Time to revisit “hedging”

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SOUTHEAST ASIA AT THE CROSSROADS

In 1966, Robert F. Kennedy delivered a speech with this quote: “There is a Chinese curse which says “May we live in interesting times”. Like it or not, we live in interesting times. They are times of danger and uncertainty; but they are also the most creative of any time in the history of mankind.”

Today, in interesting times we live indeed. Donald Trump’s retreat from multilateralism and fierce confrontation with China is changing the political and economic landscape in the Asia-Pacific. Southeast Asia is caught in the middle, facing many challenges and risks. But we are at least forced to look ahead and be creative – and that is what RISE tries to do in this special issue, exceptionally in English.

Start with the concept of hedging. Is it a response to a perceived security risk or to an imminent threat? Depending on the answer, we can understand the behavior of ASEAN countries, some of them torn between an economic partnership with China and an increased political outreach to the United States. Then move to trade issues. Historically, Southeast Asia has been at the center of global political economy since the age of discoveries. If the global trade regime shows some faultlines, can these economies continue to thrive? At last, some of them could be the real beneficiaries of the China-U.S. trade war, and there are chances to overcome the ‘middle-income trap”, if certain conditions are met. China’s Belt and Road Initiative can also become an opportunity, especially for public-private partnerships. And – as the official statement of the Thai Foreign Minister, currently holding the ASEAN chairmanship, shows – the fight against climate change is an area where Southeast Asia can be creative.

On the occasion of the TO-ASEAN Business Days 2019 in Turin, RISE welcomes a special section hosting the views on bilateral relationships with Italy offered by the Ambassadors of Indonesia, Malaysia, Myanmar, the Philippines, Thailand and Viet Nam. Will these nations be creative enough to sustain ‘the ASEAN miracle’? Find it out by reading the book by Kishore Mahbubani and Jeffery Sng reviewed in the final column.
TIME TO REVISIT ‘HEDGING’

by Jürgen Haacke

A strong consensus has formed that many secondary states have adopted security strategies best categorised as ‘hedging’. This argument is most often made with respect to Southeast Asia. However, hedging remains a contested concept though few works acknowledge this. At least four conceptualisations of hedging can be distinguished.¹ I posit that we are now at a crossroads in terms of how we make sense of hedging and how we apply relevant insights empirically.

Arguments about hedging really took shape when scholars assessed responses by states in China’s neighbourhood to the latter’s re-emergence as an economic and military power. Hedging was then advanced as an analytical category to convey the point that regional countries were generally resorting neither to conventional balancing nor bandwagoning strategies to manage China’s growing power. Hedging was widely taken to be an expression of positionality or alignment, in particular, in the context of Southeast Asian security strategies. In the eyes of some, however, hedging addressed uncertainty about China’s intentions and future regime legitimation.²

Although there are competing conceptualisations of hedging, the most popular is by now one which – broadly speaking – sees hedging as a portfolio approach. Several variants have been proposed. For instance, Evelyn Goh sees hedging strategies as encompassing balancing or containment elements alongside engagement and military power. Hedging was then advanced as an analytical category to convey the point that regional countries were generally resorting neither to conventional balancing nor bandwagoning strategies to manage China’s growing power. Hedging was widely taken to be an expression of positionality or alignment, in particular, in the context of Southeast Asian security strategies. In the eyes of some, however, hedging addressed uncertainty about China’s intentions and future regime legitimation.³


reassurance components. Cheng-Chwee Kuik goes further and sees hedging as involving mixed and ‘opposite’ positioning, where states exhibit forms of both power-acceptance and power rejection. By comparison, Øystein Tunsjø regards hedging as merely constituting an interim of co-operation and confrontation. In the context of their empirical studies, scholars tend to employ a basic version of hedging as a portfolio approach.

Embracing this conceptualisation is consequential. First, even in the case of Kuik’s well-thought out work, it follows that all combinations of opposite behaviours short of ‘pure’ balancing and ‘pure’ bandwagoning should be understood to constitute hedging strategies. Given the supposed rarity of ‘pure’ forms of these conventional security strategies, hedging really becomes a rather large ‘residual’ category. In other words, which countries are not hedging? There is another conceptual issue: most of those who identify hedging strategies tend to see states adopting indirect balancing moves, with some even considering hard balancing an aspect of hedging. Such a perspective leaves the distinction between balancing and hedging rather blurred. Methodologically, where authors point to indirect balancing as part of hedging, they tend to look for limited military strengthening – usually alongside economic engagement – as evidence of a hedging strategy. However, the underlying purpose of such strengthening is frequently not examined.

Instead of conceptualising hedging as a portfolio approach, it is also possible to conceive of it as a form of risk management. After all, we live in an age of risk in which, for some, even war has become an exercise in risk management. Hedging would thus be a security strategy crafted to address major security risks. Notably, although the terms security threat and security risk are often used interchangeably, they should not be. Security risks are potential security threats. In other words, security risks are probabilistic and are consequently evaluated both in terms of their likelihood and potential magnitude. In contrast, security threats are imminent and well-defined challenges to security. If the management of risk is anticipatory and proactive, threats are normally associated with an action-reaction dynamic. It follows that perceived immediate state-based threats to the survival of the state or its major interests should be expected to prompt countervailing moves that are distinct from hedging.

At this point, ascertaining hedging empirically requires a focus on how a security challenge is understood. If we are looking for indicators to judge, we should bear in mind that hedging by secondary states tends to be associated with limited military capabilities enhancement measures, but these should also not be concentrated on a specific contingency as this would be more likely signal balancing. If strategy is pursued in the context of triangular relations with two major powers, hedging should moreover involve ambiguity in terms of alignment signals communicated. More specifically, I argue that hedging involves alignment signalling that leaves open how a state would react should the potential security challenge materialise.

Depending on what conceptualisation of hedging we invoke, our empirical findings are likely to differ. Focusing on Southeast Asian countries, an understanding of hedging as a portfolio approach is likely to yield the conclusion that at least the majority of regional states are hedging, including Myanmar, Malaysia, Viet Nam, Indonesia, Singapore, and even the Philippines (at least under President Duterte’s Administration). As to whether Brunei Darussalam, Laos, Cambodia and Thailand would also be regarded as hedging might be more debatable. In some cases, this would depend – inter alia – on how much significance one attributes to any military co-operation these states have had with the United States or other powers. Nevertheless, the conclusion would likely be that most Southeast Asian states are hedging irrespective of the nature of the security challenges these states are facing and despite the different approaches they seem to be adopting to manage their main security challenges. To be sure, following the work of Kuik or Tunsjø, for instance, analytical differentiations could still be made for the countries one considers to be hedging: between light and heavy hedgers, or between countries that are taken to emphasise co-operation over confrontation or vice versa, and those where co-operation and conflict are more evenly balanced.

However, if we understand hedging to be about a response to a perceived security risk rather than an imminent threat and also take seriously the assumption that hedging by a secondary state in the context of its great power relations involves ambiguity in alignment signals (insofar as these relate to a major security challenge in question), our conclusions about which countries in Southeast Asia are hedging are likely to be different. While Malaysia’s and Indonesia’s respective responses to China’s security challenge in the South China Sea should be categorised as hedging, findings for countries such as Viet Nam, the Philippines, Myanmar and even Singapore might differ. Why? The internal balancing pursued by Hanoi and Manila in response to China’s actions raises questions and

about whether these governments still regard China’s security challenge in the South China Sea as constituting mere security risks. Moreover, even under President Duterte, there seems to be little ambiguity about how the security establishment of the Philippines prefers to position itself. In the case of Myanmar, judging by the recent response to the Kokang insurgency, there would also appear to be little ambiguity about how the military would likely react to the possibility of another major security challenge in northern Myanmar if Chinese authorities ever decided to pressure Naypyidaw by leveraging their relations with ethnic armed groups.

A particularly interesting case is Singapore, which tends to be regarded as the archetypal ‘hedging state’ because, as the official discourse has it, the city-state does not wish to choose between Beijing and Washington. On the other hand, Singapore has been quite forceful in its communication about how it perceives China’s challenge to international law and regional order, certainly as far the freedom of navigation is concerned. At least for the moment, there is also little ambiguity about how Singapore would respond should existing security challenges posed by China turn to clear-cut security threats. The city-state has for many years preferred to strengthen its relations and indeed its interoperability with the U.S. military in the first instance. Arguably, Singapore might therefore be seen to be in balancing mode against China. This is not to deny that Singapore, like other regional states, has to deal with a variety of security risks as far as China is concerned, including the possibility of a serious downturn in Sino-U.S. relations.

How we understand hedging – whether as a policy mix of co-operative and conflictive policies or as a response to a risk to a significant security referent – matters greatly. The literature has veered towards the former conceptualisation. It is time to debate whether, for analytical reasons, there would not be an advantage in returning to a focus on hedging as involving responses to security risks, that is, as such a conceptualisation at the very least forces us to investigate more closely how security challenges are really understood by those concerned.

EAST ASIA’S TRADE FUTURES IN A VOLATILE WORLD

by Christopher Dent

The world trade system has for centuries represented wider economic, political and technological developments shaping human society, as well as pointing to its future development. East Asia has always been important to this system, and in recent decades has become an ever stronger player in it. This does not just relate to the rise of China but also to other roles played by Japan, South Korea, Taiwan and Southeast Asia in shaping our trade and economic futures.

Globalisation and the underlying technologies that have created it have made trade in most industries increasingly complex. It is technically companies that trade, not countries. Transnational enterprises from both inside and outside the region have created the ‘Factory Asia’ phenomenon, where international trade and production work closely together to help make East Asia core to the global economy. Globalisation has also forged deep economic interdependence in the region, and thereby de facto imperatives for East Asian states to co-operate with one another. However, China’s rise, and its more assertive foreign policy and globalising of its trade relationships, has presented significant challenges on this front. Furthermore, geopolitical developments outside the region – in particular the disruptive impacts of U.S. President Donald Trump’s ‘America First’ foreign economic policy and the Brexit referendum outcome in Europe – have brought further complexities to the international trade environment in which East Asia finds itself.

Both the ‘Trump’ and ‘Brexit’ factors are causing many to predict a number of possible volatile outcomes. Both have become emblematic of a new phase of defensive economic nationalism and push back against globalisation. In this paper, I will discuss the ways in which the Trump and Brexit effects could impact on East Asia’s trade and world trade futures overall.


