

## **New Normal, Integration, and Inequality – Asia’s New Roles in Future Global Integration Scene**

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On 7 March 2017, the Economic Research Institute for ASEAN and East Asia (ERIA) and the Institute of Developing Economies - Japan External Trade Organization (IDE-JETRO) held a Joint International Symposium ‘New Normal, Integration, and Inequality’ at InterContinental Jakarta Midplaza, Indonesia. The symposium featured some of Asia’s prominent thinkers in global integration issues such as Prof Mari Elka Pangestu from the University of Indonesia, who served as Indonesia's Minister of Trade in 2004 to 2011 and Minister of Tourism and Creative Economy in 2011 to 2014, and Tan Sri Datuk Dr Rebecca Fatima Sta Maria, ERIA’s Senior Policy Fellow who previously served as the Secretary General of Malaysia’s Ministry of International Trade and Industry, as well as other notable intellectuals like Dr Gary Clyde Hufbauer from Peterson Institute for International Economics and Dr Theresa M. Greaney from University of Hawaii. The symposium was preceded by a joint workshop on 6 March 2017 at the same venue to discuss ideas and insights from the intellectuals involved on the recent globalisation issues.

In light of the recent dynamic shift in the world integration, the symposium aimed to give a valuable insight for policymaking and research activities. The preceding workshop discussed the urgent tasks of East Asia’s economic integration under the ‘New Normal’ and the new United States administration under President Donald Trump. The discussion included trade policy, mega FTAs and bilateral FTAs, fiscal and monetary policies as well as the risk and opportunities associated with the recent development of globalisation, particularly focusing on ASEAN. The subsequent discussions included two engines of economic growth for ASEAN, which are the development of digital economy and the trade and transportation facilitation measures (TFM), and wrapped up by discussing the negative aspects of globalization and regional integration in the form of unemployment and inequality.

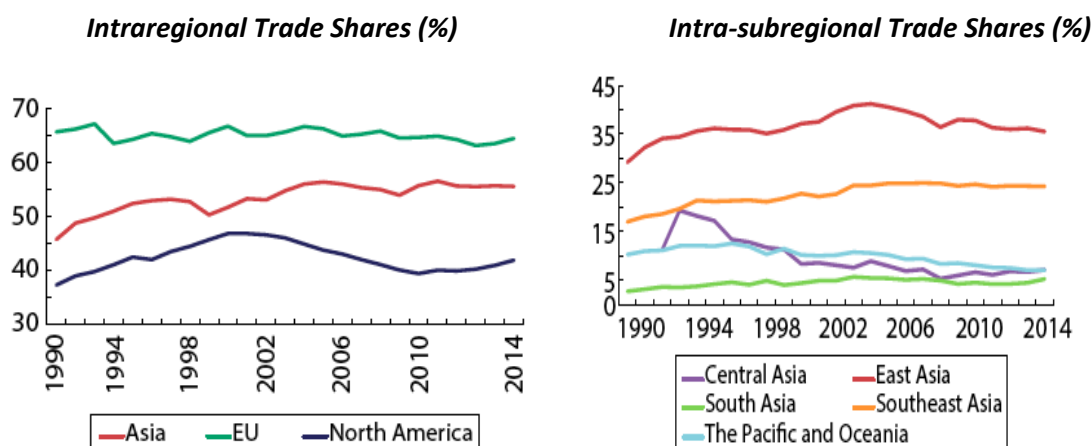
President Trump’s ‘America First’ policy, with the withdrawal of the US from the Trans-Pacific Partnership (TPP), a desire to renegotiate NAFTA, and a call for imposing border taxes, signals a decisive shift away from the policies that were traditionally pursued by US Government. Seen together with the UK’s decision to pull out from the European Union, or more popularly known as ‘Brexit’, patterns based around open and liberal regional trading regimes no longer seem to have resonance, causing uncertainty about what ‘normal’ is.

