

REGIONAL ECONOMIC INTEGRATION IN ASIA

- Regional integration initiatives: Do they make sense? What prospects?
 - East and South Asia – Globalising Asia
 - Trade and finance

REGIONAL ECONOMIC INTEGRATION IN ASIA

A: Economic patterns

1. *Trade and FDI*

- East Asia: intra-regional trade substantial and growing; increasing intra-regional FDI
- East Asia highly dependent on “processing” trade/regional production networks (esp. ICT); driving force of increasing intra-regional trade, esp. parts and components
- But linked tightly to extra-regional final markets; *increasing* dependence on them
- Partial, skewed integration; contrast with W. Europe and N. America

Intra-Regional Trade Share 1980–2006 (%)

Region	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006
NIE (4) ²	8.6	9.2	11.9	15.5	15.5	15.3	15.8	15.2	14.6	13.9	13.6
ASEAN (10) ³	17.9	20.3	18.8	24	24.7	24.1	24.4	26.6	26.7	27.2	27.2
ASEAN + PRC; Korea; Hong Kong; Teipei (14)	22.7	27.2	33	39.1	40.6	41.1	43.4	44.7	45.2	45.5	45.8
ASEAN + 3 (13) ⁴	30.2	30.2	29.4	37.6	37.3	37.1	37.9	39	39.2	38.9	38.3
ASEAN + 3 + Hong Kong + Teipei (15)	36.8	39	43.1	51.9	52.1	51.9	53.8	55.4	55.9	55.4	54.5
ASEAN + 6 (16) ⁵	34.6	34.8	33.7	40.8	40.5	40.6	41.3	42.4	43	43.1	42.6
ASEAN + 6 + Hong Kong + Teipei (18)	40.5	42.7	46.3	54.5	54.6	54.5	56.3	57.7	58.5	58.4	57.6
NAFTA (3)	33.8	38.7	37.9	43.1	48.8	49.1	48.4	47.4	46.4	46.1	44.3
MERCOSUR	11.1	7.2	10.9	19.2	20.3	17.9	13.6	14.7	15.2	15.5	15.7
Old EU (15)	60.7	59.8	66.2	64.2	62.3	62.2	62.5	63	62.2	60.4	59.5
New EU (27)	61.5	60	66.8	66.9	66.3	66.7	67.4	68.1	67.6	66.2	65.8

Sources: Masahiro and Wignaraja (2008)

Emerging East Asia's Foreign Direct Investment (FDI) Inflows, 1995–2005

FDI Inflows to ¹	FDI Source						
	United States	European Union	Japan	NIEs	ASEAN 9	Total	
	%	%	%	%	%	%	\$ million
NIEs	16.8	15.8	8.1	5.2	3.9	100	437,999
Hong Kong	5.1	7.4	5.7	5.3	1.8	100	215,999
Korea, Rep of	22.4	40.1	13.3	4.1	7.4	100	55,975
Singapore	31.7	19.3	8.5	4	5.8	100	142,748
Taipei	19.9	13.1	15.5	14.2	2.5	100	23,277
ASEAN 9 ²	18.4	29.1	19.1	29.2	4.2	100	116,413
Indonesia	5.7	50.9	3.3	15	9.3	100	11,839
Malaysia	27.4	23.4	13.6	22	2.1	100	44,651
Philippines	23.4	10.3	23.1	16.9	1.1	100	13,709
Thailand	10.5	10.5	25.1	27.6	0.9	100	37,428
Vietnam	4.8	19.1	14.4	39.2	6.6	100	18,225
China	8.1	8.1	8.6	54	1.6	100	537,163
Total	13.9	14.7	10.5	34.9	3.1	100	992,516

Sources: Masahiro and Wignaraja (2008)

Table 3: Intra-regional shares of Manufacturing Trade: Total, Parts and Components, and Final Trade (%), 1994/5 and 2006/07¹

