



Positive Visions, Powerful Partnerships

**The Keys to Competing with China in a
Post-Pandemic Indo-Pacific**

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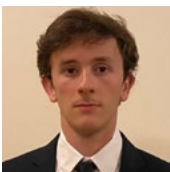
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The CNAS Indo-Pacific Security Program addresses opportunities and challenges for the United States in the region, with a growing focus on issues that originate in the Indo-Pacific but have global implications. It draws on a team with deep government and nongovernment expertise in regional studies, U.S. foreign policy, international security, and economic statecraft. The Indo-Pacific Security Program analyzes trends and generates practical and creative policy solutions around four main research priorities: U.S.-China strategic competition, India's growing role in the Indo-Pacific, the North Korea threat, and American alliances and partnerships.

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Executive Summary

The United States was losing ground to China in the Indo-Pacific when the COVID-19 crisis began. China's growing economic might, military modernization, and aggressive diplomatic efforts were already eroding America's competitive advantage and shifting the regional balance of power. A year after the virus first spread, it is possible to identify where the pandemic is affecting diplomatic, economic, and defense trends in ways that could accelerate declines for the United States, but also might create opportunities to reverse or mitigate some of them.

Restoring U.S. alliances and partnerships in the Indo-Pacific is critical to competing effectively against China, and President Joe Biden has made this a top foreign policy priority. In particular, his administration is making the Quadrilateral Security Dialogue—a strategic forum commonly known as the Quad, which is comprised of the United States, Japan, Australia, and India—a core component of its approach to the Indo-Pacific. Chinese post-outbreak behavior has driven increased cooperation among these four countries in the diplomatic, economic, and defense domains to address shared challenges from China. Seizing the opportunities this cooperation creates is critical for the United States.

While expanding U.S. cooperation with Quad countries, the United States cannot neglect Southeast Asia, where competition with China for influence is fiercest. Southeast Asia is at the heart of U.S. and Japanese efforts to promote a free and open Indo-Pacific, and is a region where Australia has played a traditional leadership role. Competing effectively with China requires offering Southeast Asian countries a positive alternative vision to the one Beijing promotes. Whether the United States and its fellow Quad democracies can help Southeast Asian countries recover from the COVID-19 crisis will be a key litmus test of their ability to deliver on such an agenda.

This report offers recommendations for the United States to take unilaterally and in close cooperation—bilaterally, trilaterally, and through the Quad—with Japan, Australia, and India to address challenges and seize opportunities created by the COVID-19 crisis along three lines of effort: diplomatic, economic, and defense.

Diplomatic Lines of Effort

- Swiftly follow through with plans to work with Japan and Australia to fund the Indian production of at least one billion vaccine doses and their distribution in the Indo-Pacific. Consider additional vaccine diplomacy options to pursue unilaterally or in concert with the Quad and other countries.

- » Option 1: Lay the groundwork for an eventual smooth transition from distributing vaccines in the United States to distributing them abroad.
- » Option 2: Provide financial support to fund the purchase and distribution of vaccines in the Indo-Pacific, especially among Southeast Asian countries.
- » Option 3: Consider additional steps to boost vaccine production by supporting distributed manufacturing capacity in the Indo-Pacific.
- » Option 4: Create an Indo-Pacific COVID-19 response mechanism that includes Quad and Association of Southeast Asian Nations (ASEAN) countries, South Korea, Taiwan, New Zealand, and the Pacific Islands.

- Build shared mechanisms for tackling Chinese disinformation about the origins of COVID-19 and the efficacy of Western vaccines.
- Prioritize public health and emergency preparedness in Quad and ASEAN engagements, and increase public health assistance to Southeast Asian countries.

Economic Lines of Effort

- Prioritize helping Indo-Pacific countries, especially those in Southeast Asia, deal with debt problems resulting from or exacerbated by the COVID-19 crisis.
- Accelerate implementation of existing assistance programs for infrastructure and human capital development in the region and enhance coordination with other Quad countries on the delivery of assistance.
- Pursue small-scale trade initiatives, while simultaneously exploring the costs and benefits of entering the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.
- Balance reshoring with diversification of supply chains and emphasize efforts to help allies and partners deepen their own supply chains.
- Expand opportunities for Quad engagement on economic issues in the Indo-Pacific.

Defense Lines of Effort

- Increase defense integration with Japan and Australia.
- Adapt exercises to account for potential reductions in presence and possible future disruptions to training cycles.
- Seize opportunities to expand the U.S.-India defense relationship.
- Seek opportunities to reinforce and expand defense ties between all four Quad countries.

Introduction

The United States is losing its strategic advantage to China in the Indo-Pacific. Although the United States remains the security partner of choice in the region, China's increasing economic clout, assertive diplomacy, and growing military capabilities are shifting the regional balance of power. Many Indo-Pacific countries are wary of China, which uses its economic and military power to coerce its neighbors, but they are also increasingly viewing China as a peer of the United States in the Indo-Pacific and according due deference to Beijing. The more that regional countries see China's rise as inevitable, the more likely they may be to accommodate Beijing. China's growing influence in the region is partly the result of structural shifts beyond U.S. control, but the United States has also hastened the decline of its own influence there.

Many key Indo-Pacific countries embraced the Trump administration's unambiguous declaration that China is a global competitor, but they also bristled at its tendency to make U.S. policies toward them a function of its approach to Beijing.¹ Moreover, Donald Trump strained U.S. relations with regional countries by targeting them with tariffs, skipping regional multilateral gatherings and economic negotiations, and, in the case of Japan and South Korea, attempting to impose extractive cost-sharing agreements on them. His decision to pull out of the Trans-Pacific Partnership (TPP) hobbled the United States economically and diplomatically, exacerbating growing Chinese influence in both of these domains and robbing the United States of the opportunity to help write the trade rules in the Indo-Pacific.

