

ECONOMIC GLOBALISATION AND FTA: IMPACT ON ASEAN

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Impact of economic globalisation:

**it can be most beneficial but there are
downsides**



ASEAN's growth is fueled by globalisation



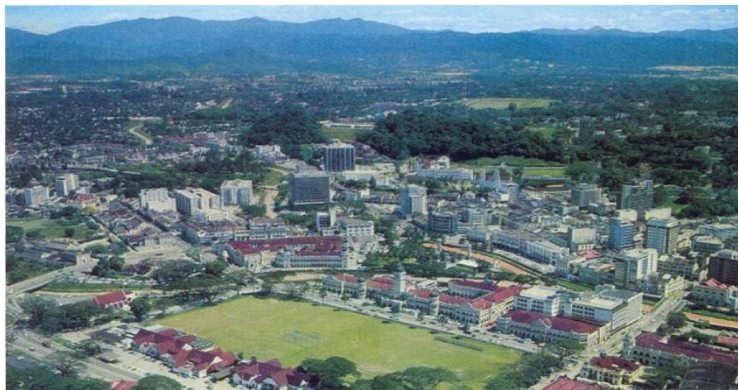
ASEAN achieved high growth and good standard of living



Jakarta - 1970



Jakarta - 2011



KL - 1970

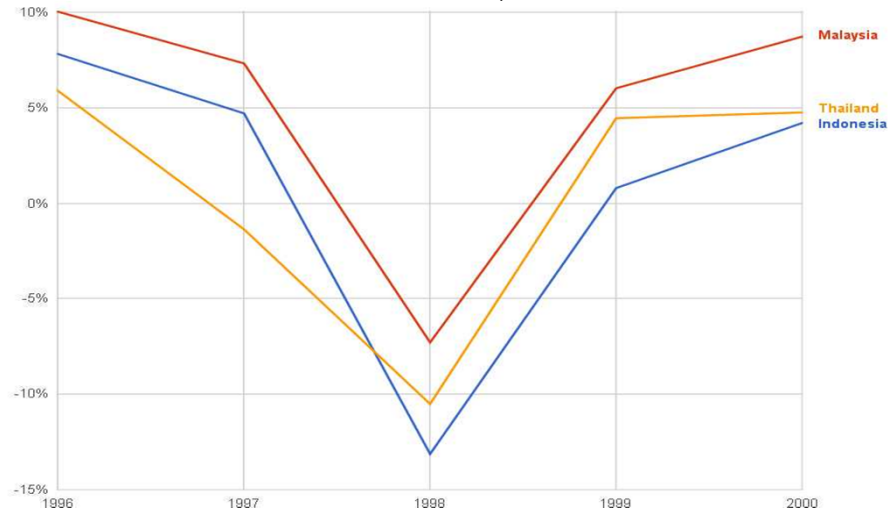


KL - 2011

- On average ASEAN-5 (Indonesia, Malaysia, Philippines, Singapore, Thailand) grew by 5.1% annual from 1980-2011.

Dark side of globalisation: Asian financial crisis 1997/98

Growth contraction, 1996-2000



- Malaysian economy contracted by 7.5% in 1998 – reduction in wealth, loss of jobs and increased indebtedness
- 2.57 ringgit/dollar on 14 July 1997 to a lowest point of 4.88 ringgit/dollar on 7 January 1998.
- Stockmarkets collapsed, financial institutions bail outs
- Social unrest in Indonesia when subsidy for rice was abolished under the IMF rescue package.



Social unrest because the Greek public was unhappy with the government's management of the economy



Protestors set the finance ministry ablaze and threw gasoline bombs into a bank. Three people died inside before firefighters could reach them.



Angered by huge tax hikes and drastic spending cuts.

