



## **Workshop Proceedings**

### **Comparison of Economic Integration in Asia and Europe**

**30-31 July 2019**

**Tbilisi, Georgia**



The CAREC Institute and the Asian Development Bank Institute (ADBI) held a joint workshop together with the Ministry of Economy and Sustainable Development of Georgia and the International School of Economics at Tbilisi State University (ISET) on the topic of comparison of economic integration in Asia and Europe on 30-31 July 2019 in Tbilisi, Georgia.

The participants included CAREC member country government representatives, and renowned authors and practitioners from Asia and Europe as resource persons, including authors of chapters in the forthcoming book titled “Economic Integration in Asia and Europe: Lessons and Recommended Policies” edited by Naoyuki Yoshino, Chul Ju Kim, Farhad Taghizadeh-Hesary, and Sang-Chul Park.

The workshop aimed to achieve a better understanding on legal approaches to integration; aspects of fiscal and monetary integration; integration in energy and environment sectors; possibility of de-integration; best practices; lessons learned; and case studies from Europe and Asia which took different approaches to integration.

“In the modern world, the level of economic, political and cultural interdependence of countries of the region is continually increasing, the opportunities and challenges are becoming more and more intertwined. Development of infrastructure, trade and transportation links between countries will reduce transaction costs for businesses, facilitate investments and will significantly contribute to the economic integration... At the same time, economic integration ... is a positive source of knowledge, experience sharing and cultural interactions among countries,” said Deputy Minister of the host country Ekaterine Mikabadze at the workshop.

“The benefits of economic and financial integration are many... [they] include realizing comparative advantage, reaping economies of scale, transferring technology, and reallocating physical and financial investment to areas of higher returns... The concept of regional public goods (RPGs) provides some insight into the issues posed by regional integration. RPGs, such as cross-border infrastructure, sustainable management of shared natural resources, and cross-border disease surveillance and control offer benefits beyond a single nation’s territory,” added Peter Morgan of ADBI.

The workshop participants also discussed side effects and the “problem of collective action” accompanying integration. They deliberated which lessons could be learned from various integration processes and how to avoid negative reactions and their political consequences. This paper presents the workshop proceedings prepared by Prof. Farhad Taghizadeh-Hesary of Waseda University, copy Editor – Ms. Tamar Berdzenishvili of CAREC Institute.

Central Asia Regional Economic Cooperation (CAREC) Institute  
No. 376 Nanchang Road, Urumqi, Xinjiang, the PRC  
f: +86.991.8891151  
[LinkedIn](#)  
[km@carecinstitute.org](mailto:km@carecinstitute.org)  
[www.carecinstitute.org](http://www.carecinstitute.org)

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## 1. Perspectives and Approaches of Regional Economic Integration

Prof. Natarajan Panchanatham from the Annamalai University, India, and Dr. Saeed Qadir, former Senior Research Officer of the CAREC Institute, provided perspectives and approaches of regional economic integration from the EU and Asia experience.

Dr. Saeed Qadir's Skype presentation was about the CAREC Regional Integration Index (CRII) which was designed by the CAREC Institute in 2017 based on the Huh and Park Asia-Pacific Regional Cooperation and Integration Index (ARCII) to measure the depth and breadth of regional economic cooperation among the 11 member countries – Afghanistan, Azerbaijan, the People's Republic of China (PRC), Georgia, Kazakhstan, Kyrgyzstan, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan.

The CAREC Regional Integration index (CRII) maps the state of regional cooperation and integration on six socio-economic dimensions (with 26 constituent indicators) for each CAREC member country and the region. The current CRII employs a panel-based data set for construction of the index that includes data from 2006 to 2016. Two-stage Principal Component Analysis (PCA) technique is employed to ascertain and apportion the weights for each of the indicators and dimensions for aggregation of a composite weighted index. The PCA based panel approach helps gauge the dynamic behavior of the drivers of regional cooperation and integration over the years, and track its evolution and assess the state of regional integration in each of the dimensions and overall index progress for policy analysis and targeted policy interventions.

