

**ICC Thailand 20th anniversary:
Address by Victor K. Fung,
ICC Past Chair and Fung Group Chairman,
At the celebratory dinner
Bangkok, 24 September 2019**

Global trade towards 2030 and beyond: A long-term international trade foresight

Introduction

Thank you for those kind words. Ladies and Gentlemen, friends: it is such a pleasure to be with you today. Indeed, it is a double pleasure – to be in Bangkok, one of my favorite cities, and to join the 20th anniversary celebrations of ICC Thailand. I have fond memories of my years serving in the ICC chairmanship, and I am proud to be associated with the organization and its extensive network in Asia Pacific and across the world. With 20 years membership, ICC Thailand has a long and distinguished history as an ICC National Committee.

Since its founding 100 years ago, ICC has been a tireless champion of international trade and an open world economy to advance peace and prosperity. As a respected voice of business, ICC provided valuable input to the post World War II economic order that created unprecedented global prosperity. Building on that foundation, the ICC community has adapted and evolved to ensure that it will continue to reflect the voice of business in a rapidly shifting global landscape.

The global landscape is indeed shifting. We are living in a disrupted and increasingly digitalized world. Everything is being digitized around us. You and I are experiencing that every day in our lives and business.

We are also living in an increasingly Asianized world. Asia is already home to 4.6 billion people, 60 per cent of the world's population. Of the world's 30 largest cities, 21 are in Asia, according to UN data. By next year, Asia will also become home to half of the world's middle class, defined as those living in households with daily per capita income of between \$10 and \$100 at 2005 purchasing power parity (PPP).

Shifts to Asia

A map published by McKinsey shows shifts in the world's economic center of gravity from 1 AD, projected out to the year 2025. The map shows that the center was stable in the East between 1 AD to 1000, then it started a slow shift Westward until 1950, when the trajectory began to reverse back to the East. What is remarkable is not so much the reversal from West to East, but its speed. It took almost 1,000 years for the economic center of gravity to shift from East to West, but it is taking less than 100 years for the reversal. The stunning speed makes this the most significant shift in the history of mankind.

An Asian Development Bank study has projected that, by 2050, an additional 3 billion Asians could enjoy living standards resembling those of Europe today, and the region could account for over half of global output. In fact, according to the Financial Times, the Asian economies will be larger, on a purchasing power parity basis, than the rest of the world combined in 2020.

Clearly, Asia is set to regain its position at the center of the global economic stage. Asia-based consumers are becoming the new market force, driven by retail growth rates that are double those of the rest of the world. This emerging purchasing power can give new impetus for sustainable and inclusive growth, to create prosperity for the entire world.

The re-balancing has only just begun. For decades, consumer goods flowed in one direction - from factories in Asia to the West. Now we are seeing the reverse flow. Western products, brands and services are in high demand in Asia. Since 2007, Asians have been buying more cars and trucks than people in any other region, and by about 2030 they will be buying as many vehicles as the rest of the world combined. Demand from Asia's new consumers is not limited to vehicles, consumer goods and services. China is the world's largest market for Western luxury goods, accounting for one-third of the global luxury market.

Technology is accelerating this tectonic shift. Having rapidly embraced the digital revolution, Asian economies are using technology to leapfrog development and fuel rising prosperity. This trend will continue, certainly to 2030 and beyond.

US-China trade war

Many countries contributed to this shift back to Asia, including Japan and South Korea in the early stages, and now the remarkable development in India and Asean. For example, Indonesia is on track to become the world's seventh-largest economy at PPP by 2020 and will have overtaken Russia by 2023 as the sixth biggest. But, today, China is at its core. While concerns over China's return to the world stage may be a contributing factor to US-China tensions, we should see the current trade war in a broader context.

The global environment for trade has been changing. Protectionism is rising, and the rules-based multilateral system that spread prosperity for decades is being steadily eroded. The WTO has become a ready target for those questioning the relevance today of institutions established in the aftermath of World War II to govern a rules-based global order. Importantly, the WTO's centrality to multilateral trade is under challenge from a proliferation of trade agreements at regional, sub-regional and bilateral levels, and even unilateral actions.

It is almost two years since the start of what is now the US-China trade war. After negotiations broke down, they each announced significant tariff hikes and took steps to make it more difficult for companies to do business in the respective countries. I fear that the world needs to brace for the tensions and rhetoric to rise.

While I fully expect the two countries will eventually make a trade deal, deeper structural economic issues and ongoing strains over technology and security are likely to impair the US-China relationship for a considerable time to come. And the entire world will have to adjust to a new reality.

New era for Asia

For three quarters of a century, Asia has enjoyed stability, peace and economic prosperity under what is known as *Pax Americana*, the American Peace, where the US was the clear economic and military power in Asia Pacific. But due to a fracturing American alliance system and Asia's remarkable transformation, US dominance in Asia has been weakening.

