

# Protectionism, Trade and the Way Ahead: an East Asian Perspective

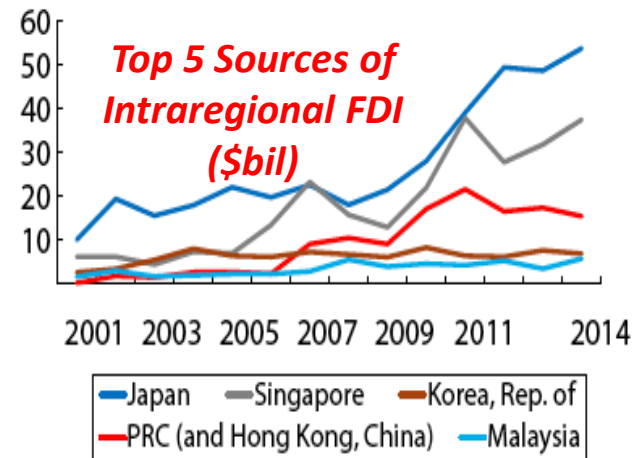
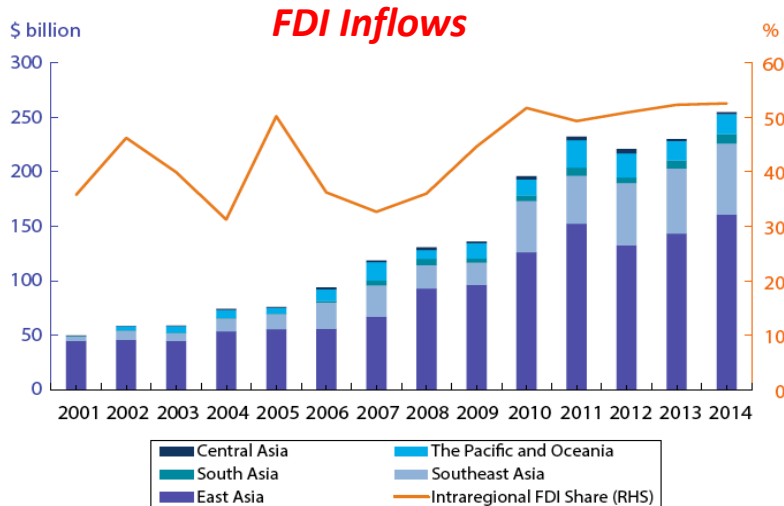
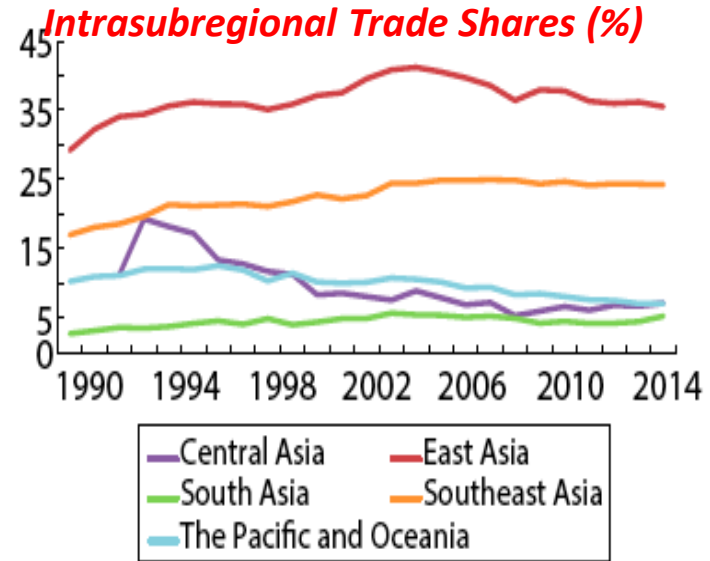
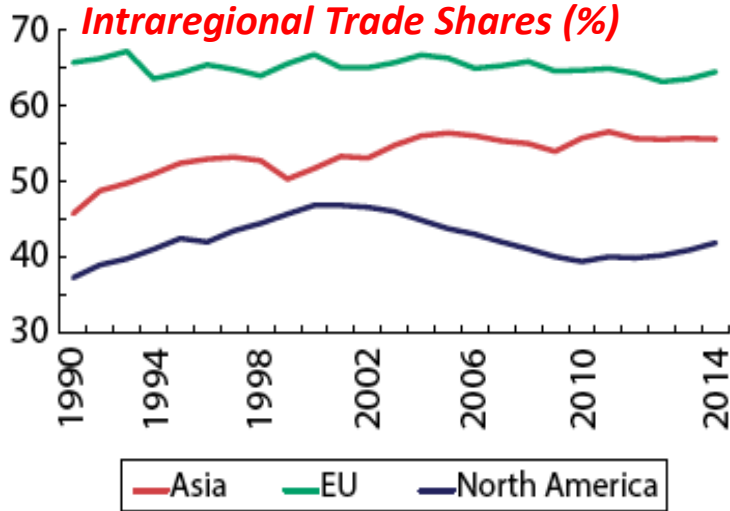
OJK International Seminar  
Navigating Towards Financial Stability in an Evolving  
Global Economic System

Mari Pangestu  
Bali, July 14, 2017

# Key Messages

1. East Asia and emerging economies three decades of development predicated on openness and certainty in rules based trading system
2. This is being threatened by the “new normal” post GFC – especially trade and protectionism (bark and bite)
3. How does East Asia continue to develop and ensure openness and reforms: Way ahead: possible responses

# Three Decades of Economic Integration East Asia



# Drivers of Economic Integration in East Asia (and also other emerging economies)

1. **Conducive world economy**: Trade growth 2-3x of GDP growth
2. US, EU and **advanced country leadership** on openness (tailwind)
3. **Bold unilateral liberalisation** and reforms **underpinned by international and regional commitments (WTO, APEC, ASEAN -> ASEAN+1 -> RCEP)** : export-led development strategy driven by competitive liberalization, crises and commitments. Political commitment for a **growth oriented and poverty reduction** development strategy
4. Rise of China, to a lesser extent India (esp commodities)
5. Evolution of **production networks and GVC**
6. **Technology** (transport and telecommunications) -> boost trade

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



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



# 1. Slowdown in GDP: Growth nowadays is lower than in the 90s and before 2008 crisis.

FIGURE 1A Global growth

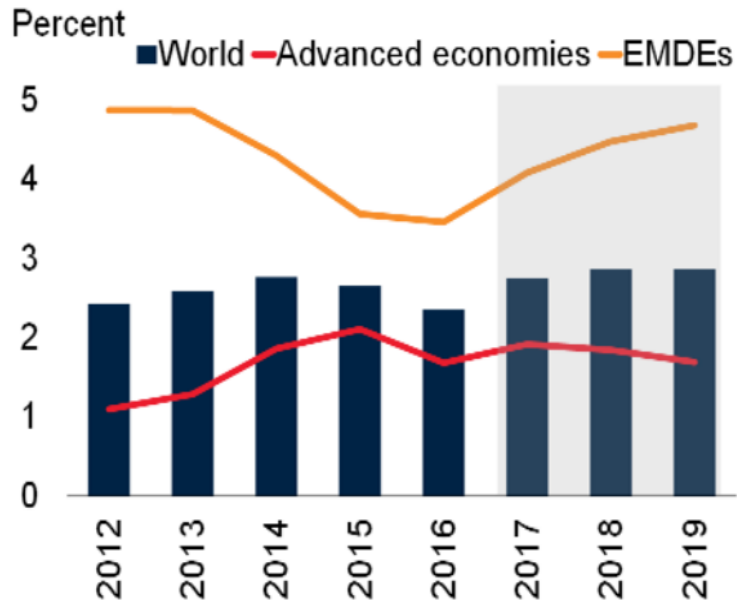
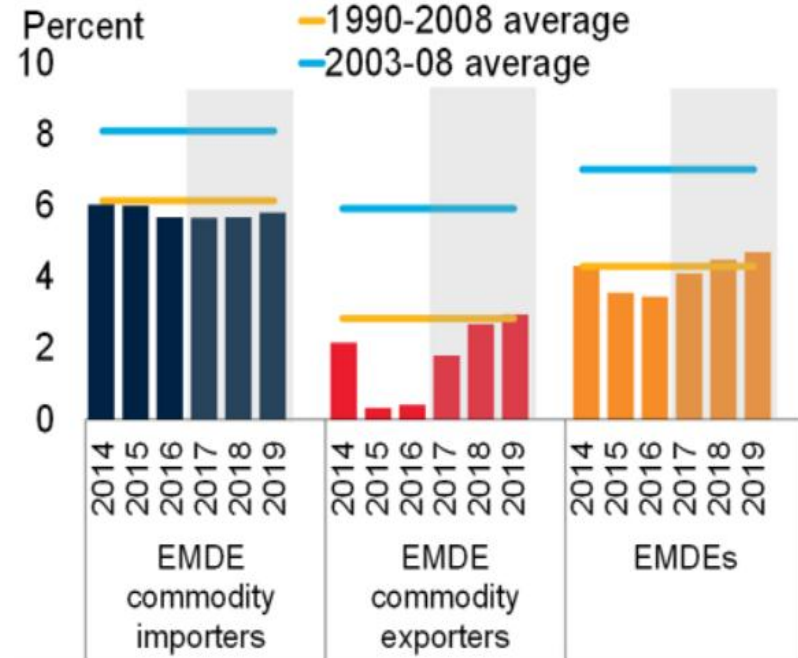
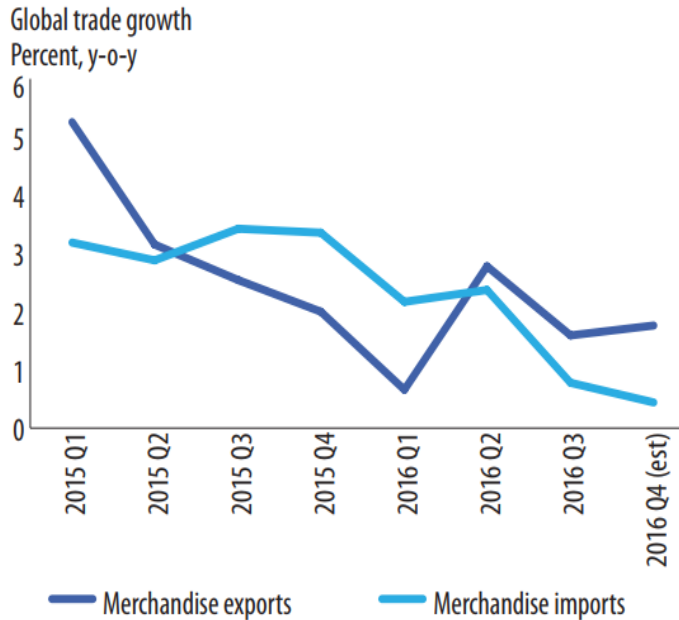