The current CRII exhibits the low level of regional cooperation and integration (RCI) in the CAREC region. The low level of CRII is consistent with the findings of the Asia Pacific Regional Cooperation and Integration Index (ARCII) of 2017 and 2018. Dr. Qadir added that of the six dimensions in the CRII, the dimension VI 'Institutional and Social Integration' and Dimension V 'Movement of People' have the highest weights. It is then followed by dimensions III and IV, which are 'Regional Value Chain' and 'Infrastructure and Connectivity' respectively. Counter-intuitively, dimension I, which is 'Trade and Investment', and dimension II, which is 'Money and Finance', integration do not seem to derive RCI in CAREC.

Furthermore, 'Regional Value Chains' within the region are not integrated. In order to leverage on its RCI potential, CAREC policy makers need to revise policies to scale up political commitment, improve trade facilitation, streamline the rules, procedures, reduce regulatory burden and costs to promote cross-border trade and opening up of the services sectors under the WTO General Agreement on Trade in Services.

Prof. Panchanathan's presentation was on perspectives of regional economic integration in Asia and Europe. He used the review of literature method to collect information and data for his study. In 2016, upon the 40th-anniversary celebration of the Association of Southeast Asian Nations (ASEAN) and the European Union (EU), the regional integration was perceived as the most effective way to foster stability, build prosperity, and address global challenges.

He discussed why Asia and Europe embarked on regional economic integration and how their approaches differ. Creating stable economy and promoting sustainable growth and welfare were some of the reasons. These regional groupings prefer preserving the positive aspects of the complex models of society. Asian economic diversity is more pronounced, ranging from rich and modern to poor and traditional economies. Europe is much more homogenous

economically. The EU process had a major impact on political stability whereas Asia is still faced with liquid mechanisms. Asia is home to more than half of the world's population and to most of the world's production making it the most dynamic region with huge economic potential. Asia has numerous groupings leading to EU-like integration including ASEAN which make it the world's second-most integrated region after the EU.

On the road to integration in Asia, there are major hurdles which need to be overcome. The most important is the will for "unity in diversity." Asian cultures, political regimes, economic systems, and religious beliefs are more diverse than the European ones. Asia remains under the influence of fiercely competing superpowers of the PRC, the United States, and Russia. If Asia can integrate in its own way in areas such as national security, migration, competition, automation, and unemployment, then the growth potential would become a great driving force for dealing with challenges. The results and recommendations of his study will include if Asia should follow Europe or create its own model of regional economic integration.

Prof. Natarajan Panchanatham delivering a presentation at the workshop



## 2. Fiscal and Monetary Integration

The second session had three presentations by: Prof. Muhammad Ayub Mehar from Iqra University Karachi of Pakistan; Dr. Danupon Ariyasajakorn from Chulalongkorn University of Thailand, and Dr. Subramanian of Bharathiar University in India. This session discussed the financial integration, which includes the areas of capital market integration, financial services, capital account liberalization, and other related sectors. The EU and Asia perspectives were presented as lessons learned, and for the purposes of comparative analysis.

Prof. Muhammad Ayub Mehar's Skype presentation was on economic integration in CAREC member countries, financing economic corridors and the sovereign bond market. The nexus of the modes of financing, trade and transport related infrastructure, quantum of trade activities



and economic growth was the core area of his study. His research concerned impacts of regional economic integration of CAREC member countries on trade and GDP growth. Although presence of several bilateral and multilateral agreements was considered an indicator of economic integration, in the absence of good physical infrastructure and logistics service, the implementation of such agreements deemed impossible. So, the provision of good trade and transport related logistic services was incorporated as a key indicator of integration among the countries in the region.

The role of magnitude and modes of financing in determination of the provision of logistic services and transport related infrastructure has also been covered in his study. The results emphasized the causal relations between trade and transport related infrastructure and GDP growth.

The most important conclusion is the identification of short-term external borrowing as most effective mode of financing. The study does not recommend the long term external borrowing or multilateral borrowing for the development of trade and transport related infrastructure. The strong, significant, and robust impact of the share of short-term borrowing in total external debt on GDP growth, exports, and Infrastructure development indicates the pressure on policy makers and economic managers for effective and efficient utilization of resources.

