Overview

The Asia Group (TAG) has identified five trends that will most significantly affect the Indo-Pacific business environment in 2024:

1) ***The outcomes of key elections and possible leadership changes***

2) ***The condition of the Chinese and U.S. economies***

3) ***An explosion of new digital regulations regionally and globally***

4) ***Rising green tech demand alongside government interventions and stiffening competition for needed inputs***

5) ***Regional moves to expand the free trade architecture***

Each trend poses risks and opportunities that will directly affect the operating environment for multinational corporations. Understanding the dynamics behind each issue and staying alert to key watchpoints will be crucial to navigate the shifting regional business environment.

Non-regional issues like Ukraine and the Middle East will also add risk in the Indo-Pacific – including via food and energy inflation. The United States and China appear to have put Taiwan issues into a more stable box for 2024. But other simmering tensions in the Indo- Pacific itself – such as the ongoing China-Philippine dispute in the South China Sea and North Korea's resumed provocations – may escalate at any moment and damage supply chains, raise transportation costs, and create direct operational risks for corporate assets and personnel.

TAG will closely monitor and update our clients on those wildcard scenarios. For this assessment, however, TAG lays out below the five **most likely** factors that will **most affect** the Indo-Pacific operating environment.

1: Elections and Leadership Changes

This year, some two billion people around the world will be eligible to vote in elections, including in key Indo-Pacific markets. Among these, election outcomes and potential leadership changes in Taiwan, Indonesia, India, and the United States – each large and geopolitically pivotal markets – will shape both domestic policy and regional geopolitics in major ways. Beyond those key events, parliamentary elections in Pakistan and South Korea, a general election in Bangladesh, a presidential election in Sri Lanka, and potential snap elections in Australia and Japan may also prompt domestic and foreign policy shifts.

Based on election outcomes, corporations must be ready to understand the implications for policy and business operations, and recalibrate their government relation strategies to address new government stakeholders.

Key Watchpoints

- **Taiwan president-elect William Lai's ability to navigate U.S.-China-Taiwan dynamics and handle an opposition- controlled Legislative Yuan (LY).** The governance split between Taiwan's presidency and legislature adds a layer of unpredictability and challenge to public policy formation, including on cross-border investment issues. Lai must also work to maintain the status quo in relations with China, amid a variety of challenging variables.

- **Whether Indonesia's next president-elect will follow President Joko "Jokowi" Widodo's semi-protectionist trade stance and murky but**

aggressive investment policies. Current forerunner Prabowo Subianto has pledged to follow many of Jokowi's policies but may impose an added streak of economic nationalism.

- **Whether India's Prime Minister Narendra Modi wins a third term – a feat matched only by founding Prime Minister Jawaharlal Nehru– and how Modi might use the win to boost India's profile as a high-performing economy that still protects domestic industries.** Modi and his ruling Bharatiya Janata Party are poised to maintain their hold on power, unless the coalition parties successfully band together.

- **Japan's Prime Minister Fumio Kishida's ability to weather lackluster economic performance, a series of natural disasters, and corruption scandals within his ruling Liberal Democratic Party.** Kishida may call a snap election in the summer after his April state visit to the United States, but a dearth of obvious successors to Kishida and weak polling numbers might push the next election to later in 2024 or 2025.

- **The foreign and domestic policy differences between apparent U.S. presidential candidates Biden and Trump are among the most important business variables in 2024 for leading firms throughout the Indo-Pacific.** Change in the U.S. administration could bring far-reaching changes to policies on China, trade, investment, Ukraine, the Middle East and U.S. alliance management – with global implications.

2: The State of the World's Two Biggest Economies

In contrast to early 2023, most economists enter 2024 with a bearish outlook for China. The nation's still-unresolved property crisis, high youth unemployment, weak consumer sentiment and perceptions of diminished opportunity among investors – compounded by other nations' economic security measures – all point toward a sluggish year. China's government, meanwhile, will follow policies that disappoint investors in services and push capital toward building more capacity in already-crowded priority industries like electric vehicles and advanced manufacturing. Coupled with a purposefully weak currency, these investments will boost exports as China attempts to trade its way to economic growth.

