

# Status and Role of Regional Economic Integration in the Asia-Pacific



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WASEDA UNIVERSITY, TOKYO  
12 OCTOBER, 2018

# Outline



- The Good News: Asia and the Pacific's progress in regional cooperation and integration (RCI)
- The Not-So-Good-News: Remaining gaps and key changes in the RCI environment
- New Developments and Their Implications
  - Short-term: rising trade tensions
  - Medium-term: demographic ageing and the fourth industrial revolution
- What should policymakers in the region do?

Note: For purposes of data used this presentation, Asia and the Pacific covers developing and developed regional member economies of the Asian Development Bank.



## The Good News

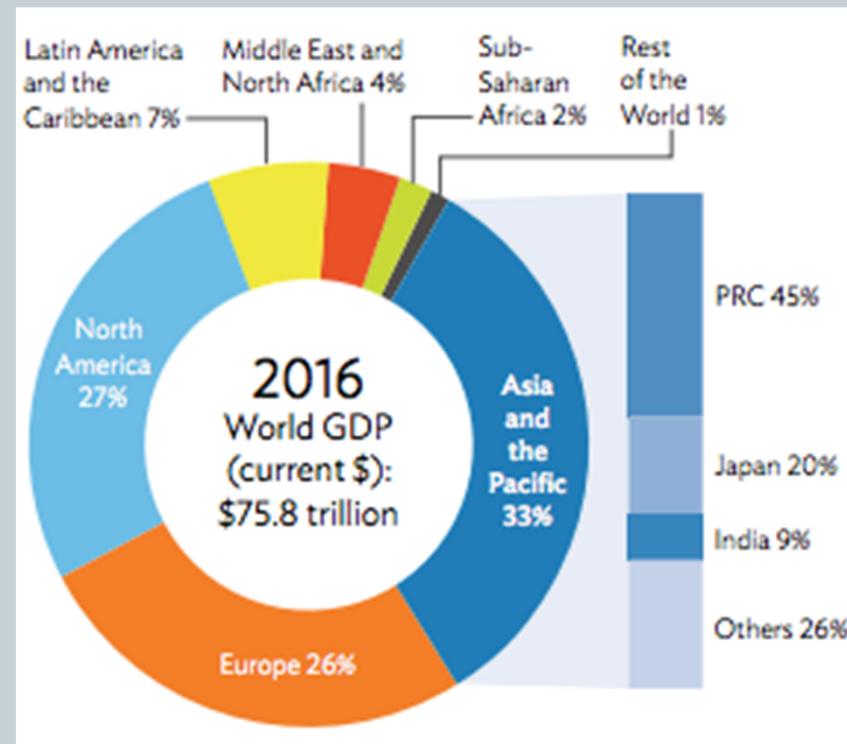
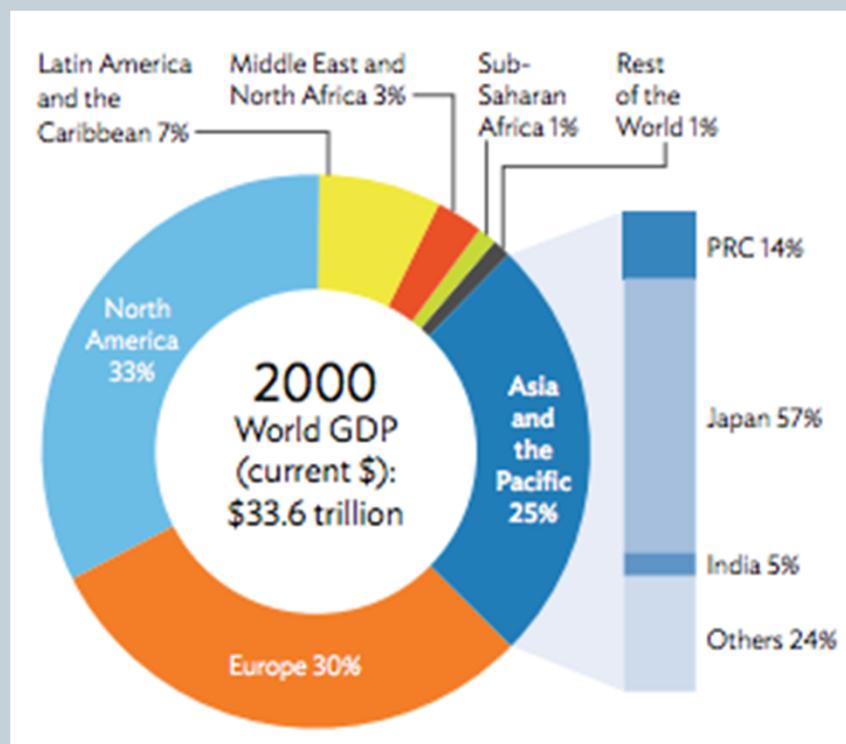
Asia and the Pacific continues to post gains in growth and poverty eradication

