

# ***New Scenarios for Economic Cooperation in the Asia-Pacific and Implications for ASEAN***

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# Overview and Modus Operandi

- Following Prof. Chia's presentation, in this second part, we will consider the AEC in a wider context, in particular:
  - Brief Review of Trade and Development
  - Introduction to Economic effects of ASEAN Cooperation
  - New Initiatives: CPTPP, RCEP, FTAAP
  - Challenges in light of the new «populism»
- Organization:
  - Keep this discussion-based as much as possible
  - After presentation of each main topic, we will take a few minutes to consider three questions
  - We will then open up the floor for discussion

# Goals

- Present ASEAN integration in light of changing patterns of economic cooperation in A-P
- Consider the implications for ASEAN, including opportunities and challenges
- Address other trade developments affecting ASEAN in the short-medium term

# Introduction: Trade is Good for Growth and Development

- *Trade often gets a «bad rap» in political debate:*
  - *Job destruction, «corporate grab» complaints from developed economies*
  - *«Dependencia critique» complaints from developing economies (e.g., original NAFTA)*
  - *Negative effects on income distribution*
  - *View of trade as a «zero-sum» game*
- But outward orientation has been a key characteristic of Asian development, despite differing sequencing and depth.
- No country has successfully developed without the global economy.
- Empirical work over the past two decades confirms that trade has a highly positive effect on growth and development:
  - Trade-induced growth leads to improved employment in medium-long run
  - Trade has important productivity spillovers via exports, imports, FDI
  - Trade reduces poverty and can IMPROVE income distribution
  - Production networks can plug LICs into the regional and global economies, help SMEs, and reduce poverty as well (AEC Blueprint)

# I. Economics of the AEC: Empirics

- *Many have belittled the importance of ASEAN to the economic development of the region.*
- *As noted by Prof. Chia, many programs have been superficial.*
- This critique underestimates its influence on stability and, hence, economic development.
- It also underestimates the great potential of ASEAN integration.
- We estimate what the effects of deep integration via AEC might be, not merely in the aggregate but also distributional effects on labor markets, based on 6 labor market surveys provided by ILO.
- I won't focus much on model (no time) but it is important to underscore a few features:
  - Scenarios: **AFTA**, **AFTA+** (AFTA, 50% reduction NTBs); **AEC** (AFTA+, lowering of trade costs by 20% due to trade facilitation)
  - Labor market closure: different for skilled, semi-skilled, unskilled. This has important implications for the results and distribution of gains.

# Welfare Gains in 2025 (EV as % of GDP)

*(Note: labor-market closures differ by skill level)*

	AFTA	AFTA+	AEC
Indonesia	0.3	2.9	3.8
Malaysia	2.0	10.9	14.3
Philippines	3.3	9.2	10.8
Singapore	1.9	9.3	12.8
Thailand	1.8	7.9	10.0
Viet Nam	1.5	11.8	13.9
Cambodia	5.0	22.0	<b>27.4</b>
Lao PDR	2.1	14.9	<b>18.6</b>
Rest of ASEAN	-0.5	2.3	<b>3.1</b>

# Quick Summary of Results

- ASEAN-centered integration programs should have a large effect on GDP, exports, and overall employment in ASEAN economies.
- Employment gains are significant in most countries, with most sectors expanding but some contracting in all countries.
- Skilled wage gains exceed semi-skilled labor gains in every scenario.
- Male workers gain more than female workers in Indonesia, Lao PDR, Viet Nam and Thailand; opposite is true for the Philippines, Cambodia
- Returns to labor increase in all scenarios, but distribution differs
- Conclusion:
  - (1) Big gains are possible, but asymmetric effects pose an important public-policy question for ASEAN governments at home.
  - (2) Cross-country effects are also unevenly distributed; relatively small gains for Indonesia and Rest of ASEAN, big gains for Cambodia and Malaysia.