Dr. Kubat Umurzakov of Kyrgyzstan, Dr. Danupon Ariyasajjakorn, and Peter Morgan of ADBI at the workshop



Dr. Danupon Ariyasajjakorn's presentation was titled "Evolution of ASEAN Financial Integration in the Comparative Perspective." In his presentation, he mentioned that since the Asian Financial Crisis 1997-1998, ASEAN has worked continuously on the matters of financial integration and put tremendous effort to ensure financial stability in the region. Two ASEAN Economic Community (AEC) blueprints have been endorsed with elements of financial integration and liberalization to achieve the regional financial integration. Though the effort seemed ambitious, the regional initiatives were agreed and partly implemented in the areas of

banking, insurance, capital accounts, capital markets, payments and settlement systems, taxation, financial inclusion, financial stability, financial resilience, and sustainable finance.

Given a long process of financial integration of the EU, proven tangible economic benefits associated with a significant degree of financial integration, the ASEAN could learn from the EU's experience, particularly in the context of current global challenges.

Dr. Danupon Ariyasajakorn reviewed the ASEAN's process, which includes financial integration and financial stability, in comparison with the one of the EU. His study examined the effectiveness of the initiatives agreed and implemented by ASEAN as compared with the EU's benchmark.

Dr. Subramanian's reviewed the creation and evolution of European Economic Monetary Union (EEMU) and discussed the key lessons for the Asian economic integration. The EEMU was established, succeeding the European Monetary System (EMS), as the new name for the common monetary and economic policy of the EU. The management of EEMU was designed to support sustainable economic growth and high employment through appropriate economic and monetary policymaking. These objectives were accomplished by carrying out the following major economic activities:

- i. aiming towards price stability by implementing monetary policy
- ii. coordination with the member states relating to the economic policies
- iii. ensuring the smooth operation of a single market in the region

Europe was able to achieve "deep integration" envisaging the vision of a united Europe, the political and economic stability within Europe, and the development of institutions such as the EEMU. Whereas in Asia, such features are not present. Also, despite having benefitted from the trade liberalization, it seems unlikely that Asia would follow the European path of "deep integration." However, several lessons can be taken from EEMU and adjusted to create own model for attaining the benefits of the Asian economic integration.

### 3. Fiscal Coordination and Safety Net

In the third session two papers presented by Prof. Frank Rövekamp of Ludwigshafen University of Business and Society in Germany, and Dr. Gong Cheng of the European Stability Mechanism (ESM) in Luxembourg. This session focused on the regional cooperation and coordination in the fiscal context as well as the establishment of financial safety net at the regional level.

Dr. Frank Rövekamp's presentation was on the evolution of the European Stability Mechanism (ESM). The ESM was founded in 2012 by the member countries of the Eurozone in the wake of the European debt crisis. The purpose of the institution was to bail out countries in financial difficulties when the stability of the whole Euro area was threatened. The ESM has thus granted significant credits to Greece, Spain, Portugal, Ireland, and Cyprus. The foundation of ESM has been highly controversial as it seemingly contradicted Article 125 of the Lisbon Treaty, the so called "no bail out clause." According to this article, neither the Union nor any member country is obliged or can be forced to bail out another country. The reason for this clause is to ensure prudent fiscal policies especially among the members of the Eurozone without inducing morally hazardous behavior by individual countries. The principal of the unity of risk and responsibility should be adhered to.

Despite those controversies, the ESM is now considered to be further strengthened for the alleged benefit of the Euro area stability. The proposals include higher lending capacities, a broader scope to grant credits and creation of more sophisticated supervision capabilities to guide countries through economic restructuring. The ESM could thus evolve into a European Monetary Fund.

In his presentation, he reviewed the evolution of the ESM activities since its foundation and analyzed their economic effects. The evolution of the ESM provides valuable lessons for the design of regional financial stability mechanisms in other areas of the world. In Asia, the Chiang Mai Initiative (CMI) serves as a basis for such a mechanism and various ideas for its further development exist. He highlighted some important lessons the ESM experience can offer for the evolution of the CMI.

