

Trade and Investment catches the harmonic pattern: T & I in Asia-Pacific region

Suvro Parui

Abstract: *As per recent report released by the Asian Development Bank (ADB), the increasingly close trade and investment links in the Asia-Pacific region will help strengthen the region's ability to withstand environmental and economic policy uncertainties and enhance its economic resilience. Asian Economic Integration Report released in 2017, research and analysis of ADB's report especially emphasized on the recent trends in regional integration and has proposed a new regional integration index. The report also set up with a special chapter on how Asia can strengthen financial resilience in the financial interconnected era. The report points out that strong intraregional trade and investment play a buffering role, protecting the region from global trade and economic growth uncertainties. In 2016, Asia's intra-regional trade share measured by value increased from 55.9% (average) in 2010-2015 to 57.3%, a record high. Since 2017, the world economy has ushered in the most simultaneous recovery after the international financial crisis. The cyclical factors and endogenous growth momentum have increased, and global trade growth is expected to surpass the global economic growth rate again. However, it is still too early to judge that global trade growth has entered a new boom cycle. The deep structural factors affecting the global trading system have not changed, the inconsistencies and uncertainties of macroeconomic policies will be strengthened, and the beginning of the new year in 2018. The overall escalation of US trade protectionism has increased the possibility of a "global trade war". Global prediction was that the sustainability and growth of global trade recovery will be suppressed in 2018 and in the next few years, and global trade development will also usher in continuous competitive challenges or step into a "structural conflict period".*

This articulation provides valued suggestion and performance in all regions and in all major sectors, and this year's edition reflects new work in international trade statistics. By creating experimental datasets on bilateral trade in services with OECD and on trade in services by mode of supply towards end 2018, we will be able to generate estimates in many areas where hard data are not yet available, thereby helping to overcome the lack of data that can hamper analysis, monitoring and formulation of trade policy.

Key words: The Asian Regional Economic Integration Process, India-China from the structural integration, ASEAN: Hub of cooperation and partnership, Analysis

Introduction:

Since 2017, the world economy has ushered in the most simultaneous recovery after the international financial crisis. The cyclical factors and endogenous growth momentum have increased, and global trade growth is expected to surpass the global economic growth rate again. However, it is still too early to judge that global trade growth has entered a new boom cycle. The deep structural factors affecting the global trading system have not changed, the inconsistencies and uncertainties of macroeconomic policies will be strengthened, and the beginning of the new year in 2018. The overall escalation of US trade protectionism has increased the possibility of a “global trade war”. Global prediction was that the sustainability and growth of global trade recovery will be suppressed in 2018 and in the next few years, and global trade development will also usher in continuous competitive challenges or step into a “structural conflict period”.

According to a recent report released by the Asian Development Bank (ADB), the increasingly close trade and investment links in the Asia-Pacific region will help strengthen the region's ability to withstand environmental and economic policy uncertainties and enhance its economic resilience. Asian Economic Integration Report released in 2017, research and analysis of ADB's report especially emphasized on the recent trends in regional integration and has proposed a new regional integration index. The report also set up with a special chapter on how Asia can strengthen financial resilience in the financial interconnected era. The report points out that strong intraregional trade and investment play a buffering role, protecting the region from global trade and economic growth uncertainties. In 2016, Asia's intra-regional trade share

measured by value increased from 55.9% (average) in 2010-2015 to 57.3%, a record high.

On the other side, Global trade recovery or welcome turning point since the international financial crisis Source: WTO. In 2017, the pace of world economic recovery has accelerated, subsequently, the global trade has ushered in strong growth, and the global trade growth is expected to re-emerge above the global economic growth rate. Whether global trade growth has entered a new boom cycle is still difficult to say. However, from the impact of factors such as the increasingly fierce competition in the new industry and the escalation of trade protectionism, the future development of global trade will face some competitive challenges and will certainly suppress the sustainability of global trade recovery. Global trade growth is expected to slow down in 2018, and global trade development may enter a “structural conflict period”.

