Boao Forum for Asia

Progress of Asian Economic Integration

Annual Report 2015

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ACRONYMS

AEM	ASEAN Economic Ministers
ALMM	ASEAN Labour Ministers Meeting
AMAF	ASEAN Ministers on Agriculture and Forestry
AQSIQ	Administration of Quality Supervision, Inspection and Quarantine
AREAER	Annual Report of Exchange Arrangements and Exchange Restrictions
ASEAN	Association of Southeast Asian Nations
CEPA	Closer Economic Partnership Arrangement
CII	Confederation of Indian Industry
CLMV	Cambodia-Laos-Myanmar-Vietnam
EASEMM	East Asia Summit Energy Ministers Meeting
ECO	Economic Cooperation Organization
EMM	Economic Ministers Meeting
EU	European Union
FDI	Foreign Direct Investment
FDII	FDI Inflows
FTA	Free Trade Agreement
GVCs	Global Value Chains
IMF	International Monetary Fund
IMT-GT	Indonesia-Malaysia-Thailand Growth Triangle
JCC	Joint Cooperation Committee
M&A	Merger & Acquisition
MRIO	Multi-Region Input-Output Model
NAFTA	North American Free Trade Area
OECD	Organization of Economic Cooperation and Development
RCEP	Regional Comprehensive Economic Partnership
SITC	Standard International Trade Classification
TPP	Trans-Pacific Partnership
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

FOREWORD

Concerns about the slowdown of Asia's economic integration as stated in our last year's *Report* became more prominent in 2013. The Asia Miracle seems to be losing its glory. The economic indicators that the *Boao Forum for Asia Annual Report on the Progress of Asian Economic Integration* has been monitoring over the years show that the future of the Asian economy is under greater uncertainty.

In 2013, Asia's merchandise trade grew only at the global average rate. For trade in services, Asia's growth even fell below the world average. The performance of inward FDI into Asia was also disappointing. In 2013 Asia's growth of FDI inflows grew at only 1.8 percent, well below the world average of 9.1 percent and the share in the global inward FDI dropped to 34.8 percent from the historic high of 37.7 percent attained in 2012.

The pace of Asia's integration in trade and production is also slowing down significantly. In 2013, Asia's self-dependence in trade dropped from the record high of 59.49 percent in 2012 to 53.01 percent. Growth of Asia's intra-regional trade in intermediate goods—a measure of the intensity of Asia's international production network, had continued its decline to 5 percent as compared with the 8 percent growth in 2012, and 7 percent growth in 2011. Consequently, Asia's self-dependence index in the trade of global supply chain intermediate inputs remained basically stagnant 60.1 percent, compared to 61.1 percent in 2012.

With these challenges, it is time for the Asian policy makers to sit down to think seriously. Asia should not let its past glory go. Instead, it should continue on the path of solid growth. The APEC Summit, held in Beijing in November 2014, proposed a number of solutions relevant to the Asia's vulnerabilities, including the initiative to establish the more inclusive Asia-Pacific free trade area, the blueprint for the global value chain cooperation and the connectivity in the Asia-Pacific region etc. In addition, China also launched its own ambitious program to enhance the land and sea connectivity with neighboring economies, the so called "One Belt and One Road" initiative.

A main feature of Asia's trade pattern is based on the collaboration of firms in the region to produce intermediate and final goods and then export them mainly to the developed markets in the US and Europe. If the demand in the developed economies slowed down, Asia's growth and internal integration would be seriously affected. An essential problem for Asia is its internal market, especially the market for final goods, is narrow. While Asia's internal trade accounted for over 50 percent of the total, a substantial part of the intra-regional trade is about intermediate inputs (43 percent) and the market left for the final goods is only about 50 percent. To sustain the growth of Asia's trade, it is essential to expand Asia's internal market. As a result, Asia's massive export capacity could return to health and Asia would be a more attractive destination to foreign investors. The recent APEC initiative to establish the Asia-Pacific free trade area, the blueprint for the connectivity in the Asia-Pacific region and China's "One Belt and One Road" initiative are all valuable means to expand Asia's internal market and should be appreciated.

