Asia Pacific more integrated but needs to address social issues

10 November 2010 (Yokohama) – The Asia Pacific region has become more integrated, reaching a new high since 2000, according to annual composite index released by the Pacific Economic Cooperation Council (PECC). The region as a whole as well as individual economies have become steadily more integrated with each other since 1990.

“The results show that Asia Pacific economies are becoming more integrated, and that there has been steady progress towards APEC’s Bogor Goals,” said Mr. Yuen Pau Woo, Coordinator of the report. “There are many ways to measure free and open trade; increased integration is one outcome we would expect from the liberalization process,” Mr. Woo explained.

Singapore has reinforced its position at the top as the most integrated economy in the region, with Hong Kong (China) following closely behind. The United States and the Philippines have exchanged their positions, resulting in the Philippines, China, and Indonesia now becoming the least integrated economies in the region.

The index of economic integration is based on a combination of measures that looks on the one hand at the extent to which the reference economies are becoming more alike in their economic characteristics, and on the other hand at the relative importance of trade, investment and human flows within the region compared to economic relations with the rest of the world.

“Despite a definite trend towards increased regional integration based on trade, investment and flow of tourists, since 1999 there has also been clear divergence in terms of development indicators such as GDP per capita, life expectancy, level of urbanization and educational investments,” Mr. Woo added.

The growing divergence in these other areas points to an urgent need for the region to begin addressing social issues as well its traditional agenda on trade and investment. PECC has begun work looking at social resilience which includes case studies on social safety nets such as unemployment insurance, pensions, and healthcare. Increasing the social resilience by improving social protection schemes can help mitigate the negative impact on the well-being of individuals and social cohesion from future financial and economic crises. Enhancing such provision will be critical to rebalancing growth in the region by reducing the need for precautionary savings.

An important feature of the index is that it excludes trade and investment flows among geographically contiguous economies. Also, the Report highlighted that rankings should not be read normatively as “league tables” in the sense that a higher ranking is superior to a lower ranking. Indeed, a low ranking may simply indicate that an economy is more oriented globally than regionally, as is likely the case of China and the United States.
However, a change in index value for a given economy over time can be read as a measure of its changing economic orientation. The index value for the region as a whole can also be seen as a measure of closer economic ties among Asia Pacific economies and as one indicator of APEC’s success.

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