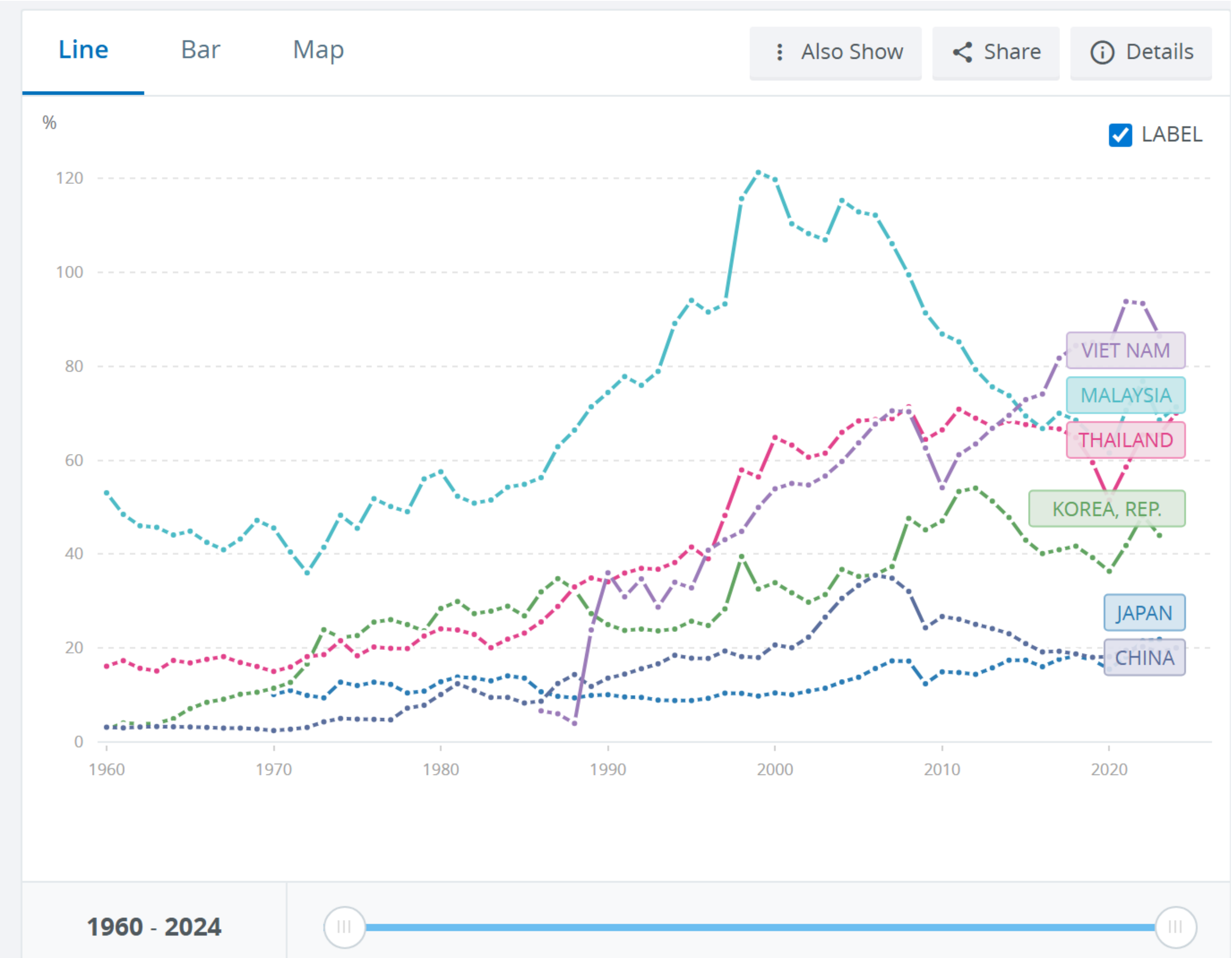
Asia-Pacific Growth and the Changing International System

