



II. REGIONAL COOPERATION: CONCEPTUAL FRAMEWORK AND ASIA-PACIFIC EXPERIENCE

INTRODUCTION

Globalization is indisputably a complex process having varied impacts on economies. Recent studies show that more globalized countries achieve higher growth and greater reductions in poverty than those outside the process.¹ Indeed, without globalization it is difficult to sustain high growth.² Many countries, however, have been unable to take advantage of the opportunities offered by globalization, and in the 1990s the wealth gap between countries widened.³ Regional cooperation in areas such as trade, transport and ICT can help to bridge that gap by strengthening the ability of countries to realize the benefits of globalization. Although considered a “second-best” policy,⁴ it offers a middle path between complete self-reliance at the one end and complete openness on the other.

*Regional cooperation
can harness countries’
strengths and help
to overcome the
challenges of
globalization*

Regional economic cooperation in the Asian and Pacific region, however, is a relatively recent phenomenon. Despite the formation of the Non-Aligned Movement and the Group of 77 in the 1960s, Asia-Pacific countries did little to cooperate at the regional level. When regional groups started to form in the 1970s, political factors were the driving force. Economic considerations came into play only later.

Even then, Asia-Pacific cooperation has come mainly from subregional groups like ASEAN, SAARC, ECO and the Pacific Islands Forum. Although trade is their main area of economic cooperation,

¹ In *Globalization, Growth and Poverty: Building an Inclusive World Economy* (New York, Oxford University Press, 2001), the World Bank has shown that more globalized developing countries have achieved higher growth rates as compared with less globalized countries and have better track records in alleviating poverty, in general.

² P. Masson, “Globalization: Facts and Figures”, IMF Policy Discussion Paper PDP/01/4 (2001).

³ United Kingdom, Department for International Development, *White Paper on Eliminating World Poverty: Making Globalisation Work for the Poor* (London, Her Majesty’s Stationery Office, 2000) indicates that the number of people living on less than \$1 a day increased significantly in South Asia, Sub-Saharan Africa and Eastern Europe and Central Asia in the 1990s.

⁴ M.E. Kreinin, M.G. Plummer, *Economic Integration and Development: Has Regionalism Delivered for Developing Countries?* (Massachusetts, Edward Elgar, 2003).

they also work together in areas such as transport, ICT, finance and socio-economic issues (annex I). However, the region's political and economic diversity has resulted in wide variations in the levels of subregional cooperation.

A. RATIONALE FOR REGIONAL COOPERATION

Regional cooperation brings many of the same benefits as multilateralism but on a smaller scale.⁵ First, it enables participating countries to overcome the small size of their domestic markets and achieve economies of scale and greater specialization in production, thus increasing the competitiveness of their products. Secondly, access to a larger market enables developing countries both to expand existing industries and to set up new export industries, diversifying exports and reducing their vulnerability to setbacks in a specific product market. Thirdly, regional cooperation can enhance the capacity of developing countries to meet emerging challenges, including the application of new technologies. Fourthly, it is increasingly clear that regional trade facilitation measures offer significant benefits by reducing the costs of transactions across international borders and removing non-border obstacles.

Slow multilateral processes help to spur regional cooperation, which is more effective in dealing with immediate problems

Cooperation at the regional level offers other advantages. Clearly, multilateral processes are slow and, although they may deliver benefits in the long term, countries still face short- and medium-term challenges. Regional cooperation in trade, transport and other areas can help to cope with these challenges. It focuses on addressing the region's priorities and leaves countries which join the process less scope for backsliding. Changes in the global economy, notably the risk of increased protectionist practices by developed countries and the emerging complementarities among developing countries, also provide a rationale for regional cooperation. Such arrangements can help countries to develop a common understanding on international issues but do not prevent countries from other regions from contributing to this effort.⁶

Peace, stability and mutual trust are preconditions for successful regional cooperation

Despite these advantages, finding equitable ways to share the burdens and benefits of regional cooperation can be difficult. Political tensions or mistrust obstructs cooperation and many countries may be unwilling or unable to meet high coordination costs or to accept asymmetric distribution of costs and benefits. Countries may pull back

⁵ For example, regional cooperation helps a country to overcome the size limitation and exploit economies of scale, but multilateral trade liberalization and active participation in global trade enhances this and there is no limit to realizing economies of scale in that context.

⁶ Recent developments show that countries do not need regional organizations to form common negotiating positions. Neither the Cairns Group nor the G22 had a regional basis. However, many regional groups (like SAARC) discuss WTO matters among themselves for a better understanding of specific issues, which can help in developing a negotiating position before forming a negotiations group.

from their obligations on a particular issue if they are not satisfied that their perceived interests are served. Regional cooperation agreements may also prove difficult to achieve or may fail to deliver the expected results because of weak institutions and a lack of proper enforcement mechanisms to ensure that countries live up to their commitments. Cooperation which leads members of a regional trading bloc to lower tariffs may lead to diversion of trade away from countries outside the bloc, which can limit the benefits of wider trade liberalization. Despite such problems, countries are showing increasing interest in forming regional groups to exploit the opportunities they offer for market expansion, creation of new industries, technology transfer and human resources development.⁷

B. REGIONAL COOPERATION AND INTERLINKAGES AMONG DIFFERENT SECTORS

Regional cooperation will deliver the most benefit if it is geared to promoting long-term growth and development and is not simply a defensive short-term reaction to the state of the world economy. For this reason, subregional or regional integration should not be limited to trade issues.

Although trade liberalization is usually at the core of regional cooperation, agreements increasingly cover other areas such as investment liberalization and finance. A second group of issues includes ICT, e-commerce, transport, energy and other infrastructure services. Academic and cultural exchanges and cooperation in research, science and technology may form another area of cooperation.

