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# INDO-PACIFIC ARCHITECTURE: NEW ECONOMIC NEEDS AND RULES

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INDO PACIFIC PROGRAM

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## ABOUT THIS ARTICLE

The new Indo-Pacific construct lies in the re-evaluation of existing trade and investment linkages—in Asia, Asia and the Pacific, Asia and Europe, and Asia and Africa—and in the re-calibration of these linkages, along with technology cooperation activities, to reflect the emergent economic and strategic alignments among countries and regions.

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## INTRODUCTION

The Indo-Pacific architecture is a work in progress, replacing the post-war construct of the Asia-Pacific which has been in existence for six decades. The changes are reflecting in the established patterns of economic integration, production sharing, and supply chain linkages in Southeast and East Asia, and now increasingly in South Asia — the main theatre of the Indo-Pacific construct. There are, without doubt, opportunities and challenges in the new policy alignments, although with different levels of willingness among governments (both in Asia and outside Asia) to create a newer construct of trade and economic cooperation. The new Indo-Pacific construct lies in the re-evaluation of existing trade and investment linkages— in Asia, Asia and the Pacific, Asia and Europe, and Asia and Africa—and in the re-calibration of these linkages, along with technology cooperation activities, to reflect the emergent economic and strategic alignments among countries and regions. The economic dynamism of Southeast and East Asia, and now increasingly of South Asia, is at the center of all economic constructs in the Indo-Pacific. Interregional partners such as the US, EU, UK, Canada, some parts of Africa, and the Pacific Island states are being linked, albeit progressively, in a gradual and inclusive manner in the emergent economic architecture of the Indo-Pacific.

## FROM ASIA-PACIFIC TO INDO-PACIFIC

Just like Asia-Pacific, the Indo-Pacific is

more than a geographical understanding – a concept that lacks geographical continuity but professes cooperation over trade, investment, technology and infrastructure.

In the post-war period, when leadership of world affairs rested in the North Atlantic region, the countries of Southeast Asia were often seen simply as part of the 'Far East'. In the third quarter of the 20th century, the Association of Southeast Asian Nations (ASEAN), then with six members, played a key role in publicizing the concept of the 'Asia-Pacific' (Urata et al., 2019). The Asia-Pacific was understood in different combinations of countries and regions. Urata et al. (2019) elaborated on the different understandings of the geography of the Asia-Pacific in terms of economic linkages, trade and investment, and movement of people, although political history and strategic interests prevail upon these linkages to varying degrees. The Japanese world order was 'Pacific Asia', which included the eastern and south-eastern edge of Asia, Australia and New Zealand, and the US, due to the importance of its security relationship with the region. Canada was also included, by analogy with the US, and Mexico and South America came later, mostly as a by-product of the North American Free Trade Agreement and the subsequent trade agreement with Chile. The American understanding of 'Asia-Pacific' was similar, along with the identification of the US as a Pacific power after World War II. The British and

European understanding of the Asia-Pacific was more likely to include India, while in Australia and New Zealand it was usually read as 'Asia and the Pacific' to include the Pacific islands.

ASEAN has helped shape the conception of this region—the more familiar 'ASEAN and East Asia'—which is increasingly seen as the global center of manufacturing, and consumption of goods and services. Southeast and East Asia economies are the most dynamic production region, accounting for 54% of global trade. ASEAN's convening power has played an important role in the early history of institutional cooperation in what was then indisputably the Asia-Pacific. ASEAN and the three North Asian economies (China, Japan, and Korea) institutionalized the ASEAN+3 grouping in 1999, and the East Asia Summit (EAS)—which includes the original ASEAN+3 and India, Australia, and New Zealand (later expanded in 2010 to include the US and the Russian Federation)—in 2005 within the ASEAN Summit process. ASEAN centrality in the regional architecture was useful for all major players in Asia Pacific, as it provided a mid-sized rules-based political and economic community, even if the community building process remains a work in progress.

