

# INDIA, EAST ASIA AND ASIA PACIFIC ECONOMIC COOPERATION

**Peter Drysdale**

**The Australian National University**

## **Context**

The establishment of regional arrangements in East Asia and the Pacific was importantly a response to the rise of Japan's economic power and the need to include Japan in a framework for managing the growth of regional economic interdependence.

The growth and deepening integration of the East Asian economy was driven by three huge waves of trade and industrial transformation. The first came with the rise of Japan and its emergence as a major industrial power, especially in the first three decades after the Pacific War. The second was led by the newly industrializing economies (NIEs) of Northeast and Southeast Asia in the late 1970s and 1980s. Now there is a third great wave sweeping the region, with the remarkable rise of China. And there is also a fourth under way in India. These successive waves of trade and industrial transformation have created a new centre of East Asian economic power that has begun to rival North America and Europe in terms of its contribution to world output and world trade (Drysdale and Terada, 2006). They are at the base of strategies that have shaped the evolution of regional arrangements thus far and will shape their evolution in the future.

These developments, the origins of which date back to Japan's commitment to modernisation in the latter part of the nineteenth century and through the turmoil of accommodating that development in the first half of the twentieth century, proceeded on a smoother course after the Pacific War. Importantly this was because of the supportive framework provided by the international institutions (such as the GATT, now the WTO, and the IMF) established under United States' leadership in the postwar world (Drysdale, 1988). This fact of history is an important reference point in thinking about what India's substantial economic, as opposed to more narrowly diplomatic and strategic, interests might be in participation in Asian economic cooperation arrangements.

Recovery and reconstruction in Europe saw the emergence of a united Europe and the Atlantic Alliance framework. There was no similar or easy political or economic solution on offer in East Asia and the Pacific to the rise of postwar Japan and its newly industrializing

neighbours. Japan's political position in its neighbourhood was very different (Ohira, 1980; Pacific Basin Community Seminar, 1981; Bonner, 1996). China was a target of hostility but not the same target of mutual hostility as the Soviet Union, especially after the Nixon-Zhou accord of 1971. America's military security relations with others in the neighbourhood were very different. The economic, political, societal and institutional diversity in the neighbourhood was very different (Soesastro, 1994). Furthermore, the regional economy was in continuing and large-scale transformation. The problem was how to accommodate the rise of Japan in a framework of international economic pluralism (Drysdale, 1988). India had not yet committed to openness and reform and was not part of the process of growing regional economic interdependence at that time.

This paper traces the development of Asia Pacific economic arrangements and how they were founded on the principle of 'open regionalism'. It describes the nature and purpose of APEC and the challenges to APEC in the late 1990s. It traces the emergence of East Asian regionalism as a competitor for political and diplomatic attention. It highlights the growing engagement of India with East Asia, reviews the future agenda for regional cooperation and whether an Asian Economic Community is practical in the near future.

### **Regionalism in East Asia and the Pacific**

The idea of APEC was the solution to the problem of the rise of Japan in its political-economic dimension (Drysdale, 1988; Terada, 1999). The hub and spokes military-security alliances remained in place between Washington and East Asian and Western Pacific capitals. Though they comprehend less and less adequately the realities of China's political reach in the region, they remain in place and were given, at least temporarily, extended life and invigoration by the circumstances that followed September 11.

This was the context in which Australia and Japan together played such an important role in articulating the regional idea in Asia and the Pacific and in the work that led to the formation of APEC.

A huge, strategic resource and energy trade relationship developed between Japan and Australia after the normalization of the relationship between the two countries through the Agreement on Commerce in 1957. This completed the first element of the economic and political triangle that was to develop between North America, Japan and the other economies of East Asia (including the Western Pacific) over subsequent decades. The political-security

arrangements between the United States and Japan and the United States and Australia, separately, for example, provided an implicit if not explicit framework of political confidence within which the Australia-Japan relationship came to grow and flourish (Drysdale, 1988).

