

Regional Integration

2016 APPP Alumni Seminar

16 June, 2016

Intraregional trade shares have plateaued in recent years, though with the growing importance of Asia as the manufacturing center for the world, intraregional trade intensity has declined.

Figure 4: Intraregional Trade Shares—Asia, EU, North America (%)

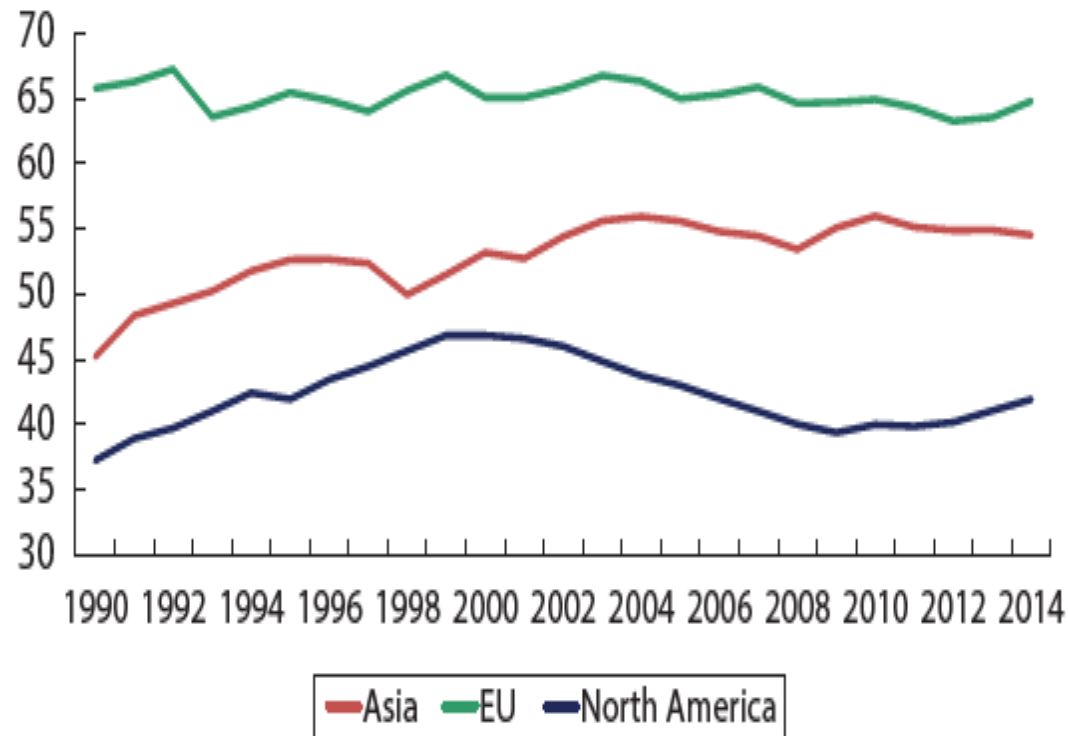
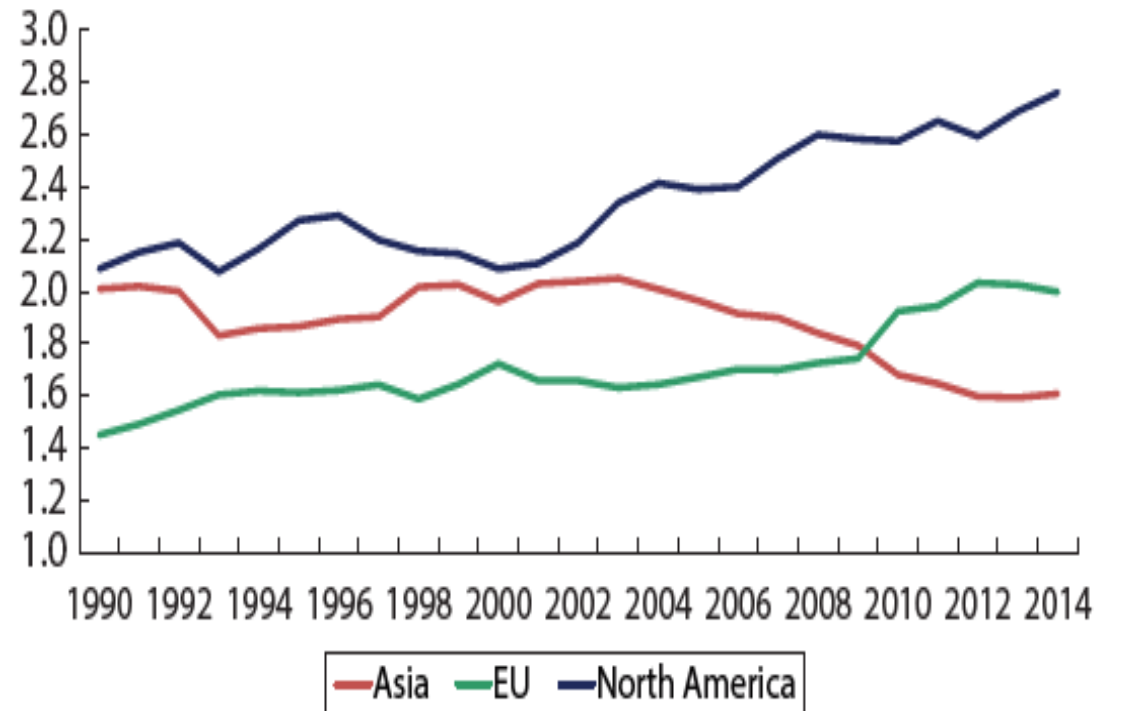
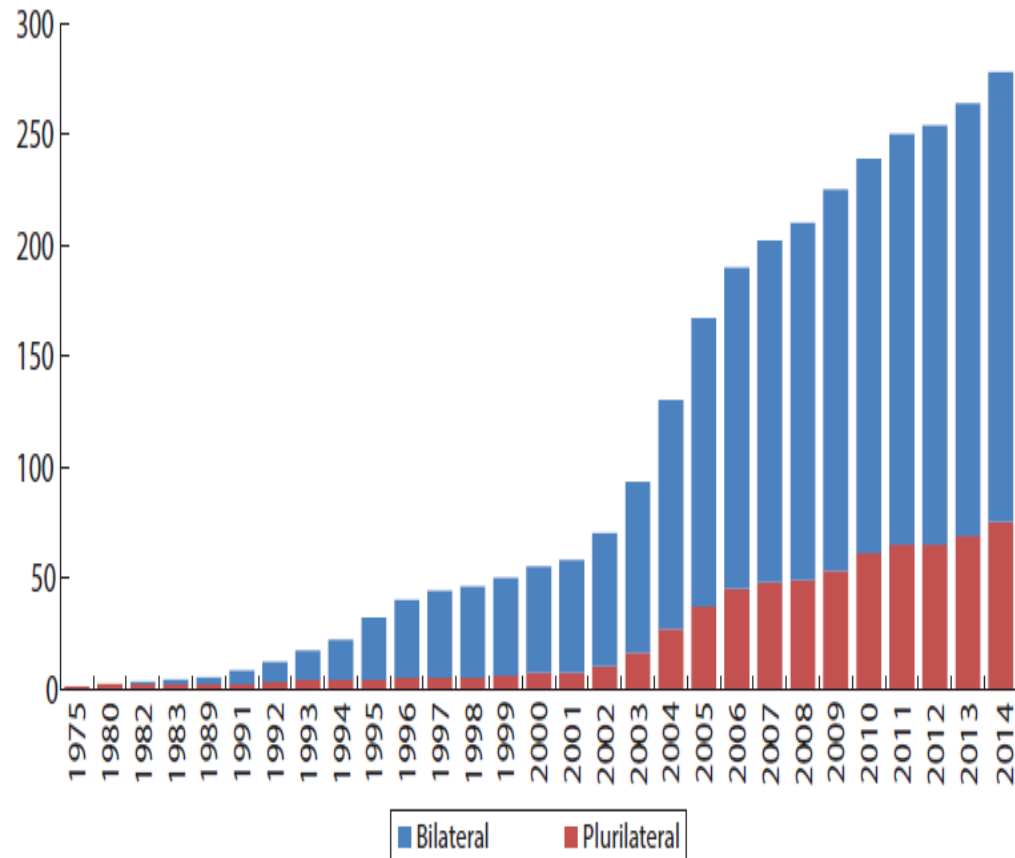