TU Xinquan
University of International Business and Economics
July 22, 2025
ABCDE, Washington, DC

Asia Pacific is the largest beneficiary of US-led international trading system

- Japan was the first winner by integrated into the US-led trade system (Joining GATT in 1955)
- South Korea (1967) along with several East Asian dragons (Singapore in 1973, Hong Kong, China in 1986) followed the Japanese path of export-orientation to grow their economies depending on the US market
- The four Southeast Asian tigers formed the third wave of joining US-led system
- China started its opening-up in 1979 when its diplomatic relationship with the US was established and joined the WTO in 2001
- The other Southeast Asian countries, especially Vietnam(2007) became the latest group to join the international trading system

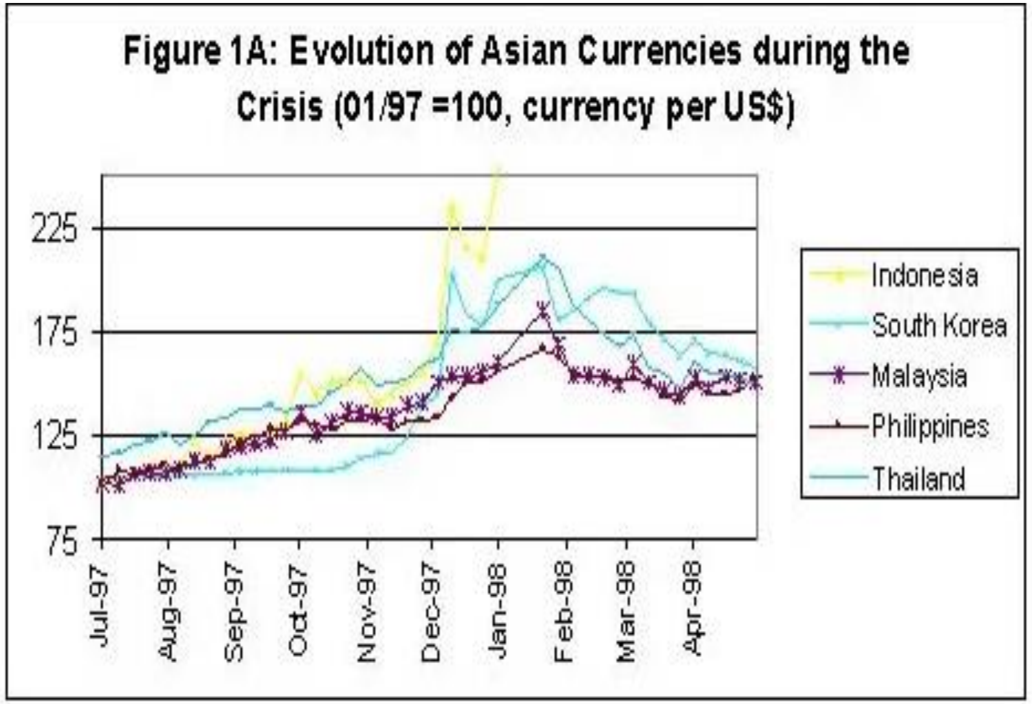
All East Asian witnessed rapid growth of exports