By the late 1960s and during the 1970s the growing web of East Asian and Western Pacific interdependence required a different role for Japan in regional (and global) affairs, a role that acknowledged the economic and potential political influence of Japan, beyond the bilateral relationship with the United States (Drysdale and Patrick, 1979). This was the focus of policy innovation in regional diplomacy over the two decades or so before APEC was launched in 1989. The intellectual, business, and governmental dialogues around the region over those years eventually delivered a regional inter-governmental arrangement in the form of APEC, an organization that was uniquely designed to suit the particular political and economic circumstance of East Asia and the Pacific (Soesastro, 1994). It was crucially designed to promote common policy priorities that were being articulated within the market economies of the region and to support national domestic efforts at liberalization and economic reform.

Meanwhile, in the 1970s and 1980s, the second great wave of industrialization in Northeast and Southeast Asia gathered strength. The newly industrializing economies of Northeast and Southeast Asia developed intense trading relations within the region with Japan and across the Pacific with America. A growing feature of regional economic interdependence was the role played by direct foreign investment. The growth of these East Asian economies saw them take over Japan's share in world markets for labour-intensive goods, such as textiles and clothing but later also consumer electronics (Drysdale, 2005b). Japan took production capacity offshore into the region and North American and European investors also established production networks in East Asia. China has since become an important investment destination and international production centre in the same fashion.

Accommodating the rise of Japan, and Japan's new regional role, was APEC's early and central focus. However the history of the East Asian and Pacific economies and politics, the structure of the regional economy, and regional political imperatives recommended regional arrangements in which no one country played the central role (Drysdale, 1988; Drysdale and Elek, 1997). It also recommended a set of inter-governmental relationships that involved no overarching supra-national structures. And it encouraged a regional agenda that embodied significantly global objectives.

Unlike other regional arrangements, within Europe or North America, APEC eschewed inward-looking approaches to regional economic integration, focusing instead on the region's powerful global trade and economic interests, initially through pressing a successful conclusion to the Uruguay Round of trade negotiations in the GATT. The organizing idea of APEC was 'open regionalism' or the promotion of trade liberalization on a *most favoured nation* or non-discriminatory basis (Yamazawa, 1992; Garnaut, 1996). But open regionalism had a political and diplomatic dimension as well as a trade and economic dimension. After successfully exercising some leverage over Europe in these multilateral negotiations through its first Leaders' Summit in Seattle in 1993, APEC sought to operationalize the idea of open regionalism beyond its role as a regional coalition in the global arena (APEC, 1993; Drysdale and Garnaut, 1993; Bergsten, 1993). It specifically left open the inclusion of other countries such as India and, in its core conception, deliberately sought to avoid discrimination against newcomers, such as India, to the process of outward-looking growth (Drysdale and Garnaut, 1993). The Bogor Declaration, from the APEC Summit in Indonesia in 1994, was a bold and innovative step which set a transition path to trade and investment liberalization for APEC members.

The 1980s and early 1990s saw strong commitment in East Asia and Australasia to unilateral trade liberalization and internationally-oriented economic reform. These policy developments were the driving force behind exceptionally strong regional trade and economic growth, and the emergence of the East Asian hemisphere as a new pole of growth and influence in the world economy (Garnaut, 1996). They remain at the heart of the APEC agenda. The Bogor goals defined a new path towards an open trade and investment regime in East Asia and the Pacific, setting targets for trade and investment liberalization in 2010 for developed and 2020 for developing countries in the region (APEC, 1994).

While APEC is unlikely to be able to declare complete victory on trade and investment liberalization by these target dates, there has been sufficient progress towards the goals to justify the new mode that it set in place for encouraging economic reform. China's use of APEC as a vehicle for liberalization and reform on the way to accession to the WTO is a notable example of APEC's success in promoting open trade via this strategy (APEC, 1995) The largest single step in world trade liberalization in the past decade was undoubtedly the trade reform package delivered by China to the APEC Summit of 1995.

