

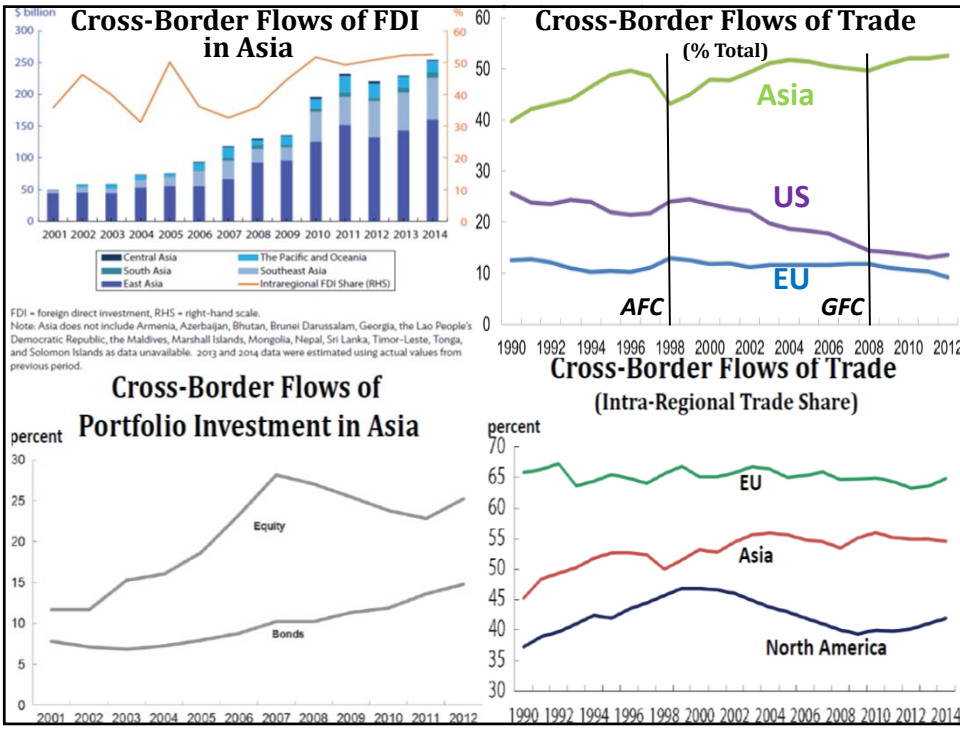
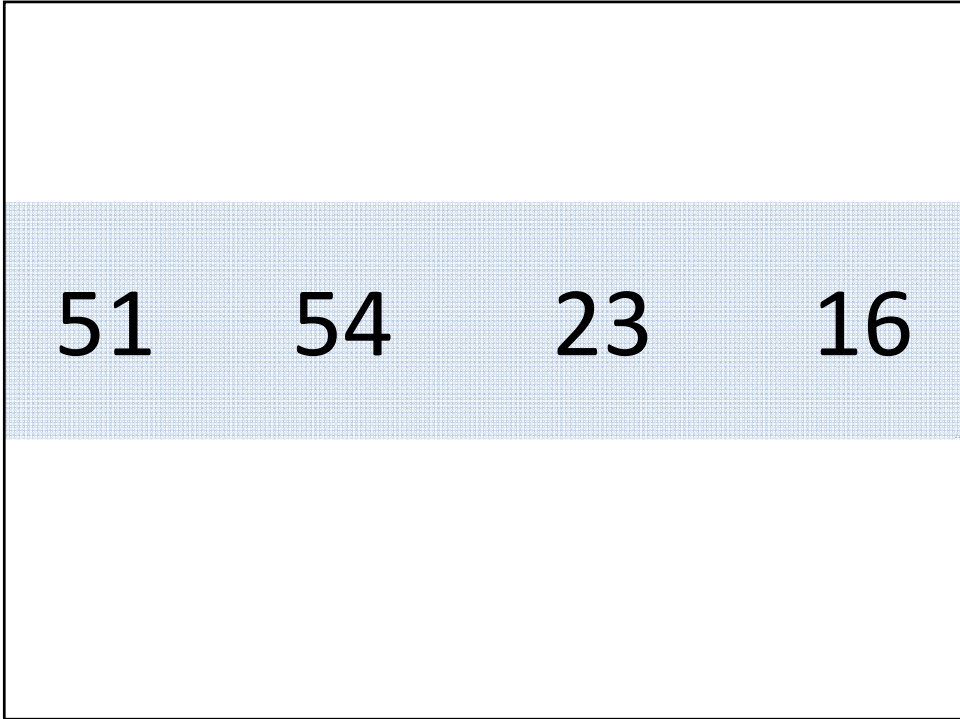
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