Figure 5: Intraregional trade intensity—Asia, EU, North America (%)



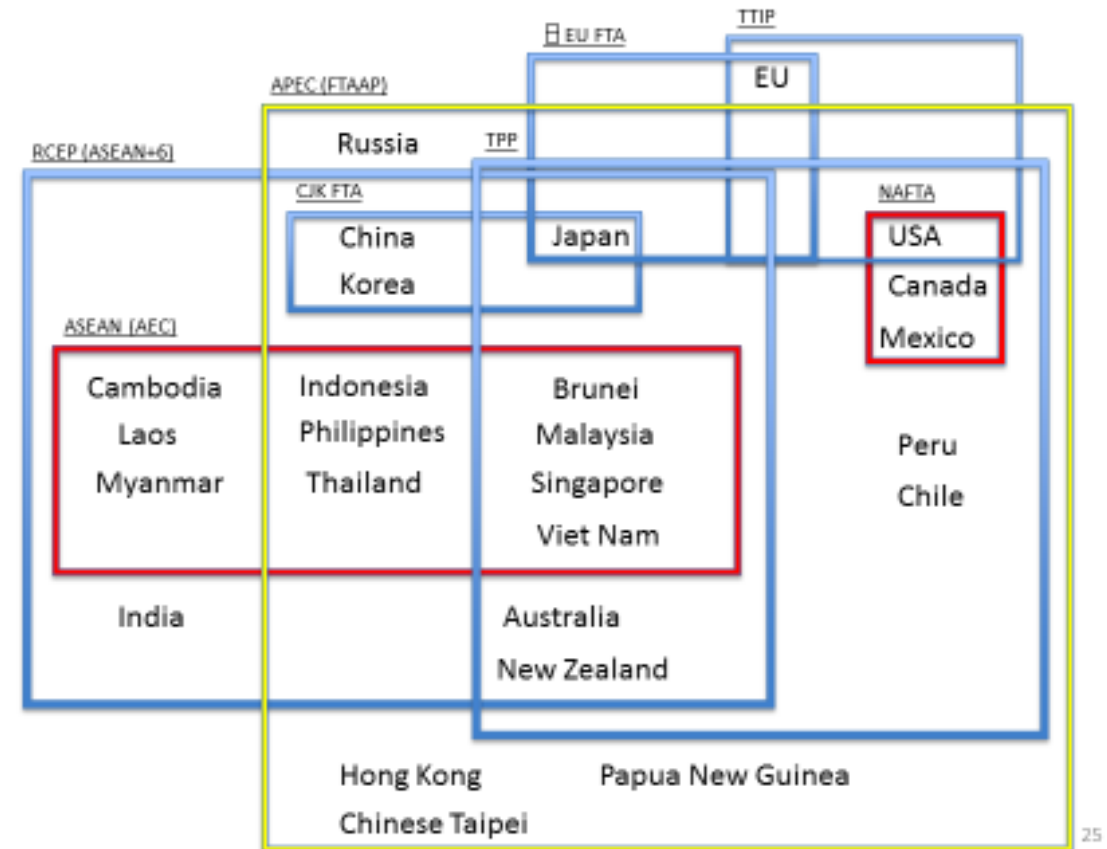
Regional trade arrangements have proliferated, and mega-FTAs are under proposal

Figure 7: FTAs by Scope—Asia (cumulative, selected years)



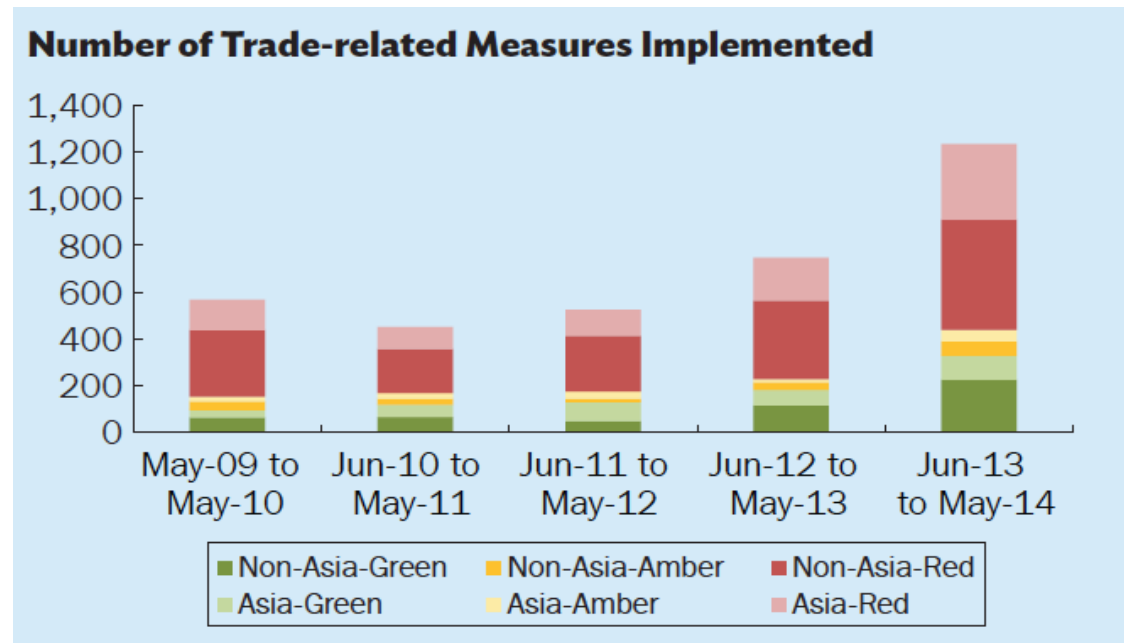
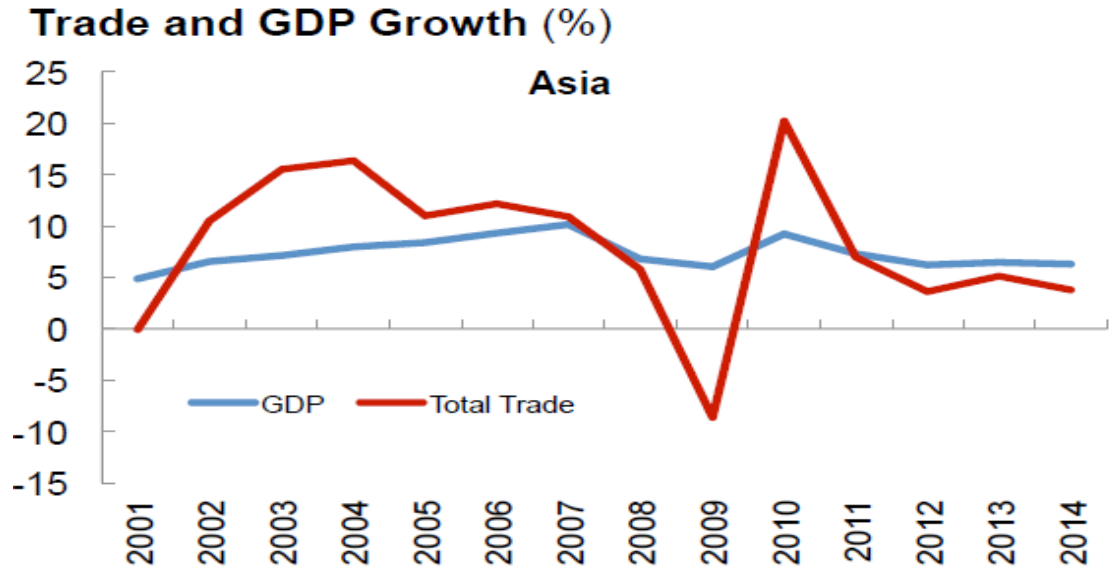
Source: ADB (2015)

