

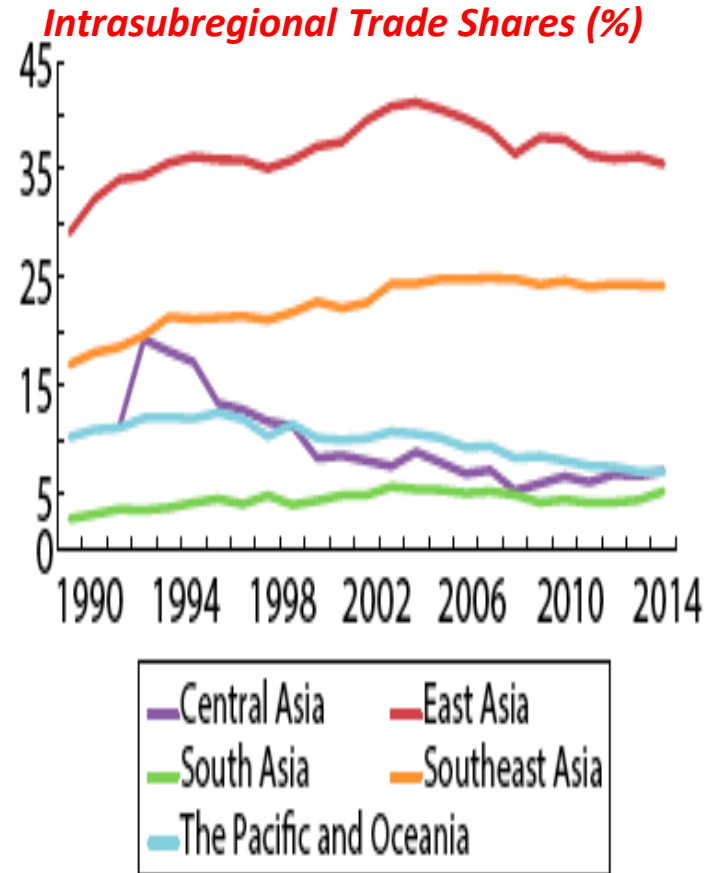
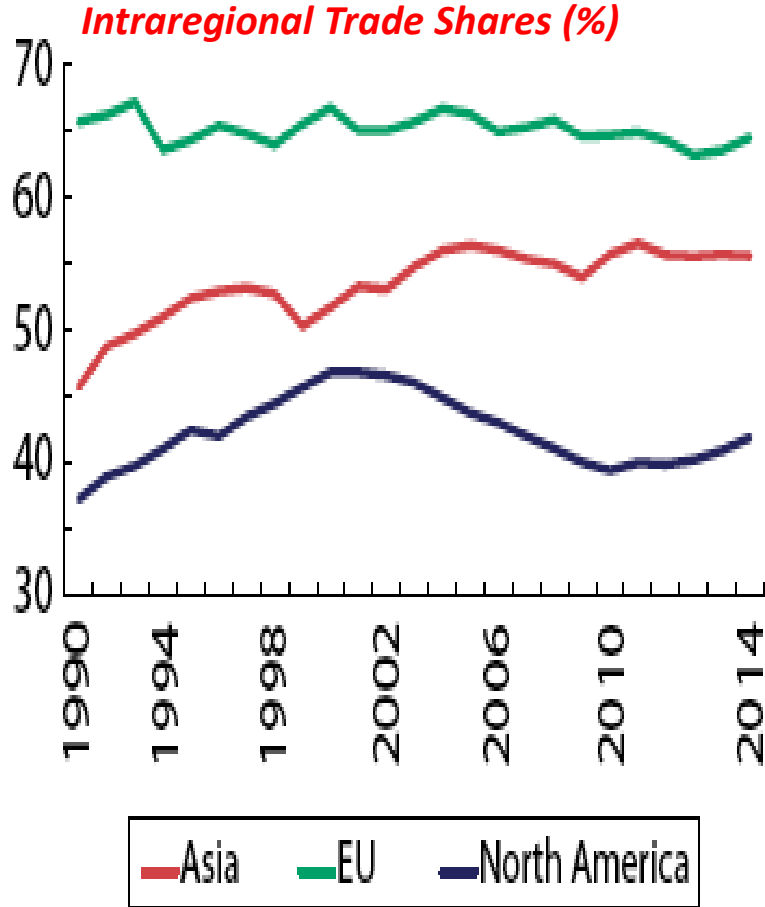
A world map with a blue background and a white grid. The landmasses are shown in black. The countries of East Asia, including China, Korea, and Japan, are highlighted in a bright red color. The map is centered on the Pacific Ocean.