Due to the global demand of recovery in the year 2017, factors like lucid economic policy environment, high commodity prices propelled the atmosphere and made it investment friendly and thus the turmoil of European multi-national elections Vs the global economy-trade have achieved simultaneous recovery. However, the global trade is emerging since 2008 till 2016 the effect was visible; during the year, the trade growth rate was lower than the low growth “shock state” of economic growth rate. From the strength of the recovery, the latest statistics of the Netherlands Economic Policy Analysis Bureau stated that, “the global trade volume in the third quarter of 2017 increased by 5.1% year-on-year, and the year-on-year growth rate reached a new high since the first quarter of 2011ⁱ”. As the Global trade growth factor in 2011 in the international financial crisis was over, this growth rate also became the highest growth rate since the third quarter of 2007. In terms of the scope of recovery, in the first half of 2017, 62 countries in the WTO statistics achieved a positive year-on-year growth in exports, accounting for 87.3%; 60 countries achieved positive year-on-year growth in imports that accounting for 89.6% and developed economies and emerging economies have rarely achieved a target of simultaneous recovery. From the regional perspective, the recovery of Asia and North America observed a strong wave and it is expected to grow up by 6.4% and 4.2% respectively, which is an important driving force for the strong recovery of global trade. Since the second half of 2016, China has

maintained steady economic growth through infrastructure investment, as an effect the economies of the United States, the European Union, Japan and South Korea have also rebounded strongly and that leading the rapid recovery of global trade.

The Asian Regional Economic Integration Process

Presently, regional cooperation in Asia is going on in a strong trend. The ASEAN, with her more than five decades experience for regional cooperation, is playing important role as an axle in the regional economic unification. China along with other countries India, Japan and Korea all go for FTA negotiations and arrangements with the ASEAN. So far, China has signed FTA agreement with 12 nations including the ASEAN, Singapore, Korea and Pakistan. “One Belt and One Road” strategyⁱⁱ proposed by China may further promote the Asian economic integration. The Negotiations for the TPP—which involves the US and 12 other Asian-Pacific countries including Japan and Australia could be concluded in near future. While talking about the Economic integration from region to intra region, we must have a close look into the major trends that drove the process long way with better strength.

Global trade recorded its highest growth rate in six years in 2017, both in volume and value terms. Merchandise trade volume, as measured by the average of exports and imports, grew by 4.7 per cent, marking the first annual increase in excess of 3.0 per cent since 2011. The dollar value of merchandise exports rose by 11 per cent, to US\$ 17.73 trillion¹, while commercial services exports increased by 8 per cent to US\$ 5.2 trillion. Strong growth in trade volume in 2017 was driven primarily by cyclical factors, as world growth in GDP at market exchange rates rose to 3.0 per cent from 2.3 per cent the previous year. This economic activity was driven by increased investment spending, particularly in the United States, and rising consumption, notably in Japan. Meanwhile, China and the European Union maintained a steady rate of expansion, providing a solid base for global demand. The fact that trade growth in value terms was stronger than in volume terms reflects both increasing quantities and rising prices. Based on existing economic projections in early 2018, the outlook for trade is broadly positive. Brighter prospects reflect not only increased investment and employment gains but also improved business

and consumer confidence. Estimates of GDP growth were revised upwards over the course of 2017, which partly explains the fact that merchandise trade growth of 4.7 per cent for the year exceeded even the most optimistic earlier predictions. However a range of downward risks can easily undermine the forecast.)

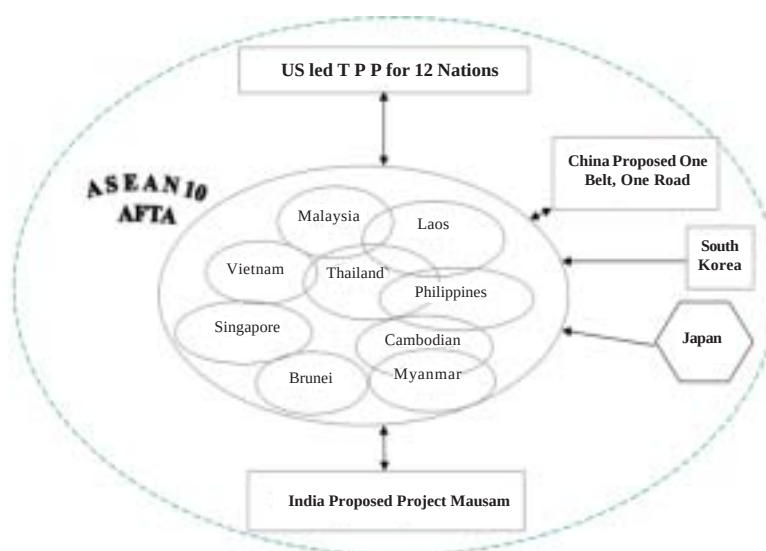


Fig. No 1ⁱⁱⁱ

India-China from the structural integration

The rise of China and India as major world powers promises to test the established global order in the coming decades. As the two powers grow, they are bound to change the current international system—with profound implications for themselves. For the United States and the world, whether they agree or not on the changes to be made, especially when coming to their relationship with the West, the two nations will influence the system's future character.

