

# **A Roadmap for Asia's Economic Integration: A North American Perspective**

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# Introduction

- **Questions posed to panellists today:**
  - **How can regional integration contribute to growth and resilience?**
  - **What are the appropriate strategies and sequencing of steps to take?**
  - **What lessons do other regions provide?**



# Key Points

- **Greater regional integration would be economically beneficial**
- **Important to avoid creating a web of conflicting sub-regional trade rules and other arrangements**
- **Some general lessons from the North American experience**
- **Regional integration should not inadvertently weaken global institutions such as the WTO or IMF**



# Impacts on Economic Growth and Resilience

- **Potential for growth-enhancement through trade and investment stimulation**
- **Trade and investment creation**
- **Incentive to strengthen domestic institutions**



# Appropriate Strategies

- **Ensure consistency with multilateral system**
- **Sequencing is a complex issue: no easy answers**
  - **NAFTA focused on reducing impediments and providing dispute resolution mechanism**
  - **EU focus on building new political institutions**



# Lessons Learned from other Regions

- **One size does not fit all**
- **European model of deep integration and common currency**
- **Latin America Mercosur model**
- **North American model**
  - **Trade and investment liberalization**
  - **Financial market linkages**
  - **Supporting institutions and regulatory regimes**



# North American Free Trade Agreement (NAFTA)

- **Increased regional trade and more resilient economic growth**
- **Short-term adjustment pressures outweighed by long-term benefits**
- **Industry-led support for liberalization**
  - **Accelerated tariff reductions**
  - **Liberalization of rules of origin**
- **Clear rules and dispute settlement mechanisms**



# Financial Integration and Capital Flows

- **Close financial market linkages between US and Canada long predated NAFTA**
- **Well-regulated domestic financial institutions and markets important in underpinning cross-border capital flows**
- **Implications for Asian Bond Markets Initiative**



# Supporting Institutions & Regulatory Regimes

- **European experience: institution-building and achieving common regulatory standards can be a long process**
- **Regulatory harmonization in North America a challenge given sovereignty concerns and federal political structures**
- **Important to achieve a balanced approach that preserves national interests given relative weight of partners**



# Development Benefits – the Mexican Experience

- **Improved economic resilience**
- **Increased FDI**
- **Economy-wide benefits**
- **Broadened cooperation with North American partners**



# Canadian Perspective

- **Strong support for multilateral institutions and rules while recognizing the benefits of regional trade agreements like NAFTA**
- **Emphasis on strong domestic institutions and high regulatory standards**
- **Adherence to flexible exchange rate and independent monetary policy (instead of common currency)**



# Risks and Concerns

- **Trade and investment diversion**
- **Conflicting sub-regional trade rules**
- **Development of regional institutions which could compete with and weaken global institutions**
- **Development of currency bloc that could reduce the flexibility of exchange rates to reduce global imbalances**



# Role of ADB in Fostering Regionalism

- **Technical Assistance to promote development of regional capital markets**
- **Forum for regional economic and financial cooperation**
- **Role complementary to IMF on regional surveillance**
- **Promoting form of regional integration consistent with multilateral rules**



# Conclusions

- **Clear benefits of greater regional economic integration in Asia**
- **Need to avoid creating a web of competing trade arrangements**
- **Importance of proceeding in way that does not inadvertently weaken global institutions such as the WTO or IMF.**