	East Asia ²	Developing East Asia ²	ASEAN+3 ²	ASEAN	NAFTA	EU15
Total manufacturing³						
a: Total Exports						
1994-95	47.15	38.15	15.25	20.7	44.35	61.15
2006-07	43.85	33.35	21.85	18.4	48.1	56.85
Imports						
1994-95	58.15	34.85	42.95	15.5	36.3	64.1
2006-07	64.4	46.7	49.25	20.75	31.95	57.85
Trade (exports + imports)						
1994-95	52	36.5	27	17.75	39.9	62.6
2006-07	52.1	40	30.4	20.05	38.4	57.35
b: Parts and components						
Exports						
1994-95	50.2	42.55	33.65	30.3	43.5	62.25
2006-07	61.1	53.9	35.3	25.4	46.85	55.9
Imports						
1994-95	65.85	35.3	39.55	20.15	39.45	58
2006-07	66.9	50.85	47.8	22.85	39.9	55.15
Trade						
1994-95						
2006-07	57	38.7	35.4	24.2	41.35	60.1
c: Final goods⁴						
Exports						
1994-95	46	36.75	11.4	16.1	44.7	60.9
2006-07	36.85	28.3	16.95	15.9	48.65	57
Imports						
1994-95	55.4	34.65	43.4	12.85	35.25	65.55
2006-07	62.95	42.75	50.15	20.55	30.15	58.45
Trade						
1994-95	50.25	35.7	25.4	14.3	39.4	63.15

Notes

1 See Notes to Table 1 for details on country classification. SITC classification numbers are given in brackets

2 Intra-regional trade shares have been calculated excluding bilateral flows between China and Hong Kong

3 SITC 5 to 8 less 68

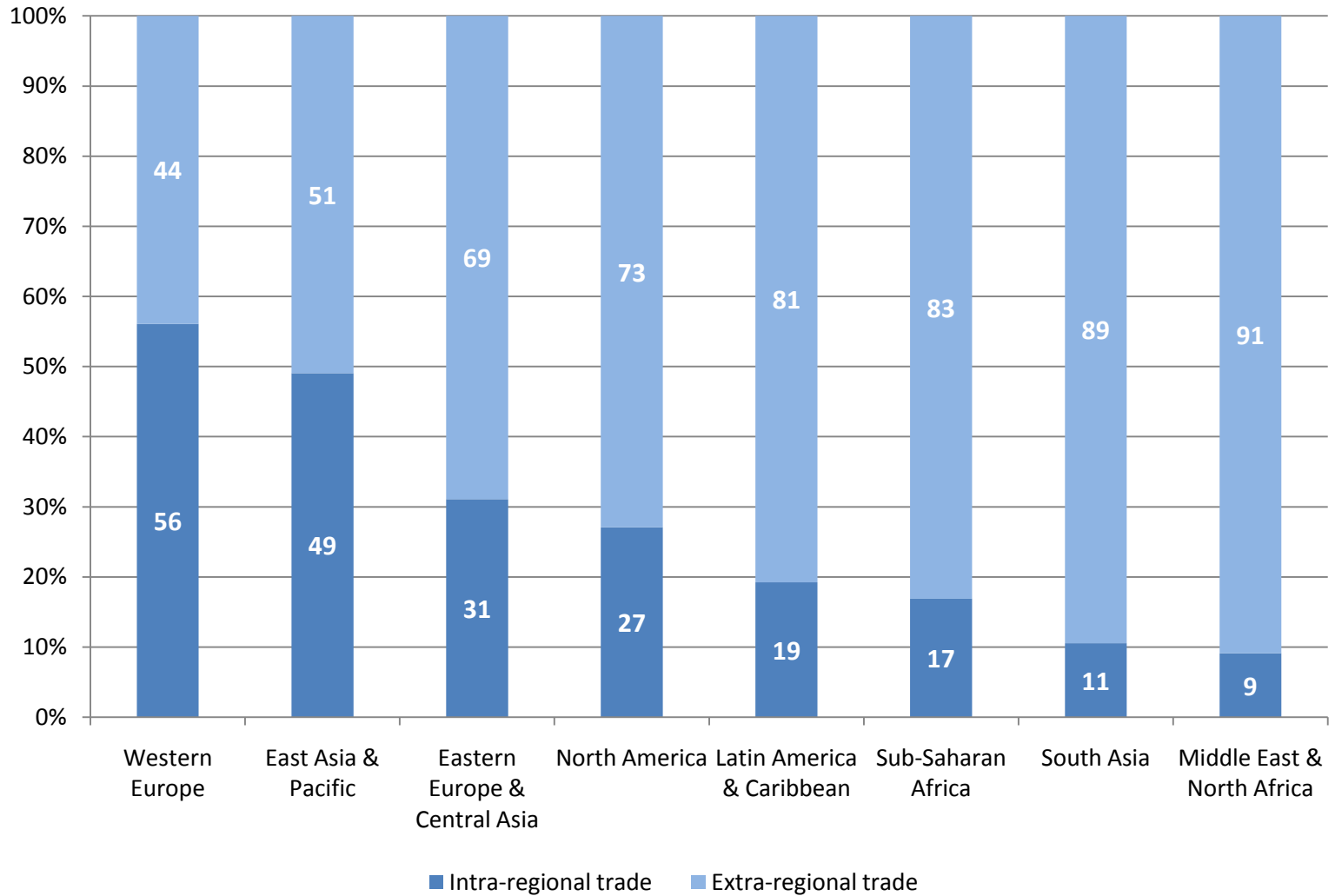
4 Total (reported) – parts and components

