

Europe Meets Asia: Regional Cooperation and Integration  
Ten Years After the Asian Financial Crisis

**Comments on Srinivasa Madhur's presentation  
"Deepening Asian Integration: Issues and Challenges"**

Berlin, 25 September 2007

---

Dr. Stefan Kooths  
DIW Berlin , Macro Analysis and Forecasting

## General remarks

- Very **pessimistic** (maybe realistic) about the prospects of creating common Asian institutions in the foreseeable future **for political reasons** (lack of appetite)...
- ..., but a more **normative** (maybe unrealistic) approach might also be very instructive to show the potential benefits of regional integration **from an economic point of view**.
- "Asia is not Europe, and 2007 is not 1957"
  - Absolutely, a copy-and-paste like approach is unsuitable
  - A systematic overview of the main structural differences might be interesting (e.g., is catching up easier today than it was 50 years ago?)

## General remarks (cont.)

- **Integration**
  - Measured by economic outcome (e.g. trade and investment flows or price divergences)?
  - Measured by policy framework (e.g. degree of common regulations, level of tariffs)?
- **“Europe – a global benchmark on regional integration”**
  - In terms of performance (intra-area trade, investment, migration, growth, income-equality ...)?
  - In terms of principles (democracy, subsidiarity, competition, ...)?
- **From an Asian perspective, what are *concrete examples* for lessons (positive and negative) to learn from the European integration process so far?**

## Snapshot of the Asian Economy

- *"Pragmatic* national economic institutions and policies will continue to play a key role in navigating the Asia's economic success story."
  - Ad hoc rather than per se regulations?
  - Are there more abstract principles of economic policy that are common to all Asian countries?
- To what extent does Asia's economic success story (China's and India's catching up process in particular) affect future global trade flows? E.g., with real wages increasing, export ratios decrease (typical for large developed countries) and the global pattern of division of labor also changes

## Sequencing

- “today trade barriers both globally and within Asia, especially East Asia, are much less than when Europe started its integration initiatives”:
  - The European Common market implies more than the abolition of traditional trade barriers (e.g. common competition principles, common policies for specific industries)
  - With respect to markets for goods and services Asia might appear more integrated than it is when focusing too much on formal international trade barriers (at least from an EU perspective)

## Sequencing (cont.)

- “Freer capital flows would not give Asia the luxury of delaying financial integration”
  - Indeed, freer capital flows require deepening and integration of financial markets/institutions for the sake of financial stability
  - Luxury in terms of time for policy actions, not in terms of the policies themselves
    - money and financial markets are network goods
    - financial integration as part of the economic strategy for the less developed Asian countries (institution building, transfer of regulatory knowledge)
- “general lack of appetite ... for monetary integration”
  - Where does the *general lack of appetite* come from? Is there an economic background to it?

## Style

- **“The efficacy of buying political support for economic integration through publicly funded expenditure programs (as done in Europe) in Asia is fraught with difficulties.”**
  - EU-expenditure: about 1 % of GDP
    - not excessive compared to national budget quotas
    - ideally, this ratio is derived from economic criteria
  - Difficulties: Raising funds? Allocating funds?
- **“Thus, compared to Europe, Asian integration is likely to be less institution-intensive”**
  - Common institutions need not necessarily show in higher expenditure programs (rules and regulations as institutions)

## Style (cont.)

- “Asia would, therefore, benefit more from ‘open method’ of cooperation and coordination than the European ‘community method’”
  - Seems to be the core difference, but what exactly is an *open method of cooperation and coordination* as opposed to the community method?

## Scope

- “The appetite for regional integration vary vastly across subregions in Asia as well as among countries within subregions.”
  - Due to different prospects of gains from integration (or the perception of such gains)?
  - Appetite = power politics?
  
- Over time, subregional integration could form the building blocks for a pan-Asian integration
  - Is there a common pattern within the subregional integration processes that are similar to that of the EU (core + peripherals)?

## **Speed**

- In East Asia, while trade integration is likely to accelerate in the coming years, monetary and financial integration will perhaps proceed at a much more modest pace

## Trade track

- “Should Asian trade integration be APEC-wide? There are arguments on both sides of this question.”
  - What are the pros?
  - What are the cons?
- “The key immediate challenge, of course, is to design and implement the various FTAs”
  - Are there any initiatives beyond the trade aspect (shaping of common markets)?

## Building financial institutions

- “But given the small size of several individual economies, regional-level initiatives at building integrated financial markets would also be increasingly important.”
  - Absolutely (see above)!
- “Australia and New Zealand—as *developing* countries”
  - Probably a typo (should be *developed* countries)
- “The challenge is one of building an integrated Asian financial market with *minimum supranational institutions* and *maximum national freedom* in policy making.”
  - Ok, but is it specific to Asia (or rather a general policy rule)?

## Monetary integration

- „ progress in monetary integration is likely to be much more gradual than trade and financial integration“
  - Isn't there a tacit form of exchange rate coordination via the dominant role of the US-dollar (formal vs. de facto integration)?
- “since monetary integration tends to be institution-intensive in that it requires *delegation of policy autonomy* to a regional arrangement, mustering political support would be much more difficult”
  - What autonomy? De-facto monetary autonomy is highly limited given the other policy goals (monetary policy trilemma)

## **Other aspects of regional integration**

- **To what extent is migration an issue for Asia?**
- **Market integration for goods and services (beyond trade integration)**
- **Monetary integration and fiscal policy coordination (deficit rules)**