Drivers and Draggers of Regional Economic Cooperation and Integration in Asia and the Pacific

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Abstract

This paper examines the major drivers and draggers of regional economic cooperation and integration (RECI) in Asia and the Pacific (AP). Using both quantitative measures and qualitative evidence, it assesses the roles played by four key determinants of RECI across AP, its subregions, and countries: geography and connectivity; national economic policies; governance and rule of law; and institutions and geopolitics. The assessment suggests that East Asia has been fortunate to have been endowed with favorable geography. At the same time, its national economic policies and governance standards (in terms of government effectiveness, regulatory quality, rule of law, and control of corruption) have been key drivers of its cross-border economic integration, despite its much less democratic political regime. South Asia is almost the obverse image of East Asia – despite a reasonably favorable geography and decades of democratic political regime, its national economic policies and governance standards have been major draggers of cross-border integration. In many ways, Southeast Asia is somewhat closer to East Asia, while the Pacific is somewhat similar to South Asia (except that the Pacific had to content with an unfavorable geography that has been a major dragger of its cross-border integration). Central Asia presents a much more mixed case – it's land-locked geography as well as somewhat poor governance parameters have acted as draggers on the subregion's cross-border integration, even as its trade and investment policies have been relatively more open and hence integration-friendly. Political commitment – perhaps the overarching driver of RECI and its institutionalization - is lackluster almost across AP. That said, political commitment seems to be the highest in Southeast Asia and the least in South Asia, with other subregions falling somewhere in the middle of this spectrum..

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1. Introduction

This year marks a milestone in Asia's regional economic cooperation and integration (RECI). The ten-member Association of Southeast Asian Nations (ASEN) has just launched the ASEAN Economic Community (AEC) and the Trans-Pacific Partnership (TPP) trans-regional trade agreement – of which many Asian countries are already members and several more are considering joining in the near future – has been signed last year and now awaits ratification by the member countries[1]. These events have the potential to bring about unprecedented changes in the region's RECI landscape in the coming years. Both these events come on the back of the ESCAP member states adopting Resolution 70/1 in their December 2013 Conference. The Resolution, also known as the Bangkok Declaration, underscores the need for the AP governments to accord high priority to RECI as a platform for promoting the region's sustained growth and inclusive development[2].

Against the backdrop of this renewed interest and emphasis on RECI, this paper examines the past progress and emerging trends in RECI and identifies the major drivers and draggers of RECI across AP's many subregions. Section 2 sketches AP's integration in a global context and compares the degree of economic integration in AP (and across its subregions) with other parts of the world. The paper then examines the drivers and daggers of AP integration across the many facets of RECI: geography and connectivity (Section 3); national economic policies (Section 4); governance and rule of law (Section 5); institutions and geopolitics (Section 6); Section 7 summarizes the lessons learnt from recent experiences in each of these areas of RECI and concludes by briefly sketching the way forward.

A key contribution of the paper is the quantification and comparison of the many drivers and draggers of RECI across AP, its subregions, and countries. This complements the existing work on the subject that relies mostly on qualitative analysis of the issues and/or use minimal quantitative measures. The aggregated and often 'composite' indicators used for quantifying the drivers and draggers of RECI in the paper – some of which are also based on public's perception surveys than on hard data - have practical limitations in assessing the drivers and draggers of RECI in the various subregions within AP. These limitations should be kept in interpreting the key conclusions arrived at in the paper. That said, many of these indicators are commonly used to assess differences in policy stances across countries. Moreover, "it is better to be roughly right than precisely wrong"[3].

Before delving into details, it is important to define the two inter-related yet distinct components of RECI – 'cooperation' and 'integration'. Following ADB (2006), 'regional

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1 A recent assessment of the global and regional implications of the TPP is in World Bank (2016), chapter 4.

2 Interestingly, it was another Bangkok Declaration – the ASEAN Declaration by the Foreign Affairs Ministers of five Southeast Asian Nations of Indonesia, Malaysia, the Philippines, Singapore, and Thailand almost half a century ago in 1967 - that gave birth to Asia's first postwar regional forum in the form of the ASEAN.

3 As John Maynard Keynes said.

integration' refers to a process through which economies in a region become more interconnected. Such regional integration, in turn, can result form either market-led and private-sector-driven trends or government-led policies and collective initiatives. The latter - collective policies and initiatives by the governments - are referred to as 'regional cooperation'. Moreover, such regional cooperation could be achieved either through formal institution-intensive, intergovernmental initiatives among the member countries or through informal, institution-light cross-border cooperative mechanisms (ADB 2010). Regional integration is thus broader in scope than regional cooperation. "The two could, however, be mutually reinforcing in the sense that regional cooperation can deepen regional integration and at the same time rising regional integration can propel governments to cooperate collectively to internalize externalities created by integration" (ADB 2006: 1). At times, the term 'regionalism' is used as a hybrid term to refer to one or more components of either regional integration or cooperation (ADB 2008).

2. AP and its Integration in a Global Context

The center of gravity of the global economy has been shifting towards AP and this trend is most likely to continue in the decades to come. In the postwar years, much of AP was in dire poverty and the region's share in the world economy had fallen to its lowest level for centuries. Measured in terms of market exchange rates, AP's share in global GDP had fallen to about 15 percent by the early 1950s. Economic realities have, however, undergone a sea change in the last half a century.

Economic miracles by successive countries in the region - starting with Japan and continuing with a host of others at regular intervals - have enabled AP to re-emerge as a dominant force in the global economy. AP has not only got bigger but also richer. By 2014, the region's share in global GDP has risen to about 32 percent (EIU 2015). A number of studies indicate that by the middle of this century AP could regain the dominant position it once held in the world some 250 years ago before the industrial revolution[4].

2.1. Evolution of AP's Integration

The region's impressive economic growth and the development dynamism owes as much to its success in developing an intricate web of regional supply chains and production networks, often referred to as 'Factory Asia', as to outward-oriented policies at national levels. By coming together, the AP economies have grown much stronger. The beginnings of today's 'Factory Asia' could be traced to Japan's miraculous postwar

[4] For example, one such prominent study projects that AP's share in world output at market exchange rates could rise to over 50 per cent by 2050, with only seven countries - China, India, Indonesia, Japan, Korea, Malaysia and Thailand - together accounting for about 45 per cent (Kohli et. al. 2011). A more recent study echoes this assessment and projects AP's share in global GDP to reach 53 percent by 2050 (EIU 2015). If these projections come true, by 2050 Asia's average annual per capita income at purchasing power parity prices could be about US$40,000 - similar to Europe's today (Kohli et. al. 2011).

economic growth[5].

Japan's unprecedented economic success in the first two decades of the post-war period began putting pressure on its domestic wages and production costs. Japan's firms had to look for relocating to poorer countries with cheaper labor. Japan's industrial relocation initially targeted the then newly industrializing economies (NIEs) of Hong Kong, Taiwan, and Singapore and subsequently to the Philippines, Thailand, Malaysia, and Indonesia. The 1985 Plaza Accord hastened Japan's industrial relocation by putting added pressure on its already rising domestic labor costs. A 'Mini-Factory Asia' was emerging with a Japan-centered production network and supply chain. As the NIEs moved up the economic ladder, so did their wages too. The NIEs also joined Japan in relocating some of their own labor-intensive industries to the ASEAN 4 (Indonesia, Malaysia, Philippines, and Thailand).

Then came the big bang – China's opening up and the reintegration into the regional and global production networks and supply chains – transforming the 'Mini-Factory Asia' into a major 'Factory Asia'. In more recent years, 'Factory Asia' has been extended to countries in the Mekong region (Cambodia, Laos, and Vietnam) as these latecomers to industrialization - like the People's Republic of China (PRC) before them – are developing manufacturing assembly operations and connect with the regional production networks and supply chains. With Myanmar now coming out of its long period of isolation from the region as well as the global economy, it is only a matter time before it too becomes an integral part of the extended 'Factory Asia'.

For the most part, 'Factory Asia' involved intraregional trade in parts and components - exceptional cross-border shipments of both raw materials and manufacturing parts and components that crisscrossed the region with the concomitant rise in intra-regional movement of direct investment and financial capital (ADB 2010). In more recent years, however, that process has increasingly been complemented by growing trade in consumer goods, as a sizable middle class is bolstering private consumption in the region. Estimates place the size of AP's middle class consumers in 2009 - defined as those whose daily expenditure are in the range of \$10-\$100 in purchasing power parity terms - at about 525 million,[6] or about 28 percent of the 1.8 billion global middle class population (Kharas and Gertz 2010)[7].

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5 Due to that unprecedented success, as early as 1964 Japan had already become the first Asian member of the Organization for Economic Cooperation and Development (OECD). Although Japan's growth slowed in the subsequent decades, it still remained quite robust.

6 A quarter of these AP middle class consumers are now in Japan.

7 On current trends, the number of AP's middle class consumers could be about 1.7 billion (about 54 percent of the global total) by 2020 and about 3.2 billion (about two-thirds of the global total of 5 billion) by 2030 By around 2020, China alone will have about 670 million middle class consumers, compared to only about 150 million in 2009. These trends are also being reflected in the structural changes in the sources of China's economic growth from investment to consumption on the demand side and from manufacturing to services on the sectoral side (World Bank 2016). It is estimated that in 2015, for the first time in 300 years, the number of Asian middle class consumers equaled those in Europe and North America put together (Kharas and Gertz 2010: 2).

Another recent trend in AP RECI has been the increasing role of governments. With minor exceptions, AP's integration until the 1997-98 Asian financial crisis was mostly a private-sector-led, market-driven process. After 1997-1998, governments have taken several collective initiatives to support that market-led process, although the region's intergovernmental institution-building efforts are still in its early stages (ADB 2008; ADB 2010; ESCAP 2012).

2.2. AP's Integration Today

How does AP now compare with the other regions in the world in terms of RECI? This is not an easy question to answer, since regional economic integration is a multi-dimensional concept. Encouragingly, a recent study computes composite indicators of economic integration that attempts to capture RECI's multi-dimensional nature (Naeher 2015). In terms of these composite measures, the overall degree of AP's regional economic integration seems to be much higher than in Africa, closer to that of Americas, but lower than that of Europe (Figure 1).

Figure 1: Regional Integration Across Major Regions in the World

Region	Composite Regional Integration Index	Trade and Investment	Monetary and Financial	Cross-boder Mobility
Asia-Pacific	0.28	0.26	0.15	0.42
Europe	0.41	0.46	0.35	0.43
Americas	0.31	0.32	0.13	0.48
Africa	0.17	0.07	0.01	0.42

Source: Author, based on data from Naeher 2015 (the degree of integration is proportional to the size of the circles)

These relative rankings of regions within the world remain almost similar across the three dimensions of regional economic integration – trade and investment, monetary and financial, and cross-border mobility of people.