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EAST ASIA’S EVOLVING TRADE AGENDA

East Asian governments have become increasingly active in trying to manage and govern their trade relationships at multiple levels. Trade continues to be a prime driver of economic development in the region. Various forms of industrial policies are still employed to enhance the trade capacity of exporting firms, especially in new emerging strategic sectors such as digital technology and clean energy. Sub-regional ventures such as the ‘Greater Mekong Subregion (GMS) project’ have included infrastructural trade capacity-building measures (e.g. economic corridor and multi-model transport hub projects) designed to promote cross-border trading activity. The ASEAN Connectivity Initiative and China’s Belt and Road Initiative (BRI) seek to achieve the same outcomes by infrastructure-oriented methods.

The last two decades have also seen a proliferation of mainly bilateral free trade agreements (FTAs) among East Asian nations plus a spate of regional FTAs. In 1990, there were just 16 FTAs in force worldwide and no such agreements implemented in East Asia. Now there are around 400 FTAs registered with the World Trade Organisation, and East Asian governments have signed over eighty of these.

An important catalyst of this FTA trend was the 1997-98 East Asian financial crisis, which exposed both the depth of regional economic interdependence and the lack of development capacity-building measures designed to promote cross-border trading activity. The ASEAN Connectivity Initiative and China’s Belt and Road Initiative (BRI) seek to achieve the same outcomes by infrastructure-oriented methods.

However, there is a general consensus in East Asia that liberalisation and commercial regulatory convergence alone are not enough to deliver desired trade outcomes. The region’s predilection to frame FTAs as ‘economic co-operation agreements’, where development capacity-building measures are also incorporated, is reflected in the current Regional Comprehensive Economic Partnership (RCEP) negotiations. The same could not be said for the U.S.-led Trans-Pacific Partnership (TPP), now superseded by the scaled down and later discussed Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP). The aims of the RCEP, which draws inspiration from other East Asia centred economic cooperation agreement’ FTAs, are therefore more congruent with those of the aforementioned infrastructural diplomacy ventures such as China’s BRI.

The emphasis on development capacity-building is likely to remain a core feature of East Asia’s approach to trade diplomacy, not least because it is aligned with the region’s developmentalist ideologies. East Asia’s future trade agenda will also be increasingly shaped by global challenge issues like climate change, resource security and development divides. In the first half of the 2010s, a number of East Asian nations including Japan, China, South Korea and Singapore were engaged in the plurilateral ‘Environmental Goods Agreement’ (EGA) with over forty nations, which sought to liberalise trade in clean energy and other environmental products. These talks have been stalled since 2016, but as global challenges become more acute they will impinge more on East Asia’s future trade agenda through a combination of issue-linkage, commercial and socio-political pressures for action in these areas.

TRUMP, BREXIT AND EAST ASIA’S TRADE FUTURES

It is not the intent of this paper to discuss the various technical aspects of President Trump’s futile U.S.-China trade war. Rather, the aim is to assess the wider ramifications of Trump’s trade nationalism for East Asia. The U.S.’s current retreat to a unilateralist, trade protectionist position is not new. There are striking similarities with how the United States behaved on the international trade stage not just in the 1930s but also for much of the late 19th century. At this time, America was much like China today – an emergent economic superpower causing structural disturbances in the global economic system and criticised for not taking on international responsibilities befitting its geo-economic weight. For example, in 1890, then President William McKinley raised the average tariff rate on U.S. imports to 50%, at a time when global tariff rates had been falling for some time. In the same year, Britain and France’s average tariffs were by comparison 5% and 8% respectively. President Trump’s aggressive attempts to ‘leverage’ national economic interests are furthermore based on an outdated 19th century ‘exports good, imports bad’ understanding of the world economy. This is not only damaging to the U.S. and East Asia but is also creating a broader geopolitical environment

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for tribal national conflict. The tension and uncertainty caused by this development will have significant negative impacts on East Asia’s trade.

The outcome of the 2016 Brexit referendum is also indicative of a rising tide of defensive economic nationalism and has important historic parallels with the late 19th century. In the 1890s, after the world’s ‘Long Depression’ that stretched over the previous two decades, Britain adopted a ‘splendid isolation’ foreign policy of withdrawing from continental European affairs and concentrating on its own national economic plight in troubling times. This also included attempts to strengthen its imperial trade bloc as part of a post-recession strategy. The Brexit vote outcome of 2016 could be partly attributed to the economic austerity conditions caused by the post-2008 ‘Great Recession’ and populist dissatisfaction with globalisation. The U.K. government is currently peddling the idea of a ‘Global Britain’, just as its counterparts did in the 1890s. Depending on Brexit’s political outcome, it could open up possibilities for Britain to sign new trade deals with East Asian nations, and even potentially join the CPTPP – ironically, a trade agreement that President Trump withdrew the U.S. from. But this all depends on which of the ‘50 Shades of Brexit’ Britain will eventually opt for – if indeed it ever makes such a majority decision – and therefore what scope it will have to conduct an independent trade policy.

A ‘soft shade’ Brexit involving only partial disengagement with European Union (EU) trade rules will limit London’s ability to pursue FTAs with East Asian nations. The May Government’s new ‘All of Asia’ policy signals that the region is a priority within a wider ‘Global Britain’ foreign policy framework. It has already approached Japan with the view of brokering a fast-track FTA post-Brexit, and Tokyo in turn has invited Britain to accede to the CPTPP. However, the net impact of Brexit is most likely going to be negative for both Britain and East Asia. By leaving the EU, Britain would also be withdrawing from the many FTAs the EU already has, or is currently negotiating, with East Asian nations. This will have deleterious effects on East Asian firms with commercial interests in Europe. It would take years of renegotiation for Britain to re-establish these FTA links bilaterally with East Asian countries. Moreover, an EU without Britain – by far its most globally connected member state – internationally weakens Europe’s regional community of states and, inevitably, EU trade links and diplomacy with East Asia.

More broadly, like Trump’s ‘America First’ doctrine, Brexit is ultimately a rejection of international society ideals, and fundamentally represents a retreat to defensive economic nationalism that risks destabilising the world trade order. It may come to pass that Trump and Brexit will soon fade into the distance, and they were just one-off shocks to the system on the long bumpy road of globalisation. Alternatively, they may form part of a paradigm shift towards a neo-Westphalian world and return to late 19th century great power politics, creating escalating tensions and a chain of events that will end in catastrophic global conflict, as it did just over a century ago. Trade interdependence is far more functionally integrated now than it was then, and countries are more bound together by ‘mutually assured production.’

Nevertheless, both Trump and Brexit in their own ways cause East Asian trade-dependent nations to be at least very uncertain about their shared economic futures in the current volatile world.

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10 When in June that year 51.9% majority of those eligible Britons who voted expressed their desire to leave the EU.


14 Speech of Mark Field, Foreign & Commonwealth Office Minister for Asia and the Pacific, at the Centre for Strategic and International Studies, Jakarta, 14 August 2018, available online at: http://asiapacific.anu.edu.au/newmandala/
U.S.-CHINA TRADE WAR: OPPORTUNITIES AND RISKS FOR SOUTHEAST ASIA

by Jørgen Ørstrøm Møller

Prior to his election President Donald Trump made it clear that he thought the U.S. suffered from bad trade deals entered into by his predecessors. He wanted fair trade instead of free trade without specifying exactly what he meant by that. Since his inauguration, initiatives have been launched to renegotiate trade agreements, and after some hesitation the U.S. has started to impose tariffs on imports from China, which has in turn retaliated. The two parties mix threats and negotiations blurring the picture, and for the first time in more than 30 years, free trade between the U.S. and China is rolled back. The question is how fast and how deep this will be and whether the rollback will be permanent or revoked at a later day. For Southeast Asian countries it is of paramount importance to form a picture of how they will be involved; how much they will suffer and will opportunities open up for them.

WHY A TRADE WAR?

In the beginning of the 1980s China reformed its economy and the U.S. controlled its inflation. These two policy steps are inextricably intertwined. Conventional economics teaches that inflation targeting monetary policy introduced by the U.S. Federal Reserve System brought inflation down. The real reason was that China gradually emerged as the global manufacturing nation using its large workforce to lower prices on labour intensive, low cost goods, which the U.S. started to import. This was good for both the U.S. and China. Purchasing power rose for the American consumer, underpinning a fairly high economic growth. Jobs were created in China demonstrating to the Chinese citizens that economic reforms worked. It was a ‘plus-plus game.’ Gradually apprehension surfaced in the U.S. about the trade with China being unbalanced. Several administrations and voices in the Congress sought rebalancing without getting much to show for their travails.

The Trump administration’s arguments for a trade war with China fall into three categories: The U.S. has lost its position as a manufacturing nation; a large number of jobs have gone; and the trade balance is one-sided in China’s favour. A Congressional study has concluded that the U.S. share of global manufacturing value added has declined from 29% in the early 1980s to 18.1% in 2016. China’s share of global manufacturing output, which was negligible in 1980, surpassed the U.S. share in 2008 and has steadied in the range of 25% to 26% since 2014. U.S. experienced the highest number of employees in manufacturing in 1979 with 19.5 million to see a gradual fall to 17.1 million in 2001. Over the last 17 years, the decline has been manifest with 2.7 million employees in manufacturing in July 2018. In 2017, the deficit on the U.S. trade balance reached USD375 billion – equal to around 2% of U.S. Gross Domestic Product (GDP). This kind of statistics need, however, to be interpreted with a pinch of salt.

According to Deutsche Bank research looking at exports of American companies irrespective of whether they are operating in the U.S. or China and doing a similar calculation for Chinese companies reduces the deficit to 10% of the official figure. The difference is that 97% of what Chinese companies export to the U.S. is manufactured in China and 3% by Chinese companies operating in the U.S. For American companies 33% is manufactured in the U.S. and 67% by their subsidiaries in China. A study by Peterson Institute for International Economy discloses that 86% of electronics products, 68% of other manufacturing, 63% of electrical equipment and 59% of machinery except electrical to be levied by U.S. tariffs came from multinationals and joint ventures rather than Chinese firms. The U.S.’ most important trading partners are China, Canada, Mexico, Japan, Germany, Korea, Britain, France, Italy, India, Taiwan, Brazil, the Netherlands, Switzerland, Ireland, Viet Nam, Malaysia, and Singapore. China’s most important trading partners are the U.S., Japan, South Korea, Taiwan, Germany, Australia, Malaysia, Viet Nam, Singapore, Britain, Thailand, India, Brazil, the Netherlands, Russia, Canada, Indonesia, Saudi Arabia, France. The gravity theory of trade – countries trade mostly with neighbours – seems only partly true for the U.S. and China. The top five U.S. export items to China are soybeans, civilian aircraft, cotton, copper materials, Passenger vehicles (small engines).