Proposed mega-FTAs in East Asia and Asia-Pacific



Source: Kimura (2016)

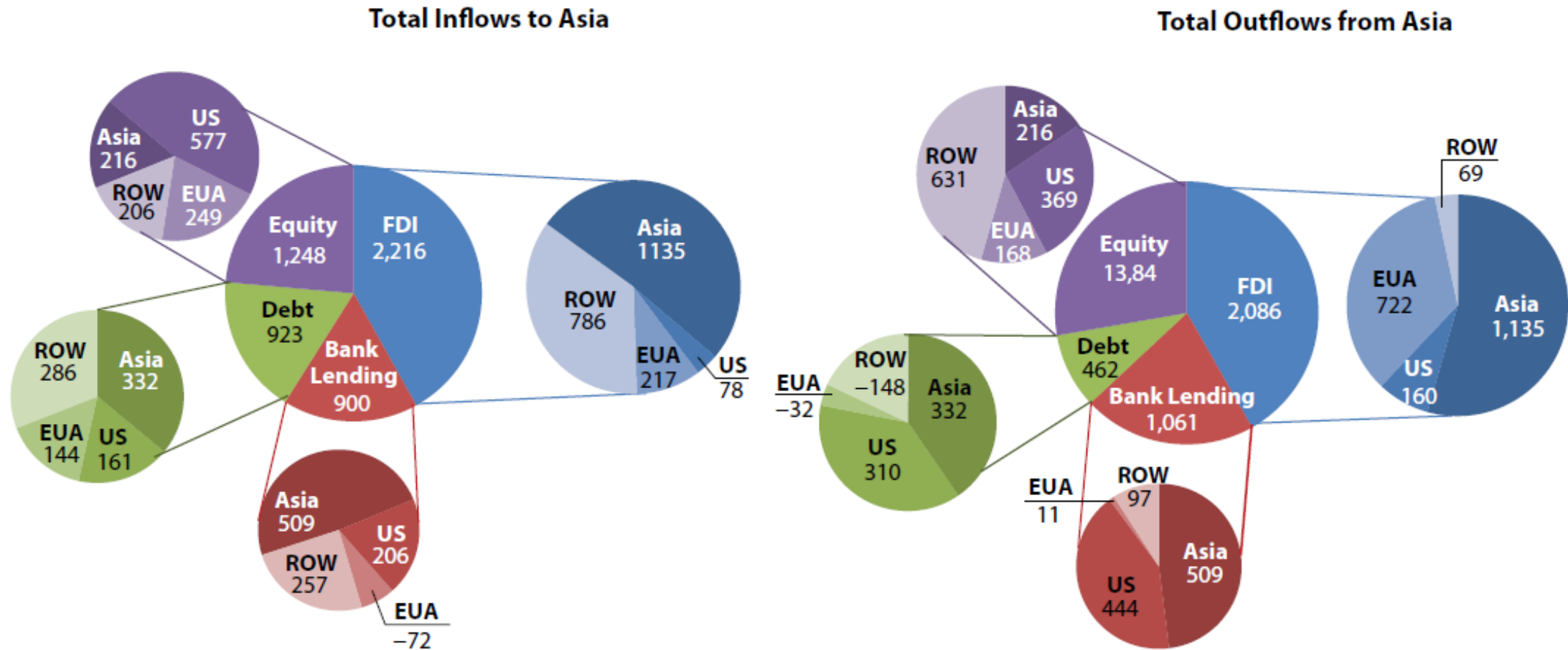
Outlook and issues for trade and trade integration



- Evolution of Global Value Chain (GVC)
 - Crucial in driving Asian trade integration so far. Where will it go?
 - Individual country strategies in positioning within the GVC
- FTAs and reduction of trade costs.
- Resurgence of protectionism?
- China rebalancing
 - Shift of final demand shifting to Chinese domestic demand.