Border protection, of course, is not the only, nor probably the most important, barrier to deeper economic integration and the gains from it for Asian economies. Contingent protection

remains an important issue. Behind-the-border liberalization and reform (APEC's trade and investment facilitation agenda) offer a far bigger future prospect for economic gain. I shall return to this aspect of APEC's future agenda below.

The approach to cooperation within Asia Pacific economic institutions involved no legally binding institutional arrangements. Rather it made a virtue of the necessity that diversity of political and diplomatic circumstance prevented aping European and North American regional institutions, stressing capacity building and transition towards policy goals by independent, but mutually reinforcing commitment, not by negotiated agreement or fiat. This suited a region in which newly won independence and sovereignty were jealously guarded, where there was immense political, cultural and institutional diversity, and in which political ownership was a priority (Garnaut, 2000; Harris, 2000; Drysdale and Terada, 2006).

### **East Asian Regionalism and Bilateralism**

The East Asian financial crisis, and the failure of global financial institutions and global trading institutions alike to deliver support to maintaining regional financial stability and the momentum of growth through multilateral trade liberalization presented a major challenge to APEC's economic agenda in the late 1990s (Harris, 2000; Wesley, 2001). The difficulty in dealing with the 'hard' issues of liberalization on the basis of volunteerism coincided with the collapse in confidence in global solutions and Washington's commitment to global solutions. These were the circumstances that proximately spawned the emergence of a new regionalism in East Asia.

These circumstances appeared quite different from those that encouraged the development of APEC built on the principles of open regionalism. This was not only a product of East Asia's complex political response to Washington's role in the 1997 financial crisis. There was also loss of faith in APEC's capacity to deal with the problems of the time (the financial aspects of regional issues had not yet been put on the APEC agenda) and in global arrangements (such as the IMF and the WTO). There was intensification of preferential trading initiatives elsewhere including in North America, in contradistinction to the principles to which APEC had in the past adhered. And there was disappointment in the failure to launch a new WTO round of trade negotiations in Seattle, which was central to the success of APEC's trade liberalization agenda (Drysdale, 2002; Drysdale, 2005; MacIntyre and Soesastro, 2005). All these developments were used to justify heading off in a new direction to establish ASEAN+3 and to negotiate preferential trade arrangements in East Asia at the end of the twentieth century.

By one measure, the rise of East Asia in the world economy still has a long way to go. When national products are valued at current exchange rates, the United States economy, accounting for more than 30 per cent of world output, appears resurgent against a flagging East Asian challenge. East Asia's share of world output declined from around 25 per cent at its peak in the mid-1990s to 20 per cent in 2002. Moreover, Japan — by this measure still the second biggest economy in the world — appears to dominate the East Asian economy, accounting for roughly two-thirds of the region's total output.

But this is only one measure of the relative importance of East Asia in the world economy, and probably not the most accurate, because of the way in which current exchange rates, and short-term influences upon them, distort the underlying picture. A better measure uses purchasing power parity (PPP) valuations of national product to estimate the relative size of economies in the global economy. East Asia's share of world output, by this measure, has risen substantially over the past two decades, from just over 15 per cent in 1980 to over 27 per cent in 2004, overtaking the United States by 1993. Moreover, within East Asia, China's share of world output had already surpassed that of Japan by 1994 and, by 2004, its share of world output was already more than half that of the United States. China's economy, of course, remains less sophisticated than that of Japan, but its sheer scale now gives it much larger weight in world output. While East Asia's share of world trade has not grown so strongly in the last decade, at almost a quarter of world trade it more than matches that of North America. Measured in PPP terms, India still only accounts for just under 6 per cent of world output, less than half the size of China and much smaller if income is valued at current exchange rates. But it is now on a rising trajectory of strategic importance. Within East Asia, the story is one of rising trade share for China and steadily falling trade share for Japan (China's share of world trade, measured appropriately as China's trade plus the trade of Hong Kong net of intra-China–Hong Kong trade is already over 7 per cent). While India's share of world trade is growing, it still lags well behind that of China and other countries in East Asia.