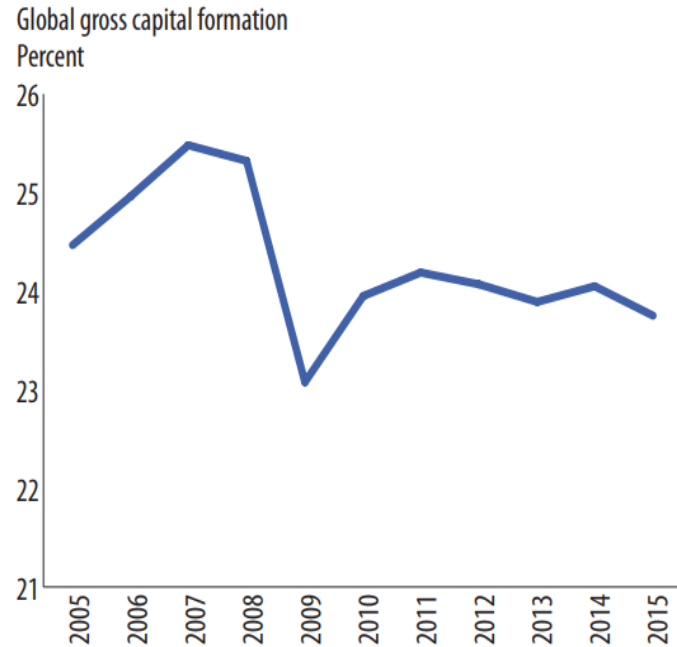
FIGURE 1B Growth by country groups



# Global trade and investment remain sluggish



Source: World Bank WDI and staff calculations  
Note: est = estimate



Source: World Bank WDI

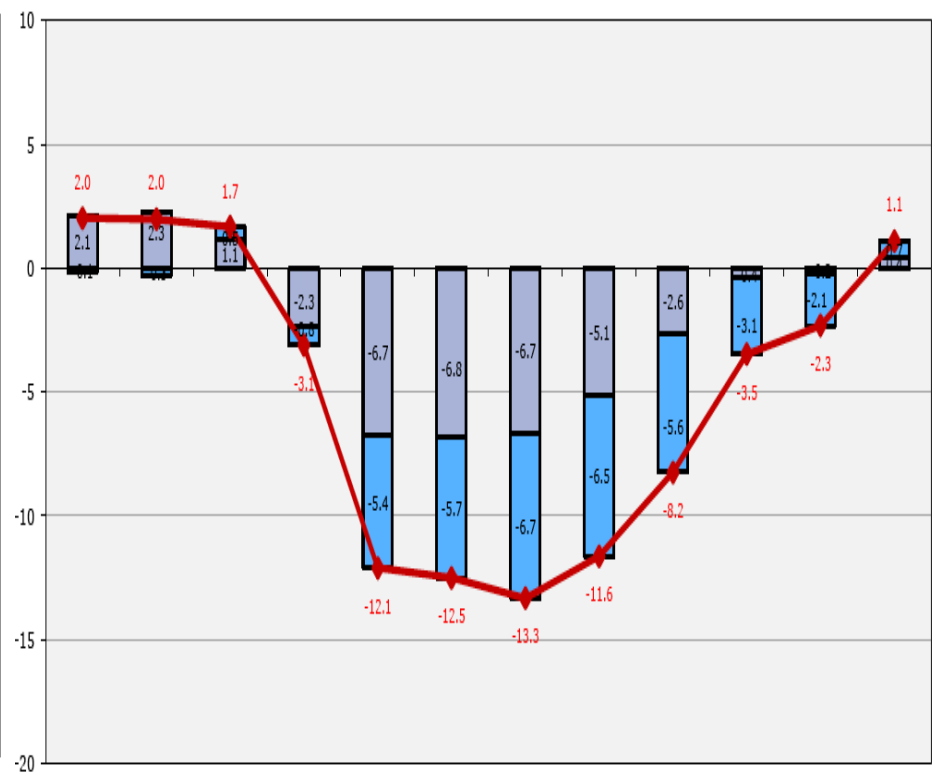
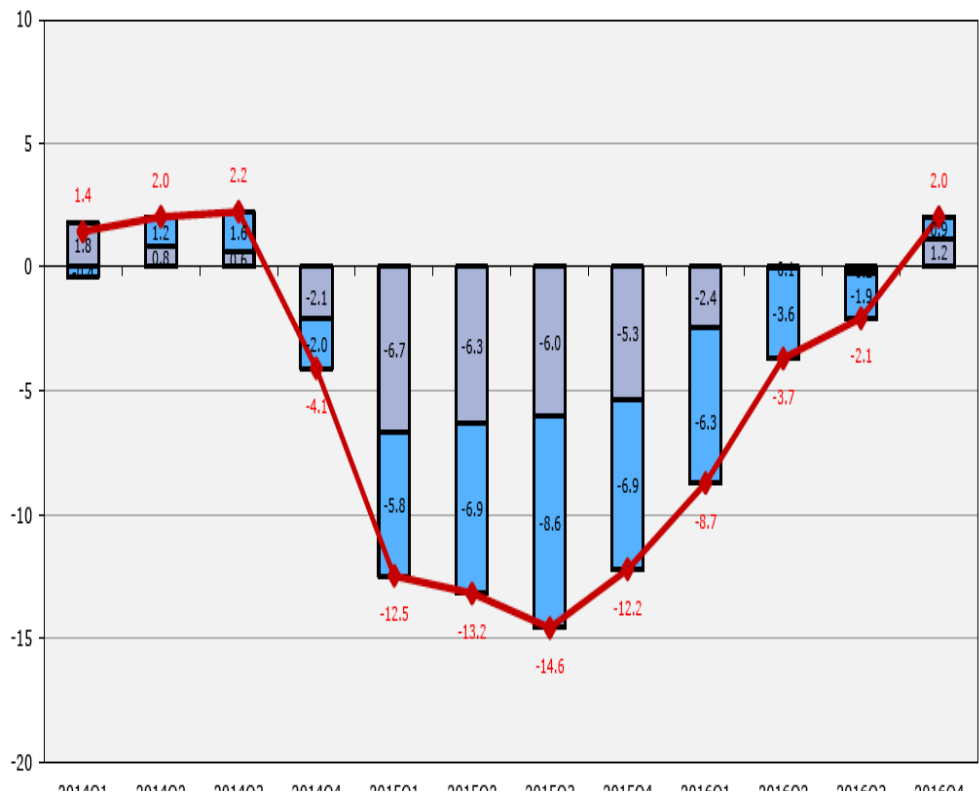
# Contribution YoY Growth Merchandise Exports and Imports

(% change in US\$ values)