- Despite setbacks caused by the Global Financial Crisis, the region has remained an economic powerhouse. Its share of global GDP increased from 25% in 2000 to 33% in 2016.
- Extreme poverty, as measured by the \$1.90/day threshold at 2011 purchasing power parity, has declined from 53% in 1990 to about 9% of the total population in 2013.
- These gains would not have been possible without the key role played by RCI in preserving peace and security in the region. Nowhere is this more evident than in Southeast Asia, where ASEAN continues to bring peace that has allowed member economies to grow and prosper.

# Asia and the Pacific's Increasing Share of Global GDP

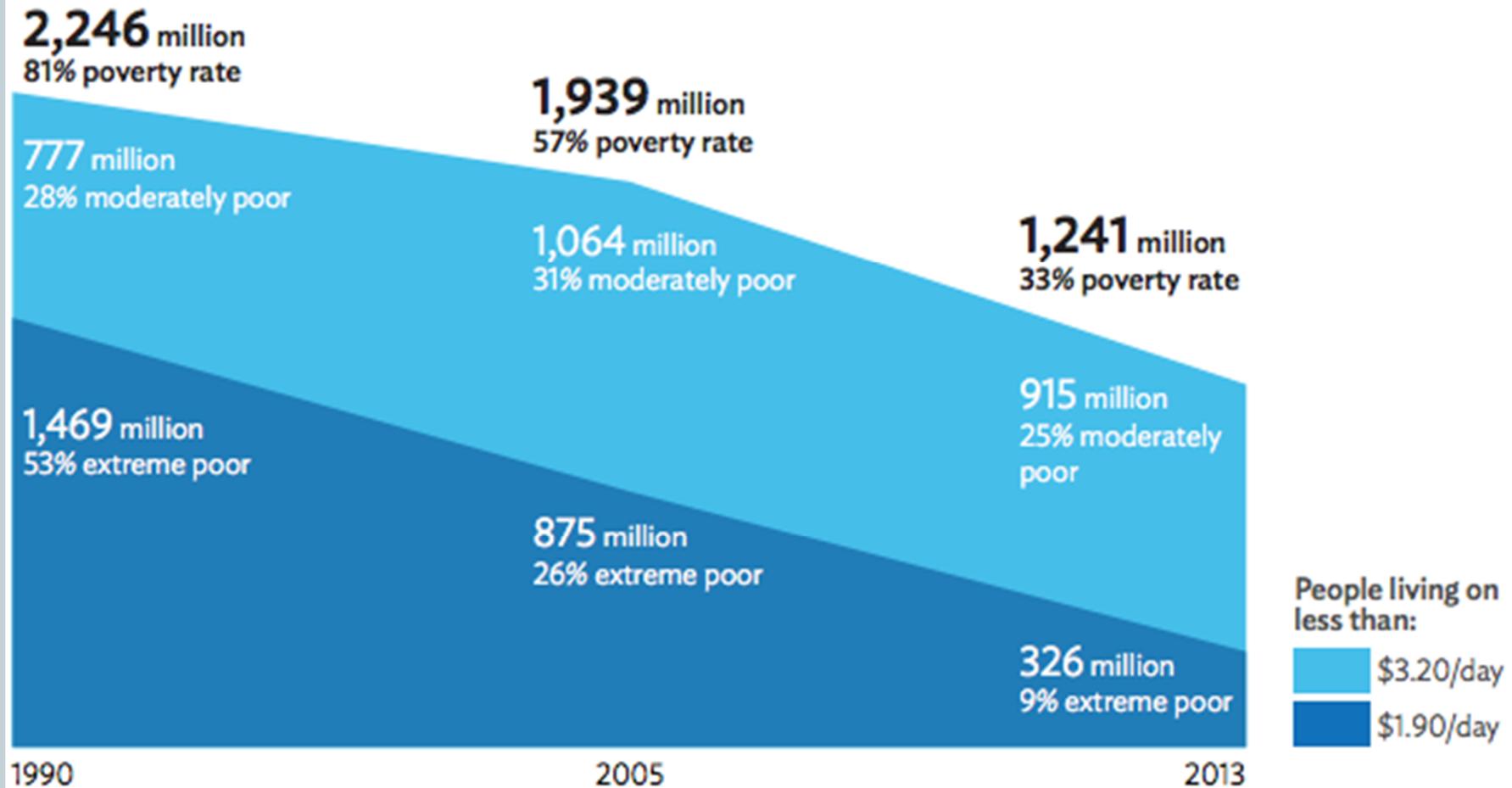
2000

2016



Source: ADB. 2018. Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific

# Declining Poverty and Vulnerability



Notes: The latest reference year for poverty estimates is 2013. Poverty lines are expressed in 2011 purchasing power parity. Some figures may not add up due to rounding.

Source: ADB. 2018. Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific



## The Good News

In the midst of rising protectionism in the west, Asia and the Pacific has remained largely open.

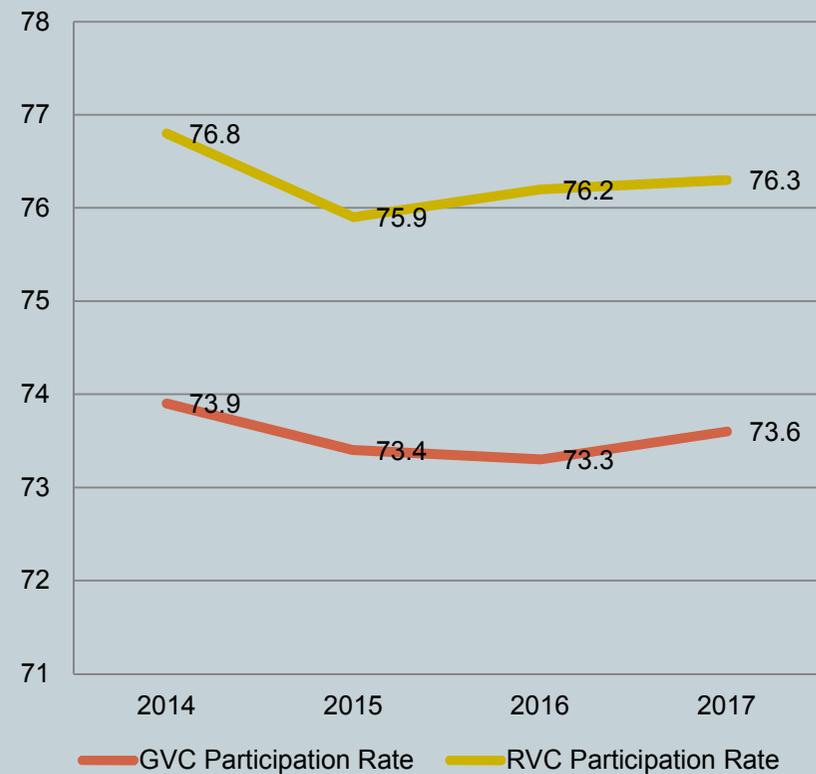
- Asia and the Pacific seems poised to lead a recovery in world trade. In 2017, the region's trade volume grew faster than global trade and surpassed its own economic growth for the first time since 2012.
- The region's participation in global value chains (GVC) also rebounded after a slowdown since 2012.
- Too early to estimate impact of US-China retaliatory tariff hikes

