



Strengthening RCI to Achieve the SDGs in Asia and the Pacific

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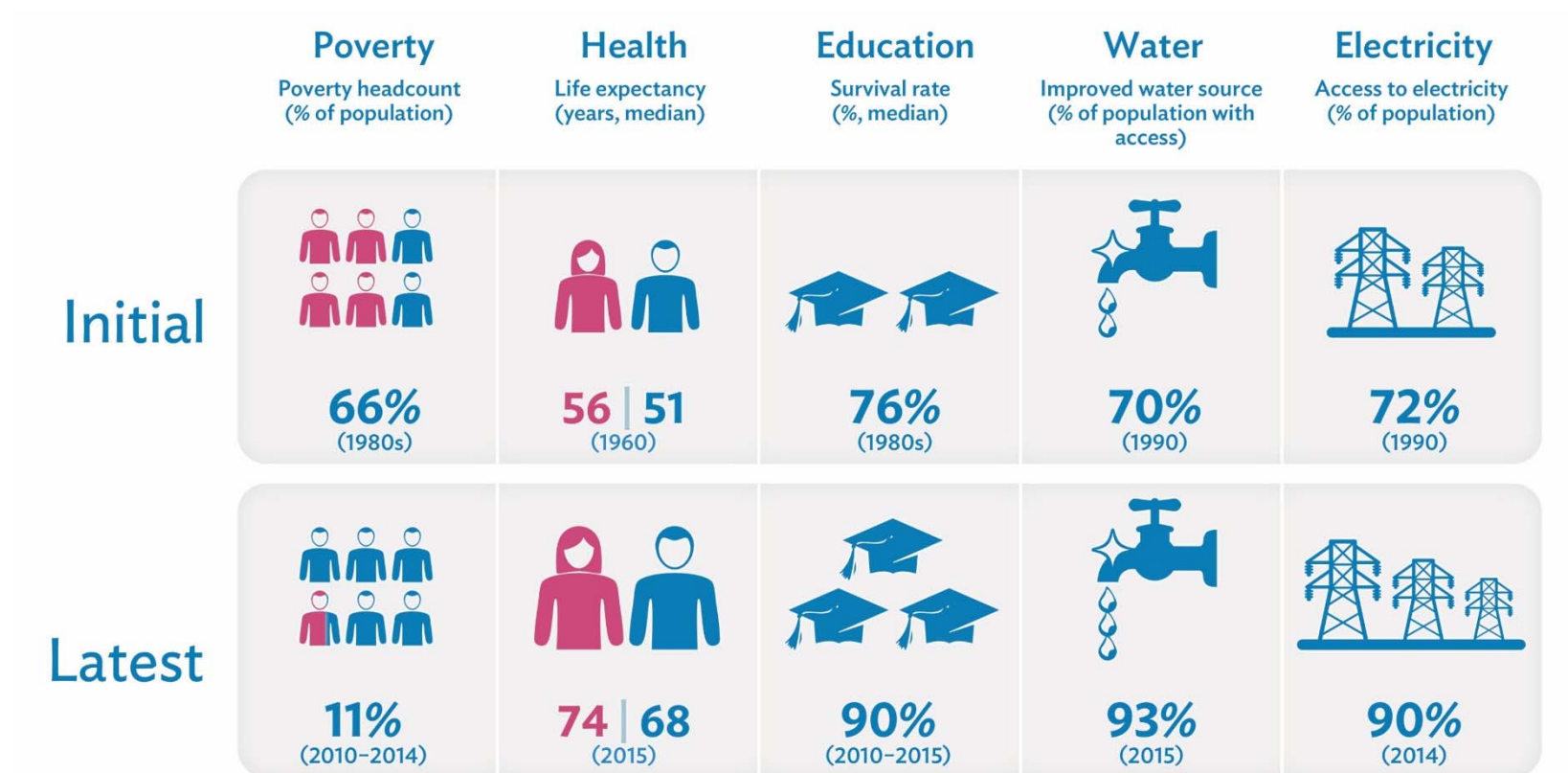
Key Messages

- Regional cooperation and integration (RCI) supports inclusive growth toward SDGs in Asia
 - Trade and investment as the core driver
 - Promoting GVC-related FDI creates decent jobs and economic opportunities.
- Deeper intra-Asian trade and investment integration can provide a buffer against global uncertainties.
 - Develop innovative services and leverage advanced technologies to harness growth potential.
 - Services trade presents large untapped potential.
 - Facilitating FCI is indispensable to finance infrastructure
- Overcoming challenges are the key



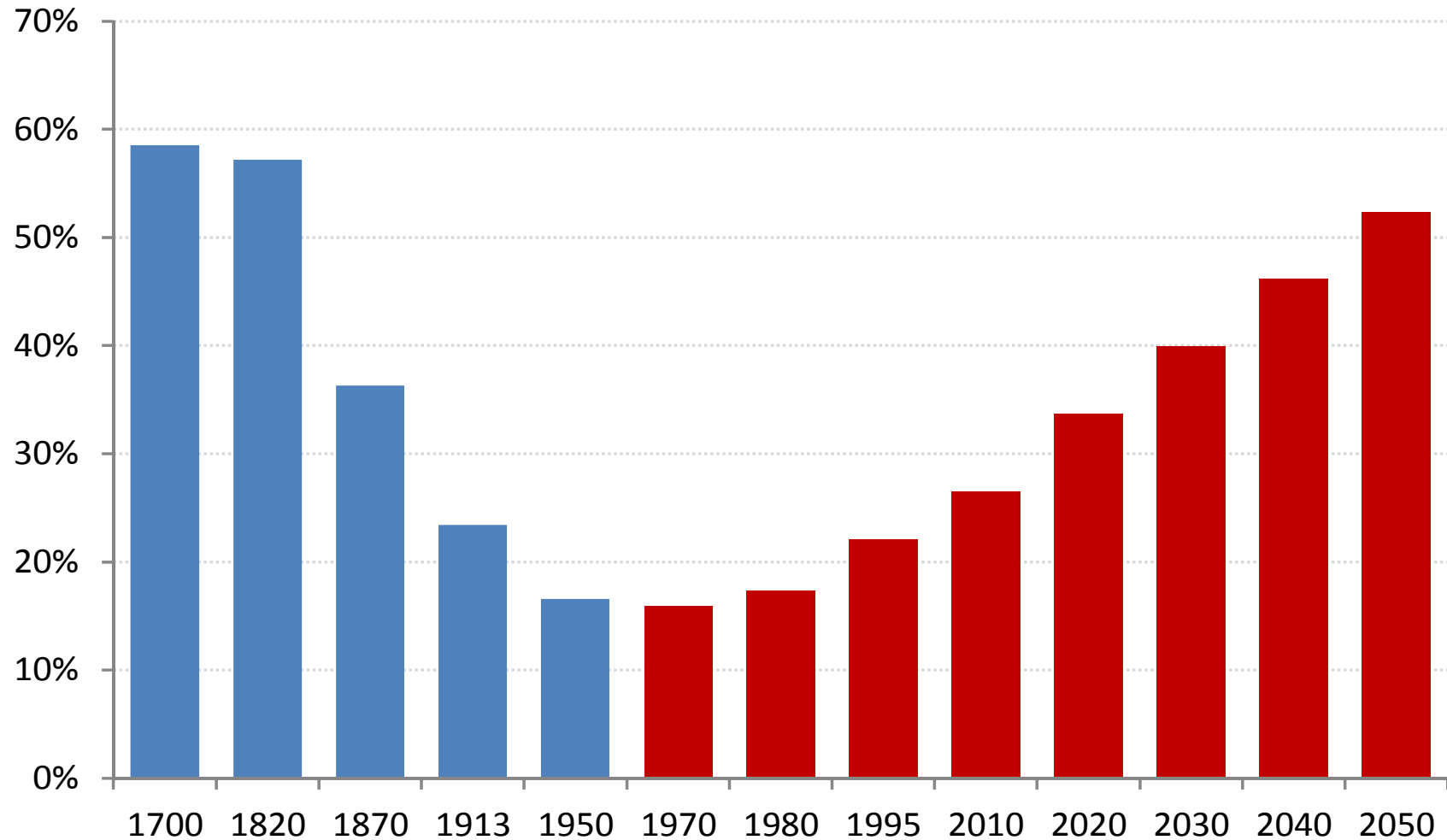
Development Progress and Challenges in Asia