Dr. Gong Cheng's presentation was on fiscal coordination and integration in Europe. He provided an overview of the recent steps made in the European Union towards enhancing fiscal policy coordination and integration. He highlighted key challenges and strategies that are necessary to be considered when thinking of further fiscal integration in the monetary union. Compared with the economic and financial integration, fiscal integration would require a much stronger political support. Fiscal integration is not meant to be achieved overnight but should take a stepwise approach, which could encompass policy coordination, pooling resources for macroeconomic stabilization and fiscal backstops, debt mutualisation and safe assets, and ultimately a common budget.

Despite some fundamental differences between the Asian and European economies, there are common issues that could be learned from each other's experiences.

Dr. Gong Cheng asking a question at the workshop





#### 4. Regional Initiatives and Case studies

The fourth sessions had two presentations by Prof. Sang Chul Park of the Korea Polytechnic University in the Republic of Korea, and Prof. Ulviyye Aydin of the Manisa Celal Bayar University in Turkey. Presenters shared experiences of regional initiatives from participating countries which covered economic initiatives, institutions, challenges, and recommended solutions.

Prof. Sang Chul Park at the workshop



Prof. Sang Chul Park's presentation was titled "Swedish Economic Integration into the EU as a Late Comer: Prosperity or Illusion?" Over two decades have passed since Sweden became the member of the EU in 1995. Since then, Sweden has been integrated into the internal market of the EU under the Single Market Program (SMP). Before Sweden's accession to the EU, the country was a member of European Free Trade Association (EFTA) signed with the EU in 1972. Later, Sweden signed to become a member of the European Economic Area (EEA) in 1992 that assures participation in SMP for non-member nations in the EU.

In 1995, Sweden became the member of the EU along with Austria and Finland when the EU implemented its third enlargement. Despite its long membership, the Euro outsider is perceived to have a "double face" in public opinion which sometimes fuels the debate about the merits of the EU integration. The Swedish national position towards the EU has faced the public opinion of the EU skeptics, particularly in the Economic and Monetary Union (EMU).

Moreover, the external politics of positioning Swedish Euro outside the EU have been perceived by the EU member nations as a selective supra-nationalism, although the Swedish government wanted to build the European nation with a mixed policy portfolio. Despite the "double face," the Swedish economy has benefited since its full accession to the EU. The Swedish companies in particular have enjoyed major benefits such as reduction of transaction

costs, diverse options for financing and ownership, and the unification of economic conditions with the EU market.

Prof. Sang Chul Park argued whether the Swedish EU membership has contributed to the economic integration with the EU positively. Furthermore, he analyzed which actors have benefited most from the full accession to the EU. Lastly, his presentation elaborated on challenges and prospects for the Swedish economy in the near future.

Prof. Ulviyye Aydin delivering a presentation at the workshop



Prof. Ulviyye Aydin's presentation was on barriers and solutions for the economic integration of the Caspian Sea countries.

Emergence of new independent states after the collapse of the Soviet Union has changed the geopolitical balance as well as economic dynamism of the Caspian region. The aim of her study was to analyze the barriers for economic integration of the Caspian Sea countries, namely Russia, Kazakhstan, Azerbaijan, Turkmenistan, Uzbekistan, Iran, and Georgia and suggest solutions. While both Uzbekistan and Georgia are not littoral states, these two countries have been included in her research due to rich fossil fuel resources of the first and transit potential of the second, considering that energy resources and transportation take a significant place in the economies of Caspian states.

Armenia, Kyrgyzstan, and Tajikistan have been left out of her research scope due to following reasons: 1) economic interaction conversations would matter after the Nagorno Karabakh dispute is settled between Armenia and Azerbaijan; 2) Kyrgyzstan would need to build closer ties with the neighboring PRC; 2) Tajikistan would need to improve its political and legal structure before embarking on economic integration processes.

## 5. Specific Features of Regional Initiatives

Session five had three presentations by Dr. Kubat Umurzakov, Director of Economic Policy Research Institute in Kyrgyzstan, Dr. Uwe Wissenbach from the European External Action Service in Belgium, and Prof. Falendra Kumar from the University of Jammu in India.

This session focused on the specific features of regional initiatives (i.e. Euro-Asian Economic Union), particularly the differences in their approaches, role of supranational institutions, etc.