This is the reality of the recent rise of the East Asian economy and the growing weight of China within it, driven by the third wave of East Asian trade and industrial transformation, and the potential of the fourth wave of industrialization in Asia led by India. It was at the base of growing support for the idea of East Asian cooperation arrangements. But it also underlines the value of a broader regional framework, such as

APEC, within which to manage the economic and political process of adjustment to the change and to support outward-looking development strategies.

The emergence of ASEAN+3 and the idea of an East Asian economic community reflected the interest in re-grouping and building a framework for substantive economic cooperation within the East Asian region (Drysdale and Terada, 2006). ASEAN + 3 was not established as a regional trading arrangement but was set up in response to the financial crisis to foster East Asian cooperation in financial affairs and project East Asian interests globally. An overarching objective was to provide a framework for demonstrating East Asian influence and leadership on regional and international affairs. The initial focus was very much on regional financial cooperation but that was simply the hook on which to promote high level economic and political dialogue (Soesastro, 2001).

In January 2002 in Singapore, Prime Minister Koizumi proposed an East Asian community encompassing cooperation beyond trade and financial issues (and including Australia and New Zealand) to promote functional integration in East Asia. The agenda of ASEAN + 3 extends beyond the issue of financial cooperation and the ambition, stated more clearly at meetings in Bali in 2005, is for the evolution of an East Asian Economic Community.

A parallel development was the rush towards bilateral or sub-regional free trade agreements (FTAs). FTAs are preferential or discriminatory trade arrangements. Preferential trade arrangements within East Asia (including the participation of key regional economies such as Japan, China and Korea) had never before found favour. Not only, it was thought, would they have inflicted costs on important economic partners, but also they were likely to elevate political tensions in predictable ways between countries that were included and those that were excluded from such arrangements. That was acknowledged explicitly in designing the architecture for APEC.

Yet in the early twenty-first century there has been a rash of new proposals and initiatives in East Asia and around the world to promote bilateral FTAs of an explicitly discriminatory kind.

Within the region, the Japan-Singapore Agreement has already been signed. Singapore has also signed agreements with Australia and the United States. The first significant proposal was for an FTA between Japan and Korea at the time of President Kim Dae Jung's historic visit to Japan in 1998. Japan-Korea, Japan-Singapore (concluded in

January 2002), Japan–Mexico, China–ASEAN, Korea–Chile, Japan–ASEAN, Thailand–Australia, Singapore–New Zealand, Korea–ASEAN, US–ASEAN, CER–ASEAN, Japan–Korea–China or Taiwan are some of the arrangements that have been concluded, mooted or are on the slipways. And the United States has recently committed to negotiating an FTA with Korea. Except for the China–ASEAN proposal, so far the negotiation of arrangements with ASEAN countries has proceeded bilaterally rather than with ASEAN collectively.

India is now joining in this process with East Asia through the negotiation of arrangements with ASEAN, and a framework for arrangements with China and the other major players in East Asia. India was less allergic to discriminatory trade strategies, partly because until recently global market access had a low priority and there were ambitions to promote economic and political cooperation on the sub-continent through an FTA within SAARC. I shall return to these issues below.

At the centre of this shift in policy direction was Japan (Munakata, 2001). Japan was then the only major economy in the world other than China or Korea that was not a member of any FTA or economic union. One of the consequences of Japan's FTA initiatives was to encourage China to join the FTA game. Most importantly China, in dealing with the political sensitivities in Southeast Asia about its economic rise, was freed to propose an FTA with ASEAN. The reaction in Australia was also of consequence. Advised that a comprehensive FTA was not possible with Japan because of agriculture, Australia's initial reaction was to try to secure an arrangement between CER and ASEAN. Rebuffed initially in that bid, Australia, significantly, scrambled to negotiate an FTA with the United States and sought to do deals with Singapore and Thailand (both of which have been signed) (Drysdale, 2005b). Australia has now entered negotiations with ASEAN and is the first developed country after New Zealand to commit to the negotiation of an FTA with China. It is also studying an agreement with Japan.

