

# REGIONAL ECONOMIC INTEGRATION: SHARING ASIAN EXPERIENCES POLICY WORKSHOP

15 – 18 FEBRUARY 2011  
SINGAPORE



**S. RAJARATNAM SCHOOL  
OF INTERNATIONAL STUDIES**  
A Graduate School of Nanyang Technological University



# Regional Economic Integration: Sharing Asian Experiences

## Policy Workshop

A REPORT OF A CONFERENCE ORGANISED BY  
ASIAN DEVELOPMENT BANK INSTITUTE,  
RSIS CENTRE FOR MULTILATERALISM STUDIES  
ASIAN DEVELOPMENT BANK, AND  
THE MINISTRY OF FOREIGN AFFAIRS, SINGAPORE

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## BACKGROUND AND AIMS OF THE POLICY WORKSHOP

The centre of gravity of the global economy is shifting to Asia. The region's economy is already similar in size to that of Europe and North America, and its influence in the world continues to increase. Asian countries are also becoming increasingly connected through trade, financial transactions, direct investment, technology, labour and tourist flows, and other economic relationships. Most of the Asian economies are connected through markets—but where markets lead, governments are following. Asian leaders have also committed to work together more closely and have already taken concrete steps in some areas. Asian regionalism is a relatively new aspect of economic development.

But the emergence of Asian regionalism has been uneven. It has so far focused on East Asia, either through the creation of production networks or the adoption of initiatives for financial cooperation. It is time for South Asian countries and countries from other Asia's sub-regions to also enjoy the benefits of regional cooperation and integration by sharing experiences.

The objective of this Policy Workshop was to provide a platform for officials from South Asia and officials and resource persons from East Asia to share experiences in strengthening regional cooperation and integration. Sharing lessons with East Asian countries will be particularly useful to those countries where economic interdependence and dialogue is weaker. At the same time, South Asian officials also have some important lessons to share with the members of ASEAN +3 and other regional cooperation bodies.

The Policy Workshop had eight sessions: (i) Overview of Regional Cooperation and Integration, (ii) Infrastructure for Connectivity, (iii) Economic Community (iv) Trade and Investment, (v) Financial Cooperation and Integration, (vi) Regional Public Goods, (vii) Regional Institutions, and (viii) Policy Issues: Going Forward.

## OPENING REMARKS



*Dean Barry Desker*

In his welcome remarks, **Barry Desker**, Dean of RSIS and Director of IDSS, highlighted that over the years many conferences and workshops had been organised on the economic rise of China and India. The dynamism of these two giant economies and the growing interrelations between the two, however, had important ramifications for all other countries and sub-regions of Asia. It was with this broader framework in mind that this Regional Policy Workshop was being organised.

Ambassador Desker expressed the view that during the first eighteen centuries of the Christian Era, Asia

had not only dominated the world in terms of GDP shares but was also probably regionally integrated and globally connected.

He argued that we were now witnessing the “re-integration” of Pan-Asia driven by market oriented reforms and the “Look East” policies in South Asia and “Look-West” policies in East Asia.

Ambassador Desker mentioned that the pace of Asia’s “re-emergence” and “re-integration” depended significantly on actions taken by the countries in the region to manage relations with one another. That is why this Policy Workshop, which brought together government officials from various South Asian countries with officials and resource persons from East Asia, was being organised. Sharing experiences would no doubt be useful for both sides.

Hopefully in future Workshops of this type we could include more participants especially from Central Asia and the Pacific Island countries.

In closing, Ambassador Desker thanked the Asian Development Bank Institute (ADBI), Asian Development Bank (ADB) and the Ministry of Foreign Affairs, Singapore for joining RSIS in organising this Policy Workshop.

## OPENING ADDRESS



*Dr. Worapot Manupipatpong*

In his opening address, Dr. Worapot Manupipatpong, Director of the Asian Development Bank Institute (ADBI), highlighted that regional cooperation and integration was one of the key priority themes of the ADBI. ADBI had organised workshops in areas such as water resources management, climate change, development goals, trade and investment, skills development, financial sector and capital market development.

Dr. Worapot stressed that given the trend of closer cooperation and integration in Asia, ADBI sought to facilitate regional cooperation and integration by sharing its own research and studies, which could be useful for all member countries.

Aspiring to build an ASEAN economic community by 2015, ASEAN aims for the creation of a single market and production base characterised by free flow of trade in goods and services, investments, and freer flow of labor and capital. SAARC had also moved forward with schemes like the South Asia Free Trade Agreement, the charter of SAARC Development Fund, the SAARC Food Bank, and the South Asian University.

Dr. Worapot noted that ADB and ADBI had produced studies relevant to regional integration such as "Infrastructure for Seamless Asia", "Emerging Asian Regionalism", "Learning from Tsunami" and "Institutions for Regional Integration". These were ADBI's attempts at sharing views and country experiences on Asian economic integration.



*Mr. Koh Tin Fook*

In his address, Mr. Koh Tin Fook, Director for Technical Cooperation, Ministry of Foreign Affairs, Singapore mentioned that under the Singapore Cooperation Programme (SCP), which was administered by his department, 25 joint programmes had been conducted with the ADB and ADBI in areas as diverse as tourism, road safety, port and airport management, water and solid waste management and technology transfer. Some 600 participants had benefited from these collaborative effort.

Mr. Koh noted that MFA has supported ADB's community of practice on managing development results. Since 2008, a series of MFA and ADB workshops on performance-based budgeting and results-based management had been organised.