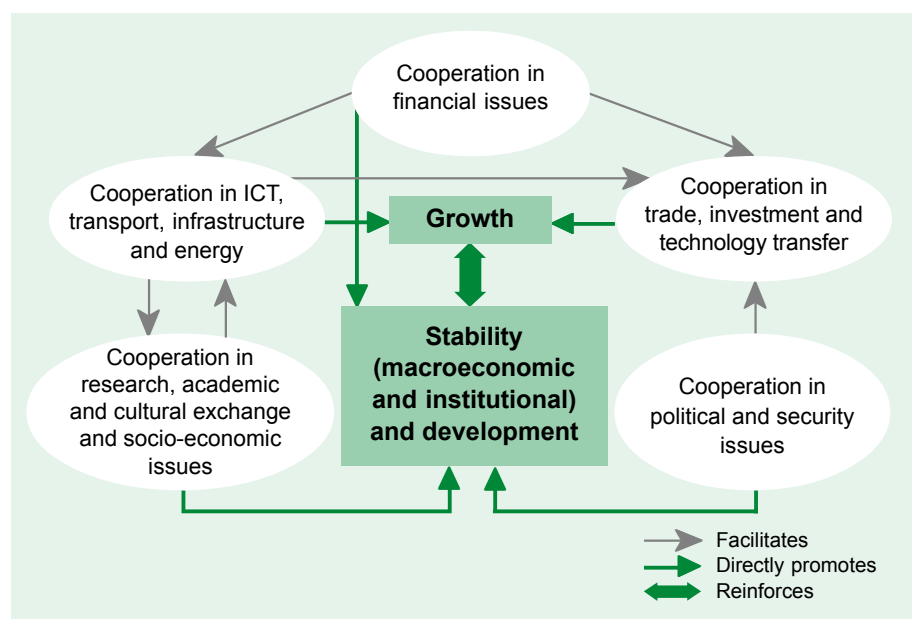
However, cooperation that is “inward-looking” will not be in step with or benefit from globalization. Whatever form of cooperation countries of a particular region adopt should also promote policies that facilitate trade and economic relations with other countries or regional groups.

The previous chapter identified the need to manage globalization in order to achieve stable and sustainable economic growth, reduce poverty and inequality and minimize the risks of volatility in financial markets. There are globally acceptable policy instruments available to deal with these challenges but their impact varies from country to country. Figure II.1 illustrates how different areas of regional cooperation can combine to provide growth and stability and enhance development.

For long-term growth and development, regional cooperation should go beyond trade liberalization to embrace finance, ICT and transport

⁷ M. Schiff and L.A. Winters, “Regional cooperation, and the role of international organizations and regional integration”, World Bank Policy Research Working Paper 2872 (2002).

Figure II.1. Regional cooperation in different sectors and their interlinkages



Cooperation in trade, investment, technology transfer, transport, infrastructure development and ICT directly enhances growth. Financial cooperation also contributes to growth and reduces the impact of volatile financial markets, providing macroeconomic stability. Cooperation in research, training and academic exchange helps regional development of human resources as capacity having a positive impact on the development of infrastructure, ICT and energy. Cooperation on

socio-economic issues, especially in health and education, also facilitates development, while cooperation on political and security issues contributes to institutional stability.

Growth, development and stability are closely linked. Although national policies will ultimately decide how these three important variables are managed, the effectiveness of national policies can be significantly enhanced by regional cooperation.

C. REGIONAL COOPERATION IN A GLOBALIZING WORLD

Despite increasing global integration, regionalism is on the rise

Regional cooperation, as a middle path between complete self-reliance and complete openness, gives countries increased room to manoeuvre in pursuing development. As a result, although intensive trade liberalization is making the world increasingly integrated, regionalism or the establishment of RTAs is also on the rise.

Article XXIV of GATT permits the formation of RTAs (for trade in goods)⁸ whereby parties to the Agreement grant each other preferential tariff treatment on a reciprocal basis subject to certain conditions. By their nature, such arrangements discriminate against non-members and RTAs are therefore exceptions to the most-favoured-nation (MFN) principle of WTO. It is expected that the proliferation of RTAs and the preferential rates they offer will ultimately create downward pressure on MFN tariff rates and thereby help the multilateral process to move forward.

⁸ Article V of GATS also permits RTAs for trade in services.

The first wave of regionalism came in the 1950s and 1960s with the formation of the European Free Trade Area and RTAs in Latin America and Africa. However, except for the European Free Trade Area, such RTAs could not make significant headway, primarily because the United States did not then favour regionalism and instead promoted multilateral free trade through GATT. A second wave of regionalism followed in the late 1980s with the formation of the EU's Single Market, the United States-Canada Free Trade Area and the North American Free Trade Area (NAFTA). In Latin America and Africa attempts were then made to revive old RTAs and form new ones such as the Andean Community and the Mercado Común del Sur (MERCOSUR).

*Regionalism came
in three waves;
Asia-Pacific countries
caught the second*

In the Asia-Pacific region, cooperation started in the late 1960s with formation of ASEAN, but actual economic and trade cooperation started quite late with the ASEAN PTA in 1977. South Asian countries came together in SAARC in 1985. Similarly, Pacific island countries formed regional groups in the early 1970s but trade agreements came only later. Australia and New Zealand also developed a closer economic relationship (CER) between themselves in the early 1980s, the Australia New Zealand Closer Economic Relations Trade Agreement, and mutual trade liberalization is the key element of this cooperation.

However, the first and second waves of regionalism are distinct in character. The first was relatively inward-looking and aimed for only shallow integration, mostly involving tariff reductions. The second wave was outward-looking and sought deeper integration. It also promoted greater and faster liberalization going beyond tariff reductions, and it was non-exclusive, allowing countries simultaneously to be members of more than one RTA. The consensus view is that the second wave also led to faster and deeper liberalization than was possible at the multilateral level and can help in achieving multilateral consensus at WTO.