China and India's sustained economic growth fuels their increasing geopolitical and military influence. Despite their developmental similarities, China and India's bilateral strategic rivalry means that they have competing priorities on most major global issues. Sino-Indian differences are considerable on issues

relating to the nonproliferation system, Asian security, regional stability in Southern Asia, and security in the maritime commons, space, and cyberspace. The two rising powers broadly agree on matters relating to the international economic system, energy security, and environment. Because of its ongoing shift to the Asia-Pacific and status as the only global superpower, the United States must manage a complex set of relationships with China and India, which are at times working at cross-purposes.

Here in this phase, the investigation extended till the competition between India and China under the canopy of ASEAN-World markets. The investigation is attempted utilizing the idea of uncovered similarly preferred standpoint, relative pieces of the overall industry, long-haul slant examination and measurable trial of the combination. With regards to the competitive market structure of ASEAN among India and China has been embraced with extraordinary reference to the peer of the ASEAN-China Free Trade Area in respect to the ASEAN-India Free Trade Area. Despite the fact, the outcomes propose that the peril at the grass level for an individual item might keep up for the two economies in over all areas of the two Asian markets that the risk might shift crosswise over items. Notwithstanding, long-term drift examination demonstrates that the examples of near favorable position of India and China are advancing along with antithetical mode and thus, the rivalry between the two Asian economies probably won't be loomed large^{iv}.

According to the report of Foreign affiliates statistics talks about the challenges, in due course of economic development; the compilation of foreign affiliates statistics (FAS) remains challenging for developing economies due to their complexity. At present, only nine report on the activities of majority owned foreign affiliates in their own economies (inward FAS) and only three on the activities of their own affiliates abroad (outward FAS) (see Appendix tables A62 and A63). The three developing economies which report on both inward and outward FATS are Costa Rica, Israel and China. According to newly available data, in China, there were 123,520 majority-owned foreign affiliates (MOFAs) engaged in services activities or construction in 2016, with sales totaling US\$ 853.0 billion, up 3 per cent. In terms of numbers of enterprises, the highest concentration of foreign affiliates was in wholesale and retail trade (some 50,000) employing over 1.5 million people. Leasing and business services, with around 24,700 affiliates, ranked second. Foreign affiliates established in

China employed workers predominantly from the domestic market as only less than 3 per cent of total employees were foreigners. (Global AGE Model)

Financial Integration

Talking about the major trends that centers round India-China and its international financial structure; where we can see their international balance sheet (Dooley et. 2003, Caballero et. 2006^v). So, the direct analysis gives us the actual report, where we can see the net foreign asset position and holding of foreign asset, which draws our attention to the directly on the international balance sheet, where the advantage of overflowing of capital has been observed, since the accumulated holdings of external assets and liabilities has been considered as the most informative indicator of the extent of international financial integration. (Lardy and Eichengreen 2007^{vi}) Since 2008 the current surplus of China has remained booming, and that has already touched upon 8.1% in 2009 and projected at around 7% gain in the coming financial year, in strengthening their target. On the contrary, Indian balance sheet has returned to the negative territory for 3% in the same year and has projected 4% in the coming financial year, deepening their counter balance China and India and the end of 2009 the net foreign asset that impacted less than the expected in this case for countries at a similar level of development. (Francoise. 2009)

