



Routledge Advances in Regional Economics, Science and Policy

REGIONAL COOPERATION AND RESILIENCE IN EAST ASIA

Edited by
Sebastian Bobowski



Regional Cooperation and Resilience in East Asia

This book argues that a resilient region should act reactively and proactively in the face of shocks and disruptions and asserts that the institutionalization of regional cooperation may be the answer to development challenges in times of uncertainty and instability.

It considers regional, transregional, and subregional cooperation initiatives for building regional resilience and critically examines a broad spectrum of issues, such as international security and trade, economic development, value chains in production, and social welfare. Adopting the concept of resilience allows for a holistic, dynamic, and systematic approach to the studies on the regional process of institutionalization, responsiveness, and adaptability to challenging circumstances. The economic and social indicators of the countries in the region are examined alongside an analysis of the regional institutional architecture.

The reader is acquainted with the essence of resilience concerning each category of challenges and the mechanisms of its achievement and strengthening through regional integration. The interdisciplinary character of the book makes it suitable for usage not only by economists but also by lawyers. As such, the book will be helpful to scholars and students of international economics, international security, and policymakers.

Sebastian Bobowski is Associate Professor in the Department of International Business at Wrocław University of Economics and Business, WUEB (Poland), Associate of the Cambridge Learning Gateway, a member of Asia-Pacific Research Centre, EuroSEAS, and EBES, and the author and co-author of 15 books and 106 research papers in Polish and English.

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Contents

<i>List of figures</i>	<i>vi</i>
<i>List of tables</i>	<i>viii</i>
<i>List of appendixes</i>	<i>ix</i>
<i>List of contributors</i>	<i>x</i>
<i>Foreword</i>	<i>xii</i>
<i>List of selected abbreviations</i>	<i>xv</i>
Introduction	1
SEBASTIAN BOBOWSKI	
1 Resilience in regional studies – theoretical and empirical context of disciplinary studies	3
SEBASTIAN BOBOWSKI AND JERZY MENKES	
2 Enhancing security resilience: new norms and instruments of subregional and transregional cooperation in East Asia	16
JERZY MENKES	
3 Shaping the economic resilience in East Asia through international trade	52
ANDŻELIKA KUŹNAR	
4 Moving toward resilient value chains in East Asia	74
SEBASTIAN BOBOWSKI AND BOGUSŁAWA DRELICH-SKULSKA	
5 Economic inequality and its relevance to social and economic resilience in East Asia	101
KRZYSZTOF FALKOWSKI	
<i>Appendix 1</i>	<i>128</i>
<i>Index</i>	<i>130</i>

Figures

3.1	Product concentration of exports (HHI) in developing countries, by region, 2000–2022	55
3.2	Product concentration of exports (HHI) in East Asian countries, 2000–2022	56
3.3	Share of ASEAN’s merchandise exports to and imports from top trading partners, 2003–2022 (%)	59
3.4	Exports of electrical machinery and equipment (HS 85) from East Asia in 2003–2022	63
3.5	Exports of nuclear reactors, boilers, machinery, and mechanical appliances (HS 84) from East Asia in 2003–2022	64
3.6	The structure of Vietnam’s exports by Lall’s technological categories, 2000–2022 (in %)	65
4.1	GVC participation rates (GVC_f; GVC_b) in low-technology manufacturing in East Asia (2000, 2021)	80
4.2	GVC participation rates (GVC_f; GVC_b) in East Asia’s medium- to high-technology manufacturing (2000, 2021)	81
4.3	Average production length of GVCs (PLv_GVC; PLy_GVC) in low-technology manufacturing in East Asia (2000, 2021)	82
4.4	Average production length of GVCs (PLv_GVC; PLy_GVC) in medium- to high-technology manufacturing in East Asia (2000, 2021)	83
4.5	Herfindahl–Hirschman Indexes (HHI_e; HHI_va) in East Asia (2000, 2021)	83
4.6	Average production length of GVCs (PLv_GVC; PLy_GVC) in the automotive industry in East Asia (2021)	86
4.7	GVC participation rates (GVC_f; GVC_b) and Herfindahl–Hirschman Indexes (HHI_e; HHI_va) in automotive industry in East Asia (2021)	87
5.1	Level of socioeconomic development in East Asia in 2000 and 2020 (GDP per capita, PPP, USD)	106
5.2	Gini coefficient in East Asia in 2000 and 2019 (after-tax income)	108
5.3	Income distribution in East Asian countries in 2000 and 2020 (top 10%)	109

5.4	Income distribution in East Asian countries in 2000 and 2020 (bottom 50%)	110
5.5	Female labor income share in East Asia in 2000 and 2019	111
5.6	Wealth distribution in East Asia countries in 2000 and 2020 (top 10%)	112
5.7	Distribution of wealth in East Asian countries in 2000 and 2020 (bottom 50%)	113
5.8	Percentage of the population below the poverty rate in selected East Asian countries 2000–2020 (at USD 3.65 a day in 2017 PPP)	115
5.9	Income inequality and economic growth in East Asia in 2009	117
5.10	Income inequality and economic growth in East Asia from 2008 to 2011 in the wake of the 2008 global financial crisis	117
5.11	Income inequality and socioeconomic development in East Asia from 2008 to 2011 in the aftermath of the 2008 global financial crisis	118
5.12	Income inequality and economic growth in East Asia in 2020	120
5.13	Income inequality and economic growth in East Asia in 2020–2021 in the wake of the Covid-19 pandemic	121
5.14	Income inequality and socioeconomic development in East Asia in 2020–2021 in the wake of the Covid-19 pandemic	122

Tables

3.1	Top three export partners of ASEAN and APT countries	57
3.2	Share of food, fuel, and manufactures' exports in total merchandise exports of East Asian countries, 2000–2021, in percentage	61
3.3	Evolution of RTII in ASEAN, EU, and African economic integration groupings, 2019–2021	69
3.4	RTII in ASEAN by product groups, 2019–2022	70
4.1	RCA, RCA_ex1, and RCA_ex2 indicators in the automotive industry in East Asia (2021)	84
4.2	GL, VIIT, and HIIT indexes for automotive trade between selected East Asian countries and China (2021)	85
5.1	Poverty rate in East Asia (International Poverty Line of USD 2.15 per day)	114
5.2	Poverty rate in China and Indonesia in rural and urban areas in 2002 and 2019 (International Poverty Line of USD 2.15 per day) (in percentage)	116

Appendixes

Appendix 1	Dominant patterns of intra-industry trade in the automotive sector at the level of six-digit HS codes, China – selected APT economies (2021)	128
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Foreword

The term “resilience” was not a word one heard all that often in the realm of Social Sciences until relatively recently. The rapid spread of the term may be due to the characteristic features of this present era, of which we are in the midst, in that it is one of high risk, some more predictable, many others completely unpredictable. Accordingly, the critical issue in today’s societies is how to react when unforeseen risks, such as those brought about by Covid-19, unprecedented wildfires, or large-scale cyberattacks, become reality.

In the past, robustness may have been pursued more than resilience, and it was expected of governments and required of companies to recognize and enumerate the various risks that could be anticipated and to take measures to prevent them. The current risk society, however, is characterized by the facts that there are already a myriad of risks that are no longer technically preventable and that the degree of unpredictability has risen. This is most evident in the field of Information Technology: from application bugs to destructive ransomware attacks, there is no end to the problems that could seriously affect our daily lives. Just as modern-human-caused disasters are becoming increasingly unpredictable, the risks of natural disasters are also much different than in the past. A case in point may be that the problems posed by global warming are too large in scale and involve too many stakeholders to be controlled by anyone. It is precisely because of these situations that attention is increasingly focused on resilience, the ability to cope with risks when they materialize and regain the original state while minimizing damage as much as possible.

While it is easy to imagine that resilience can be enhanced by financial and technological capabilities, this book raises the question of whether one of the major factors supporting the resilience of a country or society may also lie in more basic areas. The factor, which might well be described as the culture of each country, is that, from an economic point of view, those in the middle class of society earn a certain level of income, and in order to earn that income and also because of that income, they receive a certain level of education. One of the authors’ main messages is that this may be the most important element of resilience if it is to be measured by the recovery of growth rates and that we can see the structure of this linkage when we closely

observe the behavior of the diverse nations of East Asia with widely varying levels of affluence. In other words, the density of the middle class, often not clearly recognized as a factor of resilience, is shown to be decisive when considering which East Asian countries have shown greater resilience and which have remained less resilient in dealing with, for instance, the Corona Virus crisis and its ongoing aftermath.

Thus, the concentration of the middle class in a given region will be a key indicator of the future of the risk society. This perspective is particularly relevant as companies consider their business continuity plans for the event of a crisis and decide in which regions to establish branches or make investments. In this regard, if the depth and breadth of the middle class increase in Africa or South Asia in the near future, for example, East Asia may lose out on international competition, whereas if the disparity between the affluent and the indigent in those regions remains unchanged and the middle class does not grow, East Asia's presence may continue to be significant in the global economy. A growing middle class in the developing countries of East Asia might well be expected to further increase resilience of the region.

There are, however, some caveats that should be added here: in countries such as China, where the size of the middle class appears to be expanding, the unpredictability of a political system can have a devastating effect on resilience. If a government with a distinctive command system imposes a blockade, business activity in that sphere will cease immediately, and if a directive is issued, whether for political reasons or not, imports of goods from, or exports to, a particular country could be stopped at any moment. In the case of a nation with such sovereign risks, explanations that assume the stability of the middle class may not be fully applicable, although there is certainly reason to focus on this point among a number of factors.

Viewed more broadly, the fact that the benefits of resilience have gained attention and recognition through various crises is itself a common asset of the generation living today, although the middle-class culture that brings resilience to a society must have been alive and well long before researchers realized its usefulness. Looking back on Japanese history, we recall that *Wabi-cha*, one of the most standard forms of tea ceremony, was established and popularized in and around medieval Kyoto, which had been ravaged by years of violent civil war and was in ruins; we also reflect on the strong post-war economic growth of Tokyo and other cities that were literally reduced to ashes during World War II.

Our first meeting with Professor Bogusława Drelich-Skulska and her colleagues was at an international conference in Gothenburg in 2010: presenting on the changing landscape of Japanese law, we benefited greatly from Professor Drelich-Skulska's comments and questions, which drew our attention to the importance of economic and geopolitical contexts. That was the beginning of a rich academic exchange that has continued for more than a decade. The two of us had the privilege of being invited to give lectures at the Wrocław University of Economics and Business, and reciprocally, our school,

Seikei University in Tokyo, had the honor of welcoming a number of faculty members from the WUEB, including Professors Drelich-Skulska and Sebastian Bobowski, as visiting professors, whose lectures and seminars attracted extremely enthusiastic audiences. Not only do we cherish the memories of the numerous conferences and workshops which were held in Wroclaw and Tokyo but also the pleasant social activities we enjoyed, such as sharing time in a traditional Polish restaurant or a Japanese izakaya (tavern).

Beyond the differences in our areas of expertise, it seems that deep down we had and still have the same research interests: the significance of national and regional cooperation and collaboration. There is no doubt that the foundation underpinning this is the resilience of each country and region; and on further reflection, friendship is certainly an element of resilience as well. With gratitude for many years of happy interactions, we leave off with the hope that the publication of this book will further advance research in this field.

—Keisuke Mark Abe and Yoshiaki Sato

Selected abbreviations

ACIA	ASEAN Comprehensive Investment Agreement
ACRF	ASEAN Comprehensive Recovery Framework
ADMM+	ASEAN Plus Defense Ministers' Meeting
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
AFC	Asian Financial Crisis
AFTA	ASEAN Free Trade Area
AMS	ASEAN Member States
APEC	Asia-Pacific Economic Cooperation
APSC	ASEAN Political-Security Community
APT	ASEAN Plus Three
ARF	ASEAN Regional Forum
ASCC	ASEAN Socio-Cultural Community
ASEAN	Association of Southeast Asian Nations
ATIGA	ASEAN Trade in Goods Agreement
AUKUS	Australia, United Kingdom, United States (trilateral security pact)
B2B	Business-to-business
B2C	Business-to-consumer
BITs	Bilateral investment treaties
BRICS	Brazil, Russia, India, China, South Africa
CLM	Cambodia, Laos, Myanmar
CLMV	Cambodia, Laos, Myanmar, Vietnam
Covid-19	Coronavirus disease 2019
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DSD	Democratic Security Diamond
EAS	East Asia Summit
EU	European Union
EV	Electric vehicles
FDI	Foreign direct investment
FTA	Free-trade agreement
G77	Group of 77
GDP	Gross domestic product

GFC	Global Financial Crisis
GL	Grubel-Lloyd
GVC_b	Participation rates in GVC based on backward linkages
GVC_f	Participation rates in GVC based on forward linkages
GVCs	Global value chains
HHI	Herfindahl–Hirschman Index
HHI_e	Herfindahl–Hirschman Index based on gross exports
HHI_va	Herfindahl–Hirschman Index based on domestic value added
HI	High income
HIIT	Horizontal intra-industry trade
HQ	High quality
H&S	Hub and spoke
HS	Harmonized system
IAs	International investment agreements
IIT	Intra-industry trade
ILO	International Labor Organization
ILO	International Liberal Order
IPEF	Indo-Pacific Framework for Prosperity
ITA	Information Technology Agreement
ITC	International Trade Center
LIEO	Liberal International Economic Order
LMI	Lower-middle income
LQ	Low quality
MNEs	Multinational enterprises
NATO	North Atlantic Treaty Organization
NWC	New Washington Consensus
OEMs	Original equipment manufacturers
OMC	Open Method of Coordination
PGII	Partnership for Global Infrastructure and Investment
PL _v _GVC	Average production length in GVCs based on forward linkages
PL _y _GVC	Average production length in GVCs based on backward linkages
PPP	Purchasing power parity
Quad	Quadrilateral Security Dialogue
R&D	Research and development
RCA	Revealed comparative advantage
RCEP	Regional Comprehensive Economic Partnership
ROO	Rules of origin
RSCI	Responsible Supply Chain Initiative
RTII	Regional Trade Introversion Index
SCRI	Supply Chain Resilience Initiative
SMEs	Small and medium enterprises
SWS	Single Window System
TPP	Trans-Pacific Partnership
TSC	Trilateral Security Cooperation (Japan, Republic of Korea, United States)

UMI	Upper-middle income
UN	United Nations
UNSC	United Nation Security Council
US	United States
USD	U.S. dollar
VIIT	Vertical intra-industry trade
WTO	World Trade Organization



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Introduction

Sebastian Bobowski

East Asia is one of the centers of gravity of the world economy in the 21st century. A resilient region should act reactively and proactively in the face of shocks and disruptions. The institutionalization of regional cooperation may be the answer to the development challenges in times of uncertainty and instability. This book critically examines a broad spectrum of issues, that is, international security, international trade, economic development, value and supply chains, and social welfare. Adopting the concept of resilience allows for a holistic, dynamic, and systematic approach to the studies on the regional process of institutionalization, responsiveness, and adaptability to challenging circumstances.

The monograph consists of five chapters. Chapter 1 presents an interdisciplinary approach to resilience as an Economics and International Law research area. The concepts of the region and regional resilience are conceptualized concerning East Asia. Chapter 2 examines the construction of the new international order as a tool to enhance security resilience in East Asia. The essence of international governance and soft law is pointed out in the open method of coordination of state activities. Chapter 3 studies the complex relationship between international trade and East Asia's economic resilience. The importance of diversification of export markets and the openness of the region's national economies is assessed. Chapter 4 is devoted to the resilience of value chains in East Asia, considering contemporary challenges facing export-led growth policy. Key regional cooperation initiatives to increase the resilience of value and supply chains are identified. Chapter 5 presents the relationship between economic inequality and East Asia's economic and social resilience. The impact of the diversified level of social and economic development of the countries in the region on the level of resilience achieved is analyzed.

This book is the final result of a research grant titled 'Quo Vadis, Asia? Development challenges of East Asia in the 21st century', funded by the authors' home universities – SGH Warsaw School of Economics and Wrocław University of Economics and Business (WUEB). The inspiration for undertaking the grant research was long-term cooperation within the Asia-Pacific

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Research Center, established by Professor Bogusława Drelich-Skulska at the WUEB in the early 2010s.

The interdisciplinary character of the book makes it suitable for usage not only by economists but also by lawyers. We hope to inspire more in-depth comparative studies, addressing different challenges and regions of the world and enriching the content of academic courses in economics and law with this book.

The authors thank Professors Keisuke Mark Abe and Yoshiaki Sato for their valuable contribution, support, and kindness while preparing this monograph.

1 Resilience in regional studies – theoretical and empirical context of disciplinary studies

Sebastian Bobowski and Jerzy Menkes

Introduction

This chapter aims to embed interdisciplinary studies on development challenges for the region of East Asia in the conceptual framework of resilience. A descriptive analysis of the literature is used in a disciplinary cross-section to identify the most crucial research areas on resilience.

The authors of this chapter attempt to answer the following research questions: How can the term region be conceptualized for East Asian studies? How has the concept of regional resilience evolved as a research field? What are the perspectives of Economics and International Law on regional resilience? What are the determinants of regional resilience?

The research methods used in this chapter include descriptive and comparative analysis and dogmatic-legal analysis. The authors adopt a constructivist approach.

Conceptual approach to the region

Doloreux and Parto (2005) referred to the definition of a region in the literature on regional competitiveness and innovation, which refers to various geographical entities equipped with the attributes of territoriality and controllability, constituting a space where economic processes are more efficient than at the national level. Hudson (2007) and Lagendijk (2007) contrasted the traditional concept of a region with clearly defined borders with a relational perspective, in which it is a space of endless flows generated by a network of social relations establishing specific interactions with other areas and levels of economic organization. The concept cited here considers the region as an open, unlimited space shaped by connections and network relations, but devoid of a specific predefinition in the territorial dimension. The relational perspective of the region emphasized the interdependence between institutions, individuals, and social structures, inducing mutual interactions at the local and global levels in spheres such as the exchange of people, knowledge, or capital. Various economic and non-economic goals and strategies are implemented thanks to the decisions and actions of regional actors

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involved in the network of social and institutional relations. According to Bathelt (2006), this deprives regions of autonomy in creating their future, which is determined more than ever by links and flows at the international level, albeit with space for local initiatives. In this context, Hudson (2007) postulated considering the region through a relational and territorial prism instead of juxtaposing them in theoretical, methodological, and political dimensions.

As stated by Christopherson et al. (2010), there is a problem with defining a region, often understood as a separate spatial unit, as it is a multi-dimensional, collective territory of interactions resulting from political and economic decisions taken at various levels. The latter include national trade, investment, innovation, migration, and energy policies, as well as regional agreements on their coordination, harmonization, and unification. These influence the decisions of enterprises and households, as well as the directions of flows of goods, services, investment, and labor. Nevertheless, the progressive liberalization and deregulation of international macroeconomic policies, accompanied by the development of information and communication technologies, have made emerging economies that are exposed to global markets more vulnerable to external shocks and disturbances (Christopherson & Belzer, 2009).

As Jessop (1994) argued, the status of the nation-state as the primary regulator and center of economic control has gradually been eroded. According to the new economic regionalism, which draws on endogenous growth theory, institutional economics, and cognitive psychology, the region has become a melting pot of economic development and wealth creation due to globalization, and has seen the emergence of new competitive spaces. According to Storper (1997), regions play a critical role in the context of economic interactions, innovations, and the creation of prosperity in the global economy, inspiring trade and non-trade interdependencies, that is, institutional and social, between various actors in the regional system. Mori (2007) proposed three approaches to the region: (1) as an area with a *raison d'être* for its existence, that is, an area whose inhabitants share a view of the world; (2) as a specific geographical zone whose inhabitants share a sense of belonging; and (3) as an area characterized by a regional consciousness based on personal and political networks rather than endogenous similarities or contrasts with external entities.

Jang (2004) contrasted the geographical concept of the region with the concept of a regional international community based on mutual understanding and interaction within well-developed systems and regulations. The notion of a regional international public sphere proved particularly useful in discussions on regionalism and regional cooperation in East Asia. Gamble and Payne (1996) characterized regionalism as a state-controlled process of reorganizing a specific regional space in line with adopted economic and political assumptions. The cited authors referred to associations created at the state level involving non-state actors, categorizing regionalism as a political

process that provides for the reorganization of regions. In the opinion of the authors cited here, the product of regionalism could be many regions with different economic or political dimensions.

For their considerations, the authors of this monograph adopt a functional and institutional approach to the East Asian region. According to the former, East Asia is a platform for cooperating with various systems and cooperation structures in fields such as trade, investment, sustainability, and security. The second approach defines East Asia as an institution constituting a set of regional frameworks serving the needs of East Asia in a functional dimension (Pye, 1985; Suehiro, 2005). Building regional institutions is necessary to create a regional economic system, which requires unity and the will to cooperate at the regional level. Creating a functional and institutional East Asia is a contemporary challenge, requiring prior recognition of other approaches to the region, that is, those referring to regional identity and regional social space, as well as the confrontation of the concept of ‘many Asias’ with Tenshin’s ‘one Asia’ concept (Mori, 2007).

The authors consider East Asia to be a functionally and institutionally distinct region, including the ASEAN Plus Three (APT) countries, that is, the ten ASEAN member countries plus China, Japan, and the Republic of Korea, where regional cooperation concentrates around regional economic and political frameworks, taking the form of treaty-based institutions, as well as more or less formalized platforms and summits.

Regional resilience as a research field

Regional resilience gained in popularity due to ubiquitous uncertainty, disruptions, and shocks, although it lacks a theoretical core or a clear conceptual framework (Wink, 2014; Martin & Sunley, 2015; Gong & Hassink, 2017; Fröhlich & Hassink, 2018). Regional resilience has been attributed to a certain plasticity for years, which has translated into growing popularity among researchers and regional policymakers (Christopherson et al., 2010). Nevertheless, as Martin (2018) argued, regional studies have gained a new impetus and an interdisciplinary perspective on the dynamically changing environment and its conditions due to the concept of resilience. The multidimensional nature of the vulnerability and susceptibility of regions to shocks and disruptions, including contemporary environmental, economic, social, and security threats and challenges, has motivated researchers and policymakers to search for strategies and tools to enhance regional resilience (Hudson, 2010; Pike et al., 2010).

The concept of resilience, derived from environmental studies, has inspired human geographers interested in researching the ability of separate territorial units, such as regions, to adapt and recover from disruptions and shocks (Hassink, 2010; Hassink & Gong, 2020). The research agenda of economic geography departed from the perspective of business cycles to include broadly understood aspects of regional development, such

as regional production networks, regional value chains, regional innovation systems, regional agglomeration processes, and regional competitiveness (Martin et al., 2016). The resulting research niche has been successfully filled for years by economists who undertake analyses, for example, in the field of regional synchronization or the asymmetry of business cycles, the impact of regional cooperation on the development path of individual national economies, their susceptibility to shocks, or their ability to adapt in the face of disruptions (e.g., Barrios & Lucio, 2003; Partridge & Rickman, 2005; Montoya & De Haan, 2008; Artis et al., 2009; Panteladis & Tsiapa, 2011). Studies on resilience concerning the development paths of selected regions, cities, and locations have been conducted in recent years by, among others, Christopherson et al. (2010), Martin (2012, 2018), Martin and Sunley (2015, 2020), Martin and Gardiner (2019, 2021), Bristow and Healy (2020), and Sensier and Devine (2020).

Regional resilience – the economics perspective

From an economics perspective, regional resilience has traditionally been perceived as the ability of a regional system to return to a narrowly defined state of equilibrium, or – in a more liberal approach – multiple equilibria (Christopherson et al., 2010), usually measured by macroeconomic indicators, such as GDP growth, GDP per capita, exports to GDP, FDI to GDP, the unemployment rate, or the HDI index. As argued by Martin and Sunley (2006), in the social sciences, the concept of regional resilience, considered through the prism of regional adaptation, has strong connotations with the achievements of evolutionary economics and evolutionary economic geography.

An essential aspect of research signaled by Simmie and Martin (2010), which is absent from the equilibrium approach, is the link between regional resilience and regional vulnerability to shocks and disturbances, that is, causal links. Contrary to traditional equilibrium approaches' characteristic of engineering and ecological conceptualizations of resilience, contemporary regional resilience researchers often adopt an evolutionary perspective, assuming that the region is a dynamic space subject to constant transition (Hassink & Gong, 2020). The political, economic, and social processes within it, also those resulting from regional cooperation initiatives, determine its adaptive abilities, susceptibility to external shocks and disturbances, and regional resilience. As indicated by Hassink and Gong (2020, p. 3), the concept of regional resilience can be successfully used not only in the analysis of sudden shocks and disasters but also in the case of slow burns, that is, slowly developing challenges, such as climate change, the transformation of political and security regimes, or the Fourth Industrial Revolution.

A resilient region is considered to be economically successful and able to maintain this state in the long term due to constant adaptation to a turbulent environment. Adapting Rodin's (2015, pp. 3–4) approach, regional resilience can be considered as a region's ability to prepare for disruptions,

recover from shocks, adapt, and learn from experience. In the opinion of this author, regional resilience means the ability to prevent or avoid threats and difficulties, as well as better respond to those shocks that cannot be predicted or avoided. 'Resilience dividend' in this context means gaining the potential necessary to create and take advantage of new opportunities, both in stable and challenging times. The result is a return to the pre-shock state and a significant transformation that generates additional benefits, considered by Martin et al. (2021) as positive hysteresis. Martin et al. (2021, p. 75) equated resilience with the ability to 'maintain . . . core purpose and integrity in the face of what seems to be a new normal of constant disruption, of frequently recurring shocks.' In this perspective, regional resilience relates to such attributes of the region as adaptability and agility in the face of shocks, changes, or uncertainty and, in this context, the ability to generate the resilience dividend.

Martin and Sunley (2020, p. 15) defined regional economic resilience as the ability of a regional economy to face up to or recover from competitive, market, and environmental shocks disrupting its development growth path. The authors pointed to the necessity of making the necessary adaptation changes in economic structures and social and institutional agreements so as to maintain or restore the previous path of development or transit to a new, more productive path, ensuring the sustainable use of the possessed physical, human, and environmental resources.

As Bristow (2010) argued, regional cooperation in the political dimension focuses mainly on regional competitiveness, and regional policymakers used to perceive resilience from this narrow perspective, underestimating the social or environmental aspects of resilience. The author pointed to the strong link between regional resilience and the issues of sustainability, localization, and diversification, particularly in the search for new, more effective economic structures. Therefore, regional resilience offers a holistic approach to the issue of regional economic adjustments, taking into account technical, technological, human, knowledge, natural, or information resources that are often specific or unique to a region and necessary for its survival and recovery after a shock.

Simmie and Martin (2010) identified regional resilience as the adaptive ability of regions and the enterprises operating within them to adapt and undergo the necessary changes in competition, organization, or technology in the face of shocks and disturbances. The authors also claimed that robust regional connectivity lowers resilience due to the lack of or limited flexibility in the face of disruptions.

According to Swanstrom (2008, p. 10), who represents the U.S. Research Network on Building Resilient Regions (2006–13), markets and political structures in a resilient region 'continually adapt to changing environmental conditions and only when these processes fail, often due to misguided intervention by higher-level authorities which stifle their ability to innovate, is the system forced to alter the big structures.'

Regional resilience – the international law perspective

Resilience is a term unknown to international law. The ‘West’¹ uses it in the context of challenges from strategic rivals, which are a source of security risks.² The response to challenges is to build resilience (Mahnken, 2016, pp. 52–66; Freedman, 2016, pp. 374–390). It follows that it is necessary to evaluate the oriented (unilateral and multilateral) actions of the ‘West’ through the prism of general international law. This choice of prism is due to the binding of the ‘West’ to the principles of the U.N. Charter. These principles co-create a set of constitutional norms of the ‘West.’

These actions are *de facto* ‘countermeasures.’ Actions and abstentions comprise an open catalog of such measures. Actions involve collaboration between allies, the deepening of such collaboration, and its *spillover*. Abstention is, for example, not including rivals in strategic supply chains, controls, and restrictions on trade, technology transfers, and investment flows.

It is impossible to examine all the actions required to build ‘resilience’ as this set is open-ended. Taking such actions falls under the ‘*tit for tat*’ formula. These activities fall into three categories: *infra legem*, *praeter legem*, or *contra legem* actions. The actions implemented and planned by the ‘West’ to shape resilience are not *wrongful acts*.

Positioning the shaping of ‘resilience’ and ‘risk’ on a timeline indicates that ‘resilience’ is to ‘prevent’ or ‘pre-empt’ risk.³ Shaping national and allied resilience is a response to non-military and military threats, as well as challenges to the security of the ‘West.’⁴

Shaping ‘resilience’ is thus a reaction, a response to (existing) risks.⁵ Risks threaten the *status quo*.

This perception of ‘resilience’ evokes associations with ‘stability’ and includes both refraining from actions threatening stability and taking steps that sustain stability.

The purpose of the legal study is to assess the West’s resilience and the institutional-functional capacity of the West to defend values threatened by the actions of strategic rivals – counter-system states – in ‘a more unpredictable and competitive world’ (NATO, 2022).

The core values on which the international community (the United Nations) should be founded and guided by its members are peace and justice. The founders of the UN bound these terms by conjunction, not allowing the possibility of choosing one value over the other. U.S. President Theodore Roosevelt declared, ‘If I must choose between righteousness and peace, I choose righteousness’ (Roosevelt, 1915). Meanwhile, it seems that Woodrow Wilson attributed greater importance to peace. Politicians complete this tandem with stability.

Unfortunately, in international reality, peace, justice, and stability form a policy trilemma in the form of an ‘impossible trinity.’ The determinants of this reality, involving the forced abandonment of the possibility of establishing and maintaining an international order governed by international law

and legitimized by the internalization of universal values, are, first, the rejection by Russia and China of the prohibition of aggression and annexation of territory, the systematic violation of the rules of free and fair trade, and the failure to respect basic human rights and freedoms. None of these challenges are new; what is new is the occurrence of all of them at one time and in every region. This condition changes the logic of action – a reality in which it was possible to fend off threats by managing time and to manage conflicts with limited resources (Mitchell, 2018, pp. 82–118, 304–330). In this reality, the West must be able and determined to simultaneously meet all such challenges in every place. We examined the implementation of the allies’ resilience-building strategies from two perspectives, that is, security challenges from strategic rivals and the allies’ capabilities and actions, focusing on the three-ocean (Atlantic and Indo-Pacific) region.

A world in which it is necessary to shape resilience is not ideal, but it is the only one that exists. The shaping of ‘resilience’ will continue until the moment when challengers take up cooperation in a ‘*win-win*’ formula.

The result of the study is the conclusion that a combination of the transatlantic bond with close cooperation with Asian allies creates conditions in which the tasks of ‘deterrence and defense; crisis prevention and management; and cooperative security’ are possible, but this means that one has to accept that the trilemma is an ‘unholy trinity.’

A perfect trinity determines the desired state of international relations – the conjugated determinants of peace, justice, and stability. In the real world – whether on a single state, regional, or global scale – achieving this state is impossible. This determines the characteristics of the trinity, making it an ‘impossible trinity.’

The policy trilemma consists of the impossibility of achieving justice while maintaining stability and peace.⁶ The pursuit of justice forces at the very least the abandonment of stability, even if we limit justice only to distributive justice (in the classic formula ‘*suum cuique tribuere*’).⁷ The price paid for stability and peace (limited to the absence of war) is the abandonment of justice. Stability during the ‘Cold War (I)’ period resulted from abandoning the pursuit of justice and accepting *low-* and *medium-intensity wars*. These were primarily proxy wars and could be limited by the great powers (Carey, 1996, pp. 133–151).

Determinants of regional resilience

Among the determinants of regional resilience, Archibugi and Lundvall (2001) pointed to the region’s learning potential, Clark et al. (2010) pointed to the regional innovation system, and Christopherson et al. (2010) pointed to the diversified economic structure of the region, efficient and modern infrastructure, high-quality human capital, and availability of financial capital. Regional cooperation in the areas indicated here is crucial, with an emphasis on innovation policy (Michie & Oughton, 2001). Transposing Hudson’s

(2010) approach to the regional system, there are three main aspects of regional resilience that deserve consideration, that is, the scope of changes that the region can undergo while maintaining its structure and functions, the range of possible reorganizations and changes, and the potential for development and sustaining learning and adaptability. The last of these, understood as the ability of regional actors to influence resilience, is perceived as critical.

According to Martin et al. (2021, pp. 75–76), when studying the region's resilience in the face of a shock, three critical aspects require recognition: (1) risk, understood as the region's exposure to a shock; (2) resistance, meaning the scale of impact of the shock, and (3) recoverability, considered as the ability to rebound and return to the pre-shock growth and development path. Both risk and resistance, interpreted in the latter case through the prism of absorption and adaptation potential, are determined by many factors specific to the region, such as industrial structure, infrastructure, human capital, value and supply chains, regional institutions, and arrangements. Recoverability may potentially involve a return to the state of equilibrium from before the disruption, measured, for example, by GDP growth, export volume, or the level of employment, or a transition to a new development path guaranteeing a higher level of productivity, efficiency, and prosperity. As a result of the revitalization and reconfiguration of regional policies and space, the spectrum of regional risks may develop differently after the shock than before. In practice, however, various intermediate states are most often encountered, depending on the local circumstances.

From the point of view of Wolfe (2010), regional resilience is primarily determined by the accumulated potential of civil society, entrepreneurship, and the empowerment of regional institutions capable of setting the development paths and coordinated actions of regional actors. The author noted the importance of public and private infrastructure (technical, telecommunications, research) and the accumulated skill resources. In the case of the latter, the author emphasized the importance of leadership in regional institutional structures and the ability of such structures to adopt a strategic attitude in the face of threats and disruptions.

Pike et al. (2010) also indicated the importance of regional institutional leadership, characterized by sensitivity and readiness to implement sudden changes and adjustments in the face of a shock, thus relating regional resilience to the flexibility of the governance system. Hudson (2010) saw in this context the need for close vertical and horizontal coordination of regional actors – ‘agents of change’ – at various spatial levels.

Christopherson et al. (2010, p. 7) assigned critical importance to the content of the political agenda, the shape of governance structures, and the endogenous development of the region, which are conducive to adjustments, adaptations, and necessary changes in the face of disruptions and shocks. Among the determinants of regional resilience, Martin et al. (2016, p. 570) pointed to industrial and business structures, labor market conditions, and financial and governance arrangements.

Henning (2011, pp. 7–28) pointed to several factors conducive to the creation of institutions for regional cooperation that enhance resilience in the face of shocks, that is, large-scale regional economic interdependencies, the presence of intergovernmental cooperation structures, a previously established network of economic arrangements, and inefficiency of the multilateral system within a given field. The author also argued that properly designed institutions for regional cooperation might deflect shocks and disruptions, for example, through the exchange of information among the countries of the region regarding economic conditions and necessary adjustments, corrective actions aimed at limiting vulnerabilities, mutual financial support through regional facilities, as well as political commitments that meet market expectations, thus strengthening market confidence.

Chapple and Lester (2010) warned against considering regional resilience through the prism of a one-size-fits-all policy, disregarding the specificity of the location, including its historical and geographical conditions. According to Pendall et al. (2010), selecting regional policy options and responses in the face of shocks and disturbances is subject to several factors and conditions specific to the region.

Concluding remarks

East Asia has been conceptualized as a functionally and institutionally distinct region covering the ASEAN Plus Three (APT) countries, with a set of more or less formalized frameworks and institutions for regional cooperation, which are the subject of the following chapters.

The concept of regional resilience, considered as the ability of a region to adapt and recover from shocks, as well as slow burns, has gained popularity among researchers due to its relative flexibility and the lack of a clearly defined theoretical core, although the latter is perceived by some authors as a significant weakness of this concept.

The authors recognize East Asia as a dynamic space of political, economic, and social processes, partially induced by regional cooperation initiatives which shape regional capacities in terms of adaptation and susceptibility to external disruptions, termed regional resilience.

From the perspective of economics, regional resilience can be viewed through the prism of the state of economic equilibrium or development path, threatened by market, competitive, technological, and environmental disruptions, and conceptualized as an ability to adapt and restore the pre-crisis state or to reach a new, higher state.

The West's building of resilience is a response to challenges from strategic rivals' systematic violations of the principles and norms of international law, the principles of the U.N. Charter, and accepted obligations. It means that the hopes of building 'one world' have – perhaps only for now – not materialized. The West, while building resilience, performs and should perform under the regime of international law, like a 'boxer who fights with one hand tied

behind his back.’ Such a way of behavior stems from values constitutive of the West and does not diminish its ability to respond to challenges. Respect for the law and values constitute the West as a security community.

Among the determinants of regional resilience, the authors attribute critical importance to regional leadership and governance, the accumulated potential of civil society and entrepreneurship, and a strong mandate and strategic approach of institutions toward regional cooperation.

Notes

- 1 The actors co-creating the community of the ‘West’ are NATO and the EU (‘43. The European Union is a unique and essential partner for NATO. NATO Allies and EU members share the same values. NATO and the EU play complementary, coherent, and mutually reinforcing roles in supporting international peace and security’), as well as partners in the Indo-Pacific, Bosnia and Herzegovina, Georgia, and Ukraine (NATO, 2022).
- 2 Authoritarian actors challenge our interests, values and democratic way of life. They are investing in sophisticated conventional, nuclear and missile capabilities, with little transparency or regard for international norms and commitments. Strategic competitors test our resilience and seek to exploit the openness, interconnectivity and digitalisation of our nations. They interfere in our democratic processes and institutions and target the security of our citizens through hybrid tactics, both directly and through proxies. They conduct malicious activities in cyberspace and space, promote disinformation campaigns, instrumentalise migration, manipulate energy supplies and employ economic coercion. These actors are also at the forefront of a deliberate effort to undermine multilateral norms and institutions and promote authoritarian models of governance.
(NATO, 2022)
- 3 Preemption is the taking of . . . action against a target when there is incontrovertible evidence that the target is about to initiate an . . . attack. Prevention is the taking of . . . action against a target when it is believed that an attack by the target, while not imminent, is inevitable, and when delay in attacking would involve greater risk.
(Barnes & Stoll, 2007, p. 7)

In defense policy, these are ‘deterrence’ and ‘defense.’