*RTAs can be the
building blocks of a
rules-based multilateral
trading system and
prepare member countries
to benefit from more
broad-based cooperative
arrangements*

The recent upsurge of agreements, especially BTAs, represents the third wave of regional cooperation. Asia-Pacific countries have signed or prepared several agreements of this kind. But the proliferation of these agreements has caused a debate on whether RTAs and BTAs will prove to be building blocks or stumbling blocks for the rules-based multilateral trading system under WTO.

The membership of many countries in more than one RTA and BTA risks creating inconsistencies in trading rules, leading to implementation problems. The different "rules of origin" among RTAs is a good example. Moreover, developing countries are increasingly concerned that they will face discriminatory deals from any RTA of which they are not members. As a result, there is an urgent need to identify possible areas of cooperation that will avoid the inefficiency arising from uncoordinated approaches to preferential trading systems.

*Harmonizing bilateral,
subregional and
cross-subregional
trade agreements
requires urgent
attention*

D. ASIA-PACIFIC EXPERIENCE OF REGIONAL COOPERATION

1. FEATURES AND DYNAMICS OF ASIA-PACIFIC REGIONAL COOPERATION

Asia-Pacific cooperation is promoted mainly by subregional groups, notably ASEAN, SAARC, ECO and the Pacific Islands Forum, and by cross-subregional groups like Asia Pacific Economic Cooperation (APEC), the Bangkok Agreement countries, Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation (BIMST-EC) and the Shanghai Cooperation Organization. Australia and New Zealand cooperate through their closer economic relationship. In addition, countries of the region also have a number of bilateral cooperation arrangements.

High growth in East and South-East Asia fuelled by the initial Japanese investment and reduction in trade barriers helped these countries to move towards closer economic integration

Japan, the region's most developed economy, has long promoted trade liberalization. Japanese multinational companies regarded East Asian countries as an "offshore export platform" and invested heavily there, moving the labour-intensive part of their operations to NIEs and later to selected ASEAN countries. This fostered the export-oriented development of these economies and substantially increased their productivity. Japanese investment also increased economic integration and linkages between North-East and South-East Asia. The process was enhanced by mutual reduction of tariffs and trade barriers and rapid development of transport and ICT links.⁹

Prolonged and high economic growth in the region also led to other cooperation agreements such as ASEAN+3 and the Japan-Singapore and Singapore-New Zealand economic partnerships. North and East Asia have had less experience in regional cooperation, particularly in the formation of trade blocs.¹⁰ However, the accumulation of wealth, especially in Japan and the Republic of Korea, and China's rise as an economic powerhouse, have added a new dimension to regional cooperation in forming East Asian Economic Cooperation.¹¹ These factors, together with India's accelerating growth, will help to foster a stronger regional identity and provide important drivers of future development.

⁹ The entire phenomenon is popularly known as "flying geese", with Asian NIEs and countries of ASEAN moving together following a liberalization-induced development strategy fuelled by the initial Japanese investment.

¹⁰ This is mainly due to less trade interest in the region as countries of North America and Europe are their major trading partners.

¹¹ E.K.Y. Chen, "East Asian Economic Cooperation: China's viewpoint", *National Policy Foundation web site*, <<http://www.npf.org.tw/Symposium/s90/900921-TE-3-1.htm>>, 11 December 2003.

But the enormous diversity of Asia-Pacific countries in terms of size, resources, economic strength and culture has produced widely divergent national policies, priorities and development strategies. Very few cooperation agreements apply across the whole region and, even among its different subregions, the levels of economic and political cooperation vary widely.

Against this background, ESCAP is uniquely positioned to build trust among countries and promote cooperation. ESCAP has supported economic and social development through regional and subregional cooperation, promotion of trade liberalization and cooperation in areas like transport, sustainable development, ICT and social issues. ADB (box II.1), which was established at the initiative of ESCAP, provides

Box II.1. Resolution on the establishment of the Asian Development Bank

The Economic Commission for Asia and the Far East,

Recalling its resolution 62 (XXI) on the Asian Development Bank, adopted at its twenty-first session in March 1965, which, inter alia, called upon Governments of member countries of ECAFE to give urgent consideration to the establishment of the Asian Development Bank; invited the developed countries outside the region to consider favourably participation in the Bank; and created the Consultative Committee on the Asian Development Bank,

Appreciating the valuable assistance rendered by the Secretary-General and other officials of the United Nations, particularly the United Nations Development Programme, in giving and securing wide support and resources for the establishment of the Bank,

Commending the Executive Secretary for his initiative and for the comprehensive preparatory work undertaken by the ECAFE secretariat in implementing the proposal for the establishment of the Bank,

Expressing its appreciation of the work carried out by the Consultative Committee and the Preparatory Committee on the Asian Development Bank, as well as of the collective efforts of countries in the region and of the cooperation extended by the developed countries outside the region to the project,

Noting with deep satisfaction the resolution on the establishment of the Asian Development Bank unanimously adopted by the Second Ministerial Conference on Asian Economic Cooperation and the Final Act unanimously adopted by the Conference of Plenipotentiaries on the Asian Development Bank in December 1965,

Noting also that the Committee on Preparatory Arrangements for the Establishment of the Asian Development Bank created by the Conference of Plenipotentiaries is undertaking the necessary preparations for the establishment of the Bank in accordance with the programme of preparatory arrangements approved by the Second Ministerial Conference and the Conference of Plenipotentiaries,

Recalling the keen desire of interested countries to augment the resources of the Bank to enable it to achieve its objectives effectively,

Strongly urges the Signatories of the Agreement Establishing the Asian Development Bank to take measures for the early ratification of that Agreement so that the Bank can commence operating at the earliest possible time;

Calls upon the Signatories to extend every possible assistance to the Bank in its operations including contributions to the Bank's Special Funds;

Invites other countries to consider urgently participation in the Bank in the form of subscriptions to its capital stock and/or contributions to its Special Funds;

Requests the Executive Secretary and international organizations to continue to provide the necessary assistance to this project.

