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Items 2 and 7 of the provisional agenda**

The importance of regional economic cooperation and integration for an inclusive and sustainable Asia-Pacific century

Policy issues for regional economic cooperation and integration in Asia and the Pacific

Towards a broader integrated market in Asia and the Pacific

Note by the secretariat

Summary

In the theme study prepared for the sixty-eighth session of the Commission, in 2012, *Growing Together: Economic Integration for an Inclusive and Sustainable Asia-Pacific Century*, the secretariat presents a comprehensive view of regional economic integration based on four pillars: (a) an integrated market; (b) seamless connectivity; (c) financial cooperation; and (d) addressing shared vulnerabilities and risks. In the present document, the secretariat articulates the case for regional economic integration in Asia and the Pacific, describes the potential and obstacles for broader regionalism in the region, and discusses three ways in which Asia and the Pacific could move towards the long-term goal of a region-wide integrated market. Among its recommendations, the secretariat emphasizes the need to strengthen subregional groupings for regional cooperation, such as the Association of Southeast Asian Nations, the South Asian Association for Regional Cooperation, the Economic Cooperation Organization, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, and the Pacific Islands Forum, as building blocks for a broader arrangement through exchanges of experiences to identify best practices and to promote mutual learning, and it suggests that ESCAP, in view of its wide membership and expertise, is ideally positioned to provide a platform for such exchanges.

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* The late submission of the present document is due to the need to collect comments from member States on the outcome of a consultative meeting for the Ministerial Conference.

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I. Introduction

1. In December 1963, the First Ministerial Conference on Asian Economic Cooperation, held in Manila under the auspices of the Economic Commission for Asia and the Far East (ECAFE), as ESCAP was then known, endorsed a proposal to establish the Asian Development Bank in order to assist member countries in rebuilding their economies as they emerged from the war and colonialism.

2. Fifty years later, with ESCAP member States seeking ways to sustain their dynamism in the dramatically changed global context of the aftermath of the global financial crisis, the Commission adopted resolution 68/10 on enhancing regional economic integration in Asia and the Pacific, by which it requested the Executive Secretary, among other things, to support the convening of the First Asia-Pacific Ministerial Conference on Regional Economic Integration in 2013. The Conference is mandated to review the proposals made in the theme study^{1, 2} prepared for the sixty-eighth session of the Commission for advancing regional economic cooperation and integration in Asia and the Pacific.

3. The theme study presents a comprehensive view of regional economic integration based on four pillars: (a) an integrated market; (b) seamless connectivity; (c) financial cooperation; and (d) addressing shared vulnerabilities and risks. The secretariat argues that deepening economic integration and cooperation in the region could be mutually beneficial to all countries and instrumental in the achievement of key developmental goals.

¹ *Growing Together: Economic Integration for an Inclusive and Sustainable Asia-Pacific Century* (ST/ESCAP/2629). Available from www.unescap.org/pdd/publications/themestudy2012/themestudy2012-full.pdf.

² See also E/ESCAP/68/22.

4. In the present document, the secretariat first articulates the case for regional economic integration in Asia and the Pacific, describes patterns of regional economic integration that are starting to emerge in the region and provides details of the four key elements of a regional economic integration scheme. Then, it discusses the economic potential of broader regionalism in the region, the region's economic fragmentation and its high costs of trade, and how the region could move towards a broader integrated market. The remaining three pillars of the regional economic integration agenda presented in the theme study — connectivity, financial cooperation and cooperation to address shared vulnerabilities and risks — are discussed in a separate note by the secretariat entitled "Enhancing regional cooperation in connectivity and finance and in addressing shared vulnerabilities and risks in Asia and the Pacific" (E/ESCAP/MCREI/2).

5. During their deliberations, representatives may wish to share their views on ways to move towards a broader integrated market in Asia and the Pacific. They may also wish to guide the secretariat on ways to support Governments in the region for that purpose.

II. The case for regional economic integration

6. The Asian and Pacific region's rapid growth since the 1950s has been supported by a favourable external economic environment and opportunities arising from globalization. However, in a dramatically altered post-global financial crisis scenario, the region's dynamism, which is crucial for the elimination of poverty and hunger and for the realization of an Asia-Pacific century, will critically depend on its ability to harness the potential of regional economic integration.