- 4 See Gray (2014, pp. 17–78, 135–190).
- 5 (6) The Euro-Atlantic area is not at peace. The Russian Federation has violated the norms and principles that contributed to a stable and predictable European security order. We cannot discount the possibility of an attack against Allies’ sovereignty and territorial integrity. Strategic competition, pervasive instability and recurrent shocks define our broader security environment. The threats we face are global and interconnected. . . . (8) The Russian Federation is the most significant and direct threat to Allies’ security and to peace and stability in the Euro-Atlantic area. It seeks to establish spheres of influence and direct control through coercion, subversion, aggression, and annexation. It uses conventional, cyber and hybrid means against us and our partners. Its coercive military posture, rhetoric and proven willingness to use force to pursue its political goals undermine the rules-based international order. . . . (13) The People’s Republic of China’s (PRC) stated ambitions and coercive policies challenge our interests, security and values. The PRC employs a broad range of political, economic and military tools to increase its global footprint and project power, while remaining opaque about its strategy, intentions and military

build-up. The PRC's malicious hybrid and cyber operations and its confrontational rhetoric and disinformation target Allies and harm Alliance security. The PRC seeks to control key technological and industrial sectors, critical infrastructure, and strategic materials and supply chains. It uses its economic leverage to create strategic dependencies and enhance its influence. It strives to subvert the rules-based international order, including in the space, cyber and maritime domains. The deepening strategic partnership between the People's Republic of China and the Russian Federation and their mutually reinforcing attempts to undercut the rules-based international order run counter to our values and interests.

(NATO, 2022)

- 6 The question upon which the whole future peace and policy of the world depends is this: Is the present war a struggle for a just and secure peace, or only for a new balance of power? If it be only a struggle for a new balance of power, who will guarantee, who can guarantee, the stable equilibrium of the new arrangement? Only a tranquil Europe can be a stable Europe. There must be, not a balance of power, but a community of power; not organized rivalries, but an organized common peace.
(U.S. President Wilson, 1917)
- 7 The realization of distributive justice is, unfortunately, incompatible with stability and peace.

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2 Enhancing security resilience

New norms and instruments of subregional and transregional cooperation in East Asia

Jerzy Menkes

Introduction

The study aims to catalog and examine the norms and instruments for deepening ASEAN and ASEAN's Plus Three integration and broadening institutional linkages to Western allies, primarily the United States (US), India, and the EU.

The framework of the study is set by interdependent processes. The first is a partial¹ freeze on multilateral cooperation (WTO Public Forum, 2012) and verification of the performance of participants in the cooperation of their accepted commitments. “The West” declares that the consequence of finding violations of commitments may be “tit for tat” actions, going beyond the institutional framework of dispute settlement in the institutions of the multilateral system. The second process affirms the primacy of plurilateral collaboration (intra- “Western”) over multilateral cooperation in relation to the abandonment (perhaps temporary?) of the conclusion of FTAs.² This approach evaluates the existing FTAs from the perspective of the parties’ performance of their obligations and the effects of the FTAs.³ Accompanying measures include:

- covering a wide range of plurilateral collaboration conducted under the regime of international governance;
- lowering non-tariff barriers to trade (e.g., through the *Single Window System* [SWS]);
- establishing the Indo-Pacific Economic Framework, the (new) Americas Partnership for Economic Prosperity;
- transforming the bilateral *US-EU Trade and Technology Council* coordination institution into a trilateral one through the Japan and Korea admissions.

Between the shift away from multilateralism and the focus on plurilateral collaboration lies the *Partnership for Global Infrastructure and Investment* (PGII, Memorandum, 2022). An essential element of PGII will be *The*

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India-Middle East-Europe Economic Corridor (Memorandum of Understanding, 2023, September 10). The PGII is, on the one hand, a G7 project reactive to China's *Belt and Road Initiative*,⁴ but on the other hand, it is a development assistance project for developing countries that is intended to support their transformation to the "Western model". The addressees of the PGII are the developing countries, while the initiators are the Western countries (G7) and, more specifically, the US, Japan, and Australia as participants in the *Blue Dot Network* project, on the foundation of which the PGII is to operate.

The immediate impetus for the study was two policy statements from the US: the end of the *Liberal International Economic Order* (LIEO) and the *International Liberal Order* (ILO) more broadly, and steps to take to establish a new socio-political-economic order in the plurilateral relations of the "West". These declarations were met with acceptance by the Allies and criticism/rejection from the strategic rivals of the "West", who paralyzed the functioning, violated the rules of the LIEO and prevented the establishment of the ILO, and paralyzed the collective security system.

Both declarations were subjected to verification and led to a formulation of the study's thesis. It states that the declaration signaling the end of LIEO and ILO is only a declaration of the end of hope for their establishment, since these orders never began to function. At the same time, the "West" has decided neither to reject the norms of these orders nor to destroy their institutions. Such *modus operandi* leaves the door open for a return to the orders if all participants demonstrate their willingness and ability to carry out their commitments in good faith.

The author connects the "open doors" approach for those wishing to return to the "old order" with the concept of "de-risking" in relations with China and Russia. The link between "open doors" and "de-risking" has as its basis the official positions of, among others, the EU and the US. The EU position was outlined by European Commission President Ursula von der Leyen in a speech on relations with China:

This is why it is vitally important that we ensure diplomatic stability and open communication with China. I believe it is neither viable – nor in Europe's interest – to decouple from China. Our relations are not black or white, and our response cannot be either. This is why we need to focus on de-risk, not decouple.

(von der Leyen, 2023)

This was confirmed by U.S. President Biden: "We're not looking to de-couple from China, we're looking to de-risk and diversify our relationship with China" (Remarks by President Biden & Leyen, 2023). Janet Yellen, U.S. Treasury Secretary, made a similar announcement: "But we do not seek to 'decouple' our economy from China's. A full separation of our economies

would be disastrous for both countries. It would be destabilizing for the rest of the world” (Yellen, 2023a).

I have made clear that the United States does not seek a wholesale separation of our economies. We seek to diversify, not to decouple. A decoupling of the world’s two largest economies would be destabilizing for the global economy . . . we take to protect our national security . . . not undertaken to gain economic advantage over China.

(Yellen, 2023b)

The policy of “de-risking” was declared the official policy of the “West” by the G7 as a commitment of the Hiroshima Summit (May 19–20, 2023): “We are taking concrete steps to: . . . coordinate our approach to economic resilience and economic security that is based on diversifying and deepening partnerships and de-risking, not decoupling” (G7 Hiroshima Leaders’ Communiqué, 2023). The policy of “de-risking” is different from the policy of “decoupling” adopted during the “Cold War I” in relations with the “East”.⁵

The “de-risking” policy allows economic cooperation to continue, without threatening resilience. Due to the lack of a legal framework for the “de-risking” policy, the regime for its implementation is international governance.

The new order in plurilateral relations is a mixed order. The elements of the old order retained within it (which, however, will be assigned new weights) will be supplemented with new ones. As a result, international relations in both global and “regional” relations will be subject to multiple regimes with common parts. A marker of the new order may be the decision to implement this order in the formula of international governance, at the expense of lowering the status of international law. The decision to choose a method to implement the new order is based on an evaluation of the effectiveness of the regimes. The advantages of international governance are the *modus operandi* of adopting arrangements. Arrangements are not made by treaty, so they are better protected from populist attacks and less dependent on political conjuncture; international governance can be realized in the formula “the open method of coordination” (OMC) using soft-law instruments. Actors in the OMC formula pursue an agreed-upon target, rather than focusing on the manner of proceeding. This facilitates flexible adjustment of *modus operandi* in response to results (changing arrangements does not require new treaties). In this regime, participants in collaboration not only set goals and evaluation tools but also exchange implementation experiences (best practices). The potential application of OMC to the socioeconomic relations shaped by FTAs would enable, in the case of an occurrence of undesirable effects, the opportunity to eliminate them by modifying the modes of conduct. In the governance regime, the participants in the collaboration are co-hosts of the collaboration at each stage of implementation of the set goals. A condition for governance to work is strategic restraint on the part of the participants, primarily the powers (Ikenberry, 2001, pp. 52–64).

The most important element of the declarations, namely “the end of economic liberalism”, is only partially true. *Bidenomics*⁶ introduces large-scale interventionism within the state (with indirect effects on international trade). The policy of assigning such tasks to the state is not unlike the economic policies of Asian (e.g., Japan and Korea) and European participants (the EU) of the “Western” community. At the same time, the US does not reject economic liberalism in plurilateral relations; intra-“Western” trade is to be (further) free and fair, property (including intellectual property) is to be protected, and restrictions on capital flows are not planned.

The economic dimension is only one of the dimensions of the new order, as it was in the “old” order. However, unlike the “old” order, in the new order, the economy is subordinated to security and human rights (in the “old”, the three dimensions were equivalent). This determined the inclusion of all dimensions of the new order in the study. Agreements and institutions of collective defense have been analyzed both as responses to threats from strategic rivals as well as instruments for deepening socioeconomic cooperation.

The author seeks to answer the following research questions: – Why did the “West” give up the idea of the creation of the ILO (and LIEO)? What are the normative characteristics of the new international order and the regime of its implementation? What is the place and role of the democratic states of East Asia in this order? How does the “West” want to shape relations with China and Russia (de-risking and friendshoring or decoupling or overdependence)?

Literature review and research gap

The study is conducted from the perspective of institutional liberalism (Doyle, 1986, pp. 1151–1169). This assumes that most states make rational policy choices that induce them to cooperate because the benefits of cooperation are superior to the benefits of military competition and territorial conquests (Rosecrance, 1986). Positive experiences and benefits of cooperation can encourage deepening and broadening *spillover* (Mitrany, 1948, pp. 350–363). Membership in international institutions is a win-win for everyone if the “*win-win*” formula is accepted (Keohane & Ney, 1997).

This choice is independent of the recognition that the “realists” (classical, neo- and offensive) represented the world as it is (Carr, 1964; Morgenthau, 1962). Experiences, including recent experience, confirm that under conditions of anarchy, the umbrella of universal institutions does not guarantee security (Krasner, 1992, p. 39; Mearsheimer, 1994–1995, pp. 5–49). However, the same experiences show that states are not doomed to themselves, they can rely on allies. The disadvantage of closing the consideration of international reality to the assertion of anarchy without searching for its sources is the rejection of the possibility of changing reality through action (Wendt, 1992, pp. 391–425).

What also argues against the choice of “realism” is the lack of offers for most states and nations. Starting from photographs of reality, they

present “attractive (maybe)” offers only for a select few (Mearsheimer, 2001, pp. 401–402, 2019, pp. 7–50) and a pessimistic scenario for the “rest”. The recipients of the promise of benefits (security and stability) at limited cost are the US (possibly other powers). Realists do not present an offer for small and medium-sized countries; they condemn their “choice” between the dangers of living in the anarchized world or vassalization. Also, the US does not take up the offer to separate itself (by wall) from the rest (of the world). It accepts “invitations” and the status of “empire by invitation” (Lundestad, 1986, pp. 263–277) and an “indispensable nation” (Clinton, 1997). “Invited”, the US maintains strategic restraint in the liberal hegemony formula (Mastanduno, 2019, pp. 47–54) not only by not isolating itself but also by not attempting to work toward building an imperium.

The vision of perpetual anarchy (the opposite of “perpetual peace”) is a source of hope for the restoration of the liberal order (Ikenberry, 2018b, pp. 17–29).

The US has a higher cost of peacekeeping and security than other countries. Many countries are free-riders, and the sustained co-occurrence of these attitudes threatens to close the “tragedy of the commons” trap. However, many U.S. citizens and most administrations do not accept the offer of isolationism. The US has repeatedly indicated that it does not want to separate itself by a wall from the rest of the world and that isolationism does not dominate its policies. The US has enough potential to build a “wall” and provide security within it, but experience shows that the cost of living in confinement is very high, and, in the end, “Winter will come” anyway and the cost of reactive action will be higher than anticipated.

However, choosing liberalism as a research perspective does not mean staying in a “utopia” and being guided by ideology. In the dispute (politicians as proposers are represented in it by scholars) between idealism and realism in foreign policy, all countries are involved. Involvement in the dispute is independent of opportunity. However, only the superpowers have the opportunity to choose. Medium and small states are hostage to the choices of the powers; if they choose the strategy of liberal idealism, they gain the status of co-hosts, if they choose the strategy of realism, they are subject to the decision. The opportunity for medium and small states is the joint exercise of sovereignty in formulas of institutionalized collaboration. The research within the framework of liberal theory can be carried out in a scientific regime (Moravscik, 1997, pp. 513–553) and within this regime was conducted in this study.

Undoubtedly, however, Mearsheimer is correct regarding his criticism of the conduct of the “West” toward its strategic rivals (Russia and China) after the end of “Cold War I”. The West believed so quickly and so much in the transformation of these countries and was so eager to benefit from the “peace dividend” (Rockoff, 1998, pp. 46–50) that it began to consume before peace was established – the West helped them build their power before they proved they deserved trust.⁷

In the study, the author uses the term “governance” to describe the harmonization and implementation of the arrangements adopted by countries participating in the cooperation; they can be implemented by both public authorities and private actors (Menkes, 2016, p. 44).

The existing research gap that exists is a result of recent events and processes that have led to a collapse of the *status quo*. In the study, therefore, the author used well-known tools to examine the new reality.

Methodology

In the study, a *constructivist* approach (*holistic constructivism*) was employed, giving particular importance to normative and material structures. The examination of practice abstracted from (grand) theories, with focus on “norms in action” (not “norms in books”). The method of the legal international study of the “new order” was adapted to its specifics, and norms were reconstructed from political agreements. In studying the institutions of cooperation, a functional approach was used. The author assumed, at the outset, that the construction of the “new order” and its implementation follows the regime of “governance” under the “open method of coordination”. In legal research, the orientation of the *New Haven Law School* was followed, limiting *formal-dogmatic* study to a necessary minimum.

The old order and its collapse

February 24, 2022 is *Zeitenwende*, the symbolic caesura of the end of the era of hope for building the ILO in the world (Kundn, 2017; Lake et al., 2021, pp. 1–33; Ikenberry, 2018a, pp. 7–23). The drive to build the ILO was a reaction to the experience of the “double war” –1914–1945 (Toynbee, 1965, pp. 1–2). The ILO’s axiology is contained in the U.N. Charter Preamble.

In the subject dimension, the ILO (described as “open and rule-based”⁸) encompassed three feedback-coupled orders: security,⁹ economy,¹⁰ and human rights¹¹ (Ikenberry, 2011, pp. 56–68). In the institutional dimension, the ILO was a formula for organized multilateral cooperation in the UN and the U.N. System.

However, contrary to the ILO’s presumption, its participants formally, and before all, in practice, were only “Western” states (Santana, 2017, pp. 118–137). In addition, the ILO never reached full institutional-functional capacity; the collective security regime in the U.N. System remained in the realm of plans (Inis, 1984, pp. 353–364; Organski, 1958, p. 461). The West came to terms with this by building – formally under Article 52 of the U.N. Charter – NATO, a “collective defense” institution.

By proclaiming values and formulating goals and tools for the establishment of the ILO, it was hoped that the regime would gradually universalize. Hope was in convergence as a function of internalizing shared values and experiencing the benefits of cooperation, mainly economic (Rostow,

1960; Huntington, 1968). Faith was placed in the effect of “*Doux commerce* (*Change through Trade, Wandel Durch Handel*)”.¹²

Even though the establishment of the U.N. System, the proclamation of a system of collective security, the promulgation of the Universal Declaration of Human Rights, etc., did not bring the world closer to unity on a foundation of values, ILO supporters kept up hopes of success and treated reality as *developmental disorders*.

Narratives about ILO exposed achievements and camouflaged failures. This was fostered by the fact that the ILO’s balance sheet is ambiguous. It consists of lifting hundreds of millions of people out of poverty, enabling many people to live in greater freedom, as well as in inequality on a global scale, the “North-South” divide, freezing the division of Europe (“Iron Curtain”), tolerance of inhumane governments in many countries, and wars.

Only the operation of the Liberal International Economic Order (LIEO) sustained faith in ILO and the hope of its universalization. However, its promise of “mutual benefits of trade and exchange (win-win)”, reinforced by the admission of China and then Russia to the # WTO,¹³ resulted in “hyper-globalization” (Rodrik, 2012) and abuses of the law. The beneficiaries of the benefits of LIEO were to be “everyone” – this belief was most clearly expressed by President J. F. Kennedy: “A rising tide lifts all boats” (Kennedy, 1963). These hopes also did not fully materialize.

Faith in the ILO, however, did not stand up to Russia’s unprovoked and unlawful war against Ukraine.¹⁴ The permanent member of the UNSC committed aggression against its neighbor, seeking to annex territory. The collective security system showed itself to be ineffective (as did the guarantees given to Ukraine in exchange for giving up its nuclear weapons). Russia’s armed aggression has also changed perceptions of China’s policy toward Taiwan, understanding that a military threat to its security (as well as that of other democratic states in Asia, most notably the Republic of Korea and Japan) is real. Russia’s aggression and China’s challenge, however, are only pieces of the puzzle of unfulfilled hope for the “end of history”. Important elements of this puzzle are the establishment of authoritarian governments in many of the countries that emerged after the collapse of the USSR, the weakness of democracy and the rule of law in the countries of Central, Eastern, and Southern Europe, and the failure of the *Arab Spring*. The unfulfillment of these hopes globally has forced the “West” to change its policies.¹⁵

The “II/24/2022” caesura and the announcement of the end of the ILO were preceded by a negative opinion of the functioning and effects of the LIEO. In the economic sphere, the magic touch of the invisible hand of the markets did not eliminate economic and social problems; tax cuts, deregulation, privatization, and trade liberalization did not bring the desired social results. The growing group of “victims” of globalization and those fearful of its effects have been joined by politicians supported by experts pointing out the negative effects of FTAs. This is illustrated by the case of the TPP; the argument for its termination by the US (Trump, 2017) was its predictions

of negative effects on American society and the economy (Capaldo, 2015; Capaldo, Izurieta, Sundaram, 2016).¹⁶ In the strongest terms, such an assessment was articulated by Katherine Tai, U.S. Trade Representative: “significant costs: concentration of wealth, fragile supply chains, deindustrialization, offshoring, and the decimation of manufacturing communities” (Tai, 2022). The failure to fulfill the first part of President Kennedy’s promise resulted in the self-fulfillment of its second part: “If one section of the country is standing still, then sooner or later a dropping tide drops all the boats” (Kennedy, 1960).

The integration of non-market economies into the “West”, extending LIEO benefits to them, has presented market economies with fundamental challenges. The effects of subsidies and kleptocracy threatened market economies. China and Russia¹⁷ violated LIEO rules and norms but wanted to maintain “free trade” with the West for the sake of benefits only to themselves. The West has repeatedly protested these actions and pointed out China’s and Russia’s¹⁸ violations of LIEO rules and abuse of WTO law (Menkes, 2022, pp. 279–301).

Strategic rivals of the West began to use interdependence (supply chains) for blackmail. The risks of overdependence were realized. Russia wanted to use energy blackmail to stop the “West” from helping Ukraine. China recognized that its place in the supply chains of medical equipment, semiconductors, and critical minerals would prevent the West from responding assertively to Chinese expansion (by military means) in the region.¹⁹

The new “Cold War” (“II”) has “frozen” the world. Again, the front line in the war separates the “West” from the “East”. Using the nomenclature of the bloc’s division of the world of the “Cold War I” era, within which the “West”, that is, the US and its allies were in opposition to the “East”, that is, the USSR and its satellites, does not mean failing to see continuity and change. An important element common to both is that there was and is no global “hot war”. The numbering is only because the gap between the two was short. Much more important are the differences, including the difference in potentials between the “West” and the rest, the unpredictability of Russia²⁰ (co-leader of the anti-Western bloc), and the inability of the powers to control peripheral conflicts (low or medium-intensity wars). It is different also that the treatment of Europe has been taken away from its sanctuary status.²¹ Different, too, is the incomparable level of concentration of power in the “hands” of the respective Russian and Chinese leaders to earlier periods.²²

The element of continuity is the criterion for determining the space of the “West”; this criterion is values (not geography); and it is the community of *like-minded countries*.²³ Invariably, the world is divided into opposing geopolitical, economic, and ideological blocs. New is the composition of the “West” (O’Hagan, 2002), which includes the US and its democratic allies (joined by satellites of the former USSR, among others). However, the effect of enlargement is a partial loss of cohesion; despite formal membership in institutions, including NATO, the EU, and the Council of Europe, some

countries violate “Western values” (NATO, 2020). Such practices carry fundamental threats to the security of the “West”. A historical analysis of the “West’s” resilience to challenges indicates that a key element of this resilience was trust. Trust was “the coin of the realm” (Shultz, 2020)²⁴ in their relationship, faithlessness is a false coin.

The Eastern bloc is formed by Russia²⁵ and China (Xi Jinping, Chinese president: “best and warm friends”); these states form an “axis of authoritarians”.

This division is overlaid by the division of the world into the North and the Global South (Friedberg, 2023). However, the term “Global South” (like the “Group of 77” during the “Cold War I” period) creates, in part, a false picture of reality. An important line of demarcation in the world separates democratic states from the “axis of authoritarians” (Tomlinson, 2003, pp. 307–321). Leaders of the authoritarian bloc are attempting to strengthen the bloc by expanding BRICS (XV BRICS Summit II Declaration, 2023, August 23) analogous to how the USSR instrumentalized the “Non-Aligned Movement” with states that are not formally aligned with one of the blocs. The joining, in 2004, of Argentina, Egypt, Ethiopia, Iran, the United Arab Emirates, and Saudi Arabia to the BRICS may prove to be a “third way” (Bosworth, 2023) choice for all. The experience of countries that were following the “third way” during the “Cold, War I” period shows that it led to instability and non-development.

The “West” responded strongly to the BRICS enlargement by admitting (2023, October 20) the African Union to the G20. The admission took place during the bloc’s Summit in the New Delhi. The fact of admission is the significant factor in the West’s competition with strategic rivals, and the place where it occurred determines the assessment of India’s role as an important participant in the Western alliance.

The fact that there is a new “Cold War” in the world and many states and nations are experiencing a “hot one” has forced the “West” to establish a new order (as noted by V. Dombrovskis, EU Executive-Vice President and P. P. Gentiloni, EU Commissioner in Dombrovskis & Gentiloni [2022] and by L. Truss, U.K. Foreign Secretary in Truss [2022]). This order is to

safeguard the freedom, common heritage, and civilization of their peoples, founded on the principles of democracy, individual liberty, and the rule of law. They seek to promote stability and well-being in the [Allies’ – J.M.] area. They are resolved to unite their efforts for collective defense and the preservation of peace and security.

(The North Atlantic Treaty, Preamble)

What hinders the building of a new order, and weakens the hope of building it, is the fact that the new order wants to build only the “West”. Russia does not want an order based on the principles and norms of the U.N. Charter (because this means a ban on armed aggression, a ban on annexing other

countries' territories, and responsibility for crimes). China, conceding the fact that the old order is collapsing, recognizes that “disorder” can benefit it more than the “(new) order” (Leonard, 2023; Dalio et al., 2021). The Chinese prioritize the hope of winning a zero-sum game over winning non-zero-sum games (win-win). The “Global South” is not interested in participating in either building the new order or paralyzing the construction.

The collapse and the steps after

Having concluded that the counter-system states “killed” the ILO, the West has operated in two modes. In the first, the West has neither rejected ILO norms nor proceeded to dismantle its institutions. The ILO's hibernation leaves the door open to its revival when all ILO participants are willing and able to carry out “in good faith” the obligations assumed in the ILO regime. Keeping the “open door” and, above all, not abolishing the ILO institutions (above all the UN, and the U.N. System) is rational behavior for maintaining the channels of communication needed particularly in an unstable and dangerous international environment. In the second mode, it is building a new order alongside the existing one. Action to build this new order stems from the recognition that the lack of order (disorder) is the same as instability and thus threatens the “West”.²⁶ The determinants of the new order are the recognition that the benefits of participation in it are “club goods” available to those who respect the values that are a prerequisite for participation. In the new order, security and human rights along with democracy are subordinated to the economy. Security and human rights are feedback-coupled; each insecurity threatens human rights, and violations of human rights (democracy and the rule of law) within the “West” threaten the ability of the “West” to provide security. The goal of the economy is to fulfill human and society's needs (in the formula of sustainable development) and to counteract divergence with instruments of compensatory justice. The economy – economic goals and activities – is to be subordinated to the realization of social priorities and protection from economic activities/connections that threaten security (such as dependence on energy carriers creating conditions for blackmail or *overdependence* in supply chains).

The new order is supposed to be different *and* like the old one. Differences include the abandonment of its universalization and the lowering of the weight given to international institutions and legal regimes. Elements of continuity include the weight given to human rights and freedoms, democracy, and the rule of law. The implementation of values determines the “geographic” scope of this order. Participants in collaboration are clearly delineated, and efforts are made to unify their statuses (“all for one, one for all”).

The U.S. “pivot to Asia” is joined by Europe. In the case of Europe, the “pivot to Asia” marks a change in the perception of the American pivot. The democratic states of Asia are no longer seen as a competitor to the U.S. “first ally” position but as strategic partners in the Western alliance.²⁷

In the case of the US, the construction of the triangle of America–Europe–Asia is both an institutionalization of deeper strategic ties between the partners and an abandonment of the “Hub and Spoke” arrangement (Cha, 2010, pp. 158–196) in favor of plurilateralism – an alliance “like NATO”.

Pointing out the sources of the differences between the ties – transatlantic plurilateralism and “Hub and Spoke”, U.S. and Asian partners²⁸ – American fears of being drawn into an unwanted war were exposed. The dam was to be the policy of deliberate ambiguity – strategic ambiguity (Tucker, 2005, pp. 186–212; Carpenter, 2006). Pointing to U.S. concerns camouflaged the reticence of Asian states to institutionalize internationally regulated plurilateral collaboration and difficult and problematic relations with neighbors (lack of “reconciliation”). All this is now a thing of the past.²⁹

The move away from the “Hub and Spoke” formula and the decision to take steps toward building plurilateral ties were announced at the inauguration of the U.S.-ASEAN Defense Forum (April 1–3, 2014). The breakthrough was already symbolized by the very venue of the meeting: they were held for the first time on U.S. territory. The US, represented by Defense Secretary Chuck Hagel, officially revised American policy, encouraging Asian countries to cooperate on humanitarian and disaster relief and other regional security issues (U.S. Mission to ASEAN, 2014). Hagel made a symbolic policy statement: “The goal of the forum was to build closer ties with the ASEAN and improve defense cooperation. The discussions focused on multilateral security and humanitarian disaster relief cooperation between the US and the ASEAN” (Hubenthal, 2014). The US, for its part, initiated cooperation, giving rise to the construction of a plurilateral security architecture in Asia (Thayer, 2014).

The priority of presenting agreements and institutionalizing cooperation in the sphere of security and defense reflects the level of risks, that is, minimum security and minimum stability. The risks are, first and foremost, derivatives of Russia’s military aggression against Ukraine, China’s aggressive actions against its Asian neighbors³⁰ (primarily Taiwan), and China’s expansion of offensive military capabilities³¹ and nuclear proliferation.³² North Korea’s attainment of nuclear weapons capability and Iran’s pursuit of it have radically raised the risk of nuclear weapons’ use (these countries did not participate in the communications that provided stability during the “Cold War I” period and have rejected the doctrine of *mutual assured destruction*³³).

A. Security and Defense

The plurilateral security architecture of the “West” in the space of three oceans is co-created by institutions and agreements. The “old” institutions and agreements are developed in this catalog: NATO and the Alliance’s institutional ties with *non-NATO allies*, *Hub and Spoke* agreements (with countries in the Asian region), and political defense guarantees.³⁴ This set

is systematically supplemented by new agreements and institutions linking Atlantic states and institutions with Indo-Pacific³⁵ states and institutions. All agreements and institutions are functionally related and complementary but are not structured. The efforts to establish the Three Oceans Community are not “doomed” to success. The establishment of the community will not be the result of the implementation of the “Founding Act” but of the will and consistency in action. In favor of an optimistic prognosis are the next significant steps on the road toward this community. Only after many years will it be possible to assess, for example, the real significance of the participation in the 2023 NATO Summit in Madrid and the joining of allies outside the group of NATO members and candidate countries (Ukraine and Georgia) in the Summit Declaration (Madrid Summit Declaration, 2023). Participants included allies from Asia (Australia, Japan, Republic of Korea, New Zealand, and Jordan) and Africa (Mauritania).

An important actor in the construction of the Three Oceans Community is the UK. After Brexit, which weakened the UK’s (and the EU’s) potential, it began a reorientation of its economic policy (Kužnar & Menkes, 2023, pp. 275–304). One of the goals of the reorientation of British policy is to offset the losses resulting from Brexit. The UK is developing relations in the economic, political, security, and defense spheres with Indo-Pacific countries, among others. Initially, it concluded “old” FTAs (duplicated EU agreements). The next steps are agreements with New Zealand (UK-NZ FTA, 2022) and Australia (UK-Australia FTA, 2021). With these agreements, the UK has overtaken Europe in developing economic relations with Indo-Pacific countries.³⁶ However, of particular importance for the “West” is the UK’s accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The UK, by signing on July 16, 2023, joined the CPTPP with Mexico, Japan, Singapore, Australia, New Zealand Canada, Vietnam, Peru, Malaysia, Chile, and Brunei.³⁷ The UK’s membership in the CPTPP has many dimensions. In part, it weakens the negative effects for the “West” of the U.S. resignation from the TPP³⁸ and strengthens the barrage against China’s accession to the CPTPP, but above all, it is part of the bridge that connects Europe to the CPTPP parties.

FTAs with New Zealand and Australia, accession to the CPTPP, and AUKUS change the assessment of the consequences for the “West” of Brexit (“pivot from Europe”). The UK is becoming a strong pillar of the bridge between Europe and the Indo-Pacific region³⁹ and may play a role in the process comparable to that played in building the Atlantic community. The long-term positive effects of this may outweigh the short- and medium-term negative economic effects of Brexit for the EU.⁴⁰

The catalog of “new” agreements and institutions includes the following:

- a. *Trilateral Security Cooperation (TSC)*. On August 18, 2023, Japan, the Republic of Korea, and the US concluded the *Camp David Principles*

agreement⁴¹ (Camp David Principles, 2023). The agreement opens with a general reaffirmation addressed to the “international community” by the Parties to respect their obligations under the U.N. Charter, supplemented by a declaration of cooperation to uphold the NPT regime, prevent the use of nuclear weapons, and promote human rights and climate protection. In establishing the TSC, the parties designated the Indo-Pacific as an area of responsibility and “went beyond” their own territories.⁴² They “established” TSC ties with ASEAN and the Pacific Island Forum. This indicates decisions to build institutional plurilateral ties. Japan and Korea joined, *de facto*, in U.S. guarantees to Taiwan. The agreement gives special importance to the denuclearization of North Korea.⁴³ The agreement co-creates a new generation of “security and defense agreements”. The agreement broadens the classic scope of defense agreements (focused on military security and defense) and covers environmental and human rights matters (non-military dimensions of security). It is important to clearly identify the sources and nature of the threats, namely Chinese policies and actions in the “Taiwan Strait” and North Korea’s possession of nuclear weapons. New also is the agreement’s coverage of economic cooperation in broad dimensions (e.g., financial stability and financial markets). The agreement includes commitments to technological cooperation and the development of trilateral standards and practices governing the transfer of technology (including critical technology). Due to the nature and content of the agreement, managing the implementation of the agreement is only possible under the governance regime of the OMC formula.

The importance of the agreement is determined by several factors; these include its conclusion under conditions of immediate and high risk, the economic and military potentials of the parties, and the willingness and ability (change of attitude) of Korea and Japan to cooperate trilaterally.

Despite the conclusion of the agreement, there is still a large group of politicians and analysts who prefer the position of a privileged state in international relations derived from the agreement with the US (“Hub and Spoke”), over the status of an equal (with others) participant in trilateral or plurilateral collaboration (Satake, 2023, pp. 29–32).

Japan is developing relations with allies in the security and defense spheres in several ways. PM Kishida in 2023 presented to G7 members (prior to the Hiroshima Summit) a plan for the evolution of Japan’s policy, which will be made possible by an increase in defense spending from 1% to 2% of GDP (Heydariana, 2023). Japan is not only developing cooperation in various formulas with the U.S. and regional allies, but it is also expanding cooperation with European allies, including developing military interoperability with the UK (governed by the Reciprocal Access Agreement) and with the UK and Italy launching a new generation of fighter aircraft (Global Combat Air Program).

b. AUKUS.

On September 15, 2021 (after more than a year of negotiations), the PMs of Australia (Scott Morrison) and the UK (Boris Johnson) and the U.S. President (Joe Biden) announced an agreement to deepen cooperation in the sphere of “diplomatic, security and defense” relations in the Indo-Pacific region (Joint Leaders Statement, 2021). The agreement was formally described as a continuation and deepening of 70 years of cooperation “to protect our shared values and promote security and prosperity”. However, AUKUS has changed the nature of cooperation toward institutionalizing it. The parties stated that the purpose of the agreement is to ensure that there will be enduring freedom and openness in the Indo-Pacific region. The agreement was justified by the need to respond assertively to the security challenge, particularly from China. Under AUKUS, the parties are forming an “enhanced trilateral security partnership”. AUKUS aims to enhance the institutional capacity of the parties to implement security and defense policies and extends the US–UK Mutual Defense Agreement of 1958 to Australia. Cooperation under AUKUS is closely linked to cooperation in NATO,⁴⁴ ASEAN, “the Quad”, “Five Eyes”, etc. Under AUKUS, the partners are developing information exchange (having long been participants in “Five Eyes [however, AUKUS is formally independent]” and “Echelon”) and technology.

The parties decided to deepen the integration of research in the areas of security and defense, technology, and industries (in these areas), and supply chains. The cooperation is to be expanded beyond an already-broad scope, from an initial one involving cyber capabilities, artificial intelligence, quantum technology, and undersea capabilities (going beyond submarine cooperation).

The cooperation from the beginning reached a concrete dimension. The US and the UK have committed to enable the Australian Navy to bring nuclear-powered submarines into service (the submarines are to be conventionally armed).⁴⁵ This will give the Australian Navy interoperability with its partners.

By joining AUKUS, Australia has abandoned its cooperation with France; it has been planned since 2009 (2016 agreements)⁴⁶ in the production of 12 *Attack*-type non-atomic-propulsion submarines (with which it was to replace *Collins*-type ships). France was notified of the AUKUS deal and abandonment of cooperation in the construction of *Attack*-type ships only a few hours before the agreement was publicly announced. AUKUS, and indeed the way it was negotiated and concluded,⁴⁷ caused short-lived turbulence in Atlantic relations and Franco-Australian relations.⁴⁸ These turbulences should have been avoided, given French sensitivities; however, the benefits of AUKUS for the “West” are lasting, while the political dispute has ended. AUKUS has not reduced France’s strategic engagement in the Indo-Pacific region.⁴⁹

c. Democratic Security Diamond (DSD) and the Quad (Quad 1, and Quad 2)

The impression that cooperation between Indo-Pacific states resembles a “bowl of spaghetti” is strengthened by the evolving formulas for security and defense cooperation. Their number, constant transformation, and crossover make study difficult. However, accepting that the constant is the content, not the form, allows one to focus on the enduring factor: the will to cooperate and the trust between the participants, rather than the variability of forms or names.

Participants in the DSD are Australia, India, Japan, and the US. It was initiated by Japanese PM Shinzō Abe. Announced in December 2012, DSD referred to other initiatives: the Japanese–Australian push to establish QUAD (2007) and Japan’s Arc of Freedom and Prosperity (Lee & Lee, 2016, pp. 284–308). However, the DSD was intended, unlike the earlier ones, to institutionalize cooperation (Abe, 2012). DSD may be viewed as the precursor of the Quad (Isozaki, 2023). Synonymous with DSD is the Quad.

The Quad is an informal forum for strategic cooperation between India, the US, Japan, and Australia. The Quad was established in its initial formula in 2004 in response to the tsunami⁵⁰ (Harold et al., 2020, pp. 9–10). In 2007, the cooperation formula was changed, and “high-level” meetings were initiated and expanded to include naval exercises. Quad has political arrangements as its basis. The lack of legal commitments amid policy changes has caused turmoil and interruptions in its operation.⁵¹

The return to the “4” came as a result of talks at the 2017 ASEAN Summit (Madan, 2017). After the return to cooperation, the level of contacts was raised to ministerial (Panda, 2020). The renewed Quad (referred to as Quad 2.0) has clearly delineated functions, and these are the development of capabilities to defend a “free and open Indo-Pacific” (Hines, 2020).

The US has attributed institutionalized ASEAN cooperation to an important role in the region’s security architecture (Keck, 2014), recognizing ASEAN as a “core component of the free and open Indo-Pacific strategy” (U.S. Strategic Framework for Indo-Pacific, 2017).

Quad 2.0, and from 2021 referred to as Quad 3.0, is clearly evolving toward an alliance modeled on NATO (Lendon, 2020; Mohan & Govella, 2022). This evolution of the Quad is being advocated by the US (Taylor, 2020) and NATO, which is cooperating with it, in this regard (The Times of India, 2020).⁵² The US is placing increasing importance on Quad military cooperation, expecting to concentrate operations in places of strategic importance (U.S. Strategic Framework for Indo-Pacific, 2017).

Quad political cooperation is implemented through, among other things, ministerial meetings.⁵³ The beginning of structured cooperation was given by the first (but not given the status of a Quad summit) meeting of presidents and PMs held in 2019 in New York. The resulting summit meeting on March 12, 2021, gave the Quad the regular and formal character of an institution as a pillar of cooperation among the participants and reaffirmed the goals and

“spirit of cooperation” (Quad Leaders’ Joint Statement, 2021; Medcalf, 2021). Evidence of the importance attributed by the US to Quad cooperation is the frequency of U.S. administration contacts with allies. Constant, close, and direct contact between policymakers, with working cooperation, are conducive to strengthening the participants’ willingness to collaborate and in raising the Quad’s operational capacity (ANI, 2021). They serve to strengthen alliances and partnerships for credible deterrence against China.⁵⁴

Cooperation in the Quad institution is being systematically deepened and expanded (Quad Leaders’ Joint Statement, 2023). The US seeks a sustained, not necessarily uniformly institutionalized, expansion of the Quad to include South Korea, the Philippines, Thailand, and Taiwan. The US is also determined to expand its circle of allies in South Asia to include Bangladesh, the Maldives, and Sri Lanka (Chantlett-Avery et al., 2023). The expansion has been, in part, realized. Starting in 2020, South Korea, New Zealand, and Vietnam are participating in the meetings. This expanded cooperation is referred to as Quad-plus (Rajagopalan, 2020). Critical to the Quad’s status is equipping it to respond adequately and assertively to challenges from rivals. An organization “like NATO” must be able to respond to China’s aggressive behavior in a tit-for-tat formula.⁵⁵ A manifestation of the concretization of the evolution is joint military exercises (*Malabar Exercises*), but the realization of the goal – to build an organization “like NATO” – is not certain (Heiduk & Wirth, 2023; Buchan, 2020).