346th meeting, 31 March 1966

Source: ESCAP, Commission resolution 65(xxii), *Resolutions of the Economic and Social Commission for Asia and the Pacific 1947-2000: Volume II – Compendium of Resolutions, 1947-1978* (ST/ESCAP/LIB/SER.B/2, vol. II).

finance and technical assistance to individual countries. ESCAP has also promoted several specialized cooperative arrangements, including the Bangkok Agreement (see chapter III), the Asian Clearing Union and the Asian Reinsurance Corporation (see chapter VI). The Asian Highway project is another important ESCAP initiative (see chapter IV). Other ESCAP proposals that will further build regional cooperation include the Asian gas pipeline, broadband development and revival of the Bangkok Agreement as the Asia Pacific Trade Agreement. ESCAP has also promoted South-South cooperation (box II.2) by facilitating technical and economic cooperation among developing countries (TCDC and ECDC), particularly in least developed, landlocked and island developing countries and economies in transition.

Box II.2. South-South cooperation

One of the most important United Nations strategies for strengthening developing countries and their economies is South-South cooperation. Since the 1970s, programmes of action on TCDC and ECDC have been increasingly recognized by the international community for their contribution to achieving the development objectives of developing countries and as a tool for ensuring equal participation of countries in the globalization process.

While ECDC refers mainly to South-South cooperation in trade, investment and finance, TCDC refers to a process whereby two or more developing countries pursue their individual or collective development through exchanges of knowledge, skills, resources and technical know-how. In this process, they share each other's experience and technical expertise, employing their own human and financial resources. When necessary, they may draw on the resources of external agencies, including the United Nations. These arrangements often require the creation of a broad partnership between Governments, international agencies, non-governmental organizations, community-based organizations and the private sector. In 1995, the High-Level Committee on TCDC called for the promotion of high-priority TCDC activities in such areas as trade and investment, debt, environment, poverty alleviation, production and employment, macroeconomic policy coordination and aid management. The new strategy calls for better integration between TCDC and ECDC, introduces the concepts of pivotal countries and of triangular cooperation whereby developed countries or international organizations would be encouraged to become involved in providing financial support.

ESCAP has embraced South-South cooperation implementing numerous TCDC/ECDC-related activities within the framework of its technical cooperation programme. Moreover, ESCAP has actively facilitated the participation of the least developed, landlocked and island developing countries, and economies in transition. Over the years, ESCAP has focused its efforts on strengthening the role of TCDC national focal points in order to enhance their ability to promote and participate in TCDC activities. The use of TCDC continues to be emphasized in the preparation and implementation of ESCAP programmes and projects.

TCDC continues to be highly relevant to the ESCAP region, assisting least developed countries and transitional economies in participating in the formation of the new international structure. South-South cooperation provides a crucial mechanism for addressing pressing issues, such as HIV/AIDS, which require the collaboration of many countries of the South. It offers opportunities to focus on new issues such as ICT, where a number of developing countries are beginning to play a leading role. Its strategy of building broader partnerships will also enable developing countries to sustain economic growth and achieve the Millennium Development Goals.

Sources: ESCAP, *Economic and Social Survey of Asia and the Pacific 2002* (United Nations publication, Sales No. E.02.II.F.25); United Nations, "Technical cooperation among developing countries: report of the High-level Committee on the Review of Technical Cooperation among Developing Countries (TCDC/13/4); and UNDP Special Unit for TCDC web site, <<http://tcdc.undp.org/>>, 2 January 2004.

The main regional vehicle for cooperation is trade agreements (chapter III). All major trading countries belong to one or more regional trading arrangements. Yet the Asia-Pacific region also presents other interesting models of cooperation. Some countries have promoted growth areas, typically through intergovernmental agreements allowing infrastructure development and the creation by the private sector of special zones for production. The Greater Mekong Subregion (box II.3) focuses on freeing up trade between localities of neighbouring countries. This is a public sector-driven initiative focusing mainly on infrastructure, energy and multisectoral transport linkages funded by the international

Growth centres promoted by both the public and private sectors are an important feature of Asia-Pacific regional cooperation

Box II.3. The Greater Mekong Subregion Programme

The Greater Mekong Subregion (GMS) Programme whose origin began in the 1950s, was formally established in 1992 as a subregional initiative designed to promote closer economic ties and enhance economic cooperation among its six members, Cambodia, the Lao People's Democratic Republic, Myanmar, Thailand, Viet Nam and Yunnan Province of China. With financial and technical assistance from ADB and ESCAP, it is aimed at facilitating subregional trade and investment, subregional development and the resolution of transborder issues, such as disease and environmental degradation. These main objectives are meant to improve employment opportunities, generate higher living standards, reduce poverty and modernize the various economic sectors.

Recognizing the important role of the private sector in economic development in GMS, ESCAP has worked closely with ADB, donor agencies and the GMS business sector to enhance private sector development in GMS under three different frameworks: the Forum for the Comprehensive Development of Indo-China, Advisory Assistance to Industry for Export Promotion and the GMS Trade Facilitation Working Group. In 1999, ESCAP formulated a comprehensive approach to business sector development in GMS called the Hi-Fi Plan. The approach has four main strategies:

- H – human resources development at the enterprise level, including a series of targeted management training initiatives;
- i – institutional capacity-building of private sector associations and chambers of commerce and industry, advisory services to exporters and establishment of a GMS Business Support Centre;
- F – facilitation measures, especially in the area of trade and related procedures;
- i – investment promotion through increased interfacing between the foreign and domestic business communities and creation of a stronger enabling environment for investment.