This Report has made impressive improvements in the construction of the indices to monitor the progress of Asia's economic integration. Such indices as trade integration index, the index for inter-regional tourist flows, the stock market and general price indices and the inter-dependence index of Asian direct investment flows etc, form a complete and coherent system for the policymakers and cooperate leaders to know where we stand in the process of Asia's economic integration.

As I have said before, great ambition does not necessarily lead to great results. Asia has great potentials and those potentials must be tapped to support the sustained prosperity of Asia. The direction for the Asian and the Pacific leaders is to have strong political determination and take immediate actions to explore the opportunities inside Asia. A large and ever expanding internal market would reduce risks of the global supply chains, sustain the growth of Asia's exports and reduce the region's trade surplus that has posed serious challenges to the sound macroeconomic management of some major Asian economies.

周文重

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1.1 Growth of Asia's Trade in 2013

1.1.1 A Less Prominent Picture

Following the moderate global recovery in 2013, the Asian economies trade kept growing. On merchandise trade, the imports and exports of the Asian economies had grown at about the same rate as the world average.[1] For services, while the Asian economies were able to manage a positive growth, the growth rates of service trade were lower than the world average. Compared to 2012, Asia's positive growth rates had become less prominent in the global picture as economies in other regions of the world improved their growth records in 2013.

Figure 1.1 shows the changes in the Asia's shares of merchandise imports and exports in the world after the 2008-2009 financial crisis. In 2013, Asia's merchandise exports increased by 2.4 percent as compared to 2.1 percent in 2012 and the total merchandise exports reached USD5,773 billion in 2013, accounting for 31.5 percent of the world

1 However, if it is in volume terms, both merchandise imports and exports of Asia had grown faster than the average of the world in 2013. See Table 1.2, P21 in *WTO, International Trade Statistics 2014*.

Figure 1.1 Asia's Shares of World Merchandise Trade, 2005-2013

Source: *International Trade Statistics 2006-2014*, WTO.

total, a share that is about the same as in 2012. Asia's merchandise imports registered at USD5,423 billion in 2013 and the share in the global merchandise imports was 29.6 percent, which is comparable to the share obtained in 2008.

Figure 1.2 shows Asia's shares in the global service trade. In general, the Asian economies have been able to maintain a moderate and consistent growth rate in service trade. As shown in Figure 1.2, Asia's export of services were USD1,216.5 billion in 2013, which accounted for 26.2 percent of the world's service exports. Asia has been running a deficit in its service trade. In 2013, Asia's service imports reached USD1,234.7 billion, accounting for 28.2 percent of the world's total service imports.[1]

