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Asian economic integration: a perspective on South Asia[☆]

Saleem M. Khan^{*}, Zahira S. Khan

*Department of Economics, Bloomsburg University, 400 East Second Street,
Bloomsburg, PA 17815-1301, USA*

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Abstract

This paper argues in favor of open regionalism and continent-based integration in Asia. These are the effective instruments of outward-oriented development. The enlargement of trading blocs into continent-based integration also serves as a countervailing power to stem the excesses of economic globalism. The case made in the paper shows the need for institutional changes for promoting economic development. Institutional changes along with open regionalism are essential to enhancing outward-oriented development in South Asia. Respectable progress has been made in these areas across the continents in general, and in Asia in particular (ASEAN, SAARC, APEC). Efforts on these initiatives must be redoubled as we start the 21st century.

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Global trends in open regionalism indicate a gradual movement towards continent-based integration. Growing interest in open regionalism in recent years is to promote outward-oriented development, and to harmonize domestic economic policies with the forces of economic globalism such as liberalization, privatization, deregulation.¹ It is not surprising that many sub-regional trading blocs are currently adopting strategies of open regionalism and entering into continent-based integration. Strategic instruments of open regionalism, i.e., deepening and widening, specifically focus on building a sound trading structure and to guide merging of regional blocs into a continent-based trading body. The enlargement of the

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^{*} Corresponding author. Tel.: +1-570-389-4681; fax: +1-570-389-4338.

E-mail address: skhan@planetx.bloomu.edu (S.M. Khan).

European Union (EU), closer relationship between Association of South East Asian Nations (ASEAN) and Asian Pacific Economic Cooperation (APEC), launching of the Free Trade Area of the Americas (FTAA), proposed establishment of African Union (AU), and revitalization of other regional arrangements across the world highlight this trend.

The framework of continent-based integration when operational, leading development economists argue, will reinvigorate powerful propensities of trade and investment, and reinforce outward-oriented development among the member countries. Significant positive side-effects of economic regionalism are already evident in Europe in particular, where strategies of economic growth, competitive impulses, and convergence are being successfully cultivated.

Open regionalism today is widely considered as a dynamic tool of outward-oriented development. The emphasis on open regionalism is a matter of interest and priority in Asia, and its appeal is evident from the enlarging membership of APEC and ASEAN groups. The future enlargement of the South Asian Association for Regional Cooperation (SAARC) is also a possibility, embracing Central Asian nations to the north, Myanmar and Laos to the east, and Iran and Afghanistan to the west. In the current environment of economic globalism, continent-based integration in Asia is both desirable and necessary. In formulating the future strategies of regionalism, the leadership of various sub-regional groups in Asia should examine the desirability of enhanced cooperation aiming at a continent-based integration. Once the Asian economic integration becomes a continent-based reality, it would be open by virtue of regional integration agreements (RIAs) to most sub-regions in Asia, including South Asia.

Indeed, the scope of an Asian integration is of special significance for South Asia. Within the framework of Asian integration, the South Asian countries would be able to enhance its vision and agenda for expanded trade and investment activities and reinforce economic links with the global economy. There is a decades-old impasse on economic cooperation in South Asia, despite the twin problems of poverty and underdeveloped and underutilized regional potential. South Asian membership in Asian integration will become instrumental in expanding and increased utilization of the existing economic potential and reducing poverty. For outward-oriented development in South Asia, open regionalism is a necessary condition and a needed countervailing power. However, regionalism alone cannot succeed unless accompanied by much-needed key institutional changes. It is, therefore, essential for South Asian political leadership to seize these global opportunities in a timely manner. A quick and concerted action on open regionalism and institutional changes can create an economic breakthrough in South Asia, leading it to become an active partner in Asian economic integration and global economy.

The focus of this paper is specifically on South Asia and advocates its membership in this evolving paradigm of Asian integration. It also emphasizes much needed institutional changes. The paper is organized in five sections. The first section describes the past as well as current trends in economic regionalism in Asia and particularly in South Asia. The second section discusses the progress underway in economic regionalism across the world. The third section is a commentary on the South Asian dilemma over priorities and potential. The fourth section outlines selective institutional changes as part of a proposed strategy for South Asia. The paper concludes with a few policy recommendations.

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