B. Human Rights and Democracy

Work on building a new order in the dimension of “human rights and democracy” is in its early stages. This is due to the factors shaping the framework for action, not the low priority attributed to this dimension. First, the “West” has produced strong legal and institutional guarantees for the implementation of human rights and democracy, embedded in the institutions of regional integration; there is no shortage of norms or institutions for the implementation of norms in this area. Second, these institutions are open to participants from outside the region, and “Western” countries are joining them. This is illustrated by the cooperation of non-European countries with the Council of Europe and the Venice Commission (The European Commission for Democracy through Law). Canada, Japan, Mexico, and the US are observer states in the Council of Europe. Members of the Venice Commission from among non-European countries in the three-ocean region are Brazil, Canada, Chile, Costa Rica, Israel, Republic of Korea, Mexico, Peru, and the U.S. Observers on the Venice Commission are Argentina, Japan, and Uruguay, and South Africa is cooperating with it. An instrument for building transregional institutional ties in the human rights sphere is the cooperation between the Venice Commission and the Organization of American States.

Third, activities for the implementation and development of human rights in the world are carried out, first of all, in the forums of the UN and the

U.N. System. Cooperation in these forums reveals all the weaknesses of the (“old”) order and its institutions and the counter-effectiveness of attempts at reform.⁵⁶

The ineffectiveness of the UN and the U.N. System would argue for replacing the organization with a new one. The condition for membership in it would be verified fulfillment of the conditions of membership, the provision of Article 4 of the U.N. Charter (“Membership in the United Nations is open to all other peace-loving states which accept the obligations contained in the present Charter and, in the judgment of the Organization, are able and willing to carry out these obligations”). This, however, would leave authoritarian states outside the organization, closing an important and working channel of communication in international relations. From this perspective, the UN and its systems are particularly needed in the absence of “order” and the resulting instability.⁵⁷ Despite all their flaws, they are not “white elephants”.

Consequently, the actions of the “West” and, above all, the US taken in the dimension of “human rights and democracy” exemplify the *insolvability* of the “have your cake and eat it too” dilemma.

Despite this, the US is not giving up its efforts to generate and institutionalize cooperation in the new regime. However, the degree of US and, above all, allied involvement is limited. A new formula for cooperation is “The Summit for Democracy”. The first Summit was organized by the United States on December 9 and 10, 2021, under the topic “to renew democracy at home and confront autocracies abroad”. This goal was upheld in the work of the second Summit in March 2023, co-hosted by Costa Rica, Zambia, the Netherlands, the Republic of Korea, and the US. The cooperation of countries at this forum is to be focused on defense against authoritarianism, fighting corruption, and raising respect for human rights.

An analysis of the summit’s documents does not inspire optimism for *follow-up*. The documents (Initiative for Democratic Renewal, 2021, December 9; Declaration, 2023) include norms and methods of implementation in line with (“Western”) standards of human rights and democracy. No new mechanisms for the implementation (and oversight) of human rights were proposed and produced. Hopes in this regard can be associated with the inclusion of governance in this area by the G7 and the implementation of norms of formula international governance.

Controversial, seeming to replicate the illusions accompanying the ILO’s beginnings, is the group of countries participating in the cooperation. The criteria for selecting the recipients of invitations are not obvious. Many states that drastically abuse human rights participate in the summits.⁵⁸

Participation of representatives of 128 countries⁵⁹ and multilateral institutions, journalists, parliamentarians, human rights defenders, mayors, and business and labor leaders does not bring many of them closer to the desired practice, and the formula of the summits does not provide for common mechanisms and verification of implementation. The failure to invite Hungary and Turkey to participate demonstrates the extent of the divergence of

the Atlantic community and its institutions, as both countries are members of NATO, and Hungary is also a member of the EU.

The initiative (The Summit for Democracy) is not new. It is a continuation of, among other things, the Community of Democracies (CoD),⁶⁰ a global intergovernmental coalition of 106 states that adhere to common democratic values and standards (established in 2000). The difficulties of these allies working together in cooperation are also similar to the past.⁶¹

C. Economy

The “New Washington Consensus” (NWC) is a broad and coherent strategy: “This strategy will build a fairer, more durable global economic order, for the benefit of ourselves and for people everywhere” (Sullivan, 2023). The NWC significantly extends beyond the economic dimension. This is demonstrated not only by the content of the project but also by the symbolism of its presentation. The NWC was presented by Jake Sullivan, National Security Adviser to the U.S. president. The NWC is a geopolitical project.

The NWC’s directive in U.S. (and other “Western” countries’) global economic policy is for U.S. governments and their allies and Western institutions to pursue development policies. This policy will promote deepening interdependence with allies (and reducing economic interdependence with strategic rivals).

The title of the project, and especially its key element, namely the addition of “new”, is part of a dialogue with critics (Rodrik, 2006, pp. 973–987) and “victims” (Krugman, 2008, pp. 31–40) of the Washington Consensus. They considered the Washington Consensus guilty of the impoverishment of many social groups⁶² and repeated crises. This perception of the Consensus is independent of its content and effects⁶³ – critics and victims of economic change blame “shadows in the cave”. The name promises change, consideration of criticism, and readiness to develop a new order through dialogue. An important factor affecting the assessment of the content and chances of implementation of the NWC is the change in the position of the US in international relations (between 1989 and 2023): the US is no longer a hyperpower, but a superpower challenged by China. The US emphasizes the reactive nature of the NWC, indicating that it is a response to the challenges confronting the US and the world (Sullivan, 2021).

The path from the “Old” to the “New” Washington Consensus, and indeed from the LIEO, leads from deregulation, opening domestic markets, and reducing the influence of governments on the economy toward protectionism and interventionism.⁶⁴ It is a radical change in the policies pursued by the US from 1934 to 2017,⁶⁵ from *offshoring* to *friendshoring*. Also, there is a radical change of supply chains, by changing the criteria for selecting their participants. Moving away from the selection of participants in supply chains based on economic criteria (cost-cutting orientation) to choices in which the primary criterion will be the resilience of supply chains to geopolitical shocks

is new. Strategic supply chains are to be concentrated in allied countries,⁶⁶ and this will maintain free trade and freedom in technology and investment flows. As a result, strategic supply chains will not be restrained on trade, technology, and investment flows to/from strategic rivals (mainly China).

The effect of the changes could be to turn relations with China and non-allied countries into a zero-sum game. The concept has been welcomed by many key U.S. allies⁶⁷ and doubted by analysts.⁶⁸

The NWC is, like the entire new order, a toolbox. Only selected tools were examined below, crucial to the entire study.⁶⁹

a. *IPEF*

Indo-Pacific Framework for Prosperity (IPEF). The construction of a new order in the dimension of the economy was initiated by the proposal of the IPEF. The IPEF is analyzed in three dimensions. First is the IPEF–TPP relationship. In this dimension, the IPEF is an “economic agreement”, a continuation of economic ties between TPP parties without FTAs (without the legal regime of the TPP). The IPEF initiative and the positive reaction to it by its addressees contributes to bridging the divisions created by the U.S. withdrawal from the TPP and demonstrates the rebuilding of trust in U.S. relations with IPEF participants after its breakdown by the *modus operandi* of President Trump’s administration.⁷⁰ This trust is particularly important in the case of the IPEF because of the regime of establishment and implementation through IPEF–RCEP (Regional Comprehensive Economic Partnership) relations. In this dimension, the IPEF, which is a reactive proposal, obtains an advantage over the RCEP. This is due to several factors. First, the existence of the RCEP did not stop RCEP participants from adopting the U.S. proposal; they were ready for a change. This indicates, on the one hand, China’s inability to block acceptance of the invitation, and on the other hand, the RCEP participants’ restraint in deepening ties with China and even willingness to reduce them. The IPEF’s advantage in the “rivalry” with the RCEP is also determined by the GDP relationship of the two groupings, and in this aspect, the IPEF prevails over the RCEP. A game-changer in this rivalry is India. Fearing dependence on China, India chose not to join the RCEP (nor the CPTPP⁷¹ or Digital Economy Partnership Agreement); instead, it accepted the proposal to join the IPEF and is a co-founder.⁷² In the third dimension are the institutional and functional characteristics of the IPEF. The initiative was presented on May 23, 2022, by President Biden in Tokyo during the U.S.–Japan talks. Both the venues of the announcement of the proposal and the announcement of the proposal in a joint statement with PM Kishida demonstrated the abandonment of unilateralism in action and understanding of the allies. Biden’s and Kishida’s statements proved the concertation of allied policies. Kishida, in announcing the initiative, indicated that the initiative, and more broadly the construction of a new order, is a reaction to Russia’s aggression against Ukraine. He expressed a commitment to participate in building a new order both globally and regionally (Indo-Pacific),

indicating that it will be a collaboration of allies united by a community of values (Remarks, 2022).

President Biden identified four pillars of IPEF (closely related to the non-economic dimensions of the “new order”), which are “Fair and Resilient Trade”, “Supply Chains”, “Clean Economy”, and “Fair Economy”.

The invitation was accepted by 14 countries: among the ASEAN states are Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam; from APT, they are South Korea and Japan; as well as by Australia, Fiji, and New Zealand. Among the countries interested in cooperation are Canada and Taiwan.

The IPEF is a mechanism for implementing the new concept of intensifying economic ties, both because it does not provide for FTAs and because it focuses on lowering trade barriers by lowering non-tariff barriers (rather than lowering, low WTO tariffs).

Gina Raimondo (U.S. Commerce Secretary) in cooperation with ministers of participating countries moved the IPEF from the stage of debates and agreements by heads of state and government to the stage of practice. At the same time, she pointed out that the IPEF is a formula for unprecedented U.S. involvement in economic cooperation in the region (Raimondo, 2021).

After the launch of the cooperation, the 14 participants began negotiations to agree on specific solutions under each pillar (Timeline. US Department of Commerce, 2023). In abandoning FTAs, IPEF participants have not given up on specific agreements. One of them will be the IPEF Supply Chain Agreement (Substantial Conclusion, 2023), it will not only be a traditional international law agreement but also, through the establishment of the agreement’s governing bodies (Council, Crisis Response Network, and Labor Rights Advisory Board), will evolve into an international organization.

The IPEF is a “toolbox”, and each tool can function independently. The failure of any one tool does not paralyze the functioning of the IPEF, and at the same time, the concertation of the tools’ activities increases the efficiency of the IPEF. So, it is not only a “toolbox” but also one of the “tools”, like, for example, the Quad in the “toolbox” of the “new order”.

The result of a full IPEF study will be the sum of serial “snapshots” of functioning under each pillar. However, just a few snapshots from a single pillar will allow you to see the effects of the IPEF.

For this study, the Single Window System (SWS), a new instrument of integration, was chosen. The SWS is an electronic platform that enables parties involved in international trade and transport to submit all necessary information for trade-related regulatory requirements at a single-entry point. Its purpose is to streamline trade procedures by reducing the regulatory burden on traders during import, export, and transit processes.⁷³

The SWS integrates not only different types of information but also multiple access points. Integration can occur either at a physical location or through a web-based platform. The SWS operates as a regime of interstate cooperation, connecting national systems of participating countries. Its

implementation falls under the jurisdiction of each participating state's executive, meaning that no international agreement between states is necessary. However, the SWS can be incorporated into a framework of international agreements, and it has been combined with the Trade Facilitation Agreement in some cases. While there is no universally accepted definition of the SWS, a comparative analysis suggests that it encompasses features such as "single entry; single submission; paperless environment; standardized documents and data; sharing of information (information dissemination); centralized risk management; coordination of agencies and stakeholders; analytical capability; and electronic payment" (ESCAP, 2018).

The operation of the SWS is most advanced in the Asian region, but significant disparities exist within subregional contexts. The highest level of use of SWS is shown by the cooperation between Australia, New Zealand, Fiji, Vanuatu, Samoa, Tonga, Palau, Kiribati, Solomon Islands, and Papua New Guinea.⁷⁴ However, this case cannot be regarded as a model, as it is – to a dominant extent – the result of *sui generis* patronage by Australia and New Zealand of the designated countries covering the functioning of public institutions.

In the case of ASEAN countries, the initiative to establish a combined and harmonized SWS was formulated and implemented relatively quickly. The project was adopted by ASEAN leaders at the Ninth ASEAN Summit in Bali in October 2003, and subsequent agreements and protocols were signed to establish and implement the ASEAN Single Window (Agreement, 2005, Protocol, 2006). However, despite the initial speed, it took about ten years for the agreements to be fully implemented, with the ratification processes and endorsement of the amended ASEAN Trade in Goods Agreement Operational Certification Procedures concluding in 2015 (Protocol, 2015). Participants in the ASEAN SWS anticipate the possibility of non-ASEAN countries joining the system. The ASEAN SWS was established on the basis of national systems (i.e., National Single Window). ASW is a step toward establishing the ASEAN Economic Community. However, the goal of the ASW participants is not to build a closed bloc, so they conduct a dialogue with, among others, Australia, South Korea, Japan, New Zealand, and the US on the possibility of expanding the circle of SWS participants.

The establishment of SWS inside the "West" creates – from the point of view of international law – a *de facto* free-trade zone. The zone would be established without a free-trade agreement (FTA), operating alongside the GATT legal framework (GATT Article XXIV).

Concluding remarks

The announcement of the end of the LIEO (and the ILO more broadly) was preceded by efforts to build a new order. However, a comprehensive and coherent program for the new order has not yet been presented (it may never be presented as a single, official document). Nevertheless, the measures taken

are complementary. An important indicator of the novelty of the order is the priority it assigns to security (the ILO has assigned equal weight to security, the economy, and human rights).

Political collaboration among democratic states is institutionalized, among other forms, in the plurilateral formula of The Summit for Democracy. Its participants focus on defense against the challenges of authoritarianism, corruption, and the promotion of human rights.

Work is advanced on establishing a plurilateral economic order. The key element of this order that distinguishes it from the LIEO is the recognition of the role of mechanisms of state interventionism (industrial policy) and restrictions on market freedom (Stiglitz, 2008a, pp. 41–56); the markers of change are the philosophy and instruments of *Bidenomics*. The management of this order is to be implemented in the formula of international governance. The New Washington Consensus opens the door for the establishment of *friendshoring* among *trustworthy* allies. The new chains of collaboration are like that linking NATO allies with “non-NATO allies” (MNNA).⁷⁵ In this new order, the role of forums such as the G20 and G7 will be growing (at the expense of the WTO and other institutions of the U.N. System, and the norms of international law). The US will not return to concluding FTAs in the foreseeable future (TPP⁷⁶ and TTIP⁷⁷ will be, at best, in the “freezer”) and will not unlock the WTO dispute settlement system (The WTO Appellate Body). However, many measures, including the SWS, will promote *de facto* trade liberalization.⁷⁸

In the ongoing “Cold War II”, democratic states, by strengthening social, political, economic, and defense cooperation, can “contain” the “axis of authoritarians” and defend themselves against both imperial hegemonism and armed aggression on their part. In favor of choosing this path is the experience of “Cold War I”⁷⁹ in the transatlantic space. In that war, the unity of the “West” was built on the foundation of (Franco-German) *reconciliation*. Ever-closer ties were generated between the European allies and the US and Canada. These ties transformed the Atlantic from a trench (separating Europe from America) into an inland lake of the “West”. They contributed to the socioeconomic development of the participants in the cooperation and resulted in victory in “Cold War I”. Cooperation between the democratic states of Asia and Europe, as well as the US and Canada, can give an analogous character to the three oceans (Atlantic, Pacific, and Indian). The perception of the transatlantic community is dominated by an image of legal and institutional unity. This image is contrasted with the multiplicity of agreements and institutions linking the democratic states of Asia with each other and with the rest of the West, a multiplicity that evokes the image of a “spaghetti bowl”. However, each of these perceptions is only partially true. For one thing, not all the “Western” states of Europe are members of the EU and/or NATO. Differing visions of the methods and even goals of integration prompted France to withdraw from NATO’s military structures (in 1966, partially returned in 1995, fully returned in 2009) and the UK to Brexit, the

elegant packaging of the differences in policies: European and American in the *bon mot* “Europeans are from Venus and Americans are from Mars”. On the other hand, the democratic states of Asia are reliable allies of the “West” and their differences do not threaten its cohesion. The “Western” community of values can function despite the overlapping of many agreements and institutions; and perhaps even because of them, it is more resistant to turbulence.

The realization of the same goals requires new ways of action that consider endogenous factors (cultural differences of the participants in the collaboration and experiences) and exogenous factors (including the threat of the use of weapons of mass destruction because of changing Chinese and Russian policies on the use of nuclear weapons [Cox, 2020]) and its proliferation⁸⁰ and changes in the economic balance of power, such as threats of *overdependence*. Differences among “Western” states and experiences can increase the effectiveness of collaboration; the realization of this scenario is facilitated by the *modus operandi* of collaboration, that is, governance within which each participant can contribute knowledge and skill capital (Goh, 2013).

The new order is a complex construct. Its establishment and functioning can only occur as an outcome of the common actions in the areas of security, human rights and democracy, and the economy. Actions in these areas are feedback-coupled, but the economy is subordinate to security and human rights, along with democracy. Each of these areas is a “toolbox”. On the one hand, the individual tools are independent (the failure of any one tool does not paralyze the others), but on the other hand, their concertation, both within the box and with other boxes and the tools they contain, increases the effectiveness of the “new order”. The feedback between the dimensions of this order and the instruments of its formation, implementation, and *spillover* form a structure arranged in a periodic table. The norms and institutions of the “new order” do not form a closed “shopping list”, as *consensus* on the new order is a living agreement. The implementation and development of this order are possible in an “open coordination model” under the formula of international governance (Stiglitz, 2008b, pp. 309–323).

Notes

- 1 The evidence of “partiality” is the efforts to have 136 countries conclude a Global Tax Agreement.
- 2 This is exemplified by the US withdrawal from the TPP (January 28, 2017) and TTIP negotiations.
- 3 This is shown in the case of the USMCA’s replacement of NAFTA (Altieri 2021, 29–39).
- 4 Asian countries advocated a response (Kuo, 2020).
- 5 It was intended to protect “the West” by cutting off (decoupling) the USSR and the rest of the bloc, and this was served by, among other things, trade policies, including restrictions on trade and technology transfers.
- 6 The legal foundations of this policy consist of the American Rescue Plan Act, the Infrastructure Investment and Jobs Act, the CHIPS and Science Act, and the Inflation Reduction Act.

7 “Reagan’s tactics” have been discontinued:

I have often said: Nations do not distrust each other because they are armed; they are armed because they distrust each other. If this globe is to live in peace and prosper, if it is to embrace all the possibilities of the technological revolution, then nations must renounce, once and for all, the right to an expansionist foreign policy. Peace between nations must be an enduring goal, not a tactical stage in a continuing conflict.

(Reagan, 1988)

- 8 As a paradox and proof of the West’s consistency, Kurt Cambell (National Security Council Coordinator for the Indo-Pacific) characterizes the “Indo-Pacific Operating System” (being built by Biden’s administration) as a “rules-based order”.
- 9 Faith in the collective security system and its institutions was limited from the beginning, and this was reflected in the signing of the Washington Treaty. In response to the inefficiency of the system in defending South Korea against aggression, the Washington Treaty was transformed into NATO.
- 10 LIEO initially, in the 19th century, was based on five pillars: free trade, laissez-faire, the gold standard and free mobility of capital, free labor mobility, and international property rights. After WW2 (at Bretton Woods), two pillars were dropped (labor mobility and laissez-faire), supplementing the order with institutions. After the collapse of the Bretton Woods system, the focus was on free trade and international intellectual property rights (Lal, 2005, pp. 503–520) until it was synonymous with “breaking down of artificial barriers to the flow of goods, services, capital, knowledge” (Stiglitz, 2002, p. 9).
- 11 The US and UK exercised restraint in supporting the expansion of human rights, recognizing that their respect belongs to the domestic sphere of the state. The change was initiated by President J. Carter.
- 12 This belief is one of the elements of European civilization. It draws its origins in the views of Aristotle (Politics), continued by Montesquieu, Adam Smith, and Emanuel Kant (Trivellato, Halevi, Autunes, 14). Sustained by the American Founding Fathers, it co-created the foundation of American politics. On *Doux commerce* see Hirschman, 2013. Paine’s views (Paine, 1792, Chapter 4, Part 2.) co-created on the paradigm of American foreign policy.
- 13 Both the expectation of economic benefits and the hope that Russia would join the bloc of democratic states (*Wandel durch handel*) were the deciding factors. The leader of this policy toward Russia was Germany, with its parents SPD leaders Egon Bahr and Willy Brandt, and after the end of the “Cold War” Frank-Walter Steinmeier and Angela Merkel. Steinmeier also supported Russia’s admission to the WTO (Steinmeier, 2007, pp. 6–11).
- 14 China, too, has contributed significantly to this primarily through its genocide of the Muslim minority and its confrontational behavior in international relations, as well as its systematic and systematic violation of WTO rules and norms. This was pointed out by US Treasury Secretary Yellen:

[I]n recent years, I’ve also seen China’s decision to pivot away from market reforms toward a more state-driven approach that has undercut its neighbors and countries across the world. This has come as China is striking a more confrontational posture toward the United States and our allies and partners – not only in the Indo-Pacific but also in Europe and other regions.

(Yellen Remarks, 2023, p. I)

- 15 However, limiting the reasons for the fall of the ILO and LIEO to factors originating outside the “West” falsifies the picture of reality. The debt crises (2010) and refugee crises (2015) have contributed to the rise of far-right and populist parties, which threatens European integration. Brexit has increased the risk of the EU

- disintegrating. Therefore, faith in the ILO and LIEO and the ability of governments to sustain them has weakened in Europe.
- 16 Regardless of criticism of the method (Erixon&Bauer, 2015).
 - 17 The latest manifestation of this is the suspension (VIII/8/2023) of double tax treaties with “unfriendly” countries (Presidential Decree 585 2023, August 8), and the restriction of the rights of foreign investors to transfer assets out of Russia, which is expropriation *de facto* (on 4 August 2023, President Putin signed the law “On the specifics of regulating corporate relations in business entities that are economically significant organisations”, see Shearman & Sterling, 2023).
 - 18 Also, the “West” has not always had “clean hands” (Mastanduno, 2009, pp. 121–154). In the 1980–1990 period, US administrations adopted “aggressive unilateralism” in defiance of the rules and norms of the global trade regime in economic relations. Sections 301–310 were challenged by several WTO members. In European law, the analog of Section 301 is Regulation (EU) No 654/2014.
 - 19 Jake Sullivan (National Security Adviser to US President Joe Biden): “The People’s Republic of China continued to subsidize at a massive scale both traditional industrial sectors, like steel, as well as key industries of the future, like clean energy, digital infrastructure, and advanced biotechnologies. America didn’t just lose manufacturing – we eroded our competitiveness in critical technologies that would define the future. Economic integration didn’t stop China from expanding its military ambitions in the region or stop Russia from invading its democratic neighbors. Neither country had become more responsible or cooperative” (Sullivan, 2023).
 - 20 The USSR was predictable, despite being irrational.
 - 21 Russia attacked Ukraine. Ukraine carries out military operations on Russian territory.
 - 22 Previously, they were dictatorships/collective autocracies now they are tyrannies.
 - 23 See Olli Rehn, Member of the European Commission, responsible for Enlargement (Rehn, 2005).
 - 24 George P. Shultz, former US secretary of labor.
 - 25 See The Concept of the Foreign Policy of the Russian Federation No. 229 (2023, March 31).
 - 26 The main antagonists of the “Cold War I” sustained stability.
 - 27 The concept of one area changes the meaning of Hay’s’ metaphor: “The Mediterranean is the ocean of the past, The Atlantic, the ocean of the present, and the Pacific, the ocean of the future”, collaboration replaces competition.
 - 28 During the early 1950s, the US successively concluded bilateral alliances in East Asia; with Japan in September 1951, with the Republic of Korea in October 1953, and with Taiwan in December 1954.
 - 29 This is at the same time as the plurilateralism proposed by the US in relations with and between Asian countries, and not accepted by these countries (Izumkiva, 2020, pp. 7–50).
 - 30 Among others, territorial disputes in the South China Sea (Center for Preventive Action 2023).
 - 31 Including military bases, in addition to Argentina (space-monitoring platform), Cambodia (Ream Naval Base), Djibouti (support base), Tajikistan (Gorna-Badakhahan, military post), Pakistan (Gwadar, naval base) there is a military presence and construction of installations in Cuba and the Solomon Islands
 - 32 Instability characterizes the internal situation of many African states. Internal conflicts, combined with the abandonment of the principle of *uti possidetis* result in the fragmentation of states, and the resulting instability results in lasting instability in the environment.
 - 33 It is based on the theory of *rational deterrence*.
 - 34 For example, for President Reagan’s Six Assurances to Taiwan, the legal status of the guarantees is mixed – in 1982, they were “only” a political declaration of the

- president, but in 2017 the US Congress affirmed the guarantees, giving them the status of a unilateral act under international law (Lawrence, 2023).
- 35 The term US covers an area from Northeast Asia and Southeast Asia to South Asia and Oceania, including the islands of the Pacific (Indo-Pacific Strategy, 2022). The author of the term is an Indian Navy officer, Gurpeet S. Khurana, but he referenced it in relation to shipping routes by sea. (Khurana, 2006, p. 139).
- 36 The EU concluded an FTA with New Zealand on July 9, 2022 (EU-NZ FTA, 2022).
- 37 Taiwan and the Republic of Korea have notified their intention to join the CPTPP.
- 38 This determined the conclusion of the CPTPP, an agreement that is a modified (“reduced”) version of the TPP.
- 39 This process may be enhanced by the EU-Mercosur FTA.
- 40 However, it is doubtful that they will offset the negative economic and social effects on the UK.
- 41 Formally, it is a political agreement, not an international law agreement.
- 42 This differs the TSC from NATO’s formula, limiting the “zone of responsibility” to the territories of the parties.
- 43 However, the “North Korea question” was not limited to denuclearization; “We seek to address human rights and humanitarian issues, including the immediate resolution of the issues of abductions, detainees, and unrepatriated prisoners of war. We support a unified Korean Peninsula that is free and at peace”.
- 44 Jens Stoltenberg (NATO Secretary General): “NATO allies agreed as late as June this year at the NATO summit in Brussels with President Biden and all the other leaders that we need to work more closely with what we call the Asia-Pacific partners. It is Australia, but also New Zealand, Japan, and South Korea on many issues, including cyber, but also address the maritime challenges we see in this region. And therefore, it is a good thing that NATO allies work with Australia” (Stoltenberg, 2021).
- 45 Australia is the second country (after the UK) to which the US is transferring technology to build a nuclear-powered fleet. The Australian navy will join the club of six countries with nuclear-powered submarines (China, France, Russia, the UK, the US and India).
- 46 It has been planned since 2009.
- 47 This case is not the only example of unilateral US action without informing allies of the plans in advance (similarly, Taiwan was informed that the US had established relations with China). European and Asian allies have criticized such behavior, but the US seems to overlook its harm (Sullivan, 2021). However, in this case, President Biden publicly confessed that it was a mistake.

I think, what happened was, to use an English phrase, what we did was clumsy, . . . was not done with a lot of grace. . . . I was under the impression that France had been informed long before.

(Biden-Macron, 2021)

- 48 Jean-Yves Le Drian (France’s foreign minister) said the deal was

C’est un coup dans le dos. . . . Cette décision unilatérale, brutale, imprévisible, ça ressemble beaucoup à ce que faisait M. Trump. Voilà: on apprend brutalement, par une déclaration du président Biden, que le contrat qui était passé entre les Australiens et la France s’arrête, et que les États-Unis vont proposer aux Australiens une offre nucléaire dont on ne connaît pas le contenu.

(Le Drian, 2021)

See Marlove, 2021, Shields & Massola, 2021.

- 49 France has four naval bases and maintains a permanent presence of ca. 7,000 troops.

- 50 The four countries formed a tsunami group, through which they coordinated relief efforts (Madan, 2017).
- 51 In 2008, Australian PM K. Rudd unilaterally and without consultation withdrew Australia from the cooperation This was prompted by China's hostile reaction to Singapore joining the Quad naval exercise.
- 52 See statements by NATO Secretary General J. Stoltenberg and US Deputy Secretary of State S.E. Biegun (Stoltenberg & Biegun, 2020). Statements by the US administration, however, are ambiguous; indeed, speaking at the opening session of the 4th India-US Forum, Biegun stated that the Quad is not to replicate the Cold War model, but is to be based on a commonality of "security and geopolitical goals", and described the Quad as "a partnership based on common interests, not on binding commitments", and that it is not to be an exclusive grouping (Biegun, 2020).
- 53 The first meeting of foreign ministers in the Quad formula took place in 2019 in New York.
- 54 This was pointed out by US Defense Secretary L. Austin in a speech at the US Indo-Pacific Command in Hawaii (Austin, 2021); see also Ackerman, 2021.
- 55 M. Pompeo, US Secretary of State, during the Quad meeting in October 2020, described China as a "dragon" using economic power to dominate its neighbors in South Asia (The Hindustan Times, 2021).
- 56 This is illustrated by the case of the replacement of the UN Commission on Human Rights by the UN Human Rights Council (2006). The effect is not to increase (compared to the previous one) the effectiveness of the body, the members of the Commission are similarly human rights violating states.
- 57 It is deterred by, among other things, the consequences of exclusions and withdrawals from the League of Nations.
- 58 A third of the participants were "partly free" and "not free" states (according to the Freedom House classification).
- 59 See Summit for Democracy 2021: Invited Participants. In 2023, the group of 120 countries was expanded to include Bosnia and Herzegovina, Gambia, Honduras, Ivory Coast, Liechtenstein, Mauritania, Mozambique, and Tanzania.
- 60 CoD was founded at the Ministerial Conference held in Poland (2000). The meeting was boycotted by France.
- 61 France upheld the boycott by not joining CoD.
- 62 In the US, it is the middle class. Impoverishment has caused it to turn to populism and support for D. Trump.
- 63 The Washington Consensus (1989) was a proposal to support domestic reform in Latin America, not an expression, of "neo-liberal" orthodoxy, and it was not a proposal for the whole world (Williamson, 2009, pp. 7–23). It included: "Fiscal Discipline", "Reordering Public Expenditure Priorities", "Tax Reform", "Liberalizing Interest Rates", "A Competitive Exchange Rate", "Trade Liberalization", "Liberalization of Inward Foreign Direct Investment", "Privatization", "Deregulation", and "Property Rights".
- 64 B. Deese (Director of the US National Economic Council): It means that, rather than accepting as fate that the individualized decisions of those looking only at their private bottom lines will put us behind in key sectors, we engage in strategic investment in those areas that will form the backbone of our economy's growth over the coming decades, areas where we need to expand the nation's productive capacity" (Deese, 2022).
- 65 It was initiated by Franklin D. Roosevelt by restricting (based on agreements) trade protectionism and ended by D. Trump by introducing trade sanctions and import tariffs.
- 66 This threatens not only the interests of strategic rivals but also those of developing countries.

- 67 French President E. Macron's European positive response is contained in the slogan "Made in Europe" (Macron, 2023); see Tamma & Stolton, 2023).
- 68 For a critique of the program, see Capretta & Veuger, 2023.
- 69 Among other things, the author doesn't research *Americas Partnership for Economic Prosperity*.
- 70 President Trump issued an executive order pulling the United States out of the TPP, which had not been ratified by Congress.
- 71 Canada, Chile, Peru, Mexico, and China. CPTPP participants have not joined IPEF.
- 72 See India-Japan-Australia Supply Chain Resilience Initiative (Joint Statement, 2021).
- 73 "Single Window" . . . (is) a facility that allows parties involved in trade and transport to file standard information and documents with a single-entry point to fulfill all import-, export-, and transit-related regulatory requirements. If information is electronic, then individual data elements should only be submitted once (Recommendation No. 33, 2005).
- 74 In each of these countries, a national SWS has been introduced and these harmonized systems are connected.
- 75 Such status has been Australia, Egypt, Israel (the "major strategic partner", Japan and the Republic of Korea (since 1987), Jordan, New Zealand, and Argentina (1996–1998), and Bahrain, the Philippines, Thailand, Taiwan, Kuwait, Morocco, Pakistan (2002–2004), Tunisia (2015), Brazil (2019), Qatar and Colombia (2022). India is "the major defense partner". Singapore has special status under a secret agreement.
- 76 During the 2016 presidential election campaign, both D. Trump and H. Clinton promised to withdraw from the agreement due to its negative effects. Trump said: "I have visited the laid-off factory workers and communities crushed by our horrible and unfair trade deals" (Trump, 2016). The agreement, however, survived the US resignation and, after changes, went into effect as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.
- 77 Although many analyses point to the potential beneficial effects of the agreements for the US. The Peterson Institute for International Economics has been a source of benefits for the US (Wolff et al., 2022).
- 78 Existing tariffs (for most of them) are low, and lowering them further causes disputes. Economically significant, unlike tariffs, non-tariff barriers (except for sanitary) do not have such numerous and noisy defenders.
- 79 The collapse of the USSR and the disintegration of the Eastern Bloc indicate the possibility of rollback in authoritarian states without the use of force.
- 80 NATO's nuclear deterrence policy (NATO, 2023) is the answer.

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3 Shaping the economic resilience in East Asia through international trade

Andželika Kuźnar

Introduction

East Asia's economic resilience depends on many interrelated factors. Currently, Western policymakers point to the particular impact of geopolitical factors on resilience. This is due to challenges from strategic rivals, as well as the collapse of the international order. However, in this chapter, the author focused on the interdependence of resilience and international trade. In an era defined by global interdependence, international trade's role as a transmitter of resilience has become increasingly crucial.¹

While trade can enhance economic resilience by diversifying markets and products, it also creates vulnerabilities when economies become overly dependent on specific sectors or partners. This chapter investigates the complexity of trade relations in East Asia, with focus on how export strategies, trade openness, export structure transformation and regional integration influence the region's economic resilience.

The first section examines the merits of diversification versus specialization as an export strategy. The thorough evaluation of East Asian countries' experiences highlights the challenges of over-dependence on exports and the potential vulnerabilities that arise from a lack of diversification.

Building upon the discussion of export diversification, the second section concentrates on the importance of diversifying export markets as a strategy fostering economic resilience. The export destinations of East Asian countries are examined, and the role of diversification in mitigating risks associated with market volatility and geopolitical disruptions is investigated.

The next section reviews conflicting perspectives on whether trade openness enhances or undermines economic resilience. Empirical evidence from East Asian countries' experiences during the global financial crisis in 2007–2008 and the Covid-19 pandemic that broke out in 2020 sheds light on how trade openness impacts economic outcomes amid crises.

The following two sections are devoted to the changing structure of exports in East Asia, with a special emphasis on the rise of the electronics sector. It has been exemplified by Vietnam's success in diversification of its export portfolio toward a high-technology manufacturing products. The

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choice of Vietnam as a case study is further dictated by its special position in the Western bloc, its status as a strategic partner of the USA.

Finally, the intensity of trade relations within East Asia in the context of regional economic resilience is examined in the last section. A comprehensive exploration of ASEAN's role as a facilitator of economic cooperation, political discourse and security collaboration among member states and external partners underscores the potential for deeper regional integration.

Overall, this chapter argues that East Asia is on the path toward building regional resilience through international trade and co-creating the resilience of the West, but that ongoing efforts are needed to address challenges and maintain this resilience.

In this chapter, the author seeks to answer the following research questions: How does the diversification of export markets contribute to the economic resilience of East Asian nations? Does trade openness boost or hinder East Asia's economic resilience, seen through past crises? How has the changing structure of exports influenced economic resilience in East Asia? How do regional trade agreements, especially ASEAN, foster the regional economic resilience?

The analysis is generally carried out from the year 2000 up to the most recent year. The study employs a range of methods, including the Herfindahl–Hirschman Index (HHI) and the Regional Trade Introversion Index (RTII), to provide quantitative insights into the patterns and trends of trade concentration and intensity of trade relations.

Export strategies: diversification versus specialization

Foreign trade and economic resilience are interrelated in many ways. Trade can spread natural, technological and socioeconomic shocks across borders (Balavac & Pugh, 2016), such as epidemics, cyber-attacks, conflicts and political instability. Trade can also contribute to climate change by increasing greenhouse gas emissions, which can lead to more frequent and severe natural disasters. International trade, by means of global value chains, may also propagate demand and supply shocks. However, trade can also enable countries to better prepare for, cope with and recover from shocks by providing access to resources, markets, technologies, information and finance (WTO, 2021).

An important determinant of such ability of countries is diversification of the production and export structure. The higher the level of product and geographic concentration in trade, the aggregate volatility of the economy tends to be larger (Haddad et al., 2013). The consequences can be notably severe if sectoral shocks occur as they would impact the resources concentrated in few sectors of the economy (Parteka & Tamberi, 2011). Moreover, evidence exists that the export concentration significantly hampers economic growth (Malindini, 2022). On the other hand, diversification of trade contributes to resilience to shocks (WTO, 2021, p. 107). Trade diversification –

as investigated by Caselli et al. (2020) – can increase resilience by reducing the exposure and sensitivity to specific shocks and increasing the adaptive capacity to cope with and recover from shocks. Most research focusing on economic vulnerability demonstrates empirical findings indicating that smaller states tend to exhibit greater economic vulnerability compared to other country groups. This vulnerability is primarily attributed to their significant levels of trade openness and a concentrated reliance on exports (Briguglio et al., 2005).

The tool that allows for the assessment of the concentration of trade is the Herfindahl–Hirschman Index (HHI), also referred to as the concentration index. To achieve values within the range of 0–1, the normalized HHI is employed.

The following formula (1) is used:

$$H_j = \frac{\sqrt{\sum_{i=1}^n \left(\frac{x_{ij}}{X_j} \right)^2} - \sqrt{1/n}}{1 - \sqrt{1/n}} \quad (1)$$

where

$$X_j = \sum_{i=1}^n x_{ij}$$

H_j – country or country group index;

x_{ij} – value of export for country j and product i ;

n – number of products.

An index value nearing 1 suggests that a nation's exports or imports are predominantly centered around a small number of products. Conversely, values approaching 0 indicate that exports or imports are distributed more evenly across a range of products. A lower HHI indicates a higher degree of export diversification.

Scrutinizing the evolution of export concentration at the regional level, we may observe disparities in export structures across developing areas (Figure 3.1). These regions poses unique characteristics: developing Asian countries have undergone rapid export-driven growth, developing American countries are mainly middle-income economies, and the developing Africa region (Sub-Sahara) is dominated by low-income economies reliant on a limited set of traditional commodities (Bosker & Garretsen, 2012). Developing Asian and American economies exhibit similar degree of export concentration, while African countries' exports are much more concentrated.