A prolonged peace dividend, increased global competitiveness, regional economic integration, and exemplary economic cooperation such as the ASEAN+1 Free Trade Agreements and the Regional

Comprehensive Economic Partnership (RCEP) have not been able to prevent ASEAN and East Asia sliding into a gradual conflation of economic and strategic interests. The rise of China has been contemporaneous with such changes.

To resolve the rising conflict between economic and strategic interests, then Japan Prime Minister Shinzo Abe's speech at the United Nations General Assembly in 2018 brought the focus to economic linkages and cooperation in this region, albeit aligned with strategic interests. He emphasized that a 'Free and Open Indo-Pacific' would be the platform for all economic cooperation and connectivity in the region, between Asia and Africa, and between Asia and Europe. He separately revived the Quadrilateral Security Dialogue, commonly known as the Quad, bringing in the US as a major economic partner in the region, underplaying the security partnerships of the US and actively engaging with Australia and India, with ASEAN playing an important link in between although not at the (Quad) table.

Japan's efforts to draw the economic landscape of the Indo-Pacific were complementary, and even necessary, to address the unilateral changes in the status quo in the South and East China Sea by a rising China. Abe's call for a Free and Open Indo-Pacific struck a chord with several major trading partners of China, whose reliance on Chinese imports and their greater trade integration (and value chain dependency) with China were being

challenged in the political realm, if not by the businesses themselves. In the aftermath of the global financial crisis and particularly since 2015 when China introduced the Belt and Road Initiative for infrastructure development, discussions about China's role in regional supply chains, principles of reciprocity and fair competition, market access, overcapacity issues, and protection of intellectual property have been prominent in the policy agendas of major economies in Asia and Europe. This includes the United States and nations in Southeast and East Asia. The EU's current approach towards China remains valid, as set out in the 'Strategic Outlook' Joint Communication of 12 March 2019 (EEAS, 2022). The EU continues to deal with China simultaneously as a partner for cooperation and negotiation, an economic competitor, and a systemic rival.

ASEAN too lost no time in releasing the ASEAN Outlook on the Indo-Pacific at the 34th ASEAN Summit in Bangkok, Thailand in June 2019. It recognizes ASEAN's centrality in the new architecture of the Indo-Pacific and was endorsed by the EAS in the same year. In practice however, ASEAN's centrality in the Indo-Pacific requires greater examination, given that the ASEAN-led mechanisms, including the EAS, could not balance the strategic interests of either the ASEAN Member States (AMS) or the ASEAN Dialogue Partners. Moving forward, Indo-Pacific architecture is a balancing act of economic and strategic interests in the region, with

the emphasis on consensus, inclusiveness, governance, transparency, and sustainable growth. This architecture also embeds bilateral, triangular, and plurilateral initiatives to establish infrastructure for new supply chains, for the digital economy, and for goods of the future.

## **INDO-PACIFIC ADDRESSES CONNECTIVITY, COOPERATION, AND RULES OF FUTURE**

In contradistinction to the ASEAN led processes, the Indo-Pacific platform is emerging as an economic construct along the Indian Ocean, in which several alternative plans and groups of countries are working on their mutual relations and combined strengths. The new plans aim to create new or alternative supply chains or strengthen existing ones. This in order to address changing political and economic needs in Asia, incorporate opportunities arising from the digital economy and Industry 4.0, expand the location of the global value chains (GVCs) and new markets, ensure inclusive growth, bridge fault lines in supply chains exposed during the pandemic, and accommodate partners' interests from within and outside Asia. The Indo-Pacific Economic Framework for Prosperity (IPEF) negotiated among 14 countries presently has four pillars: fair and resilient trade; supply chain resilience; infrastructure, clean energy, and decarbonization; and tax and anti-corruption. In part, it addresses the changing economic and political needs among countries. The presence of the US

as the largest economic and strategic partner in the Indo-Pacific is meant to be a guarantor of these objectives and consensus-based changes in the region. Whether these contours will pass the test of time will greatly depend upon the support and active participation of ASEAN and other Asian economies in new supply chains, infrastructure, and development connectivity, and in the rules governing this architecture. The value accorded to ASEAN's centrality in regional affairs and in convening the regional meetings needs to be reciprocated by ASEAN in some measure by supporting the Indo-Pacific initiatives of its Dialogue Partners in the Atlantic and the Pacific region and along the Indian Ocean.