Development Progress in Asia



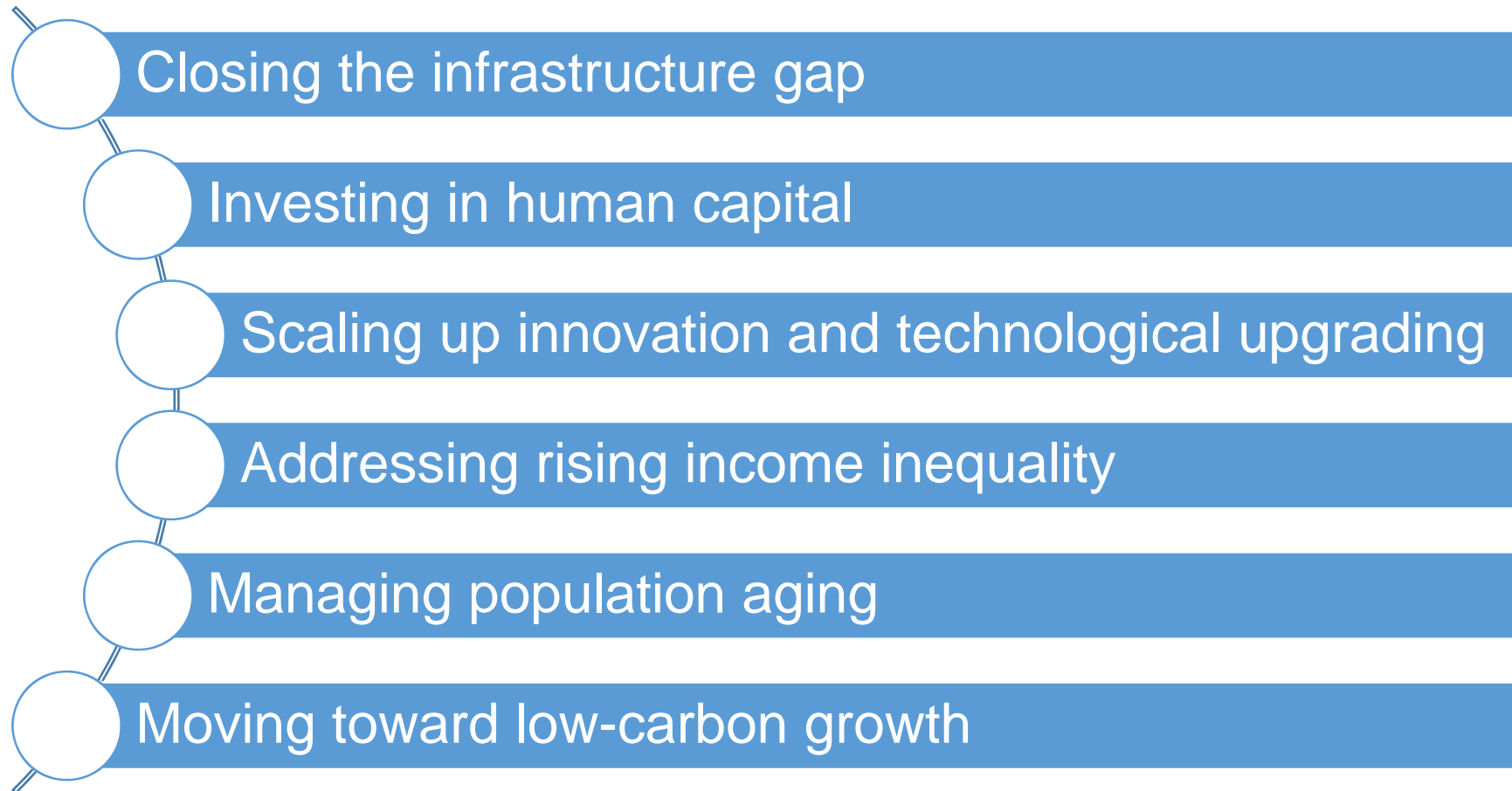
Notes: Poverty headcount is based on \$1.90 per day (2011 purchasing power parity) poverty line.
 Survival rate is for the last grade of primary education, both sexes.
 Source: ADB calculations using data from World Development Indicators, World Bank.