# Growth in Trade Volume and Participation in Value Chains

## Trade Volume



## Participation in Value Chains

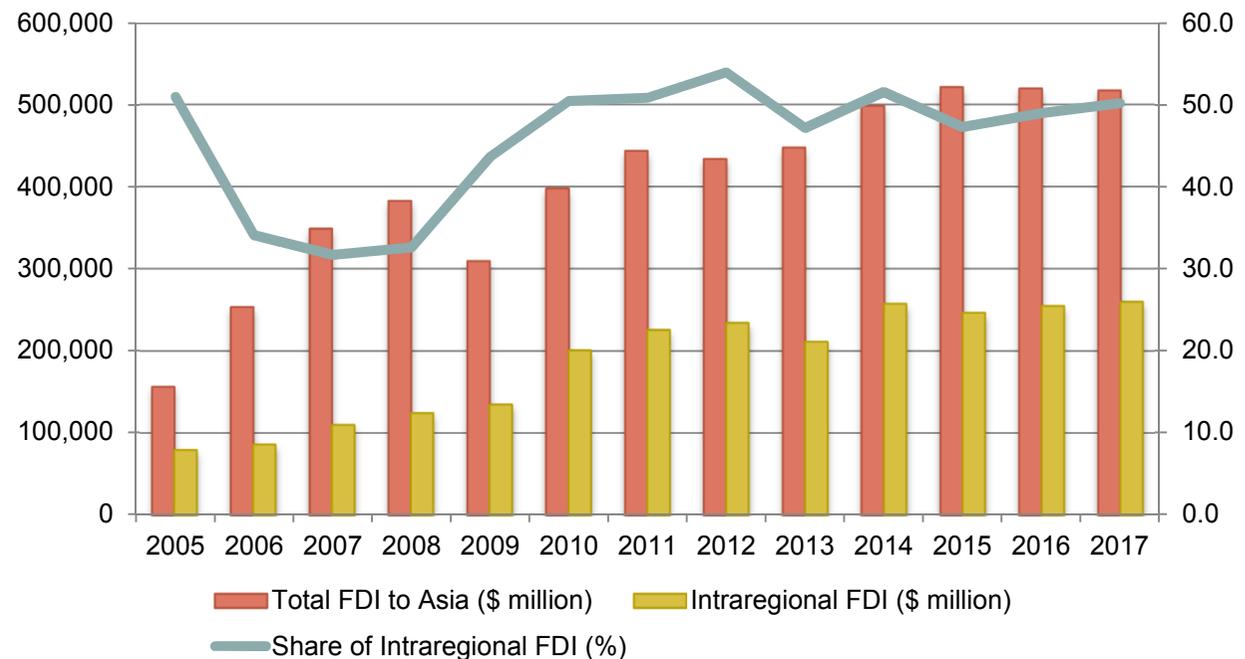


Source: ADB Asian Regional Integration Center Database

## The Good News

In the midst of rising protectionism in the west, Asia and the Pacific has remained largely open.

- There has been a slowdown in total inward foreign direct investment to the region, but intraregional investment flows continue to rise.

