

Going Forward: Challenges in Asia-Pacific Economic Cooperation

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Even the most astute observer of global affairs could not have forecasted how difficult and challenging the start of the second decade of the 21st century would be. The COVID-19 pandemic that began in early 2020 is still around and the economic consequences are clear for all to see. Yet, in terms of economic interaction and cooperation in the Asia-Pacific, the disruption and instability began with the election of Donald Trump in the US in 2017 and China's tit-for-tat response as well as its increasing assertiveness in pursuing its national interests. In the ensuing four years of the Trump administration, the US quit the Trans-Pacific Partnership (TPP) trade agreement, scrapped NAFTA (and renegotiated a replacement agreement), weaponized trade (with friends and foes alike), and vilified multilateral/regional trade agreements. Trade under the Trump administration became a geopolitical 'hot potato' and sharpened the competition between the US and China. As the world's largest economy and an important economic partner to Asia-Pacific economies, US actions have immense flow-on consequences and certainly affected the conduct of Asia-Pacific economic interaction and cooperation. The COVID-19 pandemic simply made the bad situation worse.

The trade-dependent Asia-Pacific economies face significant headwinds in progressing economic cooperation and economic integration, amongst these headwinds are the continuing fallout of the COVID-19 pandemic and its after effects and the impact of geopolitical tensions between the United States and China. Let us briefly examine these challenges.

The fallout of the COVID-19 pandemic. The COVID-19 pandemic that began in early 2020 is now entering its fourth year although border closures have been lifted and lockdowns are no longer enforced to control the pandemic. As cross-border travel has been lifted and area wide lockdowns have given way to patient self-isolation and management, economic activities are slowly returning to some level of normality. Yet, the economic after-effects – inflationary pressures and supply chain disruption -- of the COVID-19 pandemic are evident.

The supply chain disruptions hit the global economy since the early days of the pandemic. Public health responses that included lockdowns and mandatory self-isolation of those infected – necessary to control infection rates and the spread of the virus – naturally affected businesses including manufacturing, shipping, and the general flow of good and services. As business and economic activities became disrupted, the economics of supply and demand set in bringing inflationary pressures as supply of goods and services is unable to satisfy existing demands and manufacturing activities slowdown significantly as inventory of parts and intermediate product is reduced and the supply of these products affect final production itself.

The integration of the global economy in the past three decades ensured that these pressures are not limited to one country or one region but felt globally. As production and manufacturing processes become more decentralized and distributed across countries and regions, disruptions of business and economic activities in one country or one region is keenly felt across other countries and regions. For example, since China's accession to the WTO, it has become a major manufacturing hub for both intermediate and finished products. As China went into lockdown in response to the COVID-19 pandemic, the disruption of the supply chain of finished products for the consumer market and intermediate products for the other goods were very keenly felt. Another much reported example is the short supply of semiconductors during the height of pandemic. Semiconductors have become a critical component in wide range of products from mobile phones, computers, washing machines, automobiles, etc. Taiwan's dominance of the semiconductor industry – highlighted by the island state supplying 60 percent of global needs in semiconductors – as slowdowns in production in its foundries in Taiwan and overseas due to the public health crisis has seriously affected the manufacturing industries in Germany, US, Asia, and elsewhere.

Cost and price increases affecting businesses and consumers are not only caused by supply chain disruptions but were also a result of the expansionary fiscal and monetary policies that governments adopted in response to a fear of an economic collapse due to public health crisis and the drop in consumption. The quantitative easing increased money supply and resulted in cheap credit as interest rates dropped significantly. All these contributed to inflationary pressures that in 2022 began to be felt globally as major economies such as the United States, United Kingdom, Japan, Germany, and other economies witnessed high inflation rates not seen since the early 1980s (Hubbard 2022; Suvannaphakdy 2022).

In the Asia-Pacific region, the challenge of inflation and the supply chain disruption to economic cooperation becomes a political problem and a collective action problem. Regional economic cooperation necessitates outward-looking, harmonized, and coordinated policies and policymaking in order to create an economic environment that is conducive to mutual economic growth and development. Yet, the current economic problems emanating from the COVID-19 pandemic has turned governments to be more inward-looking and domestically focused. As citizens are affected by high cost of living and public support and approval ratings of governments noticeably declines, politicians are driven to be more inward-looking and focus its due to the domestic political problems created by high inflation and poor economic performance.

Geopolitics and US-China strategic competition. The biggest challenge to Asia-Pacific economic cooperation is not economic but the state of contemporary geopolitics. While geopolitics can – in good times – be an enhancer and a catalyst of economic cooperation, accelerate trade liberalization, promote economic progress, yet in the bad times geopolitics become a consequential and significant stumbling block.

The Trump's administration of 2017-2021 promoted an 'America First' foreign policy that not only 'supercharged' American primacy but also weaponized trade and knocked back American

involvement in regional trading arrangements. In weaponizing trade, the US slapped customs tariff on products from the PRC leading to tit-for-tat between the world's two largest economies. Customs tariff, though, was not only directed to the PRC – who the US identified at its strategic competitor – but also to products such as iron and steel products from allied and friendly states like Australia, South Korea, New Zealand, and EU countries.

Besides weaponizing trade, the Trump administration also withdrew the United States from the Trans-Pacific Partnership (TPP), renegotiated the North American Free Trade Agreement (NAFTA), and essentially stepped away from plurilateral and multilateral trade arrangements. These types of agreements have become a 'hot potato' political issue in the United States with politicians of both stripes – Republicans and Democrats – avoiding support for global or regional free trade. Under the Biden administration, there has been no marked change in US trade policies.