The emerging economic landscape of the Indo-Pacific is necessary to enable consensus based or mutually agreed changes in GVC participation and supply chains, technology transfer, infrastructure for supply chains, and investments in infrastructure.

A dominant school of thought regards the current use of Indo-Pacific as a rather transparent effort to create a forum for the promotion of leadership in Asia, excluding China. When evaluated in the context of trade and investment and robust supply chains in ASEAN and East Asia, and between Asia and the EU and the US, research results could not support such claims. China's trade in intermediate and final goods remains unabated, with some variations across sectors. The reality

is that the China centrality in the supply chains in Asia, EU, and even the US are being re-evaluated at the highest political levels. These range from investments in new locations of production, increased tariffs, drastic sanctions on exports (from China), restrictions on technology sharing and mergers and acquisition of firms, among others. When viewed from an economic integration perspective, the Indo-Pacific is fast turning into a quest for a more inclusive and rules-oriented trade and economic cooperation where places of production and consumption are diversified and advantageous for all stakeholders. The pandemic has further motivated the region towards resilient supply chains which are both predictable and efficient. The resilience and diversification sought in trade and investments are real and are aided by bilateral and plurilateral cooperation. However, grouping every aspect of change under the term 'geo-politics' does not help one understand the forces at work in the Indo-Pacific architecture.

## **INDIA, SOUTHEAST AND EAST ASIA ARE THE THEATRE OF INDO-PACIFIC**

The ASEAN+3 region provides the most vibrant GVC integration in the Indo-Pacific region. This region has, over the years, provided buoyancy to international trade and is the largest recipient of investment. The RCEP agreement estimates the 15 member countries of Southeast and East Asia contribute USD 26.3 trillion to global gross domestic product (GDP). If India



were added, this region would account for nearly one-third of global GDP.

It is no surprise, then, that important global economies such as the US and the EU (and post-Brexit UK) are keen on an Indo-Pacific partnership, which allows for sharing the economic dynamism of the region through its production facilities, markets, and vast human resources capacity. The Indo-Pacific is emerging as a plurilateral component of the international economy. It is pointless to think in terms of a 'bloc'. The development of production networks, including the third unbundling and the digital economy, likely makes the blocs of earlier eras impossible. A plurilateral Indo-Pacific would simply be a region which finds it mutually advantageous to work cooperatively among friendly economies or those with common strategic interests.

The Indo-Pacific economic architecture, with Southeast Asia, East Asia, and the Pacific at its core, is therefore a longer-term response for the balancing of trade and investment partnerships amongst the major economies of the world. The Indo-Pacific is also differentiated by a larger role for South Asia, especially India, in the alignment of strategic and economic interests with the rest of the major players in the architecture.

## **CAN INDO-PACIFIC 'BUILD BACK BETTER' OVER THE ASIA-PACIFIC?**

It would be simplistic to say that the evolution of the Indo-Pacific economic

architecture is for the containment of China. The Indo-Pacific no doubt is a restraining response to the acts of unilateral changes in the status quo in the region. It simultaneously addresses China centrality in production sharing in the region, and the dependency of the EU and the US on the supply chains of China. However, long-time observers of this region will know the Indo-Pacific economic architecture is more than a reaction to the existing production networks and investment channels in the region, or the strategic concerns alone. The evolution of this architecture is also preparation for new economic demands facing all countries in the region. This is the reason why most countries are open to participation in the emerging architecture. Structural transformation and employment generation policies in developing Asia and the Pacific must understand, prepare, and respond to the changing trade and investment patterns, demand for new skills and capacities, and the onset of a new digital economy. Together, these will affect the patterns and geographical location of industries, employment, trade, and economic growth. Increased industrialization and participation in GVCs are important for growth and employment generation in several less developed countries. The future of work is vulnerable to decreased investments in manufacturing and jobs being replaced by automation, robotics, and artificial intelligence, especially for countries that are not deeply integrated in regional or global value chains. The demand for a carbon neutral

