The Transformative Shift in Global Economics: Asia-Pacific's Ascendance and Evolving Trade Paradigms

A commentary on the latest shape of strategic alignment and economic frameworks in the Asia-Pacific region

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Evolution of trade alliances

The last three decades have seen the rise of a new order in the global economy. The Asia-Pacific (APAC) region, with its burgeoning population and an avenue for investment, has seen its share in global GDP rise from around 27% in 2000 to around 37% by 2021. The region's share is projected to rise further to around 42% of world GDP by 2040. In contrast, the share of the European Union has declined from 26.5% of world GDP in 2000 to 17.9% in 2021. The share of the US in world GDP has also declined from 30.5% in 2000 to 24.1% by 2021. Thus, where developed economies have not been able to maintain their status quo, the developing economies have seen remarkable growth and are all set to achieve critical mass for their sustenance.

If we take a step back and analyze the macro picture of the developments in the Indo-Pacific area, an interesting development is observed. Beginning with the Cobden-Chevalier treaty signed in 1860 between the United Kingdom and France, the strength of mutual trust and complementarity between partners in the trade arena has hitherto been gauged through the mélange of the trade agreements in place between the trading partners.

However, the contours of the evolving geo-political landscape across the globe, especially post-COVID, have affected the features and the structure of global trade, especially in the Asia–Pacific region. In such an environment, the adaptive strategy of each trading partner has been dominated by the respective domestic as well as foreign policy of each country. This intersection of geopolitics and trade has been the dominant characteristic of the development witnessed by the world.

If we deep dive a bit into the reasons for this shift, the disruption in the global value chain or supply chain due to the restrictions threatens to disrupt the distributed manufacturing structure. To add to this challenge, the strategic objectives of the countries have taken the shape of economic frameworks that are strikingly different from the free trade agreement model.

The best example of the unravelling of this 'geopoliticization' of trade is the ongoing developments in the Asia-Pacific region. This is underlined by the fact that developed economies have lately perceived the region as a stable conduit for their investment and economic growth in the future. Various partnerships and treaties have been in the works to tap its potential but, so far, the result has been less than satisfactory. The sharp increase in the dominance of non-trade policy issues in determining the direction of global trade has been the latest addition to the challenges faced by WTO in supervising global trade.

Governments are looking into new approaches to operate inside multilateral frameworks and to redefine what progress and good outcomes should look like in light of the well-documented difficulties in reaching multilateral consensus at the WTO. The WTO's new member-led initiatives do indicate that governments understand the need for improved, transparent, and inclusive policy dialogue as well as problem-solving on sector-specific issues and unique trade-related challenges, even though the organization's rulemaking and negotiation functions remain essential.

Latest economic frameworks in Asia-Pacific

One of the latest manifestations of this paradigm is the Indo-Pacific Economic Framework for Prosperity (IPEF) initiated by the USA, involving 13 countries from the Indo-Pacific geography as part of its geo-strategic pivot to Asia. Interestingly, the US has been unambiguous about its viewpoint that the IPEF is not a Free Trade Agreement with no scope for discussion on the lowering or elimination of trade barriers between the signatories. Interestingly, this viewpoint has been silently shaping the US policy through what started as an inter-governmental forum in 1989, comprising 21 member economies in the Pacific Rim, consisting of sovereign states as well as independent economic regions, as the Asia-Pacific Economic Cooperation (APEC).

Since developing economies like China and India were able to weather the financial storm while Western markets were unable to absorb the impacts of the crisis, the focus of the global order has gradually pivoted to the Asia Pacific region after 2007.

Afterwards, a proposed trade deal known as the Trans-Pacific Partnership, involving the 12 economies that border the Pacific Rim was signed in 2016. However, the deal bore the brunt of the US domestic politics and could not be ratified by the US Congress. The interesting part is that the deal was drafted by the Obama administration in 2015 but had to see a regime change before it could be presented in Congress for ratification. In 2017, the Trump administration announced its withdrawal from the Trans-Pacific Partnership (TPP) and stated that it would prefer to negotiate trade agreements with specific partners, in an attempt to counter the growing Chinese influence.

With the benefit of hindsight, it appears that China, as Asia's geographic and economic hub, was able to overcome and solidify its vital position in the trade environment, despite the roadblocks erected against it.

In 2018, the remaining TPP countries reconvened to negotiate a new cooperative agreement called as the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), following the United States' exit. Like the TPP, the CPTPP aimed to create something new without the US while retaining its core elements except a limited number of provisions which were suspended.

Around the same time, China took the initiative to be part of the Regional Comprehensive Economic Partnership (RCEP) as a counterproposal for a regional economic alliance in opposition to the TPP to cater to the endogenous demand for regional economic integration among Asian countries. After its implementation in January 2022, the RCEP became the largest free trade zone outside the WTO. Due to worries over the protection of its national interests and domestic sectors, India, which had previously participated in the RCEP negotiations, withdrew from the agreement in 2019.

