MESSAGE

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To mark the significant milestone of the 20th anniversary of the ASEAN-India Dialogue partnership and the 10th anniversary of ASEAN-India Summit-level partnership, India shall be hosting the ASEAN-India Commemorative Summit in New Delhi on December 20-21, 2012. India's relationship with ASEAN continues to remain the foundation of our Look East Policy. Following the steady growth over the last 20 years, ASEAN-India engagement has expanded across multiple sectors and is mutually beneficial. The partnership also contributes to the growing importance of Asia in global affairs and to peace and shared prosperity in our region.

We are privileged to welcome the ASEAN Delegations for the ASEAN-India Commemorative Summit, which is a culmination of a series of events that ASEAN and India have organized through this year to mark this important milestone.

I take this opportunity to commend the Diplomatist magazine for taking the initiative to launch a special ASEAN India Souvenir issue in the Commemorative Year. I wish them well in this endeavour.

Sanjay Singh
Can EAS be the New Driver of Asian Integration

By SK Mohanty

The continuation of deadlock in the Doha round of trade negotiation has a profound bearing on the renewed interest in regionalism in different parts of the world. Strategic initiatives have been made to foster integration in both developed and developing countries. The process of consolidation of the European Union is still on. After APEC and NAFTA, a new formation is taking place around Trans-Pacific Partnership agreement (TPP), in search of a new comprehensive regional agreement. Developing countries are not behind developed countries in consolidating their regional groupings. In Latin America, Mercosur is engaged in negotiation with Venezuela and other regional countries for an expanded regional grouping. Three regional groupings in Africa, namely COMESA, SACU and EAC have set a timeline to forge a comprehensive regional trade arrangement in the north-south-central region of Africa. This global trend indicates that existing Regional Trade Agreements (RTAs) are tapping all opportunities to consolidate their respective groupings to include vibrant economies of the region to maximise existing synergies of the region. Such efforts in different parts of the world are consolidating to build up integration in different continents. Regional efforts in Asia are, rather, more robust than other continents.

ASEAN has been the most successful RTA in Asia, particularly its integration with the countries of the other East Asian Summit (EAS) members has been robust.
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in the EAS. Trade flows with in the region is strong not because of its close trade ties with the summit level partners but because of its own trade performance. EAS, under the leadership of ASEAN, has been the key driver of Asian integration. In fact, vibrant economies should join to facilitate the process of regional integration in East and South-East Asia to mobilise other countries for Asian integration. What constitute the most vibrant set of EAS countries to lead the integration process in Asia is an issue for debate.

ASEAN Trade Profile

Coming to ASEAN, its trade profile has been impressive along with its overall economic growth performance in Asia. This region’s successful story regarding its external sector is mostly explained by the trade cooperation among its member countries. The ratio of this region’s trade among its member countries (i.e. ASEAN-10) to its overall global trade continued to grow from 22.2 percent in 2001 to 25.9 percent in 2007. The ratio of intra-regional trade remained stagnant during the global crisis, but picked up gently to reach 25.6 percent in 2010. Intra-regional trade profile of ASEAN has been more profound than many leading RTAs in the world such as SAARC (4.6 percent), Mercosur (17.4 percent), ECOWAS (8.9 percent) and COMESA (6.6 percent) in 2010.

ASEAN has not only formed a strong bonding among its “core member” countries, but also with its summit level partner countries. Relevance of ASEAN as a prominent RTA became more apparent with its strong integration with other EAS countries in the region. The IRT (Intra-Regional Trade) of the EAS (ASEAN-6) rose from 40.7 percent in 2007 to 42.2 percent in 2007 and further to 45.0 percent in 2010. During the critical phase of the “global financial crisis”, trade among the EAS countries was not affected. The IRT ratio of the region was growing steadily during the period of global crisis.

China and ASEAN

There are conflicting views regarding the consideration of economies to be taken up in the initial phase of liberalisation within the ASEAN and summit level partners. The decision regarding ASEAN Plus Three (APT) or ASEAN Plus Six (EAS) as the most appropriate grouping to take the lead for fast liberalisation among member countries is not yet resolved.

China is keen to keep the EAS forum limited to APT members. It has been suggested that EAS members be divided into ‘core’ (ASEAN+3) and ‘secondary’ (India, Australia and New Zealand) groups. In the ongoing discussion to launch a broader arrangement for regional economic integration, the Chinese policy has been towards a preference for APT as a credible forum to begin with rather than more inclusive EAS, thus, keeping India out of the emerging regional architecture.

