

# Asia's Economic Regionalism

Trends, Prospects, & Global Crisis Implications

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# 2008 ADB Study: Main Messages

- Asian integration is rapid, broad, with global links
- Cooperation is accelerating, but needs more focus
- Distinctive Asian regionalism: open, multi-speed, multi-track, pragmatic, bottom-up
- Need to develop deeper institutional capabilities
  - Asian Financial Stability Dialogue
  - Asian Secretariat for Economic Cooperation
- Asian regionalism is good for Asia, good for the world

# Integrating Asian Economies

## Integrating Asian Economies

Integrating Asia (16 economies):

-87% of total Asia's population

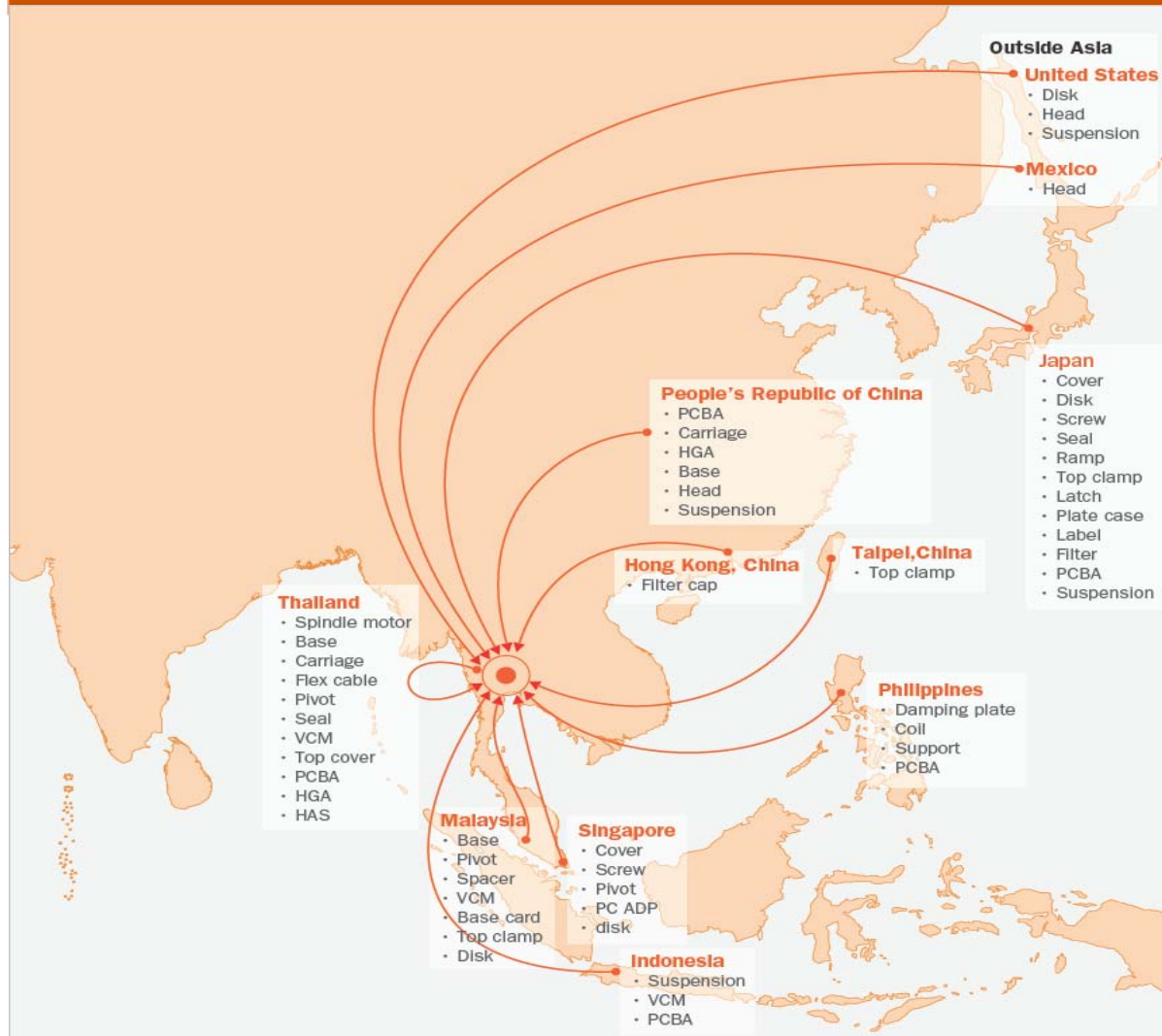
-96% of total Asia's output



# Drivers of Asian Regionalism Today

- **Increasing economic interdependence** (Asia's dominance of global manufacturing depends on regional production networks)
- **Reaction to progress of regionalism elsewhere in the world** (Europe, North America, Latin America)
- **Converging Asia's global economic interests and reaction to external shocks** (1997/98 Asian financial crisis; ongoing global economic crisis)

# Asia's Economic Interdependence: How Asia Makes a Disk-drive



- Assembly production of raw materials, parts, components
- Production and trade fragmentation: location is decided by the cost and availability of inputs, economic infrastructure, local environment
- Technology policy and upgrading is also important

# Integration Implies Cooperation

- **Manage regional interdependence**
  - Reduce regional trade and non-trade barriers
  - Ensure financial stability and promote financial integration
  - Cooperate on macroeconomic and exchange rate policies
  - Develop energy and infrastructure corridors within subregions
  - Provide public goods in health, security, environment
- **Reinforce national policy**
  - Strengthen domestic reforms
  - Support regional integration against special domestic interests
- **Represent global interests**
  - Champion open, stable global markets
  - Ensure support for development
  - Assume burden of global institutions

# Issues on Regionalism

- Regionalism and discrimination
- Free riding and reciprocity
- Membership fee and rules of entry
- GATT/WTO Article XXIV
- Intermediary step towards global integration
- Open Regionalism to reduce discrimination

# Logic of Regional Collective Action

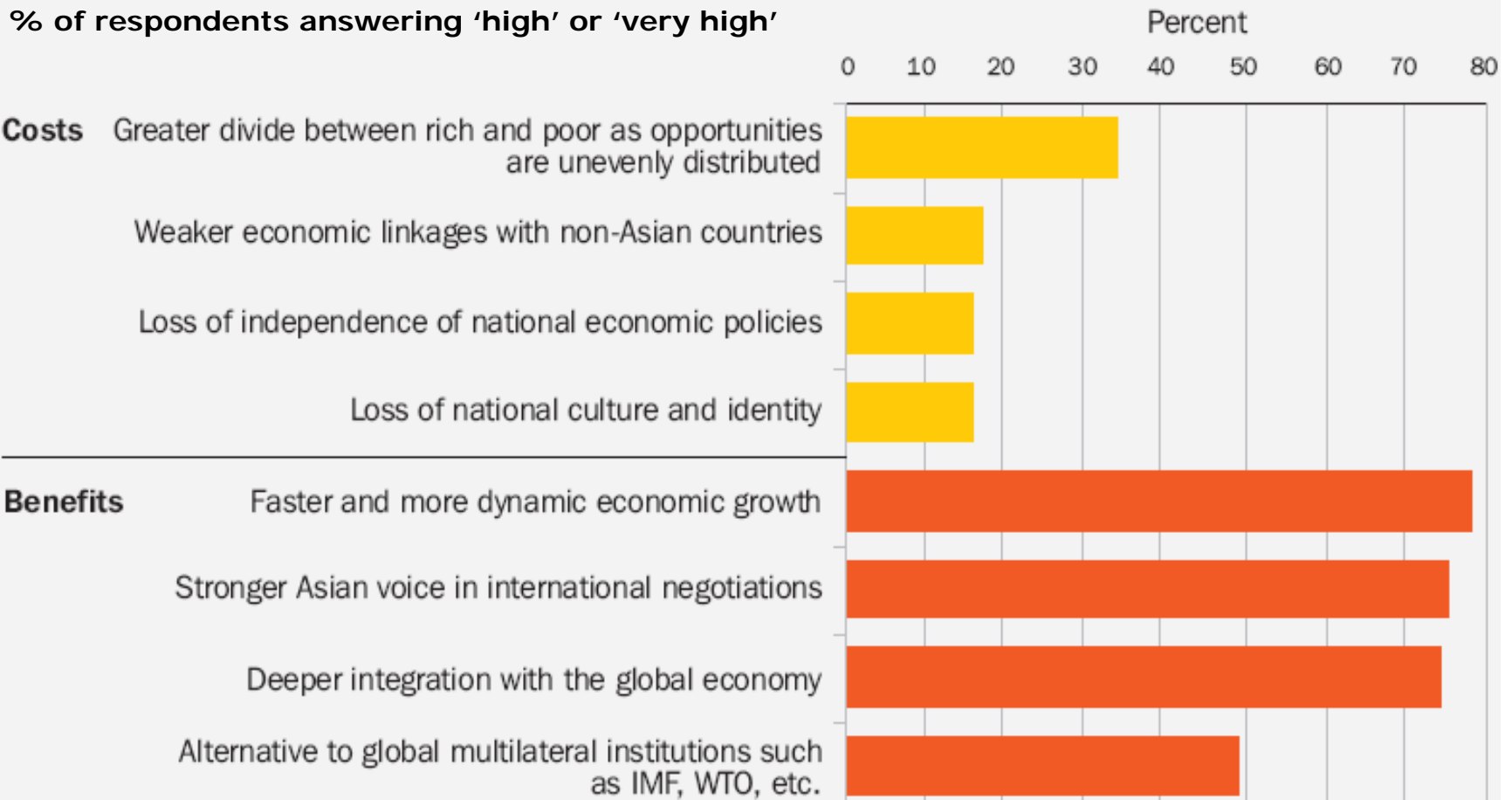
- Providing new regional public goods
- Managing spillovers among economies
- Exercising influence in global economic forums
- Liberalizing trade and investment
- Adding value to national policy making



# The Benefits of Regionalism in Asia Outweigh its Costs

Responses of Perception Survey to 600 Asian Opinion Leaders

% of respondents answering 'high' or 'very high'

