

ASEAN Research Digest

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FULL IMPLEMENTATION OF AEC MAY RAISE ASEAN INCOME BY 5% AND GENERATE US\$52.7 BILLION IN NET GLOBAL BENEFITS

Title of study: ASEAN Economic Community: A General Equilibrium Analysis

By Peter A. Petri, Michael G. Plummer and Fan Zhai

Published in the Asian Economic Journal, Volume 26, Issue 2, 2012

BACKGROUND

Research objectives:

To evaluate the benefits of the ASEAN Economic Community (AEC), planned for 2015.

- The implementation of the AEC will encompass the free movement of goods, services, investment, and skilled labour, and freer flow of capital.
- Save from the European Union, the AEC is the **most ambitious initiative of regional integration**, which comprises initiatives ranging from lowering barriers to trade and investment to harmonizing regulations and policies.
- A detailed implementation plan of the integration process, the ASEAN Economic Community Blueprint, was signed in 2007.
- This study is the first attempt to estimate fully the effects of the implementation of the AEC Blueprint.**



METHODOLOGY

- The authors use a **computable general equilibrium (CGE) model** to estimate the benefits of the AEC and they incorporate other channels of benefits of integration in attempt to model broader effects of integration than similar studies.
- First, they take into account **multiple policy measures** encompassed in the AEC.
- Second, they incorporate the **implications of multiple product varieties, productivity gains due to economies of scale, and the heterogeneity of firms in terms of productivity.**
- Third, they explore the **effects of the possibility that regional integration will lead to a network of free trade agreements (FTAs) with external partners.**
- To analyze the benefits they compare **5 scenarios (AFTA, AFTA+, AEC, AEC+ & AEC++)** that are implemented relative to an estimated 2015 baseline, which incorporates general expansion of the ASEAN economies relative to 2004 trade policies.

Computable General Equilibrium (CGE) models use economic data to estimate the potential impact of external factors on an economy

5 SCENARIOS

AFTA	Completion of the between AFTA+ and AEC agreement: elimination of remaining tariffs.
AFTA+	Intensification of AFTA: removal of non tariff barriers.
AEC	Implementation of the AEC: Reforms that improve the investment climate.
AEC+	Bilateral FTAs between the AEC and the +6 (Australia, New Zealand, India, Japan, China and S-Korea).
AEC++	Bilateral FTAs between the AEC and the USA and the EU.

FULL IMPLEMENTATION OF AEC MAY RAISE ASEAN INCOME BY 5% AND GENERATE US\$52.7 BILLION IN NET GLOBAL BENEFITS

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KEY FINDINGS

WELFARE EFFECTS

The welfare effects are in terms of equivalent variations (EVs): the income changes that would have been required to achieve equivalent welfare changes, expressed in US\$ billions and as percentages of GDP

5 SCENARIOS

US\$ billions, 2004 price, EV EV as % of baseline GDP

Scenario	Description	US\$ billions, 2004 price, EV	EV as % of baseline GDP
AFTA	Completion of the between AFTA+ and AEC agreement: elimination of remaining tariffs.	10.1	0.8
AFTA+	Intensification of AFTA: removal of non tariff barriers.	38.0	2.9
AEC	Implementation of the AEC: Reforms that improve the investment climate	69.4	5.3
AEC+	Bilateral FTAs between the AEC and the +6 (Australia, New Zealand, India, Japan, China and S-Korea).	115.6	8.9
AEC++	Bilateral FTAs between the AEC and the USA and the EU.	151.0	11.6

- The full implementation of the AEC would **raise real income** in the region by **US\$69.4 billion**, or **5.3%** compared to the baseline.

- Most **Non-ASEAN** economies would experience **losses** due to the AEC trade and investment diversion effect.

- The **net global benefit** would however be positive of **US\$52.7 billion**.

- In the case of **AEC+**, the increase in **real income** would be **US\$115.6 billion**.

- That is **8.9%** higher than the baseline.