Source: WTO/UNCTAD/OECD, Report on G20 Trade and Investment Measures, June 2017

Exports

Imports



Developed economies

Developing economies<sup>a</sup>

◆

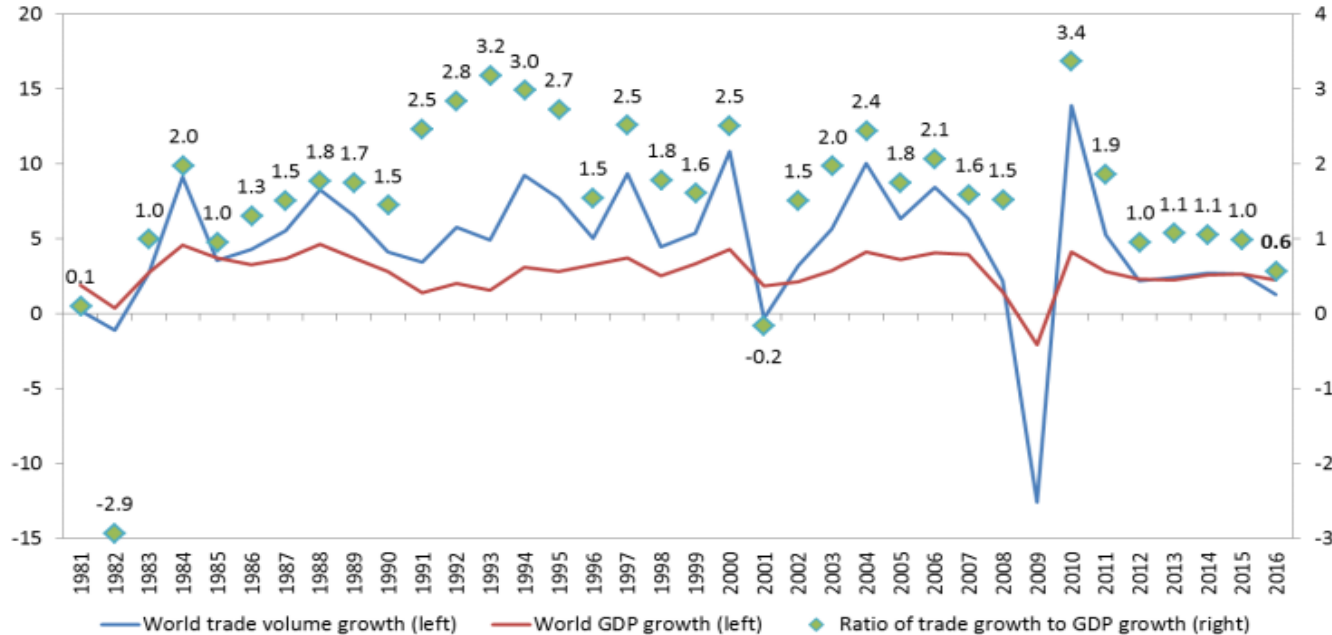
World, year-on-year percentage change



# 2. World merchandise trade growth in 2016 hit the lowest since decades

**Chart 1: Ratio of world merchandise trade volume growth to world real GDP growth, 1981-2016**

% change and ratio

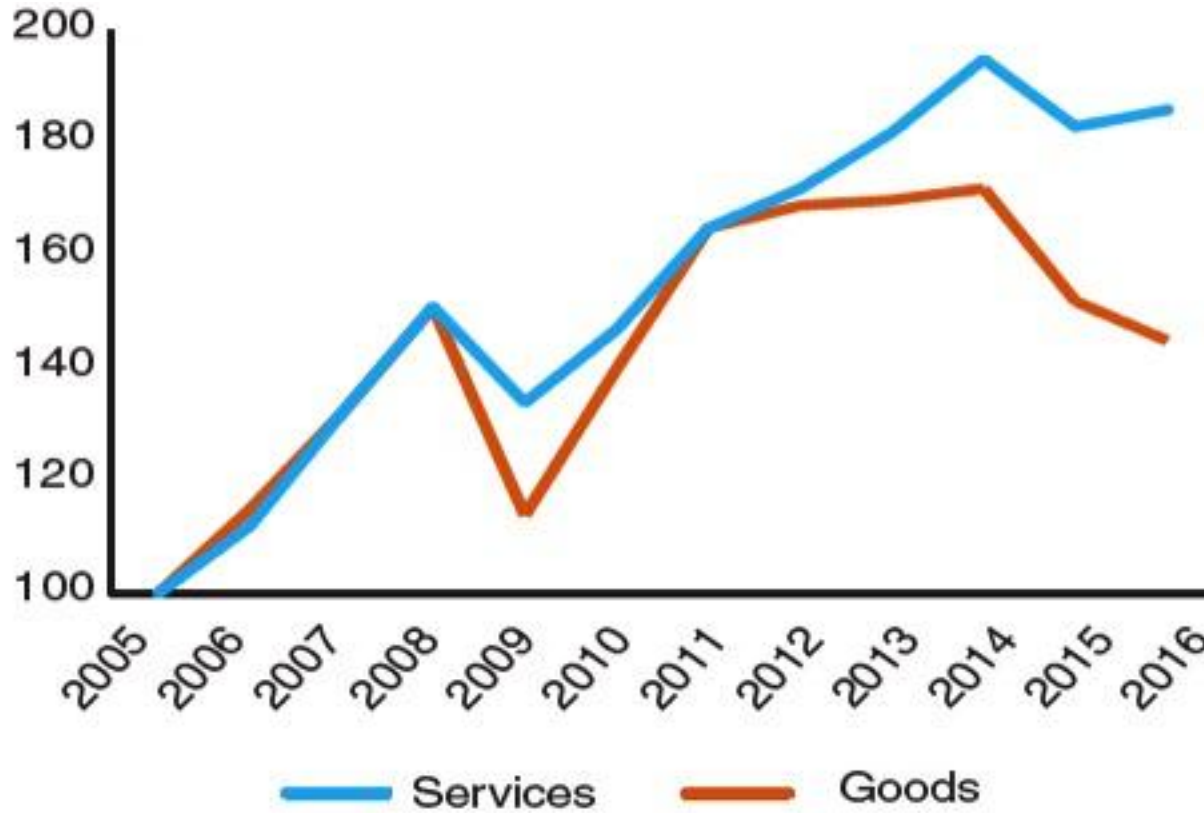


**Trade: GDP growth 1:1**

**Projection  
WTO: 2017  
2.4% and  
2018 2.1-4%**

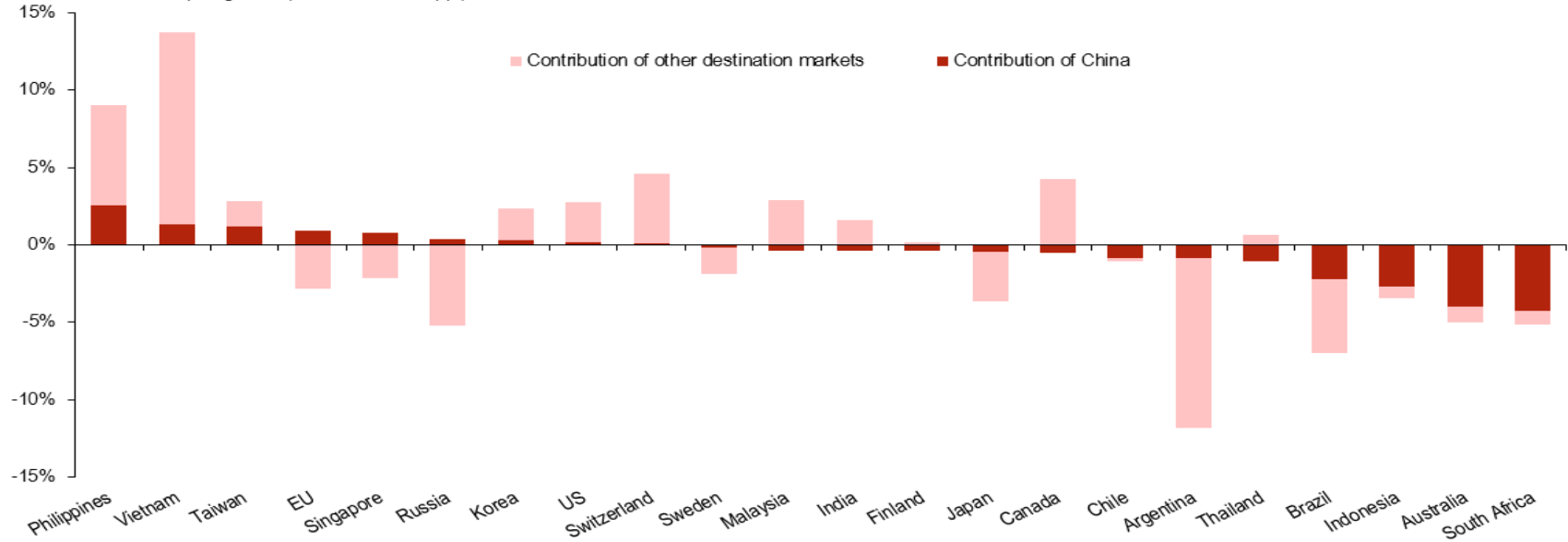
Sources: WTO Secretariat for trade, consensus estimates for GDP.

# With Services trade more resilient: importance of services sector



# 3. Impact of Slowdown in China: Contribution of China vs. other export markets to total 2014 export growth

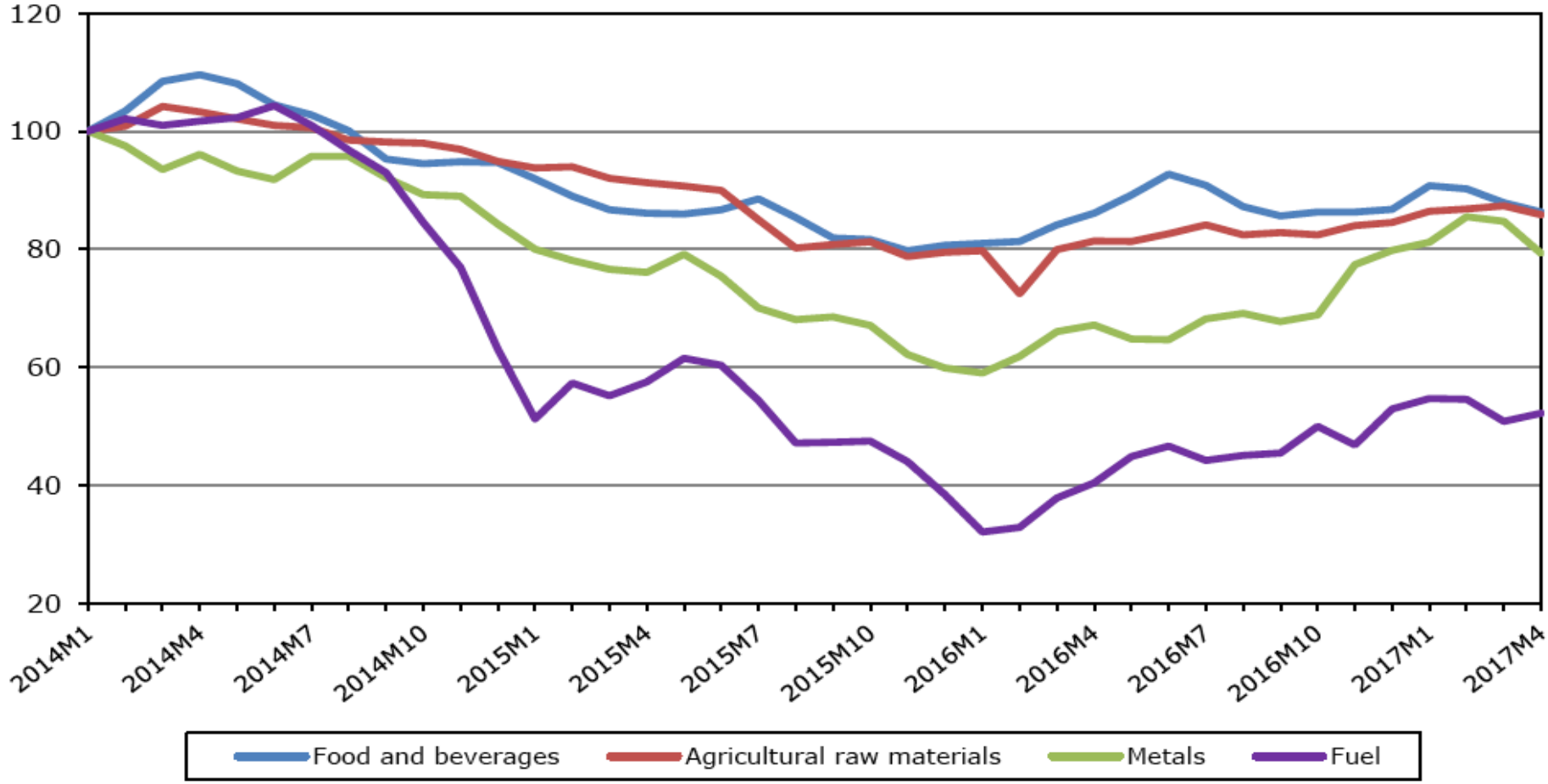
Contribution to total export growth (2014 over 2013, ppt)



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

# Impact on Commodity Prices and Demand: some recovery in sight?

(index, January 2014 = 100)



Source: IMF Primary Commodity Prices.

# Main Points: Sin Beng Ong (JP Morgan)

- 1. G3 (US, EU, Japan)** key driver of growth and trade
- 2. New Normal:** slower tailwind from G3, China factor (now rebalancing, slow on commodity/manuf, shift to services and so light locomotive for growth) and maturation of global supply chain
  - **Therefore importance of continued integration and reforms**
- 3. Demographics:** ageing in Northeast Asia, Singapore and Thailand but demographic bonus other parts of SEA and India --- people movement (physical and non physical)

# 4. Technological Disruption and Fourth Industrial Revolution

- Technological revolution is changing the way:
  - We produce and work (3D printing, robots)
  - Changing value chains (reduce transport, communication and now face to face costs)
  - We trade (e-commerce)
- And adds another dimension: free flow of data (seamless flows vs privacy, security, sovereignty issues – data/server localization)

# Trade Growth 2-3% and E-Comm 27%

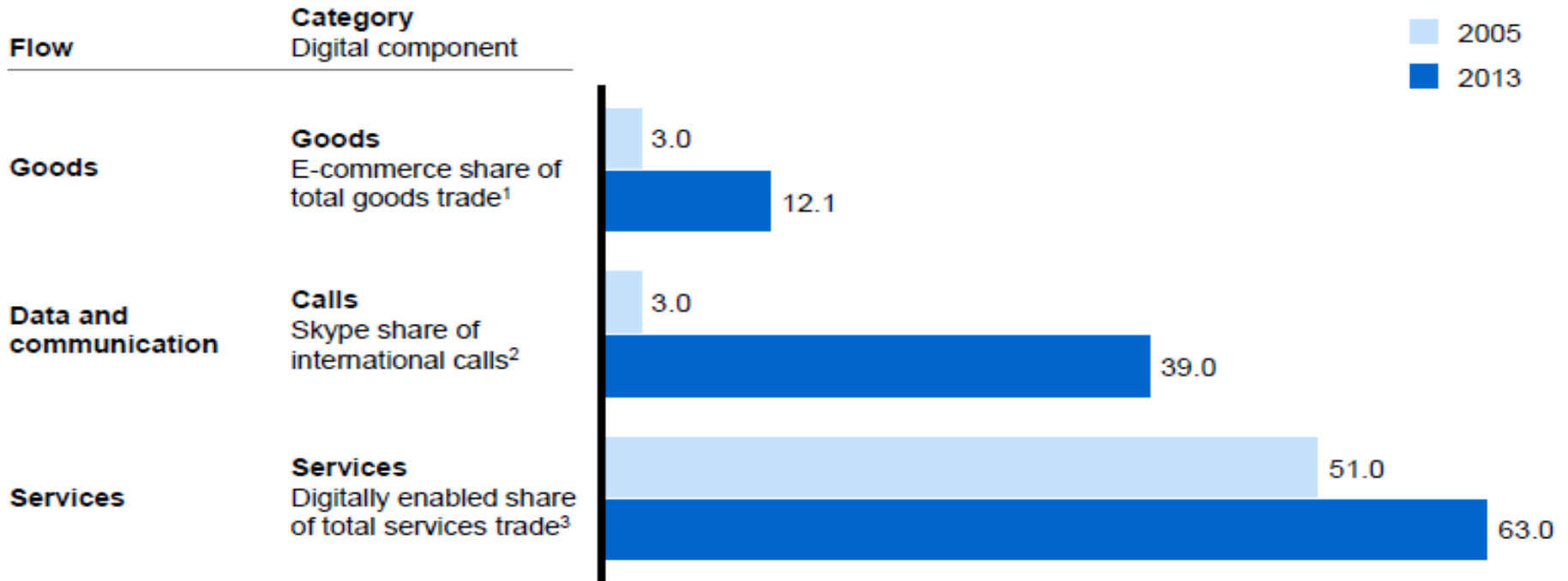
Global Cross-border B2C Volume 2014-2020

- Cross-border B2C transactions as % of total B2C transactions
- Transaction volume of global cross-border B2C (in USD billions)
- Transaction volume of global domestic B2C (in USD billions)
- Compound annual growth rate



# Digital Component has Growing Share of Global Flows (From Andrew Sheng Yesterday)

Share of selected cross-border flows that are digital, %




Note: 1 Based on China data; 2 Excludes other VOIP minutes; 3 Based on US data.

