



Regional integration in Asia: Trends and Issues

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**ADB-ASIAN THINK TANK DEVELOPMENT FORUM 2017:
Financing for Sustainable Urbanization in Asia and the Pacific**
20-21 September 2017 | Colombo, Sri Lanka

Outline

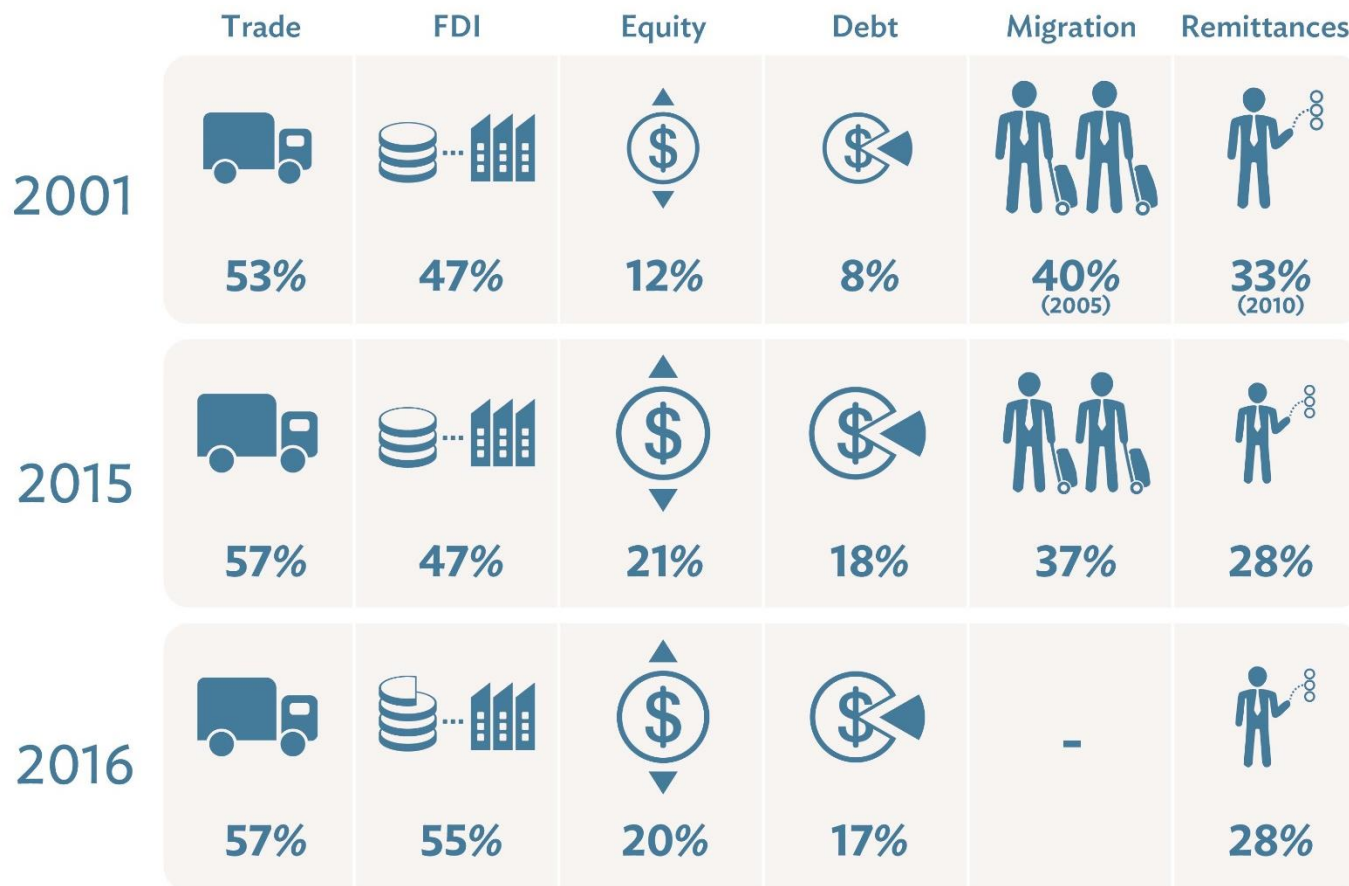
- Asian Development Outlook and Regional Integration
- Asia-Pacific Regional Integration Index
- Trade and Global Value Chains
- Cross-border Investment
- Subregional Initiatives on RCI
- Key Messages

Asia's Regional Growth Outlook

	2016	Forecast	
		2017	2018
Developing Asia	5.8	5.9	5.8
Central Asia	2.1	3.2	3.8
East Asia	6.0	6.0	5.7
PRC	6.7	6.7	6.4
South Asia	6.7	7.0	7.2
India	7.1	7.4	7.6
Southeast Asia	4.7	4.8	5.0
The Pacific	2.6	2.9	3.3
Major industrialized economies			
euro area	1.7	1.8	1.7
Japan	1.0	1.1	1.7
United States	1.6	2.2	2.4

Asia's Integration Trends at a Glance

Intraregional Shares (% of total)



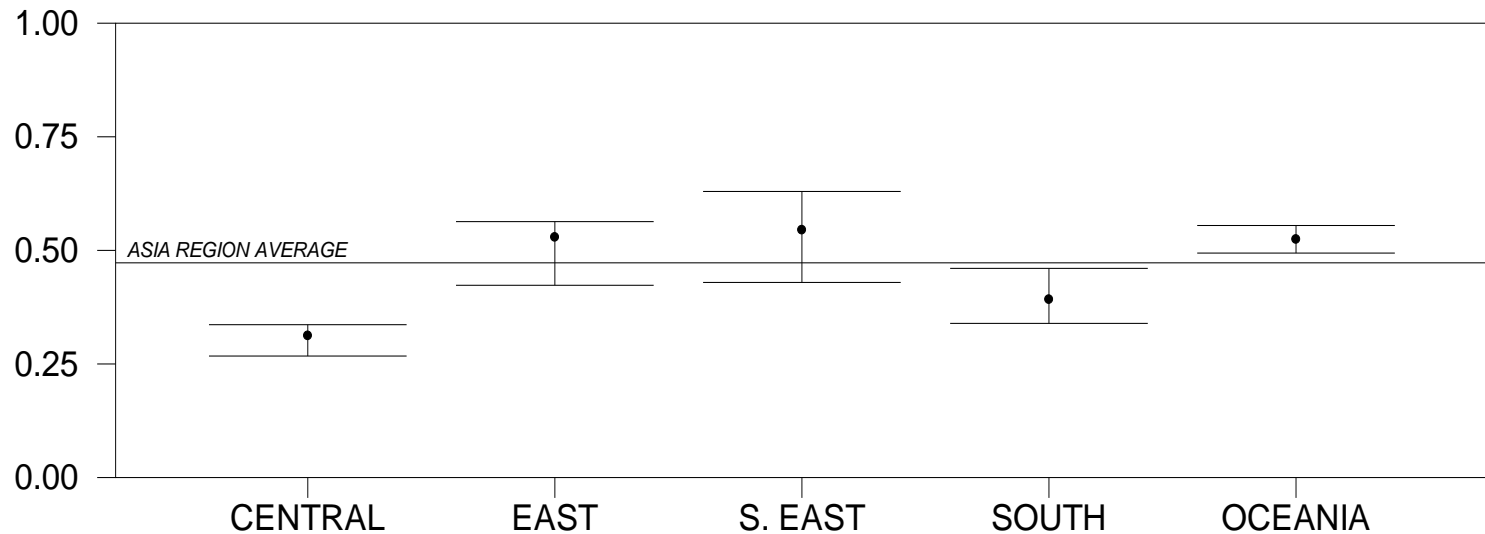
— = data unavailable; FDI = foreign direct investment (flows data); Equity = equity asset holdings (stock data); Debt = debt asset holdings (stock data).