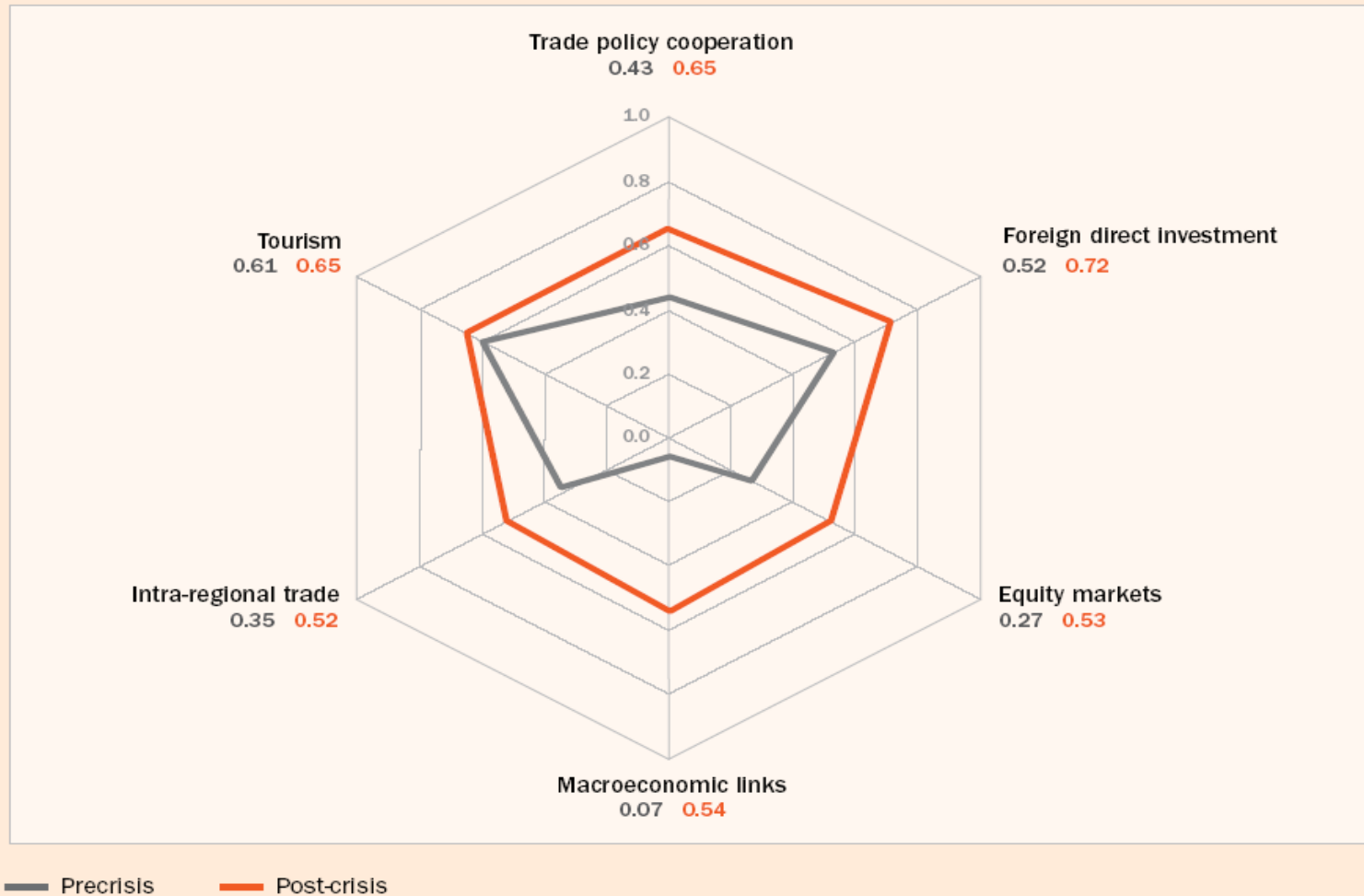


# Analytical Structure of Asian Regionalism

- Asian Financial Crisis of 1997/98 as the trigger for the emergence of regional cooperation initiatives
- Four priority areas:
  - i. Trade and investment
  - ii. Financial systems
  - iii. Macroeconomic links
  - iv. Social & environmental issues
- Building regional architecture of cooperation

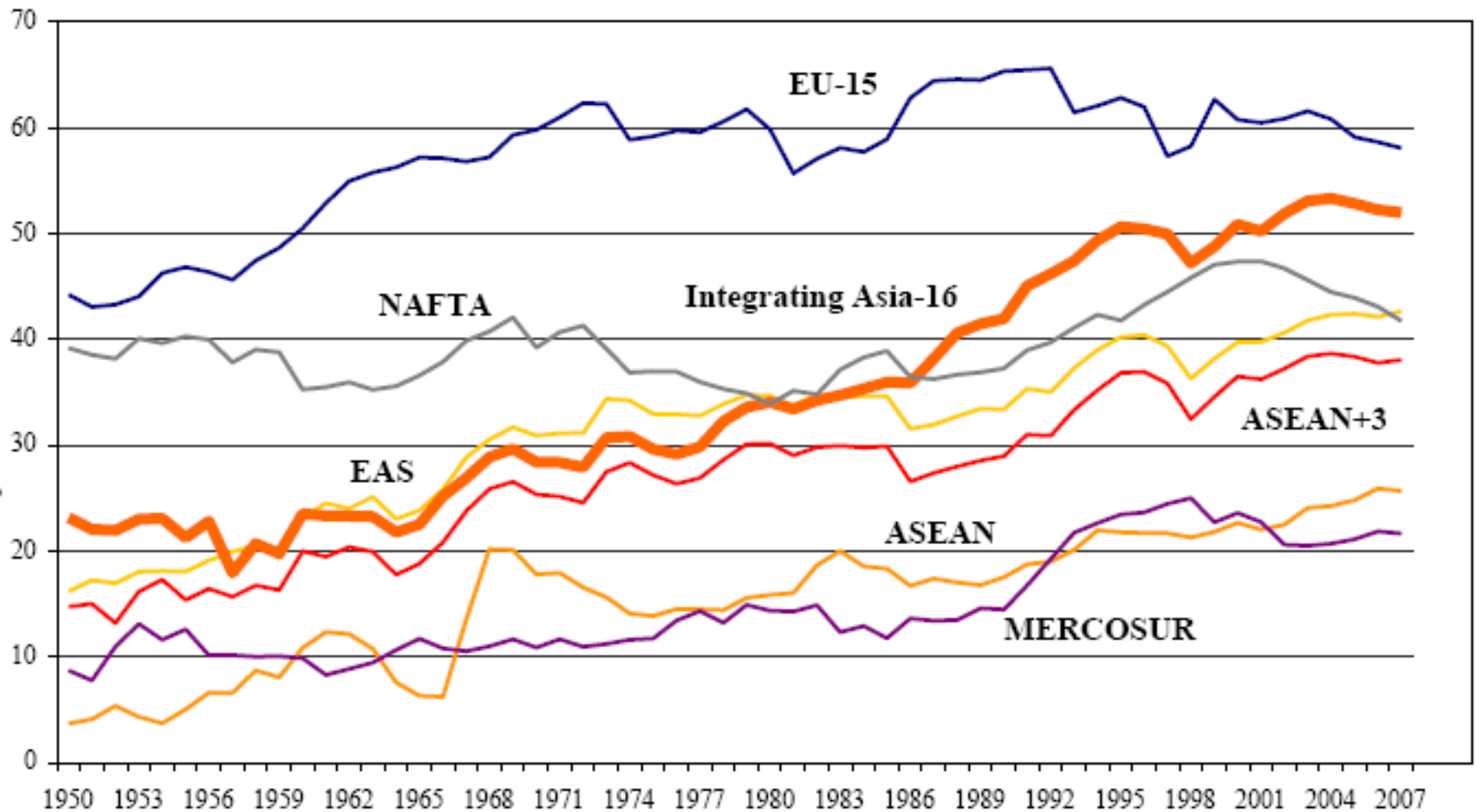
# Trends: All Indicators of Asian Economic Integration are Rising

Advancing integration: regional indicators, pre- and post-crisis



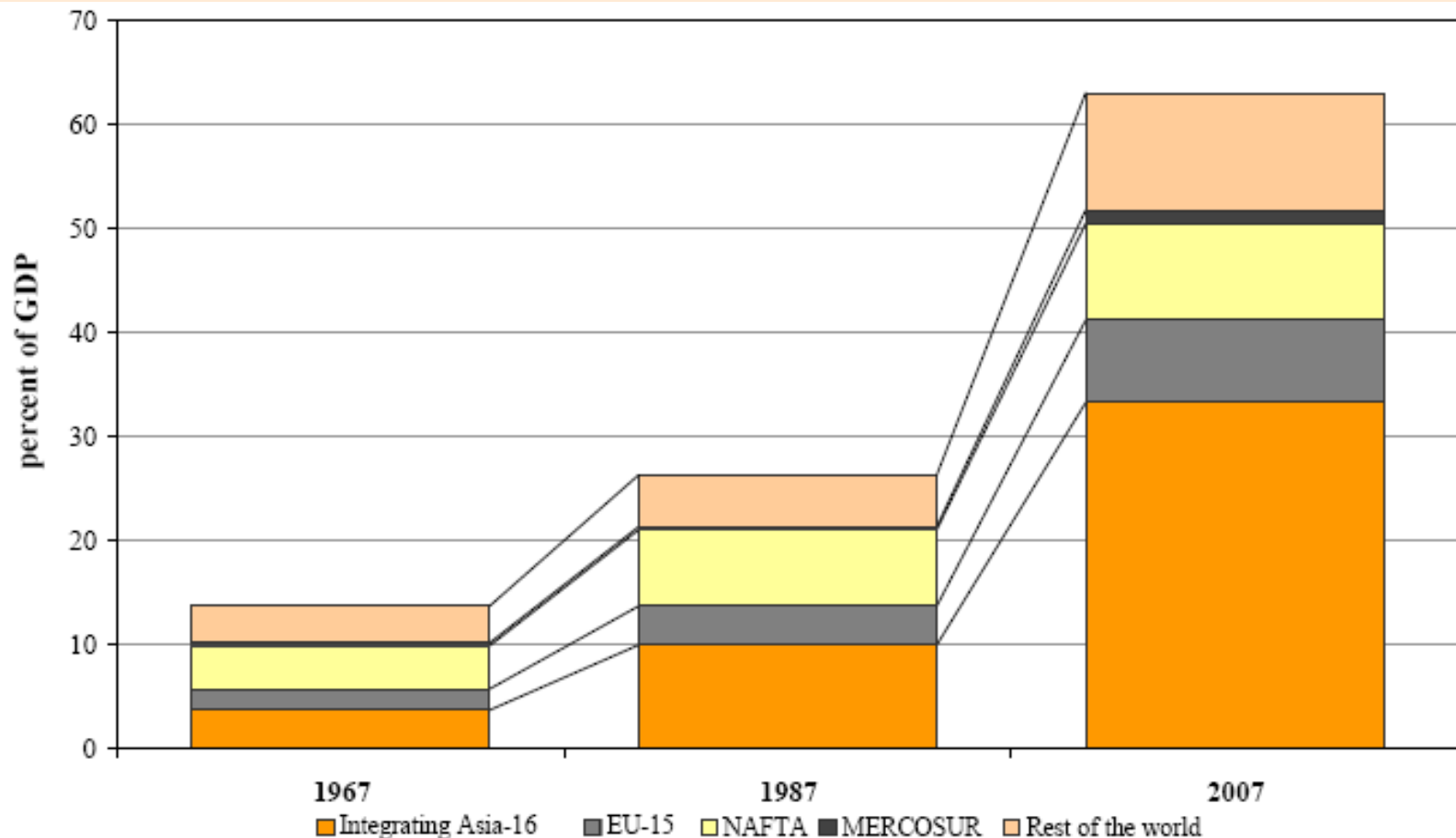
# Growing Trade Integration: Intraregional Trade Shares

