

Asia's Integration Now and Next

A brief background

16 April 2012

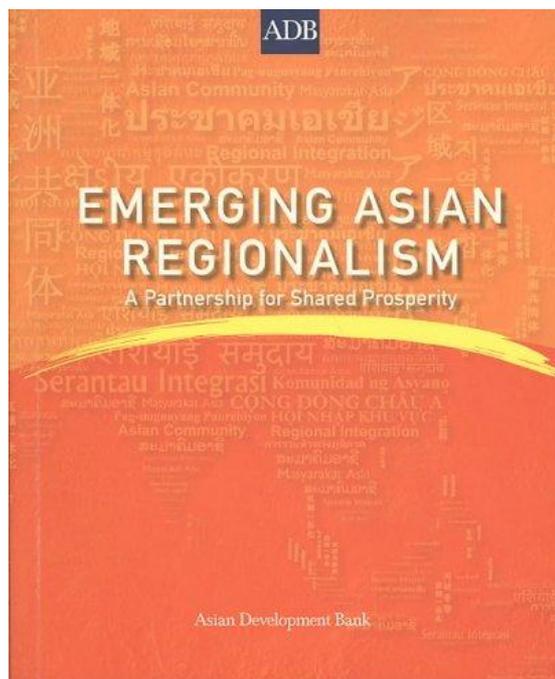
Intro:

Welcome to the Asian Century*...

*hopefully

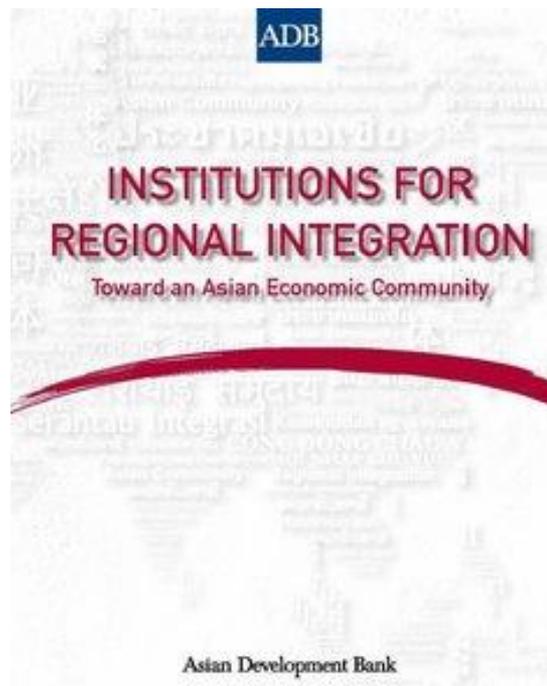
Reading list:

Some comprehensive resources on the topic of Asian integration...



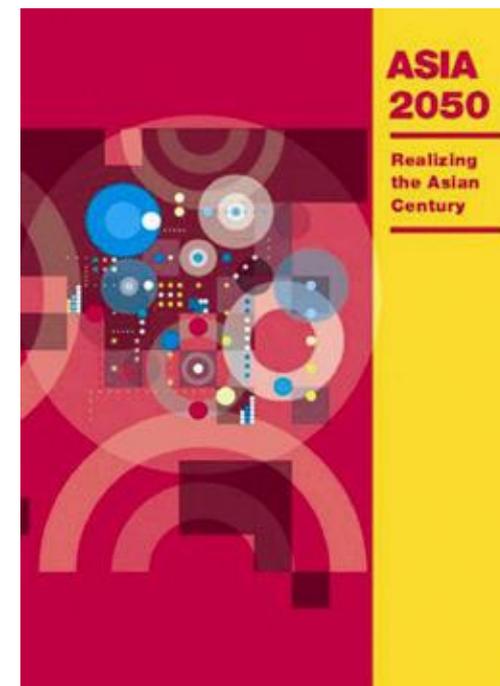
**Emerging Asian Regionalism:
A Partnership for Shared
Prosperity**