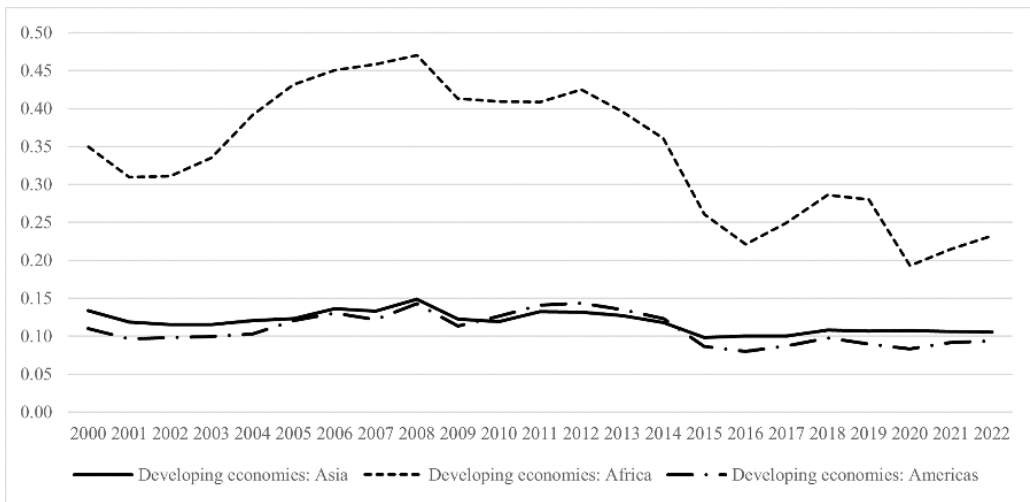


Figure 3.1 Product concentration of exports (HHI) in developing countries, by region, 2000–2022

Source: Own elaboration based on UNCTADstat (2023)

Interestingly, among developing regions, countries in Asia demonstrated relative resilience during two major 21st-century crises: the global financial crisis in 2007–2008 and the Covid-19 pandemic in 2020–2021. Statistical data from UNCTAD underscores this phenomenon, revealing that during the financial crisis, Africa experienced a substantial 29.8% drop in export growth rates in 2009, America’s saw a decline of –22.4%, while Asia’s decrease was comparatively moderate at –20%. Similarly, in the context of the Covid-19 pandemic, Africa’s exports experienced a decline of 17.8%, the America’s saw a reduction of 9.4%, and Asia’s drop was notably lower at 4.0%. The ASEAN nations exhibited a relatively minor reduction in exports, with a decrease of only 2.0% (UNCTADstat, 2023).

However, this aggregate trend masks the diversity of trajectories among countries in East Asia, allowing for their classification into distinct groupings. The first one comprises nations, such as Indonesia, China, Republic of Korea and Laos, which have pursued a trajectory of export concentration during the period 2000–2022 (Figure 3.2). The second category consists of countries that have undergone a process of export de-concentration and diversification (Brunei, Cambodia, Vietnam, the Philippines and Thailand). An additional facet for discerning disparate clusters of countries revolves around their varying levels of development. Typically, high and upper-middle-income countries have lower degrees of concentration of exports, although exceptions exist, notably Brunei and Singapore. Brunei’s exports are heavily dominated by oil and gas, and Singapore’s high export concentration results from its role as a global trade and logistics hub. In

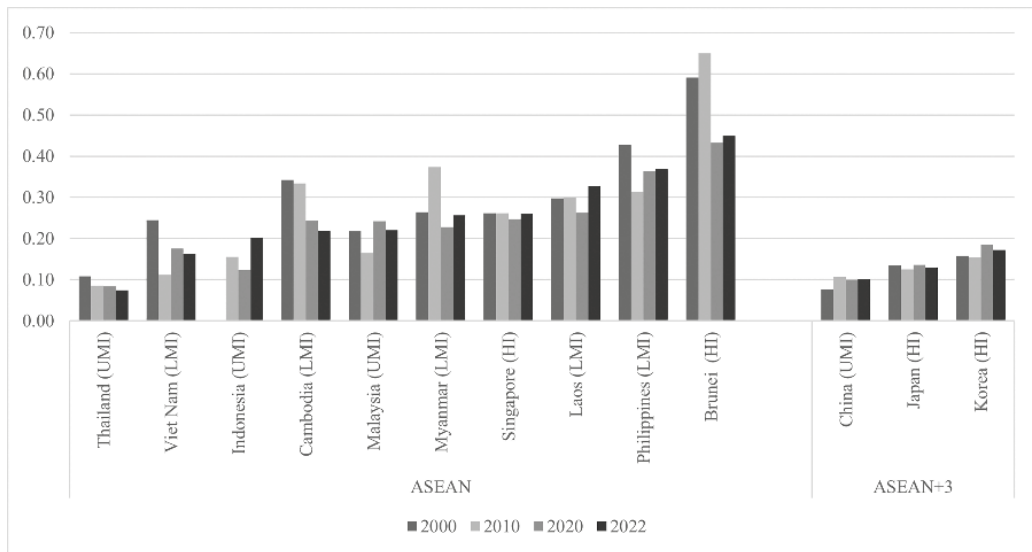


Figure 3.2 Product concentration of exports (HHI) in East Asian countries, 2000–2022. HI – high income; UMI – upper-middle income; LMI – lower-middle income

Source: Own elaboration based on UNCTADstat (2023)

contrast, the exports of lower-middle-income countries (Cambodia, Laos, Myanmar and the Philippines) are less diversified, except for Vietnam. It is a low-income country which has succeeded in expanding exports across products.

On average, ASEAN nations show higher concentration rates of exports compared to ASEAN+3 states. Particularly high HHI is observed in Brunei (0.45), the Philippines (0.37) and Laos (0.33). Singapore and Myanmar present moderate values (0.26). Conversely, China, Japan and the Republic of Korea display low HHI values (ranging from 0.10 in China to 0.17 in Korea), indicating a relatively more diverse distribution of exports across products.

Export strategies: diversification of markets

An important concern for East Asian countries is the concentration of their export markets, a factor that holds implications for the region's resilience in the face of external shocks. As illustrated in Table 3.1, data from the early 21st century indicates that many countries heavily relied on exports to the United States. Notably, Cambodia saw 55.6% of its exports directed toward the USA, while the Philippines, Malaysia and Thailand contributed 28%, 20.2% and 20.3%, respectively. Notably, Brunei stands out as the only ASEAN country where the USA does not feature among its top trade partners. For all ASEAN+3 countries in 2001, the USA was the most important export partner, with share ranging from 20% to 30%. Subsequently, the rise of China introduced a more balanced trading regime. By 2010, Thailand's

Table 3.1 Top three export partners of ASEAN and APT countries

Country	2001	2010	2022
<i>Percentage share of the partner in total exports and cumulative share of three top partners</i>			
ASEAN			
Brunei	Japan (46%), Republic of Korea (11.9%), Thailand (11.8%): 69.7%	Japan (43.5%), Republic of Korea (16.7%), Australia (10.3%): 70.5%	Australia (20.6%), Japan (17.4%), China (15.6%): 53.6%
Cambodia	USA (55.6%), Hong Kong (13.9%), Germany (6.6%): 76.1%	USA (34.1%), Hong Kong (24.8%), Singapore (7.7%): 66.6%	USA (43.6%), China (6%), Japan (5.7%): 55.3%
Indonesia	Japan (23.1%), USA (13.8%), Singapore (9.5%): 46.4%	Japan (16.3%), China (9.9%), USA (9.1%): 35.3%	China (22.6%), USA (9.7%), Japan (8.5%): 40.8%
Lao	n.a.	Thailand (53.5%), Australia (14.6%), China (11.7%): 79.8%	(2021) Thailand (32.2%), China (31.4%) Thailand (32.2%), Vietnam (17.5%): 81.1%
Malaysia	USA (20.2%), Singapore (16.9%), Japan (13.3%): 50.4%	Singapore (13.4%), China (12.6%), Japan 10.4%: 36.4%	Singapore (15%), China (13.6%), USA (10.8%): 39.4%
Myanmar	n.a.	Thailand (35.8%), Hong Kong (17.9%), India (10.8%): 64.5%	Thailand (22.5%), China (21.6%), Japan (7.1%): 51.2%
The Philippines	USA (28%), Japan (15.7%), Netherlands (9.3%): 53%	Japan (15.2%), USA (14.7%), Singapore (14.2%): 44.1%	USA (15.8%), Japan (14.1%), China (13.9%): 43.8%
Singapore	Malaysia (17.3%), USA (15.4%), Hong Kong (8.9%): 41.6%	Malaysia (12%), Hong Kong (11.7%), China (10.3%): 34%	China (12.4%), Hong Kong (11.2%), Malaysia (10%): 33.6%
Thailand	USA (20.3%), Japan (15.2%), Singapore (8.1%): 43.6%	China (11%), Japan (10.5%), USA (10.4%): 31.9%	USA (16.6%), China (12%), Japan (8.6%): 37.2%

(Continued)

Table 3.1 (Continued)

Country	2001	2010	2022
<i>Percentage share of the partner in total exports and cumulative share of three top partners</i>			
Vietnam	Japan (16.7%), China (9.4%), USA (7.1%): 33.2%	USA (19.7%), China (10.7%), Japan (10.7%): 41.1%	(2021) USA (28.7%), China (16.7%), Republic of Korea (6.5%): 51.9%
APT			
China	USA (20.4%), Hong Kong (17.5%), Japan (16.9%): 54.8%	USA (18%), Hong Kong (13.8%), Japan (7.7%): 39.5%	USA (16.2%), Hong Kong (8.3%), Japan (4.8%): 29.3%
Japan	USA (30.4%), China (7.7%), Republic of Korea (6.3%): 44.4%	China (19.4%), USA (15.6%), Republic of Korea (8.1%): 43.1%	China (19.4%), USA (18.7%), Republic of Korea (7.2%): 45.3%
Republic of Korea	USA (20.8%), China (12.1%), Japan (11%): 43.9%	China (25.1%), USA (10.7%), Japan (6%): 41.8%	China (22.8%), USA (16.1%), Vietnam (8.9%): 47.8%

Source: Own elaboration based on ITC (2023)

exports were split between the United States (10.4%), China (11%; China's share had risen to 17.7% when including Hong Kong), and Japan (10.5%). This trend continued into 2022, with China ranking among the top three export destinations for all East Asian countries.

Notably, the shift toward diversification impacted the position of the United States as the primary export partner for East Asian countries. In cases where the USA remained the primary export partner for East Asian countries in 2022, its share of the market had decreased. For example, Cambodia's dependence on the USA dropped to 43.6%, the Philippines to 15.8%, and Thailand to 16.6%. A unique pattern emerged in Vietnam, where the United States reinforced its position, increasing its share from 7.1% in 2001 to 28.7% in 2022. Notably, Vietnam was the sole ASEAN nation that experienced heightened export market concentration over the past two decades. The enforcement of the U.S. friendshoring strategy may result in the continuation of the growth trend.

Given the aggregate figures for ASEAN, the grouping has continuously been the largest trading partner for itself. According to ITC Trade Map (ITC, 2023), in 2022, intra-ASEAN trade accounted for 21.7% of ASEAN's total merchandise exports and 21.9% of its imports. However, before the Covid-19

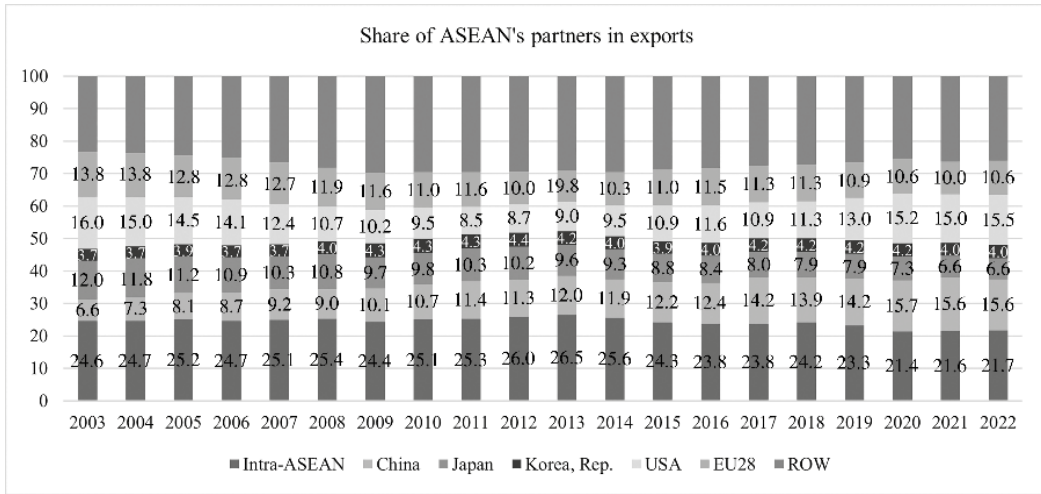


Figure 3.3 Share of ASEAN’s merchandise exports to and imports from top trading partners, 2003–2022 (%)

Source: Own elaboration based on (ITC, 2023)

pandemic, these shares were even higher (Figure 3.3). In 2022, the largest extra-ASEAN markets for exports were China (15.6%), the USA (15.5%), EU28 (10.6%), Japan (6.6%) and Korea (4.0%). For imports, the leading sources were China (24.4%), Korea (7.5%), EU28 (7%), Japan (6.9%) and USA (6.7%). A significant shift has occurred in China’s position over time. It represented 6.6% of ASEAN’s exports and 8.2% of its imports in 2003, and it has continuously risen making China the most important trade partner for ASEAN.

The increased role of China in trade of ASEAN nations poses challenges associated with the competitive position of Chinese inexpensive consumer goods exported globally, which could affect the competitiveness of exports of ASEAN countries. Another significant worry pertains to the potential scenario where a slowdown in the Chinese economy and the decline of commodity prices might result in reduced export revenues, especially for countries exporting raw materials and agricultural products. Therefore, the structure of exports matters for the risk reduction of shocks.

Trade openness and economic resilience

The relationship between trade openness and the resilience of countries to external shocks is another issue under investigation of many scholars. The research devoted to this relationship provides mixed findings and suggests that the relationship may depend on factors such as the level of development, export diversification and political institutions. Most researchers find that trade openness increases output volatility.² Abubaker (2015), Bejan (2006), Giovanni and Levchenko (2009) and Montalbano (2011) find that trade

openness generally increases output volatility, although Bejan argues that the effect was stronger in developing countries and is negative once controlling for government size and external risk.

On the contrary, Cavallo (2009) argues that open economies are more stable, with the stabilizing effect coming through the financial channel. Moreover, the extensive literature, ranging from David Ricardo's theory of comparative advantage and trade arising from differences between countries to Paul Krugman's trade model based on economies of scale among similar countries (Krugman, 1981), highlights the advantages of opening up economies. Open economies may benefit from economic specialization, which enables them to produce on a larger scale and take advantage of it. The various perspectives discussed emphasize that trade facilitates the optimal allocation of resources, greater efficiency and productivity, knowledge and technology spillovers, and ultimately cultivates a more robust and innovative economic landscape. Nevertheless, these approaches did not consider the case of using trade or economic dependence for blackmail.

Most of East Asia countries are heavily dependent on exports. Singapore stands out with exceptionally high results, with exports of goods and services accounting for over 186% of its GDP in 2022. In Vietnam, the exports to GDP ratio is over 80%, while in Brunei, Cambodia and Malaysia, it exceeds 60%. Even in larger ASEAN countries, such as Indonesia and the Philippines, export goods and services are equivalent to 25–30% of their GDP. Japan and China – large countries – are relatively less open, with exports' share in their GDP at 15% in Japan and 19% in China in 2020 (World Bank, 2023).

The analysis of the economic growth rates both during the global financial crisis and the Covid-19 pandemic does not reveal any unambiguous patterns in East Asia nations. During the global financial crisis in 2007–2008, a higher trade openness does not always correlate with a negative GDP change. For instance, Malaysia, Thailand and Vietnam had high trade openness levels of 157.7, 127.3 and 114, respectively, in 2010, and the first two experienced a negative GDP change (–1.51 and –0.69), while Vietnam witnessed a positive change (5.40). China, Indonesia and the Philippines, with moderate trade openness levels of 50.7, 46.7, and 66.1, respectively, displayed resilience during the global financial crisis, achieving positive GDP changes (9.45, 4.70, 1.45). Japan, known for its lower trade openness (28.5), encountered a significant negative GDP change (–5.69), reaffirming the notion that other internal and external factors also play a pivotal role in shaping economic outcomes.

In 2020, the year dominated by the Covid-19 pandemic, the relationship between trade openness and GDP change becomes more complex. Some countries with high trade openness, such as Vietnam and Brunei (163.2 and 110.3, respectively), experienced a positive GDP change (2.87 and 1.13), while most other highly open economies suffered a considerable decline (Singapore, Cambodia, Malaysia, Thailand). The same result was also observable in less open economies, except China, where a positive GDP growth in 2020 occurred.

These results underscore that in order to mitigate a crisis related to both demand and supply shocks, a combination of diverse policies is needed. While export diversification can help in reducing external shocks, challenges on the supply side should also be addressed. This includes implementing measures to manage the disease’s spread proactively and policies that support businesses (Hong, 2021).

At the same time, more specialized production involves concentrating the manufacturing of critical components in a selected number of countries. If suppliers face disruptions, the whole production network is affected, as exemplified by the semiconductors shortages during the Covid-19 pandemic. Avoiding overreliance on a few specific goods can prove to be an effective strategy of lessening the negative impact of disruptions in global value chains or safeguarding against sudden changes in demand.

Evolving structure of exports

The composition of exports in East Asian countries varies and changes over time. Most countries focus on manufacturing exports. The countries with the highest share of manufactures in their exports include all ASEAN+3 countries, followed by Cambodia, Vietnam, the Philippines, Singapore, Thailand and Malaysia. Vietnam stand out due to the highest growth of manufactures in total merchandise exports over the last two decades (from 42.6% to 86.4%) – see Table 3.2.

Table 3.2 Share of food, fuel, and manufactures’ exports in total merchandise exports of East Asian countries, 2000–2021, in percentage

	<i>Food</i>			<i>Fuel</i>			<i>Manufactures</i>		
	2000	2010	2021	2000	2010	2021	2000	2010	2021
ASEAN									
Brunei	n.a.	0.0	0.4		95.2	78.7	n.a.	4.5	20.5
Cambodia	1.0	1.4	5.2	0.0	0.0	0.0	95.6	96.1	90.6
Indonesia	8.9	16.2	23.5	25.2	29.6	19.5	56.7	37.0	44.9
Laos	n.a.	24.3	14.5	n.a.	0.9	27.4	n.a.	16.1	25.1
Malaysia	5.5	11.9	10.8	9.6	15.8	12.4	80.4	67.0	70.3
Myanmar	n.a.	17.3	32.3	n.a.	35.2	21.3	n.a.	26.0	39.4
The Philippines	4.8	7.3	8.9	1.3	2.1	1.2	91.3	56.3	79.7
Singapore	2.2	1.9	3.2	7.4	16.1	10.0	85.4	71.3	76.5
Thailand	14.4	12.8	13.6	3.2	4.9	3.6	75.1	72.5	74.6
Vietnam	25.3	19.3	8.2	26.4	11.0	1.0	42.6	64.0	86.4
APT									
China	5.4	2.8	2.3	3.2	1.7	1.2	88.2	93.6	93.6
Japan	0.5	0.6	1.2	0.3	1.7	1.4	93.9	88.4	85.6
Republic of Korea	1.5	1.1	1.5	5.4	7.0	6.2	89.9	88.3	88.1

Source: Own elaboration based on World Bank (2023)

On the other hand, Brunei relies heavily on fuel exports (78.7% of exports in 2021, though it decreased from 95.2 in 2020), and Laos, Myanmar and Indonesia exhibit relatively high shares of both fuel and food in their merchandise exports (ranging between 40% and 50%). In the case of these three countries, a concern emerges due to their dependence on the Chinese market. Specifically, China stands as either the primary (as in the case of Indonesia) or secondary (for Laos and Myanmar) export market, where these nations mainly export mineral fuels, iron and steel, paper and pulp of wood, animal and vegetable oils, fruits and nuts, vegetables, cereals, etc. The reliance on primary and resource-based products exported to a single market subjects these countries to the volatility of global commodity prices, thereby exposing them to unfavorable fluctuations in export revenues. It also exposes them to China's blocking of imports, used as an instrument of political pressure. In the past, China has blocked pineapple imports from Taiwan (March 2021) and trade with Lithuania (December 2021), among others. In this context, the strategy of diversification of exports and increasing the share of more value-adding manufactures could serve as a prudent measure to mitigate the inherent risks tied to overreliance on specific markets and commodities. As indicated in Table 3.2, all three countries in question managed to increase the share of manufactured goods in their exports between 2010 and 2022.

A more detailed analysis of manufactures' exports from the remaining ASEAN countries reveals that they predominantly export electronics and machinery,³ as evidenced by HS codes 84–85 (collectively called “electronics”). According to ITC data (ITC, 2023), the combined ASEAN's share in world exports for electronics amounted to 13.2% in 2022. China itself is responsible for 24.6% of world exports of electronics, while Japan and Korea contribute over 4% each. Electronics and machinery exports from ASEAN reached USD 809.4 billion in 2022, representing 39.4% of the total merchandise exports. Imports amounted to USD 682.6 billion, or 36.1% of the total merchandise imports. Increased demand for different communication products required for distance working and learning (computers, telephones, modems, etc.) during the Covid-19 pandemic led to a 4.9% increase in electronics exports during this global crisis. In contrast, during the global financial crisis in 2009, electronics exports from East Asia contracted by 16.6%. The main destinations for ASEAN electronics exports were the United States, China, Hong Kong, Singapore, Japan, Taipei, Republic of Korea, Malaysia, Thailand and Germany, while the main sources of ASEAN electronics imports were China, Taipei, Republic of Korea, Japan, the United States, Malaysia, Singapore, Thailand, Hong Kong and Germany. Intra-ASEAN trade of electrical machinery was 7.2% in 2022, which was 5 percentage points less than in 2003, indicating a lowering degree of regional links in trade in electronics.

Within this specific product category, the majority of ASEAN's exports (around three quarters) falls under HS code 85 encompassing electrical machinery and equipment. ASEAN collectively accounts for a substantial

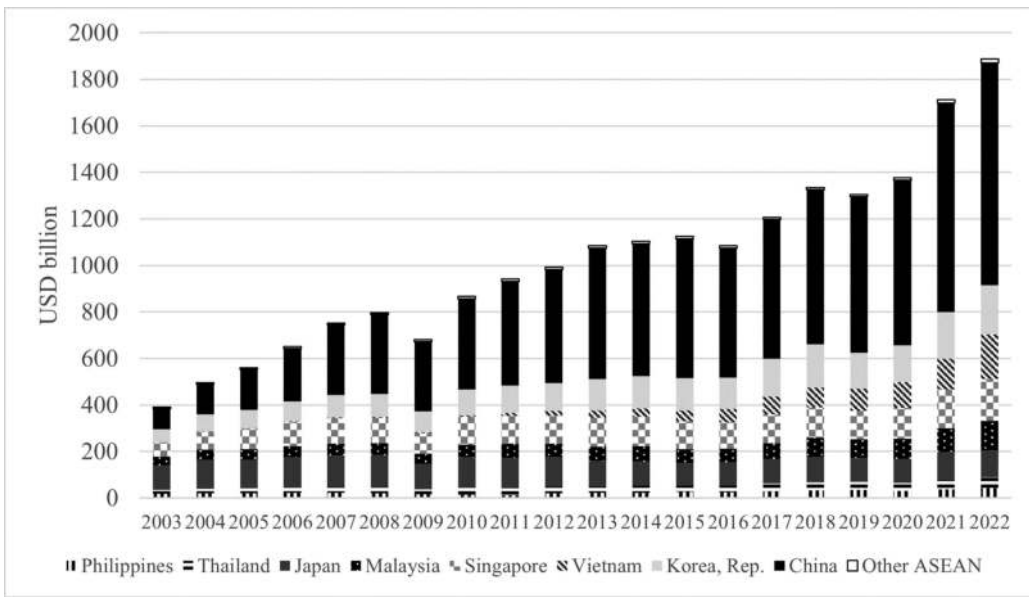


Figure 3.4 Exports of electrical machinery and equipment (HS 85) from East Asia in 2003–2022

Source: Own elaboration based on ITC (2023)

16.9% of world exports of these products. Among the leading exporting nations within this category are Vietnam, Singapore and Malaysia, holding the sixth, seventh and ninth positions in global ranking. China is a world leader in this product category, occupying significant share of 26.5% in global exports (excluding Hong Kong); however, with the inclusion of Hong Kong, this share escalates to 36.8%. Korea takes the fourth position, while Japan secures the tenth rank. Collectively, East Asian countries contribute to over 52% of global exports (or USD 1,900 billion) in the electrical machinery segment (Figure 3.4). These exports predominantly consist of integrated circuits and telephones, including smartphones.

The second product group within the broader “electronics” category is classified under HS code 84, encompassing nuclear reactors, boilers, machinery and mechanical appliances. The exports falling under this category from East Asia predominantly covers personal computers, laptops, printers, scanners and other automatic data-processing machines. In 2022, the exports from East Asia amounted to USD 970 billion, accounting for approximately 38% of the global exports within these product lines. ASEAN’s collective share constituted 8% of global exports in this category, with Singapore standing out as a notable contributor among ASEAN nations, contributing 3% to the global export share. Singapore was successful in attracting major global firms to set up businesses there, thus adding to its value chain contribution, especially in chip design, while other ASEAN nations are involved in assembly and testing. China takes the position of the largest exporter, with almost 22% share (Figure 3.5).

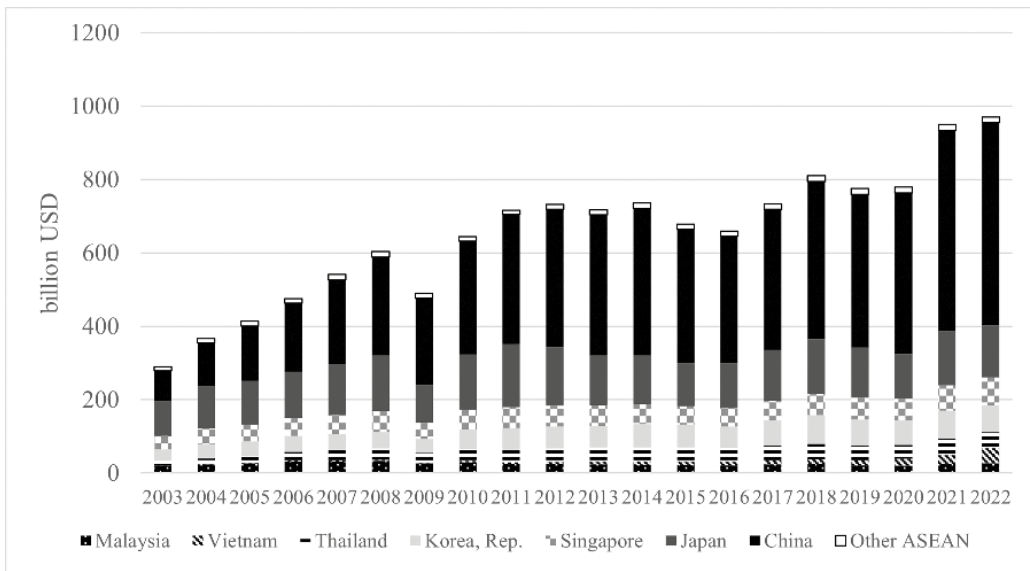


Figure 3.5 Exports of nuclear reactors, boilers, machinery, and mechanical appliances (HS 84) from East Asia in 2003–2022

Source: Own elaboration based on ITC (2023)

The rise of electronics: a case study of Vietnam

A major ASEAN supplier of electronics is Vietnam. It has increased its global share in exports of electrical machinery and equipment (HS 85) from 0.10% (USD 0.9 billion) at the beginning of the 21st century to the present 5.3% (USD 192 billion). In the case of machinery and mechanical appliances (HS 84), there was a more moderate increase, from 0.1% in 2003 to 1.6% of global exports in 2022 (and the value USD 40 billion). These changes transformed overall exports of Vietnam – it has successfully shifted away from its heavy reliance on primary products and embraced a strategy that focuses on increasing the role of high-technology exports, particularly in the electronics sector (Figure 3.6).

Even during the Covid-19 pandemic, the exports of electronics from Vietnam in 2020 increased by 17% compared to 2019 which was the highest result among all large East Asia exporters. China and Singapore, for instance, exported in 2020 6% more than a year earlier.

The electronics industry has emerged as Vietnam's most important export sector. In 2002, 41% of Vietnam's exports were concentrated in the electronic machinery and equipment group. Its exports within this product category concentrates on smartphones and products used to transmit and receive data (modems, routers, etc.) (HS 8517), integrated electronic circuits (HS 8542), as well as flat panel display modules (LCD – liquid crystal display, OLED – organic light-emitting diode, PMP – plasma display panel, etc.). Altogether exports from these three product groups were USD 125 billion (70% of the HS 85) (ITC, 2023). In 2021, Vietnam exported 233 million smartphones,

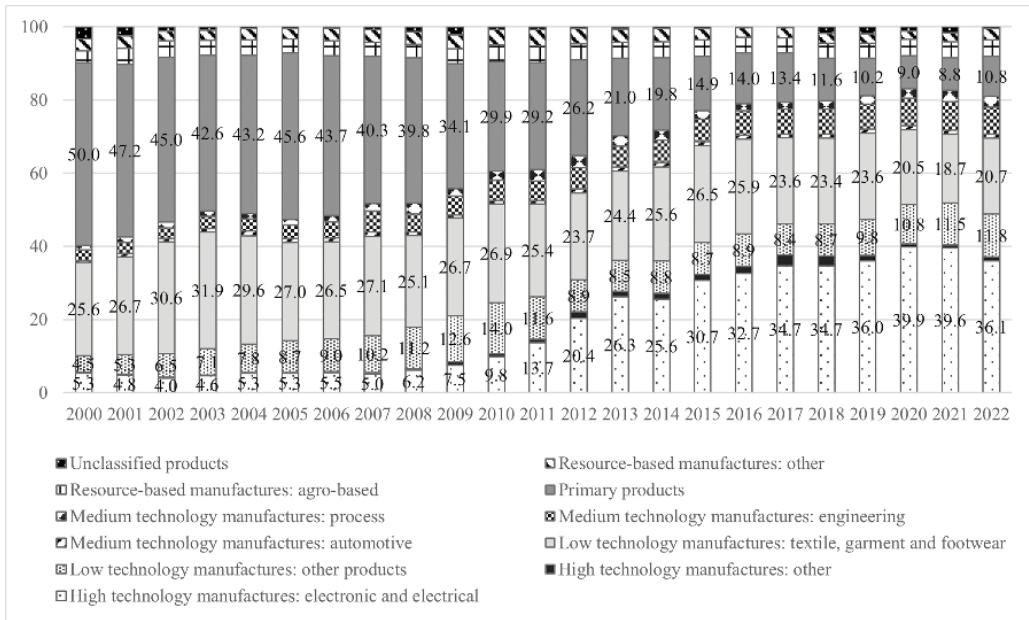


Figure 3.6 The structure of Vietnam’s exports by Lall’s technological categories, 2000–2022 (in %)

Source: Own elaboration based on UNCTADstat (2023)

making it the second highest exporter in the world. Samsung is the largest investor and electronics manufacturer in Vietnam and accounts for 20% of the country’s total electronics exports. Other major smartphone brands produced in Vietnam include Nokia and LG (ILO, 2022, p. 20).

There are several factors that have contributed to Vietnam’s growing importance as an electronics exporter. They include the following:

- Consistent economic growth: Vietnam has consistently averaged 6.3% economic growth since 1984, making it an attractive destination for foreign investment.
- Improved infrastructure: Vietnam has made significant investments in infrastructure, including airports, ports and highways, which has made it easier for businesses to operate in the country.
- Young and growing population: Vietnam has a young and growing population, which provides a large pool of potential workers for the electronics industry.
- Cost-competitive labor force: Vietnam’s labor force is cost-competitive, making it a more attractive destination for electronics manufacturing than countries with higher labor costs.
- Government reforms: The Vietnamese government has implemented a number of reforms to improve the business environment, including liberalizing many sectors, allowing 100% foreign ownership, improving government efficiency and reducing taxes.

- Trade agreements: Vietnam has signed a number of trade agreements with key markets, such as the United States, European Union, Japan and the Republic of Korea. These agreements have made it easier for Vietnamese electronics exporters to reach these markets. It is one of four ASEAN members in the CPTPP, and it joined RCEP.
- Strategic location: Vietnam shares a border with China and is close to many international shipping routes, making it a strategic location for electronics manufacturing.
- PRC+1 risk management strategy of multinational companies: This strategy seeks to provide alternative manufacturing locations in the region in the case of disruptions in China. Vietnam is seen as a reliable and attractive alternative to China for electronics manufacturing.

(ADB, 2023, pp. 178–179)

There are also many challenges. First, despite a very large export volume, the economic gains from Vietnam's participation in the electronics industry global supply chain is relatively small, as the profitability of industries such as electronics (as well as garments and textiles and footwear) engaged in final assembly in Vietnam is around 5–10%. Second, the electronics industry in Vietnam is largely concentrated in the low value-added activity of final assembly, which is labor-intensive. The country's objective is not confined to maintaining its status as a low-cost, low-skilled production center. Third, much of this activity is dominated by large foreign investors that establish assembly operations for imported parts and components within Vietnam. It makes Vietnam heavily dependent on imports from China, Republic of Korea and Japan for electronics components. At the same time, such strong ties with China are unacceptable from the point of view of the U.S. friendshoring strategy and the New Washington Consensus more broadly. Simultaneously, domestic enterprises, notably SMEs, often struggle to match the productivity, innovation and integration exhibited by their foreign counterparts which presents challenges for local businesses to effectively serve as suppliers to foreign enterprises (ILO, 2022, pp. 22, 70).

Vietnam's dynamic shift toward electronics exports is consistent with its aspiration to rise beyond a low-cost, low-skilled production hub. By expanding its electronics manufacturing capabilities and engaging in foreign direct investment (FDI), Vietnam has not only attracted major foreign investors but has also actively participated in the Asian electronic regional network (Hong, 2021). This path has fueled Vietnam's export growth and enabled the nation to remain resilient during the Covid-19 pandemic.

Intensity of trade relations within East Asia

Intraregional trade agreements play a fundamental role in shaping the economic resilience of East Asia. Given the East Asia region's diverse characteristics, including economic development levels, political systems, ethnicities,

religions and cultures, innovative approaches to cooperative mechanisms are necessary. These mechanisms must protect political and economic independence from the strategic rivals of the West, mainly China, and address power disparities within the region (Drysdale et al., 2023).

In recent years, the economic cooperation in East Asia faces significant obstacles due to the intricacies of a complex global landscape characterized by both challenges and opportunities. Multilateral trade and investment efforts have encountered difficulties, with the World Trade Organization (WTO) Appellate Body paralyzed and limited achievements from recent Ministerial Conferences. The Covid-19 pandemic disrupted international trade, further compounded by geopolitical tensions triggered by the Russian military aggression on Ukraine and increasingly confrontational U.S.–China relations. In addition, supply chain disruptions have resulted in significant price surges and uncertainties. These factors have contributed to global inflation and shifts in trade policies (ADB, 2023, pp. 259–260). Despite all the challenges, ASEAN’s response to the America’s Free and Open Indo-Pacific initiative eventually resulting in signing the Regional Comprehensive Economic Partnership (RCEP)⁴ in 2020 showcases its potential to manage new issues within its open regionalism framework.

ASEAN plays a crucial role in the regional integration, by promoting the economic cooperation, political dialogue, and security collaboration among its member states and with external partners. Originally, ASEAN focused on political and security cooperation.⁵ Over time, it has evolved into the current state, characterized by the interplay of security, political and economic cooperation, all operating within the framework of the alliance strategy. Regular evaluations of integration potential, often viewed through the lens of socioeconomic and political parallels or disparities among participants, tend to overlook historical precedents. Integrations inherently entail political underpinnings, as illustrated by instances like the 19th-century German unification or the trajectory of European integration. It is the process of integration that frequently fosters resemblances, rather than resemblances driving integration. Remarkably, ASEAN serves as a unique platform uniting countries divergent in various aspects. This endeavor stands as a project with the potential to foster economic, political and social convergence among different nations.

There are several frameworks for regional cooperation established by ASEAN, such as the ASEAN Free Trade Area (AFTA), the ASEAN Economic Community (AEC), the ASEAN Political-Security Community (APSC), and the ASEAN Socio-Cultural Community (ASCC). Their aim is to deepen cooperation in different fields, such as economic, social, cultural, technical, educational and others, and to promote regional security.

ASEAN’s regionalism also involves external partners. It has signed free-trade agreements with China, Japan, Korea, Australia, New Zealand, Hong Kong and India and established several mechanisms for cooperation in shaping regional architecture with these partners. They include ASEAN Plus Three

(APT), the East Asia Summit (EAS), the ASEAN Regional Forum (ARF), and the ASEAN Defense Ministers' Meeting Plus (ADMM+).

ASEAN countries have been gradually deepening their economic integration over the past few decades. However, the level of intra-ASEAN trade is moderate, accounting for about 21% of their global exports. This is in contrast to the European Union (EU), where intraregional trade accounts for about 62% of exports (ITC, 2023). Deepening the level of regional integration is one of the ways of approaching emerging risks and coping with challenges in East Asia.

There exists substantial untapped potential for fostering more profound integration within the region, as may be indicated by the Regional Trade Introversion Index (RTII), introduced by Iapadre (2006). It is a measure of the intensity of intraregional trade compared to extraregional trade. The index takes value ranging from -1 to 1 . RTII has the advantage of being neutral to zero and independent of the size of the trade grouping being investigated. When RTII is greater than zero, the trade of the integration grouping is inward-oriented. Conversely, when the index is less than zero, the trade is outward-oriented, meaning it is more intensive with countries outside the grouping. If the index equals zero, the trade direction is geographically neutral, growing similarly in both intraregional and extraregional terms. A rising RTII suggests faster growth of intraregional trade compared to the rest of the world, while a declining RTII indicates faster growth of trade with countries outside the investigated region (Czarny & Folfas, 2014).

The formula for the regional trade introversion index is:

$$RTII_i = \frac{HI_i - HE_i}{HI_i + HE_i} \quad (2)$$

$$HI_i = \frac{\frac{T_{ii}}{T_i}}{\frac{T_{oi}}{T_o}}; \text{ and } HE_i = \frac{1 - \frac{T_{ii}}{T_i}}{1 - \frac{T_{oi}}{T_o}};$$

where

- T_{ii} – exports of region i to region i plus imports of region i from region i ;
- T_i – total exports of region i to the world plus total imports of region i from the world;
- T_{oi} – exports of region i to the rest of the world plus imports of region i from the rest of the world;
- T_o – total exports of the rest of the world plus total imports of the rest of the world.