Notes: Trade, equity and debt data as of January to June 2016 (H1 2016); migration data in 2000 and 2015 (available every 5 years); remittance data only available starting in 2010.

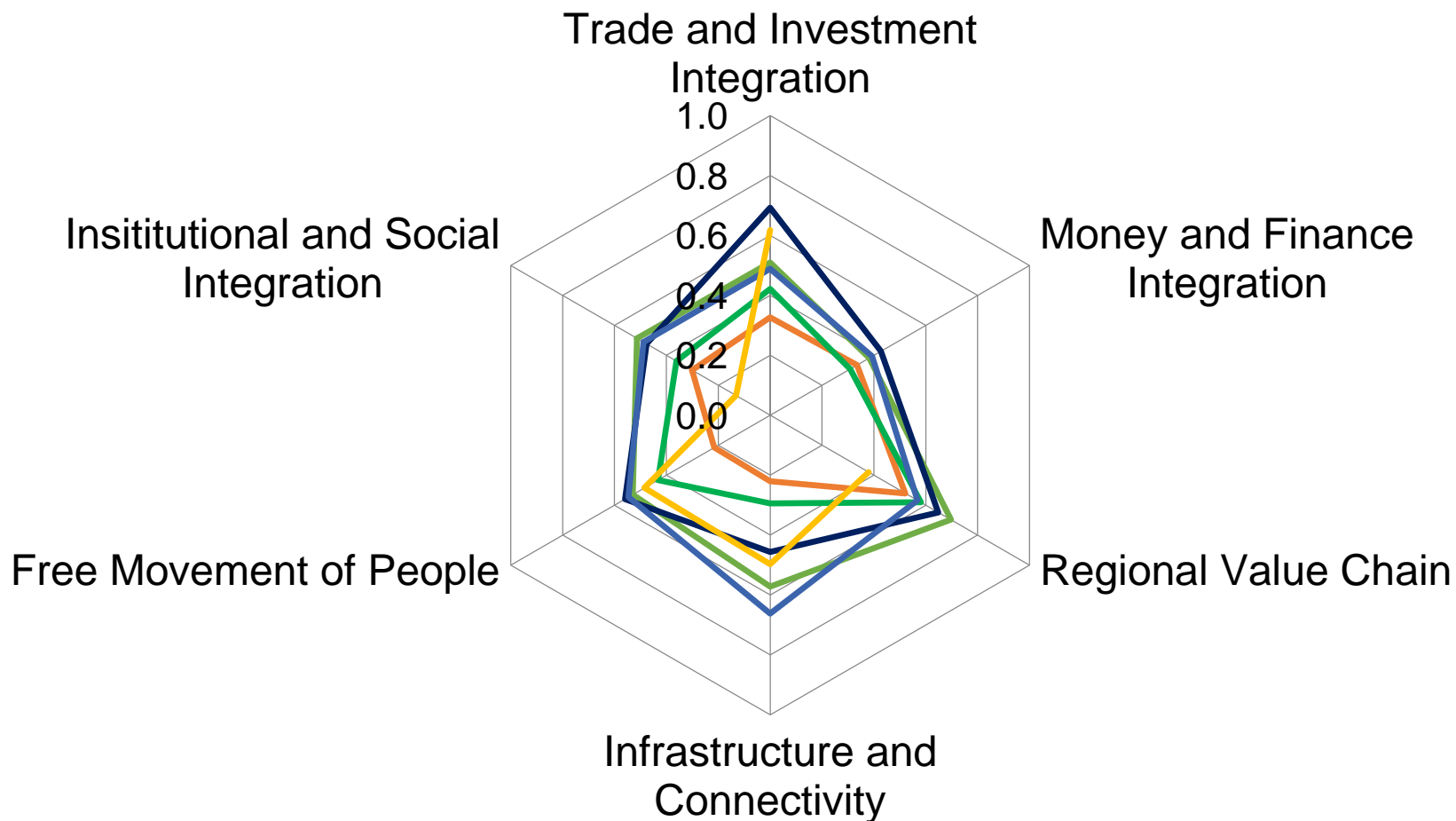
Source: ADB calculations using data from Association of Southeast Asian Nations (ASEAN) Secretariat, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations, World Bank, and national sources.

Asia-Pacific Regional Integration Index: Performance of sub-regions

- **Regional integration in Asia-Pacific:** Significant progress has been made, but the degree of regional integration varies across different subregions and socioeconomic dimensions

