In Defense of the Indo-Pacific's Economic Order

US Leadership in Aligning Regional Growth Interests

By Shihoko Goto

Executive Summary

In contrast to its strong leadership in enhancing regional security, Washington continues to struggle in developing mechanisms that pave the way forward for resilient growth in the Indo-Pacific. Yet expectations for the United States to play a key role in shaping the future growth of the Indo-Pacific remain high amid the seismic shifts in the political as well as economic landscape of the region. The United States is unlikely to sign onto any new comprehensive trade agreements in the near future, but its interest in promoting and protecting supply chain resiliency and its advanced technologies from authoritarian governments is high and shared by other regional advanced economies in particular. At the same time, coercive actions taken by authoritarian regimes including China that weaponize their

Wilson Center | Indo-Pacific Program

Executive Summary (Continued)

economic advantages are seen to have limited impact on the overall economy and do not necessarily lend themselves to collective economic defense policies.

The greater concern in Southeast and South Asia in particular is that industrial policies and protectionist measures in the name of economic resilience will hamper their own growth. There is an opportunity for the United States to reassure its allies and partners across the Indo-Pacific by investing more strategically in critical infrastructure as well as in the development of human capital to meet the shifting demands of a new advanced technology future.

Policy Implications

- While the United States may not be signing onto new trade deals for the foreseeable future, its strategic trade interests in the Indo-Pacific are aligned with many advanced economies in particular. Washington can pursue trade deals focused on targeted concerns including supply chain resilience and advanced technology protection with like-minded partners.
- Wariness of Chinese economic coercion is a concern shared across the region and can be a low-hanging fruit in bringing governments across the Indo-Pacific closer together.
- Developing a workforce that can meet the needs of the advanced technology industries can be an opportunity to bridge the gap between advanced economies and the Global South, especially in Southeast and South Asia.
- Acknowledge the inevitability of competition in strategic industries including semiconductors and define areas for cooperation and coordinated action amongst like-minded partners and allies in the Indo-Pacific, especially in the field of emerging technologies.

Introduction

When President Biden took office in 2021, expectations were high across the Indo-Pacific for the new administration to work more closely on both the defense and the economic fronts with its allies and partners. Significant strides have been made over the past three years when it comes to security concerns, as Washington has furthered partnerships across the region with like-minded countries to collectively counter the rise of China's military capabilities. From furthering relations with Japan, Australia, and India through the Quad to developing new defense mechanisms with the UK and Australia by establishing AUKUS, the administration has sought to move away from the established hub-and-spoke network of security partnerships but has remained the leader in shaping the future of regional security. In fact, despite the ongoing war in Ukraine and conflict in the Middle East, US commitment to enhance its presence in the Indo-Pacific together with its allies and partners has been surprisingly unwavering.

In contrast, though, the US roadmap for economic leadership in the region has been less clear, despite the fact that it is the world's most populous and dynamic region with vested US corporate interests. To be sure, there is a broad consensus about the need for greater economic resilience shared by like-minded countries. In the latest 2023 Hiroshima G7 statement, leaders of the world's most advanced economies agreed on the need to work together to face the risks of disruptions and to adhere to the rule of law. The wealthiest nations also agreed on the need to protect sensitive technologies from abuse and to ensure that global economic interdependence is not abused. But one of the few values that is shared across the disparate landscape of Indo-Pacific nations but is seemingly not shared with the United States is the persisting faith in trade.

That certainly appears to be the case at first blush. US appetite for multilateral trade deals has been retreating over the past decade, and there has been bipartisan reluctance to sign onto any new trade deals since Washington's withdrawal from the CPTPP in 2017 amid concerns about rules that may disadvantage the competitiveness of US companies in the region. There were initially expectations across the Indo-Pacific that the United States under Biden's leadership would seek to join the CPTPP again, given that it had been one of the Obama administration's hallmark efforts to rebalance towards Asia and reinvigorate US economic leadership in the region. But, in reality, the Biden White House has stayed away from the debate of rejoining the multilateral trade deal. Instead, it has launched its own vision for economic cooperation through the Indo-Pacific Economic Partnership framework. IPEF initially outlined four key pillars: trade relations, supply chain resiliency, sustainable growth, and anti-corruption measures. The fact that the United States was unable to reach an agreement at the November 2023 APEC meeting on the trade rules of IPEF was a particularly painful blow to US efforts to take on a leading role in establishing a common framework for regulatory practices and standards for protecting the workforce, as well as the environment.

The Rise of China as a Free Trade Champion?