The COVID-19 crisis is accelerating and intensifying trends in the diplomatic, economic, and military domains in ways that could put the United States at a further disadvantage. Beijing has sought to leverage the COVID-19 crisis to expand its influence in the region, taking advantage of the vacuum Washington created to place itself at the heart of the regional economic and public health recovery. With China rapidly rebounding from the global health crisis that originated there, and the United States continuing to grapple with the legacy of the Trump administration's mismanagement of COVID-19, the ensuing economic fallout, and bitter partisan divisions, the regional balance of power could tilt further in China's direction.

China's growing influence in the region is partly the result of structural shifts beyond U.S. control, but the United States has also hastened the decline of its own influence there.

America's allies and partners are already key players in the Indo-Pacific, and will only become more important as Chinese economic and military power grows. Since the pandemic began, Chinese behavior in the diplomatic, economic, and defense domains has strengthened cooperation among the United States, Japan, Australia, and India bilaterally, trilaterally, and through the Quadrilateral Security Dialogue (commonly known as the Quad). While the pandemic aggravates challenges for the United States, it also creates opportunities to cooperate more closely with other Quad countries to compete effectively with China in the Indo-Pacific.

The Biden administration has retained the Trump administration's competitive posture toward China, but indicated plans to break from its predecessor's transactional approach toward the region.² Instead, Biden has made it a priority to rebuild U.S. alliances and partnerships, including in the Indo-Pacific.³ This requires moving beyond the Trump administration's narrow, China-centric agenda and offering regional countries a positive agenda that serves their interests. The ability of the United States to help the region address its needs when it comes to dealing with the COVID-19 crisis and

its aftermath will be a litmus test for U.S. competence and commitment to delivering on

such an agenda. Nowhere is this more important than in Southeast Asia, where competition with China for influence is the most intense.

The Biden administration is prioritizing the Quad as a core component of its approach to the region.⁴ On March 12, the Quad held its first ever leader-level summit. Leveraging cooperation with Japan, Australia, and India to respond to the needs of other Indo-Pacific countries that the COVID-19 crisis created is absolutely critical. In addition to the benefits for the region, such cooperation will reinforce ties among the Quad countries. It could also help create linkages between the Quad and the Association of Southeast Asian Nations (ASEAN), and provide a rationale for developing a scalable framework to connect others, such as Taiwan and South Korea, into select Quad initiatives. For example, Seoul's New Southern Policy and Taiwan's New Southbound Policy could play an important role in the U.S. Indo-Pacific strategy, including in Southeast Asia. Both South Korea and Taiwan have also been models for how to handle

COVID-19 domestically. Beyond further integrating U.S. allies and partners into a regional framework, such an approach would provide a powerful example of four democracies working together to address the pressing needs of other Indo-Pacific countries.

There is an immediate need for a public health response to COVID-19 in the Indo-Pacific. Investigating the origins of the virus and its spread is important for preventing or coping with a potential future pandemic, and should remain an international priority. Although countries in the region recognize China's failure to act in a transparent manner following the coronavirus outbreak and some want China held accountable, finding a way out of the crisis is the more urgent task. China has a head start in vaccine diplomacy—the use of vaccine production and distribution to enhance diplomatic influence—especially in Southeast Asia, where it has sent more than 60 percent of its global vaccine supply.⁵ There is still time for the United States to make up ground. At the March 12 leader-level Quad summit, the four countries announced plans to cooperate to expand vaccine production and distribution and speed economic recovery.⁶ Other diplomatic responses will be critical as well, including the use of foreign assistance to help Southeast Asian countries respond to the immediate economic fallout resulting from the crisis and make longer-term improvements to public health infrastructure. Here, too, coordination among Quad countries could help ensure assistance has maximum effect.

Washington must also deal with Beijing's growing economic clout and the influence that comes with it, both of which are likely to get a boost from China's unsteady but undeniable economic recovery. In the near-term, the United States needs to be part of the economic recovery in the region, especially in Southeast Asia and in India, as New Delhi seeks to reduce its economic reliance on Beijing. The United States also needs to find a way to address the longer-term deterioration of its economic position—a development that is likely to be exacerbated by COVID-related economic trends in the region and the U.S. decision to opt out of the TPP.

Although the diplomatic and economic domains are most affected by the COVID-19 crisis, the United States also must mitigate the potential second-order effects of the pandemic on its military capabilities. America's military position in the Indo-Pacific is eroding partly as a result of China's increased military spending and the demands of America's global responsibilities, but the United States has also failed to adapt its warfighting concepts and forces to the challenges China poses. The pandemic's possible effect on future defense budgets

could further strain America's military position in the Indo-Pacific, or at least undermine regional countries' confidence in that position. These countries may seek more autonomy as a result, leading them to develop stronger capabilities of their own to deter aggressive Chinese behavior. Such a development could create opportunities for greater burden sharing, but this will require close coordination to ensure these capabilities are complementary and not duplicative.

