

# Trade and Economic Connectivity in an Age of Uncertainty: South Asia and Indo-Pacific

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The world of global commerce has been experiencing multiple disruptions in recent years. Soon after national economies began settling down to a new period of global growth following the financial crisis of 2008, fresh disruptions affected the adjustment. A lot of the disruptions began from the assumption of office by Donald Trump as the president of the United States (US). However, there were also other sources of disruption, including from the ambitious connectivity project – the Belt and Road Initiative (BRI) – proposed by China. Continental connectivity has become the new domain for competition on strategic influence as is evident from the articulation of the Indo-Pacific by the United States. Given that the overall tussle for global economic supremacy between the US and China has little possibility of receding in the foreseeable future, countries have to reconcile to the prospects of connectivity and trade being heavily influenced by geopolitics. This paper is an attempt to locate these prospects in a South Asian regional perspective of the Indo-Pacific. The paper traces the genesis of the idea of the Indo-Pacific and discusses how modern infrastructure connectivity projects, particularly in the Indo-Pacific, are becoming hubs of geostrategic competition. Arguing the possibility of new connectivity enlarging existing economic gaps, the paper discusses the implications of various US pronouncements on the Indo-Pacific and how the US-China battle for influence might employ connectivity for shaping trade on geopolitical lines. There is little that South Asia can do in terms of a response except the realising of the inevitability of trade and connectivity being influenced by the security and strategic interests of major powers.

## THE IDEA OF INDO-PACIFIC

Though the phrase *Indo-Pacific* has gained wide traction in global security and strategic discourses since President Trump's articulation of it at the Asia-Pacific

Economic Cooperation (APEC) Summit in Vietnam in November 2017;<sup>1</sup> its salience was iterated in Asia much earlier. In his address to both Houses of the Indian Parliament on 22 August 2007, the Japanese Prime Minister Shinzo Abe had mentioned: “The Pacific and the Indian Oceans are now bringing about a dynamic coupling as seas of freedom and of prosperity. A ‘broader Asia’ that broke away geographical boundaries is now beginning to take on a distinct form.”<sup>2</sup> Apart from the allusion to major geostrategic shifts imminent in the global order that were discernible from the speech, the fact that it was delivered in India was also equally significant; ostensibly in terms of the importance that India and the South Asian region would have in the shaping of the Indo-Pacific.

Prime Minister Abe’s speech highlighted several critical points. The first of these was the emergence of the Asian continent as a distinct geo-economic and political variable with as much importance as the US and Europe. Furthermore, within Asia, there was clear recognition of the strategic hub settling in the arc encompassing the Indian and Pacific Oceans. From the point of view of extra-Asian actors, like the US and Europe, it entailed a wider focus on the continent. It must be noted that till almost the end of the last decade, the greater attention of the US and Europe on Asia was concentrated primarily on the Middle East and West Asia regions. From 2009 onward, under President Barrack Obama, US policy attention shifted significantly towards the Asia-Pacific through what is described as the US “pivot to Asia”<sup>3</sup>. Among other factors, the US policy shift would have been influenced by the rise of China, as well as that of India, leading to significant changes in the geo-economic and political character of Asia and greatly enhancing the strategic importance of the Indian and Pacific Oceans.

Prime Minister Abe’s speech was also visionary as it was delivered about a year before the outbreak of the global financial crisis in 2008. The damage suffered by financial institutions on both sides of the Atlantic made it evident that non-Atlantic economies would need to play a much bigger role in the recovery and sustenance

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<sup>1</sup> “Remarks by President Trump at APEC CEO Summit | Da Nang, Vietnam”, Foreign Policy, 10 November 2017, The White House, <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-apec-ceo-summit-da-nang-vietnam/>, accessed on 20 March 2019.

