

Anatomy of Intraregional Services Trade in Asia

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Issues

- Our understanding on trade integration is dominated by knowledge on goods trade.
 - If services trade is included, common understanding on trade integration in Asia may be revised.
- We do not know even very basic facts on services trade integration:
 - What is the trend of services trade integration in Asia?
 - Which is more integrated: goods trade or services trade?
 - Is Asia's services trade integration higher or lower than Europe and North America?

Outline

- Measurement of regional trade integration
- Literature on services trade
 - In comparison with goods trade literature
- Brief explanation of services trade data
- Actual development of services integration in Asia
 - In comparison with other regions
 - In comparison with goods integration
- Possible explanations on the status of services trade integration in Asia
- Policy Implications

What is Regional Bias?

- Intraregional Trade Share (“Share Index”)
 $= T_{ii} / T_i$
 - This is a very problematic indicator!!
- Intraregional Trade Intensity Index (“Bias Index”)
 $= (T_{ii} / T_i) / (T_i / T_w)$
- Where:
 - T_{ii} \equiv exports of region i to region i plus imports of region i from region i
 - T_i \equiv total exports of region i to the world plus total imports of region i from the world
 - T_w \equiv total world exports plus imports

Literature on Services Trade

- Gravity model literature on bilateral trade usually includes 2 types of explanatory variables:
 - Relational factors
 - Distance between 2 countries
 - Whether 2 countries share a land border
 - Whether 2 countries signed RTA
 - Whether 2 countries speak the same language
 - Country specific factors
 - GDP, per capita GDP, population etc of each country
- It is relational factors that explain regional bias
 - Why Canada trade a lot with the US compared against other countries

Empirical Findings in Existing Literature: Explanatory power of each relational factors

	Kimura and Lee (2006)	Lennon (2009)	Lennon, Mirza and Nicoletti (2009)
Distance	Larger impact on services	Slightly larger impact on goods	Slightly larger impact on goods
Common borders	Much larger impact on goods	Much larger impact on goods	Slightly larger impact on goods
Common language	Much larger impact on services	Much larger impact on services	Much larger impact on services
Common RTA (in goods)	No significant difference	Much larger impact on services	Much larger impact on goods

Services Trade Data

- Analysis is limited to Mode 1/2 (cross-border/consumption abroad [travel])
 - Relatively more available
 - Consistency with goods trade data
- Mode 1/2 services trade are covered:
 - by EBOPS (extended balance of payment statistics)
 - not by customs data (where by-country goods trade data is available)

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