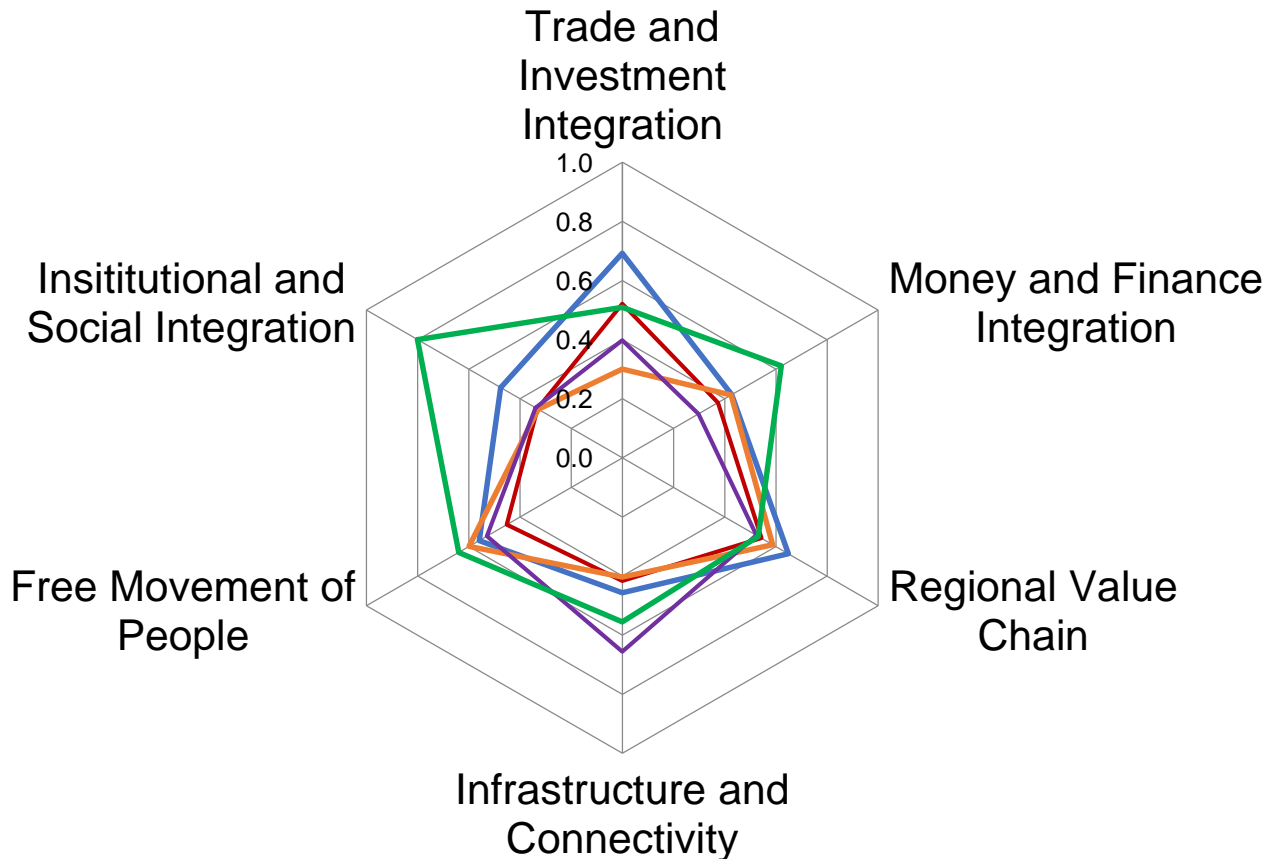


Asia-Pacific Regional Integration Index



World-wise normalization: APRI estimates

Asia vs Other Regions



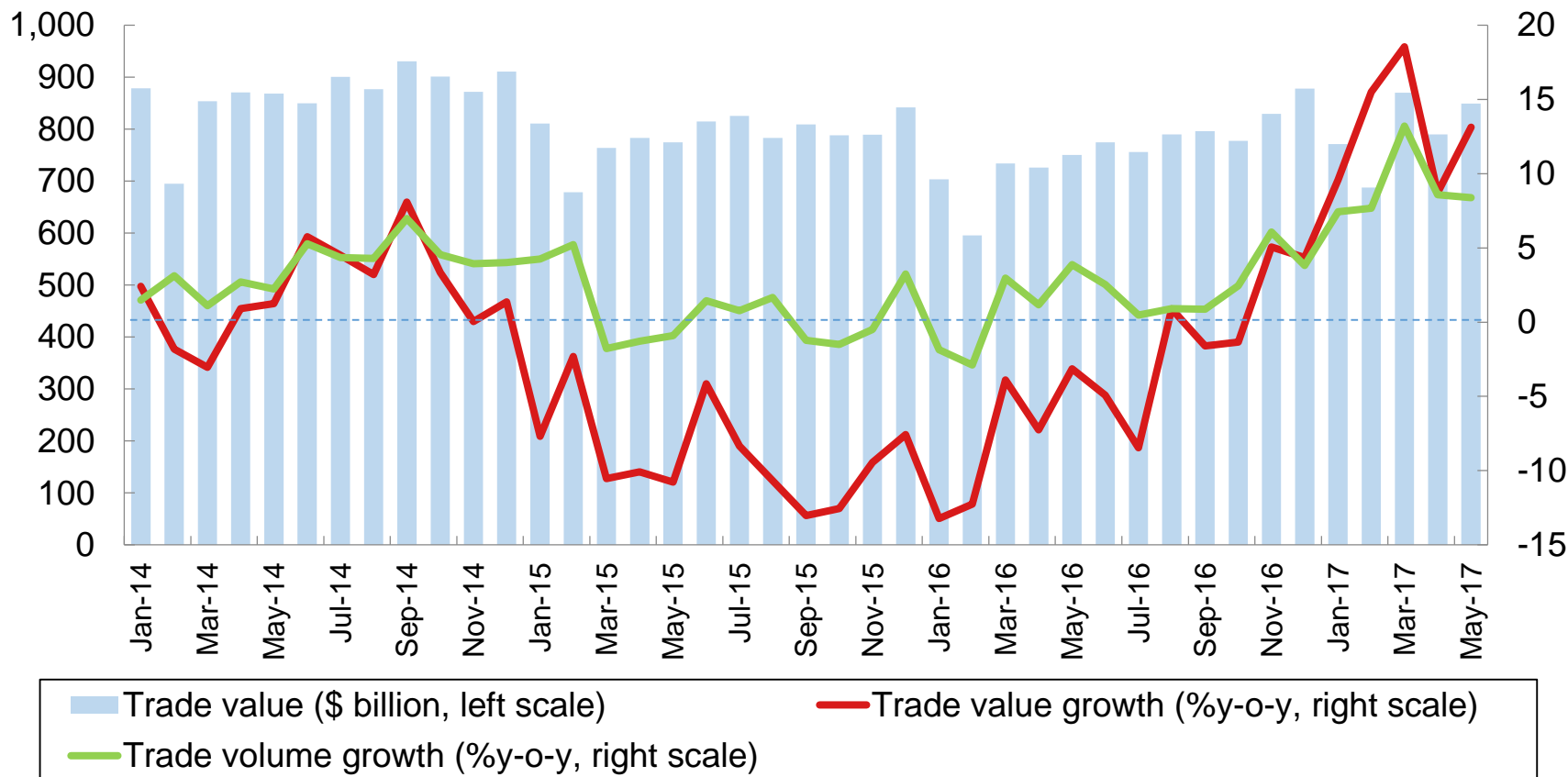
— ASEAN — Asia — Africa — Latin America — EU

Trade and Global Value Chains



Recent data point to a trade recovery

Asia's Monthly Trade Value and Volume



y-o-y = year-on-year.

