# Report card on Asean economic integration

S.E.A. VIEW

By RAZEEN SALLY
FOR THE STRAITS TIMES

IS ASEAN'S economic integration encouraging the region to become a more distinctive collective entity in the global economy? The answer is yes, although with important reservations.

South-east Asia is an area of extreme economic diversity. The gap in living standards between the richest and poorest countries (Singapore and Myanmar respectively) is 40 to 1. But this is only one dimension.

Singapore is a services-based economy; Brunei is oil-based; Malaysia and Thailand are fast industrialisers; Thailand and Vietnam are big agricultural exporters; Indonesia and the Philippines are net food importers; and Cambodia, Laos and Myanmar are still agrarian societies.

Government economic policies also vary widely. Singapore is a free port in which the total value of trade is equal to 400 per cent of gross domestic product. At the other extreme, Myanmar has only recently started to open up its borders. The value of trade in the latter is equal to only 31 per cent of GDP.

Then there are huge gaps in the quality of regulation, institutions and the business climate. According to the World Bank, Singapore ranks first in the world for "ease of doing business"; Malaysia and Thailand are in the top 20; but the others are way behind.

Compounding such economic diversity are wide differences in history, culture, geography, population, population density and – not least – political systems.

Nevertheless, there are also increasingly important elements of convergence across Asean countries.

Integration with the global economy stands out: Since the 1980s, all Asean countries have liberalised trade and foreign direct investment.

Average import-weighted tariffs are around 5 per cent for most Asean countries. And all except Indonesia, Philippines, Laos and Myanmar have trade-to-GDP ratios of about 100 per cent or higher.

Asean has also become a regional production hub for parts and components in global manufacturing supply chains. This has knitted Asean and North-east Asia – including China – together in ever-tighter trade and production linkages.

Now turn to the regional economic outlook. The International Monetary Fund forecasts growth at 5 per cent this year for the Asean-5, which consists of the Philippines, Indonesia, Malaysia, Thailand and Vietnam – a figure that is in line with growth in the last few years.

A slightly stronger recovery in advanced economies, particularly in the United States, should also give a marginal boost to Asean's growth through exports.

A paddy field in Ba Vi district, outside Hanoi, in February. South-east Asia is an area of extreme economic diversity; for example, Singapore is a services-based economy while Thailand and Vietnam are big agricultural exporters. PHOTO: REUTERS

## Challenges ahead

BUT there are storm clouds ahead. First, a slowdown in China's growth has implications for Asean's exports of intermediate products in global supply chains, its exports destined for the Chinese domestic market, and Chinese investments in Asean.

Second, Asean countries have seen a credit explosion as a result of loose monetary policies at home and around the world. Consumer debt has piled up. Asset and property bubbles are getting bigger.

Tighter global monetary conditions, especially with "tapering" by the US Federal Reserve and the likelihood of higher interest rates in the West, increase the risk of a mini-crash.

Governments will have to bite the political bullet and wean themselves off loose-money policies sooner rather than later.

That said, Asean countries are in a much better position to weather global shocks than they were during the Asian financial crisis in 1997.

Fiscal and monetary conditions are better, exchange rates are more flexible, there is much less exposure to short-term foreign debt, and bond markets are deeper.

Third, a decade of cheap-money policies and high commodity prices has engendered lazy complacency in emerging markets. Asean is no exception.

Governments have neglected structural reforms to reduce market distortions. These are now more visible with tighter global monetary conditions and falling commodity prices.

Large swathes of markets for land, labour and capital remain unreformed. That is also true of much of the public sector. The liberalisation of international trade and investment has slowed down or stalled.

Government red tape plagues the business climate.

The World Bank's Doing Business Index has Vietnam in 99th place, Myanmar bringing up the rear in 182nd place, with Philippines, Indonesia, Cambodia and Laos in between.

## New opportunities

MOST Asean countries need fresh structural reforms not only to cope better with external shocks, but also to take advantage of emerging trends in global supply chains. Multinationals are looking for new investment destinations as China becomes more expensive.

If South Asia – India in particular – opens up more to global markets, labour-intensive, export-oriented manufacturing will migrate there.

That will present huge opportunities for Asean countries in the middle of pan-Asian regional production networks, halfway between China and India.

Genuine Asean economic integration – the free flow of goods, services, capital and people within the region – would deliver huge gains, not least from deeper integration into global supply chains. That is the logic of the Asean Economic Community (AEC).

The bulk of intra-regional tariffs have been abolished. Partial progress has been achieved on simplifying and harmonising Customs procedures, cross-border infrastructure projects, and opening up Asean skies to low-cost airlines. A few sub-regional integration initiatives have made headway, notably the Greater Mekong Sub-Region and Iskandar-Singapore.