Table 3.3 Evolution of RTII in ASEAN, EU, and African economic integration groupings, 2019–2021

	2019	2020	2021
ASEAN	0.54	0.50	0.51
EU	0.71	0.73	0.75
SACU (Southern African Customs Union)	0.94	0.94	0.87
ECOWAS (Economic Community of West African States)	0.89	0.90	0.90
CEMAC (Economic and Monetary Community of Central Africa)	0.93	0.95	0.93

Source: ASEAN – own elaboration based on ITC (2023); EU, SACU, ECOWAS, CEMAC (Czarny et al., 2022)

Table 3.3 presents the RTII calculations for ASEAN, the EU and African integration groupings. ASEAN countries demonstrate inward orientation, as their RTII values are greater than zero.

The RTII value is lower in ASEAN compared to the EU, which is expected given the EU’s deeper level of economic integration. However, ASEAN’s RTII is also lower than that of all African groupings. This does not imply greater success in African integration. The extremely high RTII values (above 0.9) in Africa are result from these countries’ limited competitiveness in trade with the rest of the world, leading to a focus on intraregional trade. Moreover, their relative poverty constrains their ability to import goods from more advanced countries, further intensifying intraregional trade. ASEAN’s RTII result falls within the moderate range, positioned between the EU and African groupings. Over time, the RTII in ASEAN is decreasing, indicating faster growth of trade with countries outside the region compared to intra-ASEAN trade. However, specific product categories exhibit diverse trade orientations, as demonstrated by the data provided in Table 3.4. This table includes RTII calculations for 15 product categories at HS two-digit level, collectively accounting for approximately 78% of ASEAN’s total exports in 2022. Products are ranked based on their export value.

As observed in this table, there are only five product groups with negative RTII in 2021, indicating more intensive trade with countries outside the grouping. These groups include animal or vegetable fats and oils, footwear, knitted and not knitted apparel and clothing, and furniture. Particularly high and decreasing values were observed in the case of (HS 64) footwear (–0.51) and (HS 61 and 62) knitted and not knitted apparel and clothing (–0.31 and –0.22). On the other hand, several groups have relatively high RTII, which are usually increasing over time. These include (HS 87) vehicles (0.86), (HS 27) mineral fuels (0.76), (HS 71) precious metals (0.70), (HS 39) plastics (0.6) and (HS 29) organic chemicals (0.59). It is apparent from the data that the most important products in ASEAN’s exports generally exhibit inward orientation.

Table 3.4 RTII in ASEAN by product groups, 2019–2022

<i>Rank in ASEAN's exports to the world</i>	<i>Product HS code</i>	<i>Product label</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
1	'85	All products	0.54	0.50	0.51	0.49
		Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television . . .	0.19	0.12	0.12	0.07
2	'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral . . .	0.73	0.74	0.74	0.76
3	'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	0.48	0.48	0.46	0.41
4	'15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal . . .	-0.07	-0.11	-0.16	-0.12
5	'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	0.88	0.87	0.86	0.86
6	'39	Plastics and articles thereof	0.56	0.55	0.59	0.60
7	'90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical . . .	0.42	0.45	0.48	0.42
8	'71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad . . .	0.66	0.71	0.76	0.70
9	'72	Iron and steel	0.36	0.27	0.22	0.28
10	'64	Footwear, gaiters and the like; parts of such articles	-0.20	-0.30	-0.29	-0.51
11	'40	Rubber and articles thereof	0.07	-0.06	-0.07	0.04
12	'61	Articles of apparel and clothing accessories, knitted or crocheted	-0.18	-0.22	-0.21	-0.22
13	'62	Articles of apparel and clothing accessories, not knitted or crocheted	-0.24	-0.21	-0.13	-0.32

Rank in ASEAN's exports to the world	Product HS code	Product label	2019	2020	2021	2022
14	'29	Organic chemicals	0.60	0.58	0.60	0.59
15	'94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; . . .	0.34	0.09	0.09	-0.10

Source: Own elaboration based on ITC (2023)

Concluding remarks

The examined global interconnectedness of trade and economic resilience indicates that trade may be both a potential driver of resilience and a source of vulnerability. The insights drawn from the HHI underscore the importance of measuring and managing trade concentration. Some countries, like Indonesia, China, Republic of Korea and Laos, followed a trajectory of export concentration. Others, including Brunei, Cambodia, Vietnam, the Philippines and Thailand are following the path of diversification of trade. All countries need to find equilibrium between diversification and specialization to mitigate the over-dependence on exports and yet benefit from comparative advantages. They also need to broaden the export market to reduce dependency on single market and mitigate risks stemming from market fluctuations and geopolitical disturbances.

The exploration of trade openness in East Asia reveals a spectrum of openness in the region. Countries such as Singapore, Vietnam, Brunei, Cambodia and Malaysia are heavily reliant on exports, while larger economies like Japan and China exhibit lower degrees of openness. The relationship between trade openness and GDP changes during past global financial crises, and the recent Covid-19 pandemic is not straightforward, as both negative and positive changes were observed across economies with differing levels of openness. This underlines the need for complex strategies, including export diversification, supply chain and crisis management policies.

A successful example of export diversification can be observed in the case of Vietnam. The country initially focused on exporting agricultural products, then shifted toward labor-intensive textiles, and today stands as a global leader in high-tech exports of electronics. This shift serves as a striking example of how strategic investments, a competitive workforce and trade agreements can reshape a country's export structure to stimulate the economic resilience.

The examination of trade intensity within East Asia, with particular emphasis on ASEAN, highlights the role of regional integration in fostering economic cooperation and reinforcing the region's resilience. The diverse trade orientation patterns in the ASEAN's trade, as exemplified by RTII,

underscore the potential for further integration. A deeper regional integration emerges as a pivotal strategy.

The journey toward regional resilience in East Asia – and broader the West – via international trade remains ongoing, necessitating constant adaptation and efforts to address emerging challenges, such as geopolitical tensions, demographic shifts and climate change.

Notes

- 1 In the new international order (including economic order), international trade is to be subjected to the rules of the New Washington Consensus.
- 2 Negative effects of output volatility may take different forms, such as decreased economic growth, lower private investment in human capital or increased income inequality (Balavac & Pugh, 2016).
- 3 An exception is Cambodia: 44% of its exports is apparel and clothing (HS 61–62).
- 4 RCEP is a free trade agreement (FTA) between the ten member states of the ASEAN and its five FTA partners, that is, Australia, China, Japan, New Zealand and Republic of Korea. India has withdrawn its earlier decision to join the grouping due to China's membership.
- 5 But not in the sense of military alliance, which was never established or planned. ASEAN's security focus couldn't materialize as a military alliance due to the lack of a shared regional threat and internal tensions among member states. However, the common external threat factor played a significant role in the cooperative formation of ASEAN (Narine, 2008).

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4 Moving toward resilient value chains in East Asia

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Introduction

This chapter aims to provide theoretical and empirical perspectives on East Asia's global value chains (GVCs), including institutional and sectoral contexts. First section provides an overview of the theoretical approaches to GVC; second section describes the history and characteristics of the export-led growth model; third section covers an empirical analysis of GVCs in East Asia; and fourth section focuses on the challenges to GVC resilience in the region. This chapter ends with concluding remarks.

East Asia has become a global manufacturing hub, and for decades, this has successfully implemented a growth model based on exports. Emerging markets, led by China and ASEAN Member States (AMS), have engaged intensively in the process-based regional division of labor, stimulating the expansion of GVCs, particularly in the automotive, electrical, and electronics industries. The unilateral 'race to the bottom' of trade liberalization has contributed to an increase in participation rates and the average length of production within GVCs, as well as diversification of exports both within regional low- and middle-income economies. Nevertheless, multiple shocks, such as the SARS epidemic 2003, the tsunami in Indonesia 2004, the anti-Japanese protests in China 2005, the Global Financial Crisis – GFC 2007–09, the flood in Thailand 2010, the earthquake and nuclear disaster in Japan 2011, the typhoon in the Philippines 2013, the U.S.–China trade war 2018–20, the Covid-19 pandemic 2020–21, and Russia's aggression against Ukraine (since 2022), have made the export-led growth model, as well as GVC resilience in East Asian countries, ever more questionable and challenging.

Resilient value chains are considered in this chapter through the prism of their robustness and responsiveness, that is, their ability to withstand and recover from the impact of disruptions.

The authors of this chapter attempt to answer the following research questions: What are the attributes of the export-led growth model implemented in East Asia? What are the triggers for expansion of GVCs across the region? How have GVCs in East Asia changed over the past two decades? How are

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GVCs shaped in the regional automotive industry? What are the challenges and remedies affecting the resilience of GVCs facing disruptions?

The authors use descriptive, comparative, critical, and quantitative analyses to answer the research question and reach this chapter's primary objective.

The GVC theory

Since the mid-1980s, economists have regarded global value chains (GVCs) as an inherent structural feature of the open economy (Turkina & Van Assche, 2018; Borin & Mancini, 2019; Antràs, 2020; Ambos et al., 2021), and its 'backbone and central nervous system' (Cattaneo et al., 2010, p. 7). The liberalization of international macroeconomic policies and the development of information and communication technologies has fueled the dynamic expansion of GVCs (Gereffi, 2018; Kano et al., 2020).

Drawing from Porter's (1990) original value chain concept, Gereffi (1999) considered GVCs as a sequential, interconnected economic structure encompassing conceptual, design, manufacturing, marketing, and distribution processes. The main goal of a GVC is to produce and deliver a good or service, that is, a specific value, to the recipient. The commonly used concept of the 'supply chain' actually refers to one of the functions of the value chain, while the production and distribution processes performed within the GVC may apply not only to 'traditional' enterprises but also to modern ones, that is, service and digital enterprises (Coviello et al., 2017). The upstream section of the value chain involves producers and suppliers of raw materials and semi-finished products, while the downstream section – producers of final goods, distributors, sellers, and end recipients.

Henderson et al. (2002) used the concepts of global production networks and global supply chains interchangeably with the concept of GVC, pointing at such attributes of GVCs as spatial flexibility, economies of scale, and cost advantages.

GVC fragmentation, determined by cost savings and service link costs (Jones & Kierzkowski, 1990), concerns the labor-intensive stages of the manufacturing process and the increasingly sophisticated knowledge-intensive activities with high added value (Gereffi & Fernandez-Stark, 2010; Coe & Yeung, 2015).

As Kimura and Obashi (2011) pointed out, the flexibility of business decisions comes down to an optimal combination of location advantages and multinational enterprises' (MNEs') specific assets, such as managerial abilities, production technology, and inter-firm relationships. In this regard, location advantages embrace variables such as the level of economic and technological development, labor costs, and institutional frameworks (Amendolagine et al., 2019; Curran et al., 2019).

In most cases, MNEs originating in technologically advanced countries serve as orchestrators and market leaders, accounting for the upstream stages of GVCs (Suder et al., 2015; Buckley & Tian, 2017). According to

MacCarthy et al. (2016), the technological level of development tends to be a critical determinant of GVC's geographical configuration. Ancarani et al. (2019) argued that progressive industrial automation and robotics might lead to reshoring for MNEs oriented toward quality rather than costs, disadvantaging suppliers in lower-cost countries (Foster et al., 2018).

On the other hand, as Artuc et al. (2018) pointed out, automation may trigger productivity and economies of scale, enhancing demand for intermediate goods from lower-cost locations. Freund et al. (2018) stated that 3D printing technology has positively impacted both productivity and input demands by MNEs. As a result, GVCs may become shorter, more local, and more dispersed (Rehnberg & Ponte, 2018).

According to Antràs (2020), digital innovations such as high-speed Internet and e-commerce have increased the inclusiveness of GVCs by reducing entry barriers for SMEs originating in lower-cost countries. Last but not least, big data, artificial intelligence, open distributed ledgers, digital rating systems, and machine learning systems also represent enormous potential in terms of alleviating information gaps and shortening the distance in both B2B and B2C relations (Brynjolfsson et al., 2019).

The export-led growth model

Until the 1970s, the industrial policies of developing countries in the region relied heavily on import substitution to create, develop, and temporarily protect infant industries facing domestic market failures. Dating back to the 1960s and 1970s, state interventionism in Japan and the Republic of Korea has been focused on alleviating market imperfections and subsidizing and coordinating private sector investment activities (Ghartey, 1993; Sharma & Dhakal, 1994). In Southeast Asia, however, either non-economic objectives or political cronyism played an essential role in the distribution of state aid (Booth, 1999). The disappointing results of this protectionist industrial policy prompted developing countries in the region to reorient themselves gradually toward a market-based approach, supported by the progressive liberalization of international trade in the 1980s. As a result, the industrialization policies of 'developmental states' in the region have transformed toward an effective combination of market mechanisms and close cooperation between the state and private sector as a component of industrial, export, and public investment strategies (Wade, 1990; Woo-Cumings, 1999).

The export-based growth model replaced the import-substitution paradigm in the late 1970s, encompassing deregulation of the economy, and the liberalization of investment, trade, and competition regimes to enhance the development and expansion of selected industries into foreign markets (Hagemejer & Mućk, 2019). The growth of production capacity through an orientation toward foreign markets has become a part of the new consensus on economic openness (Palley, 2011). Three theoretical approaches have conceptualized the latter: the Heckscher–Ohlin–Samuelson theorem

of comparative advantage (Samuelson, 1948; Dornbusch et al., 1980), economic openness with regard to rent-seeking (Krueger, 1974), and the impact of openness on productivity growth due to knowledge spillover and technology diffusion (Grossman & Helpman, 1991).

The arguments for an export-led growth policy boiled down to considering trade as an engine of growth, conducive to a more effective allocation of resources in the economy and stimulating growth. Consequently, national economies gained the opportunity to make use of the comparative advantages resulting from factor endowments (Felipe, 2003). In this context, exporting supports technology transfer, learning processes, and economies of scale in export-oriented sectors, stimulates demand and accumulation of savings and capital, and also increases the import capacity of the economy. On the other hand, consumers benefit from lower prices, higher-quality products, and a diverse supply base (Felipe & Lim, 2005). The promotion of exports makes it possible to collect income necessary to meet the current import needs of the economy, that is, raw materials, fuel, food, and capital goods, without the need to incur liabilities that are encumbered, among others, by the exchange rate and default risk (Chenery, 1969; Bacha, 1990). Therefore, an export-led growth policy positively impacts the balance of payments, limiting the deficit or generating a surplus on the current account (McCombie & Thirlwall, 1994). Moreover, according to Felipe (2003), an export-led growth policy increases aggregate demand in the economy without generating inflationary pressure due to currency appreciation and real wage growth.

Japan was the first country in East Asia to succeed in benefitting from the adoption of an export-led development policy in the 1950s and 1960s, followed by the newly industrialized economies, namely the Republic of Korea, Singapore, Taiwan, and Hong Kong, in the 1970s and 1980s, and the other ASEAN countries (Indonesia, Malaysia, Thailand, and Vietnam) and China in the 1990s and 2000s. A characteristic attribute of the export-led growth model implemented for decades by the countries of East Asia was an undervalued exchange rate. The main difference, however, was that contrary to Japan, which pursued an export-led policy based on its industrial capacities, the newly industrialized economies relied heavily on foreign technology acquisition. In turn, the emerging economies of ASEAN and China focused on attracting FDI from MNEs seeking locations for export-oriented manufacturing activities. In the case of China, relatively high import tariffs, capital controls, joint ventures, licensing, and technology sharing have played a significant role.

The contemporary international division of labor and trade patterns in East Asia, characterized by vertical intra-industry trade, agglomeration effects, *just-in-time*, and arm's length transactions, no longer match the standard models of comparative advantage by Ricardo, Heckscher–Ohlin–Samuelson, or the Helpman–Krugman models of intra-industry trade (Kimura & Obashi, 2011). The developing countries of East Asia have developed narrow, process-based specializations, taking advantage of niche location advantages (Hayakawa & Matsuura, 2009).

The export-led growth model of the region's economies has fostered the internationalization of local businesses through their rising involvement in GVCs (Narjoko, 2009). The consequence of this approach has been the expansion of two types of GVC: customer-driven and producer-driven. While in the first case, global purchasers exercised effective control from high-income markets, seeking labor-intensive assortments, that is, clothing or footwear, in the second case, manufacturers of electronic and automotive assortments, and recently also their global suppliers, have played a central role.

Emerging East Asian markets intensified intra-regional rivalry over attracting FDI in the 1990s, taking the form of a unilateral 'race to the bottom' of trade liberalization, particularly regarding electronic parts and components within the Information Technology Agreement – ITA (Baldwin, 2006). On the other hand, meanwhile, other manufacturing sectors such as the automotive, electric, as well as petrochemical, iron, and steel industries, favored by import-substitution policies over the years, lagged behind network-like industries in unilateral trade liberalization, resulting in a lack of consistency in the East Asian regulatory regime (Kimura & Obashi, 2011).

However, in the aftermath of the Asian Financial Crisis – AFC (1997–98), economic integration processes in the region accelerated, resulting in establishment of the ASEAN Free Trade Area (AFTA). Two pillars of AFTA are the ASEAN Trade in Goods Agreement (ATIGA), signed in February 2009, and the ASEAN Framework Agreement on Services (AFAS), signed in December 1995. These entered into force in May 2010 (G) and August 1998 (S). The ASEAN Plus free-trade agreements (FTAs) with China, Japan, the Republic of Korea, Australia, New Zealand, and India, established in the early 2000s, also played an essential role. Meanwhile, East Asian countries also concluded several bilateral intra- and extra-regional FTAs. In most cases, apart from tariff preferences, these agreements covered issues such as service flows, protection of intellectual property, investment and competition, dispute settlement, environmental regulations, the labor market, rules of origin, and technical trade barriers (Hirastuka et al., 2009). Singapore, the Republic of Korea, China, Japan, Malaysia, and Thailand have already established more than 25–30 FTAs each (ARIC, 2023). Numerous international investment agreements (IIAs), usually taking the form of bilateral investment treaties (BITs), are used to address investment protection. These have been signed mainly by China, the Republic of Korea, Singapore, Malaysia, Vietnam, and Indonesia (UNCTAD, 2023).

In the second decade of the 21st century, some bilateral agreements were consolidated into mega-regional agreements, such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Relevant provisions contained in the aforementioned mega-regional FTAs and the ASEAN Comprehensive Investment Agreement (ACIA) address the issue of investment protection (UNCTAD, 2023). As a result, a solution could be found for the problems resulting from overlapping FTAs and regulatory divergence, which

hindered the use of concessions and preferences by enterprises and investors operating in the countries of the region.

In this context, Munakata (2006) perceived rules of origin (ROO) as a trigger of the ‘noodle bowl effect’ in East Asian trade regionalism. ROO have gained importance in the circumstances of successive reduction of average customs tariffs in international trade, providing selected assortments of goods with preferential treatment so as to prevent undesirable trade fluctuations between FTA signatory parties (Bhagwati, 2008; Kawai & Rana, 2009; Bobowski, 2020).

Box 4.1 Rules of origin in East Asia – the case of RCEP

The RCEP is the most significant mega-regional trade agreement ever signed, accounting for 30.81% of global GDP and 30.47% of global commodity exports in 2021 (World Bank, 2023a). The basic assumption of the RCEP agreement is to increase trade in the region of East Asia (APT countries plus Australia and New Zealand) by reducing tariff and non-tariff barriers. The provisions include, among others, harmonization of regulatory frameworks in the fields of competition, investment, and intellectual property rights, as well as arrangements for mutual recognition of technical standards, norms, and harmonization of ROO. The preamble emphasizes the importance of trade and investment cooperation with regard to increasing participation in global and regional supply chains, with particular emphasis on the least developed economies of East Asia. According to Art. 4.2e of the RCEP (MFAT, 2022), customs procedures and trade facilitation provisions aim to strengthen the environment for global and regional supply chains. In contrast, Art. 14.3(b) points to the necessity to enhance the participation of SMEs in GVCs. Art. 3.4 indicates that as the production process advances in RCEP member states, it accumulates the value of the materials used and the activities performed on them. When determining the final origin status of the products, the authorities consider these factors. While the cumulation of origin rule is, for the time being, limited to goods originating in RCEP countries, the signatories do not exclude the possibility of its future extension to the full cumulation format, which would make it possible to also grant RCEP origin status to various materials, parts, and components imported from third parties for use in the territory of the member states of the group. In point 2 of Art. 3.4, five years was adopted as the baseline for possible revisions to the provisions on the cumulation of origin, although with the possibility of a further review according to the parties’ intentions. Obtaining the status of an authorized exporter requires meeting criteria reminiscent of EU customs regulations. Article 3.21 provides for creating a database of

authorized exporters under the auspices of the RCEP Joint Committee. The parties also agreed on creating an electronic system for exchanging information on origin so as to facilitate the implementation of the provisions of the RCEP on ROO (Article 3.29). Articles 4.11 and 4.15 set out time limits for the release of goods, specifying product ranges that are subject to release within 48 hours (goods excluding perishables), within six hours (express consignments), and less than six hours (perishable goods). Annex 3A defines the rules for individual product ranges grouped in 99 Harmonized System (HS) sections.

Empirical study of East Asian GVCs

The analysis was based on the Multi-Regional Input-Output Tables (MRIO, 2023), considering the GVC participation rate, the average GVC production length, and export diversification for East Asia's economies in 2000 and 2021.¹

The four AMS – Singapore, Malaysia, Thailand, and Vietnam – primarily engaged in GVCs across all manufacturing sectors in East Asia, in terms of both forward and backward linkages. In the case of Vietnam, the GVC participation rate was exceptionally high for backward linkages in low-tech sectors (Figure 4.1). The situation of Brunei and Malaysia is specific, as both countries conduct intensive trade in raw materials, that is, crude oil, coal, metal ores, gold, and palm oil, which translates into a relatively

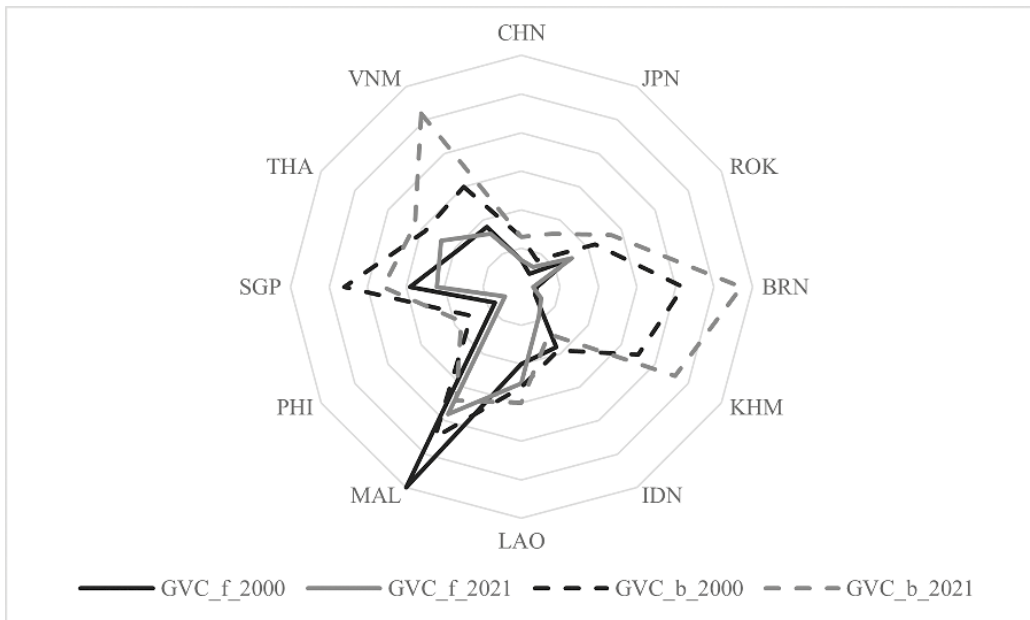


Figure 4.1 GVC participation rates (GVC_f; GVC_b) in low-technology manufacturing in East Asia (2000, 2021)

Source: Own elaboration based on MRIO (2023)

low level of foreign value added in exports. On the contrary, downstream linkages within GVCs have developed over the years. Regarding backward linkages in the low-tech manufacturing sectors, the involvement of low- and middle-income economies in GVCs, that is, Cambodia, Laos, and Vietnam, has gradually increased. The first two were primarily engaged in light manufacturing goods, such as wood and textiles, as well as raw materials such as coal and metal ores. Vietnam, meanwhile, increased its involvement in medium- to high-technology manufacturing of electronic, electrical, and automotive parts and components (Figure 4.2).

The region’s two largest economies in nominal terms, that is, China and Japan, were characterized by a relatively low participation rate in light manufacturing based on forward and backward linkages (Figure 4.2). In medium- and high-technology manufacturing, China has gradually extended its distance from Japan regarding participation in GVCs based on downstream linkages. At the same time, it has moved closer in terms of upstream linkages. The Republic of Korea has recorded higher participation rates in GVCs than China and Japan for upstream and downstream linkages in low-technology manufacturing. What is more, the two latter countries have performed worse than the Republic of Korea regarding involvement in backward and forward linkages in the medium- and high-technology sectors. The key heavy manufacturing assortments were: transport equipment, machinery, and electrical and optical products. It is worth emphasizing the upward trends regarding GVC participation rates in low-technology manufacturing of low- and middle-income AMS, that is, Cambodia, Laos, and Vietnam.

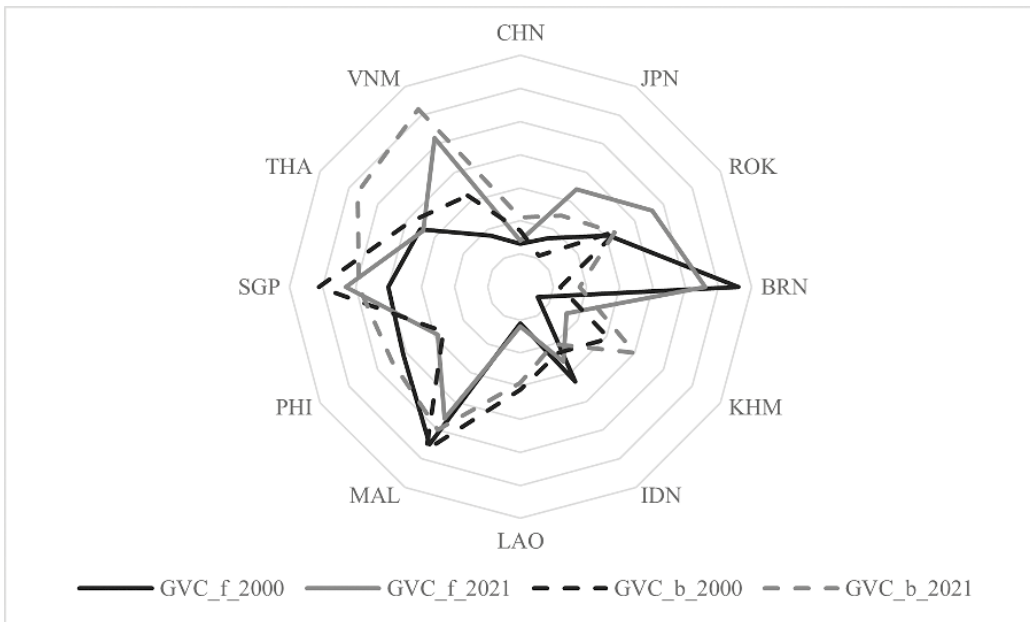


Figure 4.2 GVC participation rates (GVC_f; GVC_b) in East Asia’s medium- to high-technology manufacturing (2000, 2021)

Source: Own elaboration based on MRIO (2023)

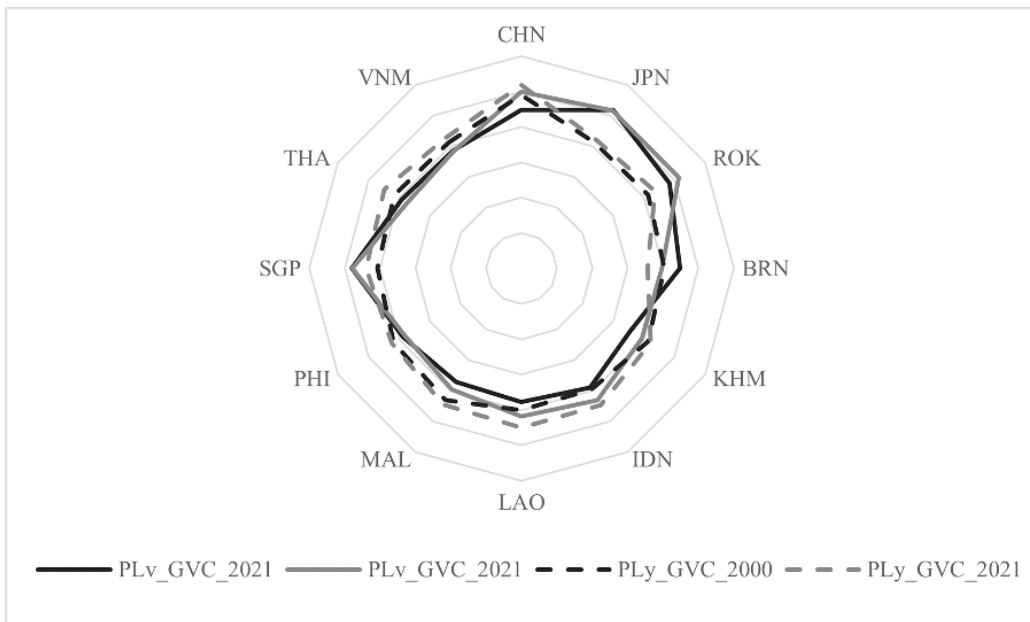


Figure 4.3 Average production length of GVCs (PLv_GVC; PLy_GVC) in low-technology manufacturing in East Asia (2000, 2021)

Source: Own elaboration based on MRIO (2023)

The average length of GVC production in all analyzed manufacturing sectors based on forward linkages was relatively the largest in the case of three Northeast Asian economies, that is, China, Japan, and the Republic of Korea, while for backward linkages, this was primarily China. In selected ASEAN countries, in particular in Singapore, Brunei, and to a lesser extent also in Indonesia and Cambodia, regardless of the range and nature of linkages within GVCs, the average length of production ratio was relatively low compared to the regional average (Figures 4.3 and 4.4). Even though the average length of GVC production across East Asia grew over the years, it still remains inferior to China in this respect.

The values of the HHI indices based on gross exports (HHI_e) and on the domestic value added included in exports (HHI_{va}) were relatively the lowest in the analyzed period for AMS, in particular with regard to Indonesia, Malaysia, Thailand, and Vietnam, which confirmed the progressive diversification of exports of these countries. The exception was Brunei, and in terms of HHI_e, also Cambodia (Figure 4.5). Japan, China, and the Republic of Korea also achieved relatively low levels of the HHI_e and HHI_{va} indices. However, in the case of the Republic of Korea, an upward trend was observed, which may indicate a direction toward the concentration of exports, perhaps in favor of separating key specializations in manufacturing for international markets. Moreover, AMS, led by Indonesia, Malaysia, Thailand, and Vietnam, has been increasing the level of export diversification over the years (including medium- and high-technology manufacturing), which

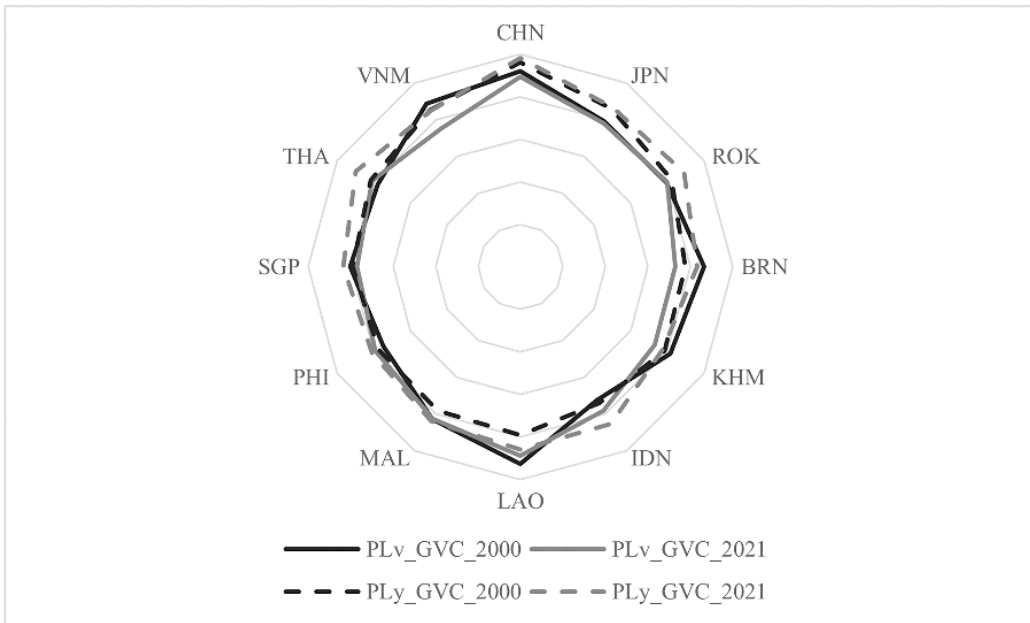


Figure 4.4 Average production length of GVCs (PLv_GVC; PLY_GVC) in medium- to high-technology manufacturing in East Asia (2000, 2021)

Source: Own elaboration based on MRIO (2023)

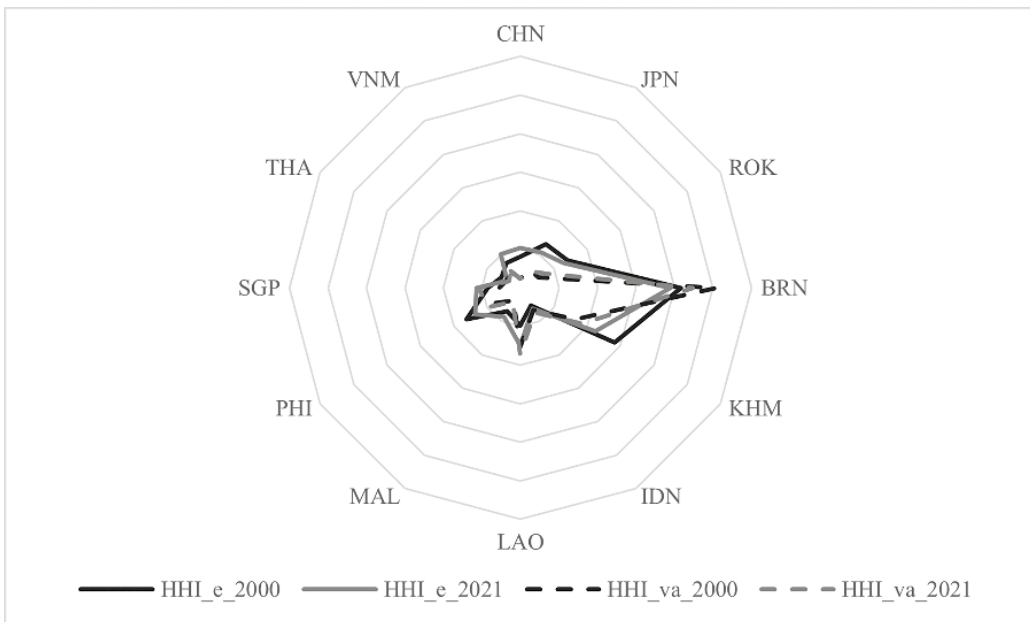


Figure 4.5 Herfindahl–Hirschman Indexes (HHI_e; HHI_va) in East Asia (2000, 2021)

Source: Own elaboration based on MRIO (2023)

has translated into relatively low HHI_e and HHI_va indices compared to other countries in the region. The opposite trend was observed in Northeast Asian economies, that is, China, Japan, and the Republic of Korea.

Box 4.2 Intra-industry trade and GVCs in the automotive industry in East Asia

Overview of the regional automotive industry

Five of the ten best-selling automotive brands worldwide originate in Japan (Toyota, Honda, and Nissan) and the Republic of Korea (Hyundai and Kia), with nearly 29% of the global market share in 2021. Together with China, these three countries supply 45% of worldwide output and serve as home markets for more than 1/3 of the top 100 automotive parts suppliers worldwide (OICA, 2022; Top Foreign Stocks, 2022). The original equipment manufacturers (OEMs) from Japan and the Republic of Korea specialize in audio, body, brake, and chassis components, as well as electronic systems, accumulators, transmissions, and engines. Emerging markets in East Asia have played a marginal role as OEMs. However, their role in labor-intensive component and assembly activities has increased, primarily as locations for tier-1 parts suppliers and assemblers' R&D facilities (particularly Thailand, Malaysia, Indonesia, and the Philippines). The least developed AMS (Cambodia, Laos, Myanmar, and Vietnam [CLMV]), considered to be latecomers in the automotive industry, supply in particular the large Thai market (Natsuda & Thoburn, 2021).

Among the APT economies, only Japan and the Republic of Korea had a comparative advantage in the automotive industry in 2021, with the former occupying a stable, strong position and the latter gradually losing it in recent years (Table 4.1). Among the ASEAN countries, Thailand was the only country that gained a revealed comparative advantage (RCA) in the studied assortment, second only to Japan. The importance of this industry in the exports of Vietnam and Indonesia has also gradually increased. Similar tendencies were observed for RCA based on the classification of exports by exporting sectors (RCA_ex1) and exports by sectors of origin (RCA_ex2).²

Table 4.1 RCA, RCA_ex1, and RCA_ex2 indicators in the automotive industry in East Asia (2021)

	RCA	RCA_ex1	RCA_ex2		RCA	RCA_ex1	RCA_ex2
Cambodia	0.2	0.2	0.4	The Philippines	0.2	0.2	0.1
China	0.6	0.7	0.6	R. of Korea	1.2	1.4	1.2
Indonesia	0.6	0.7	0.9	Singapore	0.3	0.4	0.5
Japan	2.4	2.8	2.5	Thailand	1.6	1.6	1.8
Malaysia	0.1	0.1	0.3	Vietnam	0.4	0.4	0.5

Source: Own elaboration based on MRIO (2023)

Intra-industry trade in the regional automotive industry

In 2021, intra-industry trade in automotive products accounted for more than 45% of bilateral merchandise flows between China – the largest automotive market and manufacturer worldwide – and all APT countries except Brunei and CLM. The third most significant share of the automotive industry in merchandise trade with China was recorded by Vietnam (57%), a figure that a decade ago was less than 40%. The impact of the Covid-19 pandemic on intra-regional automotive trade turned out to be marginal. In the case of some APT economies, that is, Vietnam, Singapore, the Republic of Korea, Japan, and Thailand, stabilization or upward trends were recorded. Interestingly, over the decade (2012–2021), the shares of individual APT economies in total intra-regional automotive trade with China were very stable – fluctuations amounted to only $\pm 0.5\%$, except for Japan and Vietnam (UN Comtrade, 2022).