<sup>2</sup> “Confluence of the Two Seas”, Speech by H.E. Excellency Mr Shinzo Abe, Prime Minister of Japan at the Parliament of the Republic of India, 22 August 2007, Ministry of Foreign Affairs, Government of Japan, <https://www.mofa.go.jp/region/asia-paci/pmv0708/speech-2.html>, accessed on 20 March 2019.

<sup>3</sup> Michael J Green, 2016; “The Legacy of Obama’s ‘Pivot’ to Asia”, Foreign Policy, 3 September, <https://foreignpolicy.com/2016/09/03/the-legacy-of-obamas-pivot-to-asia/>, accessed on 20 March 2019.

of global economic growth. This included not just China, Korea, Japan and the industrial and emerging economies of Southeast Asia (i.e., Singapore, Malaysia, Indonesia and Vietnam), but also India and South Asia, thereby drawing into sharp focus the geo-economic vitality of the Pacific and Indian Oceans. A deeper reflection on Prime Minister Abe's speech and his articulation of the concept of Indo-Pacific cannot avoid identifying the rising engagement between East and Southeast Asia, the Middle East, Africa, and the hitherto under-recognised, but nonetheless critical role of the Indian Ocean. The construct for future cross-continental trade and connectivity frameworks could be visualised in a framework assuming the combined growth of both through the congruence of the Pacific and Indian Oceans.

Since Prime Minister Abe's speech, the concept of Indo-Pacific has gained considerable traction, particularly after its expanded US iteration as the "Free and Open Indo-Pacific (FOIP)", culminating in the pronouncement of the Asia Reassurance Initiative Act (ARIA) of 2018. Signed into law on 31 December 2018, ARIA marks the US strategy to "increase U.S. security, economic interests, and values in the Indo-Pacific region"<sup>4</sup>. Separately, various earlier American pronouncements on the subject<sup>5</sup> leave little doubt about the salience of the Indo-Pacific as a multicontinental and cross-ocean entity poised to alter the geo-economic and geopolitical architectures engulfing the Pacific and Indian Oceans. The development has great significance for India and the South Asia region in terms of its impacts on trade and economic connectivity.

## CONNECTIVITY: CHARACTER AND COMPETITION

The notion of connectivity, as visualised through cross-country infrastructure projects, has undergone fundamental changes. Nowhere are these changes more visible than in the Indo-Pacific region in the form of large-scale ambitious projects linking territories, markets and communities across the continent. The Pacific and the Indian Oceans have been at the core of regional connectivity schemes from well before the FOIP was pronounced. The most notable project has been the China-led

<sup>4</sup> S 2736, Bill Announcement, The White House, 31 December 2018, <https://www.whitehouse.gov/briefings-statements/bill-announcement-12/>, accessed on 20 March 2019.

<sup>5</sup> 1. "Remarks by President Trump at APEC CEO Summit | Da Nang, Vietnam", Foreign Policy, 10 November 10 2017, The White House, <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-apec-ceo-summit-da-nang-vietnam/>; 2. "President Donald Trump's Administration in Advancing a Free and Open Indo Pacific", Economy & Jobs, 30 July 2018, The White House, <https://www.whitehouse.gov/briefings-statements/president-donald-j-trumps-administration-advancing-free-open-indo-pacific/>, both accessed on 20 March 2019.

Belt and Road Initiative (BRI). The Asia-Africa Growth Corridor (AAGC)<sup>6</sup> proposed by Japan and India is also a mega-connectivity project aiming to link Asia and Africa through the Pacific and Indian Oceans. Indeed, AAGC actually aspires to realise a “free and open Indo-Pacific” through “growth and interconnectedness between and within Asia and Africa”.<sup>7</sup> Given the respective geographies they encompass, South Asian countries are integral to both the BRI and the AAGC.