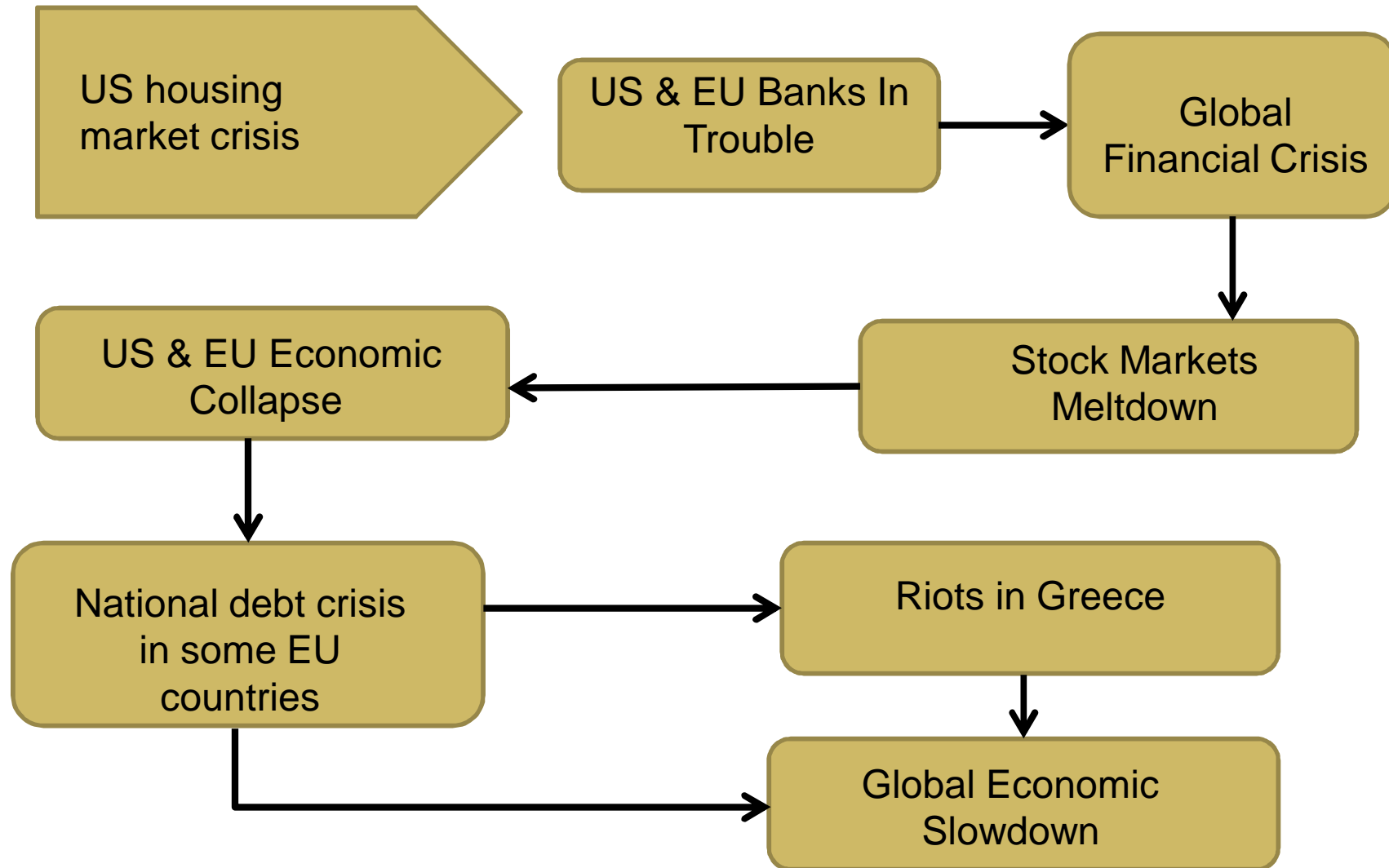


A one-day massive strike on 24 February 2010 against austerity measures cripples Greece's transport and public services.



Public sector workers stage 48-hour nationwide strike. Up to 50,000 protestors in Athens, and hundreds fight with police. Three people are killed when a bank is set on fire.