Asian Share of World GDP



Source: Asia 2050: Realizing the Asian Century

Challenges for a More Prosperous and Inclusive Future

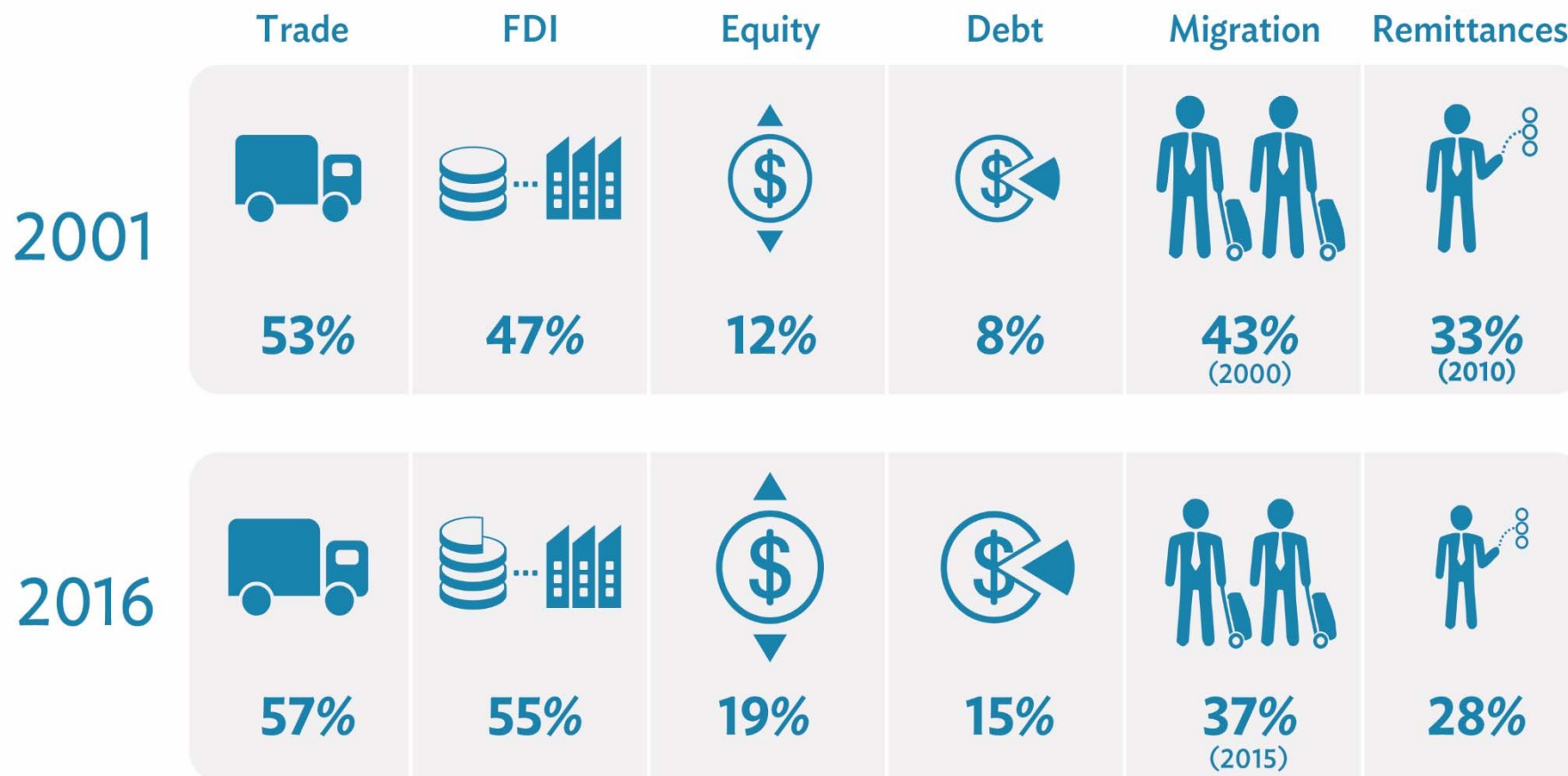
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- Closing the infrastructure gap
 - Investing in human capital
 - Scaling up innovation and technological upgrading
 - Addressing rising income inequality
 - Managing population aging
 - Moving toward low-carbon growth

Progress of RCI



Asia's Integration Trends at a Glance

Intraregional shares (% of total)



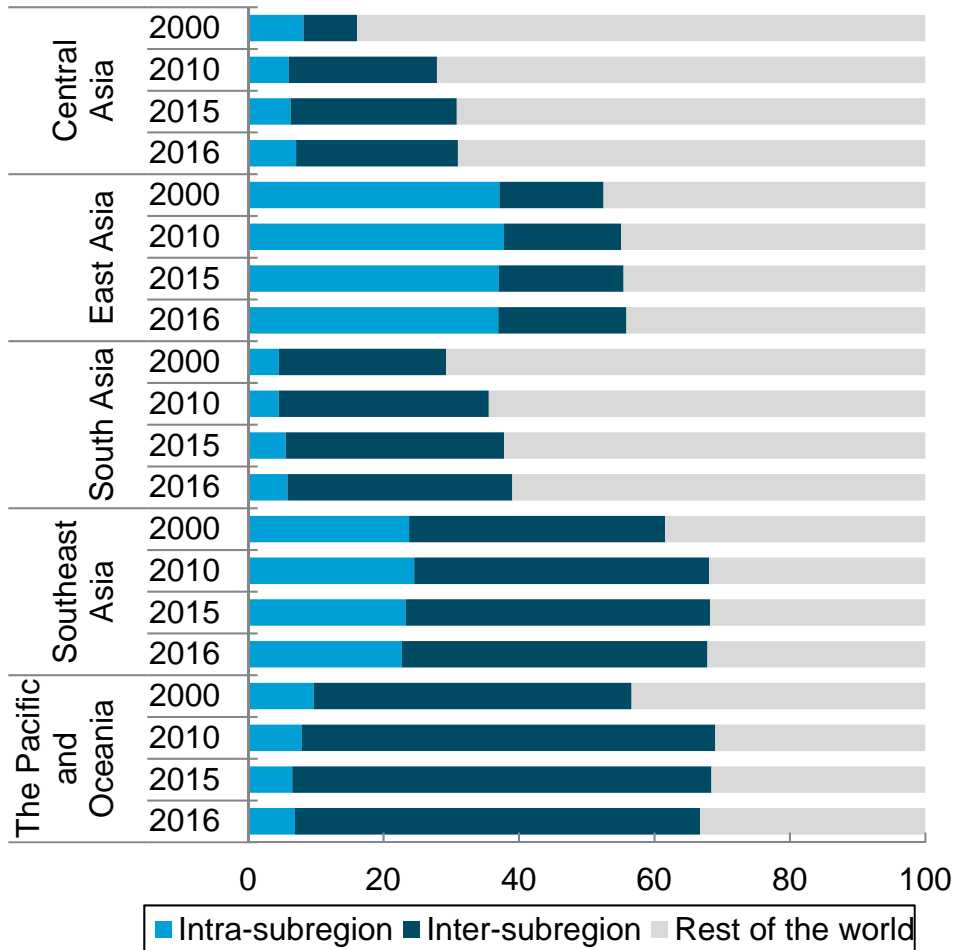
FDI = foreign direct investment (flows data); Equity = equity asset holdings (stock data); Debt = debt asset holdings (stock data).

Note: Where data are not available, the latest year for available data is indicated in parenthesis (year).

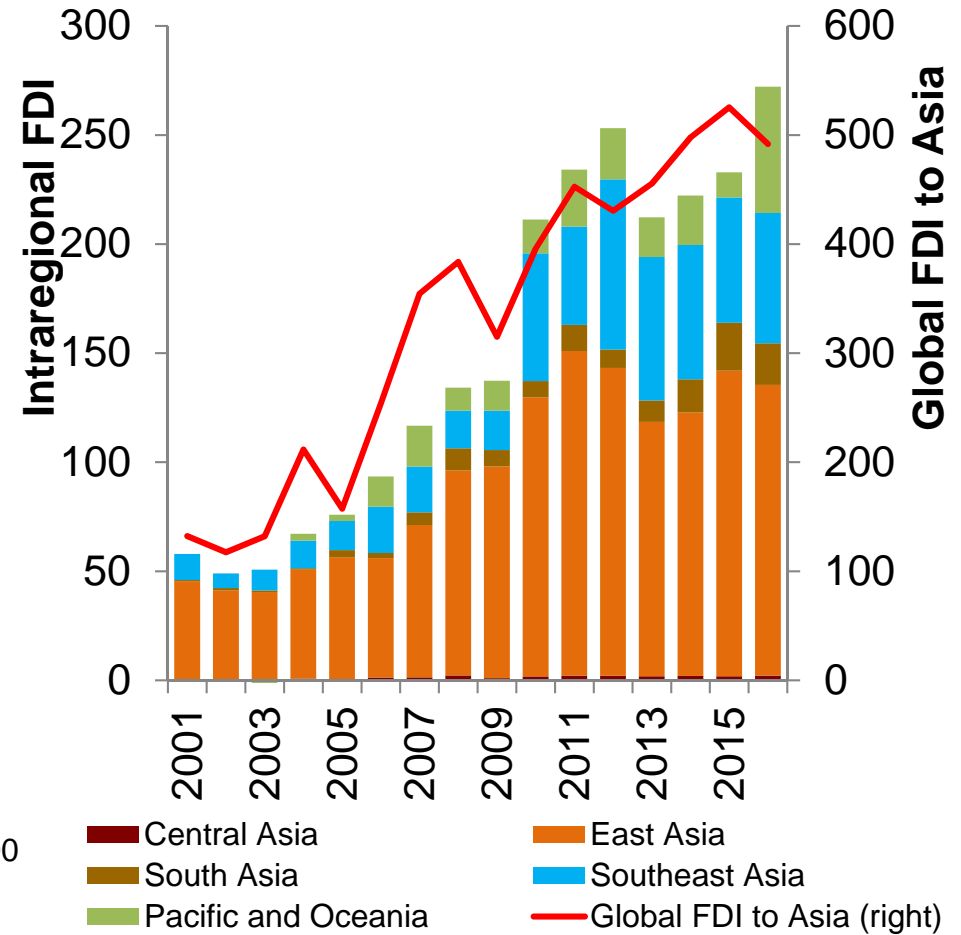
Source: ADB calculations using data from ADB. *Asian Economic Integration Report 2017* (forthcoming).