Asian Development Bank
2008



**Institutions for Regional
Integration: Toward an Asian
Economic Community**

Asian Development Bank
2010



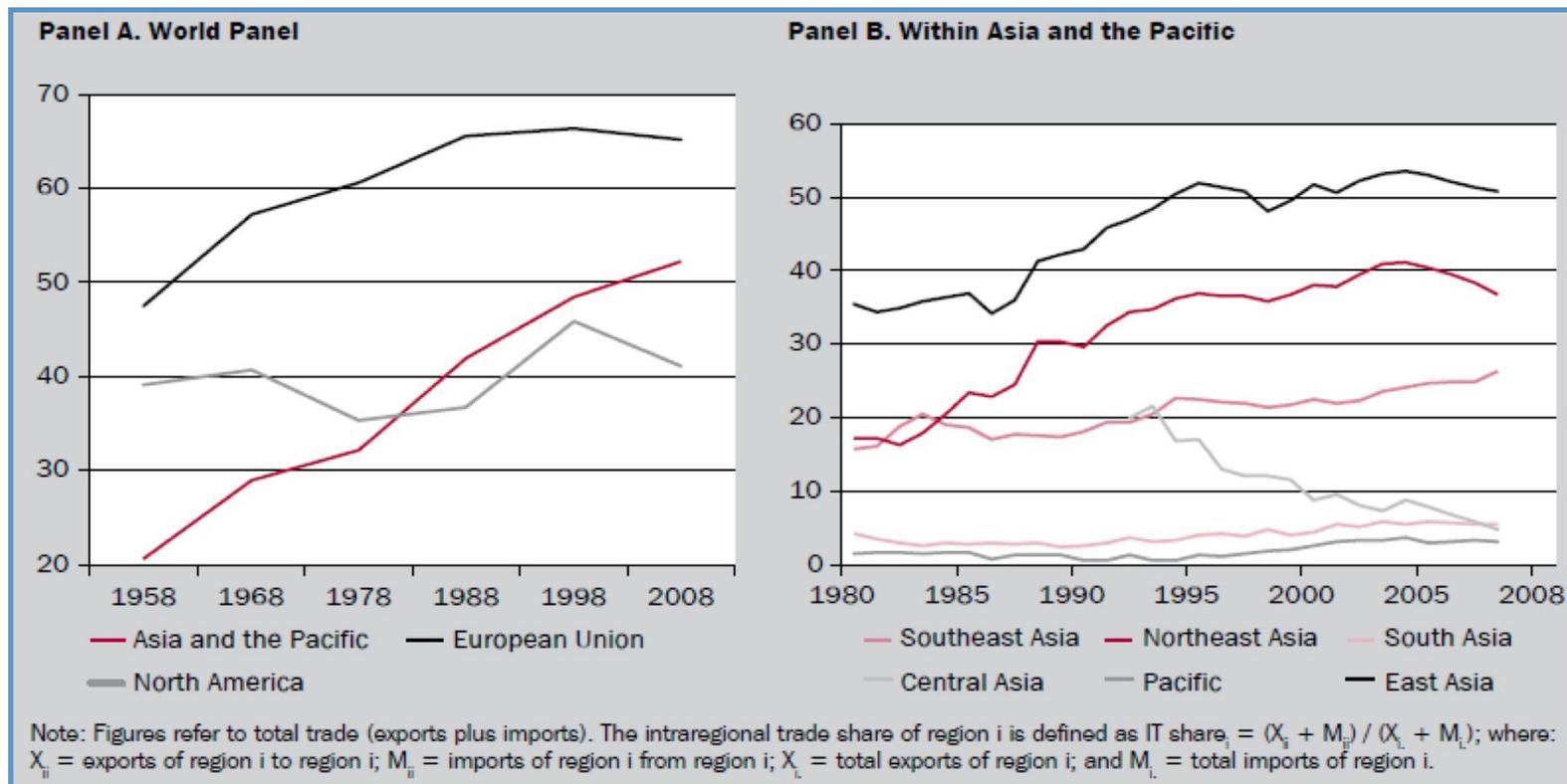
**Asia 2050:
Realizing the
Asian Century**

Asian Development Bank
2011

1 Trade integration:

Highly integrated, but not evenly so across sub-regions and sectors...