A GMS Business Forum was established in October 2000 to give GMS countries further help in creating an environment conducive to the private sector. The Forum aims to promote business activities and investment by building up the capacity of the local private sector, creating networks between local firms and foreign firms and enhancing the public-private sector interface in GMS, including the major multilateral agencies. It also serves as a mechanism for enlisting private sector support for development and provides a direct and regular channel for the private sector to communicate with the GMS Governments.

Given its wide range of natural resources, large and affordable labour force, and strategic location, GMS has great potential for economic development and prosperity. Under the framework of the GMS Programme, several initiatives have contributed to the development of subregional economic cooperation, which in turn will play a crucial role in stimulating faster growth and global competitiveness. ADB and ESCAP also assist GMS countries in creating a private sector-friendly business environment and fostering cooperation and trust between the public and private sectors. This relationship of mutual cooperation and trust should contribute to peace, stability and prosperity in the subregion. It will also lead to international recognition of the subregion as a growth area.

Sources: ESCAP, *Development through Globalization and Partnership in the Twenty-first Century: An Asia-Pacific Perspective for Integrating Developing Countries and Disadvantaged Economies in Transition into the International Trading System on a Fair and Equitable Basis* (ST/ESCAP/2054) and, *Greater Mekong Subregion Business Handbook* (ST/ESCAP/2183).

community. The pioneering and most successful initiative was the private sector-driven Singapore-Johore-Riau venture bringing together cheaper sources of land, labour and capital. The Special Programme for the Economies of Central Asia, launched by the Economic Commission for Europe in collaboration with ESCAP and other United Nations partners, is yet another initiative of this kind focusing on infrastructure, energy, water resources, trade and investment.

Cooperation in socio-economic issues helps to build trust among countries that may facilitate deeper economic integration

Apart from cooperation in trade and other core economic areas, Asia-Pacific countries also collaborate on socio-economic issues, and many subregions have quite elaborate arrangements covering education, health and sustainable development.¹² Cooperation in socio-economic issues mainly focuses on redistribution of benefits to the masses, especially poor and vulnerable groups. These arrangements help to foster trust and confidence between member countries, a prerequisite for deeper economic integration.

2. STRUCTURE AND OBJECTIVES OF SELECTED SUBREGIONAL GROUPS IN ASIA-PACIFIC

The varied objectives and state of development of some of the important subregional groups in the Asia-Pacific region underline the region's enormous political and economic diversity and the challenge of trying to promote broader regional integration.

(a) Association of Southeast Asian Nations

ASEAN progressed from initial cooperation on political and security issues to increasingly broad-based economic cooperation

ASEAN was established at Bangkok on 8 August 1967 to bind members in friendship and cooperation and take up joint efforts for development and peace. The founding members were Indonesia, Malaysia, the Philippines, Singapore and Thailand. They were joined later by Brunei Darussalam (in 1984), Viet Nam (1995), the Lao People's Democratic Republic and Myanmar (1997) and Cambodia (1999).

ASEAN has contributed significantly to the development of the region following principles of consensus decision-making, non-interference in the domestic affairs of member countries and paying attention to the specific needs of member countries. ASEAN remained primarily a political organization for its first 10 years, focusing on resolving conflicts in the region. After the Bali Summit of 1976, its focus widened to include economic and social cooperation. In 1992, ASEAN heads of State and Government declared that it should intensify its external dialogues in political and security matters as a means of

¹² For example, the Agreement on Establishing the SAARC Food Security Reserve, the SAARC agreements on child welfare and prevention of trafficking, the ASEAN programmes on HIV issues, including "Healthy ASEAN lifestyles 2002" and the Pacific Islands Forum Basic Education Action Plan.

building cooperative ties with States in the Asia-Pacific region. Three years later, ASEAN heads of States and Government reaffirmed that “cooperative peace and shared prosperity shall be the fundamental goals of ASEAN”.

In its early years, economic and social cooperation was not a priority and trade among the member countries was insignificant.¹³ The idea of regional economic “integration” was formally mentioned for the first time in the Hanoi Plan of Action (1998). By then, however, ASEAN had already taken a number of industrial “cooperation” initiatives that enabled member countries to increase capacity and specialize in some products.

In 1992, the Fourth ASEAN Summit in Singapore adopted the Framework Agreement on Enhancing Economic Cooperation, which included launching the ASEAN Free Trade Area (AFTA), aimed at increasing ASEAN’s competitive advantage as a single production unit. In addition to trade and investment liberalization, regional economic cooperation is being pursued through the development of a trans-ASEAN transport network. ASEAN is promoting the interoperability and interconnectivity of national telecommunications equipment and services. Member countries are also building trans-ASEAN energy networks, which consist of the ASEAN power grid and the trans-ASEAN gas pipeline. ASEAN is also cooperating in ICT through the e-ASEAN Initiative (1999), the e-ASEAN Framework Agreement (2000) and the Manila Declaration (2002). Today, ASEAN economic cooperation covers trade, investment, industry, services, finance, agriculture, forestry, energy, transport and communication, intellectual property, small and medium-sized enterprises, and tourism.

(b) Economic Cooperation Organization

ECO is an intergovernmental regional organization established in 1985 by the Islamic Republic of Iran, Pakistan and Turkey to bring about sustainable socio-economic development among the member nations. The concept of ECO evolved from the Regional Cooperation for Development (RCD) initiative, pursued from 1964 to 1979. The Treaty of Izmir, signed in 1977, provided the legal framework for RCD and was later adopted as the basic charter of ECO. It was modified to provide a proper legal basis for ECO’s transition from RCD at the Ministerial Meeting held at Islamabad in June 1990. After the amendment of the Treaty, ECO was fully launched in early 1991. In 1992, the Organization was expanded to include seven new members, namely, Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

ECO concentrates on development of infrastructure and institutions. Priority areas are trade, transport, energy, agriculture and drug control

¹³ The intraregional trade share was around 12 to 15 per cent of total trade in the early 1970s.