The authors made several analytical choices for this report that are worth illuminating. First, the project that resulted in this report was nested under a Center for a New American Security (CNAS) initiative launched in April 2020 on America and the post-pandemic world. As such, we explored how the COVID-19 crisis is affecting key trends related to competition with China in the Indo-Pacific in the diplomatic, economic, and military domains. Our guiding principle was to keep the focus on developments related to the pandemic. All of the research was conducted after the COVID-19 crisis began and culminated just as the first vaccines

The pandemic's possible effect on future defense budgets could further strain America's military position in the Indo-Pacific, or at least undermine regional countries' confidence in that position.

were becoming available for distribution. We first sought to develop a baseline by conducting a review of key regional trends in the diplomatic, economic, and military domains, after which we assessed whether and to what degree these trends were affected by the pandemic. We recognized that in many cases, the COVID-19 crisis was accelerating preexisting trends, but that it also had the potential to create inflection points for key countries. A crucial issue then became determining where the pandemic created opportunities for the United States to mitigate existing challenges, and where it might exacerbate these challenges. Our aim in taking this approach was to identify concrete recommendations related to the effect of COVID-19 on U.S. interests in the Indo-Pacific, while also accounting for the fact that the empirical data necessary for a full assessment of the pandemic's impact simply will not be available for some time.

Second, this project was designed to focus on the U.S.-Japan alliance, as well as U.S. relations with several other countries that are critical to competition with China. Among America's allies in the Indo-Pacific and beyond, Japan most closely shares American views of the challenge China poses. Japan is viewed positively throughout much of the region for its provision of public goods and support for infrastructure, and is poised to play a vital role in mitigating challenges exacerbated by the COVID-19 crisis and maximizing opportunities the pandemic has created. Our focus on developments related to COVID-19 informed which additional countries we looked at and how we organized our findings. It quickly became clear that no countries in the region have seen greater shifts in their bilateral relations with China since the pandemic began than Australia and India. Australia is a key U.S. ally, and the U.S.-India partnership has improved substantially over the past decade. Both countries have clashed with China since the pandemic began—militarily in India's case, and economically in Australia's.

In addition to examining the effects of the pandemic on diplomatic, economic, and defense trends in the U.S.-China bilateral competition, we conducted a similar assessment of these trends from the perspectives of Japan, Australia, and India. Post-pandemic developments have helped drive increased cooperation between the four Quad countries and spurred them to elevate and operationalize the Quad as a strategic forum. As we looked at ways the United States could

work with key allies and partners to mitigate challenges and seize opportunities related to the pandemic, it became evident that the interplay between these four countries would be critical. We recognized that other regional countries, such as South Korea, with its New Southern Policy and model COVID response, European allies, and the European Union will be important as well, and sought to factor them in where appropriate.

Third, we accounted for the challenges and opportunities the pandemic created in Southeast Asia, where the U.S. competition with China for influence is fiercest. The United States is at risk of losing influence in Southeast Asia, in part because of its failure to offer a positive vision to the countries in this area of the Indo-Pacific region. While we engaged with how to address this development, we also recognized the important role that other countries play. Southeast Asia is at the heart of Japanese, as well as U.S., efforts to promote a free and open Indo-Pacific, and it is a region where Australia has played a traditional leadership role. Our focus in the body of the report is on the damaging effects of the COVID-19 crisis on Southeast Asian countries. With the exception of Indonesia and the Philippines, these countries have recorded lower transmission and fatality rates per capita than those in other regions, but the pandemic has had devastating economic effects throughout much of Southeast Asia. When making recommendations, we considered how the Quad countries can work independently and collectively to aid Southeast Asian countries' recovery from the crisis.

Chapter One: The United States, China, and COVID-19 in the Indo-Pacific

Even before the COVID-19 crisis spread across the world, Chinese influence in the Indo-Pacific was increasing at the United States' expense.⁷ Seventy-nine percent of Southeast Asian regional elites consider China the most influential economic player, an increase of 6 percent from 2019. Fifty-two percent consider China the most influential political-strategic player, compared to only 26 percent for the United States.⁸ Regional countries recognize the perils of an illiberal China-led order, but they also perceive an inevitability to China's rise, driven first and foremost by China's growing economic clout. China integrates its instruments of national power so that they are greater than the sum of their parts—one example is China's use of economic influence to further its geopolitical objectives and facilitate military cooperation with regional countries. Beijing simultaneously uses its military capabilities to support its economic efforts and applies extensive government resources to develop and advance the interests of Chinese business overseas. The United States remains the security partner of choice for most Indo-Pacific countries, but Beijing's approach is predicated on the assumption that Washington cannot translate its military power into regional influence with many countries because they prioritize economic development and worry that the United States will not act militarily to protect their interests in the event of Chinese aggression.⁹

The U.S. approach toward China has shifted dramatically from the pursuit of a more constructive relationship to one based primarily on competition with a revisionist power, but the United States is still in need of a comprehensive and coherent strategy to compete with China. In particular, the failure to match defense cooperation with positive diplomatic and economic engagement can undermine U.S. influence in the Indo-Pacific. As China gains ground militarily, this could reduce the inclination of regional countries to align with the United States in order to balance against China. Although Washington's waning influence in the Indo-Pacific pre-dates the Trump administration, the former president's policy and rhetoric exacerbated downward diplomatic and economic trends. The fallout from the COVID-19 crisis has accelerated these trends and could hasten the erosion of the U.S. military advantage in the region as well.