Figure 1: Evolution of Intra-regional Trade Shares (%)

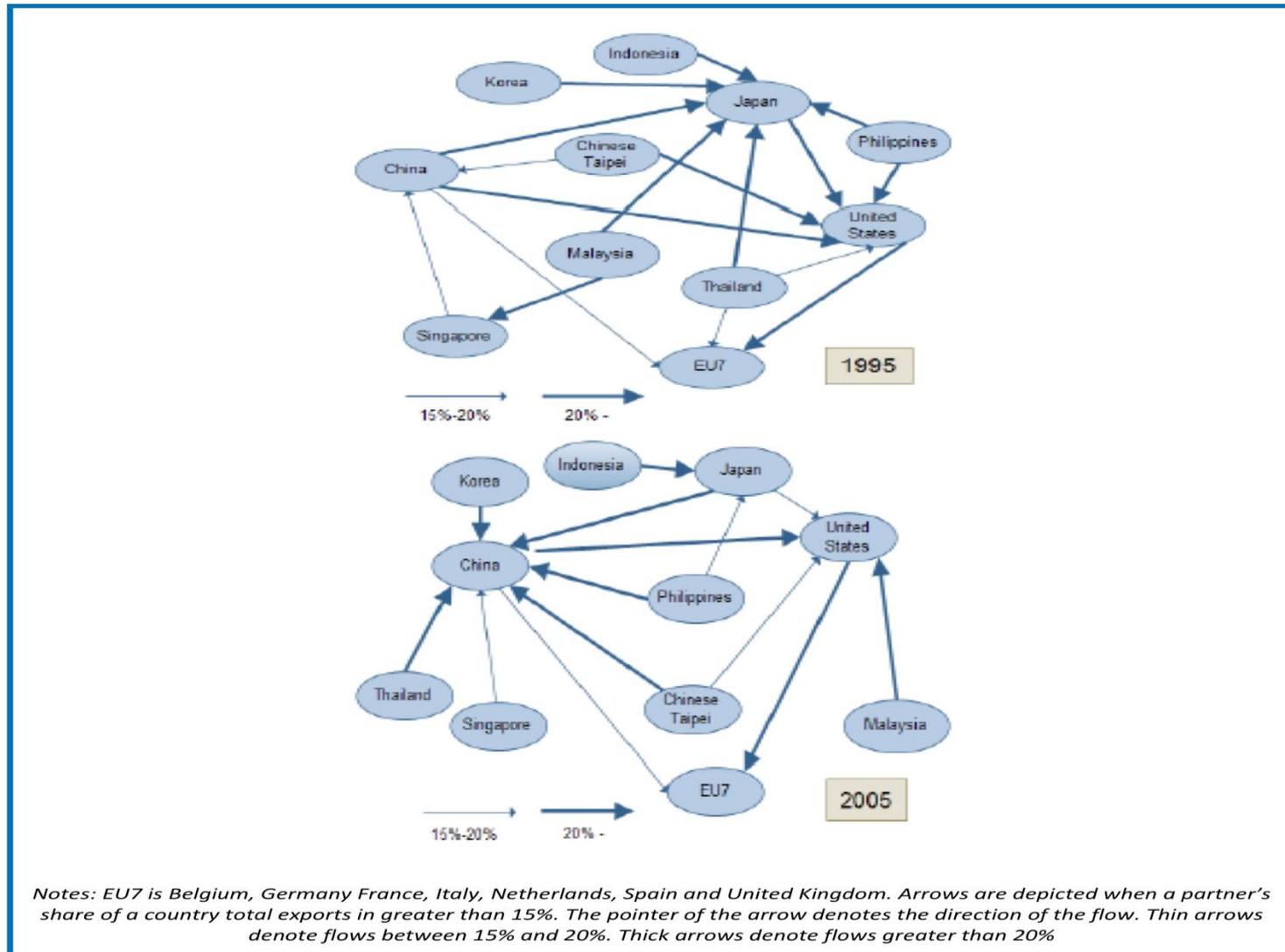


Source: ADB 2010

1 Trade integration:

Trade structure evolution: Product fragmentation with China in the middle...

