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## **WHAT CAN ASEAN DO IN THE MIDST OF THE 'NEW NORMAL'?<sup>1</sup>**

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A very good afternoon to friends and colleagues. It's always good to be back here, at ANU, especially at our Department.

My presentation is titled: *What can ASEAN do in the midst of the 'New Normal'?*

The key question I want to address is: what is the future path of Asia's economic integration, especially after the decision made by President Trump to withdraw the United States from the Trans-Pacific Partnership (TPP)?

I look at this issue both from the economic perspective, and also the political economy perspective, because in my view the TPP itself is not only a trade policy, it's also a part of US foreign policy. What will be the implications of the absence of the United States in Southeast Asia?

Let me start with the definition of the 'New Normal'.

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<sup>1</sup> This transcript of Professor Basri's speech has been edited for clarity. A full audio recording can be found at <https://soundcloud.com/anucrawford/what-can-asean-do-in-the-midst-of-the-new-normal-by-chatib-basri>

I think it was 1993 - the World Bank produced a very famous book at the time: *The East Asian Miracle*. Basically, this book told us about the importance of industrialisation and trade the importance of government intervention in the economy.

Its argument was that the success story of East Asia was driven by two strategies: open trade and industrialisation. Here we can look at the success stories of Japan, of Korea, of Taiwan, of Singapore, and of China. Meanwhile most of the ASEAN countries graduated from developing country status to new industrialised economies, because they put an emphasis on trade and industrialisation.

But there are some concerns that maybe the ASEAN countries cannot repeat the old success story like before. The reason is that global trade is slowing down.

We are facing a new trend of trade protectionism in the world now, especially after Brexit – the trend of rising economic nationalism. We recently learnt that France just got a new president, but before that one of the candidates, Le Pen, was very popular. The Netherlands had a similar story. And maybe - I don't know - in Australia the rising popularity of Pauline Hanson is also an example.

The phenomenon of Brexit reflects a resistance towards globalisation, in particular a resistance to immigration. The outcome of the US election also shows this. I remember when President Trump made his inaugural speech. He emphasised two things: buy American and hire American.

Let's take a look at the G20 Communique, which puts an emphasis on free trade and free investment, and of which the United States has traditionally been a major proponent. In 2016, the Finance Ministers meeting – and also the Central Bank Governors meeting in Germany – failed to reach a consensus to support free trade in terms of goods, services and investment.

This new trend shows that the world will not be as open, in terms of trade, goods, and services, as what we had before.

Basically, world trade is shrinking now, because of this situation, and this was happening even before Trump.

One explanation is the slowdown of global GDP growth after the Global Financial Crisis. But in addition to that, China is also playing an important role. In particular, China's economy is rebalancing into consumption, and is also using more domestic inputs rather than inputs from other countries. This matters, because due to the global supply chain, China is now one of the most important centres for the production network in Asia.

Most Southeast Asian countries export their primary and intermediate products to China, so when China is slowing down there will be an impact on ASEAN, as well.

Even before Trump, global trade was slowing down. However if Trump were to introduce a protectionist policy on goods, for example, then there would be implications for Southeast Asian countries. If you look at the US non-oil import figures, we can see relatively strong correlations between US non-oil imports and East Asian exports.

Now, this is the problem that the ASEAN countries have to face. Slower economic growth will have an impact on job creation and poverty rates. The ASEAN nations cannot afford slow economic growth, because they have to provide jobs in order to reduce poverty. This is the main concern that was discussed during the retreat of the ASEAN Finance Ministers. If this is the new global normal, then what are the implications, because we cannot afford to have this slow economic growth. We have to do something.

Then, that's the question: what can East Asia and ASEAN countries do to continue to encourage economic growth, in order to improve the welfare of their citizens and to reduce poverty rates? We don't have any alternatives. Given global constraints, what kind of policy can be implemented in order to pursue economic growth in ASEAN?

Let me take a look from the brighter perspective now, and discuss the opportunities.

I'll quote one of the studies done by Danny Quah.

Basically, Quah's argument is that the bad news about China may be not too bad. He has given an example that, in 2005, China's GDP was about US\$2.3 trillion, and was growing by 12 per

cent per annum. This means that its marketplace would increase by 12 per cent over one year, reaching a value of US\$274 billion.

In 2015, China's GDP was around 11.3 trillion, but the GDP growth was only about seven percent. Yet even with the seven percent growth rate, its marketplace will increase by about US\$790 billion. Basically, his argument is that China is slowing down, but in terms of this nominal GDP, in terms of this domestic absorption, it is still about three times larger than it was in 2005.

