

INTRODUCTION

Though Asian countries are diverse on many levels, there exist common concerns that create interdependency. One is the emergence of China and India as giant economies, which has long and short term consequences for Asia that cannot be ignored.

This paper aims to illustrate how Asian integration is a feasible strategy for responding to the China and India challenge. The emergence of China and India poses threats and opportunities to East Asia that require a strategy of integration. This would create a dynamic Asia with a common voice on the global stage. The paper begins with the premise that it is important for Asian countries to act as responsible players with a commitment towards achieving regional integration. The impact of China and India on East Asia will be detailed along with a way of employing integration as a strategy, several recommendations for the integration process and the future vision of an empowered Asia.¹

IMPACT OF CHINA AND INDIA ON EAST ASIA

Economic impact

China and India have repositioned themselves, and can be viewed by the East Asian countries from the following perspectives. (Table 1 illustrates the following with respect to several countries in East Asia.)

Markets

China and India's increasing economies can potentially be large markets. In 2005, China's external trade reached USD 1,422 billion, ranked third in the global economy. This has created a greater capacity for consumption by its large population, as evidenced by the fact that retail sales of consumer goods grew by 13.3% in 2004 and 12.9% in 2005, increasing by 13.6%² in the first eleven months of 2006.

Investment

China and India present opportunities for investment from developed countries especially those with manufacturing and IT as key industries. Between 2004 and 2006, China has seen continuous growth of fixed assets investment by 27.6%, 27.2% and 26.6% in each successive year, respectively. India, meanwhile, is believed to be a good place for investment by foreign investors despite its political uncertainty and infrastructural deficiencies. India's vast potential for overseas investment is also boosted by its economic openness policy³, which actively encourages the entrance of foreign players into the market.

China and India have symbiotic relationships with East Asian countries; the East Asian community is a market as well as an investment opportunity for China and India. Just as China and India export products into East Asian nations, they also invest extensively into these same markets. Some examples are China's investment in the automotive industry in Vietnam and Indonesia, and India's investment in the IT system in Malaysia's Cyberjaya.

Political impact

Shift in global power balance

China and India's political influence is increasing in accordance with their

WHAT CHINA AND INDIA'S ECONOMIC DEVELOPMENT CAN BRING TO ASIA

ASIA INTEGRATION – A RESPONSE TO THE CHINA AND INDIA CHALLENGE

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	Indonesia	Philippines	Singapore	Thailand	Malaysia	Japan	Vietnam
Natural	Agriculture Oil, Gas Ocean	Basic metals		Agriculture PR			
Human	IT Health	Health	Education				
Intellectual		Call centers	Biomedical IPR SME WM	Medicine	Biotech Putrajaya Cyberjaya	Transport Info-systems	
Invest	Parts (products)	Health	Construction		High enterprises		Motorcycles
Market	Bonds Tourism				Tourism		Products

Table 1
Examples of Current Economic Relations of East Asia with China & India

rapid economic growth and huge populations. There are fears in some quarters that the rise of China as an economic superpower threatens the US economy⁴.

Changing belief in economic model

Chinese economic growth based on the socialist market model has shaken the belief that the US neo-liberal market economy is the appropriate model for worldwide application.

Social impact

Inequality of East Asian economic capacity in the region

Less developed countries such as Cambodia and Laos have been excluded from the regional economic development in East Asia. The inequality in terms of economic capacity is affecting Asia’s ability to reap mutual benefits.

Rising unemployment in East Asia

With the large number of low-wage labourers in China and India, the flow of FDI may be diverted from East Asian countries to China and India, raising unemployment levels.

STRATEGY

Framework

Figure 1 illustrates the framework for the strategy we propose in this paper. We propose East Asia to move towards greater integration. Such a strategy is vital, as the rise and projected prosperity of China and India also increase their reliance on the preservation of a vast network of foreign suppliers, markets and investments.

Table 2 illustrates that the percentage of intraregional trade share within the East Asian countries in 2003 was less than the share that the European Union (comprising 15 countries) had in 1980. By comparing the intraregional trade in both regions, we find that it would not

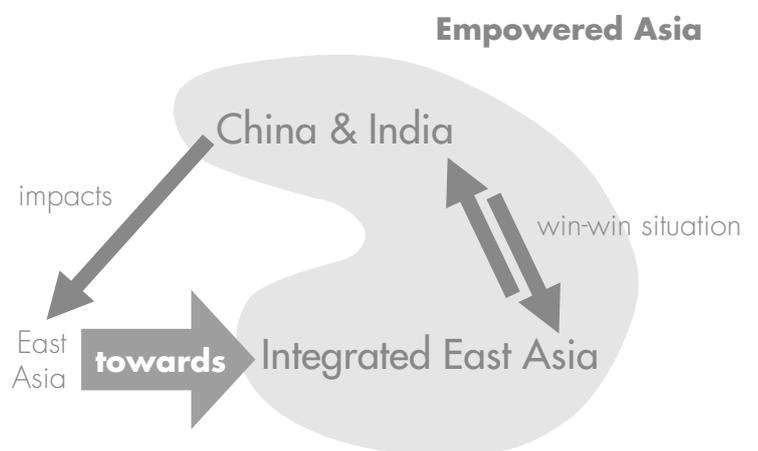


Figure 1
Framework of East Asian Response to China and India’s Challenge

	1980	1985	1995	2000	2001	2002	2003
East Asia*	27	29.5	31.3	37.4	37.6	40.2	37.9
European Union	52.4	52.5	58.6	62.2	62.1	62.4	64.4

Table 2
Illustration of percentage of intraregional trade share in East Asia and the European Union

be feasible for the East Asian nations to undertake a radical integration process and should begin instead with a process of gradual integration.