society and matching production and consumption of environmental goods and services requires added capacities and policy adjustments.

Geographical inclusiveness is an important aspect of the new Indo-Pacific architecture. The role of smaller countries—especially least developed countries (LDCs) and Pacific Island states, which are new entrants to regional connectivity plans—are conspicuous in the policy initiatives of 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. The Indo-Pacific is building on the export-oriented model of investment and development of Asia-Pacific and preparing the region for the future.

The COVID-19 pandemic has reinforced the need for more equitable distribution of infrastructure and capacities, and investments in new centers of production, supply chains, and consumer/supplier clients. While there are several interpretations of the effects of the pandemic on supply chains, two extreme examples underscore the need for a more enabled, equitable, and inclusive economic cooperation model for the region. The breakdown of the supply of medical equipment and kits from China during the pandemic and regional distribution of vaccines produced in India in the later part of the pandemic are emblematic of the problems and solutions for the Indo-Pacific economic architecture.

Trade and investment have underwritten the growth story in the Southeast and East Asia. The digital economy is, however, here to stay. As industries, employment, trade, and economic growth continue to change under the influence of digitalization, the Indo-Pacific architecture must ensure that kind of digital economy framework which promotes inclusiveness, especially for youth and women. Asia, Europe, and the US have different levels of digital infrastructure. However, cooperation for the development of services, human capital, regulations for data protection, e-commerce, and taxation require greater institutional linkages among all stakeholders. Partners promoting the Indo-Pacific architecture have a critical task ahead to ensure the architecture promotes inclusive participation in the digital economy, especially for least developed and smaller economies.

## **MULTILATERALISM, GLOBAL ACTIONS, AND A RULES-BASED INDO-PACIFIC**

The Indo-Pacific economic architecture is linked to restoring multilateralism, recognizes diversity and leaves no one behind. It is worth noting multilateralism has provided stability and prosperity to a great number of countries for nearly a century. Global governance of connectivity is also a new challenge as countries contest and compete for technology which provides interconnections. Managing the internet is most apparent, but the technology underlying electronic



commerce and the financial system is much more significant. The Indo-Pacific economic architecture has no choice but to undertake global actions which aim to resolve this challenge in a non-hegemonic manner.

In the end, neither multilateralism nor global governance exist for their own sake. The ultimate test for both is to create inclusive and sustainable prosperity. The rebalancing of old elements of trade integration and the introduction of new elements of cooperation—in which strategic and economic interests are brought closer to principles of governance, transparency, equity, and inclusiveness—emerge as the core of the emergent architecture in the Indo-Pacific. Leading economies in the Indo-Pacific architecture, especially those from the Quad initiative, as well as ASEAN, have to spell out the principles of cooperation, and provide pathways on preferred aspects of plurilateral/multilateral economic cooperation and global governance.

Indo-Pacific brings the Atlantic and Pacific powers much closer to the Indian Ocean in a time when geo-politics and economics are tangled and rules are conflated. The challenge for the Indo-Pacific is not to maintain a rules-based system, but to create and operate institutions which evolve and sustain rules in the face of change, and the relationships must all be inclusive. The Indo-Pacific architecture must fulfil the twin objectives of mutual trust and mutual growth. The emergent

architecture in the Indo-Pacific will be tested if it can restore the trust dividend with growth, principles of governance, transparency, equity, and inclusiveness among stakeholder countries and regions.

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