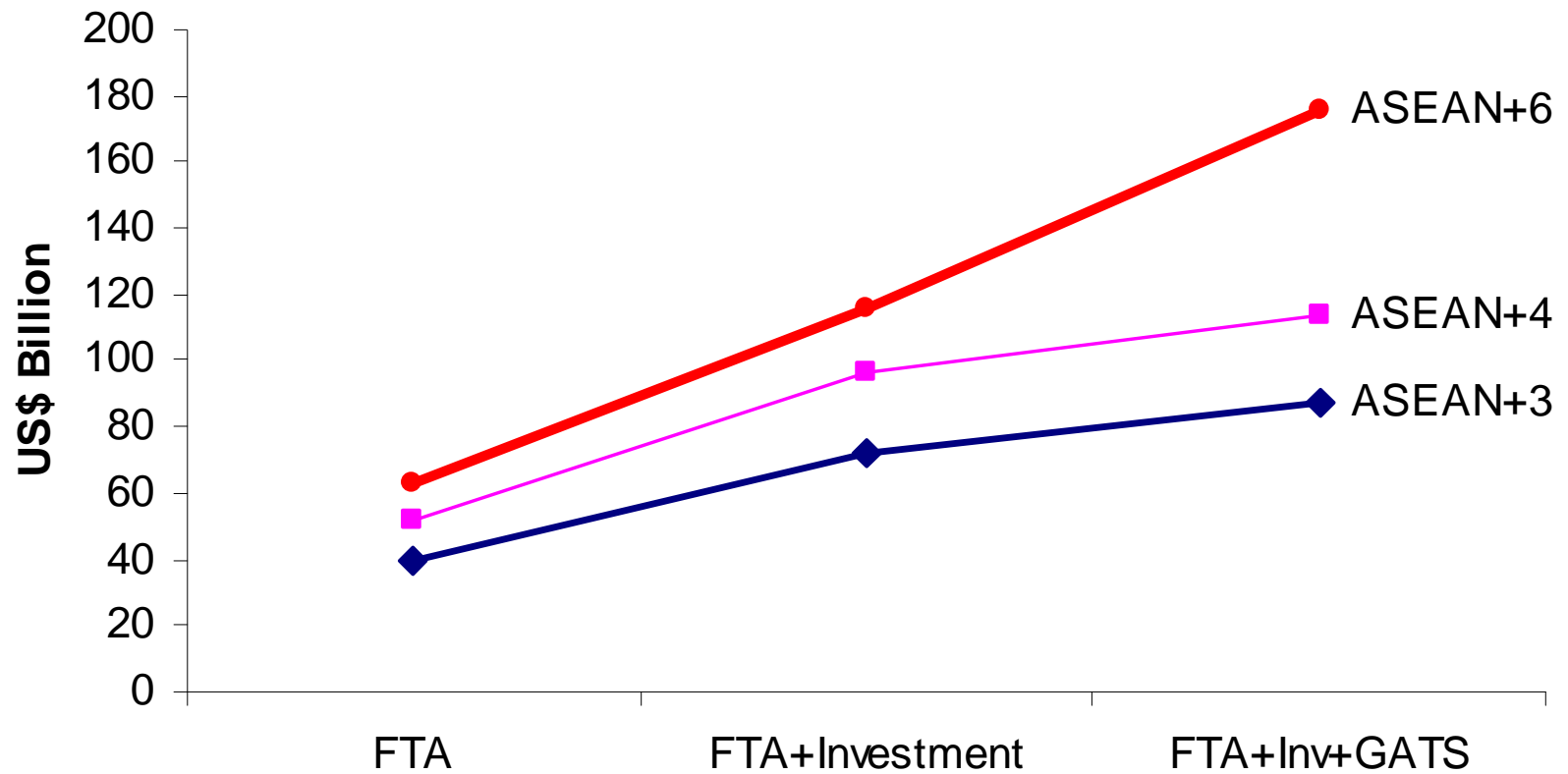
	I	II	III	IV	V	VI	VII	VIII	IX
	FTA			FTA and Investment			FTA, Investment and GATS		
	ASEAN+3	ASEAN+4	ASEAN+6	ASEAN+3	ASEAN+4	ASEAN+6	ASEAN+3	ASEAN+4	ASEAN+6
<b>Indonesia</b>	0.4	0.5	0.6	0.2	0.2	0.5	2.7	3.3	4.7
<b>Malaysia</b>	2.3	2.7	2.9	2.1	3.3	3.6	2.0	2.3	3.1
<b>Philippines</b>	0.8	1.0	1.1	1.1	1.3	1.5	1.7	2	2.8
<b>Singapore</b>	1.3	1.6	1.6	1.4	1.8	1.8	0.9	1.0	1.5
<b>Thailand</b>	2.3	2.6	2.9	2.7	3.2	3.6	1.7	2.2	3.3
<b>Japan</b>	0.5	0.6	0.7	1.3	1.5	1.6	1.5	1.5	2.2
<b>Korea, S.</b>	1.2	1.4	1.5	1.9	2.3	2.5	1.0	1.9	2.7
<b>China</b>	0.6	0.7	0.8	0	0.3	0.6	0.9	1.3	2.3
<b>India</b>	-0.1	1.9	2	0.1	3.5	3.8	2.4	3.5	4.5
<b>Australia</b>	-0.1	-0.1	1	-0.1	-0.1	1.8	0.4	1.5	1.7
<b>New Zealand</b>	0.0	0.0	1.8	0.0	0.1	3.0	0.5	1.3	3.3
<b>NAFTA</b>	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	0.2	0.9	1.3
<b>EEA</b>	-0.1	-0.1	-0.1	-0.2	-0.1	-0.2	0.2	1.0	1.5
<b>Rest of World</b>	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	0.2	0.9	1.4