Sources: iResearch; Telegeography; OECD; US Bureau of Economic Analysis; McKinsey Global Institute analysis

Source: McKinsey Global Institute. 2014. "[Global Flows in a Digital Age.](#)"

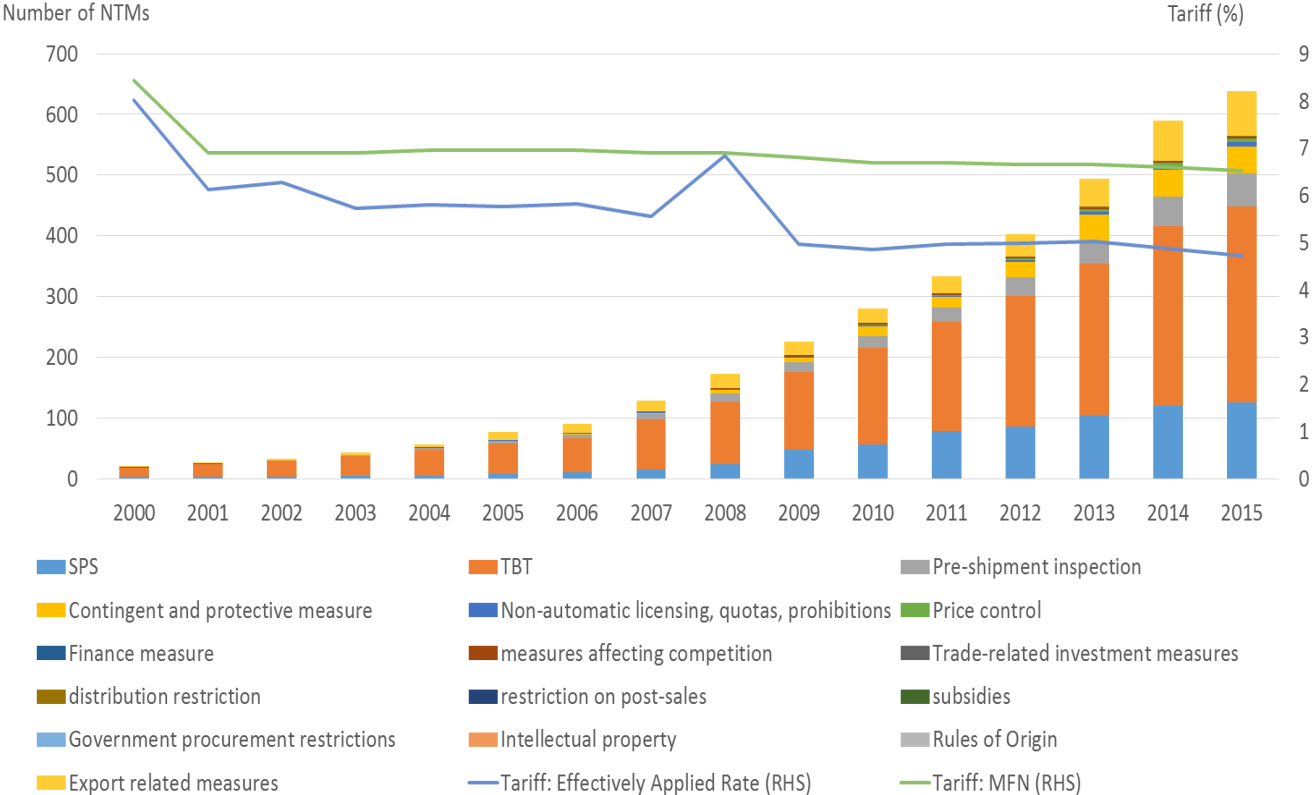


A close-up photograph of a hand placing a red brick onto a wall. The wall is made of several layers of red bricks with visible mortar joints. The hand is positioned at the top right, holding the brick as it is being set into place. The background is a clear, bright blue sky.

**5. Protectionist Trends: more blocks being taken off or put on the wall? Or standstill?**

# Alongside with the slowdown in economic growth, the world witnessed the rise of protectionism measures

## Increasing Use of Non Tariff Measures in ASEAN: NTMs vs Tariffs



Source: ERIA-UNCTAD, 2016

# Technical barriers to trade (43% out of total NTM) is the major measure used in ASEAN

Table 2.3: NTMs by Type and by Country in ASEAN, 2015

Country	Total (number)	SPS (%)	TBT (%)	Export-related Measures (%)	Others (%)
Brunei Darussalam	516	31	56	9	4
Cambodia	243	15	50	29	7
Indonesia	638	20	51	12	18
Lao PDR	301	13	30	27	30
Malaysia	713	36	47	10	7
Myanmar	172	44	24	20	12
Philippines	854	27	42	17	13
Singapore	529	24	59	9	7
Thailand	1630	48	34	8	9
Viet Nam	379	37	37	17	8
Total/average	5,975	29	43	16	12

ASEAN = Association of Southeast Asian Nations; Lao PDR = Lao People's Democratic Republic; NTM = non-tariff measure; SPS = sanitary and phytosanitary; TBT = technical barriers to trade.

Source: Authors' calculation based on the 2015 ASEAN-ERIA-UNCTAD Database.

# Mostly on product that is sensitive to public-health

Table 2.5: NTMs by Issuing Agency in ASEAN, 2015

Number	Ministry/agency	Number of NTMs	Total Number of NTMs (%)
1	Ministry of Health	1868	31.3%
2	Ministry of Agriculture (including forestry, plantation, fisheries)	1865	31.2%
3	Ministry of Trade	468	7.8%
4	Other institutions (not mentioned in countries' table)	463	7.7%
5	Ministry of Industry	425	7.1%
6	Ministry of Environment, environmental agencies	178	3.0%
7	Cabinet office, State Secretary	175	2.9%
8	World Trade Organization (provided by WTO)	87	1.5%
9	Ministry of Finance	86	1.4%
10	Ministry of Energy, and related agencies on energy	64	1.1%
11	Other institutions	296	5.0%
Total NTMs		5,975	100.0%

ASEAN = Association of Southeast Asian Nations; NTM = non-tariff measure.

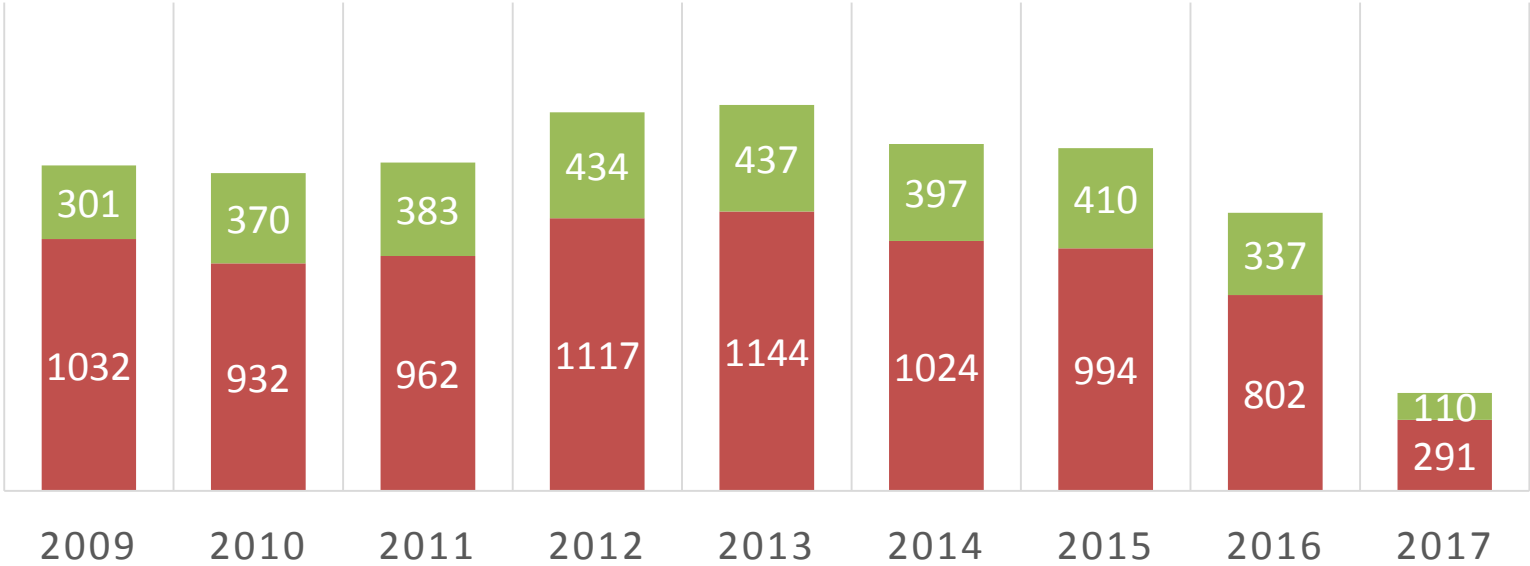
Note: Data on measures of Antidumping, countervailing duties and safeguards are provided by the WTO. The WTO does not issue any regulations.

Source: Authors' calculation based on the 2015 ASEAN-ERIA-UNCTAD Database.