The US appetite for multilateral trade agreements is on the wane and unlikely to resume any time soon. Prospects for the United States to sign onto the CPTPP or move forward with the trade pillar of IPEF are slim under the current political climate in Washington. The irony, though, is that China is seeking to emerge as a champion of those very issues that Washington had been at the forefront of promoting. Beijing is already the biggest economy in the Regional Comprehensive Economic Partnership (RCEP) trade agreement which came into force in January 2022 with the 10 ASEAN countries as well as Japan, South Korea, Australia, and New Zealand. In September 2022, China officially filed to join the CPTPP, which was followed by Taiwan submitting its application to join the pact the following week. Yet, unlike when China joined the WTO together with Taiwan in 2001, expectations for China to embrace the current rules-based economic order are slim. Instead, there are growing concerns that Beijing's application to join the CPTPP could be a deliberate move to cause friction amongst the current 11 member countries.

Whether intentional or not, China's bid has undoubtedly driven a wedge amongst the members and deflected the focus of the trade deal to focus more on political considerations. Some analysts expect China to be able to meet the high standard trade rules, but of course it will have to prove not only its track record in abiding by those rules but also attain a consensus amongst the members to join. In short, the political considerations in addressing China's potential membership loom ever larger, and US absence from the deal will make it difficult for any effort to use the CPTPP as a means to confront the China challenge.

Eyes on the Regional Growth Challenge

Confronting the China challenge may be one of the few issues that continues to unite the United States, but across the Indo-Pacific, the focus is on ensuring continued economic expansion even as the model that had led to regional growth since the end of World War II is under increasing pressure. In *The East Asian Miracle* published in 1993, the World Bank highlighted the public policies pursued by Japan, South Korea, Taiwan, Singapore, Hong Kong, Indonesia, Thailand, and Malaysia that led to their rapid rise between 1965 and 1990. Since then, not only has China surpassed Japan as the world's second-largest economy, but India has also emerged as a country with much potential to lead growth in the region and counterbalance China's rapid expansion. At the same time, while the World Bank publication sought to validate industrial policies targeting the growth of strategic industries that had been adopted by the so-called Asian Tigers over three decades ago, such practices have actually come to be seen as key for economic resilience by governments across the board. Moreover, in pursuing policies that would enable greater resilience and decrease dependence on China, the United States has stepped up efforts to target public support and funding for critical industries, most notably in the advanced technology sector.

To be sure, efforts to "China proof" the global economy cannot be done through industrial policy and protectionist measures alone. Cooperation with like-minded allies and partners in the region to defend shared trade interests including innovation and financial systems are a prerequisite to maintain the rules-based economic order. When it comes to defending advanced technologies, there is not only a consensus about the need to keep advanced semiconductors and chip manufacturing equipment from China, but also a shared understanding of the need to be the pioneers in establishing the rules of advanced technology governance. While China's economy may be showing signs of slowing down, there is no doubt that Beijing will continue to prioritize investing in critical industries including semiconductors and electric vehicles as well as biotechnology.

A focus on the systemic threat posed by technology competition is bringing some of Washington's closest allies to coordinate economic security efforts. The most striking to date has been the alignment of Japan and the Netherlands with the United States in the export control of advanced semiconductor manufacturing technology from October 2022. Yet by prioritizing the protection of advanced technology and focusing heavily on the China challenge, the United States risks dividing its regional allies between the advanced economies of Northeast Asia and the emerging markets of Southeast as well as South Asia. There is a shared interest across the Indo-Pacific to be resilient to unexpected disruptions, be they from natural disasters or from deliberate policies aimed to take advantage of the interconnected global economy.

Cooperation Beyond Coercion

Economic statecraft whereby leveraging economic influence for political gain is on the rise. From Australia to Japan and Taiwan and Lithuania, governments large and small have been hard hit by the coercive economic actions taken by the Chinese authorities that have leveraged their economic might to take punitive actions against policies that run counter to Chinese interests. Moreover, private companies and businesses worldwide too have been hampered by coercive tactics taken by China in recent years. A consensus has emerged across the Indo-Pacific and beyond for the need to push back against such actions, and Washington has not shied away from taking on a leading role in calling for a united front against coercion.

Indeed, whilst there are significant differences in how to address the economic challenge that China poses to the region, there is growing unity about the need to push back against such actions. At the same time, the actual economic cost of coercion has been shown to be surprisingly limited. In the case of Australia, Chinese retaliation in 2020 against Canberra's call for an independent inquiry into the origins of COVID-19 only shaved off overall Australian exports by 0.2%. In short, while the cost of coercion can be high for the industries and companies that have been targeted, its impact on the overall national economy has been limited. As such, a united front against coercive action should first and foremost act as deterrence against China in the first place. Yet the need for collective regional economic action against coercion is debatable, given its limited impact on destabilizing growth across the Indo-Pacific.

