

Executive Summary

The evolving economic architecture in the Indo-Pacific rests squarely on the post-war construct of the Asia-Pacific, which has been in existence for 6 decades but is undergoing changes in the established patterns of economic integration and supply chain linkages. The Indo-Pacific faces opportunities and challenges in the new policy alignments around Trade, Global Value Chain (GVC) Integration, and Economic Cooperation. The *raison d'être* of building a new construct lies in the re-evaluation of the existing trade and investment linkages – in Asia, between Asia and the Pacific, between Asia and Europe, and between Asia and Africa – and in the re-calibration of these linkages, along with economic and technical cooperation activities, to reflect the emergent economic and strategic alignments amongst countries and regions, including the Pacific Island states. This study traces the stages of economic growth in Asia-Pacific and the convening of regional platforms such as the Association of South East Asian Nations (ASEAN), Asia Pacific Economic Cooperation (APEC), ASEAN+3, and East Asia Summit to aid the regional economic integration. The emergence of the Indo-Pacific construct thereafter is explained by evaluating the strategic importance of regional value chains and the global competitiveness for dominating the new technologies that influence both the existing and new centres for the production and consumption of goods and services. The economic construct is specifically explained along the important verticals of:

- Connectivity infrastructure for supply chains;
- Role of ASEAN in the new architecture;
- Trade Integration amongst major partners of Indo-Pacific;
- Cooperation for digital economy;
- Human resources capacities and movement of people;
- The Pacific Islands in an inclusive Indo-Pacific; and
- Development and cooperation.

The transformational changes in global governance, international relations, the aspirations of the young demography, technological connectivity, and the future of work are driving the current discourse on connectivity. For this reason, connectivity infrastructure plans that underwrite the economic architecture in the Indo-Pacific are seeking greater emphasis on governance, standards, transparency, and accountability. Connectivity plans that cater to new supply chain linkages, whether for trade in goods or services, or for the digital economy, will be subject to efficiencies and markets. At the same time, the global discourse on balanced, sustainable, and inclusive growth shifts the emphasis on economic corridors that can stimulate two-way trade between economic agglomerations within Asia, and between Asia, Africa, and Europe. The COVID-19 pandemic has revealed the vulnerability of connectivity and GVCs. Connectivity between new production locations and markets will strengthen the resiliency of inter-regional connectivity and the GVCs, and improve trade integration. In the post-COVID-19 phase, it will also support restructuring and diversification of supply chains and markets. Indo-Pacific has high stakes in the new supply chain-led connectivity projects. Restructuring, understanding, and preparing for a connected Indo-Pacific will ensure stable and inclusive growth in the region.

South-East Asia is indeed becoming more confident in the Free and Open Indo-Pacific approach, which emphasises development and connectivity, and expansion of supply chains. ASEAN has crafted the *ASEAN Outlook on the Indo-Pacific* to support ASEAN's position and to maintain its centrality by standing together and keeping its economies convergent. ASEAN feels that 'the ASEAN way' — that

is, non-interference — is a vital strategy for ASEAN to remain relevant, agile, and flexible in the new economic architecture. ASEAN is interested in the peace dividend in the region and must apply its open, soft, free, and inclusive principles to build peaceful market mechanism-based trade in the Indo-Pacific.

The degree of economic integration, through GVCs, of Indo-Pacific countries including ASEAN, is the bedrock of Indo-Pacific economic architecture. An Indo-Pacific trade and economic cooperation plan must consider China and face the inevitability of supply chain integration between ASEAN and China, and the European Union (EU) and China, amongst others. The question before policymakers is whether the new economic architecture – the Indo-Pacific – can be developed in a highly trade-integrated Asia; even when the strategic cooperation amongst Indo-Pacific members mostly excludes China from their deliberations and dialogues.

The Pacific Island Countries (PICs) may be geographically located at the heart of the Indo-Pacific region but suffer from the tyranny of distance with expensive air and sea connectivity. PICs have grown on important fronts, such as telecommunications infrastructure and regulation, e-commerce, and cooperation on product standards. Their small market size and high trade costs, however, are challenges for integration into global supply chains. Infrastructure and institutional support from important regional economies for their supply chains will make the Indo-Pacific an inclusive architecture. PICs prioritise climate change and development as their most pressing needs. However, drawing them into the emergent rules and practices of the Indo-Pacific economic architecture is foundational to the achievement of their priorities as well as to the prosperity, peace, and security in their region.

Digitalisation is key to 21st century GVCs. The rapid growth of digital trade and its rising importance in the world economy have urged the Indo-Pacific region towards international common rules to level the playing field and provide a rules-based ecosystem to support market openness, innovation, and fair competition. Trust building is the priority for an open, resilient, development-friendly ecosystem for the Indo-Pacific digital economy in which issues of privacy, cybersecurity, and intellectual property rights are balanced with market openness, flow of data, taxation and legal frameworks, and political systems.

