



ASIAN ECONOMIC INTEGRATION MONITOR

APRIL 2014

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Printed in the Philippines.

ISBN 978-92-9254-498-0 (Print), 978-92-9254-499-7 (PDF)
Publication Stock No. RPT146427-3

Cataloguing-In-Publication Data

Asian Development Bank.
Asian Economic Integration Monitor—April 2014.
Mandaluyong City, Philippines: Asian Development Bank, 2014.

1. Regionalism 2. Subregional cooperation 3. Economic development 4. Asia
I. Asian Development Bank.

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Note:

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Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel.: +63 2 632 4444
Fax: +63 2 636 2444
2013 Asian Development Bank
www.adb.org

For orders, please contact:
Department of External Relations
Fax: +63 2 636 2648
E-mail: adbpub@adb.org

The *Asian Economic Integration Monitor (AEIM)* was prepared by a team from the Office of Regional Economic Integration (OREI), under the guidance of the Vice-President for Knowledge Management and Sustainable Development, Bindu N. Lohani. OREI is headed by Iwan J. Azis, and the AEIM team was led by Arjun Goswami, Lei Lei Song and James Villafuerte. Arup Chatterjee, Shintaro Hamanaka, Junkyu Lee, Joseph Lim, Takaaki Nomoto, Lei Lei Song, and James Villafuerte authored individual sections. The AEIM was peer-reviewed by OREI staff and Joseph Lim. ADB regional departments, Independent Evaluation Department, and Regional and Sustainable Development Department also provided comments and suggestions. Damaris Yarcia, Mitzirose Legal, and consultants from the

Asia Regional Integration Center (ARIC) led by Mara Tayag contributed data, research, and analysis. Guy Sacerdoti edited the AEIM. Ariel Paelmo and Erickson Mercado produced typesetting, layout, and cover design.

How to reach us: Asian Development Bank
Office of Regional Economic Integration
6 ADB Avenue Mandaluyong City
1550 Metro Manila, Philippines
Telephone: +63 2 632 6302
Facsimile: +63 2 636 2183
E-mail: aric_info@adb.org

Download AEIM at: <http://www.aric.adb.org/aeim>

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Abbreviations and Acronyms

ABMI	Asian Bond Markets Initiative	IDRM	Integrated Disaster Risk Management
ADB	Asian Development Bank	IIF	International Institute of Finance
ADO	Asian Development Outlook	IMF	International Monetary Fund
AEC	ASEAN Economic Community		
AEIM	Asian Economic Integration Monitor	Lao PDR	Lao People's Democratic Republic
AFTA	ASEAN Free Trade Agreement	LHS	left-hand scale
AMBIF	ASEAN+3 Multi-Currency Bond Issuance Framework	LNG	liquefied natural gas
ARIC	Asia Regional Integration Center	LPI	logistics performance index
ASEAN	Association of Southeast Asian Nations (Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam)	MBS	mortgage-backed securities
ASEAN+3	ASEAN plus the People's Republic of China, Japan, and the Republic of Korea	NEER	nominal effective exchange rate
ASEAN-4	Indonesia, Malaysia, the Philippines, and Thailand	OECD	Organisation for Economic Co-operation and Development
ASEAN-5	Indonesia, Malaysia, the Philippines, Singapore, and Thailand	OLS	ordinary least squares
		OREI	Office of Regional Economic Integration
BBA	Bipartisan Budget Act	PBR	price-to-book ratio
BI	business interruption	PCRIP	Pacific Catastrophe Risk Insurance Pilot
BIS	Bank for International Settlements	PER	price-earnings ratio
BOJ	Bank of Japan	PNG	Papua New Guinea
BOP	balance of payments	PPP	public private partnerships
		ppts	percentage points
		PRC	People's Republic of China
CBI	contingent business interruption	QE	quantitative easing
CCRIF	Caribbean Catastrophe Risk Insurance Facility	q-o-q	quarter-on-quarter
CEPII	Centre d'Etudes Prospectives et d'Informations Internationales	RCEP	Regional Comprehensive Economic Partnership
CMIM	Chiang Mai Initiative Multilateralization	RCI	regional cooperation and integration
CPIS	Coordinated Portfolio Investment Survey	RHS	right-hand scale
		ROW	rest of the world
DMC	developing member country	saar	seasonally adjusted annualized rate
DRF	disaster risk financing	SAARC	South Asian Association for Regional Cooperation
ECB	European Central Bank	SME	small and medium sized enterprise
ER	exchange rate	S&P	Standard and Poor's
EU	European Union	SWIFT	Society for Worldwide Interbank Financial Telecommunication
FDI	foreign direct investment	UNCTAD	United Nations Conference on Trade and Development
FFF	Federal Fund Futures	UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
FTA	free trade agreement	US	United States
FY	fiscal year	US Fed	US Federal Reserve
GDP	gross domestic product	VAR	vector autoregression
GFC	global financial crisis	VIX	volatility index
GLS	generalized least squares	WTO	World Trade Organization
G3	eurozone, Japan, and the United States	y-o-y	year-on-year
HP filter	Hodrick-Prescott filter		

