Regional Integration and Cooperation in Asia: Quo Vadis?

Asia’s RCI

• Integration: a balanced view
• Trends of [FDI-Trade-Portfolio] exclude [Labor/People-Infra/Public Good]: normal sequence, diverse, crisis-driven \( \rightarrow \) unexciting?
• Case: Contagion and FSN Cooperation
• Prognosis & Expectation
Cross-Border Flows of FDI in Asia

Cross-Border Flows of Trade (% Total)
- Asia
- US
- AFC
- EU
- GFC

Cross-Border Flows of Portfolio Investment in Asia

Cross-Border Flows of Trade (Intra-Regional Trade Share)
- EU
- Asia
- North America

Note: Asia does not include Armenia, Azerbaijan, Bhutan, Brunei Darussalam, Georgia, the Lao People’s Democratic Republic, the Maldives, Marshall Islands, Hong Kong, Nepal, Sri Lanka, Timor-Leste, Tonga, and Solomon Islands as data unavailable. 2013 and 2014 data were estimated using actual values from previous period.
Asia's Trade Flows & Production Network
(based on export share)

Portfolio Investment in Asia

Convergence in Asia's Financial Market

ASEAN imports (foreign value added) in VA exports, 2011 (%)

ASEAN involvement in GVC, 2011

Asia's Intra-subregional Trade Shares

* Reflect high FDI (65% GDP)
* Most inputs from US & Japan, but rising from other ASEAN countries
* Reflect inputs from ASEAN downstream operations (influence manufacture export)
* Diverse; the largest (also in foreign VA) are in Singapore, Vietnam, Malaysia
IMF (GFSR April 2016): “.........rising financial integration, more than emerging economies’ growing share of global GDP and trade, is the key factor behind their increasing financial impact on other countries. ........ The financial integration of emerging market economies into the global economy has affected international financial markets in both desirable ways—more efficient asset prices and resource allocation—and undesirable ones—amplification of shocks and transmission of excess financial volatility.”
## US & Europe Shocks and Volatility Spillovers in Asia

<table>
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<tr>
<th>Source Market</th>
<th>Shock Spillover</th>
<th>Volatility Spillover</th>
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<tr>
<td>US Treasury Bond (10-year)</td>
<td>Malaysia 0.1013</td>
<td>Thailand 0.0323, China 0.0140</td>
</tr>
<tr>
<td></td>
<td>Malaysia 0.4807</td>
<td>Korea 0.3975, India 0.2343, Philippines 0.2021</td>
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<tr>
<td>US High-Yield Corporate Bond</td>
<td>China 0.0120</td>
<td>Thailand 0.0022, Indonesia 0.0003, Korea 0.0011</td>
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<td>German Bunds (10-year)</td>
<td>China 0.1619</td>
<td>Korea 0.0144, Thailand 0.0043</td>
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<td>EU Composite Government Bond (10-year)</td>
<td>China 0.0202</td>
<td>Thailand 0.0426, Philippines 1.8727</td>
</tr>
<tr>
<td>EU High-Yield Corporate Bond</td>
<td>Sept 08-March 09</td>
<td>Sept 08-March 09, Sept 2011-May 2012</td>
</tr>
</tbody>
</table>

### Shock Spillover and Persistence

**The shock origins are:** ust=US Treasury; usc=US high yield corporate bonds; eucg=EU composite government bond; euc= European corporate bond; gerb=German bund. **The impacted countries are:** ph=Philippines; my=Malaysia; id=Indonesia; kr=Korea; cn=China; jp=Japan. **The impacted markets are:** mm=money market; bm=bonds market; eq=equity market; fx=currency market

Based on Azis; Mitra; Baluga (2013)
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Based on Azis; Mitra; Baluga (2013)
Benefits & Risks of Integration


Cooperation & Integration: A Typology

Integration
- Infrastructure/Connectivity
- ABMI & Regional Financial Safety Net (CMIM)

Non-Integration
- Unilateral Trade Liberalization (Regional Production Network)
- Unilateral Financial Liberalization
Asian Bond Market Initiatives (ABMI)

* 2003: Declared Initiative
* 2008: Road Map → supply, demand, regulatory, infrastructure
* 2010:
  - CGIF
  - ABMF
  - RSI
  - Reg credit rating

Decade later

- More bonds
- # participants & foreign investors
- Local gov, public utility → I, P, V, C
- Corporate ("deep & liquid") → C, K, M
- Yield curve: shifts downward, flatter
- Maturity/tenor: lengthened
- Institutional arrangement:
  → transparency, listing & disclosure
  → Int'l accounting & auditing standard
  → Insolvency law (bankruptcy, debt recovery & funding)
  → ABO: > 309,000/day hit

* Capital flows (safe heaven)
* Unilateral
  * Attendant vs decision
  too small & limited → rely on domestic safety net (balancing act)

“New” Trend?

PRC = People's Republic of China.
Note: Trade share is calculated as \( \left( \frac{t_j}{T_w} \right) \times 100 \), where \( t_j \) is the total trade of ASEAN with economy "j" and \( T_w \) is the total trade of ASEAN with the world. 2014 covers trade values from January-May.
Source: Processed from Direction of Trade Statistics, International Monetary Fund (IMF).
Net Assessment on Asia’s RCI

- Growing integration with expected pattern: (1) normal sequence; (2) diverse sub-regionally; (3) crisis-driven; (4) private sector market-driven & institution-lite (domestic policies)
- Some benefits are not materialized, while some risks are (financial sector) → welfare effect: mixed
- Cooperation: mixed results; ineffective FSN
- Overall: Nothing unusual, follows a common sense; likely continue albeit with uncertainty in speed & intensity
- Expectation: Can RCI be used for other pressing domestic challenges? Harmonization can expand on issues such as transparency, regulatory reform, labor rights, environmental protection, etc? This is where economics stops giving answer or gives dreaded two-handed answer