For the Asia-Pacific region, the US's withdrawal from the TPP was a significant setback as not only was the agreement already completed but is beginning to be ratified by signatory countries then. As trade is an important lifeblood of countries in the Asia-Pacific, Japan led the effort to renegotiate the TPP amongst the remaining countries – Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam – and was renamed the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). The CPTPP was signed in 8 March 2018. Since then, the UK, PRC, and Taiwan have applied to join the CPTPP.

The change in Trump administration to the Biden administration in 2021 did not see the United States apply to join the CPTPP. Instead, the Biden administration has offered the Indo-Pacific Economic Framework (IPEF) as an alternative to CPTPP. However, IPEF as of this writing is not exactly an alternative as it is not a typical free trade agreement and there is no mention of market access or tariff free trade amongst its members.

Meanwhile, since the US's withdrawal from the TPP, the PRC has signed the Regional Comprehensive Economic Partnership (RCEP) with countries in the Asia-Pacific that includes Australia, Brunei, Cambodia, China, Indonesia, Japan, South Korea, Laos, Malaysia, Myanmar, New Zealand, Philippines, Singapore, Thailand, and Vietnam. RCEP countries comprises 30 percent of global population and accounts for 30 percent of global gross domestic product (GDP). While RCEP is not considered at the same quality level of the CPTPP, its significance to trade and economic cooperation cannot be understated due to its more Asia-Pacific regional focus that includes several global trading powerhouse countries.

The United States, China, and Japan are the top trading partners of countries in the Asia-Pacific. With the US and China locked in geopolitical competition, Asia-Pacific countries are caught in the middle as tensions spillover to the economic sphere (The Economist 2021). Asia-Pacific is no stranger to superpower competition. In the post-Second World War period, Asia-Pacific is one of the arenas of the Cold War dividing up countries into different allegiances and groupings – between the pro-US alliance and the pro-Soviet alliance. Yet, this current geopolitical tension is different as it is not a simple ideological contest of liberalism versus authoritarianism. China

presents a different challenge from the then USSR. While the USSR, during the height of the Cold War, was a consequential military competitor to the US, it is much less so in the economic sphere. China, on the other hand, is significant in the economic sphere. In the Asia-Pacific region, China is the top trading partner to countries in the region – including Australia, New Zealand, Japan, South Korea, and even Taiwan.

As trade dependent economies, the stark geopolitical choices being presented of the US-China competition do not translate well in terms of trade and economic issues (The Economist 2021). With free trade becoming a 'toxic' political issue in Washington, the United States has framed the geopolitical competition in terms of the values of liberalism and democracy subsuming the economic into the political and not offering any economic or trade enticement to countries in the region. China, on the other hand, has a carrot and stick approach to its foreign policy with the 'carrot' of continued emphasis on its economic and trade focused agenda to the Asia-Pacific in conjunction with the 'stick' as China invest heavily on its military and asserts its territorial sovereignty claims (e.g., South China Sea) as well as its own weaponizing of trade.

As supply chain stability and security are thrust to the forefront of geopolitical attention, concerns have been raised about the increasing talks about 'decoupling' and its implications to global and regional economic growth and development. In a recent article published at the influential journal *Foreign Affairs*, former US Treasury secretary Henry M. Paulson, warned that America's pursuit of a 'broad decoupling' and viewing US-China relations solely on national security lens is not only disadvantaging American businesses but also risk American prosperity as well as global prosperity.

In terms of the Asia-Pacific region, both the United States and China (together with Japan) are the main growth engines of the regional economies. This is evidenced by the unprecedented economic growth and development of the region in the post-Second World War period. In the 1960s to the 1980s, the United States was arguably one of the main sources of growth for the Asia-Pacific economies with its huge market and strong support of free trade of goods and services. As China opened up to the world in the 1980s – and especially since its WTO accession – has also become a second and very important growth source for the regional economies as well.

Indeed, the singular focus on national security in the United States-China relations and the threat of broad decoupling that ex-Treasury Secretary Henry M. Paulson has raised strong concerns about is extremely worrisome for Asia-Pacific economies. As the editors of *The Economist* wrote in their opinion editorial (28 June 2021) argue, that the United States should not let Asian countries choose sides in this period of heightened competition between the world's two largest economies. It goes without saying that from the point of view of the Asia-Pacific economies, it is not as simple as choosing the United States or choosing China. Since the 1990s, the regional economies are more integrated to both the United States and to China. Therefore, in terms of sustaining the region's economic growth and development and the furthering of regional economic cooperation – especially after the COVID pandemic – a stable,

cordial, and predictable United States-China relationship is required and most preferred by the Asia-Pacific economies.

Going forward. As countries in the region and globally battle the economic consequences of the COVID-19 pandemic, trade, economic cooperation, and economic coordination between and amongst Asia-Pacific economies are even more critical for regional economies to solve the problems posed by inflation, supply chain stability, and the looming threat of recession. Economic problems resulting from the pandemic, therefore, necessitates an economic solution. In the Asia-Pacific region then, resolving the problem of collective action would require not only skillful diplomacy and economic statecraft of its policymakers but more importantly the strengthening and enhancement of existing regional economic frameworks. Indeed, regional economic framework such as the Asia-Pacific Economic Cooperation (APEC) and other regional economic institutions have critical role to play as it provides an important platform and a consequential mechanism for regular interactions of key economic policymakers in the region. While the United States-China geopolitical competition is real and casts a dark cloud over the Asia-Pacific region, Asia-Pacific regional economies can take solace in the lessons – of the importance of iterative interactions and institution-building that develops mutual trust and leads to cooperative behavior – that Robert Axelrod’s classic book *The Evolution of Cooperation* taught us. Through these regional economic frameworks, economic coordination and economic cooperation – even under the shadow of heightened geopolitical tensions – is still possible.

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