## Welfare Effects : ASEAN+3 versus EAS

- The level of gain increases as one move towards **deeper level** of integration, though there are some exceptions.
- In ASEAN, countries like **Indonesia and the Philippines**, which are performing well to catch up with other more advanced countries of the region, are likely to gain more from the most comprehensive economic cooperation than others.
- **China's economic** interest in EAS lies in comprehensive economic cooperation with wider group of countries, i.e. with ASEAN+4 or ASEAN+6.
- India may be comfortable with either investment liberalization along with trade or comprehensive economic cooperation.
- NAFTA and EEA are likely to benefit positively with EAS: engaging themselves in deeper level of regional integration

# Deeper Integration in Asia

## Effects of Different Levels of Integration in Asia

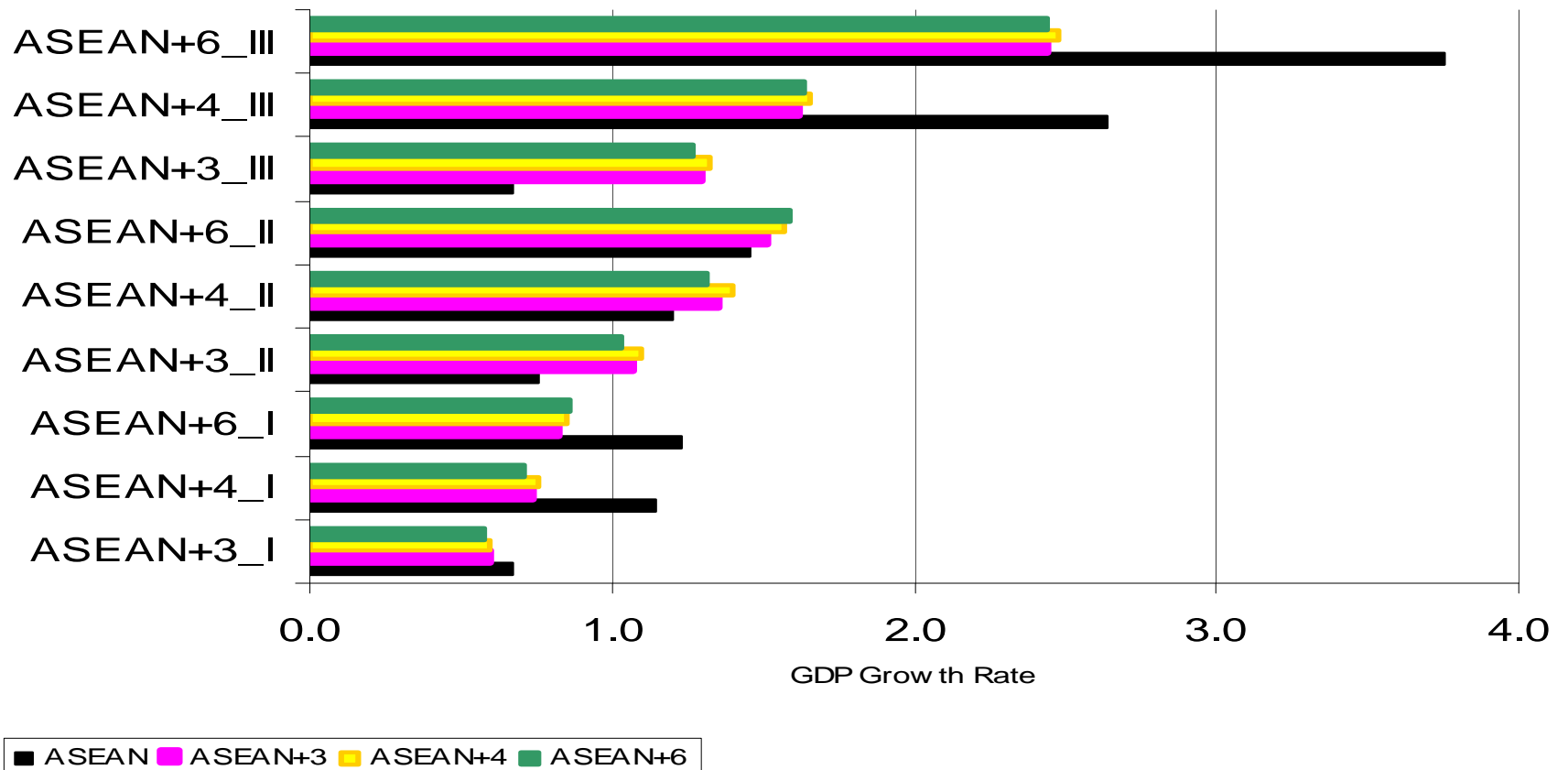


## What is for ASEAN?

- **ASEAN holds the driving seat** in EAS and their economic interest should be accorded priority
- We have **regrouped** welfare gain in each of the nine alternative scenarios separately and in each scenario, we have estimated percentage welfare gains with respect to group's GDP for four groups separately, namely, ASEAN, ASEAN+3, ASEAN+4 and ASEAN+6.
- ASEAN with any group of countries (i.e., ASEAN+4 and ASEAN+6) is likely to gain if they are engaged in deeper level of integration.
- ASEAN group of countries is not likely to gain much irrespective of the level of economic integration with ASEAN+3.