Infrastructure projects like the BRI and the AAGC, as well as those that could come up in the Indo-Pacific in the future through sub-regional or multi-country efforts, are certain to be multi-modal and exhaustive in scale and scope. Apart from comprising land corridors through cross-country road and rail links, the projects would be linking discrete geographies through sea and the cyberspace. These characteristics make the connectivity projects complex to comprehend. However, there’s little doubt about their far-reaching impacts, which are not just economic but also geo-political. The scale and scope of the BRI and AAGC can hardly avoid geostrategic implications, notwithstanding their substantial economic spillovers through creation of new infrastructure assets and additional economic activities around the generation of these assets.

China’s commanding role in funding BRI projects enables it to cultivate strategic influence in host nations through control over major resources and services (e.g., roads, ports, telecoms and cyber networks) that are critical from internal security and external geopolitical perspectives. The ripples created by the BRI in South Asia are therefore understandable given the concerns arising for India through Chinese funding of infrastructure in neighbouring Sri Lanka, Maldives and Pakistan. Such a geo-strategically sensitive and significant project like the BRI is quite likely to generate counter-responses from other major regional actors like India and Japan. The AAGC, notwithstanding its emphasis on sustainable development and physical infrastructure, can hardly be overlooked in its geopolitical significance. This might mark the beginning of a period of strategic rivalry across the Indo-Pacific around infrastructure connectivity. The stage for such a prolonged connectivity competition appears set with the US pronouncement of the FOIP, which is for all practical purposes a counter to the BRI.

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<sup>6</sup> “Asia-Africa Growth Corridor: A Vision Document”, African Development Bank Meeting, Ahmedabad, India, 22-26 May 2017, <http://www.eria.org/Asia-Africa-Growth-Corridor-Documents/Document.pdf>, accessed on 20 March 2019.

<sup>7</sup> Ibid., p. 14.

## WIDENING ECONOMIC GAPS

Heterogeneity is perhaps the most noticeable economic aspect of the Indo-Pacific. From an economic perspective, the region represents a collection of heavily contrasting economic geographies, where some of the world's largest and most populous economies co-exist with some of the poorest. More specifically, the Indo-Pacific is a region with some of the world's most prosperous high-income economies (e.g., Australia, Japan, Korea, New Zealand and the US) co-existing with large and populous middle-income economies (e.g., China, India, Indonesia, Iran and Malaysia); and high-income small economies (e.g., Singapore, Mauritius, Maldives, Seychelles) residing with low-income economies (e.g., Cambodia, Kenya, Lao, Myanmar, Nepal). These structural economic heterogeneities reflect a region saddled with a variety of economies in different stages of economic development and countries with varying degrees of economic capabilities and quality of institutions. These variations are further evident from the differences among regions within the Indo-Pacific in terms of their integrations with the global economy and their current infrastructure capacities, particularly those influencing their abilities to trade.

East and Southeast Asia have much higher shares of intra-regional trade than South Asia, Middle East and Africa, underscoring the strength and capability of their institutions and practices in participating in trade through regional and global production networks. The difference in capacities is easily visible from the national logistics performance indices (LPI). Logistics include a host of institutional functions ranging from operational efficiencies of ports and speed of customs clearances to domestic transport linkages between ports on coasts and their hinterlands. Quality of logistics determines the abilities of economies to exploit infrastructure facilities effectively for entrenching participation of producers in global production networks. The more economically advanced and relatively higher-income economies in the Indo-Pacific, such as Japan, the US, Singapore, New Zealand, Australia, Korea, Taiwan and China, have better logistics capacities than the rest. While India ranks 47 in overall LPI, large South Asian economies like Bangladesh, Nepal and Pakistan rank beyond 100 with Bhutan and Afghanistan being among the lowest.<sup>8</sup> A similar difference in capacities is noticed in the space of digital communication with more high-income developed economies like Australia, Canada, New Zealand, Japan, Singapore and the US leading the rest of the Indo-Pacific in access of local popula-

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<sup>8</sup> Logistics Performance Index (LPI) 2018, <https://lpi.worldbank.org/>, accessed on 20 March 2019.

tions to the internet and internet infrastructure, including speed of accessing data and broadband services. A vast number of countries from Africa, Middle East, South and Southeast Asia and the Pacific continue to suffer from low broadband speeds<sup>9</sup>, impinging their abilities to take part in fast-paced cross-border digital transactions, particularly financial transactions.

