

Is East Asian Regionalism Still Relevant?¹

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This note discusses first the changing international trade landscape in the ASEAN region and East Asia, and then argues that East Asian regionalism remains relevant and indeed more so but in the context of global engagement of East Asian countries.

A. The Changing International Trade Landscape in the ASEAN and East Asia

I. *Trade and FDI Openness*

- Southeast Asian (except Brunei) and East Asian countries are much more open to international trade and foreign direct investment during 1990s and 2000s (see Table 1).
 - Five ASEAN countries had trade to GDP ratios of more than 100 percent by 2006-2007.
 - All, except Indonesia, had trade to GDP ratios higher than the world average of 50 percent during 2006-2007.
 - Although virtually the whole world saw significant increases in trade openness during the period, Southeast Asia's performance is remarkable with spectacular increases in trade to GDP ratios during 1990-2007 in Cambodia, Laos and Indonesia.

¹ Panel Discussion comments prepared for the Seventh East Asia Congress , Kuala Lumpur, on December 8, 2009. The Congress is hosted by the Institute of Strategic and International Studies (ISIS) Malaysia.

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- FDI to GDP ratio rose remarkably during the period. Sharpest increase was registered by Brunei, Cambodia, Laos, Myanmar, Thailand and Vietnam. Most sluggish: Indonesia and the Philippines
 - Arguably, given the ratios, international trade and foreign direct investment play bigger role in Southeast Asia on a per capita basis than in China and India although the latter two countries have generated much more “buzz” in international media
 - Southeast Asian countries tend to be more open to international trade and FDI than the Northeast Asian countries and India. Note the relatively low share of international trade to GDP in Japan, the world’s second largest economy. Note also that the trade ratio increased significantly in Japan during the 1990s and 2000s, suggesting that Japan relied on international trade as a key means to sustain the economy during the long period of recession and low growth.
- The significant rise in international trade and FDI openness is likely a key contributor to Southeast Asia’s robust economic growth since the mid- 1980s.
 - Growth performance of low income countries (Cambodia, Laos, Myanmar and Vietnam) during 1995-2007 is particularly impressive with Cambodia’s growth rates comparable to China’s and Vietnam’s growth rates close to India’s in recent years.
 - All four CLMV countries recorded the fastest increase in FDI stock among the ASEAN countries during the period. Cambodia and Vietnam have trade to GDP ratios of more than 100 while Laos has trade to GDP ratios higher than Indonesia and the Philippines.

II. Intra-ASEAN and Intra-ASEAN + 3 Trade

- Intra-ASEAN trade deepened during the 1990s and 2000s (Table 2). Intra-ASEAN trade is now one quarter of total trade of ASEAN countries compared to about a fifth in the early 1990s. Moreover, the intra-regional trade intensity index increased from 4.2 during 1990-1992 to 4.6 during 2006-2008. The increase in the share of intra-ASEAN trade contributed significantly to the increase in the trade of ASEAN with the ASEAN + 3 region during the period.

- The rise in the aggregate share of intra-ASEAN trade hides interesting country-level developments in the direction of trade. Four ASEAN countries *reduced* their reliance on ASEAN region as an export market while at the same time reducing their import sourcing on ASEAN (Vietnam) or expanding substantially their import sourcing on ASEAN (Cambodia, Laos and Malaysia). The other ASEAN countries *increased* their reliance on the ASEAN region as an export market (most notably Myanmar and the Philippines) and at the same time increasing the share of ASEAN as an import source (most notably, Indonesia).

- Cambodia, Vietnam, the Philippines and Singapore exemplify changes in the direction of trade during the 1990s and the 2000s in Southeast Asia that were underpinned by the dictates of comparative advantage and the opportunities from global and regional trade liberalization (see Table 3).
 - Cambodia dramatically shifted its direction of exports away from the ASEAN region towards outside ASEAN + 3 while at the same time increasing further its reliance on the ASEAN + 3 region as a source of imports. Noting that Cambodia has the sharpest rise in trade to GDP ratio during the period among the ASEAN countries, Cambodia effectively leveraged its very low labor cost with imported inputs from the ASEAN + 3 region in order to generate exports (mainly garments) primarily to the West. This smart utilization of the principle of comparative advantage must have been a big factor for Cambodia's growth performance, which is the best in the ASEAN region since the early 2000s.