Mr. Koh stressed that as a responsible member of the international community, Singapore was committed to share its developmental models, experiences and expertise with developing countries. The SCP, since its inception in 1992, had trained over 75,000 government officials from about 170 countries.

In the aftermath of the global economic crisis, it was clear that major adjustments to the global economic architecture were underway and, therefore, this Workshop was very timely.

In closing, Mr. Koh hoped that the Workshop would provide an opportunity of sharing experiences in regional integration and would allow the participants to take back to their home countries key pointers for developmental and economic success.



## OVERVIEW OF REGIONAL COOPERATION AND INTEGRATION

### THE RENAISSANCE OF PAN-ASIA: RE-EMERGENCE OF A PROSPEROUS AND INTEGRATED ASIA



*Pradumna B. Rana*

Pradumna B. Rana began his presentation by drawing on economic history. He remarked that a prosperous and integrated Pan-Asia had existed during the first 18 centuries after the birth of Christ. In the 19th and the first half of the 20th centuries, Asia was colonised and fragmented, and the West dominated the world in terms of GDP shares. In the post World War-II period we were witnessing a “re-centering” of Asia and the “re-emergence” of a prosperous and integrated Pan-Asia or the Renaissance of Pan-Asia.

Moving on to contemporary trends, Rana highlighted that economic integration had progressed the most in East Asia (defined as ASEAN+3). In addition to integration led by market forces, these countries had taken a number of initiatives to promote regional cooperation.

Rana argued that the global economic crisis and the “new normal” - muted growth in the West and the shift away from G7 to emerging markets mainly China and India - had further enhanced the case for economic integration in Asia by enhancing the need to find regional (domestic) sources of growth.

Rana mentioned that East Asian integration was also starting to broaden and economic linkages between South Asia and East Asia were strengthening very rapidly. China had become the largest trading partner of India and there was significant potential to enhance economic linkages between South Asia and East Asia.

Rana also outlined various policies that could enhance economic linkages between South Asia and East Asia. He emphasised the need for South Asian countries to implement the so-called second generation reforms to enable markets to unleash their full potential. There was also a need to establish an Asia-wide FTA as several studies had shown that a wider FTA in the region would have sizeable economic benefits over those with a narrower focus. Efforts could also be made to link South Asian countries to production networks in East Asia. Finally, Rana suggested that India could be invited to contribute to and join the various efforts to promote economic integration in East Asia. This could also strengthen Asia’s voice in the G20.

### POLITICAL AND SECURITY COOPERATION IN ASIA



*Ralf Emmers*

Ralf Emmers mentioned that security cooperation in the Asia Pacific had been driven by ASEAN. Presently, however, the security agenda in the region was being characterised by a mix of old and new challenges. Was the ASEAN practice based on consensus, informality and minimalism still relevant for meeting the region’s evolving interests?

The role of the ASEAN-led Institutions, such as the ASEAN Regional Forum (ARF) was to work on a three-stage approach; confidence-building, preventive diplomacy and conflict resolution in an attempt to cooperate on security issues and conflict management. The ARF lost momentum towards the second stage of development, which was undermined by disagreements over definition,

and scope of preventive diplomacy. Hence a reasonable way ahead is to deploy the ARF for addressing non-traditional security matters.

ASEAN Plus Three (APT) was ASEAN's attempt to achieve economic security with Northeast Asian states. The full potential of this group has been undermined by complex Sino-Japanese relations. There does not seem to be much prospects for the APT as long as there is no deep reconciliation between Tokyo and Beijing.

The East Asia Summit (EAS) should be regarded neither as a replacement for the APT nor as an alternative security architecture. It was imperative that the EAS moves forward to substantive collaboration on issues that affect the region and to redefine itself in functional and issue-specific terms.

Emmers argued that though ASEAN was still in the 'driver's seat' it could possibly be sidelined by the emerging trilateral grouping (China, Japan, South Korea) and various other initiatives.

Therefore, Emmers stressed that initiatives should be undertaken in complementation with the ARF/APT in an effort to achieve more effective regional security cooperation. The state of security architecture and institutionalism in the Asia-Pacific was largely a reflection of the region itself - one of change and continuity. There was a need for an intergovernmental arrangement to enhance functional cooperation and to further an institutional culture of preventive diplomacy. Functional cooperation could temporarily 'shelve' concerns over national sovereignty and interference in one another's domestic affairs.

## **ASIA'S ECONOMIC INTEGRATION: TRENDS AND PROSPECTS FOR COOPERATION**



*Giovanni Capannelli*

Giovanni Capannelli began his presentation by mentioning that East Asian economic integration was making good progress and that the benefits were outweighing the costs. The drivers of Asian integration were, according to him, increasing economic interdependence, reaction to progress of regionalism elsewhere in the world, and converging Asia's global economic interests and reaction to external shocks.

Capannelli noted that market-led trade integration had made the most progress in East Asia. Financial integration was low, but increasing. Macroeconomic interdependence was also starting to deepen.

Looking forward, there was a need in East Asia to cement recent gains, broaden the process and deepen it. There was also a need to ensure compatibility between regional and global integration.

In the area of production and trade integration, the policy priorities were to support the global trading system, maintain open investment regimes, develop best practices in FTAs, enhance regional connectivity, and improving competitiveness.

Similarly, in the area of financial markets, the priorities were to improve financial market surveillance, harmonisation and strengthening financial markets and infrastructure.

