

The UK's Indo-Pacific tilt: a trade and development perspective

Dirk Willem te Velde, 7 May 2021

Key messages

- The UK has expressed interest in enhancing its trade and investment links with Asia, most recently through the Integrated Review, which emphasises the Indo-Pacific. Many free trade agreements (FTAs) and partnerships have been set in motion.
- The UK's development objectives prioritise trade and development. Trade, investment and global value chains have been crucial in helping Asian countries to develop and transform. The share of Asia is 16.8% in UK goods exports, 11.8% in UK services exports and 12.3% in UK foreign direct investment stock.
- The UK's new international development strategy and putting the 'Indo-Pacific tilt' into operation could lead to new, enhanced and differentiated aid and trade relationships between the UK and countries across Asia.

Introduction

Asia-Pacific is the world's largest region in terms of population and the most heterogeneous in terms of geography and economic development. It is expected to see a multi-paced recovery from the Covid-19 pandemic, depending on the spread of the virus, the rollout of vaccines and economic ties with East Asia, which is seeing signs of economic recovery. How Global Britain can best engage with a multi-speed region remains to be seen. [ODI's Asia 2025](#) study argues that vulnerabilities of Asian middle-income countries (MICs) differ markedly. Development partners, therefore, need to continue to support them with more and better aid, trade and investment, albeit in smart and changing ways.

The UK has made clear that it wants to enhance its trade and investment links with Asia. The [UK Integrated Review](#) introduces the 'Indo-Pacific tilt' and suggests that the UK aims to be the European partner with the broadest and most integrated presence in the region. The UK has concluded or set in motion an array of trade negotiations with Asian countries. This increased focus could also contribute to the UK's trade and development objectives; after all, trade, investment and global value chains have helped Asian countries to develop and transform. The UK's new development strategy is expected later this year, and the Foreign, Commonwealth and Development Office (FCDO) [is prioritising economic development and trade](#). Both the 'Indo-Pacific tilt' strategy and the prioritisation of trade and development lack details, however. The international development strategy is expected to "consider the competitiveness of our trade and development offer to developing countries". This note identifies some of the key issues.

UK trade negotiations with Asian countries

UK trade policy towards the Asia-Pacific region already operates at different speeds. It has [completed an FTA](#) with Japan (2% of UK goods exports in February 2021), is negotiating with Australia and New Zealand and wants to become a member of the Comprehensive and Progressive Agreement for Trans-Pacific

Partnership (CPTPP). It has transitioned its agreements with Korea (1.6%), Singapore and Vietnam.

The UK has further undertaken joint trade reviews with Indonesia and Thailand to explore opportunities and barriers to trade and investment. It has established Joint Economic Trade Committees with Korea, Vietnam, Taiwan, Singapore, the Philippines and Malaysia, will soon do so with Indonesia, as well as with Thailand and Vietnam later in 2021. It is also engaging with other members of the Association of Southeast Asian Nations (ASEAN), 2.7% of UK goods trade such as Brunei, Cambodia, the Lao People's Democratic Republic, Myanmar and the Philippines, in a bid to become an ASEAN dialogue partner. The UK and India (1.1%) have also initiated a [new trade partnership](#) with the aim of negotiating an FTA.

The UK transitioned to its own [General System of Preferences](#) in January 2021. This includes a least developed country (LDC) framework, which gives duty-free, quota-free access to Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, the Lao People's Democratic Republic, Myanmar, Nepal, Timor-Leste, Tuvalu and Vanuatu; a general framework, covering the Cook Islands, India, Indonesia, Micronesia, Niue, Tajikistan, Uzbekistan and Vietnam (in transition to an FTA); and an enhanced framework, which applies to Armenia, Kyrgyzstan, Mongolia, Pakistan, the Philippines and Sri Lanka. The planned UK GSP reforms later in 2021 may affect these and other Asian countries.

Key topics of interest in UK-Asia trade talks

The UK and Asian countries are wrestling with a range of issues in trade negotiations. The UK benefits if it concludes FTAs with large markets and manages to support business in expanding trade and investment, including green supply chains. The UK is seeking market access in more advanced Asian countries. In some, this covers goods, but in most, such as Indonesia, services are of greater interest. Figures 1 and 2 show stagnated goods exports to ASEAN, Korea, and South Asian countries from 2016 to 2020 (6.1% of UK exports at start and end of period), while services exports to Asia as a

whole were more dynamic, growing from 9.5% of UK services exports to 10.8%. In the UK-Japan FTA and CPTPP, digital-economy provisions are at the forefront. India is interested in securing mobility agreements for its professionals. In its FTA with New Zealand, the UK is keen to address climate change. Lastly, Asian LDCs, such as Nepal and Bangladesh, are expected to graduate from LDC status, which may need to be followed up with new FTAs. Investment is also a key area as the share of total UK FDI stock in Asia grew from 9.3% in 2010 to 12.3% (£185 billion) in 2019.

Figure 1 UK goods exports, 1998–2021 (£ billion, 12m avg.)