# Questions I

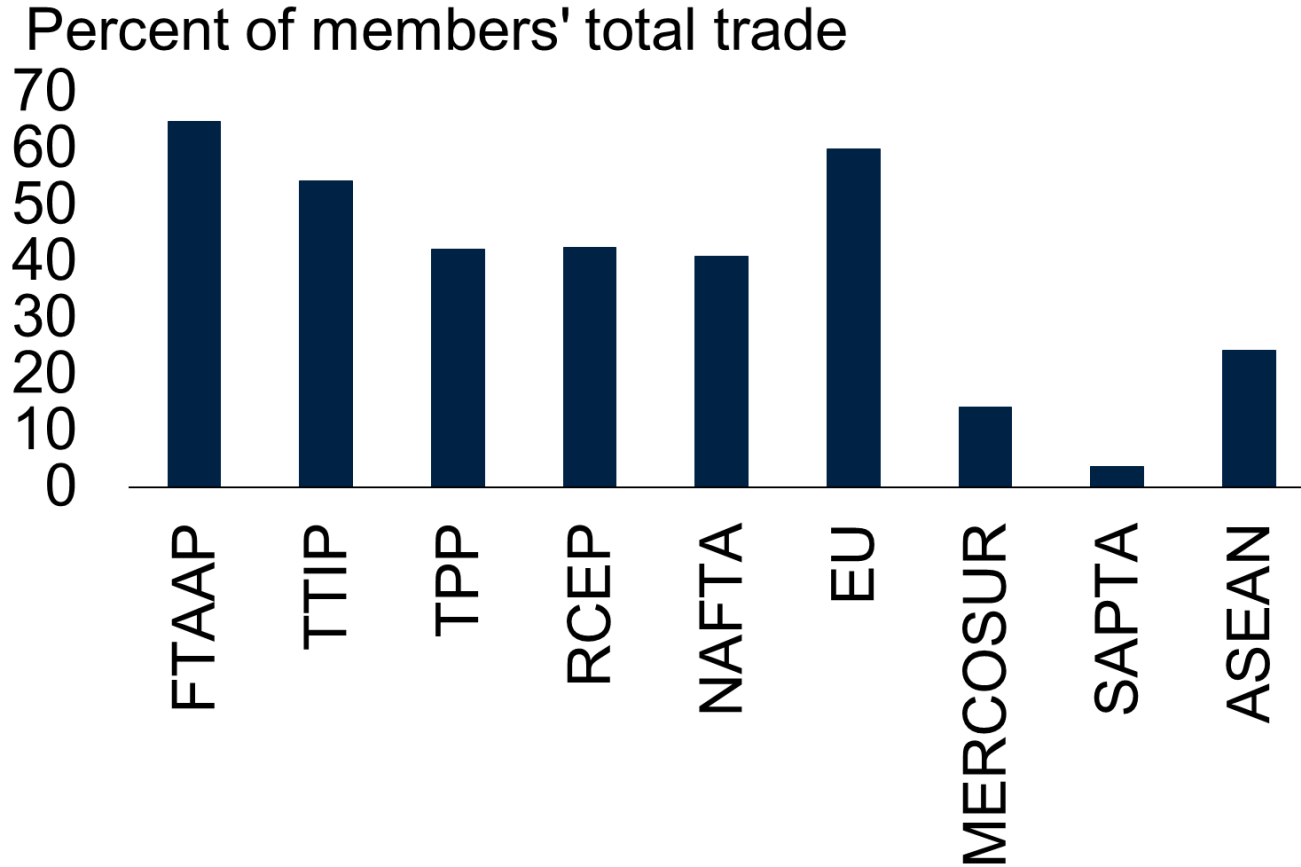
- Regardless of net gains, is rising inequality (within economies) due to integration acceptable?
- In the era of populism in the West, what are the greatest hinderances to deepening ASEAN economic integration going forward?
- How might «ASEAN Centrality» promote the integration agenda?



## II. The Megaregionalism Trend

- *Only «shallow» agreements can emerge from A-P integration given the diversity of the region*
- *Without the US as driver, A-P integration will stop*
- Context to Asia-Pacific integration. Key initiatives beyond AEC:
  - APEC (Bogor Vision)
  - Trend toward bilaterals beginning in the '00s
  - Mega-regionalism: Yokohama Goals: TPP, RCEP, pathways to FTAAP
- The TPP, signed in February 2016, was particularly notable given that it was the first Asia-Pacific megaregional.
- US pulled out of TPP in January 2017; but in November 2017, decision to move forward by 11 remaining countries to form the CPTPP.
- Other economies will likely join, along a TPP «path»; 5 have expressed interest. Meeting this past week to discuss enlargement.

