Impact of Tariffs: Indo-Pacific Trade Agreements

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The Impact of Tariffs on Indo-Pacific Trade Agreements and Regional Foreign Policy

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About the article:

Main question: How are tariffs used as tools of foreign policy in the Indo-Pacific?

Argument: Tariffs have shifted from economic barriers to instruments of political signaling and economic statecraft, revealing deeper geopolitical tensions despite ongoing trade liberalization through FTAs like RCEP and CPTPP.

Conclusion: They now act as catalysts for a new regional order shaped by selective integration, technological change, and strategic competition.

The Indo-Pacific, accounting for nearly 60% of global GDP, has become the epicenter of worldwide trade and strategic competition. It encompasses some of the most significant maritime corridors, including the Strait of Malacca and the South China Sea, through which one-third of global trade passes. The Indo-Pacific is therefore not only a center of production and consumption but also a strategic hub where economic interdependence and geopolitical rivalry converge (Medcalf, 2020).

In this context, free trade agreements (FTAs) have gained importance as frameworks for structuring the flows of goods, services, and investment in the region. By definition, FTAs are legally binding agreements in which signatory states commit to liberalizing trade, primarily by reducing or eliminating tariffs, but also by harmonizing rules on investment, competition, and regulatory standards. While the World Trade Organization (WTO) remains the cornerstone of the multilateral trading system, regional FTAs are increasingly becoming venues where states pursue both economic efficiency and strategic objectives. Tariffs, traditionally used to protect domestic industry from foreign competition, remain the most visible instrument of trade policy. They range from ad valorem duties on imports to specific protective measures aimed at countering the rise of foreign products. In the Indo-Pacific region, however, tariffs have taken on a broader role as a foreign policy tool, being used as a punitive or retaliatory measure to signal political dissatisfaction or force governments to make concessions. Understanding the dual role of tariffs is therefore crucial to analyzing current developments in the Indo-Pacific region.

The Indo-Pacific region is home to one of the most complex and multilayered networks of free trade agreements in the world. In contrast to the more hierarchical frameworks that have emerged in Europe or North America, the regional trade architecture here resembles a ‘noodle dish’ of overlapping agreements that differ in scope, depth, and membership (Rödl

& Partner, 2023). These agreements not only reduce tariffs and harmonize market rules but also reflect the different geopolitical ambitions of their members. A closer look at the most important agreements shows how economic integration is progressing in parallel with geopolitical positioning.

Source: Reinventing the Indo-Pacific

RCEP and CPTPP: Competing Models of Integration

The RCEP, which came into force in January 2022, is the world's largest trade agreement. RCEP focuses on tariff liberalization: members have committed to gradually reducing tariffs on up to 90 per cent of goods while simplifying rules of origin to facilitate regional supply chains (ASEAN Secretariat, 2022). However, the agreement is less ambitious in terms of labor standards, environmental protection, and competition policy, which are becoming increasingly important for modern trade governance. Economically, RCEP is strongly influenced by China's role as the largest trading partner for most members, while geopolitically it reflects Beijing's preference for an inclusive but relatively low-level agreement. India's withdrawal from the negotiations in 2020, citing concerns about trade imbalances and strategic vulnerability, underscores both the opportunities and tensions associated with RCEP.

Def.: Regional Comprehensive Economic Partnership (RCEP): A free trade agreement between the ten ASEAN member states (Brunei, Indonesia, Cambodia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) and five regional partners: Australia, China, Japan, New Zealand, and South Korea.

In contrast, the CPTPP, which came into force in 2018, represents a more qualitative approach to trade liberalization. The CPTPP commits signatory countries to high standards in areas such as labor rights, environmental sustainability, intellectual property protection, and public procurement. Although the CPTPP has fewer members than the RCEP, it is strategically designed to maintain high-quality rules that, at least in their original conception, deliberately exclude China's influence. Its open accession clause has attracted interest from potential new members, including the United Kingdom (which completed its accession in 2023), as well as China, Taiwan, and South Korea, all of which are undergoing varying degrees of political scrutiny of their accession applications. In this sense, the CPTPP embodies a rules-based alternative to the broad inclusivity of the RCEP, offering smaller states a hedge against excessive dependence on China by integrating them into a higher-standard trading regime. For policymakers, this means that tariff alignment under RCEP is less about economic efficiency than about securing political leverage within China-led supply chains.