In other words, there is still room for the ASEAN countries to continue to grow.

Even though China is slowing down, it doesn't mean that ASEAN exports to China will also slow down, because the increase of market share is probably higher than the marginal propensity to import.

We understand that the world is slowing down, and that protectionist forces are there, but don't forget that ASEAN still grows by more than five percent. It's still the highest growth region in the world, so the opportunity is still there. We have to take advantage of it and look at intraregional trade.

The next question is how to make it happen. What I propose is that we start on something that's politically acceptable.

Let's work on a policy that can be politically acceptable, but also economically sound. The problem with this - I'm speaking as an economist who was in the policymaking process - the problem is every time we introduce a policy and we fail to deliver it, we blame the politicians. We always say that one of the reasons why we fail to deliver this policy is because the political structure does not support us.

I think we have to stop that kind of behaviour. Let's put the political institutions, the political constraint as given, and let's work within those constraints. The question is what kind of reform, what kind of cooperation, can achieve that objective?

Globalisation's positive impact has not resonated with the people, as I mentioned earlier. First and foremost, we need to restore people's trust in globalisation. This can be accomplished by highlighting globalisation success stories, or its direct positive impact on people. This is one thing that's been missing in the process of delivering policy, because economics sometimes tends to look at very long-term issues.

If you propose something, and you go beyond the political cycle, politicians will not be very interested in it. They will say, what's the point for us to spend our political capital if the one who benefit from it will be my successor? Jean-Claude Juncker, the President of the European Union, said that all of us know very well what we should do in terms of reform, we just don't know how to be re-elected after we've done it.

The question is how to incentivise our politicians or leaders to work within the constraints of economic reform. This is basically what I proposed during the ASEAN Finance Ministers meeting. To me, the answer is creating a success story which is politically viable and economically sound, because the idea is you create a success story, you capitalise on it, and then you start to gain the political support. Once you gain the political support, then politicians will see the incentive to go with this kind of policy. Then, you can go to the more complex reform.

What can ASEAN do, given this constraint? The first point is that Asia remains robust, and we need to pursue strong growth in ASEAN, but the room for change is rather limited, because macroeconomic policy may not have much room on the monetary side, and because of possibly different normalisation of the monetary policy in the US.

In terms of fiscal policy, not all countries have room for it. A country like Indonesia in which the debt to GDP ratio is about 26 percent now, the deficit to GDP ratio is about 2.3 percent, probably still has room for fiscal policy. But fiscal policy is not an option for all countries. This is especially the case for countries like Malaysia, where the deficit to GDP is already relatively high. The Philippines maybe has room, but not all of the ASEAN countries have this. For countries that have room for fiscal policy, they can continue with this, but not all of them can.

The most important part, of course – if we cannot rely on monetary policy, but can rely on fiscal policy – is structural reform. Structural reform is very important. One very important

structural reform is to keep trade openness. But the problem is, if you start to talk about trade openness then there will be a political resistance toward it, especially because the resistance nowadays towards globalisation is very strong.

This leaves us with some possible options. We can go with the unilateral approach, we can go with the multilateral approach, or we can go with Free Trade Agreements.

Let's talk about these options one by one. The unilateral approach is impeded by strong pressure for protectionism. Not all countries could afford to do open trade unilaterally, especially from the political perspective.

In the case of Indonesia, for example, the current government is not able to produce economic growth higher than that of the previous administration. This will push the current administration to focus more on addressing inequality and poverty.

Under this kind of situation, where the political support is not very strong, it's very difficult for me to imagine that President Jokowi will continue to open up the trade regime or the investment regime, because there will be a strong resistance. So there is some room, but probably not much.

Singapore is of course ready. Singapore is always ready for unilateral reform. So some countries are ready for it but maybe the others are not.

As far as multilateral approaches go, the prospect of the DDA, the Doha Development Agenda, is very uncertain now. I recall 2012. I was in the high-level trade panel, chaired by Jagdish Bhagwati and Peter Sutherland. We produced a report titled "The Last Chance for Doha" and the response was obvious. We failed to convince the global leaders to pursue with the Doha agenda.

Then, maybe we have to go for the second-best solution. If we cannot go for the unilateral approach, and multilateralism is too difficult, what about the FTA – the regional trade agreement? The problem with regional trade agreements, of course, is that we are talking about trade-diversion, the rise of the spaghetti-bowl effect, et cetera. I'd probably try to do a combination of all of these, with some countries continuing with unilateral reform, others with

multilateralism, and others with FTAs, but the key question is about resources, and whether we could afford to achieve all these objectives.