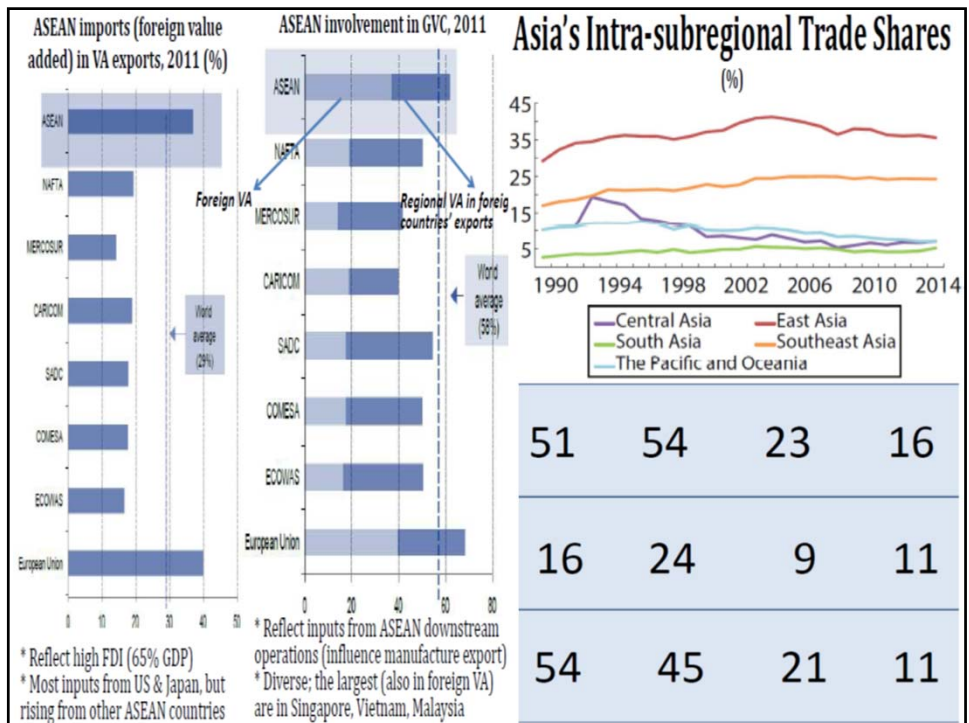
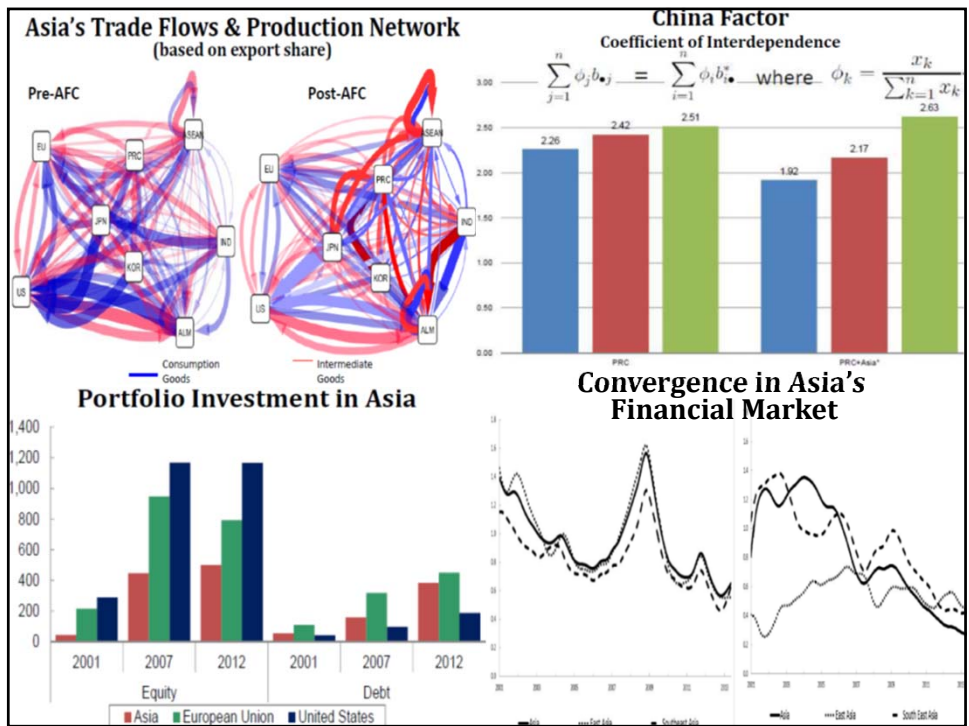
## Regional Integration and Cooperation in Asia: Quo Vadis?

