

Asia-Pacific Forum 2021:

Remarks at the session 1: Growth Strategy of Asia-Pacific

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- 1) Asia Pacific economies are truly diverse in terms of population, GDP, and development stage, including the world top three economies, the US, China, and Japan, and other major economies like the sub regional economic entity, ASEAN, India, Canada, South Korea, Australia, Mexico, and other developing economies.
- 2) APEC 21 members of Asia-Pacific occupied 62 percent of world GDP and 52 percent of global trade respectively in 2020. Eleven of the Asia-Pacific economies constitute the already effective CPTPP. In November 2020, the 15 regional economies concluded the RCEP, which is likely to effectuate in early part of 2022. Seven economies belong to both CPTPP and RCEP.
- 3) Since the outbreak of the Corona Pandemic in December 2019, Asia Pacific economies like the rest of the world economies have suffered unprecedented economic fallouts. In 2020, the US and Japan's economy contracted 3.5 percent and 4.7 percent respectively while China registered 2.3 percent growth still much lower than 6.0 percent growth in 2019. East Asia and Pacific economies as a whole performed with 1.2 percent growth rate much better than the world growth -3.5 percent in 2020 (The world Bank, global economic Prospects, June 2012).
- 4) During the high time of the Pandemic last year, the lockdowns caused

terrifying disruptions of well embedded regional supply chains, even feeding inflation in many countries, and further stopped nearly movement of people to chill entirely intra-regional travel and tourism. As a result, the Asia-Pacific economies have experienced the worst economic contraction and massive unemployment since the great depression.

- 5) Together with the Pandemic, climate change driven natural disasters and trade rows between major economic powers, especially between the U.S. and China are likely to contribute to downside risk and uncertainty a great deal even in the post-Pandemic era.
- 6) At present, with the corona vaccination significantly underway, Asia Pacific economies have gained significant growth momentum but there is considerable uncertainty about its durability. With severe outbreaks of the Pandemic continuing, Asia-Pacific economies face daunting challenges on how to leverage concerted and collective regional efforts to ensure speedy recovery and sustainable growth. What would be our effective multilateral strategy for Asian-Pacific economies to return to normal growth track in the post-Pandemic era?
- 7) Foremost, early vaccinated high income countries and vaccine manufactures should support the regional production of COVI-19 vaccines in near term to developing Asia-Pacific economies through financing and technology transfer so that adequate numbers of people across nation could be vaccinated and prevent more virulent virus mutations. In this regard, early vaccinated countries and vaccine manufactures also need to deliver to COVAX facilities in the near term. We should remember that there is no real exit from the Pandemic unless any single country is free from the Pandemic spread.
- 8) Second critical issue is related to how we can ensure regional supply chains

resilient. In reality, about 70% of international trade today involves global supply chains as services, raw materials, parts, and components cross borders numerous times. The supply chain disruptions while the COVID-19 Pandemic unfolding has invoked nationalistic reshoring policies for self-sufficiency and protectionism. We learned from the COVID -19 spread a hard lesson that the commercial efficiency and cost effectiveness with no inventory practice for regional supply chains in the pre-pandemic period is being now replaced by new values like resilience and stability. In the past two years, we also experienced that the supply chains have been disrupted by three forces; 1) COVID -19 pandemic, 2) climate change driven natural disasters, and 3) geopolitical trade rows among major powers in the region. Therefore, the more we reduce the risks associated with excessive dependence on a single country, the better we would be positioned to make supply chains more secured.

To ensure the economic recovery momentum going, we need to recognize the proliferating production fragmentation across countries creates a strong trade-investment nexus. Especially, cross-border vertical FDI tends to complement trade because cross-border production entails trade in intermediate inputs between multiple divisions of the same firm, leading to natural and inevitable supply chains.

Toward the supply chain resiliency, we need to diversify supply chain outsourcing. For this purpose, we need to increase supply chain capability and green investment of each regional economy by encouraging cross-border supply chain FDI flows for sustainable growth. In this regards, Asia-Pacific economies, developed or developing, should revive the functions of WTO, WHO, and COP institutions to shun away a danger of protectionism and nationalism.

Given the trade-investment nexus, cross-border vertical FDIs in the form of greenfield investments or M&A type investments should be encouraged for supply chain network based on comparative advantage to generate economic efficiency and well-beings of consumers, most importantly job creation for all the trading partners in the Asia-Pacific.

- 9) Third, stronger concrete commitments to green growth are needed to meet the target of the United Nations Climate Change Conference (COP26). A policy strategy that encompasses an international carbon price floor adjusted to country circumstances, a green public investment and research subsidy push, and compensatory, targeted transfers to households can help advance the energy transition in an equitable way. “Going green and going carbon neutral is where the global economy is going, it should be considered an opportunity to grow and expand instead of seeing it as a risk.”
- 10) Fourth, SME’s and start-ups in Asia-Pacific should be a part of the innovation/manufacturing ecosystem. SMEs in Asia-Pacific economies are the backbone of every economy and essential part of innovation/manufacturing ecosystem, providing major portion of national employment but technologically outdated and domestic market oriented. Asia-Pacific economies are urged to create a regional open SME knowledge platform for regional SMEs to adapt to digital business environment and globalization process, eventually leading to a regional digital trade pact, a new path forward for their competitive survival.
- 11) Fifth, in an Asia-Pacific regional context, given the conclusion of the RCEP just a year ago between 15 signatory member states, the already effective CPTPP should expand its membership to establish by far the most advanced and wider rule-based trade liberalization and investment facilitation

framework, which will help shun away the protectionists policies. In the absence of the U.S. membership in the CPTTP, it should be noted that the U.K., China, and Taiwan have submitted official applications to join the CPTPP. Korea is likely to follow suit very soon.

- 12) For the expanded CPTPP, the sooner the U.S. rejoins the free trade deal, the better the Asia Pacific economies to engage in reviving a more resilient supply chain network in a rule based regional framework. In this context, although lower quality than the CPTPP, the RCEP needs to be put in force rather quickly next year to ensure an open regionalism back and then to upgrade it for eventual convergence of the two mega deals down the road by eliminating tariff and non-tariff barriers deeply and widely and introducing labor and environmental standard., protection of intellectual property rights, most-favored nation treatment for foreign invested companies, and an investor-state disputes settlement mechanism.
- 13) Together, we should also note that the APEC and G20 process should also be more effective and robust to build back better regional free trade and investment system for inclusive growth across developing and developed countries.
- 14) Finally, for any geopolitical reasons, any country's supply chain linkages should not be disrupted. Asia-Pacific economies should stay on a rule based regional trade and investment system as the APEC has alluded for the FTAAP many years.