ASEAN in the Global Economy
a half century journey

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Hong Kong University, 1 May 2024
Over the last half century we have witnessed a global economic transformation.

A few countries that once held predominant influence in the world's economic landscape during the early 1970s have gradually relinquished their positions to emerging economies. These emerging economies have increased their shares in the world economy, both in significance and pace.

The shift is evident in their declining global shares across three key economic metrics:

- Total output (gross domestic output, GDP)
- Trade in goods
- Manufacturing value added

Share (%) in World’s Nominal GDP, 1970-2022

Top 7 Decliners, except China

Top 7 Gainers (excluding China)

Notes: GDP is Gross Domestic Product or total outputs
Share (%) in World’s Trade Value, 1970-2022

Share (%) in World’s Manufacturing Value Added, 1970-2022

Top 7 Decliners, except China

Top 7 Gainers (excluding China)

Lessons from the Shifts

- The economic shifts in the last half century are not caused by significant changes in the growth performance of developed countries but rather by the rapid catching up of a few emerging market economies, such as China, India, Indonesia, and South Korea.

- Economic development is a process of continuous structural transform in industries and technology (and human capital), which raise productivity, as well as hard infrastructure and soft institutions, that reduce transaction costs.

- The governments of those few successful countries adopted pragmatic approaches to turn their countries’ comparative advantage from “latent” to “actual” and exploited the latecomer advantages throughout their industrialization and technology catching up process.

Source: Ing and Lin, Economic Transformation in ‘New Global Economic Order’
Global Trade Outlook
Global Trade Outlook

*Rising protectionism continues…*

- Geopolitical tensions
  - US—China trade tensions (now extended to technology, strategic industries, and security)
  - US’s Friend shoring strategy—China’s Dual Strategy

- Rising anti-globalization and protectionism
  - Stalled Multilateral Trading System (WTO)
  - Trade coercions, sanctions, and protectionism
  - World’s Defragmented Value Chains
## ASEAN’s Free Trade Agreements

<table>
<thead>
<tr>
<th>No</th>
<th>FTA</th>
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<tr>
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<td>ASEAN-Australia and New Zealand</td>
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<td>7</td>
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<td>8</td>
<td>Regional Comprehensive Economic Partnership (RCEP) (ASEAN, Australia, China, Japan, South Korea, New Zealand)</td>
<td>Jan 2022</td>
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Source: https://aric.adb.org/fta-group [accessed 4/26/2024]
ASEAN’s Potential in Semiconductor and Digital Economy
Changes in Total FDI, after and before US—China tensions 2022 and 2023 compared to 2018

Source: ERIA Staff Calculations from EIU Database [accessed 8 January 2024]
ASEAN’s Potential in Semiconductor

Source: ERIA Staff Calculations based on WITS Database [accessed 12 September 2023], semiconductor exports: HS 8541 and 8542
ASEAN’s Potential in Digital Economy

• In 2023, ASEAN has 679mn population, 70% of which are internet users

• In 2023, the digital economy was recorded at USD 259 billion

• By 2030, ASEAN’s digital economy will reach USD 1 trillion.
Challenges for ASEAN
Challenge 1: Level up manufacturing value added?

Manufacturing Value Added to GDP (%)

Source: World Development Indicators, World Bank [accessed 31 October 2023]
30% of ASEAN’s exports are still resource intensive

Value of Total ASEAN’s Exports and Imports to the World (USD bn)

- Exports
- Imports

Source: International Trade Center and WITS Database [accessed 15 January 2024]
Challenge 2: Domestic pressures

Consequences from political uncertainties on economic policies

Despite ASEAN promising economy and potentials, there have been growing concerns on ASEAN trade and investment policies and regulations

- Export and import bans
- Local Content Requirements (LCRs)
- Investment barriers (foreign equity and board of directors)
- Picking Winner policies (prioritizing specific industries)
- Non-automatic licensing system
Way Forward

Open for Discussions
Way Forward

Solid macro and micro economy

1. Development Strategy:

- Optimize comparative advantage and effective infrastructure
- Accumulate capital and ensure gradual economic and political transition
- Fiscal: *wise spending* (max ratio of fiscal debt to GDP of 3%)
- Advance the use of digital technologies and ensure sustainability
  - Invest in physical and digital connectivity (develop, upgrade, and decarbonize ports, shipping, logistics, electricity, and data center infrastructure)
  - Optimize the use of digital technologies to increase productivity and ensure sustainable development across all sectors
Way Forward (trade and Investment)

Maintain neutral ground of ASEAN and improve cooperation

2. Deepen trade and investment ties with existing and potential partners
   • Ensure the effective functioning of the multilateral trading system
   • Optimize the use of ASEAN FTAs: Intra ASEAN, ASEAN+1 FTAs, and the RCEP

3. Improve trade and investment climate
   • Create conducive environment to all sectors and industries (*Not picking the winners*)
   • Improve transparency in licensing, permits, and regulatory process by implementing corporate governance standards
Thank You

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<td>Regional Comprehensive Economic Partnership (RCEP)</td>
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Source: [https://aric.adb.org/fta-group](https://aric.adb.org/fta-group), accessed on 4/26/2024
Other Ongoing ASEAN’s FTA

• Negotiations launched
  • ASEAN-Canada FTA (11/17/2021)

• Proposed/Under consultation and study
  • ASEAN-EU Free Trade Agreement (7/1/2007)
  • ASEAN-Eurasian Economic Union Free Trade Agreement (2016)
  • ASEAN-Gulf Cooperation Council Free Trade Agreement (2023)
  • ASEAN-Pakistan Free Trade Agreement (8/13/2009)
  • Comprehensive Economic Partnership for East Asia (CEPEA/ASEAN+6) (12/14/2005)
Global Semiconductor Market

Share of Global Semiconductor Industry

Source: ERIA Staff Calculations based on Statista Data [accessed 14 May 2023]
ASEAN’s Potential in EV

Source: ERIA Staff Calculations based on WITS [accessed 5 February 2024], Electric Vehicle exports: HS 850760, 870340, 870350, 870360, 870370, and 870380