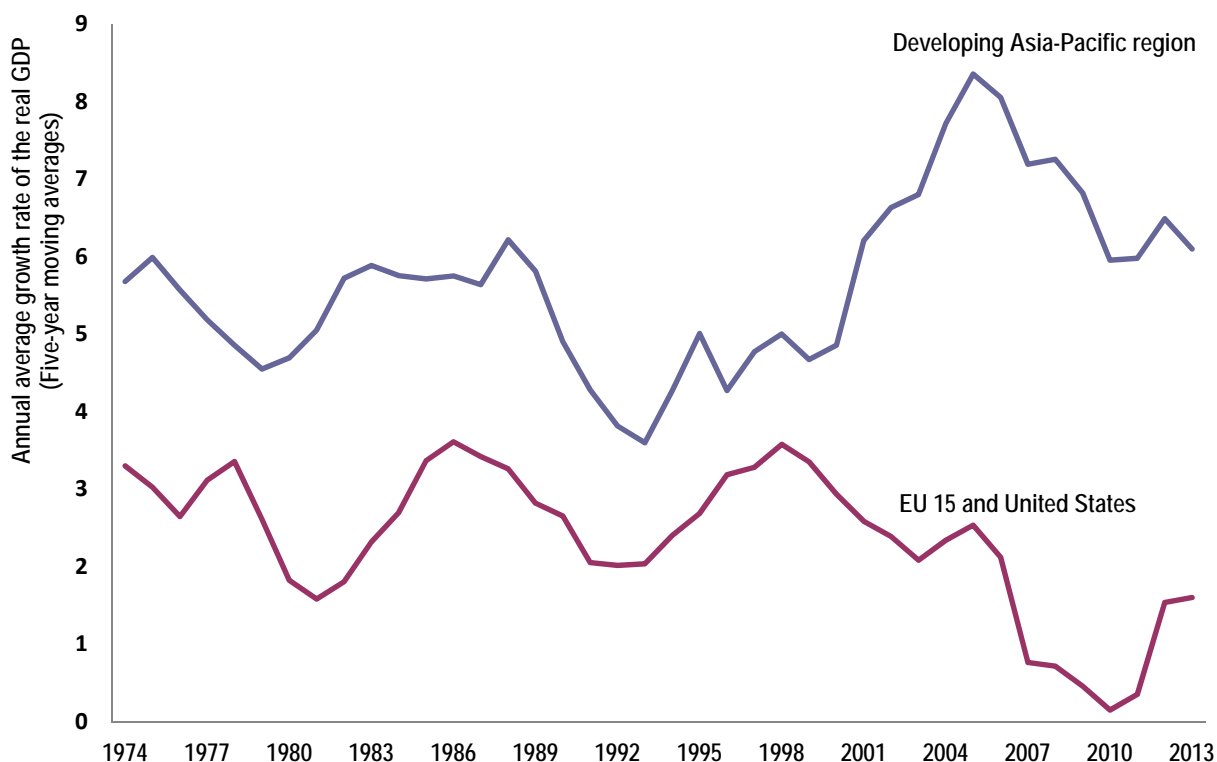
7. In view of the many complementarities arising from its diversity, Asia and the Pacific, a late starter in regionalism, has many underexploited opportunities for mutually beneficial regional integration. Regional economic integration can also assist in making regional development more balanced, with the lagging economies receiving a boost through stronger connectivity and integration with economic growth poles, such as China and India. Apart from fostering peace, such cooperation could also help the region address shared vulnerabilities and risks and exercise its influence in global economic governance in a way that is commensurate with its rising economic weight.

8. Although the economic rise of Asia and the Pacific may seem to be a modern phenomenon, it is in fact a re-emergence. The Asian and Pacific region accounted for 56 per cent of global gross domestic product (GDP) up to 1820, but its share had declined to 16 per cent by 1950.³ Subsequently, it started to regain its position in the world economy, first through rapid growth in Japan, later through the rise of the newly industrializing economies of East and South-East Asia, and, more recently, by the rise of its two most populous countries, China and India. The centre of gravity of global economic activity has been shifting decisively to the East (see figure 1). Due to this dynamism, long-term projections suggest that the region's share in the global economy could exceed 50 per cent by 2050, as it did 200 years ago.⁴

³ Angus Maddison, *Statistics on world population, GDP and per capita GDP, 1-2008 AD*. Available from www.ggdc.net/MADDISON/oriindex.htm.

⁴ Harinder S. Kohli, Ashok Sharma and Anil Sood (eds.), *Asia 2050: Realizing the Asian Century*, Chapter IV, "Asia in the global economy in 2050: the Asian century", (Singapore, Asian Development Bank, 2011). Available at www.oecd.org/site/iops/research/48263622.pdf.

Figure 1
Real rates of growth of GDP, developing Asian and Pacific economies and advanced economies



Source: ESCAP, based on United Nations Statistics Division, National accounts main aggregates database. Available from <http://unstats.un.org/unsd/snaama/Introduction.asp>; and International Monetary Fund, World economic outlook database. Available from www.imf.org/external/pubs/ft/weo/2013/01/weodata/index.aspx (accessed 18 June 2013).

Note: The Asian and Pacific region includes the regional members and associate members of ESCAP. The developing Asian and Pacific region excludes Australia, Japan and New Zealand.

9. Such an optimistic outlook, however, must be viewed with caution because Western markets continue to face an uncertain outlook and are unlikely to remain the region's main engines of growth in the wake of the global financial crisis. Sustaining growth in the region will thus require Asian and Pacific economies to rely more on domestic and regional sources of demand.

10. One of the most promising reservoirs of domestic demand is the region's "bottom billion" people currently living in poverty, but, if they are to join mainstream Asian and Pacific consumers, their purchasing power must be boosted. This requires more rapid progress towards achieving the Millennium Development Goals through broad-based investments in education, health services, social protection and basic infrastructure, so that all segments of the population can have access to highly productive and well-paid jobs. It also requires the existence of productive, income-generating employment and, hence, the development of the business sector, particularly of the small- and medium-sized enterprises (SMEs) that provide the bulk of employment in both developed and developing countries.

11. Another important investment opportunity is infrastructure. Across the region, there are some striking contrasts in the availability of critical infrastructure for economic and social development. Closing the infrastructure gaps across the region would require investments of the order of \$8 trillion

over a decade, or about \$800 billion per annum.⁵ If these investments were to be funded, they could provide another substantial source of aggregate demand, while contributing to a more equitable and geographically balanced pattern of regional development.