The top five China export items to the U.S. are cellphones and other household goods, computers, telecommunication equipment, computer accessories, toys-games/sporting equipment. In the first round of imposing tariffs (imports of

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2 Federal Reserve Bank of St. Louis, ‘All Employees: Manufacturing’, Economic Research, 3 August 2018, available online at: https://fred.stlouisfed.org/series/MANEMP.
3 Newsletter (email) of 26 March 2018.
5 Due to the special role of Hong Kong it is left out. Statistically it is China’s second biggest and the U.S. nineteenth trading partner.
7 ‘This is What the U.S. Imports from China’, World Economic Forum, 26 March 2018.
USD30 billion), the U.S. selected industries such as aerospace, information and communications technology, robotics, industrial machinery, new materials, and automobiles. In its retaliation, China focused on agricultural goods selecting certain types of meat, fish, other seafood, dairy products, vegetables, fruits and grains. Both sides opted for a tariff size of 25%. The next round of tariffs will hit imports of USD200 billion bringing about half of China’s exports into play, but with a lower tariff – 10% – keeping the options of increasing it to 25% at a later stage open. As was the case for stage one, China has retaliated. Currently for both countries more than half of exports are included in the lists already in operation or announced. Trade wars hit economic globalisation because manufacturers in many countries contribute to the final good through intermediate goods. Recently, suppliers of intermediate goods (components) have increased their influence over manufacturers doing the final assembling.

THE GLOBAL SUPPLY CHAIN

Products sold to consumers are marked ‘made in XX,’ but this is misleading. The final product bought by the consumer may have been assembled in 20 countries, but would normally have components from a large number of countries. After President Trump raised the issue of American jobs lost due to free trade, an analysis disclosed that a Ford Focus assembled in the U.S. – thus in everyday vocabulary an ‘American’ car – only got 40% of its components from the U.S. and Canada. For economic growth and employment, it may matter more to deliver a large share of components used by other countries than doing the final assembling itself.

This is borne out by the automotive industry as analysed by Wilson Kia Onn Wong. He points out that over the past thirty years, automotive component suppliers have steadily assumed ownership over the actual vehicle-making process, reducing automakers to mere assemblers, and being more focused on what they perceive to be higher value-added activities such as branding, marketing and international business expansion […] these suppliers and not their automaker clients are now the primary forces driving the revolution in automotive technology […] the world’s leading automotive components supplier, Bosch, posted 2015 revenues of EUR70.6 billion overshadowing key automaker clients such as Renault with revenues of EUR45.3 billion.’

In Asia, a strong supply chain has been built with China importing intermediate goods to be assembled into final products for export to the U.S. According to Fitch Ratings, countries most likely to be hit via the supply chain by a trade war are South Korea, Japan and Taiwan which supply China with semiconductors, and Viet Nam and Malaysia which supply China with machine parts and components for communications equipment.

IMPLICATIONS OF TRADE WARS ON THE ASIAN SUPPLY CHAIN

The trade war will suppress economic growth. International Monetary Fund’s Chief Economist stated in July 2018 that if threatened trade barriers become reality, global output could drop by about 0.5% with the U.S. economy being ‘especially vulnerable.’ In September 2018 a Chinese official stated that with the U.S. imposing tariffs on all Chinese imports the negative impact on China’s economy is about 0.7% of GDP. This does not reflect the full picture as domestic economic policy measures can be introduced to compensate for the trade war’s negative growth effect.

So far, news is out that China contemplates to stimulate the economy while the U.S. will compensate farmers to soften the fall in growth. A fair bet is a short-term, direct insignificant (negative) impact on American and Chinese growth. Repercussions on economic growth in other countries including Southeast Asia will be minimal and will be nothing compared to what was seen during the Asian financial crisis in 1997 and the global financial crisis in 2008. More significant and more interesting for Southeast Asia is the indirect impact over a longer term. The negative effect on Southeast Asia stems from higher consumer prices in the U.S. due to tariffs, which dampens consumption. The spill over happens because the final product marketed in the U.S. is ‘made in China’ through components imported from other Asian countries. Asia’s intra-regional trade accounts for 57.3% of total trade and is going up. A considerable part of this are components going to China. Intra-regional foreign direct investment (FDI) has risen as a share of total FDI from 48% in 2015 to 55% in 2016. One of the drivers is expectation among Southeast Asian companies that access to the U.S. market would continue to be open to Chinese goods, guaranteeing Chinese demand for components. They have invested accordingly. The overall impact may not be significant, but some companies whose future is within the Asian supply chain that produces for consumption in the U.S. with China doing the final assembling may suffer.

The positive effects fall into three categories: opportunities to replace Chinese goods on the American market; American

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9 “Trump just slapped tariffs on USD34 billion worth of Chinese goods – here’s the full list of products that will get hit,” Business Insider Singapore, 9 July 2018.
14 Vice Chairman of the China Securities Regulatory Commission, Fang Xinghai, quoted in the Straits Times, 19 September 2018.
16 Ibid.
goods on the Chinese market; and the prospect of East Asia moving towards a self-sustaining economic entity with its own business cycle and producing more and more for domestic consumption. On the American market, tariffs lead to trade diversion. Southeast Asian products will be less expensive as they are not hit by the trade war. The size of this effect depends on congruity between Southeast Asian and China production determining how many products from the two ‘regions’ compete with each other; or seen from the American consumer’s point of view, whether Chinese goods were preferred to Southeast Asian goods because they were cheaper or because there were no alternatives. Only in the first case may U.S. imports switch from coming from China to having Southeast Asia as the source. Trade diversion will take place and may over time be visible, but history tells us that it will not happen overnight and will in fact require a strong effort by Southeast Asian producers to market their products. As an example of possible trade diversion in Southeast Asia’s favour is Malaysia’s export to the U.S. of electronic equipment (USD9.4 billion) and machinery (USD2.4 billion)\(^{17}\) which may see increased market shares. A similar picture is expected for the Philippines.\(^ {18}\) On the Chinese market, a similar trade diversion will be seen as China retaliates by raising barriers for U.S. products. The Chinese list of retaliations include agriculture and resources, where Southeast Asia may offer alternatives to American products, making it likely that benefits will flow faster and be stronger. 120 food products have been mentioned as being on the Chinese list. China buying liquified natural gas (LNG) from the U.S to close the trade gap, explicitly mentioned by Secretary of Commerce Wilbur Ross on 23 March 2018\(^ {19}\) may be the victim of a trade war – at least in the short-term – and open up for more energy exports from Southeast Asia to China.

Another Southeast Asian product to gain may be palm oil which will replace soybeans imported by China from the U.S. For Southeast Asia, a trade war offers the opportunity of concentrating on the East Asian supply chain producing for East Asia. Knowing that growth and consumption will be higher in East Asia than for the U.S., such a prospect may not be so bad. The growing importance of components suppliers (the automotive industry mentioned as an example above) may in the longer run turn out to be beneficial. It will only be the case, however, if components suppliers realise the change in the role of components from simple inputs to playing a role in the definition of the final product. A mindset shift may be required from delivering a component designed and ordered by the final producer to perceiving how the component can enhance the performance of the final product, turning component suppliers into partners in designing the final product. If this is done, the trade war may help Southeast Asia climb up the value-added ladder as a component supplier.

The possibility of shifting assembling of goods from China to Southeast Asian countries cannot be ruled out, but such a step will take time and runs the risk of the U.S. reacting by imposing tariffs on Southeast Asia.

**CONCLUSION**

The trade war will primarily hit consumers in the U.S., multinational companies operating in China, and Chinese producers. Growth in the two countries will fall slightly. Some economic sectors in Southeast Asia may suffer in the short term, but overall the repercussions on Southeast Asia may in the medium and long-term be positive. In the long-term reinforcing the regional supply chain in East Asia to spread to all of Asia, will gain further strength with severe economic and political costs for the U.S. Asian countries will move towards a regional supply chain with rules defined by them in accordance with their own interests. Maybe the biggest loser over time will be American multinationals and the biggest winner Southeast Asia.

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\(^ {17}\) See <http://www.worldsrichestcountries.com/top_malaysia_exports.html>.


REDUCING THE INFRASTRUCTURE GAP IN THE ASEAN REGION: PUBLIC-PRIVATE PARTNERSHIP AND THE BELT AND ROAD INITIATIVE

by Tomaso Andreatta

The need for infrastructure in Asia has significantly grown. The Asian Development Bank (ADB) has estimated this need to be USD2.8 trillion between 2016 and 2030.1 This is more than USD180 billion a year, or USD3.17 trillion (USD210 billion a year), if adjusted to cope with climate change. ASEAN states have agreed a plan – the ‘Masterplan on ASEAN Connectivity’ – to highlight main priorities.2 Traditional sources of funding, including the National State Budget and Official Development Aid (ODA), cannot cover these amounts, even with the support of the local banks and capital markets. So, there is a need for new sources. The ‘funding gap’ calculated by PwC3 is USD92 billion a year, more than half of the total amount. The private sector is the first port of call, given the size of global markets and their currently favourable disposition to invest in Southeast Asia and in infrastructure, especially if sustainable.

Another alternative has emerged: China’s Belt and Road Initiative (BRI). On top of its previous international support, this is a financial program to build roads, ports, airports, railways, and industrial zones to enhance commerce and value-chain creation between China and forty countries among Europe, Africa and Southeast Asia.

COMMON ISSUE, DIFFERENT NEEDS

Each country and region has different needs, as cities and rural areas would have. From completing basic infrastructure in Myanmar, Laos, rural Cambodia, and in some provinces of the Philippines and Indonesia, to upgrading them for all the other countries in order to keep up with economic growth. Meanwhile, all countries in ASEAN (except for Singapore, which has fully developed infrastructure) need to build the infrastructure they cannot afford by themselves. In part, new demand for infrastructure is driven by fast urbanisation and economic activity growth (in industry and agriculture), in part by the rise of the middle class with higher standards of living, and finally by the need to enhance physical and information connectivity.