Prospects are more positive for the U.S. economy, as recession fears and monetary tightening gradually fade. The global flood of cheaper goods from China may fuel additional protectionist measures, such as tariffs and anti-dumping probes, resulting in more tit-for-tat trade actions between China and the United States and its likeminded partners and allies. ***These dynamics will prompt some corporations to re-evaluate their China and supply chain diversification strategies – and seek more attractive markets like India.***

Key Watchpoints

- **U.S. Federal Reserve rate moves.** If the Fed starts cutting interest rates, China's central bank would have space to do the same with less risk of capital outflows and currency volatility. Rate reductions would help reduce the debt burden of Chinese borrowers, particularly in the weak property sector, thereby providing some much-needed stimulus to the economy.

- **The state of China's stock market.** Beijing's market recovery attempts - unsuccessful to date – aim to recreate a wealth effect to stimulate consumption and encourage private investors. While the stock market still has room to fall, it appears close to a bottom. Net capital inflows might signal renewed market confidence, perhaps later in 2024, thereby making China look "investable" again.

- **Central government support for local government budgets.** China's property market collapse left sizable holes in the budgets of local governments, hobbling their capacity to provide fiscal stimulus through subsidies and causing local officials to aggressively fine or tax businesses to gain revenue. While the central government Is unlikely to systemically reallocate its budget to provinces, it might allow bond issuance to alleviate property market pressure and accelerate long- delayed financial incentives for local businesses. At the same time, Beijing wants to address hidden local government debts, which may slow reform.

3: Emerging Digital Regulations

Indo-Pacific governments are likely to implement tighter digital regulations this year, including on artificial intelligence (AI), online payment services, and social media platforms. More consumers will have access to AI products than ever before while large-scale international data transfers become essential to daily business operations. Policymakers now face the unenviable challenge of mitigating potential security threats, and privacy threats, that arise from those technologies without undercutting national innovation capacity or disincentivizing foreign investment. ***Discussions about the future of digital regulation in the Indo-Pacific are likely to be highly fluid and fast-paced, focusing on privacy protection, data security, and political legitimacy without degrading the business environment. The Asia's Group expanding Digital Practice will guide our clients through these developments.***

Key Watchpoints

- **Shift toward data localization.** The growth of AI, augmented reality, online payment services, and other data-rich enterprises have led to the **proliferation** of data storage and processing centers throughout the Indo-Pacific. India, China, and Vietnam, among others, have developed their own legal tools for restricting the international flow of data gathered within or transiting through their borders. The vacuum left by the lack of U.S. leadership – typified by the United States Trade Representative's (USTR's) **walking back** its commitment to promoting unobstructed international data flows – presents opportunities for other nations to fill the void, potentially further restricting the free flow of data. Japan, meanwhile, aims to promote international data exchanges and protect privacy through its **"Data Free Flow with Trust"** proposal.

- **Nascent multilateral AI agreements.** Last December, the EU reached **a sweeping provisional agreement** on the use of AI products, which was the first major global initiative to regulate AI following a Japan-led G7 agreement on AI principles in October. The November AI Safety Summit in the United

Kingdom culminated in the **Bletchley Declaration** signed by 28 countries, including the United States and China. The Bletchley Declaration calls for greater international cooperation to regulate "frontier AI" but lacks concrete policy steps. The next opportunities to push forward multilateral AI agreements will be at next week's ASEAN Digital Ministers Meeting in Singapore and at the next AI Safety Summit to be held this spring in South Korea.

- **Possible diffusion of AI standards.** Japan is likely to be the first country in the region to copy the EU and launch its own digital services act. TAG expects the legislation to focus on human-centric AI development and mostly target AI developers, although the mechanisms for enforcing compliance remain unclear. If South Korea and Taiwan embrace similar policies, then three of the Indo-Pacific's most technologically advanced and globally integrated economies might pave the way for others to adopt AI regulation. ASEAN states, meanwhile, are likely to take a more business-friendly approach as Singapore seeks to lead the bloc's effort to agree on AI principles.