Within AP, however, there are wide variations in the degree of economic integration across its major subregions (Figure 2). East Asia has attained the highest overall economic integration – lower than only that of both Western Europe and North America but higher than the other major subregions in the world. In terms of overall economic integration, Southeast Asia ranks second within AP, followed by the Pacific and the Oceania, South and Central Asia. However, excluding Australia and New Zealand, the Pacific subregion has much lower economic integration than the other subregions.

Figure 2: Regional Integration Across Major Sub-regions in the world

Sub-regions	Composite Regional Integration Index	Trade and Investment	Monetary and Financial	Cross-border Mobility
Western Europe	0.89	1.00	1.00	0.68
North America	0.62	0.65	0.31	0.90
South America	0.27	0.28	0.06	0.46
Western Africa	0.25	0.12	0.01	0.60
East Asia	0.50	0.68	0.22	0.62
Southeast Asia	0.38	0.42	0.21	0.50
South Asia	0.11	0.08	0.01	0.24
Central Asia	0.11	0.09	0.01	0.23
The Pacific	0.02	0.04	0.01	0.02
Pacific and Oceania	0.23	0.12	0.09	0.47

Source: Author based on data from Naeher 2015 (the degree of integration is proportional to the size of the circles. Integration indexes range from 0 to 1 (least integration to highest integration). Data for the Pacific not included in Dominik 2015 but courtesy Dominik Naeher through Email communications with the Author.

In terms of trade and investment, East Asia's subregional integration is higher than that of North America but lower than that of Western Europe. Southeast Asia's trade and investment integration is lower than that of East Asia but much higher than that of the other subregions. In comparison to western Europe, monetary and financial integration is limited in almost all other subregions across the world. Within AP, East Asia and Southeast Asia have roughly the same levels of integration, while other subregions have hardly much monetary and financial integration.

Across the world, integration in terms of cross-border people mobility is the highest in North America and the lowest in the Pacific (excluding Australia and New Zealand)., Within AP, the degree of cross-border people mobility is the highest in East Asia – only marginally lower than in western Europe - followed by Southeast Asia, Pacific and Oceania, South Asia, and Central Asia.

3. Geography and Connectivity

To some extent, the variations in economic integration across the subregions within AP may be reflecting the differences in geography. By playing a decisive role in how countries are connected – by sea, land, and air – with their immediate neighbors, with other subregions, and indeed with the rest of the world more generally, geography could be either a help or a hindrance to cross-border integration[8].

Since 80 percent of the global merchandize trade is routed through sea, countries and subregions located near seaports and shipping lines – those with better sea-connectivity – get a head-start in cross-border economic integration. Better air connectivity supplements sea-links, especially for the movement of time-sensitive, low-weight, high-value merchandise. Moreover, air connectivity plays a much bigger role in cross-border movement of people – for tourism, business, and migration.

3.1. AP's Subregional Connectivity

Within the AP region, East Asia is the best sea-linked subregion, as reflected by the composite shipping connectivity index using country population weights[9] (Table 1). That

[8] More than 200 years ago, Adam Smith – the father of modern economics - in his 'Wealth of Nations' highlighted the importance of geography and connectivity for achieving prosperity through integration: "Good roads, canals, and navigable rivers, by diminishing the expense of carriage, put the remote parts of the country more nearly upon a level with those in the neighborhood of the town. They are upon that account the greatest of all improvements." (Quoted in Madhur et. al. 2009: 1).

[9] All the subregional composite indicators reported in this paper are constructed by using country populations as weights. Alternatively, these composite indicators for the subregions were also constructed by using the square root of country populations as weights. Except for minor variations, the results from these indicators, not presented in the paper, were broadly comparable to the results presented here.

seems to have strengthened the subregion's trade and commercial connections. Moreover, China and the other East Asian countries had the advantage of being strongly linked to Hong Kong – a major international entreport.

Table 1: Geography and Connectivity Across Sub-regions in Asia-Pacific (Weighted by Country Populations)

Sub-regions	Liner Shipping Connectivity Index (2004-2015)	Air Connectivity Index (2007)
East Asia	155.9[1]	5.6%
Southeast Asia	32.9[2]	3.3%
South Asia	40.9[3]	3.6%
Central Asia	n/a	3.0%
The Pacific	7.3[4]	1.1%
Pacific and Oceania	24.1[4]	5.2%

Source: Author's estimates based on UNCTAD Database (Liner Shipping Connectivity index), and World Bank working paper 2011 (Air Connectivity Index)
Notes to Table 1:
1) Data for Mongolia not available
2) Data for Laos not available
3) Data for Afghanistan, Bhutan and Nepal not available
4) Data for Cook Islands, Nauru, Timor-Leste, and Tuvalu not available

With a shipping connectivity index of 167, China is the most sea-linked country in the world[10]. Other East Asian economies too have quite high shipping connectivity indexes – Hong Kong (117), Korea (113), Taiwan (76), Japan (69). Only Mongolia in East Asia has poor sea connectivity. Most East Asian countries have robust air connectivity too. China leads the table with an air-connectivity index of 5.7, followed by Japan (5.3), Hong Kong (4.9), Korea (4.8), Taiwan (4.3). Once again, Mongolia lags behind with an air-connectivity index of only 2.7.

The other subregions in AP have much lower sea connectivity than East Asia. South Asia ranks second in both sea and air connectivity, although the average value of South Asia's sea-connectivity index is only about one-fourth that of East Asia. Within South Asia, Sri Lanka has the best sea-connectivity with an index value of 54.4, followed by India (45.9), Pakistan (32.3), Bangladesh (9.3), Maldives (7.6), and Afghanistan (3.9); Bhutan and Nepal lag behind in South Asia with hardly any sea-connectivity.

[10] No wonder, as per the World Banks's dataset, China's annual container traffic in 2014 was the highest in the world – 181,635,245 TEU (Twenty-foot container Equivalent Units) - about four times that of the United States at 46,488,523, the second highest in the world.

In terms of air connectivity too, East Asia ranks the best among Asia Pacific's subregions[11]. South Asia's average value of the index is about two-thirds that of East Asia. Within South Asia, India has the best air connectivity with an index value of 3.8, followed by Pakistan (3.2), Afghanistan (3.1), Nepal (2.9), Bangladesh (2.8), Bhutan (2.7), Sri Lanka (2.0), and Maldives (1.7).

Southeast Asia's overall connectivity is slightly lower than South Asia's, with an average shipping connectivity index of 33 and an air-connectivity index of 3.3. However, there are large variations in shipping connectivity across countries within the subregion. Singapore tops the Southeast Asian list with a shipping connectivity index of 117.3, followed by Malaysia (110.6), Vietnam (46.4), Thailand (44.4), Indonesia (27), and the Philippines (18.3); the remaining three countries have much poorer shipping connectivity with Cambodia's shipping connectivity index of 6.7 being the highest among them. Overall, therefore, in terms of shipping connectivity, there are three distinct groups of countries within Southeast Asia - Singapore and Malaysia that are on par with East Asian levels, Vietnam and Thailand that are comparable in shipping connectivity with India in South Asia, and the remaining five countries including the Philippines, that are at the bottom of the subregion's shipping connectivity table.

The degree of inter-country differences in air-connectivity in Southeast Asia is less than in shipping connectivity, yet significant. Singapore and Thailand (with air connectivity indexes of 4.1 each, and Malaysia (with an index of 3.9) have lower air connectivity than the East Asian countries but higher than India's. Within the rest of Southeast Asia, at 3.8, Vietnam's air connectivity index is as good as India's, followed by Cambodia (3.7), Laos (3.6), Myanmar (3.2), Philippines (3.1), Indonesia (2.7), and Brunei (2.6). Indonesia's somewhat lower air-connectivity index pulls the average air connectivity for Southeast Asian people, as does Indonesia's low shipping connectivity.

Both central Asia and the Pacific have much less favourable geography than the rest of the AP region. Central Asian countries are highly land-locked - amidst Europe on the North, China on the East, South Asia on the Southeast, and Iran on the Southwest. They are also land-locked among themselves. Partly because they are land-locked over a large landmass with sparse populations, they are far from the seas. Put differently, Central Asia is a *'land-locked and sea-distanced'* subregion. That doubly mars their intra-regional as well as inter-regional connectivity for trade and commerce (Madhur 2015). With an air-connectivity index of 3, on an average, Central Asia's air-connectivity is also somewhat lower than the other subregions in AP. However, within Central Asia, Armenia and Georgia with average air-connectivity indexes of 4 each, have similar air connectivity as Singapore or Thailand in Southeast Asia, followed by Azerbaijan (3.6), Turkmenistan (3.2), Tajikistan (2.9), Uzbekistan (2.8), Kyrgyzstan (2.7), and Kazakhstan (2.6).

Like the Central Asian subregion, the Pacific is poorly connected with the rest of the world through sea, although not because they are land-locked and far away from the seas but because they are *'sea-locked and land-distanced'*. Although they are in the Pacific Ocean, their shipping connectivity is so poor that they are in effect sea-locked. Since they

[11] Once again, as per world Bank's dataset, note also that China's annual airline departures in 2014 (at 3,356,756) was lower than only that of the United States (9,553, 214).

are in the Ocean, they are also far away from land and hence land-distanced. What is more, their air connectivity is also dismal (Table 1). All these hinder their connectivity for trade and commerce and hence for much of integration – subregional, regional, or global. Their trade and commercial connections with the rest of the world have also been minimal, limited mostly to the two nearest developed countries – Australia and New Zealand.

3.2. Geography and Connectivity: Key Messages

Favorable geography and connectivity seem to have driven regional and global integration in some subregions than in others. East Asia is much better connected by sea and air than other subregions. Geography, therefore, seems to have been much more favourable to the subregion's economic integration both with the rest of the world and within itself. Not surprisingly, the subregion has achieved a higher level of economic integration. In sharp contrast, adverse geography has certainly dragged both regional and global integration in Central Asia and the Pacific.

That said, while geography played a key role in cross-border development and integration, it certainly has not been destiny. Geography has only been an enabling and not a determining factor for RECI, as South Asia's experience amply demonstrates. South Asia has more favourable geography and connectivity for integration than all the subregions except East Asia. Yet, its performance in regional integration (and global integration too) has been one of the least impressive within AP.

At the same time, Southeast Asia, despite having a less favourable geography and connectivity than South Asia has been more successful in not only in knitting its economies together but also integrating the subregion with the dynamic East Asia in particular and the world more generally. In a similar vein, China's favourable geography did not automatically lead to its better integration with the neighbors and the rest of the world until the country began opening up its economy around late 1970s an1980s. There is thus much more than just geography to explaining the differences in cross-border economic integration across AP's subregions, as does in other parts of the world. In particular, national economic policies have made a big difference to the degree of cross-border integration.