Intraregional Trade and Investment Linkages Deepen

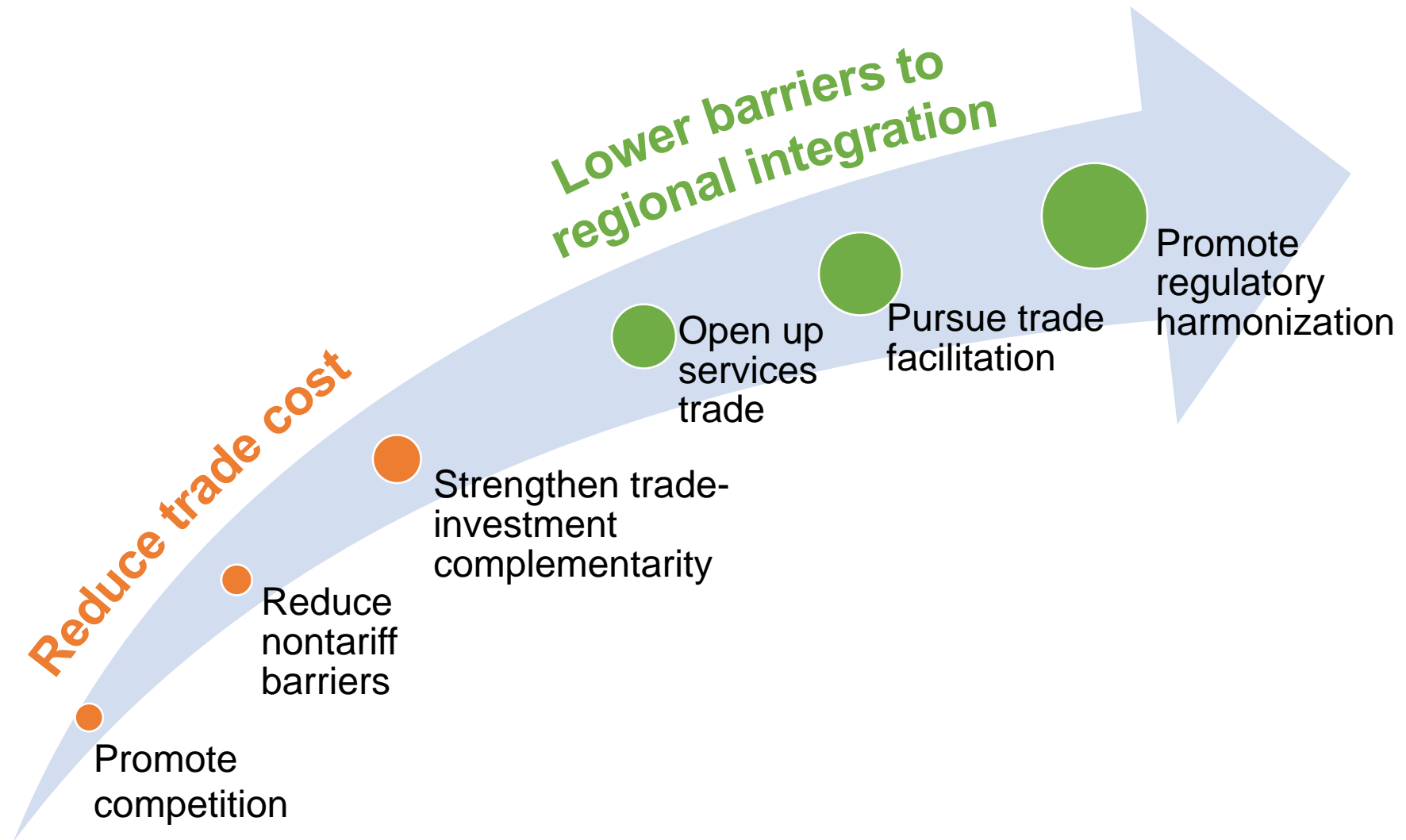
Asia's intra- and inter-subregional trade shares (%)



FDI inflows—Asia (\$ billion)



