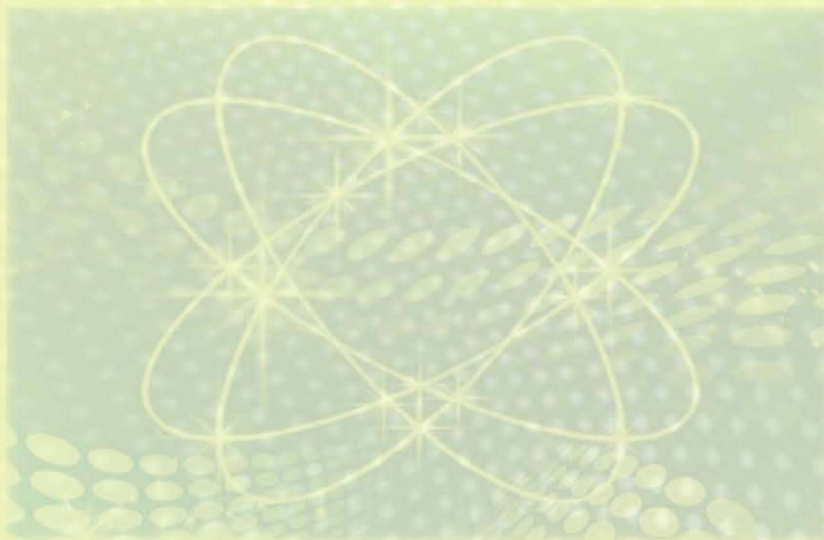


Boao Forum for Asia
Progress of Asian Economic Integration
Annual Report 2014



对外经济贸易大学出版社
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**Boao Forum for Asia
Progress of Asian Economic Integration
Annual Report 2014**

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ACRONYMS

AANZFTA	ASEAN-Australia-New Zealand Free Trade Agreement
ACFTA	ASEAN-China Free Trade Agreement
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
AIA	ASEAN Investment Area
AIFTA	ASEAN-India FTA
AKFTA	ASEAN Korea Free Trade Agreement
ATIGA	ASEAN Trade in Goods Agreement
APEC	Asia-Pacific Economic Cooperation
AJRC	Australia Japan Research Centre
ASEAN	Association of Southeast Asian Nations
CLMV	Cambodia, Laos, Myanmar and Vietnam
CO	Certificate of Origin
COMESA	Common Market for Eastern and Southern Africa
EU	European Union
GATS	General Agreement on Trade in Services
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTZ	Free Trade Zone
ICIO	Inter-Country Input-Output
ICT	Information Communication Technology
IFS	International Financial Statistics
IMF	International Monetary Fund
I-O	Input-Output
ISP	Internet Service Provider
LRI	Logistics Restrictiveness Index
LSP	Logistics Services Provider
M&A	Merger & Acquisition
NAFTA	North America Free Trade Agreement
NEG	New Economic Geography
OECD	Organization for Economic Cooperation and Development
OCP	Origin Certification Procedures
PACER	Pacific Agreement on Closer Economic Relations
RCEP	Regional Comprehensive Economic Partnership

Chapter 1

Trends of Asia's Trade and Investment in the Previous Year

1.1 Highlights of Asia's Trade in 2012

1.1.1 Asia's Trade in the World

Consistent with the global trend in 2012, Asia's trade grew at a much moderate rate. On merchandise, while the exports of the Asian economies continued increasing, its share in the world trade remained at roughly the same level as in 2011. Meanwhile as the Asian economies grow, the import demand of the Asian economies is becoming increasingly important for the sustained growth of the world economy. For commercial services trade, the Asian economies also made slight gains in both exports and imports in 2012.

In 2012, the total merchandise exports of Asia were USD5.64 trillion, accounting for 31.5 percent of the global total exports. Compared to 2011, Asia's exports increased by 1.8 percent in value. With the much moderate recovery of global trade in 2012, Asia's share in the world's total exports only increased slightly in 2012 as compared to the share of 31.1 percent attained in 2011. Asia's total merchandise imports were over USD5.33 trillion in 2012, accounting for 29.7 percent of the world total. While Asia's global share in imports continued to follow an upward trend after 2008, the pace of growth in the share has slowed.

