



**Prof Nishimura Elected as ERIA President**

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Jakarta, 25 May 2018 — The Governing Board (GB) of Economic Research Institute of ASEAN and East Asia (ERIA) unanimously reelected Prof Hidetoshi Nishimura as president to head the leading Jakarta-based international economic research organisation.

Prof Nishimura, a Yale graduate, has helmed ERIA since its inception in 2008. His third term comes at the crucial time as ERIA is commemorating its 10th anniversary.

Prof Nishimura emphasised in his opening remarks that ERIA will be key to providing high-quality research and policy recommendations to leaders across East Asia. At the GB meeting last week, ERIA Governors also elected a new chairperson and hosted a consultative meeting with Jakarta-based ambassadors of ERIA member states and dialogue partners.

Prof Nishimura highlighted three objectives which he would like to achieve over the next five years: 1) Further strengthen ERIA's policy support capacity, and its relationship with the governments of individual member countries; 2) Strengthen ERIA's academic capacity and academic contribution to the region; 3) Diversify the funding of ERIA.

He also expressed gratitude to the Governors and pledged to fully implement decisions taken by them. The GB meets annually to oversee policies and activities of ERIA. The board is the decision-making body of ERIA and consists of the Secretary General of ASEAN and representatives from each of 16 member countries, comprising academia, business, or former government officials.

Prof Nishimura also outlined ERIA's plans for celebrating its 10th anniversary. 'ERIA will hold high-level receptions to celebrate the anniversary in Tokyo in October and in Jakarta in December. Policymakers and diplomats from ERIA member states, researchers, as well as representatives of various international organisations will be invited. ERIA will also host The Asia Think Tank Summit 2018 in collaboration with the Think Tanks and Civil Societies Program at the University of Pennsylvania,' said Prof Nishimura.

Hon Dr Aladdin D. Rillo, Deputy Secretary General of ASEAN for ASEAN Economic Community, delivered the opening remarks on behalf of Hon Dato Paduka Lim Jock Hoi, Secretary General of ASEAN. He expressed the ASEAN Secretariat's (ASEC) interest in the outcomes of ERIA's research on digital economy and especially the impact of the digital revolution on the region. ASEC is also particularly interested in ERIA's work on ASEAN integration.

DSG Rillo reiterated ASEC's desire to strengthen collaboration on research, knowledge sharing, and good regulatory practice.

At the meeting, Mr Adrian Cristobal, President of SteelAsia Manufacturing Corp, was elected as the new Chairperson of the Board, replacing Hon Dato Lim Jock Hoi. Furthermore, the President of the Institute of Developing Economies of the Japan External Trade Organization, Dr Kyoji Fukao, was approved by the Governors as a new member of the Academic Advisory Council.

The board members expressed their appreciation for ERIA's work in 2017 stating that ERIA's activities have been much strengthened and integrated while at the same time becoming more comprehensive. In this regard, they supported the ERIA's proposed 2018 work Plan and provided a range of insightful comments to improve research and outreach activities.

During the consultative meeting with the ambassadors, ERIA Chief Economist Prof Fukunari Kimura, Senior Policy Fellow Tan Sri Dr Rebecca Fatima Sta Maria, and Senior Policy Fellow for Energy and Environment Prof Jun Arima briefed the diplomatic corps on ERIA's future projects as well as on issues related to the international economy, including the future of the Trans Pacific Partnership.

The Economic Research Institute for ASEAN and East Asia (ERIA) is an international organisation based in Jakarta. Since its founding in 2008, ERIA, through its research, supports the regional economic integration process among ASEAN member countries. It works closely with the ASEAN Secretariat, researchers, and research institutes from across East Asia and beyond to provide intellec-

tual and analytical research and policy recommendations on a wide range of topics including trade, energy, sustainability, innovation, digital economy, agriculture and health care. ERIA was ranked as the 24th best International Economic Think Tank in the world in the 2017 Global Go To Think Tank Index published by the Think Tanks and Civil Societies Program (TTCSP) at the University of Pennsylvania. ■