Global financial crisis causes Greece's chaos and slowdown in global economy



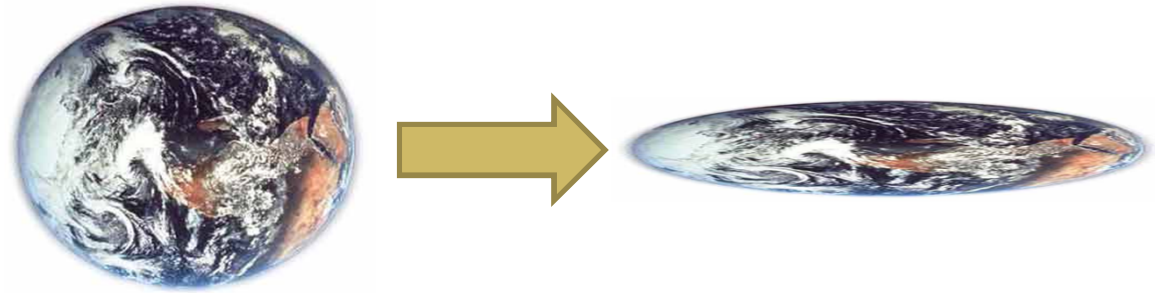
HOW ECONOMIC GLOBALISATION IMPACTS AN ECONOMY

Globalisation is both a positive process and an idea, which is driven by the requirements of the developed world. It necessitates co-operation, but it also creates tension and backlash and in some cases at least will be a key driver of instability and conflict, at increasing tempo

UK Ministry of Defence, *Future Character of Conflict*, 2010



Globalisation has made the world flat



“globalisation is not simply a trend or fad but is, rather, an international system that has replaced the old Cold War system”.

Globalisation is associated with:

- Rapid economic and financial changes and transformation
- Economic and financial liberalisation
- Dramatically diminishing role of the state in the economy.
- Intensification of global connectedness, shrinking significance of territorial boundaries and state structures.
- The underlying concern is that economic globalisation has the potential to erode a country's strength, as jobs, manufacturing and technology move around the world and as the international economy continues to reorganise and integrate itself.

Channels of economic globalisation

- Production network, export and import.
- Capital flows and stock markets
- Prices of commodities
- Banking and financial sector
- Currency exchange rates
- People's movement – migration
- Information flow

Thomas L. Friedman

"The Lexus and The Olive Tree" (1999)

- explained the effect of economic globalisation
- world is currently undergoing two struggles: the drive for prosperity and development, and the desire to retain identity and traditions.

"The World is Flat" (2005)

- describe how globalization—taken up to an almost sky-scraping height and down to an even more unimaginable depth—has levelled the "playing field" and made possible not only the "virtual" compression of geographic space and time, but also the incorporation of the world's total population into a lattice of connectivity and collaboration.



The link between economic globalisation and national security

- ❖ Economic crisis
 - Loss of wealth and assets
 - Unemployment
 - Higher cost of living
- ❖ Liberalisation
 - Easier to transfer money and movement of goods across borders
 - Less regulations and controls
 - Illegal economic activities
 - Easier access to technology for disruptive use
- ❖ Information and ideas
 - Through the cyber space, difficult to control
- ❖ Migration
 - Freer movement of people

All these can lead to:

- ***Dissatisfaction about the economy***
- ***Political tension and instability***
- ***Crime***