Source: Compiled from UN Comtrade database, and Trade Data CD-ROM, Council for Economic Planning and Development, Taipei (for data on Taiwan)

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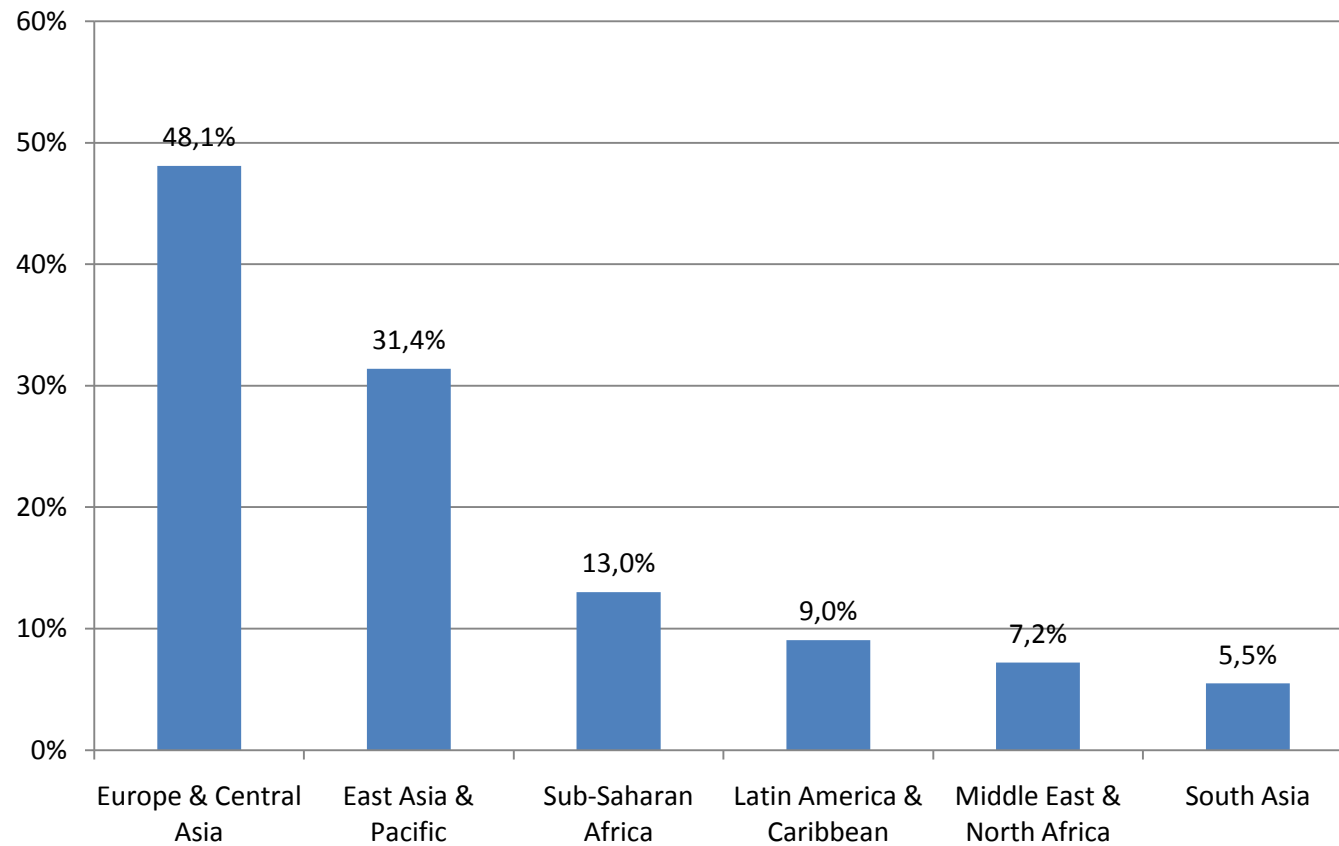
- South Asia
 - Tiny shares of Asian and world trade; hardly inserted into global supply chains
 - Most malintegrated region in the world: intra-regional trade approx. 10% of total trade; 5% of regional GDP
- “Integrating Asia”: consistent post-war decline in regional trade intensity, then flat from mid-1990s; contrast with EU and NAFTA