What is emerging in East Asia and across the Pacific is a set of competing but separate preferential or discriminatory trade arrangements, ordered around the power and leverage of the large economies in negotiating bilateral trade deals. China, the United States and Japan are the hubs in this process. Korea has similar aspirations. Other countries are spokes around one or other or both of these hubs. It is difficult for such a system of hubs and spokes to link up except within the framework of a comprehensive round of multilateral negotiations in the WTO or a comprehensive regional initiative. But even then,

once established, these preferential arrangements are difficult to unravel because they protect producers within them from third party competition and those producers have a vested interest in not giving away their preferred position (Findlay, 2002).

In East Asia, the principal FTA contest is between China and Japan. The structure of this contest can be seen in the pattern of FTA deals already completed or under negotiation within the region. Across the Pacific, the United States has embarked on its own hub and spokes strategy (Drysdale, 2005b).

### **India and Engagement with East Asia**

At the very beginning of outward-looking economic reform, India committed to a 'Look East' strategy. This symbolized the interest in emulating the performance, and learning from the experience, of its East Asian neighbours. It was an important strategic shift. And success in lifting economic growth and deepening specialization inevitably led to closer trade and investment ties with East Asian economies, especially with Southeast Asia and increasingly with China and Northeast Asia, because these economies were becoming more important in the world economy.

India has sought to deepen its economic relations with East Asian economies through a wide range of initiatives in bilateral and regional economic diplomacy. India became a sectoral dialogue partner with ASEAN in 1992, seeking to enhance cooperation in trade, investment, tourism, science and technology, and a full dialogue partner at the ASEAN Summit in Bangkok in 1995. An important milestone was the hosting of the first ASEAN-India leaders summit in Phnom Penh in 2002. India signed an FTA with Thailand in 2003 and the two countries are working on an Investment Cooperation Agreement. Last year a Comprehensive Economic Cooperation Agreement (CECA) was signed with Singapore. India is considering FTAs with China, Japan, and Korea and has an FTA in place with Sri Lanka. A Framework Agreement on establishing an FTA with ASEAN has been signed, although there are many issues to be resolved before it will come to fruition. The Indian approach to rules-of-origin, for example, is inconsistent with that of ASEAN and would limit the trade creating value of an agreement. Sub-regional cooperation between India and some ASEAN members, including Vietnam, Thailand, Myanmar, and Laos has also been accelerated in ways that are viewed as consistent with strengthening ties with ASEAN and East Asia as a whole.<sup>1</sup>

At a strategic level, India, together with Australia and New Zealand, were invited to join the first East Asian Summit in Kuala Lumpur in December, 2005. There the Indian leadership focused publicly on the potential development of an Asian Economic Community.

Indeed, the last few years has seen strong growth in Indian trade with East Asia, albeit from a relatively low base. The East Asian share of India's exports is between 21 and 31 per cent and imports between 19 and 27 per cent, depending on the data source used to calculate these shares (see Table 1)<sup>2</sup>, although the Indian share in East Asian exports and imports is only around 1.2 per cent. India's share in ASEAN exports is higher, at 2.3 per cent. Direct foreign investment flows are growing both ways. India's share in world exports has been rising steadily from around 0.7 per cent in the early 1990s to just under 1 per cent in 2004 in the case of exports and from around 0.7 per cent to 1.3 per cent for the same years in the case of imports<sup>3</sup>.