4. National Economic Policies

Appropriate policies to either take advantage of a favorable geographical location or to mitigate/minimize the disadvantages of an unfavorable location are critically important for cross-border integration. Ultimately, policy actions – national as well as collective – makes a difference between success and failure in cross-border economic integration. While locational (or physical) geography is a natural entity, economic geography is a man-made phenomenon (World Bank 2009). In general, countries that are less open to the rest of the world for trade, commerce, and finance are also less likely to have followed policies favorable for regional or subregional integration.

Four composite measures of policy proxies are considered to assess the role of national policies for regional/subregional integration in AP – the World Economic Forum's enabling trade index (ETI), UNCTAD's service trade restrictiveness index (STRI), the

World Bank's logistics performance index (LPI), and the World Bank's doing business (distance to frontier) index (DBI). The first three indices mostly measure a country's or subregion's 'at-the-border' policy openness and the last one 'behind-the-border' or domestic policy openness[12].

4.1. Trade Enabling Policies

WEF's composite index that captures several dimensions of a country's foreign trade – ETI - helps assess the overall openness of a country's or a subregion's trade policies. Judging by the ETI, East Asia has the most favorable trade enabling policies in place. Its 4.4 average ETI score is the highest across the five subregions in AP, followed by Southeast Asia, Central Asia, and South Asia[13] (Table 2). Within East Asia, Hong Kong has the best enabling trade policies, with an ETI score of 5.5, followed by Japan (5.1), Taiwan (4.9), Korea (4.7), China (4.3) and Mongolia (3.0).

Table 2: National Policies for Cross- Border Economic Integration (Weighted by Country Populations)

Sub-regions	Enabling Trade Index 2014	Logistics Performance Index (2014)	Service Trade Restrictiveness Index (overall)	Doing Business Index (2015)
East Asia	4.4	3.6	35.0[5]	64.6
Southeast Asia	4.1[1]	3.1[1]	48.1[6]	61.8
South Asia	3.6[2]	3.0	58.7[7]	53.6
Central Asia	3.9[3]	2.5	19.4[8]	59.6[9]
The Pacific	n/a	n/a	n/a	56.4[10]
Pacific and Oceania	4.9[4]	3.8[4]	18.7[4]	74.5[10]

Source: Author's estimates based on (i) WEF, 2014, The 2014 Global Enabling Trade Report 2014, (ii) World Bank, The Logistics Performance Index, World Bank Database, and (iii) World Bank Services Trade Restrictiveness Index, World Bank Database, and (iv) World Bank, Doing Business, World Bank Database

Notes to Table 2:
1) data for Brunei not available
2) Data for Afghanistan and Maldives not available
3) Data for Tajikistan, Turkmenistan, and Uzbekistan not available
4) Refer to only Australia and New Zealand.
5) Data for Hong Kong SAR and Taiwan, not available
6) Data for Brunei, Laos (PDR), Myanmar, and Singapore not available
7) Data for Afghanistan, Bhutan, and Maldives not available
8) Data for Azerbaijan, Tajikistan, and Turkmenistan not available

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12 However, LPI also captures some elements of natural geography that are perhaps extremely difficult to alter by policy measures. For example, within AP, subregions such as the Pacific and Central Asia perhaps have much more unfavorable natural geographies than the other subregions. Similar country-level cases would include Mongolia within East Asia and Nepal, Bhutan, and Maldives in South Asia.

13 ETI data are nor available for the Pacific countries, and hence not included in the analysis here.

9) Data for Turkmenistan not available
10) Data for Cook Islands, Nauru, Tuvalu and Palau not available

Within Southeast Asia, Singapore singles itself out. With an ETI score of 5.9, it has not only the best trade enabling policies in Southeast Asia but indeed is ranked first in the 138-country sample covered by WEF. Myanmar predictably has the least trade enabling policy environment at present, with an ETI score of 3.2. Outside of these extreme cases, Malaysia has an ETI score of 4.8 – slightly higher than that of Korea, followed by Indonesia and Thailand (4.2 each), Philippines (4.1), Vietnam (4.0), Cambodia (3.7), and Laos (3.6).

South Asia has the least trade enabling policy environment, despite the policy liberalization that India – the largest country in the subregion – has now pursued for more than two decades since the early 1990s. The variation in the ETI score across countries within South Asia is also much less than in the other subregions. Sri Lanka has the best ETI score of 3.8, followed by India (3.6), Bhutan and Pakistan (3.5 each), Bangladesh (3.4), and Nepal (3.3). It is noteworthy that India's ETI score is lower than even Vietnam's and Cambodia's and on par with that of Laos in Southeast Asia. Not surprisingly, South Asia's 'inward-oriented' trade policies have been a major dragger of the subregion's cross-border integration. As a result, the subregion has failed to translate its geographical and connectivity advantage into economic integration and prosperity for its 1.7 billion people.

As for Central Asia, only four of the subregion's eight countries – Armenia, Azerbaijan, Kyrgyzstan and Kazakhstan – accounting for less than half of the subregion's population are covered in the WEF report. Therefore, the subregion's average ETI score of 3.9 needs to be interpreted with care – on the one hand leaving out Georgia may understate the average ETI score while the inclusion of Tajikistan, Turkmenistan, and especially Uzbekistan with a large share of the subregion's population may cause a drop in the average score. Subject to this caveat, among the four countries covered from Central Asia, Armenia has the highest ETI score of 4.3, followed by Azerbaijan (3.9), Kazakhstan (3.7), and Kyrgyzstan (3.5).

4.2. Logistics Policies

World Bank's LPI – another composite measure of trade policy openness - yields somewhat similar rankings of the subregions as does the WEF's ETI but with less variations across subregions. East Asia has the highest figure of 3.6, followed by Southeast Asia (3.1), South Asia (3.0), and Central Asia (2.5)[14].

East Asia's relatively high average score of LPI is led by Japan and Korea (3.9 each), followed by Hong Kong (3.8), Taiwan (3.7) and China (3.5)[15]. In Southeast Asia, Singapore has the highest LPI score of 4 (even higher than that of Japan and Korea) and

[14] Central Asia's somewhat lower LPI is due mainly to its land-locked geography and are not necessarily due to unfavorable national policies.
[15] Only Mongolia, with an isolated geography, has a lowly LPI score of 2.4.

Myanmar has the lowest figure of 2.2. Excluding Singapore, Malaysia has the best LPI Score (3.6), followed by Thailand (3.4), Vietnam (3.2), Indonesia (3.1), the Philippines (3), Cambodia (2.7), and Laos (2.4).

India – the largest country in South Asia has the highest LPI score of 3.1 in the subregion – the same as that of Indonesia – the largest country in Southeast Asia. Excluding India, the LPI score in South Asia ranges between 2.1 for Afghanistan and 2.8 for Pakistan. This LPI range is quite similar to that of Central Asia – where the LPI is in the range of 2.2 for Kyrgyzstan to 2.7 for Armenia and Kazakhstan.

A somewhat similar ranking of the subregions occurs, if instead of the LPI, another measure that captures the intra-regional *'non-tariff comprehensive trade costs'* are compared across the AP subrgions. Such a measure that can be interpreted as the tariff equivalent of non-tariff costs of trading across borders within a subregion, was about 52 for East Asia, 77 for Southeast Asia, 107 for Southeast Asia and the Pacific, and 141 for North-Central Asia[16] (ESCAP 2014: 132). Geography and distance alone cannot perhaps explain these intra-regional non-tariff trading costs across the subregions. National trade and commercial policies must have been a major component of these cross-border trading costs. This is especially true of South Asia, although remote geography may be more at play in the case of North-Central Asia and the Pacific[17].

4.3. Service Trade Liberalization

UNCTAD's STRI provides a composite measure of a country's policy stance on trade in services, not merchandize trade. The index ranges from 0 to 100, with lower figure indicating less restrictions on service trade. South Asia is at the bottom of the service trade liberalization table – with an average STRI score of 59, while Central Asia has the least service trade restrictions in AP, with an STRI score of 19.

In Central Asia, with an STRI score of 11, Armenia and Georgia have the least service trade restrictions followed by Kyrgyzstan (15), Kazakhstan (17), and Uzbekistan (23). South Asia's high service trade restrictions are led by India with an STRI score of 66 – indeed the highest score in the world. STRI values in the other South Asian countries are much lower – Bangladesh (44), Nepal 43), Sri Lanka (38) and Pakistan (28).

Southeast Asia's service trade restrictions are lower than in South Asia but higher than in Central Asia as well as East Asia. Within Southeast Asia, the Philippines has the highest STRI score of 54, while Indonesia – the largest country in the subregion - also has a

[16] East Asia here includes only the three countries of China, Japan, and Korea, Southeast Asia only the ASEAN 4 countries, South Asia only the SAARC 4 countries.

[17] In a similar vein, the extra-regional non-tariff trading costs are also lower for trading between East Asia and Southeast Asia (77), moderate for trading between East Asia and Southeast Asia on the one hand and South Asia on the other (124), but are much higher (indeed prohibitively high) for trading between , say: North-Central Asia with the other subregions (220 with East Asia, 270 with South Asia, 308 with the Pacific, and 387 with Southeast Asia), and the Pacific with the other subregions (263 with East Asia, 268 with Southeast Asia, 308 with North-Central Asia, and 342 with South Asia). Indeed, the lowest no-tariff trading costs for the Pacific is with Australia and New Zealand (137) (UN- ESCAP 2014: 132).

relatively high score of 50, followed by Thailand (48), Malaysia (46), Vietnam (42), and Cambodia (24). East Asia's average STRI score is 35, with China having the highest STRI score of 37 followed by Japan and Korea (23 each), and Mongolia (14).

4.4. Business Environment

The World Bank's sample-based annual surveys on several parameters that reflect a country's ease of doing business comes up with a country-wise composite measure of the ease of doing business. In many respects, this is an indicator of the behind-the-border policies that either help or hinder domestic business, or a rough-and-ready measure of a country's overall business environment and investment climate[18].

Within AP, East Asia has the best business environment in AP, while South Asia has the worst. East Asia's average DBI is about 64, followed by Southeast Asia, Central Asia, the Pacific, and South Asia (Table 2). In East Asia, Hong Kong has the highest DBI score (85), followed by Korea (83), Japan (75), Mongolia (65), and China (64).

The average DBI score of 62 for Southeast Asia masks some substantial variations across the countries. Singapore's DBI score of 88 is higher than that in all the East Asian countries, but Myanmar has a DBI score of 44 – better than only that of Afghanistan in Asia. Excluding these extreme values, Malaysia has a DBI score of 79, followed by Thailand (75), Vietnam (64), Philippines (62), Brunei (61), Indonesia (59), Cambodia (55), and Laos (52). AT 62, Central Asia's average DBI score is only marginally lower than that of Southeast Asia, but does show significant variations across countries. Georgia has the best DBI score of about 80 and Tajikistan the lowest (49). Excluding these two countries, Armenia has a robust business environment score (71), followed by Kazakhstan (65), Azerbaijan (64), Kyrgyzstan (61), Uzbekistan (54), and Tajikistan (49).

