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Asia-Pacific FORUM 2019
The Future of the Asia-Pacific Economies Beyond 2020:
How can the Asia-Pacific Region Achieve a Better Globalization in Coping with Rising
Populism and Emerging Inequality?

A Conference By:
Japan Economic Foundation (JEF) and the Institute of Strategic and International
Studies (ISIS) Malaysia
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Welcoming Remarks

Tan Sri Rastam Mohd Isa, Chairman and Chief Executive, Institute of Strategic and International Studies (ISIS) Malaysia

With the current lackadaisical growth of the global economy, it will be imperative to explore sources of growth that would result in balanced welfare gains for all stakeholders, while not causing harm to the environment and to mother earth. In the past decades, one would have seen how the environment has taken its toll in the wake of rapid growth in the region and beyond. This needs to be changed. A new model of growth needs to be championed.

Matsuo Basho, who undertook a journey on foot throughout Japan, was mentioned. During his journey, Matsuo wrote poems in Japanese praising the beauty and severity of nature. He reminds us of how good nature is to us. It is our responsibility not to forget its fragility in the wake of our pursuit for growth.

Malaysia is also now in pursuit of sustainable growth, whereby narrowing the wealth and income inequality within the country among the population is a prime objective and key pathway to sustainable growth. This is highlighted through the new Shared Prosperity Vision 2030, whereby the vision will provide the “turbo charge” needed to spur sustainable economic growth, which in turn will elevate Malaysia to a high-income economy and increase the people’s prosperity and well-being.

As most countries in the region, including Malaysia, are mostly trade dependant countries, it is important for the region to see the finalization of the Regional Comprehensive Economic Partnership (RCEP) negotiations. There is also hope for the full ratification of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) by member countries soon. These are important developments in the effort to counter the effects of rising protectionism, in the wake of the ongoing trade wars and other developments that threaten free and fair trade.

Malaysia is a party to both the RCEP (as a negotiating partner) and CPTPP (as a signatory). As a small open economy, the government hopes to gain more market access through these agreements. But it is not just about market access, it is about exposing Malaysian firms to compete abroad, challenging them to adhere to higher and more stringent international standards. This in turn would provide benefits for the consumers domestically and abroad, as well as to the firms themselves.

Finally, there are new challenges in our uncertain global environment, including the rise of populism, the Fourth Industrial Revolution (4IR) and rising concerns of non-traditional threats within the region and beyond. With these arising new challenges in mind, governments must explore various avenues to cooperate on.

Mr Kazumasa Kusaka, Chairman and Chief Executive Officer, Japan Economic Foundation (JEF)

At the turn of the century, the Japan Economic Foundation (JEF) came to believe that establishing a trade system that was fit for this growing region at the time – the free trade agreement (FTA) – was the key to removing barriers that prevented achieving growth potential. The Foundation thus aimed to promote FTAs in this region and held its first Asia-Pacific Forum in 2003 in Singapore. This year marked the 18th annual forum.

Since 2003, discussions have kept pace with the progress of economic integration within the Association of Southeast Asian Nations (ASEAN), who holds a central role in the integration process of this region, and it has shifted from border measures, such as custom duties (which are trade barriers), to domestic systems and its application, called behind-the-border measures (which are important for investment).

Presently in this region, the economic integration of ASEAN continues to evolve, the CPTPP, also known as TPP11, without the United States, has become effective. Meanwhile, agreement on the RCEP is almost there. But as seen in expanding European Union (EU) integration and its deepening processes, and more recently in Brexit as well as the Trump phenomenon, incidents of domestic citizens not being able to keep up with the speed or the content of globalization and their consequent resentment towards globalization is being observed.

For the past few years, JEF has started exploring whether there is a path to “better globalization”, looking directly into income disparities that persist with globalization. Many countries faced a further widening of income disparities with the development of Industry 4.0 and the Digital Revolution and populism, which claims that globalization is the root cause.

Does better globalization mean that globalization is good without reservation just like the so-called fundamentalism “Washington Consensus”? In particular, we are required to continue asking ourselves the question, “Better for whom?”. Perhaps the philosophy of “inclusive growth” of the ASEAN Economic Community (AEC) also works under the same awareness of the issue.

Recent tendencies to populism are beginning to impact cross-border production, sales, investment, trade and management strategies as seen, for example, in the review of the North American Free Trade Agreement (NAFTA) and US-China trade frictions.

What is happening now in response are “trade diversion” and changes in “supply chain-value chain”. It is shifting businesses to locations where border measures and domestic regulation barriers are lower. What is happening right now is “reversed FTA” between the United States and China, but the behavioural principle of private business entities is universal. With the US-China trade frictions, it is reported that the first to move their production bases out of China were home-grown Chinese companies. European and Japanese multinational corporations (MNCs) have production capacities outside China, such as in the ASEAN region, and they are likely to be quicker to respond to changing the ratio of production in China compared to American MNCs, which have depended solely on Chinese production capacities.

Facing geopolitical risks in our region, in order to secure the optimum level of investment, which is essential for the realization of the region’s growth potential, further improvements to the business and investment environment is crucial. But this has the dimension of unevenly affecting domestic livelihoods, societies and industries.

