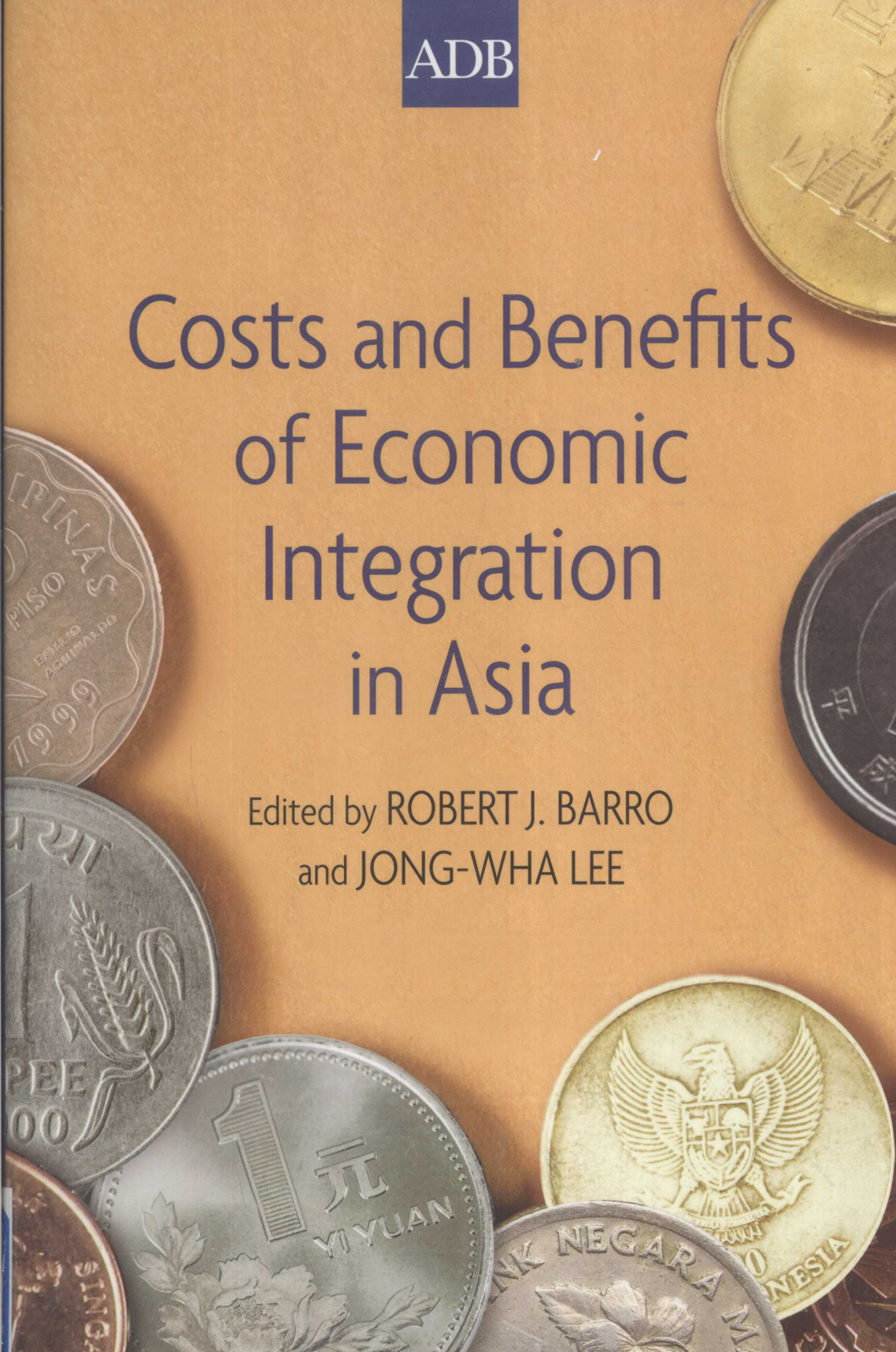


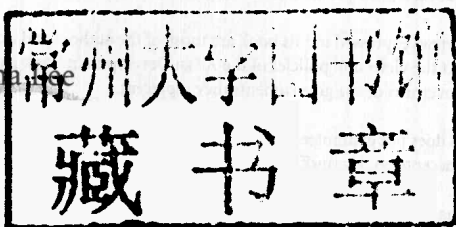
Costs and Benefits of Economic Integration in Asia