## Asean Economic Community

BUT, overall, the AEC is well behind its targets to reduce and abolish non-tariff and regulatory barriers in goods, services and investment.

Most restrictions to intra-regional commerce lie here, not in tariffs and quotas "at the border". Moreover, Asean's monetary and financial integration is even weaker than it is in trade and investment, so far restricted to modest measures like the Chiang Mai Initiative.

Incremental progress, not a utopian leap to European Union-style top-down, institution-heavy integration, is probably the best Asean can expect, given the political realities.

South-east Asia has made substantial economic progress because its governments have liberalised markets, thereby enabling integration into global supply chains.

Now a second generation of market reforms is needed to cope with external shocks and to take advantage of new regional and global opportunities.

Asean's collective efforts can at best be a helpful auxiliary, but success is mainly a matter of unilateral action by governments individually. Should these politically challenging reforms be implemented, Asean will become an even more distinctive and prosperous collective entity in the global economy.

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ASK: NUS ECONOMISTS

# GDP still relevant in assessing well-being

By SURESH DE MEL
FOR THE STRAITS TIMES

*How do you assess the well-being of a country?*

THERE are many measures and rankings of well-being in circulation. For example, Singapore ranks among the top six economies of the world in terms of income per capita. And according to the 2013 Human Development Report and the 2013 World Happiness Report, both published by the United Nations, Singapore is placed 18th and 30th respectively.

What do these different measures mean? Let us begin with the economic dimension. Within the field of economics, gross domestic product (GDP) has become the standard metric of economic well-being. GDP measures the total value of goods and services produced within a country during a specified period. It also indicates the total income earned within a country's borders.

To compare across countries, GDP is usually expressed in purchasing power parity dollars (to take into account price differences across countries) and in per capita terms (to reflect an average standard of living in a country). The sister measure, gross national product (GNP), is the total value of goods and services produced in a specified period by the nationals of a country. Unlike GDP, which defines production based on geographical location, GNP accounts for production based on ownership of the production inputs.

The twin measures of GDP and GNP arose out of the work of economists Simon Kuznets and Richard Stone, who developed the system of national accounting in the 1930s. These were formally adopted by the International Monetary Fund and the World Bank in the 1940s. Although the initial emphasis was on GNP, the focus shifted to GDP in the 1980s.

Singapore is among the top six economies globally in terms of income per capita, and is ranked 18th in the 2013 Human Development Report. PHOTO: BLOOMBERG

GDP and GNP, as measures of success and well-being, have several limitations. They leave out non-market transactions (for example, unpaid household work or child care), do not distinguish between market transactions that increase versus decrease well-being (for instance, building schools versus prisons) and ignore sustainability issues (for example, cutting down forests). The measures do not adequately capture other important aspects of well-being either, such as education, health, the rule of law and freedom.

The most widely accepted alternative measure, to date, is the Human Development Index (HDI) developed by economists Mahbub Ul Haq and Amartya Sen for the UN Development Programme in 1990. The HDI was developed as a composite indicator of human development incorporating education outcomes, health outcomes and income.

Broadly speaking, there is a positive relationship between income levels and HDI scores. However, the relationship is not always clear-cut. There are some countries with low HDI scores despite relatively high income levels (such as Kuwait and Oman), and also countries with similar HDI scores but quite different income levels (like Indonesia and South Africa).

"Green GDP" has been proposed as a measure which would take into account the depletion of natural resources and the cost of environmental degradation. These environmental costs are monetised and deducted from traditional GDP. Economist Joseph Stiglitz has been a key proponent of this concept. China's first green GDP accounting exercise revealed that the economic loss caused by environmental pollution alone (ignoring costs of natural resource depletion and ecological damage) amounted to 511.8 billion yuan or 3 per cent of GDP in 2004.

The search for alternatives continues. The Commission on the Measurement of Economic Performance and Social Progress, led by three economists – Professor Sen, Professor Stiglitz and Professor Jean-Paul Fitoussi – identified eight dimensions of well-being as indicators of social progress, of which material living standards was only one.

Similarly, the Organisation for Economic Cooperation and Development developed the Better Life Index in 2011. It incorporated three dimensions of material living conditions and eight dimensions of quality of life. And the UN Sustainable Development Solutions Network released the first World Happiness Report in 2012, based on subjective measures of well-being from nationally conducted surveys.

So does all this make GDP irrelevant? Not quite. Income is still a vital and necessary aspect of well-being. And what is measurable is more manageable. But it is certainly not all-sufficient.