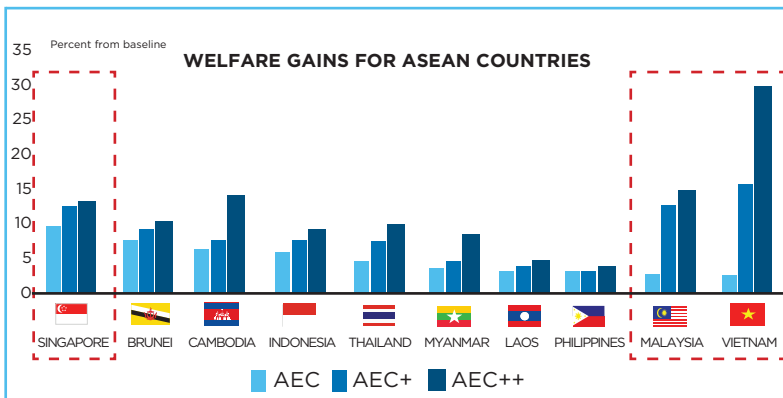
- If ASEAN would also sign FTAs with the USA and the EU the increase in real income would be **US\$151.0 billion** which is **11.6%** above the baseline.

- The AEC++ scenario is globally beneficial as the **overall global gain would be US\$166.8 billion**.

- All of the ASEAN countries would gain from regional integration**, although the levels of gains differ under the three different scenarios (AEC, AEC+, AEC++).

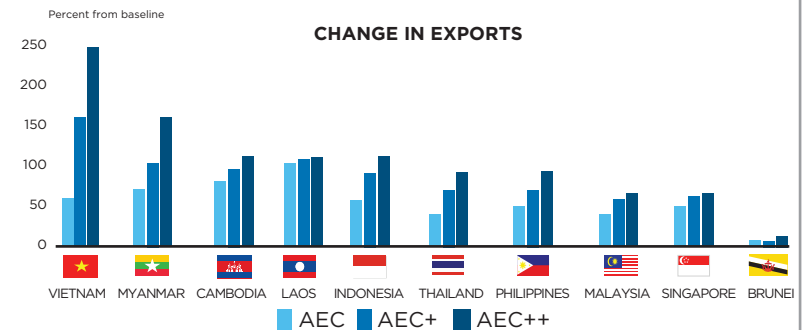
- Singapore would gain most from the full implementation of the AEC.**

- Vietnam and Malaysia would benefit most from ASEAN's external partnerships**



INCREASED TRADE

	SCENARIO		
	AEC	AEC+	AEC++
Exports	42.6%	70.9%	88.9%
Imports	35.4%	67.8%	86.4%



- The CLMV countries would experience the largest increase in exports under all AEC scenarios

STRUCTURAL IMPLICATIONS

- The implementation of the AEC will also have important structural implications.
- Rising manufacturing productivity will shift ASEAN's **comparative advantage towards manufacturing** and away from primary materials and services
- These allocation effects will improve the **productivity of ASEAN resources** and **raise incomes**, but they do imply **significant structural adjustments within the region and within countries**
- Such changes could affect **income distribution** and need to be accompanied by **monitoring, compensation and offsetting social policies**

WHY IT MATTERS

This study is the first attempt to evaluate the full benefits of the AEC. The findings confirm the belief of the potential benefits of increased regional integration. Furthermore, the study shows that ASEAN would benefit further from increasing its external partnerships.

Title of study: Assessing financial market integration in Asia – Equity markets

By Ip-Wing Yu, Kang-Por Fung and Chi-Sang Tam

Published in the Journal of Banking & Finance, Volume 34, Issue 12, 2010

BACKGROUND

Research objectives:

To examine the development of equity market integration of ten Asian countries over the period 1994-2008.