Figure 1.1 shows that owing to Asia's important role in the global production network

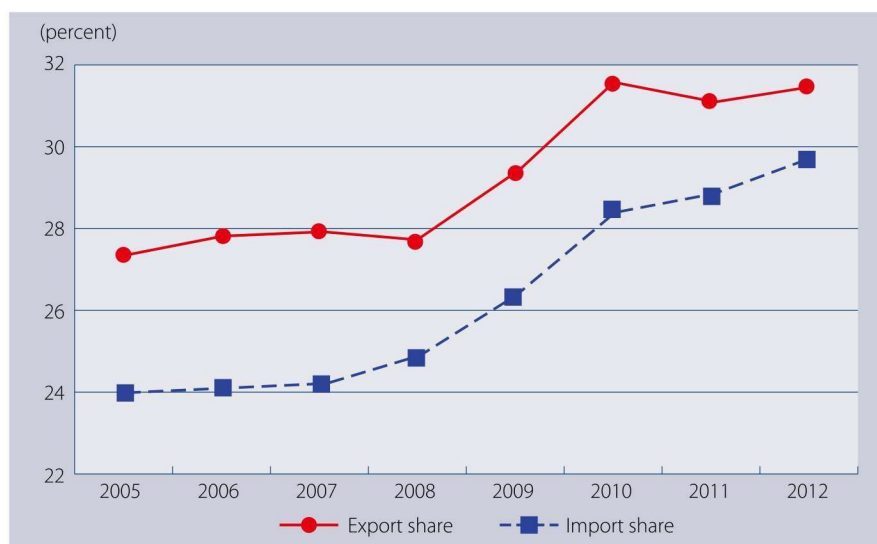


Figure 1.1 Asia's Shares in World Merchandise Trade, 2005-2012

Source: International Trade Statistics 2006-2013, WTO.

and its expanding large internal market, Asia had significantly improved its position in the global economy after the global financial crisis in 2009. As the Asian economies continue to develop and upgrade their industries, commercial services trade would become another engine for the regional sustained growth. In 2012, Asia's services trade

in both imports and exports kept increasing. As shown in Table 1.1, Asia's exports of commercial services were over USD1.13 trillion, accounting for 26.1 percent of the world total commercial service export while its imports of commercial services reached around USD1.18 trillion, taking up 28.6 percent of the global total.

Table 1.1 World Trade in Commercial Services by Region, 2012 (USD billion)

Exports	Transportation	Travel	Other Commercial Services	Total
World	890	1,110	2,345	4,345
North America	97	193	426	716
South and Central America	29	48	63	140
Europe	416	428	1,187	2,031
EU (27)	373	369	1,089	1,831
Commonwealth of Independent States	39	24	41	104
Africa	27	43	22	92
Middle East	32	51	46	129
Asia	253	322	558	1,133
Imports				
World	1,145	995	1,965	4,105
North America	125	136	282	543
South and Central America	55	44	86	185
Europe	363	379	911	1,653
EU (27)	337	340	848	1,525
Commonwealth of Independent States	29	56	67	152
Africa	62	26	70	158
Middle East	110	67	60	237
Asia	399	287	489	1,175

Source: *International Trade Statistics 2013*, WTO.

1.1.2 Destinations of Asia's Merchandise Exports

Figure 1.2 illustrates the market distribution of Asia's merchandise exports. Three features are important.

First, the North American market seemed to be improving after several years of decline. In 2006, 21.6 percent of Asia's merchandise exports went to North America. But the share dropped below 20 percent to 19.9 percent in 2007. From 2008 to 2010,

around only 17 percent of the Asian exports went to North America until the share further declined to 16.4 percent in 2011. However, the share stopped declining for the first time after 2006 in 2012.

Second, the share of the European market suffered a further decline in 2012. The share of Asia's exports to Europe dropped from 18.8 percent in 2007 to 15.2 percent in 2012. While it is still Asia's major market for merchandise exports, its

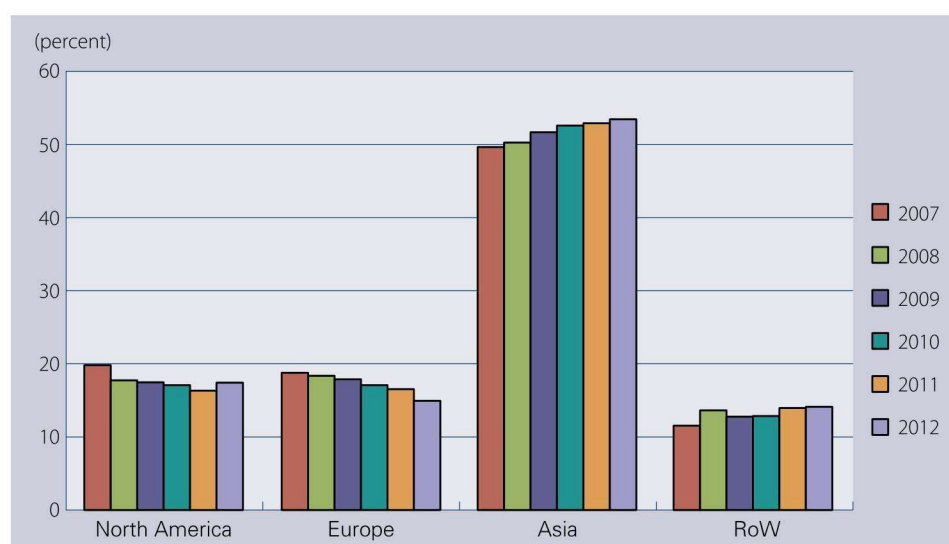


Figure 1.2 Asia's Merchandise Exports by Destination, 2007-2012

Source: *International Trade Statistics, 2008-2013*, WTO.

importance has been weakened over the last six years.