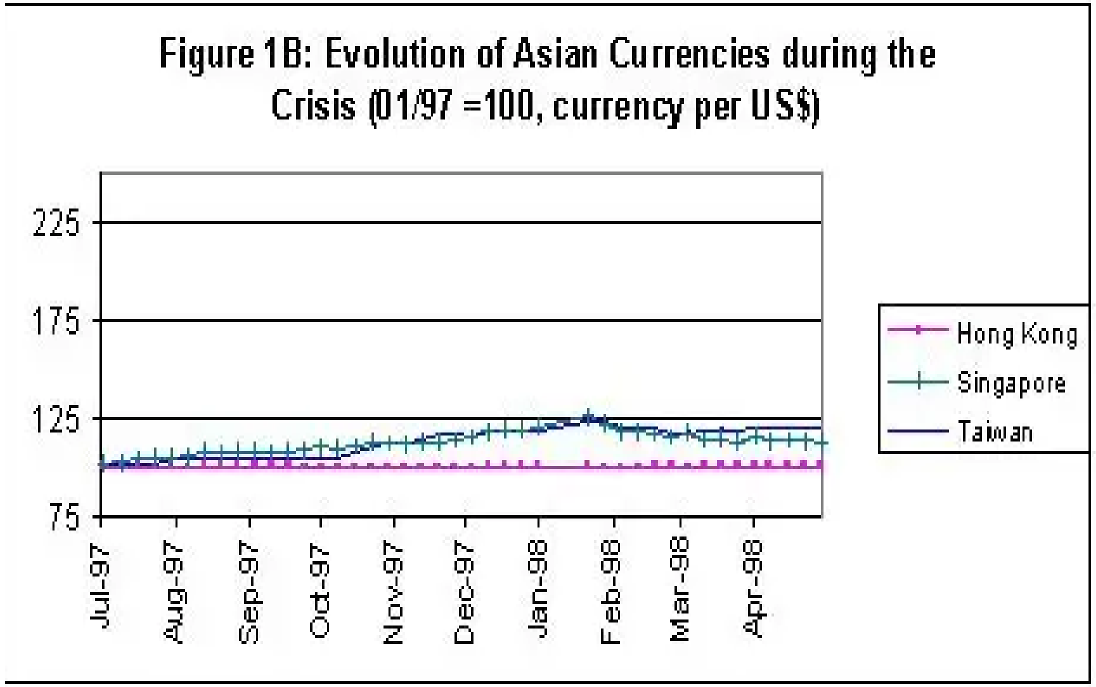


The 1997 Asian financial crisis exposed the danger of US-centered financial system

- The binding between East Asian currencies with the US dollar hurt their export competitiveness and current account balance
- Overdependence on short-term foreign debt nominated in US$ increased their vulnerability in the face of financial turbulence
- Concentration of their exports on the US market reduced their resilience in trade performance, stimulating the demand for regional integration
- China played a constructive role in handling the crisis by expanding domestic demand and insisting a stable currency, helping to establish its leadership in the Asian regional integration in the 21st century

