



# Can Asia Avert a Globalization Crisis?

by Valérie Engammare and Jean-Pierre Lehmann



**T**HE OCCASIONAL rhetorical flourish by political leaders notwithstanding, the policy agenda for global trade is paralyzed. This endangers everyone, but especially Asians. Asia's outstanding growth is to a very considerable extent driven by trade; indeed, a key feature of the early 21st century is the degree to which many Asian economies have become truly globalized. Asia has a lot to lose from a reversal or retardation of open policies, globally, regionally and domestically.

As part of a growing backlash against globalization, protectionism, driven by a widespread fear of competition and job losses, is flourishing in many places and in many forms. Policies concerning trade, investment, and labor mobility, the key factors of economic integration, are increasingly conceived as defensive mechanisms rather than instruments creating opportunities. There is a deepening chasm between global economic imperatives and domestic political constraints.

At the regional level as well it seems increasingly difficult to progress, as highlighted by the obstacles met by the

liberalization of services in the European Union, the moribund state of the Free Trade Area of the Americas, or indeed in Asia where the concept of an Asian economic community, as demonstrated in the Second East Asian Summit held in January in Cebu, Philippines, is still little more than an embryo. Instead of common vision, ambitions and political will towards greater integration of markets and communities—and towards greater global prosperity—there are today many symptoms of a “globalization crisis.”

Crisis may sound like an excessively alarmist term when looking at the current situation. World trade grew by 9% in real terms in 2004, and by 6% in 2005, or twice as much as global output growth. The value of world trade in 2005 exceeded \$10 trillion. Outward stock of foreign direct investment was over \$10 trillion in 2005

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as well. In 2005, there were more than 190 million migrants worldwide, about 15 million more than in 2000. The WTO, even though the current round of negotiations is stalled, still attracts new members, such as Vietnam and Saudi Arabia most recently, and probably Russia and Ukraine very soon.

In addition, opposition to globalization is not particularly new, so why do we refer to a crisis? What we are seeing today is a new kind of anti-globalization that is increasingly driven by governments and diverse political groups in addition to NGOs. In particular, there is a loss of support in favor of globalization from those who initially embraced it and created the framework after World War II, notably in the U.S. across bipartisan lines. Market-led integration can only be self-generated up to a point: Collective political will is needed to address difficult issues such as agricultural liberalization, migration, energy supply, or environmental issues.

On these issues, unilateral policies are often too inward-looking and bilateral measures insufficient to tackle the challenges. A failure to work on multilateral solutions today will have long-term effects. This is likely to foster mercantilist and protectionist attitudes, undermining trust between members of the global community. Protectionism is likely to cause considerable havoc, considering that goals such as global security and global prosperity are unlikely to be achieved in the absence of collective vision and action.

What are the implications and policy options for Asia? If the North Atlantic (North America and Western Europe, joined by Japan) was the great driver and beneficiary of open trade in the course of the first few decades following World War II, since the early 1990s the engines of global trade have rapidly moved to the Western Pacific and Indian oceans. The benefits accruing to Asia include enor-

mous poverty reduction and the rise of a middle class, with China, India and Korea standing out as major global economic players, Malaysia and Singapore as key regional and global economic hubs, and other countries such as Pakistan and Vietnam joining the ranks of the Asian tigers. While domestic and regional policies played an important role in these results, they could not have been achieved without fruitful economic ties with the rest of the world.

However, Asia's success has also made the continent a target of protectionism, especially, but not exclusively, in the U.S. and the EU; there have also been growing anti-Chinese trade attitudes and policies in Africa and Latin America. External problems are reflected in problems within the region; indeed Asia faces a quite daunting integration challenge, which requires building trust, long-term vision, leadership and genuine commitments. None of these currently have a conspicuous presence.

The present situation is the result of many elements. Whereas global economic integration has contributed to prosperity in different parts of the world, it is no bonanza, and significant imbalances remain. The world trading system in particular may have suffered from excessive optimism (fostered notably by multilateral financial institutions) and hence very high expectations of what it could achieve. In reality, trade liberalization can enhance economic growth and thus contribute to a country's development; however, its concrete impact will very much depend on domestic policies and reforms. Unmet expectations foster temptations to blame the system.

And the system is indeed far from perfect. Institutions, notably the WTO, have failed to follow the impressive developments of markets, leading to a growing gap between exponential developments in markets and technologies and lineal progression in institutions and mindsets. In the interim, the multilateral trading system has

## *If Asia practices free trade regionally, it will be much better placed to preach free trade globally.*

become a highly politicized process, often detached from economic efficiency concerns. For instance, industrialized countries' companies are aware that their future markets are in emerging economies, yet the emergence of these countries (China in particular) is still widely perceived in the public debate as a threat rather than as an opportunity.