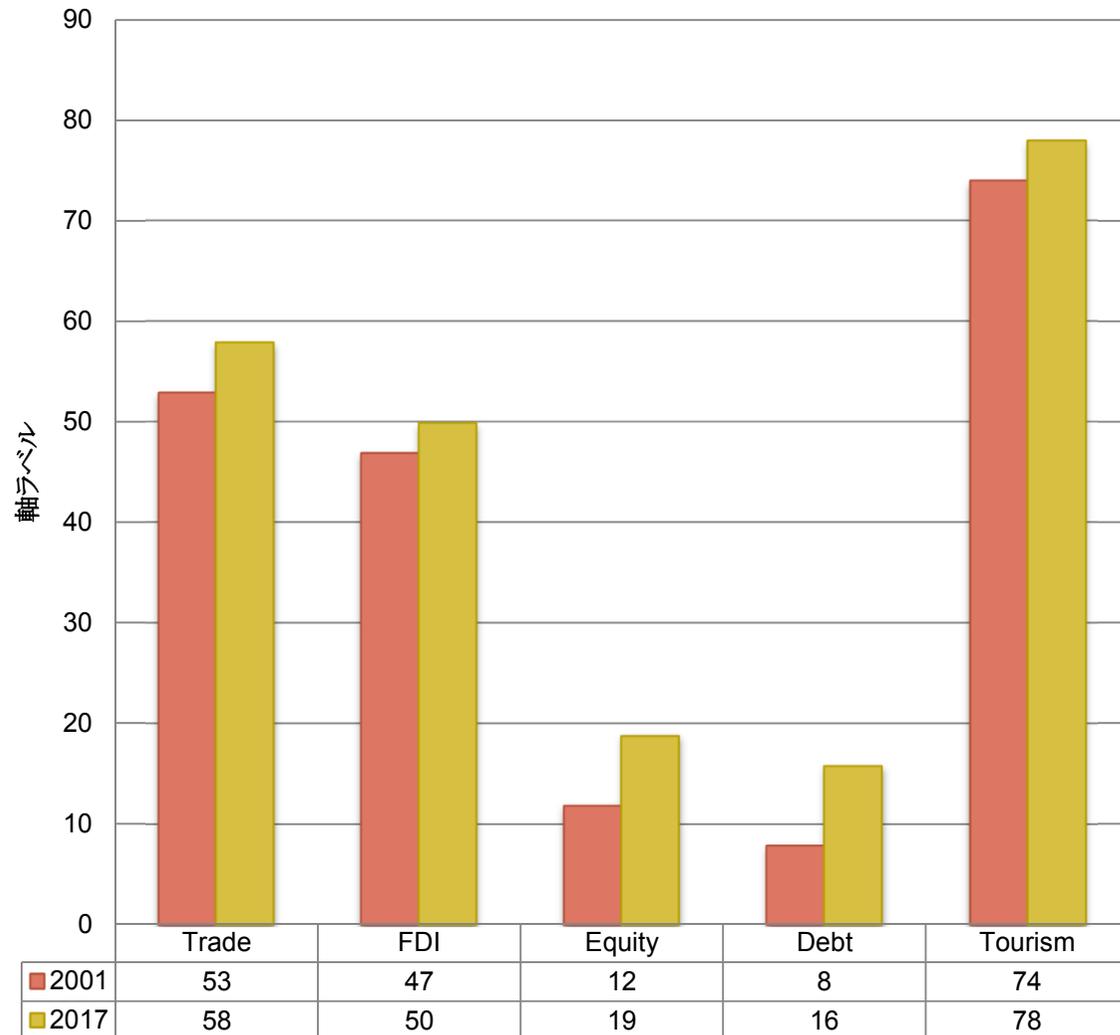




## The Good News

Integration within the region continues to increase in both goods and factor markets.

### Intraregional Shares (% of Total)



Note: Latest tourism data is for 2016. Source: ADB Asian Regional Integration Center Database



## The Good News

Twenty three (23) economies in Asia and the Pacific ranked within the top half of the Ease of Doing Business Index for 2017, with a good mix of economies across the region.

Economy	2017 Rank (n=190)	Economy	2017 Rank (n=190)
New Zealand	1	Azerbaijan	57
Singapore	2	Mongolia	62
Republic of Korea	4	Viet Nam	68
Hong Kong, China	5	Indonesia	72
Georgia	9	Uzbekistan	74
Australia	14	Bhutan	75
Malaysia	24	Kyrgyz Republic	77
Thailand	26	PRC	78
Japan	34	Samoa	87
Kazakhstan	36	Tonga	89
Armenia	47	Vanuatu	90



## The Not-so-good News

There remain large gaps in performance between sectors as well as subregions in Asia and the Pacific.