Fast depreciation of Asian currencies during the crisis

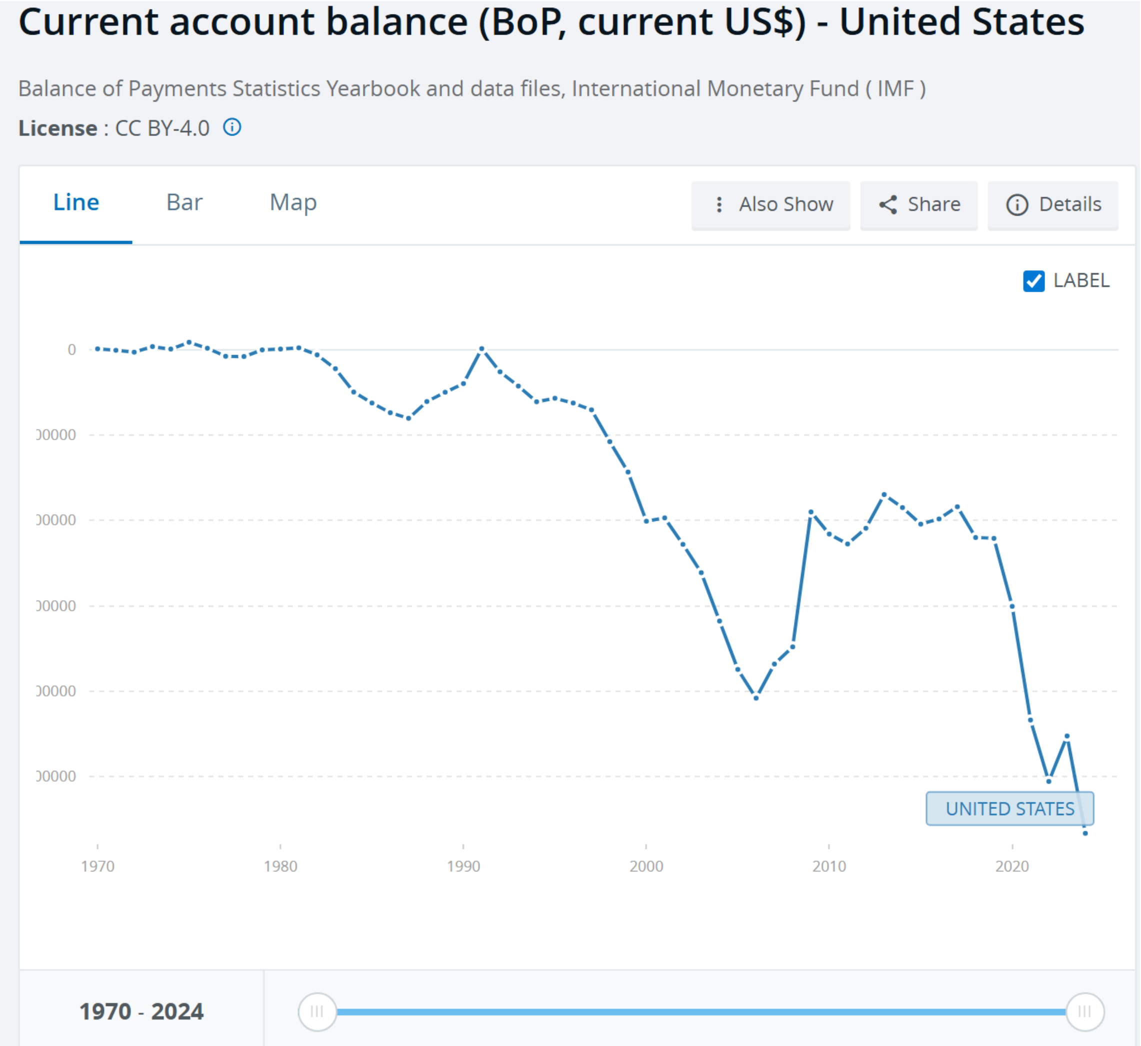




The volatile attitude of US toward the multilateral trading system

- The US strongly sponsored the multilateralism after the second world war for both economic and geo-political purposes
- In 1970s and 1980s, facing Japan's significant challenge, the US adopted a bilateral oppressive policy against Japan which obviously violated the GATT rules
- After winning the cold war, the US fully resumed and strengthened its support to the multilateral trading system by establishing the WTO with a powerful and independent judicial mechanism
- At the same time, the US promoted regional initiatives such as APEC in 1993 and NAFTA in 1994
- After the failure of WTO ministerial conference in 2008 and losing several cases under WTO Appellate Body, the Obama administration turned away from the WTO to TPP and TTIP and started to question the fairness of WTO by blocking the reappointment of AB members

The growing trade deficit of the US



Trump revolution on the post-war global governance

- Trump's election marked a turning point of US position on global governance
- Trump believes that US leadership in global affairs is not worthwhile and giving others an opportunity to take advantage of the US, no matter they are friends or foes
- The international trade system with the purpose of freer trade is especially harmful to the US and beneficial to the others
- He intends to return to the 19th century when the US was adopting a high-tariff isolationist policy and achieving successful industrial development
- He is trying to build up a new deals-based bilateral trading system to replace the rules-based regional and multilateral system which was sponsored by the US administrations in the last eight decades