12. Regional integration can also help Asian and Pacific countries address shared vulnerabilities and risks, many of which are economic. The 1997 Asian financial crisis, for example, started in Thailand and then spread across East Asia, highlighting regional interdependencies and prompting a response in the form of the Chiang Mai Initiative. There are many other shared concerns, however; one is energy security — the provision of energy at affordable prices. This could be fostered through a number of measures, such as linking production and consumption centres through power grids and oil and gas pipelines, joint technology development programmes for non-conventional sources of energy, and the development of a regional energy market. Another vulnerability arises from pressures on natural resources. In response, countries in Asia and the Pacific could pool resources to develop resource-saving and low-carbon technologies. Food security is a further shared concern; regional responses could include (a) pooling resources for joint research to enhance agricultural productivity and establish regional food banks, and (b) adopting social protection measures to improve access to food, and health and sanitation measures to enhance food utilization.

13. Regional economic integration can also promote greater mutual understanding, help in resolving conflicts and usher in peace and stability by deepening mutual interdependencies and opening up more spaces for cross-country dialogue. Finally, regional cooperation and integration would enable Asia and the Pacific to exercise influence in global economic governance commensurate with its growing economic weight. The region would thus be in a stronger position to shape the emerging global economic order in tune with its development requirements.

14. The Asian and Pacific region has a number of advantages that should help it accelerate economic integration. One is a shared history and culture. Economies in the region are also characterized by complementarities arising from their very different levels of development as well as different endowments of natural resources, capital and workforces. Such complementarities are the foundation of the emergence of regional value chains that are strengthening economic linkages among countries of the Asian and Pacific region. The most important factor for the success of regional economic integration, however, is the presence of large and growing markets. The emergence of vast middle classes with growing incomes and purchasing power in the most dynamic Asian and Pacific economies is leading to the creation of the world's largest markets for a growing range of products and services, from mobile telephones to motor cars to jet airplanes. Such increasing demand is leading to rapid growth in intraregional trade in Asia and the Pacific, making regional economic integration not only increasingly viable but also highly desirable.

III. Emerging patterns of regional economic integration

15. Regionalism became a dominant trend in the world economy after the formation of the Single European Market in 1992 and the implementation of the North American Free Trade Agreement (NAFTA) in 1994. Other regions have pursued similar regional trade agreements (RTAs). These include the

⁵ Asian Development Bank and Asian Development Bank Institute, *Infrastructure for a Seamless Asia* (Tokyo, Asian Development Bank Institute, 2009). Available from www.adbi.org/files/2009.08.31.book.infrastructure.seamless.asia.pdf.

Common Market of the South (MERCOSUR), the Caribbean Community (CARICOM) and the Andean Community of Nations in Latin America and the Caribbean, and the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) in sub-Saharan Africa. Currently, some 350 RTAs are in force worldwide.

16. Despite two early initiatives — the Asia-Pacific Trade Agreement (APTA), signed in 1975 as the Bangkok Agreement, and the Asian Clearing Union, set up in 1974 — both under the auspices of ESCAP, the Asian and Pacific region has been a late starter in regional economic integration. However, the rise of regionalism as a dominant trend in the world economy in the 1990s and the Asian crisis of 1997, which highlighted the importance of regional economic interdependence, led to a profound rethinking about regional economic cooperation. Since then, the Chiang Mai Initiative for monetary cooperation and a number of other initiatives towards regional economic integration have been taken.

17. Examples of initiatives to foster regional economic integration in Asia and the Pacific include the ASEAN⁶ Free Trade Area (AFTA), the implementation of which was advanced from 2008 to 2002 and was replaced in 2010 by the ASEAN Trade in Goods Agreement (ATIGA), which is expected to culminate in the establishment of the ASEAN Economic Community by 2015. Similarly, the South Asian Association for Regional Cooperation (SAARC) adopted in 2004 the Agreement on South Asian Free Trade Area (SAFTA),⁷ which is due to be fully implemented by 2016. Other initiatives include the Economic Cooperation Organization Trade Agreement (ECOTA) of 2003, the Pacific Island Countries Trade Agreement (PICTA) of 2001 and the Pacific Agreement on Closer Economic Relations (PACER) of 2001. These subregional groupings are complemented by over 150 bilateral FTAs, many of which are signed with countries outside the region.

18. Another indication of the growing recognition of broader regional economic integration in Asia and the Pacific is the fact that many leaders and statesmen of the region have articulated their visions of a broader Asian and Pacific community (see box).

IV. Key elements of a regional economic integration scheme

19. Regional economic integration will require a long-term vision of building an economic community of Asia and the Pacific supported by the necessary frameworks and institutions. This would involve four key elements:

(a) *An integrated Asian and Pacific market* – This would involve coalescing numerous bilateral and subregional arrangements into a broader regional trading and economic cooperation arrangement open to all Asian and Pacific economies in order to facilitate the exploitation of complementarities that exist between the subregions and hence are not captured by the subregional arrangements. This should be based on the principles of openness, transparency and equity. It should extend to substantially all trade and cover liberalization and facilitation of trade in goods and services and investments. It should provide for flexibilities and special and differential treatment for poorer economies and economic assistance for lagging areas and vulnerable sections of societies. This would represent regionalism with an “Asia-Pacific face”. The creation of a broader market does not mean, however, that subregional groupings will lose their relevance. They should play a key role as building

⁶ The Association of Southeast Asian Nations.