The Pacific countries have a slightly better business policy package than in South Asia. Around an average DBI score 56, Samoa and Tonga have the highest score of 66, and Timor Leste the lowest score of 47 – only slightly higher than that of Myanmar and Afghanistan in Asia.

On an average, the 1.7 billion people of South Asia face the worst business environment in AP. The subregion's average DBI score of 54 implies that the subregion as a whole is only about halfway towards the frontier business environment in the world. Among the South Asian countries, Afghanistan has the lowest score of 41, with Bangladesh (47) not far better than Afghanistan. India – the largest country in the subregion has a DBI score of 54, lower than that of Sri Lanka (61), Nepal (60), Maldives (59), Bhutan (58), and Pakistan (57).

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[18] Beginning in 2015, the composite index measures a country's 'distance from the frontier', and as such the index helps to infer how far a country's overall business environment is from the 'best performer benchmark'. The index value ranges between 0 and 100 – higher the number, lower a country's distance from the frontier (in terms of overall business environment), while lower the value higher the distance from the frontier.

4.5. National Economic Policies: Key Messages

National trade and commercial polices seem to have played a key role regional economic integration across the major subregions in AP. True, East Asia has had the inherent benefit of a favourable geography. But, while geography helped East Asia to grow fast and integrate economically, countries in the region have also followed outward-oriented economic policies – first Japan, then the NIEs, and more recently China. National economic polices thus acted as an additional driver of the subregion's subregional, regional, and indeed global economic integration. Not surprisingly, regional integration occurred in East Asia for a long time without much collective governmental initiatives but as a positive by-product of two intertwined factors – favourable geography and outward-oriented national economic policies - the latter implemented not necessarily aimed at regional integration per se but as part of their efforts at globalizing their economies.

Southeast Asia has a less favorable geography and sea-connectivity than East Asia. Yet, most major countries in the region are located near the dynamic East Asian region and thus benefited from the positive spillovers from the dynamism of their neighbors. Equally importantly, over time successive Southeast Asian countries have also taken appropriate policy measures – opening up to international trade, investment, capital, and to people more generally – making national economic policies as a driver rather than as a dragger of the subregion's cross-border integration. The ASEAN 5 began their economic liberalization policies when Japan was looking to relocate its industries. They pursued this opening up program, although with significant differences across countries, thus gaining from the next two waves of industrial relocation and economic opening up – NIEs initially and China subsequently.

South Asia has been much less successful in converting its relatively favorable geography and sea-links into stronger subregional integration in particular and better inter-regional integration within AP in general. Failure to pursue outward-oriented external economic policies for far too long has certainly held back South Asia in achieving either significant subregional or notable interregional (indeed global) economic integration.

Central Asia and the Pacific countries are in general handicapped by their less favorable geography and connectivity. Despite their relatively more open external economic policies, therefore, they have been less successful in their cross-border integration. Encouragingly, however, Central Asia is now moving somewhat faster on regional economic integration (Madhur 2015).

5. Governance and Rule of Law

Increasingly, national governance – covering such wide-ranging factors as political stability, functioning of the government, rule of law, regulatory quality, corruption, justice system, order and security, and voice and accountability – is seen as a key determinant of growth, development, and economic integration. Countries that have poor governance standards at the national level are generally unlikely to be good candidates for promoting better governance at the regional/subregional level – a key requirement for sustaining RECI. How do AP's subregions fare in terms of the commonly used parameters of economic and political governance?

There are different indicators and indexes of these governance parameters available from different sources. Although the specifics may vary across these indexes and indicators, four sets of them are used here: (i) the World Bank's worldwide governance indictors, (ii) The World Justice Project's (WJP) rule of law indicators, and (iii) the Freedom House (FH) indicators of political and civil freedom, and (iv) the Economist Intelligence Unit's (EIU) democracy indicators.

5.1. World Bank's Governance Indicators

World Bank's governance indicators cover six key parameters of national governance – voice and accountability, political stability (including the degree of violence and terrorism), government effectiveness, regulatory quality, rule of law, and corruption. Abstaining from Australia and New Zealand, South Asia tops the table in terms of voice and accountability, followed by the Pacific, Southeast Asia, East Asia, and Central Asia. (Table 3).

Table 3: Governance Across Sub-Regions in Asia-Pacific (Weighted by Country Populations)

Sub-region	Percentile Ranks 2013					
	Voice and Accountability	Political Stability and Absence of Violence/Terrorism	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
East Asia	15.08	33.32	58.77	47.95	45.96	51.92
Southeast Asia	36.33	29.42	46.62	43.61	38.45	36.40
South Asia	52.89	10.67	41.18	31.26	44.87	31.94
Central Asia	11.79	30.05	27.83	23.12	20.58	16.18
The Pacific[1]	49.45	36.66	24.95	29.29	21.43	23.37
Pacific and Oceania[1]	82.01	71.88	75.09	77.98	74.91	74.45

Source: Author's estimates based on World Bank, Worldwide Governance Indicators, World Bank Database. (Higher figures indicate higher levels/standards of governance)
Note: Data for Cook Islands, Nauru, Tuvalu, and Palau not available

However, in terms of most other governance indicators, South Asia lags behind other subregions. For example, in terms of political stability, South Asia is at the bottom of the list. In terms of government effectiveness, (outside of Australia and New Zealand), East Asia ranks the best subregion, followed by Southeast Asia, South Asia, Central Asia, and the Pacific. Similar ranking follows in terms of regulatory quality. In terms of World

Bank's rule of law rankings, however, South Asia fares better than Southeast Asia and almost on par with East Asia, while the Pacific and Central Asia lag far behind. However, South Asia's better rule of law does not seem to translate into lower corruption. Indeed, in terms of corruption, South Asia lags behind both East Asia and Southeast Asia, although it is ahead of the Pacific and Central Asia.

Within these broad subregional governance parameters, there are substantial inter-country differences. For example, in terms of voice and accountability, China belongs to the bottom 5 percent of the countries in the world while Japan is in the top 85 percent, with other countries somewhat closer to Japan's ranking than to China's. In Southeast Asia, Myanmar has the lowest ranking in voice and accountability (in the bottom 10 percent of the world), while Indonesia and the Philippines are at nearly the half way mark. Within South Asia, Afghanistan belongs to the bottom 15 percent of the world rankings, while India belongs to the top 60 percent. In Central Asia, Turkmenistan is at the bottom one percent of the world rankings, whereas Georgia belongs to the top 55 percent. Most Pacific countries rank high in terms of voice and accountability, even excluding Australia and New Zealand.

The cross-country variations in terms of government effectiveness and corruption control are as large as in voice and accountability. Within East Asia, although China has a low ranking in terms of voice and accountability, it belongs to the upper 54 percent of the countries in the world in terms of government effectiveness, while most other East Asian countries anyway rank quite high – in the top 75-95 percent. The inter-country differences in Southeast Asia is much larger – Myanmar belongs to the bottom 4 percent of world rankings in terms of government effectiveness, while Singapore is in the top 1 percent; Indonesia – the largest country in Southeast Asia is in the bottom 45 percent. Within South Asia, Afghanistan is in the bottom 7 percent of global rankings, while Bhutan is in the top 65 percent; India, the largest country in South Asia, is in the bottom 47 percent. Excluding Georgia that belongs to the top 69 percent of the world rankings, government effectiveness is quite low in Central Asia, with Turkmenistan belonging to the bottom 10 percent. Within the Pacific, PNG belongs to the bottom 3 percent of world rankings in terms of government effectiveness, while Samoa is in the top 59 percent.

The relative rankings in terms of corruption control more or less follow the same pattern as that of government effectiveness. In terms of corruption, within East Asia, Japan and Hong Kong belongs to the top 92 percent of the global rankings, while China barely makes it to the bottom 50 percent. The inter-country differences within Southeast Asia even starker – Myanmar belongs to the bottom 12 percent of the countries in the world in terms of government effectiveness while Singapore is in the top 3 percent; Indonesia, the largest country in Southeast Asia is in the bottom 32 percent of the world rankings. Within South Asia, Afghanistan belongs to the bottom 2 percent of the world rankings in terms of government effectiveness while Bhutan is in the top 78 percent; India, the largest country in South Asia belongs to the bottom 36 percent. In Central Asia, Georgia belongs to the top 67 percent of the world rankings, while Turkmenistan is in the bottom 4 percent; Uzbekistan, the largest country in the subregion is in the bottom 8 percent. Within the Pacific, PNG belongs to the bottom 15 percent of the global rankings, while

Vanuatu is in the top 67 percent.

5.2. WJP's Rule of Law Indicators

The WJP Rule of Law Index relies on over 100,000 household and 2,400 expert surveys to measure how the rule of law is experienced in practical, everyday situations by ordinary people around the world in 102 countries. Performance is assessed through 44 indicators organized around 8 themes or sub-indices: constraints on government powers, absence of corruption, open government, fundamental rights, order and security, regulatory enforcement, civil justice, and criminal justice (WJP, 2015). It thus has quite a few overlapping features with the Bank's governance indicators, but also includes more democratic and human rights dimensions. The composite and the sub-indices range from 0 to 1 (least to best performer).

In terms of the composite index of rule of law (and excluding Australia and New Zealand, which together have the highest value of the index and Pacific countries that are nor sufficiently covered by the WJP report), East Asia has the highest score followed by Southeast Asia, Central Asia and South Asia[19].