Capannelli added that in the area of macroeconomic cooperation, policy dialogue had to be made more effective, short term financing facility had to be strengthened and monetary policy and exchange rate coordination had to be increased.

Capannelli argued that cooperation in the provision of regional public goods particularly in areas such as environmental concerns, disaster risk management, health issues, energy security, reducing transnational crime; reducing income gap differentials and improving connectivity were also important.

In closing, Capannelli suggested a policy agenda for inclusive and sustainable growth in Asia. These included connecting the poor to the regional economy, developing cost-effective social protection systems, facilitating and managing labour migration, fighting epidemics and natural disasters and limiting environmental degradation.



## SESSION II

# INFRASTRUCTURE FOR CONNECTIVITY

### CONNECTING ASIA: ISSUES AND CHALLENGES



*Biswa N. Bhattacharyay*

Biswa Bhattacharyay outlined three concepts of connectivity: Physical connectivity, soft infrastructure (trade facilitation), and people-to-people and knowledge connectivity. He then highlighted the concept of “Seamless Asia” – a physically, economically, and financially integrated region – and how it could contribute to trade and investment flows, and promote inclusive and sustainable growth in Asia.

Bhattacharyay argued that in Asia infrastructure had not kept up with the region’s high growth and there were large gaps with parts of Asia having world class infrastructure and others facing a serious shortage. Infrastructure gaps were one of the root causes of poverty and low standard of living.

He went on to add that connectivity issues had to be addressed at the national, sub-regional, and the Pan-Asian level. He then went on to highlight actions taken under the Greater Mekong Sub-region Program (GMS), Central Asia Regional Economic Cooperation (CAREC), and the Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BIMSTEC). He then mentioned, that South Asia faced serious infrastructure shortages and constraints which partially explained the low level of intra-regional trade in that region. The South Asia Sub-regional Economic Cooperation (SASEC) program comprising Bangladesh, Bhutan, India, and Nepal was set up in 2001 to address these constraints. Similarly, the BIMSTEC program seeks to connect South Asia with East Asia.

Bhattacharyay also presented some estimates of the financing needs for Asia’s infrastructure.

In concluding, he said that in order to build a seamless Asia, an effective, formal and rules-based institutional framework was needed. South Asian countries could learn from its East and Central Asian counterparts on how to improve connectivity for sustaining growth and development.

### BUILDING ASEAN INFRASTRUCTURE



*Mahani Zainal Abidin*

In her talk, Mahani Abidin said that ASEAN governments have long considered cross-border infrastructure a priority but progress had been challenging. According to her, the demand for, and the difficulties of implementing cross-border regional infrastructure investments necessitated greater innovation in the way the region carries out and finances its ambitious development plans. Furthermore, the relatively low number of projects pointed to the difficulties in their implementation: availability of funds, regulatory compatibility, and implementation capacity, the sharing of costs and benefit, and political willingness. However, much of ASEAN’s infrastructure integration was done through national efforts, interconnecting existing national and regional projects, and the involvement of state-owned companies and private sector.

Abidin mapped out the state of ASEAN infrastructure from 2006 -2009. These included roads, airports, sea ports, telecommunications, power grid, and gas pipelines. She highlighted that the development of growth centres

within ASEAN are in 4 sub-regions, namely: Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA), Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT), Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), and the ASEAN Mekong Basin Development Cooperation.

Abidin called for a more robust regional mechanism in ASEAN. Furthermore, ASEAN has agreed to work closely with the ADB to work out an appropriate structure for the ASEAN Infrastructure Fund that could catalyse the necessary financing, following the Leaders' Declaration on ASEAN Connectivity last year.

## **ASEAN: FROM ASSOCIATION TO COMMUNITY**



*Ambassador Ong Keng Yong*

Ambassador Ong highlighted the progress of ASEAN since its inception in 1967. From the original five founding members: Indonesia, Malaysia, Philippines, Singapore and Thailand; ASEAN today embraces 10 member states, with the addition of Brunei, Viet Nam, Laos, Myanmar and Cambodia. He noted that having an ASEAN that encompassed all Southeast Asian nations not only allowed the region to have a greater voice and weight collectively, it also delivered a greater synergy in economic, political, and socio-cultural development across the region. At the same time, the key challenge that remained was how best and how quickly ASEAN could narrow the development gap among its member states.

Ambassador Ong highlighted that ASEAN was an outward-looking grouping. Partnering with other countries and international organisations had been one of its important strengths. Today, ASEAN enjoyed dialogue partnerships with China, Japan, South Korea, India, Australia, New Zealand, European Union, United States, Canada, Russia, and Pakistan. One sticky issue was the political situation in Myanmar.

In conclusion, Ambassador Ong Keng Yong remarked that ASEAN had come a long way and he saw the ASEAN Charter as the next concrete step to strengthen the institution further. The Charter spells out the vision and commitment of ASEAN to become a people-oriented regional grouping.

## SESSION III

# ECONOMIC COMMUNITY

### ASEAN ECONOMIC COMMUNITY



*Subash Bose Pillai*

Subash Pillai provided the background of the ASEAN Economic Community (AEC), the progress, and an analysis of the difficulties in achieving the AEC by 2015. He argued that the traditional approach of eliminating tariff and non-tariff barriers (NTBs) had been inadequate and thus a comprehensive strategy to upgrade the competitiveness of ASEAN was needed. This had led to the AEC.