1 Calculated according to Tables A8 and A9 in *International Trade Statistics 2014*.

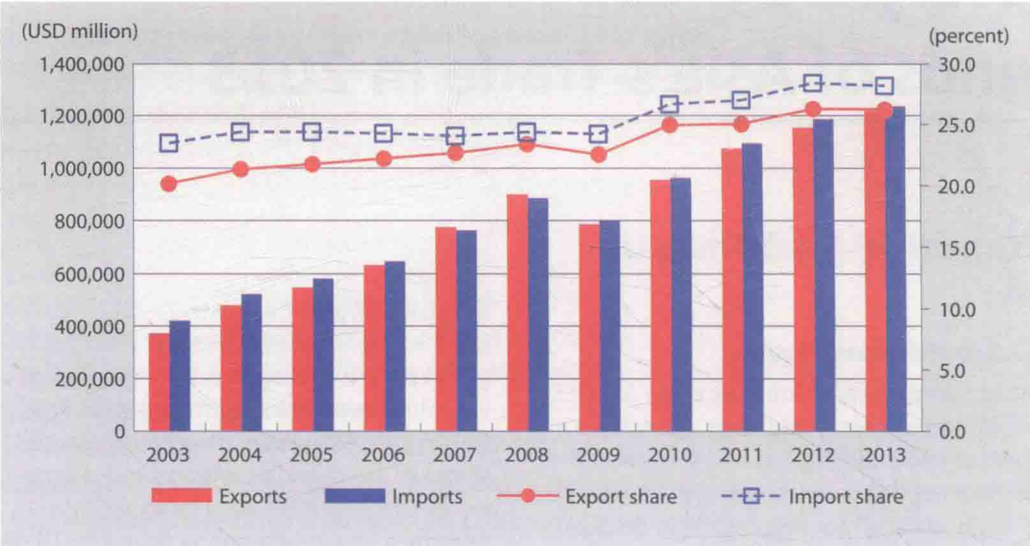

Figure 1.2 Value and Shares of Asia's Service Trade in the World, 2003-2013

Source: *International Trade Statistics 2006-2014*, WTO.

Table 1.1 shows the composition of Asia's service trade.[2] Compared to the previous year, there were two notable changes in 2013. First, Asia's imports and exports of transportation service declined, largely due to the sluggish growth in merchandise trade. The export of transportation service declined by 2 percent while the import declined by 0.8 percent. Second, Asia's travel services enjoyed a high rate of growth, with both exports and imports growing at around 10 percent.

2 Based on Tables III.3, III.5, and III.7 in *WTO, International Trade Statistics, 2014*.

Table 1.1 World Trade in Services by Regions, 2013

Exports	Transportation		Travel		Other Commercial Services		Total (USD billion)
	Value (USD billion)	Growth (percent)	Value (USD billion)	Growth (percent)	Value (USD billion)	Growth (percent)	
World	**905**	**1.7**	**1,185**	**6.8**	**2,550**	**8.7**	**4,640**
North America	100	3.1	204	5.7	457	7.3	761
South & Central America	30	3.4	51	6.3	63	0.0	144
Europe	433	4.1	459	7.2	1,301	9.6	2,193
EU (27)	394	5.6	403	9.2	1,201	10.3	1,998

continued

Exports	Transportation		Travel		Other Commercial Services		Total (USD billion)
	Value (USD billion)	Growth (percent)	Value (USD billion)	Growth (percent)	Value (USD billion)	Growth (percent)	
Commonwealth of Independent States	41	5.1	26	8.3	47	14.6	114
Africa	27	0.0	39	-9.3	24	9.1	90
Middle East	28	-12.5	48	-5.9	48	4.3	124
Asia	248	-2.0	356	10.6	611	9.5	1,215
Imports							
World	**1,165**	**1.7**	**1,070**	**7.5**	**2,085**	**6.1**	**4,320**
North America	131	4.8	140	2.9	295	4.6	566
South and Central America	56	1.8	48	9.1	92	7.0	196
Europe	376	3.6	398	5.0	976	7.1	1,750
EU (27)	349	3.6	356	4.7	908	7.1	1,613
Commonwealth of Independent States	31	6.9	68	21.4	75	11.9	174
Africa	65	4.8	26	0.0	68	-2.9	159
Middle East	110	0.0	76	13.4	63	5.0	249
Asia	396	-0.8	315	9.8	517	5.7	1,228

Source: *International Trade Statistics 2014*, WTO.

1.1.2 Two Largest Merchandise Traders in the World

In 2013 China became the largest merchandise trader of the world. The exports reached USD2,209 billion. However, while being the largest exporter, China is still the second largest merchandise importer of the world after the US. In 2013 China's merchandise imports registered at USD1,950 billion.

China's surplus on merchandise trade expanded in 2013 as compared to that of 2012. Globally, Germany had the largest trade surplus in the world in 2013. In 2013 Germany's trade surplus was USD264 billion in 2013 compared to USD240 billion in 2012. In 2013, while China expanded its trade surplus to USD259 billion in 2013 from USD230 billion in 2012, it had actually become the second largest surplus economy of the world after Germany.