4: Green Tech Competition

Facing 2030 goals for carbon intensity and 2050 goals of "net zero" – amid an **El Niño** pattern predicted to cause extreme weather **events** in 2024 – Indo-Pacific governments will hasten to adopt green and sustainable technology. At the same time, China will try to tighten its grip over rare earths and critical minerals supply chains, while threatening export controls, to ensure a competitive edge against players in Southeast Asia and elsewhere. ***Washington and likeminded partners will try to diversify supply chains away from China – which may lead to tit-for-tat measures between Beijing, Washington, and others. But cost and regulatory considerations make supply chain shifts easier said than done.***

Key Watch Points

- **More electric vehicle (EV) industry competition.** U.S. and EU investigations into China-based EV makers over alleged price manipulation tactics – combined with the Inflation Reduction Act which aims to EV production into the United States - may put a small dent in China's domination of global EV production. But the impact will be stronger in the West than in Southeast Asia or the Global South, which will continue to welcome inexpensive and high-quality China-made EV's. Chinese makers may seek to use Mexico to access the U.S. market. Meanwhile, India, Indonesia, Vietnam, and Thailand want to take advantage of low barriers to market entry to catch up to global EV makers in places like South Korea.

- **Diversified sourcing of rare earths and critical minerals.** Several Indo-Pacific countries – including, Australia, Indonesia, and the United States – will redouble their efforts to reduce China's role in their critical minerals and rare earths supply chains due to national security concerns, souring public views of China, and, in some cases, protectionist motives – though closing the gap will take years, if not decades. These dynamics may present new mining and refining opportunities for non-China-based firms, particularly those that have a presence in the Indo-Pacific – including through initiatives such as the U.S. Minerals Security Partnership. In some cases domestic prerogatives will get in the way, as with Washington's rejection of favorable terms for Indonesian nickel.

5: Indo-Pacific Free Trade Agreements

The Indo-Pacific region stands poised to add additional elements to its **noodle bowl** of free trade agreements (FTAs) and sector-specific economic policy integration schemes this year, defying the **predictions** of economists who have forecast a global decline in trust in international trade. While the region moves forward to liberalize trade, however, the United States will remain notably absent. ***The proliferation of FTAs in the region – even without the United States – will spur more non-U.S.-based companies to seek opportunities in the Indo-Pacific region.***

Key Watchpoints

- **Bilateral deals.** Among Indo-Pacific countries, India, Japan, the Philippines, and Thailand will exert the most energy toward sealing bilateral deals. India and the United Kingdom appear close to sealing a deal, with issues such as migration and **market access** persisting as sticking points. Other deals likely to be launched, signed, upgraded, or implemented this year include: Japan-Mercosur, **Japan-Bangladesh**, Philippines- EU, **Philippines-South Korea, Philippines-United Arab Emirates (UAE)**, **Thailand-EU**, **Thailand-South Korea**, **Thailand-Sri Lanka**, **Thailand-UAE**, China-ASEAN, and **China-Switzerland,** among others.

- **Expansion of the Comprehensive Partnership for a Trans- Pacific Partnership (CPTPP).** The United Kingdom officially joined the CPTPP in 2023 with China, Costa Rica, Ecuador, Taiwan, Ukraine, and Uruguay standing in the pending membership queue. Canada - the rotating chair of CPTPP this year - is under domestic pressure to find **"creative ways"** to support Taiwan's accession and has already **endorsed** Ukraine's application. The EU is watching the situation closely, but an EU- CPTPP arrangement – which would truly change global trade policy – seems unlikely to emerge yet in 2024.

- **Indo-Pacific Economic Framework (IPEF) talks.** Last year was a disappointing year for the United States' only regional economic policy initiative. Agreements were reached on cooperation on supply chains, clean energy, and anti-corruption measures, but in November the United States backed off from the trade pillar that it itself had designed. There will be no movement on the trade pillar in 2024, but the Commerce Department will try hard to institutionalize the agreements on supply chains and the clean economy to try to prevent them being overturned in the event of a new U.S. administration.

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