Long-term trend: 1950-2007



# Open Regionalism No Fortress Asia

Trade / GDP



# Trade Policy in a Fractious Global Environment

## Free Trade Agreements in Integrating Asia

as of June

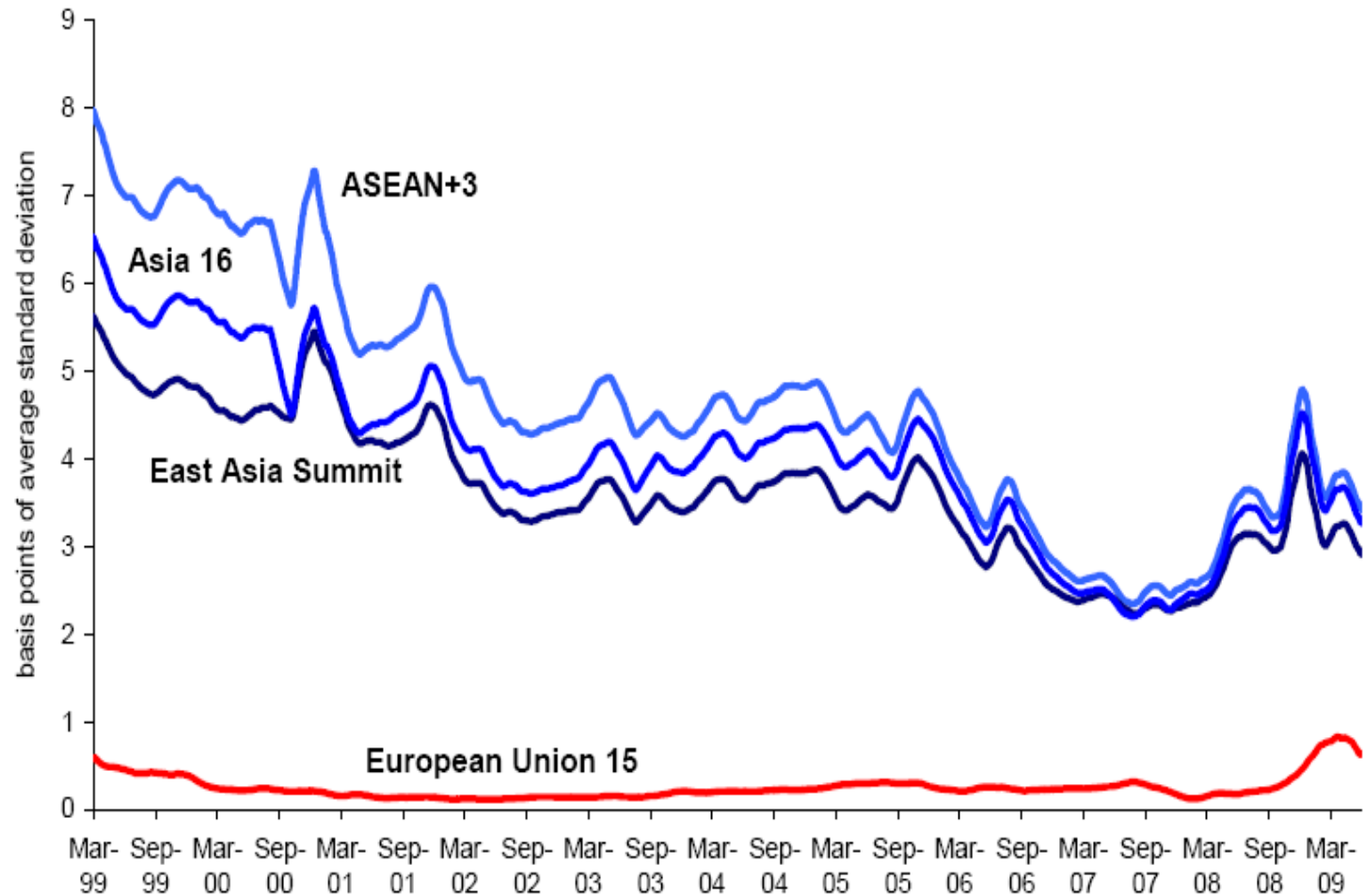
Negotiating Body	Under			Total	as of June	
	Concluded	Negotiation	Proposed		inside IA	outside IA
ASEAN	3	3	0	6	4	2
Brunei Darussalam	3	0	4	7	3	4
Cambodia	1	0	2	3	2	1
China, People's Rep. of	8	5	10	23	8	15
Hong Kong, China	1	1	0	2	1	1
India	9	10	12	31	8	23
Indonesia	3	1	6	10	4	6
Japan	8	7	4	19	12	7
Korea, Republic of	6	5	11	22	9	13
Lao PDR	3	0	2	5	3	2
Malaysia	4	5	4	13	5	8
Myanmar	1	1	2	4	2	2
Philippines	2	0	4	6	3	3
Singapore	12	9	5	26	6	20
Taipei, China	4	2	1	7	0	7
Thailand	6	6	6	18	7	11
Viet Nam	1	2	2	5	3	2
<b>TOTAL (*)</b>	<b>48</b>	<b>47</b>	<b>42</b>	<b>137</b>	<b>30</b>	<b>107</b>

# Policy Priorities for Integrating Production & Trade

- Supporting global trading system
- Maintaining open investment regimes
- Pursuing regional cooperation as widely as possible
- Developing guidelines for best practices in FTAs
- Enhancing regional connectivity
- Improving technological competitiveness

# Financial integration is less advanced, but under way: Price indicators

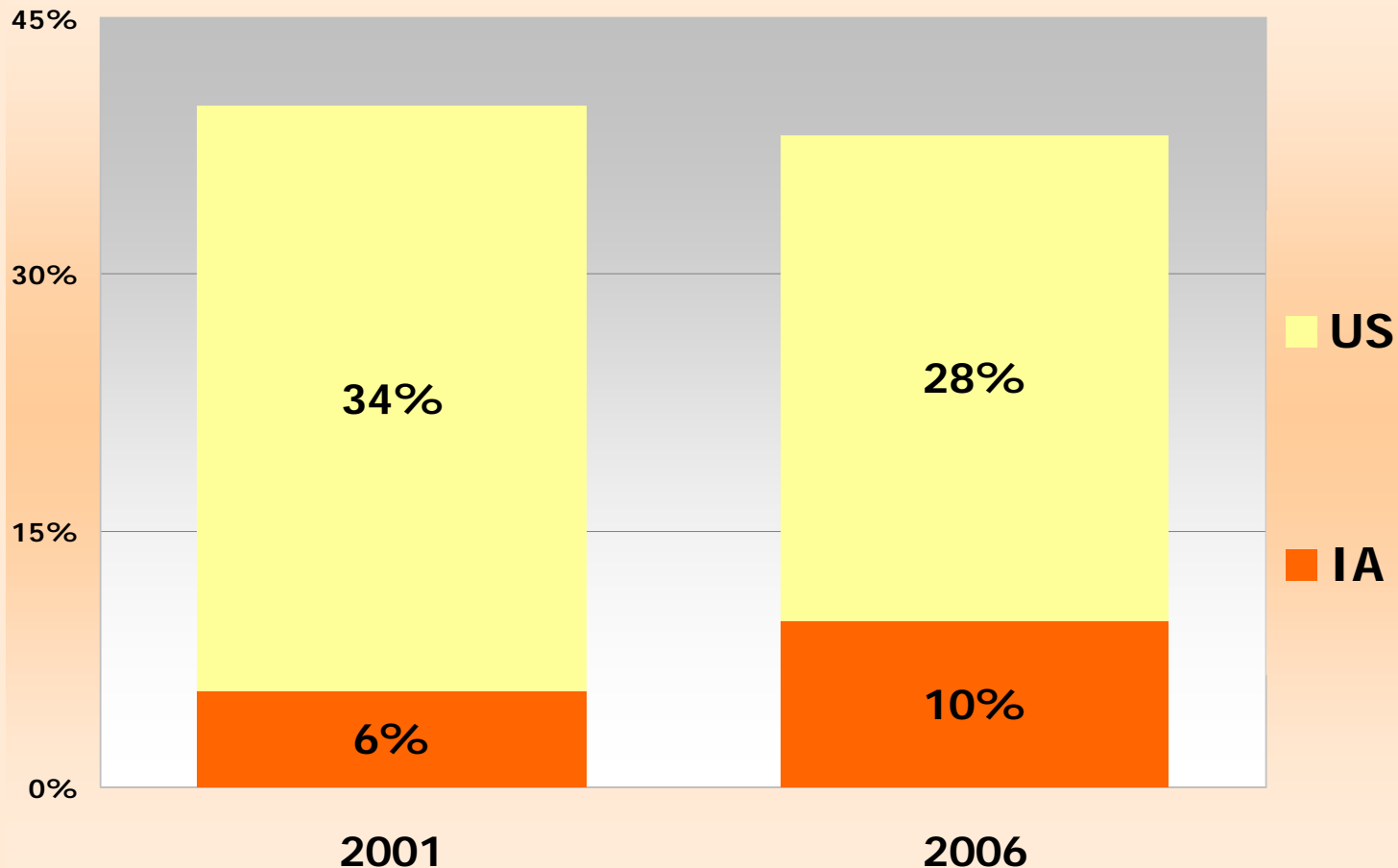
## Std Dev of cross-market overnight interbank rates