The US, the second largest trading economy of the world, has, to some extent, relied on its voracious import demand to maintain its weight in the global merchandise trading. In 2013, the US imported USD2,329 billion and exported USD1,580 billion of goods, with a deficit of USD749 billion, compared to the higher USD790 billion registered in 2012. Figure 1.3 shows that the US merchandise exports kept growing after the slump in 2009 while its merchandise imports seemed to be slowing down after 2010.

1.1.3 A Look at Asia's Merchandise Trade in 2014

Table 1.2 shows the merchandise trade of the top Asian economies ranked by the size of the trade for the first 8 months in 2014. The growth rates of imports and exports of the economies within Asia are quite uneven. For some economies like Malaysia, China's Hong Kong, China and India, the export growth rates were well above the world average of 2.1 percent. But for other economies such as Japan, Indonesia, Australia and Thailand, the exports registered negative growth rates in the first 8 months of 2014.

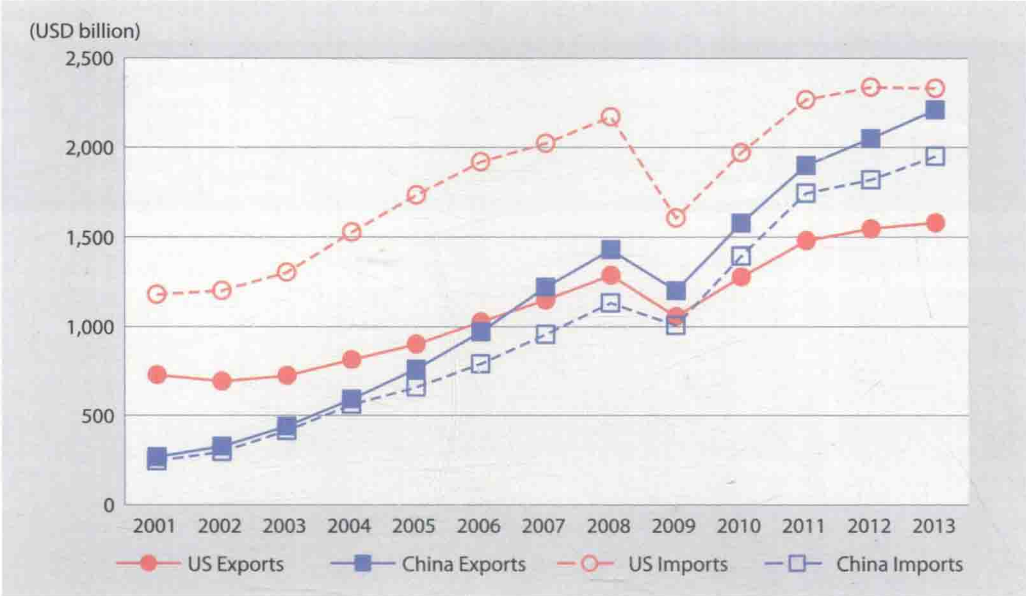

Figure 1.3 Merchandise Trade of China and the US, 2001-2013

Source: *International Trade Statistics, 2014*, WTO.

Table 1.2 Merchandise Trade of Selected Economies in the First Eight Months in 2014

Economy	Exports		Imports	
	Value (USD billion)	Growth Rate (percent)	Value (USD billion)	Growth Rate (percent)
China, People's Republic of	1,483.5	3.8	1,283.8	0.8
Japan	457.8	-3.4	550.5	0.9
Korea, Republic of	377.6	2.4	351.9	3.1
China's Hong Kong	305.9	3.9	349.6	4.0
Singapore	277.0	2.7	249.5	1.4
India	214.0	3.1	300.5	-7.3
Australia	164.6	-1.7	166.7	-1.1
Thailand	149.3	-0.8	150.3	-11.9
Malaysia	155.8	5.2	139.7	2.0
Indonesia	117.4	-3.0	118.8	-8.3
Russia	341.6	1.8	192.5	-9.1
US	1,075.3	3.3	1,546.3	2.7
EU	3,973.6	3.9	3,975.3	5.5
World	12,247.9	2.1	12,538.1	1.9

Source: *IMF Trade Statistics*, accessed in January 22, 2015