The New Normal and East Asian Economic Integration

Mari Pangestu, March 7, 2017

ERIA-JETRO Public Symposium, Jakarta

Three Decades of Economic Integration (1990-2014)

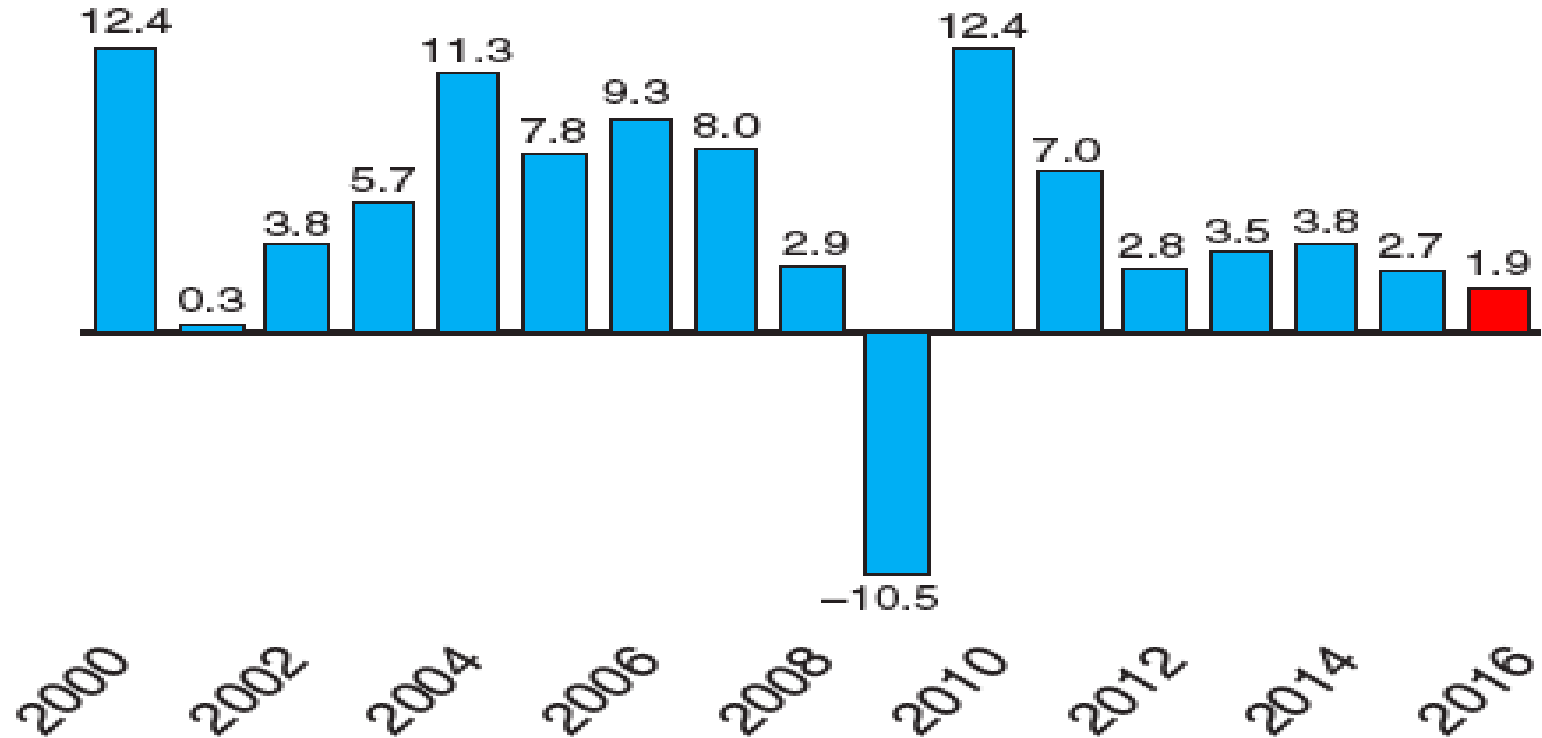


THE WORLD HAS CHANGED DRAMATICALLY: **THE NEW NORMAL**



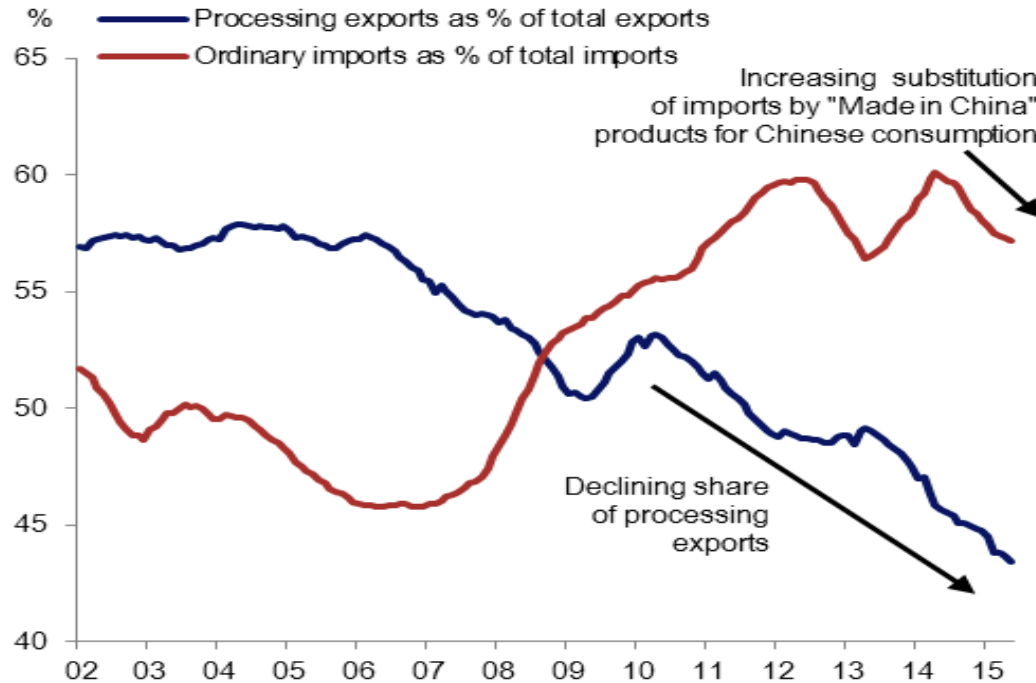
**RESPONSE CAN NO LONGER
BE BUSINESS AS USUAL**

