

**Waseda University Global COE Program,  
'Global Institute for Asian Regional Integration'  
Investigative Research Assistance Achievement Report**

**Affiliation**    GSAPS                      **Year** D2    **Name** CHALERMTIARANA Charosporn

**Itinerary**                                      11 / 19 / 2008 / ~ 11 / 30 / 2008 /    (Month/Date/Year)

**Destination (Name of city and country)**

Bangkok, Thailand

**Research objectives**

The idea of economic integration is spreading worldwide in recent years. Most of the countries in Asia, as a large source of capital of the world, are export-oriented which means their economies rely on trade. The accumulated capital cannot be efficiently used by production activities in the region. Thus, it is necessary to understand the relationship between trade and finance, their mechanism, in term of Asian framework.

To provide better understandings about financial integration in East Asia region which will lead to an increase in economic growth, by explaining the development of financial integration, comparing with trade integration, what are the determinants for East Asia financial flows and should in turn lead to the further discussion on steps of cooperation. The studies will be conducted to search for facts of financial integration in East Asia, and how to make the integration efficient.

This research intentionally purposes on the necessity of regional economic cooperation, focusing on why the accumulated capital in the region cannot be properly used in the region and how to make the flows more efficient.

**Research project**

There have been studies that showed the gap of level and growth between trade integration and financial integration in ASEAN+3, while studies mentioned that both integrations have positive effect on economic growth. It will be more appreciated if the two integrations have the same movement and support each other, in order to achieve the final target of economic growth. Finding relationship between each other will confirm that there is possibility of faster growth when the effects of these two integrations work together.

## Achievement

The summary of international conference on "The Future of Economic Integration in Asia" during 20-21 November 2008 is as follow;

The conference has divided into 3 main sections, 2 panel discussions, namely "Challenges of Economic Integration in Asia" and "Sharing the Benefits of Asian Economic Integration", and a concurrent paper presenting section with 4 topics, Financial Integration, Regional Factor Movement and Foreign Direct Investment, Competitiveness-Business Opportunities and Challenges, and Challenges of Sustainability-Growth, Resources, and Environment (of which I attended the topic on Financial Integration).

In the first panel discussion on "Challenges of Economic Integration in Asia", panelists have raised some points concerning on financial integration as the world is facing financial turmoil. The core objective of financial integration is to help finding a highest return and to mobilize savings in the region. Harmonization and sound banking system, and regulations are also needed. Integrated Asia economies brought out decoupling idea but it is still a myth and risky. Besides, there is an attempt to move forward from bilateral level to multilateral level but only little progress can be observed.

The question is, Asian Economic Integration is market-led cooperation which brings to a possibility that when shocks occur, protectionism will be more preferable than regionalism. There is projection that in the near future Asia will share about 55 percent of world GDP and expected that Asian financial sector will be the largest and most sophisticated, Is Asia ready for this leading role? Is the world financial architecture going to be the same or changing toward Asia? Keeping that US economy is declining, world demand also decreases which will effect on sustaining economic growth, can Asia creates regional demand to substitute? Current financial turmoil can lead regional cooperation in different tracts; more integrated and helping each others to prevent and solve crisis problems, or it will suggest to the end of an integration as the problem spreads out from a country to another because of the close linkage between markets. Although markets in Asia got less effect from the current turmoil, but it cannot be denied that the crisis starting from world financial center would effect all over the world.

Moreover, there is a proposal of "New growth paradigm" which shifts from export as a main driver to economic growth to seek for other drivers such as public investment and intra-regional trade which will be financed by intra-regional savings.

In order to coop with these challenges, institutional change is in priority. ASEAN Charter is one of the steps that have been taking to more legal structure. Another idea is to set up "Regional Sovereign Wealth Funds Club" to set rules for investing which will be benefit for countries as investors rather than individual borrowers.

There are also questions and comments from the floor about the impact of current financial turmoil on real sector as the experience from 1997 Financial Crisis showed that the impact on real sector had been lagged for about 3 years. However, by using accumulated savings, we can perform a soft-landing from the impact on real sector. Then to the further question

that do we need more or less integration, regarding to current financial situation? Financial integration is desirable when it comes with harmonizing in regulations and transparency which also can prevent the shocks.

The second panel discussion is on "Sharing the Benefits of Asian Economic Integration". There are 2 main questions for panelists. First, about the benefit of Asian Economic Integration, the stronger economies will be gainers and weaker economies seem to be losers. Technological assistances to weaker economy will subsidize for this circumstance. On company level, the cooperation will provide more negotiation power for businesses and also increase competitiveness from the benefit of labor and capital mobilization. There is also a potential from benefit in joining production network such as job creation, technological transfer, increasing in corporate income tax, and foreign currencies inflows. The benefits should be concerned in middle to long-term basis.

However, there are also problems before reaching the benefits mentioned above. Measuring gain and loss by numbers will always make gainers and losers. Along with little willingness of business profit sharing creates competition amongst countries rather than the will of growing together. Thus, minimizing gain and loss situation should be most considered.

The next priority for Economic Integration should be connections in services and liberalization in service sector, including financial area, mind set of people in the member countries to think more regionalism than nationalism. Also, the usage of existing infrastructure in the region (ex. East-West Corridor) and building more infrastructures for energy and national resources should be considered to facilitate the economies. Making the path to world markets and active FTAs networking will bring Asia to achieve the benefits.

Papers presented under the topic of Financial Integration are "Regional Financial Integration in Asia and around the World", "Financial Independent, Capital Mobility and Exchange Rate Cooperation in Asia", "Financial Integration in the Pacific Basin Region: RIP by PANIC Attack?", "Size Effect of Monetary Union and Welfare", "Do Flows Forecast Returns, and vice versa?", and "Dynamic Effect of Change in Exchange Rate System-From the Fixed Exchange Rate Regime to the Basket-Peg or Floating Regime".

Due to political crisis in Bangkok, visiting to Fiscal Policy Research Institute cannot be completed as schedule, only data collection has been made.

**Confirmed by person in charge of project promotion (signature and seal)**

Academic Adviser SHUJIRO URAZU

Sub Adviser

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