**Table 1** India: Geographic Structure of Trade, 2004 (per cent)

	Export	Import	Total
USA	7.63	15.18	11.98
Japan	3.81	2.41	3.01
China	7.43	7.09	7.24
Korea	4.55	1.71	2.91
ASEAN	11.78	5.04	7.90
East Asia	30.45	19.73	24.28
EU	25.16	18.53	21.34
Australia	0.86	3.28	2.25
Rest of World	35.90	43.27	40.14

*Source:* United Nations Comtrade database.

And these data do not reflect India's growing role in trade in international services, a role which also has a large regional dimension. What is less clear is whether these trends have much to do with the specific regional or bilateral initiatives in economic diplomacy that have been put in place or are mooted. A more important driver of closer ties with India's fast growing neighbours in East Asia and India's global trade is the process of general trade

reform and liberalization to which India has committed and the access that reform-driven growth in East Asia has provided in these markets. There is still much to be done to capture these gains. Indian tariffs on average remain very high, around three times as high as those in ASEAN, for example, and limit the opportunity for broadly based trade-oriented growth in labour-using manufacturing industries.

However, what is important about these developments is that they reflect a major shift in thinking about 'India's evolving perspective of the world and its place in the emerging global economy...' and India's growing confidence in '... the tremendous potential for creating synergies in the South-East Asian region' (Chidambaram, 2006). This is a re-positioning of strategic significance. It has opened up ideas about the value of more comprehensive economic and other cooperation with East Asia and the concept of an Asian Economic Community (AEC) in which India might play a leading role (Batra, 2004). While these ideas are not likely to be practical in the foreseeable future, since they do not connect with exactly what is going on in East Asia and the conditions that would be necessary to realize an Asian Economic Community, the foundations are being laid for India to become a significant player in the Asia Pacific economy.

### **What Sort of Asian Economic Community?**

What sort of Asian Economic Community is practical and how might India's role in it evolve?

The scale of Indian development, what is going on in China and East Asia and the growing interaction between the two mean that there are many issues that will draw both sub-regions in Asia together. But neither East Asia nor the two great sub-regions are ready for institutional integration, even in the form of a comprehensive free trade area. Their priority, as for Japan and East Asia in an earlier time, must be for global solutions in global forums, such is the likely scale of their impact on world markets. This priority seems likely to shape their approach to regional action. Moreover, as Soesastro (2006) concludes, 'the East Asian Summit does not represent a significant move beyond ASEAN+3. If countries such as India and Australia, which are new to the East Asian process, can take a high profile, this could well produce a new, exciting process. India's Prime Minister Manmohan Singh talked about the East Asian Summit as a first step towards an East Asian Community

(EAC), which will evolve into an Asian Economic Community (AEC). But it is unlikely that India and Australia will be allowed to ‘hijack’ the process.’

So APEC and ASEAN+3 are still the key instruments of East Asian and Pacific economic cooperation and are likely to remain so for some time. ASEAN+3 is hampered by tensions between Japan and China. APEC has to operate around America’s extra-regional political pre-occupations.

APEC’s rationale today is not in dealing with the accommodation of Japan's rise but in dealing with the rise of China's economic and political reach and the locus of economic power in East Asia centred on China and Japan. The Shanghai Summit was symbolic of this development (APEC, 2001; Zhang, 2000; Drysdale, 2005a). One option is that India may join the club. For now APEC provides a broad and helpful framework for economic and political dialogues between China, the United States, Japan, ASEAN and all their Asia Pacific partners including Russia. The dynamic of China's rise on the region's economic and political transformation was bound to make it so (Drysdale, 1988; Drysdale and Terada, 2006). India’s participation in the East Asian Summit also makes it a more likely candidate for membership of APEC should it choose to press that interest.