Reinvigorating Regional Trade Growth and Integration



Challenges of RCI

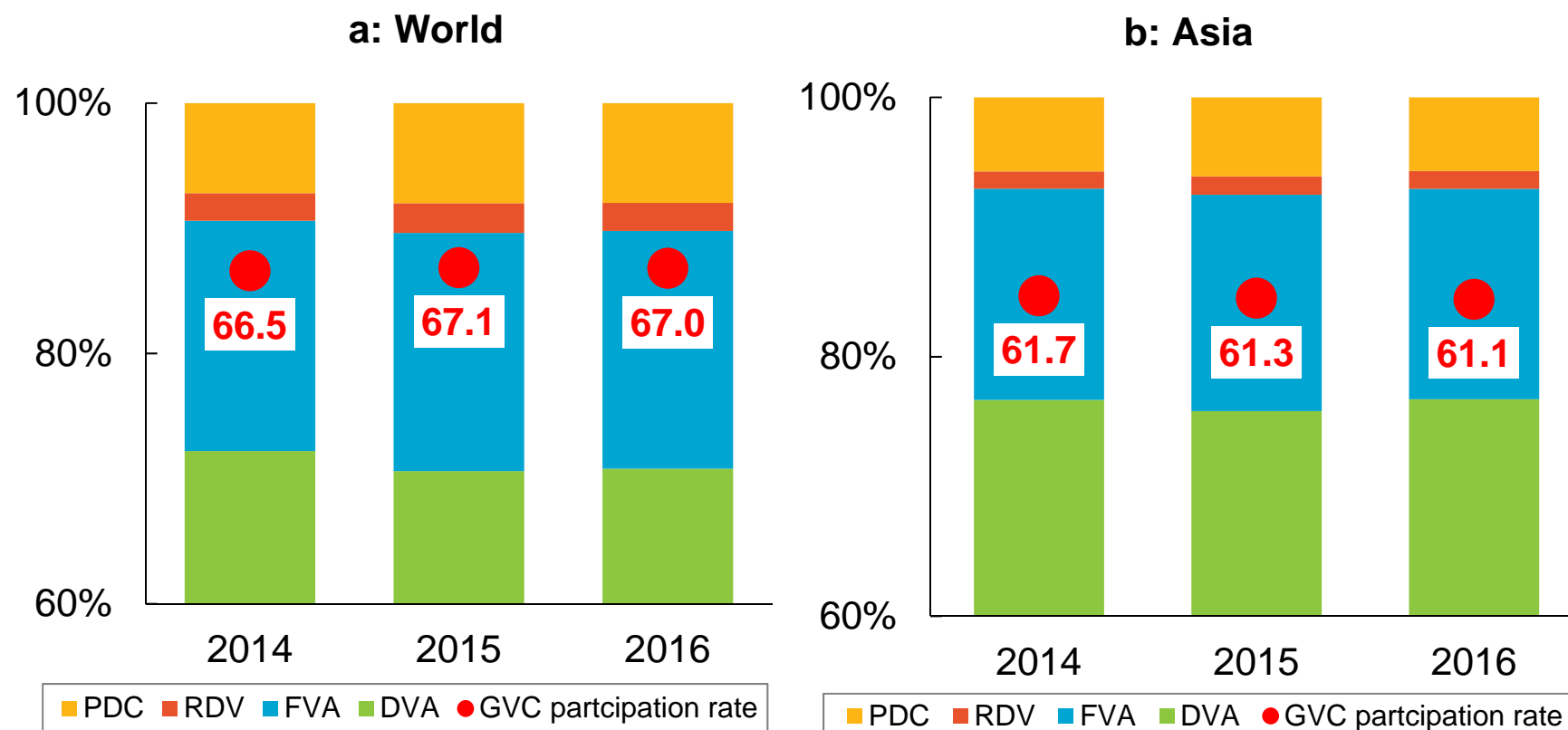


The Trade-Investment Nexus

- FDI in Developing Asia is closely related to global value chains (GVCs) in the manufacturing sector.
 - 57% of all foreign owned firms in Asia (and 70% in the manufacturing sector) are engaged in GVC-related activities, compared with only 11% of locally owned firms.
- Asian-owned firms are engaged more in GVC related activities (67%) compared to those owned by non-Asian multinationals (45%).
 - Japan is the largest source of GVC-linked FDI in Asia followed by Republic of Korea, while People's Republic of China (PRC) is the most popular host.
 - Multinationals from India and PRC are also internationalizing rapidly, with 32% and 21% of Indian and PRC owned firms engaged in GVC related activities.

Asia's Value Chain Linkage with the Global Economy Weakened

Components of gross exports

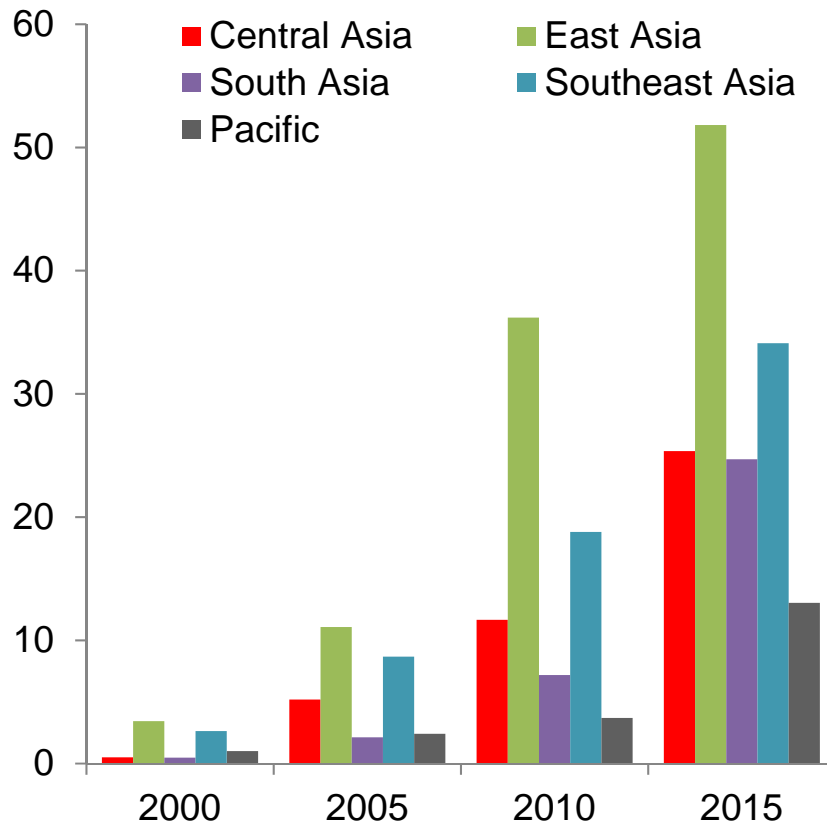


DVA = domestic value added, FVA = foreign value added, GVC = global value chain, PDC = purely double-counted terms, RDV = returned value added.

Source: ADB calculations using ADB Multi-Regional Input-Output Tables, and methodology of Wang, Wei, and Zhu (2014).

Technology Can be Leveraged to Improve Inclusiveness of Trade-driven Growth

Internet users (per 100 people)



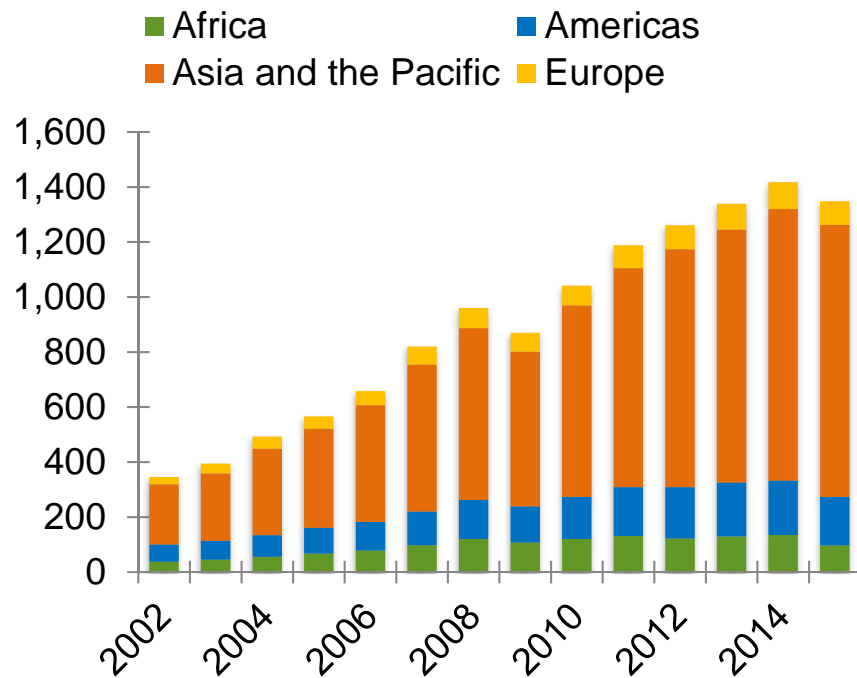
Source: World Bank. World Development Indicators.