Financial integration deepening, but lags trade integration

Figure 27: Sources of Financial Flows—Asia (\$ billion, cumulative 2010–2014)



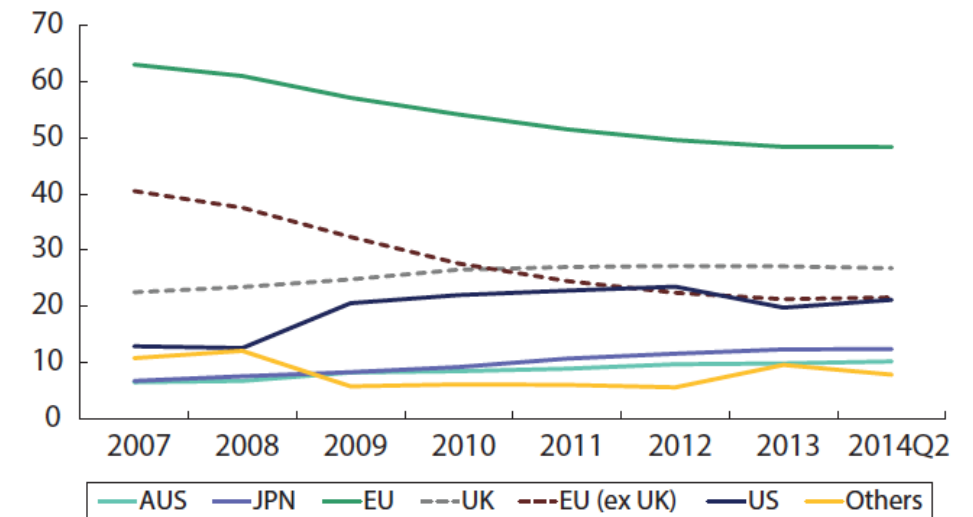
FDI = foreign direct investment, EUA = euro area, ROW = rest of the world, US = United States.

Source: ADB calculations using data from ASEAN Secretariat; Bank for International Settlements; *Coordinated Portfolio Investment Survey*, International Monetary Fund (IMF); Organisation for Economic Co-operation and Development (OECD); and United Nations Conference on Trade and Development (UNCTAD).

Outlook and issues for financial integration

- Different integrations:
 - Market access in financial services and financial products. (EU single passport, single regulation)
 - Financial sector liberalization and capital account liberalization (interest rate convergence)
- ASEAN moving towards greater financial integration
 - Beyond capital flows, ASEAN Banking Integration Framework provides for mutual entry for qualified banks.
- Merits of integration vs. spillover risks in financial stability.
 - Are regional interactions more benign relative to globalization?
- Retrenchment of European banks following the Global Financial Crisis and the Euro Crisis being offset by greater involvement by Japanese and Australian (and U.S.) banks. (Figure)
- RMB internationalization and implications for regional financial integration.

Figure 11: Outstanding Foreign Bank Claims in Asia (% share)



AUS = Australia; EU = European Union; JPN = Japan; UK = United Kingdom; US = United States

Source: ADB calculations using data from Bank for International Settlements (Table 9D). Data accessed on 21 October 2014.