World trade growth slowest in 2016 and at or lower than GDP Growth



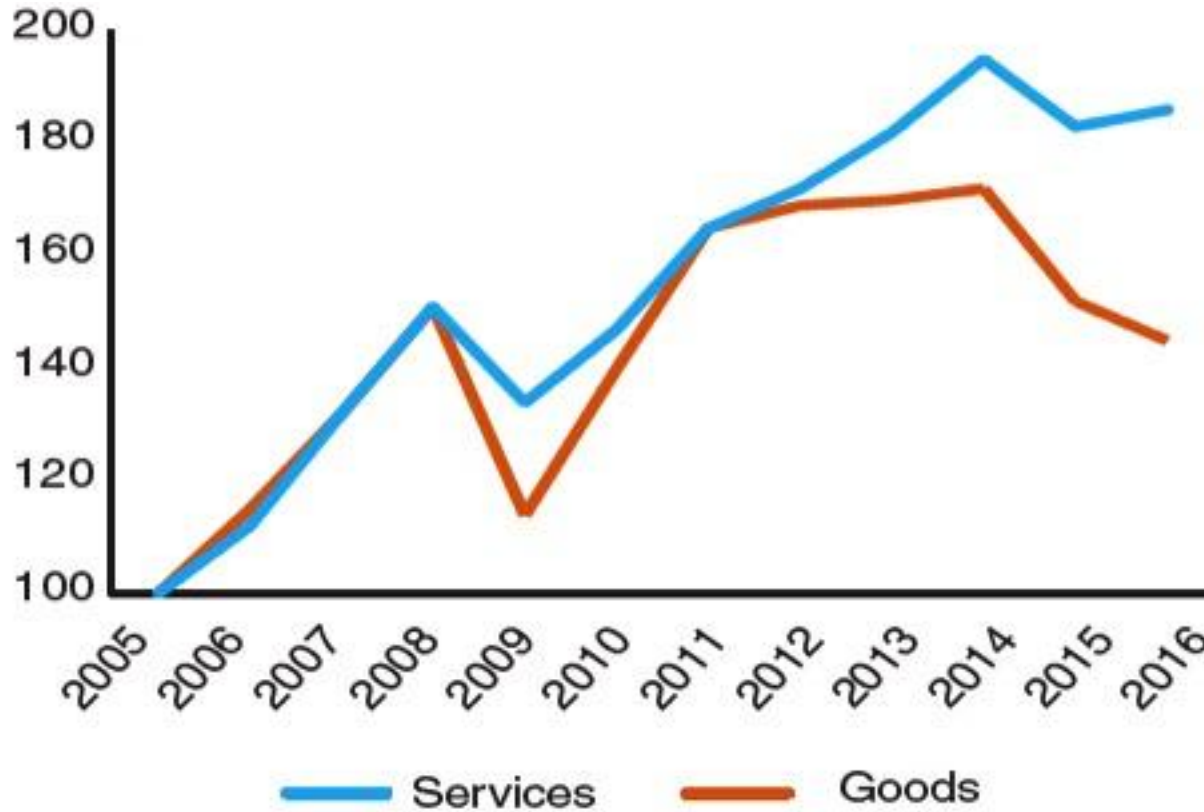
Source: World Bank, Global Trade Watch, February 2017

Multi Localization and Increased Localization: Maturation of Global Value Chains Especially China