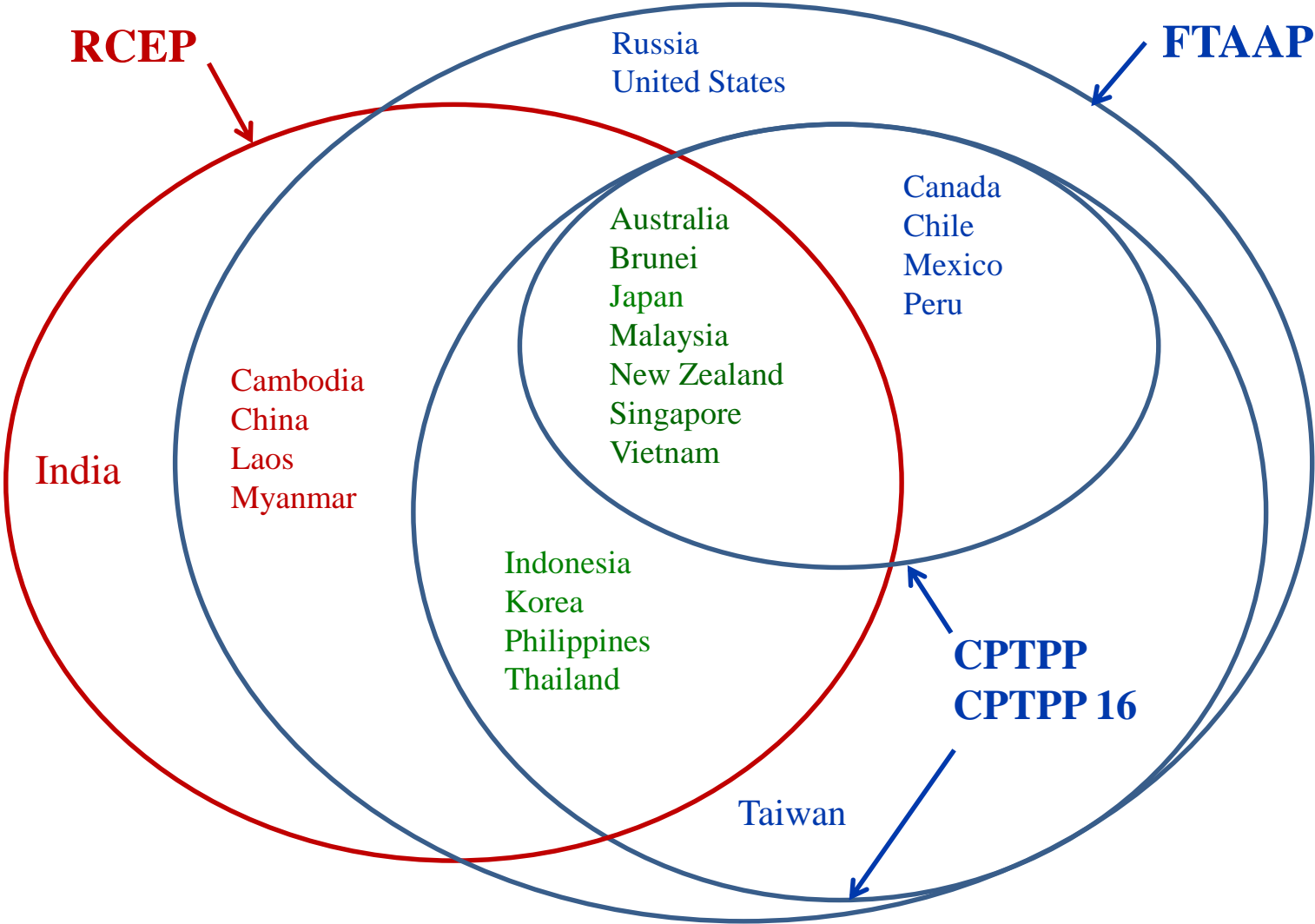
# Share of Intra-regional Trade



# Notes on CPTPP and RCEP Templates

- RCEP was launched in Nov 2012, slated to be finished in 2015, now 2018/19. Recent progress has been ostensibly good, but will be a modest agreement.
- TPP/CPTPP is more focused on comparative advantage of advanced economies: services, investment, intellectual property, than one will expect from the RCEP.
- Still, the RCEP has ambitious goals, with many of the same areas being covered under CPTPP albeit with greater “flexibility” and SDT. More focused on comparative advantage of its developing economies.
- The modern interpretation of the “Yokohama Goals” (2010): CPTPP and RCEP “tracks” converge in the FTAAP. We show this in CPTPP+RCEP simulations.