- The prospects of ASEAN getting welfare **gains increases as the size of the group increases**. ASEAN is likely to gain more with ASEAN+6.
- The results of the paper support the Japanese argument that further liberalization in Asia should be **ASEAN+6 to optimize** regional welfare

# Deeper Integration in Asia

## Gains of ASEAN in Different Schemes of RTA



# Key Recommendations

- Evidence to show that these countries have considerable synergies which can be used for mutual advantage.
- The EAS region consists of both capital-surplus and capital deficient segments, and free flow of capital within the region can optimize investment opportunities in the region.
- Further deepening of liberalization in Asia may provide impetus to the regional labour market, and the skilled labour is likely to get advantage over others due to renewed focus on knowledge intensive industries.
- Welfare gains from regional integration may range between US\$ 40 billion to US\$ 176.1 billion per annum, depending upon the coverage of countries and depth of economic liberalization.
- Depending upon the structure of new phase of liberalization, overall global welfare effects including other regions of the world, are likely to be enhanced between US\$ 6.7 billion to US\$ 740.1 billion per annum.
- India's inclusion in the process of liberalization makes significant difference to the whole of the region. The region optimizes its welfare gains with the inclusion of ASEAN+6 in deepening of the liberalization.
- The present study support the Japanese view that further liberalization in Asia should cover ASEAN+6 to optimize regional welfare.

Thank you