### Prof Nishimura's Short Bio

*Prof Nishimura graduated from the Faculty of Law at the University of Tokyo and obtained a Master's Degree in International Development and Economics from Yale University. He joined the Ministry of International Trade and Industry in 1976. Since then, he has assumed numerous positions, including Representative of the Asia-Pacific Region of the Japan Overseas Development Corporation, Director of the Southeast Asia and Pacific Division of the Trade Policy Bureau, Vice Governor for International Affairs of Ehime Prefecture, Director-General of the Business Support Department of the Small and Medium Enterprises Agency, Executive Managing Director of the Japan-China Economic Association, and President of the Japan-China Northeast Development Association. Prof Nishimura assumed the position of Executive Director of ERIA in 2008 and subsequently was appointed as ERIA's first President in 2015. In 2018 he was re-appointed as President of ERIA by the Governing Board for a third five-year term. He is also a Visiting Professor at Waseda University, Japan; Darma Persada University, Indonesia; Honourable Professor at Guangxi University; and Fellow of Musashino Institute of Global Affairs, Musashino University.*



Jaysa Rafi Prana  
Research Associate at ERIA

## Implications of the Growing Tensions over Trade between the US and China for ASEAN: What to Expect and A Way Forward

**'ASEAN nations have built regional production networks across many sectors, have boosted their competitiveness in global markets and have significantly reduced poverty.'**

The Association of Southeast Asian Nations (ASEAN) has played an essential role in building prosperity in the region in its 50 years of existence. ASEAN's GDP now stands at approximately US\$2.5 trillion, ranking the expanded grouping as the world's sixth largest economy and fourth largest global trading power. ASEAN nations have built regional production networks across many sectors, have boosted their competitiveness in global markets and have significantly reduced poverty.

But while the current achievements and progress look good, there is a very significant external threat at its door step: the growing tension over the trade between the United States (US) and China.

Since the beginning of 2018, President Donald Trump's administration has announced a 30% tariff on imported solar panels, 25% tariff on steel, and 10% tariff on aluminium in an attempt to curb its

375 billion USD trade deficit with China. Following those measures, The U.S. Trade Representative (USTR), an executive office of the US President, has published a report that determined that the acts, policies, and practices of the Chinese Government related to technology transfer, intellectual property, and innovation covered in the investigation are discriminatory and harm U.S. commerce<sup>1</sup>.

According to the report, the US plans to apply the tariffs to about \$50 billion worth of goods to punish China for its actions by imposing an additional 25% duty on 1300 categories of goods.

While the list of goods excludes many Chinese-made consumer products including clothing, shoes, and toys it includes cutting-edge technology products such as semiconductors, medical devices, aircraft parts and batteries, and other high-tech components of high value added industries. In other words, the

US action is geared towards China's high value added and technological intensive products and to go after China's "Made in China 2025" plan.

In responding to the US action, China is critically targeting a narrower range of 106 types of US goods which make worth 50 billion USD in 2017 that made up to 38% of the total US' export to China. Among the 106 products, the top 3 products from the US that China is targeting are aircraft (16.3 billion USD), cars (10.6 billion USD), and soya beans (12.4 billion USD).

The list China published to retaliate against US threat is shrewd. The list aims to put pressure on industries that have powerful influence on the American political system and significant impact to the bilateral trade value, including the aircraft and soya beans industries. Moreover, the targeted products come from politically sensitive states such as cranberries from Wisconsin, home of the Speaker of the House of Repre-

<sup>1</sup> Office of the United States Trade Representative. (2018). Notice of Determination and Request for Public Comment Concerning Proposed Determination of Action Pursuant to Section 301. Washington DC: United States Trade Representative.

-sentative, Paul Ryan, and bourbon from Kentucky, Republican leader of the senate, Mitch McConnell's state.

It is worth noting that none of the tariffs won't go into effect immediately. The US administration will hold a public hearing for US businesses on May 15. After the completion of the hearing process, the USTR will issue the final determination on the products subject to the additional tariff.