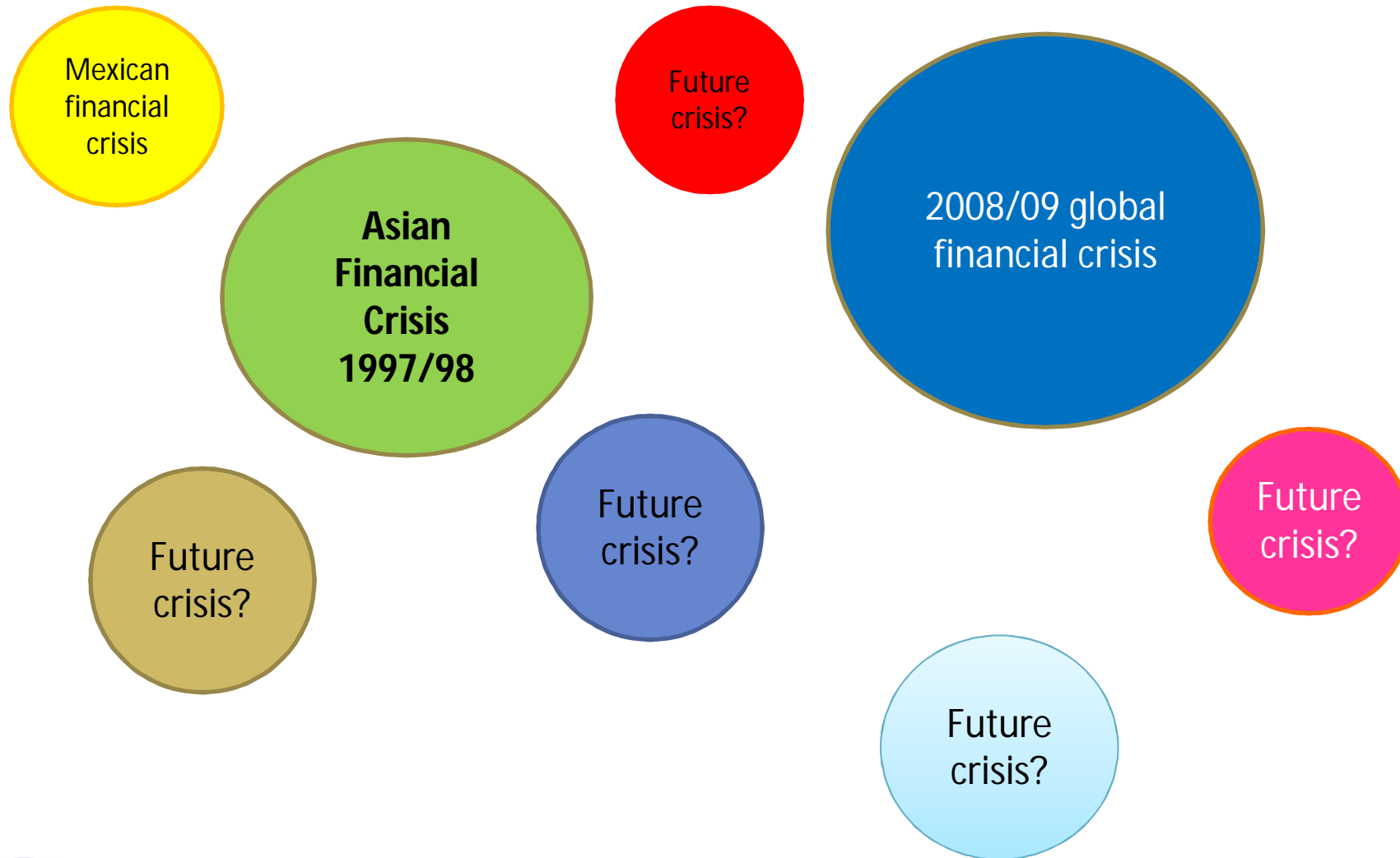
THE IMPACT

*"It has been said that
arguing against
globalisation is like
arguing against the
laws of gravity."*

*Kofi Annan
Former UN Secretary General*



Regional/global economic crises brought instability



Sharing sentiments on economic hardship

Arab Spring 2011

- Low economic growth and poverty
- Inflation and youth joblessness
- Corruption
- The trigger was when the young man in Tunisia burned himself when his vegetable stall was confiscated
- the main platforms protesters used centered on Facebook and Twitter
- Riots and loss of lives
- Toppling leaders
- This uprising was seen all over Middle East and then spread to other countries in the region

Financial flows and migration are bigger than what countries can cope

Capital flows and Migration

- Large foreign capital that buys strategic assets e.g. China is buying oil and other mineral sources esp. in Africa
- The capital inflow can also lead to speculative booms in the price of local assets such as real estate and equity shares.
- Suppress wages of local and take jobs away from locals
- Rise in social problems such as unwanted pregnancy and birth, human trafficking and drug dealing
- 'Brain drain' as the effect of talent outflow in search of a better quality of life

Other impacts of economic globalisation

Commodity Price increases

- High oil prices will cause hardship and will be a security threat – June 2008 oil price at USD\$140 per barrel.
- Speculative positions for gold,, oil and food items (e.g. rice) that create fictional demand or supply for a quick profit.
- A spike in food prices will shift minimum wage and poverty levels.

Energy Demand/ security

- Countries competing to secure energy security.
- Energy costs, availability and safety will affect growth – Japan nuclear problem

Information flow

- Seamless information flow via social networking eg facebook, twitter and Youtube.
- Greater transparency, accountability and competency in corporate and public governance.
- Incomplete, factually misleading, malicious and seditious statements are easily manipulated.
- Social harmony can be influenced by information flow which can affect national security.

