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50 years and what's next

In August 1967, five countries—Indonesia, Malaysia, the Philippines, Singapore and Thailand—formed the Association of Southeast Asian Nations (ASEAN). 50 years on, ASEAN has doubled its membership to include Vietnam, Brunei, Cambodia, Laos and Myanmar.

ASEAN as a bloc is the third-largest economy in Asia, with a population of 620 million, and a combined gross domestic product (GDP) of more than US$2.57 trillion, behind only China and Japan. ASEAN's share of global GDP has increased from 3.18 per cent in 2003 to 3.33 per cent in 2014, or about 15 per cent of the US economy, compared to only 7 per cent in 2004.

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ASEAN has faced global 'headwinds' to its impressive growth over the past 50 years: the slow recovery of the global economy, threats of trade growing protectionism, trade wars, Brexit and anti-globalisation movements.

Nonetheless, ASEAN had successfully realised its regional economic integration timetable for the ASEAN Economic Community (AEC) by the end of 2015. In addition, the slow progress of the DOHA Round trade negotiations have prompted individual ASEAN member states to enter into bilateral trade arrangements with key economic

partners. Four ASEAN member states—Brunei, Malaysia, Singapore and Vietnam—joined the Trans-Pacific Partnership (TPP) in October 2015, and Singapore and Vietnam signed separate trade agreements with the European Union (EU). Indonesia is also at an advanced stage of negotiations.

Taken together, these arrangements represent a strong commitment from ASEAN to trade liberalisation. The recent anti-globalisation sentiments outside the region are a source of concern, but are unlikely to reverse the progress and gains achieved from the years of trade liberalisation within ASEAN and with the East Asia partners.

ASEAN cannot be totally immune to the changing paradigm in global trade, with calls for 'fair trade' from the US causing considerable anxiety across global capitals. The UK's unprecedented 'exit' from the EU and its negotiations with the EU and major trade partners are being closely monitored, as they may set new standards for future trade arrangements.

ASEAN member states are just beginning to enjoy the benefits from the 50 years they have invested in efforts to achieve regional integration. At the same time, ASEAN member states have progressively undertaken structural reform measures to strengthen their economic resilience in order to deal with global economic volatility, competition from emerging economies, the challenge of creating employment opportunities for a growing population (particularly in urban centres), technological disruption, the freer flow of people across national borders, and the emerging anti-globalisation movements, which are rooted in the perceived lack of equitable benefits from the current economic growth paradigm.

According to the Economic Research Institute for ASEAN and East Asia, the economies of Malaysia, Thailand, Vietnam and, to a lesser extent, Cambodia have, on average, become more trade dependent, with shares of exports and imports of goods and services rising from slightly under 50 per cent in the 1990s to 67 per cent and 62 per cent in 2011.

Vietnam and Cambodia have become more heavily dependent on imported components, which reflects their participation in the regional production network, their dependence on inter- and intra-ASEAN regional trade networks, and their place in the global supply chain. There is concern about potential changes to the North American Free

Trade Agreement trade arrangement, which is modelled on the global supply chain network and could have consequences for the economies of Vietnam, Thailand, Cambodia and, to a lesser extent, Malaysia.

Indonesia and the Philippines have become less import dependent. Indonesia's trade dependency over the same period has been around 25 per cent because of the boom seen in agricultural and natural resources exports for the past two decades. Meanwhile, the Philippines has seen a surge in exports of business-related services.

Today, ASEAN is at a crossroads. The past 50 years of steady and progressive regional integration could unravel in the midst of these challenges. A key concern is the widening income inequality and rising unemployment perceived to have been brought about by economic integration. According to the Asian Development Bank, the Gini coefficients among ASEAN member states have risen from 35.6 to 46.2 between 1991 and 2013, with higher income inequality in urban areas. Economic progress has contributed to a rising middle class and more pronounced income inequality in urban centres.

In Indonesia, the Gini coefficient rose from 29.2 in 1991 to 38.1 in 2011. This inequality is higher in urban areas, with the Gini coefficient in 2011 being 34.0 in rural areas and 42.2 in urban areas. The income disparity is also evident between the more developed member states and the CLMV countries (Cambodia, Laos, Myanmar and Vietnam). This poses a threat to ASEAN's social cohesion and institutional stability, and is contrary to the AEC's overarching goals of equitable growth and the reduction of development gaps between and within ASEAN member states.