- Vietnam's case is similar to Cambodia's, albeit a bit more subdued because Vietnam has a broader commodity base for exports, including agricultural products where ASEAN and East Asian countries are major export destinations; e.g., the Philippines for rice. Nevertheless, Vietnam's booming labor intensive industries (e.g, garments) share Cambodia's growth path; that is, low labor cost plus inputs imported directly or indirectly (imported inputs for domestically produced inputs) combined to generate large exports primarily to the West. Like in Cambodia, the very strong export performance underpinned by favorable investment climate and trade liberalization contributed significantly to the second highest growth rate in the ASEAN, and third highest in East Asia after China and Cambodia.

- Hitherto the least engaged in ASEAN and East Asian trade among the ASEAN countries in the early 1990s, the Philippines turned dramatically to the ASEAN and East Asia region for its export and import expansion in the 1990s and the 2000s. At present, the share of ASEAN region to its total trade is comparable to Thailand, although still smaller than for Malaysia, Indonesia and Singapore. The share of ASEAN + 3 in the Philippine total exports is now the same as in Singapore and comparable to Thailand and to a less extent, Malaysia. Behind the significant shift in the direction of trade in the Philippines is the dramatic shift in the composition of Philippine exports towards electronics exports as part of the regional production networks in the ASEAN and East Asia regions.

- Singapore's trade relationships in the ASEAN and ASEAN + 3 deepened much further in the 1990s and the 2000s, with much greater increase in the share of ASEAN + 3 in Singapore's exports and a much greater increase in the share of the ASEAN in Singapore's imports. The pattern of trade growth described above reflects Singapore's key role on the regional production networks in the region especially in electronics. Thus, for example, electronics parts (e.g., semiconductors) from other ASEAN countries are exported to Singapore for advanced testing or as inputs for other intermediate products (say, disk drive), which are then exported primarily to China as inputs for assembled final products such as computers for export from China to the region or to the whole world.

III. Intra-regional Commodity Trade

- Table 4, on intra-regional trade share within ASEAN and within ASEAN + 3 in selected commodity groups, provides interesting insights.
 - First, the intra-regional trade shares in electronics and electrical equipment group ---the quintessential example of regional production networks in the region---remained constant in the 2000s for both the ASEAN and ASEAN + 3 regions despite the global fluctuations in the industry during the period. The constancy is noteworthy given that the value of electronic and electrical equipment and parts exports from ASEAN to ASEAN + 3 in 2007 was two and a half times the value in 1999, and that the commodity group accounts for at least a quarter of the total ASEAN exports to the ASEAN + 3 region. This is reflective of the global nature of the industry and the near zero tariffs affecting the industry globally so much so that there are no trade diverting effects from the onslaught of free trade agreements in the region.
 - Second, in contrast, are the commodity groups like “vehicles, other than railway and tramway” (primarily cars and motorcycles) where there is a marked increase in intra-regional trade shares, most likely affected in part by regional agreements like the ASEAN industrial complementation program where production of parts is scattered in selected member countries in conjunction with the assembly of specific types of cars in particular member countries for distribution to the whole region or specified sub-region.
 - Third, it is interesting to note the increase in the intra-regional trade shares of commodity groups like “soaps, lubricants, etc.” and “essential oils, perfumes, cosmetics, etc” and “cereal, flour, etc. preparations and products” which are likely partly a result of regional production rationalization strategies of multinational corporations (e.g., Nestle, Procter and Gamble, Unilever) wherein a specific product is produced in particular plant in a country for distribution to the rest of the region or selected countries in the region.

- Fourth, some commodity groups that also increased intra-regional trade shares within ASEAN are linked to countries in the region with distinct comparative advantage; e.g., “tin and articles thereof”, “paper and paperboard, etc.”, “rubber and articles thereof”, “mineral fuels, oils, etc.” and “copper and articles thereof”. Most of them are natural resource-based. They also tend to be weighed down by relatively high share of transport costs to the unit value of the products; as such, the nearer the market the better is the ex factory price that producers can receive.

- Finally, and most importantly, there are other commodity groups where the intra-regional trade shares have increased but which are not known to be characterized in terms of regional production networks or in relation to regional production rationalization strategies of multinationals. Examples of this are “plastics and articles”, “organic chemicals”, “articles of leather, etc., travel goods”, and “beverages, spirits, and vinegar”. Note that in the case of “articles of leather, etc. travel goods”, the intra-regional trade share within ASEAN rose substantially during the period, although the intra-regional trade share within the ASEAN + 3 region barely increased. The results seem to suggest that such industries would likely respond to further reductions in trade barriers, either in terms of tariffs and non-tariff barriers or trade facilitation costs.