Def.: Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP):A free trade agreement among 11 Asia-Pacific economies: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

A key feature of the trade architecture in the Indo-Pacific region is the network of ASEAN+1 agreements, which illustrate the bloc's flexible and pragmatic approach to integration. Since 2005, ASEAN has concluded comprehensive free trade agreements with China, Japan, South Korea, India, Australia, and New Zealand. These agreements vary in depth and sectoral focus: while the ASEAN-China FTA liberalized a wide range of goods, the ASEAN-Japan Comprehensive Economic Partnership was extended to cover investment and technology transfer. Despite their varying effectiveness, these agreements provide ASEAN countries with a diversified portfolio of partnerships that cushions them against external shocks and geopolitical stresses. This multi-layered integration has enabled ASEAN to maintain its central role in regional trade governance while balancing its economic dependence on China through links with other major economies.

Def.: ASEAN (Association of Southeast Asian Nations): A regional organization promoting political and economic cooperation of ten Southeast Asian countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

Beyond regional frameworks, bilateral free trade agreements have also shaped the trade environment in the Indo-Pacific region, particularly those with the European Union and the United States. The EU has concluded agreements with Japan (2019), South Korea (2015), Singapore (2019), and Vietnam (2020), each covering not only goods and services but also sustainability, investment, and regulatory cooperation. The EU recently signed a free trade agreement with New Zealand (2024) and is continuing negotiations with Australia, although talks on access to the agricultural market remain stalled. These agreements reflect the EU's desire to establish itself as a normative power in the region and to promote climate standards and digital trade in addition to tariff reductions. Meanwhile, the US has maintained important bilateral agreements such as the Korea-US Free Trade Agreement (KORUS, in force since 2012), while moving away from multilateral ambitions under the Trump and Biden administrations. Australia and India have also pushed ahead with their own bilateral agreement—the Economic Cooperation and Trade Agreement (2022)—as part of broader diversification strategies.

A new trend in the Indo-Pacific trade landscape is the negotiation of digital free trade agreements, notably the Digital Economy Partnership Agreement (DEPA), which was signed by Singapore, New Zealand, and Chile in 2020. The DEPA sets rules for cross-border data flows, electronic payments, source code protection, and cooperation on new technologies such as artificial intelligence. Unlike traditional free trade agreements, the DEPA responds to the structural shift towards digitalization in global trade. Its open membership clause has already attracted interest from South Korea and China, suggesting that digital trade rules could become a new field of strategic competition.

Taken together, these overlapping agreements illustrate the fragmented but dynamic nature of trade integration in the Indo-Pacific region. RCEP stands for breadth, CPTPP for depth, ASEAN+1 for flexibility, bilateral agreements for normative influence, and digital free trade agreements for future-oriented innovation. However, they also reveal competing visions of regional order: China's focus on inclusive but low-level agreements, Japan and Australia's leadership on high standards, ASEAN's balancing act, and the EU's regulating projection. This institutional complexity forms the backdrop against which tariffs, as political instruments and strategic weapons, exert their influence on trade flows and external relations in the region.

Case study: Relations between China and Australia

The deterioration in relations between China and Australia since 2020 is a striking example of the use of tariffs as a foreign policy tool. After Canberra called for an independent investigation into the origins of COVID-19, Beijing responded with a series of trade restrictions targeting key Australian export sectors. These included tariffs of up to 212 percent on wine, anti-dumping duties on barley, and informal bans on imports of coal, beef, and seafood (Reuters, 2021). Although these measures were officially justified on technical grounds such as dumping or quarantine standards, the timing and scale of these measures underscored their political nature.

The consequences were significant. Australian exporters suffered immediate revenue losses, particularly in the wine industry, where China accounted for more than a third of total exports. As a reaction, Australian industries diversified their exports toward India and Europe. This diversification demonstrated both the vulnerability and resilience of globalized supply chains: Although the short-term economic costs were high, Australian businesses and policymakers stepped up their efforts to reduce excessive dependence on the Chinese market. At the same time, China suffered reputational damage as its actions reinforced perceptions of 'economic coercion' among Indo-Pacific states and fuelled debates about strategic autonomy and the reshoring of supply chains.