Figure 1: Intra- and Extra-regional Trade, 2008



Source: COMTRADE database

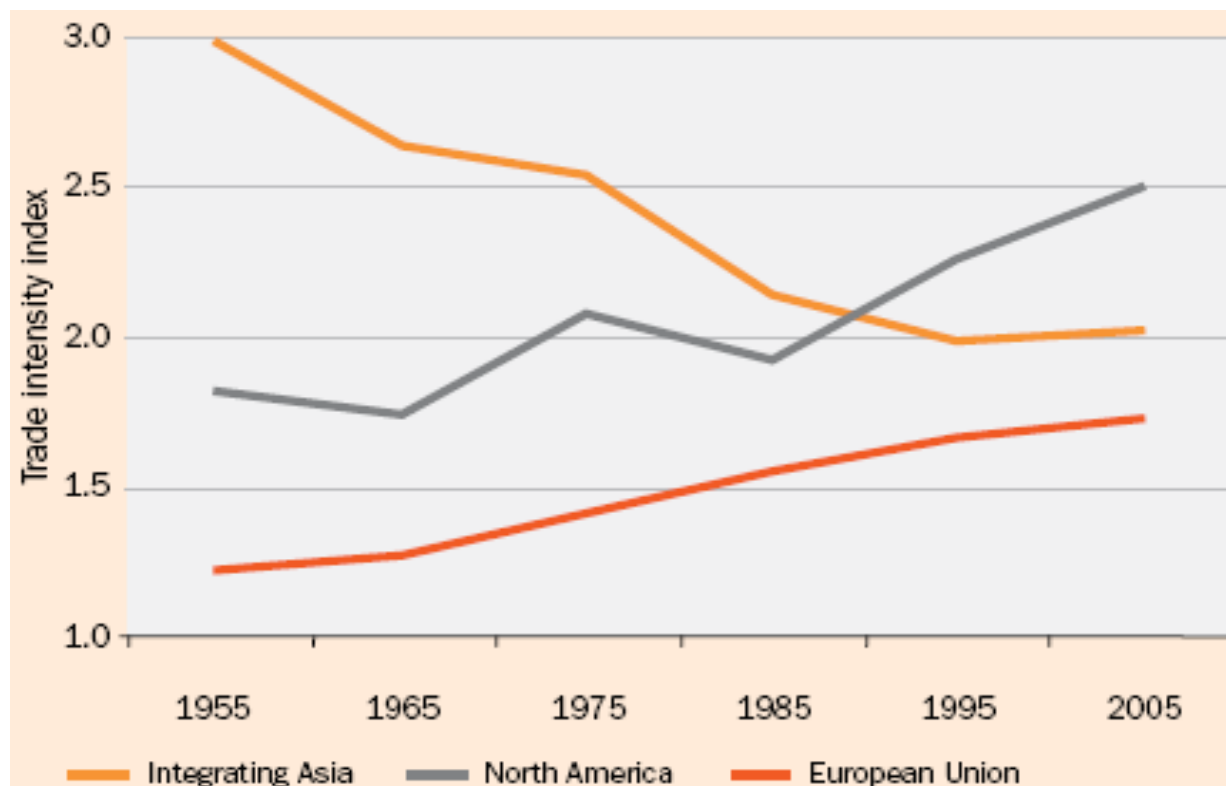
Figure 2: Intra-regional Trade as a Share of GDP, 2008



