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# ASEAN: perspectives on economic integration: ASEAN in Asia economic integration

## Report

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# ASEAN in Asia Economic Integration

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## ABSTRACT

Asia is one continent which has the most dynamic and the fastest developing economies in the world. But Asia's economic integration is developing too slowly and stands at the lowest level in the world. Many factors have affected Asia's economic integration but, in the current global financial and economic crisis, it is necessary to strengthen Asian countries' cooperation in finance, investment and trade to promote Asia's economic integration. As the healthiest and most integrated regional organisation in Asia, ASEAN should be the centre and platform to promote Asia's economic integration. So we should enlarge financial cooperation among ASEAN, China, Japan, and South Korea. We could firstly discuss creating the Eastern Asia super-sovereign reserve currency so that we create an official currency of East Asian nations, the "Asian Dollar" or "Asi". The purpose of creating "Asi" is to keep its value stable in the long term, and to improve Asia's economic integration.

## THE ASIAN ECONOMIC DEVELOPMENT AND DELAYED ECONOMIC INTEGRATION

Asia is one continent which has the most dynamic and the fastest developing economies in the world. After World War II, Asia's economic growth chain has been built up chronologically through the development of different Asian countries and regions including Japan, South Korea, some countries of ASEAN, China, and India. In the world economic structure, Asia's place has been continuously improving and Asia is one of the world's economic centres, along with Europe and North America.

After World War II, the economic growth of most Asian countries and regions was much faster than European and North American developed countries. Asia's economic scale was enlarged, and its proportion in the world economy increased greatly. From 1953 to 2008, Asian economies' (including Japan) share of the global GDP increased from 5% to 19%.

Most Asian countries and regions generally adopt the export-oriented strategy, resulting in sharp expansion of foreign trade. From 1953 to 2006, Asia's (including Japan) share of global foreign trade increased from 6% to 28%.

Asia's foreign exchange reserves are the largest in the world. In 2006, eight of the top ten foreign exchange reserves were held by Asian countries or regions: 1) Peoples Republic of China (not including Hong Kong or Taiwan), 2) Japan, 4) Taiwan, 5) South Korea, 6) India, 7) Singapore, 8) Hong Kong, 10) Malaysia.

Regional integration and economic globalisation are essential characteristics of the world economy. However, Asia's economic integration is developing too slowly, and is at the lowest level in the world. For example, the EU has completed economic and financial integration, and is carrying out political and judicial integration; North America has set up NAFTA; South America has set up the South

American Common Market (MERCOSUR); and Africa has set up the African Union; but there is not any organization for the whole of Asia to this day. The situation is not fitting given Asia's leading position in the world economy.

## DIFFICULTIES OF ASIA'S ECONOMIC INTEGRATION

There are many reasons for the delay in Asia's economic integration. First, Asia's economic growth is unbalanced. According to World Bank data, some countries, such as Japan, Singapore, South Korea, Kuwait, Qatar, United Arab Emirates, and Saudi Arabia are high income countries. Some countries, such as Malaysia, Lebanon, and Kazakhstan are medium-high income countries. Some countries, such as China, Indonesia, Philippine, and Thailand are medium-low income countries. Some countries, such as India, Pakistan, Bangladesh, Cambodia, Laos, and Vietnam, are low income countries. For example, the GDP per Capita of Qatar was \$70,754 in 2008, third in the world; but Myanmar's \$239, No.173 in the world. Unbalanced economic growth is one of main difficulties for Asia's economic integration.

Second, Asia has diversified cultures, religions, and customs. Asia is one of the cradles of human civilisation. Three of the four great ancient civilisations originated from Asia - China, Babylon, and ancient India. The world's three major religions, Buddhism, Islam, and Christianity, also originated from Asia. A long history and brilliant ancient civilisation are an Asian treasure but they are also reasons causing Asia's diversification - so they influence the progress of Asia's economic integration.

Third, there are still some issues and problems of security in Asia. After the Cold War, Asia's security situation looked like being moderated and stable, but there are still some historical and new security issues and problems. For example, the Korean Peninsula issues, the Japanese history issue, the war

on terror in Afghanistan, and the Iran nuclear issue. Those issues and problems have also brought some negative consequences to the progress of Asia's economic integration.

## GLOBAL FINANCIAL CRISIS AND ASIA'S ECONOMIC INTEGRATION

Generally speaking, the level of development of most Asian countries is lower than European and American developed countries. A lot more needs to be done for the development of the Asian economy.

Most Asian countries take the export-oriented strategy, so that they depend on foreign market too much. Due to economic globalisation and the old irrational international economic order, Asian developing countries face more and more financial and economic risks. In the 1997- 1998 financial crisis, the attack on Southeast Asian countries was very severe. In 2008, Wall Street's financial tsunami led to global financial and economic crisis which has hit the Asian economy even more seriously. Japan has fallen into recession, and in the new economies of China and India economic growth slowed for the first time in many years.