ASEAN countries are deeply connected with the regional supply chain, serving as a major supplier of industrial intermediate inputs to China for further processing and re-export to western countries including the US. The US imposition of tariffs on Chinese products will potentially disturb regional production networks that have built for the past 30 years. In 2016, 12.4% of ASEAN exports went to China while 30.1% of those products are intermediate goods for production of goods that will be exported out of the country. In short, measures attempting to curb US import from china have the potential to have an indirect adverse effect on ASEAN economies.

More specifically, ASEAN might be hit hard in the electrical and machinery sector. In 2016, the share of ASEAN electrical and machinery exports in proportion to the whole ASEAN export to China was around 36 percent while 41 percent of those exported products were used by China for further production processing. This threat is particularly relevant for Malaysia, Philippines, Singapore, Thailand and Viet Nam.

On the other hand, the potential trade conflict between US – China might also be positive for ASEAN economies. For example, if Apple products assembled in China suffer

from the trade conflict, Vietnam could benefit because it is a major production base for Samsung Electronics Co., a major competitor to Apple. At the same time, China might buy more from the region if it follows through on its threat to retaliate against American products. Slapping tariffs against American soya beans, for instance, could increase demand for substitutes such as palm oil products, a major source of exports for Malaysia and Indonesia. On the investment front, due to its location and cultural similarity, it is rational for businesses to relocate their investment to ASEAN economies to avoid getting caught in the middle of a US and China trade conflict.

There are at least two things that ASEAN governments and leaders can consider to uphold the current trading system and to take advantage of opportunities that might arise from the trade conflict.

First, ASEAN should realize its significance, as a regional grouping, in global geopolitical dynamics and utilize that by shoring up support for trade. This argument is based on the fact that no country really dominates ASEAN, and no country in ASEAN would independently have the strategic geopolitical weight to be heard in the world. ASEAN is the only way for a group of relatively small countries that in a collective become a middle power that will be heard in the world. Support for the existing global trading system can be accomplished by keeping ASEAN centrality in regional forums to advance regional cohesion, economic integration, and international influence. In practice, this strategic goal can be manifested by concluding the Regional Comprehensive Economic Partnership negotiation with its six main trading partners.

Second, ASEAN governments should double down their commitment to push structural reforms in each respective economy. While a trade war might have a negative impact on the global economy, there are also opportunities arising from the conflict. For instance, the rebalancing of multinational investment might spur more investment into ASEAN economies and in the end boost the growth of ASEAN. Also, US and China might buy substitute goods from ASEAN should they decide not to buy goods from one another. In taking this opportunity, ASEAN needs to continuously improve its investment climate, improve its trade facilitation environment, and continue its domestic structural reforms to improve its competitiveness. ■

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## ERIA Chief Economist Discusses the Evolution of Unbundlings in Indonesia



Prof Kimura emphasised that the wave of the digital economy has arrived in Indonesia and various business models in the third unbundling have started mushrooming.

'The concept of 'unbundling' is especially useful in formulating development strategies of a large country such as Indonesia. The further upgrading of unbundlings and the more effective utilisation of technological feedbacks among different levels of unbundlings will enable Indonesia to achieve rapid and equitable economic development,' said Prof Fukunari Kimura, Chief Economist of the Economic Research for ASEAN and East Asia (ERIA).

Prof Kimura delivered his lecture in the 12th Sadli Lecture series in Economic Policy on 2 May 2018 at Pullman Hotel, Jakarta. The title of his lecture was 'Value Chain Connectivity in Indonesia: the Evolution of Unbundlings'.

He employed the concept of unbundlings and provided out-of-the-box considerations of national

development from the perspective of technological progress and globalisation in the lecture. He started his speech by explaining the three distinct levels of unbundling that are backed up by technological breakthroughs to overcome geographical distance: while mass production is the backbone of the first unbundling and the second unbundling works mainly on manufacturing, the third unbundling is closely linked to the digital economy.

Based on analyses on Indonesia's trade pattern, Prof Kimura further illustrated the economic geography in Indonesia and assessed differences in the dominant levels of unbundling across regions in the country. It showed that there are three stages of unbundling that coexist in Indonesia; thus, Indonesia needs to step up their unbundling capability and to catch up with the advancement of

information technology in the world.