- There are a few commodity groups where the intra-regional trade share within ASEAN declined during the 2000s. These groups include labor intensive products like garments (which reflect the success of countries like Cambodia and Vietnam as significant exporters to the West) as well as agricultural products.

IV. Key Insights

- The changing international trade landscape in the region brings out the following key insights:
 - Openness to global trade, and not only regional trade, allows for the full play of comparative advantage. This is best exemplified by the experience of Cambodia and Vietnam where better market access in European Union and the United States enabled significant market access, leveraging their low labor cost with imported inputs from the region as well as from the major export markets themselves that enabled them remarkable growth in exports during the past one and a half decades.

Similarly, the near zero tariff regime in electronics globally allowed for the full flowering of global and regional production networks in the sector, where varying levels of factor prices and factor capabilities concomitant to the varying levels of development of East Asian countries amidst improved and cheaper transportation and communication linkages in East Asia enabled the efficient fragmentation of production processes across various countries in the region. The rise of regional production networks has had major impact on the volume and direction of intra-regional trade in East Asia. It is not surprising that electronics and electrical equipment and parts has been the key driver of the surge in total exports and intra-regional trade of the countries in the region.

- Nonetheless, regional trade liberalization and integration initiatives also shaped the changing trade landscape in the East Asia region. Substantial reduction in tariffs and near elimination of non-tariff barriers especially in many manufacturing sectors in the region has encouraged the rise of regional production rationalization initiatives among multinationals in the region and the growth (in production and trade) of transport cost -sensitive commodities in the region. In effect, the more liberalized trading environment contributed to the deepening of economic interchange in the region in a wide range of industries and products beyond regional production networks.
- In short, regionalism in tandem with or as a foundation of global engagement is the way forward in engendering regional integration either in the ASEAN or in East Asia.

B. Is East Asian Regionalism Still Relevant?

I. Is there Upside Potential for Further Intra-regional Growth?

In answering the question of whether East Asian regionalism is still relevant, the first issue to examine is whether there is still an upside potential for deeper intra-regional trade and investment. Are there potentials for greater intra-regional trade in East Asia as compared to global trade?

The experience of European Union countries suggests that there is still room for further intra-regional trade. Out of the 27 EU member countries, 23 of them had intra-EU trade accounting for at least 60 percent of their total trade in 2007. In fact, three countries (Czech Republic, Slovakia; and Luxembourg) had intra-EU trade shares of at least 80 percent while around ten EU member countries had intra-EU trade shares of at least 70 percent in 2007. Even the United Kingdom, the most outward (towards non-EU trade) of the EU countries, had intra-EU trade share of more than 50 percent in 2007. Similarly, Germany which is among the top two exporters globally had an intra-EU trade share of around 65 percent in 2007.

These shares are way higher than the intra-regional trade share for ASEAN member countries and, for most of the EU countries, the intra-EU trade shares are way higher than the intra-regional trade shares of ASEAN + 3 countries. In fact, intra-ASEAN + 3 trade accounted for only 44 percent of Korea's total trade, 36.8 percent of Japan's total trade and 26.3 percent of total China's trade in 2008. In short, East Asia's three largest economies have actually been much more geared towards trade outside of the ASEAN + 3 region than any of the EU member countries. This is viewed by many observers as a reflection of the East Asian regional production networks that are primarily geared at the moment for exports for countries outside of East Asia.

Arguably, EU is composed of countries with relatively smaller populations than the Northeast Asian countries and as such they could be more dependent on international trade among themselves. To some extent, NAFTA approximates more the ASEAN + 3 region in the sense that the United States dominates the region. Nonetheless, Canada and Mexico relied more than 70 percent and 60 percent respectively on the United States for their international trade in 2007 while the United States relied on nearly 30

percent of its international trade on Canada and Mexico in 2007. Thus, the shares in NAFTA are higher than in East Asia. At the same time, the rest of East Asia is a much bigger market for China than Canada and Mexico are for the United States, which would suggest that the share of intra-ASEAN + 3 trade should be even higher than in the NAFTA.

