

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

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1

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?

2

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

3

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): Macroprudential 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?

4