In this aspect, global and regional institutions play a crucial role as peer pressure in implementing such domestically unpopular, but needed structural reform, though the reform of these institutions themselves is urgent and requires our commitments. While utilizing such institutions, working on domestic task attentively and making sure people can keep up with globalization will be the secret of success to the Asian way of “slow and steady wins the race”.

Keynote Address

**YB Dr Ong Kian Ming, Deputy Minister, Ministry of International Trade and Industry (MITI)
Malaysia**

The Keynote Address by YB Dr Ong Kian Ming aimed to deliberate on the underlying questions on the robustness and flexibility of existing regional and international institutions. To assess such, he highlighted three areas: the state of rising populism and emerging inequality, the quality of the changes following the global financial crisis and the preparedness to adapt to disruptive technological and climate change.

Firstly, Dr Ong deliberated on the contemporary phenomenon of rising populism and emerging inequality. Particularly, he questioned if these were either temporary phenomena or enduring struggles in the future. Using examples of the rhetoric and policies by President Donald Trump and Prime Minister Boris Johnson, he argued that leadership figures such as these had louder and disruptive voices, which have become obstacles. Compounded with the sentiments of the public, he reminded the audience that while it was easy to become distracted by such figures, the main objectives and outcomes should not become forgotten in order to properly address problems of the day.

Such preoccupation with emotionally charged reactions and discourse overlooked the nuances and context in the sources of populist sentiments. A notable result Dr Ong pointed out was the inconsistent ways populism had been conceptualized, as there was no singular definition. These have included the increased prevalence of populism based on: the distribution of votes given to a country's far right or far left parties; the proportion of votes by new parties in existing democracies; or the way some movements have won popular appeal, such as the anti-Islamic and anti-refugee sentiments in the West or the rise in anti-Western sentiment in the East.

Moreover, he referred to the inconsistent reference points, which can include global surveys on attitudes of globalization and general public perceptions on regional institutions, such as the EU, G7 or ASEAN.

With such a variation in the understanding of populism and its surrounding coverage, the topic has been subjected to bias and generally negative connotations. However, Dr Ong argued contrary to that, as there have been other examples that have been overlooked. President Emmanuel Macron and the emergence of the political party La Republique en Marche was framed as a positive change as it was able to challenge the status quo arrangements between the major and traditional political parties of the left and right. Although, he also noted, that there had been more functional examples that received more ambivalent reception – Prime Minister Narendra Modi's "populist" movements received both praise and criticism. Similarly, President Joko Widodo's form of "technocratic populism" and its focus on public service delivery has been perceived as more benign and more internationally and domestically accepted.

Dr Ong warned of the way the outlook towards populism could affect the willingness to react to disruptions and exacerbate inequality. If populism, regardless of its positive or negative implications, is treated as a temporary and cyclical phenomenon, it becomes tempting to wait

for meaningful structural reforms and policy adjustments. However, it does not seem to be a feasible approach to determine beforehand the robustness of domestic, regional and international institutions in light of a financial crisis. Additionally, it is undetermined whether countries are able to withstand the negative aspects of populist demands, such as those arising from the dissatisfaction with the status quo.

Secondly, Dr Ong asked if there had been sufficient structural reforms to prevent another global financial crisis. He compared the different experiences of several regions. Starting in the United States, before spreading to the European countries, he demonstrated how the West was amongst those that were severely affected by this financial crisis. In light of such experiences, the EU has shown how the major reforms undertaken by the institution as a whole and its member states were able to pursue the necessary budgetary and expenditure reforms. He made a comparison between the Western experience and the experiences of Asian countries, saying that the impact of the global financial crisis was much subdued as many of the reforms have already been undertaken as responses in recovering from the Asian financial crisis of 1997-1998.

However, when considering the likelihood of another recession, Dr Ong believed it is an expected phenomenon as it is a part of the natural process of the business cycle. Thus, it is not a question of “if”, but “when”. The severity of its effects will be determined by the ability of these institutes, through both the robustness and flexibility, to be resilient against these changes and make the appropriate adjustments. Their ability to face the next recession will serve as an indicator for their ability to manage the negative effects of populism, inequality and the changing demands of the public, especially after recessions or another financial crisis.

Thirdly, Dr Ong posed questions about the changes brought upon by technology and climate change, namely the disruptive effects they can pose and the readiness of countries in being able to adapt to such changes. Technological changes referred to those brought upon by the 4IR, and their impact on the structures of economies and employment opportunities. He brought up the outlook of the Democratic presidential candidate Andrew Yang, whose pessimistic views on the technological changes and the projected loss of job opportunities to automation necessitate the need for a universal basic income for the United States. However, Dr Ong recognized the caveat that there was a great task to undertake as even developed countries were not financially ready to provide such service.

As for environmental concerns, he referred to the technologies made available to mitigate the effects of phenomena, such as climate change, the changing weather patterns and rising sea levels. He made references to the efforts by climate change activist Greta Thunberg, which emphasized the importance of tackling environmental concerns and the impacts they may have on the livelihood of the future generation. He reiterated how flexible and robust institutions

need to be to react to these challenges. However, it remains to be on the long-term trajectory to ensure that countries are equipped with these necessary capacities and abilities.

