THE MULTIPLE DIMENSIONS OF ECONOMIC ENGAGEMENT WITH THE INDO-PACIFIC REGION

Queen’s Institute on Trade Policy
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MAJOR THEMES

I. Foundations and Premises – The economy, domestic and beyond
II. Indo-Pacific Economic Architecture
III. A Deeper Dive
IV. Lessons for Engagement
1. The Indo-Pacific is a heterogeneous region:
   • LDCs, middle-income, and the second, third, and tenth largest economies in the world

2. With tensions both within and between countries

3. Most fundamentally, peace is a precondition to development and growth...

4. The defence and security dynamic, both land and sea, is a separate discussion

Against this backdrop, a well-functioning economy is necessary to provide jobs, growth and an improved standard of living for citizens – sustainable development!
A well-functioning economy depends on

1. an enabling environment that provides:
   - public goods: health, education, nutrition, public safety and defence
   - Regulatory certainty and predictability
   - Reliable facilitative sectors: transport, finance, energy, communications
   - Inclusion: broader participation (e.g., rural, gender) and moving the grey economy into the mainstream; and

2. engagement with others:
   - for LDCs and developing countries, financing and capital, ODA and fair trade access
   - for middle income countries and beyond, trade, investment and capital flows
FOUNDATIONS AND PREMISES, CONT’D

Strategies to Achieve Sustainable Growth

Finance
- Prudent monetary policy
- Strong and stable financial sector
- Effective and efficient fiscal policy

Governance
- Provide security and public goods
- Enhance economic infrastructure
- Improve social inclusivity and equality

Trade
- Build on trade’s contribution to GDP
- Promote value chains
- Deepen trade integration
Challenges to Sustainable Growth:

Finance
- Volatility and capital flight
- Decreasing growth
- Unsustainable debt

Governance
- Inadequate governance
- Lagging structural reforms
- Internal political and social tensions

Trade
- ‘Noodle-Bowl’ of FTAs
- Protectionism
- Lack of competitiveness
INDO-PACIFIC ECONOMIC ARCHITECTURE – TRADE

Intra- and Inter-regional trade intensity
# Indo-Pacific Economic Architecture - Trade

<table>
<thead>
<tr>
<th>Country</th>
<th>CPTPP Member</th>
<th>RCEP Member</th>
<th>DEPA Member</th>
<th>BRI Partner</th>
<th>U.S. FTA</th>
<th>U.S. TIFA</th>
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<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
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<td>Taiwan</td>
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<td>No</td>
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</tbody>
</table>

**Notes:**
- "DEPA" refers to the Digital Economy Partnership Agreement.
- "Yes" refers to the completion of a trade agreement with the United States.
- "Interested" refers to a potential trade agreement in the future.
- "Suspended" indicates a suspended trade agreement.

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**Regional Comprehensive Economic Partnership:**
- **Canada-Korea Free Trade Agreement**
- **South Korea**
- **Canada**
- **Australia**
- **Japan**
- **New Zealand**
- **Chile**
- **Mexico**
- **Peru**
- **Brunei Darussalam**
- **Singapore**
- **Viet Nam**

**Comprehensive and Progressive Agreement for Trans-Pacific Partnership:**
- **Cambodia**
- **Indonesia**
- **Laos**
- **Myanmar**
- **Philippines**
- **Thailand**

**Association of Southeast Asian Nations:**
- **China**

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*Source: Authors' compilation based on multiple sources.*
Economic blocs in the Indo-Pacific region

**IPEF** (13 members)
- United States
- India
- South Korea
- Japan
- Australia
- New Zealand
- Singapore*
- Brunei*
- Malaysia*
- Vietnam*
- The Philippines*
- Thailand*
- Indonesia*

**RCEP** (15 members)
- China
- Laos*
- Myanmar*
- Cambodia*

**TPP** (11 members)
- Canada
- Mexico
- Peru
- Chile

*means ASEAN members

*Not all members shown
Debts and Deficits:

- Governments must have the capacity to manage their budgets
- Deficits require borrowing, which creates and accumulates debt
- The IMF remains the lender of last resort
Fiscal Policy to manage budgets is a question of both revenue and expenditure

- Many countries of the region have a narrow tax base and are overly dependent on consumption taxes, rather than corporate or personal income tax
- No OECD to provide policy guidance, but ADB established a tax hub in 2020
Private Sector

• Finance depends on banking, equity, debt, payments, F/X, and thus engagement with others

• In the Indo-Pacific, connecting and integrating relevant equity markets remains a work in progress and private equity lags