Indonesia and the AEC

The AEC is the single-most important trade bloc for Indonesia. Between 2006 and 2015, Indonesia's total trade with ASEAN nearly doubled from US$37.5 billion to US$72.4 billion, as compared with Indonesia's global trade, which rose from US$162.9 billion to US$293.0 billion over the same period. The relative share of Indonesia's global trade with ASEAN grew marginally from 23 to 24 per cent. Indonesia's key merchandise trade partners in ASEAN are Singapore, Malaysia, Thailand and the

Philippines, with Vietnam and Myanmar emerging as important export destinations.

The growing importance of the wider regional communities of the AEC and the Regional Comprehensive Economic Partnership (RCEP) for Indonesia is becoming increasingly evident. In terms of relative share, AEC-RCEP trade accounted for 62 per cent of Indonesia's global trade in 2006 and 64.3 per cent in 2015.

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This interdependency between the AEC and the wider RCEP countries is also evident in AEC member states. Thus, a timely conclusion to the AEC and RCEP agreement is important in order to maintain the region's trading momentum in the face of slower global growth.

Foreign direct investment

ASEAN is a major destination for global foreign direct investment (FDI), accounting for around 16 per cent of the world FDI made in emerging economies. Slower global growth in recent years has seen FDI decline from US$130 billion in 2014 to US$120 billion in 2015.

On the other hand, FDI from RCEP countries rose by 11 per cent to US$40 billion in 2015, and these countries contributed approximately 30 per cent of inflows in 2014–15, with higher investment flows to CLMV countries. The share of FDI from RCEP rose from 10 per cent in 2014 to 14 per cent in 2015.

Intra-ASEAN investment rose marginally, growing from US$15 billion to US$22.1 billion in 2015, but the share of intra-ASEAN investment in terms of total FDI flows into the region only rose from 17 per cent in 2014 to 18.5 per cent in 2015. ASEAN companies also continued to export and make new investments in the region, pushing up both intra-regional investment and the region's share of FDI in ASEAN.

The trade in services

The past five decades have also seen the rising importance of the services

sector and the services trade in ASEAN economies. Despite a decrease in trade volume during the 2008–09 global economic crisis, ASEAN's services exports grew from US$113.8 billion in 2005 to US$305.8 billion in 2014, with an annual average growth rate of 11.6 per cent, while the value of ASEAN's imported services increased from US$141.1 billion to US$314.0 billion, representing an annual average growth rate of 9.3 per cent. The service sector represented between 38 per cent and 72 per cent of ASEAN member states' GDP in 2013.

The ASEAN Framework Agreement on Services (AFAS), initiated in 1995, has been progressively implemented with the Ninth Package, which was signed towards the end of 2014. Travel, transport and other business services dominate the export and import of services in ASEAN in general, with financial services having gained in prominence in recent years.

ASEAN is moving towards broader and deeper services integration to promote ASEAN's integration into the global supply chains in goods and services. The ASEAN Trade in Services Agreement is currently under discussion.

The services sector will play an important role for ASEAN in coming years, continuing to generate employment in the face of slower growth in the manufacturing sector. Reducing barriers to the services trade has been estimated to generate double the economic impact of reducing barriers to the goods trade.

ASEAN has made progress towards achieving full implementation of the AFAS, including paying greater attention to the free flow of labour within ASEAN through mutual recognition agreements for several professional services in engineering, architecture, medicine and accounting. The pace of service liberalisation needs to be accelerated.

ASEAN services trade liberalisation should be supported by the full implementation of the Master Plan on ASEAN Connectivity in infrastructure upgrading, as well as support for further sub-regional interconnectivity among ASEAN members states. This is currently being facilitated through initiatives that include the Indonesia-Malaysia-Thailand Growth Triangle, the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area, and the Greater Mekong Subregion.