# Asian and TPP tracks



# Income Changes in CPTPP-RCEP Scenarios

(Petri, Plummer, Zhai and Urata)

	2030 income	Change in \$bill.					
		TPP12	CPTPP	CP16	RCEP	CP+R	C16+R
<b>Americas</b>	<b>39.569</b>	<b>208</b>	<b>49</b>	<b>72</b>	<b>2</b>	<b>50</b>	<b>73</b>
United States	25.754	131	-2	-6	1	-2	-5
<b>Asia</b>	<b>50.659</b>	<b>202</b>	<b>69</b>	<b>316</b>	<b>253</b>	<b>305</b>	<b>514</b>
Brunei	31	2	1	1	0	1	1
China	27.839	-18	-10	-53	101	89	51
Indonesia	2.192	-2	-1	18	1	0	17
Malaysia	675	52	21	36	6	24	39
Philippines	680	-1	0	13	1	1	13
Singapore	485	19	13	19	2	15	19
Thailand	812	-7	-5	30	3	-1	31
Vietnam	497	41	11	25	2	12	26
ASEAN nie	283	-1	0	0	1	1	0
<b>Oceania</b>	<b>2.854</b>	<b>21</b>	<b>15</b>	<b>22</b>	<b>7</b>	<b>19</b>	<b>26</b>
<b>Rest of World</b>	<b>40.720</b>	<b>60</b>	<b>14</b>	<b>39</b>	<b>23</b>	<b>34</b>	<b>54</b>
Europe	23.189	48	12	22	16	25	33
<b>WORLD</b>	<b>133.801</b>	<b>492</b>	<b>147</b>	<b>449</b>	<b>286</b>	<b>408</b>	<b>667</b>
<i>Memorandum</i>							
Δ (members)		465	157	486	261	375	616
Δ (non-memb)		27	-10	-37	24	32	50

# Highlights

- Effects of CPTPP are smaller than TPP12--no member does better in CPTPP—but significant.
- Importance of high-quality nature of TPP: help reform programs from Vietnam to Japan.
- Best seen as a pathway: CPTPP to CPTPP16 (results for members are even bigger than TPP) to TPP+RCEP. This is close to FTAAP
- Strong income effects are driven by exports.
- RCEP alone is shallow but big: effects are only about 2/3 CPTPP16 effects.
- CPTPP+RCEP effects are large and almost additive, due in part to TPP rules applied to RCEP relationships.
- ***FTAAP: Still the ultimate goal of Asia-Pacific Cooperation***

# Questions II

- Will these megaregionalism agreements inhibit or expedite ASEAN integration?
- Should ASEAN as a group play a leading role in RCEP?
- Does it make sense to include non-trade-related issues in megaregionals?

### III. The Effects of Populism

- While the roots of populism are not new, 2016 saw a major increase in its political importance: Brexit, EU elections, President Trump.
- The election of Trump is the most significant, as indicated by its America First strategy, e.g., it pulled out of TPP and has threatened to pull out of WTO.
- Increasingly taking unilateral positions (Section 232, Section 301).
- Focus on bilateral trade deficits will likely get worse (e.g., tax cuts will lead to big increase in budget deficit, which in turn will increase overall trade deficit).
- No doubt, the withdrawal of the US—the traditional leader in A-P cooperation—will set back cooperation. But region is still moving forward (CPTPP, RCEP) with the hope that US will rejoin.
- Trade war with China may have started in early July with the imposition of US tariffs on Chinese imports under Section 301. China retaliated tit-for-tat. US now says it will apply 10% tariffs on \$200 billion of Chinese imports; China is promising to do the same on US imports.
- Not clear what the future holds!



# Questions 3

- Given the US-China trade conflict, what will be the effects on ASEAN?
- Are you optimistic that the disputes will be resolved soon?
- Can Asia in general and ASEAN in particular be «leaders» of a new global system?

**THANK YOU!**

*I look forward to discussion*

# Factor price changes in 2025 - AEC

(% change from baseline)

	Indonesia	Philippines	Lao PDR	Viet Nam	Cambodia	Thailand
<b>Wage</b>	1.4	4.9	8.1	6.0	7.7	3.4
Managers	2.9	13.5	11.6	14.1	17.7	9.9
Professionals	2.6	9.5	25.3	13.4	16.3	5.9
Para-professionals	4.1	11.7	18.6	15.6	30.6	10.6
Clerks	1.4	5.3	13.7	6.7	10.2	3.0
Machinery workers	2.0	6.1	11.1	12.1	15.0	7.4
Craft workers	2.3	7.4	14.0	9.8	13.8	6.6
Unskilled labor	0.0	0.0	0.0	0.0	0.0	0.0
Male labors	1.4	4.8	10.2	6.7	6.1	4.1
Female labors	1.1	5.0	4.3	5.1	8.9	2.2
<b>Land rental price</b>	1.3	11.2	-4.5	14.5	6.9	15.4
<b>Capital rent rate</b>	0.3	1.4	13.2	1.9	7.6	1.6