The absolute size of the GDP is comparable to the total cost of the infrastructure being planned, and the average investment need is almost 6% of GDP a year.4 However, the government debt-to-GDP ratio in some ASEAN countries is already high, so they cannot borrow more than they used to spend. Generally, ASEAN countries are inefficient in collecting taxes. Their tax rates are difficult to raise (Corporate Income Tax ranges from between 17% in Singapore to 30% in the Philippines, VAT from 5% to 10%), while corruption prevents improving tax collection and increasing social security cost. This, coupled with the fear of investor flight, works to keep rates relatively low.5 PwC’s study further indicates the states that can finance by themselves is, at most, 50% for the cost of new infrastructure.

Local banks, who are usually also the main investor in government banks, have a capacity of investment limited by the capital size and the serious maturity mismatch. Whereas Vietnamese, Malaysian and Thai banks’ assets are around 130% of GDP, Indonesian ones do not reach 40%. In most ASEAN countries, the amount of institutional investors like pension and investment funds is very small and continue to invest mostly in government bonds, so their additional contribution to infrastructure investment is capped by growth rates.

ODA outstanding total commitments from multilateral institutions to ASEAN countries is over USD10 billion for ADB and a comparable amount for the World Bank. Other governments’ commitments are led by China, Japan, the US, Germany, France, and the European Union for a total commitment of USD9 billion.6 While Europeans tend to offer untied aid, the other countries in the list ask it to be spent to buy products and services generated in their country.

In some countries, their graduation to a ‘middle-income country’ has augmented the situation, with the money now coming only in the form of debt instead of a grant. This is the case of Viet Nam. For the World Bank, last year it was upgraded to the new status and it is set to do be upgraded

4 ‘Meeting Asia’s Infrastructure Needs’, quoted.
5 Viet Nam lowered its CIT from 24 to 20% at the beginning of this decade and currently plans to cut further to 15-17%.
6 Latest data provided by The Global Economy.com, available online at https://www.thegaloveconomy.com
soon by the ADB. Many European donors, especially the UK and Scandinavian countries, closed their activity in Viet Nam. The ‘Paris COP 21 agreements’ on climate change gave new life to ODA, which now is funneled to the region specifically for this purpose.

**PUBLIC-PRIVATE PARTNERSHIP (PPP)**

There is a wall of money in world financial markets ready to be deployed in PPP form to fulfill these tasks, but a set of conditions need to be put in place before this money materialises. The barriers are in regulation, government reliability, and supporting institutions:

- **Regulation:** Laws on PPP do exist in many countries, but usually they do not offer bankable contracts to the developer/operator because risks are all thrown onto the private side. The regulation of markets for services/utilities often do not allow for private operators to enter a market where there is a public monopoly controlled by the same government authority that regulates the market. Meanwhile, rules of local ownership may crowd out foreign operators or State control may be protected by law, even if ASEAN rules aim to open up for majority stakes for member State companies, and the lack of an efficient system to deal with bankruptcy increases the risk of loss. Lastly, the level of tariffs may not allow for the recovery of the capital invested, as in the case of electricity in Viet Nam and Indonesia where the tariff barely covers the cost of operation.

- **Government:** This is the highest source of risk, specifically sudden changes of policy. While a reliable and stable policy reduces risk substantially, there are recent examples of nationalisation in the Philippines. There, the power purchase agreement for electricity from private producers is conceived to allow the electricity monopolist to renegotiate the whole structure of fees in case of a crisis. Another serious deterrent is the many permits necessary to start a project. In addition to using a lot of precious time before construction starts, thus increasing risk, it sets the ground for corruption which can add up for majority stakes for member State companies, and the lack of an efficient system to deal with bankruptcy increases the risk of loss. Lastly, the level of tariffs may not allow for the recovery of the capital invested, as in the case of electricity in Viet Nam and Indonesia where the tariff barely covers the cost of operation.

- **Institutions:** Local capital markets, banks and other local consultants involved lack the technical expertise and experience (since it was hardly done before) to evaluate the risk of PPP projects. Therefore, they either stay out or make investment decisions based on perceived or patent political support, which does not have the legal status of guarantees.


Most ASEAN countries are working at improving at least some of these conditions, with the help of multilateral banks and the private sector advocating for pro-market measures to rebalance risks, reduce arbitrary decisions, and strengthen local institutions. Moreover, they make it possible to benefit from the services of international institutions. Each Southeast Asian government should find a balance between the desire to promote local companies and the larger, faster and often more resilient performance of international companies.

**THE BRI**

The BRI is a great project worth close to USD1 trillion. A large proportion of ODA, blended with Chinese private capitals, was disbursed to build interconnectivity between China and the regions around it. Through the BRI, China aims to conquer the heart of the countries touched by the project, thanks to the many infrastructure projects built in each nation, and thereby opening the economies to Chinese FDI and Chinese products.

It is clear that this is additional to the many initiatives countries have already taken and it comes in a context of much-increased flow of trade, investment and tourism out of China into the region.

Several ASEAN countries have political issues with their gigantic neighbour. Viet Nam, Indonesia, the Philippines, and Malaysia contested control of tiny islands in the South China Sea, since this would grant control of the immense submarine reserves of oil and gas, of fishing rights and of the commercial shipping routes. In addition, the Vietnamese population has not forgotten the 1979 war with China, in which Chinese Communist troupes arrived at 50 km of the capital Hanoi. Each ASEAN country is touched by several infrastructure projects.

- **Cambodia:** The 190 km, USD1.8 billion highway from Sihanoukville to Phnom Penh is supported by China Road and Bridge. Cambodia is the most open country in the region to Chinese investment, including in the energy sector.
- **Laos:** China Exim Bank is expected to spend up to 70% of the China-Laos High-Speed Rail Link cost.
- **Philippines:** the new Manila Bay will be a smart city jointly developed by Chinese and Filipino partners.
- **Malaysia:** Central government launched the Digital Free-Trade Zone, a logistics hub supported by Alibaba, KLIA and Cainao Holdings.

In some cases, the ASEAN Economic Community (AEC) helps in bringing money from one country to the next. FDI of regional leading utilities into other countries: Manila Water and Metro Pacific Investments from the Philippines, Viettel of Viet Nam, Axiata Group from Malaysia, Singapore Telecom, EGAT of Thailand all bought stakes in similar business neighbouring countries’ utilities see: ‘Southeast Asia Burgeoning Infrastructure Market Defies Border’, Nikkei Asian Review, 29 January, 2019.
- **Indonesia**: The Kalibaru expansion of the Tanjung Priok Port should cost USD3.97 billion, with the participation of Ningbo Zaoshan Port Company.

- **Brunei Darussalam**: The Muara Petrochemical Refinery is valued at USD1.5 billion and it is now controlled by Zhejian Hengyi Company, supporting Brunei at a time when Western companies are deterred by the Islamic turn of the government and the expected end of its oil reserves.

- **Myanmar**: The Kyaukpyu Deepwater Port will be part of a special economic zone, controlled by China’s State-run Citic Group for up to 75 years. Due to local government’s concerns about excessive debt, the project has scaled down to USD1.3 from 7.2 billion.

- **Thailand**: The Eastern Economic Corridor is a USD5 billion smart digital hub and economic zone, supported by HNA Innovation Finance.

- **Viet Nam**: Hanoi’s Cat Linh-Ha Dong Metro Line would value USD868 million.

Some countries like the Philippines, Indonesia, and Cambodia have chosen to join the BRI with great publicity and explicit documents. In particular, the Philippine government has given high visibility to its good relationship with China.

Yet these apparently win-win projects have incurred local resistance and other political hurdles, most commonly the concern that too much money coming in the form of bilateral debt and not from a multilateral institution may bankrupt the country or provide an excuse to take over land assets, as it happened in Sri Lanka with the Hambantota Port. This port was built with Chinese money, but Sri Lanka could not pay the installment debt so they were forced to give it to China for 99 years.

In most countries, Chinese workers moving in to realise the infrastructure were perceived as displacing the local workforce. In Viet Nam, which has not officially signed any BRI declaration, three special economic zones with unusual lease length – 90 vs the usual 50 years – were met with street rallies assuming they were meant for Chinese companies, an extremely rare event in that country. Yet it seems to be clear that Viet Nam has to be on good terms with China, not only for the flow of direct investment (for example, in textile and furniture industries), but also for the number of tourists, and the support that Chinese buyers give to the real estate market bubble. On top of this, China is already the largest supplier of goods, machinery and raw materials, and after being a minor buyer of Vietnamese goods for a long time, since 2018 it has become the largest importer.

Myanmar blocked a large power station already in 2011 and asked to scale down the Deepwater Port project due to the fear of over-indebting itself.

There are also risks for the Chinese partners, who are exposed to project delays in construction or failure to become economically viable (as was the case of the Sri Lankan port) with bad debt piling in the balance sheet of the Chinese banks.

However, there seems to be always a winner: Singapore, thanks to its well-developed institutions and expertise in private projects, strong institutions such as capital markets and international arbitration court, is well positioned to benefit in both cases, regardless of the source of funds, by supporting the PPP projects and also Chinese-led international projects.

**CONCLUSION**

It is clear that ASEAN countries cannot let pass the opportunities given by co-operating with the local and international private sector, or miss out on taking advantage of China’s ‘Marshall Plan’ for its all neighbours.

Most ASEAN countries, except Singapore, are more at home with government-to-government relationships, but several are afraid of an excessive dependence on a single country. That is why they have developed ASEAN and, especially Viet Nam, created an impressive network of free trade agreements.

Working with the private sector requires a daunting change in mentality and in legal rules. Viet Nam did some **Build Operate Transfer (BOT)** structures for roads and power stations under an old law in the early 2000s, but the new one on PPP has only been successful in drawing the money of some local companies with political ties supported by state-owned banks. By the way, the wellbeing of the citizen and their increasing spending capacity that enables them to pay for the services they receive, and economic growth that in ASEAN has surpassed 5% for many years (and is a great social stabiliser) are tilting the balance towards change.
A Trap on the Road to High Income in ASEAN

by Michele Boario

Looking at the world economy through the lenses of the Gross National Income (GNI) per-capita it is possible to identify four categories. The first one encompasses low-income countries, below USD995 GNI per capita, still affected by the poverty trap. The second group comprises countries which attained middle-income level (between USD996 and USD12,055 GNI per capita) long time ago, but then they were not able to keep on growing. Many examples for this category are in Latin America. The third group consists of countries which have recently came to or are approaching the middle-income level. Several economies of the Association of the Southeast Asian Nations (ASEAN) and China are included in this group. The last category is composed of high-income countries, with a GNI per capita above USD12,056, such as the members of the Organisation for Economic Co-operation and Development (OECD).