In his conclusion, Dr Ong declared that he was a firm believer of institutions, whether they are political and systemic ones referred to in Samuel Huntington's *Political Order in Changing Societies* or the social and legal norms framework captured in Douglas North's *New Institutionalism*. However, in light of the Asia-Pacific economies, much of what has been discussed has predominantly been through the interpretation and lens of a developed country. He closed by asking a question: how ready is the region to be able to develop solutions that are contextually specific and relevant?

Panel Session 1: Prospects and Issues for the Future Sustainable and Inclusive Growth in the Asia-Pacific Region

Moderator by Dr Josef T Yap, Senior Technical Advisor, ASEP-CELLs Project, Ateneo School of Government

The Asia-Pacific region has been the growth centre of the world economy. For its growth to be sustainable, it is important that growth should be inclusive with its outcome distributed equally. What are some constraining factors which must be overcome to achieve such growth in the coming years?

In the past, this region suffered low growth as protective "My Country First" measures, including excessive protection of infant industries, were taken. Then, this region achieved today's development through such open and free trade measures as seen in the progress of ASEAN integration, China's entry to World Trade Organization (WTO), the expansion of intra-regional FTAs, and the realization of the CPTPP.

Now in order for this region to enjoy the benefits of free trade to a maximum extent, it is imperative to implement domestic structural reforms. Growth strategies need to correspond to issues of structural reforms. What are the components of sustainable and inclusive growth that countries in the region should focus on in the medium- to long-term and what are the challenges in achieving them? What are the sources of sustainable growth in the region? Can trade still be the vehicle for equal prosperity? How do we ensure that inclusive growth is achieved by all in the region?

In this session, issues, challenges and solutions for executing growth strategies in this region were broadly examined with attention paid to the notion that it is very important for growth to contribute to the overall welfare of society as well as GDP growth. In other words, growth has to be inclusive.

Prof Shujiro Urata, Professor of Economics, Graduate School of Asia Pacific Studies Waseda University

Prof Urata started his presentation by outlining the challenges of sustainable and inclusive growth. The former refers to achieving environmental problem-free growth, whereas the latter refers to shared growth that benefits everyone. A key question that Professor Urata asked at the beginning of his presentation was whether we should stop growing in order to attain sustainable and inclusive growth.

He then proceeded to talk about the importance of first achieving economic growth, before making growth sustainable and inclusive. For economic growth, Prof Urata reiterated the need for efficient use of the factors of production, capital and labour, and technological progress. Prof Urata described increasing and maintaining competition via antitrust policy, developing human capital, and providing the appropriate enabling environment for new innovation and technology transfer to occur, are key for countries to increase efficiency of production factor use, while driving technological advancement. Prof Urata outlined the need for both government regulations and private sector efforts in driving environmental sustainability. At the same time, for economic growth to be inclusive, addressing structural issues including the inequality of opportunity is crucial.

Some of the important recent developments that Prof Urata highlighted in his presentation include: (i) Global Value Chains (GVCs) as an important production system to ensure efficient use of resources and transfer of technology; (ii) the fight against growing protectionism via WTO reforms, mega FTAs and plurilateral trade agreements; and (iii) the development of the digital economy which is aided by the free flow of data.

Dr Man-jung Mignonne Chan, Co-Founder and Chief Strategy Officer, Forum on Humanities

Dr Chan highlighted key components of, and challenges of, sustainable growth: (1) to ensure healthy international competition so as to achieve mutual prosperity; (2) to collaborate on efficient & seamless supply chain connectivity with volatile technological innovation; (3) to institute environmentally friendly eco-system management, with science-based research; and (4) to honor diverse human civilizations and selective approaches with inspired exemplifies.

As to the key components of & goal settings for inclusive growth, Dr. Chan proposed measures that go beyond traditional approaches—These include (1) a “preparedness” index on future technology to measure the ability of the economy to weather the upcoming technological changes, their potential benefits and setbacks; (2) a “happiness” index to uphold equal opportunities for all and to protect the livelihood of the less advantaged ; and (3) a “regional training & employment clearinghouse” on cross-border human resource mobility and advancement; etc.

On this end, Dr Chan also talked about the need for practical early childhood education, an increased focus on technical and vocational training, and uniform regional basic standards for education. Similarly, she stressed quality opportunities as a means of coping with technological changes and advancement.

Prof Gary Hawke, Emeritus Professor, Victoria University of Wellington

Prof Hawke noted that the session addressed the fundamental questions of inclusion and sustainability to which trade wars and the rise of populism were both incidental. The Asia-Pacific Economic Cooperation (APEC) is currently considering how its vision should be expressed as the “Bogor Goals” relate only to the period until 2020, and a survey of regional stakeholders, officials in a private capacity, business and researchers, revealed a strong wish to emphasize inclusivity and sustainability.