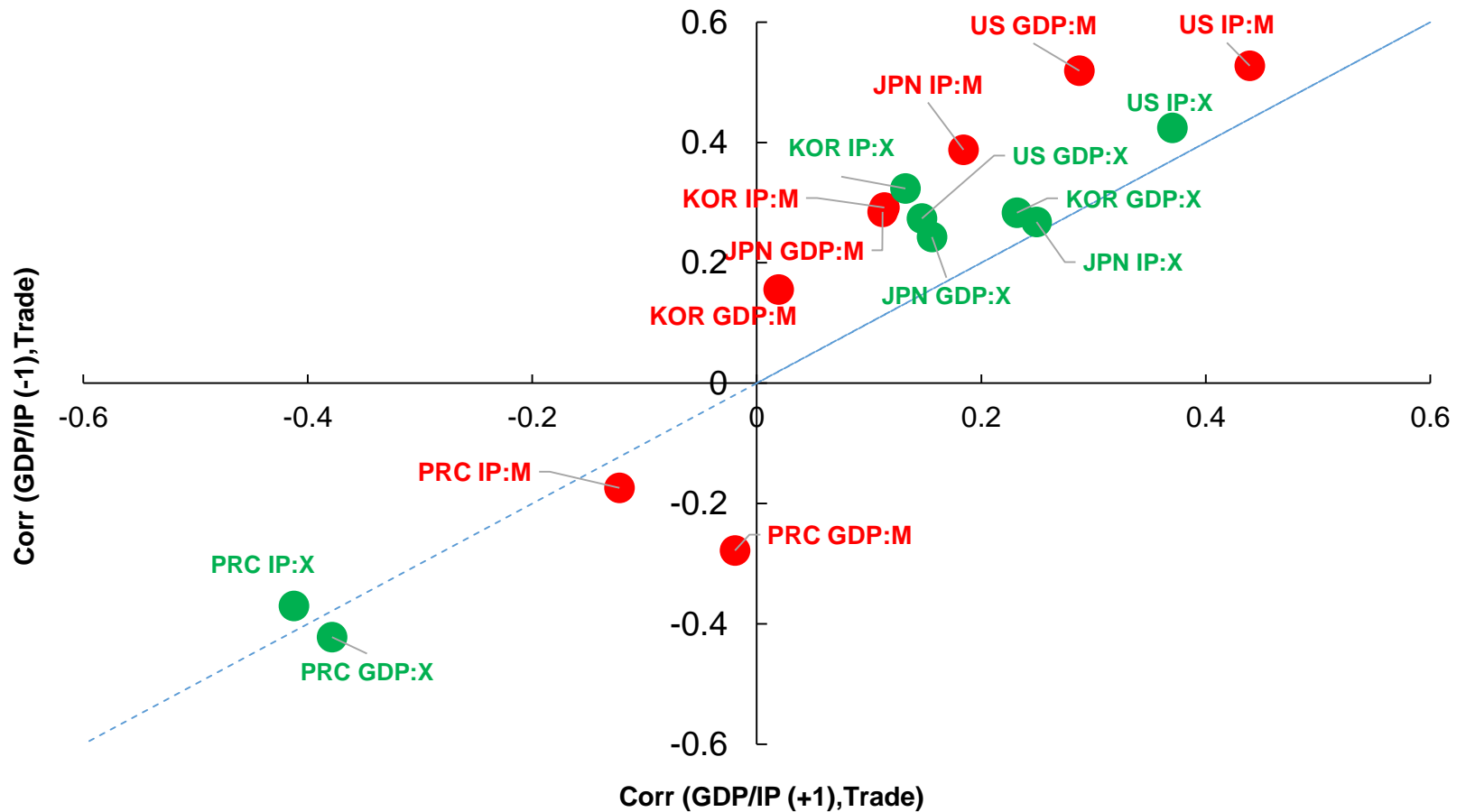
Note: Asia includes the People's Republic of China; Hong Kong, China; India; Indonesia; the Republic of Korea; Malaysia; Pakistan; the Philippines; Singapore; Taipei, China; Thailand; and Viet Nam.

Source: ADB calculations using data from CEIC; CPB Netherlands Bureau for Economic Policy Analysis, World Trade Monitor.

<https://www.cpb.nl/en/data> (accessed September 2017).

Economic activities lead trade

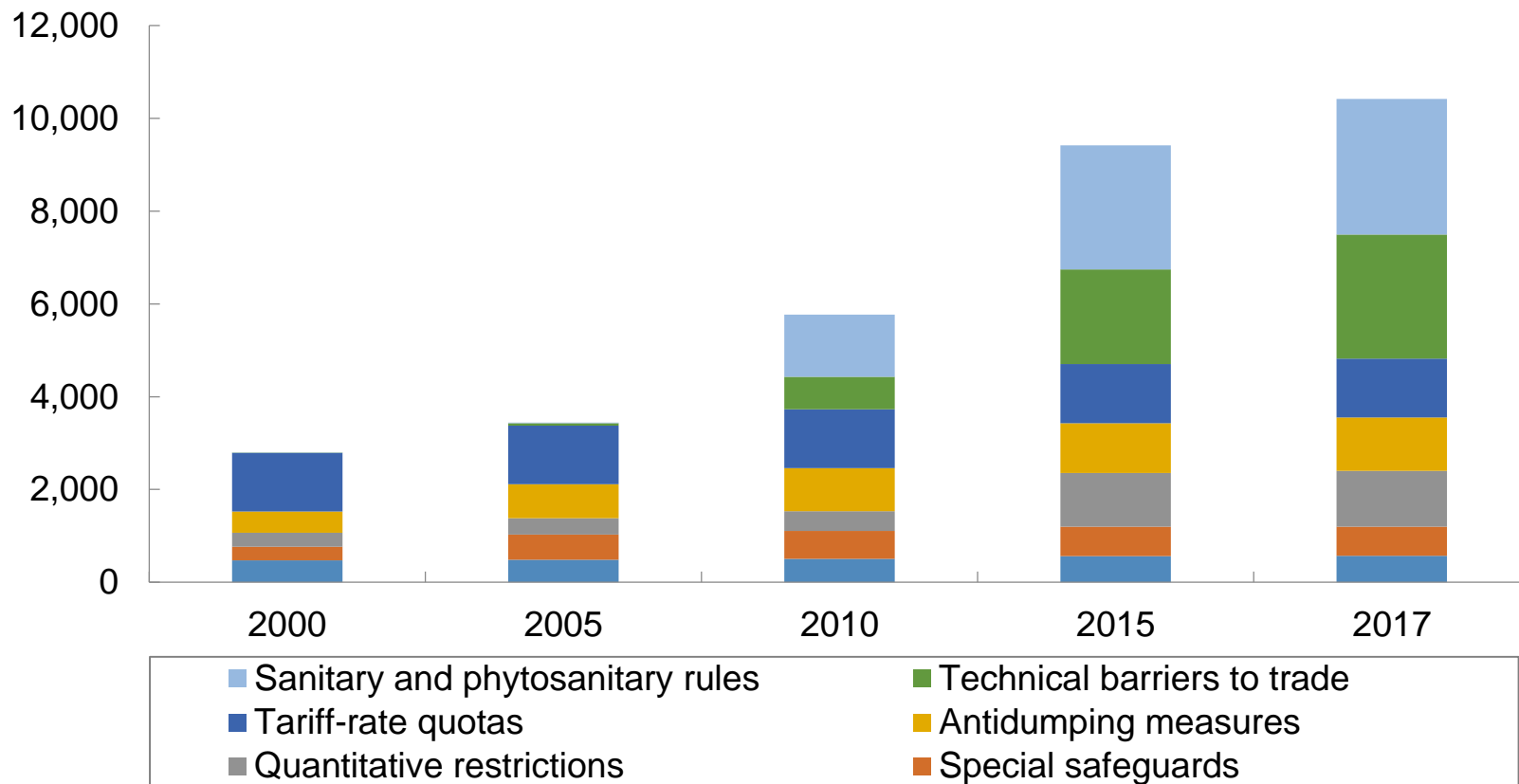
Correlation between Output and Trade Growth (1980-2017, quarterly)



GDP = gross domestic product, IP = industrial production, M = imports, X = exports.