Reciprocal tariffs with Asia on the top to be implemented on August 1

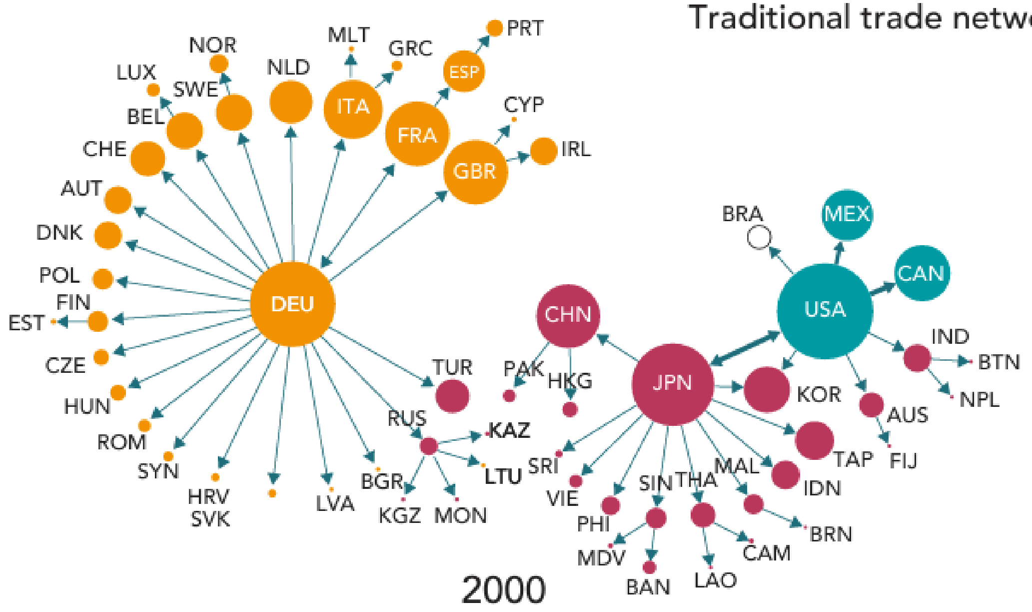
- 20%： the Phillipines
- 25%： Japan, Korea, Malaysia, Khasakstan, Tunisia, Moldova, Brunei
- 30%： South Africa, Mexico, EU, Srilanka, Iraq, Algeria, Libya
- 35%： Bangladesh, Serbia, Canada
- 36%： Thailand, Cambodia
- 40%： Lao, Mymar
- 50%： Brazil

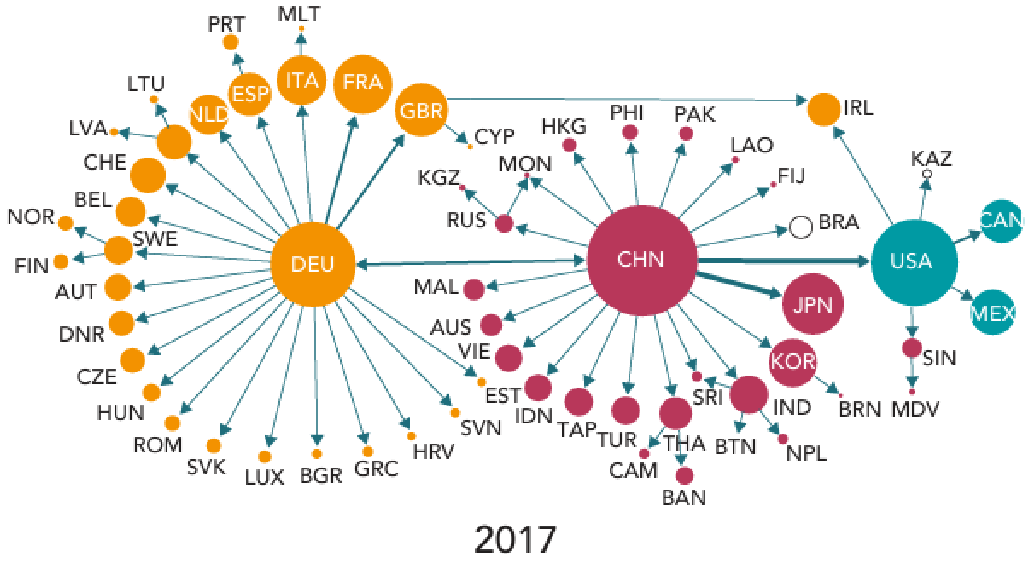
Asian regional integration has become more China-centered