"Sustainability" is about providing for the long-term future. It cannot be the preservation of everything as it is, still less how it was, since we want to sustain an experience of progress. The deepest challenge is maintaining political consensus that we are striking the right balance between relying on the currently unknown and denying possible improved living standards. Inclusivity poses a challenge in that economies will make different choices about how much to internationalize their policies. National policies should be designed to minimise adverse impacts on trading partners. International dialogue and a commitment by governments to facilitate adjustment and change rather than to protect existing activities would make policies for inclusion possible.

Inclusion cannot mean equality. Lifetime incomes - even if restricted to those whose life expectancy is not cut short - will vary as experience, accumulated knowledge, and energy follow different life patterns, and incomes will also vary with social customs about childrearing. We will refine our understanding of “well-being”, but continue to seek equality of opportunity - social mobility - but act to limit inequality only when it impinges greatly on opportunities. The greatest challenge to achieving inclusivity is a misplaced desire to protect what exists rather than encourage participation in what will be valuable in the future. We are fortunate that our ancestors did not think railways were too risky and posed too big a challenge to those whose employment depended on the use of horses. Until we invent machines which have the ability to learn and to reproduce themselves (with improvements) and with a desire to indulge themselves to the exclusion of humans, we should remain optimistic about technology. But we should build mechanisms to facilitate adaptation to change.

Trade not only can still be the vehicle for prosperity; prosperity depends on the continuation of trade. It is a fairly simple mental exercise to contemplate our regional societies reduced to relying on subsistence in isolated pockets.

Dr Wisarn Puppavesa, Senior Advisor, Thailand Development Research Institute (TDRI)

Dr Wisarn noted that there are systemic factors for poverty in developing countries, key of which is the inequality of opportunity. He explained that there are disparities between the poor and the rich in numerous aspects, such as access to infrastructure, costs for regulatory compliance and access to markets. For example, in Thailand, there is a need to open up economic opportunities, social mobility and legal structures.

Dr Wisarn also explained that strong and fair competition law could play a huge role in reducing some of these disparities, in supporting market transparency and information symmetry. Additionally, Dr Wisarn described the need for widespread technological infrastructure for all to ensure equal participation in the digitalized world.

At the same time, Dr Wisarn agreed with the other panellists that growth itself remains an important goal. Without economic growth, the game of redistribution becomes zero-sum. Finally, Dr Wisarn also noted that broadening and deepening regional trade and development cooperation through institutions like RCEP, CPTPP, APEC and ASEAN would be beneficial too.

Dr Vo Tri Thanh, Chairman, Vietnam National Committee for Pacific Economic Cooperation (VNCPEC)

Dr Vo explained that the pace of poverty reduction has historically been closely associated with economic growth, thanks to the development of the private sector in addition to the enhancement of country comparative advantages through trade liberalization. Dr Vo underlined the importance of various policy initiatives in reducing poverty. For many countries, Dr Vo explained that initiatives like infrastructure development, agricultural research and development, and education were some of the most important for poverty alleviation.

At the same time, Dr Vo stressed that a focus on multidimensional poverty and social inclusion was crucial. As such, establishing an equitable and robust social security system would be beneficial. Finally, Dr Vo also described the role of international cooperation and regional institutions in driving sustainable and inclusive growth.

Mr Alizan Mahadi, Senior Fellow, Technology, Innovation, Environment and Sustainability (TIES), Institute of Strategic and International Studies (ISIS) Malaysia

Mr Alizan outlined the importance of first defining what sustainable and inclusive growth actually entails. To this end, Mr Alizan emphasized the need to rely on other measures besides GDP growth to measure the wealth of nations. He also stated that indexes, such as a “happiness” index and an “inclusive wealth” index, ultimately measure the end, but they do not

measure how we get there. He cited the example of the economic cost of destroying a country's natural capital, like mangrove forests, which are not captured by traditional national accounts. As such, he stressed the need to move towards new measures to track the progress of a nation's sustainable economic development. Finally, Mr Alizan explained that demographic shifts in turn bring along shifts in global attitudes towards sustainability and climate change. He cited the example of youth climate activist Greta Thurnberg, which is emblematic of a change in consumer demand in the future for more environmental-friendly products and greater sustainability. According to Mr Alizan, the fundamental question is: how do we ensure our institutions are adaptive towards future economies and trends, beyond being robust and flexible?

In the Question and Answer Session, panellists were asked to comment on how: (i) economic policymakers can be convinced of the importance of other measuring values on sustainable and inclusive growth such as happiness; (ii) institutions can address globalization; (iii) "civilizational" or local values can be merged with the sustainability concept; (iv) FTAs and trade liberalization can impact income inequality on a small country like Malaysia, and; (v) competition can be regulated to ensure multinationals and foreign investors do not dominate the market.

Panel Session 2: Progress of Regional Integration in the Asia-Pacific Region and Its Outlook Moderated by Prof Tham Siew Yean, Senior Fellow, ISEAS-Yusof Ishak Institute

In the Asia-Pacific region, ASEAN integration is progressing, intra-regional FTAs are expanding and the CPTPP was realized. Consequently, these trade liberalization measures have promoted the establishment of intra-regional supply chains. In addition, the RCEP Agreement is close to realization.

