

Anatomy of Intraregional Services Trade in Asia

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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”)
 $= T_{ii} / T_i$
 - This is a very problematic indicator!!
- Intraregional Trade Intensity Index (“Bias Index”)
 $= (T_{ii} / T_i) / (T_i / T_w)$
- 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

Literature on Services Trade

- 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

	Kimura and Lee (2006)	Lennon (2009)	Lennon, Mirza and Nicoletti (2009)
Distance	Larger impact on services	Slightly larger impact on goods	Slightly larger impact on goods
Common borders	Much larger impact on goods	Much larger impact on goods	Slightly larger impact on goods
Common language	Much larger impact on services	Much larger impact on services	Much larger impact on services
Common RTA (in goods)	No significant difference	Much larger impact on services	Much larger impact on goods

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

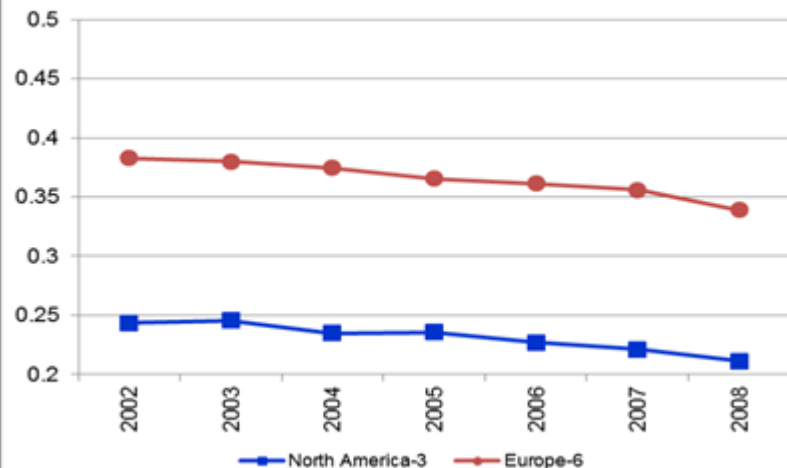
- 1. Transportation
- 2. Travel
- 3. Communications services
- 4. Construction services
- 5. Insurance services
- 6. Financial services
- 7. Computer and information services
- 8. Royalties and license fees
- 9. Other business services
- 10. Personal, cultural, and recreational services
- 11. Government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

Availability of EBOPS in Asia

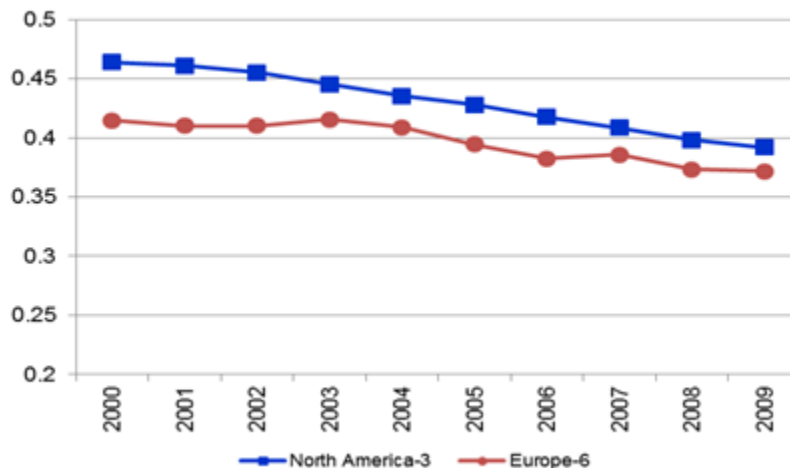
- Data from UN Services Trade Statistics
- Only four Asian economies:
 - Japan; Korea; Singapore; and Hong Kong
 - More economies in future?
- The next countries are included as a trade partner
 - Brunei Darussalam; China; Taipei; Hong Kong (China); India; Indonesia; Malaysia; Philippines; Thailand; 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