# Financial Integration is Under Way: Quantity Indicators

Integrating Asia's portfolio investment in IA and the US  
% share on total assets invested abroad



# Financial Cooperation Forums

Forum	Finance ministry-led cooperation				Central bank-led cooperation			Others	
	APEC	ASEAN	ASEAN+3	ASEM	EMEAP	SEACEN	SEANZA	ACD	EAS
Year established	1989	1967	1999	1996	1991	1966	1956	2002	2005
Number of members	21	10	13	45	11	16	20	28	16
Function	Policy dialogue/information exchange	√	√	√	√	√	√	√	√
	Surveillance/peer review		√	√		√			
	Regional financing arrangements		√	√		√			
	Regional capital-market development	√	√	√		√			
	Capacity building	√	√	√	√	√	√	√	
	Research	√	√	√	√	√	√		

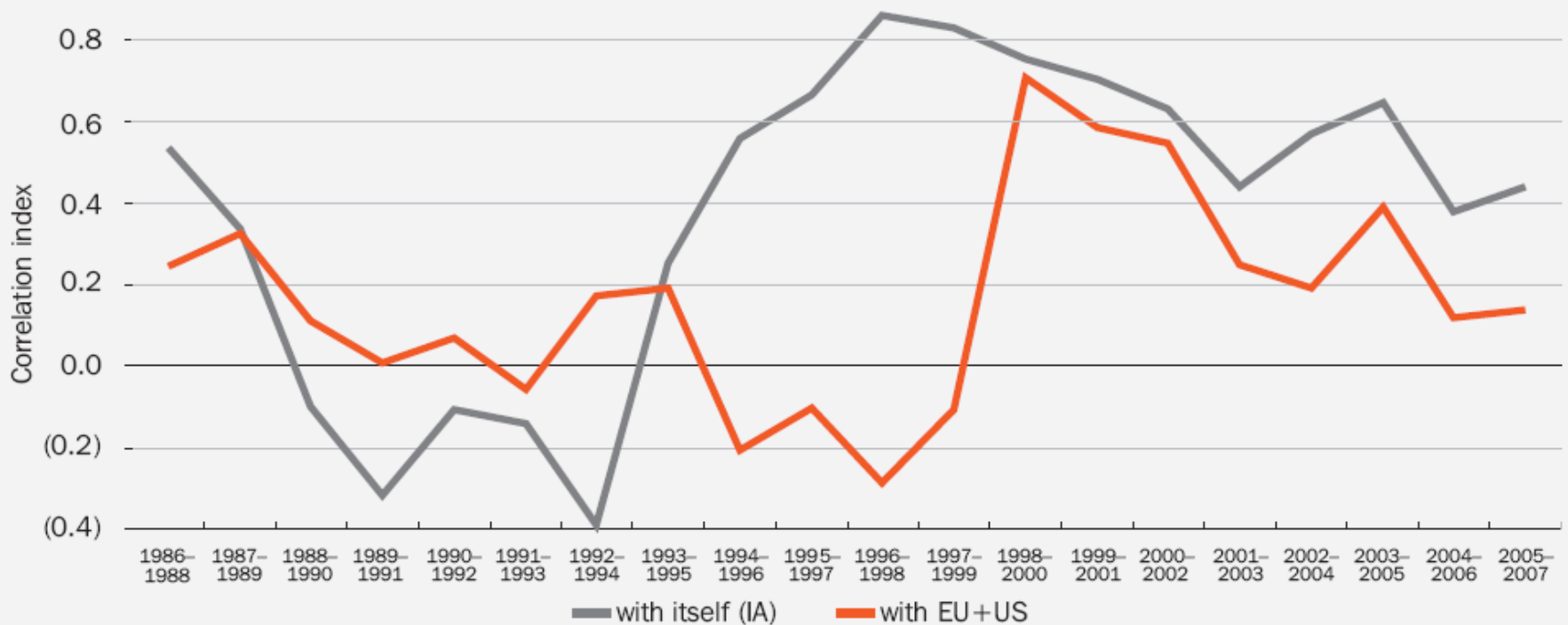
# Policy Priorities for Integrating Financial Markets

- Improving financial market surveillance
  - Asian Financial Stability Dialogue
- Promoting harmonization and mutual recognition
- Strengthening financial markets & infrastructure
  - Develop local currency bond markets
- Liberalizing capital accounts and cross-border financial services prudently

# Deepening Macroeconomic Interdependence

## Output Correlation of Integrating Asia with itself and EU+US

Correlation of de-trended quarterly growth rates of GDP



# CMI Swap Arrangements

## Swap arrangements under the Chiang Mai Initiative

\$ billions as of January 2008

From \ To	PRC	Japan	Rep. of Korea	Indonesia	Malaysia	Philippines	Singapore	Thailand	Total
PRC		3.0	4.0	4.0	1.5	2.0		2.0	16.5
Japan	3.0		13.0	6.0	1.0	6.0	3.0	6.0	38.0
Korea, Rep. of	4.0	8.0		2.0	1.5	2.0		1.0	18.0
Indonesia			2.0					18.5	2.0
Malaysia			1.5						1.5
Philippines		0.5	1.5						2.0
Singapore		1.0							1.0
Thailand		3.0	1.0						4.0
<b>Subtotal</b>	<b>7.0</b>	<b>15.5</b>	<b>23.0</b>	<b>12.0</b>	<b>4.0</b>	<b>10.0</b>	<b>3.0</b>	<b>9.0</b>	<b>84.0</b>
ASEAN Swap Arrangements									2.0
<b>Total</b>	<b>7.0</b>	<b>15.5</b>	<b>23.0</b>	<b>12.0</b>	<b>4.0</b>	<b>10.0</b>	<b>3.0</b>	<b>9.0</b>	<b>86.0</b>

# CMI Multilateralization

**Table 1: ASEAN+3 Shares of GDP, International Reserves, and CMIM Contributions**

Countries/ Groups	Gross Domestic Product (GDP) (2008 share)	International Reserves (March 2009 share)	CMIM Contributions (May 2009)	
			(share)	(billion US\$)
Brunei Darussalam	0.12	0.01	0.03	0.03
Cambodia	0.09	0.05	0.10	0.12
Indonesia	4.35	1.31	3.98	4.77
Lao PDR	0.04	0.01	0.03	0.03
Malaysia	1.89	2.40	3.98	4.77
Myanmar	0.23	0.05	0.05	0.06
Philippines	1.43	1.07	3.07	3.68
Singapore	1.54	4.54	3.98	4.77
Thailand	2.32	3.10	3.98	4.77
Viet Nam	0.76	0.55	0.83	1.00
<b>ASEAN</b>	<b>12.78</b>	<b>13.10</b>	<b>20.00</b>	<b>24.00</b>
China, People's Republic of	37.37	53.42	32.00	38.4
Japan	41.80	27.85	32.00	38.4
Korea, Republic. of	8.04	5.64	16.00	19.2
<b>"Plus Three"</b>	<b>87.22</b>	<b>86.90</b>	<b>80.00</b>	<b>96.0</b>
<b>ASEAN+3</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>120.00</b>

Source: Author's elaborations based on data by IMF, ASEAN+3 central banks, and media reports.

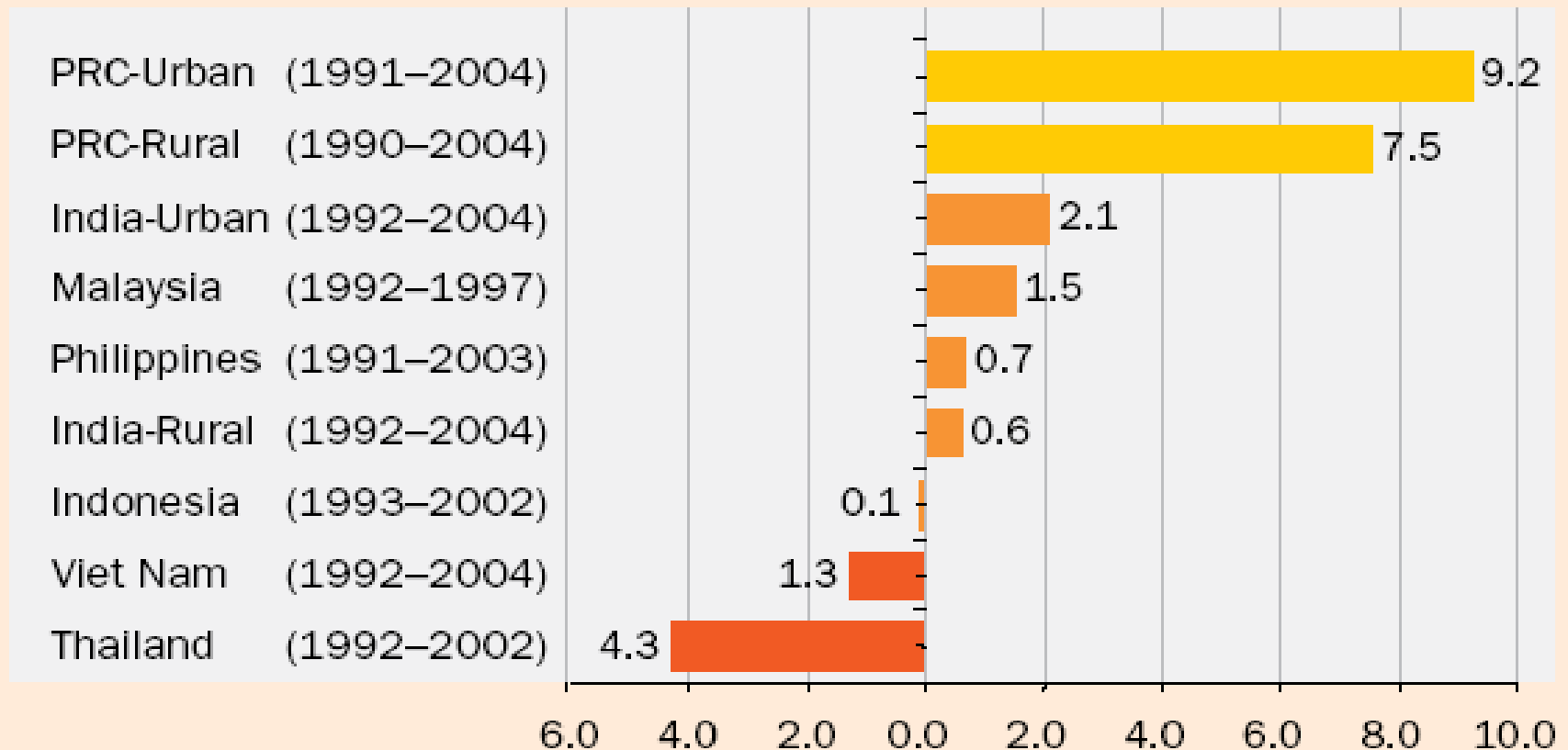
# Asian Agenda for Macroeconomic Cooperation