Thus, either in the context of the EU or of NAFTA, the intra-regional trade share in East Asia does have upside potentials. This is especially so because developing East Asian countries (China, Southeast Asia and, using a broader geographic definition, India) can be expected to lead the world in the growth of aggregate income and demand in the years to come. As such, neighboring countries can be expected to have the geographic advantage to fully exploit the opportunities that arise from the growth of aggregate demand of countries in the region.

2. Production networks and beyond

The common impression is that the significant rise in intra-regional trade in East Asia has a lot to do with the rise, and realignment, of regional production networks mainly in (electrical) machinery parts and equipment. The most technology intensive parts are produced in Japan, Korea and Taiwan which are then assembled, tested and used for other (intermediate) products (say disk drives) in Southeast Asian countries (mainly Malaysia, Singapore, Thailand and the Philippines) to be exported to China or to other ASEAN countries (e.g., Malaysia) to be used as inputs for final products for eventual export to (mainly) the United States and European Union as well as increasingly in East Asia. Underpinning this intra-regional pattern of production and trade are the significant differences in factor prices amidst lower transportation and communication costs among the East Asian countries that allowed for the efficient fragmentation of production across the region.

This is a key reason why the intra-regional trade ratios for Japan and Korea now are in fact much higher than they were in the 1990s. The ASEAN + 3 region accounted for only about a fifth of total Japan's exports in 1990-1991 as compared to 36 percent during 2007-2008. Similarly, the share of ASEAN + 3 in Korea's total exports was about a fifth in 1990-1991 as against about two-fifths share during 2007-2008. In the case of China, the share of ASEAN + 3 in China's exports declined from about a quarter during the mid 1990s to about a fifth during 2007-2008. This decline, however, could partly be purely a statistical problem in that up to the early 1990s, a significant share of China's exports to the world was coursed through Hong Kong (hence, recorded as export to Hong Kong); as

the years went on, the share of China's exports to Hong Kong has dropped with the surge in direct exports from China itself. The share of ASEAN + 3 in China's imports rose substantially from about a quarter in the early 1990s to more than a third in the mid 2000s. To some extent, China's international trade engagement so far follows the Japanese and Korean earlier approaches writ large; that is, rely comparatively more on ASEAN + 3 for imports as input for greater exports to the rest of the world.

Of course, the above mentioned description of the pattern of regional production networks is not the complete story. For example, arguably, many of the Southeast Asian firms do not export only to East Asia but to the whole world. *In effect, they are part of the global production networks, rather than just the East Asia regional production networks.* Thus, the Texas Instruments plant in Baguio City, Philippines services also the parts requirements of say mobile phone producers in Europe and the United States or for that matter the whole world. That may well be the case for many Malaysian plants of multinationals because of the increasingly specialized nature of the products being produced.

Beyond the regional and global production networks, however, Table 4 shows that the robust growth of many countries in the region together with the reduction in trade barriers as well as the improvement of trade facilitation facilities like customs and infrastructure have led to increased intra-regional trade in products that are not usually considered in terms of production networks, many of them natural resource - based. It can be expected that further robust economic growth would engender more intra-regional trade in such commodities in as much as they draw from differing comparative advantages in the region, with the Southeast Asian countries (excluding Singapore) being more resource abundant than Japan or South Korea. Indeed, if agricultural tariffs and non-tariff barriers in agricultural products in Japan and South Korea are reduced significantly, then there could be greater intra-regional trade in agricultural products in East Asia.

Finally, as per capita incomes converge in East Asia, it is likely that product differentiation becomes more important as an element of consumer choice and product sourcing. The further reduction in tariff and non-tariff barriers would allow for the intensification of competition through product differentiation from domestic producers and imports within the region. It is likely that the large share of intra-regional trade in the EU is partly due to the growth in the demand for differentiated products within the region.

3. In the service of regionalism and global engagement: the critical roles of investment climate and trade facilitation

East Asian regionalism for global engagement seems like an oxymoron. Yet the history of ASEAN regionalism is really essentially in tandem with, if not for, deeper global engagement. The margin of preference between intra-ASEAN tariffs and MFN tariffs has not been huge in a number of major manufacturing industries to result to significant trade diversion, especially taking into consideration the transactions cost of getting the MOP privilege. At the same time, arguably it is politically easier to sell to the domestic polity trade-related reforms in the context of deepening economic relations with neighboring countries with socio- cultural and geographic affinities, especially where market-based economic integration has proven to be beneficial on the whole to the countries.