The key economic challenge for most countries in group 2 is how to avoid the so called ‘middle-income trap’ (MIT) and advance to a high-income level. Starting from a brief analysis of the growth trajectories of ASEAN economies, the article aims to answer this question exploring the determinants of the ‘trap’ and discussing policies proved successful in other countries to avoid or escape stagnation after reaching middle income level.

ASEAN Economic Growth

Located at the center of the most dynamic economic area in the world – the Indo-Pacific region – ASEAN keep on showing a good economic performance. The average annual GDP of its members grew at 5.3% in the period 2000-2017. Some countries did better than others. In particular, the new members of ASEAN, i.e. Cambodia, Laos, Myanmar and Viet Nam (CLMV), at a low middle income level (GNI per capita USD996-3895) have been growing faster reducing per capita income gaps with other member countries.

The average Gross Domestic Product (GDP) per capita in ASEAN moved from being nearly three times that of CLMV in 2000 to less than two times in 2017 when calculated in Purchasing Power Parity (PPP). The rapid growth of CLMV has also been associated with dramatic reductions in poverty. Notwithstanding these achievements, different kinds of intra-country inequities remain high or have increased, including across rural and urban areas or center and periphery, along ethnic and religious lines, and between genders. As a result, polarization, both economic and social, is increasing. These factors can threaten cohesion and pose major risks to social stability, and growth itself, as well as the poverty elasticity of growth. An even bigger threat to CLMV growing potential is MIT that will be analysed in the following paragraphs.

ASEAN founding members, with the notable exception of the Philippines, performed better in the last decades of the 20th

2 More than 50 years ago in many cases.
century. Thailand GDP growth was above 10% in the period 1987-1997, then abruptly plummeted during the Asian crises and never reached again the same performance. The average GDP growth in the last 15 years was around 4%. Malaysia and Indonesia followed a similar path. All three countries are currently struggling to escape MIT and testing policies to regain strong growing momentum. Looking at the per capita GNI of upper middle-income ASEAN countries relative to the U.S. level, Malaysia and Thailand rapidly caught up with the U.S. during 1985-1997, but the catching-up was much less impressive in 1998-2008. The recent performance of Indonesia has also been poorer than in preceding periods.

The Philippines did not share the same economic path with the previous three ASEAN founders. In the 1990s, during the roaring years of Thailand and Malaysia, the archipelago was considered as the ‘sick man of Asia’, while in the last five years its macroeconomic performance improved significantly with an annual GDP growth close to 7%. To certain extent its growing trajectory is closer to the CLMV one showing a better performance in recent years than the last decades of the 20th century. Singapore, another founding member of ASEAN, is an out layer. It was able to continue its remarkable growing trajectory avoiding the MIT and reaching high-income level already in 1991. Recently it became one of the richest countries in the world with a GNI per capita over USD54,000 (2017). Brunei reached high-income level in 1989 and a GNI per capita close to USD30,000 in 2017. Overall, despite the good economic performance, most ASEAN members, except for Singapore and Brunei, find themselves trapped or at risk of being trapped in a scheme in which growth based on low cost comparative advantage is reduced as incomes grow.

The Middle-Income Trap and its Determinants

A growing body of economic literature has focused on the MIT, different definitions have been proposed, and the phenomenon has been analysed from different perspectives. Some scholars even challenged the very existence of MIT arguing that it is possible to identify development traps at all level of income. Gill and Kharas first used the term MIT in 2007, referring to countries squeezed between the low wage poor-country competitors that dominate in mature industries and the rich-country innovators that dominate in industries undergoing rapid technological change. In the words of the Asian Development Bank (ADB), MIT is a situation where a middle-income country can no longer compete internationally in standardised, labor-intensive goods because wages are relatively too high, but it is also not ready to compete in higher value-added activities due to relatively low productivity. The phenomenon happens when wages in a country rise to the point that growth potential in export-driven low-skill manufacturing is exhausted before it attains the innovative capability needed to boost productivity.

More in detail, the process of getting stuck in MIT can be explained with the following steps. As economies move from low- to middle-income status, they can compete internationally by moving from agricultural to labor-intensive, low-cost manufactured products. Using imported technologies, late-developing economies reap productivity gains as workers shift from the agricultural sector to the manufacturing sector. Eventually, the pool of transferable unskilled labor is exhausted, and the expansion of labor-absorbing activities peaks. As countries reach middle-income levels, real wages in urban manufacturing rise or market share is lost, and gains from importing foreign technology diminish. The emergence of a ‘Lewis Turning Point’ – with wages rising faster than the rate of inflation – often signals a coming MIT. The result is slow growth, stagnant or falling wages, and a growing informal economy.

Most empirical studies on MIT shows how developing countries face a declining productivity growth and struggle to boost total factor productivity (TFP) when they reach middle-income level. TFP refers to the efficiency with which countries face a declining productivity growth and struggle to boost total factor productivity (TFP) when they reach middle-income level.

References:

capital and labor are combined to produce added value. TFP reflects the development of production, process technologies and ideas. It represents the residual growth once the specific contribution of capital and labor have been identified. In the literature on MIT, TFP is regarded as one of the most significant elements for economic growth. Eichengreen, Park, and Shin found that, on average, the decrease in TFP growth rate explains around 85% of the growth slowdown in their sample of countries trapped at the middle-income level, while the decreases in labor and capital growth only play a small role. 

TFP growth, in turn, can be explained by a host of factors. A recent regression run by ADB identified human capital and R&D as the most important determinants of TFP growth. Low levels of human capital stock limit growth opportunities for companies and correspondingly can slow down economic development thereby endangering a country competitiveness. Skill gaps affect further development as a domestic supply-side constraint, but also deterring foreign investment and technological upgrading by firms. Various externalities determine underinvestment in human capital and a consequent persistence of skill gaps ultimately trapping countries. Efforts to strengthen R&D activities and quality of human resources are essential for facilitating the transition from a labor-surplus to a labor-shortage economy, the transition from input-driven growth to TFP-based growth, and for upgrading the industrial and export structure to high-skill and technology-intensive products.

Other studies stress the role of institutions, infrastructure, macroeconomic fundamentals, demographics, level of economic diversification and trade structure on TFP growth. Rodrik emphasises the role of high-quality institutions including: good governance; corporate governance; wide participation of various stakeholders in the policy decision process; effective co-operation among academics, businesses, and government in the formation of strategy for strengthening international competitiveness; efficient and transparent relationship between government and businesses; and increasing investment in R&D. Rodrik also emphasises the need of qualified bureaucrats and a strong private sector for building high-quality institutions, which are also necessary for the improvement of human capital over time and the upgrade of industrial structure towards skill-intensiveness. Infrastructure play a role per se on TFP growth, but it is also instrumental to boost human capital. Telecommunications for example are paramount to develop a knowledge economy.

Paus highlighted the role of global context and inequality on MIT. The rise of China compounded with an increasing competitive pressure and speed of technological change has changed the global architecture of production. Such a dramatic change made it more challenging for a middle-income country with limited innovation capabilities to increase TFP, overcome MIT and catch up with high income countries. Internally, high income inequality may lead to unequal access to education which, in turn, limits the accumulation of the human capital needed for innovation. Moreover, high inequality may result into political instability making difficult to implement any long-term development strategy.

Among other determinants of MIT should also be included the rigidity of a country to change growth patterns, having lost their competitive advantage such as from low manufacturing labor costs in the case of some ASEAN countries. More broadly, the ability to formulate and implement new policies consistent with the evolving challenges of a country moving from one income status to the next influences significantly the chances to avoid or overcome MIT.

**ESCAPING THE MIDDLE-INCOME TRAP**

According to the ‘Growth Report’ by the Growth Commission, only 13 countries were able to escape MIT since the 60’s, and five of them are in East Asia – Japan, Korea, Hong Kong, Taiwan and Singapore. The experience of some of these countries can support the reflection within ASEAN on how to address ongoing MIT or the risk to be trapped.

A first key factor underlying the success of the East Asian economies that were able to transition from middle to high-income status was their ability to push the technological frontier and move from imitating and importing foreign technologies to innovating technologies of their own. The creation of a large framework for innovation based on technological learning, public sector support of R&D investments and strong intellectual property rights protections have been a major factor in facilitating this home-based innovation. Conversely, the ASEAN countries at middle-income level tend to just import foreign technologies and the level of investment in R&D as a percentage of GDP is still very low. Malaysia figure was the highest among these countries, but it was only 1% in 2012, compared with 4% for Korea in the same year and 2.27% ten years earlier. The performance of R&D activities has been partly reflected in the number of patents granted. As expected, the gap between the current situation of ASEAN and that of Korea in the 1980s

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25 See World Bank Open Data.
is large. The average annual number of patents granted to Korea in the 1980’s and 1990’s was around 8,000, while the current average in ASEAN is less than 1,000.26

The results of R&D activities have to be commercialised through product and process innovation employing high-quality human resources, in particular tertiary graduates with strong industrial technical skills and background in engineering. The current situation of ASEAN middle-income economies is different from the case of Korea in the 1980s and 1990s. First, the current average enrolment rate of ASEAN middle-income countries is below 50%, while Korea reached this level already in 1996 and was above 70% in 1999. Second, and more importantly, in Thailand, the Philippines, and Indonesia, graduates in industry fields such as engineering, manufacturing, and construction accounted for only approximately 10% of all graduates;27 while the share of social sciences in total graduates was as high as about 40%. In contrast, the situation in Korea in 1999 was reversed.

Another interesting lesson for Korea comes from the public-private coordination in supporting innovation. Korean firms, including small and medium-sized enterprises (SMEs) have emphasized the development of technology and R&D activities since the early 1980s.28 This positive behavior of private firms has been enhanced by government policy. The Government of the Republic of Korea has supported private R&D by giving tax credits, allowing accelerated depreciation, and lowering import tariffs. R&D activities have been directly conducted by the government since the mid-1960s. However, since the early 1980s the emphasis has gradually shifted to the private sector and the role of government has been to provide incentives through fiscal and trade policies.

With a significant R&D effort and high quality of human resources, ASEAN middle-income economies can be expected to upgrade their industrial structure to high skill-intensive products and improve over time their competitiveness in international markets.