The marked difference in infrastructure capacities and the overall ability to trade and engage in global commerce – as visible between several South Asian countries and many of the economically developed high-income economies of the region – is also noted between the latter and economies from several other sub-regions, such as Africa and Middle East, as well. This points to a situation where economies with more capacities and higher systemic and institutional efficiencies will be better placed to exploit new infrastructure – a situation that might just further widen current economic gaps within the region.

## US PRONOUNCEMENTS AND INDO-PACIFIC

As mentioned earlier, various US pronouncements on the FOIP make it amply clear that connectivity and infrastructure-building in the Indo-Pacific is not just in American strategic and security interests, but also an effort to strengthen existing American alliances and create new partnerships for neutralising the Chinese influence in the region. Some key elements of the US pronouncements, such as the US interest in entering into bilateral free trade agreements (FTAs) with any Indo-Pacific country, the initial commitment of \$113.5 million to digital connectivity,<sup>10</sup> cybersecurity and sustainable infrastructure in the region, and the introduction of the BUILD (Better Utilization of Investments Leading to Development) Act of 2018 for establishing the US International Development Finance Corporation (USDFC),<sup>11</sup> leave little doubt over connectivity, infrastructure, development finance, trade and investments getting embroiled in a critical game of strategic leverage across the Indian and Pacific Oceans.

For India, which is visualised as an important stakeholder in the Indo-Pacific by the US, as well as other South Asian countries located around and on the Indian Ocean – Bangladesh, Maldives and Sri Lanka – growth of FOIP as a primarily

<sup>9</sup> <https://www.cable.co.uk/broadband/speed/worldwide-speed-league/>, accessed on 21 March 2019.

<sup>10</sup> As in 4 earlier.

<sup>11</sup> “The BUILD Act”, OPIC, <https://www.opic.gov/build-act/overview>, accessed on 21 March 2019.

security-oriented framework has serious implications. India would be hesitant to commit to a regional initiative that is limited in inclusivity and focused on economic development more for optics.<sup>12</sup> Notwithstanding its differences with China on various issues and its stated reservations on the BRI, India has insisted on the Indo-Pacific being “free, open and inclusive”.<sup>13</sup> The insistence underscores its hesitation to be seen as a part of a regional order that is primarily a counter to China. Indeed, committing to such an order focusing on the geopolitical and security interests of the US might mean endorsing the precise legitimacy limitations that affect the BRI: the “strategic price” that countries might have to pay in terms of geopolitical commitment in exchange for development assistance and infrastructure funding. Countries like Bangladesh and Sri Lanka have already enthusiastically endorsed the BRI and are relying on Chinese funds for lasting infrastructure developments. For these South Asian countries, the FOIP poses a serious challenge of choice given that an enthusiastic approach to the former might be considered inimical by the Chinese. The FOIP might be able to avoid the problems of choice and legitimacy for many of the relatively smaller countries if it takes care to promote multi-country involvement, as opposed to a prominent US-centrality. The latter might invite for it the same legitimacy issues that an excessive China-centric focus has for the BRI.<sup>14</sup>

## CONNECTIVITY AND TRADE WAR

The forceful US articulation of the Indo-Pacific comes at a time when the US-China trade hostilities are at an unprecedented high. The back and forth tariffs imposed by the US and China on a large number of items traded by each other began with the US decision to impose unilateral tariffs on steel and aluminium imports into the US in March 2018. The unilateral action was the first pointer to the emergence of a trend likely to influence global trade significantly in the days to come: viewing trade through the broad prism of national security. The US tariffs were imposed

<sup>12</sup> Palit, Amitendu and Sano, Shutaro, 2018, “The Free and Open Indo-Pacific Strategy and Concerns for India and Japan”, Asia Pacific Bulletin, East West Center, No. 442, 10 October 2018, [https://www.eastwestcenter.org/system/tdf/private/apb442\\_0.pdf?file=1&type=node&id=36846](https://www.eastwestcenter.org/system/tdf/private/apb442_0.pdf?file=1&type=node&id=36846), accessed on 22 March 2019.

