Advances and Challenges in Regional Integration: Reflections on the first day’s discussions

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Trade Integration

• Progress in regional trade integration prompted by GVC
• Greater importance of China, initially as final assembly point, but increasingly as final market.
• China’s structural transformation posing challenges and opportunities.
  → will China’s internalization of GVC crowd out Asian GVC?

• Not much discussion on regional trade arrangements per se. (Not a driver, but facilitator of integration. Also an agent of structural reforms.)
• Diversity of countries important: require different supporting policies. (Sub-regional cooperation may be understood in this framework?)

  → how can regional trade arrangements help in shaping new (post GVC?) strategies for development?
  → is ASEAN a natural core unit of integration?
Labor and factor mobility

• Perhaps better to think in terms of goods, factors and financial market integration.
• FDI (physical capital) and labor mobility complement goods market integration.
• Interest in FDI as driver of integration.
• Labor mobility: ignored aspect of regional integration.
  • Difference in attitudes towards skilled and unskilled labor.
  • Social repercussions stronger

Financial Integration

• General perception that it lags behind trade integration.
• Overall considered to be positive, but some reservations.
• What is financial integration?
  ✓ Opposite of fragmented (isolated) markets, but what constitutes integration?
    — Financial sector liberalization and capital account integration?
      • This is equivalent to globalization, and hence not much role for regional integration
      • Increases efficiency, but raises the issue of how to cope with externally driven flows (surges and stops): Macropurudential policies, liquidity provisions, fiscal backstops.
    — Market access in financial services and financial products?
      • Licensing and regulation important. (ABIF)
      • Currently, global institutions provide regional integration.
      • Regional integration possible, but what are the merits? Does a lower presence of non-regional institutions/investors help to promote stability without sacrificing efficiency?