- Making macroeconomic dialogue and surveillance more effective
  - Asian Secretariat for Economic Cooperation
- Strengthening Asia's short-term financing facility
  - Chiang Mai Initiative (and its multilateralization)
- Enhancing regional demand and maintaining robust growth
- Cooperating in exchange rate management

# Fighting poverty and exclusion

## Growing inequality

(changes in the Gini index)





# Building Physical Connectivity Corridors in Great Mekong Subregion



Building physical infrastructure

Key for regional connectivity

Role of regional development banks for development financing

Creating development opportunities through trade and services

# Policy Agenda for Inclusive, Sustainable Growth

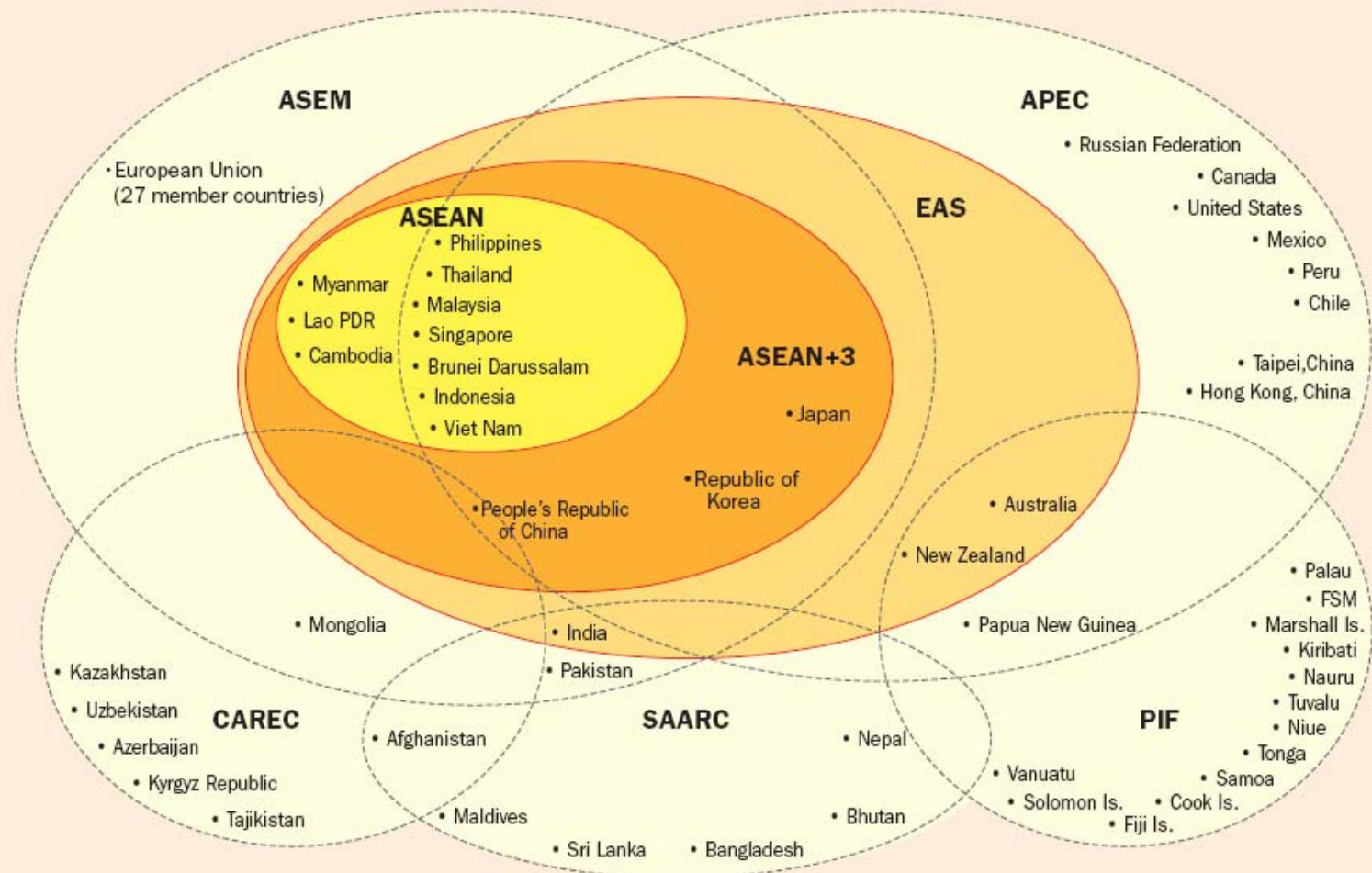
- Connecting the poor to the thriving regional economy
- Developing cost-effective social protection systems
- Facilitating and managing labour migration
- Fighting epidemics and natural disasters
- Limiting environmental degradation

# Building Regional Architecture with Asian Characteristics

- Outward-oriented, flexible, bottom-up, pragmatic, multi-speed, multi-track (variable geometry)
- Some streamlining and deepening is necessary
- ASEAN, ASEAN+3, and EAS as the strategic regional forums
- Develop deeper institutional capabilities
  - Asian Financial Stability Dialogue
  - Asian Secretariat for Economic Cooperation
- Regionalism as an engine for further global integration

# Emerging architecture of cooperation

## Economic architecture: regional and transregional forums



# ADB Study Conclusion: Partnership for Shared Prosperity

**Asian economies in the long-run are likely to have**

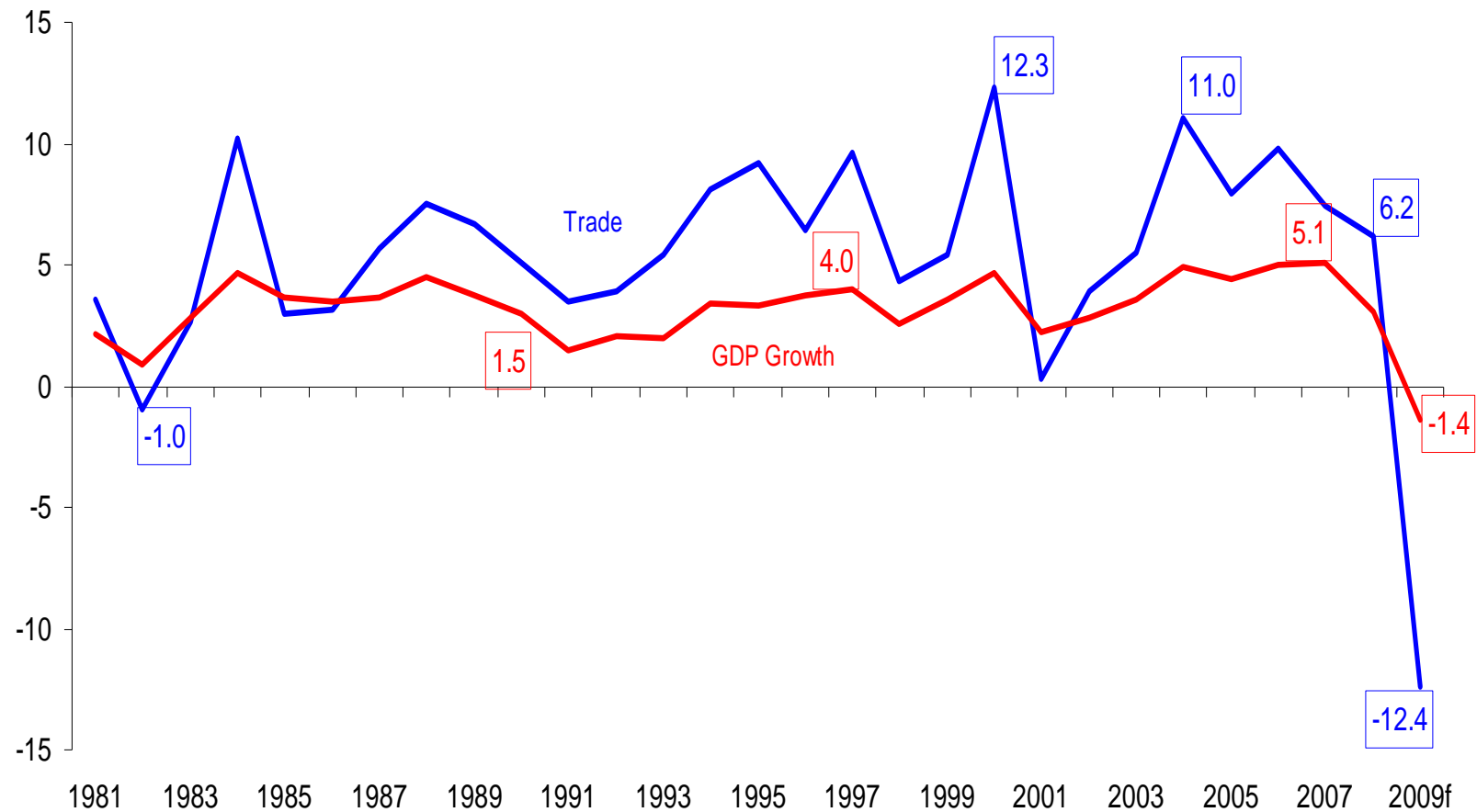
- a single market
- deep, liquid and integrated financial markets
- effective macroeconomic policy coordination
- workers moving much more freely than today
- collective efforts to address social issues
- stronger voice in global policy forums
- more regional institutions

# Asian Economic Cooperation and the Global Crisis

- **A global crisis requires a global solution: regional cooperation initiatives can help**
  - Regional response is important to make global action effective and relevant: Asia should use national, regional, and global initiatives
- **A priority for Asia's economic cooperation is the enhancement of Asia's institutions for regionalism**