In Support of New Asian Miracles

What the Indo-Pacific economies do require, though, is a way forward to protect the advancements they have made in recent decades and ensure that they continue to move up the value chain amid a reassessment of economic resilience, especially when it comes to supply chains in the technology sphere. No longer are industrial policy and public-private partnerships seen as outliers for growth and innovation that fly in the face of free trade. The formulas that had been the driving force for growth in East Asia in the last century are now being reevaluated as key for innovation and competitiveness in an interconnected global economy. Still, there is a concern about economic abandonment in the emerging markets of the Indo-Pacific as the advanced economies adopt protectionist measures in the name of resilience and national interest.

In the case of critical minerals, for instance, the 2022 Security Minerals Partnership has brought together Japan, South Korea, and India, as well as key European countries with the United States, to diversify and strengthen the supply chain for critical energy minerals from extraction to processing and recycling. While the goal for the member countries will be to ensure their own supplies of lithium, cobalt, graphite, and other elements, it will also be a test of how Global South countries can leverage their assets to move up the value chain rather than simply extract and export critical minerals. In the case of Indonesia, it has emerged as a dominant player in the global nickel industry with the assistance of investments and technological transfer from China and is now challenging Australia in nickel exports.

Amid growing expectations for breaking through the middle-income trap, there is also a reassessment about the type of workforce that would drive economic expansion. Investing in human capital, most notably in improving primary and secondary education, has been a critical driver for the rise of the Asian tigers. The need to cultivate a workforce that can meet the demands of the 21st century's industrial needs is a global conundrum and will only intensify further with advanced economies already competing amongst themselves to attract the best technology talent across the world.

At the same time, the quest for talent can be an opportunity for the United States to invest in countries with a highly educated and motivated workforce that could be trained to power strategic industries. One example of a mutually beneficial partnership between the United States and its partners in the Indo-Pacific is Arizona State University's efforts to invest in semiconductor workforce development in Vietnam. In February 2024, the State Department awarded the university nearly $14 billion through the CHIPS act to boost the semiconductor workforce skills in targeted countries of the Indo-Pacific as well as the Americas. The State Department noted that the fund "builds workforce skills partners need to keep up with advancing technology, secure meaningful employment, and contribute to economic growth and prosperity." Expanding such investments and partnerships will be key for the United States not only to advance its own economic interests to meet the ever-growing technology skills gap, but would also lead to greater confidence and trust in US regional economic leadership.

Acknowledging Competition and Enhancing Cooperation

The fact remains that when it comes to trade relations, healthy competition is imperative to innovation and growth. As such, tension between companies in competing industries and the governments that represent them is inevitable. The semiconductor industry is no exception. While international cooperation efforts in raising awareness of chokepoints and vulnerabilities are moving forward, corporate competition between the world's biggest manufacturers is expected to be unavoidable.

At the same time, for the United States, economic security will focus first and foremost on defending national security interests and the strategic challenge China poses on the advanced technology front. For most of the Indo-Pacific, however, economic security's primary focus will be to ensure continued growth and relevance in the rapidly evolving global economy. How Washington can move forward with achieving those twin objectives will be the test of US economic leadership in the region. While there is wariness of Chinese economic coercion and unfair trade practices, decoupling from the region's biggest economy has never been an option. Moreover, as much as derisking from China is of interest, the greater concern for most countries in the region is to ensure their continued growth trajectory. That requires a reassessment not only of the trade and economic policies that have led to expansion to date, but also to forge a new way forward to remain competitive in the global economy.

Additionally, ensuring that demand for their natural resources can lead to an exit from the middle-income trap, and that the growing populations of Southeast and South Asia are part of the workforce driving global advanced technology economies must be part of the support that the United States offers. A highly skilled labor market in the Indo-Pacific may be competition for the United States back home, but it also ensures regional stability and perhaps most importantly, a staunch base that supports the rule of law and the leadership role that the United States plays in it.

Shihoko Goto is the director of the Indo-Pacific Program at the Wilson Center.

Wilson Center | Indo-Pacific Program

Woodrow Wilson International Center for Scholars
One Woodrow Wilson Plaza
1300 Pennsylvania Avenue NW
Washington, DC 20004–3027

The Wilson Center

wilsoncenter.org
woodrowwilsoncenter
@thewilsoncenter
The Wilson Center

© 2024, Woodrow Wilson International Center for Scholars