In 2021, the highest Grubel-Lloyd (intra-industry trade) and VIIT (vertical intra-industry trade) indexes³ for the automotive trade with China were recorded for Japan, the Republic of Korea, and Indonesia (Table 4.2), exceeding 0.6.

Table 4.2 GL, VIIT, and HIIT indexes for automotive trade between selected East Asian countries and China (2021)

	GL	VIIT	HIIT		GL	VIIT	HIIT
Indonesia	0.63	0.63	0.96	R. of Korea	0.65	0.65	0.95
Japan	0.67	0.58	0.95	Singapore	0.15	0.15	0.93
Malaysia	0.48	0.48	0.99	Thailand	0.43	0.43	0.99
The Philippines	0.15	0.15	X	Vietnam	0.1	0.1	0.95

Source: Own calculations based on UN Comtrade (2022)

Considering the pattern of intra-industry trade in the automotive sector across 54 six-digit HS codes in 2021, a dominance of vertical flows of low (LQ VIIT) and high quality (HQ VIIT) is noticeable, in particular in the case of China's trade with Japan and the Republic of Korea, followed by Indonesia, Malaysia, Singapore, Vietnam, and the Philippines (Appendix 1). HQ VIIT dominated, especially for HS codes classified as machinery, electric, and vehicle parts. On the other hand, although sporadic, the dominance of the horizontal intra-industry trade (HIIT) pattern is related primarily to the 'vehicles' section in bilateral trade between China and the Republic of Korea, Malaysia, and Indonesia.

GVCs in the regional automotive industry

Average production length in GVCs based on forward and backward linkages (PL_v_GVC, PL_y_GVC)⁴ in the analyzed decade consistently decreased for most APT economies, with the ratios for backward

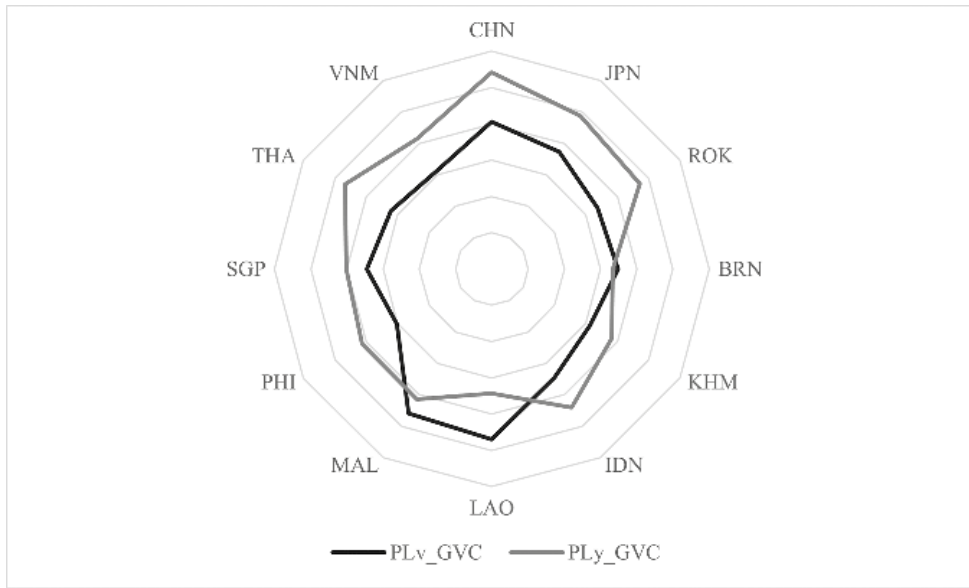


Figure 4.6 Average production length of GVCs (PLv_GVC; PLY_GVC) in the automotive industry in East Asia (2021)

Source: Own elaboration based on MRIO (2023)

linkages being the highest for China. Meanwhile, Laos and Malaysia recorded relatively high results for forward linkages (Figure 4.6). As part of the upstream linkages in the automotive industry, there was a clear dominance of the three economies of Northeast Asia, as well as Thailand, while declines in the value of the PLY_GVC index concerned, to the greatest extent, Laos, Vietnam, China, and Japan.

Most APT countries recorded relatively low levels of both HHI indexes based on gross exports (HHI_e) and the domestic value added contained in exports (HHI_va), except for Brunei (Figure 4.6). There is a widespread trend toward the diversification of gross exports in the industry across the region, particularly in Indonesia, Malaysia, Thailand, and Vietnam, combined with stable performance in China and Japan. On the other hand, in the case of the Republic of Korea, there is an observable progressive concentration of domestic added value in automotive exports.

Relatively high participation rates in GVC⁶ in the automotive assortment based on forward linkages (GVC_f), that is, down the value chain, were obtained for the ASEAN economies, specifically Singapore and Vietnam, while in the case of Thailand and the Philippines, an upward trend of this indicator has recently been observed (Figure 4.7). Thus, in this part of the region, the share of domestic value added in the export of automotive parts and components from other countries at

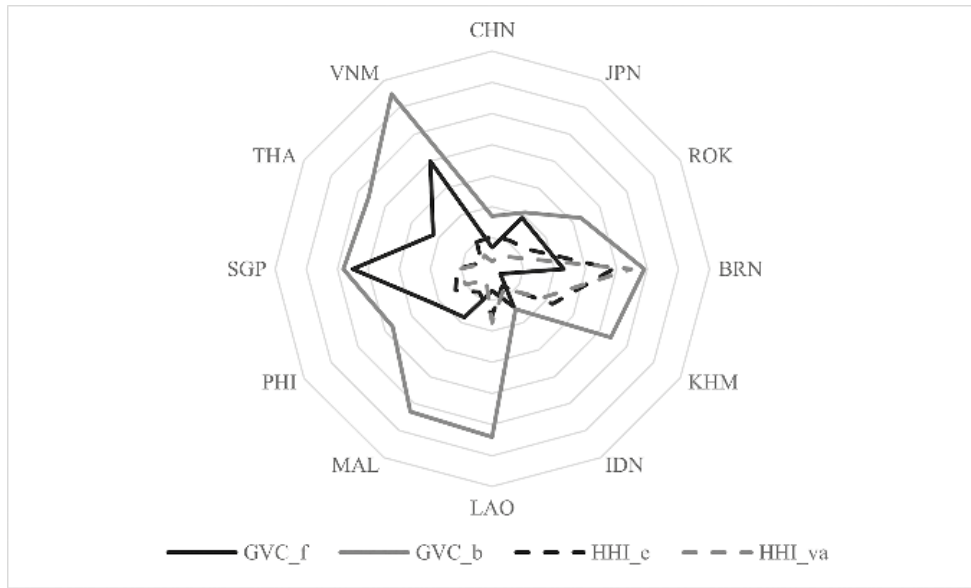


Figure 4.7 GVC participation rates (GVC_f; GVC_b) and Herfindahl-Hirschman Indexes⁵ (HHI_e; HHI_va) in automotive industry in East Asia (2021)

Source: Own elaboration based on MRIO (2023)

the lower stages of the value chain is growing. Similarly, participation rates in GVCs in the automotive assortment based on backward linkages (GVC_b), that is, up the value chain, turned out to be the highest for ASEAN economies, in particular for Vietnam, Thailand, Malaysia, and the Philippines, with a solid upward trend confirmed for the first two. In other words, in the APT countries discussed here, the share of imports of semi-finished products in the exports of parts and components and finished products in the automotive industry is increasing. Analysts generally consider GVCs in the regional automotive sector to be resilient. Empirical analysis confirmed the marginal impact of the pandemic shock on sectoral and intra-regional trade, the stable share of turnover of individual economies with the largest regional market (China), and the dominance of the vertical pattern of IIT. Close relations between producers and suppliers, a high level of technology, the quality of staff, government support, and regional trade agreements centered around ASEAN are essential here.

Export-led growth policy at crossroads

Due to shocks, such as the GFC, the Covid-19 pandemic, and the war in Ukraine, developed economies, as well as emerging and developing markets, experienced a decrease in trade volumes (including GVC flows) caused by

falling demand and investment, and other capital flows, questioning the effectiveness of the export-led growth policy in the long term.

The development model prevalent across East Asian economies challenges five essential problems. First, shocks caused a drop in demand in key target markets, that is, the United States and Western Europe, which reduced demand for imports from emerging and developing markets and FDI flows. Thus, the export-led growth policy increased the vulnerability of the region's emerging markets to fluctuations and crises in the target markets (primarily Western) and led to intra- and extra-regional synchronization of business cycles (Calderón et al., 2007). Second, nearly three decades of export-led growth policy have significantly increased the share of emerging markets in global GDP and exports – in the case of emerging markets belonging to the APT, that is, China plus nine ASEAN countries, except for Singapore – up to 21.37 and 20.1%, respectively,⁷ displacing developed economies, while at the same time limiting their recovery and growth opportunities. Third, due to the implementation of export-led growth policies by many developing and emerging economies, the relative prices of manufactured goods (particularly low-technology) and primary products began to fall as supply increased (Sarkar & Singer, 1991). This effect was caused by excess capacities in export-oriented manufacturing sectors in emerging regions such as East Asia (Kaplinsky, 2000). Following the assumption of Singer (1950), emerging economies from East Asia have experienced a deterioration of terms of trade due to significant reliance on global export markets. Fourth, the aforementioned 'race to the bottom' included the competitive liberalization of employment, wage, environmental, investment, and tax standards and regulations. The latter, however, was not conducive to improving working conditions, institutions, income equalization, or wage growth, while the relative comparative advantages were limited, and the financial instability induced by overinvestment became increasingly challenging. Fifth, China has implemented an export-led growth policy for decades, effectively displacing smaller emerging and developing markets from competition for export and FDI markets, using its natural advantages in the form of a large population and domestic market, that is an abundant, low-cost workforce, and consumers (Palley, 2011). Blecker (2002) termed this effect the 'fallacy of composition.'

A response to the erosion of export-led growth policy is the domestic-led growth model, aimed at focusing policymaking on the demand side of the economy, although not at the expense of resigning from exports, which are a source of income for financing the import of inputs and final goods. Felipe and Lim (2005) proved in an empirical analysis of selected East Asian countries (China, the Republic of Korea, the Philippines, and Thailand) that over the decades, there has been a simultaneous increase in domestic demand, with special regard for gross domestic capital formation and net exports. At the same time, this constituted a polemic with Palley (2002) that export-led

growth policy led to the AFC. The authors mentioned above considered the causes to be overvaluation of local currencies, overborrowing, overlending, and speculative bubbles in non-tradable sectors of regional economies. Paradoxically, the economies affected mainly by the AFC, that is, the Republic of Korea and Thailand, have put more emphasis on net export growth than domestic demand. Razmi and Hernandez (2011) studied the implications of the GFC on export-led growth policies in East Asia, proving a strong correlation between the share of industry in GDP and exports to industrialized economies, and the growth of real GDP per capita. The authors demonstrated the implications of exports to high-income economies for productivity growth in emerging markets in East Asia, in particular due to exposure to international competition, knowledge, and technology spillovers. Admittedly, investments and imports of capital goods from developed countries have played an essential role in this regard.

Nevertheless, due to a slowdown or recession in key export markets, the tradable sector of East Asia's economies remained the driving force behind economic growth, refocusing on domestic demand. Maintaining this trend, however, requires policymakers to partially replace subsidizing exports with subsidizing tradable production and supporting household consumption. In this context, Palley (2011) pointed to the need to create a social safety net to increase wages in the economy and link them to an increase in productivity through the introduction of a minimum wage, development of public infrastructure, improvement of the accessibility of public goods, that is, health care and education, as well as a balanced, progressive tax system. From an international perspective, the author indicated the need to move away from international competition in the field of employment standards, environmental protection, and social policy in favor of establishing global rules in these areas, as well as replacing undervalued exchange rates with managed exchange rates so as to balance international trade settlements, and limiting regulatory rivalry in attracting export-oriented FDI. The main problems in this context, however, are the reluctance of individual countries to unilaterally depart from the adopted and successfully implemented export-led growth policy, the lack of coordination for this type of shift of development paradigm at the international level, and structural barriers related to the key political position of export-oriented industries within individual countries and regions.

The potential reconfiguration of global supply chains suffering from shocks and slow burns may significantly affect the export-led growth model adopted in East Asian countries. Notably, the changes will affect not only the supply side but also the demand side. As a result, the region's emerging economies have to focus policymaking on final demand much more than previously. East Asia's emerging markets, which account for nearly 17% of the global trade in goods and services, are characterized by a relatively high trade-to-GDP ratio, exceeding 105%, and lagging behind the EU in this respect only.

In 2021, intra-regional trade accounted for more than 40% of East Asia's total trade, with a share of up to 50% in total regional export growth since the 2010s (meanwhile, the combined shares of the EU, Japan, and the United States only amounted to less than 30%). Changes in intra-regional trade in East Asia are nowadays determined to a lesser extent by final demand in high-income markets, and increasingly by domestic demand within emerging economies – the latter has increased by 6.4% annually since the 2010s. Notably, China has become the largest recipient of final goods produced in East Asia (the export value added absorbed by final demand amounted to 5.4% of the region's GDP in 2021, three times more than in 2000), leaving behind the United States, the EU, and Japan. At the same time, however, the demand for final goods also increased within the region's emerging markets – ultimately to 3.5% of GDP in 2021. Whereas in 2000, 12% of the value of exports was due to consumption or investment demand in an emerging East Asia, two decades later, it amounted to 30% (Eckardt et al., 2023). The region's rapidly growing middle class will trigger an expected change in trade patterns in East Asia. According to estimations, its size has already exceeded 1.1 billion people, which translates into 29% of the share of the global consumer-class population, with a perspective of exceeding the share of 1/3 by 2030 (Kharas & Hamel, 2018).

Shocks and slow burns and GVC resilience

The Covid-19 pandemic exposed on an unprecedented scale the extent of interdependencies between enterprises and economies involved in GVCs. The trade-distorting effects of this shock significantly disrupted business activities and the resulting contribution to international trade and investment flows (de Gortari, 2019; Hayakawa & Mukunoki, 2021). According to Shih (2020), MNEs may relocate some GVC activities to secure the continuity of supplies at the expense of a decrease in productivity and an increase in the cost of inputs. Characteristic features of future GVCs may be a greater concentration of added value within individual stages, a lower degree of fragmentation, and an average length (Zhan, 2021).

The closure of production plants in China in January 2020 triggered a chain reaction in other East Asian countries due to input shortages (Baldwin & Freeman, 2020), which were also detrimental to the place of origin as part of the feedback effect (Friedt, 2021). Nevertheless, it is not only the contagion effect that is characteristic of GVCs but also faster recovery among the involved enterprises and economies, regardless of the shock causing the disruptions. According to estimates (ILO, 2020), the pandemic crisis threatened nearly 292 million jobs in the manufacturing sector worldwide, while the transmission of shocks via GVCs contributed to a decline of over 30% in global GDP (Bonadio et al., 2020). Inspired by the experiences of shortages of face masks, respirators, and disinfectants, the concepts of reshoring or

GVC repatriation are not necessarily able to remedy the challenges encountered during shocks. For example, national enterprises and value chains with a high spatial concentration of production are also affected by supply disruptions and threats to jobs, in many cases to an even greater extent (OECD, 2021). However, a partial transfer of GVC stages to developed economies, including manufacturing semiconductors or mining and processing rare earth metals for the automotive, optical, and electronics industries, cannot be ruled out. The declarations of some MNEs regarding reshoring or nearshoring of GVCs to reduce carbon footprint, reduce transport costs, or meet the patriotic moods of some local consumers, can probably be considered a purely image-related move, which does not entail actual activities in the field of relocation of manufacturing activities.

The U.S.–China trade war (2018–2020) caused a trade diversion effect in favor of other emerging economies in East Asia, such as Indonesia, Thailand, and Vietnam, especially in the electronics industry. The main reason behind this trend was the substitutive nature of the trade of these ASEAN economies to the U.S.–China bilateral flows. Meanwhile, Japan and the Republic of Korea experienced adverse spillover effects in GVCs resulting from a parallel strong link with the US and China, that is, a decrease in import demand and export supply. In this case, the trade profiles of both economies were complementary to U.S.–China trade. On the other hand, China compensated for the decrease in trade in the electronics assortment with the US by increasing GVC trade with Vietnam (World Bank, 2023b). Another critical aspect of the trade war is technology decoupling, which can potentially limit not only trade but also investment flows and technology diffusion within other emerging markets of East Asia (Cerdeiro et al., 2021; Fajgelbaum & Khandelwal, 2022). According to Petri and Plummer (2020), RCEP can be an effective policy response, offsetting to some extent the negative consequences of the U.S.–China trade war mentioned here.

The ongoing war in Ukraine has increased polarization in China's relations with the US, especially by inducing food and energy crises. Hypothetically, economic sanctions against China would encourage the US's closest allies in the East Asian region, led by Japan, to limit trade and investment cooperation with the region's largest economy, which would once again disrupt GVCs, contributing to trade diversion effects in favor of selected, assertive AMS. Escalating the conflict might lead to the erosion of the RCEP at the expense of the U.S.-led IPEF. Nevertheless, relocating GVCs from countries with relatively higher geopolitical risk is unlikely in the case of industries requiring high fixed costs, technological and infrastructural outlays, and relation-specific B2B transactions (Freund et al., 2021). In addition, geopolitical risk does not directly affect cost differences between countries. However, the growing risk premium may encourage enterprises to withdraw from using high-risk countries as sources of intermediate goods within GVCs.

Box 4.3 Regional and extra-regional initiatives on GVC resilience

In the face of the threat of reshoring and nearshoring within GVCs, or even deglobalization of the global trade system, regardless of the nature of the shock or slow burn, a policy response is necessary to strengthen GVC resilience.

The 2020 ASEAN Comprehensive Recovery Framework (ACRF) included Priority 3b, which concerned strengthening supply chain resilience. Among others, the ACRF assumed a further upgrade of the ATIGA and ASEAN Plus FTAs in the area of trade facilitation and digitalization of procedures and documentation, an integrated trade route development system, and the creation of a database of manufacturers and suppliers of essential products so as to enhance GVC resilience in circumstances of shocks. The sensitive assortments mentioned here were addressed by the Hanoi Plan of Action on Strengthening ASEAN Economic Cooperation and Supply Chain Connectivity in response to the Covid-19 pandemic (ASEAN, 2020). The 2020 APEC⁸ Putrajaya Vision emphasized strengthening GVC resilience and responsible business conduct (APEC, 2020). The OECD Center for Responsible Business Conduct promoted the latter by establishing guidelines for economies and industries dealing with the challenges of strengthening GVC resilience. In the case of business-led activities, emphasis is placed on integrating sustainability with GVC risk management, as well as increasing awareness of the risk of GVC disruptions as part of the due diligence process, for example, by diversifying the supplier base or location, shortening supply chains, building a relation-based limited network of suppliers and collaborators, implementing a responsible purchasing initiative, or conducting stress tests. At the governmental level (national and international), it is necessary to insert the issues of resilience combined with the sustainability of GVCs into trade and investment policies, including effective monitoring and enforcement mechanisms under multilateral and regional agreements. A public–private partnership must complement these activities, particularly by involving the business community in designing public policies and strategies to strengthen GVC resilience, and inspiring social dialogue to prepare and adequately address solutions in the face of specific disruptions (OECD, 2021). The 2022 OECD Southeast Asia Ministerial Forum stressed the importance of revitalizing trade negotiations and sustainable and responsible investment in order to build more resilient supply and value chains. The discussion participants paid particular attention to the needs of SMEs facing shocks and slow burns, postulating, among others, the acceleration of economic integration

processes and the harmonization of trade rules and standards (ASEAN-OECD, 2022). The WTO, in turn, organized the Global Supply Chains Forum in 2022. Government officials, shippers, and business leaders pointed to the challenges to GVC resilience resulting from shortages of infrastructure and workforce, postulating, among others, the need for investment and regulatory cooperation, trade facilitation, and cross-sector coordination of responses. The experts stressed the WTO's Trade Facilitation Agreement's vital role in enhancing GVC resilience, the importance of digitalizing documents and procedures, end-to-end visibility across the value chain, and support for SMEs facing shocks and slow burns (WTO, 2022). In fact, according to the ITC (2021), smaller enterprises involved in GVCs build the resilience and sustainability of their business activities more effectively than their domestically oriented counterparts. In 2021, Japan launched the Supply Chain Resilience Initiative (SCRI) to enhance the region's inclusive, sustainable, and balanced growth. Currently, the parties to the initiative are Australia and India, involved in the Quad and IPEF (both countries also negotiated RCEP; however, the latter has not signed the agreement). An example of an industry initiative was the Webinar on Promoting Resilient Supply Chains in the Automotive Industry in ASEAN and Japan through FTAs, organized by the ASEAN-Japan Center in 2022. The discussions emphasized climate change's slow burn, and the environmental sustainability driving the electric vehicle (EV) market. Representatives of the Japan Research Institute pointed to the strategic challenges Japanese automotive companies face with the EV market development policy in AMS, with high-demand potential, that is, in Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. The Thai Ministry of Industry speaker discussed the implications of RCEP for automotive GVC resilience in the region with regard to trade and investment facilities. Thailand, which recently gained a comparative advantage in the automotive industry as the first emerging market in the region, is an important assembly and R&D center, especially for Japanese automotive manufacturers. The local added value to manufactured parts, automotive components, and finished vehicles is, on average, up to 70%. The Thai government's long-term strategic goal is to gradually replace internal combustion vehicles with electric vehicles. The Ministry of Investment and Indonesia Investment Coordinating Board presented the assumptions of the Electric Vehicles Ecosystem Development from Mining until Recycling that provides for the establishment of a zero-emission energy system by 2050. The role of the User-Specific Duty-Free Scheme under the Indonesia-Japan Economic Partnership Agreement was emphasized, particularly in improving market access, investment growth, and tariff exemptions for automotive parts and components

(AJC, 2022). In 2021, automotive manufacturers from several regions, including China's Linglong and Yanfeng, established the Responsible Supply Chain Initiative (RSCI). The primary purpose was to promote and proliferate standards of GVC risk assessment and good practices so as to enhance the resilience and sustainability of business activities in the industry. The RSCI Assessment Standard has been particularly recommended for managing manufacturing facilities in the automotive industry (RSCI, 2021).

Concluding remarks

East Asia has ceased to be merely a global factory, as it is becoming a critical consumer market, determining the structure and directions of intra-regional and international trade in the medium and long terms. From the point of view of regional policymakers, the growth of employment and household income should play a critical role in strengthening private consumption, also in circumstances of shocks and slow burns. The further development of intra-regional trade, economic integration through the process-based division of labor, and the resulting vertical specialization and investment flows are also critical in this respect. Nevertheless, in the conditions of relatively low tariff barriers sanctioned under bilateral and mega-regional FTAs, with an emphasis on RCEP, non-tariff barriers remain a problem, requiring intensive cooperation among East Asian countries in such areas as ROO or trade facilitation.

The export-led growth model that became widespread over the decades in East Asia and was successively adopted by the newly industrialized and ASEAN emerging economies is characterized by an undervalued exchange rate and the intensive acquisition of foreign capital and technologies. Tariff restrictions, capital controls, joint ventures, and technology sharing were additional attributes of the applied development policy, especially in the case of China. The 1990s and 2000s intensified the race to liberalization, manifested by a rapid proliferation of FTAs, whose partial consolidation in the 2010s enabled the overcoming of difficulties arising from regulatory divergence, including inconsistent, overlapping product-specific ROO and investment regimes.

The GVC participation rates of AMS are consistently growing with regard to both forward and backward linkages. Low- and middle-income AMS are gradually moving up the value chain in medium-to-high-technology manufacturing, developing specializations in the automotive, electrical, electronic parts and components industries. Although it has lagged behind China, the average length of GVC production within ASEAN emerging markets has consistently increased, with the accompanying progress in the diversification of the structure of exports.

Apart from the dominance of three Northeast Asian economies in the automotive sector, there has been an increase in the importance of AMS in parts and components turnover, led by Thailand, Vietnam, and Indonesia, which has translated into an expansion in RCA, GVC participation rates, and average production length indices, as well as export diversification in the analyzed industry. The relatively stable shares of individual APT countries in intra-regional automotive trade with China through the years may indicate the durability of relation-based transactional linkages within sectoral GVCs and thus the vertical specialization of individual economies. The latter has gained importance in the last decade, as evidenced by the dominance of the vertical pattern of intra-industry trade across sectoral six-digit HS tariff codes.

The series of shocks that East Asia has faced in the 21st century have been an abundant source of experience from which regional institutions have learned lessons. Exposure to non-regional export markets and the related risks, and interdependencies between the economies of the region induced by flows within GVCs, leading to the synchronization of business cycles, bring, on the one hand, a threat of the contagion effect in the face of shocks, while on the other hand, they provide a chance for faster recovery due to risk dispersion and coordinated responses.

Enhancing GVC resilience in East Asia has been underlined in recent years at the level of intra- and extra-regional institutions, forums, and industrial associations. The increase in the adaptive capacities of regional enterprises and industries requires the portfolio of suppliers and markets to be diversified so as to mitigate the risk of disruptions and increase innovation and technological levels in order to stimulate productivity and reduce costs. Regional cooperation aimed at strengthening GVC resilience, in particular within the framework of concluded trade and investment agreements, should, in this context, focus on regulatory coordination and harmonization, information exchange, infrastructure development, the digitalization of documentation and procedures, environmental sustainability, the development of skills, and improvement of access to finance (in particular for SMEs). Undoubtedly, initiatives launched by manufacturers, suppliers, and stakeholders in the automotive industry may serve as valuable benchmarks with regard to the impact of business and government activities on enhancing sectoral GVC resilience.

Notes

- 1 Except for Myanmar, due to lack of data.
- 2 Calculations of RCA, RCA_ex1, RCA_ex2 indexes based on Hinloopen and van Marrewijk (2001).
- 3 Calculations of GL index based on Grubel and Lloyd (1971); VIIT and HIIT based on Fontagné and Freudenberg (1997).
- 4 Calculations of GVC's average production length based on: Wang et al. (2017).
- 5 Calculations of Herfindahl–Hirschman Index based on Cadot et al. (2011).

- 6 Calculations of GVC participation rates based on Borin and Mancini (2019).
- 7 ASEAN as a whole, for 3.44% of global GDP and 8.25% of global exports, respectively, APT – 28.76% in both cases – data from 2021 (own calculations based on: IMF, 2023; ITC, 2023).
- 8 Asia-Pacific Economic Cooperation is a regional forum for economic cooperation established in 1989, involving all APT countries, except for CLM.

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5 Economic inequality and its relevance to social and economic resilience in East Asia

Krzysztof Falkowski

Introduction

This chapter aims to analyse the potential relationship between economic inequality and social and economic resilience in East Asia (APT countries).

Over the past decades, rapid economic growth in East Asia has helped lift billions of people out of poverty. However, rapid growth has sometimes been accompanied by increased economic inequality in both the region as a whole and in individual East Asian countries (Asian Development Bank, 2020). Changes in income inequality, and additionally wealth inequality and associated levels of poverty and deprivation, undoubtedly have far-reaching economic, social and political implications. In particular, they can measurably determine economic growth and development (Barro, 2000), as well as affect East Asia's social and economic resilience in the face of emerging external shocks.

The topic of dynamic economic growth in East Asia has already been very well analysed in the existing international economic literature (Collins et al., 1996; Kwon & Kang, 2011). In contrast, the issue of economic inequality, admittedly also the subject of many studies and research, most often referring to individual East Asian countries (Jain-Chandra et al., 2018; Kitao & Yamada, 2019; Valenzuela et al., 2020; Knight et al., 2022; Chea, 2023; Suryahadi et al., 2023) or groups of selected countries from the region (Cho & Kwon, 2017; Zhuang, 2018; Munir & Bukhari, 2019; Ghosh, 2020; Rachman et al., 2021; Huynh, 2022; UNDP, 2022), has not yet been analysed in a comprehensive, comparative manner for the East Asian region as a whole, let alone linked to social and economic resilience. A comprehensive and coherent analysis of these issues is essential to properly understand and assess the phenomenon of social and economic resilience in East Asia.

In this chapter, the author seeks to answer the following research questions: What is the level of economic inequality (income inequality as well as wealth inequality) and the extent of poverty and deprivation in the East Asian region? Can, and to what extent, a link be demonstrated between existing economic inequalities, particularly income inequalities in individual East Asian countries, and their social and economic resilience in the face of

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(exogenous shocks) experienced by countries in the region, namely: the 2008 global financial crisis and the 2019 Covid-19 pandemic?

The structure of this chapter's contents is governed by the research questions and its main objective. After a brief introduction, this chapter continues with a short discussion of selected basic theoretical aspects in the field of economic inequality and social and economic resilience. In particular, both these concepts are defined, and the relationship between them is outlined. This is followed by an analysis of economic inequality (in terms of income inequality and wealth inequality) and poverty and deprivation in East Asia. The next part of this chapter provides an in-depth analysis of the relationship between income inequality in different East Asian countries and their social and economic resilience in the face of the 2008 global financial crisis and then in the face of the 2019 Covid-19 pandemic. This chapter ends with a conclusion detailing the main findings of the study.

It should also be noted that measuring social and economic resilience itself is a major challenge. There is no single, universally accepted and applied method of measuring this resilience, so there are different ways of measuring it in the literature (Serfilippi & Ramnath, 2018). It is relatively common to try to capture both vulnerability and resilience to external shocks themselves. Such an approach has been presented by, for example, Briguglio et al. (2009) and Angeon and Bates (2015). A specific so-called multidimensional approach to measuring resilience has also been developed (Hughes & Bushell, 2013). In this chapter, the change in the level of economic growth (change in real GDP) and the change in the level of socio-economic development (change in GDP per capita PPP) are taken as measures of social and economic resilience in the face of a specific external shock, that is, the 2008 global financial crisis and the 2019 Covid-19 pandemic.

The author uses descriptive and comparative analysis using indicators of economic inequality (in terms of income and wealth inequality) and poverty and poverty, as well as national accounts to answer the research question and reach this chapter's primary objective. The analysis generally covers the period 2000–2020 and, in the case of resilience in the face of the Covid-19 pandemic, also 2021.

Economic inequality and social and economic resilience – selected theoretical aspects

Economic inequality is most commonly understood in the economic literature as the unequal distribution of income and wealth between different groups in society (Kakwani & Son, 2022). Thus, economic inequalities commonly include (i) income inequality or distribution of income (reflecting how the total sum of money paid to people is distributed among them), (ii) wealth inequality or distribution of wealth (showing how the total sum of wealth owned by people is distributed among the owners). In addition, some economists also equate economic inequality with (iii) consumption inequality

(showing how the total sum of money spent by people is distributed among the spenders) (Boyer, 2020). The IMF, in turn, adds another to the above types of economic inequality, namely (iv) inequality of opportunity (impact on income of circumstances over which individuals have no control, such as family socio-economic status, gender or ethnic background, which also translates more or less directly into their income and assets) (IMF, 2023).

The existence of economic inequalities is permanently inscribed in the process of human existence and management. They are, in a way, an intrinsic feature of this process, as are changes in this area. Referring to Simon Kuznets' theory, the level of economic inequality is intrinsically linked to economic development and reflects a certain stage of it (Kuznets, 1955). According to the Kuznets curve, countries with a low level of development are characterised by a relatively equal distribution of income and wealth (low levels of economic inequality). However, as a country develops and the size of investment increases, it is the owners of capital who have more income and more wealth, leading to a natural increase in economic inequality. Eventually, with the passage of time and further development, by activating various possible redistribution mechanisms, such as welfare programmes or budget transfers, more developed countries return to lower levels of economic inequality. There are many studies in the economic literature both confirming and denying Kuznets' theory (Luke, 2012; Barro, 2000), which only proves the fact that, in reality, the relationship between economic inequality and socio-economic development is determined to a decisive extent by the individual socio-cultural specificities of a country and the economic policies pursued, so that generalising without such specificities proves counterproductive. Note that a prime example of this is the so-called 'East Asian miracle'. This is the name given to the rapid economic growth between 1965 and 1990 of eight East Asian economies – the Republic of Korea, Hong Kong, Taiwan, Singapore (known as the Four Asian Tigers), Japan, Indonesia, Thailand and Malaysia. 'The East Asian miracle' deviates from the Kuznets curve in the sense that the early development economies, particularly manufacturing and exports, grew in strength, while the population living in absolute poverty declined, that is, economic inequality 'surprisingly' declined during this time. According to Stiglitz, this was happening as a result of the immediate reinvestment of the initial gains in land reform increasing rural productivity and incomes, as well as universal education and government policies oriented towards increasing wages and limiting commodity price increases (Stiglitz, 1996). Consequently, there were no significant economic inequalities at the beginning of the development path of these countries and, in addition, such a situation contributed to further growth and socio-economic development.

Social and economic resilience, in turn, can be defined in different ways. In the development economics literature, the term is used in at least three different senses, that is, (i) as the ability of a country to recover quickly from a shock, (ii) to withstand and minimise its negative effects, and (iii) to effectively avoid the negative impact of a shock on a country's society

and economy (Briguglio et al., 2009). For the purposes of this analysis, this chapter adopts and applies the first approach indicated above to view social and economic resilience as the ability of a country to recover quickly from a shock. This can mean a rapid return to the pre-shock state (which may not necessarily be good or desirable in the long term from a further development perspective) or it can mean a so-called ‘runaway recovery’, which in practice would mean a rapid, shock-induced change in a country’s existing major development paradigms. From a long-term perspective, such a change would be considered desirable and beneficial.

The impact of economic inequalities on social and economic resilience can, in principle, be dual in nature when external shocks or shocks occur. They may, on the one hand, significantly actively weaken the level of this resilience or, on the other hand, under certain assumptions, passively neutralise the negative impact of the aforementioned shocks and shocks on the society and economy of a given country. Obviously, a great deal depends not only on the strength and scope of these shocks but also on the vulnerability of individual countries to their inward transmission, especially in the realities of open economies.

The development economics literature also draws attention to the fact that economic inequality has an indirect effect on social and economic resilience through its impact on the size and structure of poverty and deprivation. There is no doubt that high economic inequality slows down the pace of poverty reduction (Klasen, 2016). Moreover, one can even speak of a relatively high elasticity of poverty vis-à-vis economic inequality in developing countries, which only proves the vital importance of the need to reduce the level of such inequality in the fight against poverty and, by extension, higher vulnerability to external shocks (Jamal, 2006). For example, Bourguignon (2003) has shown that if economic growth remains at a certain constant level, an increase in economic inequality has a negative impact on poverty reduction and thus also consequently on the resilience of an economy (Breunig & Majeed, 2020). Additionally, this impact is very much determined by the degree to which the poor part of a country’s population participates in the generation of national income and, more broadly speaking, in socio-economic processes (Majeed, 2016). Interestingly, the distribution of income in the population is one of the strongest and most important determinants of the macroeconomic situation. A decrease in income inequality by ten percentiles significantly improves this situation, increasing the expected duration of economic growth by as much as 50% (Berg et al., 2008).

Referring in turn to the research of Berg and Ostry (2017), it is possible to identify three main channels for the impact of economic inequality on a country’s macroeconomic situation and therefore indirectly also on its social and economic resilience. These are (i) with credit market imperfections, economic inequality inhibits private investment in human capital; (ii) if the distribution of political power follows the distribution of income and wealth, this may lead, on the one hand, to pressure for populist policies

from the bottom end and, on the other, to efforts by the elite to resist this pressure through corruption – both of which are inefficient and detrimental to growth; and (iii) economic inequality may increase the risk of political instability.

This last point is also highlighted by Barro (2000), who argues that increasing economic inequality increases social discontent and thus consequently increases the risk of social and political unrest. Thus, by increasing the likelihood of coups, revolutions, mass violence or, more generally, by increasing policy uncertainty and threatening property rights, they have a very negative impact on investment and thus reduce economic growth and increase social and economic instability, which necessarily has the consequence of potentially reducing resilience to unforeseen shocks and economic crises (Alesina & Perotti, 1993).

By way of example, Mdingi and Ho (2021) detailed their own list of the main channels of influence of economic inequality on the macroeconomic situation of countries and, consequently, on their level of social and economic resilience. They included (i) the level of economic development, (ii) the level of technological development, (iii) socio-political unrest, (iv) the savings rate, (v) imperfect credit markets, (vi) political economy, (vii) institutions and (viii) the fertility rate. In the case of the latter channel, increasing and high economic inequality naturally exacerbates the fertility gap between the rich and the poor in the population (de la Croix & Doepke, 2003). The low-income group tends to have many children and tends to invest less in their children's education due to a lack of sufficient financial resources. In contrast, those in the high-income group tend to have fewer children and invest more in their children's education. Therefore, in cases of extreme economic inequality, a high fertility gap has a negative impact on human capital, leading to a decline in real economic growth and a consequent reduction in a country's resilience (de la Croix & Doepke, 2003).

What remains an open question is not even what are the causes of changes in economic inequality and the channels of their impact on the level of social and economic resilience in the realities of the contemporary world, but which of them and to what extent do these processes determine (see Polacko, 2021, for more details). Undoubtedly, the most important of these include the ongoing and very rapid technological progress, the effects of globalisation (and more recently of deglobalisation processes, particularly felt in the open economies of developing countries), as well as institutional conditions in the broadest sense, including the quality and efficiency of the state and the social and economic policies pursued (Kanbur et al., 2014). Indeed, it must be emphasised that the weaker and more unstable the governance, the more limited the administrative capacity, the more frequent chronic humanitarian crises, the persistence of acute social tensions, and often the violence or legacy of armed conflicts and civil wars, the less socially equitable the distribution of income and wealth, and consequently also the lower the level of social and economic resilience (Hallegatte et al., 2019).

Economic inequality and poverty and deprivation in East Asia 2000–2020

The East Asian region is highly differentiated in terms of its level of socio-economic development (Figure 5.1). Indeed, it includes developed countries such as some of the absolute richest countries in the world, that is, Singapore and Brunei, with GDP per capita in 2020 of, respectively, USD 94.9 thousand and USD 61.6 thousand. The Republic of Korea and Japan are also characterised by high levels of development. In their case, GDP per capita in 2020 was respectively: USD 42.4 thousand and USD 40 thousand. The second group of countries in the East Asian region is made up of developing countries, which in turn can be divided into two subgroups, that is, developing countries with a medium and additionally steadily increasing level of development – Malaysia, Thailand, China, Indonesia and Vietnam (their GDP per capita in 2020 was, respectively, USD 25.8 thousand; USD 16.9 thousand; USD 16.3 thousand, USD 11.5 thousand and USD 10.5 thousand), and poor developing countries with low levels of development (GDP per capita PPP below USD 10 thousand) – the Philippines, Laos, Myanmar and Cambodia (their GDP per capita in 2020 was, respectively, USD 7.8 thousand; USD 7.8 thousand; USD 5 thousand and USD 4.3 thousand).

