



Conference on Regional Cooperation and Integration

Experiences in Asia and the Pacific

Organized by the Asian Development Bank and Kunming Municipal Government,
Yunnan Province, People's Republic of China

Papers and Presentations

Disclaimer:

The views expressed in this presentation are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank (ADB), or its Board of Directors or the governments they represent.

ADB makes no representation concerning and does not guarantee the source, originality, accuracy, completeness or reliability of any statement, information, data, finding, interpretation, advice, opinion, or view presented.

By making any designation of or reference to a particular territory or geographic area, or by using the term "country" in this document, ADB does not intend to make any judgments as to the legal or other status of any territory or area.





Regional Integration and Cooperation: A Balanced View

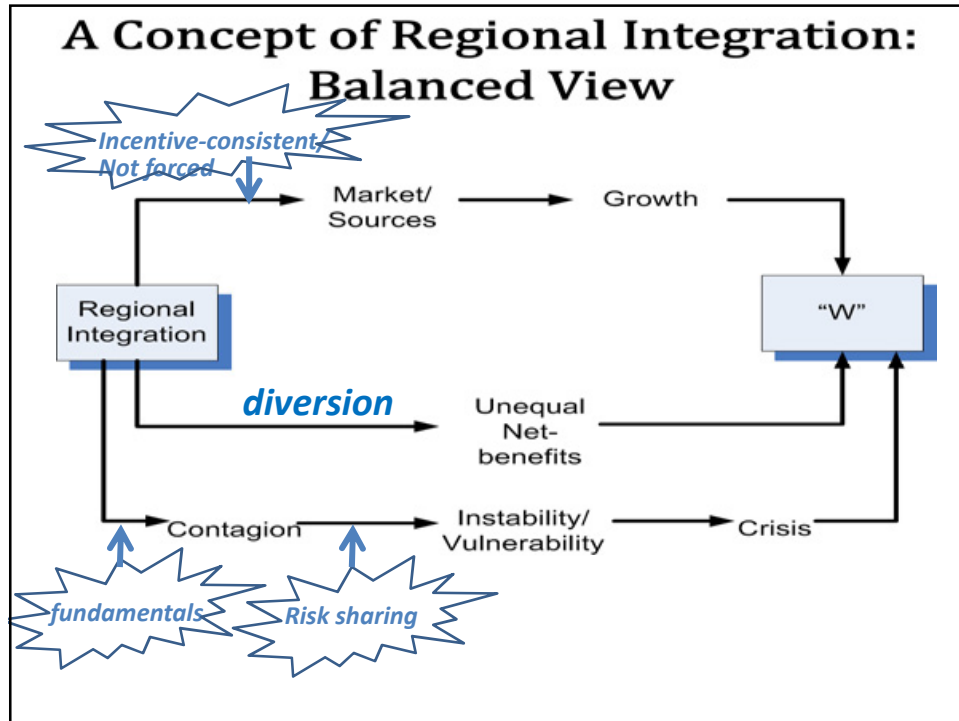
By Mr. Iwan J. Azis
Head, Office of Regional Economic Integration, ADB

Conference on Regional Cooperation and Integration
-Experiences in Asia and the Pacific
Kunming, Yunnan Province, People's Republic of China
26-27 March 2012

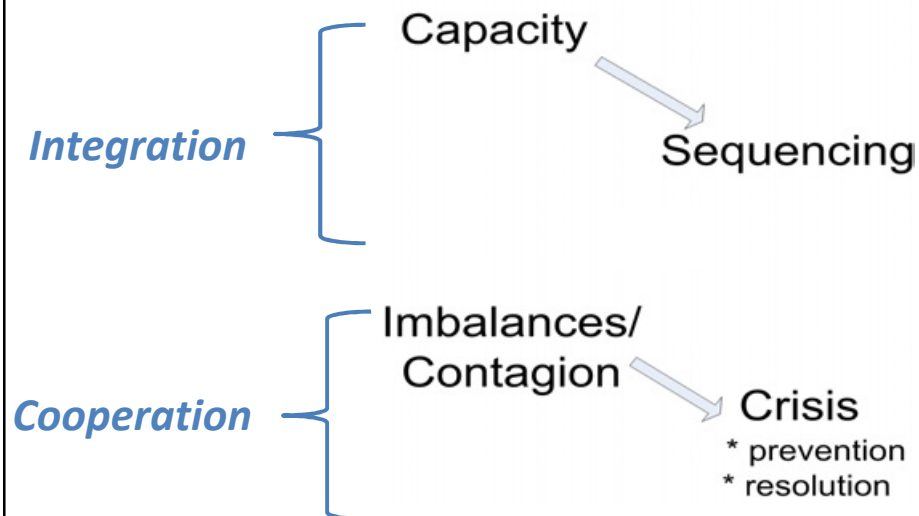


Presentation Outline

1. Benefits and Costs of Integration: A Conceptual Framework
2. Trend of Integration in Asia
3. Cooperation to Counter Contagion: Crisis Prevention & Resolution (FSN)