Third, Asia's intra-regional merchandise trade had been rising, with a share of 49.7 percent in 2007, but increasing to 53.4 percent in 2012.

1.1.3 Trade of the Two Largest Trading Nations

In 2012, the balance of global merchandise trade nearly shifted in favor of China. In that year, China remained as the 2nd largest trading economy in the world, ahead of Germany and Japan. In 2012, China maintained its position as the world largest exporter with its merchandise exports continuing to increase to USD2.1 trillion. Meanwhile China was the world's second largest importer with a value of USD1.82 trillion. Comparing the gap between China and the US, the gap of total trade between the two economies in 2012 decreased from USD104 billion in 2011 to USD14 billion.¹

Two facts should be noted for China's trade in 2012. First, China's trade surplus on merchandise goods was larger than that in 2011, but still smaller than that of Germany. China's trade surplus on merchandise trade was USD230 billion in 2012, larger than the value USD155 billion attained in 2011. In 2012, with USD1,407 of exports and USD1,167 billion of imports, Germany recorded a USD240 billion of surplus on its merchandise trade.

¹ According to the data published in *International Trade Statistics (2013 and 2012)* by WTO, which show the data for years 2011 and 2012.

Second, while China registered positive growth rates for both imports and exports of services in 2012, it continued to run a deficit in services trade. In the year, China exported USD190 billion of services and imported USD280 billion, leaving a deficit of USD90 billion in the services account, as compared to USD55 billion in 2011.²

In 2012, the US remained the world's largest trader of merchandise goods, with a total of imports and exports of USD3,881 billion. Its trade deficit amounted to USD790 billion. It can be seen from Figure 1.3 that US merchandise exports and imports kept increasing after the slump in 2009. However, the US trade deficit in 2012 remained at about the same level as in 2011.

1.1.4 Asia's Trade in 2013

Table 1.2 shows the amount of merchandise trade of top 10 Asian economies (ranked by their trade volume) for the first eight months in 2013. Growth rates vary across different economies in Asia. For example, the export growth rates of some economies, such as China, China's Hong Kong and India, exceeded the world average of 1.8 percent, whereas for some other economies exports grew at negative rates.

The bottom of Table 1.2 also shows the merchandise trade of Russia, the US and EU. From

² *International Trade Statistics, 2013*, published by WTO, P25.

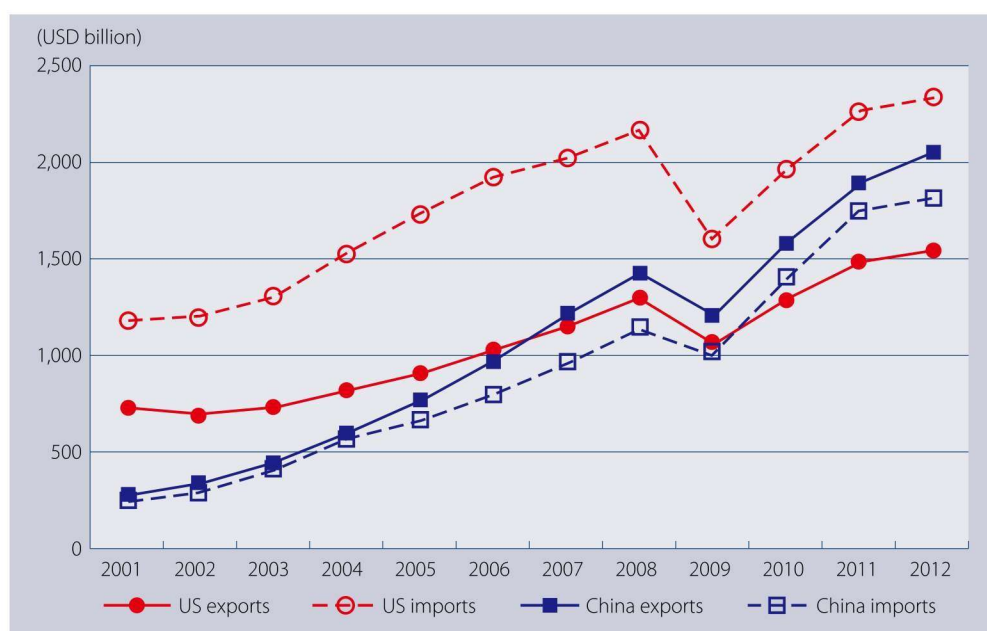


Figure 1.3 Merchandise Trade of China and the US

Source: *International Trade Statistics, 2013*, WTO.