Other important lessons learnt concern infrastructures, labor market and trade. All East Asian economies that were able to escape the middle-income trap succeeded in developing advanced infrastructure networks, particularly in the form of high-speed communications and broadband technology. Thanks to the liberalisation of telecommunications networks and related regulatory framework reforms, a number of countries in the region have been able to develop and enhance the availability of information and communications services.29

Flexible labor markets and open economic policies have allowed for the reallocation of labor across sectors within the most successful economies in the region. Countries in the region have relied extensively on international trade to accelerate their labor transfer by inserting themselves into the labor-intensive segments of global value chains. Such a transfer was facilitated by advances in ICTs and by decreasing transport costs and lowering international trade barriers.30 This labor market flexibility has facilitated the new labor transition, now increasingly towards innovative occupations.

Finally, escaping MIT requires an effective policymaking cycle able to transform in reality the ideas previously discussed. Few key principles should be understood, interiorized and nurtured at all different layers of the government and other stakeholders involved in economic reforms. First, policy formulation and implementation should not be handled separately. They are part of the same process. Therefore, the policy formulation cannot be left only to the ministers and few international consultants. Representative of all stakeholders involved in a new policy implementation should participate since its inception. Second, policy making exercises aimed at addressing MIT should be problem-driven and based on a mechanism of trial and errors. Third, while it is easy to find best practices that worked well in other countries at other times, a copy paste process would inevitably fail in addressing the specific evolving economic complexity of a country facing MIT today or tomorrow. The experience of other countries is there only to inspire policy makers in finding their own solutions which should be fully customized to their specific country and current global context. Similarly, it is important avoiding the temptation to create institutions that just mimic the form of performing ones without developing the actual operational functions.

28 Ibid
CONCLUSION

Determinants of growth at low and high income levels may be different. If countries struggle to transition from growth strategies that are effective at low income levels to those effective at high income levels, they may stagnate at some middle income level.

MIT has become the great concern of ASEAN, but it is not unavoidable. Examples of East Asian economies that were able to transition from middle-income status to high-income status based on their ability to increase total factor productivity are there to prove it, but they cannot be simply copied. What is needed is a timely shift of policy focus and an effective policy-making cycle. Governments should act early, not when the benefits of cheap labor and the gains from imitating foreign technology are already exhausted. The government strategy should be based on timely implementation of public policies aimed at improving access to advanced infrastructure, enhancing the protection of property rights, and reforming labor markets. These policies are central to fostering technological learning, attracting talented individuals into R&D activities, and encouraging the creation of national and international knowledge networks.

While the problem for high middle-income countries such as Malaysia and Thailand is in promoting innovation-oriented policy to maintain international competitiveness to avoid the trap, the problem for the low middle-income countries such as Viet Nam, Laos, Myanmar and Cambodia is strengthening basic infrastructure and institutions, promoting market and private sector development and ensuring equal competition among economic actors for efficient use of capital, land, and other resources. However, all ASEAN countries should not only strive to identify ‘what to do’ to address MIT, but also consider carefully ‘how’ to formulate and implement their new policies and check the health of their policy-making cycle. Ministries’ desks of stagnating economies are full of wonderful policies not implemented.

SUSTAINING THE PLANET FOR OUR FUTURE GENERATIONS

by H.E. Don Pramudwinai

In the digital age and in the present context of the Fourth Industrial Revolution (4IR), we often hear about ‘big data’ and the ‘Internet of Things’ (IoT), which to some may sound highly technical and virtually digital. While Thailand is fully aware of the opportunities and challenges that come with modernity, we also seek an all-encompassing human dimension of inclusive development, particularly during our year as ASEAN Chair. This is why we came up with the theme ‘Advancing Partnership for Sustainability’, to promote the ‘Sustainability of Things’ (SoT), which means sustainability in all dimensions.

Sustainable development is an overarching concept that is directly related to the SoT. However, the first aspect of sustainability that usually springs to mind for the public is environmental sustainability, which is a significant component of the concept and part of the United Nations’ 2030 Agenda for Sustainable Development. The 17 Sustainable Development Goals (SDGs) are simply grouped into the so-called ‘5Ps’, with the ultimate goal of saving the planet, fostering peace, creating prosperity, enhancing partnership, and nourishing our people.

With regard to the planet, fresh air and clean water are among the fundamental essentials for human beings and all other creatures that share this world with us. Sadly, Mother Earth has been harmed and taken for granted by human beings more than anyone else throughout history. The fact that several SDGs attach importance to the rehabilitation and conservation of our planet reflects rising environmental concerns and the call for more balanced development, widely known as the concept of ‘circular economy’, which is gaining ground globally.

Thailand assumes that enhancing environmental sustainability is inextricably linked to social and economic development, and it is one of the key conditions for sustainable development. We have therefore adopted measures to conserve, restore and manage our natural resources and environment in a more sustainable manner, and included these elements in our 20-Year National Strategy Framework (2017-2036).

For instance, Thailand has launched the Nationally Determined Contribution Roadmap on Mitigation (2021-
2030) to ensure that we meet our targets on the reduction of greenhouse gas emissions by 20% to 25% by 2030. Some progress has been made so far. Last year, we managed to reduce the emission of 45.72 million tonnes of carbon dioxide, or 12% of the target, i.e., 20% by 2020. Moreover, about 24 hectares of coral reefs and 880 hectares of mangrove forest were rehabilitated, and the use of over 435 million plastic bags was reduced since 2017.

Beyond our national undertakings, Thailand has consistently advocated co-operation with the global community on environmental issues to derive long-term benefits. An example is our firm commitment to the Paris Agreement to address climate change. At the same time, Thailand has been co-operating with all partners to exchange knowledge, experiences and best practices.

Sustainable development is a global agenda that requires concerted efforts, and Thailand is in a position to drive it forward this year. In addition to being ASEAN Chair, Thailand is also ASEAN Coordinator on Sustainable Development Co-operation, actively identifying the complementarities and promoting closer coordination between ASEAN and the United Nations. One substantial outcome is that of the complementarities between the ‘ASEAN Community Vision 2025’ and the ‘2030 United Nations Agenda for Sustainable Development’, which identifies potential synergy and means to strengthen ASEAN Community-building while simultaneously attaining several SDGs.

A recommendation from the Complementarities Report that will be fully realised this year is the establishment of the ASEAN Centre for Sustainable Development Studies and Dialogue in Thailand. The Centre will be funded by the Royal Thai Government and will help to coordinate activities and projects related to the Complementarities Initiative, while linking up with similar centres in ASEAN member states to form a network of centres in support of regional sustainable development efforts.

During Thailand’s ASEAN Chairmanship, one of the sustainable development agendas that will be addressed is that of the marine environment. Thailand is greatly concerned with the problem of marine debris and its impact on the environment. We truly believe that urgent action is needed. Researchers have found an area of marine debris or ‘garbage patch’ in the middle of the Pacific Ocean that is larger than Bangkok. This debris is eaten by fish, which are then consumed by people, causing severe health problems. News reports of sea animals such as whales and turtles suffering as a result of eating indigestible waste cover only a fraction of the 100,000 deaths of marine animals that occur annually as a result of this problem. In addition, marine debris affects the promotion of environmentally friendly tourism and thus affects the contribution of the tourism sector to national development.

Research by Thailand’s Ministry of Natural Resources and Environment found that rubbish that is thrown into the sea can travel all over the world. It is therefore imperative that we have a platform for discussion and collaboration to tackle the problem. A technical working group meeting among ASEAN members was held in November 2017. The Special ASEAN Ministerial Meeting on Marine Debris and the ‘ASEM High-level Meeting on Marine Sustainability’ were hosted on 5 March and 7–8 March 2019, respectively. Thus, Thailand is advancing partnership in this field by starting with environmental sustainability, and is willing to expand to other areas throughout the year.

The benefits of sustainable development are countless but each country should embark on its own path and determination to achieve the goals. In Thailand’s case, the ‘Sufficiency Economy Philosophy’ (SEP) has been adopted as its home-grown approach. This philosophy, conferred by His Majesty the late King Bhumibol Adulyadej, proposes a ‘thinking process’ consisting of three parts: analysis of the cause of the problem, identification of practical solutions, and implementation of the selected solutions.

SEP is mainstreamed in Thailand’s policy, at both the national and the international levels. It has been a guiding principle in Thailand’s national economic and social development plans since 2002 and its application to achieve sustainable development. Thailand has shared this philosophy with many countries as an alternative approach to attaining the SDGs, through the provision of training courses and the establishment of several co-operative projects in Asia and Africa.

In conclusion, Thailand’s commitment to sustainable development is steadfast, as demonstrated in our past achievements and contributions, both nationally and internationally. We are committed to doing more. The agenda will be particularly important during our ASEAN Chairmanship, and Thailand looks forward to working with colleagues in ASEAN and beyond in a global partnership as set forth in the 17 SDGs.
Indonesia, situated in Southeast Asia, is the world’s largest archipelagic country, comprising around 17,000 islands and inhabited by almost 260 million people, making Indonesia the country with the fourth-largest population in the world. The Republic of Indonesia is blessed with abundant natural resources and cultural heritage.

It is also considered the third-largest democracy in the world, with direct voting for both presidential and parliamentary elections. There were around 190 million registered voters at the last general election, on 17 April 2019, with approximately 150 million turning out to vote directly for the president, vice president, and members of parliament on that day.

With regard to bilateral relations between Indonesia and Italy, throughout the years the two countries have enjoyed a stable partnership. The cordial relations and good friendship between the two countries have flourished since 1949, with Italy being one of the first European countries to acknowledge the independence and sovereignty of the Republic of Indonesia.

Co-operation between the two countries has continuously shown positive notes, particularly since 2009, when both countries signed a bilateral agreement on Bilateral Consultation Forum. Various high-level official meetings have been held between Indonesia and Italy. At the presidential level, apart from meetings on the sidelines of international conferences, President Sergio Mattarella visited Indonesia on November 2015. This was the first visit to Indonesia by an Italian president, and it served as an important step in advancing bilateral relations.

In addition to numerous exchanges of visits at the ministerial level, the Minister for Foreign Affairs, Retno L.P. Marsudi, visited Rome on 9 October 2017, while on 7 February 2018, the Minister of Foreign Affairs and International Co-operation, Angelino Alfano, visited Jakarta. Undersecretary Manlio Di Stefano also visited Indonesia in December 2018 as Head of Delegation for the Bali Democracy Forum. He also had the opportunity to meet Foreign Minister Marsudi.