- Improve market access and remove regulatory barriers to digital trade
- Intensify regional efforts to modernize and harmonize service trade, e-commerce, and digital regulations
- Ensure compatibility of internet infrastructure across the region

Asia in Services Trade, E-commerce

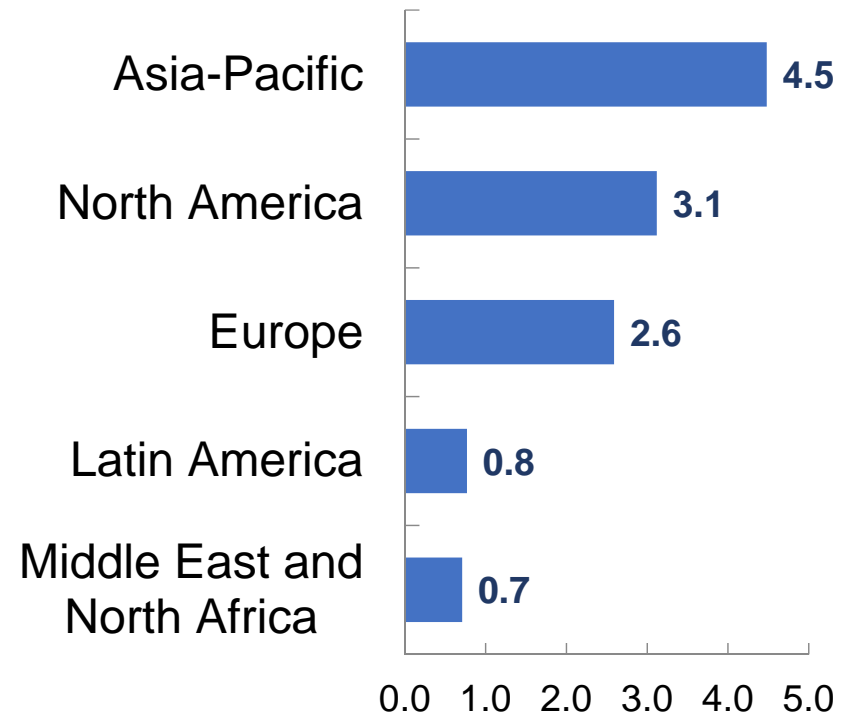
Services trade by region
(\$ billion)



Note: Services include six aggregate sectors: transport and storage; communications; energy; banking and finance; business and other services; tourism.

Sources: ADB calculations using data from OECD Creditor Reporting System; and UN Trade in Services Database.

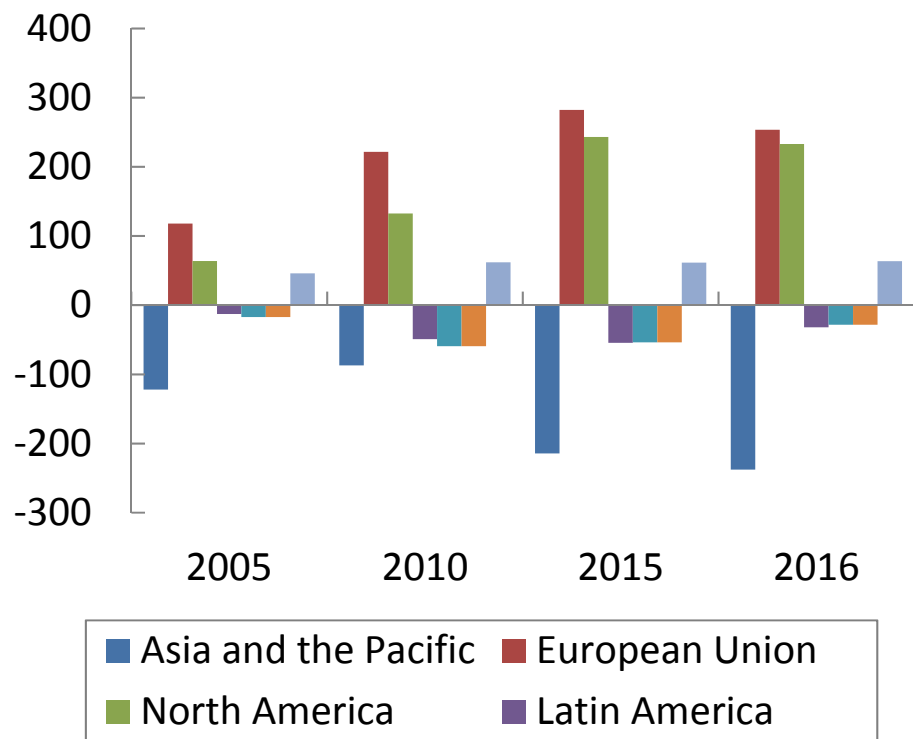
E-commerce as % of GDP, 2015



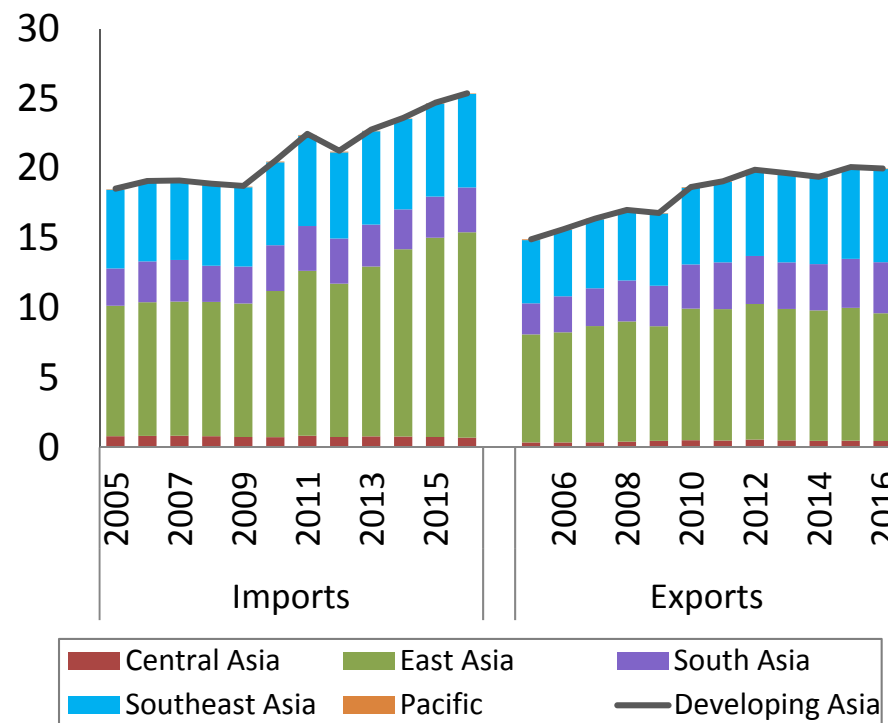
Source: E-commerce Foundation.