⁷ A/58/716-S/2004/122, annex III.

Box

Statements of Asia-Pacific leaders on broader regionalism

The Prime Minister of India, Mr. Manmohan Singh, said, at the third India-ASEAN Business Summit, in New Delhi on 19 October 2004: “We envision *an Asian Economic Community*...Such a community would release enormous creative energies of our people. One cannot but be captivated by the vision of an integrated market, spanning the distance from the Himalayas to the Pacific Ocean, linked by efficient road, rail, air and shipping services. This community of nations would constitute an ‘arc of advantage’, across which there would be large-scale movement of people, capital, ideas, and creativity...This is an idea whose time is fast approaching, and we must be prepared for it collectively”.^a

The statement by the Chairman of the Fourth East Asia Summit, in Chaam Hua Hin, Thailand, on 25 October 2009 contained the following passage: “We acknowledged the importance of regional discussions to examine ways to advance the stability and prosperity of the Asia-Pacific region. In this connection, we noted with appreciation the following: (a) the Philippines’ proposal to invite the heads of other regional fora and organizations in Asia-Pacific to future EAS meetings to discuss measures that will protect the region from future economic and financial crisis and strengthen Asia economic cooperation, including through the possible establishment of *an economic community of Asia*; (b) Japan’s new proposal to reinvigorate the discussion towards building, in the long run, an East Asian community based on the principle of openness, transparency and inclusiveness and functional cooperation; and (c) Australia’s proposal on *the Asia Pacific community* in which ASEAN will be at its core...”.^b

^a Manmohan Singh, Prime Minister of India, “PM’s address at third India-Asian business summit”, New Delhi, 19 October 2004. Available from <http://pmindia.nic.in/speech-details.php?nodeid=30> (emphasis added).

^b Abhisit Vejjajiva, Prime Minister of Thailand, “Chairman’s statement of the 4th East Asia Summit, Cha-am Hua Hin, Thailand, 25 October 2009”, para. 21. Available from www.mofa.go.jp/region/asia-paci/eas/state0910.pdf (emphasis added).

blocks of a broader regional arrangement while pursuing their own programmes of trade liberalization and facilitation, stronger connectivity, and food and energy security;

(b) *Seamless connectivity* – The full potential of intraregional trade cannot be realized without improved connectivity. For example, better surface (land and sea) transport, and multimodal transport networks connected through dry ports, will help spread the benefits of industrialization to the hinterlands and isolated islands. Connectivity should extend to energy pipelines, power grids and broadband cables. Hard physical connectivity should be complemented with soft connectivity in the form of state-of-the-art trade and transport facilitation practices. These connections will link lagging regions with growth poles and encourage a more balanced pattern of regional development;

(c) *Financial cooperation* – Financial cooperation can promote mutual trade and build resilience to financial crises, while also making better use of regional resources for investment in infrastructure that will strengthen connectivity;

(d) *Addressing shared vulnerabilities and risks* – Mutual cooperation will place countries in a better position to respond to shared vulnerabilities and risks by enhancing energy and food security, increasing resilience to natural disasters and promoting environment sustainability. Threats to social cohesion arising from persistent poverty and rising inequalities should also be addressed. Regional cooperation options to address these vulnerabilities and risks include jointly developing technology, enhancing people-to-people contacts to promote better understanding, and sharing development experiences and best practices.

V. The economic potential for broader regionalism

20. Asia and the Pacific is the world's most dynamic trading region. Between 2000 and 2010, global trade increased by an annual average of 9 per cent, while trade within the region expanded by 12 per cent.⁸ Intraregional exports have far outpaced those to Europe, North America and the rest of the world, and between 2010 and 2016 they are expected to rise from \$3.1 trillion to as much as \$6.8 trillion.⁹

A. Assessing export opportunities

21. Growing markets provide opportunities for both current and new exporters across the world. In order to assess the prospects and desirability of further trade liberalization within the Asian and Pacific region, an "export opportunities indicator" developed by ESCAP identifies the most promising export markets in the world for each country.¹⁰ The results show that China is among the top 10 export markets in the world for all the countries of Asia and the Pacific. Other top 10 export markets for countries in the region include India (for 44 countries), the Republic of Korea (for 39 countries), the Russian Federation (for 32 countries) and Turkey (for 28 countries).

22. It should be noted that the opportunities within Asia and the Pacific are greater than those in Europe and North America combined (see table 1). This indicator also shows that, with the exception of East and North-East Asia, Asian and Pacific countries have greater export opportunities in subregions other than their own. This observation contrasts with the approach to regional economic integration adopted so far, which remains essentially subregional and fails to recognize the often greater potential of trade expansion across the subregions. Furthermore, intraregional trade has not been able to exploit the benefits of geographical proximity as the costs of intraregional trade are often much higher than those of exporting to the traditional markets in the West.