On the contrary, Japan is supportive of the idea of full participation of member countries in the EAS, so that inclusion of India, Australia and New Zealand is secured in the larger forum. This initiative is supported by India and other like-minded members of ASEAN. However, China’s position on ASEAN+3 for EAS is supported by some ASEAN members. In the entire debate, the core issue has been centred on the inclusion of India in the mainstream economic activities of ASEAN.

Restricting the EAS to APT or an expanded forum has been a contentious political issue, which is yet to be resolved. The issue became more complex with the joining of the US and Russia in the EAS caucus. Considering the level of integration of the ASEAN with different sets of EAS countries, it is important to note that ASEAN Plus Six or ASEAN Plus Eight could be better than APT. In 2010, IRT ratio as an indicator of regional integration in trade increased from 39.6 percent for APT to 45 percent for ASEAN Plus Six and further to 50.3 percent for ASEAN Plus Eight. This is indicative of the fact that trade flows have been more comprehensive as we move towards the formation of EAS with a large number of summit level partners and not at APT.

Regional Integration in EAS: The Issues

Besides regional flow of trade within member countries, the vital issue of regional integration in EAS has been welfare gains for individual members as well as for the region as a whole from a comprehensive economic partnership. In this context, three issues are considered important for discussion. What could be the ideal set of countries to be the part of EAS? What should be the sectoral coverage of economic liberalisation to make the EAS effective as a regional trading arrangement?

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How important is India in contributing to the process of EAS?

In a recent study (Mohanty, 2012), the implications of EAS on future economic prospects of the region are examined empirically to understand the credibility of the grouping as a vibrant economic space in the Asia Pacific region. The broad objective of the study is to examine the strength of EAS to become the key driver of Asian integration. From the geopolitical point of view, the EAS could be either ASEAN Plus Three or ASEAN Plus Six, if the US and Russia do not extend their stance as active trading partners of the regional caucus. It has also examined the implications of the regional caucus while pursuing different levels of integration from shallow to more comprehensive one, covering liberalisation in trade, investment and services. As such liberalisation in services is very broad, and therefore “movement of natural persons” according to WTO (1999) is represented as the services sector liberalisation in this analysis.

Following the formation of the EAS, trade liberalisation may result in the reallocation of productive factors across sectors owing to an increase in demand for tradable sectors within the region. On the whole, the implications of such efficiency-seeking restructuring are likely to be reflected in improvement in welfare gains of the region and individual countries. With the formation of an FTA under the EAS, the regional welfare gains could be within the range of $128.8 billion to $502.8 billion, depending upon the composition of membership and depth of economic liberalisation between member countries. The results indicate that the proposed FTA is likely to enhance welfare of both regional and individual member countries. The EAS will be trade-creating in nature where both the EAS and the global economy are likely to benefit. All the major regions of the world will benefit from the trade liberalisation in the EAS when deepening of the region becomes more comprehensive due to their linkages with the regional economies.

As EAS comprises of vibrant economies, welfare gain increases as the grouping is becoming wider. In fact, the welfare gain for the EAS is higher for ASEAN+3, irrespective of the coverage of sectors under liberalisation. Kawai and Wigmanraja (2007) have argued in similar manner. As we move from a shallow to deeper level of integration, the welfare gains are likely to improve significantly. This brings home the point that both the region and individual countries can maximise their welfare gains when the ASEAN Plus Six is considered under the EAS process and three broad sectors outlined above are liberalised simultaneously.

It is interesting to note that India’s inclusion in the regional caucus makes a significant difference to the whole region in terms of enhancing welfare gains for the region and individual member countries. For example, the absolute level of welfare gain rises significantly in various schemes of trade liberalisation when India joins the ASEAN Plus Three alone. The region is likely to benefit more when investments along with skilled labour are allowed to move freely within the EAS region. The magnitude of absolute increase in welfare gains under the comprehensive trading arrangement will be $502.8 billion per annum. As EAS has the strong potential for sustained growth with credible comprehensive liberalisation within the region, it can successfully lead the process to achieve Asian integration.

Sources: Mohanty, S K (2012), India-ASEAN Bilateral Trade Relationship, A Reserve Bank of India study, conducted Research and Information System for Developing Countries, New Delhi; Kawai, Masahiro and Ganesan Wigmanraja (2007), ASEAN+3 or ASEAN+6: Which Way Forward? ADB Institute Discussion Paper No. 77, Tokyo, September; WTO (1999), Legal Text: The Results of the Uruguay Round of Multilateral Trade Negotiations, Cambridge University Press.

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