When analysing the level of socio-economic development in East Asia using the GDP per capita PPP measure, it is worth noting the changes that have taken place in this regard over the period 2000–2020. Comparing the situation in this regard in 2020–2000, only one East Asian country saw a

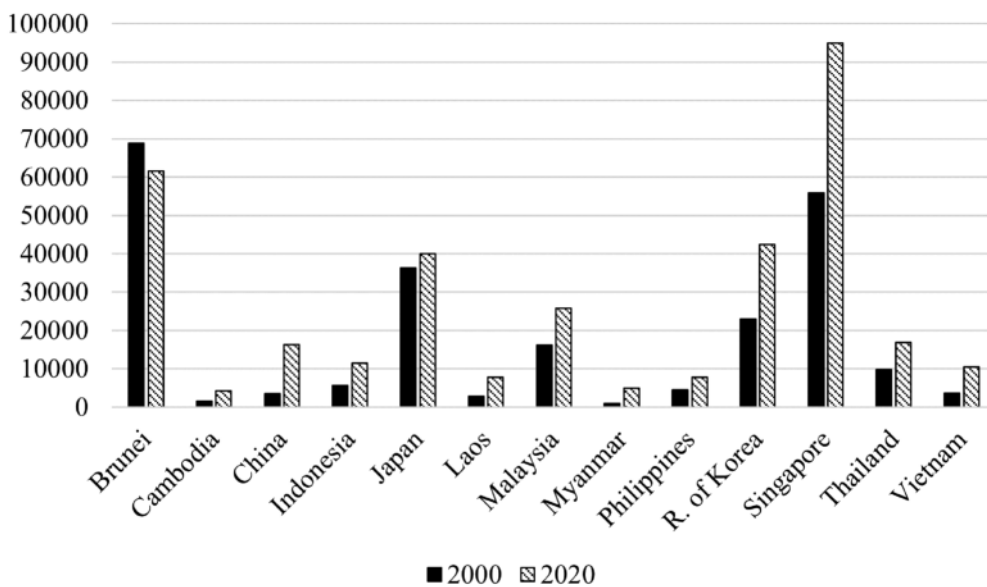


Figure 5.1 Level of socioeconomic development in East Asia in 2000 and 2020 (GDP per capita, PPP, USD)

Source: Own elaboration based on The Global Economy.com (2023)

decline, namely Brunei, where GDP per capita PPP fell by USD 7.3 thousand. In contrast, all other countries in the region, without exception, saw an increase in GDP per capita PPP. In absolute terms, the largest increases were recorded in Singapore (by USD 39 thousand), the Republic of Korea (by USD 19.4 thousand) and China (by USD 12.8 thousand). In relative terms, on the other hand, the greatest developmental progress was made during this period in Myanmar (an increase of more than five times, from USD 973.4 thousand in 2000 to USD 4.95 thousand in 2020), China (an increase of 4.7 times, from USD 3.45 thousand in 2000 to USD 16.3 thousand in 2020) and Cambodia (an increase of 2.88 times), Vietnam (an increase of 2.83 times) and Laos (an increase of 2.77 times). Such high increases in the level of GDP per capita PPP in these countries can be explained relatively easily, on the one hand as a direct consequence of these countries becoming more and more integrated into the international division of labour in the wave of progressive globalisation, and on the other as a result of the so-called ‘low base’ effect, that is, a low level of development at the outset, which, given the free production resources available and their gradual employment following the processes indicated above, made it possible to generate strong economic growth.

This is supported by data on the average level of economic growth (GDP growth) for the entire 2000–2020 period, with the highest growth rates in Myanmar (9.5%), China (8.7%), Cambodia (7.2%), Laos (6.8%) and Vietnam (6.4%). In comparison, in the most developed countries in East Asia, that is, Singapore, the Republic of Korea and Japan, it was, respectively, 4.8%, 3.9% and 0.6%. It is also worth noting that Myanmar recorded double-digit economic growth for as many as 11 consecutive years, that is, between 2000 and 2010, which was an absolute record not only in East Asia but also in the world.

However, the economic growth generated in the countries of the East Asian region was not evenly distributed in the society; hence, taking into account also the pre-2000 situation, the East Asian region is characterised by a strong disparity in the level of income inequality.

One of the main measures commonly used to assess the level of income inequality is the Gini index. It is used to measure the extent to which the distribution of income between individuals or households in a country deviates from a perfectly equal distribution. A Gini index of 0 indicates perfect equality, while an index of 100 indicates perfect inequality (World Bank, 2023a). Thus, the higher the value of the Gini index, the greater the degree of income concentration and the greater the income inequality.

In the case of East Asia, the most unequal distribution of after-tax income in society, and thus the greatest income inequality, was characterised in 2019 by Singapore and Japan, countries with high levels of socio-economic development (Figure 5.2). Importantly and noteworthy, the level of these income inequalities in these countries has further widened over the period 2000–2019 (much more markedly in Japan than in Singapore).

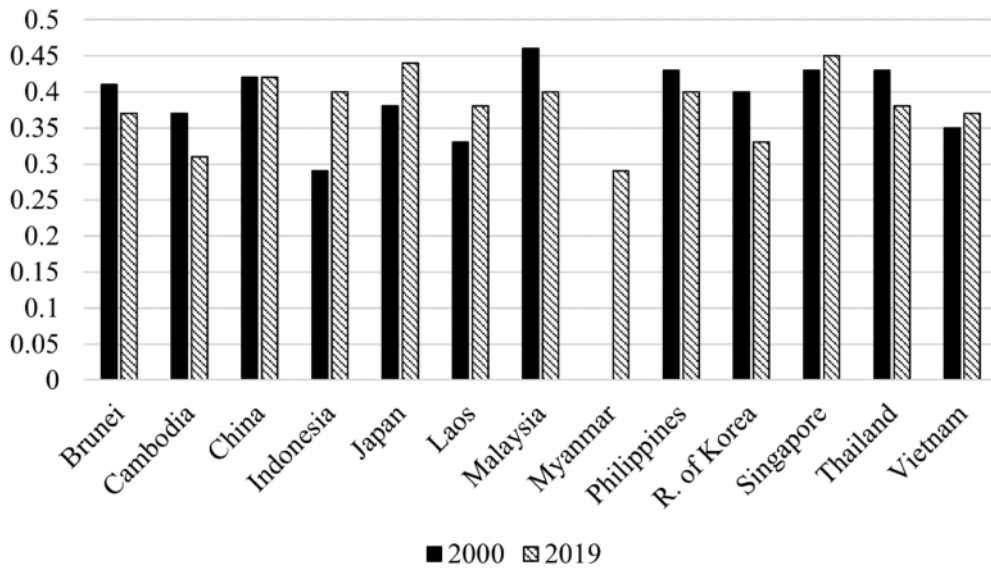


Figure 5.2 Gini coefficient in East Asia in 2000 and 2019 (after-tax income)

Source: Own elaboration based on World Bank (2023b)

The third country in the East Asian region with relatively high levels of income disparity between the richest and poorest is China. Interestingly, the value of the Gini coefficient for China practically did not change over the period 2000–2019. This means that, in the case of China, the country's impressive economic growth did not reduce existing income disparities over the period, and this despite the fact that extreme poverty and poverty have been *de facto* eradicated. One important determinant of this process has been China's birth rate structure.

The largest spectacular increase in the Gini coefficient during the period under review was in Indonesia (up to 0.11), while the largest decrease was in the Republic of Korea (down -0.07) and Malaysia and Cambodia (down -0.06). In contrast, the lowest income inequality in East Asia was in Myanmar in 2019, which marked the smallest income disparity between the richest and poorest in the country.

If, on the other hand, we look at income inequality in East Asia, also measured by the Gini coefficient, but broken down by developed and developing country groups, we find that smaller income disparities (albeit relatively slightly smaller) occurred in 2019 in the developed than in the developing country group overall. Moreover, over the period 2000–2019, income inequality in developing countries increased markedly (from 0.34 in 2000 to 0.37 in 2019) as a consequence of economic success and the specificity of its distribution among the population.

When analysing the level of inequality in East Asia, it is also useful to look in more detail at the distribution of income, but also wealth, across countries

in the region, taking into account their levels and changes over the period 2000–2020.

The share of the top 10% of income earners in total income in East Asia varies strongly within countries in the region. By far the largest, reaching nearly 50%, is in Thailand and Laos. Indeed, in 2020, this share was respectively: 48.8% and 48.3%. A slightly smaller share of the top 10% in total income was recorded in 2020 in Indonesia (46.9%), Cambodia and the Philippines (45.4%), Japan (44.2%) and Vietnam (43.8%). By contrast, Singapore (32.9%) and the Republic of Korea (34.6%) will have the lowest.

What are worth noting is the changes that have taken place between 2000 and 2020 in East Asia on the issue in question (Figure 5.3). There has been a very marked increase in the share of the top 10% in total income in Indonesia over this period (by 8 p.p.), which has had a significant (largest in East Asia) impact on the increase in income inequality in that country, and in China (by 7.3 p.p.). Increases were also recorded in Japan (by 3.5 p.p.), the Republic of Korea (by 2.5 p.p.) and Laos (by 1.9 p.p.). In contrast, the share decreased the most in Cambodia (by 10.4 p.p.), Singapore (by 9.1 p.p.) and Indonesia (by 8.0 p.p.).

In contrast, as for the share of the bottom 50% of the population (bottom 50%) in total income in East Asia, it was highest in 2020 in Brunei (19.3%) (Figure 5.4). Notably, Brunei has relatively the most balanced structure of top 10% and bottom 50% participation in total income of all East Asian countries and, in addition, this structure has remained de facto unchanged throughout the 2000–2020 period. Relatively high compared to other East

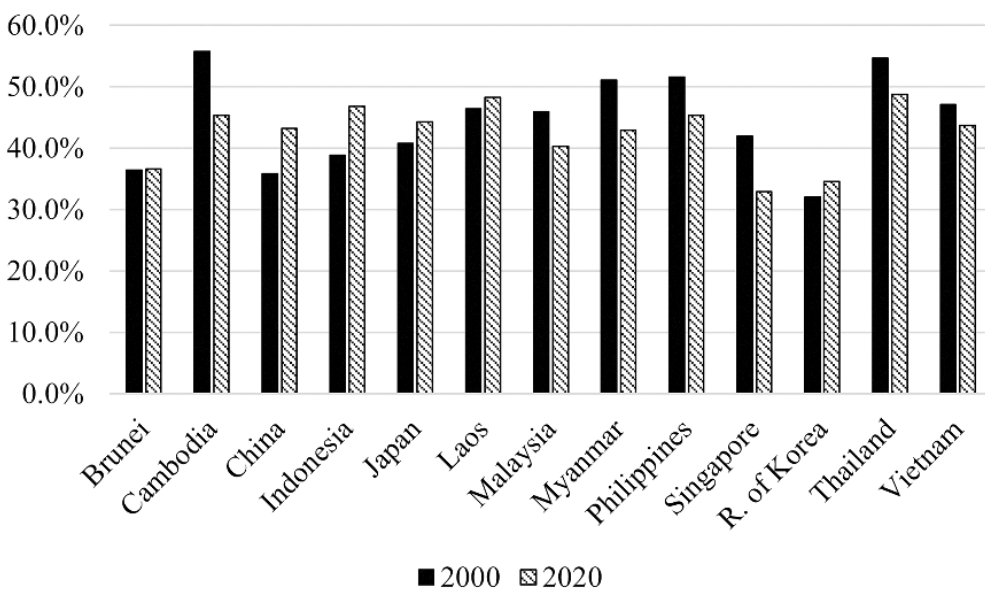


Figure 5.3 Income distribution in East Asian countries in 2000 and 2020 (top 10%)

Source: Own elaboration based on WID (2023)

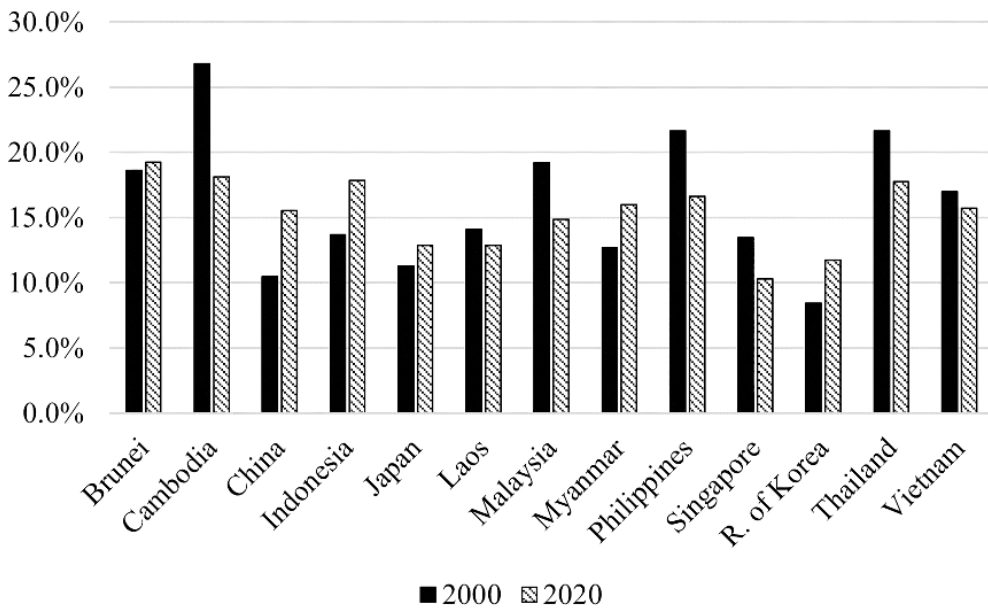


Figure 5.4 Income distribution in East Asian countries in 2000 and 2020 (bottom 50%)

Source: Own elaboration based on WID (2023)

Asian countries, the share of the bottom 50% in total income in 2020 was also found in Cambodia (18.1%), Indonesia (17.9%) and Thailand (17.8%). In contrast, the lowest such share was found in the Republic of Korea (11.7%) and Singapore (10.3%).

Over the period 2000–2020, Cambodia’s share of the bottom 50% in total income declined by far the most in the entire East Asian region (by 8.7 percentage points). Slightly weaker, but also declining in this respect, were the Philippines (by 5.0 p.p.) and Malaysia (by 4.3 p.p.). In contrast, the largest increases in this share occurred in China (by 5.1 p.p.) and Indonesia (by 4.2 p.p.), which was the clearest indication of the increased participation of this population group in the economic growth generated.

Taking into account the aforementioned changes in the evolution of the share of the top 10% and bottom 50% in total income in East Asia over the period 2000–2020, it should be emphasised that the reduction in total income disparities, as measured by the Gini coefficient, in countries such as Cambodia, the Philippines, Malaysia and Thailand was a consequence of an increase in the share of the so-called middle class (between the 50th and 90th percentile) in total income. In the case of Cambodia, the increase was as high as 19.0 p.p., the Philippines 11.2 p.p., Malaysia 10 p.p. and Thailand 9.8 p.p.

Referring to income inequality in East Asia, it is also worth mentioning the female labour income share (Figure 5.5). Due to the dominant position of men both in life and in the labour market in many East Asian countries, which is a consequence of socio-cultural conditions, the female labour

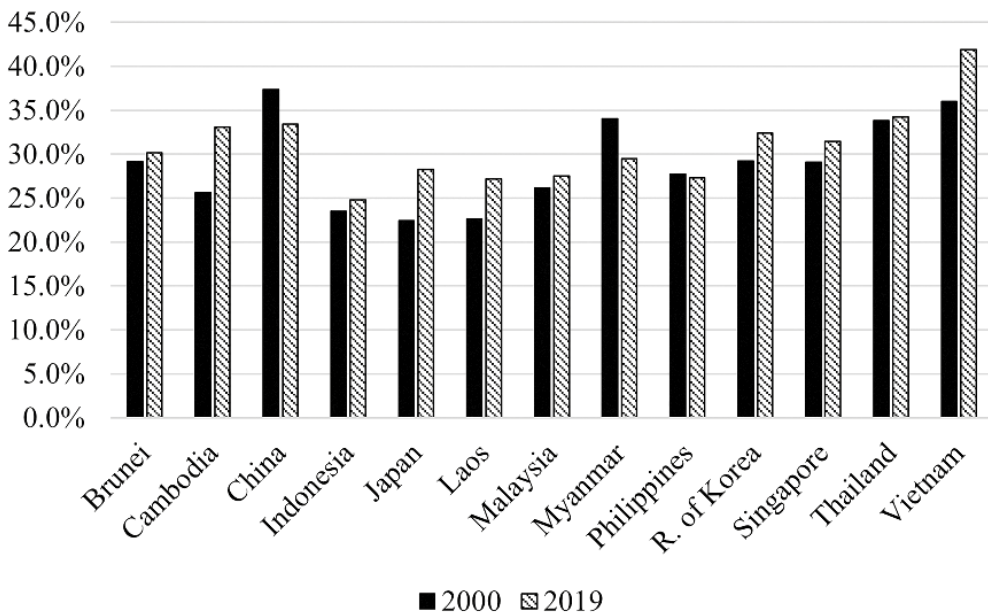


Figure 5.5 Female labor income share in East Asia in 2000 and 2019

Source: Own elaboration based on WID (2023)

income share is relatively low across the region, as it ranged between 27% and 42% in 2019. It is therefore possible to speak of a strong variation in this regard within the countries of the East Asian region. The highest female labour income share in 2019 was recorded in Vietnam (41.9%) and Thailand (34.2%). Interestingly, a higher female labour income share than in Singapore (31.4%) and the Republic of Korea (32.4%) was also recorded in China (33.4%) and Cambodia (33.1%). In contrast, the smallest female labour income share was in 2019 in Indonesia (only 24.8%), Laos (27.2%) and the Philippines (27.3%).

In turn, when analysing changes in the female labour income share in East Asia over the period 2000–2019, it is important to highlight the largest increase in this share, and thus a marked reduction in the disparity between men and women, in Cambodia (increase of 7.4 p.p.), Vietnam (increase of 5.9 p.p.) and Japan (increase of 5.8 p.p.). In contrast, women's share of labour income declined most sharply at the expense of men during the period under review in Myanmar (down 4.6 p.p.) and China (down 4.0 p.p.).

When analysing the level of inequality in East Asia, it is also useful to look in more detail at the distribution of wealth in the societies of these countries, which reflects how economic wealth is distributed in society between different social groups. In other words, the distribution of wealth differs from the income distribution in that it looks at the economic distribution of ownership of the assets in a society, rather than the current income of members of that society.

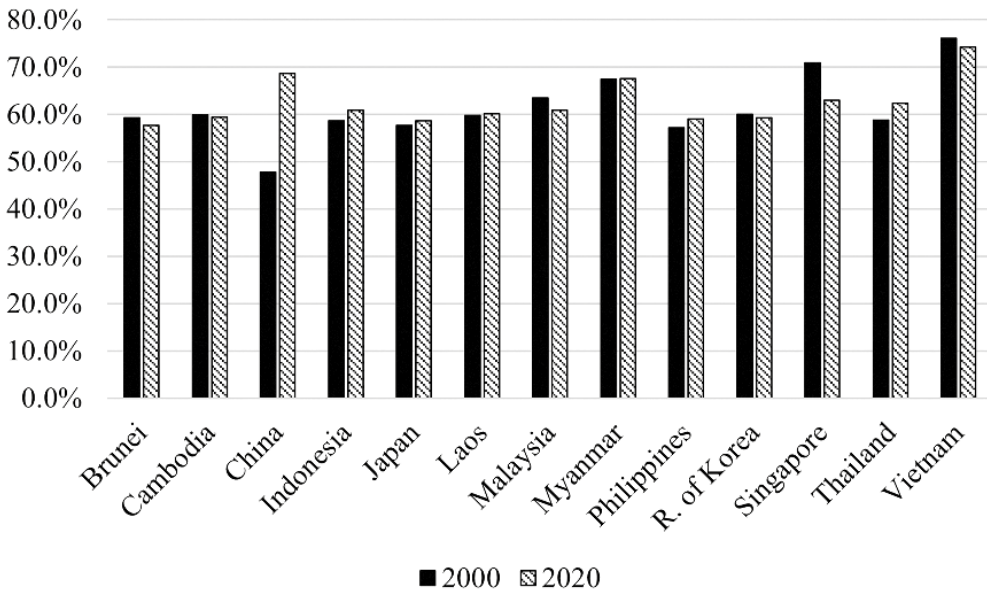


Figure 5.6 Wealth distribution in East Asia countries in 2000 and 2020 (top 10%)

Source: Own elaboration based on WID (2023)

The share of the richest 10% of society (top 10%) in the distribution of total wealth in each East Asian country in 2020 was high, ranging from 57.7% in Brunei to 74.2% in Vietnam (Figure 5.6). If, in turn, we look at the changes in this share between 2000 and 2020, we find that the largest (and de facto only such significant) increase took place in China (up by as much as 20.9 p.p. to 68.7%). In fact, only Thailand (3.6 p.p.) and Indonesia (2.2 p.p.) still recorded an increase of more than 2 p.p. in the above-mentioned share in East Asia over this period. In contrast, the largest decrease in the share of the top 10% in the distribution of total wealth across East Asian countries over the period 2000–2020 occurred in Singapore (by 7.8 p.p.). This was slightly less in Malaysia (by 2.7 p.p.), Vietnam (by 1.8 p.p.) and Brunei (by 1.6 p.p.).

In contrast, as for the share of the 50% of the population with the lowest wealth (bottom 50%) in total wealth in East Asia in 2020, in the absolute majority of countries in the region, it did not exceed 5% and ranged from 4% to 5% (Figure 5.7). The only exception in this regard was China (6.2%). In the case of China, it should additionally be noted that there was a very large decrease in this share between 2000 and 2020, from 14% to 6.2%, which, given the steady growth of the population in China and the fact that we are talking about as much as half of the Chinese population, is indicative of the strong real pauperisation of Chinese society during this period, that is, during the period of dynamic growth of the Chinese economy.

A particular country in East Asia in this context is Vietnam, where, although the share of the bottom 50% in the country's total wealth increased by as much as three times, it was nevertheless still the absolute lowest in 2020

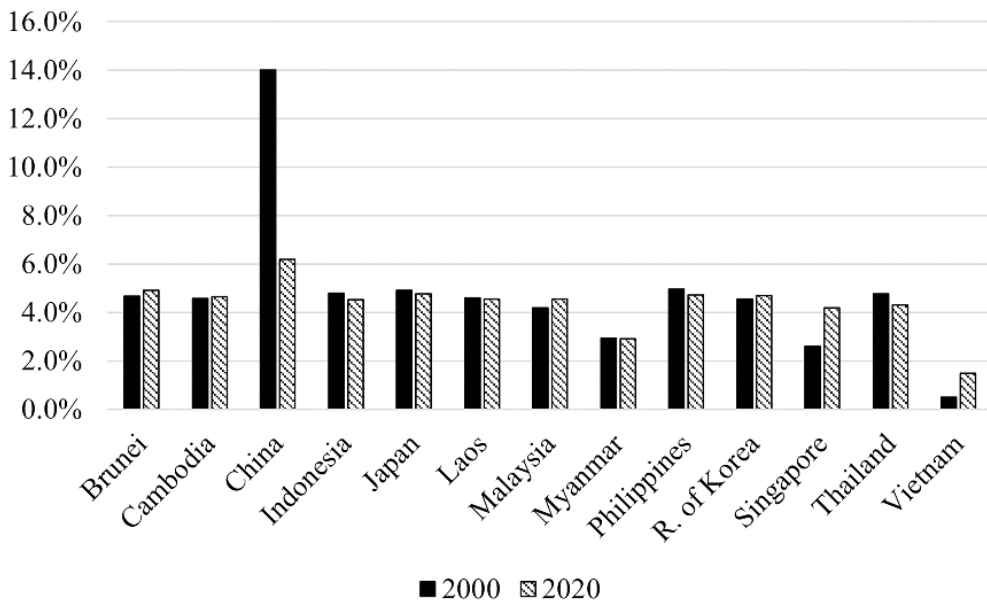


Figure 5.7 Distribution of wealth in East Asian countries in 2000 and 2020 (bottom 50%)
 Source: Own elaboration based on WID (2023)

compared to the rest of the region, at just 1.5%. The second weakest performance in this respect was recorded in 2020 in Myanmar (2.9%).

With regard to the share of the bottom 50% in the total wealth of individual countries in East Asia, it is also worth noting that in the vast majority of countries in the region, this share has remained relatively stable over the period 2000–2020 and has changed very little. Visible changes only occurred in the already mentioned China (down 7.8 p.p.), as well as in Singapore (up 1.6 p.p.), Vietnam (up 1 p.p.) and Thailand (down 0.5 p.p.). In the remaining countries, where they occurred, they did not exceed ± 0.5 p.p.

As the above analysis shows, first, the share of the 10% richest part of society (top 10%) in the distribution of total wealth in each East Asian country in 2020 was significantly higher than the share of the 10% with the highest income in the total income in these countries. In contrast, the share of the poorest 50% of the population (bottom 50%) in the distribution of wealth at the same time was significantly lower than the share of the 50% with the least wealth. Thus, the distribution of wealth in East Asia is far more unequal than the distribution of income, meaning that the level of wealth inequality is greater in this region of the world than income inequality. Second, there are also clearly greater differences in income inequality between the countries of the East Asian region than in wealth inequality. Third, there is no simple correlation between the extent of income inequality and wealth inequality and the level or change in the level of socio-economic development of a country in the East Asian region.

Table 5.1 Poverty rate in East Asia (International Poverty Line of USD 2.15 per day)

<i>Country</i>	<i>Year</i>	<i>Poverty rate (%)</i>	<i>Change (p.p.)</i>
China	2002	36.50	
	2019	0.14	-36.36
Indonesia	2000	43.60	
	2020	3.83	-39.77
Japan	2008	0.48	
	2019	0.70	0.22
Laos	2002	25.37	
	2019	6.60	-18.77
Malaysia	2003	1.57	
	2015	0.02	-1.55
Myanmar	2015	6.22	
	2019	1.24	-4.98
The Philippines	2000	15.03	
	2019	4.11	-10.92
R. of Korea	2006	0.25	
	2019	0.20	-0.05
Thailand	2000	3.97	
	2020	0.05	-3.92
Vietnam	2002	29.94	
	2018	1.23	-28.71

Source: Own elaboration based on Our World in Data (2023)

The level of poverty and deprivation in East Asia is, as is the case with economic inequality (income and wealth inequality), differentiated between the countries of the region. Nevertheless, what is noteworthy is the fact that there has been a significant reduction in the scale of extreme poverty across the region, which is directly linked to its dynamic development in the 21st century. Importantly, this has been achieved despite the existing significant income and wealth inequalities in East Asia, as shown above.

This is supported by the data presented in Table 5.1. For virtually all East Asian countries for which relevant data were available, the poverty rate (determined according to the international poverty line set at USD 2.15 per person per day) has fallen very markedly in the 21st century. In contrast, the only country with an increase in this regard, relating the situation in 2019 to that in 2008, was Japan, where the poverty rate increased slightly (by 0.22 p.p.) from 0.48% to 0.7%.

While highlighting and appreciating the positive developments in poverty reduction in East Asian countries, it is worth noting the starting situation in this regard at the beginning of the 21st century. It was particularly difficult in Indonesia, where more than 43% of the country's population lived on less than USD 2.15 per person per day in 2000. After 20 years, the poverty rate had fallen to 3.83% in that country. China (36.5% in 2002), Vietnam (close to 30% in 2002) and Laos (just over 25% in 2002) also had slightly lower, but also high, poverty rates. In all of these countries, as a consequence of the

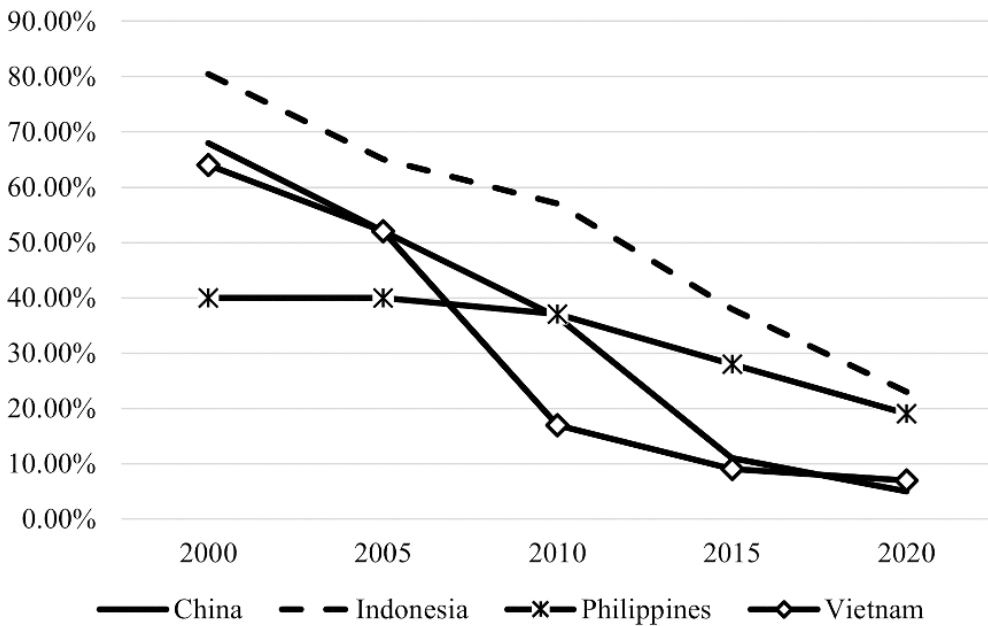


Figure 5.8 Percentage of the population below the poverty rate in selected East Asian countries 2000–2020 (at USD 3.65 a day in 2017 PPP)

Source: Own elaboration based on OECD (2023)

already mentioned strong economic growth, international development aid aimed, *inter alia*, at combating poverty and poverty, as well as the pro-social activities of local governments, the scale of the problem of extreme poverty has been dramatically reduced in a relatively short period of time.

The spectacular decline in poverty in East Asia is even greater if we set the limit of disposable income per person per day as a proxy for poverty at USD 3.65 (Figure 5.8). Then, over the period 2000–2020, the proportion of the population living on the lesser indicated threshold has declined the most in China, down 63 p.p., from 68% to 5%. Equally impressive improvements were recorded in Indonesia (down 57.5 p.p.) and Vietnam (down 57 p.p.). Particularly noteworthy is the tremendous success in poverty reduction in Indonesia, where, as recently as 2000, more than 80% of the country's population lived on less than USD 3.65 per person per day, while in 20 years, this level has decreased to nearly 23%, which must undoubtedly be seen as a major success.

In addition, one must be aware of an extremely difficult challenge that East Asian countries have faced in the context of combating poverty and deprivation, namely the fact that there are very large differences between the standard of living in urban and rural areas. This was particularly true in the developing countries of East Asia.

As a consequence of these differences, extreme poverty levels varied significantly, as evidenced by the data for China and Indonesia shown in Table 5.2. In rural areas, in 2002, as much as 54.85% of the population in China and

Table 5.2 Poverty rate in China and Indonesia in rural and urban areas in 2002 and 2019 (International Poverty Line of USD 2.15 per day) (in percentage)

	<i>China</i>		<i>Indonesia</i>	
	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>
2002	54.85	7.10	53.88	29.41
2019	0.26	0.06	5.08	2.87

Source: Own elaboration based on Our World in Data (2023)

53.88% of the population in Indonesia lived in extreme poverty (on less than USD 2.15 per person per day). The scale of this phenomenon in Cambodia and Vietnam, on the other hand, was estimated to be as high as 90% during the same period. In this context, it is particularly important to recognise the progress made in these countries precisely in combating extreme poverty and rural deprivation.

In the context of East Asia's social and economic resilience, the effective reduction of poverty and deprivation accomplished over the 2000s should be viewed unequivocally positively. This is because it has enabled gradual improvements in, among other things, the improvement of the quality of life, the eradication of hunger, the degree of education of the population and the improvement of their health levels (Asian Development Bank et al., 2017).

Income inequality and social and economic resilience in East Asia in the wake of the 2008 global financial crisis

The peak of the global financial crisis, which engulfed virtually the entire world economy, occurred in 2009. If we look at East Asia at that time from the point of view of the depth of the crisis, measured by the change in real GDP, through the prism of income inequality, it turns out that developed countries in East Asia with lower levels of income disparity (measured by the Top 10%/Bottom 50% index) were relatively more affected by the crisis than developing countries in East Asia (Figure 5.9). For the Republic of Korea and Singapore, economic growth was modest in 2009 (0.8% and 0.1%, respectively), while Brunei and Japan experienced negative growth. In the case of Japan, it was the worst performance in the entire region (−5.7%).

If the change (recovery) in the level of economic growth after the outbreak of the global financial crisis in 2008 is taken as a measure of the degree of social and economic resilience of the East Asian countries, then it becomes apparent that the developing countries from East Asia characterised by significantly higher levels of income inequality (albeit differentiated within the group of these countries) fared significantly better (proved to be more resilient) than the developed countries from the region in 2008–2011 (Figure 5.10). Indeed, by a wide margin, the average level of real GDP growth from 2008 to 2011 in these countries was above 4% (with the exception of

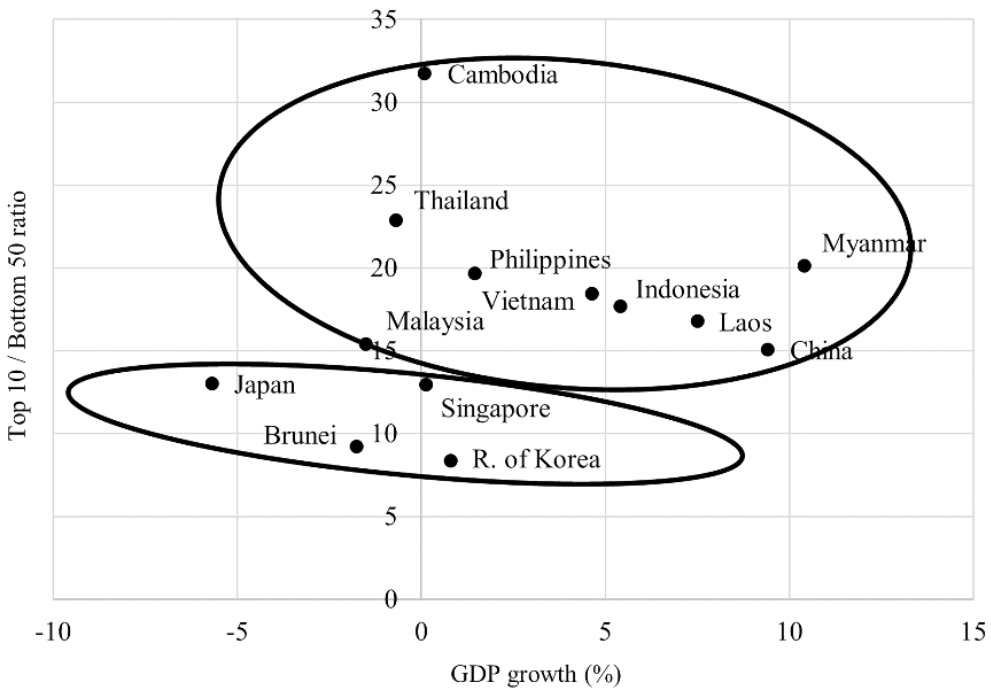


Figure 5.9 Income inequality and economic growth in East Asia in 2009

Source: Own elaboration based on WID (2023)

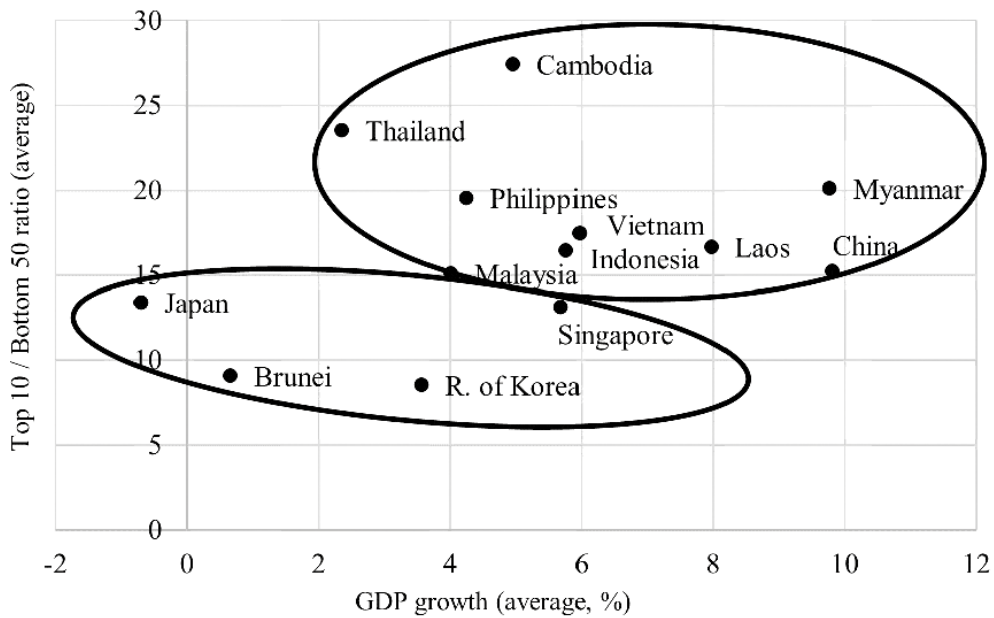


Figure 5.10 Income inequality and economic growth in East Asia from 2008 to 2011 in the wake of the 2008 global financial crisis

Source: Own elaboration based on WID (2023)

only Thailand). In the developed countries of East Asia, on the other hand, only Singapore averaged real GDP growth above 4% over the same period, at 5.7%. And in the case of Japan, which was the hardest hit in East Asia by the negative consequences of the global financial crisis, the average level of real GDP growth declined by -0.7% between 2008 and 2011.