Dr. Kubat Umurzakov's presentation was on Eurasian Economic Union's specific features in comparison with Europe and Asia. He mentioned that experience of the EU and some other regions provides convincing insight that enhancing regional integration and cooperation is important to build stronger and more resilient economies.

The Euro-Asian Economic Union comprising of Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia was established recently and it has to go a long way before its objectives would be realized in full. Countries of the grouping, like some other developing economies, consider regional integration as a tool for implementing their strategies for economic development. This regional organization is following the approach used by the EU in creating a customs union, common market, and a set of common economic policies.

In his presentation, specific features of the Euro-Asian Economic Union were analyzed, particularly the differences in their approaches to economic integration in comparison with approaches in Asia and Europe, and comments provided on possible lessons that can be drawn in order to deal with the challenges effectively.

Dr. Uwe Wissenbach's presentation was titled "A Tale of Two Crises – Europe and Asia." His presentation focused on critical differences and some commonalities between the EU and the three countries of North East Asia – the PRC, Republic of Korea, and Japan - in responding to financial crises. The EU's response was multilateral, but the stress test of the sovereign debt crisis showed weaknesses in the integration of economic and monetary policy. The EU has strengthened its integration during and after the crisis oscillating between intergovernmentalism and supranational institutions. This cannot be explained by rational models such as Balassa's step-wise integration, but is eminently political.

By contrast, North East Asian countries have handled the crisis more successfully in the short term (however, there was a massive increase in debt and slowing growth in the long term). Their policy had very limited multilateral coordination, let alone integration. They are members of the G20, associated with ASEAN, and pursue trilateral cooperation. The coordination with ASEAN was hampered by disagreements over the design of the Chiang Mai Initiative Multilateralization (CMIM), AMRO and various currency swaps (the ones with countries outside the region were more important than those with the region).

While there are parallels with the objectives of the stabilization measures in the two regions, the design is clearly a major difference that would allow conclude that the EU is a model of economic and monetary integration with a number of difficulties revealed in the crisis, while North East Asia (and in fact ASEAN + 3) is a model of non-integration with a limited set of grouped bilateral cooperation mechanisms. None of the two models is intrinsically superior to the other, but reveal different political trajectories (or pathways). Learning from each other has taken place through the G-20.

Prof. Falendra Kumar's presentation was on comparison of regional institutions in Europe and East Asia to provide lessons for economic integration in South Asia. The EU is an institutionally advanced example of economic integration compared with the market-led integration in East Asia. In the recent past, the EU-ASEAN cooperation extended beyond development to address climate change, poverty and development gaps. The economic interdependence between the ASEAN and the EU is significant - their two-way trade stood at €227 billion in 2017. Currently, there is no free trade agreement (FTA) between the EU and the ASEAN. Instead, the EU has pursued bilateral FTAs with individual ASEAN members.

Therefore, the ASEAN has no prospect of coming close to a "single market" by 2020 or 2025. The regional integration initiatives in South Asia are even weaker than in East Asia. South Asia has abysmal performance in intra-regional trade and bilateral trade is curbed between India and Pakistan. The members of the South Asian Free Trade Area (SAFTA) have roughly similar trade structures and relatively high tariffs, thereby limiting the welfare benefits of the FTA liberalization. Therefore, strengthening regional cooperation and integration in South Asia offers great potential to eliminate poverty and achieve inclusive and sustainable development. There is a need to harness the potential of regional cooperation through learning from experiences of East Asia to address the challenges in South Asia.

Prof. Farhad Taghizadeh-Hesary at the workshop



## 6. De-integration: Lessons from European Experiences

Session six had two presentations by Dr. Donghyun Park of the Asian Development Bank (ADB) in Philippines, and Dr. Hooman Peimani of the Beijing Institute of Technology. This session switched the focus to the possibility of de-integration, with examples in Europe. The case study of Brexit was discussed.