# The World Economy Worst Recession Since WWII

## World GDP and World Trade Volume (y-o-y change, %)



# Asia's Economic Challenges: First Round Effect

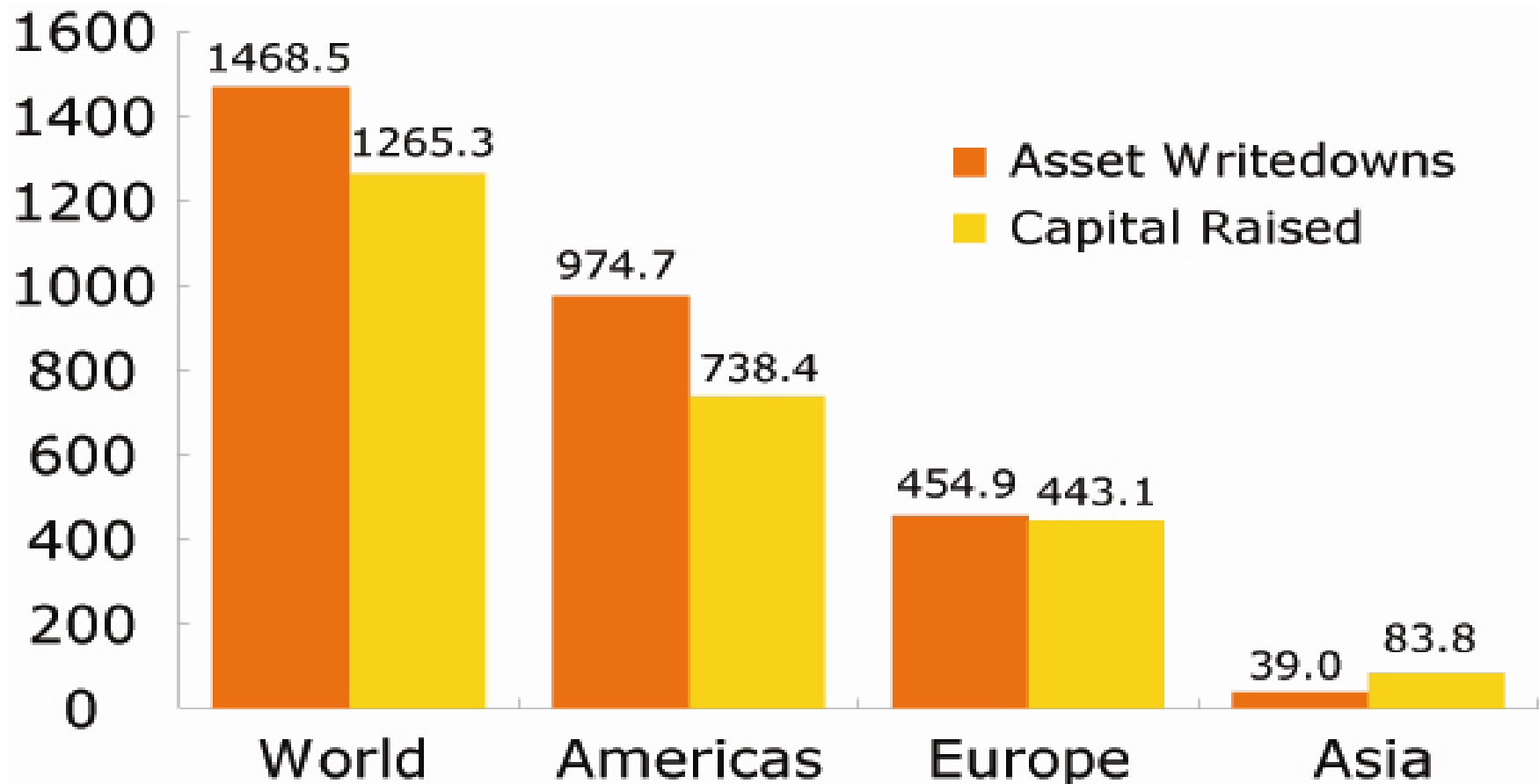
## ➤ **First round direct effect on the financial sector was relatively small, but:**

- Credit crunch: strong implications especially on those economies still largely dependent on bank and trade financing
- High market volatility: investors' flight to safety and quality (withdrawals from Asia)
- Steep decline in shares prices
- Low business and consumer confidence
- Depreciation of Asia's exchange rates



# Asian Financial Systems Remain Relatively Sound

**Writedowns and Capital Raised by Major Banks since 2007Q3**  
(USD billion, as of 7 July 2009)

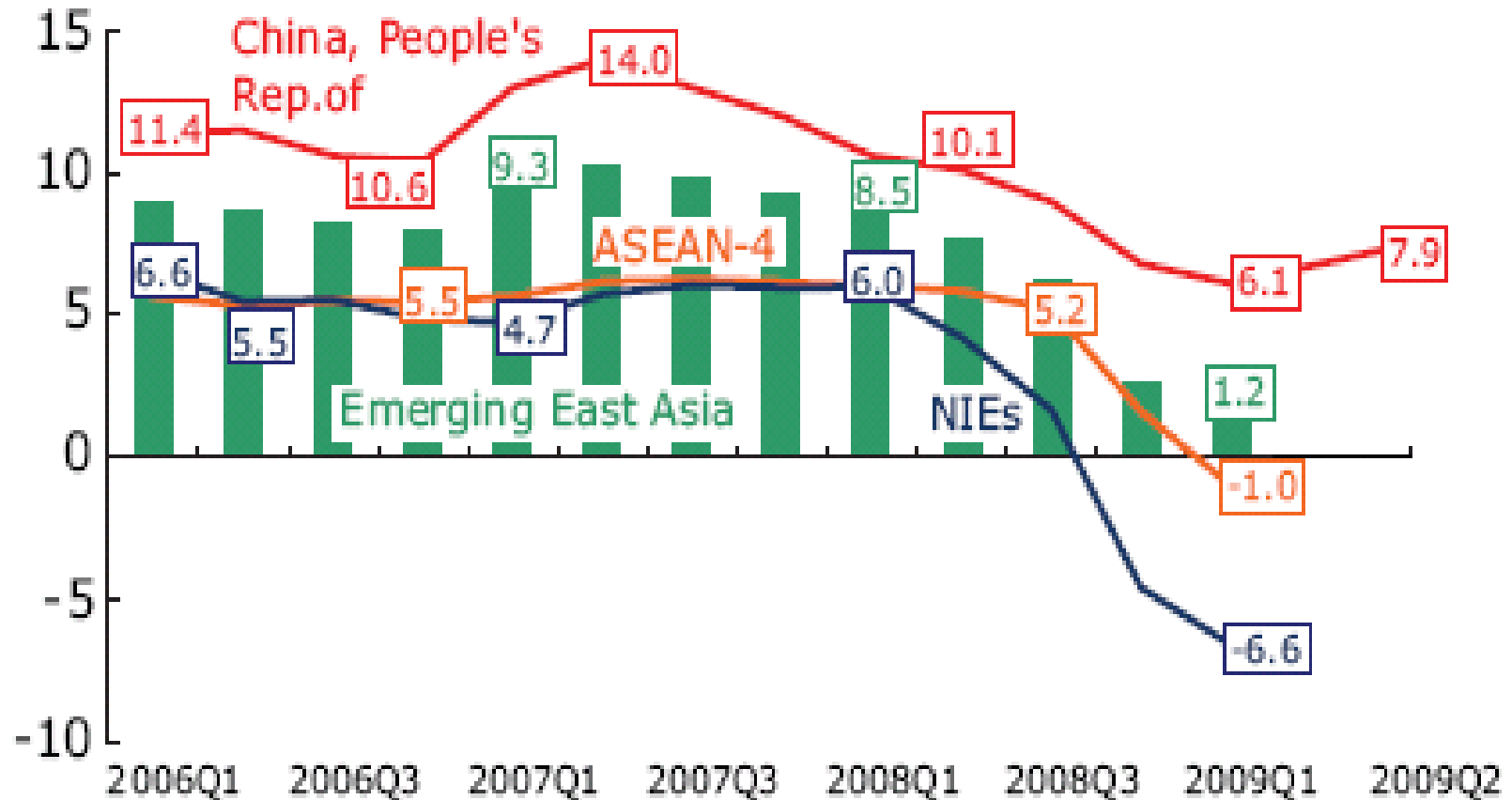


# Asia's Economic Challenges: Second Round Knock-on Effect

- Disruption of export-based Asia's growth: risk of intraregional trade implosion
- Declining overseas foreign workers' remittances
- Increasing unemployment rate
- Slimmer tax revenues
- Asian economies may revert to protectionism

# Asia is Hit Hard by the Crisis...

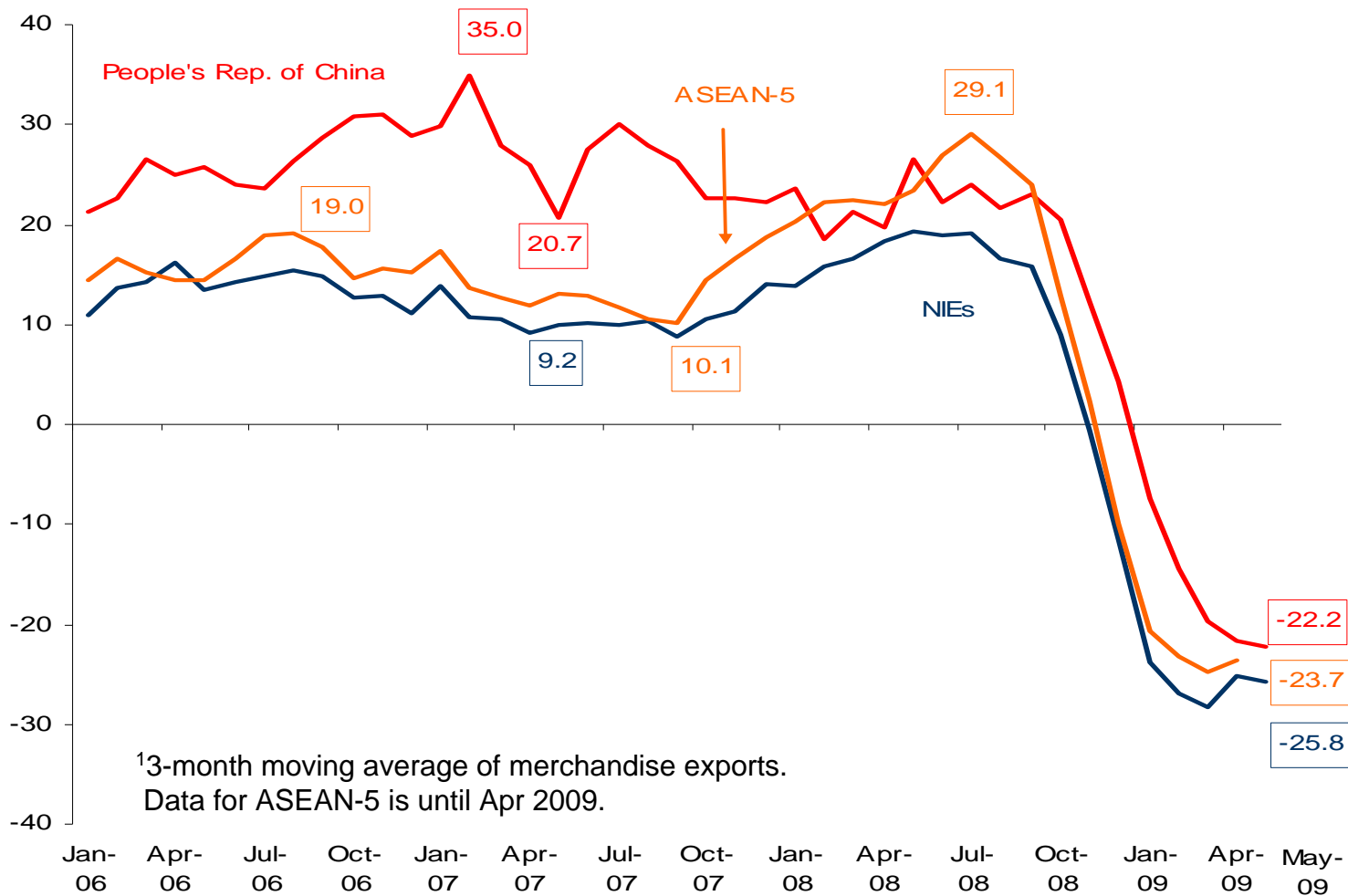
Regional GDP Growth<sup>1</sup>—Emerging East Asia and PRC (y-o-y, %)