B. Trade in services

23. Exports of commercial services are becoming increasingly important in Asia and the Pacific. Between 2000 and 2010, the region increased its contribution to world services exports from 22 to 29 per cent. In particular, trade in ICT services has grown massively in Asia and the Pacific, with such countries as India, the Philippines and Singapore deriving critical benefits from exports of such services. In addition, available data suggest that the region is becoming a major market for itself. This is to be expected, partly, as a result of the purchasing power of the region's emerging middle class, which can increasingly afford, for instance, the expense of travelling to other countries for tourism or study. In fact, recent data show that about two thirds of the arrivals

⁸ See *Asia-Pacific Trade and Investment Report 2011: Post-crisis Trade and Investment Opportunities* (United Nations publication, Sales No. E.11.II.F.8). Available from www.unescap.org/tid/publication/aptir2596.pdf; and *Economic and Social Survey of Asia and the Pacific 2011: Sustaining Dynamism and Inclusive Development – Connectivity in the Region and Productive Capacity in Least Developed Countries* (United Nations publication, Sales No. E.11.II.F.2). Available from www.unescap.org/pdd/publications/survey2011/download/.

⁹ *Growing Together: Economic Integration for an Inclusive and Sustainable Asia-Pacific Century* (ST/ESCAP/2629). Available from www.unescap.org/pdd/publications/themestudy2012/themestudy2012-full.pdf.

¹⁰ Ibid.

Table 1
Export opportunities indicator for the average country in Asia-Pacific subregions and selected regions of the world
(Billions of United States dollars)

Indicator of opportunities to export from	To East and North-East Asia	To South-East Asia	To South and South-West Asia	To North and Central Asia	To Pacific	To Asia and the Pacific	To Europe	To North America	To the rest of the world
East and North-East Asia	23.3	3.7	5.3	3.6	0.8	36.8	20.8	3.9	11.8
South-East Asia	19.4	2.3	4.1	1.7	0.6	28.1	16.2	5.4	6.9
South and South-West Asia	9.1	2.1	2.8	1.9	0.5	16.5	12.9	3.6	7.0
North and Central Asia	13.5	3.1	6.1	1.0	0.7	24.4	18.1	7.9	6.8
Pacific	5.2	1.4	2.5	0.7	0.3	10.1	7.3	1.8	3.5
Asia and the Pacific	13.0	2.4	3.9	1.6	0.6	21.4	14.1	4.3	6.7
Europe	13.8	3.8	5.6	4.5	1.0	28.6	29.7	6.1	13.7
North America	32.1	6.6	11.1	4.3	1.5	55.6	40.3	10.9	16.5
Rest of the world	9.5	2.2	3.9	1.3	0.6	17.5	12.1	4.9	5.6

Source: ESCAP, based on data from United Nations Statistics Division, Commodity trade statistics database (COMTRADE).

Note: Each row represents the export opportunity indicator of the average country in each region or subregion vis-à-vis the aggregate of countries in the importing region or subregion.

to the top 10 tourism markets in the region originate from other countries within the region and that a large majority of international students studying in the region's universities also come from the region.

24. In the Pacific, commitments made by Pacific island countries under the PICTA Trade in Services Protocol support deeper integration of regional economies and provide an opportunity for the Pacific private sector to have access to a larger regional market. Under that Protocol, many Pacific island countries have made commitments to open their economies to operators in other Pacific island countries in specific sectors, such as tourism, transport, communication, education, financial and business services.

C. Movement of people

25. Another aspect of growing intraregional connectivity is migration. Migration flows between countries in the region are effective in tackling structural labour market demand-supply imbalances between countries of the region, contributing to economic growth and a reduction in region-wide disparities in the distribution of labour income. International migration also provides a source of income for members of the migrant's household who are left behind, as well as a source of foreign exchange for the sending countries. In fact, the share of remittances to the region that originate within the region

itself is significant: it averaged 34 per cent of total remittances received by countries in the region in 2010.

26. Many of the labour flows within the region are irregular, reflecting the absence of adequate legal frameworks to enable migration through formal channels. The absence of such formal channels leads to increases in the costs of migration, for instance, through more onerous recruitment processes. In order to regularize migration flows and maximize the benefits of labour migration, a number of countries have concluded bilateral agreements covering recruitment, conditions of employment and measures to protect migrants.

27. Migration cooperation in the region has taken the form of regional consultative processes which cover overseas employment and contractual labour for countries of origin in Asia. Two main initiatives in this regard are the Colombo Process and the Abu Dhabi Dialogue. The Colombo process involves 10 countries — Bangladesh, China, India, Indonesia, Nepal, Pakistan, the Philippines, Sri Lanka, Thailand and Viet Nam — which have made recommendations for the effective management of overseas employment programmes and agreed to regular follow-up meetings. The Abu Dhabi Dialogue brings together the countries of the Colombo Process and the member States of the Gulf Cooperation Council plus Yemen and two additional Asian countries of destination. Particular focus is placed on promoting the welfare and well-being of workers, on the development of both origin and destination countries through labour mobility, and on fostering greater intergovernmental cooperation and collaboration, with the active support of international and regional parents. Apart from these initiatives, the South Asia Migration Commission was established in 2009 to oversee migration and enhance its positive aspects.¹¹

D. Foreign direct investment

28. Foreign direct investment (FDI) flows to the Asian and Pacific region have grown tremendously, with the region now accounting for a quarter of global inflows. However, FDI outflows from the region have expanded even more impressively with the emergence of such economies as China, India, Malaysia and Singapore joining conventional sources of FDI, such as Australia, Japan and the Republic of Korea.