The AEC blueprint had provided ASEAN member countries with a strategic plan for the short to medium-term. The ASEAN Trade in Goods Agreement (ATIGA), which entered into force on 17 May 2010, was the most advanced component of the AEC. As of 1 January 2010, ASEAN-6 had eliminated tariffs on 99.65% of trade tariff lines. Cambodia, Myanmar, Laos, Vietnam (CMLV) had reduced tariffs on 98.86% of their traded lines to 0-5%. The ATIGA covered free flow of goods and comprised tariff liberalisation, non-tariff barriers elimination, trade facilitation, customs and standards and conformance, and sanitary and phytosanitary measures. The ATIGA annex provided full tariff reduction schedule for each ASEAN country and spelled out the tariff rates to be applied for each year until 2015.

The AEC also strives to achieve an ASEAN single window to facilitate trade. Ten ASEAN member countries are currently in the process of signing a MoU on a pilot project to study the best design template for the ASEAN single window. Mr Pillai noted, however, that the progress on liberalizing trade in services had been slow. Investment agreement had also been delayed.

In terms of food security, the ASEAN Plus Three Emergency Rice Reserve had replaced the East Asia Emergency Rice Reserve. The ASEAN master plan on connectivity had also been endorsed at the ASEAN Summit of October 2010. The master plan covers physical connectivity, institutional connectivity, and people-to-people connectivity.

### LINKING SOUTH AND EAST ASIA



*Cuong Minh Nguyen*

Cuong Minh Nguyen disputed the statement that South Asia was the least integrated Asian region; he went on to emphasise that establishing closer economic linkages between East Asia and South Asia was an important factor for Asian dynamism. Enhancing trade linkages with East Asia would provide immense opportunities for South Asia. Trade and FDI flows between South Asia and East Asia had been increasing rapidly in recent years.

Cuong listed the existing institutional frameworks and initiatives for linking South Asia and East Asia such as the India-ASEAN FTA and India's FTAs with individual ASEAN countries. The East Asia Summit, Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC); Mekong Ganga Cooperation (MGC), India's Look East Policy and Thailand's Look West Policy were also important.

Cuong mentioned that there were a number of challenges in linking South and East Asia which included underdeveloped cross-border infrastructure, the lack of institutional frameworks, barriers to trade, and social and political uncertainties. Cuong mentioned that improved

regional connectivity was the most crucial factor for the trade linkages between India and East Asia. Development of efficient production networks and supply chain; removal of regulatory constraints, and simplification of trade documents; and East and South Asia FTA's were other critical elements in linking the two regions. NTBs in South Asia were high – about 40-50% of tariff barriers.

Cuong then focused on regional connectivity issues in the North East Region (NER) of India, which was a natural gateway for South Asia to connect to East Asia. Rail and road links were crucial in the NER region. The development of rail and road infrastructure could also bring more development to the surrounding areas. Rail transport was important for the NER as this was the only mode which could possibly compete with the low-cost maritime transport. The biggest challenge was the lack of connectivity between the rail networks. The road infrastructure in the NER was poor and was not suitable for heavy transport. The development of a road land-bridge between the NER and Southeast Asia would require major rehabilitation and construction.

#### **SAARC AS AN INSTITUTION: PAST, PRESENT AND FUTURE**



*Madhukar SJB Rana*

Madhukar Rana argued that there had been a number of geo-political (heightening of the Cold War and the

Soviet occupation of Afghanistan in 1979) and geo-economical (such as protectionism in the industrial world, and global oil crisis) circumstances that had provided a strong rationale for the establishment of SAARC. When the concept paper drafted by Bangladesh was circulated, Bhutan, Nepal, and Sri Lanka had strongly supported the proposal. India saw China's hand and Pakistan saw India's hand and had eyed the proposal with suspicion. India visualised SAARC as having no economic benefit at all and preferred "enlightened bilateralism" over regionalism; fearing that SAARC could provide a forum where smaller neighbors could gang up against India. They reluctantly endorsed a watered down version under which SAARC would focus only on "non-controversial areas" and with a consensus (i.e. veto for all).

Rana went on to add that SAARC had embodied a grand hope that the process would allow India and Pakistan to garner mutual confidence-building measures that could eventually lead to a bilateral détente and rapprochement, thereby, holding prospects for South Asia to play a more pro-active role in global affairs based on its civilisation values and heritage. But despite 25 years of SAARC's existence that hope had not materialised.

Rana noted that 25 years since its establishment SAARC lacked a vision statement. A Group of Eminent Persons had prepared a report some time back, but it continued to gather dust. Even top political leaders did not have a favourable impression of SAARC. According to him, Prime Minister Manmohan Singh compared the 25 years of SAARC to "a half empty journey". President Rajapakse of Sri Lanka opined that the 25 year long journey was like travelling in a slow motion train. He noted that the SAARC process was basically within the corridors of the foreign ministries.

Under the current circumstances, Rana said that SAARC urgently required a strategic action plan with firm time lines and with strong support of the National Planning Commissions. Rana thought that 2005 was a watershed year for SAARC as Afghanistan joined as a new member. Also China, US, Japan, EU and Korea started to attend the summits as Observers.

## SESSION IV

# TRADE AND INVESTMENT

### INTEGRATING REGIONAL PRODUCTION NETWORKS IN ASIA



*Biswanath Bhattacharyay*

Bhattacharyay said that in East Asia the “flying geese” pattern of industrial development had led to the establishment of regional production networks, increasing regional trade, and economic growth.

Bhattacharyay defined production networks as a set of inter-firm relationships that bind together a group of firms into a larger economic unit, based on supply chains that procure parts and components from a large number of firms located in different countries for a final assembly in a separate location as an export base. He argued that the fragmentation of production, scattering of parts of production process across different countries, had been an important contributor to expanding intra-regional trade in East Asia.