Challenges – The next 50 years

Beyond 2017, ASEAN faces numerous challenges. The rising anti-globalisation, anti-immigration and anti-elite sentiments that were manifest in Brexit, the 'fair trade' and 'economic nationalism' rhetoric to emerge from the new US administration and the slower global economy are all matters of global concern.

ASEAN would need to re-double efforts to bridge the 'development divide' between the older and economically more advanced members of the ASEAN Six—Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand—and the CLMV member states—Cambodia, Laos, Myanmar and Vietnam—to address the widening income disparity evident in the rising Gini coefficient ratios between and within member states. The focus must be on ensuring that the economic benefits that ASEAN has enjoyed over the past 50 years and beyond are shared: across the region, within countries, and among both urban and rural communities.

The third pillar of the AEC emphasises equitable economic development and highlights the need for growth to be 'inclusive'. Economic growth for ASEAN over the next 50 years needs to focus on 'quality economic growth'. It should not pursue growth at any cost, but should instead seek to address the discontent caused by uneven access to the benefits stemming from globalisation, which is becoming manifest in the current anti-globalisation movements.

The RCEP economies are important for ASEAN. The experience of some ASEAN member states who were part of the TPP has meant they recognise the usefulness of ASEAN and RCEP economies collaborating beyond the scope of the traditional mechanisation agreement, boldly expanding the RCEP to incorporate complementary areas that could be used to further expand trade, investment and business. This would pave the way towards deeper economic integration among East Asian and Pacific economies.

A bold step can be taken to look into a new set of rules for regional economic interdependence to facilitate cross-border trade, investment and business activities. In this context, more progressive elimination of tariff and non-tariff measures, regulatory coherence, implementation arrangements for various disciplines, and rules related to commercial and

economic activities, such as competitive regulatory frameworks, services regulations and government procurement, could be part of the expanded guidelines for a better managed regional integration process under the RCEP arrangement.

In this uncertain global environment, ASEAN member states need to give high priority to strengthening their overall resilience in order to address a much wider range of human concerns, such as economic security, food security, resilience to natural and man-made disasters, and access to clean water, sanitation and housing. ASEAN needs mechanisms that can enable greater resilience to economic and financial crises and shortages in food and energy, and other unforeseen domestic and international shocks.

Change is needed, not just in terms of what ASEAN should do, but also in terms of how it operates and communicates. The flexibility that characterises ASEAN cooperation, the celebrated 'ASEAN way', may be a convenient pretext for noncompliance. How to enforce the accords remains an issue.

The ASEAN 2020 Vision aimed for closer cohesion and economic integration, promoting the region as being able to provide freer movement of goods, services, investments and capital, equitable economic development, and reduced poverty and socioeconomic disparity. In many instances, bold and decisive structural reforms are needed, as are bold actions to further deepen economic integration. Stronger leadership is required to pursue reforms in the current environment, which is more risk averse and conservative. This must be resisted.

There is no doubt that ASEAN has come a long way and done well in promoting regional economic integration, achieving economic growth and lifting up the living standards of the populations in its 10 member states. While some may view ASEAN economic integration as having been too slow and not ambitious enough, it is at least still an ongoing process, which is no longer the case with some other regional agreements.

The prevailing anti-globalisation and anti-trade mood is a cause for concern, and the perceived uneven distribution of the benefits from growth needs to be addressed. Nevertheless, ASEAN regional economic integration is irreversible. Indeed, the demise of the TPP offers an opportunity for ASEAN to step up its engagement with the key economic partners in RCEP to form a stronger ASEAN and an East Asia and Pacific

economic region encompassing 16 countries with a collective population of 3.5 billion. This would represent almost half of the global population, a third of the global GDP of nearly US$30 billion, and 28 per cent of global trade.

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He was appointed on 12 August 2015. He received his Master's and Doctorate degrees in Economics from Paris-Sorbonne University. He began his career in the Ministry of Finance, where he held senior positions in banking, finance, capital markets and taxation before moving to the central bank as a Senior Deputy Governor, later becoming Governor of Bank Indonesia. In his current role, he coordinates over 20 economic ministries and agencies in driving Indonesia's economic development.
He is currently the Indonesian representative at the ASEAN Economic Ministers' Meetings.