Anatomy of Intraregional Services Trade in Asia

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Shintaro Hamanaka
Economist
Office of Regional Economic Integration
Asian Development Bank
Issues

- Our understanding on trade integration is dominated by knowledge on goods trade.
  - If services trade is included, common understanding on trade integration in Asia may be revised.

- We do not know even very basic facts on services trade integration:
  - What is the trend of services trade integration in Asia?
  - Which is more integrated: goods trade or services trade?
  - Is Asia’s services trade integration higher or lower than Europe and North America?
Outline

- Measurement of regional trade integration
- Literature on services trade
  - In comparison with goods trade literature
- Brief explanation of services trade data
- Actual development of services integration in Asia
  - In comparison with other regions
  - In comparison with goods integration
- Possible explanations on the status of services trade integration in Asia
- Policy Implications
What is Regional Bias?

- **Intraregional Trade Share ("Share Index")**
  \[ \frac{T_{ii}}{T_{i}} \]
  - This is a very problematic indicator!!

- **Intraregional Trade Intensity Index ("Bias Index")**
  \[ \frac{\left( \frac{T_{ii}}{T_{i}} \right)}{\left( \frac{T_{i}}{T_{w}} \right)} \]

Where:
- \( T_{ii} \equiv \) exports of region \( i \) to region \( i \) plus imports of region \( i \) from region \( i \)
- \( T_{i} \equiv \) total exports of region \( i \) to the world plus total imports of region \( i \) from the world
- \( T_{w} \equiv \) total world exports plus imports
Gravity model literature on bilateral trade usually includes 2 types of explanatory variables:

- Relational factors
  - Distance between 2 countries
  - Whether 2 countries share a land border
  - Whether 2 countries signed RTA
  - Whether 2 countries speak the same language

- Country specific factors
  - GDP, per capita GDP, population etc of each country

It is relational factors that explain regional bias

- Why Canada trade a lot with the US compared against other countries
Empirical Findings in Existing Literature: Explanatory power of each relational factors

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<td>Distance</td>
<td>Larger impact on services</td>
<td>Slightly larger impact on goods</td>
<td>Slightly larger impact on goods</td>
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<td>Common borders</td>
<td>Much larger impact on goods</td>
<td>Much larger impact on goods</td>
<td>Much larger impact on goods</td>
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<td>Common language</td>
<td>Much larger impact on services</td>
<td>Much larger impact on services</td>
<td>Much larger impact on services</td>
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<td>Common RTA (in goods)</td>
<td>No significant difference</td>
<td>Much larger impact on services</td>
<td>Much larger impact on goods</td>
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Services Trade Data

- Analysis is limited to Mode 1/2 (cross-border/consumption abroad [travel])
  - Relatively more available
  - Consistency with goods trade data
- Mode 1/2 services trade are covered:
  - by EBOPS (extended balance of payment statistics)
  - not by customs data (where by-country goods trade data is available)
Services Sectors under EBOPS

- 1. Transportation
- 2. Travel
- 3. Communications services
- 4. Construction services
- 5. Insurance services
- 6. Financial services
- 7. Computer and information services
- 8. Royalties and license fees
- 9. Other business services
- 10. Personal, cultural, and recreational services
- 11. Government services
Availability of EBOPS in Asia

- Data from UN Services Trade Statistics
- Only four Asian economies:
  - Japan; Korea; Singapore; and Hong Kong
  - More economies in future?
- The next countries are included as a trade partner
  - Brunei Darussalam; China; Taipei; Hong Kong (China); India; Indonesia; Malaysia; Philippines; Thailand; and Viet Nam
- The regional groups for examination
  - Four Asian Economies plus China (mirror data for China)
  - Europe 6 (Germany, UK, France, Netherland, Italy and Spain)
  - North America 3 (US, Canada and Mexico)
Intraregional Trade Share

Intraregional Services Trade Share

Intraregional Goods Trade Share

Intraregional Services Trade Share

Intraregional Goods Trade Share
Regional Bias of and towards China

**Services Trade Regional Bias Towards China**

**Goods Trade Regional Bias Towards China**

**Services Trade Regional Bias of China**

**Goods Trade Regional Bias of China**
Sector-Level Analysis

**Intraregional Transport Services Trade Intensity**

**Intraregional Insurance Services Trade Intensity**
Summary of Empirical Findings

- Regional bias of services trade in Asia is as high as or higher than that in Europe and North America.

- Regional bias of services trade is higher than that of goods trade in Asia
  - This is in sharp contrast to Europe and North America where regional bias of goods trade is higher than that of service trade.

- While Asia’s regional bias in goods trade has a declining trend, that of services trade maintained a high-level
  - However, this may decline in future.
Asia’s relatively high-level of regional bias of services trade can be explained by the following factors:

- A relatively high-level of shared language (Chinese)
  - Language is essential to services trade, but not to goods trade; and

- The geographical condition that many Asian countries are separated by sea
  - This is a critical unfavorable condition for goods trade, but not for services trade.
Policy Implications

- In order to further integrate Asia’s services trade, two policies are necessary.
  - First, effective regional services agreements are critical to further increase intraregional services trade.
  - Second, policies to increase the trade of “crisis-resilient services” such as professional services as oppose to “crisis-vulnerable services” such as transport and travel is necessary.