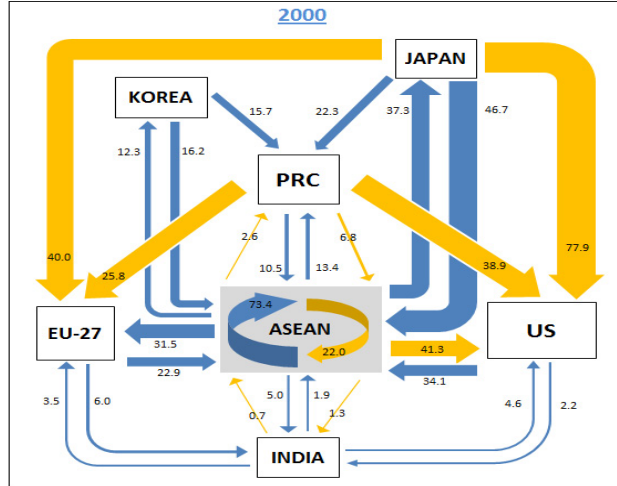
For Integration, Removals of Obstacles can be Done with Sequencing, but Regional Financial Safety Net must be Prepared Soon



Trade Integration and RPN in Asia (2000, based on US\$ billion)

Destination of ASEAN's Exports
(all goods, 2000, US\$ billion)

ASEAN	96.3
PRC	16.1
India	6.4
Japan	55.7
Korea, Rep. of	15.2
EU-27	58.1
US	79.9

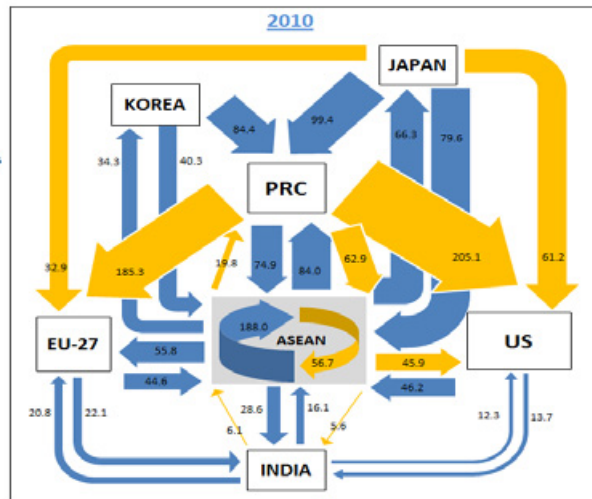


PRC = People's Republic of China, Korea = Republic of Korea, EU = European Union (27), RPN = regional production networks, US = United States.
Note: Final goods include capital goods and consumption goods, while intermediate goods include primary goods, parts and components, and processed goods for industry. Data are based on the Broad Economic Categories classification.
Source: UNComtrade Database.

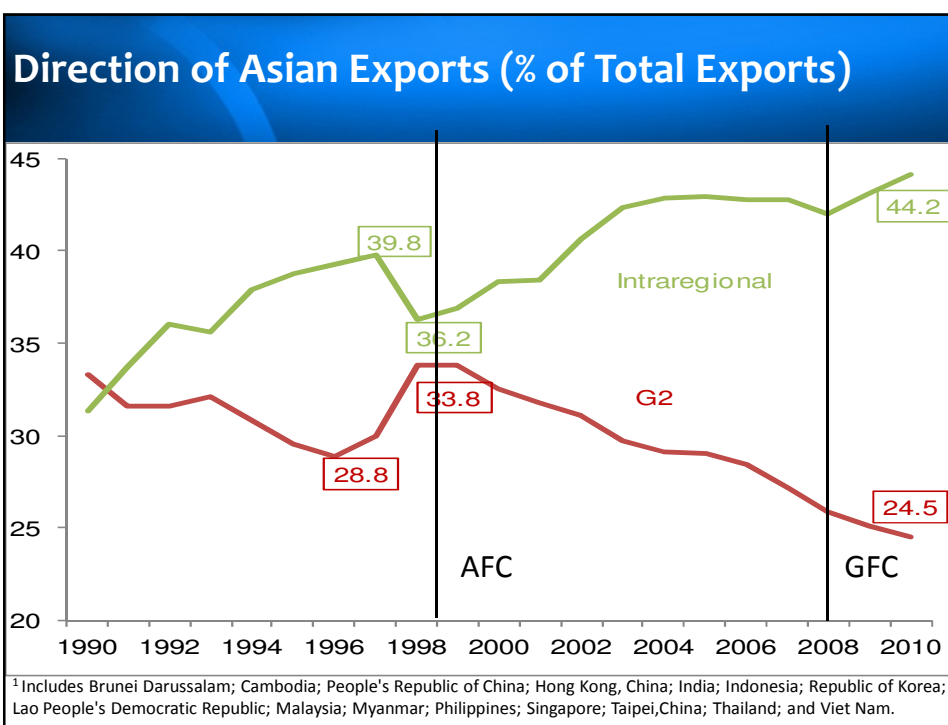
Trade Integration and RPN in Asia (2010, based on US\$ billion)