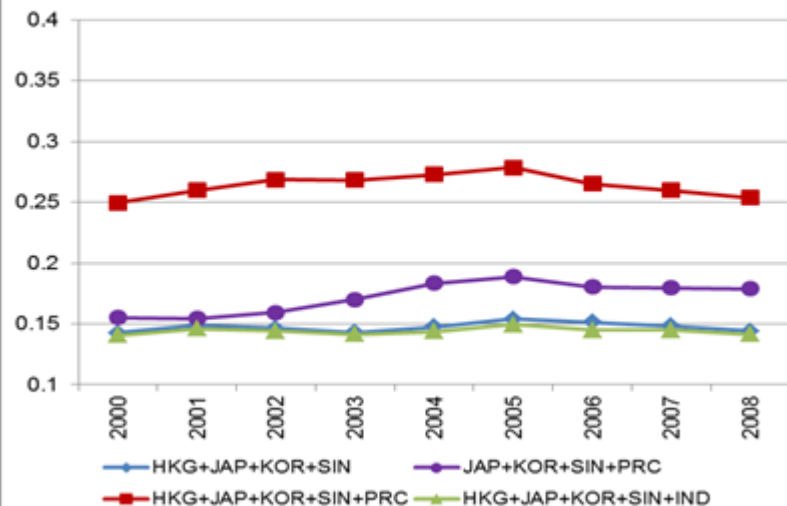
Intraregional Services Trade Share



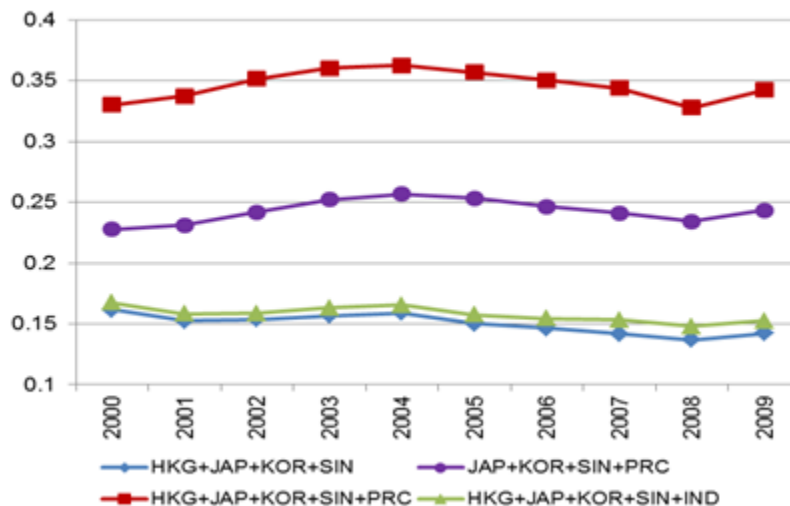
Intraregional Goods Trade Share



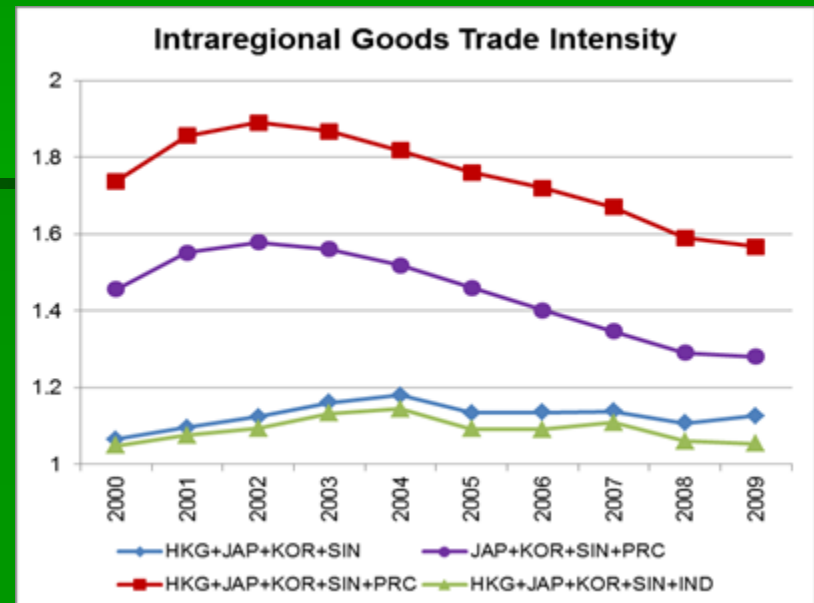
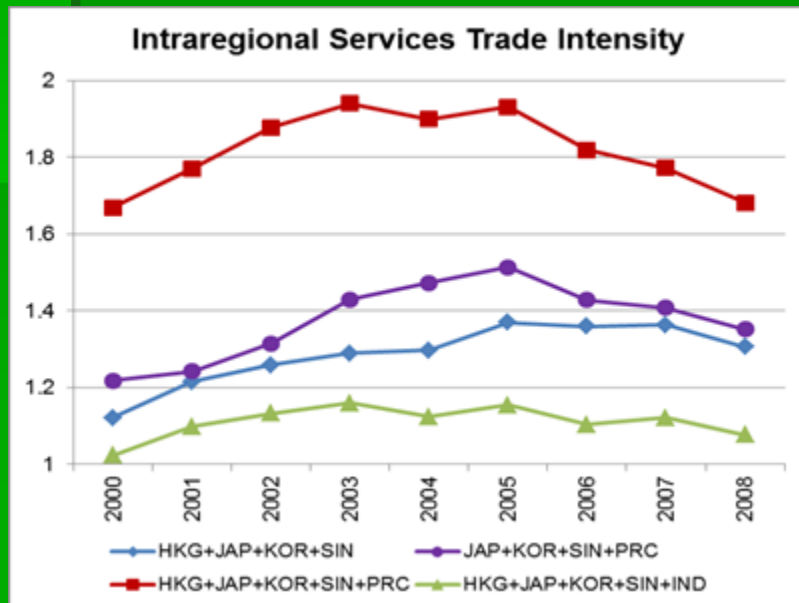
Intraregional Services Trade Share