However, the recent US-China trade friction, which began due to the Trump administration's "America First" action, is causing changes in the regional supply chains, including those of Chinese companies. Amid actions of anti-globalization and protectionism seen in the EU and the United States, prerequisites for economic growth as well as issues, challenges and solutions were discussed for this region to maintain and develop free trade, and eventually lead it to the realization of a regional integration.

What are the mid- and long-term outlooks for regional trade amidst trade tensions? Should countries in the region continue pushing for trade liberalization going forward beyond 2020? Which type of mega-regional trade deals are needed to reinvigorate further trade liberalization and facilitation efforts in the long-term?

Dr Zhong Feiteng, Head and Professor, National Institute of International Strategy, Chinese Academy of Social Sciences (CASS)

Dr Zhong shared his findings on the impact of the ongoing trade war on regional trade, with a focus towards ASEAN. According to him, the trade war had resulted in some changes to the trade patterns in the region. However, he cautioned that these changes in the trade patterns are part of the long-term trend that has seen ASEAN overtake the United States as China's second largest trading partner while China has replaced the United States as ASEAN's largest trading partner.

On the impact of the trade war, Dr Zhong presented data that revealed that some trade diversion had occurred with the primary beneficiary being Vietnam. Based on his analysis of the impact of external shocks on the export growth for China and ASEAN, during past four decades, Dr Zhong was confident that the region will be able to deal with the impact of the trade conflict. He also stated the importance of continuing to strengthen economic cooperation and liberalization, highlighting the benefits enjoyed by China in the past three decades.

Amb Murray McLean AO, Chairman, Dunmore McLean Pty Ltd

Amb McLean was of the view that world affairs were at a pivotal point as new realities were emerging, most notably the developments within what he termed as the Asia-Indo-Pacific region. He identified the current challenges faced, such as trade disruptions (such as the US/China trade war and Brexit), threats to international institutions and norms, the issues of cybersecurity and the rise of new technologies, such as Artificial Intelligence (AI), digital technology and e-commerce.

However, despite these challenges, the Asia-Indo-Pacific region remains robust, as the world's most productive source of economic growth for the medium, if not longer, term albeit at a slower pace. Amb McLean highlighted three key factors that needed to be undertaken. First, there is the need to achieve economic resilience which is fundamental to reduce the adverse impacts of the said challenges. Nevertheless, he said that economic resilience was not enough as there was a need to act individually, collectively and multilaterally to undertake domestic reforms as well as set international norms, which had since been eroded by the actions of the United States under the Trump administration. Finally, he said there was mutual interest to counter protectionism. He called for the ratification of the CPTPP and the conclusion of the RCEP negotiations which would demonstrate the parties' commitment to multilateral liberalization and the accompanying domestic reforms.

Datuk Seri Jayasiri Jayasena, Former Secretary-General, Ministry of International Trade and Industry (MITI)

Datuk Seri Jayasiri felt there were unrealistic expectations placed on multilateral and regional trade liberalization initiatives. FTAs and Regional Trade Agreements (RTAs), while useful as a mechanism to provide certainty in trade relations, deterrence to protectionism and an avenue to pursue capacity building, are not an end in itself, but merely a means to achieve regional integration – they are definitely not a panacea for all global problems.

Highlighting the case of the ASEAN Free Trade Area (AFTA), he opined that there was still a need to ensure the agreements are fully implemented in order to enjoy real market access. This required proper outreach and continued monitoring of the implementation as well as the use of the dispute settlement mechanism.

On the CPTPP, seven members are already implementing the agreement while three members are expected to begin implementing it in the first quarter of 2020. The parties and the business community both in and outside Malaysia are closely watching Malaysia's actions. There is also interest from parties outside the region, such as the United Kingdom and Latin America, which would change the nature of the agreement – transforming it from a regional to global framework.

Datuk Seri Jayasiri also shared his concerns both on the level of ambition of the RCEP and on the progress of the RCEP negotiations, which if not concluded by the coming ASEAN Summit, could potentially impact the negotiating momentum. The Free Trade Area of the Asia-Pacific (FTAAP), according to him, faces challenges progressing as parties in APEC could not find common ground as evident by the failure to arrive at consensus in the Papua New Guinea round. The lack of leadership, protracted negotiations and the costs resulting from it has reduced the appetite for mega trade deals.

Datuk Seri Jayasiri also mentioned that future liberalization initiatives could be sectoral-focused in nature (such as e-commerce), involving only interested members, very similar to how the Information Technology Agreement (ITA) was negotiated at the WTO.

Ms Anita Prakash, Director of Policy Relations, Economic Research Institute for ASEAN and East Asia (ERIA)

Ms Anita presented her own assessment of recent trade data and economic growth scenario and concluded that the outlook is not positive. While much of the recovery from the global financial crisis in 2008 was due to increased consumption and exports led growth in Asia, she predicted that the next global recession to be a far more difficult challenge to address as the overall consumption patterns are slowing down. In this, both Asia and developed countries are expected to experience a downward trend in growth.

She highlighted three major challenges for the region. In the longer-term, there was a need to look at policies to encourage employment led growth, which is becoming increasingly important

in light of shrinking demand (low consumption) and the need to find employment for Asia's young population. Human resource development will be important, as well as dealing with the issues of social security.

