Challenges for Trade and Financial Integration

Purpose: Information
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Challenges for Trade and Financial Integration

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APEC FINANCE AND CENTRAL BANK DEPUTIES’ MEETING
“Strengthening Public Policy for an Integrated and Resilient Asia-Pacific Region”
Session 2: GLOBAL AND REGIONAL ECONOMIC AND FINANCIAL OUTLOOK

Lima, Peru | 14 October 2016
Outline

• Economic outlook for APEC and Business Cycles

• Progress of Regional Economic Integration
  • Intra-Asian Trade: the PRC’s Role and Vertical Supply Networks
  • Trade in Services
  • Trade Protectionism: Non-tariff Measures
  • Bilateral Investment Treaties
  • Financial Integration and Spillovers
Economic Outlook in APEC and Business Cycles
Growth in APEC economies remains robust

Real GDP Growth (y-o-y, %)

Note: f = WEO forecasts; weighted using gross national income (Atlas method).
Source: WEO 2015.
Large variations across economies

GDP Growth Rates (y-o-y,%)

<table>
<thead>
<tr>
<th>Economy</th>
<th>2016e</th>
<th>2017f</th>
<th>Economy</th>
<th>2016e</th>
<th>2017f</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advanced APEC</strong></td>
<td></td>
<td></td>
<td><strong>Developing APEC–Asia</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>2.5</td>
<td>3.0</td>
<td>Brunei Darussalam</td>
<td>1.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Canada</td>
<td>1.4</td>
<td>2.1</td>
<td>PRC</td>
<td>6.6</td>
<td>6.4</td>
</tr>
<tr>
<td>Japan</td>
<td>0.3</td>
<td>0.1</td>
<td>Hong Kong, China</td>
<td>1.5</td>
<td>2.0</td>
</tr>
<tr>
<td>New Zealand</td>
<td>2.0</td>
<td>2.5</td>
<td>Indonesia</td>
<td>5.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>-1.2</td>
<td>1.0</td>
<td>Korea, Republic of</td>
<td>2.6</td>
<td>2.8</td>
</tr>
<tr>
<td>US</td>
<td>2.2</td>
<td>2.5</td>
<td>Malaysia</td>
<td>4.1</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Developing APEC–Americas</strong></td>
<td></td>
<td></td>
<td><strong>Papua New Guinea</strong></td>
<td>2.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Chile</td>
<td>1.5</td>
<td>2.1</td>
<td>Philippines</td>
<td>6.4</td>
<td>6.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.5</td>
<td>2.6</td>
<td>Singapore</td>
<td>1.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Peru</td>
<td>3.7</td>
<td>4.1</td>
<td>Thailand</td>
<td>3.2</td>
<td>3.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Viet Nam</td>
<td>6.0</td>
<td>6.3</td>
</tr>
</tbody>
</table>

e = estimate, f = forecast, PRC = People’s Republic of China.
Note: Developing APEC—Asia based on ADB’s definition.
Source: Asian Development Outlook Update 2016, ADB and World Economic Outlook 2016, IMF.
APEC business cycles increasingly less correlated with US, more with PRC

Note: Developing APEC-Asia includes the People’s Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; Philippines; Singapore; and Thailand. Developing APEC-Americas includes Chile, Mexico, and Peru. Advanced APEC includes Australia, Canada, euro area, Japan, New Zealand, and Russian Federation. Three-year moving correlations based on cyclical Hodrick-Prescott filtered seasonally-adjusted gross domestic product at constant prices.

Source: ADB calculations using data from Haver Analytics and national sources.
Intra-Asia Trade: PRC’s Role and Vertical Supply Networks
Trade in services
Service sector’s share remains low compared to advanced economies

Source: World Development Indicators, World Bank.
Note: Total Asia balance calculated by subtracting debits (imports) from credit
Source: ADB calculation using data from *Balance of Payments Statistics*, International Monetary Fund.
Lower service trade restriction is associated with higher income level

Services Trade Restriction Index versus Log of GDP per capita

Note: Includes all countries in the Overall Services Trade Restriction Index.
Trade Protectionism: Non-tariff Measures
Rising NTMs: SPS and TBT

Tariff Rate (weighted mean)

SPS & TBT measures

- Applied, weighted mean, all products (%)
- Most favored nation, weighted mean, all products (%)

