

The Trade-Technology Nexus in the Asia Pacific

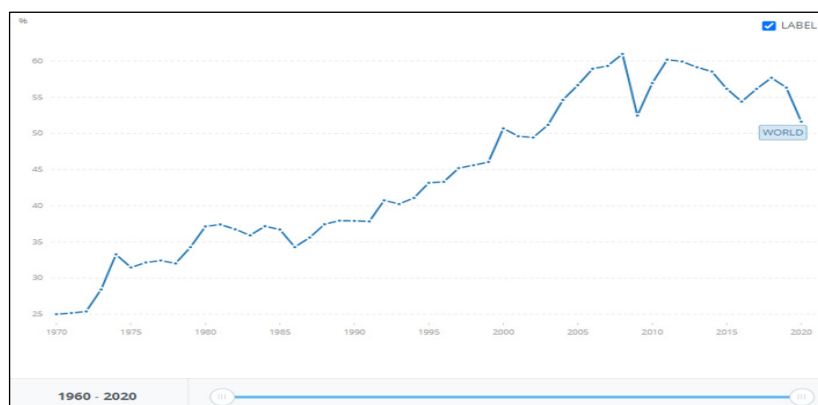


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Globalization had been the buzzword throughout the world up to the 2008 global financial crisis. Since then, deglobalization has been on the rise, evidenced by the slower pace of growth in world trade compared to GDP. World trade increased from 39 percent to 61 percent of world GDP in the period of 1990-2008, the so-called “Golden Age” of trade. But the figure declined to 56.3 percent in 2019 right before the COVID-19 pandemic breakout and further to 51.6 percent in 2020, showing an almost 10 percent point drop from 2008.

Figure 1. Trade (% of GDP)



Source: World Bank.

Two significant vote results as to the global economy came out in 2016, when Donald Trump was elected the 45th president of the United States and the United Kingdom voted to leave the EU – Brexit. Not surprisingly, not much progress was made in trade liberalization and economic integration in the Asia Pacific region during the period. The reason for inaction can be attributed in part to the bilateral approach adopted by the Trump administration as a priority for its trade policy, practically hindering any progress in multilateral or plurilateral negotiations in the region. The main focus of the US trade policy can be summarized as “Trumpism” and the “America First” policy highlighted by taking on China in the form of strategic competition and tariff war.

With the inauguration of the Biden administration in 2021, hopes were high in the region for a change in US trade policy, including a possible return of the US to the Trans-Pacific Partnership (TPP), from which President Trump withdrew on his first day in office. Rather than rejoining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a modified version of the TPP, however, the US appears to be moving forward with a new format, namely the Indo-Pacific Economic Framework (IPEF). The IPEF will not include market access commitments unlike other conventional free trade agreements (FTAs). Instead, Washington proposes four pillars through the IPEF as follows: (1) fair and resilient trade rules in the areas of digital trade, labor, and environment, (2) supply chain resilience, (3) clean energy, decarbonization and infrastructure, and (4) taxation and anti-corruption.

In the meantime, the COVID-19 pandemic has accelerated the digital transformation and created opportunities to encourage innovation and technological adoption. Notwithstanding, the glaring missing piece in the global trade perspective has been the rules conducive to digital trade. The IPEF might be a viable option to fill in the gap with the multilateral trading system represented by the WTO in crisis. The theme for APEC 2022 happens to be “Open, Connect, and Balance.” Thailand as the host economy of APEC 2022 has set out key priorities including issues such as the Free Trade Area of the Asia-Pacific (FTAAP), tourism and business mobility, and inclusive and sustainable development, claiming that APEC member economies in 2022 will move towards being open to all opportunities, connected in all dimensions, and balanced in all aspects.

We are now in transition from pandemic to endemic and welcome the reopening of economic activities cheerfully and yet cautiously. It is time to prepare for the new era of the Asia Pacific, in particular in areas of regional economic integration/cooperation and digital transformation since the world economy is facing increasingly more headwinds. Trade agreements appear to be an outdated version of trade policy as the need for economic and trade cooperation with like-minded countries is up-and-coming as emphasized by many countries and in the IPEF for example. Technology and

connectivity are considered to be crucial ingredients for more resilient and reliable supply chains during turbulent times like today. The new trade environment in the Asia Pacific region should encompass technology and innovation together with inclusiveness in its policy. Obviously, technology is the key to innovation, which in turn is the essential factor for economic growth. Policies should also address the digital divide and gap between countries and across different groups within countries, thus enabling women and MSMEs to find fair opportunities in the digital era. Can a new regional cooperation platform such as the IPEF or FTAAP, together with APEC and existing regional agreements such as CPTPP, RCEP, and Pacific Alliance, serve to help establish a trade-technology nexus for further cooperation and common prosperity in the Asia Pacific down the road? **KIEP**