Finally, Prof Kimura emphasised that the wave of the digital economy has arrived in Indonesia and various business models in the third unbundling have started mushrooming. For Indonesia, first, development strategies must incorporate both the upgrading of unbundlings as a continuing agenda and the engagement in the digital economy as new challenges. Secondly, to eliminate development gaps, different regions should be able to adopt the unbundling regime that is most suitable to unleash the local potential for growth.

Prof Ari Kuncoro, the Dean of Faculty of Economics and Business Universitas Indonesia (UI), delivered the welcome remarks. And H.E. Thomas Trikasih Lembong, the Chairman of Indonesia Investment Coordinating Board and former

Minister of Trade of Indonesia, delivered the keynote speech in the event.

The panel discussion following Prof Kimura's lecture was moderated by Prof Mohamad Dian Revindo. As discussants, Yos Adiguna, Chairman of the boards of directors of Indonesia Services Dialogues Council, and Zakir Machmud, head of SME Centre, shared their insights

on Indonesia's participation in global unbundlings. Prof Pierre van der Eng, Associate Professor of Australian National University (ANU), delivered the closing remarks.

The Sadli Lecture Series in Economic Policy is an annual lecture series held by the Institute of Economic and Social Research (LPEM) of UI in cooperation with the Indonesia Project of ANU. It is named in

honour of the late Prof Mohammad Sadli, who was among Indonesia's most influential commentator on economic affairs over the past 40 years.

Feminist scholar and activist Prof Saparinah Sadli, who was Prof Mohammad Sadli's wife, and former Minister of Trade of Indonesia Prof Mari Pangestu also attended the event. ■

## ERIA Holds Coffee Talk in New Information Centre



The Coffee Talk is an informal discussion session between ERIA researchers and university students in a bid to encourage more young people to pursue their career in academic research.

The Economic Research Institute for ASEAN and East Asia (ERIA) held its first ever ERIA Coffee Talk on 3 May 2018, in which Senior Economist Dr Dionisius Narjoko shared his experience as a researcher with a group of undergraduate students from the Faculty of Economics and Business, Universitas Indonesia.

Dr Narjoko shared his experience about choosing a career path into academic research, the steps he took

in the early days of his career, as well as the strategic and critical skills needed as a researcher. The students who attended the Coffee Talk were eager to ask their questions in the Q&A session. The amount of participants was limited to ensure the students have plenty of opportunities for discussion with Dr Narjoko.

The Coffee Talk is an informal discussion session between ERIA researchers and university students

(both undergraduate and graduate students) in a bid to encourage more young people to pursue their career in academic research. This event will be held twice a year in ERIA's new Information Centre, a coworking space and library that showcases ERIA's publications. The Information Centre is open for public from Monday to Friday. ■

# Publications



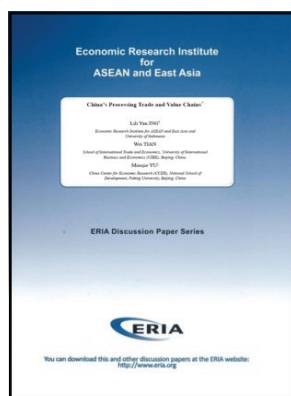
## ERIA Annual Report 2017

ERIA's 2017 Annual Report presents the Institute's various research and research-related activities, events, and seminars, and its capacity building, policy design, communication, and publications achievements during fiscal year 2017. ERIA celebrated the ASEAN's golden anniversary with the ASEAN@50 Project, by publishing a five-volume set of books, and holding three public seminars and a High Level Forum with the Government of the Philippines. The message from the ERIA President, Prof Hidetoshi Nishimura, also shows how ERIA expanded the scope of its research in fiscal year 2017, through inclusion of research on ageing populations and health care, and through the establishment of a policy design department.