Rationale for strategy

Balancing progress throughout the region

The economic stability of East Asia is dependent upon the equitable development of all nations in the region. This paper will explain in detail at a later point the mechanisms which would allow more-developed nations to aid their counterparts.

Advantages of a bigger group

There are two main advantages to the formation of regional blocs. Firstly, a collective voice has more influence, with greater power and freedom against external forces. Secondly, it would lead to a facility of intra-regional cooperation in dealing with socio-political issues as well as economic and humanitarian disasters.

RECOMMENDATIONS FOR INTEGRATION OF EAST ASIAN COUNTRIES

Economic Recommendations

AFTA V.2

The objective of the Asian Free Trade Area is to eventually remove all tariffs and trade barriers between its member states by 2010. Though all ASEAN members have ratified the agreement, there are three major issues. Firstly, many ASEAN members have refused to lower tariffs for key industries. Secondly, sanctioning violations is impossible due to the principle of non-interference. Thirdly, there is currently no effort to distinguish key industries within economies. It is therefore imperative to make AFTA more effective in combating these issues.

AFTA V.2 seeks to make the following changes to the current inception of AFTA:

The economic ministers of each member nation will sit together in AFTA meetings during ASEAN summits.

- Each minister will identify his/her country's key industry (KI) or comparative advantage. These industries will receive extended protection from liberalization, ensuring the protection of the country's economic backbone. This is different from AFTA's current, indiscriminate plan for complete liberalization, which may hurt particular countries that are required to expose their key industries to the unmitigated inflow of foreign products. This also differs from AFTA's existing Highly Sensitive List (HSL), which does not have a nuanced identification of key industries that suits each country's comparative advantage.
- The economic ministers will ensure that each state complies with economic liberalization requirements.
- Countries will face Collective Economic Sanctions (CES) from other member nations. It entails the joint raising of tariffs against the violating member nation's key industry. It serves as a deterrent threat to ensure compliance.
- AFTA V.2 meetings will include key partner (KP) nations, which tentatively include Japan, China and India.
- The presence of KP nations allows for their familiarization with the current status of South East Asian economic developments, and will provide an avenue for suggestions. KP nations will have the option of pulling investments out of member nations that violate AFTA V.2 agreements, adding further strength to the CES. Should these KP nations be officially included in ASEAN, they will also be given full member privileges within AFTA V.2.

LDC Protection Policy

The Less Developed Countries (LDC) Protection Policy aims to aid East Asian countries who have been unable to ride the waves generated by China and India. The LDC Protection Policy works on the premise that the governments of the more developed countries agree under AFTA V.2 to adhere to this policy. Their membership in this group will provide the political pressure to support LDCs in the region, such as Cambodia and Laos.

The LDC Protection Policy includes the following:

- **Encouraging FDIs in LDCs**

Investments in LDCs could be encouraged through tax reductions for companies that invest in the LDCs. Should any two countries have a pre-existing agreement eliminating double taxation, the more developed countries should then aid the LDC to create a positive climate for foreign investors, by providing expert counsel.

- **Official Development Assistance (ODA)**

The developed countries can further aid LDCs with funds through Official Development Assistance (ODA). The ODA can be used for needed development such as infrastructure and educational systems.

However, there are also disadvantages to providing ODA. If the LDCs become too dependent on the ODA, they may face the accumulation of states. In addition, ODA funds may be ineffective in the face of corruption.

Ad-hoc network associations

Though the creation of a common policy system will further the integration process, it cannot be achieved overnight. Meanwhile, East Asian nations may leverage their existing association systems to establish a common voice in their key industries. These industry associations will have the necessary industrial expertise to solve problems and will also have links with the majority of enterprises in key industries. This will enable associations to gather enterprises together and seek unified solutions.

SUGGESTIONS FOR FUTHER INTEGRATION WITH CHINA AND INDIA

Increasing each country's comparative advantage by integrating each other's comparative advantage

- ***Move labour-intensive industries to China, but base Key Industries locally***

East Asian countries should not force their domestic industry to lower costs. They should consider outsourcing to China, while keeping their Key Industries based locally so as to have more control over their development.

- ***Move research projects to India***

Public goods research can be outsourced to India, especially for pharmaceutical products. This investment will benefit India, while allowing East Asian countries to enjoy the lowered costs brought about by outsourcing such research projects.

- ***Continue seeking market niches through local research and development***

Each country should find its own market niche so as to increase and develop its own comparative advantage.

Increase investments in peripheral economics area in China and India

The integration of East Asian countries with China and India would create dependencies among the countries. Advanced countries such as Japan can invest in undeveloped areas like inland China to overcome the inequality and cool an overheating economy. In addition, trading infrastructure such as transportation and telecommunication must be developed to increase the accessibility of undeveloped areas.

CONCLUSION – FUTURE VISION OF AN EMPOWERED ASIA

Just as no man is an island, Asian economies need to complement instead of compete against each other. Economic integration will bring about shared identity and greater interdependence. It will also lead to developmental progress, without leaving behind weaker countries. Unity will lead to exponential growth for the entire region. Furthermore, the united East Asian region will be trusted with the mandate to act as a responsible player in the global arena. The recommendations in this paper are aimed at leading East Asia towards a common voice as we aspire toward a better future for the region.

¹ The terms 'East Asia' and 'Asia' are applied differently in this paper. 'East Asia' includes the ASEAN countries and Japan, while 'Asia' would encompass a broader region including China and India.

² <http://www.tdctrade.com/main/china.htm#3>

³ http://finmin.nic.in/foreign_investment/fii/index.html

⁴ <http://www.fas.org/sgp/crs/row/RL33604.pdf>

⁵ ADB, 2006

