The Boao Forum for Asia

Progress of Asian Economic Integration

Annual Report 2012

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ACRONYMS

ASEAN	Association of South East Asian Nations
ASEAN+3	ASEAN plus China, Japan and Korea
BCA	The Balance of current account
BEC	Broad Economic Categories
CMI	Chiang Mai Initiative
DDA	Doha Development Agenda
ECB	European Central Bank
EERP	European Economic Recovery Plan
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
EMU	European Monetary Union
ESM	European Stability Mechanism
EU	European Union
FED	the Federal Reserve
FIEs	Foreign-invested enterprise
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
IMF	International Monetary Fund
MFI	More financial integrated economies, i.e., the emerging markets
PBOC	People's Bank of China
RMB	Reminbi, name for the Chinese currency
RTA	Regional Trade Agreement
RoW	The rest of the world
Shibor	Shanghai Interbank Offered Rate
SOEs	State-owned enterprises
UNWTO	World Tourism Organization
US	the United States
USD	US DOLLAR
VAR	Vector autoregressive regression
WTO	World Trade Organization

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This report was edited by Lin Guijun under the general direction of Yao Wang, Executive Director of the Boao Forum for Asia. The core team of authors comprised economists from different universities in Asia, the Middle East and Europe (See List of Contributors on Page X). Graduate students at the University of International Business and Economics (UIBE) also actively contributed to the completion of the report through compilation and tabulation of statistical data and events, and preparation of figures. All the authors had demonstrated great spirit of cooperation, dedication and excellent professionalism throughout the preparation of the report.

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FOREWORD

2011 was a year of turbulence.

Despite the deteriorating global economic environment, Asia still maintained its growth momentum. After the global financial crisis in 2008. Asia continued to strengthen its position in the global trade. Asia's share in the global trade increased from 29 percent in 2009 to 32 percent in 2010 while the share of Europe—the world's largest trading bloc, declined from 41 percent in 2009 to 38 percent in 2010.

Asia's production network is the basis of the region's economic integration. Being the largest factory in the world, Asia's export of intermediate inputs exceeds USD1 trillion a year and accounted for about 47 percent of global export in intermediate goods, as compared to EU's 32 percent and North America's 10.3 percent. Since the 21st century, different from that in the 1990s, Asia's intra-regional trade in intermediate inputs (mainly concentrated between Northeast Asia and Southeast Asia) has increased markedly while the inter-regional trade with North America and Europe declined to rather low levels. Today, the degree of Asian economies' dependence on Factory Asia has reached 64 percent. However, Asia's integration is not only limited to production. It is also reflected by the high degree of intra-regional flows of tourists and steadily increased interdependence in overall merchandise trade (including not only intermediate goods but also finished goods and raw materials). In 2009, about 51 percent of Asia's trade was among the Asian economies and in 2010, this ratio increased to 54 percent. The evidence clearly shows that there are natural and internal forces that are driving forward Asia's economic integration.

2011 was also a year of making choices. From the APEC Summit in Honolulu to the East Asia Summit in Bali in November 2011, the Obama Administration promoted the US-led TPP as a model for the future Asia-Pacific free trade area in a high profile. Globally, TPP was put forward at a time when the Doha Round of the WTO had stalled since 2009. In Asia TPP is regarded as an alternative to the ASEAN-plus model to move the Asian economic integration process. At the present stage, the Asian economies are at crossroads with respect to which direction they should take to promote the ongoing integration process in the region. For the US-led TPP, however, it is not without challenges. As the current nine TPP members comprise a small portion of trade on a regional and global level and the members tend to trade more with outside economies than among each other, there is a need to get other APEC members in to build a credible critical mass and at the same time make sure that TPP is indeed "gold standard 21st century FTA".

Looking into 2012, t it is very important for the Asian economies to intensify the efforts to cooperate both at a regional and global level. At the regional level, there is a need to continue the cooperation to expand the region's internal demand faced with the slowdown in the US and EU markets, ensure that the Asian production network function smoothly as it is still fragile for lack of governance, work with Japan to reduce the negative effect of the disasters on the region's growth, and coordinate on the region's future integration path to prevent the region from splitting into several trading blocs.

This year's report represents the continued efforts by the Boao Forum for Asia to provide updated information and views on the progress of Asian economic integration. I am grateful to the work by an international team of economists for their hard efforts to prepare this report. We hope that the report will stimulate more discussion and ideas on our way to search for better means of cooperation and better lives for the people in the region.

周文重

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