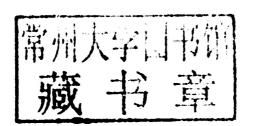
# Boao Forum for Asia Progress of Asian Economic Integration Annual Report 2014



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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

ROO Rules of Origin

STRI Services Trade Restrictiveness Index USTR United States Trade Representative

VS Vertical Specialization WO Wholly Obtained

WTO World Trade Organization

## **ACKNOWLEDGEMENTS**

This report was co-edited by Lin Guijun and Christopher Findlay under the general direction of Mr. Zhou Wenzhong, Secretary-General of Boao Forum for Asia, and Dr. Yao Wang, Executive Director of Boao Forum for Asia, Executive President of Institute of Boao Forum for Asia. The core team of authors comprised economists from universities in China and Australia (See List of Contributors on Page XII). Graduate students at the University of International Business and Economics (UIBE), including Men Qiyao, Nie Yi, Shi Lei and Zhang Qian, also actively contributed to the completion of the report through tabulation of statistical data and preparation of figures. All the authors had demonstrated great spirit of cooperation, dedication and excellent professionalism throughout the preparation of the report. Their work and efforts are essential for the final production of this very informative report with many details.

We wish to thank all the above members especially for their hard and creative efforts.

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### **FOREWORD**

Amid the slow economic growth in the developed economies, Asia's economic integration continues to move forward. However, there are indications that the pace of this process is slowing down due to a complex set of factors.

In 2012, Asia's self-dependence in trade increased to a record high level 59.49 percent after a small dip from 54.89 percent in 2010 to 54.07 percent in 2011. Asia's intra-regional trade in intermediate goods a measure of the intensity of Asia's international production network, also remained at a high level. In 2009, Asia's self-dependence index in the trade of global supply chain intermediate inputs was 60.9 percent, but increased only slightly to 61.1 percent in 2012. Thanks to the intensive trade in intermediate goods mainly with China's Hong Kong, Republic of Korea and Japan, China continued as a hub of "Factory Asia" as all the three economies had increased their dependence on the Chinese market from 2009 to 2012. To accompany the development of Asia's international production network, we see more intensive intra-regional flows of foreign direct investment (FDI) within the region. In 2012, FDI inflow to ASEAN accounted for 18.3 percent of the region's total as compared to 13.4 percent in 2009, while the inflow from ASEAN's six partner countries in the Regional Comprehensive Economic Partners (RCEP) accounted for 19.5 percent in 2009 and increased to 31 percent in 2012. The RCEP countries including ASEAN members are responsible for nearly 50 percent of the total ASEAN FDI inflows in 2012, as the share of inflow from EU was at a relatively low level of 26 percent in 2012 and that from the US dropped to only 6.4 percent in 2012. With respect to tourism, the intra-regional movement of tourists or the"Travel within Asia" phenomenon has become more prominent with more and/or most of the Asian tourists having chosen to travel within the region in 2013.

The slow growth in the developed economies had also put pressure on Asia's trade in 2012. Asia's exports increased by only 1.8 percent over the previous year, with only slight gains in its share of the global exports from 31.1 percent in 2011 to 31.5 percent in 2012. Based on the data for the first eight months in 2013, a good number of major Asian economies registered very low growth rates in export, including Japan, Singapore, Australia, Thailand, Malaysia and Indonesia. An important event in 2013 is that the composition of global merchandise trade shifted in favor of China. With a slower growth of 7.6 percent in 2013, China's total merchandise trade climbed to USD4.16 trillion, exceeding the US total (USD3.91 trillion) by USD250 billion.

What is the way forward for Asia? With the sluggishness of the economies in the US and EU, and faced with the slowdown of the pace of its internal economic integration progress, the Asian economies need to strengthen their economic policies and look for new drivers to sustain the growth of its member economies.

This report has provided systematic and insightful recommendations on how to advance the RCEP negotiations. The RCEP is different from the TPP in that the latter focuses mostly on behind-the-border domestic reforms aimed at creating a favorable environment mainly for investors, while the former has the advantage of exploiting the newly emerging markets by tackling the traditional market access issues at the border. However, in view of the wide participation in the global supply chain by the RCEP economies and ever-increasing importance of foreign direct investment, it is also essential for the RCEP negotiations to be comprehensive and deep to meet the needs of the global value chain and the desire for more foreign

investment by the RCEP countries. Thus, it is important for the RCEP partners to have a clear roadmap for the negotiations on not only substantial eliminations of tariffs and modernizing the existing the Rules of Origin, but also the issues like services, investment, trade facilitation, intellectual property and competition policy as discussed in detail by the authors of this report. Because of the relevance of traditional market access issues for many economies in the region plus the comprehensiveness and depth of the negotiations, RCEP may have a wider representation in Asia and conclude earlier than the TPP.