Therefore, Asia faces the challenge to perfect the financial system, to change the growth model, to restructure industry, and to execute standing development. In order to solve the global financial crisis, global cooperation has to strengthen.

In Chinese, the word "crisis" has two meanings, danger and chance. Recently, at the London summit, the leaders agreed on steps to strengthen financial supervision and regulation, and to reform the international financial system. The recent global financial crisis provides a chance to promote Asia's economic integration. Under this situation, it is necessary to strengthen Asian countries' cooperation in finance, investment and trade to promote Asia's economic integration.

## USING ASEAN AS THE CENTRE TO PROMOTE ASIA'S ECONOMIC INTEGRATION

Asian economic integration has a paradox: one is that it has the difficulties described above; another is that both Asia's economic status and need to fight the financial crisis require the integration. Therefore, using ASEAN as the centre to promote Asia's economic integration is a reasonable and feasible path.

ASEAN is the healthiest and most integrated regional organisation in Asia. After Cold War, its integration was speeded up and it now includes ten Southeast Asian countries. In addition, it has also promoted cooperation and integration for its members, built the ASEAN Free Trade Area and Investment Area. ASEAN has promoted multilateral dialogues within Asia as well as globally, and funded some cooperation regimes including the ARF (Asean Regional Forum), the 10+3, the 10+1, and ASEM (Asean-Europe Meeting).

Therefore, ASEAN has already played an important role to help Asia's integration and has done some fundamental work for Asia's integration. Using ASEAN, the 10+3 and the 10+1 as the centre and platform would be a good way to avoid or confront the above difficulties.

## SUGGESTIONS AND STEPS FOR ASIA'S ECONOMIC INTEGRATION WITH ASEAN AT THE CENTRE

1) Enlarge financial and monetary cooperation between China and ASEAN.

Since China became a full dialogue partner of ASEAN in 1998, their relationship has been running well, and much dialogue and cooperation regimes between China and ASEAN have already been set up. Particularly, in 2001 the both sides decided to set up China-ASEAN Free Trade Area within 10 years and this programme is being carried out.

Therefore, there is great foundation and arrangement system for economic integration of China and ASEAN. Based on this, both sides should strengthen financial and monetary cooperation. For example, they could set up some leader meetings for their central banks and big commercial banks. China's government decided to open 5 cities for RMB clearing pilot cross-border trade in Shanghai, Guangzhou, Zhuhai, Shengzheng, Dongguan. ASEAN could discuss the RMB clearing issue with China, to decide how to operate RMB clearing for trading purposes between China and ASEAN in some Chinese cities such as Nanning and Kunming.

2) Improve financial and monetary cooperation among ASEAN, China, Japan and South Korea, and create the "Asian Dollar" or "Asi" in East Asia.

Asia is getting more and more important in the current financial world. Today, current international foreign exchanges reserves are up to \$7 trillion, and Asia holds more than 70% of the amount of international foreign reserves. On the other hand, the international financial is still dominated by the US and Europe, and the international monetary system still goes by the

US dollar standard. Those two factors threaten Asia's foreign exchange reserve security, so it is necessary to reform the international financial, monetary and currency system. In addition, the financial crisis provides Asia opportunities to improve their cooperation and to lead international financial system reformation.

With ASEAN at the centre, Asia's financial and monetary cooperation has already made some basic progress. On May 2000, ASEAN, China, Japan and South Korea (10+3) agreed to sign "Chiang Mai Agreement". On June 2005, the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) announced that Asian Bond Fund was formally activated by the central banks of 11 governments. On April 18th 2009, China's Premier Wen Jiabao at Boao Asia Forum announced that China plans to establish a \$10 billion China-ASEAN investment cooperation fund to promote infrastructure that connects it to ASEAN nations.

Recently, China's central bank governor, Mr. Zhou Xiaochuan suggested the creation of a new international reserve currency to take place of US dollar. The new international reserve currency is a super-sovereign reserve currency and keeps stable valuation in the long term. His suggestion was supported by many leaders from developing countries and international organizations. The issue will be also discussed on the G20 New York summit on September 2009.

In my opinion, regarding the above system, ASEAN, China, Japan, and South Korea could firstly discuss the creating of an Eastern Asia super-sovereign reserve currency so that we could make realisation of an official currency of East Asian nations, the "Asian Dollar" or "Asi" possible. The purpose of "Asi" is to keep its value stable in the long term.

The path to the creation of "Asi" could also benefit from the experience of creating the Euro. As a first step, it could be used in the trade clearing among

the ten members of ASEAN, China, Japan, and South Korea. Second, it could be expanded into the trade clearing among the other Asian nations. The third step would be for it to become an international currency with stable value in the long term.

Collectively, these measure would improve Asia's economic integration through Asia's financial cooperation and the creation of Asian super-sovereign reserve currency "Asi". ■