<sup>13</sup> “Indo-Pacific must be free, open and an inclusive region: Sushma Swaraj”, The Economic Times, 19 July 2018, <https://economictimes.indiatimes.com/news/defence/indo-pacific-must-be-free-open-and-and-inclusive-region-sushma-swaraj/articleshow/65060360.cms>, accessed on 22 March 2019.

<sup>14</sup> Palit, Amitendu, 2018, “Indo-Pacific Connectivity: Lessons from China’s Belt and Road”, Griffith Asia Institute, 28 February 2018, <https://blogs.griffith.edu.au/asiainsights/indo-pacific-connectivity-lessons-from-chinas-belt-and-road/>, accessed on 22 March 2019.

under Section 232 of the US Trade Expansion Act of 1962 and were justified on the grounds of national security. More American tariffs on China came under Section 301 of the Trade Act of 1974 on the grounds of specific harm caused to US business interests in China by unfair domestic trade practices. It is notable though that investigations under Section 232 are continuing on automobiles and auto parts for examining whether these imports impinge on US national security.

The US and China are engaged in intensive discussions for settling their trade acrimony. But there is no doubt that even if there is a temporary truce, the US-China battle for economic supremacy and the resultant geostrategic influence is going to continue. The battle might result in trade getting increasingly fashioned by geopolitics. This might happen through other countries being forced to make choices between the US and China and getting impacted in their trade relations accordingly. The Indo-Pacific is particularly vulnerable in this regard.

Countries aligning with the US in Indo-Pacific connectivity projects, for example, might obtain more favourable conditions for market access through bilateral deals with the US given the current US proclivity to look at all trade relations exclusively and bilaterally. The same countries, on the other hand, might find themselves encountering greater difficulties in trading with China given their strategic alignment with the US. The reverse scenario is equally possible for countries aligning with China on the BRI.

While South Asian countries reflect on these possibilities, they are also aware that geopolitical fashioning of trade would also be conditioned by connectivity. New infrastructure corridors and cross-border linkages would command a strategic price, which might include a new orientation of trade based on geopolitical loyalty. This would mark a complete shift away from market-based comparative advantages in production that has traditionally fashioned trade, particularly since the establishment of the World Trade Organisation (WTO). Unilateral trade actions – as witnessed in the ongoing US-China hostilities – are leading to a steady erosion in the significance of the multilateral rules-based trade order run by the WTO. Such a consequence might alter the global trade order fundamentally, leading to a trade landscape where politics determines partners for trade, as it was before World War I.<sup>15</sup>

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<sup>15</sup> Eichengreen, Barry, Mehl, Arnaud and Chitu, Livia, 2019, “Mars or Mercury redux: the geopolitics of bilateral trade agreements”, European Central Bank, Working Paper Series, 2246, February, <https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2246~1a43a0b375.en.pdf?144e06dd62f499eed4bf05559a304006>, accessed on 22 March 2019.



## CONCLUDING THOUGHTS

Trade and connectivity are being increasingly repositioned by the world's major powers in a manner that is suitable for their security and strategic interests. The tendency creates several challenges for South Asian countries as discussed in the paper in the context of the Indo-Pacific. As of now, there appears to be little that the region can do in terms of response, except for being alert and attentive to a pattern of regional development that is largely unprecedented. Improvements in internal and domestic institutional capacities, though, might always prepare the region for better responses to challenges economically.

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