



Viet Nam-New Zealand Track 1.5 Bilateral Dialogue Hanoi 9-10 June 2008

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The New Zealand delegation was led by Asia: NZ.*

Session II: East Asia Economic Cooperation

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This is a summary of Mr Lynch's PowerPoint presentation

Slide 1

- The title for this session could be 'Asia on the Rebound'
- Region is returning to centre-stage, soon have same share of global economy as in 1820
- Remarkable growth in past decade. GDP doubled. Now US\$4 trillion.
- One fifth of world exports. US\$2 trillion
- Largest destination for FDI. US\$1.6 trillion exchange reserves
- Unprecedented pace of transition in trade and finance, ideas and technology
- Unchallenged engine of global growth. Surging demand
- Growing economic integration through market-driven interdependence

Slide 2

- Expansion of trade, FDI, financial flows is creating an integrated economic 'zone'
- High correlation level in growth of key variables: real GDP, real personal consumption, real fixed investment
- Governments' response: Various initiatives to formalise economic regionalism are under way
- Simple task to highlight what's happened. Less easy to say where it might all be headed.
- Can be said that it hasn't been a painless process: Stresses and imbalances
- Rapid urban expansion, regional inequalities, demands on public sector

Slide 3.

- Key driver behind economic integration has been intraregional activity of MNCs
- Have formed closely organised production networks and supply chains across region
- Business not driven by compassion, ideology or patriotism
- Preoccupation with profitability dominates short and long-term thinking

- Sub-process activities are located in different countries to maximise comparative advantage
- Over half East Asian trade is intraregional
- More outsourcing than elsewhere worldwide, most within region
- Has promoted vertical intra-industry trade: capital equipment, parts and components, intermediate inputs, semi-finished goods, finished manufactured products
- Happening not from political decree but because makes sound business sense

Slide 4.

- Can be argued 1997 financial crisis was the catalyst for regional revival
- Undoubtedly it was a major event. Sobering lessons
- Revealed Globalisation carried risks as well as rewards
- But economic expansion was solidly underway pre-1997
- Talk of 'Asian Tigers' had been around through the previous decade

Slide 5.

- Many Asian economies were integrating globally well before 1997
- Incentives: outward-looking policies, business-friendly focus
- R&D linkages, engaged with centres of innovation, competitive labour
- Proximity to emerging markets, efficient infrastructure
- Strong political leadership, clear targets. Message: Basics done well

Slide 6.

- What has occurred is 'Regionalisation' of much trade and economic activity
 - Primarily market driven not Government led
 - Not a case of 'Trade following the Flag'
 - Regulatory Environment is in 'catch-up' mode
 - Classic commercial response to positive business environment
 - For all that's been achieved, still much unrealised potential
 - This shown in Ease of Doing Business and Business Competitiveness Surveys
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Slide 7.

Asia Economies: Comparative Global Rankings

Economy	Ease of Doing Business	Business Competitiveness	GDP Per Capita(\$US)
Australia	9	18	35,600
Bangladesh	107	118	2,000
China	83	57	7,530
Hong Kong SAR	4	12	37,230
India	120	31	3,900
Indonesia	123	36	3,780
Japan	10	12	31,105
Korea (ROK)	19	30	22,930
Malaysia	21	24	11,340
Nepal	111	120	n/a
New Zealand	2	22	25,640
Pakistan	76	79	2,580
Philippines	133	66	4,940
Singapore	1	9	37,040
Sri Lanka	101	52	4,030
Taiwan China	23	50	31,440
Thailand	37	15	9,080
Vietnam	78	91	3,310

Rankings are not a measure of economic dynamism but an indication of growth potential

Slide 8.

- Asian 'Regionalism' is a more recent phenomenon. Largely since 1997
- Has featured the proliferation of Bilateral and Plurilateral FTAs
- Over 100 regional trade agreements in place or in the making
- ASEAN-CER the latest to be concluded
- For New Zealand over 60 per cent total trade now with FTA partners
- Trend is driven as much by political and strategic imperatives as business objectives
- Business is struggling to cope with the 'spaghetti bowl'

Slide 9

- Business has strong preference for multilateral trade agreements
- Comprehensive, binding and inclusive

- But accepts political realities and not object to well-designed RTAs.
- Favour Agreements that are consistent, WTO-compatible, WTO-Plus Rules-based.
Have mechanism for resolving disputes
- High quality RTAs can contribute to addressing issues surrounding: investment, procurement, IP, competition policy, Services liberalisation, harmonising national standards and regulations
- But, eg, ROO demonstrate the downside impacts that concern regional business
- Impose extra transaction burden: overly complex, divergent, restrictive, compliance costs
- Lack of ROO standardisation and harmonisation can defeat purpose of FTAs
- Business would prefer consolidation and convergence rather than endless proliferation

Slide 10.

Mutual recognition by governments/business of factors that encourage economic regionalism:

- (a) There are limits to *de facto* economic integration that is largely business-driven
Strong policy measures needed to deepen and consolidate regional integration
In areas such as addressing behind the border issues, facilitating trade and investment, harmonising regulations, rules, standards
Strengthening policy frameworks can underpin production networks and supply chains
- (b) Need also to ensure two giant 'blocs', USA/Europe, do not dominate global rule-setting
That would risk marginalising Asia's role and influence
- (c) Uncertain outcome of WTO Doha Round
Hence interest in "home-grown" regional solution to manage/promote economic growth

Slide 11.

Emerging Economic Architecture

- Three Key processes :ASEAN, ASEAN plus 3, ASEAN plus 6 (EAS)
- Goal of ASEAN Community by 2015, the "hub" for economic cooperation
- ASEAN plus 3: "main vehicle" for establishment of East Asian Community
- EAS: focus to date on small number of priority areas of functional cooperation

- For New Zealand, ASEAN FTA and EAS involvement have profound long-term implications in terms of acceptance as committed regional partner (e.g., TAC)
 - Must balance Asian interests with trans-Pacific relationships: P4 S.E. Partnership
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Slide 12.

- Long-term, genuine economic community will require emergence of single market
 - At this point, Asia's economic architecture is partial and ad hoc
 - Institutional framework for regional cooperation is still sub-optimal
 - Adolescent rather than mature, lacks over-arching mechanism
 - That's not criticism but acknowledgement of current stage of evolution
 - Daunting task ahead for regional economies is to reconcile three disparate forces of change:
 - manage factors that underpin the continued drive for sustainable development
 - cope with domestic trends that erode social cohesion
 - find effective ways to collaborate in addressing trans-border issues and ailments
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Slide 13.

Outlook:

- Asia is a more self-reliant, resilient region than it's been for two centuries
 - Robust economic and financial health shows no sign of waning
 - Relentless upward progress to increasingly sophisticated, value-added technology
 - Share of global economy-imports, outputs and exports-will continue to grow
 - But no single Asian economy dominates the entire innovation and production chain
 - Pressures to regionally integrate will intensify
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Slide 14

- **BIG** question is: By What Means will That Process Occur?
- Continue to be incremental, piecemeal, pragmatic and preferential?
- Or has the wider region reached a critical level of comfort and confidence
- One that would allow it to realistically contemplate a genuine "regional solution"?
- That is the formidable challenge confronting political and business leaders

Views expressed in this paper are personal to the author and are not to be taken as representing the full delegation or the Asia New Zealand Foundation