I am pleased to note that Indonesia and Italy have enjoyed co-operation in the fields of defence, economics, trade and investment, sociocultural, and tourism. In the economic field, Indonesia and Italy recorded total trade of USD3.76 billion during 2018, USD1.92 billion of which was made up of Indonesian exports to Italy, while Indonesia imported USD1.84 billion. These data make Italy Indonesia’s third-biggest trade partner in the European Union (EU). 2018 also saw USD32.09 million of Italian investment in 187 projects in Indonesia, making Italy the ninth-largest investor from the EU.

Meanwhile, in the tourism sector, Italy is the fifth-largest contributor of European tourists to Indonesia, with 94,232 Italian tourists having come to Indonesia during 2018. This number shows an increase of almost 4.6% on the same period in the previous year.

This year the Republic of Indonesia and the Italian Republic are expected to commemorate the 70th anniversary of their diplomatic relations. The two countries will collaborate in various activities to celebrate this historic occasion. We have planned events to be held throughout 2019 that focus on the creative economy and small and medium enterprises (SMEs), which have been agreed by both foreign ministers as the themes of this year’s commemoration.

At the regional level, Indonesia acknowledges ASEAN as the cornerstone of Indonesia’s foreign policy. As one of the founding members of ASEAN, Indonesia places great importance on maintaining peace and stability in the region, as well as enhancing
co-operation among members of ASEAN, be it in the political, economic or sociocultural sector. This policy also translates to all Indonesian missions abroad, including the Indonesian Embassy in Rome. We always maintain strong friendships and co-operation with all ASEAN missions through the ASEAN Committee in Rome (ACR) and its various events. Together with other ACR missions, we also aim to increase understanding of ASEAN by the Italian public and enhance relations between Italy and ASEAN countries. This is done through many events in co-operation with various institutions in Italy.

**ITALY AND MALAYSIA RELATIONS: OPPORTUNITIES FOR THE FUTURE**

by H.E. Abdul Malik Melvin Castelino

Relations between Malaysia and Italy have always had good momentum and have escalated positively since 1957. The past 62 years have been productive for many areas of co-operation, namely defence, education, trade and investment, as well as tourism. As for this latter sector, I am pleased to announce that Malaysia is becoming a favoured destination for Italians, with 55,000 Italian tourists having visited Malaysia in 2018. Malaysia is a nation of 32 million and is rich in culture and heritage. Under the new government, Malaysia strives to uphold international law and integrity and curb corruption within the rule of law. At the same time, it continues to develop close and friendly relations with like-minded countries and play an important role in international forums. Malaysia is a multiracial, multireligious and multicultural country and its identity encompasses a vast array of languages, cuisines and traditions.

I wish to highlight that Malaysia is currently riding on an ecosystem approach to lure investment, and not just within the country – it is also leveraging the competitive advantages of other ASEAN member states to create more vibrant and accessible investment opportunities. Given ASEAN’s vast consumer market and the increased development of member countries, companies located in Malaysia can leverage the country’s proximity to these markets and create a strong customer presence in the region.

As Malaysia moves up the value chain, we are looking for more innovation-based, knowledge–intensive projects within high-growth, high-value industries. Having built a strong industrial ecosystem over the years, we are now more targeted in our investment promotion efforts, specifically by focusing on quality investments that will accelerate and sustain the nation’s economic growth. As a trading nation with an open economy, Malaysia welcomes all foreign investments, including those from Italy that meet our aspirations of becoming a developed nation. In this regard, Malaysia would like to strengthen its already strong relations with Italy by opening the door to trade and investment with Italy, and further to encourage Italian businesses – particularly small and medium enterprises (SMEs) – to explore the many lucrative opportunities in Malaysia.

As of June 2018, a total of 73 manufacturing projects involving Italy’s participation had been implemented, with investments amounting to EUR300 million, and Italy is ranked as the seventh-largest investor in Malaysia from Europe. Investors are welcome to look at Malaysia as their gateway to the enormous ASEAN market and beyond. ASEAN is a regional organisation of ten economies and a combined population of more than 622 million that should become the fourth-largest single market in the world by 2030, after the United States, China and the European Union. On that note, I also wish to stress that we share Italy’s view that the best is through creating mutually beneficial and sustainable growth as well as increased co-operation in trade and investment.

**MYANMAR-ITALY ENCOUNTERS**

by H.E. Myint Naung

Myanmar is located in the Southeast Asian peninsula, one of the ten ASEAN member countries. It shares its borders with five countries, including the two largest Asian economies, China and India. In terms of size, Myanmar is twice as large as Italy, while Italy’s
population is 10 million larger than Myanmar’s. Myanmar’s strategic location offers a gateway to the Indian Ocean. The first Myanmar kingdom was established in the 11th century and kept its sovereignty until the 19th century, when the British colonized it. Myanmar regained its independence in 1948. Bilateral relations between Myanmar and Italy date back to the 18th century, when King Mindon twice sent a delegation led by Kin Wun Min Gyi to visit Italy. Likewise, Father Paolo Matteo Abbona played an important role between the two countries as he prepared the bilateral commerce and friendship agreement that in 1871 was signed in Mandalay between the Burmese Empire and the Kingdom of Italy.

The two countries opened a new chapter of diplomatic relations in 1950, and established their own embassies in each other’s capitals in 1962. Former president of Myanmar H.E. U Thein Sein paid a state visit to Italy in 2013. In addition, he took part in the Asia-Europe Meeting together with other leaders in Milan in 2014. As part of the official programme, H.E. U Thein Sein also visited Turin for two days. Two years later, in 2016, former prime minister of Italy H.E. Mr Paolo Gentiloni also visited Myanmar. In 2017, H.E. Daw Aung San Suu Kyi addressed the International Parliamentarians’ Conference in Rome as a special guest.

Myanmar chiefly exports a vast array of commodities, including natural gas, timber, beans, pulses, seafood, clothes and jewellery, while it imports oil, vehicles, machinery, construction materials, fertilizers, pharmaceutical products and lubricants. China, Singapore, Thailand, Japan and India stand as Myanmar’s top trading partners.

As for bilateral trade with Italy, trade volume reached USD217 million in 2017-2018. Myanmar’s exports to Italy include clothes, shoes, timber, seafood, rice, beans and pulses, and forest products. Electronics, machinery, construction materials, scientific tools, agricultural products, glass and glassware, chemicals and vehicles are the main Italian exports to Myanmar.

Due to its unique geographical location, Myanmar represents a land bridge between South and Southeast Asia, while its proximity to the largest Asian emerging markets, abundant natural resources and human capital offer great potential for trade and investment.

THE PHILIPPINE AMBASSADOR’S VIEW ON PHILIPPINE-ITALIAN ECONOMIC RELATIONS

by H.E. Domingo P. Nolasco

Philippine-Italian co-operation has grown over the years since the establishment of diplomatic relations on 9 July 1947. The relationship has gradually expanded across its various aspects, including political and economic co-operation and people-to-people ties. I believe the bilateral relations can grow further and have yet to reach their full potential, especially in economic co-operation.

For example, trade between the Philippines and Italy has been growing strongly over recent years. Total trade between the two countries almost doubled between 2013 and 2018, rising to EUR867.8 million from EUR448.3 million.1 While the pace of trade growth is rapid, I believe that there is still a lot more room to grow.

The Philippines, as one of the fastest-growing economies in Asia, provides many opportunities to expand economic co-operation. The Philippine economy has grown by an annual average of 6.5% since 2012, characterised by sound macroeconomic fundamentals and driven by strong domestic consumption, government spending, and robust services and industry sectors. Currently, the Philippines is undertaking its Build Build Build programme, ushering in a golden age of Philippine infrastructure. A testament to the Philippine economy is the upgrade by Standard & Poor’s of the Philippines’ credit rating to BBB+ last April.

These factors, along with the country’s young, well-educated working population, provide many opportunities for Italian companies to invest in the Philippines. This is in addition to the fact that the Philippines benefits from the ‘European Union’s Generalised Scheme of Preferences Plus’ (EU-GSP+). Over 6,000 Philippine products enjoy zero tariffs when exported to the EU, making the Philippines a strategic and cost-effective source of imports for Italian companies.

1 All trade data are sourced from trademap.org, International Trade Center, 2018.
Other aspects of economic relations have also seen positive developments over the years. Tourism has witnessed steady growth over the years, with a total of 35,178 Italian nationals visiting the Philippines in 2018, indicating a 15.6% increase on the previous year and about 77% growth since 2014.

The Philippines and Italy also enjoy strong people-to-people ties, on which economic co-operation can be built. Italy hosts the second-largest Filipino community in the EU. As of 1 January 2018, there were 161,609 registered Filipinos in Italy according to Italian government data. This does not include dual citizens and therefore the Filipino footprint in Italy is likely to be larger.

While much has been achieved, I believe more can still be done. And both the Philippines and Italy have committed to doing more. In 2017, on the 70th anniversary of diplomatic relations, the two countries signed a memorandum of understanding, creating the ‘Philippines-Italy Bilateral Consultations Mechanism’ (BCM). The BCM will facilitate regular meetings between the two governments in order to shepherd the bilateral relations. In October 2017, at the first meeting of the BCM, the two countries agreed to expand economic co-operation, seeing the sectors of agricultural machinery, infrastructure and textiles as possible areas of co-operation.

I look forward to continuous dialogue and engagement between the Philippines and Italy to jointly develop more opportunities for mutually beneficial forms of collaboration and business-to-business co-operation. I believe our countries are ready to advance their economic relationship into the new decade. Potential for trade and investment.

THAILAND AND ITALY: OLD FRIENDS, NEW POSSIBILITIES

by H.E. Chirdchu Raktabutr

Thailand and Italy celebrated the 150th anniversary of the establishment of their diplomatic ties in 2018. On 3 October 1868, representatives of Their Majesties King Chulalongkorn of Siam (King Rama V) and King Vittorio Emanuele II of Italy signed the Treaty of Friendship and Commerce. Since then, Italy and Thailand have steadily cultivated friendly relations that have matured into mutual respect and partnership across different fields.

In recent years, Thailand and Italy have forged closer political ties. The first political consultation between the two countries took place in Rome in November 2016. Shortly thereafter, in February 2017, former Italian Foreign Minister Angelino Alfano visited Bangkok. In March 2017, his Thai counterpart, His Excellency Don Pramudvinai, paid a return visit to Rome. The Thai Prime Minister, General Prayut Chan-o-cha, met with the Italian Prime Minister, Giuseppe Conte, on the sidelines of the ASEM Summit in Brussels in October 2018. In June of this year, the Honourable Chief Justice Cheep Jullamon, President of the Supreme Court of Thailand, will be visiting Italy as the guest of the Honourable Giovanni Mammone, First President of the Supreme Court of Italy. He will also meet with the Honourable Roberto Fico, the President of the Chamber of Deputies.