Figure 2: China as the dominant assembly hub and export base of Asia
(Major trade partners for Asia's intermediate exports in goods and services)

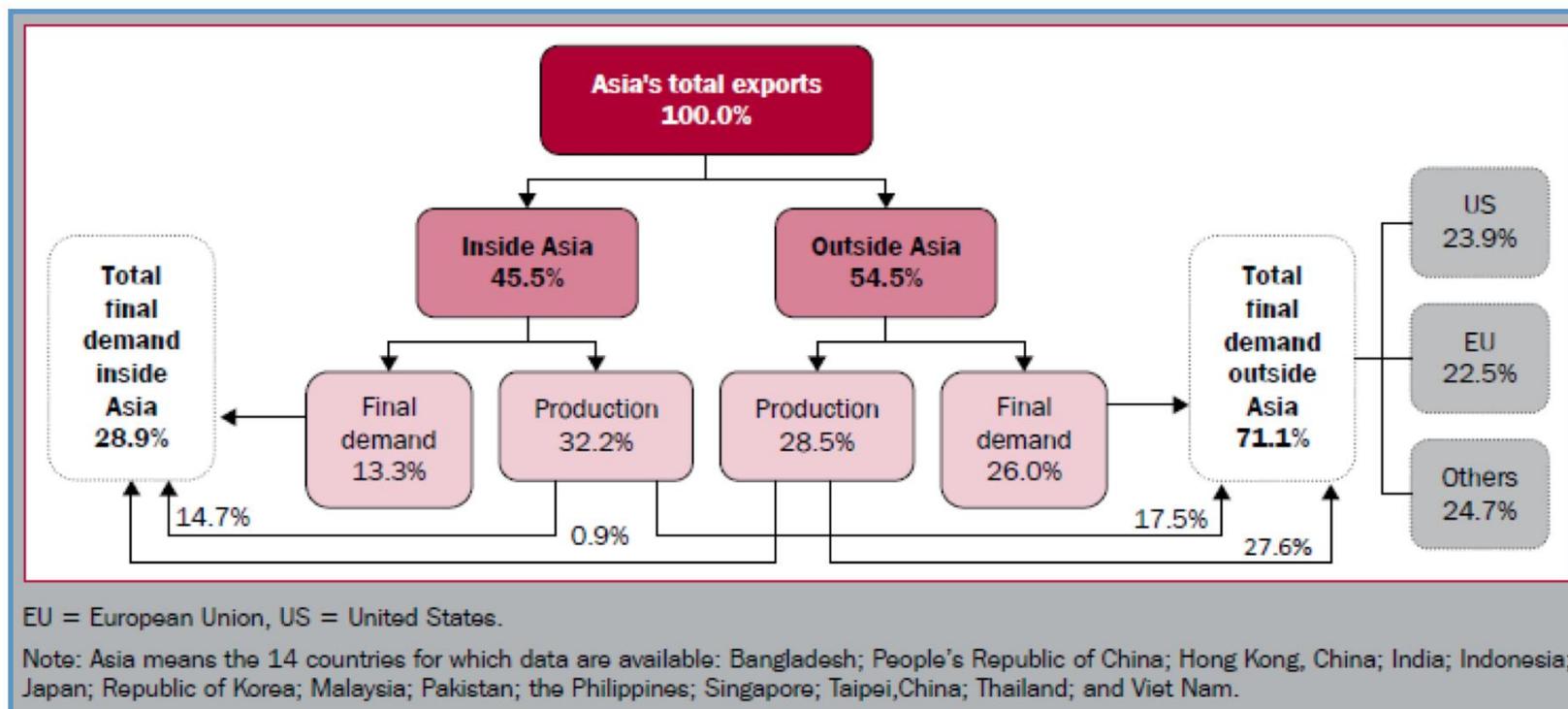


Source: Fukasaku, K., B. Meng and N. Yamano (2011)

1 Trade integration:

Asia decoupled? Nope, but it is slightly more nuanced...