In regards to the growing concern over more protective policy direction, at the first session of the symposium, Prof Shujiro Urata, Senior Research Advisor of ERIA, reminded us of how similar movements flourished in the past. During the 1930s, the world witnessed rising tariff rates from Western countries such as Germany, UK and France and causing the sharp decline in the world trade growth. Subsequently, the disintegration in trade and economic relations led by the

Western countries triggered the Great Depression and later, the World War II. This should have been enough to warn us about the potential damage a reckless protectionist policy could trigger.

Unfortunately, a setback in the world trade growth has now also started to shadow the unilateral protectionist policy endorsed by some leading Western countries. In her keynote speech, Prof Mari Elka Pangestu highlighted how policy uncertainties have had the tendency to strongly correlate with trade in a negative way. When European immigration crisis broke or when the UK held a referendum that led to Brexit last year, the world trade volume plummeted. Similar thing has continued to happen now to the world trade following the US election. The world trade growth has been similar to or even less than GDP growth lately, especially since 2014. The growth of world trade even hit the lowest point in 2016 since the negative trade growth recorded following the Global Financial Crisis in 2008.

The recent slowing growth of the world trade could mostly be attributed to the decline of the world's investment growth, maturation, and evolution of the global value chain especially of China, and the rise of policy uncertainty. However, as Prof Pangestu further argued, the silver lining in the midst of the growing protectionism actually comes from Asia. East Asian growth and continued integration is now the new tailwind on global openness. Asia is the rising star in the intraregional trade with steadily increasing shares, in contrast to the stagnant EU's intra-trade shares since 1990s. East Asia and ASEAN has showcased the strongest intra-subregional trade performance among Asian countries.



Source: ADB (2015), presented by Prof Pangestu during her keynote speech

Supporting the potential roles of Asian integration highlighted by Prof Pangestu, Dr Wisarn Pupphavesa, Senior Advisor of TDRI<sup>1</sup>, shared his thoughts on how ASEAN has continuously been progressive towards greater global integration. TDRI study in 2013 showed that Indonesia, Philippines, Malaysia and Thailand has strongly indicated a deeper integration into the global economy following the ASEAN Economic Community (AEC) initiatives. Dr Pupphavesa further

<sup>1</sup> Thailand Development Research Institute (TDRI) is one of ERIA Research Network Institutes (RIN) Members.

argued that even though AEC is still insufficient and even disappointing in some aspects, ASEAN centrality is critical to keep the regional economic architecture evolving towards a better integration framework.

Despite the grim look of today's world trade, services trade has proven to be more resilient than the traditional goods sector. Modern services trade is a part of digital era, where the transaction can be done in a highly efficient manner and the physical distance matters less than before. In fact, during the recent downfall of global trade growth, e-commerce is forecasted to keep growing at impressive pace of 27% on average per year until 2020. The symposium also covered how digital economy has the potential to drive ASEAN integration and how it could transform ASEAN's industry into the so-called Industry 4.0 as this is also a very important element for the world's future growth and interlinkages.

Dr Karndee Leoparote from C-asean in her presentation explained how as a single community, ASEAN has the potential to enter the top 5 digital economies in the world by 2025. By 2025, most of ASEAN's citizens will be digital natives, fully empowered to use high-tech tools to enhance their personal and professional lives. As a consequence, ASEAN internet economy is also expected to reach USD 200 Billion by then. Digital economy also has potential to add an incremental USD 1 trillion to ASEAN's GDP by 2025. Among ASEAN countries, Indonesia poised to be the region's biggest digital economy by 2025 and several ASEAN economies like Philippines, Singapore, Thailand, and Malaysia have now developed strategies to enhance their digital economies.