REGIONAL ARCHITECTURE AND FTAs

“The Trans-Pacific Partnership (TPP), for instance, will create a single market of 467 million people with the potential to increase further should countries like Japan and other Asia-Pacific economies join in”



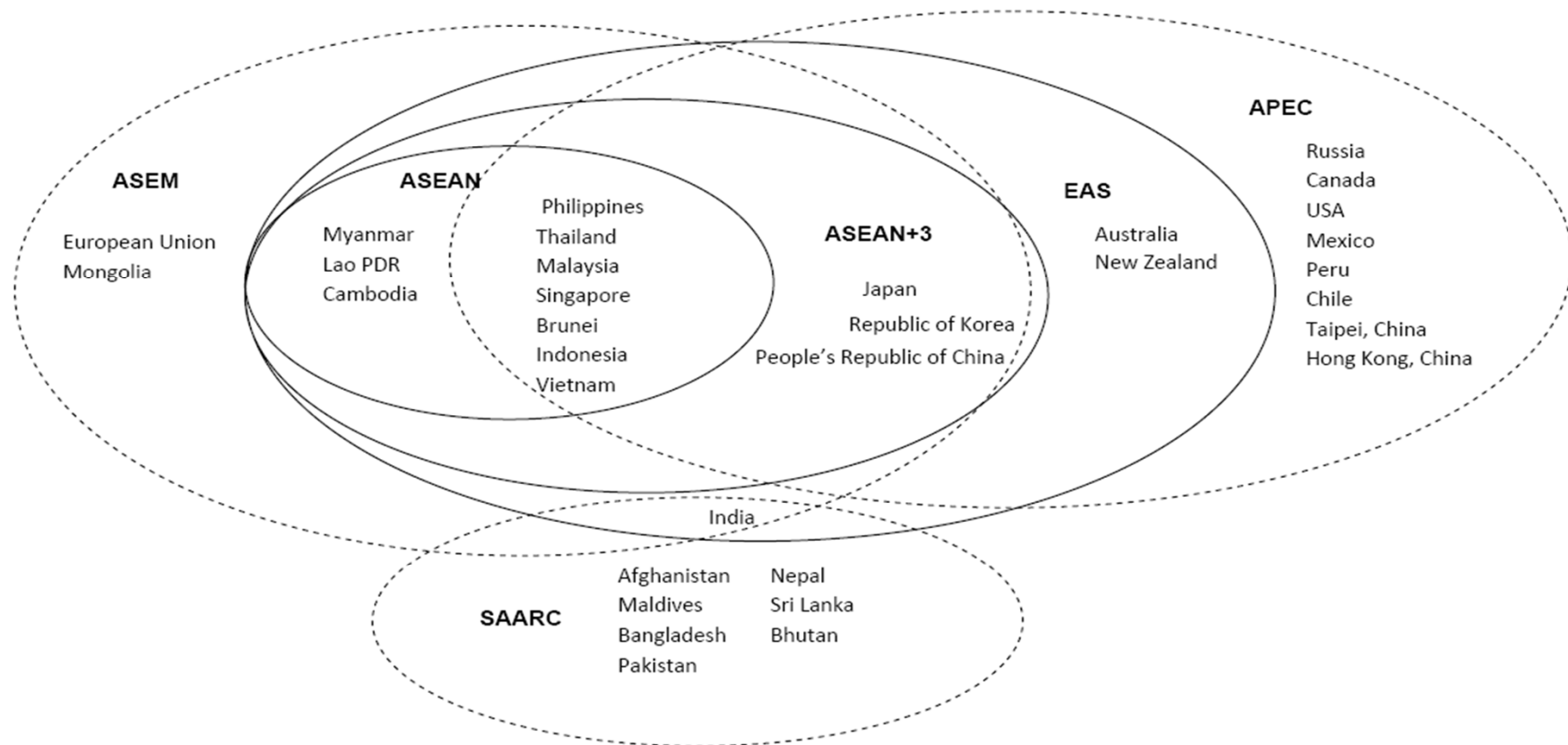
ASEAN in East Asia



ASEAN

- Established in 1967 - Zone of Peace, Freedom and Neutrality
- Founding members – Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand
- New members – Cambodia, Lao PDR, Myanmar and Vietnam
- Population – 600 million
- Economic systems – market economy, emerging economy/ transition to market economy, central planning
- In 2003 at the Bali Summit, established ASEAN Community comprising three pillars: ASEAN Security Community, ASEAN Economic Community and ASEAN Socio-Cultural Community.
- 4 Pillars of AEC
 - Single Market and Production Base
 - Competitive Economic Region
 - Equitable Economic Development
 - Integration into the Global Economy