ISG, HC Coombs Extension #8,, Australian National University, 20 April 2016

### Asia's RCI

- Integration: a balanced view
- Trends of [FDI-Trade-Portfolio] exclude [Labor/People-Infra/Public Good]: normal sequence, diverse, crisis-driven → unexciting?
- Case: Contagion and FSN Cooperation
- Prognosis & Expectation





### Risk Sharing in Asia

Source: Author's construction

### Income Inequality Between Countries: Trend of Gini Index

Gini Coefficient is computed as follows:  

$$Gini = \frac{-(n+1)}{n} + \frac{2}{n^2 \mu} \sum_{j=1}^n j y_j$$
 where  $y_j$  is the income of individual  $j$ ,  $\mu$  is the average income of the population, and  $n$  is the total number of individuals in the population. The Gini coefficient ranges from 0 (all individuals have equal income) to 1 (all income held by one person).

IMF (GFSR April 2016): *“.....rising financial integration, more than emerging economies’ growing share of global GDP and trade, is the key factor behind their increasing financial impact on other countries. .... The financial integration of emerging market economies into the global economy has affected international financial markets in both desirable ways—more efficient asset prices and resource allocation—and undesirable ones—amplification of shocks and transmission of excess financial volatility.”*

## Financial Contagion & Spillover

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**AE Bond**  
 → Lehman (1+1)  
 → EC: (2+1)

**Direct**

↙

**Indirect**

↘

**8 Asia’s Bond**  
 5-10 y GB

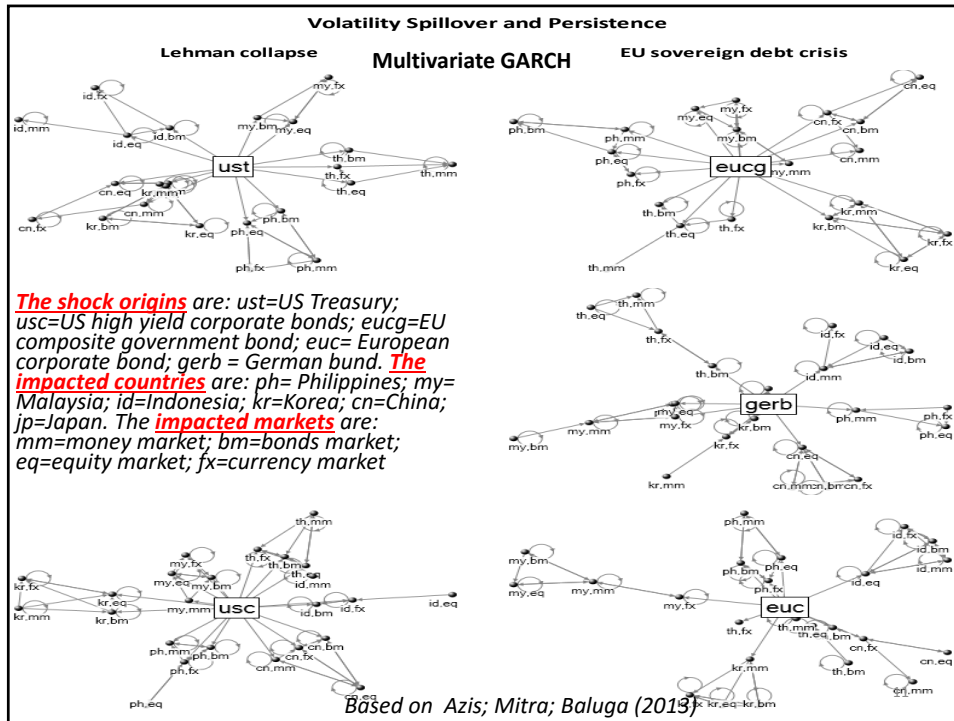
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**Cross market**

