

Box 2.5:**Globalization at a Crossroads: Where Does ASEAN+3 Go From Here?**

Authorities in the ASEAN+3 region have identified the reconfiguration of global trade and investment flows as the most pressing challenge to their economies' long-term growth (Figure 2.8 in this chapter). This is not surprising. At the core of the remarkable success in economic development achieved by many regional economies is a trade-driven, export-led model of industrialization (AMRO 2018). Further, the region collectively recognizes that greater economic interdependence, both within ASEAN+3 and with the global economy, has been integral to fostering shared prosperity and stability. However, current trends point to considerable uncertainty over the future of globalization. Having stalled since the global financial crisis, rising geopolitical tensions and protectionist pressures in advanced economies now threaten to unwind existing global economic integration.

Despite escalating rhetoric in some quarters, empirical evidence does not yet indicate that significant deglobalization is under way. Nevertheless, looking at the share of world trade to global GDP and broader foreign direct investment trends, globalization has stalled after reaching a peak just prior to the global financial crisis (Figures 2.5.1 and 2.5.2). This was driven by multiple factors, including slower economic growth in the major advanced economies following the global financial crisis and the sovereign debt crisis in Europe, slower expansion of global value chains (GVCs), China's expanding domestic supplier base ("localization"), maturing economic development more generally, and diminishing trade cost reductions from technological advances (WTO 2023).

However, evidence is beginning to point to a fundamental reconfiguration of global trade and investment flows. The composition of trade is being reshaped along geopolitical lines, with countries increasingly trading with strategic partners and political allies. Reshoring and friendshoring trends have gathered pace, driven partly by geopolitical tensions, especially the US–China economic competition, and also by

desires to improve supply chain resilience since the pandemic. Moreover, recognition has grown that global trade concentration has increased in the past decade, further threatening supply chain resilience and stoking reshoring instincts. Overall, the current period is defined by elevated geopolitical uncertainty, with national strategic interests taking priority over economic rationale alone.

Exploring different potential scenarios of the future of globalization can help highlight policy options that could reinforce growth and resilience regardless of how events unfold. If prevailing trends continue unchecked, they could lead toward a more fragmented global economy. One plausible, though unfavorable, future scenario is a *security-based fragmented world*, where global economic ties are completely reshaped along geopolitical lines (Figure 2.5.3). In such a future, the overall global economic environment would be weaker, with emerging markets and developing economies especially vulnerable to diminished trade and investment opportunities, and weakened flows of technology and knowledge. It would also be a less secure world, with reduced international cooperation on challenges that require collective action, such as climate change, cybersecurity, and pandemics. Essentially, this trajectory represents one hypothetical extreme if present trends worsen, resulting in a world less resilient to economic shocks, with more places excluded from progress, and weaker collective efforts on global challenges.

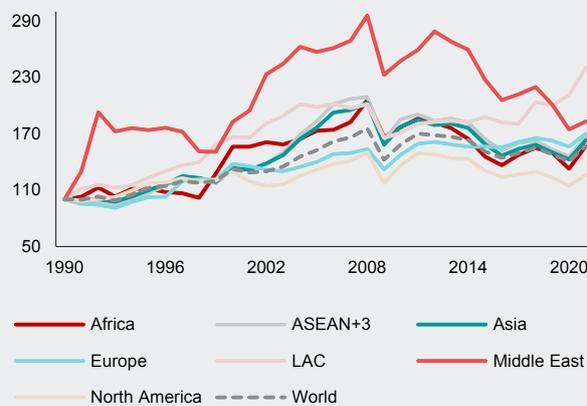
However, this path of fragmentation is not inevitable. An alternate vision, as championed recently by the World Trade Organization, entails renewed commitment to *rules-based economic integration*, or "reglobalization." This could involve extending economic openness to more peoples, economies, and issues. Rather than countries retreating into isolated blocs, this scenario envisages a reinvigorated multilateral trading system that enables deeper and broader global integration, providing a stronger foundation to resolve current concerns surrounding globalization. Diversifying supply chains to engage more economies would enhance resilience against

future shocks. Expanding trade-centric growth to additional emerging market and developing economies could foster wider prosperity. Reinforcing economic interdependence would better facilitate collective action on shared challenges. In short, this reglobalization path offers a future with markets better insulated from disruptions, reduced possibility of the weaponization of trade, and more equitable distribution of its gains, with exciting growth opportunities in new areas of trade, especially in services.