Intraregional Goods Trade Share

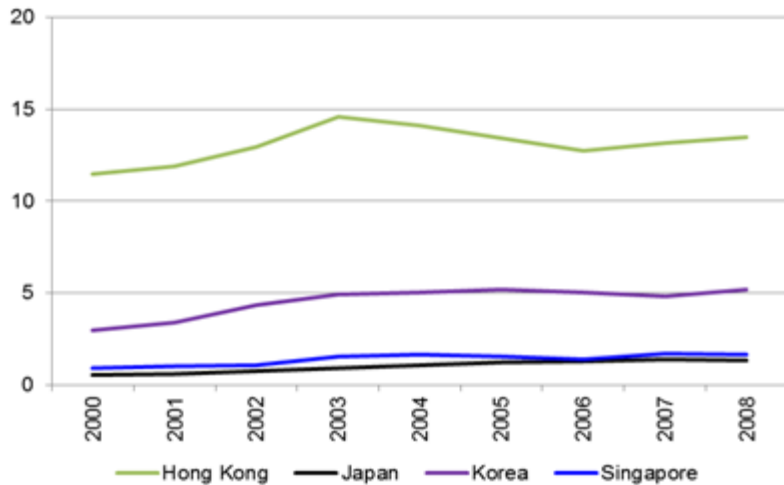


Intraregional Trade Intensity (Bias)

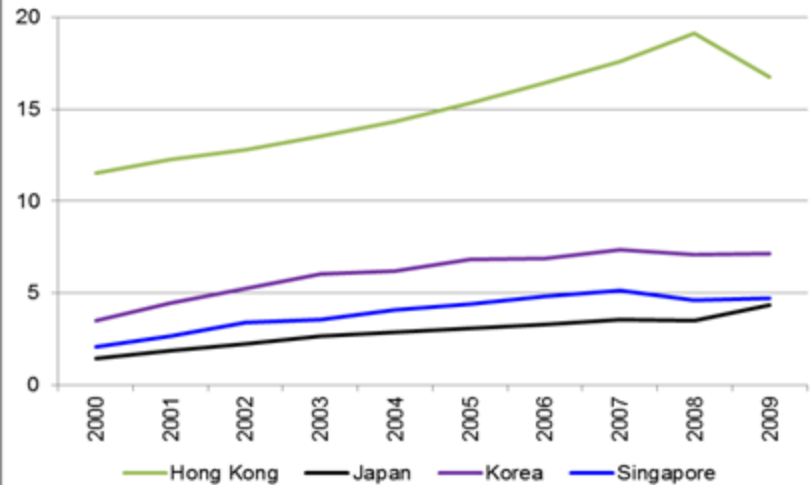


Regional Bias of and towards China

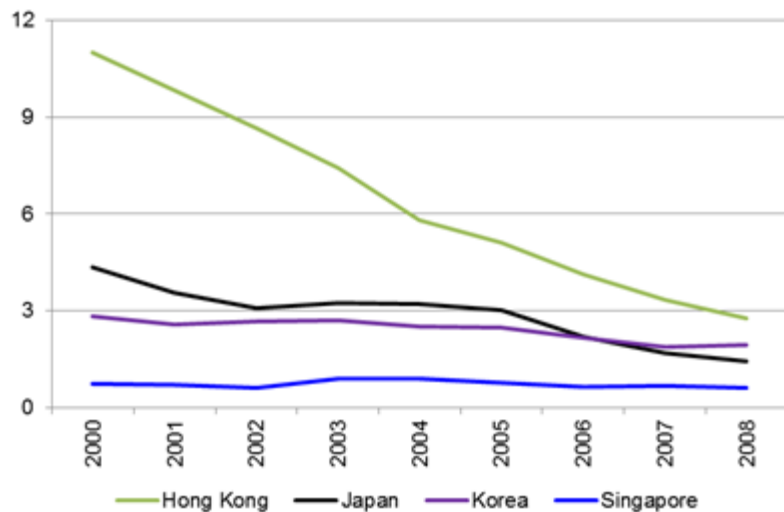
Services Trade Regional Bias Towards China