Within the few years since its inception, ECO has developed into a thriving regional organization but it faces major challenges with respect to realization of its objectives. The region lacks adequate infrastructure and institutions. The Organization seeks development, on a priority basis, to make full use of the resources available in the region. Member countries have been collaborating to accelerate the pace of regional development and have embarked on several projects in priority sectors, including energy, trade, transport, agriculture and drug control. The ECO Trade Agreement (ECOTA 2003), ECO Transit Trade Agreement (1995), ECO Transit Transport Agreement (1998) and Programme of Action for the ECO Decade of Transport and Communications (1998-2007) are some important examples of cooperation initiatives in ECO. However, the ratification process for some ECO agreements is relatively slow.¹⁴

(c) Pacific Islands Forum

The Pacific Islands Forum represents heads of Government of all the independent and self-governing Pacific island countries, Australia and New Zealand. Since 1971 it has provided member nations with the opportunity to express their joint political views and to cooperate on issues of political and economic concern. The Forum's 16 members are: Australia, Cook Islands, Fiji, Kiribati, the Federated States of Micronesia, the Marshall Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. The Pacific Islands Forum Secretariat was established as a "Trade Bureau" in 1972 and later became the South Pacific Bureau for Economic Cooperation. In 2000 it changed again to become the Pacific Islands Forum Secretariat.

Apart from trade, the Pacific Islands Forum has fostered cooperation in education, gender, ICT, aviation, sustainable development and energy

It focuses on economic policy, trade and investment, corporate sector development and services related to those matters and to political and international legal affairs. Apart from trade, the Forum has detailed cooperation activities in education, gender, ICT, aviation, sustainable development and energy. The major trade agreements in the region are the Pacific Island Countries Trade Agreement (PICTA, 2001) and South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA, 1980). Important initiatives in transport and ICT are the Pacific Aviation Action Plans (1998 and 2003), the Pacific Islands Regional ICT Policy and Plan (PIIPP 2002) and the Forum Communication Action Plan (2002).

(d) South Asian Association for Regional Cooperation

SAARC comprises the seven countries of South Asia, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. It was established on 8 December 1985, when the heads of State of those countries adopted its Charter at Dhaka. The idea of regional cooperation in South

¹⁴ ECO, *Annual Economic Report 2000* (Tehran, 2001).

Asia was first floated around November 1980 with a view to holding periodic, regional-level consultations among countries in South Asia on matters of mutual interest and possible cooperation in economic, social, cultural and other fields. After consultations by the foreign secretaries in Colombo (April 1981), the foreign ministers of South Asia met at New Delhi in August 1983 and adopted the Declaration on South Asian Regional Cooperation. They also formally launched the Integrated Programme of Action initially covering five agreed areas of cooperation: agriculture, rural development, telecommunications, meteorology, and health and population activities. As a consequence of that, the heads of state held their first summit meeting at Dhaka and established SAARC. The member countries have signed several agreements and conventions. Apart from trade, the main areas of cooperation include child and women development, food security, combating terrorism and drug abuse, infrastructure development, cultural exchange and environmental protection. Some noteworthy SAARC initiatives are the SAARC Preferential Trading Arrangement (SAPTA, 1993), the Agreement on Establishing the SAARC Food Security Reserve (1987), several conventions to combat drugs (1990) and trafficking (2002), promotion of child welfare (2002), the SAARC Audio-visual Exchange Programme (initiated in 1987) and the Plan of Action on Telecommunications (1998). It is important to note that in January 2004, SAARC countries signed the Framework Agreement on the South Asian Free Trade Area (SAFTA).

Apart from trade, SAARC focuses on cooperation on issues ranging from combating terrorism and drug abuse to child and women development, food security and infrastructure development

E. FUTURE OF REGIONAL COOPERATION IN ASIA-PACIFIC

1. INTEGRATING DIVERSE ECONOMIES

The Asia-Pacific region is diverse and some parts, especially North-East and South-East Asia, are better integrated than others. China's fast-growing trading relationship with many Asian countries has given a fillip to integration. This will get an added boost with the possible investment of accumulated wealth of Japan and the Republic of Korea in different countries of the region. India's high growth rate also acts as a major catalyst in the region in providing further impetus, especially in South Asia.

Countries of the region need time to coalesce around a concerted and well-planned integration process

However, countries from other subregions such as those involving ECO and the Pacific islands need special attention to become integrated in the Asian wave of regionalism. Even within ASEAN and SAARC, some countries have fallen behind. The major challenge for the Asia-Pacific region is to enable these countries to become more actively engaged in regional development cooperation. Every subregion offers flexibility to weaker and vulnerable countries in its respective agreements. There are also special initiatives and projects for them. However, there is no region-wide programme to link these efforts with a vision of Asia-Pacific integration.

Developmental aspect and the idea of “going beyond subregions” are important attributes of regional cooperation. The integration process should also be “outward looking”

2. IMPORTANT ISSUES FOR FUTURE COOPERATION

Three considerations should guide future cooperation in the region. First, as the levels of development and of participation in various subregional cooperation activities vary widely in the region, the “developmental aspect” of regional cooperation should have priority. Secondly, the region should pay attention to the idea of “going beyond subregions”.¹⁵ To increase the positive externality of cooperation, all subregional cooperation activities need to be interlinked and ESCAP can play a major role in facilitating this. Thirdly, the integration process should be “outward-looking”, strengthening the multilateral process through cooperation with other countries and regions outside the Asia-Pacific region. The most practical strategy may be to adopt a dual-track approach, which pushes North-East and South-East Asia towards deeper integration while developing an acceptable road map for integration involving the countries of other subregions, taking into account their national priorities.