- China has strong motivation to strengthen economic relationship with its neighbors
- China has been very active and constructive in Asian economic integration arrangements including RCEP, FTA with ASEAN, AIIB, and Chiangmai Initiative
- China as a manufacturing powerhouse has high demand for resources, materials and intermediate goods which its Asian neighbors are rich of
- While there are some concerns about China's industrial policy and trade practice, China's trade policy is rather stable and predictable
- China has become a major supplier of critical capital and intermediate goods and leading investor in manufacturing

The changing supply hub of global value chains

Traditional trade networks (all goods and services)





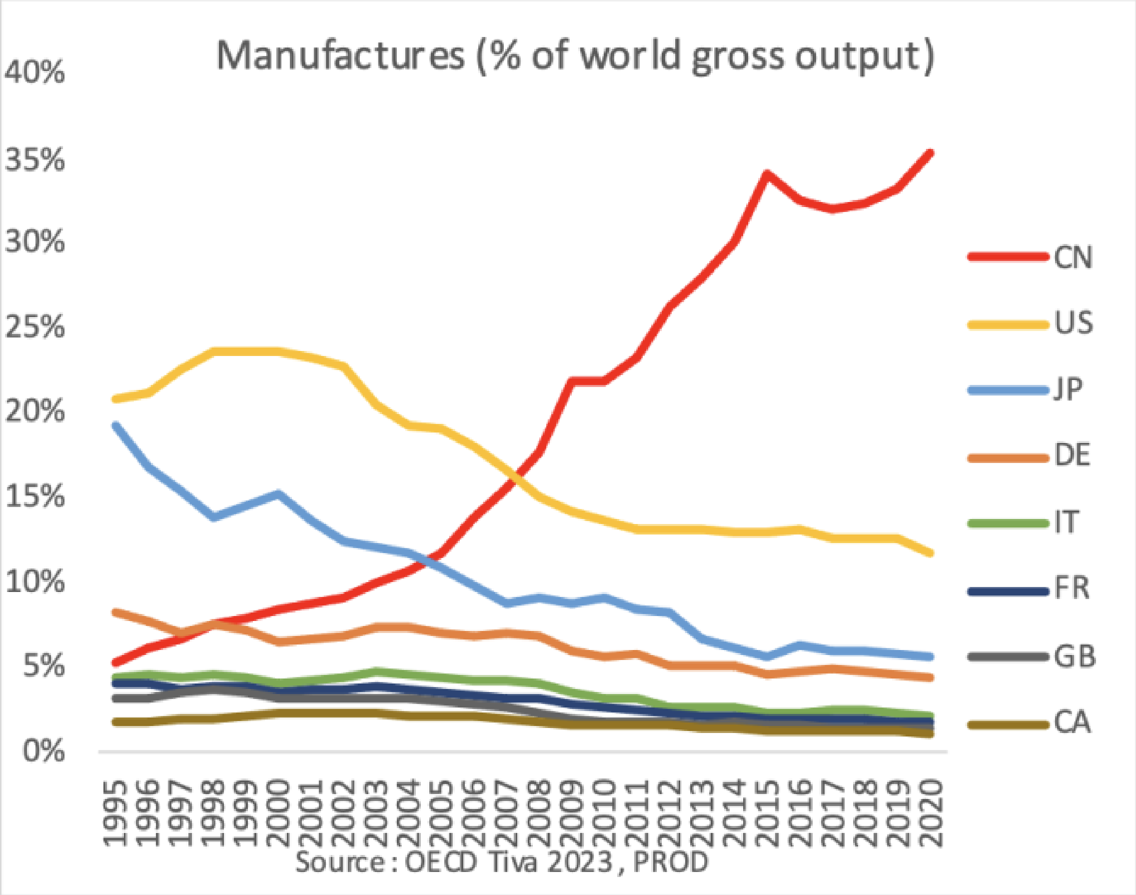
Simple GVC trade networks (all goods and services)

