Asia’s Deepening Regionalism Brings Shared Prosperity

BY RAJAT M. NAG

Asia’s Coming of Age has been the development story of the past 40 years. The reasons for this are varied. But some of the more significant factors have been knowledge exchange, technology transfer, and increased economic integration and cooperation between governments of developing economies. Asia’s success is in part the result of increased dialogue between regional partners, formalized through institutions such as the Association of Southeast Asian Nations (ASEAN), which expanded from its original five-member core in 1967 to encompass all Southeast Asia by mid-1999 and aims to establish an ASEAN Economic Community by 2015. In response to the 1997/98 Asian financial crisis, the People’s Republic of China, Japan, and the Republic of Korea joined the process, creating ASEAN+3. And integration continues to expand through the East Asia Summit process and other initiatives.

Asia’s revival began with Japan’s remarkable economic surge in the post-war period and subsequent entry into the Organisation of Economic Co-operation and Development (OECD) in 1964. Japan’s success convinced much of developing Asia to shift away from import-substitution toward a more open, export-oriented development model.

Today, the development model is changing yet again. As Asia’s economies have expanded, they have also become more closely integrated through trade, investment, and financial flows. Cooperation among developing Asian economies and their integration with the region’s more mature and larger economies has helped Asia become much stronger.

Vietnamese store in southwest China’s Yunnan Province, which borders on Myanmar, Laos, and Vietnam. As a result of the China-ASEAN free trade area (FTA) and Greater Mekong Subregion (GMS) program, some 100,000 people trade here every day.
In practice, knowledge exchange, technological transfer, and increased economic integration in Asia stemmed naturally from increased private sector integration as economies opened up in the 1990s and globalization became the mantra. The region’s strong production networks of multinational and regional firms have led to greater interdependence. This market-led process led to the creation of Factory Asia and has been backed by unilateral, nondiscriminatory trade liberalization. This process has also demonstrated that regional integration does not necessarily have to be achieved at the cost of global interconnectedness. Asia is now more regionally integrated, while remaining steadfastly globally connected.

Asia’s approach to regionalism has been pragmatic and flexible, as it has largely adopted a bottom-up approach of subregional cooperation across myriad economic subsets, thereby creating a platform for multitrack and multispeed “open” regionalism. This approach acknowledges different levels of development and needs across the region, and arrives at a consensus on what needs to be done, how to finance it, and how to make it work.

There are many examples of this approach across Asia, with the Greater Mekong Subregion (GMS) Program gaining particular prominence. Since 1992, Cambodia, the Lao People’s Democratic Republic (Lao PDR), Myanmar, Thailand, Viet Nam, and Yunnan province in the People’s Republic of China (PRC) have joined together to promote development by taking advantage of natural economic linkages.

Much has been achieved since 1992 in the GMS where some of the poorest riparian countries fought bitter wars against each other only a few decades ago. It has created a sense of common purpose that is essential for enhancing regional cooperation, stability, and peace. Infrastructure valued at nearly $11 billion is either in place or being built, including an East–West Economic Corridor across the region that will eventually extend from the Andaman Sea on the coast of Myanmar to Da Nang in Viet Nam.

And assessments show that investments in regional projects, particularly cross-border infrastructure, can be highly rewarding. For instance, analysis of the impacts of the Second Mekong International Bridge between Mukdahan province in Thailand and Savannakhet province in Lao PDR show that such an investment can reduce poverty by a full percentage point in the long run. Furthermore, the findings contradict the common presumption that the benefits from cross-border infrastructure projects occur only, or overwhelmingly, in the richer region. In this case, Savannakhet enjoys a greater increase in welfare through consumption, and a larger reduction in poverty incidence, both in absolute and in percentage terms.

Another specific example is the “twinning” arrangement between Cambodia’s Phnom Penh Water Supply Authority (PPWSA) and Viet Nam’s Binh Duong Water Supply Sewerage Environment Company Limited (BIWASE), which began in 2007. The goal of this twinning, initiated by the Asian Development Bank (ADB) with the support of the South East Asian Water Utilities Network, is to strengthen Viet Nam’s BIWASE where Cambodia’s PPWSA is stronger. Reducing leakage, improving customer service, upgrading management, creating a training center, and better financial management (to avoid the need for government subsidies), were all part of the knowledge transfer process. The success of this twinning agreement has a spillover effect—BIWASE can now assist other Vietnamese utilities by passing on their newly acquired knowledge and experience. The main lesson of this project is that engineers across cultures and borders still speak the same technological language and share the same aims and goals. ADB has adopted and improved on twinning as a development strategy for its Water Operators’ Partnership Program, which promotes knowledge sharing and builds the capacity of water operators and utilities in the Asia and the Pacific region. It has identified potential twinning of 20 water utilities and operators in the region.

Since the 1997/98 Asian financial crisis, broader dialogue and initiatives have also brought greater regional strength. The creation of ASEAN+3 represented a degree of cooperation difficult to imagine before the onset of the crisis. The 1997/98 currency and banking crises gave authorities in the region an impetus to look beyond existing multilateral remedies for help.

