

Chapter 6: THE ASIAN ECONOMIC INTEGRATION: INTRA-REGIONAL TRADE

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6.1 *AE-22 Trade Patterns*

With more than half the population of the world and a reasonably large resource base, the progressive industrialization of the Asian economies beyond Japan following their open economic policy initiative in the recent decades has resulted in a dramatic increase in the gross domestic output of the regional economies, increased inflows of varied forms of foreign investments, and huge leaps in productivity. The exploration and expansion of markets for goods produced followed. The portion of exports of the new manufactures sent to international markets to earn export revenues in convertible currencies became a necessity for the success of profit repatriation by foreign investors from savings-rich countries (Chapters 1 and 3). Independent of that, these economies had surpluses of goods produced and they engaged in mutual intra-regional trade for a number of reasons.

Firstly, geographical proximity helped in minimizing transportation costs, though the fact that these countries had limited air, sea, rail and road transport mechanisms limited their market exploration in remote continents.

Secondly, the commonality of Asian continental lifestyle and religious understanding became another contributing factor. Much reference has been made to the silk route between India and China that facilitated trade between the two countries for millennia (Chapters 1 and 2). In recent times, this intercultural similarity facilitated the marketing of products of these economies to each other.

Thirdly, in the post-WWII decades, several Asian economies including Japan, Korea, Chinese Taipei and several ASEAN-economies became intimately engaged in economic activities with the USA (Chapter 2). They soon realized that this left them to be over-dependent on one economy and its consequent cyclical fluctuations. The diversification of markets, especially in the neighboring Asian countries, became a priority.

Fourthly, as the industrialization of the Asian economies in the East made successful progress, they looked for new markets which provided for relatively low-wage labor, skilled and unskilled, the availability of unexplored natural resources, and a potential market for selling their products. China and India, the world's two most populous economies each

with a billion-plus people, opened their economic frontiers in Central and South Asia - Mongolia, Pakistan, Maldives, Sri Lanka, Bangladesh, Bhutan and Nepal have provided numerous opportunities. Japan, Asia's only mature industrialized economy, and Asia's newly industrialized / industrializing economies found it cost-effective to invest in their neighboring economies, enabling them to optimize their profits.

We have argued that they also learned lessons from the paradigm of the European Union as it evolved in the post-WWII decades. In 1957, the Treaty of Rome, signed by six sovereign nation states of Europe, Germany, France, Italy, Belgium, the Netherlands, and Luxemburg, gave birth to the European Economic Community. Over the years, EEC membership grew to 15. In 1992, the EEC came to be known as the European Union. As of 2007, 12 new members have been admitted and the EU-27 is one integrated economic entity (Dutta 2006). In the World Trade Organization, the EU-27 is considered to be one member with one vote. The EU-27 has adopted the policy that they will have one uniform policy of trade relations with the rest of the world. I have argued that this does require the surrendering of the trade-sovereignty of the member-states of the EU-27.

Asian leaders have made their case for an Asian Free Trade Area (AFTA); some have championed the model of the EU-FTA. Thus, AFTA

would provide for intra-AE-22 free flow of trade and investment as well as free movement of labor with a due program for the functional integration of policies regarding immigration and naturalization. The coordination of intra–regional macroeconomic policy with fiscal and monetary parameters will have to follow. In order for the AFTA to be successful, its members will need to redefine their traditional concept of sovereignty. Others have argued for the concept of a traditional FTA (ADB 2008), but I have refuted this notion as it is conditioned by strategic considerations and will have limited operational significance. NAFTA is a clear example of the ineffectiveness of such an FTA.

The people of Asia will have to have the final vote on reshaping their economic future. The recent polling of Asian leaders by the Asian Development Bank may be a good first step (ADB 2008). The emerging trade profile remains the critical issue and this chapter presents the intra-Asian trade profile.

Lastly, the mutual standardization of goods in trade and accreditation thereof became an issue of much discussion in the context of the trans-Pacific Free Trade Area under the Asia-Pacific Economic Cooperation plan. Under the EU model, it has not been so. The concept of one European family, notwithstanding diversities of language, religion and lifestyle, have

made it relatively easy for the twenty-seven member states, from Ireland to Poland, and Sweden to Cyprus, to accept the policy of mutual accreditation. It will expectedly be so for the twenty-two member states with their shared belonging to one continental family on the map of Asia in the Asian Free Trade Area. Just as the Atlantic is a natural divide between Europe and the Americas, the Pacific is no less a natural divide between the Asia and the Americas (Chapter 1).

6.2 *An Observation*

Based on the AE-22 trade patterns by shares and volumes as shown in Table 6.1,

Table

6.2,

Table 6.3 and Table 6.4, it can be clearly observed that there is no support for the critics who share their concern for trade substitution rather than the augmentation of trade. The evidence is that Intra-AE-22 trade has increased concurrently with their increased share of trade with Americas, Europe and the other Pacific economies; the diversification of trade destinations is a robust hypothesis. Indeed, Asian economies following industrialization have been producing more goods and services and are contributing to an increasing share of world trade. The world as a whole derives the economic benefit.