Asia's transformation has been incremental and spread over several countries, so we don't realize that Asia is entering a new era – one that will feature the rise of Asian middle class and the accelerated pace of digital transformation. In this new era, Asia will likely become less predictable and perhaps more fractious.

Years from now, we may look back at the tensions in the South China Sea and the deterioration of relations between South Korea and Japan and see them as mere precursors. I think this is all part of the maturing process and is to be expected. It will take time for us in Asia to learn to live and work together without recourse to external referees, as we have been doing in the past.

In the coming era, I foresee a prosperous and confident Asia accepting its destiny as the new center of 21st century economic gravity. We already see that Asian countries have become more assertive in recent years. I refer in particular to the leadership role taken by Asian countries to create three remarkable economic and trade alliances that will impact and transform trade in the global economy.

Asia's trade and economic alliances

First, there is the Asean-led Regional Comprehensive Economic Partnership whose aim is to establish deeper economic cooperation among the 10 Asean countries and its six dialogue partners. This bloc encompasses half of world's population, one-third of global GDP and close to one-third of world trade. At a recent Asean ministerial meeting here in Bangkok, the participating governments have affirmed their commitment to finalizing the agreement by the end of this year with the view to signing in 2020.

Second, notwithstanding the US's withdrawal from the original Transpacific Partnership, the remaining 11 partner countries, led by Japan, adopted the modified Progressive Agreement for Trans-Pacific Partnership. This agreement, which covers 14% of global GDP, came into effect last year.

Third, there is the China-led multi-level, multi-development Belt and Road Initiative, which is designed to be open and inclusive. Now in its sixth year, the Belt and Road has participation from more than 100 countries. It has also inspired some participating countries to create their own economic corridors to trade and connect with the Land Belt and the Maritime Road. Thailand's Eastern Economic Corridor is one such example.

Another example is the Greater Bay Area, which encompasses Hong Kong, Macau and 9 cities in the Pearl River Delta of Guangdong Province. Today the Greater Bay Area has a population of 70 million, about the same size as Thailand, and a GDP of \$1.6 trillion that would rank it 13th among the world's national economies. The Greater Bay Area blueprint envisages a 21st century economic powerhouse with global importance that will further contribute to the prosperity of Asia and the world.

Consequences on supply chains

Meanwhile we have to deal with the uncertainties surrounding the US-China trade tensions that are already impacting global trading patterns. The low value-added final stage of the supply chains has been exiting China for almost a decade because of rising labor costs and China's push to upgrade its industrial base. With the trade war, global companies are accelerating their efforts to diversify supply chains or, at least, to shift the final assembly part of their production out of China. Thailand and other Asean countries will be among the beneficiaries of that diversification.

We should note that a slowdown in China would impact everyone. According to the World Bank, China has been the largest single contributor to world growth since the global financial crisis of 2008. There is an additional risk that, as in the 1930s, some countries may find protectionism appealing and erect their own trade barriers in the belief that they could protect domestic companies and markets.

Our family business is in the thick of these shifts. My grandfather started Li & Fung, an export trading business in Canton in 1906. In ICC parlance, you could say I am a third generation "merchant of peace". For more than a century, our business was to source mainly in Asia and sell to the West. Today, we are perhaps a microcosm of the new global trader, offering retailers and brands multiple sourcing options through strengthened supplier networks across the world, and developing the digitalized global supply chains of the future.

Globalization new chapter

These trade patterns give us a glimpse of what the next chapter of globalization might look like. This is a future that hinges on innovation, digital technology, skilled work forces, and proximity to consumers. It is an exciting future with both opportunities and challenges. As always, there will be winners and losers. Those who can take advantage of the new favorable conditions will thrive. Those who can't, won't.

We are still processing the consequences from the last chapter of globalization where billions of people have been lifted out of poverty and many millions have been marginalized. And today we are faced with a world of rising inequalities, deep polarization, and a weakening of global institutions. We don't want the same thing to happen in this new chapter of globalization. In fact, we want to address and rectify the current situation.

Former UN Secretary General Kofi Annan famously said: If globalization is to succeed, it must succeed for poor and rich alike. It must deliver rights no less than riches. It must provide social justice and equity no less than economic prosperity and enhanced communication. This statement is still relevant today. I would just add that if globalization is to succeed, it must also take good care of planet earth, and address sustainability issues head-on. Afterall, it is our home and the only planet we have.

Conclusion

Ladies and Gentlemen, I am hopeful that it will be different this time. We have learnt important lessons from the past. Today we also have a global social contract in the form of the UN Sustainable Developments Agenda 2030 to guide us as we strive towards our shared goals of a more equitable, inclusive and green world.

Despite short-term concerns about trade tensions and the deceleration in China's growth, Asia's medium- and long-term prospects are robust. Asia is on track to become the world's biggest economic region with the largest concentration of global consumption by the middle of this century. Thus, Asia has the power to shape the next chapter of globalization. With power comes responsibility. Let's make sure that we in Asia use that power for good, and to bring peace and prosperity to the world and all people. Thank you.

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