Table 1.2 Merchandise Trade of Some Economies in the First Eight Months in 2013

Economy	Exports		Imports	
	Value (USD billion)	Growth Rate (percent)	Value (USD billion)	Growth Rate (percent)
China, People's Republic of	1,429.6	9.1	1,273.4	7.2
Japan	474.0	-12.4	545.6	-8.0
Korea, Republic of	368.6	0.7	341.4	-1.7
China's Hong Kong	294.5	3.5	336.3	4.1
India	207.6	5.0	324.2	1.6
Singapore	269.8	-2.2	245.9	-3.1
Australia	167.5	-3.1	168.6	-7.7
Thailand	150.5	0.1	170.6	3.2
Malaysia	148.1	-1.4	137.0	5.3
Indonesia	121.1	-4.7	129.6	2.3
Russia	335.7	-1.7	211.9	1.1
US	1,041.0	1.8	1,505.2	-1.0
EU	3,825.4	3.7	3,769.8	0.2
World	11,998.2	1.8	12,302.2	0.6

Source: *IMF Trade Statistics*, accessed in January 26, 2014.

January to August in 2013, the US exports increased to USD1.04 trillion, up by 1.8 percent compared to same period in 2012. This is the rate exactly equal to the world average. During the same period, the US imports decreased by 1 percent as compared to the same period in 2012. From Table 1.2, the total trade of China has already exceeded the US in the first eight months of 2013. The gap is USD157 billion. China's total trade was USD2.70 trillion, and that of the US was USD2.55 billion. In addition, according to the data recently published by the Ministry of Commerce of China¹ and the Census Bureau of the US,² China is the top trading nation in the world in merchandise goods in 2013. In 2013, China's total exports and imports were USD4.16 trillion, while for the US, the total trade was USD3.85 billion. Meanwhile, the EU's merchandise trade seemed to be recovering slowly in 2013, particularly on the export side. Compared to the first eight months in 2012, the EU's export growth was positive in 2013 instead of negative 5.5 percent in 2012.

1 <http://english.mofcom.gov.cn/article/statistic/BriefStatistics/201401/20140100466521.shtml>, accessed in February 8th, 2014.

2 <http://www.census.gov/foreign-trade/statistics/highlights/top/top1312yr.html>, accessed in February 8th, 2014.

1.1.5 Prospect of the Emerging Economies

Figure 1.4 shows the trends of exports of selected Asian and emerging economies from the first quarter of 2009 to the 2nd quarter of 2013. The three dashed lines in the Figure represent the merchandise exports of BRIC countries except China. All the other lines present some selected Asian emerging economies.

Three aspects are highlighted about the BRIC countries in the Figure. First, Figure 1.4 clearly shows that Brazil, Russia, and India all demonstrated strong growth momentum after 2010. Second, Brazil's exports seemed to be on a downward trend after mid-2011. Third, different from Brazil, India and Russia were able to achieve a high level of merchandise export, though their growth momentum seemed to be diminishing.

For the Asian emerging economies, Figure 1.4 shows that Indonesia, Malaysia, Thailand and Vietnam all demonstrated an upward trend after the first quarter of 2009. The third quarter of 2011 is a critical turning point. After the third quarter of 2011, Indonesia had been largely on a downward trend. While Malaysia and Thailand were able to maintain their exports at a high level, the growth momentum