3. CAN ASIA-PACIFIC GO THE EU WAY?

Countries of the region need time to come together to pursue a concerted and well-planned integration process but the EU experience (box II.4) highlights several issues which are important for Asia-Pacific integration.

First, European integration emerged from a specific political and economic context. It was created with a twofold purpose: to reconstruct the economy after the second World War and to promote peace and prosperity on the continent on the basis of shared democratic and liberal economic values. The existence of this common objective strongly supported by the political commitment and leadership of France and Germany was crucial to successful unification.

Post-war economic conditions were also favourable for European integration, marked by rapid economic growth driven by factor accumulation, strong commercial ties and the relative homogeneity of the founding members of the European Community, most of them small or medium-sized open economies.

The absence of a shared political objective and a clear vision for long-term cooperation will make Asia-Pacific integration more difficult to achieve. In marked contrast to Europe, regionalism in Asia-Pacific

In marked contrast to Europe, regionalism in Asia-Pacific has so far been driven by market considerations

¹⁵ The recent trend shows that in this context countries use a dual approach: interorganizational cooperation (like SAARC-ASEAN and AFTA-CER) and cooperation between one organization and one or more countries (like ASEAN+3 or the Pacific Islands Forum and New Zealand). These efforts will strengthen collaboration within Asia-Pacific by fostering partnerships among relevant international organizations and institutions working within and outside the region. Moreover, in the absence of active region-wide cooperation, especially in the area of trade, these attempts definitely provide an opportunity to explore the possibility of further market access.

Box II.4. European integration

The EU is the world's most successful exercise at economic integration. It started as a free trade area and developed into a customs union, then a fully integrated common market and finally a monetary union. What is often referred to as the "European model" of market integration has evolved over many decades, adapting and developing considerably to accommodate changing economic and geopolitical environments. Clearly, the process of European integration is unique and there are many differences between Europe 50 years ago and Asia-Pacific today.

The foundations of European regional economic cooperation were laid in the Schuman Plan of 1951, which addressed the urgent task of economic reconstruction by unifying European coal and steel resources under a single authority. The establishment of the European Coal and Steel Community (ECSC) in 1952 integrated two sectors of central importance for both economic and defence reasons. Encouraged by the early success of ECSC, integration efforts continued, not always successfully^a throughout the 1950s, and culminated in the establishment of the European Community in 1957. Its main objective was to promote the growth and convergence of national economies through the creation of a common market, the gradual alignment of economic policies and, more specifically, the creation of a customs union, the adoption of Common Agricultural Policy (CAP) and the institution of a supranational framework to support the integration process.

The customs union was completed by July 1968, mainly owing to the favourable macroeconomic environment of the late 1950s and 1960s. Intraregional trade increased and in turn drove up national growth rates. The creation of the customs union was accompanied by the establishment of key institutions^b and the adoption of the CAP in 1962, which led to the progressive liberalization and rapid expansion of intracommunity trade in agricultural products. However, no substantial progress was recorded in the fields of transport, factor movement and macroeconomic coordination.

The unprecedented rise in oil prices and global inflation which added volatility to international exchange rates, convinced most members that a customs union was not enough to withstand international economic shocks. In order to deepen the integration process, two major initiatives were put forward in the period 1973-1992: the European Monetary System (EMS) and the Single European Market (SEM).

EMS was established in 1979 to encourage monetary stability and counter inflation among member States.^c The scheme was designed to reduce currency fluctuations by creating a stable-but-adjustable exchange rate mechanism that limited the fluctuations of exchange rates to plus or minus 2.25 per cent of an agreed European Currency Unit (ECU) central rate.^d The establishment of a European Monetary Fund to provide determined intervention and loan arrangements supported the exchange rate framework and protected the participating currencies from excessive exchange rates fluctuations.

The SEM initiative was launched to resolve these problems and combat the threat of growing competition in the industrial world in the 1980s. It introduced a shift in economic policies towards supply-side programmes and economic deregulation. The directives, adopted by the 1987 Single European Act, related mainly to:^e

- Formal and non-formal barriers.
 - Physical barriers: simplification of export-import documentation and customs checkpoint procedures;
 - Technical barriers: harmonization of standards and regulations through the principle of "mutual recognition;"^f

^a Attempts at military and political cooperation were pursued in the early 1950s, without success. An agreement establishing the European Defence Community was signed in Paris in 1952, but vetoed by the France's National Assembly.

^b European Commission, European Council, European Court of Justice, European Parliament and Economic and Social Committee.

^c The fight against inflation in which most of the EC countries had been engaged since the mid-1970s resulted in a convergence of economic and monetary policies, which greatly assisted the Franco-German initiative to establish EMS.

^d The ECU was composed of a weighted average of EC member currencies.

^e Ex ante studies (synthesized in the Cecchini Report) suggested that the Single Market would lower prices through increased competition, induce market structure transformations and foster a concentration of resources in more efficient uses. These effects would, in turn, translate into sizeable welfare gains, increase GDP and increase competitiveness vis-à-vis the rest of the world.

^f If a product is legal in one country, it can access all other countries' markets, given no security or safety problems.

(Continued overleaf)

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- Fiscal barriers: homogenization of value added tax and corporate taxation;
- Liberalization of government procurement (greater transparency and opening up of purchases from firms of other member countries).
- Mobility of factors of production: capital markets and financial services, labour.

The essentials of the internal market were accomplished successfully by the target date of January 1993, owing to changes to the Community legislative system which facilitated decision-making procedures through qualified-majority voting.

The next stage in the integration was set out in the Maastricht Treaty (1992), with economic and monetary union (EMU) as its centrepiece. The EMU entered into force in 1992, with the goal of introducing a single currency. The European Central Bank (ECB) was set up in 1998 to manage the monetary policy. The process also established economic discipline requirements (convergence criteria)⁹ that countries would have to fulfil if they wished to be included in the monetary union, and provided for automatic sanctions involving heavy fines as a deterrent to economic indiscipline. Progressive steps were taken to bring about the conduct of a single monetary policy. Under the responsibility of the ECB, Euro was introduced in money markets in 1999 alongside national currencies whose parities were fixed irrevocably against the new currency.

