



**Soyoung Kim, Jong-Wha Lee and Cyn-Young Park**

## **‘The Ties that Bind Asia, Europe and the United States’**

**Comments by Diwa C. Guinigundo  
Deputy Governor, Bangko Sentral ng Pilipinas**

*“Beyond the Global Crisis: A New Asian Growth Model?”*

ASEM Conference

18-20 October 2009

Kuala Lumpur, Malaysia



# General Comments

- Comprehensive assessment of trade integration in Asia
- Simple analytical methods
- Findings are consistent with more recent independent research works by the World Bank and the Asian Development Bank Institute



# Highlights of the Paper

- Macroeconomic interdependence among US, Europe and East Asia is bi-directional
  - Panel VAR results
- Production sharing arrangement
  - Intensified intra-Asian trade in intermediate and capital goods
  - China as the production platform for finished products for advanced economies



# Highlights of the Paper

- Complementarity in the patterns of intra-regional and inter-regional trade integration
  - China becoming an important importer of both intermediate and finished goods from East Asia
  - East Asia is becoming a supplier of intermediate goods to advanced economies and importer of final goods from advanced economies



# Two important implications

- Intra-regional and inter-regional economic integration are not mutually exclusive processes
- Demystifies the 'decoupling' concept
  - Intensified intra-Asian trade on intermediate products and high level of dependence on advanced economies for final market demand imply higher business cycle synchronicity



# Insights on intra-Asian trade integration

- Intra-Asian trade integration is largely a market-driven process
  - Fragmentation of production processes
    - Driven by factor cost differential
    - Abetted by reduction in trade barriers
    - Promoted by improved infrastructure system and logistics services



# Insights on intra-Asian trade integration

- Production of high productivity exports by China
  - Incentive for Asian EMEs to go up further the quality ladder in the production process
  - Deep bench of labor supply in China: greater risk to smaller, less-advanced economies in Asia that specialize as well in labor-intensive production processes.



# Suggestions: the way forward

- For future research: Examine asymmetry in the transmission of shocks via the import and export channels using detailed production sharing data.
- Asia should leverage on the position of strength
  - Need for stronger framework of cooperation
    - Policy coordination
    - Dispute resolution
    - Crisis management
  - Scope for new niches through export diversification and product development to capitalize on the huge Asian market
  - May be promoted by strategic infrastructure system, efficient logistics services and skills upgrading
  - May be limited by lack of regional financial integration



## Useful References:

- Yi, Kei Mu (2003): Can Vertical Specialization Explain the Growth of World Trade?" Journal of Political Economy
- Hanson, G., Mataloni, R. and Slaughter, M. (2005) Vertical Production Networks in Multinational Firms, Review of Economics and Statistics
- Haddad (2007). Trade Integration in East Asia: The Role of China and Production Networks. WB Policy Research Working Paper 4160, March 2007



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