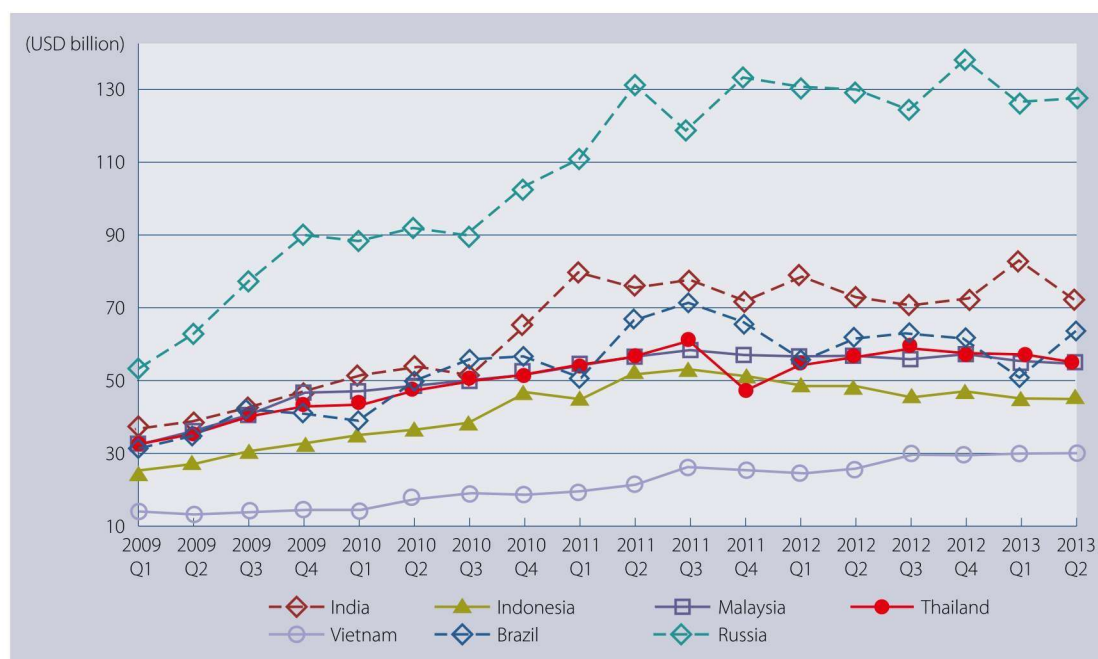


Figure 1.4 Merchandise Exports of Selected Asian and Emerging Economies, 2009-2013

Source: IMF Trade Statistics, accessed in January 28, 2014.

seemed to be tapering down. After the third quarter of 2011, Vietnam continued the trend of steady growth from late 2012 to early 2013.

Asia's emerging economies are faced with both challenges and opportunities in 2014. On the challenge side, the Asia's emerging economies may be subject to the potential shock from the US exit of easy monetary policies. The current uncertainty in the global capital movement may also bring volatility to the region. Furthermore, the domestic demand of these Asian emerging economies has not been sufficiently developed to offset the slowdown of demand in the international markets.

For the opportunities, as shown in Figure 1.2, over 30 percent of Asia's merchandise exports go to the US and Europe. Based on the forecast by the International Monetary Fund, the growth rate of the US economy will be 2.8 percent and that of Europe will be 1 percent in 2013.¹ If the forecast comes true, the emerging economies in Asia will get a boost from the increased demand in the developed economies. In addition, within Asia, as China is upgrading its industrial structure and carrying out reforms to boost its domestic demand, the Asia's emerging economies markets will surely be beneficiaries. The growth of Asia's emerging economies will be slower in 2014, with rates varying across economies, and the ones with weak economic policies are likely to be most affected (Blanchard 2014).

India does not seem to be on a downward trend in the coming year. Its exports grew at 5

percent in the first eight months of 2013, well above the world average, while its imports grew at 1.6 percent, which is also higher than the world average of 0.6 percent. Based on the merchandise trade data, it is difficult to come to conclusion that India's merchandise trade will stop growing in 2014. In addition, the Indian economy is competitive in service exports. In 2012, with USD141 billion of export and 3 percent growth, India is the 7th largest services exporter in the world. The Indian economy will keep growing in 2014. However, due to the weak recovery in the world economy, the fundamental constraints in the economy, such as poor infrastructures and higher borrowing costs, the economy may grow at a slow pace in 2014.

1.2 Trends of Intra-regional Trade

In 2012, products from the manufacturing sector dominated the merchandise trade in Asia. Table 1.3 indicates that exports in manufacturing products accounted for 64.1 percent of world's merchandise exports in 2012, while the share in Asia is the highest at 78.3 percent of all the regions. In contrast to exports, Asia's share of manufacturing in imports was the lowest of all the regions at only 58.4 percent in 2012 as shown in Table 1.3. Furthermore, as compared to resource-based trade patterns in the Middle East, South and Central America, and Africa, the economies of Asia and Europe have a higher proportion of manufacturing in their export trade.

1 International Monetary Fund, *World economic Outlook*, January 21, 2014, Washington, DC.

Table 1.3 Ratio of Manufacturing Trade to Merchandise Trade, 2012 (percent)

	World	North America	South and Central America	Europe	Africa	Middle East	Asia
Export	64.1	66.7	26.6	74.1	16.4	19.7	78.3
Import	64.1	72.2	66.3	65.4	61.6	71.0	58.4

Source: WTO *International Trade Statistics*, 2013.