## Publications Catalogue 2018

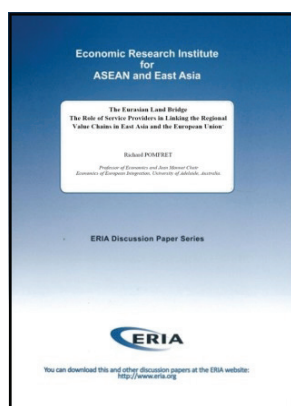
ERIA publishes books, research reports, discussion papers, and policy briefs to share and disseminate its research findings and policy recommendations. These publications cover a wide range of subject matter on deepening economic integration, narrowing development gaps, and sustainable development – the three pillars under which ERIA conducts research. ERIA is also highly involved in energy-related research. ERIA also co-publishes with international academic and professional printing houses. In fiscal year 2017, ERIA produced five books in commemoration of the golden anniversary of the Association of Southeast Asian Nations. We also produced 10 research project reports, 14 discussion papers, and 7 policy briefs.



## China's Processing Trade and Value Chains

By Lili Yan Ing, Wei Tian, and Maijocie Yu

We investigate how trade liberalisation affects the performance of Chinese manufacturing firms. To better understand China's role in global value chains, we examine Chinese firms with a significant import share from Indonesia, one of its largest processing source countries. We find that Chinese firms with a greater import share from Indonesia perform better in productivity, export, and sales, and they are more likely to engage in processing exports. Moreover, the impact of foreign trade liberalisation on China's export scope is more pronounced for firms with a larger import share from Indonesia because of their greater extent of engagement in global value chains.



## The Eurasian Land Bridge: The Role of Service Providers in Linking the Regional Value Chains in East Asia and the European Union

By Richard Pomfret

Rail links between China and Europe are typically analysed in the context of China's Belt and Road Initiative, focusing on China's economic rise and the implications for international relations. This paper argues that establishment of the China–Europe Land Bridge predated the Belt and Road Initiative and has been market-driven, as service-providers identified and responded to demand for efficient freight services along pre-existing railway lines. Governments' role was trade facilitating, i.e. reducing delays and costs at border crossing points, rather than investing in hard infrastructure. Service-providers responded by linking European and Asian value chains (e.g. in automobiles and electronic goods) and reducing costs for traders shipping between China and Europe. The Eurasian Land Bridge provides a case study of 'servicification' as a component of increased trade in the 21st century.

# Upcoming Events

## Final Capacity Building Workshop on Sustainable Development and Policy Modelling Workshop

Date: 10 June 2018  
Venue: Vientiane, Lao PDR

## The High Level Briefing of Temburong Eco Town Project (Phase 3)

Date: 12 June 2018  
Venue: Brunei Darussalam

## Transforming Global Recycling and Japan

Date: 18 June 2018  
Venue: Tokyo, Japan

## Energy Outlook & Energy Saving Potential Working Group Meeting

Date: 18-22 June 2018  
Venue: Jakarta, Indonesia

## OECD-ERIA-ASEC Regional Conference on Agro-food Value Chains in ASEAN

Date: 27 June 2018  
Venue: Jakarta, Indonesia

## The First Working Meeting for Energy Efficiency Indicators of Mongolia

Date: 27-29 June 2018  
Venue: Jakarta, Indonesia

## Workshop on 'Labor in East Asia'

Date: 2-3 July 2018  
Venue: Jakarta, Indonesia

## The 10th ERIA Academic Advisory Council (AAC) Meeting

Date: 5 July 2018  
Venue: Jakarta, Indonesia

## Sustainable Trade Index Launch

Date: 11 July 2018  
Venue: Jakarta, Indonesia

## ERIA-AMCHAM Briefing

Date: 13 July 2018  
Venue: Jakarta, Indonesia

## About Us

The Economic Research Institute for ASEAN and East Asia (ERIA) is an international organisation based in Jakarta, Indonesia that conducts in-dept research on issues facing the people and governments of ASEAN and East Asia.

ERIA works closely with the ASEAN Secretariat and research institutes from across East Asia and beyond to provide innovative and analytical research and policy recommendations. Our projects are organised under three research pillars:

- Deepening Economic Integration
- Narrowing Development Gaps
- Achieving Sustainable Development



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