Destination of ASEAN's Exports
(all goods, 2010, US\$ billion)

ASEAN	247.1
PRC	104.4
India	34.5
Japan	91.1
Korea, Rep. of	40.3
EU-27	93.9
US	85.9



PRC = People's Republic of China, Korea = Republic of Korea, EU = European Union (27), RPN = regional production networks, US = United States.
Note: Final goods include capital goods and consumption goods, while intermediate goods include primary goods, parts and components, and processed goods for industry. Data are based on the Broad Economic Categories classification.
Source: UNComtrade Database.



Portfolio Bond Allocation: 2001 and 2009

Portfolio Bond Allocation of:	Percent Share					
	2009			2001		
	Home	Asia	Global	Home	Asia	Global
Hong Kong, China	37.4	12.4	34.0	34.6	11.4	29.7
India	100.0	0.0	0.0	100.0	0.0	0.0
Indonesia	96.4	0.8	1.6	98.6	0.3	0.9
Japan	80.4	0.2	13.2	83.5	0.2	12.4
Korea, Rep. of	97.6	0.1	1.8	98.4	0.3	1.0
Malaysia	96.3	1.4	1.0	98.9	0.2	0.7
Philippines	94.2	0.5	3.2	94.0	0.4	5.3
Singapore	41.9	16.3	32.5	43.5	13.4	30.9
Thailand	89.8	8.0	1.4	98.2	0.5	1.1

Note:

1) "Asia" consists of the People's Republic of China; Hong Kong, China; India; Indonesia; Japan; Republic of Korea; Malaysia; Philippines; Singapore; Taipei, China; Thailand; and Viet Nam.

2) "Global" refers to the European Union and the United States.

Source: AsianBondsOnline, Bank for International Settlements, International Monetary Fund.

Cross-border holding of bond :

- 2001: 4.2%
- 2010: < **8% (US\$233 billion)**, mostly short-term (Japanese i invested only 1.1% Korean 8.8%)
- Thai investors are most regional bias (exposure in Asia 71.1%)
- EU & US investment in Asia far exceeded that of regional investors. EU15 US\$342 billion, and US US\$ 127 billion), exceeding the intra-Asian (US\$233 billion).

Cross border holding of equity:

- Higher, but less than US investors (2001-2010: 10.6 to **23.6%**, or US\$38 to **US\$373 billion**).
- Investors in Indonesia, Singapore, Malaysia and Korea are most regional-bias. A significant increase in India market

ABMI

- * 2003: Declared Initiative
- * 2008: Road Map → supply, demand, regulatory, infrastructure
- * 2010:
 - CGIF
 - ABMF
 - RSI
 - Reg credit rating

Decade later

- More bonds
- # participants & foreign investors
- Local gov, public utility → I, P, V, C
- Corporate ("deep & liquid") → C, K, M
- Yield curve: shifts downward, flatter
- Maturity/tenor: lengthened
- Institutional arrangement:
 - transparency: listing & disclosure
 - Int'l accounting & auditing standard
 - Insolvency law (bankruptcy, debt recovery & funding)
 - ABO: > 309,000/day hit

* Capital flows
(safe heaven)