Yet another measure of a country's social and economic resilience can be the magnitude of change in GDP per capita PPP following a specific external shock. If we relate the existing income inequality in the East Asian region to the change in the level of GDP per capita PPP in individual countries over the period 2008–2011 (as a measure of socio-economic development), it turns out that the higher the income inequality (higher value of the Top 10%/Bottom 50% indicator), the lower (in principle) the growth of GDP per capita PPP over the analysed period and therefore the relatively lower the resilience to the negative of this crisis (Figure 5.11).

The strongest improvement in the level of socio-economic development in East Asia took place in the four years immediately following the outbreak of the global financial crisis in Singapore and the Republic of Korea, that is, in the developed countries that, along with Brunei and Japan, had the relatively lowest levels of income inequality during this period. Incidentally, Japan was the only East Asian country to record a decline in GDP per capita PPP over the period 2008–2011. By contrast, in the case of Brunei, the increase was relatively small.

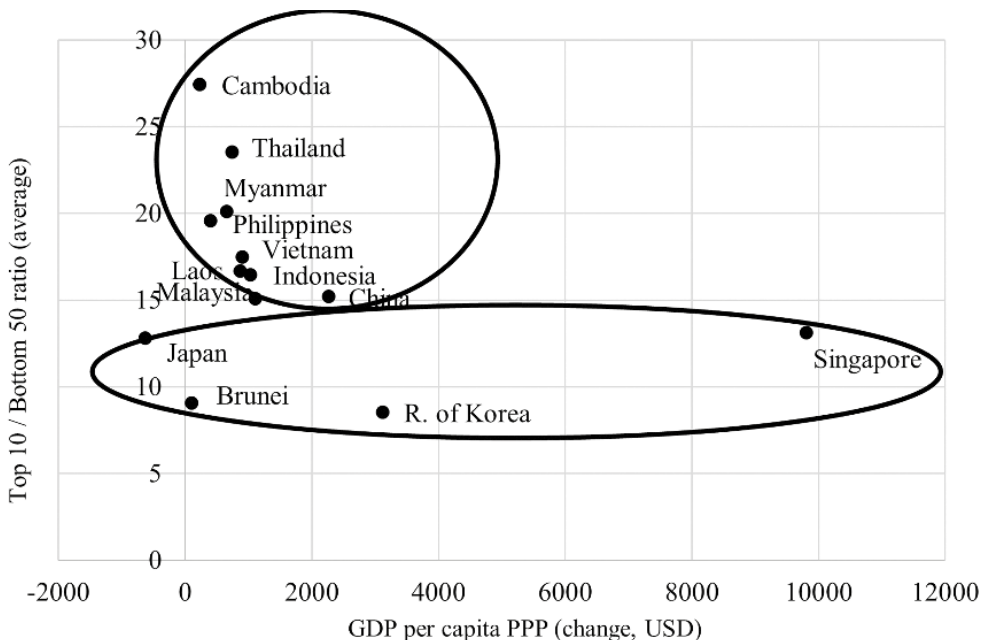


Figure 5.11 Income inequality and socioeconomic development in East Asia from 2008 to 2011 in the aftermath of the 2008 global financial crisis

Source: Own elaboration based on WID (2023)

In the case of developing countries from the East Asian region, where growth dynamics were not as strong as in Singapore or the Republic of Korea, the aforementioned inverse relationship between the level of income inequality and GDP per capita PPP growth was very evident (Figure 5.11). The two extreme cases supporting the above thesis are Cambodia and China.

Income inequality and social and economic resilience in East Asia in the face of the Covid-19 pandemic

The second, highly significant external shock with a pregnant effect not only on individual countries but also on the global economy as a whole was the Covid-19 pandemic. East Asian countries were strongly affected by the consequences of its outbreak at the end of 2019 (incidentally, it broke out precisely in East Asia, specifically in China), albeit in different ways across the region.

The strength and extent of the impact of the Covid-19 pandemic are evidenced by changes in the real GDP of individual East Asian countries. Virtually all of them experienced macroeconomic deterioration, exemplified by negative economic growth in 2020. By far the most severely affected by the negative consequences of the pandemic were the Philippines (where real GDP fell by 9.5%), Thailand (real GDP decline of 6.1%) and Malaysia (real GDP decline of 5.5%). Japan (-4.3%) and Singapore (-3.9%) also recorded relatively high negative real GDP growth. However, not all East Asian countries recorded negative economic growth in 2020. Indeed, five countries, namely Myanmar, Vietnam, China, Brunei (as the only developed country from the region) and Laos recorded year-on-year real GDP growth. The highest growth was in Myanmar (3.2%), followed by Vietnam (2.9%) and China (2.2%).

If, on the other hand, we look at changes in real GDP in East Asia in 2020 from the perspective of income inequality, it becomes apparent that a simple relationship cannot be identified for the group of developing countries (Figure 5.12). This is because, even though these countries had significantly higher levels of income inequality than the developed countries of East Asia, the consequences of the pandemic on the level of national income generated were different. For some of these countries, their economies contracted, for others they grew (Myanmar, Vietnam, China and Laos). In the case of the developed countries of East Asia, however, one might be tempted to conclude that the higher the income disparity (higher value of Top 10%/Bottom 50%) in 2020, the relatively weaker the countries were affected by the pandemic (Figure 5.12). Thus, exactly the opposite of what happened to the consequences of the global financial crisis in 2009.

A special case in this context was Japan, which had by far the highest degree of income inequality in 2020 among the group of developed countries in East Asia, and which also had the highest negative economic growth within this group.

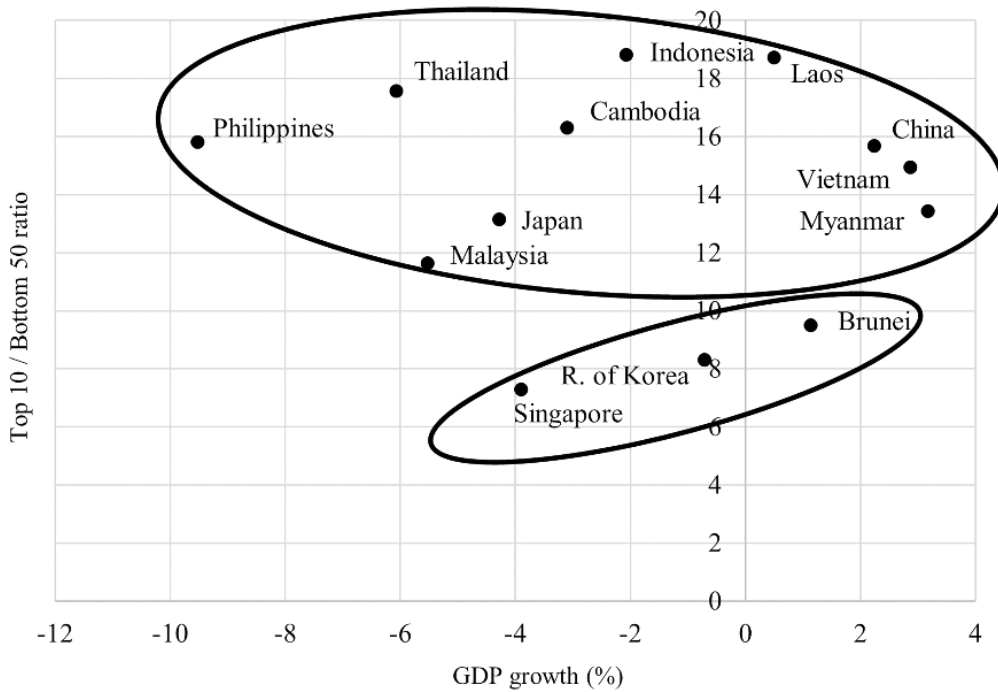


Figure 5.12 Income inequality and economic growth in East Asia in 2020

Source: Own elaboration based on WID (2023)

Given that relatively little time has elapsed since the Covid-19 pandemic, on the other hand, and that data on income inequality are published with some delay, it is difficult to make an in-depth analysis of East Asia's social and economic resilience in the face of the pandemic. Nevertheless, if we take as a measure of the degree of this resilience (as in the case of the global financial crisis) the change (desired recovery) in the level of economic growth after the outbreak of the Covid-19 pandemic, we find that, over the period 2020–2021, the least resilient country was Myanmar, which additionally had one of the highest levels of income inequality among East Asian countries, while the most resilient countries were China, Vietnam and Singapore (Figure 5.13).

In the case of Myanmar, while real GDP grew by 3.2% in 2020, the country already experienced a deep crisis in 2021, exemplified by negative economic growth of -17.9%. Importantly, among the East Asian countries, in 2021, besides Myanmar, only Brunei still experienced negative economic growth, but at a much lower level (-1.6%). All other countries in the region recorded economic growth, which meant that they were able to deal with the negative consequences of the Covid-19 pandemic very quickly, within one year. The best performers in this respect were Singapore with real GDP growth in 2021 (year-on-year) of 8.9% and China (8.5%).

While for the developing countries of East Asia, it is difficult to identify a link between income inequality and economic growth in 2020–2021 in the

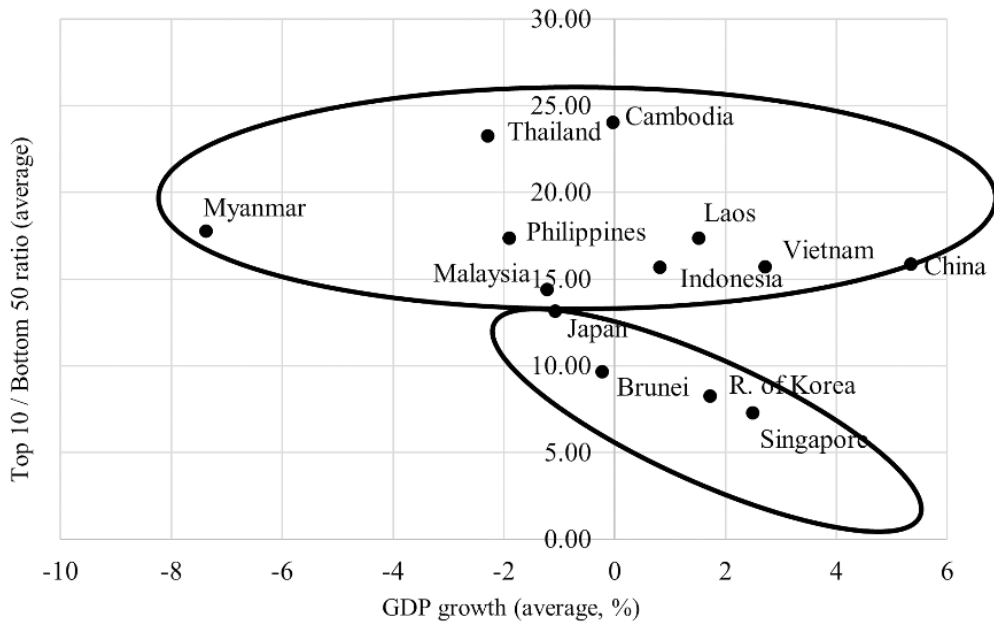


Figure 5.13 Income inequality and economic growth in East Asia in 2020–2021 in the wake of the Covid-19 pandemic

Source: Own elaboration based on WID (2023)

aftermath of the Covid-19 pandemic, for the developed countries of East Asia, it is. Indeed, we find that as a country's degree of income inequality decreased, its resilience to the effects of the Covid-19 pandemic increased (Figure 5.13).

The above thesis regarding the developed countries of East Asia and the relationship between income inequality and their resilience in the aftermath of the Covid-19 pandemic outbreak is also confirmed in the analysis of the changes in GDP per capita PPP (as a measure of socio-economic development) between 2020 and 2021 (Figure 5.14). Indeed, it is very clear that those countries with the lowest levels of income inequality in East Asia achieved the largest increases in GDP per capita PPP when comparing the situation in 2020 and 2021. Thus, the strength of their response to the impact of the Covid-19 pandemic was the greatest, contributing to raising the level of socio-economic development in these countries. Only Brunei proved to be a certain exception in this regard, experiencing a relatively small (albeit the largest in East Asia) decline in GDP per capita PPP of USD 1.5 thousand over the period under review.

In the case of the developing countries of East Asia, a similar trend to that of the developed countries of the region also took place, in principle. In general, it was noticeable for these countries that the lower the income inequality (lower value of Top 10%/Bottom 50%), the higher (in principle) the increase in GDP per capita PPP over the period 2020–2021, and therefore the relatively higher the resilience to the negative effects of this pandemic

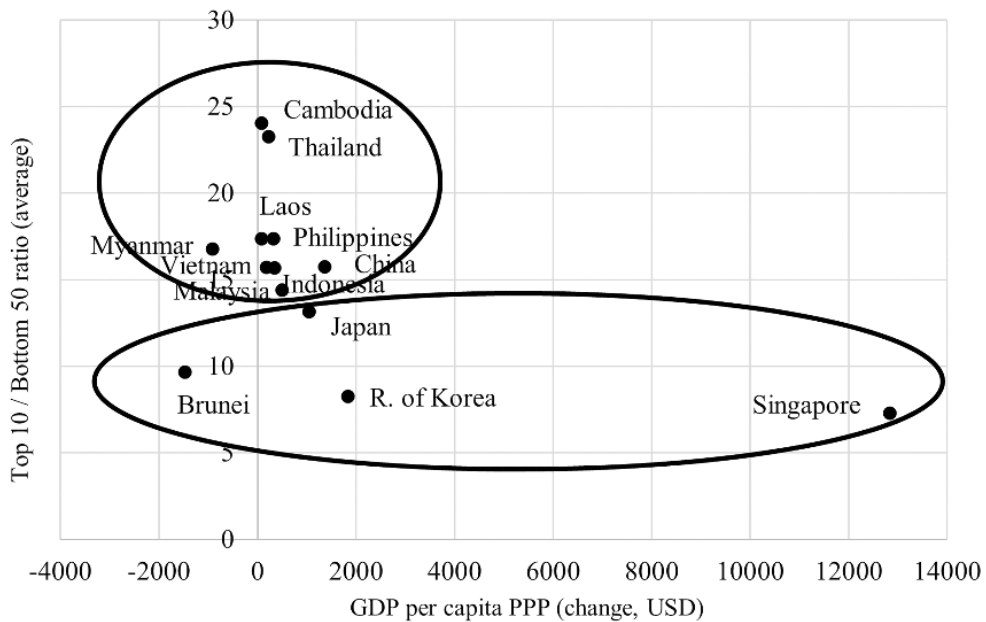


Figure 5.14 Income inequality and socioeconomic development in East Asia in 2020–2021 in the wake of the Covid-19 pandemic

Source: Own elaboration based on WID (2023)

(Figure 5.14). The one de facto exception to the above was only Myanmar. Obviously, the strength of resilience for developing countries in East Asia was considerably lower than for developed countries from the region.

Concluding remarks

Despite unprecedented global economic growth and significant reductions in poverty and deprivation, East Asia still remains highly differentiated in terms of its level of socio-economic development. The East Asian region includes some of the world's richest countries (Singapore and Brunei) and two other highly developed countries, that is, the Republic of Korea and Japan, but also, at the opposite diapason, underdeveloped countries such as Myanmar and Cambodia, whose GDP per capita was below USD 5,000 in 2020. Importantly, from 2000 through 2020, the developing countries of East Asia in most cases experienced a significant improvement in their level of socio-economic development, which most clearly demonstrates the exploitation of the development opportunity created by the open, globalised world economy with the skilful use by these countries of their international competitive advantages.

Globalisation, progressive liberalisation processes, competitive cost advantages, as well as increases in the efficiency of resource utilisation driving East Asia's rapid economic growth over recent years, had far-reaching

distributional implications. The main reason for the above was that the above-mentioned processes and phenomena favoured de facto owners of capital over labour, skilled over unskilled workers, and urban and coastal residents over those in rural and inland regions. Not surprisingly, the economic growth generated in East Asia has not been evenly distributed, resulting in the existing, relatively large, economic inequalities (both income and wealth inequalities).

Lower-income inequality in East Asia in 2019 was characterised, albeit relatively slightly, by the group of developed countries than developing countries overall. Moreover, over the period 2000–2019, income inequality in developing countries slightly increased (from 0.34 in 2000 to 0.37 in 2019) as a consequence of economic success and the specificity of its distribution among the population.

It is noteworthy that the so-called ‘middle class’, located between the 50th and 90th percentile considering the distribution of income in society, is clearly visible in the developed countries of East Asia. Its share in this distribution in the analysed period was significantly higher than the corresponding share in the group of developing countries in East Asia. It is this social group that can be called the biggest winners of the ‘East Asian miracle’ in developed East Asian countries.

Speaking of economic inequality, we mean income inequality and wealth inequality. In the case of the latter, their scale across the East Asian region is far greater than income inequality. The reasons for this can be found in the dynamic socio-economic changes taking place in the 21st century, which have provided a large part of the East Asian population with increasing current incomes, but due to the relatively short time horizon of these changes and the existing social structure have not yet resulted in significant changes in the distribution of wealth in these countries.

A major and important success of East Asia as a region as a whole over the course of the 21st century has been the significant reduction in extreme poverty. China has seen the greatest progress in this respect, but it has also been shared by the other countries in the region, albeit in different ways.

Summarising income inequality in East Asia in terms of its relevance to social and economic resilience in the face of the 2008 global financial crisis and the 2019 Covid-19 pandemic, it is worth noting that East Asia was far more strongly affected by the negative consequences of the Covid-19 pandemic than by the 2008 global financial crisis, especially when it came to developing countries from the region. Moreover, in the case of the global financial crisis, it is worth noting that it had a much stronger negative impact on developed countries than on developing countries in East Asia.

Despite the fact that developing countries in East Asia are characterised by relatively greater economic inequality than developed countries in the region, they have shown greater resilience in the face of the 2008 global financial crisis, as evidenced by faster economic growth in the four years since the outbreak of the crisis compared to developed countries in East Asia. In the case

of the Covid-19 pandemic, the response of these countries was much more varied and there was no analogous trend to the global financial crisis. In the case of pandemic resilience in the developed countries of East Asia, on the other hand, it was clear that as income inequality in this group of countries decreased, the resilience of individual countries to the negative consequences of the pandemic noticeably increased.

Measuring, in turn, social and economic resilience by the magnitude of the change in GDP per capita PPP following the two external shocks analysed, it turns out that in both cases there was a de facto identical relationship (with a different level of income inequality, of course, as these changed over the years). In the East Asian group of developing countries, generalising in principle, as income inequality increased, the growth of GDP per capita PPP markedly declined, and therefore a relatively lower resilience to the negative effects of the 2008 global financial crisis and the 2019 Covid-19 pandemic could be observed. Within the group of developed countries in East Asia with relatively lower levels of income inequality than developing countries from the region, Singapore and the Republic of Korea were by far the best performers in both cases, thus showing the greatest resilience to the above shocks.

It is, of course, important to realise that there are several different factors determining the process of social and economic resilience in East Asia, ranging from, inter alia, the size and strength of the economy in question, its internationalisation into the system of the modern world economy, to the socio-economic policies pursued and social determinants. However, this does not change the fact that economic inequalities matter for the level of resilience, which only encourages the author of this chapter to conduct further in-depth research on the subject in order to indicate the place of these inequalities in the map of a range of other determinants of social and economic resilience in East Asia. Unfortunately, a major impediment to such research is the difficulty of accessing data on economic inequality in East Asia over a longer time series.

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Appendix 1

Dominant patterns of intra-industry
trade in the automotive sector
at the level of six-digit HS codes,
China – selected APT economies (2021)

	JPN	MAL	KOR	SGP	VNM	PHI	IDN	THA	JPN	MAL	KOR	SGP	VNM	PHI	IDN	THA
840731	VII	X	X	X	VII	X	X	848390	VII	VII	VII	VII	VII	VII	VII	870324
840732	VII	VII	VII	X	VII	X	VII	850710	VII	VII	VII	X	VII	X	VII	870332
840733	HII	X	X	VII	VII	X	VII	850720	VII	VII	VII	VII	VII	X	HII	870333
840734	VII	HII	X	X	VII	X	VII	850730	VII	HII	VII	VII	VII	X	VII	870390
840790	VII	VII	VII	X	VII	X	VII	850780	VII	X	X	VII	VII	X	VII	870600
840820	VII	X	VII	X	VII	X	VII	851220	HII	VII	VII	VII	VII	X	VII	870710
840991	VII	VII	VII	VII	VII	VII	VII	851230	HII	VII	VII	VII	VII	VII	VII	870840
840999	VII	VII	VII	VII	VII	VII	VII	851240	VII	VII	VII	X	VII	VII	VII	870850
841330	VII	VII	VII	HII	VII	VII	VII	851290	VII	HII	VII	VII	VII	VII	VII	870870
842123	VII	HII	VII	VII	VII	VII	VII	851829	HII	HII	VII	VII	VII	VII	VII	870880
842131	VII	VII	VII	VII	VII	VII	VII	852721	VII	VII	VII	X	VII	X	VII	870891
842542	VII	VII	VII	VII	VII	X	VII	852729	VII	VII	VII	X	VII	X	VII	870892
848310	HII	HII	VII	VII	VII	VII	VII	853921	VII	VII	VII	VII	VII	VII	VII	870893
848320	VII	VII	VII	VII	VII	VII	VII	853929	HII	VII	VII	VII	VII	HII	VII	870894
848330	VII	VII	VII	VII	VII	VII	VII	854430	VII	VII	VII	VII	VII	VII	VII	870899
848340	VII	VII	VII	VII	VII	VII	VII	870321	HII	X	X	VII	VII	X	VII	870810
848350	VII	VII	VII	VII	VII	VII	VII	870322	VII	VII	VII	VII	VII	VII	VII	870821
848360	VII	VII	VII	VII	VII	VII	VII	870323	VII	VII	VII	VII	VII	VII	VII	870829

Source: Own elaboration based on UN Comtrade (2022)

Note: VII – dominance of low-quality vertical intra-industry trade; HII – dominance of high-quality vertical intra-industry trade; HII – dominance of horizontal intra-industry trade; X – no data, resulting in most cases due to the lack of bidirectional flows or incomplete statistics.

Index

Note: Page numbers in *italics* refer to a figure, page numbers in **bold** refer to a table, and page numbers in ***bold italics*** refer to a box on the corresponding page.

- Abe, S. 30
Abubaker, R. 59
African Union 24
Ancarani, A. 76
Angeon, V. 102
Anràs, P. 76
APEC Putrajaya Vision 2020 **92**
Arab Spring 22
Archibugi, D. 9
Artuc, E. 76
ASEAN 29, 30; diversification
of markets 56–59, **57–58**, 59;
Economic Community 36; economic
diversification *versus* specialization
53–56, 55, 56; role as facilitator of
economic cooperation 53; Single
Window System 36; structure of
exports 61–64, **61**, 63, 64; trade
openness 60
ASEAN Comprehensive Investment
Agreement (ACIA) 78
ASEAN Comprehensive Recovery
Framework 2020 (ACRF) **92**
ASEAN Framework Agreement on
Services of 1995 (AFAS) 78
ASEAN Free Trade Area (AFTA) 78
ASEAN Member States (AMS) 74,
80–82, **84**, 91, **93**, 94–95
ASEAN Plus FTAs 78, **92**
ASEAN Plus Three (APT) 5, 11, 16,
79, 96n8; diversification of markets
57–58; economic inequality 101;
structure of exports 61, **61**
ASEAN Trade in Goods Agreement of
2009 (ATIGA) 78, **92**
Asian Financial Crisis (AFC) 89
Asia-Pacific Economic Cooperation
96n8
Asia-Pacific Research Center 1–2
AUKUS 29
Austin, L. 42n54
Australia 29, 30, 36; security resilience
41n45; UK–Australia FTA (2021) 27
authoritarian actors 12n2
automotive industry 78, **84**, **93**, 95;
GVCs in 85–87; intra-industry trade
in **85**, **129**; overview of **84**
Bahr, E. 31n13
Barro, R. J. 105
Bates, S. 102
Bathelt, H. 4
Bejan, M. 59
Belt and Road Initiative 17
Berg, A. G. 104
Biden, J. 17, 29, 34, 41n47
Bidenomics 19, 37
Biegun, S.E. 42n52
bilateral investment treaties (BITs) 78
Blue Dot Network 17
Borin, A. 96n6
Bourguignon, F. 104
Brandt, W. 31n13
Brexit 27, 37, 39–40n15
BRICS 24
Briguglio, L. 102
Bristow, G. 6, 7
Brunei: economic resilience 55, 56, 60;
GVC participation 80, 82; income
distribution 109; income inequality
116, 118, 120, 121; socio-economic
development 106, 107; structure of
exports 61; wealth distribution 112
Cadot, O. 95n5
Cambell, K. 39n8

- Cambodia: economic resilience 56, 58, 60, 72n3; female labor income share 111; GVC participation 81, 82; economic inequality 108, 109; income distribution 109, 110; income inequality 119; poverty rate 116; socio-economic development 106, 107
- Camp David Principles 27–28
- capital: financial 9; human 9, 10, 72n2, 104, 105
- Caselli, F. 54
- Cavallo, E. A. 59
- Chapple, K. 11
- China 34, 39n14, 40n19, 57, 60, 62, 66, 78, 81, 82, 85–86, 107–119; aggressive actions against Asian neighbors 26; Belt and Road Initiative 17; GVC participation 81; policy toward Taiwan 22; regional resilience 9, 12–13n5; resilient value chains 74; Responsible Supply Chain Initiative (RSCI) 94; security resilience 17, 22–25, 33n14; trade war with US (2018–2020) 91
- CHIPS and Science Act 38n6
- Christopherson, S. 4, 6, 9, 10
- Clark, J. 9
- Clinton, B. 43n76
- Cold War I 18, 20, 23, 24, 26, 37, 40n26
- Cold War II 23, 37
- comparative advantage, theory of 59
- Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) 27, 34, 43n76, 66
- consumption inequality 102–103
- Council of Europe 23, 31
- Covid-19 pandemic 52, 55, 58, 60–62, 64, 66, 67, 71, 74, 85, 87, 90, 92, 102, 119–124, 122
- Deese, B. 42n64
- democracy 31–33
- Democratic Security Diamond (DSD) 30–31
- deprivation, economic inequality and 106–116, 106, 108–113, 114, 115, 116
- “de-risking” policy 17, 18
- developmental disorders 22
- Devine, F. 6
- Digital Economy Partnership Agreement 34
- distributive justice 9, 13n7
- Doloreux, D. 3
- Dombrovskis, V. 24
- Doux commerce 22
- economic diversification 53–54; *versus* specialization 53–56, 55, 56
- economic inequality 101–124; and poverty and deprivation 106–116, 106, 108–113, 114, 115, 116; and social and economic resilience 102–105
- economic liberalism 19
- economic resilience 52–72; diversification of markets 56–59, 57–58, 59; diversification *versus* specialization 53–56, 55, 56; electronics, rise of 64–66, 65; export structure 61–64, 61, 63, 64; trade openness and 59–61; trade relations, intensity of 66–71, 69, 70–71
- electronics, rise of 64–66, 65
- Euro-Atlantic area 12n5
- European Union (EU) 12n1, 17, 19, 23
- export-led growth model 76–79, 87–90
- export structure 61–64, 61, 63, 64
- Felipe, J. 77, 88
- female labor income share 110–111, 111
- financial capital 9
- Five Eyes 29
- France 29, 37; security resilience 41n49
- free-trade agreements (FTAs) 16, 18, 22, 27, 34–37, 72n4; ASEAN Plus 78, 92; UK–Australia 27; UK–NZ (2022) 27
- Freund, C. 76
- friendshoring 33
- G7 17, 18, 28, 32, 37
- G20 24, 37
- Gamble, A. 4
- Gardiner, B. 6
- GATT, Article XXIV 36
- Gentiloni, P. P. 24
- Gereffi, G. 75
- Giovanni, J. di 59
- Global Combat Air Program 28
- global value chains (GVCs) 74–95; empirical study of 80–84, 80–83; in regional automotive industry 85–87; resilience, regional and extra-regional initiatives on 92–94; shocks and slow burns and 90–91; theory of 75–76

- Gong, H. 6
 Gray, C. S. 12n4
 Group of 77 24
- Hagel, C. 26
 Hanoi Plan of Action on Strengthening ASEAN Economic Cooperation and Supply Chain Connectivity 92
 Hassink, R. 6
 Healy, A. 6
 Heckscher–Ohlin–Samuelson theorem of comparative advantage 76–77
 Henderson, J. 75
 Henning, C. R. 11
 Herfindahl–Hirschman Index (HHI) 53–56, 55, 56, 71, 82–84, 83
 Hernandez, G. 89
 Ho, S.-Y. 105
 holistic constructivism 21
 “Hub and Spoke” agreements 26, 28
 Hudson, R. 3–4, 9–10
 human capital 9, 10, 72n2, 104, 105
 human rights 31–33
- Iapadre, L. 68
 income distribution 109–110, 109, 110
 income inequality 101, 102, 107;
 and social and economic resilience 116–119, 117, 118; and social and economic resilience (during Covid-19 pandemic) 119–122, 120–122
 The India–Middle East–Europe Economic Corridor 16–17
 Indonesia: economic inequality 106, 108; economic resilience 60; female labor income share 111; GVC participation 82, 95; income distribution 109, 110; poverty rate 114–116; regional automotive industry 84–87; structure of exports 61, 62; wealth distribution 112
 Indonesia Investment Coordinating Board: Electric Vehicles Ecosystem Development from Mining until Recycling 2050 93
 Indonesia–Japan Economic Partnership Agreement: User-Specific Duty-Free Scheme 93–94
 Indo-Pacific Framework for Prosperity (IPEF) 34–36, 91, 93; pillars of 35; relationship with RCEP 34; relationship with TPP 34; Supply Chain Agreement 35
 Indo-Pacific Operating System 39n8
- Information Technology Agreement (ITA) 78
 institutional liberalism 19
 international investment agreements (IIAs) 78
 International Liberal Order (ILO) 17, 21, 22, 25, 36, 37, 39–40n15
 International Monetary Fund 103
 International Trade Center (ITC) 93
 intra-industry trade, in regional automotive industry 85
 isolationism 20
 Italy: Global Combat Air Program 28
- Jang, I.-S. 4
 Japan 60, 62, 81, 84–86; Arc of Freedom and Prosperity 30; export-led development policy 77; GVC participation 81; security resilience 28; state interventionism 76; Supply Chain Resilience Initiative (SCRI) 93; U.S.–Japan talks (2022) 34–35
 Jessop, B. 4
 Johnson, B. 29
- Kennedy, J. F. 22, 23
 Kimura, F. 75
 Kishida, F. 28, 34
 Krugman, P. 59
 Kuznets curve 103
- Lagendijk, A. 3
 Laos: economic inequality 106, 107; economic resilience 55, 56; female labor income share 111; GVC participation 81; income distribution 109; income inequality 119; poverty rate 114; regional automotive industry 84–87; structure of exports 61, 62
 League of Nations 42n57
 Le Drian, J.-Y. 41n48
 Lester, T. W. 11
 Levchenko, A. A. 59
 Liberal International Economic Order (LIEO) 17, 18, 22, 23, 33, 36, 37, 39–40n15, 39n10
 liberalism 20; institutional 19
 Lim, J. 88
 Lundvall, B.-A. 9
- MacCarthy, B. L. 76
 Macron, E. 43n67
 Madrid Summit Declaration (2023) 27

- Malaysia: economic inequality 106, 108; economic resilience 55, 60, 71; GVC participation 80, 82; GVCs in regional automotive industry 86; income distribution 110; income inequality 119; structure of exports 61, 62; wealth distribution 112
- Mancini, M. 96n6
- markets, diversification of 56–59, 57–58, 59
- Martin, R. L. 5–7, 10
- Mdingi, K. 105
- Mearsheimer, J. J. 20
- Montalbano, P. 59
- Mori, K. 4
- Morrison, S. 29
- Munakata, N. 79
- mutual assured destruction 26
- Myanmar: economic inequality 106–108; economic resilience 55; female labor income share 111; income inequality 119, 120, 122; structure of exports 61, 62; wealth distribution 113
- NATO 12n1, 23, 26, 29–31, 37, 39n9; nuclear deterrence policy 43n80; Summit, Madrid (2023) 27
- New Washington Consensus (NWC) 33, 34, 37, 72n1
- New Zealand: UK–NZ FTA (2022) 27, 36
- Ninth ASEAN Summit (2003) 36
- Non-Aligned Movement 24
- non-NATO allies 26, 37
- North Korea 41n43; possession of nuclear weapons 26, 28
- Obashi, A. 75
- OECD: Center for Responsible Business Conduct 92; Southeast Asia Ministerial Forum (2022) 92
- offshoring 33
- “open doors” approach 17
- open method of coordination (OMC) 18, 28
- Ostry, J. D. 104
- Pacific Island Forum 28
- Palley, T. I. 88–89
- Partnership for Global Infrastructure and Investment (PGII) 16–17
- Parto, S. 3
- Payne, A. 4
- Pendall, R. 11
- Peterson Institute for International Economics 43n77
- Petri, P. A. 91
- Philippines: economic inequality 106; economic resilience 55, 56, 58, 60; female labor income share 111; income distribution 109, 110; income inequality 119; regional automotive industry 84–87; structure of exports 61
- Pike, A. 10
- Plummer, M. G. 91
- plurilateralism 16–19, 26, 37, 40n29
- Pompeo, M. 42n55
- Porter, M. 75
- poverty, economic inequality and 106–116, 106, 108–113, 114, 115, 116
- public–private partnership 92
- purchasing power parity (PPP) 102, 106, 106, 107, 115, 118, 119, 121, 124
- Quad 29–31, 42n52, 42n53, 93; Quad 2.0 30; Quad 3.0 30
- Raimondo, G. 35
- rational deterrence, theory of 40n33
- Razmi, A. 89
- Reagan, R. 39n7, 40–41n34
- realism 19–20
- Reciprocal Access Agreement 28
- region: conceptual approach to 3–5; definition of 1, 4
- Regional Comprehensive Economic Partnership (RCEP) 66, 67, 72n4, 91, 93; Art. 3.4 79; Art. 3.21 79–80; Art. 3.29 80; Art. 4.2e 79; Art. 4.11 80; Art. 4.15 80; Art. 14.3(b) 79; Joint Committee 80; relationship with IPEF 34; rules of origin 79–80
- regional resilience 3–13, 53, 72; determinants of 9–11; economics perspective of 6–7; international law perspective of 8–9; as research field 5–6
- Regional Trade Introversion Index (RTII) 53, 68; evolution of 69, 69; product groups (2019–2022) 70–71
- Republic of Korea: GVC participation 81; state interventionism 76
- resilient value chains 74–95
- Responsible Supply Chain Initiative (RSCI): Assessment Standard 94
- Rodin, J. 6–7

- Roosevelt, F. D. 42n65
 Roosevelt, T. 8
 Rudd, K. 42n51
 rules of origin (ROO) 79–80, 94
 Russia 39n13; regional resilience 9, 12n5; security resilience 17, 22–25; war against Ukraine 22, 26, 34
- security resilience 16–43; defense and security 26–31; economy and 33–36; human rights and democracy 31–33; literature review 19–21; methodology of 21; old order, collapse of 21–25; post-collapse of old order 25–36; research gap 19–21
- Sensier, M. 6
 Shih, W. 90
 Simmie, J. 6, 7
 Singapore: China's hostile reaction to 42n51; economic resilience 55, 56, 60; electronic industry 64; economic inequality 106, 107; export-led growth policy 88; female labor income share 111; GVC participation 80, 82; income distribution 109, 110; income inequality 116, 118–120, 124; regional automotive industry 84–87; structure of exports 61–63; wealth distribution 112, 113
- Singer, H. 88
 Single Window System (SWS) 35–37, 43n73, 43n74
 Steinmeier, F.-W. 31n13
 Stiglitz, J. E. 103
 Stoltenberg, J. 41n44, 42n52
 Storper, M. 4
 Sullivan, J. 33, 40n19, 41n47
 Summit for Democracy, The (2021; 2023) 32, 33, 37, 42n59
 Sunley, P. 6, 7
 Supply Chain Resilience Initiative (SCRI) 93
 sustainable development 25
 Swanstrom, T. 7
- Tei, K. 23
 Thailand: economic inequality 106; economic resilience 55, 56, 58, 60; export-led growth policy 88, 89; female labor income share 111; GVC participation 78, 80, 82, 95; income distribution 109, 110; income inequality 118, 119; regional and extra-regional initiatives on GVC resilience 93; regional automotive industry 84–87; structure of exports 61; wealth distribution 112, 113
 Three Oceans Community 27
 trade diversification 53–54
 Trade Facilitation Agreement 36
 trade openness, and economic resilience 59–61
 trade relations, intensity of 66–71, 69, 70–71
 tragedy of the commons 20
 Trans-Pacific Partnership (TPP) 22, 27, 37; relationship with IPEF 34
 Trilateral Security Cooperation (TSC) 27–28, 41n42
 Trump, D. 34, 42n65, 43n70, 43n76
 Truss, L. 24
 TTIP 37
- UK: Brexit 27, 37, 39–40n15; Global Combat Air Program 28; Reciprocal Access Agreement 28; security resilience 27; UK–Australia FTA (2021) 27; UK–NZ FTA (2022) 27; US–UK Mutual Defense Agreement of 1958 29
 U.N. Charter 8, 11, 24, 28; Article 4 32; Article 52 21; Preamble 21
 UNCTAD 55
 United Nations (UN) 31, 32; Commission on Human Rights 42n56; Human Rights Council 42n56
 United States (US): economic liberalism 19; Free and Open Indo-Pacific initiative 67; New Washington Consensus 33, 34; pivot to Asia 25–26; security resilience 17–18, 20, 22–23, 41n47; trade war with China (2018–2020) 91; U.S.–Japan talks (2022) 34–35; US–UK Mutual Defense Agreement of 1958 29; withdrawal from TPP 38n2
 Universal Declaration of Human Rights 22
 U.N. System 21, 22, 25, 32, 37
 U.S.–ASEAN Defense Forum (April 1–3, 2014) 26
- Venice Commission (The European Commission for Democracy through Law) 31
 Vietnam 81, 91, 107; economic resilience 55, 56, 58, 60; electronics, rise of 64–66, 65; export diversification 52–53; female labor

- income share 111; GVC participation 78, 80, 82, 95; income distribution 109, 110; income inequality 119; regional automotive industry 84–87; wealth distribution 112, 113
- von der Leyen, U. 17
- Washington Consensus (1989) 33, 42n63
- Washington Treaty 39n9
- wealth distribution 112–113, 112, 113
- wealth inequality 101, 102
- Wilson, W. 8
- Wolfe, D. 10
- World Trade Organization (WTO) 22, 23, 25, 39n14; Appellate Body 67; dispute settlement system 37; Global Supply Chains Forum (2022) 93; Trade Facilitation Agreement 93
- Xi Jinping 24
- Yellen, J. 17–18, 39n14
- Zeitenwende* 21