Bhattacharyay then focused on the trends of economic linkages between South Asia and East Asia. He said that the level of trade between these two regions had increased seven-fold during the past 25 years or so. He mentioned that China became the top trading partner of India in 2009. FDI flows between the two regions was also starting to increase.

But while India was becoming increasingly reliant on China for import of manufacturing parts and components, India had not yet become part of “Factory Asia”.

Bhattacharyay argued that the benefits of linking South Asia to production networks in East Asia would be very

high. There were a number of lessons that South Asia could learn from ASEAN's experience.

### FREE TRADE AGREEMENT



*Chia Siow Yue*

Chia Siow Yue mentioned that Asian regionalism had seen a surge since the mid-1990s - as of January 2011, there were a total of 168 FTAs in ASEAN region, of which 87 were in effect. There were 79 FTAs in Northeast Asia, of which 35 were in effect. In South Asia, there were 86 FTAs with 30 in effect. Some factors that contributed to the surge of regional and bilateral FTA were disappointment with the slow progress in Doha Round and APEC liberalisation; successful regionalism in North America and Europe and concerns over discriminatory treatment of Asian exporters in those markets; and domino effect – fear of being “left out” as some countries in the region embarked on FTAs.

FTAs sought insurance against Doha failure and for faster and deeper economic integration between selected trading partners. There was a debate on whether FTAs were a stumbling bloc or a stepping stone to the WTO. FTA violates WTO principles of most favoured nation (MFN) and national treatment. At the same time, FTA was also consistent with GATT Article XXIV and GATS Article V. Chia argued that modern-day FTAs covered more than the WTO agenda and the term was a misnomer. Many FTAs in fact include facilitation measures, removal of NTBs on trade in goods; and facilitation of trade in services.

Chia alluded to a recent survey by the ADB which found that although the FTA utilisation rates were low



in some cases, they were definitely higher than what the literature would suggest. The noodle bowl problem was also not as serious as anticipated, although it was an emerging problem.

## AFTA AND SAFTA



*Safdar Sohail*

Safdar Sohail mentioned that ASEAN was a success story comprising production networks, intra-regional trade, and effective governance. In contrast, SAARC lacked a development experience and there was no sense yet of growing together. South Asia had witnessed unresolved and unending conflicts centering on ethnic and communal identity. There was growing inequality and convergence in SAARC. The level of intra-regional trade in ASEAN was 25% while it was 5% in SAARC.

He went to add that like AFTA in ASEAN, SAARC had the SAFTA but the negative and/or sensitive lists of each country was long and so trade liberalisation policies were meaningless.

Sohail went on to add that SAARC could learn a number of lessons from the ASEAN experience. One was the need to have a strong secretariat. The other was going beyond “defensive and offensive interests” and becoming “strategic” instead. The problem of asymmetry also needed to be addressed.



## FINANCIAL COOPERATION AND INTEGRATION

### ASEAN FINANCIAL INTEGRATION



*Worapot Manupipatpong*

Worapot Manupipatpong reviewed the ASEAN financial cooperation and integration during the Pre-Asian Financial Crisis (AFC) and the Post-Asian Financial Crisis period.

During the Pre-AFC period there was the Committee on Finance and Banking (COFAB), initiated within the ASEAN Economic Ministers (AEM) framework, which facilitated intra-ASEAN trade and investment, avoidance of double taxation, and the use of ASEAN currencies for intra-ASEAN trade and investment. He also provided details on the ASEAN Swap Arrangement initiated by 5 ASEAN Central Banks in 1976. It provided short-term (1-6 months) liquidity support for member with temporary international liquidity problem. The initial size was USD 100 million where each member contributed USD 20 million and could request funding support up to twice its contribution. ASA size first expanded in 1987 to USD 200 million. It was activated 4 times - Indonesia (1979), Malaysia (1980), Thailand (1980) and the Philippines (1981).

Manupipatpong also highlighted that the ASEAN Finance Ministers (AFMM) reached an understanding to promote cooperation in finance in 1997.

The post-AFC period was a new era of financial cooperation among ASEAN members. The ASEAN Surveillance Process (ASP), an informal process based on a peer review system that complements IMF surveillance, was established.

At present, the ASEAN Secretariat coordinates ASP and prepares semi-annual ASEAN Surveillance Reports and ADB provides technical support in this regard.

Another achievement in Post-AFC was the Roadmap for Monetary and Financial Integration of ASEAN (RIA-Fin) which was adopted by the ASEAN Leaders at their Summit in October 2003. Supporting the implementation of the ASEAN Economic Community (AEC), the RIA-Fin identifies targets and milestones for financial integration.

Manupipatpong also discussed the progress made in the implementation of the RIA-Fin and the rationale and benefits of ASEAN financial integration.

### ASEAN+3 FINANCIAL COOPERATION: TRENDS AND CHALLENGES



*Giovanni Capannelli*

Giovanni Capannelli underscored the need for financial cooperation in Asia. He argued that financial cooperation should be across sectors, functions, and sub-regions of Asia. He noted that global economic crisis had underscored the need for economic and financial cooperation. He argued that Asian economies had shown resilience to the global crisis as they had learnt lessons from the 1997/98 Asian financial crisis.

But he went on add that Asian countries needed to further deepen their capital markets especially local currency-denominated bond markets), and promote exchange rate and monetary policy coordination.