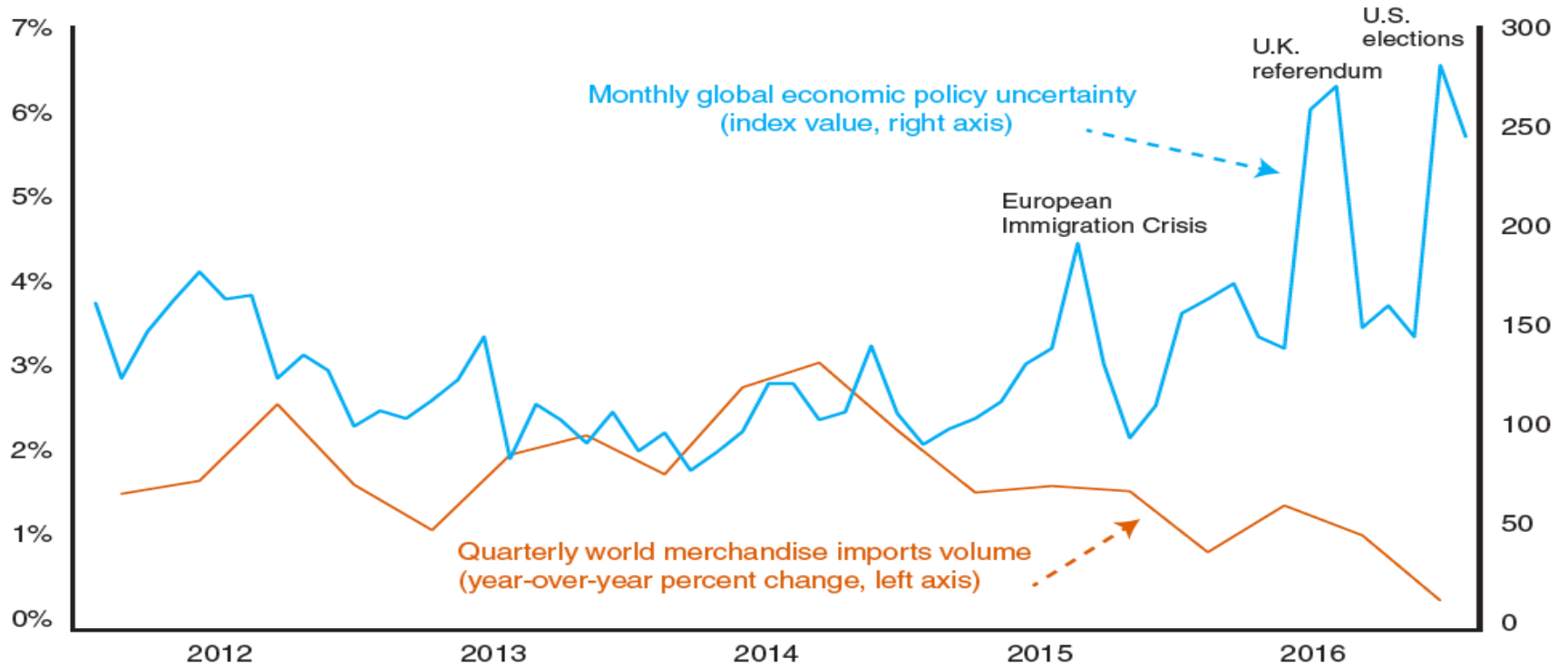


Source: CEIC, Haver, UBS estimates (China Economic Perspectives: The World's Exposure to China Demand, UBS, Global Research, 22 June 2015)