Trade measures continue to rise in Asia

Trade-related Measures in Asia (cumulative)

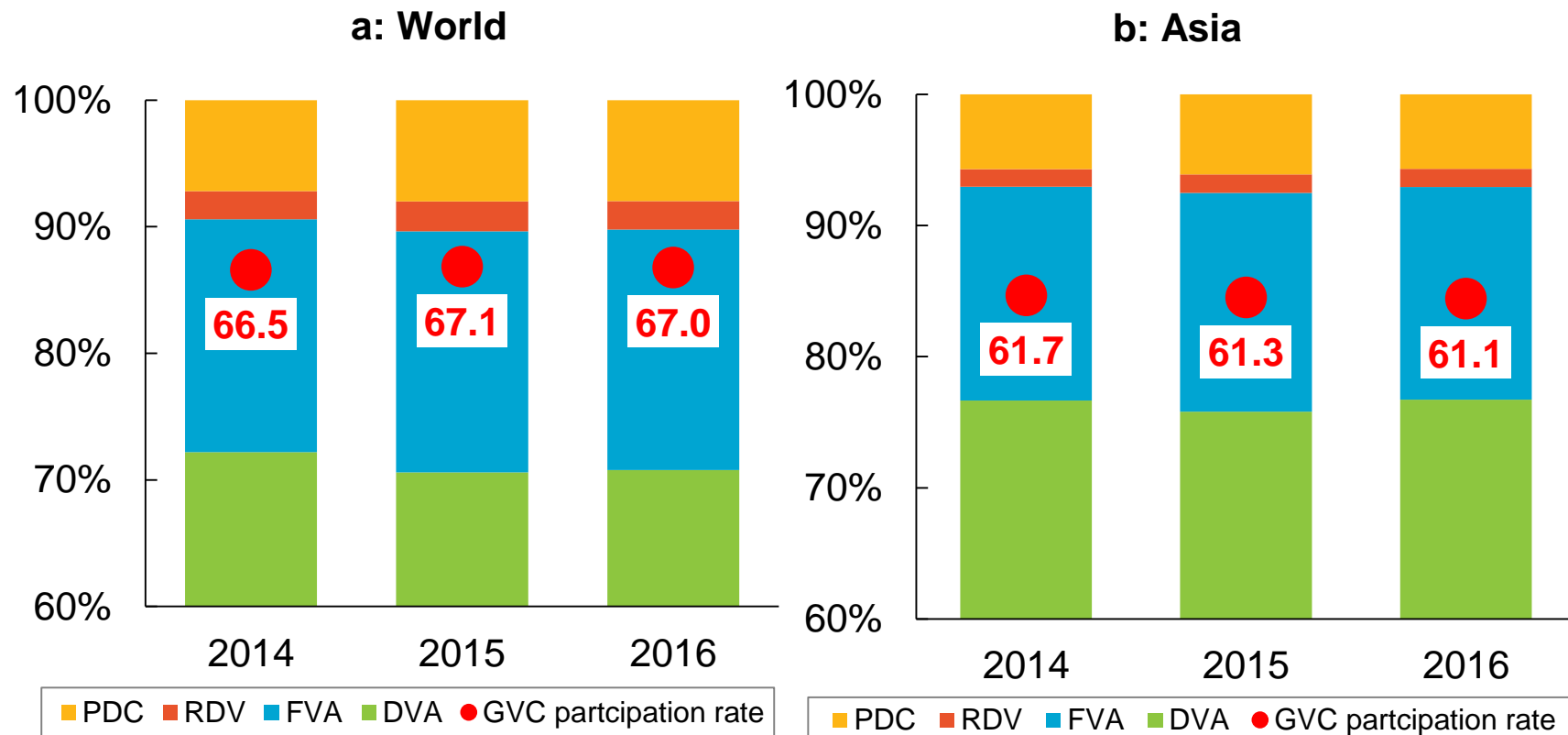


Notes: A stock approach is used wherein measures in force at the selected date are recorded. Measures in force are discounted from measures initiated, and measures withdrawn are discounted from measures in force.

Source: ADB calculations using raw data from World Trade Organization. Integrated Trade Intelligence Portal (accessed July 2017).

Asia's value chain linkage with the global economy slowed

Components of Gross Exports (%)



DVA = domestic value added, FVA = foreign value added, RDV = returned value added, PDC = purely double-counted terms.