Source: World Development Indicators Database

Figure 3: Adjusting Intraregional Trade Intensities

Long-term trend: 1955-2005



Notes:

European Union includes all 25 members as of 2005.

Integrating Asia includes Brunei Darussalam; Cambodia; People's Republic of China; Hong Kong, China; India; Indonesia; Japan; Republic of Korea; Lao People's Democratic Republic; Malaysia; Myanmar; Philippines; Singapore; Taipei, China; Thailand; and Viet Nam. Intraregional trade intensity is defined as: $[(X_i + M_i) / (X_i + M_i)] / [(X_i + M_i) / (X_i + M_i)]$ where X_{ii} is exports of region i to region i ; M_i is imports of region i from region i ; X_i is total exports of region i ; M_i is total imports of region i ; X_i is total exports of region i to the world; M_i is total imports of the region to the world; $X_{..}$ is total world exports; and $M_{..}$ is total world imports.

Source: Data from IMF various years. Direction of Trade Statistics. Available: <http://www.imf.org> (accessed October 2007).

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2. Finance

- Even lower regional integration: financial openness less than trade and FDI openness; more restrictive policies on financial markets than trade policies
- Asia depends on extra-regional, global financial centres; they recycle Asian savings back to the region

Table 4: Cross-Border Portfolio Investment Flows, 2005 (US\$ billions, Percentage of Total)

Investment From	Investment To				
	NAFTA	EU15	East Asia	ROW	World Total
Total Portfolio Investment					
NAFTA	743 (15.6)	1890 (39.6)	827 (17.2)	1315 (27.5)	4775 (100.0)
EU15	2127 (17.6)	7592 (61.6)	661 (5.4)	1937 (15.7)	12316 (100.0)
East Asia	895 (33.2)	914 (33.9)	157 (5.8)	729 (27.1)	2693 (100.0)
Rest of World	1716 (44.2)	1505 (37.0)	146 (3.6)	697 (17.2)	4064 (100.0)
World Total	5480 (23.0)	11901 (49.9)	1790 (7.5)	4677 (19.6)	23848 (100.0)
Long-Term Debt Securities Investment					
NAFTA	244 (22.4)	441 (40.4)	58 (5.3)	348 (31.9)	1091 (100.0)
EU15	1100 (14.8)	5008 (67.5)	151 (2.0)	1157 (15.6)	7415 (100.0)
East Asia	669 (33.9)	717 (36.4)	51 (2.6)	536 (27.2)	1972 (100.0)
Rest of World	1432 (48.9)	1041 (35.5)	73 (2.5)	386 (13.2)	2931 (100.0)
World Total	3444 (25.7)	7207 (53.7)	332 (2.5)	2427 (18.1)	13409 (100.0)
Equity Securities Investment					
NAFTA	499 (13.5)	1449 (39.3)	769 (20.9)	967 (26.2)	3684 (100.0)
EU15	1027 (21.0)	2584 (52.7)	510 (10.4)	780 (15.9)	4901 (100.0)
East Asia	226 (31.3)	197 (27.3)	106 (14.7)	193 (26.8)	721 (100.0)
Rest of World	284 (25.1)	464 (41.0)	73 (6.4)	311 (27.4)	1133 (100.0)
World Total	2036 (19.5)	4694 (45.0)	1458 (14.0)	2250 (21.6)	10439 (100.0)

Note: NAFTA = North American Free Trade Area; EU-15 countries; East Asia = Japan, Korea, China, Hong Kong, Singapore, Malaysia, Singapore, Indonesia, Malaysia, Philippines, Thailand, and Viet Nam.