Main Regional, Intraregional and Trans-Regional Institutions in Asia

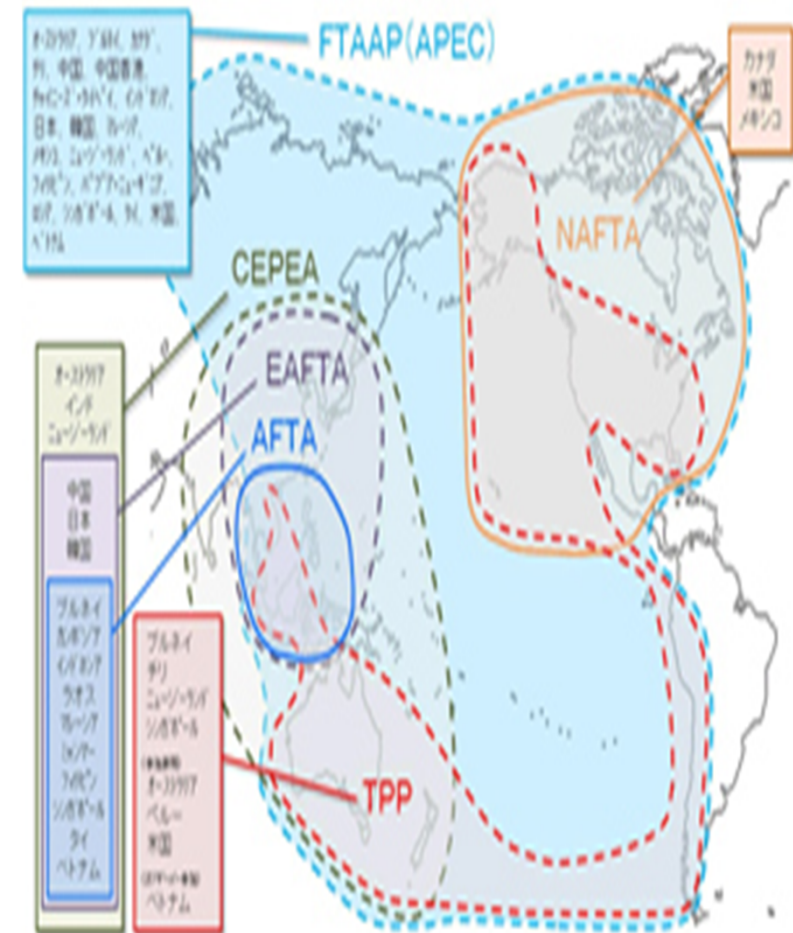


Source: ADB's Institutions for Regional Integration (2010). Amended from page 10 to cover Northeast Asia, Southeast and South Asia only.

Rising regionalism is a response to other economic integration initiatives that promise higher growth. Countries don't want to lose out in competition for market access and investments. Some nations resort to regionalism to as a platform to leverage stature and for geopolitical influence.

East Asia Economic Integration – Free Trade Agreements (FTAs)

- ASEAN FTA – AFTA
- ASEAN+1 – ASEAN FTA with other countries eg with China, Japan and Korea
- ASEAN+3
 - was born after the Asian Financial Crisis
 - ASEAN + China, Japan, Korea
 - Aims to establish East Asia FTA (EAFTA)
- ASEAN+6
 - ASEAN+3 + India, Australia, New Zealand
 - Aims to establish CEPEA – FTA for these 16 countries
- East Asia Summit – EAS
 - ASEAN+6 + US, Russia
 - Not an economic integration, but to discuss strategic issues
- FTAAP
 - FTA for APEC
 - Long term objective



Driver for East Asian Integration

- ASEAN is central to regional integration
 - ASEAN+1, ASEAN+3, ASEAN+6
- But can ASEAN continues to lead this process when the source of economic growth is elsewhere?
- EAFTA is not progressing well, CEPEA driven by Japan being overtaken by EAS
- Can ASEAN+1 be transformed into EAFTA
- Now China-Japan-Korea want to form a cohesive economic growth hub through the formation of FTA
 - will be the catalyst for the East Asian integration.
- Major issues in accelerating greater regional integration:
 - lack of strong political leadership
 - East Asian countries are inking their own separate FTAs agreements
 - Proliferation of new initiatives on regional integration

ASEAN+3 or North East Asian+10?