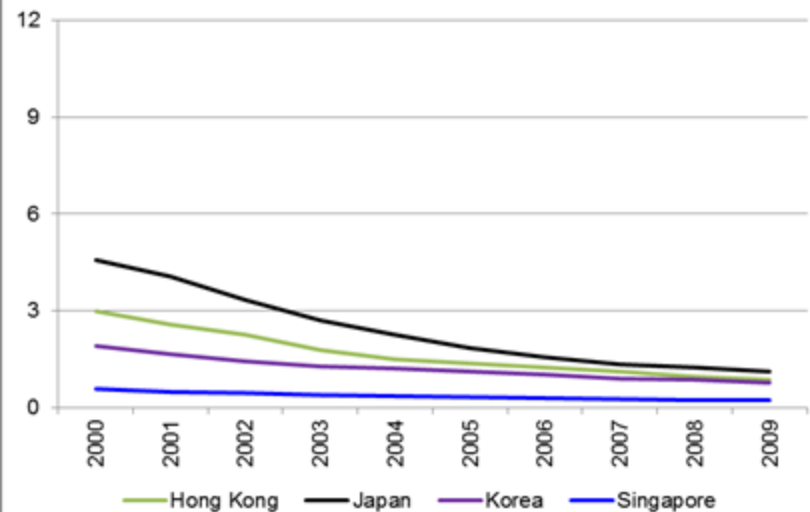
Goods Trade Regional Bias Towards China



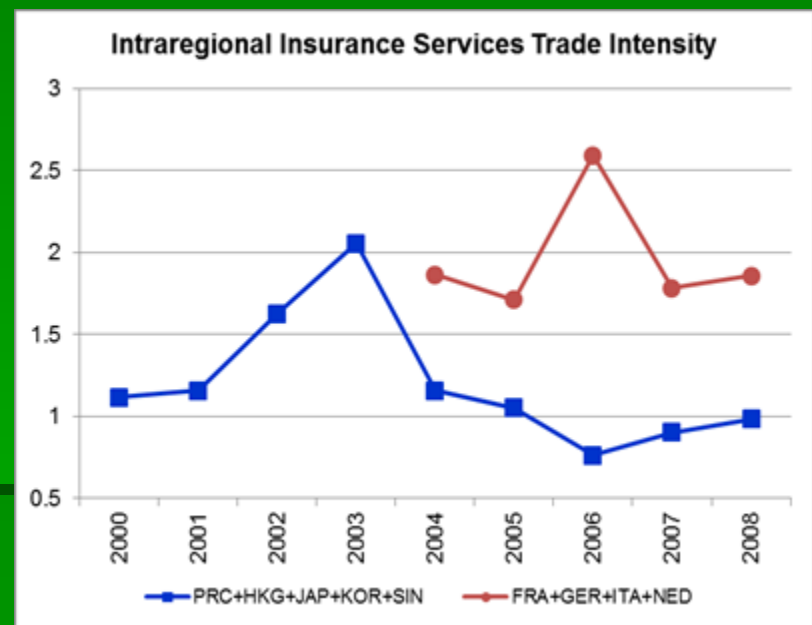
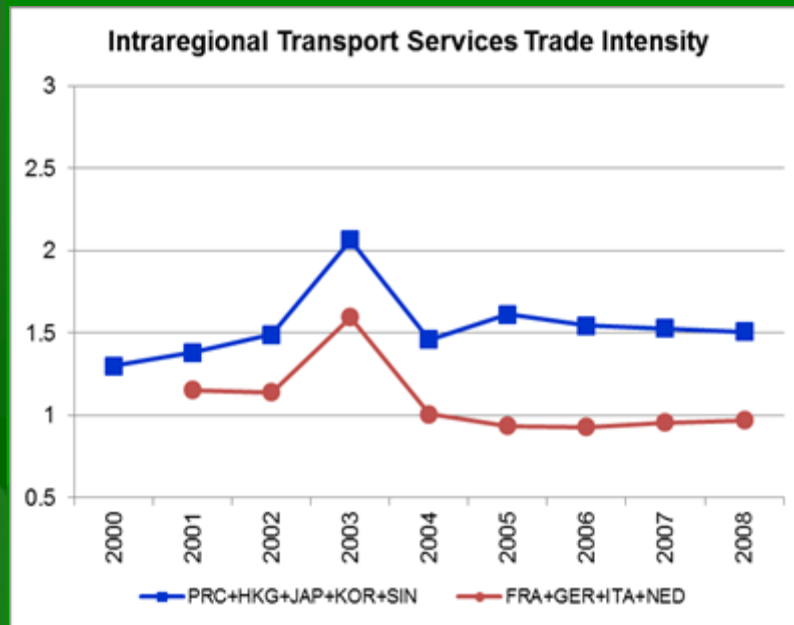
Services Trade Regional Bias of China



Goods Trade Regional Bias of China



Sector-Level Analysis



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.

Possible Explanations

- 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.