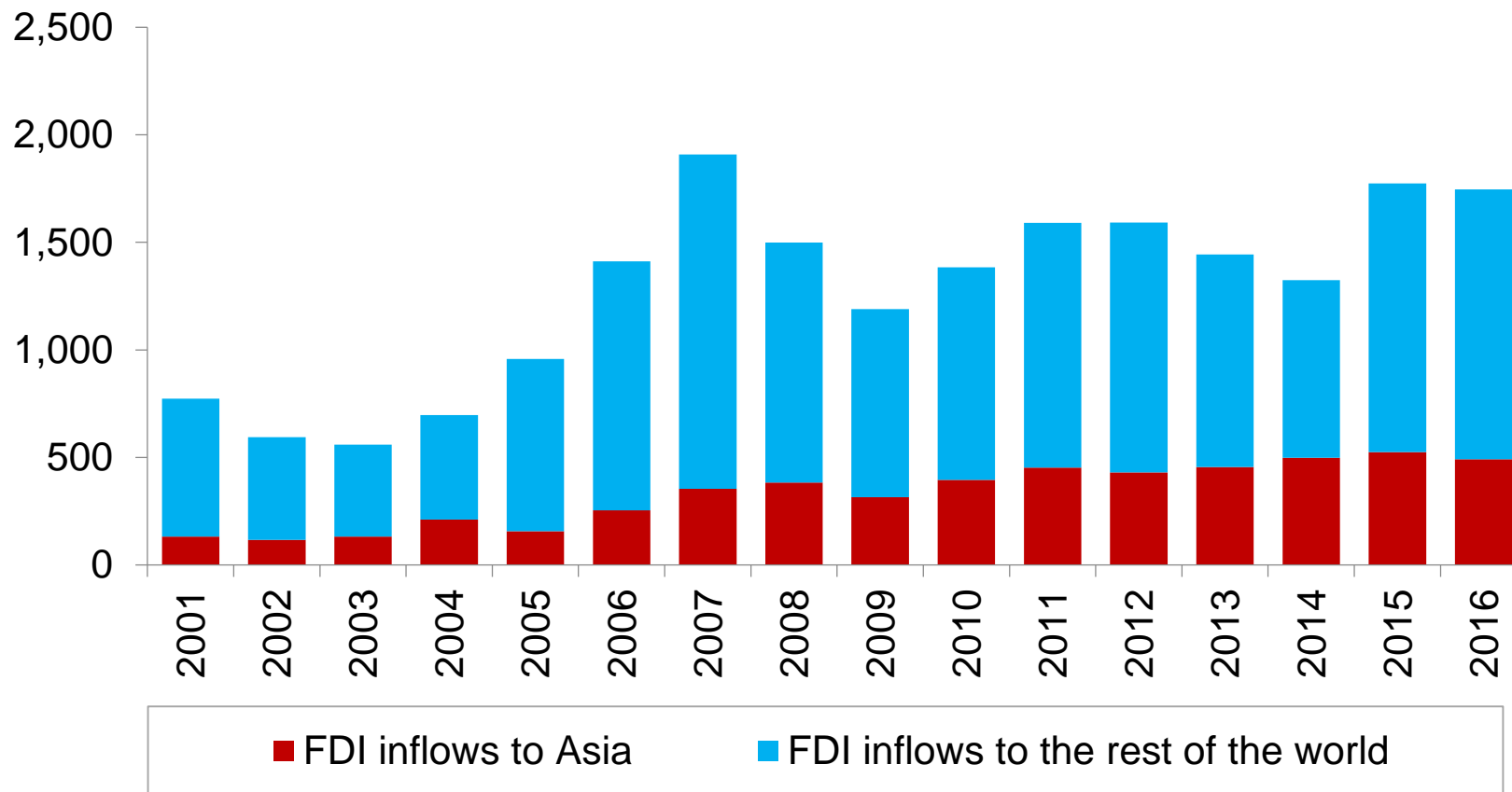
Source: ADB calculations using ADB Multi-Regional Input-Output Tables, and methodology by Wang, Wei, and Zhu (2014).

Cross-border Investment



World FDI inflows fell slightly in 2016, Asia is no exception

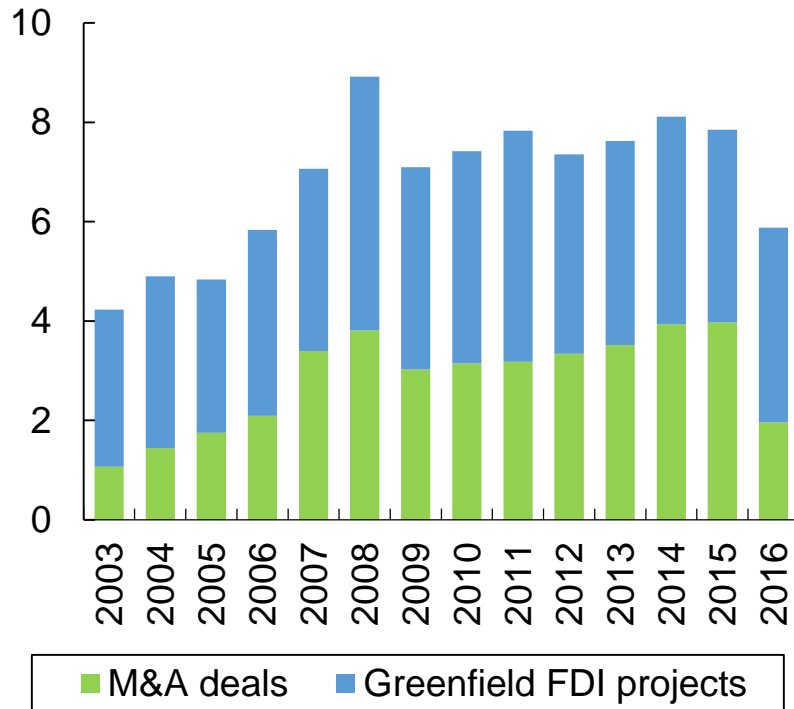
Total FDI Inflows (\$ billion)



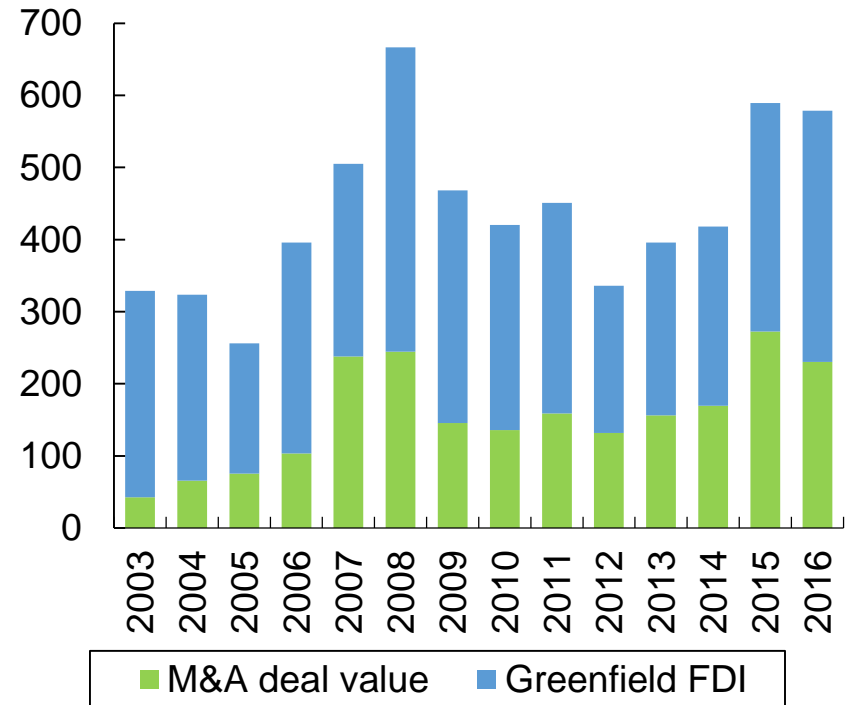
Source: ADB calculations using data from UNCTAD.

