

This opinion piece co-authored by PCI Board member Mari Pangestu appeared in the Australian Financial Review on January 16, 2017.

Global economy looks to Asia for growth-inducing microeconomic reform



Asia will drive global growth if it gets its reforms right. **SeongJoon Cho**

by **Mari Pangestu and Shiro Armstrong**

Japan, China and the rest of east Asia enjoyed rapid development and rising living standards by opening up their economies and becoming integral parts of the global trade and economic system. The openness was underpinned by international commitments, like signing up to the WTO, and joining regional agreements that were supported by and reinforced that global system.

That globalisation is now under threat.

Populist anti-trade and anti-immigration sentiments now seem to be capturing the North Atlantic. Brexit was a major turning point for the United Kingdom and Europe. Europe's internal challenges are unresolved, and the election of Donald Trump has already seen the United States effectively kill the 12-member Trans-Pacific Partnership that was signed, sealed and waiting to be delivered.

After bouncing back from the sharp decline during the global financial crisis, world trade grew by less than 3 per cent in 2012 and 2013, compared to the pre-crisis average of 7

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per cent. Chinese trade growth has slowed dramatically from 22.6 per cent a year in the decade since WTO accession in 2001 to less than 6 per cent in 2014 and slower since. Global services trade has held up better than goods trade but for China and the rest of the world, the growth in trade is now slower than growth in GDP.

About three-quarters of the structural slowdown in trade is due to the stagnation of global economic growth and low investment. The rest is due to rising protectionism, the maturation of global value chains and China sourcing more intermediate goods domestically.

Even with China's rebalancing towards a slower more sustainable growth model, Asia is still growing at a higher rate than the world on average and any other region. And there are large, poor and young populations in Asia, concentrated in India and Indonesia but also elsewhere in south-east and south Asia, that mean growth potential will be high for decades to come.

Great deal at stake

But economic development in a hostile external environment will make a difficult job much harder. A great deal is at stake given much of south and south-east Asia are yet to attain the middle or high incomes of some of their Asian neighbours and there is still much poverty to eradicate.

Developing and developed Asia needs a well-functioning and open global economy and given Asia is still growing faster than the rest of the world it now has a peculiar responsibility to protect that global system. Asian economies need to lead the push-back against protectionism and inward-lookingness, whether they are ready or not.

There are important ways in which Asia can provide leadership.

Asia can champion unilateral reforms. The reforms that need to be undertaken now for many countries are the more difficult behind-the-border and institutional reforms, not just removing border barriers. Asian economies can focus on implementing these domestic reforms unilaterally or in concert with willing partners in the region – it is in their own interest. A more dynamic and open Asian economy will be a strong fillip to the global economic system.

With investment stagnating in advanced economies, but also on the wane more broadly, there is urgency in mobilising infrastructure investment to serve the development needs in Asia. The Asian Infrastructure Investment Bank, China's Belt and Road Initiative and Japanese ODA should be welcomed but can be extended.

Initiatives in the multilateral arena, such as the implementation of the WTO's Trade Facilitation Agreement, need support.

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RCEP must be credible and ambitious

The East Asian Regional Comprehensive Economic Partnership, or RCEP, under negotiation, provides a platform from which Asia can provide leadership. To do so RCEP needs to be credible and ambitious. Comprised of the 10 ASEAN states plus Australia, China, India, Japan, New Zealand and South Korea, RCEP has potential to be a positive force beyond Asia, globally. With huge diversity in levels development and systems, RCEP members need to take a different approach from the TPP and have creative and flexible ways to achieve ambitious targets.

RCEP or any other Asian agreement, because of regional diversity, needs to have regional economic co-operation as its centrepiece. Whether that is building capacity, infrastructure or experience sharing, the co-operation agenda will be central to meeting the major challenges brought by implementation of reforms, technological disruption, dealing with distributional issues, the movement of people, tackling new cross-border issues and energy transformation and climate change.

The global economy that acted as a tailwind for Asia in the past has turned to a headwind. Asia's overriding interest today is to help anchor the global trading system and economy and reverse the headwinds of anti-globalisation.

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