Where regionalism becomes an important complement to global engagement is in the “plus” component of the usual “FTA plus”. The plus that is particularly important is investment climate. In virtually all the success stories of adjustment to trade liberalization and deeper regional and global engagement in Southeast Asia, increased foreign investment has been a critical component, most recently highlighted by Cambodia and Vietnam. Clearly, the whole China phenomenon was jumpstarted by foreign direct investment in the special economic zones of coastal China in the late 1980s and early 1990s. It is probably not surprising that the Philippines has been struggling growth-wise and adjustment –wise because the country has been the laggard in the region in generating foreign and domestic investment for so many years. The decline of the total investment as a ratio of gross domestic product from the mid 1990s to the present in the Philippines is especially worrisome because the country’s investment rate has been comparatively low to start with and because the country’s poverty rate and unemployment rate remain stubbornly high.

Among the ASEAN countries, it is the Philippines, Myanmar, Laos and Indonesia that need to improve their investment climates and raise their investment rates most. At the moment, Vietnam seems surfeit with foreign direct investment while Cambodia would likely become an even more enticing investment destination if the expected considerable royalties from the gas/oil finds are well utilized. Thus, especially for the above mentioned countries, regional integration agreements that give special emphasis on investment liberalization and facilitation; e.g., Japan's EPAs with ASEAN countries, AFTA, would likely contribute to both deeper regional engagement, and because such initiatives tend not to be specific to selected countries, global engagement.

In addition to improving the investment climate, developing Southeast Asian countries can benefit a lot from improvement in trade facilitation. This involves improved infrastructure, equipment and procedures in order to improve connectivity within the countries and between the countries. Here, Cambodia, Indonesia, Laos, Myanmar, the Philippines and Vietnam are particularly wanting of improvement in trade facilitation among East Asian countries. Both Indonesia and the Philippines have an added challenge of being archipelagos which require more ports to be upgraded and yet there are economies of scale in port operations. Similarly, Laos is unique among East Asian countries in being landlocked, which constrains its potentials for seaborne trade and, given its inadequate air transport capabilities, forces the country to rely more on neighboring countries like Thailand for its international trade.

Regional integration agreements that give special emphasis on trade facilitation potentially favor the developing Southeast Asian countries. Arguably, improving trade facilitation in the name of deeper regional integration also facilitates deeper global integration. For the essence of improved trade facilitation is to reduce transactions time and cost in trading internationally, which supports both regional and global engagement in both exports and imports. Nonetheless, in light of budget and resource constraints that countries face, there is some tension between improving infrastructure, equipment and procedures in areas (say capital cities or main ports) in order to have greater connectivity with other economic centers in the region on the one hand, and improving infrastructure and equipment in order to improve domestic connectivity. This challenge, more acute for archipelagic countries like the Philippines and Indonesia, and the country response is ultimately country-specific.

4. Facilitating deeper East Asian regional integration with deeper global engagement: the importance of regional coordination and cooperation

There are other complementary factors that facilitate deeper East Asian regionalism while at the same time supportive of deeper global engagement. One of them is macroeconomic stability with capital market development in the region. A stable macroeconomy improves the investment climate, all other things being equal. Capital market development contributes to improved financial capability and more efficient financial intermediation across the region and intertemporally, given the growing importance of long term investments in infrastructure, research and human capital for the countries in the region to adjust better to the demands of greater regional and global integration. A related element to this is to ensure more realistic exchange rates between the countries in the region in order to prevent serious current account imbalances. Another important factor that facilitates a more harmonious regional integration process is ensuring fair competition in the region. This involves preventing not only serious anti-competitive behavior among firms in an integrated East Asia but also trade distorting and anti-competitive subsidies to firms, especially state-owned firms.

It is worth noting that the factors discussed above virtually require regional policy consultation, coordination, agreement or cooperation. It is also important to note that increased technical or development assistance in tandem with policy reforms, institutional capacity building, and infrastructure development may be warranted for the poorer developing countries in East Asia. Thus, the pursuit of East Asia regionalism with deeper global engagement is better served if there is a significant component of technical, economic and development cooperation as well as regional policy coordination in it.

III Concluding Statement

Is East Asian regionalism still relevant? The answer is yes indeed, but with an eye for deeper global engagement as well. This means any East Asia-wide “FTA plus” would need to focus much more on the “plus” components, which tend to be supportive of both deeper regional integration and greater global engagement.