- ASEAN is currently the hub to China, Japan and Korea via various ASEAN Plus One agreements.
- If CJK FTA becomes a reality, ASEAN will be affected by trade diversion as a result of cheaper imports amongst the East Asian Countries.
- Coupled with East Asian resources and economic vibrancy, ASEAN may have to give deeper commitments than the existing ASEAN+1 agreements to the trilateral FTA.
- Does ASEAN needs to deliver its AEC by 2015 before being able to push the EAFTA .

Enter the Trans Pacific Partnership

- Can the US allow East Asian economic integration without its participation?
- US re-engaging in Asia Pacific
 - Security
 - Concerns about the rise of China
- Initially aimed to conclude by end of 2011. But instead, all TPP countries agreed only the broad outline of the agreement with 23 Working Groups.
- Highly unlikely to conclude this year due to:
 - Presidential and Congressional elections in the US in November 2012; and
 - Expansion of TPP membership to other APEC countries.
- Mexico and Canada are expected to join the negotiations later in the year.



TPP: Challenges in promoting regional integration

1. Conclude a high-quality plurilateral agreement with three different continents with countries at different stages of development.
2. There seems to be a growing anxiety over the prospects of TPP
 - On 13 June 2012, the text of Investment Chapter was leaked. Revealing new corporate powers. Creating further pressure for greater disclosure.
 - US lawmakers want to be directly involved as observers in upcoming negotiations.
3. As it aims to be the leading trade agreement for the Asia-Pacific region, negotiations will have to consider new membership from APEC-dominated countries.
 - Mexico and Canada will join negotiations in October. Others, including Japan, are still uncertain. China is not part of the agenda.
 - However, late comers would have less bargaining power to negotiate
4. Concluding TPP will weaken the East Asian integration process

Malaysia and the TPP

- AFTER the deadlocks in MUSFTA negotiations, Malaysia is now negotiating with the US via TPP.
- Malaysia has FTA agreements with all of the TPP members except US and Peru.
- Malaysia is making good progress and keen in concluding the TPP. It represents a third of Malaysia's global trade and would increase Malaysia's share of global trade covered under preferential treatment to above 70 per cent.



- How Malaysia views TPP?:
 - All trade negotiators and senior officials are fully committed to TPP. Higher priority given to TPP
 - A key vehicle for advancing economic cooperation and investment liberalisation in the Asia Pacific region.
 - As positive step towards deeper integration within the Asia Pacific region; and
 - would allow Malaysia to continue engaging the US in trade and investment liberalisation process.

Challenges for Malaysia

1. Despite progressive liberalisation, Malaysia needs to be able to have full control of its economic policies
 - AFC 1997: strict capital control measures pulled us out of the crisis
 - TPP may not provide temporary safeguards on capital control : capital must be permitted to move “freely and without delay”
 - TPP must provide a breathing space for key development agendas
2. Stakeholders worry about the consequences of TPP to the industry
 - Strong IPR protections by developed countries will raise medicine prices at a time when subsidies are under pressure from the budget deficit.
 - Investor-state dispute mechanism will limit ability to regulate its own economy.
 - Opening up of sensitive sectors (negative-listing services coverage and Government Procurement projects) may jeopardise domestic development agenda.
 - Investment liberalization : could empower foreign firms to skirt domestic courts and sue the government in foreign tribunals

CAN WE MANAGE THE IMPACT OF ECONOMIC GLOBALISATION

***"Control your own
destiny or
someone else
will"***

*Jack Welch
Former CEO of General Electric*





How to manage this?

	Globalisation as Threat	Globalization as Opportunity
Unmanageable Globalisation strategies	Race to the Bottom	Ad hoc Globalization
Manageable Globalisation strategies	Defensive Management	Offensive Management

- Ensure that the economy is strong
- Governance, rules and regulations meet global standards and are implemented effectively
- Security agencies should be aware of impact and potential threats
- Should take early actions

THANK YOU



ISIS MALAYSIA