It is very important to identify the success stories of globalisation that resonate with the people. The question is: what kind of platform, what kind of policy can be acceptable to all the ASEAN countries, both politically and economically?

If we start to talk about opening up the trade regime at this moment, it won't be easy, because of the level of resistance, and especially because among ASEAN countries the state of development is also heterogenous – it varies a lot among the countries. We cannot compare Cambodia, Myanmar, Laos with the ASEAN Five, for example. Vietnam is more towards the ASEAN Five nowadays.

It's very difficult, so we have to find a forum or an area in which this regional economic integration could also provide the platform for regional cooperation, and use this one as a success story. In my view, it's connectivity, because all the ASEAN countries definitely need connectivity or infrastructure. I don't see any ASEAN countries who will reject the idea of having this connectivity.

However, if we want to get something done in ASEAN, it requires leadership from Indonesia. Naturally, Indonesia, in terms of its economic size and political presence, is very important for ASEAN.

Then, the question is: how to incentivise Indonesian leaders to take leadership? If we start to propose something that opens up trade, goods, services, then President Jokowi will likely not be very interested, so the best way to do it is to propose a project in which the ASEAN agenda fits well with the Indonesian agenda. I cannot think of a better project than infrastructure, because this is something that President Jokowi would like to emphasise during his administration.

The question is: what kind of forum? Are we going to use the TPP? The TPP is basically no longer on the table, after the United States withdrew. Now, there is some discussion to possibility have the TPP minus one – minus the United States. I'm not really sure about the prospect of this.

The good thing about the Regional Comprehensive Economic Partnership (RCEP), on the other hand, is that the process is multi-stage regional cooperation. It is a single undertaking, but it is multi-stage. The multi-stage framework is important. Why is this important? Because what we need in the first place is to try to create a common platform to focus on regional cooperation, and later on move onto regional integration. It is very difficult for me to imagine using the TPP forum for this.

Probably one of the most possible options is now RCEP, because it has a multi-stage framework, and most importantly it has ASEAN centrality. Why is ASEAN centrality important? This is related to the issue of geopolitics. With the absence of the United States in Southeast Asia, it is important “to rebalance China’s position” and if ASEAN countries try to deal with the United States individually, there is no way that ASEAN countries can deal with it, because the United States is just too strong.

The idea is that ASEAN countries should get together and deal with China, and that’s basically the RCEP, because the idea of RCEP is ‘ASEAN plus’ – ASEAN plus China, ASEAN plus Korea, plus Japan, plus Australia, New Zealand, et cetera. It’s putting ASEAN in the centre, so that is why the role of Indonesia is very important.

RCEP also adopts an ongoing framework with a profiled space for talking trade and investment. This is not only for regional integration, but also for regional cooperation. Infrastructure capacity-building is probably part of the agenda. During the retreat of the ASEAN Finance Ministers, what I proposed to the 10 ASEAN Finance Ministers was let’s start on something that can be put on the table immediately, and with all the countries in agreement. And if we’re talking about financing, the Asian Development Bank (ADB) is definitely willing to provide the funding, and China is interested through the Asian Infrastructure Investment Bank (AIIB). Later on, the issue will be how to harmonise between the ADB and the AIIB.

I even recall during the G20, Australia also initiated the Infrastructure Hub to support the development of infrastructure in Asia. I see from both the demand side and also the financing side, this is possible, and most countries in ASEAN will admit it’s possible. Indonesia has a particular interest in infrastructure. Based on that, let’s create this as a success story and then later on start to move into the more complex issues.



Unfortunately, the progress on RCEP is very slow and one of the key reasons, unfortunately, is because India is not very supportive of it. There's still tug of war between states when it comes to RCEP, especially because of India. What's worrying is that after listening to India's position, the Indonesian Government has started to think this will be the right direction to follow, as well.

Finally, let me compare the TPP and RCEP. If we're talking about the size of trade, it's more or less comparable. If we're talking about the impact to the population, RCEP is even more impactful. And the good thing about RCEP is it's open to regionalism. If, later on, the United States decides to join, it's open to do so. RCEP is also not a trade-off; people will not have to choose between TPP and RCEP, because the framework is quite different.

Based on this, my conclusion is ASEAN can still manage the 'New Normal'. Let's continue to work in this space, with the limitations of microeconomic policy and fiscal policy taken as a given, but most importantly let's try to keep the openness. Let's work on something that every ASEAN country could accept. I will stop there. Thank you very much.