**8 Asia’s Asset Classes:**  
 bm, mm, eq, fx

*M-GARCH & unrestricted BEKK*





### Shock and Volatility Spillover from the Korean Currency Exchange (FX) Market

#### Lehman collapse

**Shock Spillover to:**

BM		EQ		FX		MM	
Country	Coeff.	Country	Coeff.	Country	Coeff.	Country	Coeff.
cn	0.01113	cn	0.13155	id	0.02254	jp	0.22294
id	0.02244	id	0.01295	in	0.00398	my	0.20680
in	0.06221	jp	0.06328			ph	0.20822
jp	0.00909	my	0.04568			th	0.01412
my	0.19416	ph	0.35550				
ph	0.05217	th	0.08579				
th	0.05013						

**Volatility Spillover to:**

BM		EQ		FX		MM	
Country	Coeff.	Country	Coeff.	Country	Coeff.	Country	Coeff.
cn	0.07199	cn	0.06919	cn	0.00005	id	0.00822
id	0.10374	id	1.10745	id	0.05712	in	0.69497
in	0.11322	in	0.06518	my	0.00050	my	0.00766
jp	0.01317	jp	0.13798	ph	0.00653	ph	0.55722
		th	0.38375			th	0.00109

#### EU sovereign debt crisis

**Shock Spillover to:**

BM		EQ		FX		MM	
Country	Coeff.	Country	Coeff.	Country	Coeff.	Country	Coeff.
cn	0.06797	id	0.06005	cn	0.00149	id	0.35243
id	0.04725	in	0.20799	id	0.05212	in	0.23295
jp	0.84847	jp	0.34152	in	0.05186	jp	172.329
ph	0.30254	my	0.00670	jp	0.02043	ph	0.30392
th	0.32800	ph	0.02848	th	0.01672	th	0.00352
		th	0.30348				

**Volatility Spillover to:**

BM		EQ		FX		MM	
Country	Coeff.	Country	Coeff.	Country	Coeff.	Country	Coeff.
cn	0.23241	cn	0.21556	in	0.01696	in	0.00692
jp	4.09921	in	0.12907	th	0.05343	jp	27.646
my	0.00187	jp	2.32052			ph	0.27455
th	0.31792	th	2.99507				

Note: coefficients significant at 5% level

#### Lehman collapse

**Shock Spillover to:**

BM		EQ		FX		MM	
Country	Coeff.	Country	Coeff.	Country	Coeff.	Country	Coeff.
cn	0.48364	in	0.10798			id	0.06831
ph	0.18402	kr	0.02186			in	0.11682
		ph	0.06975			my	0.04963
		th	0.03065			th	0.00030

**Volatility Spillover to:**

BM		EQ		FX		MM	
Country	Coeff.	Country	Coeff.	Country	Coeff.	Country	Coeff.
cn	0.12008	cn	0.79109	cn	0.00010	id	0.00852
my	0.09945	in	0.62809	kr	0.21907		
ph	0.09478	kr	0.39716	my	0.00136		
		my	0.05817	ph	0.01961		
		th	0.02364	th	0.00106		

#### EU sovereign debt crisis

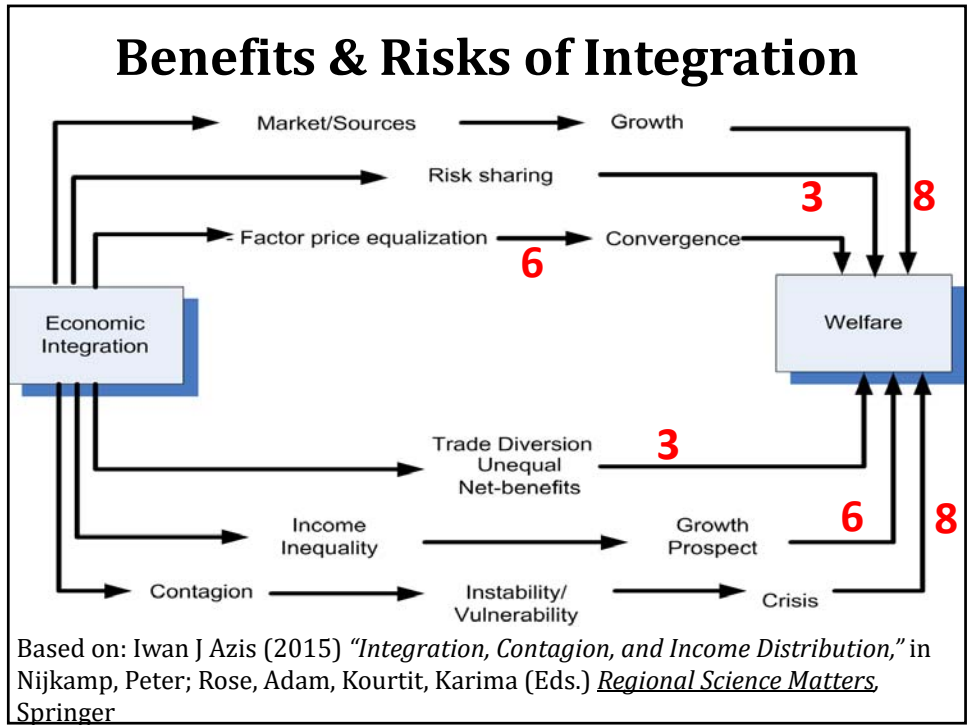
**Shock Spillover to:**

BM		EQ		FX		MM	
Country	Coeff.	Country	Coeff.	Country	Coeff.	Country	Coeff.
kr	0.00782	kr	0.00857	id	0.00078	in	0.00746
th	0.00951			in	0.00603		
				kr	0.00124		

**Volatility Spillover to:**

BM		EQ		FX		MM	
Country	Coeff.	Country	Coeff.	Country	Coeff.	Country	Coeff.
id	0.00241	cn	0.09530	cn	0.00056	id	0.00093
kr	0.03360	th	0.15165	id	0.00716	in	0.00340
				in	0.00436	my	0.02705
				kr	0.00951		
				ph	0.00082		

Note: coefficients significant at 5% level



### Cooperation & Integration: A Typology

	<i>Cooperation</i>	<i>Non-Cooperation</i>
<i>Integration</i>	<i>Infrastructure/Connectivity</i>	<i>Unilateral Trade Liberalization (Regional Production Network)</i>
<i>Non-Integration</i>	<i>ABMI &amp; Regional Financial Safety Net (CMIM)</i>	<i>Unilateral Financial Liberalization</i>



## Asian Bond Market Initiatives (ABMI)

- \* 2003: Declared Initiative
- \* 2008: Road Map → supply, demand, regulatory, infrastructure
- \* 2010:
  - CGIF
  - ABMF
  - RSI
  - Reg credit rating

Decade later

- More bonds
- # participants & foreign investors
- Local gov, public utility → I, P, V, C
- Corporate (“deep & liquid”) → C, K, M
- Yield curve: shifts downward, flatter
- Maturity/tenor: lengthened
- Institutional arrangement:
  - transparency: listing & disclosure
  - Int’l accounting & auditing standard
  - Insolvency law (bankruptcy, debt recovery & funding)
  - ABO: > 309,000/day hit

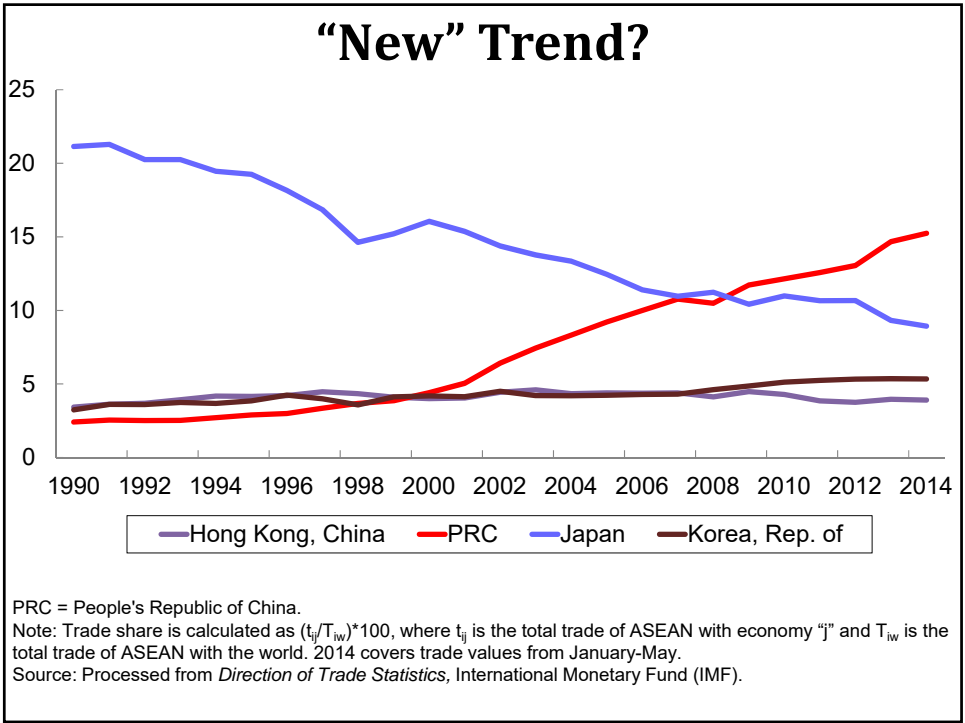
\* Capital flows (safe heaven)

\* Unilateral

↓

\* Attendant vs decision

too small & limited → rely on domestic safety net (balancing act)





## CMIM & AMRO

- \* 2000: CMI
- \* 2010: CMIM-AMRO → 1<sup>st</sup> Inst
  - Committed (\$120)
  - IMF link (20%-80%)
- \* 2012:- Complement IMF's FCL & FCL
  - Raise committed fund & lower 80%
  - Dialogue mechanism

### Progress

- Slow → limited → disappointing
- Not ready for alternative support when liquidity is needed
  - domestic (reserves)
  - strengthen IMF
  - swap (US Fed)
- Capacity: → surveillance
  - \$ amount
  - procedural (delay vs. rapid)

\* Support

\* Political will

too small & too slow → rely on domestic safety net (balancing act)

## Net Assessment on Asia's RCI

- Growing integration with expected pattern: (1) normal sequence; (2) diverse sub-regionally; (3) crisis-driven; (4) private sector market-driven & institution-lite (domestic policies)
- Some benefits are not materialized, while some risks are (financial sector) → welfare effect: mixed
- Cooperation: mixed results; ineffective FSN
- Overall: Nothing unusual, follows a common sense; likely continue albeit with uncertainty in speed & intensity
- Expectation: Can RCI be used for other pressing domestic challenges? Harmonization can expand on issues such as transparency, regulatory reform, labor rights, environmental protection, etc? This is where economics stops giving answer or gives dreaded two-handed answer