The China-Australia case illustrates how tariffs can have repercussions far beyond bilateral trade. First, they encourage diversification of supply chains and prompt companies to seek more politically reliable markets. Second, they can accelerate regional integration by motivating the countries concerned to deepen their relations with alternative partners through free trade agreements. Australia's renewed focus on its economic and trade agreement with India (2022) and its active participation in the CPTPP negotiations are examples of this trend. Third, tariffs raise awareness of the vulnerability associated with asymmetric economic dependence and force states to weigh economic benefits against geopolitical risks. The episode underlines the need for middle powers to diversify export destinations and to institutionalize anti-coercion measures within FTAs.

Geopolitics of Trade

The interplay of tariffs and free trade agreements in the Indo-Pacific cannot be viewed in isolation from the region's broader geopolitical rivalries. The rivalry between the US and China, in particular, has transformed the Indo-Pacific into a pivotal arena. Tariffs, free trade agreements, and strategic initiatives increasingly function as proxies in this competition, forcing smaller states to navigate between competing economic and security imperatives.

China is seeking to consolidate its regional influence through trade integration, particularly by promoting the RCEP as a framework that reflects its economic importance. The US, on the other hand, has retreated from its previous ambition to shape the regional order through mega-free trade agreements such as the Trans-Pacific Partnership (TPP). Instead, it is now pursuing the Indo-Pacific Economic Framework for Prosperity (IPEF), launched in 2022, which emphasizes supply chain resilience, clean energy, and anti-corruption standards but necessarily excludes market access commitments. This divergence highlights a structural asymmetry: China integrates through market liberalization, while the US seeks influence through regulatory frameworks and security partnerships.

Amid this rivalry, ASEAN countries are pursuing a strategy of safeguarding and balancing. On the one hand, China remains its largest trading partner, and participation in RCEP strengthens these ties. On the other hand, ASEAN is simultaneously deepening ties with external partners through "ASEAN+1" agreements and participation in the CPTPP or bilateral agreements with the EU, Japan, and others. This dual strategy reflects ASEAN's preference for "strategic equidistance": preserving China's economic advantages while ensuring geopolitical security through the US and its allies. Tariffs imposed in the wake of bilateral disputes—whether by Beijing or Washington—reaffirm ASEAN's determination to diversify partnerships and avoid an exclusive focus.

The geopolitical dimension of trade is also manifested in security initiatives that complement economic agreements. The Quadrilateral Security Dialogue (Quad), comprising the US, Japan, India, and Australia, has evolved from a loosely coordinated grouping into a more cohesive strategic partnership. While its focus is on maritime security and defense cooperation, the Quad increasingly overlaps with economic issues such as technology supply chains and infrastructure financing. Similarly, the EU's Indo-Pacific Strategy aims to position Europe as a normative actor by linking trade agreements with sustainability, climate policy, and digital governance (EEAS, 2021). These overlapping initiatives underscore that economic and security architectures in the Indo-Pacific are inextricably linked: tariffs can trigger diversification, but free trade agreements and strategic alliances provide the institutional framework for long-term rebalancing.

Tariffs thus play a catalytic role in accelerating geopolitical realignments. By weaponizing access to their markets, major powers force smaller states to rethink their alignment strategies. Australia's experience with Chinese

tariffs has brought Canberra closer to the US and India and strengthened its participation in the CPTPP and the Quad. Likewise, US protectionist policies have motivated countries like Japan and Singapore to push for highly standardized agreements without Washington's leadership. In this way, tariffs not only disrupt trade but also act as triggers for new strategic constellations and alter the balance of power in the region.

Policy Implications and Outlook

The evolving interaction between tariffs, trade agreements, and strategic competition in the Indo-Pacific underscores that economic policy has become an essential tool of diplomacy. To navigate this environment, policymakers should focus on four priorities:

In the coming decade, success in the Indo-Pacific will depend not only on reducing tariffs but also on redefining trade as a strategic instrument for stability, diversification, and technological leadership.

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