Diplomatic Trends

As a CNAS report published before the COVID-19 pandemic observed, Beijing is outpacing Washington in the Indo-Pacific with its more focused and innovative approach to diplomacy.¹⁰ China leverages its economic and military might in pursuit of diplomatic objectives, employing a mixture of hard and soft power. Beijing devotes considerable resources to public diplomacy and propaganda that promote the narrative of China's rise and America's inevitable decline. Chinese messaging also advances the idea that its system of governance is superior to Western democracy. Beijing's efforts target businesses, media organizations, universities, and thought leaders in democratic societies. China employs information operations not only for its own direct benefit, but also to support like-minded leaders. When Beijing-supported rulers have come under threat in the region—for example, during 2018 elections in Cambodia and Malaysia—Chinese hackers and security officials have been deployed to assist their beleaguered friends.¹¹

China has directed much of its diplomatic capital toward engaging the region's pivotal states, summits, and institutions.¹² In Southeast Asia, where China has prominently promoted its concept of a "global network of partnerships," Beijing has sought to deepen cooperation through the ASEAN-China Strategic Partnership Vision 2030, which was issued at the 21st China-ASEAN Summit in November 2018 and laid out a medium- and long-term blueprint for cooperation.¹³ In the Indian Ocean, China is the only country with diplomatic missions on all six island nations.¹⁴ These diplomatic investments pay dividends, especially when combined with economic inducements.

In contrast to Beijing's focused efforts, former President Trump alienated close allies, most notably Japan and South Korea, through his extortive demands for four- and five-fold increases, respectively, in payments for U.S. military forces based in these countries.¹⁵ Moreover, despite the centrality of Southeast Asia to the competition for regional influence, the United States failed to pay sufficient diplomatic attention to ASEAN or ASEAN member states. Trump's policy and rhetoric exacerbated America's downward diplomatic trajectory. Both Trump's failure to appoint a U.S. ambassador to ASEAN during his time in office and his decision to skip the ASEAN summit for three years in a row signaled a serious lack of interest in Southeast Asia.¹⁶ More broadly, Trump's decision to exit the Intermediate-Range Nuclear Forces (INF) Treaty, the Paris Climate Agreement, Iran nuclear deal, and the TPP all sent the signal that trusting Washington to keep its commitments was a risky proposition.



Chinese Foreign Minister Wang Yi (right side, center) hosts a Beijing meeting of permanent representatives to the Association of Southeast Asian Nations (ASEAN) in 2018. China continues to promote partnerships in the Indo-Pacific, particularly with ASEAN member states. (Lintao Zhang/Getty Images)

The COVID-19 crisis initially appeared as though it would mainly damage China's reputation given the coronavirus' origins in the city of Wuhan in Hubei province. When Chinese New Year began on January 25, 2020, the domestic coronavirus case count had surpassed the total case count of the 2002 SARS epidemic, and the disease was popping up in other countries too.¹⁷ The virus was battering the Chinese people, the Chinese economy, and the Chinese Communist Party's (CCP) legitimacy. At home, the CCP raced to silence a groundswell of anger on social media about its attempted cover-up of the virus, while abroad people speculated that it could spell doom for Chinese President Xi Jinping's grip on power.¹⁸ That week, a headline in the New York Times read, "In Coronavirus, a 'Battle' That Could Humble China's Strongman."¹⁹ By mid-February, the widespread narrative was that the "Coronavirus Crisis Shows China's Governance Failure," as one New York Times article put it.²⁰

Even as the CCP struggled to control the spread of the virus and ensuing domestic anger, it turned its attention to shaping the narrative abroad. A directive for the Cyberspace Administration of China, the agency

charged with shaping online discourse, called on the agency to not only clamp down on viral anger at home, but also to "actively influence international opinion."²¹ At first, these efforts were largely defensive. Chinese official channels debunked claims that the virus had started with a leak from the Wuhan Institute of Virology and played up statements of support from leaders in the region.²² As infection numbers hit exponential growth globally and China's strict lockdown helped it turn a corner in its battle at home, however, Beijing's messaging switched from tamping down claims that CCP missteps had sparked a global crisis to claiming that China's efforts had "bought precious time for other countries to fight the virus."²³ The CCP even began to propagate unfounded claims that the virus might have originated outside of China.²⁴

While it worked to unburden itself of responsibility for the global pandemic, the CCP began casting itself as the leader in a global response, offering to share supplies and best practices with the world.²⁵ China's highly publicized donations of sometimes faulty equipment drew criticism in the European Union and the United States, but played better in Southeast Asia, where leaders and media

generally expressed gratitude toward Beijing.²⁶ The first donation in China's global campaign of "mask diplomacy" went to the Philippines on February 3, 2020, and by the end of March every ASEAN member state except for Singapore and Vietnam had received shipments of masks, test kits, and other medical supplies.²⁷

Although Beijing sought to position itself as a global leader, it took a regionally bifurcated diplomatic approach. As China's economy reopened and the pandemic worsened across the United States and Europe during the second half of 2020, the CCP went on an aggressive offense against these states. Chinese state media and government spokespeople emphasized the failure of democratic governments to get their own houses in order.²⁸ After Canberra, a democratic government that had gotten the virus under control, began

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calling for an "independent assessment" of the virus' origin in April 2020, Beijing resorted to extremely punitive economic measures in an attempt to make an example out of Australia to other countries that might contemplate criticizing it.²⁹ Although Western media accounts of China's diplomatic efforts since the pandemic began often focus on its aggressive, "wolf warrior" diplomacy against the United States and European countries, the CCP took a different approach to Southeast Asian nations, where it largely set aside such muscular diplomacy in favor of touting China's capacity to assist with the regional economic and public health recovery. In the healthcare space, Beijing moved away from the mask diplomacy that marked the early days of the pandemic to vaccine diplomacy.

Although the Chinese government has promoted the Health Silk Road since Xi first announced it in 2017 as an effort improve public health in countries that are part of China's Belt and Road Initiative (BRI), Beijing had done little to actually build public health infrastructure in BRI countries before the COVID-19 crisis. Since the pandemic began, China has sought to position itself at the forefront of global health leadership.