Hub: In term of cooperation and partnership

Current analysis has already proved that China has been re-positioned herself as an equal partner in regional and international cooperation substituting the erstwhile Cold War position as the leader of the third world. Under the new policy, where China is trying to act as an architect in the regional unification process, but not a leader, accepting the ASEAN as the center of the regional cooperation structure. However, the rising socialist China inevitably makes some other nations especially her neighbors worried about. In 2014, China's annual foreign trade volume reached USD 4 trillion, whereas that of US was 3.9 trillion. In the same year, China replaced US to have been the No.1 for receiving the FDI of USD 128 billion. In the past 10 years, China's FDI invested overseas increased 11 times, whereas that of US was increased four-thirds only^{vii}. China has now the third largest military power in the world. The

nature of the country's political system, i.e. the immediate effective of decision making, can be even more powerful. This has made that some nations in the world, especially some Asian nations, fear that China will rise to become a threatening superpower and a challenging force to the international order. (Will Martinr, Elena Lanchovichina, 2017) Much like China, economic interests have had a strong impact on India's involvement in the Asia-Pacific region. It is not that the country remains confined to their geographic perimeters, at the same time both countries confront with peer demands for natural resources and energy that push them to seek solutions further afield.

Anticipating the market structure, the competition is an inevitable part of the cooperation; but whereas cooperation is merely the way out for two nations to go with other Asian partners. Therefore, a middle solution is that China goes for regional social and economic cooperation in Asia through collective leadership with India coordinating with other Asian partners. India's emerging and participating in the collective leadership joining hands with China and Japan in Asian regional unification process shall put impact upon the geopolitical power structure of the Asia, and cooperating with US and EU making a true multi-polar world.

Trade blossoms

Just like a neighbor and amongst world's ancient civilizations, India-China have mutually shared a long history ranging from cultural civilization to trade linkages and investments, they have rapidly changed their policy to promise stronger economic benefits. In recent times, economic ties between the two countries were almost completely severed from 1949 to 1978. Following a brief border war in 1962, bilateral trade and investment came to a halt. Economic ties officially resumed when China embarked on economic reforms but remained largely insignificant for the next two decades. So there are two major factors played a vital role in burgeoning trade blossoms in Sino Indian context; contrasting similar points of interest of the two nations and continued, high development rates in the two economies through **rapid economic growth** and **comparative advantages** enable to import of lower-evaluated capital merchandise from China, for example, turbines for electric utilities, can enable India to address the foundation bottlenecks—particularly in streets, thruways,

ports, and electric power—that have showed up as India’s assembling plant under process. (Kochharet. At 2006^{viii})

A second prospect is that Chinese capital could enable India to quicken its infrastructure management system. China has a plenitude of capital searching for appealing speculation openings. Over the coming decade, perhaps Indian infrastructure will impart one of the massive and significant contingency to set a bench mark. While thoroughly analyzing the pros and cons of entire Asian scenario, there are few aspects, which comes automatically; implications for the MNC’s, complements and strength of both Asian nations India and China, run after the MIM (Middle Income Market); therefore the, overall growth of India-China shows the cumulative development in Financial sector and at the same time gives the clear-cut indication for Japanese and western MNCs. So. Under the global phenomena, the net position of both nations is some hike on flow basis: its projected 2010 current surplus of 180 \$ billion to 20% of the projected US current account deficit of \$870 billion. (W.O.D.B)

According to the new trend of development, a new initiative to seize up trade in services by mode of supply (TisMoS) the absentia of trade administration data hinders the investigation process and also interrupts the mode of observing and plan of exchange. Since the data given by national measurable workplaces is rare, the WTO Secretariat is taking a shot at building up a test informational collection. System – the rearranged methodology the new dataset, built in accordance with the Manual on Statistics of International Trade in Services 2010, apportions administrations fares to one prevailing method of supply or, where there is no single overwhelming mode, to the most noteworthy methods of supply as indicated by a circulation table. (WTO Module^{ix}) This requires presumptions on how explicit administrations are well on the way to be provided. National initiatives a number of countries have carried out sector-specific or one-time studies to test the feasibility of regular data collection or to source information on the functioning of priority sectors of their economy. The idea of presenting trade in services by mode of supply is supported by the Task Force on Modes of Supply, launched by Eurostat, which encourages countries to allocate resources for collecting more information on the distribution of trade in services by mode of supply Development of a benchmark The simplified approach outlined above has been taken as the starting point but the methodology has been updated following experts’ feedback. The results