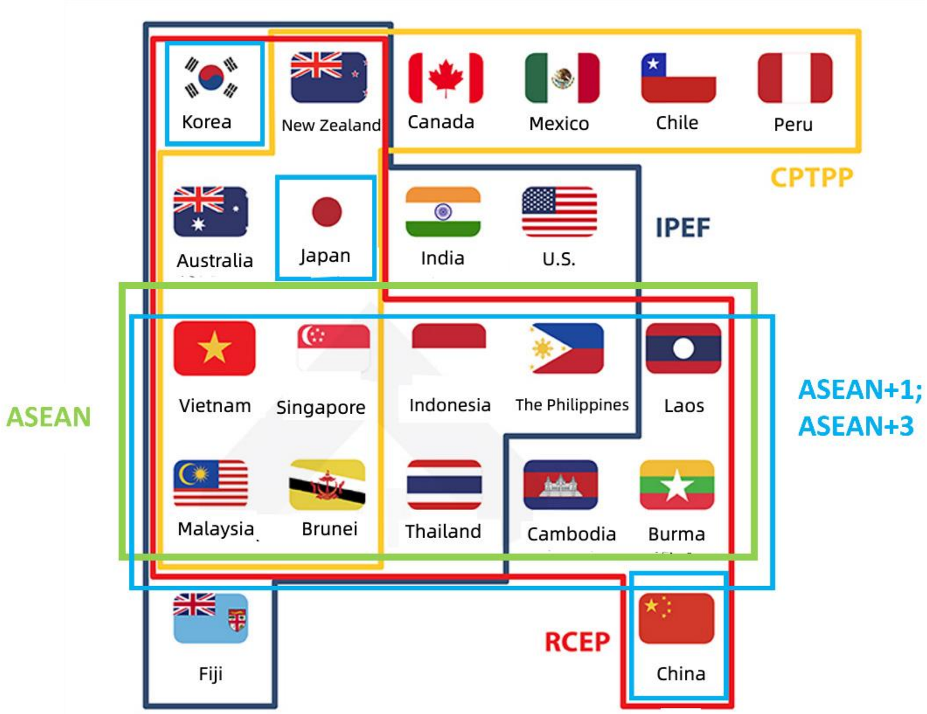

Figure 1: Evolving Economic Cooperation Mechanisms in the Asia-Pacific;

Source: Fangfei Jiang, An Analysis of the Indo-Pacific Economic Framework (IPEF): Essence, Impacts and Prospects

At this juncture, the existence of multiple regional alliances in the Indo-Pacific region set the tone of an exciting geo-political drama. It became interesting to note the overlapping presence of multiple countries in these alliances of diverging objectives (Figure 1). At the micro level, it may turn out to be a fun game to point out the nations that are part of a regional framework but also those that are not. In this zero-sum game, it is evident that China was able to solidify its position as the region's largest economic superpower, while the United States may have missed out on quite a few opportunities to extend its hegemony, given that the majority of the East Asian countries are parties to the RCEP.

Interestingly, as a counterpunch, the launch of RCEP on January 01, 2022, was followed shortly by the launch of an economic initiative called the Indo-Pacific Economic Framework for Prosperity (IPEF) by the Biden administration in May 2022. The framework comprises of 14 partners representing 40 percent of global GDP and 28 percent of global goods and services trade.

The IPEF framework, in a bid to promote comprehensive cooperation, is an all-inclusive framework based on four pillars of cooperation. The framework allows members to choose their terms of cooperation and the pillars on which they want to collaborate. Accordingly, the below pillars have been contemplated upon and below mentioned countries have signed off on the respective pillar: -

Pillar I (Trade) – signed off by all except India

Pillar II (Supply Chains) – signed off by all 14 countries

Pillar III (Clean Energy, Decarbonization, and Infrastructure) - signed off by all 14 countries

Pillar IV (Tax and Anti-Corruption) - signed off by all 14 countries

The two agreements, namely, the RCEP and IPEF, which include the major economies of the Asia-Pacific area, have emerged as the two most significant avenues for regional economic cooperation. The economies participating in RCEP and IPEF, however, have conflicts of interest and differ in terms of their binding conditions, integration standards, and cooperation objectives. Aiming toward zero tariffs for over 90% of goods trade, the Regional Comprehensive Economic Partnership (RCEP) employs two approaches to tariff reduction and exemption: quick tax reduction and tax reduction within ten years. Negotiating rates and easing market access are not plans that IPEF has. The majority of RCEP member states have unbalanced export-oriented economic development patterns in terms of their economic structure. One of the main arguments in favour of ASEAN countries joining IPEF is the potential for production and consumption to complement one another. As a result, intense competition between the two blocs has raised the stakes to entice such countries as the Asia-Pacific economic integration process progresses.

India's perspective

The choice of joining one of the two alliances with opposing powers at the helm has been a tight-rope walk for India since 2019 when it walked out of the RCEP agreement. With the inclination towards the US through the IPEF, an important takeaway appears to be India's clear vision of positioning itself as a credible trading post with partnership, rather than obligation, being the underlying philosophy.

Appreciating the importance of this wide-ranging collaboration, India has adopted three of the four pillars of IPEF, excluding the trade pillar that is divided into many critical areas, including labour, digital trade, the environment, and agriculture. Having learnt its lessons from the RCEP negotiations, India does not want to miss the bus of not being a full-spectrum member of the IPEF. However, the protection of its domestic industries from the onslaught of global competition in critical sectors such as agriculture etc. will hold the key. The Indian government is now working overtime to build its domestic legal framework by seeking consensus from the stakeholders, including the industrial representatives, for the related changes in various domains like digital infrastructure etc.

India can harmonize its domestic regulations with those of the region by taking part in the rule-making process and collaborating closely with the US and other major IPEF members, notably Japan, Korea, Australia, and Singapore. Numerous IPEF regulations will serve as models for further international adoption. Regulations in India will then be in line with many other economies, as they are already in line with the IPEF. This would make it easier to integrate Indian economic policies and practices with international business and industry norms.

Other advantages of the agreement for India include support towards a favourable ecosystem for MSMEs, stronger integration in global value chains, support for supply chain diversification, and the development of a smooth regional trade environment that would ease the movement of Indian goods.

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Sources:

- S&P Global
- US Trade Representative website
- ASEAN Portal
- Asia Pacific Economic Cooperation website