As of early February, Chinese vaccines developed by Sinovac, Sinopharm, and CanSino were authorized and approved for use in China and over 60 other countries.³⁰ Numerous countries, including many ASEAN member states, were either signed up to use a Chinese vaccine or competing to access them.³¹ Their pursuit of these vaccines, despite the fact that these options were less effective in phase three trials than those developed by Western countries, is a function of affordability and availability. Notably, at the time this report went to press, China had sent over 60 percent of its global vaccine supply to Southeast Asia.³² Focusing on vaccine development and distribution not only gives Beijing a way to pursue its global health leadership ambitions, but also provides an opportunity to build out logistics chains in line with the BRI.

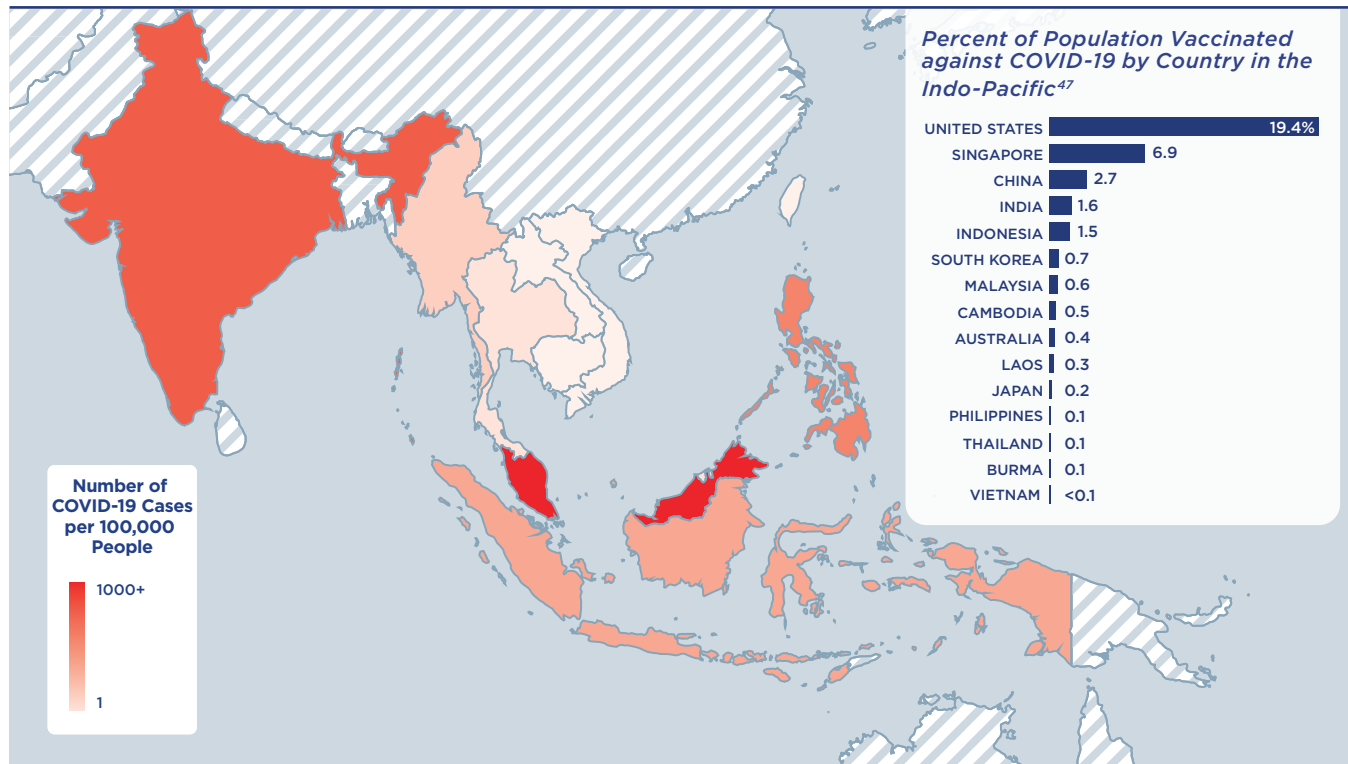
By seizing the opportunity presented by the region's need for vaccines, China could expand its ties in Southeast Asia. For example, Chinese vaccine producers are building manufacturing partnerships with local companies in countries like Indonesia and setting up supply chains that will endure beyond the current vaccine race.³³ Beijing has also institutionalized its public health engagement with ASEAN by establishing a China-ASEAN human resources training program for the health sector, a regional reserve of medical supplies for public health emergencies, and a liaison mechanism for public health emergencies.³⁴

The U.S. government response—domestically and internationally—to the COVID-19 crisis further undermined America's diplomatic position in the Indo-Pacific. Failure to properly handle the virus at home severely damaged U.S. credibility abroad.³⁵ Although not necessarily seen as an indictment of democratic governance writ large, the Trump administration's inability to prevent hundreds of thousands of deaths reinforced regional views that the United States is incapable of governing itself effectively, which in turn has sowed further doubt about America's ability to contribute to regional prosperity.³⁶ In addition to their concerns about U.S. competence, stakeholders in the Indo-Pacific have questioned how Washington can increase attention to the region with so many pandemic-related problems at home.³⁷ The Trump administration's withdrawal from the World Health Organization (WHO), refusal to join COVID-19 Vaccines Global Access (COVAX, which is an alliance that seeks to provide fair and equitable access to COVID-19 vaccines), and unwillingness to export vaccines, even to countries with contracts, reinforced many of the damaging aspects of his administration's "America First" approach.