- Previous studies on financial integration in Asia have provided limited and inconclusive empirical evidence.
 - Some find little evidence of regional financial integration while others find that financial markets in the region are integrated to some extent. Yet others find that recent equity market integration in Asia is more due to the integration with the global market rather than within the region.
- This study attempts to fill in this gap of mixed results and in particular, to answer the following questions:
 - **To what extent are the equity markets in the region integrated?**
 - **What has the evolution been and what is the current level of equity market integration? Is it progressing, at a standstill, or regressing?**
 - **What is the relative importance of regional vs. global factors in intra-regional equity market integration?**

FINANCIAL INTEGRATION



BENEFITS

More efficient allocation of capital

Higher degree of risk diversification

Lower probability of asymmetric shocks

More robust market framework



RISKS

Increased risk of cross-border financial contagion in case of financial instability

METHODOLOGY

- The authors survey several indicators of high frequency which allow for the assessment of the dynamic evolution of equity market integration.
- The indicators vary in scope and focus, but together provide a wholesome picture of equity market integration in Asia.
- The study uses data from **March 1994 to December 2008**, covering 10 Asian countries:
 - Japan
 - Mainland China
 - Hong Kong SAR
 - Taiwan
 - South Korea
 - Singapore
 - Malaysia
 - Thailand
 - Indonesia
 - Philippines
- The authors also construct indicators for the following regional blocs:

Mainland China, Hong Kong SAR and Taiwan.

Greater China region

Hong Kong SAR, Taiwan, South Korea and Singapore.

Four-dragon bloc

Malaysia, Thailand, Indonesia and the Philippines.

Asian emerging region

- The Dow Jones Industrial Average of the US is used as a proxy for the external market.
- The MSCI AC Far East Free Index is used as the regional benchmark.

KEY FINDINGS

- The integration process is not complete.
- The financial integration process of equity markets in Asia slowed down between 2002 and 2006 but picked up again in 2007 and 2008.
- **Except for Japan, the Philippines, and mainland China, all the Asian economies observed in the study show greater sensitivity to regional factors than global factors.**
- A lot of progress in equity market integration with respect to greater return convergence took place within the region during the 1990s.
- Individual equity market indices are **becoming more responsive to regional than global influences.**
- There are signs of **increased synchronisation of equity market cycles and higher correlations in the region.**
- The equity markets in the **Four-dragon bloc** are **more integrated with each other** than countries in the other two regional blocs with **higher return correlations, more synchronised market cycles and greater price convergence.**
- The equity markets in Mainland China are only weakly integrated within the region.
- Divergence in integration between the mature markets and emerging economies due to:

Establishment of links between markets (trading, payment, clearing, settlement, custodian systems)

Harmonisation of standards in the capital market

Strengthening of cooperative efforts in financial system development

Relaxation of non-supervisory restrictions against access of foreign financial intermediaries to the domestic financial markets

WHY IT MATTERS

This study shows that most Asian countries observed are more sensitive to regional factors than global factors, which explains why the financial markets in Asia have been relatively robust against negative shocks from the West.

Title of study: A framework for analysing intergovernmental collaboration – The case of ASEAN tourism

By Emma P. Y. Wong, Nina Mistilis, and Larry Dwyer | Published in *Tourism Management*, Volume 32, Issue 2, 2011

BACKGROUND

Research objectives:

To offer a framework for analysing intergovernmental collaboration which dissects the inhibiting and facilitating factors of collaboration. With the framework they study the progress made by ASEAN since the inception of the ASEAN Tourism Agreement in 2002 and the Roadmap of Integration of Tourism Sector in 2004.

- The tourism sector in ASEAN is fast growing. The number of visitors to the region almost doubled between the years 2002 and 2008, to 65.5 million visitors.
- According to the United Nations World Tourism Organisation, expected annual growth rate till the year 2020 is 6.3%, which will mean 136 million visitors per annum.
- Intergovernmental collaboration in ASEAN tourism has received little attention in the research literature, despite its economic significance.

METHODOLOGY

- The authors adopted a case study approach using official documents from ASEAN, non-official publications, and interviews with key stakeholders.
- 21 individuals were interviewed, among whom were high-level government officials, international organisations representatives, industry associations, academia and consultancies.

KEY FINDINGS



To liberalise the flow of money and people in the region

- To cooperate in facilitating travel into and within ASEAN.
- To substantially reduce restrictions to trade in tourism and travel services among ASEAN member states.
- To create favourable conditions for the public and private sectors to engage more deeply in tourism development, intra- ASEAN travel and investment in tourism services and facilities.