On the future of mega RTAs, she shared Datuk Seri Jayasiri's view that there was a lack of enthusiasm for such agreements now. For example, the early enthusiasm for the RCEP, encouraged by very high stakeholder consultations, has been tempered by what she described as the increasing opaqueness in the RCEP negotiations today. This is the result of what she viewed as a loss of policy focus as negotiations progressed. The trade wars are also impacting the shape of RCEP as they compel countries to take sides.

On the suggestion of limited FTAs/RTAs in the future, this could be more of a short-term measures. Nevertheless, there are some positive signs in the global and regional economy, such as the development of new value chains, the emergence of new markets, increasing trade, investment and labour mobility into newer regions (South Asia, Africa), with the rise of new economies, such as Vietnam and Bangladesh among others.

Finally, Ms Prakash echoed Amb McLean's view that it was time to view developments on a broader spectrum including looking at developments from an Indo-Pacific perspective, particularly considering the developments in Africa where the newer investments and value chains of production are moving to.

Dr Juita Mohamad, Fellow, Economics, Trade and Regional Integration (ETRI), Institute of Strategic and International Studies (ISIS) Malaysia

Dr Juita felt that the region was now feeling the impact from the ongoing trade war. The intertwining value chains and level of trade openness places ASEAN at risk, which could affect even Vietnam's growth. In a mid-term projection, however, there are opportunities for countries to benefit from the resulting trade diversion. An assessment by ISIS Malaysia identified Japan, Korea, Vietnam and Taiwan as the major beneficiaries from trade diversion. The surprise exception was Malaysia and, as a result, there is a need to look into the determinants of exports and a continuous need to improve Malaysia's supply capacity.

On the issue of mega RTAs, Dr Juita viewed increasing market access as essential and cited a United Nations Conference on Trade and Development (UNCTAD) study that concluded that the Asia-Pacific economies benefited greatly from improved market access within the region and outside the region. Dr Juita highlighted on the ongoing debate on whether bigger FTAs are better and also the choice between traditional and non-traditional FTAs, which include areas such as Government Procurement, Intellectual Property Rights, Labour and Environment. She acknowledged that not all countries would benefit equally and identified Malaysia among those who would enjoy benefits from being party to the RCEP and CPTPP.

In the Question and Answer Session, questions were raised on: (i) the importance of connectivity to achieve regional integration; (ii) the best liberalization initiatives to achieve the respective national interest of each economy (bilateral or regional agreements); and (iii) the contribution of the Belt and Road Initiative (BRI) towards regional integration.

In response to the first question, Dr Zhong highlighted there was a need to differentiate the needs between the developed and the developing economies. While developed economies should focus on institutional and structural reforms to achieve inclusiveness, developing economies still have a need to focus on infrastructure development. For China, the focus of its BRI is on achieving physical aspects of connectivity.

Dr Zhong stated that likewise initiatives, such as the RCEP, are more suitable for middle- and low-income economies. FTAs, such as the Trans-Atlantic Trade and Investment Partnership (TTIP) and even the CPTPP, would be a challenge to implement. For China, the RCEP will be its main vehicle, not only as the basis to work towards a China-EU FTA, but also as part of its strategy to improve its relations with India.

Datuk Seri Jayasiri, however, was of the view that while physical connectivity was important, there is still a need to address the soft side of connectivity. He cited ASEAN, which had not derived real outcomes from infrastructure programmes, because there continued to be a disconnect in other aspects of the connectivity question, particularly those in relation to policy formulation, domestic infrastructure development, promotion and incentives which continue to be driven by national interest and developed in isolation. He cited also Malaysia's effort towards embracing Industry Revolution 4.0, which needed to consider business realities on the ground, particularly the nature of business today, which has a wider-regional outlook.

On the question of the best vehicle to achieve liberalization without sacrificing national interests, Dr Juita shared the findings of the ISIS Malaysia's scoping exercise which found that national interests, in this case Malaysia's, could be served by membership into RTAs. She highlighted that the domestic reforms required to be implemented as part of the CPTPP commitments and obligations, specifically in areas such as labour and environment, would be beneficial to Malaysia.

Lastly, on the question of the BRI to regional integration, Ms Anita was of the view that while the scope of the BRI appeared to be regional in nature, in reality the arrangements were bilateral and dependent solely on state interests and priorities. There are instances where these projects do cross borders, but it cannot be considered a regional initiative. However, she did not discount that there could be argument for this if viewed from the perspective of complementariness, and especially if it resulted in requiring some standardization. She highlighted the argument for this was especially pertinent in the case of improving connectivity between the EU and Asia where congruence was needed.

Panel Session 3: New Challenges for Achieving Economic Prosperity

Moderated by Mr Naoyuki Haraoka, Executive Managing Director, Japan Economic Foundation (JEF)

New difficulties have arisen in realising inclusive growth and achieving the economic prosperity and stability of the Asia-Pacific region. One is the Digital Revolution and the other is political populism. The impact of the 4IR and Digital Revolution on this region is a matter of particular concern. On the other hand, there remains a concern whether political populism could cause anti-globalization in this region's sentiments.