Figure 1.5 shows the composition of Asian merchandise exports in 2012. Besides manufacturing products that took up 78.3 percent of the total, fuels and mining products accounted for 12.3 percent, agricultural products accounted for only 6.8 percent, while exports from a myriad of

miscellaneous industries took up the remaining 2.6 percent.

Figure 1.6 further shows the composition of Asia's manufactured exports by product category. As compared to the share of 27 percent in 2010, the share of office and telecom equipment declined to

around 19 percent in 2012. Other exports that have followed a declining trend also include chemical products, automobile product and clothing. Chemical exports which accounted for 8 percent in 2012 was 2 percent lower than that in 2010, while automobile exports, which accounted for 6 percent of the total exports, was 1 percent lower than that in 2010. The comparative advantage that Asia has

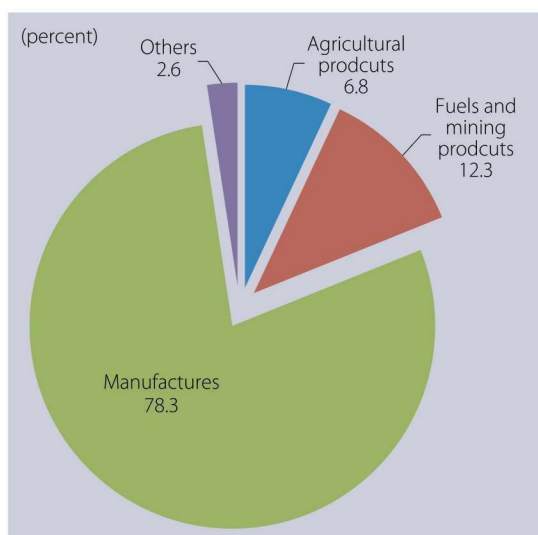


Figure 1.5 Asian Merchandise Exports by Industry, 2012

Source: WTO International Trade Statistics, 2013.

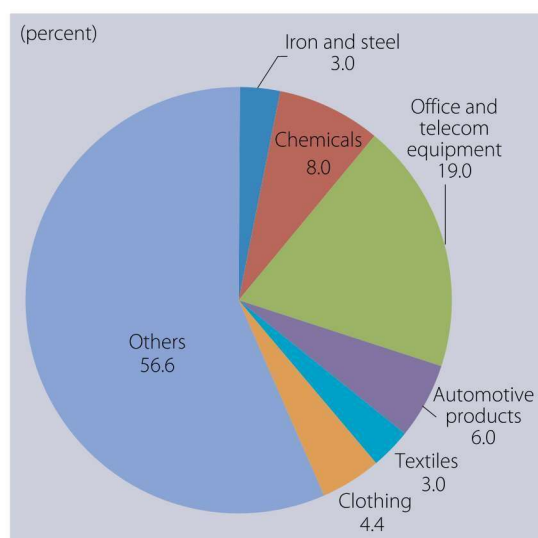


Figure 1.6 Asian Manufactured-exports by Category, 2012

Source: WTO International Trade Statistics, 2013.

in clothing for a long time in recent history also shows signs of stagnation. In 2012, clothing accounted for 4.4 percent of Asia's exports, but the figure was 0.6 percent lower than that in 2010. Miscellaneous products, which deserved a more detailed analysis, rose from 43 percent in 2010 to 56.6 percent in 2012. In general, Asia shows a more diversified pattern of exports, indicating that the region may be undergoing some transformation in the pattern of exports.

Figure 1.7 shows merchandise exports in Asia by source in 2012. More than half of Asia's exports are sold within Asia, and the share has been steady, with a slight rise from 52.6 percent in 2010 to 53.4 percent in 2012. Outside Asia, Europe and North America are the major export destinations for Asian exports. In 2013, 15.2 percent of Asia's merchandise trade exports went to Europe, while North America received 17.3 percent of Asia's exports.

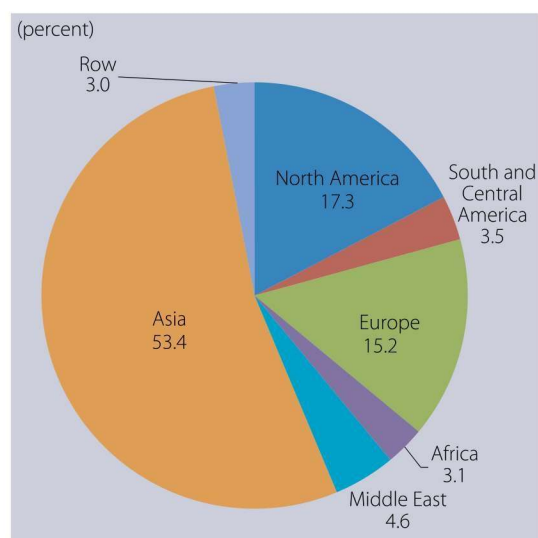


Figure 1.7 Asian Merchandise Exports by Source, 2012

Source: WTO International Trade Statistics, 2013.