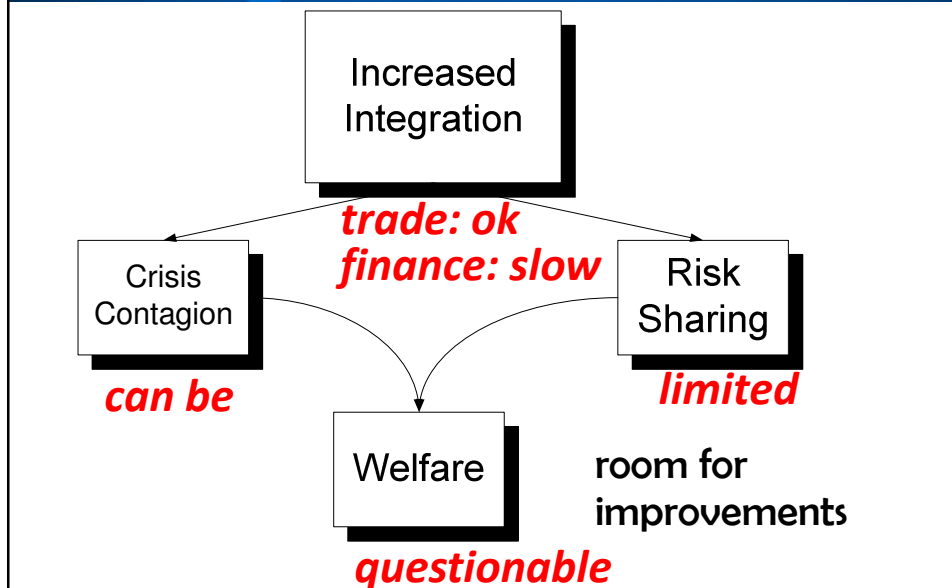
* Unilateral



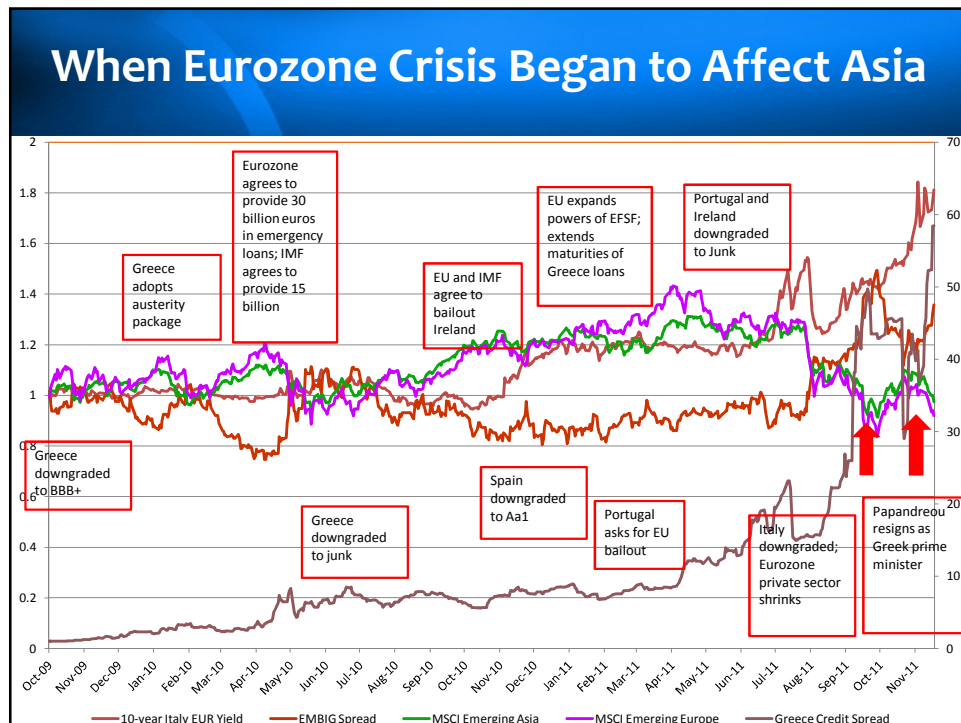
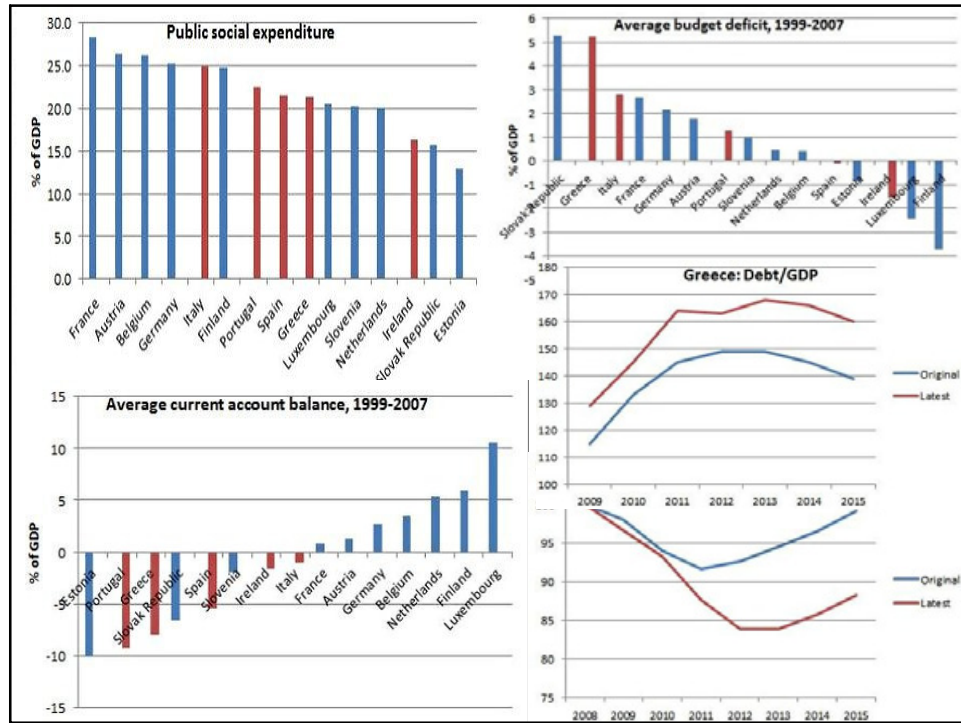
* Attendant
vs decision