Table 6.1: Intra-Asia Trade, Share of Exports, 2005

From/To	Australia	Hong Kong	India	Indonesia	Japan	Korea	Malaysia
India	0.81	4.36		1.39	2.43	1.66	1.16
Indonesia	2.6	1.74	3.36		21.08	8.28	4.01
Japan	2.1	6.05	0.59	1.57		7.85	2.12
Korea	1.34	5.46	1.62	1.77	8.45		1.62
Malaysia	3.38	5.85	2.81	2.36	9.35	3.36	
Philippines	1.1	8.1	0.21	1.16	17.48	3.38	5.96
China	1.45	16.33	1.17	1.1	11.03	4.61	1.39
Singapore	4.07	10.4	2.84	10.66	6.05	3.88	14.66
Thailand	2.87	5.56	1.38	3.61	13.66	2.04	5.16

From/To	New Zealand	Philippines	China	Singapore	Chinese Taipei	Thailand
India	0.13	0.48	6.58	5.29	0.88	1.04
Indonesia	0.32	1.66	7.78	9.15	5.3	2.62
Japan	0.41	1.54	13.45	3.11	7.72	3.79
Korea	0.24	1.13	21.78	2.6	4.64	1.19
Malaysia	0.38	1.4	6.6	15.61	3.68	5.38
Philippines	0.09		9.89	6.57	6.76	2.84
China	0.18	0.62		2.19	2.61	1.03
Singapore	0.56	2.02	9.53		2.38	4.55
Thailand	0.47	1.86	8.28	6.77	2.6	

Source: IMF Direction of Trade Statistics.

Table 6.2: Intra-Asia Trade, Share of Imports, 2005

By/From	Australia	Hong Kong	India	Indonesia	Japan	Korea	Malaysia
India	3.41	1.53		2.12	2.58	3.07	1.76
Indonesia	4.45	0.5	1.82		11.97	4.97	3.72
Japan	4.74	0.3	0.62	4.03		4.74	2.85
Korea	3.77	0.78	0.81	3.13	18.53		2.3
Malaysia	1.9	2.51	0.97	3.85	14.64	5.02	
Philippines	1.12	4.07	0.73	2.11	17.02	4.84	3.75
China	2.45	1.85	1.48	1.28	15.22	11.64	3.05
Singapore	1.53	2.22	2.15	5.51	10.14	4.53	14.41
Thailand	2.75	1.27	1.08	2.65	22.05	3.28	6.85

By/From	New Zealand	Philippines	China	Singapore	Chinese Taipei	Thailand
India	0.13	0.15	7.3	2.29	1.16	0.83
Indonesia	0.46	0.56	10.13	16.41	4.05	5.97
Japan	0.49	1.5	21.05	1.3	2.81	3.02
Korea	0.34	0.89	14.8	2.04	2.13	1.03
Malaysia	0.3	2.83	11.6	11.82	3.66	5.32
Philippines	0.58		6.27	7.86	8.9	3.34
China	0.2	1.95		2.5	6.19	2.12
Singapore	0.17	2.45	10.82		4.03	3.96
Thailand	0.21	1.59	9.44	4.55	3.15	

Source: IMF Direction of Trade Statistics.

Table 6.3: Value of Exports of Selected AE-22 Countries and Australia, 1990-2006

Country	1990	1995	2000	2001	2002	2003	2004	2005	2006
Australia	39,642	53,220	64,004	63,626	65,014	70,517	87,161	107,011	124,913
Hong Kong	n.a.	n.a.	202,698	190,926	200,300	224,656	260,263	289,579	317,600
India	18,286	31,239	43,247	44,793	51,141	60,893	77,939	102,176	123,617
Indonesia	26,807	47,454	65,407	57,365	59,165	64,109	70,767	86,995	103,514
Japan	282,308	428,717	459,513	383,592	395,581	449,119	538,999	567,572	615,813
Korea	63,660	124,934	176,221	151,478	163,414	197,289	257,710	288,971	331,845
Malaysia	28,806	71,767	98,429	87,981	93,383	104,999	126,817	141,808	160,842
Philippines	8,186	17,447	37,347	31,313	34,403	35,339	38,794	40,263	46,526
China	51,519	128,110	249,131	266,075	325,651	438,270	593,393	762,484	969,682
Singapore	54,679	132,158	153,095	136,609	140,776	161,724	201,059	232,123	274,980
Thailand	22,811	55,447	67,894	63,082	66,052	78,083	94,979	109,199	127,929

Source: IFS - IMF.

Table 6.4: Value of Imports of Selected AE-22 Countries and Australia, 1990-2006

Country	1990	1995	2000	2001	2002	2003	2004	2005	2006
Australia	39,284	57,443	68,866	61,890	70,528	85,862	105,230	120,383	134,509
Hong Kong	n.a.	n.a.	210,891	199,257	205,353	230,435	269,575	297,206	331,634
India	23,437	37,957	53,887	51,212	54,702	68,081	95,539	134,702	166,695
Indonesia	21,455	40,921	40,365	34,669	35,652	39,546	50,615	69,462	73,868
Japan	213,025	296,931	342,797	313,378	301,751	342,723	406,866	473,614	534,509
Korea	66,121	129,298	159,267	137,990	148,637	175,337	220,141	256,288	302,631
Malaysia	26,280	71,871	77,602	69,597	75,248	79,289	99,244	108,653	124,144
Philippines	12,206	26,391	43,318	37,578	39,933	41,190	44,478	48,036	53,343
China	42,354	110,060	214,657	232,058	281,484	393,618	534,410	628,295	751,936
Singapore	56,311	123,699	139,138	119,358	121,972	132,152	168,179	195,436	230,233
Thailand	29,561	63,415	56,193	54,539	57,008	66,909	84,194	105,995	113,993

Source: IFS - IMF.