Source: International Monetary Fund, *Coordinated Portfolio Investment Survey*, December 2005.

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B: Policy trends

1. Trade policy

- Global and Asian context: stalled liberalisation; creeping crisis-related protectionism; from unilateral non-discriminatory liberalisation to discriminatory FTAs

REGIONAL ECONOMIC INTEGRATION IN ASIA

- Proliferation of FTAs; catch-up with other regions
- Massive increase in Asian FTAs since 2000:
 - Integrating Asia– 54 FTAs concluded, extra 78 negotiated or proposed; 74% are bilateral FTAs; many with extra-regional partners
- WTO-plus in scope (est. 69%), but little depth:
 - trade-light: progress on tariffs, but v. little on NTBs and regulatory barriers
- Multiple, complex rules of origin:
 - threatens to raise business costs and delays; worrisome for processing trade

Table 5: Growth of Concluded FTAs in Integrating Asia between 2000 and 2009 (Number of FTAs)

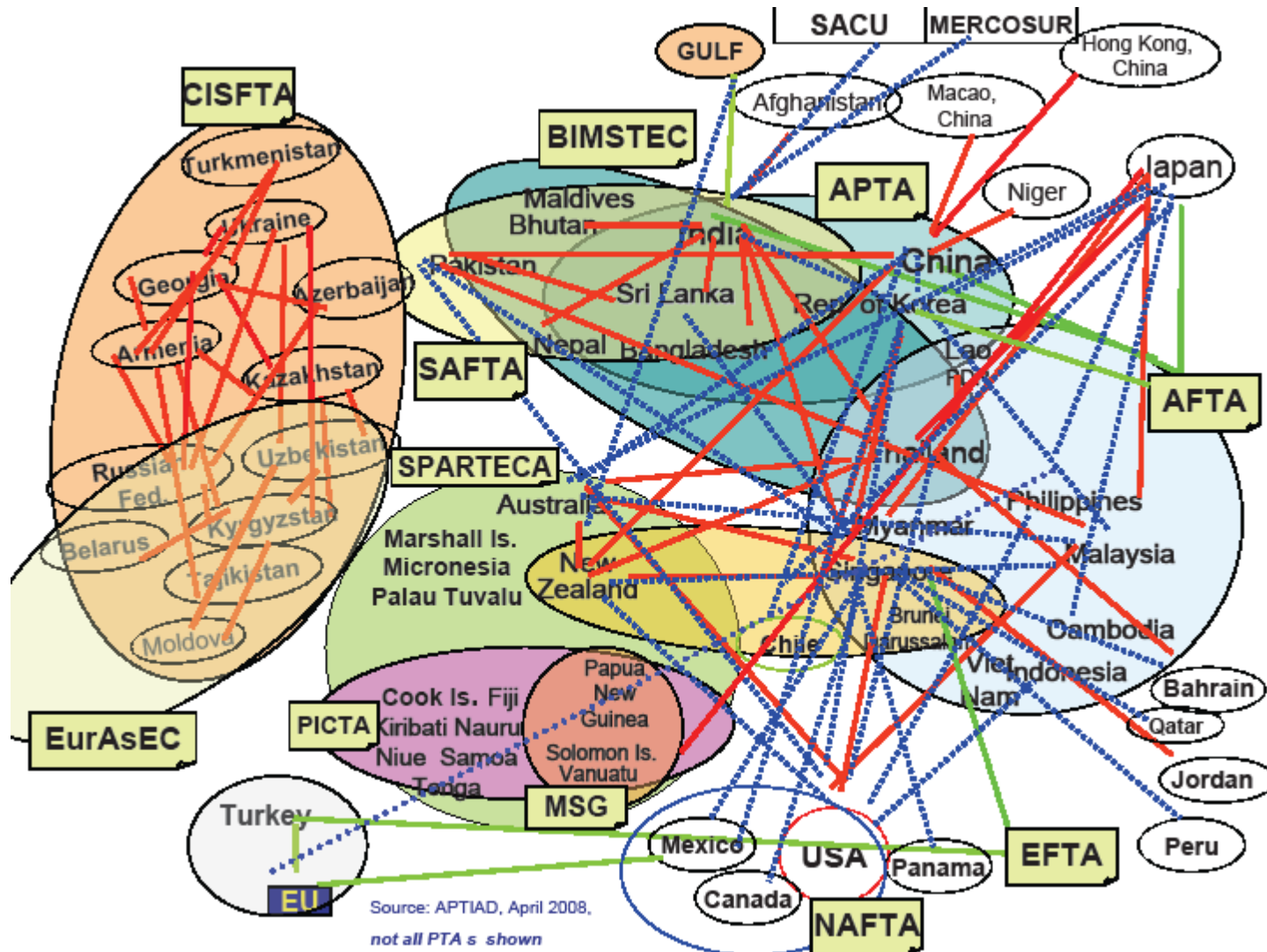
Country	First FTA	In effect		Signed		Concluded		Under Negotiation		Proposed	
	Year	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009
		(a)		(b)		(a)+(b)					
ASEAN		1	4	—	1	1	5	—	1	—	1
Brunei Darussalam	1993	1	6	—	1	1	7	—	1	—	4
Cambodia	1993	1	4	—	1	1	5	—	1	—	3
China, People's Republic of	1976	1	9	—	1	1	10	—	3	—	8
Hong Kong, China	2004	—	1	—	—	—	1	—	1	—	—
India	1976	1	5	—	4	1	9	—	12	—	10