Limited Contribution of ABMI

Assessing Asian Financial Integration



- Azis, IJ (2007): “....while the level of East Asian financial integration may have increased, its benefits in terms of consumption and investment risk sharing have been limited. Even the advantage of having greater resilience to external shock, that could be potentially reaped from greater synchronization of business cycles, has not been evident.”
- IMF-WP (2011): “risk sharing in found to be low intra-regionally.....the US stands out as the one that reaps the most benefit from sharing risks with Asia, for a given degree of contagion risk exposure.....promote degree of risk sharing without exposing countries to greater contagion risks. Pursuing these regional policy avenues should receive a priority over a push for further overall financial integration whose welfare effect may be ambiguous.....”



Exposure to US and European Banks by Region (as of June 2011, US\$ million)

Borrower	Lender					
	US Banks	European Banks				Rest of Europe
		France	Germany	UK	PIIGS	
United States	na	593,190	558,631	1,124,405	326,987	1,179,583
Japan	329,602	144,970	57,282	137,104	8,317	99,912
Europe	1,665,325	1,750,003	1,740,379	1,052,678	1,710,801	2,182,686
Emerging East Asia	398,866	147,818	102,946	763,570	32,113	185,453
PRC	81,712	32,646	22,660	151,220	17,321	39,793
NIEs	260,612	97,191	64,713	524,204	13,764	125,175
Hong Kong	54,346	27,125	13,371	280,257	8,724	30,855
Korea, Rep. of	95,147	32,589	19,950	100,408	2,558	31,753
Singapore	60,552	20,576	23,031	89,448	2,157	50,249
Taipei, China	50,567	16,901	8,361	54,091	325	12,318
ASEAN-4 + Viet Nam	56,542	17,981	15,573	88,146	1,028	20,485
Indonesia	16,418	4,317	5,508	17,742	266	8,435
Malaysia	20,352	5,219	3,860	45,557	502	4,247
Philippines	7,529	2,638	1,687	7,134	114	3,671
Thailand	10,617	2,557	3,311	14,139	58	3,185
Viet Nam	1,626	3,250	1,207	3,574	88	947

CMIM-AMRO

- * 2000: CMI
- * 2010: CMIM-AMRO → 1st Inst
 - Committed (\$120)
 - IMF link (20%-80%)
- * 2012:- Complement IMF's FCL & FCL
 - Raise committed fund & lower 80%
 - Dialogue mechanism

Progress

- Slow → limited → disappointing
- Not ready for alternative support when liquidity is needed
 - domestic (reserves)
 - strengthen IMF
 - swap (US Fed)
- Capacity: → surveillance
 - \$ amount
 - procedural (delay vs. rapid)

* Support

* Political will

too small & too slow → rely on domestic safety net (balancing act)



Thank you

Iwan J. Azis
Head
Office of Regional Economic Integration (OREI)
Asian Development Bank

6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Email: iazis@adb.org
Tel: 632-632-6688
Fax: 632-636-2183