These two scenarios present stylized versions of what could unfold. The actual trajectory remains highly uncertain but will likely fall somewhere in

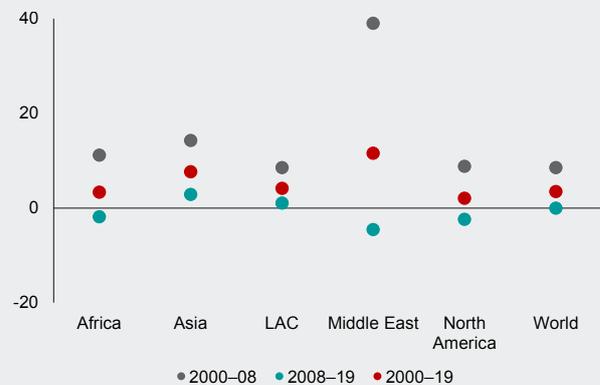
between. Given this uncertainty, what can ASEAN+3 economies do to reinforce growth and resilience? In an ideal scenario, the region could collectively leverage its influence to steer toward reduced fragmentation, through leadership in strengthening multilateral cooperation and trade. However, it is also prudent for ASEAN+3 economies to consider and implement “robust” strategies that would strengthen their economic foundations and promote continued development—regardless of the future face of globalization. By being open to strategies and approaches that could remain viable across multiple possible futures—rather than assuming any single outcome—ASEAN+3 economies can prudently navigate this globalization crossroads.

Figure 2.5.1. World: Total Trade, by Region
(Index, 1990 = 100)



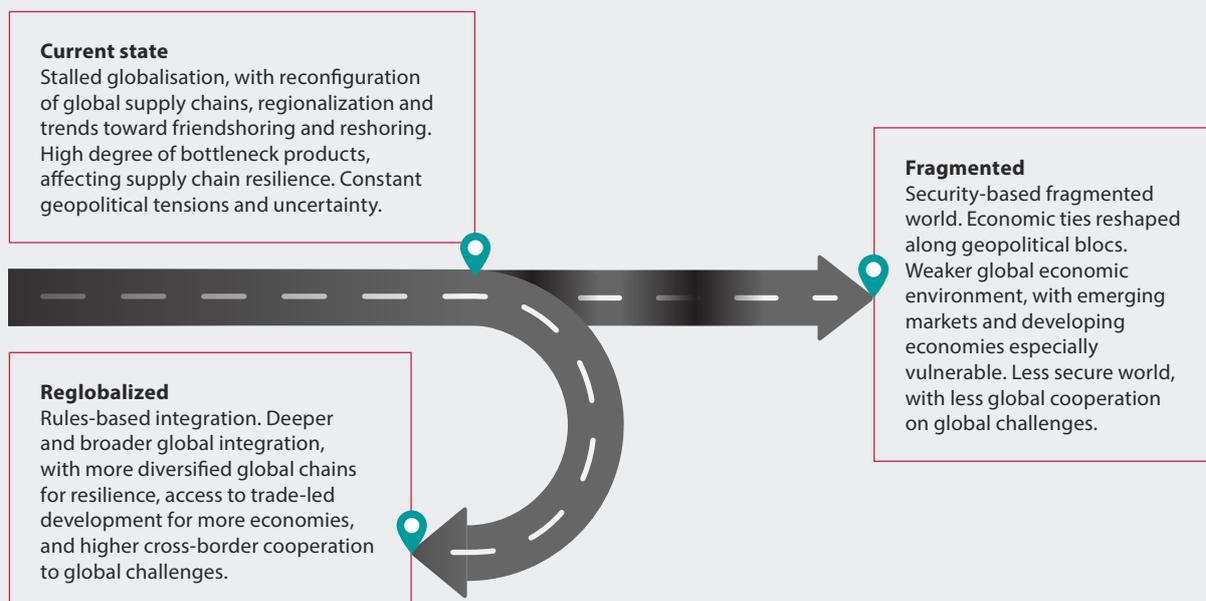
Source: Asia Regional Integration Center, Asian Development Bank; AMRO staff calculations.
Note: LAC = Latin America and the Caribbean.

Figure 2.5.2. World: Growth of FDI
(Percent)



Source: Asia Regional Integration Center, Asian Development Bank; AMRO staff calculations.
Note: LAC = Latin America and the Caribbean. Data represents compounded annual growth rates.

Figure 2.5.3. Globalization at a Crossroads: Potential Scenarios



Source: AMRO staff.