However, ASEAN countries are still facing major challenges to realise those potentials. Lack of human capital, immature payment regulations and mechanisms, unequal internet and logistics infrastructure development, and low consumer awareness and trust are among the biggest challenges for ASEAN to enhance its digital economy sector. Overcoming those stumbling blocks would also enable ASEAN to leapfrog into Industry 4.0, a stage that is often talked about as the fourth industrial revolution, which will have a major impact on manufacturing value chain at both local and global levels.

As Dr Ramanathan put it in his presentation during the preceding workshop, Industrial Internet of Things (IoT) and Industry 4.0 have a cause-effect relationship in the sense that Industry IoT is the basis for, and will result in, Industry 4.0. While the Industry 4.0 implementation has returned jobs to some of the advanced economies like US and Europe<sup>2</sup>, its implementation in ASEAN without proper development and preparation of the human resources and facilities could just widen the inequality within and between ASEAN countries.

On the second session of the symposium, Dr Greaney from Hawaii University, highlighted how Indonesia had the lowest inequality over the 1975-2008 period relative to other ASEAN countries, but now it has the highest rate of inequality. In Asia, China shows strongest upward trend of

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<sup>2</sup> "Robots Help bring Jobs Back Home" (Walker, J., The Weekend Australian, 19-20 November 2016)

inequality during 1980s-2010s while Japan has the lowest inequality by far with upward trend from early 1980s to early 1990s.

Dr Greaney pointed out that although trade economists are very united regarding the inequality issues in favour of free trade, the impact of economic growth resulted from the freer trade on inequality is not a simple growth-equity trade-off. Technological change, growth, and trade cause changes in income distribution within a country. Workers and business owners in outdated or comparative disadvantage industries often suffer losses at least in real income. Dr Greaney emphasised that research and policy attention were needed on how to alleviate these losses using domestic (not trade) policies instead.

In conclusion, the road towards a more equitable and just global integration that leverages the welfare of every party involved might seem to be harder right now. Through these series of discussions initiated and hosted by ERIA and IDE-JETRO, some notable takeaways for Asia and ASEAN countries to move forward emerge:

- The recent growing discourse and unilateral acts away from global cooperation and openness showcased by leading advanced economies like the US and the UK give the stage to East Asia and ASEAN countries to potentially come forward as the new tailwind on global integration.
- As services trade proved to be more resilient in the midst of growing political uncertainties, future domestic policies in Asian countries, particularly ASEAN, should put special emphasis on services sector development.
- Future services sector development is inevitably going to be closely related to digitalisation. Asia, particularly ASEAN, possess a great potential to make the best out of it and play central roles in future global digital economy scene.
- Therefore, to fully reap the opportunities to become the new tailwind of global integration and unlock the potentials to play more central roles in global trade scene, Asian countries (particularly ASEAN member states) need to seriously prepare themselves through national and regional policies that empower their human capital and leverage their capacities, better facilitate and secure digital transactions, and establish mechanism to correct the market failures that could prevent any societies involved to benefit from the integration. The world is rapidly changing; therefore, it is critical for Asian countries to properly prepare themselves in immediate future.
- Ongoing negotiations among Asian countries such as Regional Comprehensive Economic Cooperation (RCEP) could be an important milestone towards better global integration regime initiated by Asian countries and ASEAN member states in particular. On that note, converging trade measures across member countries, simplified and non-

distorting Rules of Origins (ROO), significantly improved trade facilitation, deepening cooperation in trade in services, fair dispute settlement agreement, as well as stronger capacity building and technical cooperation are all equally important points to be carried out in the future RCEP framework.

- Specific and complementary policies to ensure equitable development between and within countries on both National level (infrastructure, education, training and skill development, social safety nets) and Regional level (effective capacity building, SME development) should be on board along with the ongoing regional cooperation initiatives.
- Collective leadership model in Asia and particularly ASEAN through the economic cooperation is an important global example and movement regarding the current missing headwind of the global integration. Continuous endeavour set by cooperation such as AEC and the completion of RCEP will give an important signal of the new tailwind on openness from Asian integration.