Great ambition does not necessarily lead to great results. At present, there is much to do and many hurdles to overcome by the RCEP negotiators. Though elimination of tariffs could bring substantial benefits to the RCEP participating countries, the current tariff structure in the existing ASEAN+FTA is too burdensome as one country makes different commitments to different countries. Consequently, there is a need for the RCEP countries to streamline their existing commitments and strive for more ambitious tariff reductions. Asia plays an important role in the global value chain. To sustain the development of the value chain, the strategy to liberalize the service sector should be found, effectiveness of the trade facilitation measures raised and Rules of Origin made more flexible with the aim to reduce the value chain costs to the minimum. More importantly, as developing RCEP economies usually have narrow point of contact on the global value chain, they may lose competitiveness in the value chain as their domestic labor costs rise. To upgrade along the value chain and to encourage domestic innovation, it is important for the RCEP countries to have a sound system of intellectual property protection and a pro-competitive market environment. But these two issues pose challenges to the RCEP members because their attitudes toward the role of protecting the intellectual property are rather different and when faced with foreign competition many want to protect their domestic producers, especially the state-owned enterprises. There is no ready recipe for these challenges and the RCEP partners need to use their wisdom to find the solution. Finally, there is an issue of assistance and capacity building. The RCEP should strengthen its capacity building programmes that are already ongoing to help the less developed members to keep up with changes.

The RCEP is a promising venture, which will enhance the region's prospect of economic prosperity. The RCEP countries shall have strong political will and commitments to seek this unprecedented opportunity to negotiate "a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement".

Zhou Wenzhong Secretary-General

月之重

Boao Forum for Asia

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# **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

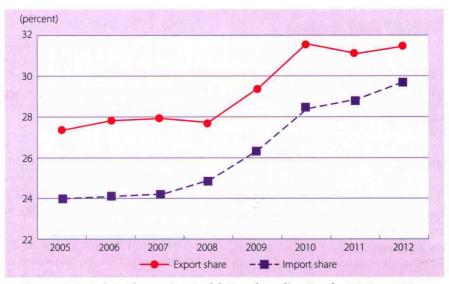


Figure 1.1 Asia's Shares in World Merchandise Trade, 2005-2012

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 — Wasan and Asia	253	322	558	1,133
Imports	1000			
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

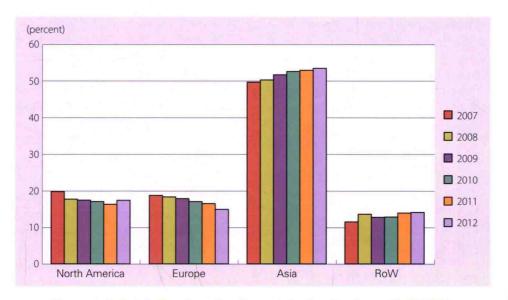


Figure 1.2 Asia's Merchandise Exports by Destination, 2007-2012

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. <sup>1</sup>

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.

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.<sup>2</sup>

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

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

<sup>2</sup> International Trade Statistics, 2013, published by WTO, P25.

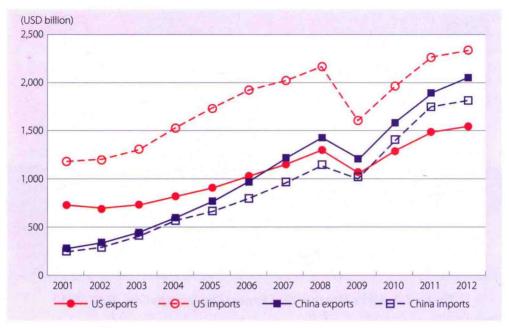


Figure 1.3 Merchandise Trade of China and the US

Source: International Trade Statistics, 2013, WTO.

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

\$ 21.00 T Service	Ехро	rts	Imports		
Economy	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.