Figure 1.8 shows merchandise imports in Asia by source. Asia's imports mostly come from the region. In 2012, 56.5 percent of Asia's imports were within the region. The Middle East is the second largest source of supply to Asia. In 2013, the Middle East accounted for 13.7 percent of Asia's total imports, while imports from Europe and North America accounted for 12 percent and 9.2 percent, respectively.

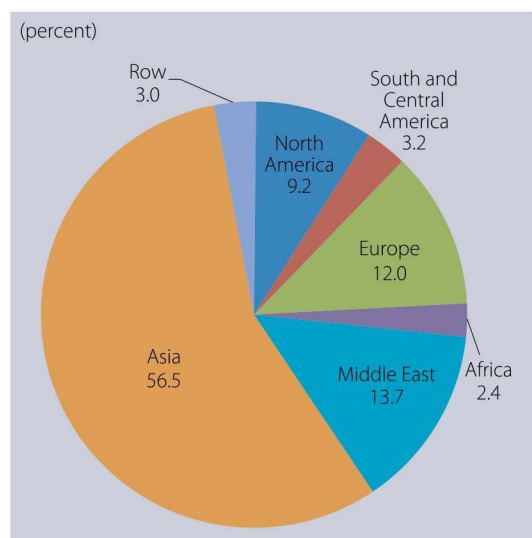


Figure 1.8 Asian Merchandise Imports by Source, 2012

Source: WTO International Trade Statistics, 2013.

Figure 1.9 indicates the top 8 Asian economies in manufacturing trade. China has remained as the top economy in manufacturing trade. In 2012,

China's total trade in manufacturing products was USD2,984 billion in 2012, which ranked after Europe's USD8,290 billion of manufacturing trade. Other top Asian trading economies that lag behind China in manufacturing trade include Japan, China's Hong Kong, Korea, Singapore, China's Taiwan, India and Thailand.

Figure 1.10 indicates the top 8 Asian economies in intermediate trade. As in the ranking in manufacturing trade, China ranked first in Asia and second in the world in terms of intermediate products. In 2011, China's total trade in intermediate products was USD1,829 billion, which ranked after Europe's USD5,481 billion of intermediate products trade. Other top Asian intermediate trading economies include Japan, Korea, China's Hong Kong, Singapore, India, China's Taiwan and Thailand. Although in Asia, China ranked first in both manufacturing trade and intermediate trade, there is an obvious difference in trade structure. In manufacturing trade, the value of exports is greater than the value of imports, while in intermediate trade, China's import value exceeds export value.

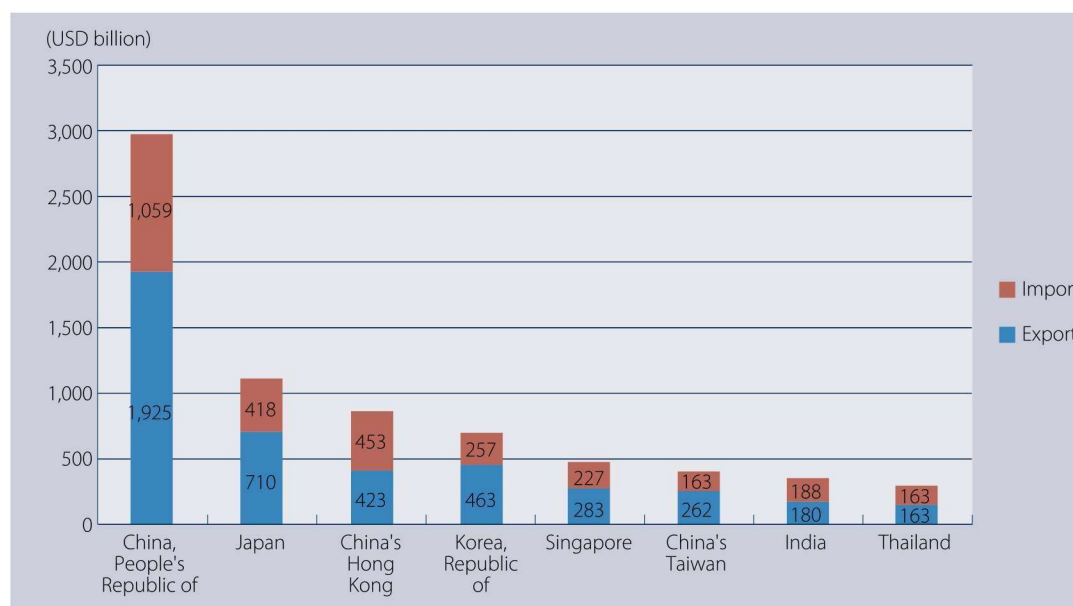


Figure 1.9 Asian Economies with Largest Trade Value in Manufacturing Products, 2012

Source: WTO International Trade Statistics, 2013.