Edited by ROBERT J. BARRO
and JONG-WHA LEE

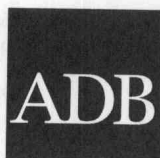


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OXFORD
UNIVERSITY PRESS
2011



OXFORD

UNIVERSITY PRESS

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A co-publication of the Oxford University Press and the Asian Development Bank:

Oxford University Press
www.oup.com

Asian Development Bank
www.adb.org

The first edition published in 2011 by:

Oxford University Press
198 Madison Avenue,
New York, NY 10016,
USA

Asian Development Bank
6 ADB Avenue, Mandaluyong City,
1550 Metro Manila,
Philippines

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Library of Congress Cataloging-in-Publication Data

Costs and benefits of economic integration in Asia / edited by Robert J. Barro
and Jong-Wha Lee.

p. cm.

Includes bibliographical references and index.

- ISBN 978-0-19-975398-7 (cloth : alk. paper) 1. Asia—Economic integration.
2. Asia—Economic policy—21st century. I. Barro, Robert J. II. Lee, Jong-Wha.
HC412.C6487 2010
337.1'5—dc22

2010009167

3 5 7 9 8 6 4 2

Printed in the United States of America
on acid-free paper

Foreword

The Asian Development Bank (ADB) has long recognized that regional cooperation and integration is key to regional economic development. In fact, this is elucidated in the *Agreement Establishing the Asian Development Bank* (the Charter), where it is stated that the Bank's purpose is "... to foster economic growth and cooperation in the region ... and contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually." In 1994, ADB adopted for the first time a policy to articulate its approach in promoting regional cooperation. This was replaced in 2006 by the *Regional Cooperation and Integration Strategy*.

The changed global and regional economic landscapes, especially after the 1997–1998 Asian financial crisis, led to the feeling that a more comprehensive and effective way of channeling the ADB's support for ongoing and future initiatives of regional cooperation and integration would be essential. The Office of Regional Economic Integration (OREI), which has its roots in the Regional Economic Monitoring Unit created after the Asian crisis, is now the focal point for regional cooperation and integration initiatives undertaken by the ADB.

One of the key roles of OREI is to conduct research and serve as a knowledge hub for regional cooperation issues. In recent years, several monographs on Asian regional economic integration were published by OREI: in 2004, the two-volume *Monetary and Financial Integration in East Asia*; in 2005, *Asian Economic Cooperation and Integration: Progress, Prospects and Challenges*; in 2008, *Emerging Asian Regionalism: A Partnership of Shared Prosperity*; and

more recently in 2009, *Pan-Asian Integration: Linking East and South Asia*; and *National Strategies for Regional Integration: South and East Asian Case Studies*. In general, the focus of these publications was to assess the evolution and existing levels of integration and cooperation, and to recommend ways to promote closer ties. Apart from some short-term issues of concern, greater regional cooperation was viewed as inevitable and, through it, the region as a whole would benefit and global welfare would also be improved.

This book, however, pauses to ask whether quantifiable results from cooperation and integration can be substantiated in the areas of trade, investment, and finance in Asia. Selected prominent economists were offered the challenge of quantifying the costs and/or benefits of economic and financial integration in the region. This book will add insights to both the current consensus and differences regarding Asian economic integration. Readers will gain from having an objective and thorough analysis of a range of initiatives that promote regional economic integration and that are beneficial to countries individually. I greatly appreciate the efforts of the excellent team of authors, led by Robert J. Barro and Jong-Wha Lee.

Currently, the global economy appears to be recovering from the deep recession, pulled by the strong performance of developing Asian economies. In the aftermath of the global crisis, the global economic landscape will change dramatically, and Asia must play a constructive role in shaping its future. Asian countries must continue “open regionalism” and enhance regional and global cooperation. A regionally well-integrated and globally connected Asian economy will help in building a more vibrant and prosperous world.