29. Intraregional FDI flows have gained in importance as a result of the emergence of regional value chains. For example, between the periods 1998-2000 and 2008-2010, FDI flows between ASEAN countries more than doubled in share, from 15 per cent to more than 40 per cent. During the period 2009-2011, China attracted more than 27 per cent of all intraregional FDI, followed by Viet Nam (11.5 per cent), India (10.6 per cent), Indonesia (8.3 per cent) and Australia (5 per cent). Intraregional greenfield FDI is chiefly sourced from the East and North-East Asian subregion. For example, the main providers of FDI flows to China over the period 2009-2011 were the neighbouring economies of Japan, Taiwan Province of China and Hong Kong, China.

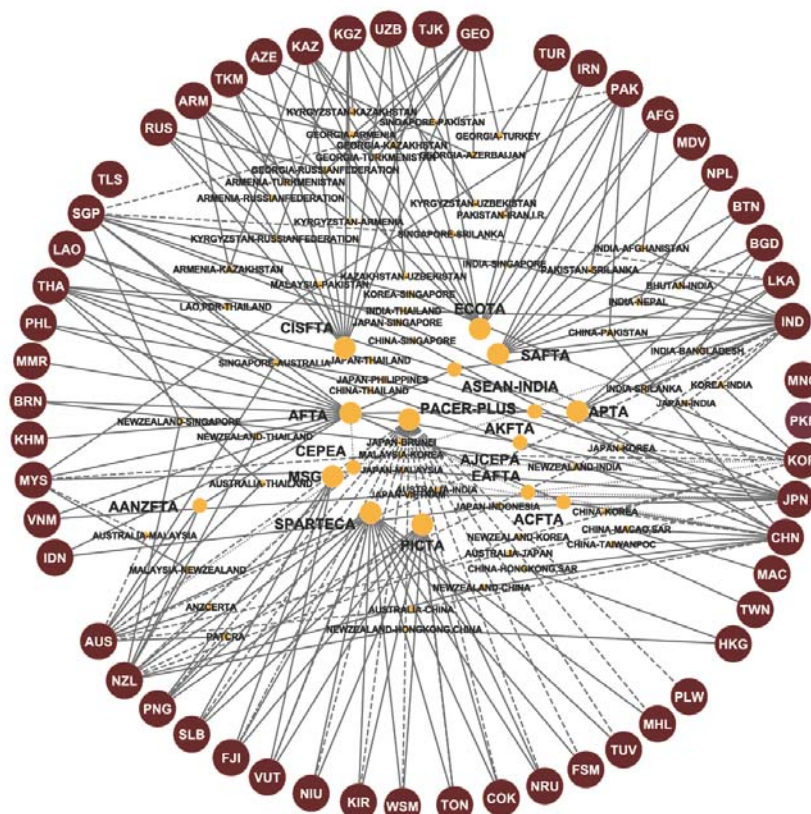
VI. The region's economic fragmentation and its high costs of trade

30. The extent of non-tariff and behind-the-border barriers to trade suggests that there is still considerable scope for further trade liberalization and facilitation in the region, but in the light of the limited progress in multilateral

¹¹ ESCAP, *Regional Cooperation for Inclusive and Sustainable Development: South and South-West Asia Development Report 2012-13* (ST/ESCAP/2644).

trade negotiations since the conclusion of the Uruguay Round in 1995, most countries in the region have turned to bilateral or subregional free trade agreements. Asian and Pacific economies are parties to more than 150 agreements and are contemplating many more (see figure 2). This proliferation of agreements signals a preference for deeper integration among countries in the region. However, the overall effect is a tangle of overlapping agreements which has been likened to a noodle bowl. Its complexity adds to the cost of trade and hampers a seamless or integrated regional market.

Figure 2
Network of trade agreements between economies in Asia and the Pacific



Source: ESCAP, based on APTIAD database of trade agreements (www.unescap.org/tid/aptiad) and information provided by the ASEAN Secretariat (www.aseansec.org).

Note: Solid lines represent concluded agreements. Dashed lines represent agreements under negotiation.

31. Bilateral and subregional agreements help boost trade, but, due to their different scope, coverage and rules, they do not create a seamless, region-wide market and do not allow synergies to be exploited. What is needed is not only to deepen integration within subregions but also to foster trade links across subregions.

32. A measure of comprehensive costs of trade in goods introduced by ESCAP shows that the costs of trade among ESCAP member countries are very high compared to those among European Union countries (see table 2). While trade costs have dropped within many subregions of Asia and the Pacific, trade costs between Asia-Pacific subregions are often higher than those between Asia-Pacific subregions and regions in the rest of the world. For example, the costs of trade between ASEAN members and SAARC members are, on average, nearly double the costs of trade between ASEAN members and

the United States of America (126 per cent vs. 75 per cent). Inter-subregional collaboration on reducing trade costs will therefore be key to reaching the full potential of intraregional trade.

Table 2

Intra- and extraregional trade costs in Asia and the Pacific, excluding tariff costs, 2007-2010
(Percentage)

Region/subregion	ASEAN-4	East Asia-3	North and Central Asia	SAARC-4	AUS-NZL	EU-3	USA
ASEAN-4	75	78	381	126	86	110	84
East Asia-3	78	52	221	125	80	86	63
North and Central Asia	381	221	141	261	296	166	191
SAARC-4	126	125	261	105	127	115	108
AUS-NZL	86	80	296	127		102	90
EU-3	110	86	166	115	102	46	67
USA	84	63	191	108	90	67	

Source: ESCAP, World Bank Trade cost database (for details, see www.unescap.org/tid/artnet/trade-costs.asp).