Table 4: Rule of Law Across Sub-regions in Asia- Pacific (Weighted by Country Populations)

Subregions	Rule of Law Index	Constraints on Government Powers	Absence of Corruption	Open Government	Fundamental Rights	Order and Security	Regulatory Enforcement	Civil Justice	Criminal Justice
East Asia[1]	0.52	0.45	0.55	0.46	0.37	0.80	0.50	0.51	0.49
Southeast Asia[2]	0.51	0.55	0.44	0.51	0.50	0.76	0.48	0.44	0.40
South Asia[3]	0.48	0.58	0.38	0.54	0.51	0.56	0.43	0.41	0.43
Central Asia[4]	0.49	0.37	0.40	0.40	0.45	0.86	0.46	0.50	0.43
Oceania	0.80	0.83	0.85	0.75	0.82	0.89	0.81	0.75	0.77

Source: Author's estimates based on World Justice Project, 2015 Rule of Law Index Report (Higher figures indicate higher levels/standards)
Notes to Table 4:
1) Data for Taiwan not available
2) Data for Brunei Darussalam and Lao (PDR) not available
4) Data for Bhutan and Maldives not available
5) Data for Armenia, Azerbaijan, Tajikistan, and Turkmenistan, not available

Within East Asia, Korea, Japan, Hong Kong, and Taiwan have composite index values of above 0.75, while China has the lowest value of 0.48 (with Mongolia having a score of 053). In Southeast Asia, while Singapore has a composite index value of 0.81, Cambodia

[19] For central Asia, the WJP data set does not cover Armenia, Azerbaijan, Tajikistan, and Turkmenistan in Central Asia but includes the largest country in the region- Uzbekistan.

has the lowest value of 0.37 (behind even Myanmar). In the other ASEAN countries, the composite index ranges from 0.5 in Vietnam to 0.57 Malaysia, with Indonesia – the largest country in the region having a composite index score of 0.52. Within South Asia, India – the largest country in the subregion – has composite index value of 0.51 (same as Sri Lanka), followed by Bangladesh (0.42), Pakistan (0.38), and Afghanistan (0.35). In Central Asia, Georgia has the highest score of 0.65 followed by Kazakhstan (0.50), Kyrgyzstan (0.47), and Uzbekistan (0.46) – the largest country in the subregion.

Overall, South Asia fares well in terms of 'democratic parameters' – government openness, fundamental rights, and constraints on government – but scores poorly in terms of corruption, order and security, and justice – both civil and criminal justice. The pattern is more or less similar in the Pacific. In comparison, Southeast Asia does not necessarily score high in terms of 'democratic parameters' (excluding Indonesia and the Philippines), yet fares better in terms of order and security, justice, and corruption. Within East Asia, China, the largest country in the subregion, has one of the least democratic political regimes yet ranks high in terms of other governance indicators, while most of the other countries rank high both in terms of democratic parameters and governance indicators.

5.3. Freedom and Democracy

Once again, South Asia fares well in terms of Freedom House's indicators of political rights and civil liberties, as it does in terms of EIU's indicators of democracy. For example, by the yardstick of Freedom House's twin indicators of political rights and civil liberties South Asia is ahead of East Asia and Southeast Asia and only behind Australia-New Zealand and the Pacific (Table 5). Central Asia scores the worst in both these indicators.

Table 5: Freedom and Political Regimes across Sub-regions (Weighted by Country Populations)

Sub-regions	Population millions 2014	Political Right	Civil Liberty	Electoral process and pluralism	Civil Liberties	Democracy Index
East Asia	1575	6.3[2]	5.4[2]	1.2	2.5	3.7
Southeast Asia	623	3.9	4.3	5.5[4]	6.2[4]	5.8[4]
South Asia	1692	2.6	3.4	8.7[5]	8.5[5]	7.2[5]
Central Asia	85	6.2	5.9	1.7	2.6	3.0
The Pacific	11[1]	1.9[3]	2.0[3]	n/a	n/a	n/a
Oceania	28	1.0	1.0	9.6	10	9.1

Source: Author's estimates based on (i) for Column 1, World Bank, WDI database; (ii) for columns 2 and 3 Freedom House, The 2015 World Freedom the Report? (lower figures indicate better levels/standards), and for columns 4-6, EIU Democracy Index, 2014 (Higher figures indicate better levels/standards)

Note to Table 5:

1)Data for Cook Islands, Nauru, Palau and Tuvalu not included

2) Data for Hong Kong SAR not available

3) Data for Cook Islands, Nauru, Tuvalu, and Palau not available

4) Data for Brunei Darussalam not available

5) Data for Maldives not available

With minor exceptions, similar conclusions seem to hold good in terms of EIU's indicators of democracy and its many dimensions too. Excluding Australia and New Zealand, South Asia tops the table in terms of EIU's overall democracy index as well as measures of electoral process and civil liberties. Both East Asia and Southeast Asia, on average, are less democratic than South Asia.

That said, there are wide differences across countries within East as well as Southeast Asia. For example, while China in East Asia is under communist rule, Japan and Korea have overall democracy scores of above 8 (in a 0-10 range), while Taiwan has a score close to 8, followed by Mongolia (6.7), and Hong Kong (6.5). Within Southeast Asia, Indonesia – the largest country in the subregion – and the Philippines have overall democracy scores of about 7, while the EIU places Laos, Myanmar, and Vietnam in the category of 'authoritarian regimes'. Outside these countries, Singapore and Malaysia have overall scores in the 6-6.5 range, while Thailand with an overall score of 5.4 and Cambodia with an overall score of 4.8 are in EIU's category of 'hybrid regimes'.

Within South Asia, India, with an overall score of close to 8, scores very high in terms of democracy (and its components - electoral process and civil liberties) while Afghanistan is still in the EIU's category of 'authoritarian regimes'; Bangladesh (5.8), Sri Lanka (5.7), Bhutan (4.9), Nepal (4.8), and Pakistan (4.6) rank somewhere in between India and Afghanistan. In Central Asia, with the exceptions of Georgia (5.8), Kyrgyzstan (5.2), and Armenia (4.3) that are in the category of 'hybrid regimes' all other countries are in the category of 'authoritarian regimes' with an overall score in the range of 1.8 for Turkmenistan and 3.2 for Kazakhstan. Most Pacific countries have liberal democratic regimes, with the PNG – the largest country in the subregion – having an overall score of 6.

5.4. Governance and Rule of Law: Key Messages

Subregions and countries that have done relatively better in cross-border economic integration within AP in general have better governance standards such as government functioning, rule of law, regulatory regimes, and even corruption control, although many of them were and still are less democratic with fewer political freedoms and civil liberties. This is especially true of East and Southeast Asia.

South Asia, on the other hand, has had more democratic regimes with high political rights and civil liberties but otherwise lower governance standards resulting in stunted cross-border economic integration. For South Asia, the challenge seems to be one of making its democracies work far better for the good of its people's economic prosperity and integration. The Pacific countries have somewhat similar characteristics as South Asia, although their sea-locked and land-distanced geography might have further stymied their cross-border economic integration.

Central Asia has a mixed bag of countries in terms of both governance and democratic freedoms. Yet, the subregion as a whole seems to fare better in governance standards than in terms of democracy, political freedom, and civil liberties. Again, similar to the case of the Pacific, Central Asia has the disadvantages of being 'land-locked' and 'sea-distanced' that further hinder its cross-border economic integration.

6. Regional/Subregional Institutions and Geopolitics

Regional integration is both a deregulatory and a re-regulatory process—deregulatory because it involves lowering cross-border economic barriers among the integrating countries and re-regulatory because as cross-country economic barriers come down, there is a need for region-wide/subregion-wide cooperation to handle the cross-border spillover effects of national policies (Hix 2010). Such cross-border cooperation would need regional institutional frameworks that would enable countries to first agree on the common collective goals and subsequently ensure that member countries implement national actions agreed upon to achieve those goals.

Developing such regional/subregional institutional arrangements is critically dependent on the political commitments of the countries concerned. It is at this stage that economics and politics get highly intertwined in any regional/subregional economic integration process: commercial considerations are crucial for igniting any regional/subregional economic process just as political commitments are critical for that process to gather pace and sustain over time[20]. Moreover, the degree of interaction between the economics and politics of cross-border integration process is highly dependent on a whole host of factors – geography, history, culture, and the political systems that are specific to a region/subregion. Thus, different subregions in AP have had varying degrees of interactions between economics and politics resulting in different degrees of institutionalization of their economic integration processes.

6.1. East Asia

Until recently, not many collective institutional initiatives have been at work behind East Asia's economic integration. It has primarily been market-based and private sector-led. Although, China, Japan, and Korea have been planning a trilateral FTA for long, progress on that front has been extremely slow (Madhur 2013).

In September 2011, the three countries took the first step towards institutionalizing East Asia's integration by establishing the Trilateral Cooperation Secretariat (TCS) as an international organization. Its key objective is to contribute to the promotion of cooperative relations among the three countries. The major functions of the TCS are to provide support for trilateral consultative mechanisms, explore and facilitate cooperative projects, promote an understanding of trilateral cooperation, and conduct research on trilateral cooperation. The Secretariat is located in Seoul and is funded on the principle of equal financial contribution among the three countries. As yet, its role in promoting East Asian integration has been limited to compiling annual macroeconomic reports on the

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[20] There is voluminous literature on the interaction between economics and politics in the postwar European integration process that began with the well-known 'coal and steel' cooperation initiative in the 1950s that subsequently culminated in the European Union.

three countries and facilitating official-level meetings for negotiating the trilateral FTA. Overall, TCS's role in contributing to East Asian Integration is still evolving.

The three East Asian countries have, however, been more successful in working together with the Southeast Asian countries in institutionalizing the broader Asian integration agenda. That is evidenced by the various ASEAN+3 regional initiatives such as the establishment of the $240 billion ASEAN+3 regional reserve fund and the associated ASEAN+3 Macroeconomic Research Office (AMRO) in 2011. The three East Asian countries are also making efforts at forging stronger institutional ties with Australia, New Zealand and India – largely through the East Asia Summit (EAS) and the Regional Comprehensive Economic Partnership (RCEP) initiatives - although progress has been tardy in these initiatives than in the case of the ASEAN+3 processes.

Lukewarm political support has been, and continues to be, a major hurdle in strengthening the institutional framework among the three East Asian countries. Although economic linkages (through trade and investment) among the three countries have grown rapidly, political rivalry between Japan on the one hand and China (and to a lesser extent Korea) on the other has generally kept strong institutionalization of those linkages at bay. As a result, even the trilateral FTA proposal has not got much traction for long, although China and Korea have now gone ahead with a bilateral FTA (Madhur 2013).

To a large extent, the political rivalry between China and Japan also explains why the three East Asian countries have shown a preference for being part of the several ASEAN+3 and ASEAN+6 initiatives, while showing less political commitments to institutionalization of their trilateral economic linkages (Acharya 2011). However, the recent conclusion of the TPP (in which Japan is a member) has the potential to lower Japan's commitment for furthering the institutionalization of even the ASEAN+3 and ASEAN+6 integration processes, let alone the trilateral economic integration within East Asia.

6.2. Southeast Asia

Intergovernmental cooperative initiatives have played a larger role in Southeast Asian integration. Indeed, Southeast Asia was the first subregion in AP to establish a regional intergovernmental entity – the ASEAN in 1967. Then it launched the first subregional FTA in AP in 1992 – the ASEAN Free Trade Area (AFTA). By the end of 2015, it also launched the ASEAN Economic Community (AEC). Even as Southeast Asia pursued these intra-regional cooperative initiatives, it has also forged stronger intergovernmental ties with the East Asian countries through the ASEAN+3, EAS, and the RCEP initiatives. Although ASEAN centrality to many of the region-wide cooperation initiatives is a somewhat nebulous concept (since ASEAN centrality is more by default than by design), ASEAN seems have followed a kind of 'open regionalism' strategy in its integration efforts (Hill and Menon 2014).