The number of participating Member States increased to 12 (Denmark, Sweden and UK have not adopted Euro) on 1 January 2001, when Greece entered the final stage of EMU. On 1 January 2002, euro-denominated notes and coins are put into circulation.

In Copenhagen on 13 December 2002, the European Council took one of the most momentous steps in the history of European unification. It decided to welcome 10 more countries to join the EU on 1 May 2004. The countries are Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. Accession negotiations were conducted on the basis of political and economic criteria and the criteria to adopt the entire body of the EU Law (*acquis communautaire*).

The expanded membership has brought to the fore the issue of effectively managing the EU infrastructure. In this regard, one of the key attempts is to develop an EU Constitution to simplify the Treaties and to make the EU's decision-making system more transparent and manageable to take account of the expanded membership of 25 countries.

⁹ These criteria were all about economic and financial discipline: curbing inflation, cutting interest rates, reducing budget deficits to a maximum of 3 per cent of GDP, limiting public borrowing to a maximum of 60 per cent of GDP and stabilising the currency's exchange rate.

has so far been driven by market considerations, in other words by external considerations. European integration was the result of a strategic choice shaped by internal dynamics.

More developed countries of Asia-Pacific region should take the lead and push for a process of economic integration based on a common denominator

This does not mean that Asian regionalism should await greater convergence of national economies. Initial conditions, although important, are not decisive factors in economic integration. In the early years of European integration, some countries had lower per capita incomes than others (Ireland, Spain and Portugal), but they all joined the EU. Europe's example suggests that Asia-Pacific's more developed countries should take the lead and push for a process of economic integration based on a common denominator (or accession criteria of minimum standards). Regional development cooperation initiatives could be taken by a core group of leading countries which would act as facilitators

of growth and convergence of national economies by pooling resources and establishing common projects to help less developed and poorer countries to absorb the shocks of trade liberalization. The European Structural Funds provide a good illustration of an initiative that supports the principles of regional solidarity and convergence of national economies.

Second, Europe's successful economic and monetary integration has been achieved because of gradual and pragmatic sequencing that involved modest initial steps within a long-term vision. The process started modestly with trade integration and fixed-but-adjustable exchange rates, while keeping domestic and financial markets under tight control. Once the common market was fully developed and exchange rates stabilized (a process that took nearly 30 years), capital markets were liberalized and macroeconomic cooperation enshrined in the Economic and Monetary Union (EMU). European integration has therefore proceeded in evolutionary steps that involved a strategic and logical sequencing of measures to achieve the long-term objective of EMU.¹⁶

Monetary and financial cooperation in Asia-Pacific regionalism, however, is more a reaction to new economic and financial risks emerging from globalization. It did not emerge through an evolutionary process. However, as trade cooperation is advancing rapidly, the need for better currency management and deeper monetary and financial integration is fast becoming necessary at least for selected East and South-East Asian countries.

Third, one crucial aspect of European integration is that it has created supranational institutions and relied on the political willingness to surrender national sovereignty in a number of policies to these institutions. In the event of conflicts of national interests, long-term cooperative efforts inevitably fail without the presence of a third party. Europe has developed multinational entities in charge of defending economic integration (European Commission, European Central Bank), mechanisms for compensating the losers (Structural Funds, common agricultural policy (CAP)) and a common jurisdiction to solve conflicts between national laws and common rules (European Court of Justice). In Asia-Pacific, by contrast, there are subregional efforts to develop supranational institutions but there is very little region-wide institutionalization.

Unlike Europe, monetary and financial cooperation in Asia-Pacific region, however, is more a reaction to new economic and financial risks emerging from globalization

In Asia-Pacific region, there are subregional efforts to develop supra-national institutions but there is very little region-wide institutionalization

¹⁶ In practice, European integration has proceeded along the lines mapped out immediately after the Second World War by Jean Monnet, with the emphasis on practical measures to create an apparent need for supranational action, to be followed logically by supranational control and finally supranational law or political direction. This process of "functionalism" also contains the idea that once States learn to cooperate in this way the habit will "spill over" into other areas. "Integration theory", Euro Know, A Concise Encyclopedia of the European Union web site, <<http://www.euro-know.org/dictionary/i.html>>, 16 January 2004.

Furthermore, while EU regulations are mostly binding and supported by a system of sanctions, the Asia-Pacific regional frameworks issue non-binding “declarations” and “plans of actions”. Supranational institutions, which are a key force for integration in Europe, do not exist in the Asia-Pacific region.

Moreover, in Europe, from the outset there has been a good internal balance between the leading economies (France, Germany, Italy and the United Kingdom of Great Britain and Northern Ireland since 1973). Notwithstanding the relatively high level of trust that existed among the founding members of the EU and the crucial importance of political will as a driving factor of institution-building, an important element worth highlighting is that the loss of national sovereignty in key areas was accompanied by strong compensation mechanisms to ensure that net gains including provision of public goods from integration accrued for each European member State. In this sense, institutionalization was built on a give-and-take compromise.

Reaching a balance between rich and poor countries is a challenging task in developing an “Asian way of integration”

In Asia-Pacific, already established economic powers (Japan and the Republic of Korea) and a rapidly emerging one (China) dominate the economic scene, and India is taking on a more significant role. These large players can play a crucial part in developing an “Asian way of integration”. However, reaching a balance between rich and poor countries is a challenging task. The need to surrender sovereignty in a number of areas for the common good is still a sensitive and complex issue that first calls for the building of trust among regional players, strong political commitment, and also creativity and flexibility. Asia-Pacific countries need to discuss ways to promote region-wide development cooperation and further economic integration.