For all the activity and bureaucratic energy that have been directed towards bilateral trade diplomacy in Asia and across the Pacific, the results are thus far trivial, and are likely to remain so given the structure of Asia's intra-regional and extra-regional trade and economic interests. The location of relatively labour-intensive component production and assembly within complex, integrated international production and service chains has been a growing feature of the international division of labour, especially in East Asia. This process of broader and deeper integration is at the heart of East Asia's and China's successful trade and economic transformation. If they became deeply entrenched, discriminatory trade arrangements with their complicated rules of origin would contradict and undermine this style of deep and successful economic integration in East Asia (Drysdale 2005b). What is true for East Asia is also increasingly true for India.

The evolution of Asian economic cooperation arrangements does not depend on the success of bilateral preferential trade strategies. There is a large agenda beyond the pursuit of FTAs, or even a comprehensive East Asian FTA, around which East Asian and broader Asian economic dialogues have, and can, be structured. Given the internal tensions within East Asia, such as those between China and Japan, there is a real sense in which the

successful promotion of East Asian regionalism is more likely if it is encompassed within a broader framework like APEC that encourages continuing US engagement in the region and in which the engagement of India is not merely a political tactic but rather a strategic move to engage a partner in a substantial economic process.

There are two aspects of the agenda for cooperation in Asia and the Pacific in the future that require some final comment (Elek, 2005a; Elek, 2005b). The first relates to how the region can contribute to unraveling the mess that has developed in the form of discriminatory trade policy and invigorate the momentum of regional economic reform. This is an issue of immense importance to India. The second relates to how the region deals with the challenges of East Asian arrangements and re-focuses its economic agenda to promote Asia Pacific prosperity.

APEC was never designed to be a negotiating forum on trade liberalization or any other issues. Nor was ASEAN+3 or the East Asian Summit. While there are still those, in North America (Bergsten, 2005) and elsewhere who continue to dream of an Asia Pacific Free Trade Area and the institutionalization of APEC within an FTA framework, this strategy defies reality. The dynamic of economic and political development in Asia and the Pacific promises only the most destructive outcome for any attempt at negotiating a trans-regional arrangement of this kind (Drysdale, 2005). APEC's trade liberalization focus remains clearly on invigorating and strengthening global arrangements. The mess of counter-productive bilateral FTAs emerging in the region demands that priority is accorded to developing rules and strategies within the WTO and within APEC that serve to open FTAs in a way that promotes multilateral trade liberalization and limits their discriminatory effects (Garnaut, 2005). Most of the benefits of trade liberalization are realized by the economy that reduces border barriers to trade. Hence, support for unilateral economic reform and trade liberalization in the structure of APEC, though recently out of favour, remains an important priority for Asian economies, none more so than India and China.

There is, however, a more important economic agenda on which the region now needs to focus. As Dee (2005) has demonstrated persuasively, the biggest gains from economic reform in East Asia, and indeed throughout the Asia Pacific region, come from behind-the-border regulatory reform. As Dee (2005) argues, the big gains are to be had from reforming the non-discriminatory restrictions on competition that affect both foreigners and domestic new entrants to domestic markets equally. This is best done

through domestic initiative, where the debate can be held about how any losses to incumbents and the public gains can be managed politically. The economies within APEC and the Asian arrangements could provide important moral support, and ‘benchmark’ each other in these domestic initiatives.

**Table 2** Reform scenarios and their effects on East Asian welfare

(Deviation from control in real income, measured in US\$ billion per year)

<i>Sector</i>	<i>East Asian economic integration (current?)</i>	<i>Possible Doha round outcome</i>	<i>Comprehensive unilateral regulatory reform</i>
Regulatory reform (services and investment)	National treatment in East Asia	National treatment in the world	Reform of all non-discriminatory regulation in East Asia
	1.7	7.4	107.3
Manufacturing tariffs	Elimination of tariffs against East Asian partners	25% reduction in tariffs globally	
	16.6	12.4	
Agricultural protection	No action	25% reduction in agricultural protection globally	
	0.0	12.8	
Total	(0.3 to 3?) 18.3	32.6	107.3

*Source:* Dee (2005) p.17, FTAP model projections.