Hong Kong Stock Exchange List of Recognized Exchanges

(a) The Amsterdam Stock Exchange (NYSE Euronext – Amsterdam);
(b) The Australian Securities Exchange (ASX);
(c) The Brazilian Securities, Commodities and Futures Exchange (B3);
(d) The Frankfurt Stock Exchange (Deutsche Börse);
(e) The Italian Stock Exchange (Borsa Italiana);
(f) The London Stock Exchange (LSE);
(g) The Madrid Stock Exchange (Bolsa de Madrid);
(h) NASDAQ OMX (US);
(i) The New York Stock Exchange (NYSE Euronext (US)));
(j) The Paris Stock Exchange (NYSE Euronext – Paris);
(k) The Singapore Exchange (SGX);
(l) The Stockholm Stock Exchange (NASDAQ OMX – Stockholm);
(m) The Swiss Exchange (SIX Swiss Exchange);
(n) The Tokyo Stock Exchange (TSE); and
(o) The Toronto Stock Exchange (TMX).
INDO-PACIFIC ECONOMIC ARCHITECTURE – FINANCE, CONT’D

…and the bond markets, too, are less connected than in other regions
Small business, and the consumer, remain under-served, too

Digitalization of private sector wage payments varied across economies in the East Asia and Pacific region

Adults receiving private sector wages in the past year (%), 2021

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
<th>In cash only</th>
<th>Using other method</th>
<th>In an account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>57%</td>
<td>8%</td>
<td>12%</td>
<td>30%</td>
</tr>
<tr>
<td>China</td>
<td>8%</td>
<td>12%</td>
<td>4%</td>
<td>75%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>12%</td>
<td>30%</td>
<td>4%</td>
<td>57%</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>4%</td>
<td>75%</td>
<td>25%</td>
<td>12%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>30%</td>
<td>4%</td>
<td>8%</td>
<td>75%</td>
</tr>
<tr>
<td>Mongolia</td>
<td>4%</td>
<td>75%</td>
<td>25%</td>
<td>12%</td>
</tr>
<tr>
<td>Myanmar</td>
<td>75%</td>
<td>4%</td>
<td>25%</td>
<td>1%</td>
</tr>
<tr>
<td>Philippines</td>
<td>12%</td>
<td>4%</td>
<td>8%</td>
<td>73%</td>
</tr>
<tr>
<td>Thailand</td>
<td>12%</td>
<td>4%</td>
<td>8%</td>
<td>75%</td>
</tr>
</tbody>
</table>

Note: Findings from a 2017 PayPal study covering 4000 consumers and 1400 merchants across seven markets in Asia – China, Hong Kong, India, Indonesia, the Philippines, Singapore & Thailand.
Infrastructure

- Unmet infrastructure demand (e.g., power, water, transport, connectivity) estimated to be $US 26 trillion by 2030

- The regional infrastructure market is expected to grow 7 - 8% a year over the next decade, reaching US$5.36 trillion/yr by 2025 representing 60% of the world total (PWC)

- Support characterized by competition and cooperation: WB, ADB and AIIB; Bilateral funding; Public-private partnerships and blended finance
BRI and “B3W” related Infrastructure Initiatives
### ODA (DAC) 2019-2020

**INDO-PACIFIC ECONOMIC ARCHITECTURE – FINANCE, CONT’D**

#### ODA

<table>
<thead>
<tr>
<th>ODA</th>
<th>2019</th>
<th>2020</th>
<th>Change 2019-20</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current (USD m)</td>
<td>151,720.8</td>
<td>162,200.4</td>
<td>6.9</td>
<td></td>
</tr>
<tr>
<td>Constant (2020 USD m)</td>
<td>155,927.3</td>
<td>162,200.4</td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td>National Currency (million)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ODA/GNI (%)</td>
<td>0.30</td>
<td>0.33</td>
<td>0.03</td>
<td></td>
</tr>
<tr>
<td>Bilateral share (%)</td>
<td>72</td>
<td>71</td>
<td>1%</td>
<td></td>
</tr>
</tbody>
</table>

#### Top Ten Recipients of Gross ODA (USD million)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>ODA (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>India</td>
<td>4,005</td>
</tr>
<tr>
<td>2</td>
<td>Bangladesh</td>
<td>3,004</td>
</tr>
<tr>
<td>3</td>
<td>Afghanistan</td>
<td>2,721</td>
</tr>
<tr>
<td>4</td>
<td>Syrian Arab Republic</td>
<td>2,387</td>
</tr>
<tr>
<td>5</td>
<td>Jordan</td>
<td>2,322</td>
</tr>
<tr>
<td>6</td>
<td>Indonesia</td>
<td>2,319</td>
</tr>
<tr>
<td>7</td>
<td>Ethiopia</td>
<td>2,284</td>
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<tr>
<td>8</td>
<td>Iraq</td>
<td>1,681</td>
</tr>
<tr>
<td>9</td>
<td>Myanmar</td>
<td>1,720</td>
</tr>
<tr>
<td>10</td>
<td>Philippines</td>
<td>1,658</td>
</tr>
</tbody>
</table>

**Memo: Share of gross bilateral ODA**

- Top 20 recipients: 32%
- Top 10 recipients: 20%
- Top 5 recipients: 12%

#### By Income Group (USD million)

- **LDCs**: 30,199 (24.5%)
- **Other Low-Income**: 572 (0.5%)
- **Lower Middle-Income**: 30,186 (24.5%)
- **Upper Middle-Income**: 14,533 (11.8%)
- **Unallocated**: 69,526 (55.2%)

#### By Region (USD million)

- **South of Sahara**: 28,510
- **South and Central Asia**: 15,700 (12.0%)
- **Other Asia and Oceania**: 11,625 (9.4%)
- **Middle East and North Africa**: 14,675 (11.9%)
- **Latin America and Caribbean**: 8,093 (6.6%)
- **Europe**: 3,616 (2.9%)
- **Unspecified**: 69,526 (55.2%)

#### By Sector (commitments)

- **2020 Commitments**
  - (19.5%)
  - (18.8%)
  - (17.1%)
  - (6.7%)
  - (8.8%)
  - (2.3%)

- **Sectors**
  - Education, Health...
  - Economic Infra...
  - Multisector
  - Debt Relief
  - Unspecified
## Table 2: China development funds in the world economy (US$ billion)

<table>
<thead>
<tr>
<th>Region</th>
<th>SUSB</th>
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<td><strong>Asia</strong></td>
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<tr>
<td>Silk Road Fund</td>
<td>40</td>
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<td>The Green Silk Road Fund</td>
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<td><strong>Eurasia</strong></td>
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<td>China-Central and Eastern Europe Investment Fund</td>
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<td>Russia-China Investment Fund</td>
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<tr>
<td><strong>Latin America and Caribbean</strong></td>
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<td>CELAC-China Investment Fund</td>
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<td>China-LAC Industrial Cooperation Fund</td>
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<td>China-LAC Investment Fund</td>
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<td>China-Mexico Investment Fund</td>
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<td><strong>Africa</strong></td>
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<td>China-Africa Development Fund</td>
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<tr>
<td>Africa Growing Together Fund</td>
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<tr>
<td>China-Africa Industrial Capacity Cooperation Fund Company Limited (CAICCF)</td>
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<td><strong>Global South</strong></td>
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<td>South-South Climate Fund</td>
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<tr>
<td><strong>Total</strong></td>
<td>98.4</td>
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</table>
Multilateral Institutions

- WTO, WIPO, ITU, ICAO, IMO, WCO, IEA, etc.
- UN: especially UNCTAD, UNDP, ESCAP, but also WHO, COP, etc.
- Bretton Woods: IMF, World Bank (IFC and IDA), BIS
A DEEPER DIVE: THE BROADER PLAYING FIELD, CONT’D

PLUS
• PIF
• BRICS
• ADB, AIIB
• [OECD]
A DEEPER DIVE: THE BROADER PLAYING FIELD, CONT’D

Forums

1. Trade-related, e.g.,
   - Ottawa Group, G20, APEC, CPTPP, RCEP, etc.

2. Finance-related, e.g.,
   - G20, G24, APEC, ASEAN

3. Sectoral, e.g.,
   - ICAO/IATA; IMO; ITU; Codex/OIE/IPCC; IEA and IRENA, etc.

4. “Friends” and Caucuses, e.g.,
   - Quad, IPEF, Cairns Group, etc.
A DEEPER DIVE: THE BROADER PLAYING FIELD, CONT’D

Analysis and Influence

1. Secretariats, e.g.,
   - ADB, OECD, ASEAN

2. Public Policy Centres, e.g.,
   - ERIA, RIETI
   - At home: APF, Munk School, etc.

3. Business Communities: omnibus and sectoral
LESSONS FOR ENGAGEMENT

1. **Think horizontal**
   - Consensus emerges from “caucusing” and gestation period in non-negotiating forums
   - Thus, stay current with and integrate such discussions, e.g., APEC, G20

2. **Develop and maintain relations with Finance, and sectoral Departments**

3. **Your Mission reps are more than messengers and implementers**
   - Including our ED’s to the IMF, WB, ADB and AIIB

4. **Engage stakeholders abroad as you would at home**
   - Business community voice is relevant, influential in many/most countries
   - Sectoral groups matter, e.g., automotive

5. **Read and follow up: think tanks and academia, media and editorial writers**