To increase the competitiveness of the tourism industry

- To enhance cooperation in the tourism industry among ASEAN member states in order to improve its efficiency and competitiveness.
- To enhance mutual assistance in human resource development and strengthen cooperation to develop, upgrade and expand tourism and travel facilities and services in ASEAN.



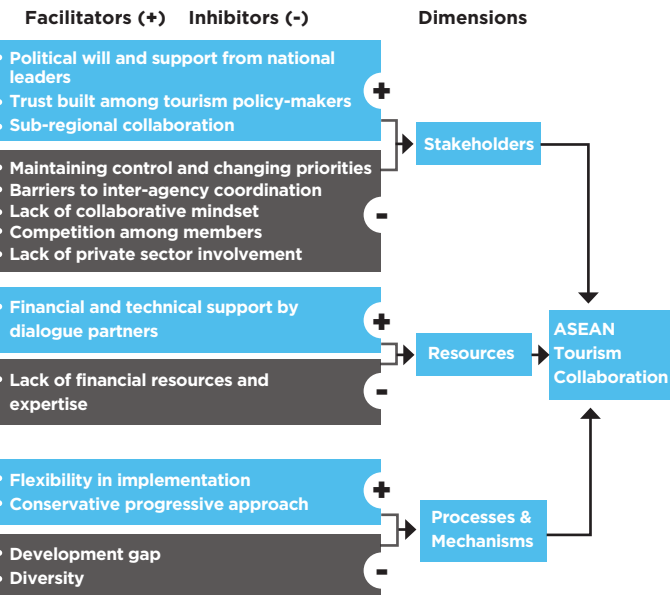
To strengthen the unity and identity of ASEAN as a region

- To enhance the development and promotion of ASEAN as a single tourism destination with world-class standards, facilities and attractions.
- To establish an integrated network of tourism and travel services in order to maximize the complementary nature of the region's tourist attractions.

Significant progress has only been made towards two of these objectives:

- i) Progress was made in **travel facilitation** with The ASEAN Framework Agreement on Visa Exemption in 2006 which allows ASEAN nationals to travel within the region without a visa for two weeks.
- vi) Progress was made in **human resources development** when the ASEAN Common Competency Standards for Tourism Professionals were finalised in 2008.
- The framework that the authors offer involves the study of the facilitators and inhibitors of collaboration from three dimensions:
 1. **Stakeholders**
 2. **Resources**
 3. **Processes and Mechanisms**

Continued >



- The **financial and technical support by dialogue partners has facilitated collaboration** by assisting the less-developed members but the **lack of financial resources and expertise in the ASEAN secretariat has slowed down the collaborative process.**
- The **pragmatic orientation adopted by ASEAN in policy implementation has facilitated the process** but **diversity between members and the development gap has inhibited the process.**
- According to the study, external entities such as ADB, dialogue partners, and the private sector could contribute by improving the competency of some stakeholders.

WHY IT MATTERS

The findings highlight a problem faced by many ASEAN integration initiatives, which is the lack of private sector involvement. The private sector could move the process along by providing the ASEAN secretariat with the financial resources and the relevant expertise, and decreasing ASEAN's reliance on external parties such as international organisations or dialogue partners.

Title of study: Regional cooperation towards green Asia: Trade in low carbon goods and services

By Kaliappa Kalirajan | Published by Crawford School of Public Policy, Centre for Climate Economics and Policy (CCEP) working paper 1204, 2012

BACKGROUND

Research objectives:

To explore the potential of Asian regional cooperation in trade and investment in low carbon goods and services (LCGS)

- As regional income increases in Asia, the demand for clean environmental goods and services (EGS) or low carbon goods and services (LCGS) will increase.