Dr. Donghyun Park's presentation was titled "Analysis of Brexit and its Policy Lessons for Asian Integration." Galvanized by the devastation of the World War II, European countries achieved a historically unprecedented and unparalleled level of regional economic integration in the postwar period. Intensive cooperation between the two biggest powers of continental Western Europe, France and Germany, lay at the core of Europe's seemingly relentless momentum toward integration, crystallized by the EU. The French-German alliance also provided strong leadership and sense of direction for the EU, which gained further traction with the admission of the Central and Eastern European states after the fall of communism and the establishment of a monetary union among some of its members.

However, more recently, the European integration process no longer seems unstoppable or inevitable. Most shockingly, the United Kingdom, a core EU member and the EU's third largest economy, has opted to leave the union, triggering the Brexit process. Nor is Brexit the only sign of growing fractures within the EU. The current standoff between the EU and Italy over Italy's unwillingness to rein in its fiscal deficit is just one additional example of the loss of momentum.

The central objective of Dr. Park's paper is to examine the EU's past success and current problems from the perspective of Asian countries, in particular ASEAN+3 countries that have achieved some measure of integration, although well below that of the EU. It is important to note that both past success and current problems hold valuable lessons for ASEAN+3 countries as they chart their own course toward regional integration. Given that the level of integration among ASEAN+3 is much lower than that of EU, it would be unwise to draw lessons, both positive and negative, without the proper context. Nevertheless, the European experience can still provide valuable insights for Asia's integration process.

Dr. Hooman Peimani's presentation was on de-integration in the EU and the possibility of its happening in ASEAN. He mentioned that the EU has been experiencing certain developments heralding the de-integration of the regional grouping, which has taken around 70 years to reach its current level of integration. The signs of de-integration are not confined to Brexit although it is the most blatant case.

Despite the high degree of integration in the EU covering not just economic issues, but also many others (e.g. foreign relations, security and defense) further consolidated by the membership of the majority of the EU members in NATO and lack of major ideological differences and territorial disputes.

The emerging de-integration in the EU suggests that ASEAN, which is far less integrated, is not immune to this phenomenon. Despite its multi-dimensional description covering political, economic, social, environmental and security realms as stipulated in its Charter, the ASEAN is practically a loose economic union of 10 Southeast Asian countries pursuing their individual national interests, which may well be opposite to those of the rest, while having a degree of cooperation. There is a number of unresolved issues and historical mistrust between many of them, which could escalate to political and even military conflicts, as happened before. The ASEAN has not enjoyed common political and ideological orientations as a unifying factor, which have shaped the EU as a regional grouping established in the midst of the Cold War.

Additionally, unlike the EU, it has not been developed to act as a power bloc to preserve the interest of its members, which are, individually, too weak to face the powers and superpowers. Briefly, while the EU as a well-integrated grouping is facing de-integration,



should the current trend continue, the ASEAN with a very limited degree of integration can and will possibly encounter de-integration unless major efforts are made to address its root causes in the near future.

## 7. Economic Integration, Energy, and Environment

Session seven had three presentations by Prof. Farhad Taghizadeh-Hesary of Waseda University in Japan, Prof. Youngho Chang of Singapore University of Social Science, and Prof. Tapan Sarker of Griffith University in Australia. The session discussed economic integration in the context of energy and environment sectors, and covered topics of energy security, environmental protection, and green economy.

Dr. Uwe Wissenbach and Prof. Tapan Sarker at the workshop



Prof. Farhad Taghizadeh-Hesary's presentation was titled "Energy Trade and Integration Pattern between Russia and East-Asian Economies." It discussed that Asia remained the biggest market for energy sources in 2018. The Russian Federation has a clear vision to develop its Asian energy projects to provide a bigger share of the Asian energy imports.

In a joint research paper with Prof. Yoshino (Dean and CEO of ADBI), Prof. Ehsan Rasoulinezhad (Tehran University, Iran), and Prof. Tapan Sarker (Griffith University, Australia), they modeled the Russian Federation–Asia Pacific energy trade patterns via the gravity trade theory and GMM panel estimation for the quarterly data over 2010-2017 for 16 selected Asia-Pacific nations. The findings revealed that economic growth is a positive influencing factor on the Russian energy export to this region. Moreover, a depreciation of ruble increases volumes of Russia's energy export.