Services trade more resilient: importance of services sector



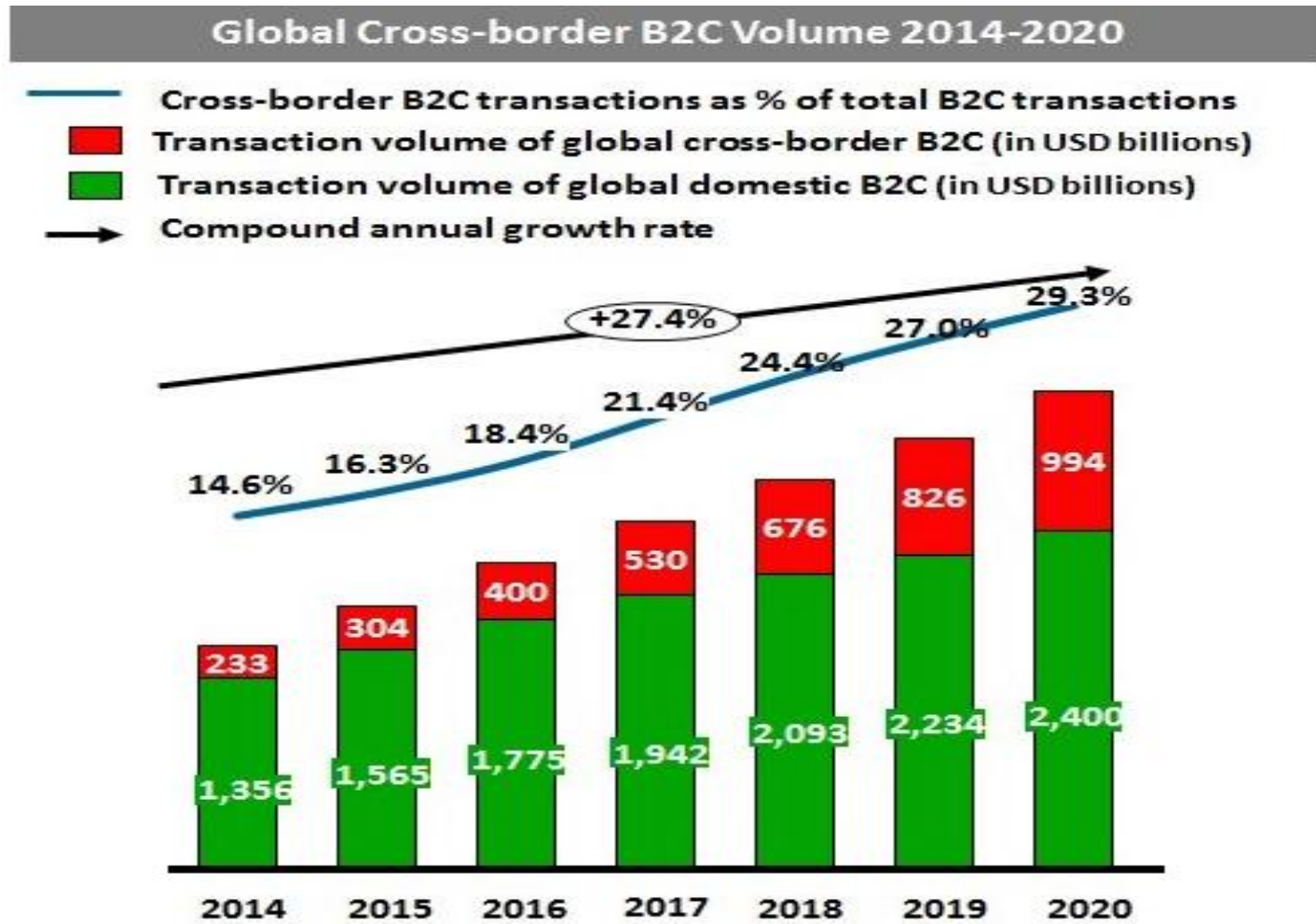
Policy Uncertainty impact on Trade



Source: CPB Netherlands Bureau of Economic Policy Analysis, www.PolicyUncertainty.com, Baker, Bloom and Davis (forthcoming), and authors' calculations.

(taken from World Bank, Global Trade Watch, February 2017)