Haruhiko Kuroda

President

Asian Development Bank

Acknowledgments

This volume is a knowledge product of the Office of Regional Economic Integration (OREI) of the Asian Development Bank (ADB). It was funded by the ADB Regional Technical Assistance 6500 ("Quantifying the Costs and Benefits of Regional Economic Integration in Asia"). From inception to completion, Hsiao Chink Tang led the project, with Josephine Duque-Comia providing excellent administrative assistance. Various people who assisted at different periods of the project deserve a special mention: Jayant Menon, Wilhelmina Paz and Iloila Tan for assisting in the preparation of the technical assistance paper; Vivian Francisco for organizing the joint workshop with Hong Kong Institute for Monetary Research (HKIMR); Liza Cruz for arranging the seminars at ADB Headquarters; Richard Niebuhr for editorial assistance; Lyndree Malang for overall coordination at the later stage of the project; and Carolyn Dedolph Cabrera and Priscila Del Rosario for facilitating the publication of this volume.

The book has benefited from valuable comments and feedback from participants at the ADB-HKIMR workshop and seminars at ADB Headquarters. Special thanks go to Hans Genberg and his team at the HKIMR, particularly Patrick Yu, for organizing the joint workshop.

The views expressed in this volume are those of the authors; they do not represent those of ADB or other institutions with which the authors are affiliated.

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Acronyms and Abbreviations

ACU	Asian Currency Unit
ADB	Asian Development Bank
ADBI	Asian Development Bank Institute
AFTA	ASEAN Free Trade Agreement and/or Area
AIO	Asian International Input-Output Tables
AMS	Asian monetary system
AMU	Asian monetary union
ASEAN	Association of Southeast Asian Nations
ASEAN+3	ASEAN plus People's Republic of China, Japan, and Republic of Korea
BCS	business cycle synchronization
BEA	Bureau of Economic Analysis
BEC	Broad Economic Categories
BK	Baxter-King filter
CAREC	Central Asia Regional Economic Cooperation
CEPR	Centre for Economic and Policy Research
CIA	Central Intelligence Agency
CIDER	Center for International and Development Economics Research
CIF	cost, insurance, and freight
CIS	Commonwealth of Independent States
CFA	African French Franc zone (<i>Coopération Financière en Afrique Centrale</i>)

CMIM	Chiang Mai Initiative Multilateralization
COW	Correlates of War
CPIS	Coordinated Portfolio Investment Survey
CRRA	constant relative risk aversion
CU	customs union
CUSTA	Canada–United States Free Trade Agreement
DOTS	Direction of Trade Statistics
DVA	domestic value-added
EAEC	Eurasian Economic Community
EBRD	European Bank for Reconstruction and Development
ECCA	Eastern Caribbean Currency Area
ECU	European Currency Unit
EMS	European Monetary System
EMU	European Monetary Union and/or Economic and Monetary Union
ER	exchange rate
ERM	exchange rate mechanism
EU	European Union
FDI	foreign direct investment
FOB	free on board
FTA	free trade agreement
FVA	foreign value-added
G3	Germany, Japan, and the United States
G7	G3 plus Canada, France, Italy, and the United Kingdom
GDP	gross domestic product
GE	General Exceptions
GMM	generalized method of moments
HKIMR	Hong Kong Institute for Monetary Research
HP	Hodrick-Prescott filter
IDE	Institute of Development Economics
IL-FT	Inclusion List-Fast Track
IL-N	Inclusion List-Normal
IMF	International Monetary Fund
IO	input-output
IRIO	interregional input-output
ISER	Institute of Social and Economic Research
IT	inflation targeting
IV	instrumental variables
IZA	Institute for the Study of Labor
Lao PDR	Lao People's Democratic Republic
LDC	less developed countries
MERCOSUR	Southern Common Market (<i>Mercado Común del Sur</i>)
MFN	most favored nation
MNE	multinational enterprises

MID	militarized interstate disputes
MU	monetary union
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NBER	National Bureau of Economic Research
NBS	National Bureau of Statistics
NCCR	National Centre of Competence in Research
NTB	non-tariff barrier
OCA	optimum currency area
OECD	Organisation for Economic Co-operation and Development
OLS	ordinary least squares
OxCarre	Oxford Centre for the Analysis of Resource Rich Economies
PPE	property, plant, and equipment
PPI	producer price index
PPP	purchasing power parity
PRC	People's Republic of China
PWT	Penn World Tables
Q1	first quarter
Q4	fourth quarter
RMS	root-mean-squared
RTA	regional trade agreement
SL	Sensitive List
TEL	Temporary Exclusion List
UN	United Nations
UK	United Kingdom
US	United States
UN BEC	United Nations Broad Economic Categories
VAR	vector autoregression
VS	vertical specialization
WDI	World Development Indicators
WITS	World Integrated Trade System
WTO	World Trade Organization

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