# The intervention is more on the harmful side rather than liberalizing.

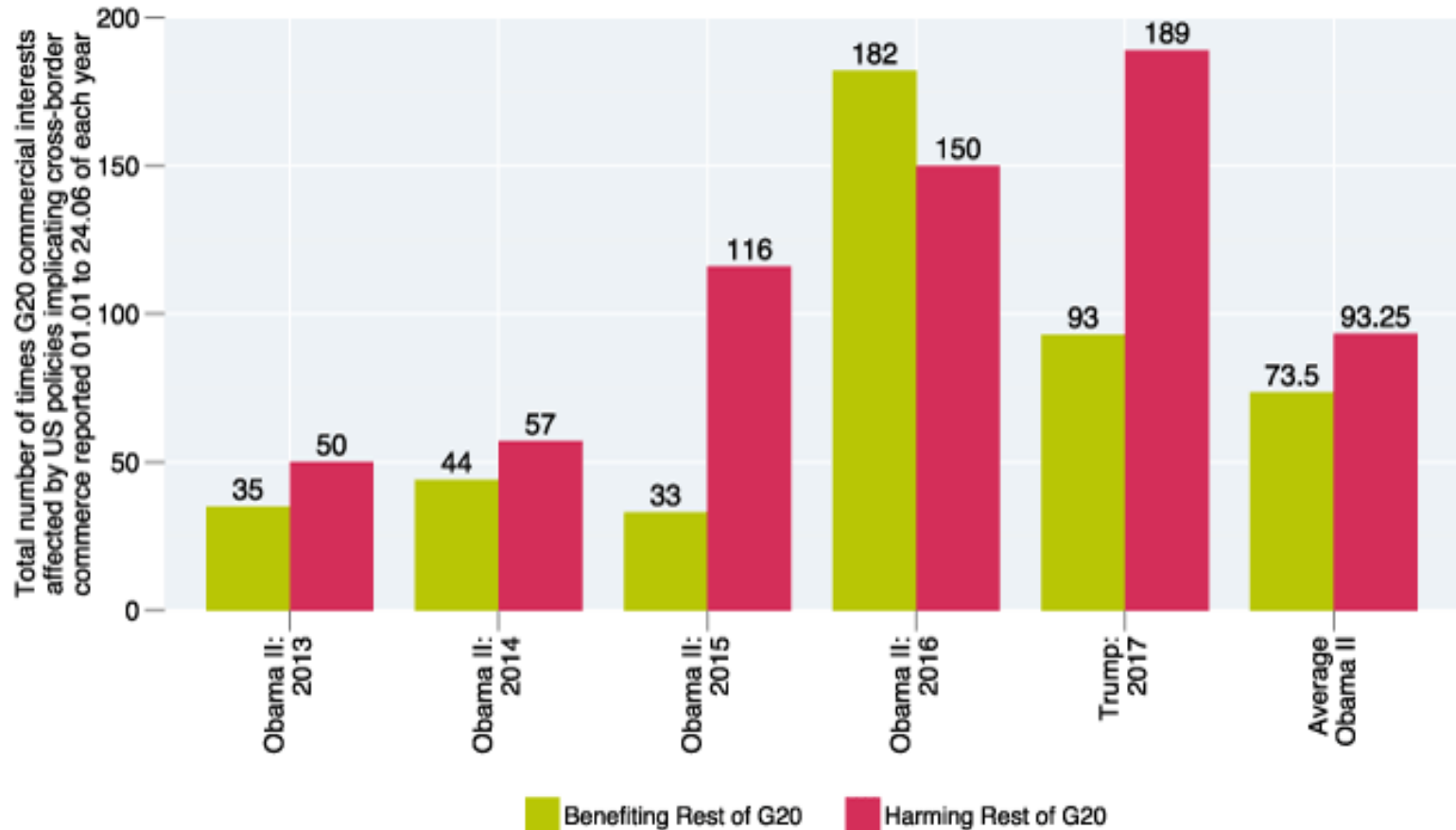
NUMBER OF INTERVENTION WORLDWIDE

■ Harmful ■ Liberalising



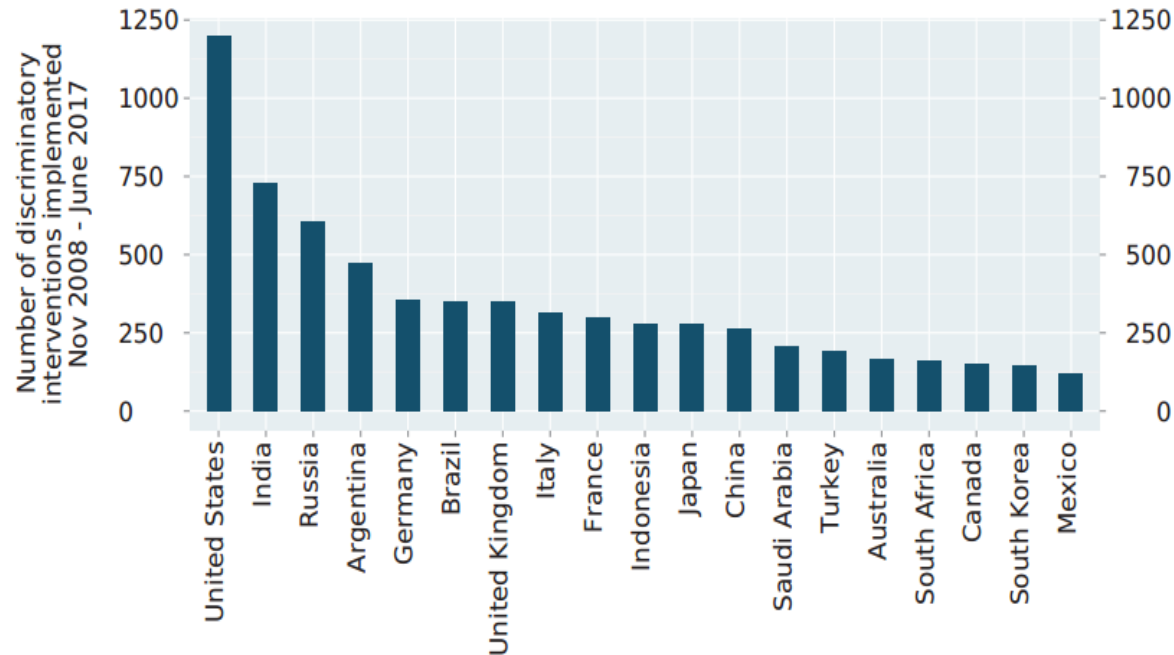
Source: Global Trade Alert

# More harmful in the era of Trump

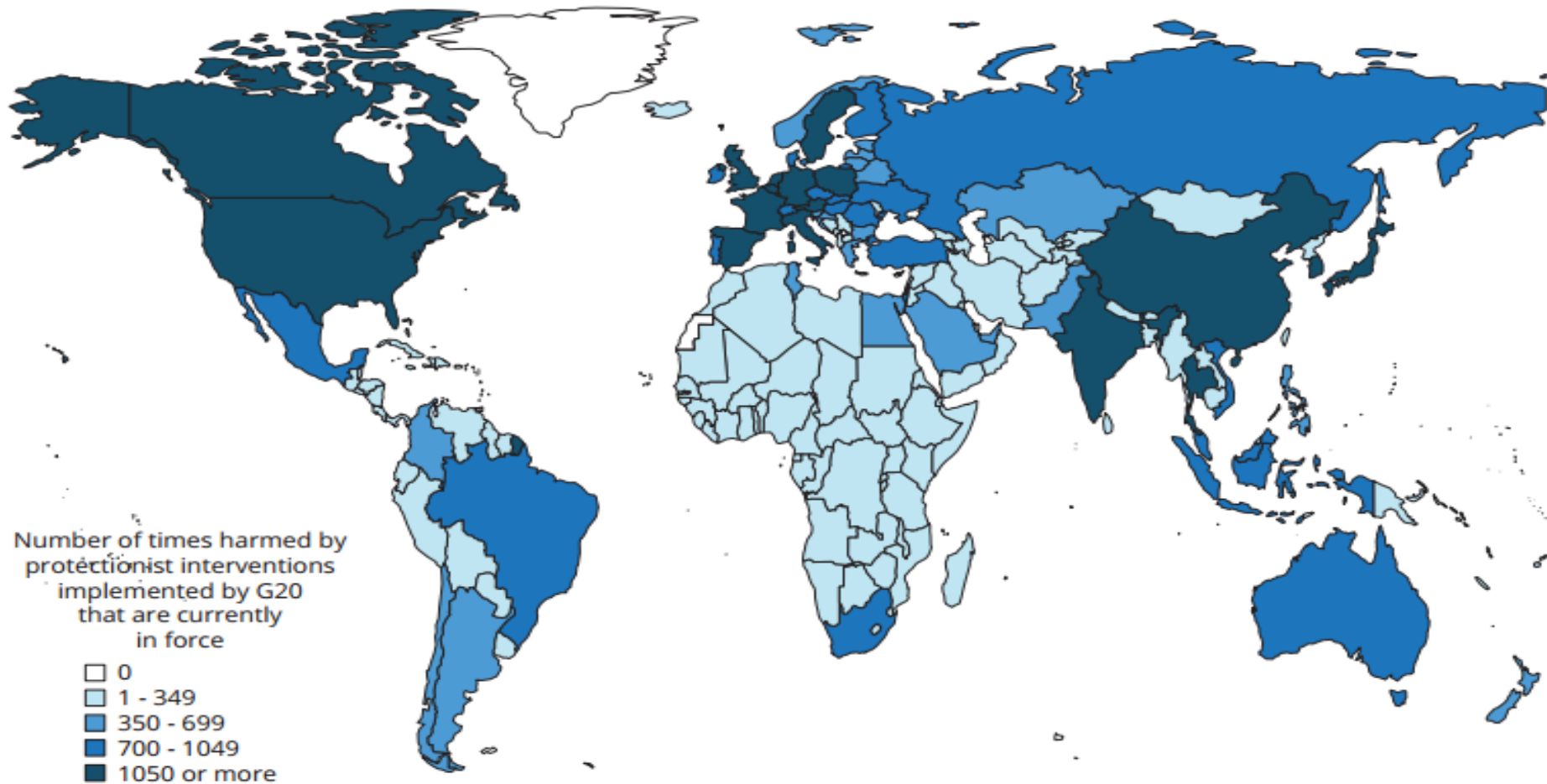


# Interesting enough to see that the protectionist interventions imposed by US is the highest...

A ranking of G20 members according to the total number of protectionist measures implemented since the first G20 Leaders' Summit in November 2008



## The worldwide incidence of harm from crisis-era G20 protectionism





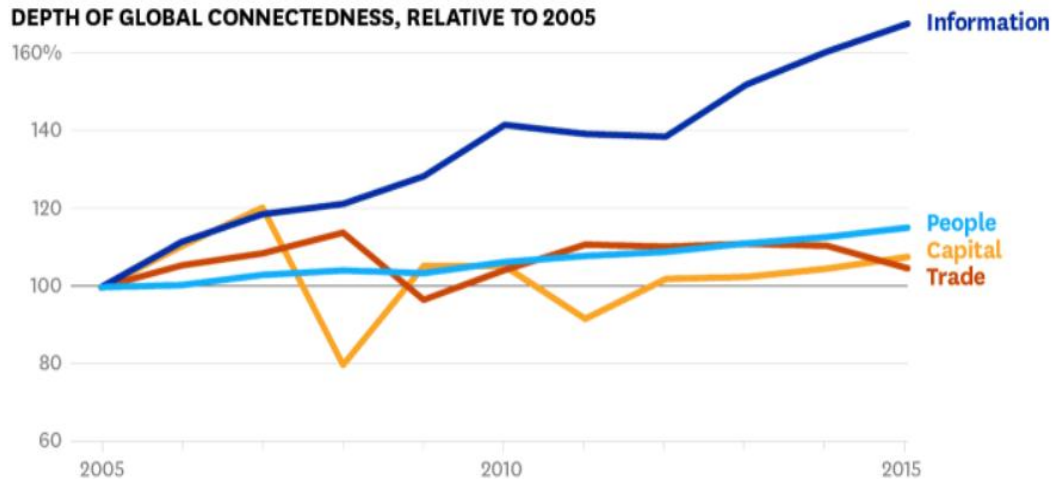
# How benign is the rise of protectionism?