At the same time, our private sectors are co-operating to increase bilateral trade and investment. The fifth meeting of the Italian-Thai Business Forum took place in Rome in May 2019. Over 20 major Thai and Italian companies, responsible for USD2 billion’s worth of trade and investment between our two countries, gathered to discuss economic opportunities and improve business ties. Our economic relations continue to be dynamic despite the global economic slowdown and growing protectionism. Thailand’s Central Group’s investment in La Rinascente department stores has won praise for preserving an iconic Italian brand and employing more than 5,000 staff across Italy. Italian companies are actively participating in the development of Thailand’s Eastern Economic Corridor. Ferrovie dello Stato (FS Group) of Italy, together with CP Group of Thailand, has submitted a tender for the high-speed rail project linking Thailand’s three international airports. FS Group will soon open an office in Thailand. Moreover, Ducati Motor is considering opening a second factory in Thailand after the success of its first factory in Rayong Province. The world’s leading helicopter manufacturer, Leonardo Company, is also setting up an office in Thailand.

Thai-Italian bilateral trade averaged USD3,400 million per year between 2015 and 2017. In 2017, total trade between our two countries reached over USD3,700 million, an increase of 8% from 2016. Italy ranks 24th among Thailand’s most important trading countries, the fifth in the European Union after Germany, the United Kingdom, the Netherlands and France. By comparison, Thailand ranks 48th among Italy’s trading partners and second in ASEAN, behind Singapore.

Just as important as political and economic relations is cultural linkage, which plays a special role in fostering Thai–Italian friendship. Historically, Italian architects and engineers were employed in the Court of Siam to help modernize the
nation and build important structures such as Bangkok’s Hua Lampong railway station and Ananta Samakhom Throne Hall. At that time, opening Siam to Western culture was a way to show progress against a backdrop of colonialist expansion. These buildings have stood the test of time and have nowadays become a symbol of Italian influence on Thai architecture.

Our people-to-people contact is flourishing. Tourism plays a key role in encouraging the people of both countries to better understand and respect each other’s cultures. In 2018, more than 280,000 Italians visited Thailand, while 37,000 Thais visited Italy. The Italian language is taught at Thailand’s premier academic institutions including Chulalongkorn and Thammasat universities. Ca’ Foscari University in Venice is offering Thai language courses with a view to establishing a Thai studies programme in the coming year.

It is clear that our state-to-state, people-to-people and business connections are growing steadily. Our long history of friendship and mutual goodwill provides a solid foundation for creating more opportunities to expand and deepen Thai-Italian relations.

BILATERAL RELATIONS BETWEEN VIET NAM AND ITALY

by H.E. Nguyen Thi Bich Hue

In recent years, relations between Italy and ASEAN countries, including Viet Nam, have continued to develop fruitfully and productively. 2018 proved to be another excellent year for this thriving relationship. Viet Nam and Italy celebrated the 45th anniversary of diplomatic relations and five years since the establishment of a strategic partnership, marked by the visit of Deputy Prime Minister H.E. Truong Hoa Binh to Italy in October.

Viet Nam is gaining ever more attention from Italian investors and entrepreneurs. Nowadays it is one of the fastest-growing economies in Asia, with a vibrant market of more than 95 million consumers, an emerging middle class and a young, dynamic workforce. The growth rate in 2018 reached a ten-year high at 7.08%, leading to GDP per capita of USD2,540, up 6.3% year on year. Under a socialist-oriented market economy, Viet Nam’s economic structure is shifting towards modernisation and industrialisation, with a shrinking share of agriculture and an increasing contribution of services and industrial production.

Beyond the Vietnamese government’s ongoing efforts towards economic reform, the country also consistently pursues a comprehensive integration policy with the focus placed on international economic integration. At this stage, Viet Nam has so far implemented and ratified 11 free trade agreements (FTAs), notably the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The country is preparing to complete, sign, ratify and enforce five other FTAs, including the European Union-Viet Nam FTA (EVFTA), a very promising agreement that could yield significant benefits for Italian businesses once it takes effect. Under the scope of this agreement, 99% tariffs on goods traded between the European market and Viet Nam will be eliminated, creating incentives and new playgrounds for EU companies who wish to invest in our country. Furthermore, as a member of many important economic co-operation mechanisms in the region and globally, such as the World Trade Organisation (WTO), the World Economic Forum (WEF), Asia-Pacific Economic Co-operation (APEC), etc., Viet Nam is committed to working with other partners, including Italy, towards a stable and predictable rule-based multilateral trading regime that will positively contribute to the greater welfare and economic development of both our economies.

As ambassador to Italy, I make it one of my key goals to strengthen the relationship between Italy and Viet Nam, as well as with ASEAN as a whole. In doing so, through the launch of this journal, together with other joint activities, including the upcoming Third High-level Dialogue on ASEAN-Italy Economic Relations, which was held in Hanoi this June, I hope that they will provide essential catalysts to advance our partnership to the next level, bringing prosperity and new opportunities to all the people and entrepreneurs across our countries.
BOOK REVIEW
by Giuseppe Gabusi


In 1993, The World Bank entitled its annual Development Report ‘The Asian Miracle’, with the original intention to acknowledge the specific economic path of countries like Korea, Japan and Taiwan. Now Kishore Mahbubani – an eminent scholar and diplomat from Singapore, author of the global bestseller The New Asian Emisphere – and Jeffrey Sng have written a book on the ‘ASEAN miracle’, meaning the success story of the Association of Southeast Asia Nations. Established in 1967 with a clear anti-communist agenda by five states (Indonesia, Malaysia, Singapore, Thailand, and The Philippines), after 50 years the Association is still with us with ten members, becoming – according to the authors – ‘the second most-successful regional organisation in the world’ after the European Union (EU). Is that true? Where is the evidence? What are the changes that ASEAN has to implement if it wants to adapt to the new challenges of the 21st century and celebrate its 100th anniversary in 2067?

In general, Western commentators and scholars have tended to define ASEAN as a useless or unfulfilled project of regional integration. On the one hand, ASEAN has been dismissed by realists as a mere ‘talking shop’ among national leaders, without any serious impact on countries’ own destinies. On the other hand, in the eyes of functionalists ASEAN has never lived up to its potential to unite Southeast Asia in a single supranational entity, comparable to the EU. The problem is – and this represents the core argument of the book – that ASEAN never meant to become another EU, but by using the EU as a benchmark many commentators were blind to the significant achievements that ASEAN has obtained, probably against all odds: ‘What makes ASEAN truly remarkable is not just that it was born in unpromising times and nurtured on unpromising soil. If ASEAN had been a human baby, it might have not reached full term. Instead, the precarious baby became a world star’ (p. 6).

Indeed, Mahbubani and Sng show how lessons can be drawn from the ASEAN experience. Start with history: thanks to its geographical – mostly maritime – comparative advantage, Southeast Asia has been at the crossroads of the world (and of civilizations) for over 2,000 years. Four major cultural waves have hit the shores of the region – namely, Indian, Chinese, Muslim and Western. Three of them travelled peacefully across Southeast Asia, and the authors – as they were removing a pebble from their shoes – underline how it was only the fourth one that arrived on a tide of violence (p. 12). It is remarkable then that in such a complex cultural landscape, on which colonialism has impressed a lot of scars, ASEAN has become an ‘ecosystem of peace’: contrary to many doomsday’s voices, Southeast Asia has never been ‘Balkanised’, nor it has seen the disruption of state structures due to sectarian violence like in the Middle East. Furthermore, ASEAN has taken profit of the favourable geopolitical situation – mainly, the U.S.-China rapprochement in the 1980s – to position itself at the center of all multilateral institutions in East Asia ‘civilizing’ the giant (close and far-away) neighbours, to the point that ‘all the great powers, including America, China, India, Japan and the EU, have a stake in keeping ASEAN together’ (p. 13).

Thanks to its economic ‘miracle’, ASEAN is now bound to overcome the growing pessimism in the West about the future, because, building on permanent consultation and consensus, ASEAN members have thrived, while at the same time tolerating each other’s differences: for Mahbubani and Sng ASEAN is really a ‘microcosm of our global conditions’ (p. 1). They argue that the regional bloc’s strength now and in the future is precisely to have learnt how to manage diversity – a skill to be appreciated in a world fast becoming multi-civilisational. For all these reasons, the authors suggest that ASEAN should – like the EU once – be awarded the Nobel Peace Prize.

The ASEAN Miracle does not skip dealing with ASEAN’s weaknesses and shortcomings. First, the ‘absence of a natural custodian’ (p. 184), i.e. the role played in Europe by France and Germany: Indonesia could be the most likely candidate, but the Indonesian establishment is not unanimously convinced that Jakarta should lead ASEAN. Second, the absence of strong institutions: there is no enforcement mechanism for decisions, ‘no monitoring of compliance, and no sanctions’ (p. 188). Third, the budget of the association is quite limited. As this were not enough, the book lists a series of threats, like the rapidly deteriorating geopolitical context, where U.S.-China relations have deteriorated, shrinking the room to manoeuvre of the ASEAN member states, and the strong domestic focus of their leaders.

And yet the reader is convinced that a region – and the world – without ASEAN would fare much worse. The two authors have been in fact Singaporean diplomats, and they often know what really went on behind the scenes – apparently, in a few cases like
in the aftermath of the ‘Cyclone Nargis’ in Myanmar and in the 2008 temple dispute between Cambodia and Thailand, ASEAN leaders managed to avert major crises.

However, the book does also remind ASEAN that it cannot stand still if the organisation wants to survive. A project always owned by the government elite should now create a sense of ownership also among the people. Even though it cannot become ‘the East Asia’s EU’, it should turn in a proper institution, starting from a bigger empowerment of the ASEAN Secretariat through an increase in pro-quota budget contributions. And finally, it should be promoted as ‘a beacon for humanity’. Well-balanced, informed and thought-provoking, The ASEAN Miracle is also a subtle and fascinating (self-promoting) critique of Western perspectives in Southeast Asian. Will the future be ASEAN? Nobody really knows, but if the search of the future global order in Asia and beyond needs any guide, this is one of the best books to start from.