Human capital will increasingly become the main driver of broad-based economic growth and will be a key area for international cooperation in the Indo-Pacific. As technologies transform the structure of economic activity, human capital development fits neatly within the economic construct of the Indo-Pacific. A mutual agenda of greater connectivity must include preparing the workers for changes in the locus and mode of economic activity, greater penetration of the digital economy, and transformation of production networks. Indo-Pacific countries cannot ignore the need for skills development if they want to maximise the benefits of greater trade and investment flows within the region. The level of human capital varies across the Indo-Pacific, hence cooperation for capacity development, movement of skilled workers, and new mechanisms for labour movement in digital economy must be built in the new economic architecture.

Without a clearly identified geography, the Indo-Pacific economic architecture can arch over an economic cooperation strategy in which bilateral and trilateral cooperation for development are common to Infrastructure, digitalisation, strengthening of supply chains, maritime cooperation, etc., which are considered the drivers of economic growth and prosperity in the Indo-Pacific region. All the existing schemes of bilateral and trilateral cooperation within the geography of the Indo-Pacific – such as the Indian Ocean Rim Association, ASEAN, Australia–Japan–India Supply Chain Resilience Initiative, Quadrilateral Security Dialogue, ASEAN–India Connectivity, India–European Union Strategic Partnership, India–EU Connectivity Partnership, India–Japan Comprehensive Economic Partnership

Agreement, India–Australia Comprehensive Strategic Partnership, and EU–ASEAN Strategic Partnership, amongst others – manifest the larger economic vision of the Indo-Pacific.

Trade and investment policies will assume more significance in the coming years and nurturing the business environment will also play a role in structuring trade relations in the Indo-Pacific. The trade agreements of the Regional Comprehensive Economic Partnership, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, and the Indo-Pacific Economic Framework for Prosperity will be expected to play a crucial role in trade integration and investments in the Indo-Pacific region.

An Indo-Pacific trade and economic cooperation plan must consider China. Closely integrated value chains between China and ASEAN have cast a shadow on some trade and investment partnerships with ASEAN, e.g. with Japan, the EU, and most noticeably with India. The negotiations on trade in goods in the RCEP reflected these concerns at several points before the conclusion of the FTA. It is also an important reason why India stayed out from the conclusion of the RCEP. The emerging economic architecture in the Indo-Pacific, in which ASEAN has a central role, will also face the inevitability of supply chain integration between ASEAN and China, and the EU and China, amongst others. The lessons from the pandemic and the advent of the digital economy underline both the scope of, and immediate need for, efficient and trusted partners. Equally, value chains of the green economy, high-tech production, research and development, and financial markets are other strong prospects for the Indo-Pacific region. Investments in infrastructure for the digital economy and cybersecurity are the two most pressing needs in the region for it to grow as a digital economy hub. The Indo-Pacific region should be ready and able to fulfil both the capacity needs and trust issues required in these areas of cooperation.

The Indo-Pacific region is home to some of the most open markets for both trade and investment. Its economic dynamism is becoming contemporary and future-ready through the cooperation plans for new GVCs and investments, and rules of engagement. Such economic dynamism is left vulnerable to a unilateral interpretation of the status quo in the South and East China Sea. The strategic activities in the two seas have caused several ripple effects on the economic linkages in Southeast and East Asia. The deep GVC connectivities amongst East and Southeast Asian countries and China created a ground for dissatisfaction with the existing economic architecture, notwithstanding the ensured economic returns from existing trade integration in the region and the complexity involved in unravelling the backward–forward integration of exports in several important sectors.

To say that the evolution of the Indo-Pacific economic architecture is for the containment of China is a simplistic explanation. The Indo-Pacific no doubt addresses China centrality in production sharing in the region, and the dependency of the EU and the US on the supply chains of China. From a policy research perspective, the evolution of this architecture is a preparation for new economic demands before all countries in the region. Structural transformation and employment generation policies in developing Asia and the Pacific must understand, prepare, and respond to the new digital economy, as the latter will affect the patterns and geographical location of industries, employment, trade, and economic growth. Increased industrialisation and participation in GVCs are important for growth and employment generation in several less developed countries.

Geographical inclusiveness is an important aspect of the Indo-Pacific architecture. The role of smaller countries – especially the Pacific Island countries, which are new entrants to the regional connectivity plans – is particularly recognised in this study and for the future monitoring of economic performance in the Indo-Pacific. Human resources and the movement of people are equally linked with the new digital economy, as well as the future of work. Interweaving these elements of cooperation into economic cooperation in the Indo-Pacific will prepare the region for the future.

The Indo-Pacific economic architecture responds to the different policy and plan needs of developing and developed parts of Asia and the Pacific. Along with the need for achieving high and sustained growth in developing countries and least developed countries in the region, there is greater recognition of ensuring equitable, spatially even, and inclusive economic growth amongst all stakeholders. The Indo-Pacific economic architecture is linked to restoring multilateralism that recognises diversity yet leaves no one behind. The challenge is not to maintain a rules-based system, but to create and operate institutions that evolve and sustain rules in the face of change, and the relationships must all be inclusive.

This study explains the building blocks of the new economic architecture in the Indo-Pacific that are already in operation, with the caveat that there are several opportunities, some certainties of success, and a few unknown gaps that will shape progress towards the future.