VII. Towards a broader integrated market

33. The theme study 2012 suggests three routes for achieving a broader integrated market in the Asian and Pacific region. The first option is to create an “Asia-Pacific economic area” as a framework to join existing subregional groupings to exchange trade preferences between members, in the manner of the Agreement on the European Economic Area, which combines the Single Market of the European Union with members of the European Free Trade Association. The major subregional groupings that could be covered in APEA are: (a) ECOTA; (b) ATIGA or AEC; (c) SAFTA; and (d) the proposed Pacific Agreement on Closer Economic Relations-plus, which could include parties to PICTA plus Australia and New Zealand. Overall, these four trade agreements involve 43 of the 53 Asian and Pacific economies shown in figure 2.

34. A modelling exercise conducted by ESCAP suggests that member countries would gain substantially if the four groupings were joined in APEA. However, this approach may be complicated by the fact that the four subregional groupings are at different stages of their evolution. Furthermore, a major limitation of this approach is that some of the region’s largest markets, such as China, Japan and the Republic of Korea, would remain excluded. In any event, there is a tremendous potential for mutual learning across the subregional groupings of the region and for the sharing of best practices. Hence, a consultative committee of subregional groupings could be constituted to facilitate that mutual learning.

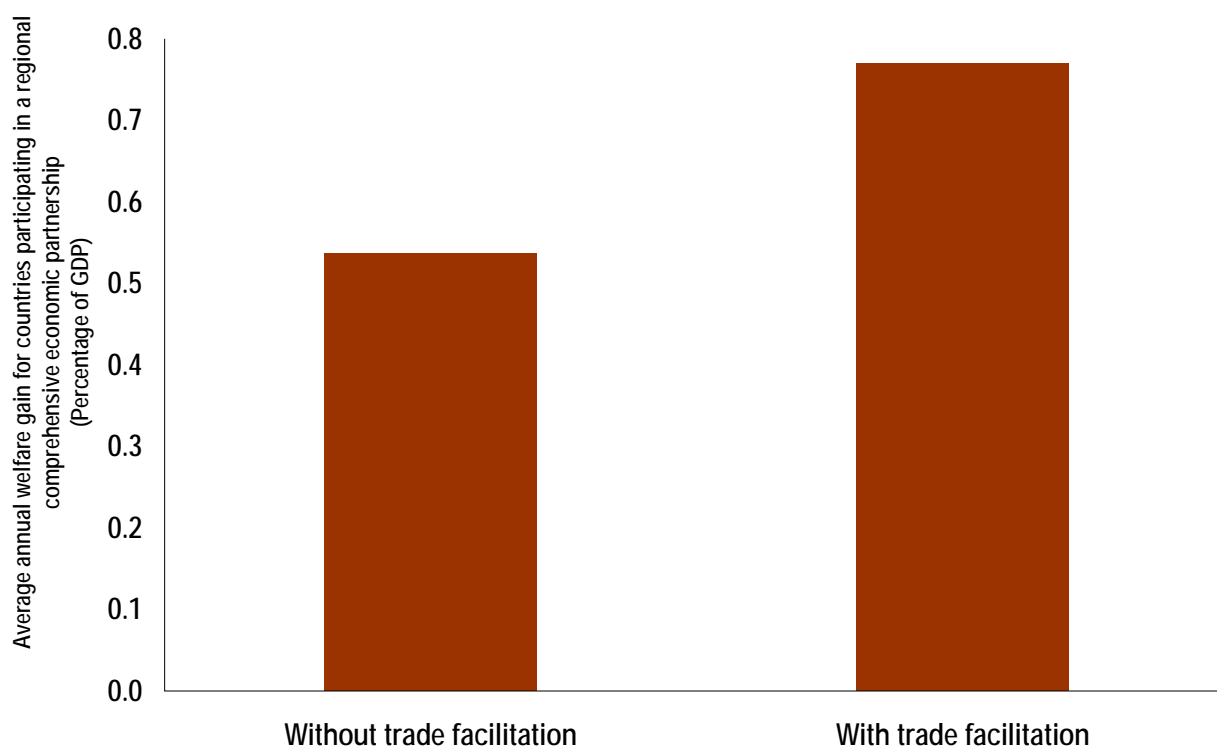
35. A second approach is to build on the ASEAN+ approach. The ASEAN dialogue process has contributed towards a discussion of broader regional arrangements. After leading to the creation of ASEAN+1 FTAs with each of the ASEAN dialogue partners (namely Japan, China, the Republic of Korea, India, Australia and New Zealand), the ASEAN dialogue process is now moving towards a “regional comprehensive economic partnership” bringing together ASEAN countries and their six FTA partners in a single agreement. A

decision to launch negotiations for a regional comprehensive economic partnership was taken at the ASEAN Summit in November 2012. Combining 16 of the largest and most dynamic economies in the region, a regional comprehensive economic partnership could become the nucleus of an incipient region-wide RTA to which other countries could accede in the future.