It is important to note that the United States contributes more aid to Southeast Asia than China, including \$90 million in earmarked USAID funding for COVID-19 relief donations, which is the highest amount of aid to the region from an individual donor country.³⁸ Additionally, the State Department's recent U.S.-ASEAN Health Futures initiative presents a promising framework for long-term engagement that will build significant public health capacity in Southeast Asia.³⁹ Two of the vaccines authorized in the United States as of March 2021—Pfizer-BioNTech and Moderna—are considered more effective than the Chinese vaccines currently approved for use in other countries, although Pfizer-BioNTech is more difficult to distribute because of the need to store it at -70 degrees Celsius.⁴⁰ The Johnson & Johnson single-shot vaccine and the AstraZeneca vaccine, the latter of which is not authorized for use in the United States, are both roughly equivalent to Sinopharm's self-reported efficacy rate. (When comparing efficacy it is important to note that results may vary depending on where trials were conducted and whether they occurred before or after new coronavirus variants emerged).

U.S. efforts, such as the USAID funding for COVID-19 relief, were overshadowed by Beijing's heavily publicized assistance—as seen with mask diplomacy and then vaccine diplomacy—and the United States' unwillingness, until recently, to contribute to international vaccine development and distribution. Although the United States missed an opportunity early on to show that it could lead the way, there is still time for it to play a critical role in the pandemic response. In December, 2020, Congress authorized a \$4 billion contribution to the global pandemic response, \$2 billion of which was allocated to COVAX.⁴¹ On January 21, the day after President Joe Biden was inaugurated, the U.S. government announced it would rejoin the WHO and join COVAX.⁴² Biden pledged up to an additional \$2 billion toward the COVAX effort at a G7 meeting in February.⁴³ As this paper went to press, the United States and its fellow Quad members announced plans to work together to strengthen equitable vaccine access for the Indo-Pacific in close coordination with multilateral organizations, including the WHO and COVAX. Most notably, the Quad has pledged to deliver at least one billion COVID-19 vaccine doses throughout the Indo-Pacific by the end of 2022.⁴⁴ Although the details are still taking

*Southeast Asia's Cumulative COVID-19 Cases per 100,000 People*⁴⁶



Countries are gradually beginning to vaccinate their populations, with Singapore taking the lead in the Indo-Pacific. "Percent of Population Vaccinated" tracks the number of people who have received either both doses of a two-shot vaccine (e.g., Moderna) or one shot of a single dose vaccine (e.g., Johnson & Johnson).

shape, the plans reportedly include U.S. and Japanese financing for Indian vaccine production, including Johnson & Johnson's single-dose vaccine, and Australian support (possibly with Japan as well) for vaccine distribution across the Indo-Pacific.⁴⁵ The announcement of such an ambitious vaccination production and distribution plan, including a vaccine expert working group to ensure speedy implementation, within 60 days of President Biden's inauguration is remarkable. This effort indicates that the Biden administration is likely to prioritize the Quad in achieving its goals in the region and that it will also increase U.S. reliance on non-military instruments of statecraft in pursuit of these goals.

Economic Trends

China's gross domestic product when measured in terms of purchasing power parity is greater than that of the United States, though this metric is most relevant for domestic goods, and so China's capacity to import goods from the global economy is still somewhat lower. China's economic heft—measured in terms of bilateral trade and tourism, as well as investment, albeit to a lesser degree—also outweighs that of the United States in every Indo-Pacific country in the region except for India.⁴⁶ U.S. allies are among the regional countries most dependent on China as an export market (see Figure 1).⁴⁷ But China's regional economic footprint is not limited to trade. Over the years, it has developed a chokehold over key supply chains on which many countries rely. With domestic venture capital markets flooded, China has also upped its investments in regional innovation ecosystems: In Southeast Asia, total Chinese investment in the region's startups hit \$1.78 billion over the first seven months of 2019, an eight-fold increase over the previous year.⁴⁸

Beyond its bilateral economic ties, Beijing has pushed new economic structures to undergird an increasingly Sino-centric regional order, like the Asian Infrastructure Investment Bank (AIIB) and BRI.⁴⁹ As the long-term debt and environmental implications for recipient countries of China's infrastructure building spree along the New Silk Road began to garner greater scrutiny in recent years, the CCP shifted its focus to nimbler technology and public health projects, organizing them under a Digital Silk Road and Health Silk Road, respectively. Just as BRI is a product of China's massive excess capacity at home in the hard infrastructure space, the Digital Silk Road is an effort to encourage outbound investments by Beijing's ascendant tech giants. Chinese tech startups, flush with funds from massive government-led investments in cutting-edge AI-enabled technologies like facial recognition and smart city traffic management,

are increasingly marketing their new tools abroad.⁵⁰ As Beijing's tech companies move abroad, they bring with them the state-centric digital norms that define China's domestic digital environment.⁵¹

China leverages its growing economic clout to further discreet objectives in a number of ways. First, Chinese economic entanglements can serve as political ends in themselves. For example, strategic investments in the Pakistani port of Gwadar and the Sri Lankan port of Hambantota have allowed China to begin constructing a logistics network to support its global ambitions. China also endeavors to use the export of dual-use surveillance technology and attendant authoritarian technology norms along the Digital Silk Road to reshape foreign countries in its ideological image. Second, whether by design or as a result of opportunism, Beijing has taken advantage of situations in which recipients of Chinese loans default on their debts in order to pursue its own geopolitical objectives. Finally, outright coercion is the bluntest instrument at China's disposal for turning economic power into strategic leverage. Beijing has used aggressive economic tactics with Australia, Japan, the Philippines, Norway, and South Korea.⁵²