- Many of the achievements relate to tariff liberalization, investment promotion, and other “low hanging fruit” reforms.
- Cooperation and integration in finance and labor flows still lag behind trade and investment linkages.
- Trade, investment, and capital market integration remains highest in East Asia and Southeast Asia. Integration within Central Asia, and the Pacific is strongest in labor flows, although their integration with the rest of the region is strong.

# RCI Performance Remains Uneven



	Movement in Trade and Investment				Movement in Capital				People Movement					
	Trade (%)		FDI (%)		Equity Holdings (%)		Bond Holdings (%)		Migration (%)		Tourism (%)		Remittances (%)	
	2015		2015		2015		2015		2015		2014		2015	
<b>Within Subregions</b>														
ASEAN+3 (including HKG) <sup>1</sup>	47.1	▲	48.4	▼	14.6	▼	12.1	▼	40.0	▲	72.2	▼	33.7	▲
Central Asia	8.9	▲	3.8	▲	0.0	▼	-		9.3	▼	36.3	▼	7.2	▲
East Asia	36.8	▲	47.1	▼	11.7	▼	8.3	▼	34.6	▼	60.5	▼	35.5	▼
South Asia	5.5	▲	0.6	▼	0.9	▲	2.1	▲	26.2	▼	12.2	▲	15.2	▲
Southeast Asia	23.7	▼	17.6	▼	7.2	▼	8.9	▼	34.1	▲	68.2	▼	14.7	▲
The Pacific and Oceania	6.7	▼	17.7	▲	5.3	▲	1.0	▼	56.3	▲	19.7	▲	30.4	▼
<b>Across Subregions</b>														
ASEAN+3 (including HKG) <sup>1</sup>	10.7	—	4.3	▲	3.8	▼	6.5	▼	8.8	▲	5.5	▲	6.9	▲
Central Asia	28.6	▲	21.3	▲	11.6	▼	14.6	▲	0.8	▲	3.0	▲	0.7	▲
East Asia	18.5	▲	5.9	▼	2.8	▼	7.3	▼	14.3	▲	13.7	▼	15.3	▲
South Asia	32.2	▲	38.3	▲	22.7	▲	10.6	▼	5.8	▲	32.7	▼	5.4	▼
Southeast Asia	45.8	▲	35.3	▲	36.6	▲	25.3	▲	14.6	▼	23.2	▲	13.5	▼
The Pacific and Oceania	61.3	▼	77.2	▲	11.3	▼	7.8	▲	5.4	▼	39.6	▲	13.1	▲

Source: ADB Asian Economic Integration Report 2016



## The Not-so-good News

The region's successes up until the GFC were largely built on a buoyant global economy, favorable macroeconomic fundamentals, and a generally positive view of openness and globalization. But these favorable conditions no longer hold.

- Global economic growth remains fragile. IMF notes significant downside risks due to rising trade tensions and growing political uncertainty.
- Many developing economies grappling with large depreciations, rising inflation, and financial market volatility due to higher interest rates in US, rising energy prices, and growing trade and geopolitical tensions.
- Appetite for liberalization waning. WTO under threat; multilateralism being replaced by 'shallow' regional and bilateral trade deals; and discontent with globalization has led to rising protectionism.

# New Developments and Their Implications



- In the short-term, the biggest risk facing RCI comes from rising trade tensions, particularly between the US and the PRC.
  - Tariffs and countermeasures imposed by the US and China cover about half of trade, and rising.
  - Continued uncertainty about future tariff rates and trade policy could derail global economic recovery by affecting business confidence and financial conditions.
  - Particularly worrisome for Asia and the Pacific are the potential second round effects on global supply chains.