Digital Economy: Trade Growth 2-3%, E-Comm 27%

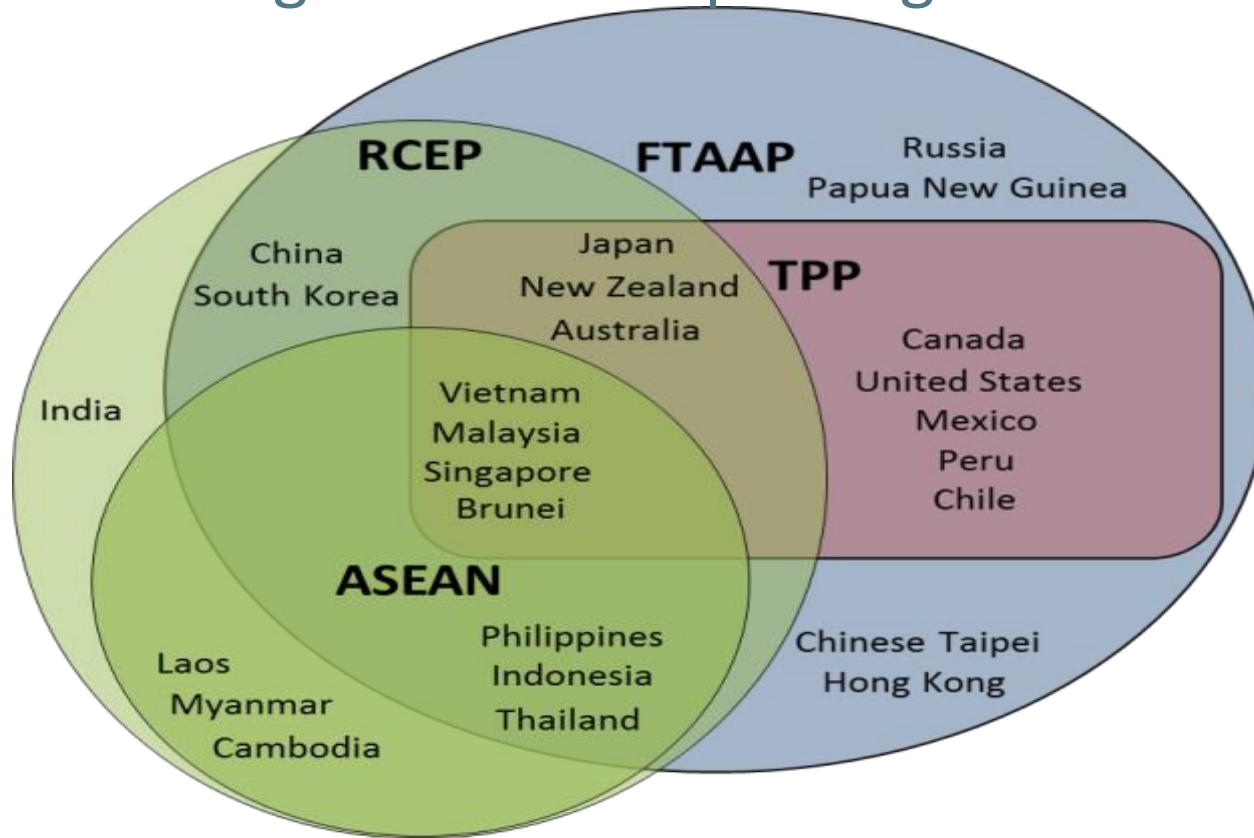


OPTIMISM COMES FROM ASIA:

**EAST ASIAN GROWTH AND CONTINUED
INTEGRATION IS THE NEW TAILWIND**



Role as catalyst for broader reforms and members beyond region: building blocks and open regionalism



The Asian Response: capture opportunities

1. Slow trade Growth (75% investment↓, maturation of GVC, policy uncertainty), services trade more resilient, growth in digital trade. Asia still growing (average 6%).
Role of Asia in Global economic recovery and renewed focus and regional cooperation must include **INVESTMENT and Importance of Services**
2. **Tailwind on Openness from Asian integration: openness** has been and continues to be important (opportunities: complementarity, demographic) and shaping domestic reforms. Shared and **collective leadership model in Asia -> completion of RCEP important signal**
3. **Evolution of global value chains: old things happen in new places and new things happen in old places**, to be commercially relevant cooperation such as **AEC and RCEP need to accommodate the old and new** (market access (behind the border), and rules including IP)
4. **Technology and creative disruption: new production technologies driven by data transfers rather than goods and new ways of selling goods and services, challenges and opportunities in national policies and trade agreements; and technology can contribute to inclusiveness**

5. Political Imperative of inclusiveness

From Low to high politics: democracy, increasing “voice” and noise

- Heed the warning signs: management of and focus on inequity and distribution between members and within country
- More complicated politically, including in countries with centralized management, Communication of Openness IMPORTANT
- **Broad based development/markets, contestable markets and rules to ensure fair trade, economic cooperation and capacity building/peer pressure to have confidence in reforms: openness, types of policies that will deliver quality of growth (national) and renewed Trade Agreements**
- **Specific and complementary policies to ensure equitable development between and within countries (adjustment): National (infrastructure; education, training and skill development, social safety nets) and Regional (effective capacity building, SMEs)**

6. Most Importantly: Leadership in the future of Asian economic integration

- Headwind due to Retreat from openness: Post Brexit, developments in Europe and President Trump, US signaling bilateral and unilateral
- Direction: anti-globalisation, anti-immigration, nationalism
- Multilateral institutions in question: will US honor the WTO and its rules? Threat of unilateral actions from the US.
 - **Missing headwind: Can Asia step up to task (tailwind). AEC and RCEP only game in town (not China led, ASEAN initiative)**
 - **Asia: collective Asian leadership in regional cooperation such as RCEP and importance of ASEAN centrality (Indonesian leadership v. important, Philippines as Chair of ASEAN); leadership role of China (OBOR, AIIB) and Japan especially for capacity building. Role of India?**
 - **Keeping the US engaged: beyond bilateral EAS, APEC, G20**