Decline in FDI inflows mainly due to fewer M&A deals

Number of FDI projects in Asia (thousands)



Value of FDI in Asia (\$ billion)

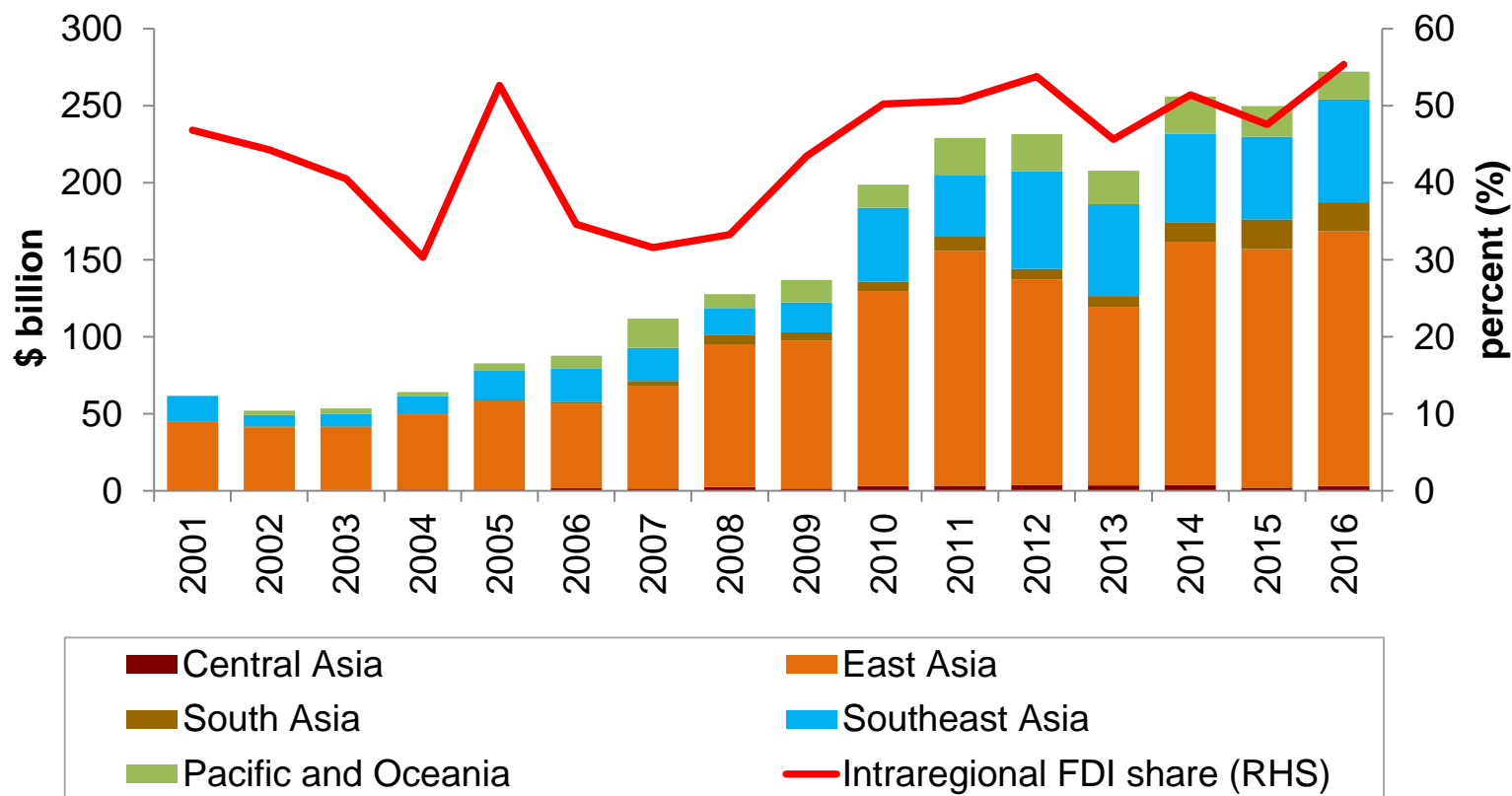


FDI = foreign direct investment, M&A = merger and acquisition.
 Note: Asia refers to the 48 regional members of ADB.
 Sources: ADB calculations using data from Financial Times. fDi Markets; and Bureau van Dijk. Zephyr M&A Database (accessed May 2017).

FDI = foreign direct investment, M&A = merger and acquisition.
 Notes: The nominal value of many deals is not available due to confidentiality, especially for M&A. Asia refers to the 48 regional members of ADB. (accessed May 2017).

Intra-Asia FDI increased while Asia's FDI from outside the region declined

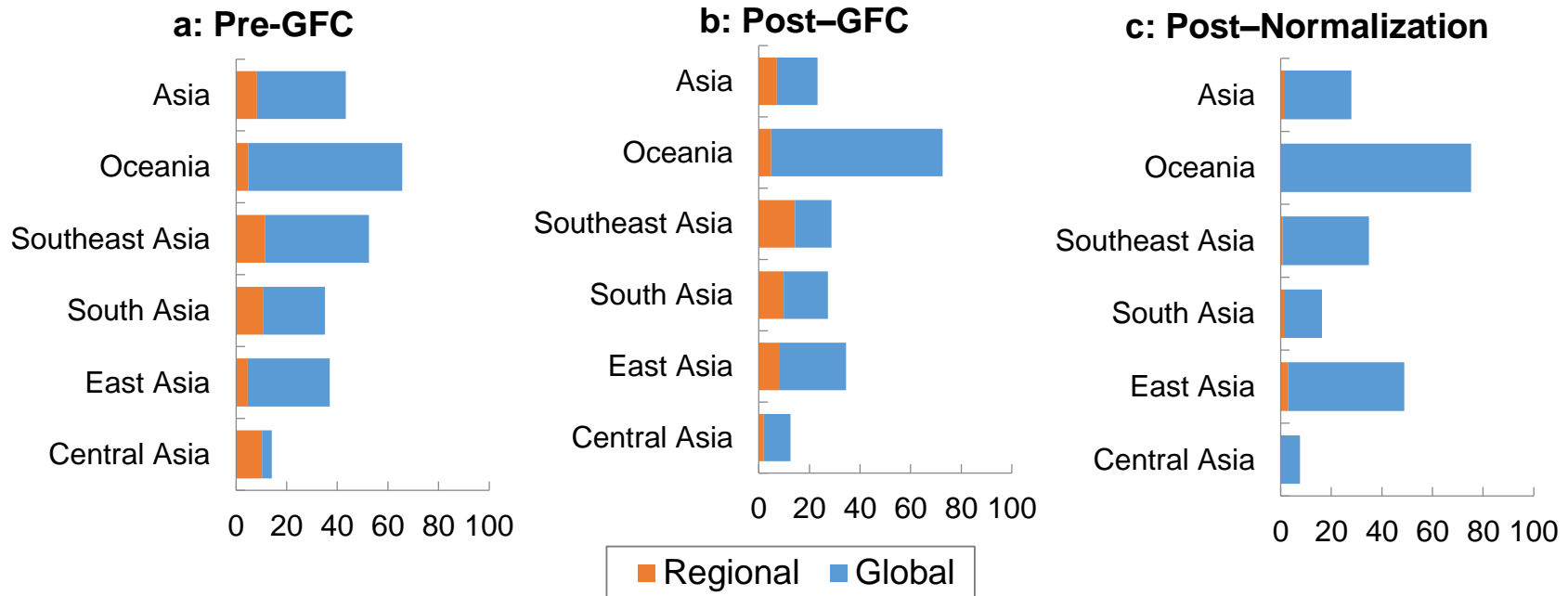
Intraregional FDI Inflows—Asia



Source: ADB calculations using data from ASEAN Secretariat, Eurostat, OECD, UNCTAD and national sources.