<sup>1</sup> Weighted by gross national income (atlas method, current USD).

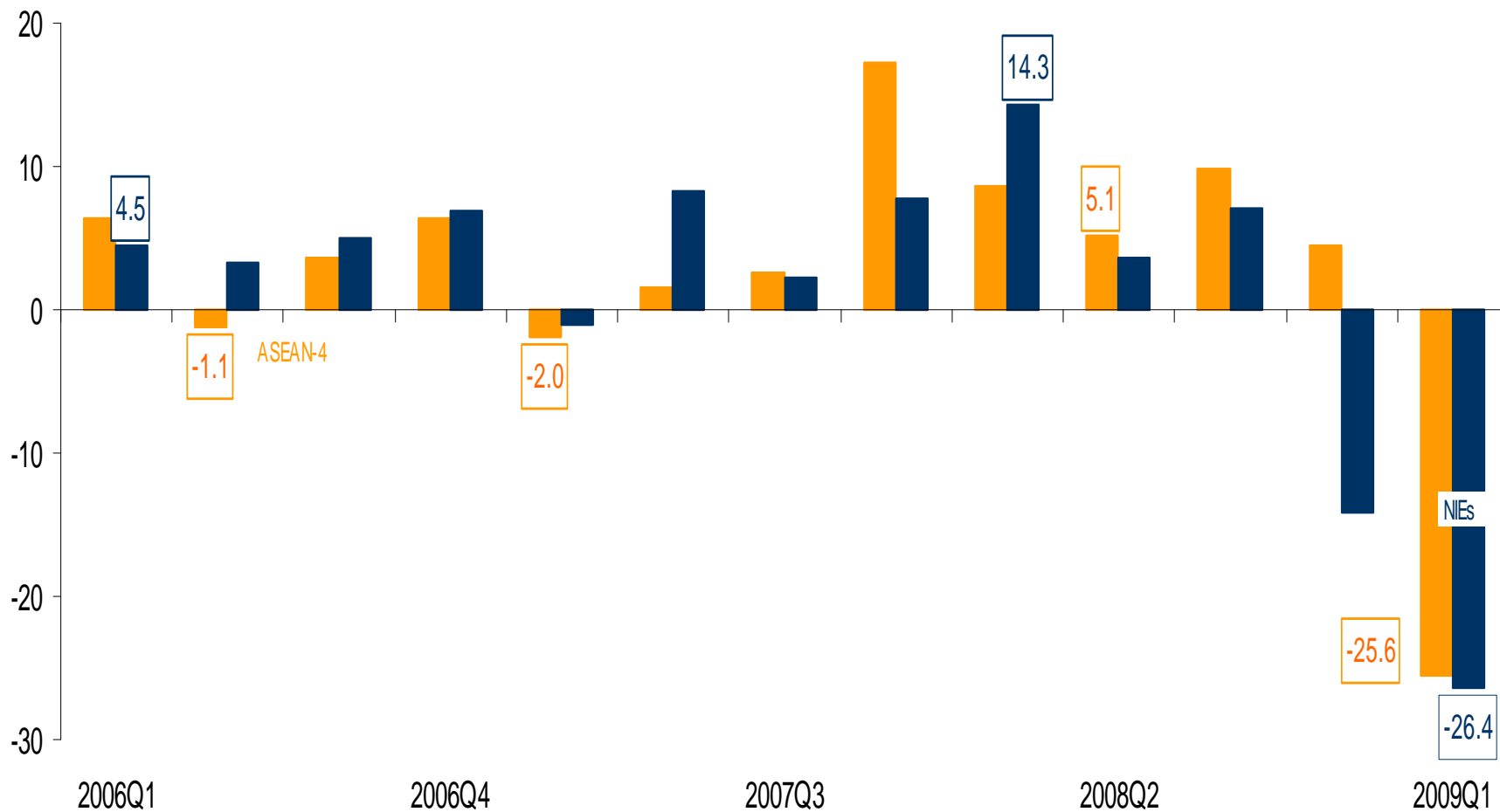
# ..through Sharp Drop in Exports..

## Export Growth<sup>1</sup>—Emerging East Asia and PRC (\$, y-o-y, %)



# ...and a Collapse in Investment

Gross Domestic Investment Growth—Emerging East Asia (y-o-y, %)

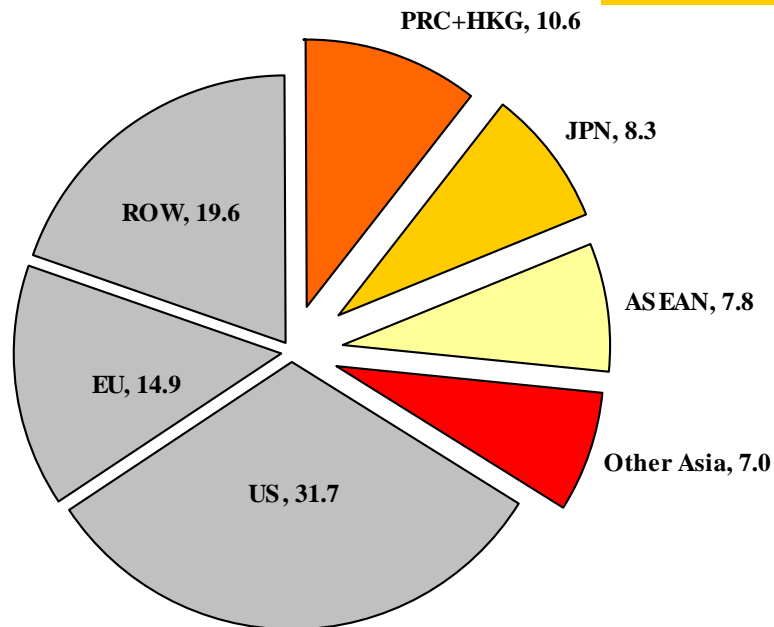


# Advancing intraregional trade integration and openness

## Evolution of ASEAN+3 exports by destination Shares (%) on total exports of ASEAN+3

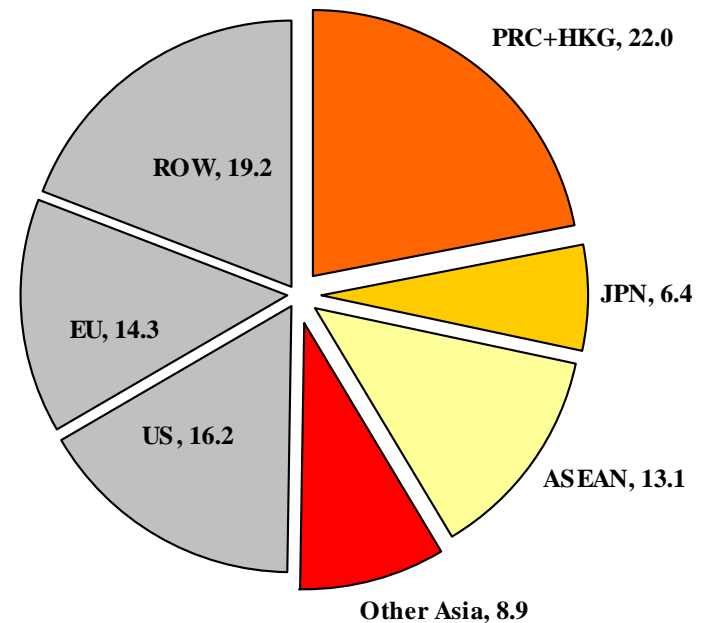
1987

Asia, 33.8



2007

Asia, 50.4



# Final Demand of Asian Exports: Still Dependent from the World

Final demand composition of Asia's exports in 2006

Total Asia's exports = 100.0%					
Inside Asia = 51.8%			Outside Asia = 48.2%		
<i>of which to</i>			<i>of which to</i>		
final demand 16.5%	production 35.3%		final demand 23.2%	production 25.0%	
+	<i>of which to</i>		+	<i>of which to</i>	
	final demand inside Asia 15.1%	final demand outside Asia 20.2%		final demand inside Asia 0.9%	final demand outside Asia 24.1%
16.0%	←		44.3%	←	
=			=		
Total final demand inside Asia 32.5%			Total final demand outside Asia 67.5%		

# Asia's economic priorities

- Promote regional aggregate demand (re-balancing growth)
- Take effective action to ensure that the global trading systems remains open
- Become more active members of the international economic and financial community by increasing decision making power in global institutions (i.e. IMF, FSB)
- Promote actively the reform of International Financial Institutions
- Address the deficit of regional institutions for cooperation and strengthen their capabilities