Indonesia	1993	1	5	—	1	1	6	—	2	1	8
Japan	2002	—	9	—	2	—	11	—	5	—	4
Korea, Republic of	1976	1	5	—	1	1	6	—	9	—	6
Lao People's Dem. Republic	1991	3	5	—	1	3	6	—	1	—	3
Malaysia	1993	1	5	—	3	1	8	—	7	—	4
Myanmar	1993	1	3	—	2	1	5	—	2	—	3
Philippines	1993	1	5	—	1	1	6	—	1	1	4
Singapore	1993	1	14	—	4	1	18	1	7	—	5
Taipei, China	2004	—	3	—	1	—	4	—	2	—	—
Thailand	1991	2	9	—	2	2	10	—	6	—	7
Viet Nam	1993	1	4	—	2	1	6	—	2	—	3
— = none; ADB = African Development Bank; ASEAN = Association of Southeast Asian Nations; FTA = Free Trade Agreement											
Integrating Asia	Integrating Asia cover all FTAs with at least one integrating Asia country as a partner.	3	16	—	14	3	54	1	46	2	32

Source: ADB's Asia Regional Integration Centre (ARIC) FTA Database (www.aric.adb.org); data as of June 2009

PTAs by economy - Include agreements with at least one party from the UNESCAP region

Economy	Total number of Agreements	Agreements in Force	Agreements under Negotiation	Notified uner Enabling Clause	Notified under GATT or GATS	Not Notified
EU	4	3	1	0	1	3
US	14	9	4	0	1	10
China	11	8	2	3	2	4
India	18	13	3	3	0	14
Hong Kong, China	2	1	1	0	0	1
Singapore	33	21	11	3	0	20
Sri Lanka	7	6	1	4	0	3
Philippines	15	11	3	3	0	12
Malaysia	21	14	5	3	0	16
Indonesia	16	12	3	3	0	13
Japan	13	7	4	0	0	8
Korea, Rep.	14	8	5	1	0	10
Thailand	20	16	3	4	1	12
Vietnam	15	12	3	3	0	12
Brunei	14	11	2	3	0	10
Myanmar	13	12	1	3	0	10
Macao, China	1	1	0	0	0	0