That said, most assessments of the effectiveness of ASEAN's institutional framework in fostering Southeast Asian integration have come to quite mixed results. Its effectiveness has been viewed somewhat similar to the proverbial *'half-full or half-empty glass'*. Indeed, ASEAN's basic institutional approach to integration - often referred to as the 'ASEAN way' - is coming under increasing criticism. Recent studies examining an entire gamut of issues surrounding ASEAN's institutional framework have identified three key factors that are constraining ASEAN's institutional effectiveness: limited delegation of decision-making from national governments to the ASEAN Secretariat, limited financial and human resources of the Secretariat, and consensus-based decision-making process (ADB 2010; Madhur 2011; Das et. al. 2103; Portela 2013; ADBI 2014; SIIF 2014).

In particular, the ASEAN Secretariat is seen as an 'ineffective institution' in supporting Southeast Asian integration [21]. The Secretariat is underfunded, understaffed, and underpowered. The ASEAN Secretariat's underfunding stems largely from the principle of equal contributions by all the ten member governments towards the cost of running the Secretariat. It imposes a structurally low ceiling to the budget, as the smallest economies have limited capacities to pay (the Secretariat's funding thus becomes a race to the bottom)[22]. That, in turn, leads to lack of delegation of decision-making to the Secretariat and less institutionalization of ASEAN economic integration.

Diversified contributions based on both capacity and willingness of member states to pay is an option. But that, in turn, would not be feasible, unless the consensus-based decision-making process is changed, as member countries who make larger contributions would inevitably ask for greater say in decision-making. The smaller countries, on the other hand, are likely to favor maintaining the status quo. This is a political deadlock that continues to constrain ASEAN economic integration, notwithstanding the launching of the AEC late last year[23].

It is often contended that the ASEAN Secretariat is weak because the member countries want it to be so. In other words, lack of political commitment holds back better institutionalization of ASEAN economic integration process. AEC is thus still very much a work in progress (Das et.al. 2013). It could indeed be a long drawn out process of 'learning by doing'. What shape it will take in the coming years is shrouded with many ambiguities and imponderables. Now that some of the larger economies within the ASEAN are either members of the recently signed TPP or are planning to join it sooner than later, political commitments by these countries to the ASEAN (and the ASEAN+3 and ASEAN+6) and its institutionalization could wane further[24].

The growing international profile of Indonesia - reflected in its membership of the G20

[21] Indeed, one of the former Secretary Generals of the ASEAN Secretariat once remarked that 'he was more a secretary than a general' when it comes to ASEAN's agenda-setting and decision-making.

[22] It thus makes the Secretariat depend heavily on external funding sources which is unsustainable in the long run (ADBI 2014: xxxvi).

[23] Anecdotally, 'nobody leads ASEAN, ASEAN likes everybody, and everybody likes ASEAN'; some characterize this as 'ASEAN centrality to Asian integration by default'.

[24] A prominent expert on ASEAN recently said that almost all the people he met in several ASEAN member countries that he visited in 2014-15 – large, small, or medium – expressed their concern that the AEC may not benefit them.

and its prominence in the US geopolitical discourse (and more recently the country's decision to join the TPP) - is at the core of the concern about 'cohesion and unity' within the ASEAN. Indonesian – which provided 'invisible/soft leadership' to the ASEAN for some time - is increasingly frustrated at ASEAN's reluctance to move towards more institutionalized forms of co-operation, while fellow member states are concerned that the attention given to Indonesia by external powers is working to the detriment of ASEAN as a whole. "Concerns about the possible Indonesian disengagement are undermining member states' commitment to the cherished principle of ASEAN centrality" (Portela 2013: 11).

More generally, some have argued that "divergent political systems and values, combined with state weakness, will continue to inhibit regional cooperation over key issues… ASEAN members will need to continue with a process of internal consolidation." (Christopher Roberts (2010: 17-18) - quoted in Pattharapong 2014: 199). It is also argued that China, by leveraging the divergent political systems and values and the consequent lack of internal political cohesion within the ASEAN, induces internal political rift among the ASEAN countries further hindering ASEAN institutionalization (Portela 2013)[25]. "The centrifugal effect that Chinese influence can exert on ASEAN is most visible in the conflict over the South China Sea…" (Portela 2013:11). Not surprisingly, this has prompted some medium-sized ASEAN countries to more closely ally with the 'U.S-centered' security alliance (as part of U.S' Asia-pivot strategy), while tempting the smaller ASEAN countries to lean towards China.

6.3. South Asia

In many ways, South Asia attempted to emulate the ASEAN in its subregional institution-building efforts. South Asian Association for Regional Cooperation (SAARC) is South Asia's counterpart of ASEAN and the SAARC Secretariat that of the ASEAN Secretariat. Again, most assessments of the effectiveness of South Asia's institutional framework for subregional integration have come to the conclusion that it has had very limited success in fostering South Asian integration (Baru 2009; Kher 2012; Lamb et. al. 2014).

These assessments have reiterated that SAARC's institutional capacity is limited by the absence of a credible Secretariat. SAARC Heads of Government chose to create a Secretariat but did not empower it with any independent powers[26]. The limited role of the Secretariat, its lack of funding and staffing, and the low status of the Secretary-General -

[25] Indeed, Portela argues that the single most fundamental threat to ASEAN unity is undoubtedly the polarizing effect that China exerts on its members. China is ASEAN's main trading partner, accounting for 14.4% of ASEAN's imports and 11.9% of its exports. For individual ASEAN members, China is not always the top trading partner but it is consistently among the top thee (e.g. first for Vietnam, second for Thailand, Laos and Indonesia, third for Singapore). This creates a situation in which many member states are reluctant to antagonize China, with some of them prioritizing relations with China over ASEAN solidarity (Portela 2013: 11).

[26] Indeed, the SAARC Charter does not define the role of the Secretariat but a Memorandum of Understanding on the Establishment of the Secretariat, November 1986, states that the role of the Secretariat shall be to co-ordinate and monitor the implementation of SAARC activities and to service the meetings of the Association (Kher 2012).

have all constrained it from playing a credible role in fostering South Asian integartion (Baru. 2009; Kher 2012)[27]. Overall, the institutional defcit for South Asian integration is much larger than that for Southeast Asia.

Once again, political commitment to South Asian integration and its institutionalization is far less than even that in Southeast Asia. For the most part, the tense political relationship between India and Pakistan has been at the core of this lack of commitment. Barring occasional rhetoric from both the countries, the two countries deeply distrust each other. "The most critical element of the integration process in South Asia is building confidence and filling the huge trust deficit between the countries" (Kher, 2012: 30). As a result, subregional economic integration in South Asia, not to speak of its institutionalization, has not got much traction[28].

India's response to all these has been to circumvent the SAARC by forging other subregional initiatives such as BIMSTEC and SACEC. Although that may serve India's immediate interests, India may be illadvised to ignore SAARC and South Asian integration at large, as a 'distrustfull neghborhood' will be detrimental to India's long term growth and prosperity. Moroever, by disangaging with the immediate neighbors with whom India shares historical, geogrphical, and cutural commonaities, it is paving the way for the smaller neighbors to more colsely align with China, not just economically but militarily too. That could cause further rift between India and its neighbors.

As one expert put it aptly, "… India will have to take on disproportionately greater responsibility while the other South Asian countries will be having to commit to cooperation and openness. …The changing dynamics in region and the world economic order make this an opportune time for South Asian countries to change their approaches and strategies towards each other" (Kher 2012: 30). Encouragingly, in 2015 India's new government has adopted a 'neighbors first' policy to more actively engage with the immediate neighbors than in the past. Only time will tell whether this is simply another catchphrase for the country's foreign policy or a sincere effort at developing an amicable neighborhood.

6.4. Central Asia

Institutionalization of cross-border economic integration is much more important for the vast landlocked subregion such as Central Asia than their sea-linked counterparts. Imports and exports from these land-locked (some of them doubly landlocked) countries have to transit through many neighboring countries before reaching their final destination

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27 Apart from the Secretary-General, the Secretariat in Kathmandu is staffed by 8 country-directors, 13 professional staff from member-countries, and 13 administrative staff from host country, making up a total of 35 – far smaller than even the ASEAN Secretariat (Kher 2012).

28 India has also been viewed with suspicion by the smaller members of SAARC, partly due to its somewhat controversial relationships with the neighbors and partly because of its overwhelming size within South Asia - no other subregion in AP has the one-country domination as South Asia. For a discsussion of how the size imbalance in South Asia makes subregional economic integration inherently unstable, see Baru (2009).

in the regional and global markets. That in, turn, requires more cooperative intergovernmental arrangements among countries that share contiguous land borders than among sea-linked countries (Madhur 2015).

Among the many subregional and trans-regional networks in Central Asia, the Central Asia Regional Economic Cooperation (CAREC) network deserves special mention[29]. With its trade, connectivity, and economic integration agenda, CAREC is the main regional network that has served as the platform for many of Central Asia's institutional strengthening efforts, especially in the areas of cooperation in connectivity, energy, and trade more generally (CAREC 2014).

The CAREC network is, however, driven by the multilateral development partners of Central Asian countries – with the Asian Development Bank (ADB) taking the lead[30]. The lack of country ownership of the program is emerging as a major issue for its sustainability over the long term. As of now, the CAREC Secretariat is managed by ADB and located in Manila. Relocating the CAREC Secretariat from the ADB headquarters in Manila to one of the CAREC member countries should be a crucial step that needs to be taken to give it more regional identity and ownership[31] (Linn 2012).

Moreover, institutionalization of economic integration in Central Asia has also been hampered by political rivalries among the member countries (Madhur 2015). Within Central Asia, Kazakhstan, being the richest country, has the most financial resources for the leadership role. Uzbekistan, with the largest population within the subregion, seems to perceive itself as having more legitimacy for subregional leadership. However, since Uzbekistan remains much poorer than Kazakhstan (Turkmenistan), it is not adequately resourced to take up the commitments of regional leadership, even if other countries in the subregion accept its leadership role.

What is more, the internal political leadership tussles are also exacerbated by the external forces that are increasingly weighing for influence in the region. In recent years, China has launched its 'march west' strategy under which it has forged strong economic and commercial ties with some of the Central Asian countries. China's planned Silk Road Initiative may also rope in more Central Asian countries to China's sphere of influence. Fearing the loss of 'territorial hegemony' to China, in early 2015 Russia has gone ahead with announcing the Eurasian Economic Union with Armenia, Belarus, Kazakhstan, and Kyrgyzstan. Meanwhile, India is also making efforts at carving out some role for itself in

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[29] See Madhur (2015) for a detailed discussion of these institutional networks in Central Asia and their relative strengths and weaknesses for fostering Central Asia's integration both within itself and with the rest of the world.