On the question of ensuring compatibility of regional with global integration, Mr. Capannelli argued that the AMRO needed to be consistent with and complementary to the IMF.

.He briefly covered The Asian Bond Market Initiative (ABMI) initiated in 2002, Asian Bond Funds (ABF) started in 2003, and Credit Guarantee and Investment Facility (CGIF) created in 2010.

He outlined a set of policy priorities for integrating financial markets: (1) improving financial market surveillance also to increase resilience to crises, underscored the need for an Asian Financial Stability Dialogue (2) promoting harmonisation and mutual recognition (3) strengthening financial markets and infrastructure, and (4) liberalising capital accounts and cross-border financial services prudently .

## **COUNTERING THE FINANCING OF TERRORISM – ASEAN/SAARC**



*Arabinda Acharya*

Arabinda Acharya outlined the approaches to counter terrorism: Anti-terrorism, Operational Counter terrorism and Strategic counter terrorism. He emphasised the relevance of strategic counter terrorism.

In discussing the trends in terrorist financing, Acharya mentioned that organisational structures, leadership and financing were becoming autonomous and localised. Terrorists were penetrating into legitimate businesses. Direct solicitations from donors, through charities were continuing to be misused. Crime was becoming a source to raise funds. He further mentioned that cash couriers/informal means to move money were extensively used. Banks were continuing to be misused by the terrorists and their supporters.

Acharya argued that there was a need for cross-border cooperation in countering terrorism because there were significant trans-border externalities in terms of impact and costs of counter terrorism. For example, actions conducted by terrorists in one country impose uncompensated costs or benefits on people or property in another country. He argued that without cooperation among states effectiveness of counter terrorism activities would be limited. Besides, there is a need to harmonise national, regional and international efforts. He highlighted the need for multilateral approach and international cooperation - not as goals in themselves but as absolute prerequisites to success.

Acharya then focused on the ASEAN and SAARC responses against terrorism and terrorist financing from a comparative perspective.

He expressed the view that although ASEAN countries were sensitive about sovereignty and non-interference, they were open to address important problems that needed a collective solution. The ASEAN declarations and statements are followed up by plans of action and review.

He argued that although SAARC was far ahead in terms of signing conventions and treaties, its success was limited due to lack of implementation and enforcement. Acharya mentioned that smaller countries in SAARC were looking towards extra-regional powers as bulwark against India. South Asian countries were seeking membership in extra-regional organizations (ASEAN, ARF, SCO). They were more interested in building relationships with outside countries rather than working with each other within the region.

## SESSION VI

# TRADE AND INVESTMENT

### DISASTER MANAGEMENT IN SOUTHEAST ASIA: TRENDS AND CHALLENGES



*Jackson Ewing*

Jackson Ewing began by discussing disaster response in Southeast Asia, focusing on the Cyclone Nargis. He noted that within a week after the disaster hit Myanmar on 2 May 2008, 24 countries had pledged financial support totaling US\$30 million. The Junta agreed to accept some aid on 6 May, but only under its own supervision and distribution control. As a result supplies piled up in neighbouring countries as NGOs, UN organisations, and others waited for access. He argued that the referendum set for 10 May was a possible cause of the army's patchy and weak response. It was also pointed out that the actions of the State Peace and Development Council (SPDC) could be traced to fears of invasion and external intervention, which made it difficult for the Junta to divorce politics from the humanitarian situation.

The international community had discussed the feasibility of implementing the Responsibility to Protect (RtoP) principle. This was met by a combative response from Myanmar. ASEAN stepped in with Secretary General Dr. Surin Pitsuwan personally heading the ASEAN Humanitarian Task Force for victims of Cyclone Nargis. The Tripartite Core Group (TCG) made up of Myanmar, UN and ASEAN officials emerged as the leading body responsible for ensuring international community input and participation, ensuring confidence and objectivity in report constructions, and drawing lessons for the future. According to Ewing this regional response to Nargis led by ASEAN was a cause for optimism.

Ewing ended his presentation with three broad conclusions. Firstly, disasters bring in many management

questions, which often extend beyond logistics. Secondly, regional bodies play a potentially unique role in disaster management strategies, with existing integration a key factor. Lastly, contemporary trends suggest that disaster management challenges will only grow in relevance. Continuing progress in vulnerability reduction and response capabilities will be of utmost importance.

### COST BENEFIT ANALYSIS FOR DEVELOPING COUNTRIES: WHAT'S DIFFERENT?



*Euston Quah*

Euston Quah asked the question whether we needed a different type of cost benefit analysis (CBA) for developing countries? The answer was, in principle, no. The fundamentals of CBA in both the developed and the developing countries were the same. But appropriate CBA techniques depended on conditions in labour, goods, and financial markets. These conditions differed between the two groups of countries. Also CBA was more important for developing countries than for developed countries for three reasons. First, developing countries need to grow faster if they are to converge with developed countries. Second, much of the world's resources are in developing countries and these need to be conserved. Third, developing countries faced a tighter budget constraint.

Quah concluded that developing countries should use CBA as a decision tool but keep three conditions in mind. First, CBA should only be a guide, and not the sole arbiter of projects. Second, care must also be exercised to choose appropriate valuation techniques. Third, inequity conditions should be considered independently of CBA analysis.

## SESSION VII

# REGIONAL INSTITUTIONS

### GOVERNANCE AND DESIGN



*Tan See Seng*

Tan See Seng noted that institutions could be defined as arrangements and organisations that serve a particular purpose, through which governance are prosecuted. The kind of institutions in Asia Pacific ranged from highly formal to very informal arrangements.