- The jury was still out there prior to mid 2016
- Yes rise of protectionism, but still benign
  - Affects small% of imports
  - Using WTO based instruments (anti dumping and countervailing duties (50%), Standards: TBT, SPS)
  - Some restraint (Self reporting G20, peer pressure
    - call for stand still and roll back)

# ..And has not reversed globalization trend

## Globalization Has Not Gone Into Reverse

The DHL Global Connectedness Index—which tracks international trade, capital, information, and people flows—shows that globalization slowed down in 2015 but did not go into reverse. (Updated 2016 data for trade and investment suggests a continued slowdown but still no reversal.)

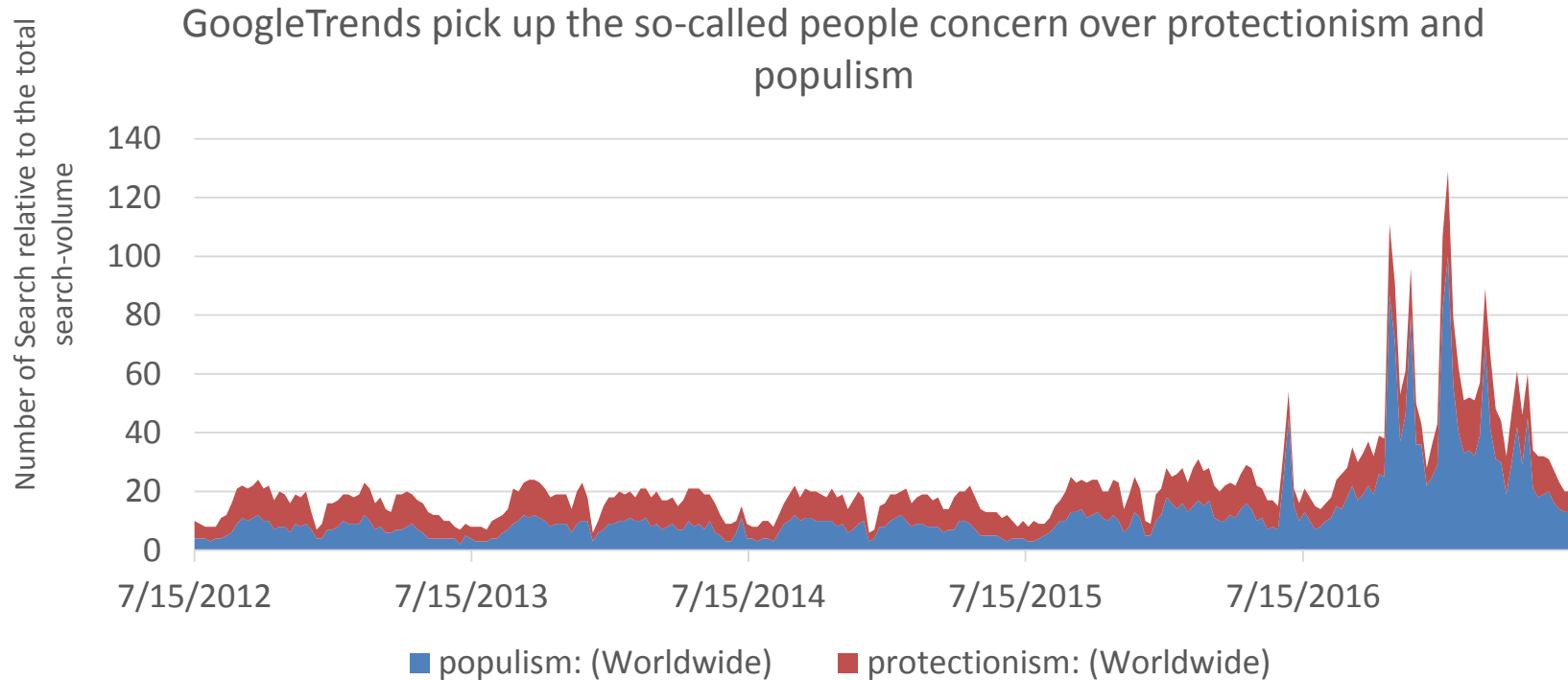


Global connectivity is on the rise, especially in terms of information connectedness

SOURCE DHL GLOBAL CONNECTEDNESS INDEX 2016  
FROM "GLOBALIZATION IN THE AGE OF TRUMP," BY PANKAJ GHEMAWAT, JULY-AUGUST 2017

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# Buzz and concern protectionism and populism – increase sharply after the late 2016: Brexit and US Election

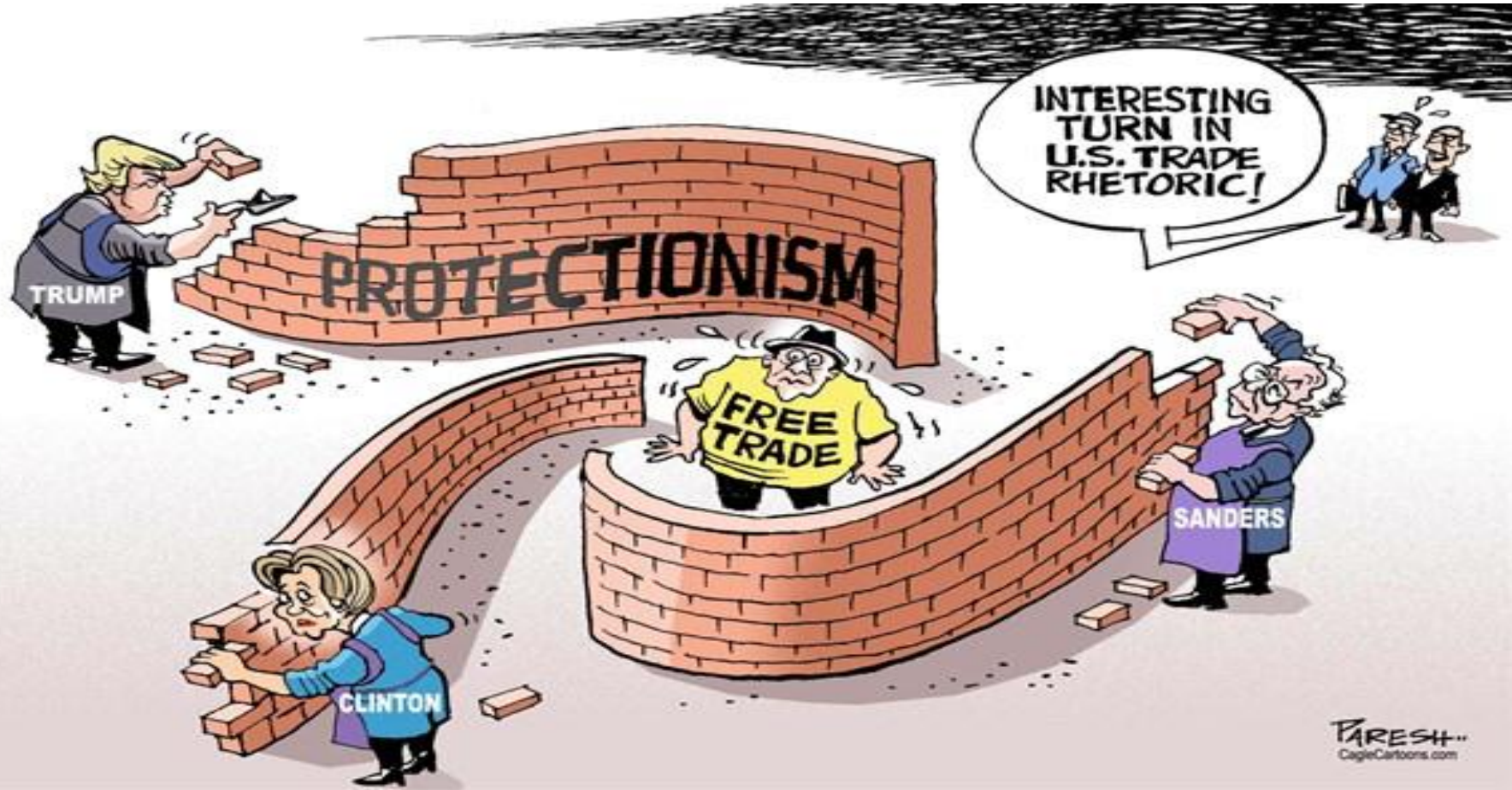




## **Brexit and US Trade Policy: how much bark , how much bite?**

- Withdraw TPP, renegotiate NAFTA,**
- Unfair trade: trade deficit, reciprocity and unilateral (not WTO Trade Defense)**
- steel and national interest**
- Eschewing WTO/Multilateral – going bilateral**
- US and Europe: labor flows, refugees, migrants**

# Headwinds of Protectionism 2016+: how much bark, how much bite?



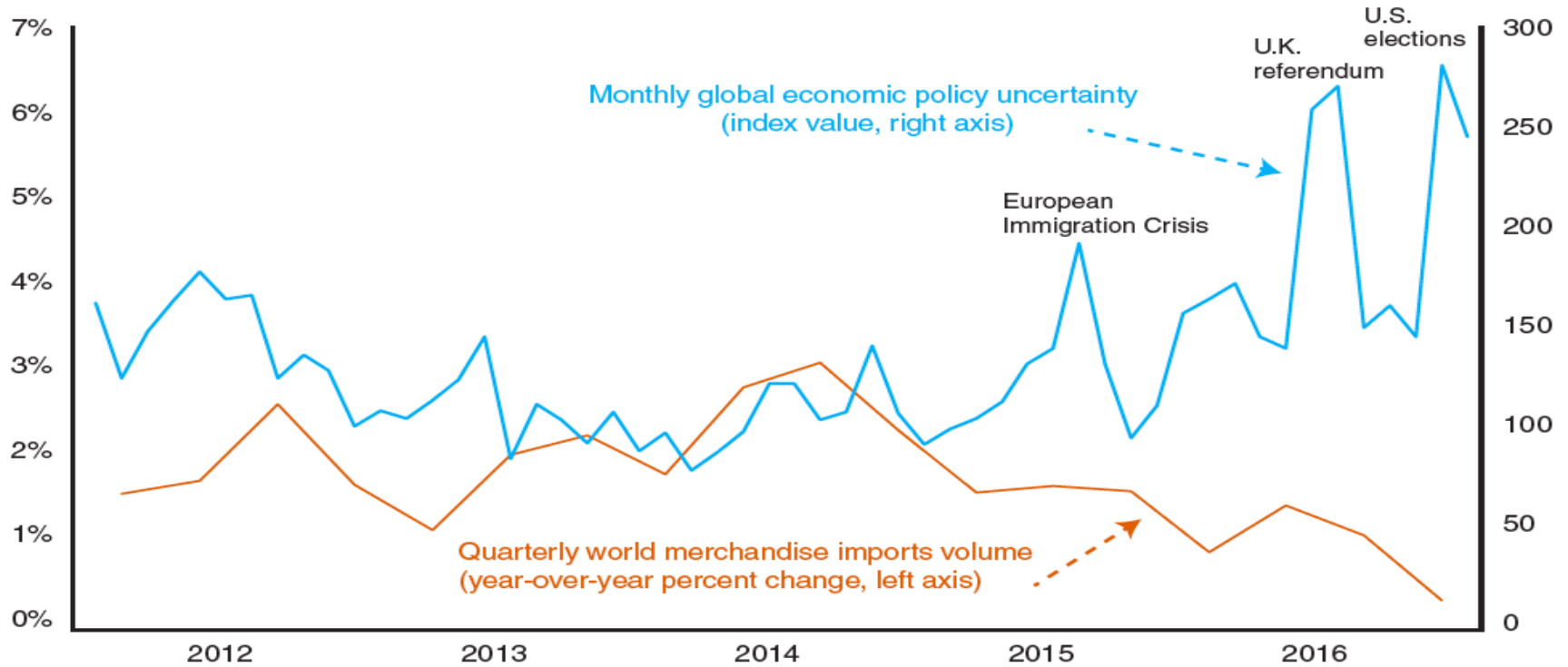


The crisis is harmful enough without retrogressing on the progress the world has made in increasing real incomes and reducing poverty in the past sixty years. **A trade war, with heightened protection, would intensify the downward spiral, not mitigate it.**

The crisis is imposing high economic costs throughout the globe. It would be tragic if protectionist measures, intended to mitigate some of the difficulties, were adopted and intensified our difficulties.

Anne Krueger, in Chapter 7 Murky Protectionism (2009)

# Policy Uncertainty impact on Trade

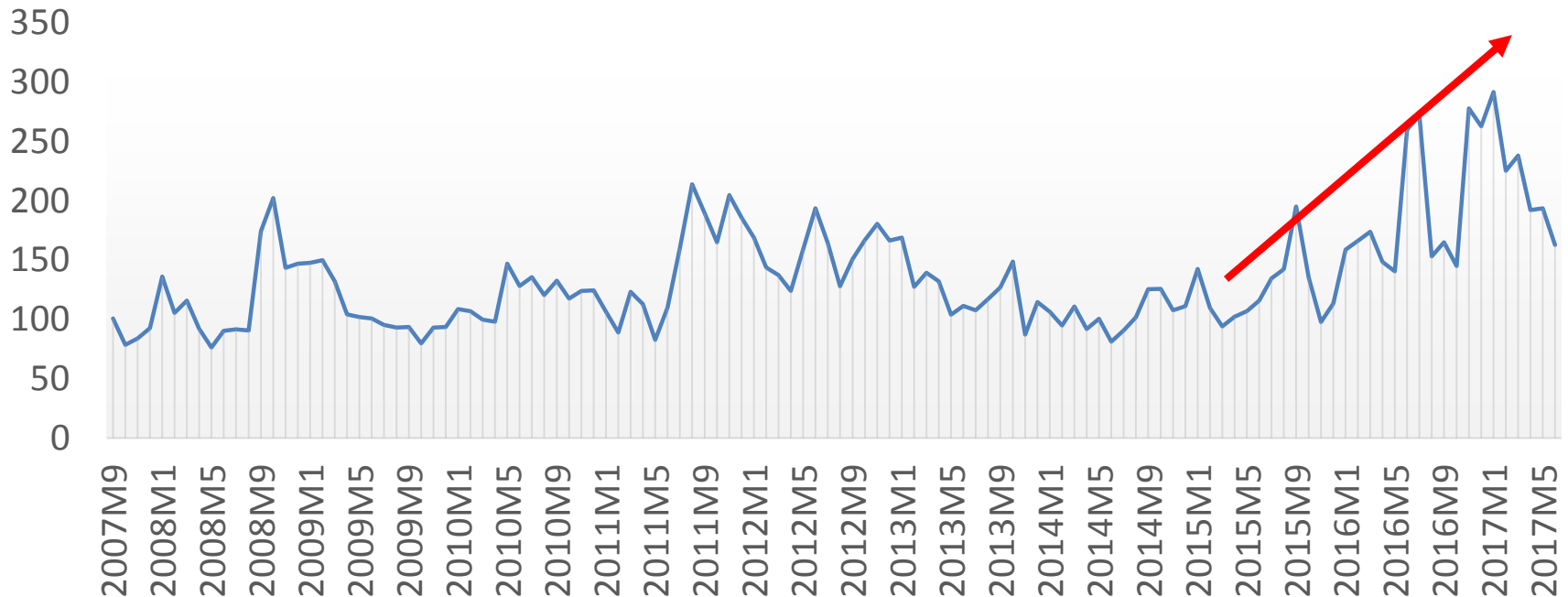


Source: CPB Netherlands Bureau of Economic Policy Analysis, [www.PolicyUncertainty.com](http://www.PolicyUncertainty.com), Baker, Bloom and Davis (forthcoming), and authors' calculations.

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

# Most of all, **Policy Uncertainty** poses the **Biggest Risk** – GEPU Index has increased sharply since 2015

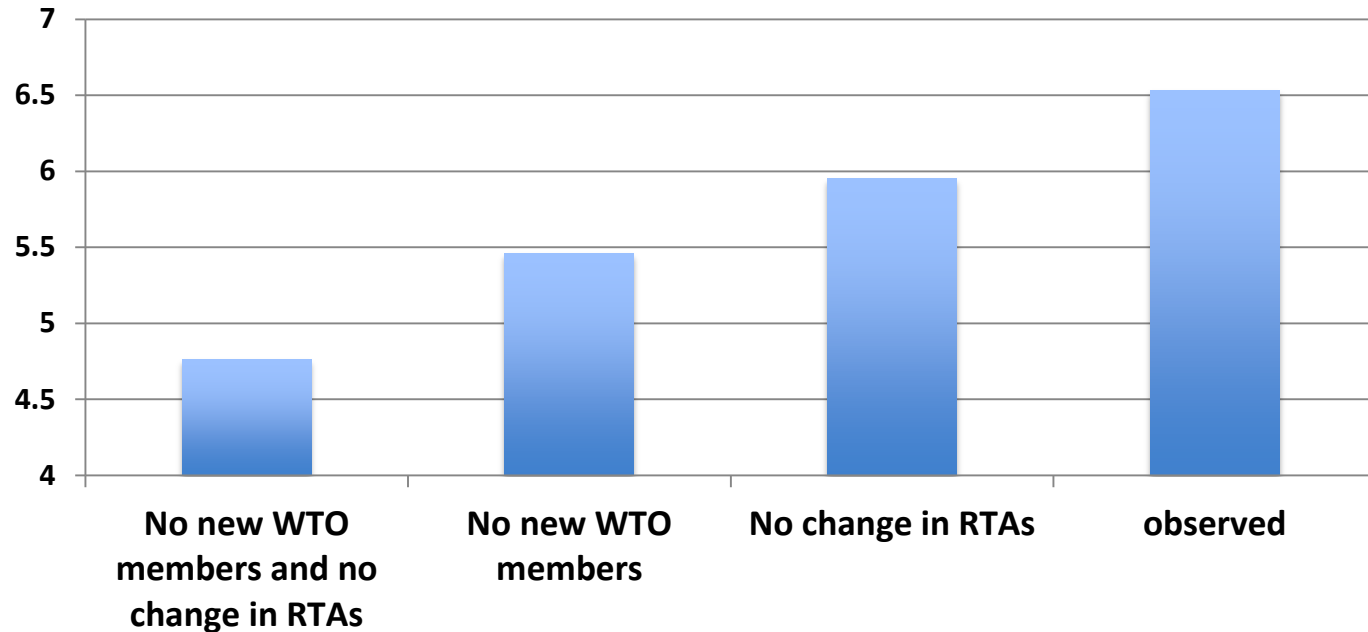
Global Economic Policy Uncertainty Index (Avg 1997-2015=100)





# Trade Agreements and Trade Growth

Annual % contribution of trade agreements to world trade growth: 1995-2014



**Threat to unravel such agreements hurt trade growth by adding to policy uncertainty**

Source: Matoo, Mulabdic and Ruta (2017)



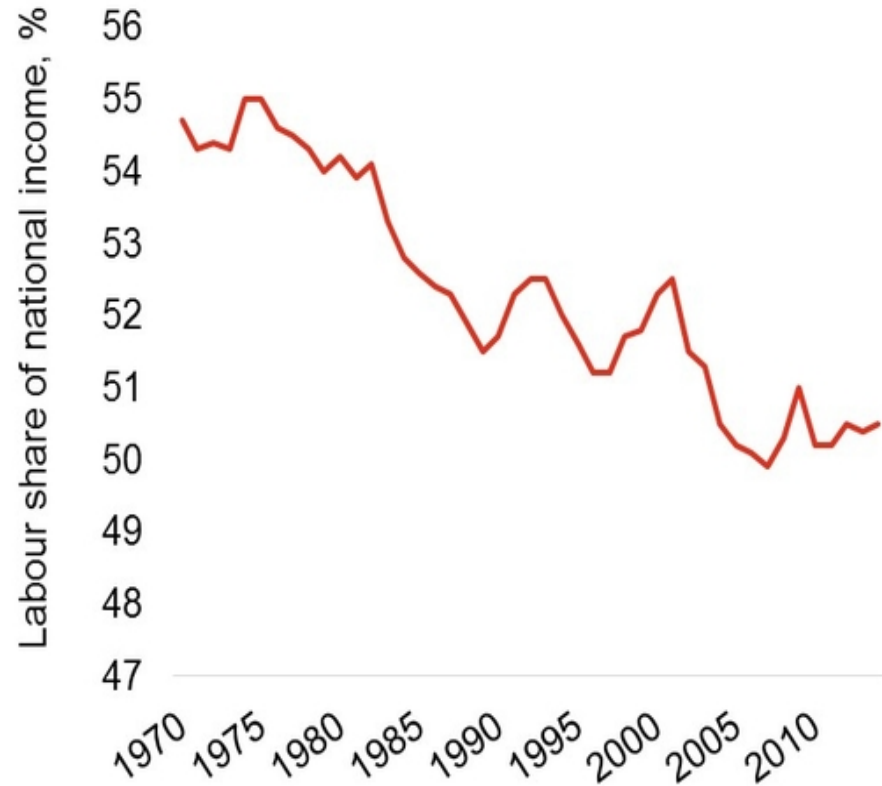
"WHAT NOW?!!!"