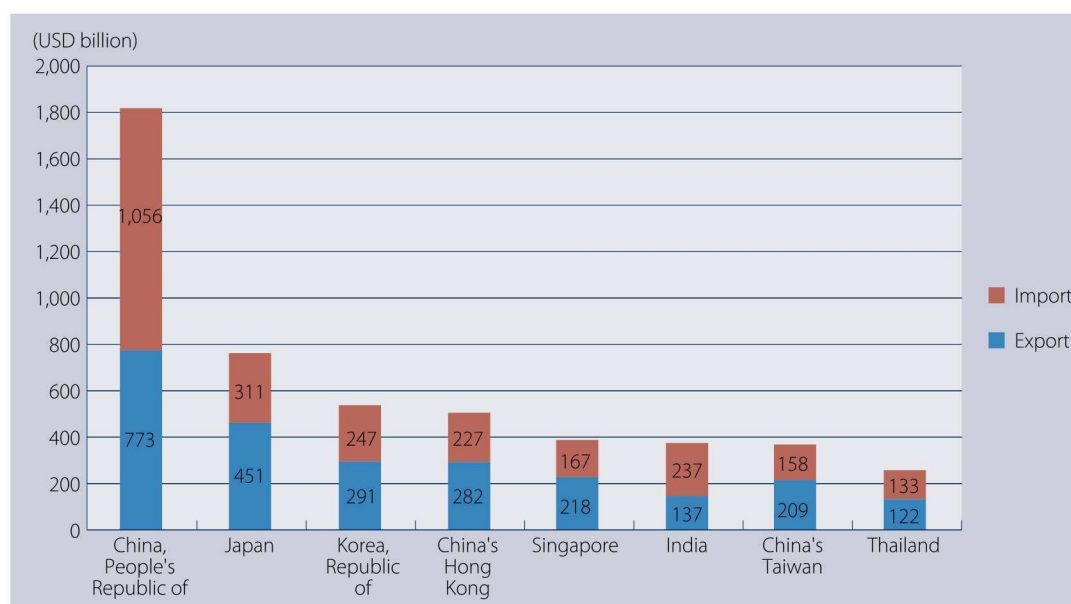


Figure 1.10 Asian Economies with Largest Trade Value in Intermediate Products, 2011

Source: WTO International Trade Statistics, 2013.

1.3 Intra-regional Flow of Intermediate Goods

Research by the economists in the past few years has shown that after the 1990s a fundamental change occurred in the developing Asian economies (Witada 2011). In the past, these economies tended to produce their own intermediate goods for domestic use and imported very little intermediate inputs. After the 1990s, the Asian developing economies began to import substantial amounts of parts and components from the US, Japan, Korea, China's Taiwan and China's Hong Kong. By 2000, the developing Asian economies, particularly Thailand and China, started to move away from simple export processing trade and became major suppliers of intermediate goods to the global market. Today, the development of the global supply chain in Asia has gone beyond the scope of export-oriented processing trade.

Table 1.4 shows Asia's top three traded intermediate goods. Asia has a high degree of concentration on the intermediate products of

electronics, telecommunications, textiles, and iron and steel. By value of trade, the largest product category is SITC 776 (thermionic, cold cathode or photocathode valves and tubes), followed by SITC 764 (telecommunications equipment and parts) and SITC 67 (iron and steel). Others include SITC 65 (textile yarn, fabrics, made-up articles, n.e.s., and related products), SITC 759 (office or automatic data processing machines), SITC 772 (electrical apparatus for switching), SITC 784 (motor vehicles), SITC 667 (pearls and precious or semiprecious stones, unworked or worked), SITC 713 (internal combustion piston engines, and parts thereof, n.e.s.), SITC 699 (product of parts and components), SITC 641 (paper and paperboard) and SITC 714 (engines and motors, non-electric).

Figure 1.11 shows the growth of Asia's intra-regional trade in intermediate goods from 2001 to 2012. In 2001, the intra-regional trade in intermediate goods within Asia was only USD486.3 billion, but by 2012, it more than quadrupled, rose to nearly USD2 trillion. Today, it seems that Asia still maintains the growth momentum.