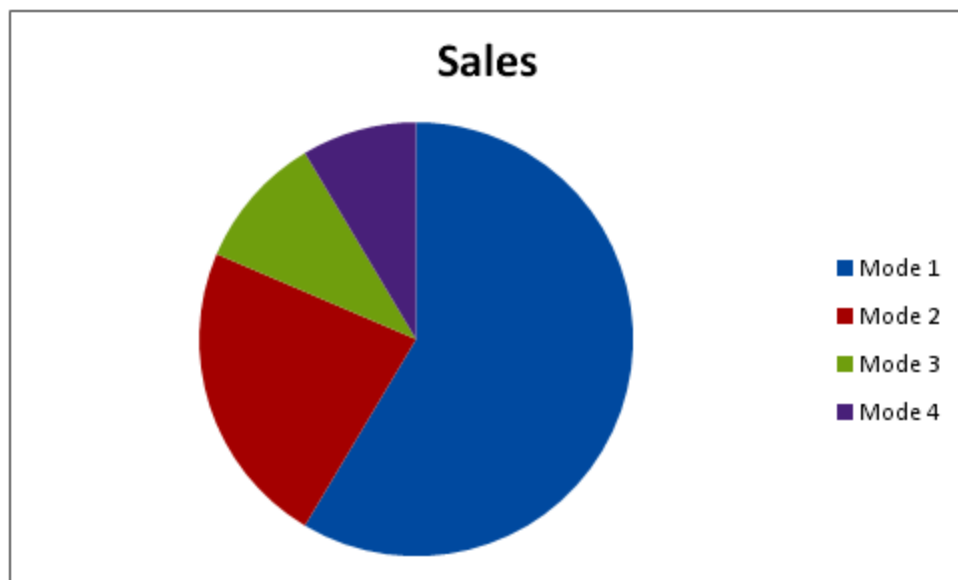
of new pilot studies will help to improve estimates at country and global level. The aim is for the dataset to progress into an international benchmark, incorporating any new information that becomes available over time. Results The first results have revealed the relative importance of modes of supply, as defined by the General Agreement on Trade in Services (GATS).

- Mode 1 (cross-border supply - services supplied from one country to another) is estimated to account for 27 per cent of total services trade.
- Mode 2 (consumption abroad - consumers or firms making use of a service in another country, e.g. tourism) accounts for 15 per cent;
- As expected, mode 3 (commercial presence - a foreign company setting up subsidiaries or branches to provide services in another country) is the dominant mode, representing more than half of services transactions.
- Mode 4 (presence of natural persons - individuals travelling from their own country to supply services in another) accounts for less than 5%.

Result:

These first results at a global level do not reveal the significant variability across countries and sectors. In addition, this first distribution at a global level may change with the advent of digital trade.

The significance of Trade administrations along with mode of supply



By contrast, the way to deal with value inflows has been substantially more liberal. Though limitations on FDI^x inflows have been dynamically loose, the particular normal for value streams into India is not the direct investment, rather the relatively high level of portfolio equity financing. India's broad domestic institutional investor base has facilitated the entry of foreign institutional investors (FIIs) that are permitted to take partial stakes in equity of quoted Indian enterprises. As a consequence of these restrictions on overseas transactions and other measures to equally develop equity markets, the composition of capital inflows has shifted toward higher equity to debt ratios of capital inflows and firms' financial structures. So, another channel directly connecting the domestic monetary framework within the global balance sheet record is through domestic reserve (Savings) funds and venture. India's present sparing rate is like that of most other Asian economies; on the venture side, private venture has risen relentlessly, while open speculation has been declining since the 1980s. In looking at venture levels in China and India, Mishra (2006^{xi}) features that an essential contrast is that the sectoral design framework of India is increasingly arranged toward administrations and is in this manner less concentrated in physical capital, in spite of the fact that this may be ready to change.

Following issues need attention that:

- The basic element if international trade in recent Sino-Indian trade relationship,
- Talking about the Sino-Indian trade relationship, we can't ignore some related facts
- Sino-India economic growth and Trade policy in recent time,
- Scope of improvement in integration with the world market structure.

Conclusion

The path is not at all rosy, however concerning about trade expansion strategy and surplus of China has grown in India over the two years. Looking at the recent global economic crisis, which has slowed down the economic growth

in China and India, it appears to have exacerbated the severity of these concerns. Over the last 28 months, Indian has taken several antidumping measures, where the government of India-China seems serious about its upcoming resolution through mutual discussion rather than taking it in front of WTO.

End Notes

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ⁱⁱⁱFuturistic model for FTA with Asia-Pacific region

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Bio Note :

Professor of Chinese Language, Amity University, Gurgaon
Email ID : suvroparui@gmail.com