36. The advantage of this approach is that the six dialogue partners of ASEAN have already concluded ASEAN+1 FTAs, which can be multilateralized with common rules of origin. Combining the region's growth poles, China and India, with ASEAN and the advanced economies of Australia, Japan, New Zealand and the Republic of Korea will produce a regional grouping with a combined GDP of over \$20 trillion, comparable in stature with the European Union and North American Free Trade Agreement but outclassing them in terms of dynamism by a wide margin.

37. Simulation results found substantial welfare gains for a regional comprehensive economic partnership, at close to 0.8 percent of the combined GDP of its members when trade facilitation measures are considered (see figure 3). Figure 3 suggests both the need to aim at broader agreements, covering a larger number of countries, and the importance for such agreements to include provisions to reduce trade costs through various trade facilitation measures. However, to ensure that a regional comprehensive economic partnership evolves into a region-wide integrated market, it will have to feature an open architecture to enable other countries of Asia and the Pacific to accede to it in future.

Figure 3
Potential benefits of expanding the ASEAN Free Trade Area to ASEAN+6



Source: ESCAP, based John Gilbert, “The economic impact of new regional trading developments in the ESCAP region”, a background paper prepared for the theme study 2012.

38. Another approach would be a new Asia-Pacific Trade Agreement (APTA II). As a new agreement, unencumbered by prior commitments, APTA II could more easily include all the desirable features, including a comprehensive scope for regional economic cooperation and coverage of preferential tariff concessions based on negative lists, the gradual removal of non-tariff barriers (NTBs), trade in services, trade facilitation, and investment promotion and facilitation, among other areas. Most importantly, it would include special and differential treatment and support for poorer countries, so that they could take advantage of the opportunities that will become available to them, making it an RTA with a human face and a model of regional economic integration for other regions to emulate. Simulation studies indicate that such an agreement would have the potential to generate the largest welfare gains for the region — up to \$140 billion or over 1 per cent of the regional GDP.¹²

39. Of the three options for creating a broader market in Asia and the Pacific described in the theme study 2012, the ASEAN+ approach appears to be the most promising because a regional comprehensive economic partnership has a critical mass of 16 countries and is already in the negotiating stage. For that option to constitute the nucleus of a broader Asia-Pacific partnership open to all countries in the region, the final regional comprehensive economic partnership agreement should include an accession protocol.

40. In that respect, it could be very useful for countries in other subregions to accelerate their own intra-subregional integration schemes to be better prepared to access a regional comprehensive economic partnership in future. This would include expediting the implementation of programmes for regional cooperation and integration adopted by subregional groupings for regional cooperation, such as SAARC, the Economic Cooperation Organization, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, and the Pacific Islands Forum. Strengthened subregional integration schemes could become building blocks for broader regional initiatives.

41. However, expediting the implementation of existing programmes would be only a first step towards strengthening the subregional groupings, as they are heterogeneous in their degrees of institutional development and in the depth of their integration agreements. There is therefore a potential for significant progress through exchanges of experiences to identify best practices and to promote mutual learning. Due to its wide membership and expertise in the areas of the broad agenda for regional economic integration suggested in the theme study 2012, ESCAP is ideally positioned to provide a platform for such exchanges of experiences among subregional groupings.

42. To this effect, the Ministerial Conference may wish to support a proposal to establish an annual consultative forum of subregional groupings of Asian and Pacific countries, convened by ESCAP. Such consultative meetings could be supported by sectoral working groups that would discuss specific cooperation and coordination mechanisms in various areas, such as trade and investment, connectivity, finance, disaster risk management, and food and energy security.

VIII. Issues for further consideration

43. In particular, the Ministerial Conference may wish to note the importance for agreements such as a regional comprehensive economic

¹² *Growing Together: Economic Integration for an Inclusive and Sustainable Asia-Pacific Century* (ST/ESCAP/2629). Available from www.unescap.org/pdd/publications/themestudy2012/themestudy2012-full.pdf.

partnership to provide flexibility and special and differential treatment for poorer economies as well as technical and economic cooperation aimed at narrowing development gaps among the parties.

44. Keeping in mind the critical importance of trade facilitation for promoting intraregional trade, the Ministerial Conference may agree that countries should cooperate in trade facilitation, especially with respect to moving towards the harmonization of customs procedures, single windows and paperless trade, and conformity assessment procedures for standards, among other things, at the subregional level and beyond. The Conference could seek a region-wide trade facilitation coordination mechanism that brings together key subregional organizations (such as ASEAN, SAARC, the Economic Cooperation Organization and ESCAP) to enable the promotion of intraregional/subregional trade facilitation in general, and transit facilitation in particular. This mechanism could be linked to the annual Asia-Pacific Trade Facilitation Forum organized by ESCAP, in collaboration with Asian Development Bank and other organizations.

45. In order to promote intraregional investments, the Ministerial Conference may wish to decide to seek a regional investment promotion and protection agreement and a double taxation avoidance agreement in order to obviate the need to conclude multiple bilateral agreements. These agreements should be balanced and development-friendly.

46. The Ministerial Conference may wish to recognize the importance of migration flows for tackling structural labour demand and supply mismatches across countries and the critical developmental role that remittances play in many receiving countries. In that context, the Conference may wish to underscore the importance of regional consultative mechanisms, such as the Colombo Process and the Abu Dhabi Dialogue, which seek to safeguard the rights of migrant workers.