FDI: Nexus between trade and finance

Figure 25: Intraregional FDI Inflows—Asia

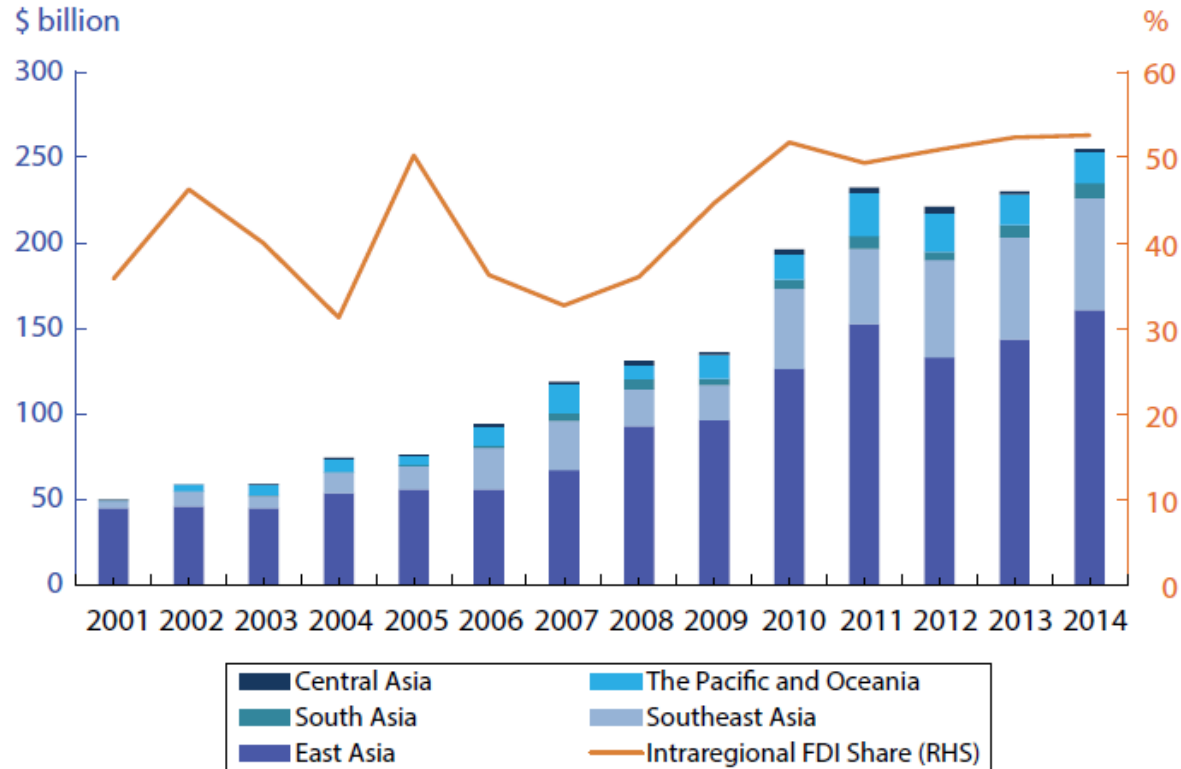
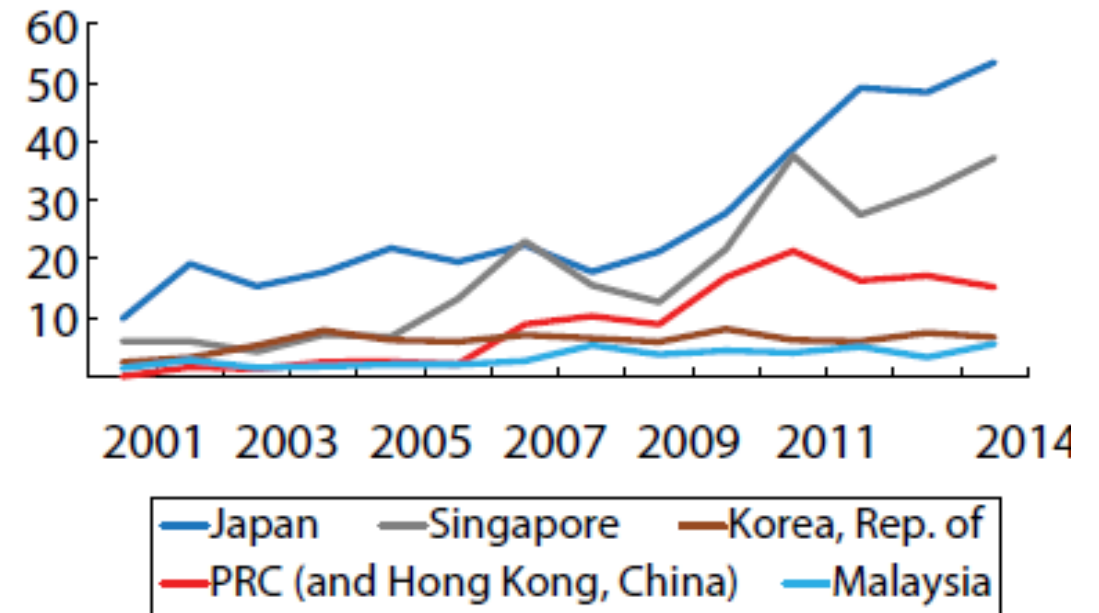


Figure 26: Top 5 Sources of Intraregional FDI—Asia (\$ billion)



Peoples flow: Tourism and Migration

Figure 54: Tourism Outflows—Asia (million)