Prof. Farhad Taghizadeh-Hesary recommended some policies such as construction of an energy trading hub in Asia, increasing regional pricing power, and energy import

diversification and shorter distance between Russia (exporter) and Asia-Pacific (importers) to improve the energy security in this region.

Prof. Youngho Chang's presentation was on integrated regional energy markets, their principles and prospects. When two individuals exchange their goods and services, both will benefit from trading, he argued. This is not only the case in a two-person exchange economy, but would be the case in a multiple-person setting.

Over several decades, economic integration has appeared in various areas such as international relations and trade. The underlying theme of forming such integration efforts supports the belief that cooperation makes the involved parties better-off as compared with activities which demonstrate isolation by countries or individuals.

A few movements in economic cooperation and energy development in the ASEAN region, such as the cooperation format in the Greater Mekong Sub-region (GMS), the ASEAN Power Grid (APG), and the Trans-ASEAN Gas Pipeline (TAGP) among others, could be considered an initial step to launch an integrated energy market in the region, which, in turn, ultimately leads to an integrated economic community.

Reviewing the lessons learnt from economic and energy market integration in the EU and elsewhere, he presented key principles of an integrated energy market in the region and explored prospects of such an integrated market to be present in the ASEAN region.

Prof. Tapan Sarker, in his joint presentation with Prof. Farhad Taghizadeh-Hesary, titled "Economic Integration in the Context of Energy Security," discussed the dynamics of economic integration that revolves around major economies, which projects its national security interests powerfully, especially in the sphere of energy and environment. Their paper further emphasized that, while improved economic integration and intra-regional trade accelerate regional economic development, remarkable theoretical and empirical evidence has shown that it might damage the environment and therefore may hinder the efforts towards sustainable development.

## 8. Financial Inclusion and the Legal Approach of Economic Integration

Session eight had two presentations by Prof. Sudharshan Reddy Paramati from the University of Dundee in the United Kingdom, and Prof. Usanee Aimsiranun of Chiang Mai University in Thailand. This session discussed the nexus among financial inclusion, economic development and economic integration in the EU nations as well as the legal approaches to differentiate integration in regional economic integration.

Prof. Sudharshan Reddy Paramati's presentation was on the role of financial inclusion and trade openness in economic development, and comparison between high and low income EU members. His presentation was from his recent research with the main objective of assessing the impact of financial inclusion and trade openness on economic development in a sample of 27 EU nations.

Further, he classified the sample countries into low-income, high-income, old-EU and new-EU members to provide more constructive policy and practical implications for the EU countries. To achieve these objectives, he utilized yearly data from 1995 to 2015 and panel econometric techniques. The results show that access, depth, efficiency, and overall development of

financial institutions have significant positive impact on economic growth in the full sample and sub-samples. He also found that capital, labor, energy consumption, and trade openness also have an important role in driving the economic growth across these panels. It is important to highlight that the impact of financial inclusion on economic output is more significant in low-income and new-EU member countries than that of high-income and old-EU member countries.

Prof. Usanee Aimsiranun's presentation was titled "Legal Approach to Differentiated Integration in Regional Economic Integration: Comparative Study of the EU, APEC, and ASEAN." In order to advance towards achieving the integration goal despite diversity among the member states, differentiated integration or differentiation has become a feature in many regional groupings. Such mechanism allows some member states move forward in the agreed fields without all the member states taking part, while others who are not yet ready may join later.

Using comparative approach, she examined three differentiated integration mechanisms which are the EU's enhanced cooperation, the APEC's pathfinder initiatives and the ASEAN minus X, in order to assess, from the legal perspective, their contribution to further integration progress in the context of diversity of the member states. The experience of the EU, APEC, and ASEAN has demonstrated the differentiated integration to be a valuable option to allow progress in the context of organization's stagnation. The main challenge concerns rendering the mechanism operational, encouraging the largest participation, as well as ensuring an effective implementation of the established initiatives.

Dr. Danupon Ariyasajakorn and Prof. Usanee Aimsiranun at the workshop



The workshop concluded with identification of key actions for CAREC countries at national and regional levels including proposals for intervention in terms of policy and infrastructure needs and areas for knowledge services and technical assistance support. The relevant policy brief is under preparation.