Asia's equity markets have become increasingly exposed to global shocks

Share of Variance in Equity Returns Explained by Global and Regional Shocks (%)



GFC = global financial crisis.

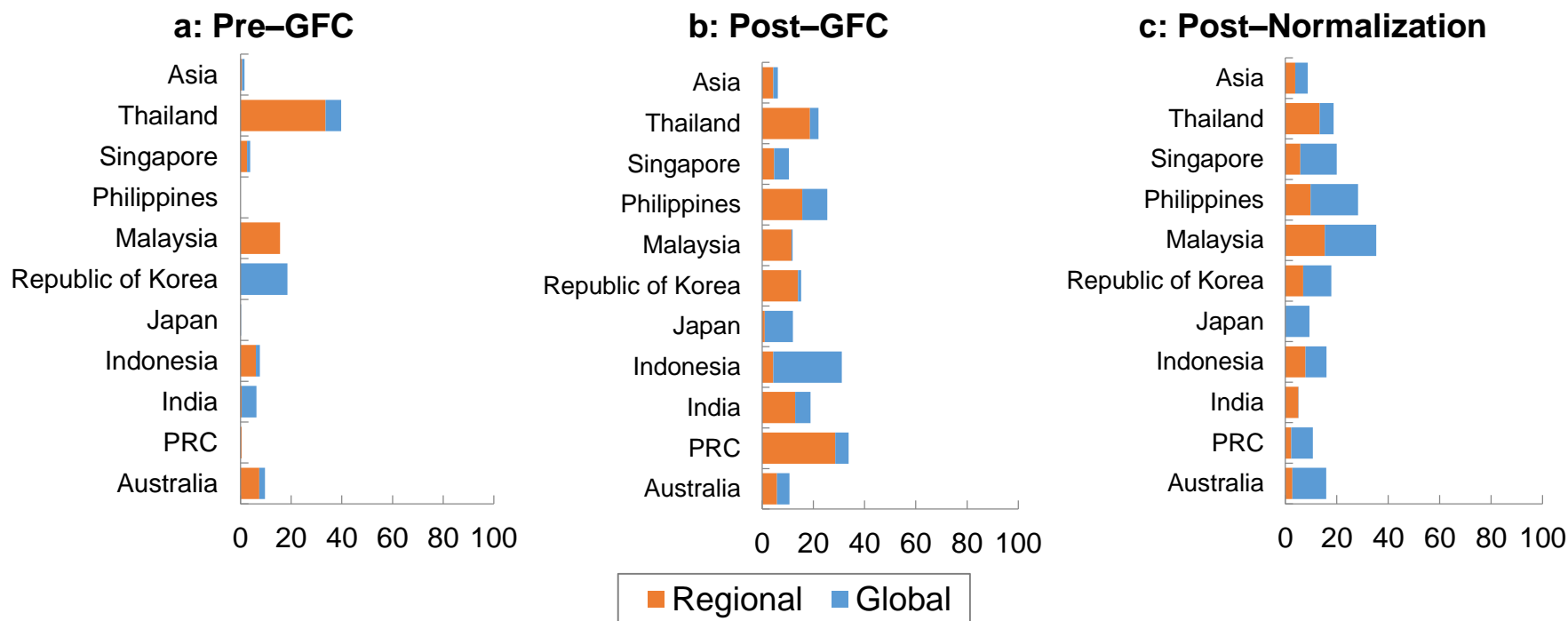
Notes: Pre-GFC = January 1999 to September 2007. Post-GFC = July 2009 to December 2015. Post-Normalization = January 2016 to June 2017.

Central Asia includes Georgia, Kazakhstan and the Kyrgyz Republic. East Asia includes the People's Republic of China; Hong Kong, China; Japan; the Republic of Korea; Mongolia; and Taipei, China. South Asia includes Bangladesh, India, Nepal, Pakistan, and Sri Lanka. Southeast Asia includes Indonesia, the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam. Oceania includes Australia and New Zealand. Asia includes Central Asia, East Asia, South Asia, Southeast Asia and Oceania.

Sources: ADB calculations using data from Bloomberg; CEIC; World Bank, World Development Indicators (accessed July 2017); and methodology by Lee and Park (2011).

Regional impact on bond returns is increasing

Share of Variance in Local Bond Returns Explained by Global and Regional Shocks (%)



GFC = global financial crisis, PRC = People's Republic of China.

Notes: Pre-GFC = January 2005 to September 2007. Post-GFC = July 2009 to December 2015. Post-Normalization = January 2016 to June 2017.

Sources: ADB calculations using data from Bloomberg; World Bank, World Development Indicators (accessed July 2017); and methodology by Lee and Park (2011).



Subregional Initiatives on RCI

Subregional initiatives: Progress in 2016

CAREC

- Progress in road and railway projects surpassed 2020 targets
- 7 CAREC members ratified WTO TFA
- Power interconnection projects on track

GMS

- Completion of 3 new bridges along GMS economic corridor
- Major progress in GMS CBTA activities
- Harmonizing regional power trade policy

EAST ASIA

- Pilot PRC-Mongolia joint customs control
- Regional knowledge sharing on economic zones
- Continuous support for CAREC TF program

SASEC

- Improved links in Asian Highway Network
- Electronic cargo tracking system launched
- Arrangements for energy trade forged

PACIFIC

- Endorsement of the Framework for Pacific Regionalism
- Submarine cable projects
- ICT enabled projects

Key Messages

- Regional integration shows large variations across subregions and six dimensions
 - ✓ Regional integration in Southeast Asia is most advanced
 - ✓ Trade and investment/regional value chains drive regional integration in Asia-Pacific
- Asia leading global trade recovery; but world trade growth remains weak
- Intraregional trade linkage strengthens even as Asia's global value chain participation is stagnating
- Global FDI inflows into Asia fell but intraregional FDI flows rise
- Asian financial markets and systems are still more integrated globally than regionally
 - ✓ Equity market returns are more vulnerable to global external shocks
 - ✓ Cross-border borrowing from banks has stabilized after significant unwinding process gone through in 2015



Thank you!