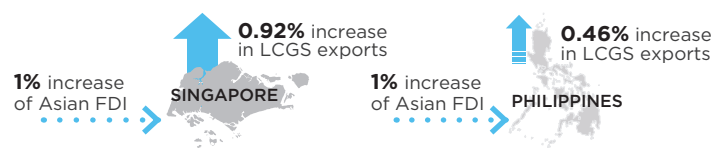
- Even though effective tariffs on LCGS are low, the **non-tariff barriers are very high**, and trade and investment in LCGS remains low.
- Future market opportunities in the EGS sector require current R&D investments, which the authors argue would be more beneficial to do at a **regional level** rather than at national levels.
- The aim of the study is to answer these questions:
 - What would be the **magnitude of technology and investment flows in LCGS** into the region under **three scenarios of cooperation**:
 - a grand regional coalition scenario
 - limited cooperation scenario
 - stand alone scenario
 - What are the **impacts of non-tariff barriers on potential export flows** of the LCGS in Asia?

METHODOLOGY

- The LCGS covered in the study are the WTO 153 list grouped into 12 categories.
- The author examined **technology and investment flows** in LCGS which is **equivalent to examining export flows** as production and exports of LCGS are mainly determined by technological innovation and investment.
- The **ratio of Asian FDI to non-Asian FDI** to the home country is used as a proxy for regional integration and together with a variable which indicates whether trade agreements exist between the exporting country and its trading partner, these two indicators represent a 'grand coalition' scenario.
- Either of these indicators individually represents a 'limited coalition' scenario, and a 'stand alone' scenario is when both are taken out.
- These scenarios are simulated under the assumption of **no non-tariff barriers constraints to exports**.

KEY FINDINGS

- All the countries would enjoy increased export potential of LCGS under grand regional coalition scenario compared with the scenarios with limited or no cooperation.
- China currently dominates** in all but one category in LCGS trade, in which India dominates.
- Among the ASEAN countries, Singapore dominates in the LCGS trade, followed by Thailand.
- Impact of Asian FDI on potential LCGS exports is positive for all countries** but varies in magnitude. It is largest for Singapore and the lowest for the Philippines.



- Trade agreements have positive impact on LCGS exports** but the magnitude varies for countries. China's existing trade agreements have facilitated more LCGS exports for China than other Asian countries' trade agreements have facilitated for them.

KEY FINDINGS

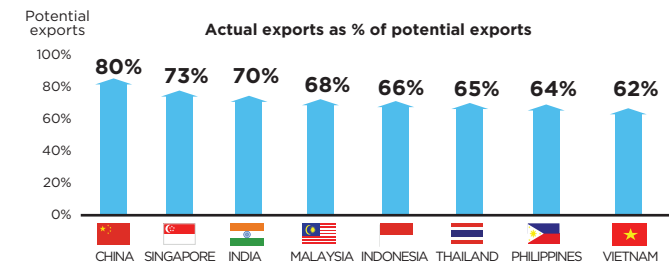
Trade agreements



More LCGS exports

- The authors measure the gap between actual and potential exports for the same time period to explore the impact of non-tariff barriers to LCGS exports. The results indicate:

- The gap is smallest for China which is able to realise 80% of its potential exports.**
- Export inefficiency is highest for Vietnam, which only realises 62% of its export potentials.**



- Asia has not realised its potential** in the LCGS development and exports despite its huge market within the region and the financial reserves for funding, due to **lack of collaboration**.
- That lack of cooperation is in the author's opinion **due to false ideologies and misunderstanding** between the countries in the region.
- The author suggests that the **emerging Asian economies learn from the experience of the more economically mature East Asian countries** in trade and investment in environmentally friendly goods.
- Furthermore, he urges for the **creation of an institutional infrastructure** in the form of an **Asian Free Trade Area in LCGS**.

WHY IT MATTERS

With the looming threat of climate change, the growth of the low carbon goods and services sector is imperative, especially for those countries heavily dependent on imported energy and resources. This study shows that growth in the sector would be higher with regional cooperation than under national initiatives.

METHODOLOGY

- The current patterns of trade and investment in LCGS are examined over the period 2000 to 2009 in key emerging Asian countries, identified by their carbon emission capabilities.
- These countries are:
 - China, India, Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam.