

Trading flows in Asia-Pacific region: convergence or diversion?

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1. Introduction

Asia-Pacific is a region of economic dynamism which receive the attention from countries all over the world. In recent years, Asia Pacific continues to witness a surge in intra-regional free trade agreements (FTAs), driven by the region's rapidly growing consumption demand and strong economic performance. Free trade is crucial for the region's future growth prospects, as it helps to boost trade flows, investment, employment and consumption. Before the year of 2016, it is expected to have a Free Trade Area of Asia-Pacific (FTAAP) through either TPP or RCEP or even both of them. However, with the change of the US's trade strategy under Donald Trump's presidency, 11 TPP countries continued to negotiate and create the CPTPP to strengthen their trading relationship. In particular, ASEAN countries has also strengthen its unity through the establishment of ASEAN community, which include AEC to promote free trade among them. This trend will help to enhance the unity of the Asia-Pacific countries through convergence of trading flows.

However, given the importance of the region, other countries like EU, India or Russia paid more attention to increase trading volume with countries in the regions. India promote Look-East policy, EU negotiate FTAs with selected ASEAN countries when it fail to sign EU-ASEAN FTA. Those efforts all aims strengthen their relation not as a whole of the region but with selected partners at each discretion. It might create the diversion of trading flows, where each country moving closer to different outsider.

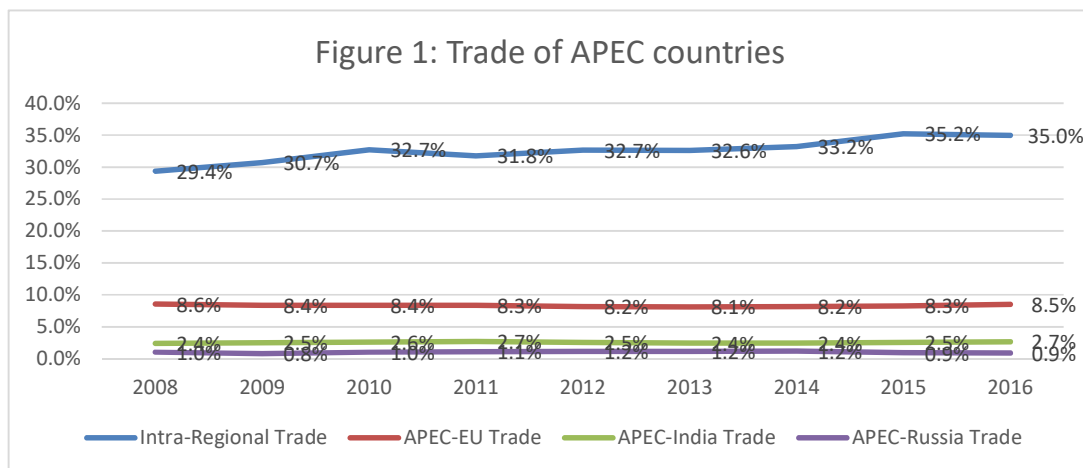
The paper aims to answer the question whether trading flows of Asia-Pacific or in particular ASEAN countries will diverse or converse under this context. Part 2 will look at the intra-regional trade of APEC and ASEAN to identify the converse trends of trading fows while part 3 will analyze the trade intensity of each among 6 ASEAN countries with main partners in Indo-Pacific, i.e. Australia, India, Japan, USA and China².

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² China is not considered as part of Indo-Pacific region. The author keep analyse trade flows with China as it is an important partner.

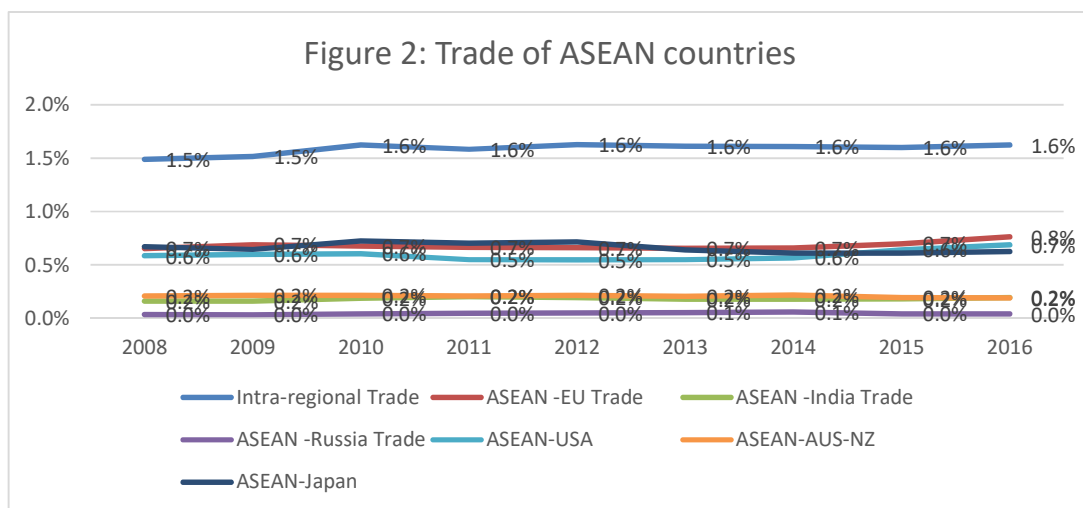
2. The rise of intra-regional trade

The intra-regional trade index of all countries in recent years is increasing, which again reflects the importance of Asia-Pacific trade. The Intra-regional index of APEC countries has steadily risen from 0.29 in 2008 to 0.35 in 2016. Figure 1 showed a stagnation of intra-regional trade in 2011 as a result of the world economic crisis.



Source: author's calculation

Even though the outsider like EU or India pay focus on the region and try to increase the extra-regional trade but Asia-Pacific countries in seems to trade more among themselves. The trading proportions of APEC region to outside partners remain at 8%, 3% and 1% with EU, India and Russia respectively. Only India witness a slightly increase of trading ratio with APEC countries from 2.4% in 2008 to 2.7% in 2016.



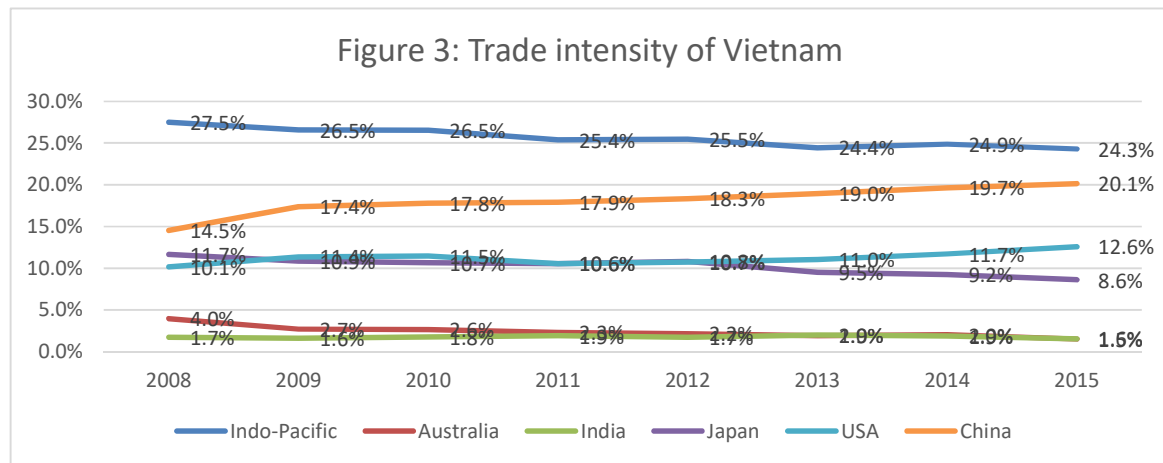
Source: author's calculation

Looking more focus on the ASEAN countries, the intra-regional trade intensity maintain around 1.5-1.6% for the last 10 years, in spite of progressives on FTAs. While the trade intensity of ASEAN as a whole with Russia, India and Australia remain stagnated and small, the two main partners are USA and EU with increasing trade intensity.

3. ASEAN countries' trading with Indo-Pacific

Vietnam

Trade intensity of Vietnam with Indo-Pacific region has decrease gradually from 2008. Eventhough, Vietnam's trade intensity with China and USA has increase sharply from 14.5% and 10.1% in 2008 to 20.1% and 12.6% in 2015 respectively. EU is a big trading partner with increasing importance, which seem to divert Vietnam from the Indo-Pacific region. Within the region, Vietnam has not exploit the potentials of trading with India and Australia, which are two partners of Indo-Pacific that have AIFTA and AANZFTA. The trade intensity of Vietnam with Japan has also decreased sharply from 11.7% down to 8.6% eventhough there are up to 2 FTAs between two countries (VJEPA and AJFTA). It can be said that Vietnam has not utilised the potential benefits from FTAs.

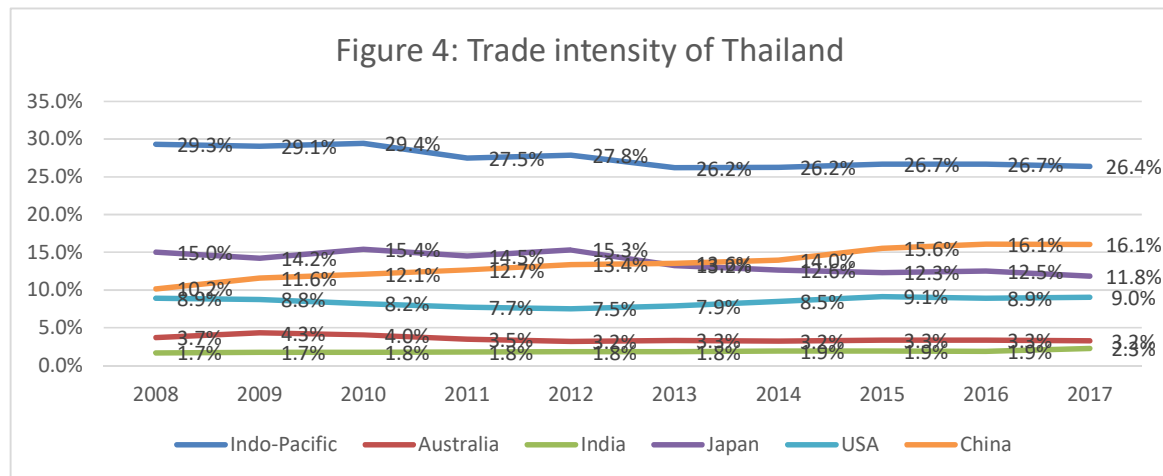


Source: author's calculation

Thailand

Similar to other countries, trade intensity of Thailand with Indo-Pacific region has decreased relatively. India and Australia has not yet intensify their trading with Thailand with a low and quite stable intensity. While there is a decreasing trend of trading with Japan, the trade intensity with all three partners (China, USA

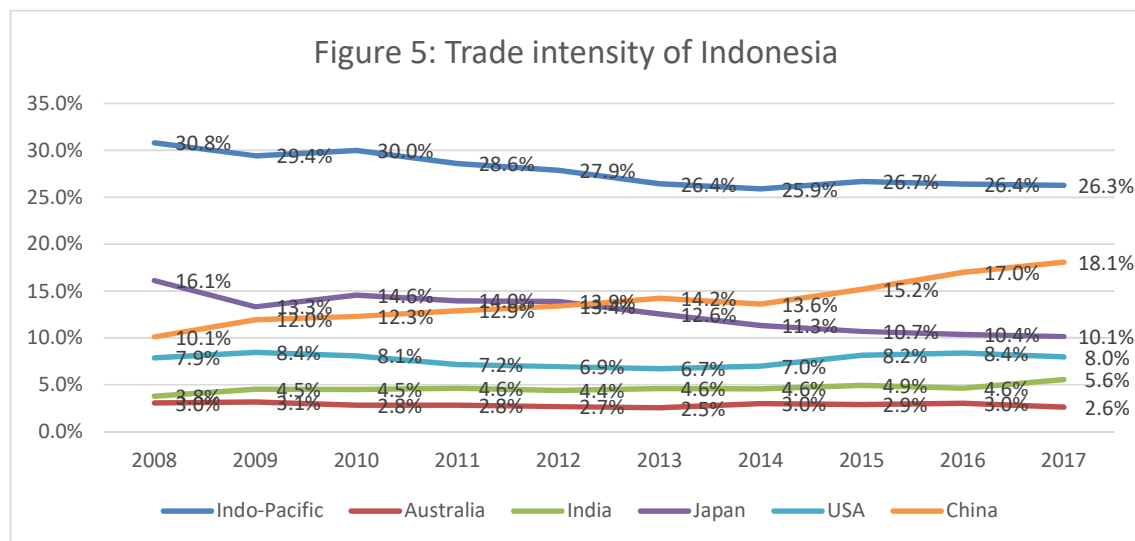
and Japan) still comparable. It reflects a more diversified markets of Thailand than the case of Vietnam.



Source: author's calculation

Indonesia

Similar to Thailand and Vietnam, Indonesia has also been pulled toward China while the intensity with the Indo-Pacific region decreased. However, Indonesia has been able to maintain the trade intensity with USA at around 8% rather depending on this partner. Indonesia is also among countries that have increasing trade intensity with India.

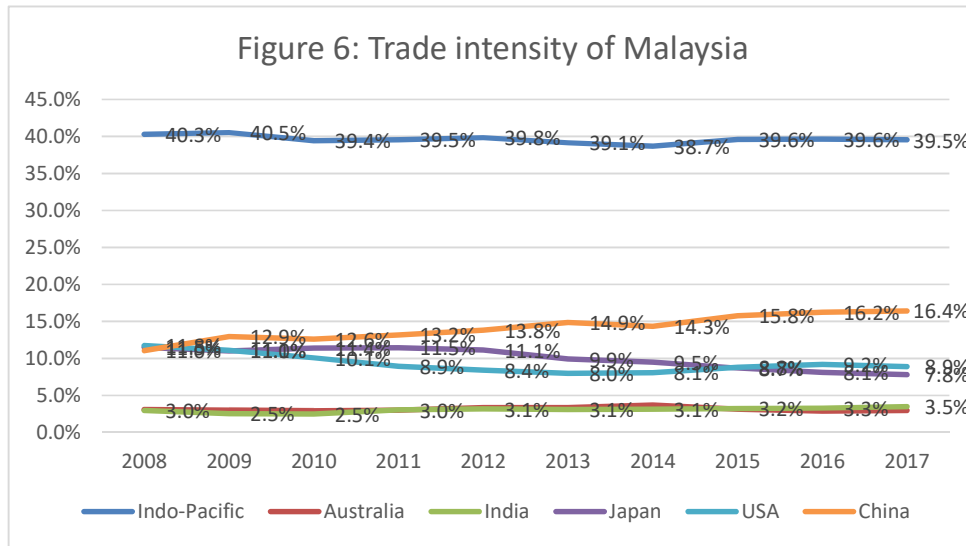


Source: author's calculation

Malaysia

Malaysia is the only country that have maintained its trade intensity with Indo-Pacific region at around 40% over the last 10 years. While the country still traded

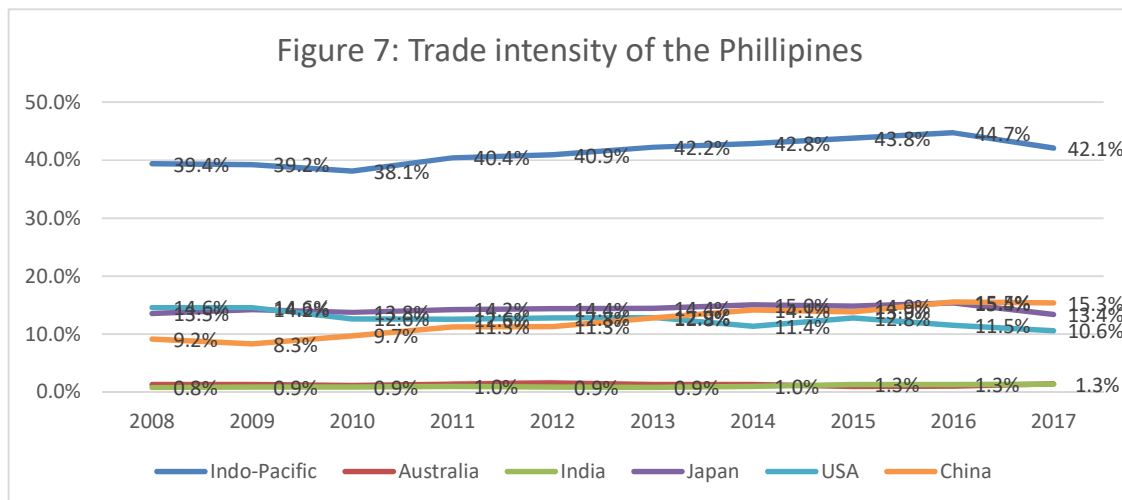
increasingly with China, it has been able to keep trade intensity with other partners relative stable.



Source: author's calculation

The Phillipines

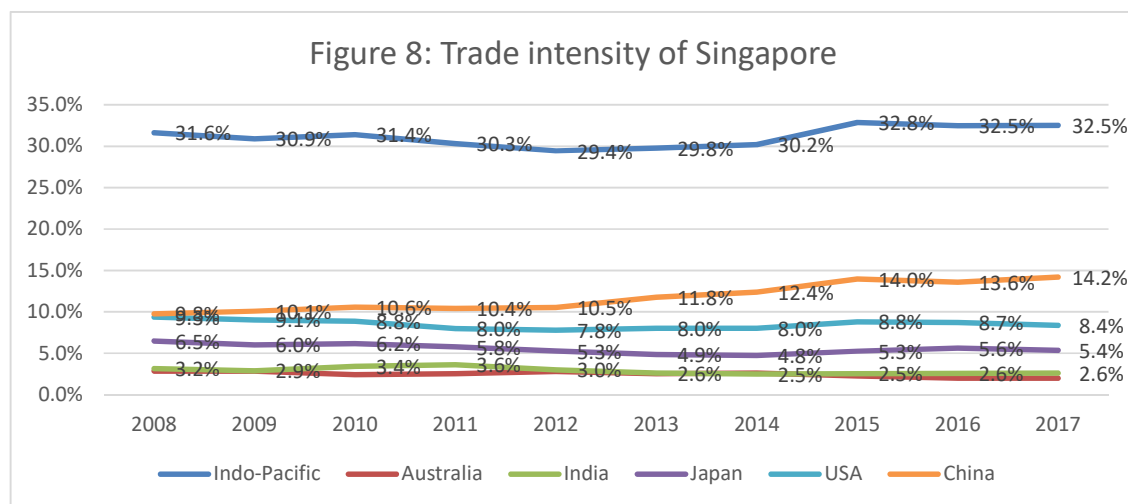
The Phillipines witnessed an increasing of trade intensity with Indo-Pacific region as a whole from 39.4% in 2008 up to 44.7% in 2016. In spite of some volatility, the country has been able to kept the upward trend with nearly all partners, including China with much increase. In 2017, there was a decrease of its trade flows with all regional partners, but it was expected to recover in 2018.



Source: author's calculation

Singapore

Singapore is the country which can diversify its markets. During the period 2011-2014, Singapore witnessed a decrease with all countries and the Indo-Pacific region as a whole. However, after Singapore's trade intensity with the region has recovered and reached 32.5% in 2017.



Source: author's calculation

Table 1 summarizes the changes of trade intensity of 6 above countries. We can see that China has been an increasingly important partner with all the countries. In the opposition, Japan, due to its economic downturn has not been able to maintain its role in the region. India and Japan was not the big trading partner with ASEAN countries. However, India with its "Look East" strategy has intensified trading relation with ASEAN countries.

Table 1: Changes of trade intensity of ASEAN countries with main partner

	Indo-Pacific	Australia	India	Japan	USA	China
Vietnam ³	-12%	-62%	-10%	-26%	24%	39%
Thailand	-10%	-12%	34%	-21%	1%	58%
Indonesia	-15%	-14%	47%	-37%	1%	79%
Malaysia	-2%	-3%	17%	-32%	-24%	49%
Philippines	7%	8%	72%	-1%	-27%	67%
Singapore	3%	-30%	-17%	-17%	-10%	45%

Sources: Author's summary

³ The changes are calculated relatively for the period 2008-2017, except for Vietnam with the period from 2008-2015 as of the availability of data.

4. Conclusions

Based on quantitative trade indexes, we can see the trading flows of APEC countries has been intensified gradual, which is caused mostly by the dominance of China and then USA in the region. However, both countries has not been involved in the currently effective CPTPP agreement. Too some extent, the roles of Japan and Australia in regional trading are weak and not yet has the momentum for growth, India has gained its increasing intensity of trading with most of countries the region. Givan the fact that India is not APEC but Indo-Pacific countrie it is possible that the trading will converge into Indo-Pacific rather than Asia-Pacific region.

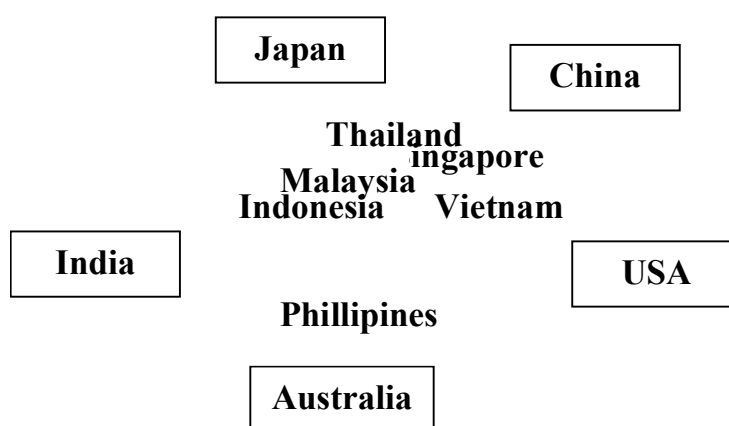


Figure 9: Selected ASEAN countries in Indo-Pacific's trading relations

With ASEAN countries, eventhough there are various efforts of enhancing the unity and establish AEC, but in term of trading flows, we have not yet see the incree of trade intensity. In the reality, all the countries are pulled toward USA and China at different levels. While the concern about the dependence on these two partners, governments has already and continue to diversify their market to other countries, especially India. However, different results of their efforts will possible make them diverse toward different partners of Indo-Pacific.