[30] Incorporating the newly launched AIIB, the New Development Bank (NDB), and the Silk Road Fund as the new development partners in the CAREC forum would enhance the institutional role of CAREC in Central Asia (Madhur 2015).

[31] It is encouraging that the CAREC Institute, after remaining as a virtual institute, has been headquartered in Urumqi in the Xinjiang Uyghur Autonomous Region in the western part of China in November 2014. It is being set up as an intergovernmental institution. It is expected that the Institute will enhance the quality of the CAREC program through knowledge generation and capacity building for effective regional cooperation among the CAREC member countries.

the energy-abundant Central Asia.

The recent international re-integration of Iran could further complicate the 'crisscrossing political web' in Central Asia[32]. As one expert put it succinctly: "during the Soviet times, Central Asian economies were mostly oriented toward Moscow. Now they can increasingly look toward China, South Asia, Europe, and the Middle East to gain access to markets, while maintaining strong links with Russia" (Linn 2012). The balancing between the subregion's commercial and geopolitical interests is now at the heart of Central Asia's economic integration and institution building process.

6.5. The Pacific

The Pacific Islands Forum (PIF) is the premier subregional forum responsible for economic cooperation and integration in the Pacific. The PIF grew out of the South Pacific Forum (SPF) that was founded in 1971. After almost three decades since the founding of the SPF, in 2000 its was renamed as PIF to better reflect its geographic coverage that gradually expanded to South Pacific countries but also to their North Pacific neighbors[33]. Australia and New Zealand – the two developed countries in the Forum - are much larger and wealthier than the other countries that make up the rest of the forum[34]. They not only provide a large part of the external aid to the smaller countries but also offer big markets for exports from these countries.

The Forum's Secretariat - the PIF Secretariat - has been set up as an international organization. The Secretariat is headed by the Secretary General who is appointed by the Heads of the member countries (Forum Leaders). The Secretary General is also directly responsible to Forum Leaders through the Forum Officials' Committee (FOC) - the Secretariat's governing body comprising representatives from all member countries. Based in Suva, Fiji, the Secretariat has recently been mandated to coordinate the implementation of the Framework for Pacific Regionalism.

A 2012 comprehensive review of PIF Secretariat – done at the behest of the Forum Leaders – identified three key constraints to its effective functioning in promoting economic cooperation and integration in the Pacific: lack of 'ownership' by the member states, inadequate and uncertain funding, and weak priority setting. This review of the Secretariat was followed up in 2013 with a comprehensive review of the Pacific Plan for Strengthening Regional Cooperation and Integration (Pacific Plan) by an eminent

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[32] For details about the Iran Nuclear Deal and the country's re-integration to the global economy see Kaplow et.al. (2014), Katzman and Kerr (2015), and Edelman (2015).

[33] At present, PIF has 16 member countries: Australia, Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu; and two associate member countries: New Caledonia and French Polynesia.

[34] For example, Australia's population is around twice that of the other 15 members combined and its economy is more than five times larger. Coincidentally, eight Pacific countries are among the top 20 most aid dependent nations in the world, with Vanuatu just behind ranking at 23 at the global level. If anything, the aid dependency of the Pacific has grown over time, as in early 2000s only four Pacific countries were in the global list of 20 aid-dependent countries (Pryke 2012: 3-4).

persons' group. Building on both these reviews, in 2014 the PIF Leaders adopted the Framework for Pacific Regionalism (FPR).

The FPR is the the latest master strategy for strengthening cooperation and integration between the states and territories of the Pacific region. It articulates the vision, values and objectives of an enhanced Pacific regionalism that has a small but well-founded set of priorities that require regional collective action to achieve tangible, region-wide benefits, and sets out a process for identifying regional public policy priorities.

Despite the importance that FPR attaches to Pacific regional integration, it is categorically opposed to much delegation of decision-making from the national to the regional/subregional level: regional integration initiatives "should maintain the degree of effective sovereignty held by national governments – countries, not regional bodies, should decide priorities" (PIF Secretariat 2014: 10). Even within the national governments, the FPR seems to be against much delegation of regional integration initiatives from the Leaders level to the other parts of the governments: "The initiatives should require the Leaders' attention and input, as opposed to being within the mandate of Ministries or other governing bodies" (PIF Secretariat 2014: 10). It is possible that such a decision-making mechanism will be a dragger rather than a driver of Pacific regionalism.

6.6. Regional/Subregional Institutions and Geopolitics: Key messages

In general, AP's RECI has been less institution-intensive than in the other parts of the world. True, there is a dense web of regional and subregional institutions but most of these institutions are a little more than networks and forums of groups of countries than rule-based legal structures; they are far from effective intergovernmental institutions to which member governments delegate much decision-making powers or invested the needed financial and human resources. As a result, Asian regionalism remains 'institution-light' (ADB 2010).

Within this overall institutional envelope, however, there are notable variations across the subregions in the nature and the degree of institutionalization of RECI. Southeast Asia was the pioneer in institutionalizing its integration process – it established the ASEAN way back in 1967 and has had a Secretariat for a long time now. In more recent years, Southeast Asia has joined hands with East Asia in taking several steps at strengthening the institutional framework. Yet, the ASEAN's integration is still held back by a weak Secretariat. If anything, the degree of institutionalization of RECI continues to be even lower in other subregions than in Southeast Asia.

The degree of institutionalization of RECI across the various subregions has depended on the political commitments of the member countries. The latter, in turn, has been conditioned by the geopolitics – both at the subregional levels and at the AP region as a whole. To varying degrees, lack of political commitments has hampered progress in institutionalization across all the subregions in the AP. On balance, however, geopolitics seems to have constrained RECI and its institutionalization the most in South Asia and perhaps the least in Southeast Asia, with the other subregions falling somewhere in between these two cases. That said, even in Southeast Asia, there appears to be substantial scope for strengthening political commitments to RECI and its institutionalization, not withstanding the adoption of an ASEAN charter in 2010 (that gives a legal status to the ASEAN) and the launching of the AEC late last year.

The challenges of mustering the political commitment needed for much greater institutionalization process is harder in the other subregions of AP - resolving the world war-related complications between Japan on the one hand and China and Korea on the other in East Asia; softening the historical animosities and rivalries between India and Pakistan in South Asia; dealing with the political rivalry between Kazakhstan and Uzbekistan in Central Asia; and balancing the national interests of the two big developed countries – Australia and New Zealand – with the imperatives of the remaining 14 small sea-locked Pacific island economies in the Pacific.

7. AP RECI: Lessons Learnt and the The Way Forward

7.1. Lessons Leant

Figure 3 presents a summary assessment of the drivers and draggers of RECI across the five subregions of AP. It simply ranks the five subregions in terms of the various drivers and draggers of cross-border economic integration that this paper has identified. The numbers in the color-coded cells indicate the rank of the particular subregion in terms of the relevant determinant of RECI – ranging from 1 (indicating the best performing subregions within AP) and 5 (the worst performing subregion).

On balance, East Asia has been fortunate to have been endowed with favorable geography. At the same time, its national economic policies and governance standards (in terms of government effectiveness, regulatory quality, rule of law, and control of corruption) have been key drivers of its cross-border economic integration, despite its much less democratic regime. South Asia is almost the obverse image of East Asia – despite a reasonably favorable geography and a robust democratic system, its national economic policies and governance standards have been major draggers of cross-border integration. In many ways, Southeast Asia is somewhat closer to East Asia, while the Pacific somewhat similar to South Asia (except that the Pacific had to content with an unfavorable geography that has been a major dragger of its cross-border integration). Central Asia presents a much more mixed case – it's geography is somewhat akin to that of the Pacific – acting as a drag on its cross-border economic integration, while its political system on an average is much less democratic than that of the Pacific; it's national economic polices are somewhat more open than that of South Asia, yet their governance parameters are much to be desired thus acting as a drag on the subregion's cross-border integration.

As for the the institutionalization process of cross-border economic integration, it is difficult to rank the five subregions, since the assessment has to be mostly based on qualitative information. Subject to this caveat, this paper's assessment is that Southeast

Asia has perhaps the most robust institutional framework within AP, while South Asia the least robust, with the other subregions falling somewhere in between.

Figure 3: Drivers and Draggers of RECI in AP: A Summary

	East Asia	Southeast Asia	South Asia	Central Asia	Pacific
Geography and Connectivity					
Sea and Shipping Connectivity	1	3	2	N/A	4
Air Connectivity	1	3	2	4	5
National Economic Policies					
Enabling Trade	1	2	4	3	N/A
Logistics	1	2	3	4	N/A
Service Trade Restrictions	2	3	4	1	N/A
Doing Business Conditions	1	2	5	3	4
Governance					
Voice and Accountability	4	3	1	5	2
Political Stability	2	4	5	3	1
Government Effectiveness	1	2	3	4	5
Regulatory Quality	1	2	3	5	4
Rule of Law	1	3	2	5	4
Control of Corruption	1	2	3	5	4
WSJ Rule of Law	1	2	4	3	N/A
Freedom and Rights (Democracy Index)	3	2	1	4	N/A
Political Rights	5	3	2	4	1
Civil Liberties	4	3	2	5	1
Electoral Process and Pluralism	4	2	1	3	N/A
Civil Liberties	4	2	1	3	N/A
Institutionalization	4	1	5	3	2

Within these overall results, the major lessons that can be drawn are:

- Despite the progress of RECI in AP, much potential for RECI still remains untapped, especially compared to the levels of economic integration achieved in Europe and North America. Within the AP region, the untapped potential for RECI appears be the largest in the Pacific islands, South Asia, and Central Asia, followed by Southeast Asia, and East Asia. *Countries need to seriously consider as to how best to close the gap between the potential and the actual achievements in RECI.*

- Favorable geography (and hence better connectivity) has been an enabling, if not a driving factor, for East Asian economic integration, while the 'sea-locked and land-distanced' nature of Pacific Islands and the 'land-locked and sea-distanced' geography of Central Asia have been draggers of their cross-border economic integration. Despite Southeast Asia having a less favorable geography than South Asia, economic integration in the former has proceeded at a much faster pace than in the latter. *Connecting the hitherto less connected countries and subregions is a task that cannot be postponed for long if actual achievements in RECI were to move towards what is potentially feasible.*

- More outward-oriented and business-friendly national economic polices have been a key driver of economic integration in East and Southeast Asia, while inward-oriented and business-unfriendly policies have dragged South Asia's economic integration, notwithstanding the more recent opening up by India – the largest country in the subregion. In Central Asia (and to a lesser extent in the Pacific), coupled with an unfavorable geography, the less liberal trade enabling policies have acted as drag on its down economic integration. *There is much merit in the lagging countries and subregions to taking concrete steps to liberalize their external economic policies and ease their domestic business environment.*