Historically, the United States was the main driver of economic demand and set the pace on trade and investment in the region. The United States still purchases a large amount of goods from the Indo-Pacific—U.S. consumption as percent of GDP is twice as high as China's—and its economic toolkit grew during the Trump administration to include the Development Finance Corporation. Yet, the United States is increasingly absent from the economic integration occurring in the Indo-Pacific. Instead, regional countries increasingly drive demand, and regional trade has eclipsed trade with the United States.⁵³

Regionalization is partly a function of the fact that regional states are no longer just producers and exporters, but are also consumers and importers that provide demand and capital to one another.⁵⁴ The Trump administration's decision to withdraw from the TPP (now the Comprehensive and Progressive Trans-Pacific Partnership, or CPTPP) and its absence from the Regional Comprehensive Economic Partnership (RCEP) is hastening the decline of U.S. involvement in regional trade.⁵⁵ Absence from both agreements also means that the United States is increasingly marginalized in the regional trade architecture, including in terms of its ability to influence the rulemaking that governs regional markets.⁵⁶ In short, without joining the CPTPP or something like it, the trend of regional integration over transpacific integration will continue. Moreover,

Percent of Exports and Imports to and from China, by Country⁶⁵

	Percent of country's total exports destined for China (ranking)	China's rank among country's export destinations	Percent of country's total imports coming from China (ranking)	China's rank among country's import origins
AUSTRALIA	39%	1 st	25%	1 st
BURMA	24%	1 st	43%	1 st
CAMBODIA	5%	6 th Behind the United States, Singapore, Thailand, Germany, and Japan	27%	1 st
INDIA	5%	3 rd Behind the United States and the United Arab Emirates	15%	1 st
INDONESIA	15%	1 st	27%	1 st
JAPAN	18%	2 nd Behind the United States	23%	1 st
LAOS	28%	2 nd Behind Thailand	26%	2 nd Behind Thailand
MALAYSIA	13%	1 st Tied with Singapore	24%	1 st
NEW ZEALAND	28%	1 st	18%	1 st
THE PHILIPPINES	15%	1 st	29%	1 st
SINGAPORE	15%	1 st	16%	1 st
SOUTH KOREA	25%	1 st	22%	1 st
THAILAND	12%	2 nd Behind the United States	22%	1 st
VIETNAM	14%	2 nd Behind the United States	35%	1 st

although bilateral trade deals may remain a sensible fallback in some cases, recent history has shown that such deals are very labor intensive and bring fewer gains.

Trump's decision to use tariffs against allies and partners as part of a zero-sum bilateral trade agenda sent the message that the administration saw economic growth in the Indo-Pacific as a threat to be countered, rather than as an objective worth pursuing.⁶⁰ Cooperating on economic issues can be challenging because even allies are sometimes competitors, but these policies made trade a highly contentious wedge issue between the United States and countries in the region. For instance, by introducing national security concerns as a reason to raise trade barriers, the Trump administration put smaller countries in the middle of the U.S.-China trade war. This trade war increased Beijing's incentives for strengthening regional economic ties and provided it an opportunity to present itself as the more credible long-term economic partner, and made some countries, such as Australia, more vulnerable to Chinese economic aggression.⁶¹

The COVID-19 crisis is likely to accelerate trends in the economic domain. To begin with, the Chinese economy could overtake the U.S. economy faster than previously anticipated. According to the Centre for Economics and Business Research, China will surpass the United States as the world's largest economy in 2028, five years earlier than was expected one year ago.⁶² China is one of the few global economies that grew in 2020—at least according to Chinese data—enabling it to increase regional investments. For example, over the first three quarters of the year, Chinese investment in ASEAN surged 76 percent.⁶³ To great fanfare in Chinese state media, ASEAN eclipsed the European Union as China's largest trade partner.⁶⁴ Moreover, China's economy has been recovering more quickly following the COVID-19 crisis than the U.S. economy or the economies of other countries in the Indo-Pacific.⁶⁵ This should put Beijing in a strong position to increase its influence, at least in certain parts of the region.

While the Chinese economy bounces back—again, according to Beijing's data—the CCP is simultaneously

taking steps to insulate its economy from disruptive geopolitical and economic changes. The most notable of these steps is China's introduction of its dual circulation strategy, which places greater emphasis on the domestic market (internal circulation) and relies less on an export-oriented development strategy (external circulation). This strategy was first promoted in 2020 as relations with the United States were continuing to deteriorate and has become more pressing as a result of the pandemic and how other countries have responded to it. The COVID-19 crisis underscored how dependent much of the world is on China for critical medical supplies and supply chains, leading to growing calls for greater self-reliance. Chinese policymakers appear to have determined that it will become unsustainable for China to continue relying on overseas demand to keep its manufacturing apparatus running.⁶⁶ Yet, there are also questions about whether domestic demand will be sufficient to support this strategy.⁶⁷ Some analysts assess that China's dual circulation strategy may reduce Chinese leverage with larger, industrialized countries, but could leave smaller countries even more dependent and prone to economic coercion.⁶⁸

China was already trying to move up the value chain toward higher-value tech sectors, including AI, robotics, quantum computing, new materials, and high-speed transport. Whether ranked by market capitalization, revenue, or number of employees, China has more large tech companies than any other country except the United States.⁶⁹ The pandemic accelerated China's efforts to shift the focus of its economic ties with ASEAN nations toward the digital and healthcare domains, both in order to further decrease debt loads in an era of tighter budgets, and to adapt China's foreign economic footprint to the needs of the decade to come. The pandemic has accelerated demands for digitized economies, leading Xi to dub the year "the China-ASEAN Year of Digital Economy Cooperation."⁷⁰ As an earlier CNAS report observed, the digital domain is not only a growing economic market, but also will be a "primary battleground between freedom and authoritarianism in the Indo-Pacific."⁷¹