Against these backdrops, and in achieving the region's socio-economic stability and prosperity, what should we do? What is needed for countries in the region to participate in the 4IR? How does quality infrastructure fit into the needs of a region in boosting its supply capacity? What can be done to offset anti-globalization sentiments on the ground? This session examined human resource as well as infrastructure development and other possible solutions.

Dr Ahn Choong-yong, Distinguished Professor, Graduate School of International Studies, Chung-Ang University

The Fourth Industrial Revolution (4IR) is growing out of the Third Industrial Revolution (3IR), namely the digital revolution, but it is considered a new era rather than a continuation of its predecessor. 4IR is categorized by its disruptiveness, evasiveness, explosiveness and breakthrough of big data and AI.

There is a need to make a distinction between digitally advanced economies and digitally backward nations, as what is needed varies by country depending on its degree of information and communications technology (ICT) development and availability of digital manpower. Digitally backward economies need to expedite ICT hardware infrastructure and software development by cultivating digital manpower. These economies also need to benchmark the German experience, as evident in 4IR and the Japanese experience of factory automation of small and medium-sized enterprises (SMEs).

Digitally advanced economies face a hegemonic competition for new industries due to the winner-takes-all nature of connectivity and explosiveness of 4IR. This is evident in the ongoing U.S.-China trade war and restrictions in international transactions.

The countries that own big data are likely to own the future. In particular, the effective fusion of information technology and biotechnology may determine new industrial competitiveness. A serious challenge in many countries is how globalization has broadened the unequally shared fruits of trade liberalization and worsened income inequality, which, in turn, helped populist political leaders establish illiberal political regimes across several nations in this region.

Innovation and expansion are needed to promote inclusive growth and ensure an ongoing regional cross-border supply chain. This will allow more active SME participation, which will create jobs for those of relatively low income, raise their incomes and elevate their socio-economic wellbeing.

In this regard, there is a need to ensure bottom-up SMEs through business-to-business (B2B), business-to-consumer (B2C) and the business-to-government (B2G) processes. To expand the regional value chain, trade rules need to be harmonized so that parts and components can freely cross borders. For this to happen, standardization, an agreed-upon sanitary and phyto-sanitary measures, a mutual recognition system and a business-friendly environment for FDI are critical. To broaden growth, quality improvements in logistic services and the management of seaports and airports in low-income and middle-income economies throughout Asia Pacific are also necessary.

The United States and China especially should work out the bottom line of free trade rules. Smaller economies should not have to decide which country to align with. And like-minded middle- and low-income countries should pursue plurilateral FTAs to ensure ongoing supply chains and minimize negative consequences.

Digitally advanced economies should work out an environment in which people focus on servicing and leveraging AI instead of competing with it. The job market then in the long run would need human-AI cooperation rather than human-AI competition. Investments in human capital to upgrade and expand the talent pool are paramount as we prepare for 4IR.

Another major issue related to creating a level-playing field for a liberal trade order involves subsidies to state-owned enterprises (SOEs) and the protection of intellectual property rights (IPRs).

For inclusive liberal trade, offline and online intra-regional connectivity is crucial and must be enhanced.

Another serious challenge is that 4IR can be used to erode security and violate privacy. In this regard, a broad multi-stakeholder alliance is necessary to create a platform for sharing digital public goods, engaging talents, and pulling datasets in a manner that respects privacy.

Dr Yose Rizal Damuri, Head of Department of Economics, Centre for Strategic and International Studies (CSIS)

Growth of progress as well as adoption of technology is rapid. Adoption is cheaper, which then gives rise to a wider application. It is not surprising to see applications of digital technology becoming more prevalent. The application of AI and Internet of Things (IoT) will change things dramatically. What are the implications to the global economy?

According to a study by McKinsey, it is expected that automation and technology will replace as many as 400-800 million jobs in 2030. Technology advancement will also provide new job opportunities and new sources of income, both in the formal and informal sectors. There will be a greater emphasis on social protection as people will most likely change jobs with jobs being more flexible. In turn, social protection may be at risk as governments experience a decline in capacity to collect revenues as taxation becomes more difficult to be conducted.

We need to upgrade our infrastructure and connectivity in order to provide competitive and reliable ICT services. There is a great need to upgrade talents and expand the talent pool.

Establishing a strong policy and regulatory framework is crucial in supporting growth, coupled with harmonization of rules across borders and the flexibility to adapt to changes.

Dr Josef T Yap, Senior Technical Advisor, ASEP-CELLs Project, Ateneo School of Government

There are developing countries that have yet to complete the second and third industrial revolution – can they then leapfrog to the 4th IR?

Rising income and wealth inequality within a country remains to be a challenge. Dissatisfaction among the populace, such as displacement of jobs or the promotion of exclusive communities, provides a breeding ground for anti-globalization sentiments. There is a need to promote social cohesion with policies that protect individual workers and not individual jobs, such as re-skilling, education, mobility and income support. Coordination needs to be emphasized, rather than cooperation, in acting out a common strategy in order to achieve shared objectives.