He argued that the institution building process in Asia was mostly ad hoc with overlapping and competing mandates, agendas, and interests.. Tan illustrated the complexity of Asia's institutional architecture which is characterised by concentric circles and variable geometry. Regional architecture of Asia in not institution-light (as there is no shortage of institutions) but institution-lite.

Tan then developed a typology of Asia's institutions. While some of the institutions were overarching organisations, others were either functional or facilitating institutions. Overarching institutions were umbrella arrangements with a comprehensive purview. Not only do they hold regular summits or ministerial meetings, they also provide normative frameworks and governing principles. Institutions that fall under this category were, for example: ASEAN, South Asian Association for Regional Cooperation (SAARC) and Shanghai Cooperation Organisation (SCO). Functional institutions were specialised arrangements that focused on specific areas of cooperation; and in some cases, with a highly technical agenda. For example, South Asian Sub regional Economic Cooperation (SASEC) and ADMM+8. Facilitating institutions were "service providers" that facilitated regional cooperation and integration through capacity-building.

Tan concluded that Asia's institutions had served the region relatively well. But proliferation and rising complexity of emerging transnational challenges required stronger institutions and collective will to enhance Asia's economic and security well-being.

### ASIA'S INSTITUTIONAL ARCHITECTURE

Giovanni Capannelli made a presentation based mainly on a recently completed joint study by the ADB and ADBI on "Institutions for Regional Integration: Towards an Asian Economic Community". The study found that Asia had some 40 institutions to support regionalism. There were also some 98 on-intergovernmental institutions with a similar objective.

The study argued that Asia's institutional landscape was a dense web of regional institutions. The scope and structure of the institutions varied widely and most of them lacked formal rules and legal structures. There was no grand design and the institutions had developed and proliferated on ad hoc basis. The study noted that going forward, Asia needed to develop strong and robust institutions for regional integration (IRIs).

The study had classified existing institutions into 3 categories; overarching, functional or facilitating. Also according to whether they were as trans-regional (extending beyond Asia), pan-Asian (covering all of Asia), intraregional (linking two or more Asian sub-regions) and sub-regional (focusing on specific sub-regions).

Mr. Capannelli also shared the results of a Preception Survey conducted among opinion leaders comprising academia, business, government, media and non-governmental organisations. The opinion leaders felt that the formation of free trade and investment areas and strengthening policy dialogues were a good idea. More than 80% of the participant supported these activities. The creation of a regional security zone was also important as 74% of the opinion leaders supported this objective.

The Survey also found that nearly three-quarters of the opinion leaders felt that it was time to strengthen institutions for regionalism. Among others, they felt that there was a need to establish an Asian Financial Stability Dialogue, an Asia-wide free trade and investment area, a Pan-Asian infrastructure forum, and an Asian monetary fund.

## SESSION VIII

# POLICY ISSUES: GOING FORWARD

### PAN-ASIAN INTEGRATION



*Sanjaya Baru*

Sanjaya Baru began by defining “Asia” in geographical rather than cultural or political terms. Pan-Asian regionalism was essentially a process by which East Asian countries had increasingly drawn others into the growth process of the Asian region.

Baru argued that after the colonial interruption, Asian re-integration began with the Asian Relations Conference. This process was disrupted somewhat by the Cold War and it was only after 1990 that a re-emergence of regionalism was being seen. Baru identified 3 important factors that were driving the re-integration of Asia: the coming of age of ASEAN, the rise of China, and the re-integration of India with its opening up to ASEAN.

From an Indian perspective, Baru outlined 3 important factors that have driven India’s integration with East Asia: the ‘look east’ policy, India’s membership in the East Asian Summit, and its membership of ASEAN Regional Forum and the Defense Ministers Dialogue. There were also a whole range of regional FTAs involving almost every important country in the region either signed or under negotiations. These efforts were fast-tracking India’s integration with East Asia.

He argued that East Asian regionalism had evolved over a period of time into a series of forward and backward steps depending on strategic and security concerns.

The factors driving Pan-Asian integration, would also be similar — a complex mix of both economic, political, and security concerns.

### STRENGTHENING ASIA PACIFIC COOPERATION



*Eduardo Pedrosa*

Eduardo Pedrosa explained that the PECC was a network of individuals from academia, business and governments committed to enhancing Asia Pacific regional cooperation for mutual economic benefit. The PECC has established task forces to address issues that were important to people, governments, regional organisations, and businesses in the Asia-Pacific region. PECC, which was established in 1980 held an observer status in APEC and offered its recommendations to the group.

Pedrosa mentioned that initially there was a lot of resistance from ASEAN members on the founding of APEC. This was overcome in 1990 in Kuching when it was agreed that ASEAN should be accepted as the central body in Asian regional architecture.

Pedrosa noted that intra-regional trade among the APEC economies had increased to 11.2% in 2008, the highest since 2000. Despite enhanced economic integration, economic disparity in the region had been increasing. Intra-regional FDI and tourist inflows among the member economies were 4.9% and 27.3% respectively. Finally, he argued that APEC needed to work more on the social dimensions of development.