Figure 3: Final Demand for Asia's Exports



Source: ADB 2010

1 Trade integration:

Going forward: Role of China revisited...

It is worthwhile to note that trade integration in Asia is very dynamic. For example, Kim, S., J. Lee and C. Park (2010) documents the changing structure of China's exports and imports to the rest of the world. 3 trends are noteworthy:

- Firstly, China is increasingly integrated and becoming an important source of demand for economies in the rest of the world beyond East Asia
- Secondly, China is gaining prominence in supplying intermediate inputs to East Asia, including Japan, and the United States. The role of China in global production is diversifying away from merely being an assembly hub.
- Thirdly, and perhaps most importantly, East Asia's integration with China is increasingly intensifying beyond trade of parts and components; strong direct demand (final goods trade) has flourished alongside strong derived demand (parts and components trade) in East Asia. This implies that economic integration in the region is advancing more broadly, beyond vertical specialisation.

These trends point towards a broad conclusion – East Asia's intra-regional integration and integration with the rest of the world are both intensifying and continuously changing.

2 Financial integration:

Relatively low degree of integration, but with large potentials...

A wide range of empirical studies on financial integration in Asia point towards the general conclusion that Asia's degree of financial integration, while intensified since the Asian financial crisis, remains relatively low compared to that in the advanced economies, as well as between Asia and the advanced economies.

Greater financial integration is particularly important given that it is a means to channel more of the region's savings into the region, and thus reduces extra-regional recycling of Asia's large savings.

More fundamentally, integration of the region's financial markets creates bigger, broader, deeper, more liquid, and more efficient financial systems that can better channel resources to their most productive uses. Financial efficiency is vital to the region's transition from growth based on capital accumulation to growth based on productivity improvement

2 Financial integration:

From building regional resilience to fostering regional development...

Efforts to intensify financial integration in Asia over the past decade have been focused primarily on strengthening the resilience of the region's financial system. Key cooperative efforts have thus far been to address the major vulnerabilities that led to the Asian financial crisis, including the setting up of a regional emergency liquidity provision regime and developing regional bond markets.

Going forward, Jung (2008) argued that a coherent long-term vision for Asia will be critical in further strengthening financial integration, moving beyond just building a more resilient system, but instead turning the regional financial system to be an able platform for regional development. Key areas include:

- Reaping synergy and achieving coherence across various regional fora and institutions,
- Strengthening capital markets to increase investor sophistication and improving investment climate,
- Building regional infrastructure to facilitate trading,
- Further minimising risks associated with greater integration,
- Removing impediments to cross-border activities; and,
- Harmonising rules and practices across the region.

3 Regionalism in Asia:

Asia's experience in regionalism defies easy generalisation...

Asia's experience with regional cooperation reflects its diverse geography, history, ideology, culture, and politics, as well as the influence of events and external players. Asia's approach to regional integration is pragmatic and flexible, resulting in a multi-track and multi-speed process.

Regional cooperation and integration in Asia have tended to follow a bottom-up approach that supports sub-regional cooperation efforts. Broadly, the region's institutions are characterised by an intergovernmental structure, consensus decision-making, non-binding rules and commitments, low delegation, weak compliance, and with significant respect to sovereignty norms.

ASEAN is considered to be the 'vanguard institution' that is leading the way to more extensive and strongly institutionalised regional integration. It is arguably one of the most successful expressions of regional cooperation in the developing world, one based on the principles of openness and gradualism.

3 Regionalism in Asia:

Four broad imperatives going forward...

Regionalism going forward has four inter-related imperatives (ADB 2010):

- Cementing the gains from economic and financial integration thus far,
- Broadening the integration process beyond East Asia,
- Deepening the integration process beyond manufacturing production network; and,
- Ensuring that enhanced regional integration is compatible and not at the expense of greater global integration.

These cannot be effectively met by relying on market forces and national actions alone; Asian economies need to work closely and effectively together.

Conclusion:

Towards a vision of Asia that is a strong, prosperous, outward-looking economic community, regionally integrated yet connected with global markets, and with responsibilities and influence to match its economic importance*

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