HIGHLIGHTS

Regional Economic Update

- The external environment for developing Asia should improve through 2015 with the US, Japan, and eurozone all showing signs that economic recovery is finally gaining traction.
- Even as growth in some of the region's largest economies moderates, developing Asia should see a marginal increase in growth over the next 2 years as improved demand from advanced economies spurs exports and several economies boost investment.
- There are three main downside risks, none of which are new and all have been on policymakers' radar for some time: (i) an economic shock or reversal in any G3 economy could derail the nascent global recovery; (ii) the People's Republic of China (PRC) economy moderates too quickly, affecting the rest of developing Asia; and (iii) volatile capital flows affect financial conditions across the region.
- Global and regional supply chains continue to evolve, affecting the nature and dynamics of foreign direct investment (FDI) and trade integration; this presents an opportunity to further open individual economies and strengthen trade and investment regimes.

Regional Cooperation and Integration

- Asia's intraregional trade remains strong, if falling marginally from 54.9% in 2012 to 54.1% in 2013; nonetheless, inter-subregional trade between each subregion and the rest of Asia is rising, except for South Asia; Asia's intraregional trade bias also remains strong but is falling slightly—Southeast Asia has high intra-subregional trade bias and strong links with East Asia and South Asia.
- Financial integration across Asia continues to deepen both in terms of quantity and price measures; intraregional bank credit flows—particularly from Japan and Australia to other Asian economies—have emerged as an important source of external financing.
- Despite the sharp decline in global FDI in 2012, inflows to Asia decelerated much more slowly—due to a significant increase in intra-Asian FDI flows, especially from East Asia to ASEAN.

- There are strong trade, finance, investment, and tourism links between the PRC, Japan, and the Republic of Korea, with economic growth among the three becoming more correlated, and the PRC having a greater impact on growth in Japan and the Republic of Korea.
- People traveling within Asia continue to bolster economic and cultural ties, although emerging geopolitical trends may have hurt some tourist flows recently; worker remittances provide households a means to spread risk and mitigate income shocks.
- Deepening economic links imply more significant spillovers and increased contagion during crises; strengthening regional cooperation in surveillance and financial safety nets is imperative.
- As growth moderates in some of the region's largest economies—and with the potential for increased geopolitical tension—it is critical Asia continues to strive toward broader and more effective regional cooperation.

Theme Chapter: Insuring Against Asia's Natural Catastrophes

- Over the past 20 years, Asia has borne half the estimated global economic cost of natural disasters—about \$53 billion annually; this could potentially wipe out gains from economic growth in many economies.
- The gap between total economic losses and insured losses can be so wide that it may outstrip government's ability to act as insurer of last resort. Regional cooperation along with better and more effective national policies to offer disaster risk financing instruments is therefore critical.
- Key priorities for developing disaster risk financing markets and strengthening financial resilience should include business continuity planning, enhancing technical and institutional capacities, and coordinating various governmental authorities across all levels.

Asian Economic Integration Monitor April 2014

The Asian Economic Integration Monitor is a semiannual review of Asia's regional economic cooperation and integration. It covers the 48 regional members of the Asian Development Bank. This issue includes Theme Chapter: Insuring Against Asia's Natural Catastrophes.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to approximately two-thirds of the world's poor: 1.6 billion people who live on less than \$2 a day, with 733 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

ASIAN DEVELOPMENT BANK

6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
www.adb.org