FTAs, as of 2008



Source: APTIAD, April 2008,
not all PTA s shown

REGIONAL ECONOMIC INTEGRATION IN ASIA

- **Regional economic integration**
 - APEC: diverse, unwieldy, diffuse agenda; FTAAP unlikely
 - ASEAN: Visions galore, but where's the beef? CEPT progress; AFAS, AIA weak; little progress on regulatory barriers; AEC and ASEAN Charter: paper tigers?; irrelevance of EU model
 - SAFTA: v. trade-light (excludes over half of trade); risks trade diversion; throttled Indo-Pak trade

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- **Regional economic integration (cont.)**
 - Wider regional integration initiatives: Northeast Asian FTA; ASEAN plus 1; ASEAN plus 3; ASEAN plus 6; EAEC; APC.
 - The case for a region-wide FTA: specialisation; economies of scale and dynamic gains; reduce trade diversion from noodle bowl; all depends on a comprehensive, WTO-plus FTA
 - But it could compromise global integration, esp. processing trade and extension of global supply chains
 - Huge economic and political differences in Asia make a clean, strong FTA very unlikely; rather a trade-light FTA adding to noodle bowl
 - Conclusion: FTAs unlikely to contribute much to regional economic integration; reliance on bilateral FTAs; disintegration dangers

Table 6: Comparative Welfare Gains from Economic Integration in EAS and ASEAN+3

Study	Welfare gains arising from broader integration in US\$ bn	
	ASEAN+3	EAS (ASEAN+6)
RIS [Mohanty et al 2003]	162	210*
ADB [Kawai-Wignarajah 2007]	233	284
RIS [Mohanty-Pohit 2007]	92	178

*in JACIK framework.

Source: RIS based on respective studies

Table 7: Proposed East Asian or JACIK Community in relation to the EU and NAFTA

(US\$ billions)

Indicator	EU	NAFTA	JACIK (14)	ASEAN+6 (16)
Gross national income (PPP)	15157	17006	19730	20564
(percent of world total) (2008)	21.87	24.54	28.47	29.67
GDP	18254	16690	12340	13486
(percent of world total) (2008)	30.37	27.76	20.53	22.43
Exports	5768	2169	3245	3421
(percent of world total)	42.09	15.83	23.67	24.96
International reserves (2009)	971	187	4204	4259
Population (millions)	482	444	3216	3242
(percent of world total) (2006)	7.46	6.87	49.77	50.17

Source: World Bank World Development Indicators, IMF International Reserves Statistics, People's Bank of China Monetary Policy Report

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B: Monetary and financial policies

- V. soft cooperation: Chiang Mai Initiative; Asian Bond Fund and Asian Bond Market Initiative; Asian Currency Unit; Asian Financial Stability Dialogue; Asian Economic Secretariat (APT)
- Confined to east Asia
- EU inappropriate comparator
- Utopian to expect hard cooperation; rather aim for modest steps

REGIONAL ECONOMIC INTEGRATION IN ASIA

- Global/regional political context
 - Season for new regional-integration initiatives, but ...
 - Geopolitical obstacles: Post-war alliances; intra-regional rivalries; inability of China, Japan or India to “lead” regionally or globally – not to mention ASEAN
 - Goeconomic obstacles: Structural economic-institutional weaknesses in China, India and Japan also preclude strong external leadership
 - Still no substitute for US leadership (though domestic preconditions weaker)
 - Limits to international institutions and multilateral action (large-group collective action)
 - Importance of plurilateral concerts of cooperation (small-group collective action) – with US involvement

REGIONAL ECONOMIC INTEGRATION IN ASIA

- Conclusion

- In-season arguments for strong regional cooperation and institution-building
- But foundations for top-down policy-driven integration weak
- Key is bottom-up market-led integration: unilateral liberalisation; competitive emulation; extend global supply chains and deepen domestic/regional sources of growth
- Regional institutions useful at the margin: chat forums; surveillance and transparency; trade facilitation; lock in unilateral measures
- But ambitious regional-integration measures undesirable and unachievable, e.g. regional FTAs
- Be pragmatic and realistic, not Cartesian and hubristic; otherwise Asian regionalism will replicate global multilateralism