Asia Remains Net Importer of Trade in Services

Net trade in services, by region
(\$ billion)



Share of Asia in global services imports and exports (%)

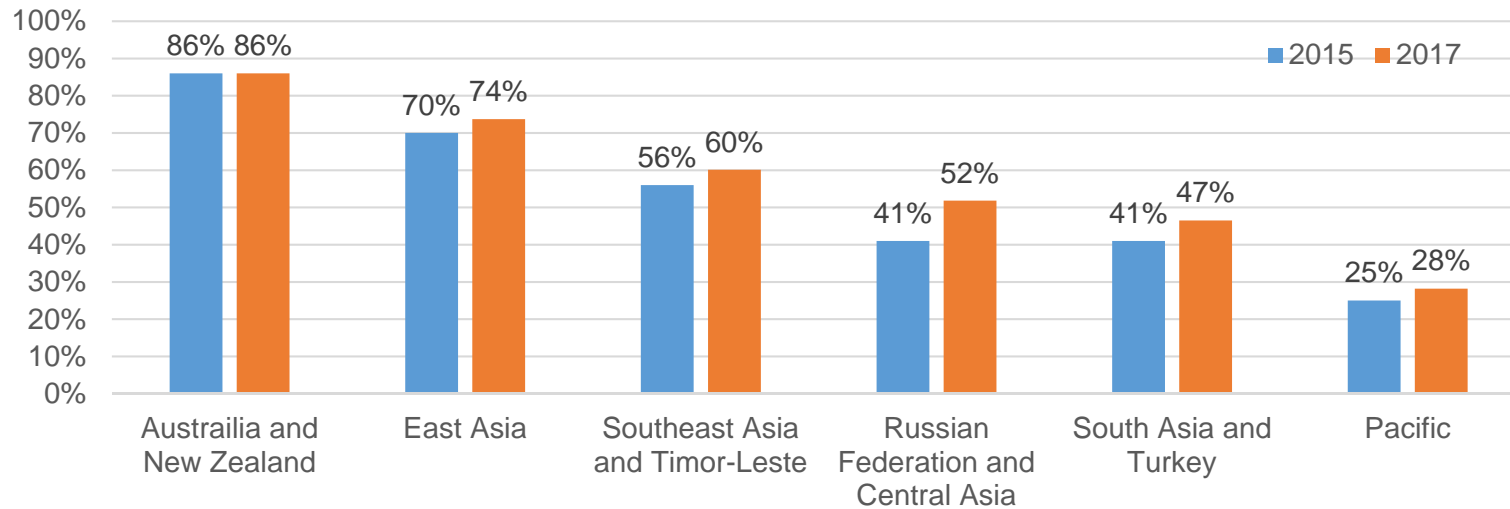


Source: ADB calculations using data from International Trade Centre Trade Map (accessed June 2017).

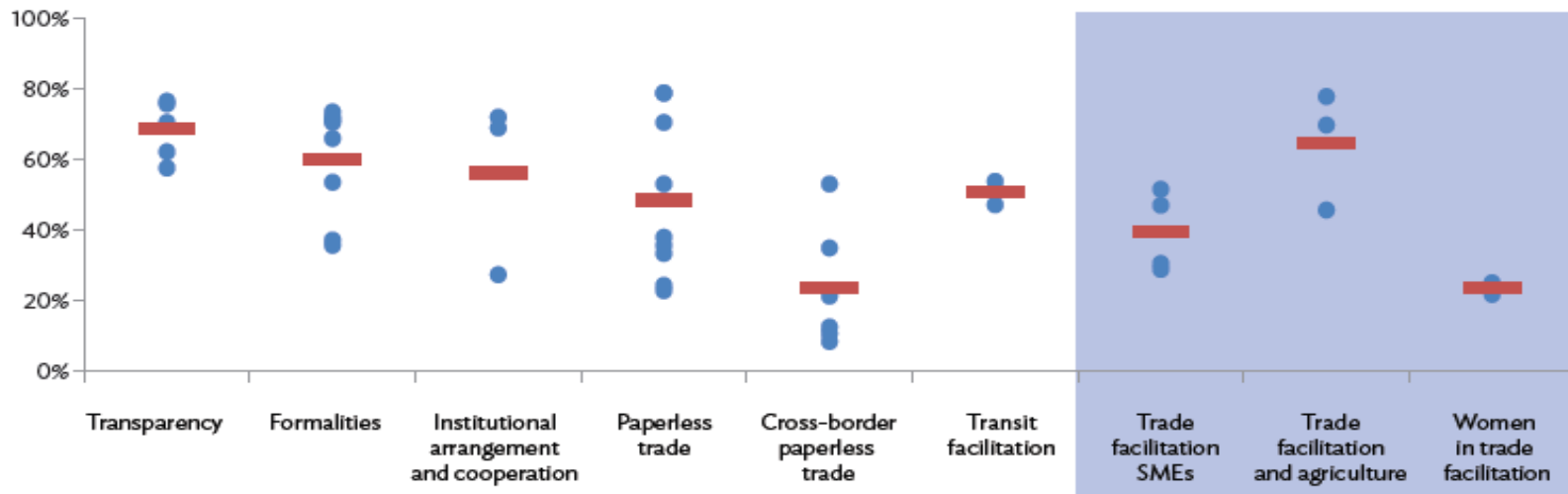
Source: ADB calculations using data from International Trade Centre Trade Map (accessed June 2017).

Overall Trade Facilitation Implementation Rates Improve, but Challenges Remain

Overall implementation of trade facilitation measures by subregion (%)



Implementation of different groups of trade facilitation measures



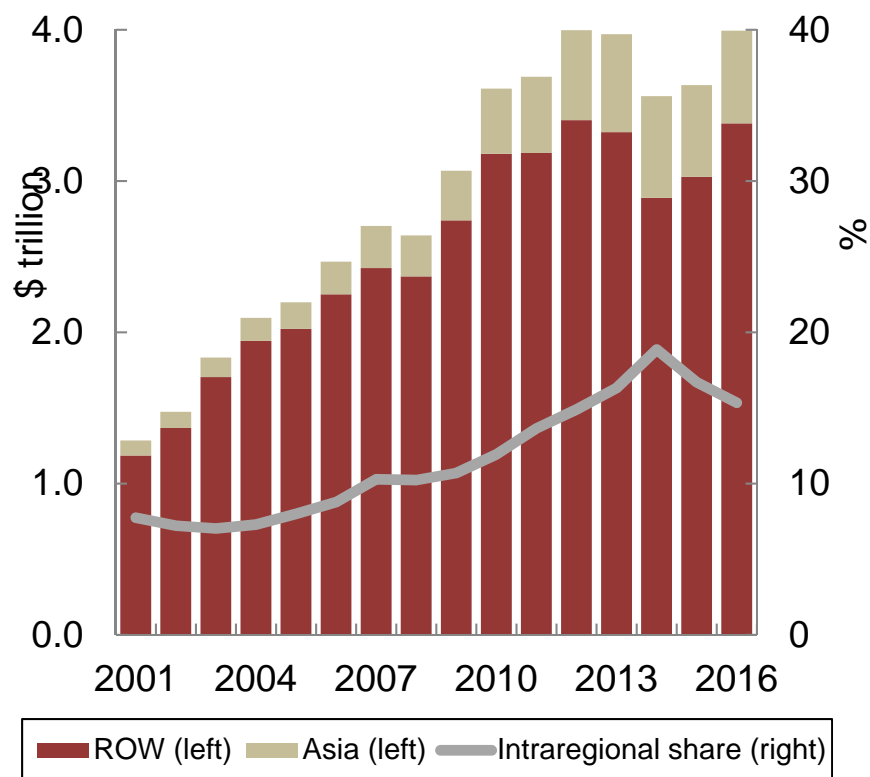
Source: ADB and ESCAP 2017.