There are also challenges to security and privacy where massive volumes of personal user data from around the world are being collected legally or illegally.

Assoc Prof Simon SC Tay, Chairman, Singapore Institute of International Affairs (SIIA)

Globalization gives way to protectionism and narrow strident nationalism. We are also faced with the challenge of making a society more cohesive. To offset these sentiments, governments will need to do a lot domestically.

We are at a risk of a system, which we grew up in, breaking down. Bullying by great powers is evident and we are faced with trade rules being determined by political standpoints of bigger power.

It is crucial to engage both sides of the US-China conflict as much as possible. It is also necessary to look at each decision on its own terms, by looking at a nation's own national interests instead of looking at a decision from the lens of whose side of the conflict it is on. It is not just about responding to great power initiatives, for example the BRI, but also leveraging on what we already have.

It is not clear if ASEAN centrality and unity will continue if the conflict worsens. It is the task of non-American and non-Chinese companies to work together and organize something in order to gain broader economic benefits. Middle power diplomacy through collaborations with other sources of funding for infrastructure is encouraged in dealing with superpower conflicts.

Dr Priyadarshi Dash, Assistant Professor, Research and Information System for Developing Countries (RIS), New Delhi

Although the overall macroeconomic parameters appear to be stable in the Asia-Pacific region, there are a few countries which suffer from high unemployment, high inflation and relatively lower level of capital formation. The aim should be to ensure full-employment equilibrium in the regional economies. Prevalence of unemployment and low investment indicates underutilisation of resources in the economies. We need to ensure that everyone has equal share in the growth pie and that the opportunities of the coming generations are not destroyed. Countries need to choose between conventional orthodox fiscal and monetary policies that often provide short-term solutions and new paradigms like Sustainable Development Goals (SDGs) and industry 4.0 that rests in new digital technologies and investment in human capital. Conservation of the natural habitat and the environment needs to be accommodated in a holistic development strategy.

Achievement of SDGs requires additional investment which includes infrastructure investment, such as capital for constructing new infrastructure assets and maintenance of existing infrastructure, is needed to promote inclusive liberal trade.

There are 14 countries in the Asia-Pacific region where internet penetration in terms of 3G mobile networks is still below 80 per cent of total population. In view of this untapped potential, we need to leverage on digital technology and infrastructure in order to stimulate economic corridor development. By providing a mobile network, financial inclusion can be ensured. India was highlighted as a case in point – several millions of the population gained access to the formal banking system, which in turn enables an improvement of one's socio-economic wellbeing. Fintech and IT-enabled services sectors would unleash huge potential for growth and job creation as digital economy deepens across different sectors of the economy. Cooperation among Asia-Pacific countries in technology development, sharing of knowledge and expertise, skilling, etc would address limits of national capabilities and bring synergy in overall development impact.

Ms Farlina Said, Analyst, Foreign Policy and Security Studies (FPSS), Institute of Strategic and International Studies (ISIS) Malaysia

We have learned from previous presentations that infrastructure, jobs, equality of opportunities, developing human resources and different indexes, such as happiness and inclusive growth, will be helpful to prepare nations for disruptions caused by technology. Ensuring the establishment of an ecosystem of trust, which would enable the growth facilitated by the 4IR, is necessary. What is an ecosystem of trust?

- Trust and functionality of the system that there will be continuous service by operators to enable the growth of industries;
- Trust in the benevolence of these operators that information would be gathered and will not be misused;
- Trust in the rule of law – where security and rights are in practice and in cases, defended; and
- Safe functions in the social, content, logical and physical layers of cyberspace.

While maintaining the neutrality of the operators is crucial, we must also remain cognizant of the fact that a nation's jurisdiction will not apply to other nations. This will require harmonization of laws and conversations in the international sphere. Ideas on this vary for how nations can extend protection of these infrastructures – perhaps by designing a data centre in another country with an embassy status because these are technically facilities in other people's borders.

Data governance is a question most in the room would be familiar with as the balance between national security and drivers for growth is still being explored. Powerful systems, such as AI, needs cloud, which means that these systems use computational black boxes to deliver services. Conversations on data governance and security are fractured because there are varying definitions in cyberspace – content is regarded as data and the process of purchasing items is also regarded as data.

Underpinning this is the rule of law by the international community in deciding possible rules of conduct in cyberspace, but due to the multidimensional nature of cyber, preparations need to be made particularly at the inter-agency, intra-agency and internationally.

The concern for the identification of an appropriate body would be helpful to ensure that laws could be enforced and that a consultation process that is inclusive and informed will take place between developed and developing nations.

Anti-globalization sentiments can be caused by reasons such as displacement of jobs and the rise of nationalism or the promotion of exclusive communities. Globalization may also create communities that are disenfranchised by benefits, be it socially or economically. What would be needed is outreach and education towards communities that are displaced or feeling displaced.

However, strategic communication by agencies in public diplomacy is a challenge as complicated concepts have to be contracted to short headlines and we are faced with the challenge of articulating certain chains of logic.

Movement of people and urbanization would mean greater contact of people from different nations. As this continues, communities may not be isolated, but there has to be some type of mechanism to measure inclusivity.

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