So the current call to action would be to: first, improve upon the methodologies of alternative measures; and second, consider a variety of measures which capture different aspects of well-being, rather than focusing on a single metric.

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# The return of Monica Lewinsky

By MAUREEN DOWD

MONICA Lewinsky says she would meet me for a drink.

I'm game.

In her new meditation in Vanity Fair, Monica mashes Hawthorne and Coleridge, proclaiming that she's ready to rip off her "scarlet-A albatross", "reimagine" her identity and reclaim her narrative.

At long last, she says, she wants to "burn the beret and bury the blue dress" and get unstuck from "the horrible image" of an intern who messed around with the president in the pantry off the Oval Office, spilled the details to the wrong girlfriend and sparked a crazy impeachment scandal. I wish her luck.

Though she's striking yet another come-hither pose in the magazine, there's something poignant about a 40-year-old frozen like a fly in amber for something reckless she did in her 20s, while the unbreakable Clintons bulldoze ahead.

Besides, with the Clinton restoration barrelling towards us and stretching as far as the eye can see to President Chelsea, we could all use a drink.

The last time I encountered Monica was at the Bombay Club, a restaurant nestled between my office and the White House.

It was at the height of the impeachment madness, and she was drinking a Cosmo at a table with her family. After requesting that the piano player play "Send in the clowns", she leaned in with me, demanding to know why I wrote such "scathing" pieces about her.

My columns targeted the panting Peeping Tom Ken Starr and the Clintons and their henchmen, for their wicked attempt to protect the First Couple's political viability by smearing the intern as a nutty and slutty stalker.

I did think Monica could skip posing for cheesecake photos in Vanity Fair while in the middle of a plea bargain.

But I felt sorry for her. She had propelled herself into that most loathed stereotype (except by Helen Gurley Brown): the overripe office vixen who seduces her married boss. Feminists turned on her to protect a president with progressive policies on women. Monica bristled with confidence when she talked to me, but then she retreated to the ladies' room and had a meltdown on her cellphone with Judy Smith.

Smith would go on to fame and fortune as a co-executive producer on Scandal, which focuses on Kerry Washington's Olivia Pope, a blend of Judy, who was a crisis manager, and her client Monica, who had an affair with the president.

Washington journalists fawned over the stars of Scandal last weekend at the White House Correspondents' Dinner festivities, which served mainly as a promotional vehicle for the ABC show and HBO's Veep.

> Monica is in danger of exploiting her own exploitation as she dishes about a couple whose erotic lives are of waning interest to the country.

The plot of Scandal is so luridly over-the-top, it makes the saga of the pizza-bearing intern who inspired it seem almost quaint.

You'd think that the book Monica's Story, the HBO documentary, Barbara Walters' interview and the 1998 Vanity Fair spread would be enough about the most covered affair in history. Heck, the seamy Starr report was enough.

But she must feel that her reticence over the last 10 years of "self-searching and therapy" has led the public to hunger for her thoughts on the eve of Hillary's book rollout next month and at a moment when President Barack Obama is struggling to pull focus back from the Clintons, whose past and future are more dominant than his present. Monica is in danger of exploiting her own exploitation as she dishes about a couple whose erotic lives are of waning interest to the country.

But, clearly, she was stung and wanted to have her say about the revelation in February that Hillary had told her friend Diane Blair, knowing it would be made public eventually, that Bill was at fault for the affair but deserved props for trying to "manage someone who was clearly a narcissistic loony toon".

Hillary also said she blamed herself for Bill's dalliance. Monica trenchantly notes about the feminist icon, who is playing the gender card on the trail this time around: "I find her impulse to blame the Woman – not only me but herself – troubling." She also says that Bill "took advantage" of her – in a consensual way.

"Any 'abuse' came in the aftermath," she writes, "when I was made a scapegoat in order to protect his powerful position".

Disingenuously and pretentiously, Monica says that the tragedy of Rutgers freshman Tyler Clementi, who committed suicide in 2010 after his roommate secretly streamed his liaison with another man over the Web, had wrought "a Prufrockian moment": Did she dare disturb the Clinton universe to become a spokesman against bullying?

Her bullies are crude strangers in person and online who reduce her to a dirty joke or verb. Monica corrects Beyonce, who sings, "He Monica Lewinsky'd all on my gown," saying it should be "He Bill Clinton'd all on my gown".

But her bullies are also the Clintons and their vicious attack dogs who worked so hard to turn "that woman", as Bill so coldly called her, into the scapegoat.

As Hillary gave a campaign-style speech in Maryland on Tuesday, warning that economic inequality could lead to "social collapse", That Woman started her own campaign, keening about her own social collapse. It was like a Golden Oldie tour of a band you didn't want to hear in the first place.

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