ASEAN+3 spurred a host of monetary and financial cooperation initiatives—the Chiang Mai Initiative, which is a web of bilateral swap arrangements to supply liquidity during a crisis; the Asian Bond Markets Initiative (ABMI) and Asian Bond Funds (ABF) to develop local currency bond markets; a system for strengthening macroeconomic surveillance; and an Economic Review and Policy Dialogue (ERPDP). A web of bilateral and plurilateral free-trade agreements (FTAs)—sometimes referred to as the Asian “noodle bowl”—has also emerged. The region has now put in place a multilateralized foreign exchange reserve pooling arrangement—the Chiang Mai Initiative Multilateralization (CMIM)—and also agreed to establish an ASEAN+3 Macroeconomic Surveillance Office. While ASEAN+3 has made progress on regional financial cooperation and integration, it is also expanding into other economic and social sectors.

The process of regional integration, though largely centered around East Asia in its initial stages, has been pushed forward through a broader regionwide arrangement. The East Asia Summit process was established in 2005 as a regional leaders’ forum for strategic dialogue on key challenges facing the region, including financial cooperation, trade, climate change, and natural disaster management. However, it still remains a leaders-led institutional arrangement responding to emerging regional and global challenges.

Given emerging Asia’s diverse and complex social and economic landscape, economic cooperation and integration in past decades have been uneven across sectors and regions. For example, a detailed analysis of Asia’s trade interdependence suggests that it is largely based on trade in parts and components. Whereas 56.3 percent of East Asia’s trade in parts and components was within the subregion in 2008, intra-subregional trade in parts and components was a mere 1.2 percent for Central Asia and 1.3 percent for South Asia.

While trade between India and the PRC is growing, not all parts of South Asia and not all sectors are participating in this process. The intra-subregional trade share among members...
of the South Asian Association for Regional Cooperation (SAARC) is less than 6 percent. Apart from policy impediments and political hurdles to regional cooperation, South Asia is also hamstrung by the fact that the overall trade-to-GDP ratio for the subregion is 41.5 percent, compared with 63.2 percent for the whole of Asia. However, SAARC has launched a series of iconic projects and initiatives, such as the South Asian University, that have a broad impact on civil society and can also raise popular appeal for regional cooperation.

The central Asian region has also taken some impressive strides in regional cooperation. The Central Asia Regional Economic Cooperation (CAREC) program, which brings together eight central Asian countries, is advancing regional cooperation through transport and trade connectivity. CAREC partners are set to mark a decade of successful operations in 2011, with close to $15 billion in investments that contribute to sustainable economic growth and improved living standards in the subregion.

However, indicators suggest that regionalism has advanced unevenly. It has been mainly focused on production integration in East Asia, with other subregions and sectors much less integrated. Asia has to move forward and look beyond integrated trade and production networks. In doing so, it cannot solely rely on market forces. Building the right institutional framework for Asian integration is crucial to cement the existing gains, and support the next steps for regional cooperation and integration.

Asia does not lack institutions for regionalism. It possesses a dense web of institutions, yet the institutional structure is “lite” as most organizations lack a strong secretariat, agenda-setting powers, and a stronger mandate from national governments.

Consolidation and strengthening of existing subregional and regional institutions is perhaps the first step toward creating more effective institutions to support Asian regionalism. The next logical step will be to link subregional institutions to tap existing synergies as well as explore other potential areas of cooperation.

Developing institutions to exploit compelling functional opportunities and creating new pan-Asian forums and institutions are some of the key requirements for comprehensive Asian integration.

Our long-term vision is that of a strong, prosperous, outward-looking Asian Economic Community that might eventually evolve into a single regional market connected seamlessly by world-class infrastructure, where goods and services move freely across borders, and capital can similarly be transferred to efficiently allocate resources for investment.

Asia’s model of open regionalism combines national, regional, and global responsibilities. It has yielded dividends to individual countries, the region as a whole, and the rest of the world. Asia’s economic influence has increased significantly as the region continues to help pull the global economy out of the recent crisis with its strong domestic investment, effective macroeconomic stimulus, and robust intraregional trade.

Despite all the accolades about emerging Asia’s achievements, the future presents huge challenges and requires

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4) **Mix and blend delivery methods to respond to existing constraints.** Although face-to-face activities still make up most of the knowledge exchanges and learning interventions, other methods such as online delivery or videoconferencing are also being used. Program designers mix and match delivery modalities to suit time, budget, participants’ geographic dispersion, political stability, and safety needs. A recently developed knowledge exchange program on Public-Private Partnerships (PPP), for example, allows practitioners worldwide to discuss experiences and emerging trends in various sectors using traditional conference-type events, videoconference-enabled knowledge exchange workshops, e-discussions, blogs, and chats on a dedicated online platform.

5) **Ensure adequate planning and follow-up.** Carefully planning and design is critical to the success of any learning activity. Agendas or curricula need to support the achievement of desired outcomes. Roles and responsibilities need to be clearly defined and activities properly structured, providing a good balance between content delivery, interactive dialogue, and reflection. Similarly, follow-up activities to monitor agreed milestones are a critical factor in the quest for results.

While this is by no means a comprehensive list, it can serve as a starting point for thinking about the “how to” of planning, design, and implementation of South-South Knowledge exchange. Global mechanisms such as the GDNL will continue to learn by doing as they respond to the changing requirements of a multipolar world.

**Endnotes**

1. Indonesia, Malaysia, Philippines, Singapore, and Thailand.
3. ASEAN+3 plus Australia, India, and New Zealand.

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