Table 1. Trade and FDI Openness and GDP Growth in ASEAN and East Asia countries

No.	Country	Average GDP Growth (1986-2006)	Trade Openness		FDI Openness	
			(1990-1991)	(2006-2007)	(1990-1991)	(2004-2005)
1.	Cambodia	8.5 *)	8.4	105.6	2.0	39.8
2.	Indonesia	5.2	13.4	44.0	7.1	10.5
3.	Laos	6.0	23.7	81.8	1.7	24.4
4.	Malaysia	6.4	137.8	179.4	24.4	35.2
5.	Myanmar	5.2	52.9	54.6	7.6	43.8
6.	Philippines	4.1	48.0	78.7	10.7	14.8
7.	Singapore	7.0	299.9	352.4	82.5	165.7
8.	Thailand	6.1	67.8	122.8	10.1	33.6
9.	Vietnam	7.0	72.0	147.7	26.0	61.3
10.	China	9.7	31.5	65.3	5.5	12.3
11.	Taipei	5.6	74.7	118.8	5.9	12.1
12.	India	6.3	13.4	35.9	0.6	5.5
13.	Japan	2.2	16.6	29.3	0.3	2.2
14.	Korea	6.5	49.9	68.2	2.0	13.1

*) (1994-2006)

Source of data: ADB ARIC for Trade and FDI Openness;

ADB Emerging Asian Regionalism (2009) for Average GDP Growth Rates

Table 2. Integration Indicators

Reporting Region	Partner Region	1990-1992	2006-2008
ASEAN			
Export Share (%)	ASEAN	19.6	25.2
Import Share (%)	ASEAN	16.3	25.8
Intra Regional Trade share (%)	ASEAN	19.6	27.0
Intra Regional Trade Intensity Index	ASEAN	4.2	4.6
ASEAN +3			
Export Share (%)	ASEAN +3	42.9	48.9
Import Share (%)	ASEAN +3	46.3	54.5
ASEAN +3			
Export share (%)	ASEAN	13.0	13.9
Import share (%)	ASEAN	12.7	15.8
Export share (%)	ASEAN +3	27.6	34.3
Import share (%)	ASEAN +3	33.0	42.6
Intra regional trade share (%)	ASEAN +3	30.6	37.9
Intra regional trade intensity index	ASEAN +3	1.92	1.83

Source of data: ADB ARIC

Table 3. Direction of Trade

No	Country	ASEAN		ASEAN +3	
		1990-1992	2006-2008	1990-1992	2006-2008
1.	Cambodia				
	Export share (%)	62.1	8.2	69.6	11.4
	Import share (%)	42.6	46.8	64.6	70.6
2.	Laos				
	Export share (%)	56.0	52.5	68.4	62.8
	Import share (%)	59.5	76.5	83.5	91.3
3.	Myanmar				
	Export share (%)	21.9	54.2	45.0	68.0
	Import share (%)	33.4	47.6	74.2	88.8
4.	Vietnam				
	Export share (%)	19.2	15.7	47.8	38.5
	Import share (%)	27.7	26.1	40.1	63.9
5.	Indonesia				
	Export share (%)	11.6	19.6	58.5	55.5
	Import share (%)	9.3	35.1	41.7	60.0
6.	Malaysia				
	Export share (%)	29.6	25.9	50.5	48.3
	Import share (%)	20.0	28.3	50.4	57.7
7.	Philippines				
	Export share (%)	6.7	16.5	29.4	49.9
	Import share (%)	10.1	21.7	35.8	49.4
8.	Singapore				
	Export share (%)	22.8	31.5	34.9	49.5
	Import share (%)	18.7	24.8	45.7	49.4
9.	Thailand				
	Export share (%)	12.5	21.6	32.8	44.9
	Import share (%)	13.1	17.8	49.6	52.4

Source of data: ADB ARIC

Table 4. Intra-regional Trade shares in Selected Commodity Groups, ASEAN and ASEAN +3