- Although South Asia scores high in terms of democracy and civil liberties, it compares unfavorably with East Asia and Southeast Asia in terms of other parameters of governance such as rule of law, government effectiveness, regulatory quality, and corruption – perhaps dragging the subregion's economic dynamism and integration. The Pacific islands share features similar to that of South Asia. In Central Asia, poor democratic parameters have gone hand in hand with lower levels of rule of law, regulatory quality, and corruption – thus joining the subregion's unfavorable geography in constraining economic integration. *With or without democratization, raising domestic governance standards is critical for many of the AP countries, as countries that have poor governance standards at home are unlikely to be able to effectively cooperate at the regional and subregional levels for RECI, much less taking leadership in regional governance.*

- In general, AP's economic integration has been weakly institutionalized. Within the region, however, institutionalization of RECI has proceeded at a faster pace in Southeast Asia than in the other subregions. Even in Southeast Asia, the reluctance to delegate decision-making over regional integration initiatives from national to regional/subregional levels is holding back the pace of economic integration, notwithstanding the launching of the AEC late last year. *Many subregions are entering phases of RECI that would benefit vastly from strengthened institutionalization of the process and a reasonable degree of 'power delegation' from national to regional/subregional entities. AP countries cannot wish for better regional integration but at the same time be overtly opposed to ceding even a minimal degree of sovereignty.*

- Weak institutionalization stems largely from a lack of national-level political commitment to RECI. This is pervasive across the region, including Southeast Asia. Yet, the problem is more acute in other subregions. The historical rivalry between Japan and China in East Asia, the deep distrust between India and Pakistan in South Asia, the political deadlock among the major countries in Central Asia – especially Kazakhstan and Uzbekistan, and the zealous protection of sovereignty by the large number of small island states in the Pacific act as major inhibitors to 'power delegation' from national to regional levels. Even the institutionalization process of ASEAN is hampered by lukewarm support for such power delegation. *Countries and subregions have to go beyond the rhetoric on RECI and commit their political capital, if AP has to make much headway in institutionalizing its RECI process.*

7.2. The Way Forward

Whether AP and its subregions will exploit the untapped potentials for RECI in the coming years and decades will very much depend on how effectively do countries address the emerging challenges – improving connectivity, fostering liberalization of external economic policies (at-the-border) and deregulation of domestic business environment (behind-the-border), bolstering governance standards, and strengthening the institutional base of regional and subregional economic institutions. Progress in each of these areas will ultimately depend on whether countries in the region could muster enough political commitment and consensus to such a reform agenda to promote RECI[35].

In recent years, a number of studies and reports – by multilateral development institutions, the United Nations, regional and subregional bodies, and independent researchers and research institutions - have identified a number of regional and subregional policy initiatives that are required to address the above challenges. In

[35] Political commitments to AP's RECI, in turn, cannot be delinked from the evolving regional security arrangements – something that is beyond the scope of this paper – but critically important for AP's RECI agenda. Broadly speaking, two distinct, yet at times overlapping, country groupings on security cooperation are evolving AP: a US-centric alliance and another Sino-centric alliance. Several countries in the region are thus faced with the difficult political balancing act of choosing between these two alliances. That task is made much more difficult for those countries that have substantial and growing economic and commercial links with China but are opposed to China's geopolitical stances and hence would prefer or are even compelled to be in the U.S centric regional security alliance. (See Kahler 2013, Sullivan 2014, Acharya 2016, and the other papers in the Spring 2016 special issue of Global Asia for discussions of these and other issues on Asia's security cooperation).

general, therefore, there are several concrete ideas on the strategic interventions and policy actions that are needed to promote RECI AP and its major subregions. It is time for the countries and their governments to build on these existing work and implement key policy options that have already been put forth by the existing work.

For example, a number of recent studies have examined the entire gamut of policy options for improving AP's connectivity – both its hardware component and the software counterpart (ADBI 2009; ESCAP 2014; 2015a). Similarly, recent studies have identified the policy options for fostering market integration in the areas of trade, services, investment, financial capital flows, and people mobility across borders (ADB 2008; 2015; ADBI 2014; ESCAP 2012; 2015b; 2015c; World Bank 2015). Policy options for strengthening the institutional architecture for AP and its subregions' RECI have also been a subject of in-depth and comprehensive analysis in recent years (ADB 2010; ADBI 2014; ESCAP 2012; ESCAP 2015d).

Given the wealth of existing studies, reports, and expert commentaries on AP's RECI, there is much merit in the countries in the region seriously considering the feasibility of implementing the policy initiatives that these recent studies have recommended. The major challenge in this task would be to screen the whole gamut of policy options suggested and prioritize them, so that their pros and cons examined carefully and their implementation sequenced appropriately. Clear directions from the top echelons of the political leaders and their sustained commitment and guidance would be critical for successful screening and prioritization, not to speak of effective implementation of prioritized initiatives.

Although it is not clear how best to get that level of political engagement and attention from the AP countries, one option that is worth exploring is for AP-wide regional institutions such as the ADB and/or ESCAP to play the role of a facilitator to entice political commitment for RECI.

The Charter establishing the ADB mandates it to play an active role in regional cooperation in AP. Subsequently, the institution adopted a regional cooperation policy (RCP) in 1994 that, for the first time, articulated ADB's approach to promoting regional cooperation. ADB adopted a Regional Cooperation and Integration Strategy in 2006 that gave an even bigger impetus to the institution's agenda for AP's regional integration. Close on the heels of adopting the Strategy, the then President of ADB, Haruhiko Kuroda, had emphasized the importance of RCEI in unequivocal terms: "The emergence of Asian regionalism is a historical force that will help build peace and prosperity within and outside the region. Building the right institutional framework for Asian integration is not only important for the region to eradicate poverty and sustain the growth momentum, but it is also good for the rest of the world as Asia increases its contribution to the global economy" (ADB 2010: x).

Subsequently, ADB's current President Takahiko Nakao, in his very first opening address at the institution's 46th Annual Meeting in 2013, reiterated: "To achieve sustainable growth, I believe Asia must become more innovative, more inclusive, and more integrated…. Over the past half-century, Asia has benefited tremendously from regional cooperation and integration. As we seek to integrate more within our region, we must also remain an integral part of the global economy. In other words, we must maintain the open regionalism that has served our region so well in the past".[36] A more recent evaluation of ADB's support for AP's RECI by its Independent Evaluation Office (ADB-IED), which incidentally is the the first in-depth corporate-level independent evaluation of ADB support for RECI, recommends that ADB should further broaden as well as deepen its support to the region's economic integration process (ADB- IED, 2015).

The agenda for RECI has been, and continues to be, equally important for ESCAP. Indeed, it could be argued that RECI was the ultimate raison d'etre of Economic Commission for Asia and the Far East (ECAFE) – the forerunner of todays ESCAP[37]. Back in those early post-war years, ECAFE's first annual Economic and Social Survey for Asia and the Pacific brought out immediately after its establishment noted: "For the first time a forum was provided by the United Nations at which accredited representatives of the governments of the region can meet together to discuss common economic problems, establish agreed principles of action and carry out, if they choose, the policies determined by mutual agreement. Such thing has not been known in the past"[38].

Even as early as 1959, ECAFE initiated the development of an Asian Highway Network. For various reasons, that initiative did not get much traction for quite some time. Yet, with the share of intraregional trade in the AP region rising over the next two and half decades, in 1992 ESCAP revitalized the 1959 proposal through an Asian Land Transport Infrastructure Development (ALTD) project. The ESCAP Ministers endorsed the ALTD project in 1992. Subsequent developments resulted in three major intergovernmental agreements for strengthening Asian connectivity - the Asian Highway Network (2006), the Trans-Asian Railway Network (2009), and the Asian Dry Ports Network (2013). Successive ESCAP Executive Secretaries did emphasize the importance of RECI and the role that regional institutions like ESCAP could play in facilitating it[39]. After all, "Forging intergovernmental agreements and protocols is ESCAP's core business. This is the ideal platform to build regional economic cooperation and integration as the best path forward for Asia and the Pacific – not only to bring the region closer together, but as a mechanism for sustained growth and more inclusive prosperity"[40].

These two institutions – ADB and ESCAP – either individually, or better still, together should take a proactive next step - consolidating the policy options recommended by recent work on AP's RECI (into, say, a pragmatic master list), spelling out the pros and

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[36] Opening address by the current ADB President, Takahiko Nakao, at the 46th Annual Meeting of the ADB Board of Governors, New Delhi, India, 4 May 2013.

[37] See, ESCAP, 2014, Asia and the Pacific: A Story of Transformation and Resurgence, ESCAP, Bangkok, p.139

[38] See ESCAP, 2014, Asia and the Pacific: A Story of Transformation and Resurgence, ESCAP, Bangkok, p. 139.

[39] See ESCAP, 2014, Asia and the Pacific: A Story of Transformation and Resurgence, ESCAP, Bangkok, pp. 139-148.

[40] U.N-ESACP (2014) Asia and the Pacific: A Story of Transformation and Resurgence, ESCAP, Bangkok, P.21.

cons of the recommendations for RECI for the member governments. Whichever of these two institutions take the lead in this initiative, it would be crucial for the institution (or institutions) to work closely with the various subregional institutions and forums as well as the three newly created development institutions – the Asian Infrastructure Investment Bank (AIIB), the New Development Bank (NDB), and the Silk Road Fund (SRF). Some of these recently established institutions have a strong regional remit in their planned operations for the immediate future, and hence there is much merit in involving them at the initial process of preparing the consolidated list of recommendations and their implications for the AP region.

Such a master list of the recent proposals and recommendations for cementing AP's RECI and their pros and cons arrived at through a consultative process could then be shared with the member country governments to elicit their feedback. The member governments could then do serious deliberations on these proposals and the recommendations both at the subregional and region-wide levels. Building on that, the governments could agree on a course of action to prioritize the recommendations for implementation, work out a tentative time-table, agree on modalities for the implementation of prioritized initiatives, and develop a framework for monitoring the progress of implementation. The signing of the TPP Agreement and the launching of the AEC and the Eurasian Economic Union last year should provide an impetus to the Asia-Pacific region taking its agenda of RECI to the next level, as does the establishment of the two new multilateral development institutions – the AIIB and the NDB. Two of the oldest region-wide institutions – the ADB and the ESCAP – have their role cut out for taking the lead in propelling fresh initiatives and guiding AP's RECI in the years to come.

There is an African proverb that says: "If you want to go fast, go alone; if you want to go far, go together." This is the kind of spirit that should guide the AP countries and their political leaders, regional and the subregional institutions, the private sector, and indeed the region's people at large if the region were to succeed in their next stages of development and integration in the 21st century.

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