# PROGRAMME

**Nanyang Executive Centre (NEC),  
Lecture Room 6  
Nanyang Technological University, Singapore**

**Wednesday, 16 February 2011**

**Tuesday, 15 February 2011**

0830 - 0900	<b>Registration</b>
	<b>Session I - Overview of regional Cooperation and Integration</b>
0900 - 0945	<b>Introduction</b> Barry Desker Worapot Manupipatpong Koh Tin Fook
0945 - 1000	<b>Break</b>
1000 - 1040	<b>Asia's Re-emergence and Re-integration</b> Pradumna Rana
1040 - 1120	<b>Political and Security Cooperation</b> Ralf Emmers
1120 - 1200	<b>Economic Cooperation and Integration</b> Giovanni Capannelli
1200 - 1230	<b>Open Floor Discussion</b>
1230 - 1400	<b>Lunch</b>
	<b>SECTION II – Infrastructure for Connectivity</b>
1400 - 1445	<b>Connecting Asia: Issues and Challenges</b> Biswanath Bhattacharyay
1445 - 1530	<b>Building ASEAN Infrastructure</b> Mahani Zainal Abidin
1530 - 1545	<b>Break</b>
1545 - 1630	<b>ASEAN as an Institution: Past, Present, and Future</b> Ong Keng Yong
1630 - 1730	<b>Country Perspectives and Open Discussion</b> Worapot Manupipatpong

**SECTION III – Economic Community**

0900 - 0945	<b>ASEAN Economic Community</b> Subash Bose Pillai
0945 - 1030	<b>Linking South and East Asia</b> Cuong Minh Nguyen
1030 - 1045	<b>Break</b>
1045 - 1130	<b>SAARC as an Institution: Past, Present, and Future</b> Madhukar Shumshere Rana
1130 - 1230	<b>Country Perspectives and Open Discussion</b> Peter McCawley
1230 - 1400	<b>Lunch</b>
	<b>SESSION IV –Trade and Investment</b>
1400 - 1445	<b>Regional Production Networks</b> Biswanath Bhattacharyay
1445 - 1530	<b>Free Trade Agreements</b> Chia Siow Yue
1530 - 1545	<b>Break</b>
1545 - 1630	<b>AFTA and SAFTA</b> Safdar Sohail
1630 - 1730	<b>Country Perspectives and Open Discussion</b> Giovanni Capannelli

**Thursday, 17 February 2011**

**SECTION V – Economic Community**

0900 - 0945	<b>ASEAN Financial Integration</b> Worapot Manupipatpong
0945 - 1030	<b>ASEAN+3 Financial Cooperation</b> Giovanni Capannelli
1030 - 1045	<b>Break</b>

1045 - 1115	<b>Terrorism Financing in ASEAN and SAARC</b> Arabinda Acharya	0945 - 1030	<b>Asia's Institutional Architecture</b> Giovanni Capannelli
1115 - 1215	<b>Country Perspectives and Open Discussion</b> Biswanath Bhattacharyay	1030 - 1045	<b>Break</b>
1330	<b>Transfer to RSIS</b>  <b>Special Program: Launch of the Book on: Learning from Tsunami – Aid and Reconstruction after a Disaster</b>	1045 - 1130	<b>ASEAN Infrastructure Fund</b> Glenda Reyes
1400 - 1415	<b>Introductory Remarks: The Importance of non-traditional security</b> Tan Seng Chye	1130 - 1230	<b>Country Perspectives and Open Discussion</b> Peter McCawley
1415 - 1500	<b>Learning from Tsunami</b> Peter McCawley	1230 - 1400	<b>Lunch</b>
1500 - 1530	<b>Sri Lanka's Experience</b> Dushni Veerakoon		<b>SESSION VIII – Policy Issues: Going Forward</b>
1530 - 1630	<b>Questions and Answers</b>	1400 - 1445	<b>Pan-Asian Economic Integration</b> Sanjaya Baru
1630 - 1700	<b>Refreshments</b>	1445 - 1530	<b>Strengthening Asia Pacific Cooperation</b> Eduardo Pedrosa
1700 - 1745	<b>Disaster Management</b> Jackson Ewing	1530 - 1545	<b>Break</b>
1745 - 1830	<b>Environmental Protection</b> Euston Quah	1545 - 1630	<b>Group Work – Suggesting Policy Solutions: Group I – Community Building</b> Giovanni Capannelli
1830	<b>Transfer to NTU</b>		<b>Group II – Institutions</b> Tan See Seng
			<b>Group III – Finance</b> Worapot Manupipatpong
			<b>Group IV – Infrastructure</b> Biswanath Bhattacharyay
		1630 - 1730	<b>Group Presentations and Wrap-up</b> Pradumna B. Rana

## Friday, 18 February 2011

### SECTION VII – Regional Institutions

0900 - 0945	<b>Governance and Design</b> Tan See Seng
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## ABOUT THE S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES

The S. Rajaratnam School of International Studies (RSIS) was officially inaugurated on 1 January 2007. Before that, it was known as the Institute of Defence and Strategic Studies (IDSS), which was established ten years earlier on 30 July 1996. Like its predecessor, RSIS was established as an autonomous entity within the Nanyang Technological University (NTU).

The School exists to develop a community of scholars and policy analysts at the forefront of Asia Pacific security studies and international affairs. Its three core functions are research, graduate teaching and networking activities

in the Asia Pacific region. It produces cutting-edge security related research in Asia-Pacific Security, Conflict and Non-Traditional Security, International Political Economy, and Country and Area Studies.

The School's activities are aimed at assisting policymakers to develop comprehensive approaches to strategic thinking on issues related to security and stability in the Asia Pacific and their implications for Singapore.

For more information about RSIS, please visit <http://www.rsis.edu.sg/>.





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