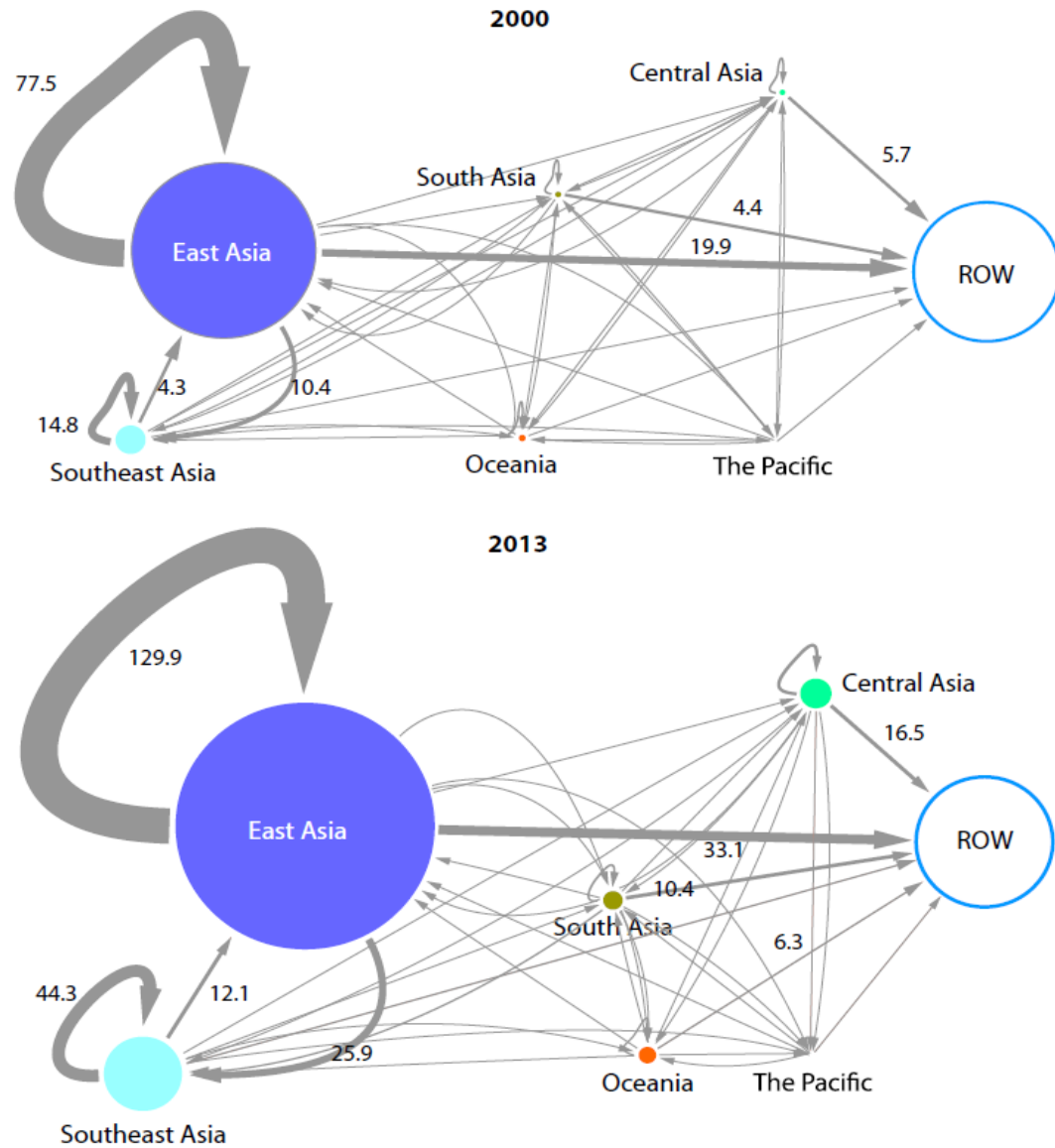
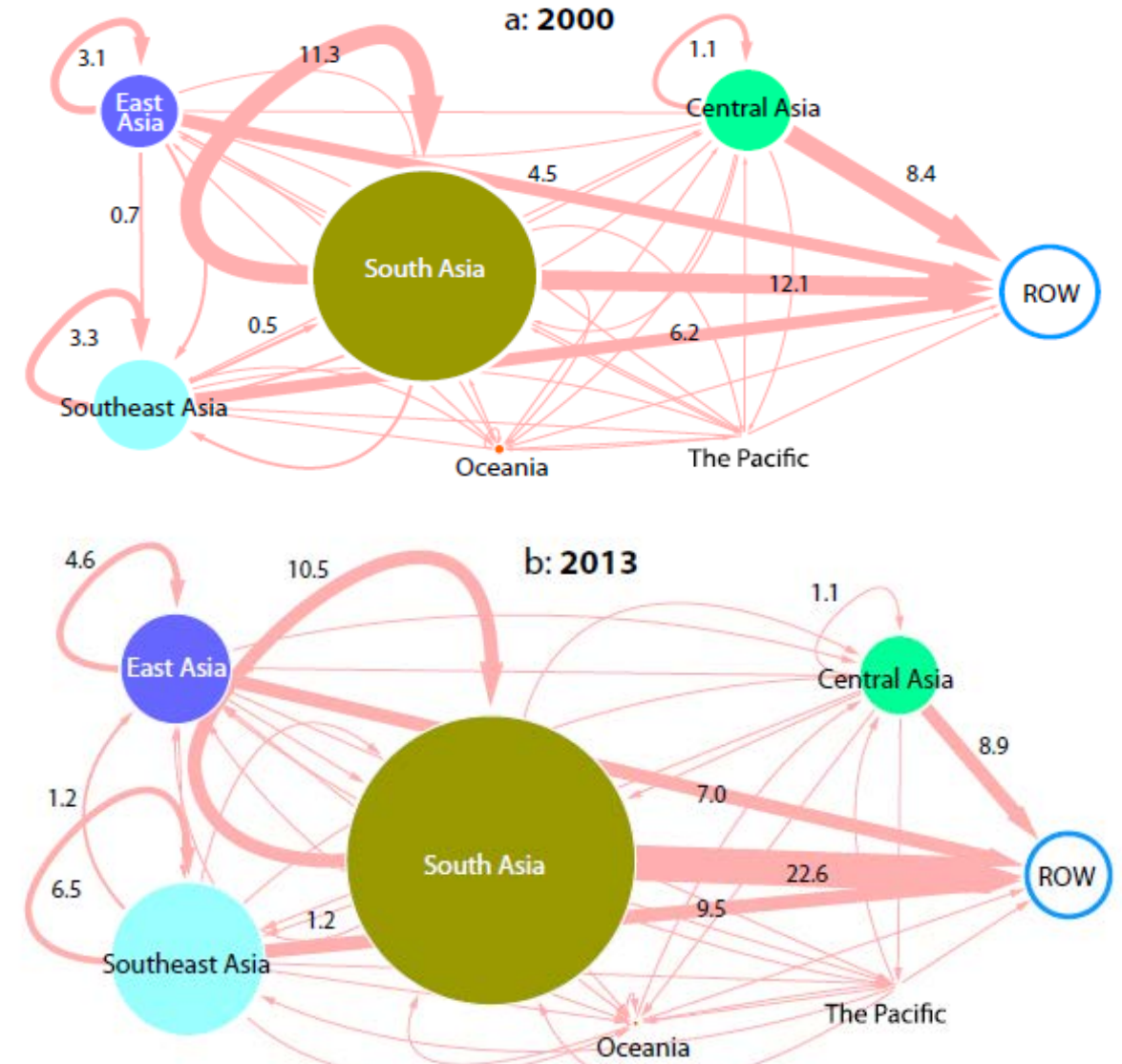
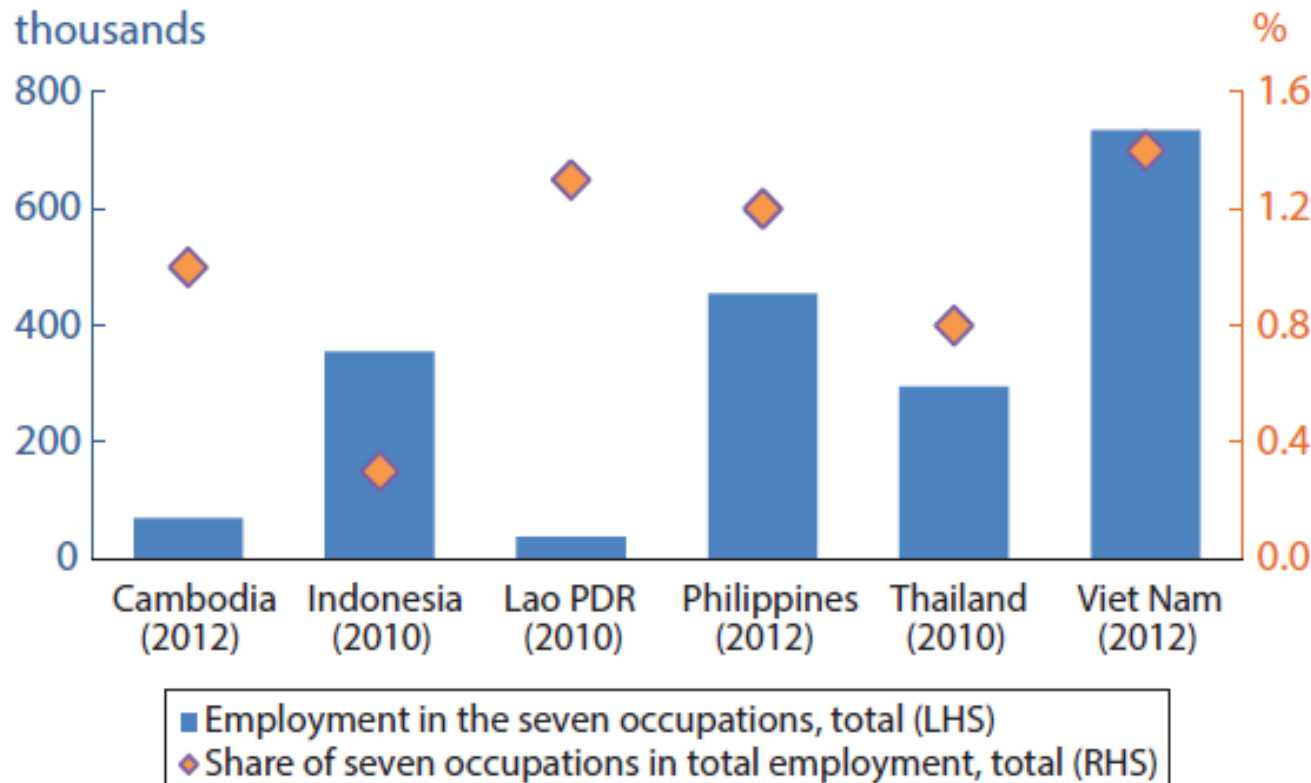


Figure 56: Migration—Asia (million)



Labor market mobility: Recognition of license/qualification

Figure 15: Employment in Occupations Covered by MRAs— Selected ASEAN Economies (Excludes Tourism)



ASEAN Framework Agreement on Services and Mutual Recognition Arrangements provide for free movement of skilled workers (Engineering, Nursing, Architecture, Surveying, Medicine, Dentistry, Accountancy and Tourism)