No	Country	ASEAN		ASEAN +3	
		1999-2000	2006-2007	1999-2000	2006-2007
1.	Electrical, electronic equipment	29.8	29.9	44.3	44.5
2.	Vehicles, other than railways, tramways	17.6	28.1	13.9	20.9
3.	Soaps, Lubricants	29.9	35.7	44.0	48.0
4.	Essential oils, Perfumes, Cosmetics, etc	32.2	40.1	31.9	43.1
5.	Beverage, Spirits, Vinegar	36.2	46.4	29.5	39.8
6.	Cereals, flour, etc. products	40.9	48.3	45.9	55.7
7.	Organic Chemicals	25	30.6	41.3	52.0
8.	Articles of leather; travel goods	6.6	19.3	22.3	22.4
9.	Plastics and articles	31.4	33.9	44.6	47.9
10.	Optical, photo, medical etc. apparatus	15.5	21.7	28.8	41.6

Source of Data: ADB ARIC

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Outline

- Notes on the Changing International Trade Landscape in the ASEAN and East Asia
- Is East Asia Regionalism Still Relevant?

Changing International Trade Landscape in ASEAN/EA

- ASEAN and East Asian countries much more open to trade and FDI in 1990s and 2000s
- Arguably, trade and FDI play bigger role in ASEAN countries than China and India
- Trade and FDI growth engendered particularly impressive growth in Cambodia, Vietnam and even Laos

Intra-regional Trade

- Intra-ASEAN trade
 - Early 1990s: $1/5$ of total trade
 - Present: $1/4$ of total trade
- Seizing opportunities from dictates of comparative advantage and trade lib
 - Cambodia: exports from ASEAN to outside EA; imports more from ASEAN + 3
 - Vietnam: exports more to outside ASEAN + 3
 - Philippines: trade shift from US to ASEAN + 3
 - Singapore: exports more to ASEAN + 3; imports more from ASEAN

Intra-regional Commodity trade

- Intra-regional trade share in electronics and electrical equipment group constant in ASEAN and ASEAN + 3 during 2000s
- Intra-regional trade share in “vehicles other than railway” increased markedly –linked more to FTA incentives
- “Soaps, etc”; “Cereal, etc. Products” intra-regional trade increased---regional production rationalization of MNCs
- Intra-ASEAN trade in “tin and articles”, “paper and paperboard” increased—comparative advantage i resource based products
- Intra-regional trade increased in products like plastics, organic chemicals, beverages, articles of leather
- Intra-regional trade in garments and agri prod declined

Key Insights

- Openness to global trade, and not only to regional trade, allows for the full play of comparative advantage
 - Cambodia and Vietnam examples
 - Electronics regional and global prod network
- RTAs also shaped the changing trade landscape in ASEAN and East Asia
 - Deeper economic interchange in wide range of products beyond regional production networks

Is East Asia Regionalism Still Relevant?

- There is Upside Potential for Further Intra-ASEAN + 3 Trade Share Growth
 - Intra-EU trade shares much higher than intra-ASEAN + 3
 - Intra-NAFTA trade shares higher than intra-EA
- Production Networks and Beyond
 - Rise in EA share in Japan's and Korea's exports linked partly to deepening production networks for growing EA demand and ROW

Is East Asia Regionalism Still Relevant ?

(Cont'd.)

- SEA firms also linked globally, not only regionally, in production networks
- Further robust growth in EA leads to greater intra-regional trade beyond production networks
 - e.g., regional production and distribution strategies of MNCs,
 - natural resource based products,
 - differentiated products in response to rising demand from a growing middle class in the region

Is East Asia Regionalism Still Relevant ? (Cont'd.)

- The critical importance of investment climate and trade facilitation
 - Regionalism with global engagement is not an oxymoron if we focus on the “Plus in” “FTA Plus” of RTAs.
 - Most critical is improved investment climate and facilitation plus liberalization, esp in Philippines, Indonesia, Laos and Myanmar. Higher investment rate facilitates adjustment and competitiveness
 - Improved trade facilitation equally critical for Philippines, Indonesia, Myanmar, Cambodia, Vietnam, Laos. Faster customs, better infrastructure, streamlined procedures and rules all support trade, investment and productivity
 - Both support regionalism and global engagement

Is East Asia Regionalism Still Relevant ?

(Cont'd.)

- In support of regionalism and global engagement: Importance of regional coordination and cooperation
 - For macroeconomic stability and capital market development in region
 - Importance of realistic exchange rates between region's countries
 - Engender fair competition (e.g., rules on government subsidies to producers esp SOEs)

Concluding Statement

- East Asia regionalism is still relevant but with an eye for deeper global engagement
- Need to focus more on the “plus” component of any East Asia “FTA Plus” Agreement
- “Plus” components supportive of both deeper regional integration and greater global engagement