China's role in the evolution and revolution of international system

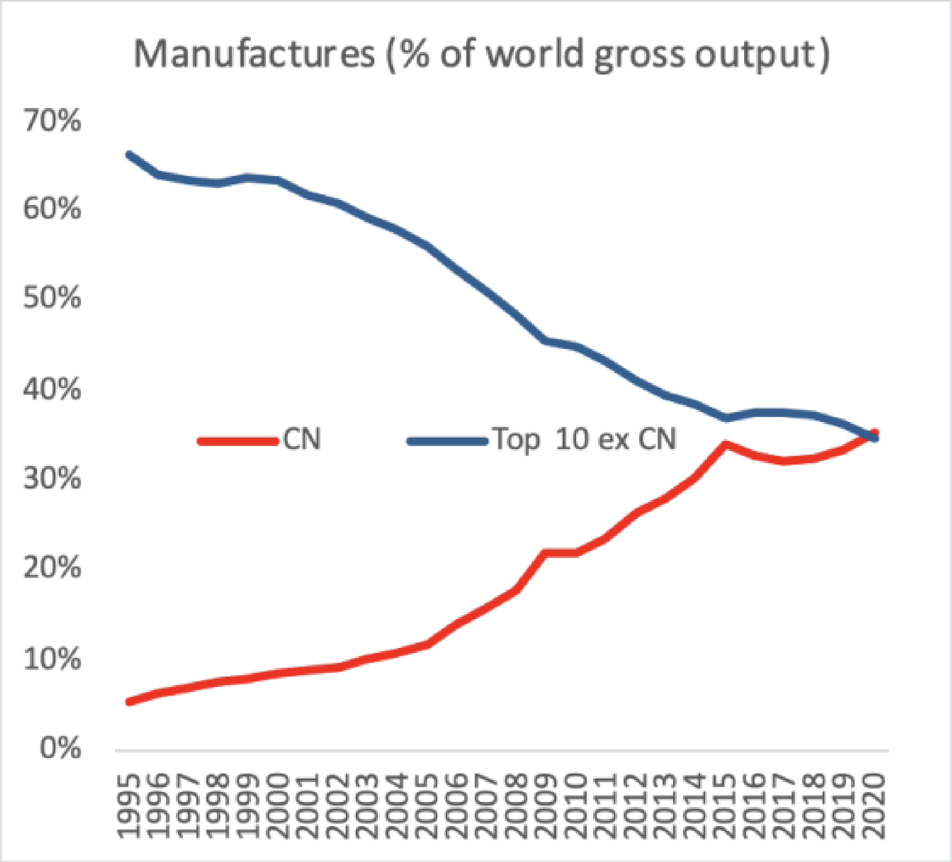
- China is a major variable in the evolution of world order in recent two decades
- The rise of China as a manufacturing and trade powerhouse has significantly changed the geo-economic and geo-political landscape in Asia Pacific and the world
- China has benefited a lot from the multilateral system and has no any intention of damaging and changing it
- China strongly opposes any revolutionary changes to the existing system, including WTO, World Bank and UN
- If the current system was overturned, China would try to rebuild a new one along with other like-minded countries

World shares of gross production

G7 shares declined sharply (gross production)



China's share rose sharply (gross production)



Source: Author's elaboration of OECD TiVA database 2023, charts based on PROD for all manufacturing sectors.

IMD

Concluding remarks

- Asia Pacific benefits a lot from US-led globalization and appreciates US leadership and contribution
- The reversal of US policy toward international system is harmful and regrettable for East Asian countries
- But in terms of trade and investment, regional economic integration in Asia Pacific has great potential to mitigate the damages caused by US isolationism
- China has yet to replace US leadership in the international system with its limited power and appeal
- The centrality of ASEAN in the regional integration is feasible and necessary in the near future