- SPS Measures
- TBT Measures
- Average no. of SPS & TBT

pre-GFC
post-GFC
# Overview of SPS and TBT Measures

<table>
<thead>
<tr>
<th>Sanitary (human and animal health) and phytosanitary (plant health) measures</th>
<th>Technical Barriers to Trade (products or processes)</th>
</tr>
</thead>
</table>
| **Purpose** | - addresses greater product safety and stricter environmental protection  
- define either the specific characteristics of a product (e.g. shape, size or design and performance)  
- pertain to the process and methods used in its production |
| - guarantee the safety of food for consumers  
- prevent or limit the spread of pests, outbreak of diseases among plants and animals, and other health risks arising from residues (of pesticides or veterinary drugs), contaminants (heavy metals), toxins or disease-causing organisms in foods, beverages or feedstuffs | |
| **Requirements** | - Six on technical regulation including product and process requirements  
- one requirement on conformity assessment procedures  
- another covering TBT measures not elsewhere classified |
| - Six on technical regulation including hygiene and post-harvest requirements  
- one requirement on conformity assessments  
- one on SPS measures not elsewhere classified |
SPS Measures

TBT Measures

Source: ADB calculations based on WTO Integrated Trade Intelligence Portal (I-TIP).
## Gravity Model Estimation Results

### Panel Regression on Bilateral Imports, 2012-2014

<table>
<thead>
<tr>
<th>Dependent variable: Log (Imports)</th>
<th>(1) SPS</th>
<th>(2) TBT</th>
<th>(3) SPS: Agriculture</th>
<th>(4) TBT: Agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importer</td>
<td>All WTO Members</td>
<td>Developing Asia</td>
<td>All WTO Members</td>
<td>All WTO Members</td>
</tr>
<tr>
<td>Exporter</td>
<td>All WTO Members</td>
<td>All WTO Members</td>
<td>All WTO Members</td>
<td>All WTO Members</td>
</tr>
<tr>
<td>Bilateral applied tariff AVE</td>
<td>-0.02***</td>
<td>-0.02***</td>
<td>-0.03***</td>
<td>-0.04***</td>
</tr>
<tr>
<td>SPS dummy</td>
<td>-0.03</td>
<td>0.42</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TBT dummy</td>
<td></td>
<td>0.33***</td>
<td></td>
<td>1.00***</td>
</tr>
</tbody>
</table>

**Exporter dummy (base = OECD)**

<table>
<thead>
<tr>
<th></th>
<th>Developing Asia</th>
<th>Non-DevAsia, Non-OECD</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Asia</td>
<td>1.30***</td>
<td>0.89*</td>
<td>-20.42***</td>
<td>-21.43**</td>
</tr>
<tr>
<td>Non-DevAsia, Non-OECD</td>
<td>1.82***</td>
<td>2.82***</td>
<td>-18.38**</td>
<td>-19.55**</td>
</tr>
</tbody>
</table>

**SPS/TBT dummy X exporter dummy**

<table>
<thead>
<tr>
<th></th>
<th>Developing Asia</th>
<th>Non-DevAsia, Non-OECD</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Asia</td>
<td>-0.50***</td>
<td>0.20***</td>
<td>-0.81***</td>
<td>0.06</td>
</tr>
<tr>
<td>Non-DevAsia, Non-OECD</td>
<td>0.47***</td>
<td>-1.07***</td>
<td>0.81***</td>
<td>0.19</td>
</tr>
<tr>
<td>No. of Obs.</td>
<td>271,280</td>
<td>271,280</td>
<td>4,855</td>
<td>4,855</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.38</td>
<td>0.38</td>
<td>0.27</td>
<td>0.27</td>
</tr>
</tbody>
</table>

AVE = ad valorem equivalent.; **, and *** denote significance at the 1%, 5%, and 10% confidence levels. For brevity, the results of coefficients for usual gravity factors are not presented.

Note: Panel regression includes exporter, importer, and sector (two digit level) fixed effects (no interaction).
Bilateral Investment Treaties
Rising number of BITs

Source: UNCTAD.
BITs grant foreign investors more substantive rights than RTIAs

Average scores of provisions in BITs and RTIAs (2000-2015)
Key findings from BIT/RTIA analysis

- Heterogeneity of BIT has increased over time but BIT in general has positive impact on FDI

- **Investor-related dispute mechanism in BITs** is the most important factor in inducing FDI

- RTIA has started to increase in number recently

- **National treatment and most-favored nation** provisions in RTIAs are the most important factors in inducing FDI
Financial Integration and Spillovers
Business cycle synchronicity peaks during crisis times

Developing APEC: Median Instantaneous Quasi-Correlations

Note: Developing APEC includes ASEAN4, NIEs, PRC, Chile, Mexico, Peru. Based on the methodology of Abiad et al (2013).
Source: ADB calculations using data from Oxford Economics and national sources.
Conditional Correlations of Equity Returns in Developing APEC-Asia


Source: ADB calculations using data from Bloomberg.
Conditional Correlations of Bond Market Returns in Developing APEC-Asia


Developing APEC-Asia includes ASEAN4, NIE4, and the PRC.

Source: ADB calculations using data from Bloomberg.
External Shocks: Variance Decompositions of Asian Output Growth

MP = monetary policy.
Thank you!