The numbers Dee (2005) generates are, indeed, striking — gains of more than five times those that might be available through a comprehensive East Asian FTA (see Table 2). Behind-the- border reform, of course, is often closely linked to, and reinforces, trade

reform. Progress with behind-the-border regulatory reform cannot easily be negotiated within any current international or regional forum. It is a challenge for independent action by national governments. But there are certainly institutional settings at a national level in which progress is more likely and there is a key role for APEC support and capacity-building that encourages common purpose in the pursuit of regulatory reform. Efforts on this and other fronts might also provide opportunity for institutional innovation within the region putting in place decentralized regional cooperation processes that have carriage of its main agendas under the umbrella of leaders and ministers meetings. The most effective way to tackle most remaining border barriers is through the WTO or unilaterally. APEC or Asian arrangements, on the other hand, can be used to facilitate both trade and investment, especially if some Asia Pacific economies set practical examples which others are encouraged to follow.

It might be thought that a role model exists in the European Single Market Agenda that generated very substantial new benefits after its introduction in 1992 (Drysdale, 2005; Elek, 2005), complementing the free trade agreement that Europe has had in place from the late 1960s. While analogous to the EU's Single Market Agenda, a single market agenda in Asia and the Pacific would not sensibly focus on achieving a 'single regional market' at some target date but rather need to be implemented in a way that suits the much more diverse group of economies that comprise Asia and the Pacific. It is an agenda the implementation of which can be sequenced ahead of, alongside and not necessarily after, border trade liberalization (as it was in the case of Europe). Major elements of this agenda are already underway in the context of APEC's work on trade facilitation; this work can be intensified and new elements added as proposed at the Busan Summit. This approach is well-suited to APEC's capabilities. It is consistent with WTO principles, and would take APEC a long way down the path to the Bogor goals. It constitutes a package of initiatives for market integration in the broadest sense, and these initiatives can be pursued in parallel with ongoing multilateral, regional and bilateral trade liberalization efforts. In Asia and the Pacific there would sensibly be no attempt to impose a program of reforms upon those participating but a priority would be to buttress the policy institutions and capacities that encourage and benchmark regulatory and trade reform. These strategies can help to invigorate and re-focus the regional cooperation agenda in the years immediately ahead.

## **Conclusion**

Over the last half century, the Asian and Pacific economy has been the centre of one of the most remarkable transformations in the world economy in modern times. Building policy consensus on how to manage the international economic dimensions of that, and articulating it through APEC, has played a not unimportant role in keeping this achievement on track. The success of East Asia's trade and economic transformation is in part a significant achievement of international economic diplomacy, both within the global system and through innovation in regional economic cooperation. The huge economic and political changes that are being swept along by the third great wave of East Asian industrialization, and the emergence of South Asia as a major centre of world economic growth, present new opportunities for extending this success. While India continues to build its links with East Asian partners through the East Asian Summit and bilateral economic diplomacy, the promotion of an Asian Economic Community which supports reform-driven outward-looking growth and helps to manage the deeper integration in regional and world markets that accompany it may usefully be related to the broader economic cooperation agenda within APEC. APEC continues to play a positive role in reducing these risks, and improving regional outcomes, in both their economic and political dimensions, and the time may well soon be ripe for India to join the APEC process.

## **Notes**

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<sup>1</sup> These include the Mekong-Ganga Cooperation (MGC) initiative and the Bay of Bengal Initiative for Multilateral and Technical Cooperation (BIMST-EC).

<sup>2</sup> Fiscal year data for 2004/5 from India's Ministry of Commerce suggest a share at the lower end of this range while UN Comtrade data suggest a figure at the higher end for calendar year 2004. Data for India's share of East Asian imports are derived from UN Comtrade for 2004.

<sup>3</sup> Data for India's shares of world trade are derived from UN Comtrade.

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