# New Developments and Their Implications



- In the medium term, two emerging developments--- population ageing and the fourth industrial revolution (4IR)---bring a raft of new challenges. But there are also some opportunities.
- These two trends are transforming our social, economic, and political systems in often unpredictable ways.
- Almost every aspect of our lives will be touched: jobs, business models, industrial structures, social interactions, systems of governance. It can also affect peace and security.

## Population Ageing



- The region's population is ageing, albeit at different speeds.
- Population ageing affects growth through a number of channels – savings, capital accumulation, labor force participation, and total factor productivity.
- Where ageing is most advanced, the demographic dividend is likely to become a demographic tax.
- In contrast, younger economies in the region have the potential to earn significant demographic dividends in the years ahead. But the potential benefits presented by this demographic window will not come automatically.

# Fourth Industrial Revolution



- 4IR creates opportunities for economies to bypass traditional phases of industrial development (technological leapfrogging).
- It can expand consumer choice, lower costs, and raise the quality of products and services.
- 4IR can create new employment opportunities in emerging tech industries and services.
- Digital technologies and online services can significantly lower the costs faced by SMEs, allowing them to participate in regional and global trade, thereby increasing the inclusiveness of growth.

# Fourth Industrial Revolution



- On the other hand, artificial intelligence and robotics could decrease the competitiveness of low-cost and low-skilled labor, and lead to reshoring of production back to industrialized economies.
- Increased reliance on AI and robotics could also threaten jobs. The immediate threats are to low-skilled, repetitive jobs (such as assembly line workers). Services jobs are also at risk, and could increase over time.

# What should policymakers in the region do?



## **Continue to be open and signal openness**

- Asia and the Pacific needs to demonstrate its continued conviction that openness and economic integration will help improve the lives of its citizens.
- It should continue to signal the international community that the region is open for business—profitable for trade and investment—and that it remains a market committed to global competition.

# What should policymakers in the region do?



## **Strengthen cooperation in other areas**

- With goods markets largely integrated, boosting efforts to integrating factor markets (capital and labor) could open up new opportunities and generate huge benefits.
- Thus far, efforts to promote capital market integration have focused mainly on regional surveillance and developing Asian bond markets, particularly in the ASEAN+3 economies. While this is important, it needs to be complemented by broader domestic policy reforms to lower regulatory barriers and harmonize standards and regulations.

# What should policymakers in the region do?



## **Prepare for population ageing and 4IR**

- In economies where ageing is more advanced, the challenge lies in addressing labor shortfalls; greater automation could play a mitigating role, as can increasing labor mobility.
- Ageing economies could also increase labor force participation rates by removing barriers to the participation of women; increasing the mandatory retirement age; and adopting more flexible working arrangements.
- For the younger and less developed economies, the challenge lies in providing productive employment for the growing labor force, particularly in light of 4IR.

# What should policymakers in the region do?



## **Prepare for population ageing and 4IR**

- The fears over automation may be overblown, however. Research by OECD (2016) shows that when the individual tasks in jobs are considered, only 9% of jobs in OECD economies are at risk of displacement. The logic applies in Asia and the Pacific too, despite a higher share of low skilled workers.
- Countering potential jobs losses and reskilling work forces will require a transformation in education. Governments must pursue education reform and promote lifelong learning.

# What should policymakers in the region do?



## **Prepare for population ageing and 4IR**

- The long term challenge is increasing the investment in human capital.
- Augmenting cognitive skills such as maths and sciences will be critical for the transition to a more innovative, knowledge-based economy.
- Learning how to learn, and keep learning.
- There will also be a need to strengthen regional education networks and connect innovation incubators across the region.

# What should policymakers in the region do?



## **Continue and strengthen regional dialogue and institutions for RCI**

- Given the emerging challenges facing the region, regional dialogue and institutions for RCI must evolve. RCI platforms need to find a new way of formulating policy and regulation that is agile, rapid, iterative, inclusive and open.
- RCI's role in sustaining peace and stability in the region is often undervalued, if not overlooked. It's easy to see why. War cannot go unnoticed but peace can, easily. Sustaining dialogue and strengthening avenues for cooperation will be essential to secure continued peace in the region.