Thus, it is not only a systemic crisis, but also a crisis of mindsets. Economic relations are increasingly characterized by mercantilism; countries are prone to take and reluctant to give, and when the situation gets difficult, the easiest populist option available is chosen. With the WTO multilateral negotiations paralyzed, governments worldwide now devote their best efforts to conclude bilateral trade agreements, even though these agreements have proved unable to tackle critical issues (notably agricultural liberalization) and rarely deliver any meaningful business results.

### **Asia Must Act**

ACCORDING TO THE Economist Intelligence Unit Foresight 2020 Report, between 2005 and 2020 Asia's share in the global economy is expected to rise to 43% from 35%. Already deeply integrated in the global economy and benefiting from this integration, there are many things that Asian countries can do collectively and individually to support global economic integration, and thereby improve the functioning of the multilateral trading system.

In the first place, practices must be improved and institutions must be strengthened at both the national and the regional level. At the domestic level, these include areas such as the rule of law, competition policies, administration, transparency,

trade infrastructure, capital markets, foreign exchange regimes, environmental legislation, energy policies, etc. Improved practices and stronger institutions can ensure that growth is more sustainable and facilitate cooperation, preventing counterproductive competition between the different economies over export markets, energy, etc. Attempts to set up an Association of Southeast Asian Nations charter in 2007 introducing sanction mechanisms and reforming to some extent the consensus rule represent a big challenge, and it remains to be seen if they bear fruit.

Stronger regional institutions could provide a sound framework for overcoming potential tensions, but at present these institutions practically do not exist. A stronger economic framework that could provide a genuine vision and agenda for the future of Asia and its relations with the rest of the world would undoubtedly benefit the region. But so far, Asia's integration with the global economy has been mostly the result of unilateral policies opening domestic markets and boosting competitiveness, combined with liberalization at the global level.

The results of the attempts of Asean (the only formal regional grouping in Asia so far) to institutionalize regional relations have been quite disappointing. The share of intraregional trade within Asean has only increased marginally over the last decades. In 2004, less than 10% of all intra-Asean trade was under the Asean Free Trade Area's common effective preferential tariff scheme. Similar comments can be made about APEC. Its highly diluted agenda goes well beyond economic concerns, thereby losing focus and momentum, becoming impossible to implement. This was once again vividly illustrated in the APEC summit

in Hanoi in November 2006.

The idea of a regionwide free trade agreement regularly comes back, at APEC summits or in the context of the recently created East Asian Summit, but only in quite abstract terms. It is obvious that the negotiations of an ambitious regional agreement would face the same challenges as WTO negotiations, given the number of countries potentially involved, and the reluctance of some of them towards such an agreement.

However, efforts should concentrate on creating a regional framework paving the way for future regional cooperation rather than regional forums giving pretexts to further bilateral cooperation. The East Asian Summit initiative, launched in Malaysia in 2005, failed in particular to provide a vision for the future of regional cooperation.

Without effective institutions, it will be difficult to reach regional cohesion, making it in turn more difficult to achieve Asian leadership at the global level. This is in part due to the legacy of failed Japanese leadership. As the leading Asian economic power, Japan did not play a role in Asia comparable to that played by Germany in Europe as the biggest market and most powerful locomotive. Thus Asia does not have a role commensurate to its economic importance in international forums or organizations.

At the WTO, Asian interests are very fragmented: Whereas India and China are both members of the G-20—an alliance of developing countries established at the WTO ministerial meeting in Cancún, Mexico, in September 2003 to counter the perceived excessive influence of the industrialized countries—their interests differ on a number of issues. Even Asean countries have defended different positions in the Doha Round negotiations.

Stronger regional institutions where multilateral issues are addressed and common positions discussed could greatly reinforce the role that Asia is playing at the global level, while benefiting the multilateral policy process. Whereas this would in particular apply to trade policy, it would also be useful on other issues, such as energy, environment and security.

In other words, if the Asian economies can practice free trade regionally, they will be in a much stronger position to preach free trade globally. Genuine commitments to multilateralism, as well as coherent and constructive attitudes and actions would contribute to trust-building at the multilateral level, which could in turn calm down fears of emerging markets in industrialized countries.

**T**HERE IS CLEARLY a crisis of global economic multilateralism. The dynamics of Asian growth provide, without any doubt, the greatest economic opportunity now and in the foreseeable future for Asians, but also for citizens worldwide. These shifts in the economic centers of gravity, however, are bound, as they always have in the past, to cause serious dislocations. These in turn, have often resulted in outright conflicts and tragedies. The best guarantor for ensuring that the transition occurs in a reasonably robust and smooth manner is not just the maintenance, but indeed the strengthening of the multilateral economic system. This is definitely not what is happening at present. With Asia being the most dynamic economic region of the world, greater leadership on the part of Asian economic policy makers, captains of industry, and opinion leaders in promoting globalization on the basis of the multilateral rules-based system is not only welcome, but indeed essential. ■