# Asia's Growth Outlook Remains Dim

## Annual GDP Growth Rates (y-o-y, %)

	2000–2007 Average	2004	2005	2006	2007	2008	2009Q1	2009Q2	March 2009 ADB Forecasts <sup>a</sup>		
									2009	2010	Expected revision to 2009 forecast
<b>Emerging East Asia<sup>1,2</sup></b>	<b>7.6</b>	<b>8.0</b>	<b>7.7</b>	<b>8.7</b>	<b>9.7</b>	<b>6.1</b>	<b>1.2</b>	—	<b>3.0</b>	<b>6.0</b>	▲
<b>ASEAN<sup>1,2</sup></b>	<b>5.4</b>	<b>6.5</b>	<b>5.7</b>	<b>6.0</b>	<b>6.4</b>	<b>4.2</b>	<b>-1.9</b>	—	<b>0.7</b>	<b>4.2</b>	▼
Brunei Darussalam	2.3	0.5	0.4	4.4	0.6	-2.7	—	—	-0.4	2.3	●
Cambodia	9.5	10.3	13.3	10.8	10.2	6.5	—	—	2.5	4.0	●
Indonesia <sup>3</sup>	5.0	5.0	5.7	5.5	6.3	6.1	4.4	—	3.6	5.0	▲
Lao PDR	6.7	7.0	6.8	8.7	7.8	7.2	—	—	5.5	5.7	●
Malaysia <sup>4</sup>	5.6	6.8	5.3	5.8	6.2	4.6	-6.2	—	-0.2	4.4	▼
Myanmar <sup>5</sup>	12.9	13.6	13.6	13.1	11.9	—	—	—	—	—	—
Philippines <sup>6</sup>	5.1	6.4	5.0	5.3	7.1	3.8	0.4	—	2.5	3.5	▼
Thailand	5.1	6.3	4.6	5.2	4.9	2.6	-7.1	—	-2.0	3.0	▼
Viet Nam	7.6	7.8	8.5	8.2	8.4	6.2	3.1	4.4	4.5	6.5	●
<b>Newly Industrialized Economies<sup>1</sup></b>	<b>4.9</b>	<b>5.9</b>	<b>4.7</b>	<b>5.6</b>	<b>5.6</b>	<b>1.6</b>	<b>-6.6</b>	—	<b>-3.3</b>	<b>3.5</b>	▼
Hong Kong, China	5.3	8.5	7.1	7.0	6.4	2.4	-7.8	—	-2.0	3.0	▼
Korea, Rep. of	5.2	4.6	4.0	5.2	5.1	2.2	-4.2	—	-3.0	4.0	●
Singapore	6.0	9.3	7.3	8.4	7.8	1.1	-9.6	-3.7 <sup>7</sup>	-5.0	3.5	▼
Taipei, China	4.1	6.2	4.2	4.8	5.7	0.1	-10.2	—	-4.0	2.4	▼
China, People's Rep. of	10.1	10.1	10.4	11.6	13.0	9.0	6.1	7.9	7.0	8.0	▲
<b>Japan</b>	<b>1.7</b>	<b>2.7</b>	<b>1.9</b>	<b>2.0</b>	<b>2.4</b>	<b>-0.8</b>	<b>-8.8</b>	—	<b>-5.8</b>	<b>1.1</b>	
<b>US</b>	<b>2.5</b>	<b>3.6</b>	<b>2.9</b>	<b>2.8</b>	<b>2.0</b>	<b>1.1</b>	<b>-2.5</b>	—	<b>-3.0</b>	<b>1.6</b>	
<b>eurozone</b>	<b>2.1</b>	<b>2.1</b>	<b>1.7</b>	<b>2.9</b>	<b>2.7</b>	<b>0.7</b>	<b>-5.2</b>	—	<b>-4.3</b>	<b>0.5</b>	

# Global Crisis Requires a Global Solution

- The ongoing economic global crisis requires a global solution and global action
- The **G20** is indeed the right forum to conduct global discussions but some issues need to be addressed (legitimacy, agenda, coordination)
- Opportunity for developing countries, including Asian countries, to be part of the “steering committee of the global economy”

# Role of Institutions for Regionalism

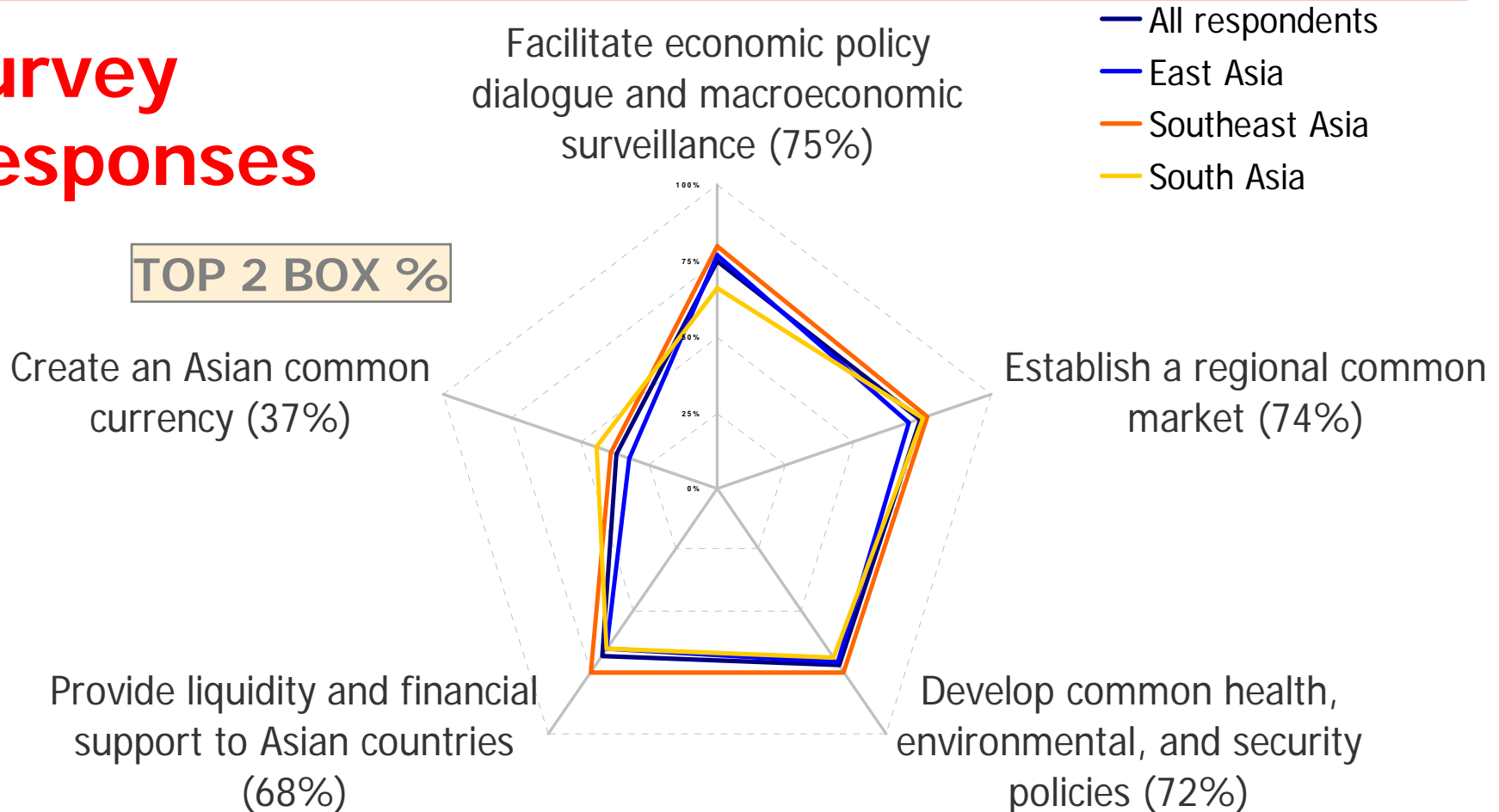
## Regional cooperation institutions are important to:

- Alleviate the immediate impact of crises
- Conduct effective policy dialogue and coordination for maintaining economic and financial stability
- Promote long-term economic growth (infrastructure, inequality)
- Provide capacity-building programs
- Bridge private and public sector initiatives
- Maintain open systems and avoid protectionism

# Regional Economic Institutions

## Survey Responses

TOP 2 BOX %



**Base: All Respondents (n=600)**

**East Asia (n=244), Southeast Asia (n=198), South Asia (n=158)**

# Enhancing Asia's institutions for cooperation

## Streamline existing mechanisms

- Harmonize and/or consolidate existing bilateral/plurilateral FTAs under a region-wide agreement (ASEAN+  $\alpha$ )
- Eliminate overlapping or redundant initiatives

## Strengthen existing institutions

- ASEAN Secretariat and other similar institutions
- ASEAN+3 (Policy dialogue, CMIM, ABMI) and EAS
- ADB infrastructure and other regional cooperation programs
- Sub-regional programs (transport, energy, trade facilitation)
- Others

## Create new initiatives (as need arises)

# Asian Financial Stability Dialogue

## Aim

- Enhance financial sector regulation, supervision, and surveillance
- Engage in dialogue with private sector to address vulnerabilities and ensure financial stability

## Memberships

- Finance ministries, central banks, and supervisory and regulatory agencies

## Functions

- Assist in the harmonization of financial regulations and adoption of minimum standards for early mutual recognition
- Increase market efficiency through prudent liberalization of capital accounts and cross-border financial service flows where these are still controlled

➤ **Already started by 'Plus-Three' countries (Nov '08)**

# Asian Secretariat for Economic Cooperation

## Aim

- Strengthen mechanisms for monitoring and potentially coordinating macroeconomic and exchange rate policies
- Create a proper Secretariat with qualified and permanent staff

## Functions

- Support harmonization of region-wide trade agreements
- Macroeconomic monitoring and policy dialogue with agreements on tools, indicators, and standards
- Manage CMIM, oversee pooled foreign exchange resources and, in a crisis, negotiate economic policies with governments seeking support
- Manage the creation of new mechanisms for dialogue and coordination in the areas of exchange rates and fiscal policies
- Establish a fund to compensate economic subjects who lose from regional cooperation and integration initiatives

# New Regional Institutions for Trade and Infrastructure

## **East Asia-wide FTA**

- Expand the scope of bilateral FTAs and consolidate existing FTAs into a region-wide agreement
- Need to develop guidelines for 'best practices'

## **Asian Infrastructure Forum**

- Create an Asian Infrastructure Forum to help coordinate and integrate existing subregional initiatives
- Establish an Asian Infrastructure Fund to finance projects identified and prioritized by the Forum