© KEITH TUCKER  
WWW.WHATNOWTOONS.COM

Causes for rise in protectionism and anti globalization

The rise of populism and/or protectionism is the result of the shrinking in labor's share of income – **the wage growth is not keeping up with productivity growth** and mostly because of the **technological advancement**, e.g. cheaper cost of ICT

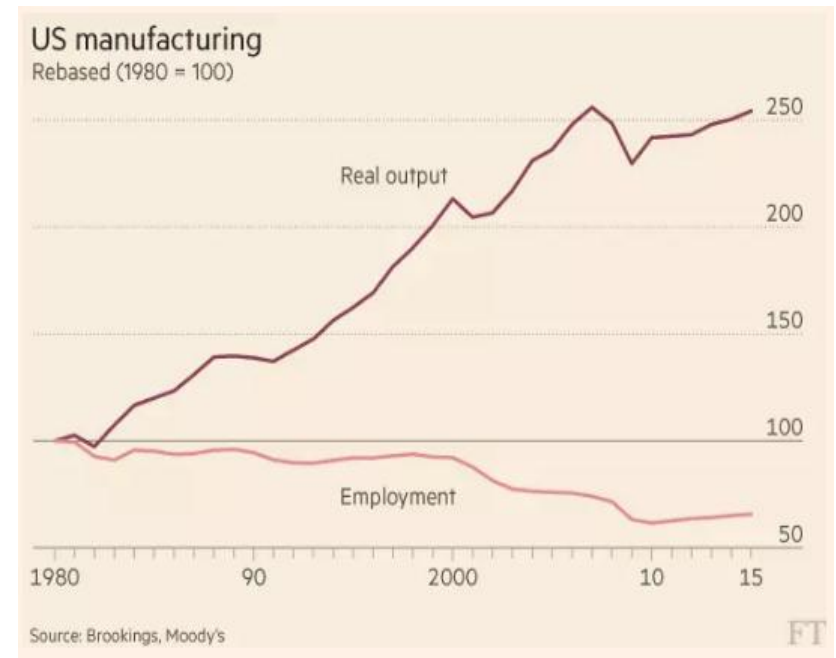
*Fig 3: Labour's share of income in advanced economies has been falling since the 1980s*



Source: IMF

US lost about 5.6m manufacturing jobs between 2000 and 2010. But according to a study by CBER, 85% of these jobs losses are due to technological change – largely automation – rather than international trade

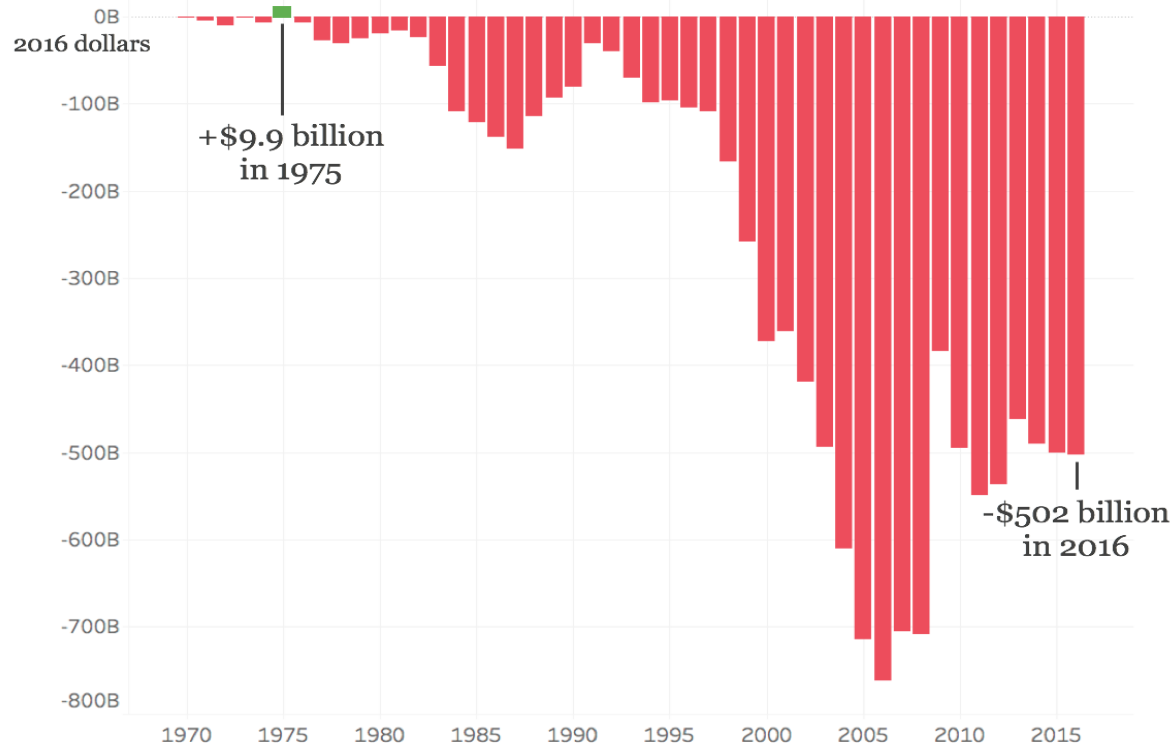
In fact, data shown that even though there has been a steep decline in manufacturing jobs, the sector has become more productive – the output has been growing significantly



# The notion of “FAIR TRADE” a la US

- *Export Good, Import Bad – trade deficits, also reciprocity*

United States trade balance with the rest of the world



**DOES OPTIMISM COME FROM ASIA AND ASIAN  
INTEGRATION **IN RESPONSE:****

**CAN ASIAN INTEGRATION BE THE **NEW  
TAILWIND****

**AND**

**A **RENEWED AGREEMENTS IN ASIA AND  
ELSEWHERE** RESPOND TO THE NEW NORMAL**





- **Some Good News: After one year of the “Unusual” is the rest of the world adjusting in the right way?**
- **Strengthened call in Europe (Merkel-Macron led), safeguarding EU-UK and EU Bilateral FTAs (EU-Japan announcement, EU-Canada and Vietnam recently, Negotiations with Indonesia)**
- **G19 world –retreat of US leadership, compromises but rest continue to move forward. Future challenge: how to continue to engage the US whilst going forward.**

# Comparing G20 Statements

- Turkey 2015: **The WTO is the backbone of the multilateral trading system** and should continue to play a central role in promoting economic growth and development
- Hangzhou 2016: We reaffirm our determination to ensure a rules-based, transparent, non-discriminatory, open and inclusive multilateral trading system **with the World Trade Organization playing the central role in today's global trade.**
- Hamburg 2017: **We underline the crucial role of the rules-based international trading system.**



# Comparing G20 Statements

- Turkey 2015: We reaffirm our longstanding commitment to standstill and rollback on protectionist measures and will remain vigilant by monitoring our progress
- Hangzhou 2016: We reiterate our opposition to protectionism on trade and investment in all its forms. We extend our commitments to standstill and rollback of protectionist measures till the end of 2018, reaffirm our determination to deliver on them and support the work of the WTO, UNCTAD and OECD in monitoring protectionism
- Hamburg 2017: We will keep markets open noting the importance of reciprocal and mutually advantageous trade and investment frameworks and the principle of non-discrimination, and continue to fight protectionism including all unfair trade practices and recognise the role of legitimate trade defence instruments in this regard.

# Reponse 1: the future of Asian economic integration

## 1. Conducive world economy in general

Trade growth > GDP growth

- GFC and post GFC secular stagnation
- Trade growth 1x or less than GDP growth, especially since 2014
  - explanation: 75% because of investment↓, maturation and evolution of GVC, and rise of protectionism/policy uncertainty
- Global economic recovery (Asia's role still growing at 6%), more optimistic on openness: commercially relevant cooperation must include INVESTMENT and Importance of Services, behind border such as standards
- INVESTMENT: infrastructure, reforms in investment and conducive investment climate

# Reponse 2: the future of Asian economic integration

2. Bold unilateral liberalisation and reforms: export-led development strategy, competitive liberalization, crises and underpinned by international commitments (WTO, APEC, ASEAN, ASEAN+1).

- In search of new development strategy, sources of growth & increased productivity
- Structural and more difficult reforms (behind the border), unlikely will have champions for unilateral reforms (China? Japan?)
- WTO, TPP11 no go; AEC, RCEP slow; tendency for bilaterals and increased unilateral action under new US trade policy
- **Tailwind on Openness from Asian integration: openness has been and continues to be important (opportunities: complementarity, demographic) and shaping domestic reforms, reduce policy uncertainty**
- **Shared and collective leadership model in Asia -> acceleration of AEC + completion of RCEP, and unilateral reforms, important signal**

# Reponse 3: the future of Asian economic integration

## 3. Evolution of production networks and GVC: mainly extra Asian market

- Maturation of GVC: increasingly “made in China”
- Increasingly China/East Asia final destination with increasing middle class, urbanisation and demographic changes
- **Evolution of global value chains: old things happen in new places and new things happen in old places**
- **GVC around cluster of tasks, talent: next generation of reforms more important (people movement, services, investment IPR) and conducive “ecosystem**
- **Renewed economic integration/agreements: to accommodate the old and new (market access (behind the border), data flows and rules including IP). Inevitability of globalization, importance of cooperation and collaboration to take advantage of opportunities and manage challenges**

# Reponse 4: the future of Asian economic integration

- 4. **Technology (transport and telecommunications) -> boost trade**
  - Limits to gains from old spheres
  - Fourth industrial revolution (e-commerce, IOT,3-D printing, AI, robotics)  
→ creative destruction and disruption (traditional vs new industries and way of production/selling/distributing including cross border), labor services unbundled from labor
  - **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; technology can contribute to inclusiveness**
  - **Change happen faster than regulations/national policies can change: issues of free data flows, balance between security/privacy vs free flow, localization of servers and physical presence etc**

# Reponse 5: the future of Asian economic integration

## 5. US, EU and advanced country leadership and multilateral institutions on openness (tailwind)

- Headwind due to Retreat from openness: Post Brexit, developments in Europe and President Trump
- 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)**
- **Asia: collective Asian leadership, importance of ASEAN centrality (Indonesian leadership v. important, Philippines as Chair of ASEAN), China and Japan also especially for capacity building. Big question is on leadership from India**

# Reponse 6: the future of Asian economic integration

## 6. US-China competing leadership in last decade:

**US pivot (TPP), China (AIIB, OBOR), FTAAP, ASEAN: AEC and RCEP**

- Post Trump economic policy toward Asia unclear: “fair trade”, looking at China, Japan and Korea in Asia as targets (size of balance of trade deficit)
- China: OBOR, AIIB, Japan: investment, trade and capacity building, C-J-K?, role of India?
- **Impact of US –China tensions/trade wars on rest of Asia, role of EU**
- **Is there an Asian, ASEAN response? And if so what is the institutional framework and how to have continued US engagement? (East Asia Summit? APEC?)**
- **Leadership in Asia ultimately means shared leadership between ASEAN, China and Japan, and how to engage India.**

# Reponse 7: the future of Asian economic integration

7. Low politics (top down, growth oriented, poverty reduction)
  - High politics: democracy, increasing “voice” and noise
  - Heed the warning signs: management of and focus on inequity and distribution (this is political imperative now)
  - More complicated politically including in countries with centralized management
- **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)**



# Conclusions

1. The future of Asian economic integration will not follow the same pattern as before and with the same drivers as before
2. The reality of the “new normal” is filled with change and great uncertainty: Europe plus plus and Asia could be the answer and needs to respond, because continued uncertainty is not the answer
3. There are obvious national issues (in search of new development strategy) and need for structural reforms, and political imperative to have widespread distribution: the case is still for openness with effective policies to address inequality and distribution issues
4. Do and should past drivers for reforms and change still matter?
  - Unilateral, concerted, peer pressure, confidence building – who will be leaders in unilateral reforms
  - Regional responses: within region (AEC, RCEP) and region in larger fora (APEC, G20)
  - Leadership issue: collective/shared leadership? Around key issues and focus on principles of cooperation and collaboration – agree on end goals



**Thank you. Terima Kasih**