Policy Responses for Trade Integration

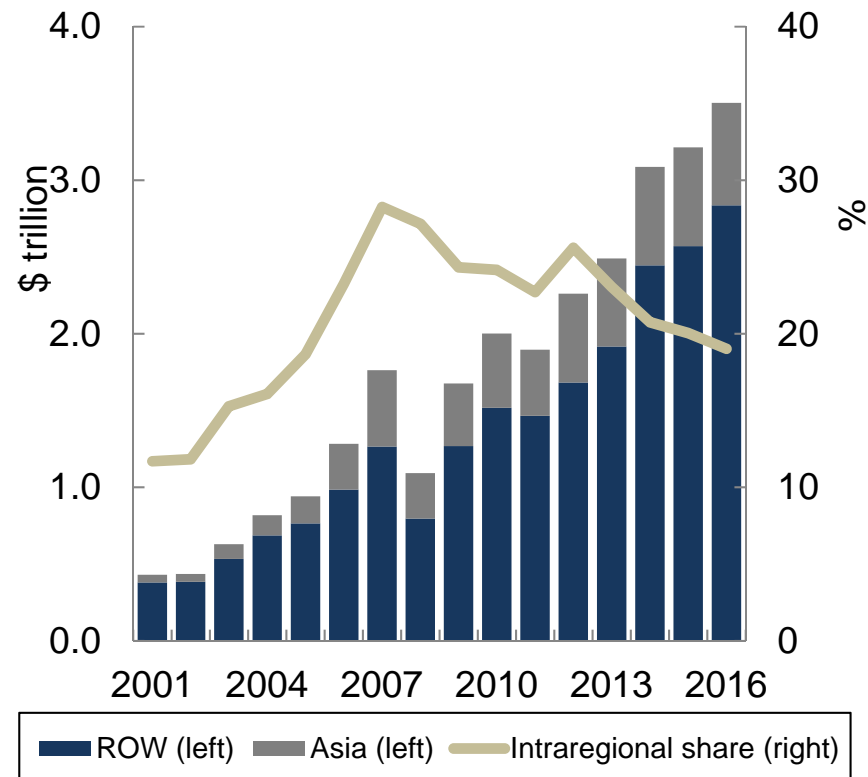
- Continue to deepen global/regional value chains
 - ✓ In economies with low GVC participation, reforms can improve the business environment and facilitate GVC participation
- Promote services trade by reducing restrictions in market access and narrowing skill gaps, among others
- Maintain trade openness and reduce tariff and nontariff barriers
 - ✓ Reduce residual import tariff
 - ✓ Reduce nontariff trade barriers and promote greater cooperation in trade facilitation
 - ✓ Revive mega-regional trade agreements such as RCEP and the APEC free trade area.
- Improve connectivity to promote trade, inclusive growth

Asia's portfolio investors continue to invest outside the region

Asia's Outward Debt Investment



Asia's Outward Equity Investment



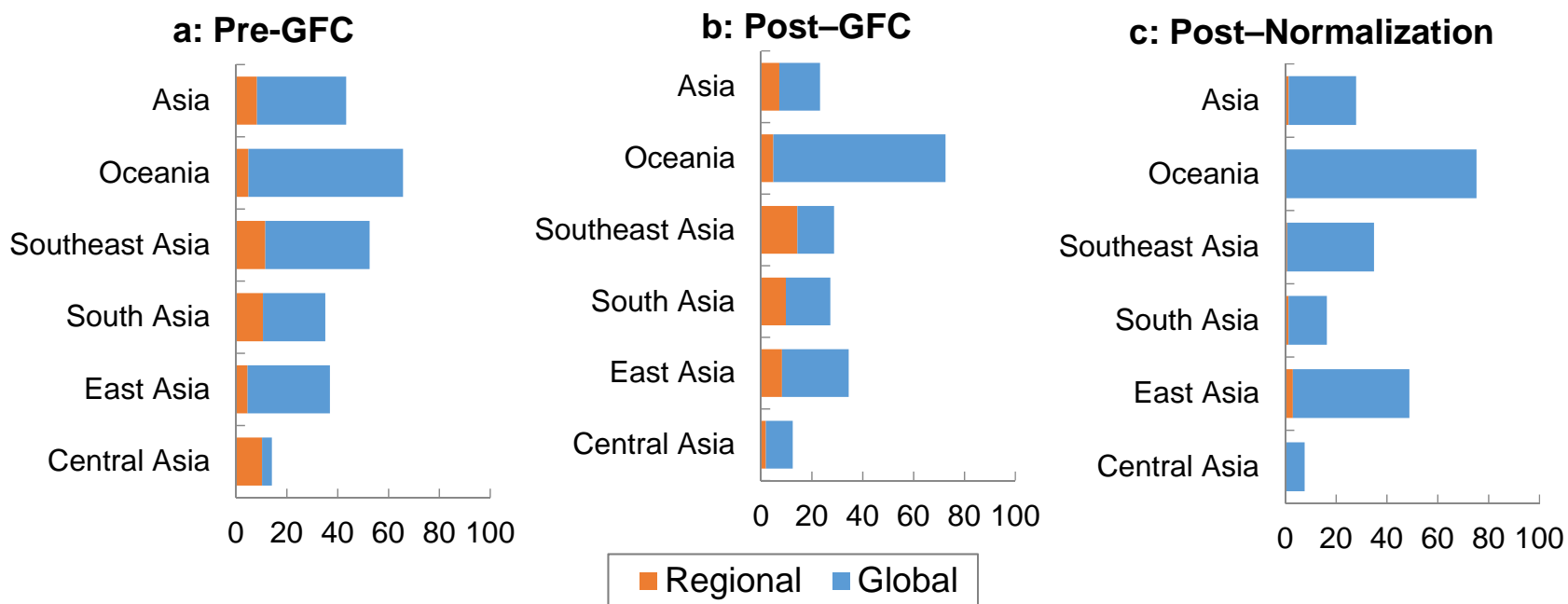
ROW = rest of the world.

Note: Asia includes all 48 ADB regional members for which data are available as of December 2016.

Source: ADB calculations using data from International Monetary Fund, Coordinated Portfolio Investment Survey (accessed September 2017).

Asia's equity markets have become increasingly exposed to global shocks

Share of Variance in Equity Returns Explained by Global and Regional Shocks (%)



GFC = global financial crisis.

Notes: Pre-GFC = January 1999 to September 2007. Post-GFC = July 2009 to December 2015. Post-Normalization = January 2016 to June 2017.

Central Asia includes Georgia, Kazakhstan and the Kyrgyz Republic. East Asia includes the People's Republic of China; Hong Kong, China; Japan; the Republic of Korea; Mongolia; and Taipei, China. South Asia includes Bangladesh, India, Nepal, Pakistan, and Sri Lanka. Southeast Asia includes Indonesia, the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam. Oceania includes Australia and New Zealand. Asia includes Central Asia, East Asia, South Asia, Southeast Asia and Oceania.

Sources: ADB calculations using data from Bloomberg; CEIC; World Bank, World Development Indicators (accessed July 2017); and methodology by Lee and Park (2011).

Role of ADB

- To facilitate RCI through its regional, subregional, and other programs that foster cooperation and needed connectivity.
- ADB will continue to act as:
 - Financier
 - Knowledge provider
 - Capacity builder
 - Honest broker

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Thank you!