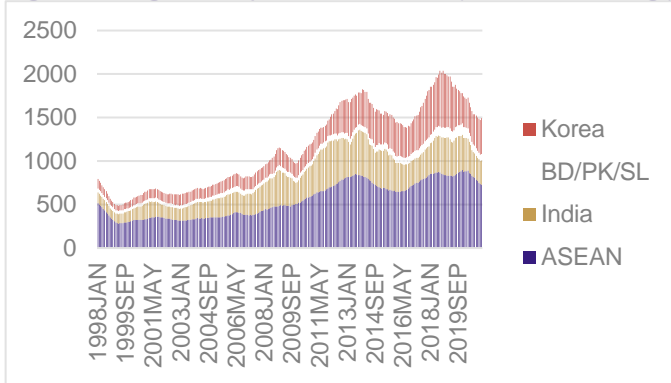


Figure 2 UK services exports, Q1 2016–Q3 2020 (£ billion)

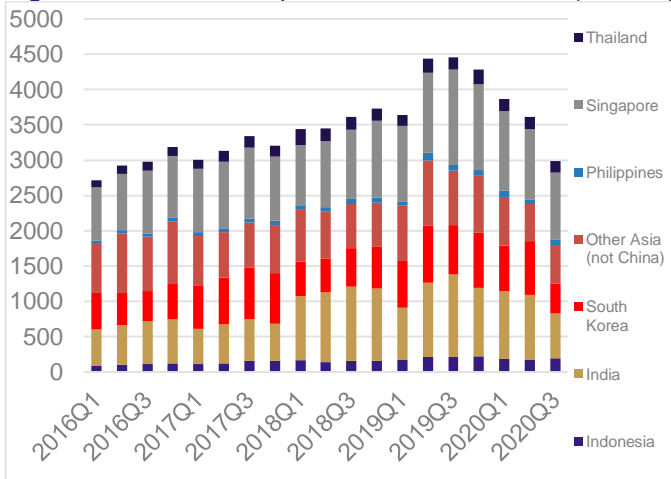
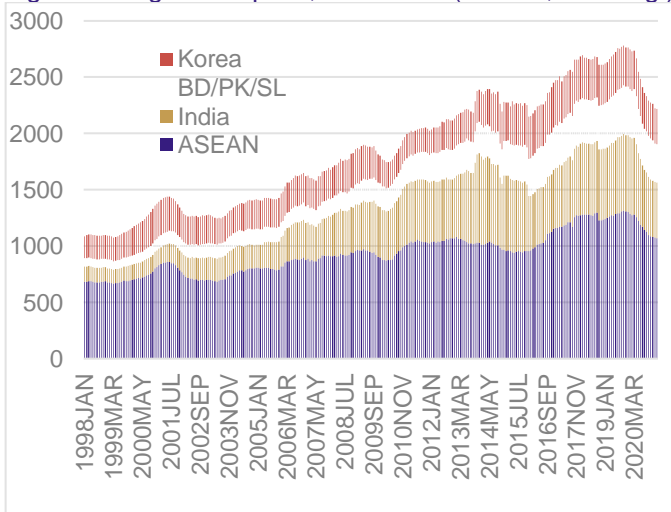


Figure 3 UK goods imports, 1998–2021 (£ billion, 12m avg.)



Source: UK ONS

UK development interests in Asia

The UK allocated [45% \(or £2.470\)](#) of its bilateral aid to the Asia region in 2019. This included Yemen and Syria, to which aid will now decline, but also top receivers such as Bangladesh and Pakistan. FCDO's new commitments may not be comparable, but it says: 'We will spend approximately 32% of FCDO bilateral aid in the Indo-Pacific and South Asia, reflecting our tilt to the region, promoting open societies, reinforcing trade links and promoting climate change collaboration. We will fund the public commitments of our ASEAN Dialogue Partner bid, alongside our diplomatic and policy work; and an India portfolio which follows the UK-India Road Map.' It further states that: 'Where countries can finance their development, we will move gradually from offering grants to providing UK expertise and returnable capital to address regional challenges in our mutual interest.' As the UK mulls its new international development strategy, its aid-for-trade offer to Asia – mostly to MICs – is an important area to watch. Donor [partnerships](#) should cover the range of aid-, aid-and-trade, and trade- and private investment-led approaches:

1. In an aid-focused approach, development agencies help restore peace, rebuild countries after conflict and disasters, address basic human needs and kickstart economic development (as in Afghanistan, the Lao People's Democratic Republic, Tajikistan and possibly Myanmar and the Kyrgyz Republic, for instance).
2. In an aid-and-trade approach, development agencies phase out aid grants and move towards loans on increasingly less concessional terms. It entails a greater role for trade relationships, to encourage countries to trade more, grow faster, raise domestic resources and reduce aid dependency (with a focus, for instance, on 'vulnerable economies').
3. In a trade- and private investment-led approach, donors (using only very limited aid resources) engage in economic dialogue and foster mutually beneficial trade and investment linkages in those countries classified as 'strong' or 'robust' (China, Hong Kong, Korea, Malaysia, Singapore, Taiwan and Thailand).

The UK's aid-for-trade offer to Asia

Further differentiation is required in increasing and targeting aid for trade and in efforts to increase UK imports (Figure 3). An important development issue facing Bangladesh and Nepal is LDC graduation, and these countries require adjustment support, including for FTA negotiations, as covered in this [ODI-PRI project](#), for example. Weaker ASEAN countries require specialised support. Cambodia, for instance, needs [support to develop and implement its digitalisation policy](#) in response to Covid-19. Both Bangladesh and Cambodia may need an FTA with the UK over the next decade. India would like access to its labour markets and global capital markets. CDC Group and the City of London would be well placed to address infrastructure and green financing needs in Asia. The new UK development strategy should flesh out the details of the UK's aid-for-trade offer.

The author is grateful to Sherilyn Raga, Simon Maxwell and Ganeshan Wignaraja for comments