

Speech Text, December 1, 2022 at the Asia-Pacific Forum 2022

## **Coalition of middle powers toward minilateralism /multilateralism in the Asia-Pacific**

byBy Choong Yong Ahn  
Distinguished Professor  
Graduate School of International Studies  
Chung-Ang University

Thank you for inviting me to this great forum.

The Asia Pacific economies face currently several major headwinds and challenges: To name important ones; First, a rising geo-economic fragmentation where the world is divided in blocs due to the restrictive trade measures and lingering uncertainty spiked by the US-China trade war and further aggravated by the War in Ukraine: Second, a global financial tightening to fight the rising core inflation; Third, the war in Ukraine has caused rapid rise of energy and food prices; Fourth, a sharp and uncharacteristic slow down of the Chinese economy due to zero covid-19 lockdowns and crisis in real property sector, impacting negatively many of regional economies; Fifth the impending global climate change.

Thus, most Asia-Pacific economies are experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. All the headwinds weigh heavily on the regional economic outlook in the Asia-Pacific.

In terms of regional macroeconomic front, “King dollar” due to a series of big step interest hikes by the US FED has weakened many regional currencies, causing many of the Asia-Pacific economies to suffer the impossible trinity principle (trilemma), in which three policy objectives of fixed exchange rate, free flow of capitals, and monetary sovereignty cannot be achieved simultaneously. For the best policy option for the regional economic revival in the Asia Pacific, monetary policy should stay the course to restore price stability, and fiscal policy should also aim to alleviate the cost-

of-living pressures while maintaining a sufficiently tight monetary policy. This requires well coordinated prudential macroeconomic policies among major economies in the region. For the best policy option for the regional economic revival in the Asia Pacific, monetary policy should stay the course to restore price stability, and fiscal policy should aim to alleviate the cost-of-living pressures. This requires well coordinated prudential macroeconomic policies among major economies in the region.

To a great dismay, trade policy formulations by big powers recently have been made under rising security-economy nexus. Under the name of economic security, big powers can constrain unilaterally cross-border flows of many high tech products and strategic raw materials, being easily subject to export controls for security reasons. Occasionally, they have also been “weaponized” by major powers to protect their national interests. Where we can draw a demarcation line between security items and ordinary tradable goods remains a big question.

Despite the existence of a variety of regional economic and security architectures in the Asia-Pacific such as CPTPP, RCEP, IPEF, Chip 4, Digital Economy Partnership Agreement, Quad, and Quad plus, the regional economies likely suffer a “Kindleberger trap,” where the largest economic powers are not capable of providing global public goods.

On-going neo-mercantilism such as reshoring and/or near and friendly shoring policy with the government subsidies and export controls of strategic materials as a means of retaliations for geopolitical reasons are destabilizing the fundamental free trade pillars of non-discrimination and most favored nations principle, which have assured long-run post war global prosperity.

Given the macroeconomic trilemma and aggravating geo-economic fragmentation, the likeminded middle and small powers in the region are highly urged to unite for sustaining a rule-based free trade and investment regime against rising inward-looking

protectionism by the key players in the region.

Middle and small powers should work together to assure that the US and China maintain a stable U.S.-China relationship, and moving forward minilateral/multilateral cooperation to search for fast-tracking recovery, the green energy transition, and preventing supply chain disruptions and further geo-political and geo-economic fragmentation.

In a fragmented world, Asia-Pacific economies risk losing more than anybody else because it is key players in global supply chain. If the world fragments into two separate blocs, then the losses become significant. Global losses are of 1.5% of GDP. But whereas those of Asia are slightly over 3%, losses are especially large for countries with a high level of openness and that have production structures that straddle both blocs.

Some of key priorities for the likeminded regional middle powers to overcome these regional challenges are suggested as follows, advancing to minilateralism in the region as well as multilateralism globally.

1. Middle powers should call for in unison for the US to reactivate the defunct WTO dispute settlement mechanism by restoring the appellate body so that abuse of protectionist policies could be avoided. This would help reduce the protectionists' measures such as the US enacted "inflation reduction act" and China's trade policy constraining cultural products flows and intra-regional tourism.
2. The US initiated Indo-Pacific economic framework needs to be inclusive so that any country willing to join the four fundamental pillars of IPEF could be a member. The middle powers should take initiatives in formulating specific action agenda for the each of four pillars contained in the IPEF.

3. Middle powers should agree on green growth initiative and register a viable green growth technology standard.
4. Middle powers are urged to take formidable initiative to expand the existing Digital Economy Partnership Agreement (DEPA) between Singapore, New Zealand, and Chile to ensure free flow of especially SME products.

Thank you!