The crisis has also deepened overall trade integration in the Indo-Pacific. With the successful conclusion of RCEP, which brings together 15 countries, including China and all five U.S. treaty allies in the region, Beijing can claim a role alongside ASEAN at the center of intra-Asian integration meant to power pandemic recovery in the Asian century.⁷²

It is possible the United States will join the CPTPP or something like it in due time, but this is unlikely to

occur in the near term. Over the medium- to long-term, if China's economy continues to grow rapidly and the U.S. share of the trade portfolio in the Indo-Pacific continues to shrink, this will further undermine the overall U.S. position in the region. In Southeast Asia, for example, 70 percent of elites said that they were worried about China's growing economic power in the region—the same number that said they would welcome greater American economic influence.⁷³ But with pressing economic, public health, and technology needs, regional countries are not waiting around for the United States to enter the game.

Defense Trends

If military superiority in the Indo-Pacific were measured in defense dollars, the United States would be the unrivaled power of the Indo-Pacific. Yet, although the United States still has the overall military advantage against China, the gap between the two countries has narrowed considerably. Before the COVID-19 crisis began, it was already dangerous to assume that the United States could project expeditionary power and "win" an extended, high-intensity conflict against China in the Indo-Pacific at an acceptable cost.⁷⁴ Rather, a U.S. war with China could result in unacceptable attrition and possibly mission failure. Moreover, through its asymmetric strategy, which includes aggressive island constructions and the use of commercial fishing vessels in militia roles, China has developed the ability to establish control over the South China Sea in every scenario short of war.⁷⁵

The erosion of America's military position in the region results from a mix of factors, including China's increased military spending, the demands of America's global responsibilities, and the United States' failure to adapt forces and concepts to the types of challenges China poses.⁷⁶ As a previous CNAS report highlighted, the U.S. Defense Department has struggled to adapt to China's military strategy, which seeks to disrupt, disable, or destroy the systems that enable the United States' military advantage. It has struggled because of long-standing trends in how the U.S. military fights wars, how the Pentagon and the defense industrial base develop technology, and how U.S. allies and partners build their armed forces.⁷⁷

The pandemic has caused deep economic suffering in the United States and raised questions about the sustainability of American defense spending. Potential declines in defense spending could make it all the more difficult to project power credibly, underscoring the need to rethink the U.S. approach to warfighting and build capabilities that deny China's ability to obtain its objectives through the use of force.⁷⁸ Before the pandemic, Washington was



After a deadly clash broke out in June 2020, China-India tensions along the Line of Actual Control escalated considerably. These tensions resulted in shots being fired between the two sides in September 2020 for the first time in decades. (Yawar Nazir/Getty Images)

already thinking more seriously about how to operationalize multilateral defense partnerships. The clear advantages of scale Beijing will have in the military realm going forward makes clear the urgency of building out multinational training and deployment and a multinational defense innovation base.

Although America's regional security alliances have largely endured despite the turbulence of the last four years, China's growing military capabilities, combined with its economic might, are eroding regional deterrence. The pandemic exacerbated this challenge, at least temporarily, by hampering U.S. military readiness. For example, the U.S. naval presence was reduced because of COVID-19 and this did not go unnoticed by regional allies and partners.⁷⁹ In addition, ongoing viral outbreaks at U.S. military installations and on naval vessels created challenges for maintaining the same pace of international exchange through regional exercises. For countries with more robust armed forces, rescheduling or adapting a few exercises at sea did not have an outsized impact, but this did present a problem for some smaller countries.

As the global community grappled with the coronavirus pandemic last spring, and the U.S. military's operational tempo in the Indo-Pacific slowed, China

engaged in increasingly aggressive behavior throughout the region. In the East China Sea, Chinese ships spent a record 100 days straight around the Senkaku Islands.⁸⁰ In the South China Sea, China dispatched patrol boats around Scarborough Shoal, claimed by the Philippines; built new "research stations" on the artificial islands it has constructed; and attempted to curtail Vietnam's access to its own fishing waters.⁸¹

The types of readiness issues caused by the pandemic are less likely to be a factor as militaries are vaccinated, but they nevertheless highlight the importance of U.S. presence for reassuring allies and partners and deterring China. Moreover, the potential residual impacts of the COVID-19 crisis on defense spending could exacerbate tradeoffs between being able to win a high-intensity conflict and maintaining current force presence in the region. The United States will need to reassure allies and partners in order to limit Chinese efforts to use its rapidly growing surface fleet to coerce them, while simultaneously encouraging and enabling them to build their own denial capabilities.

Chinese military aggressiveness has been most pronounced against India. China took up military positions at several different locations along the Line of Actual

Control (LAC) that separates India and China, including in areas India considered its territory. Two scuffles broke out between the Indian and Chinese forces in May, and on June 15, a major confrontation between troops in the Galwan River Valley resulted in the deaths of 20 Indian soldiers and at least four Chinese troops. The precise motive and reason behind the timing of China's build-up along the LAC are still being debated. It may have been intended to keep India in check following a series of moves that China believed could challenge its strategic position, or, alternatively, an attempt by China to consolidate its position, especially at a time when COVID-19 was hitting the Indian army hard.⁸² Others saw it as a Chinese attempt to change the territorial status quo, or at least push back on Indian efforts to improve infrastructure near the LAC.⁸³ It is also worth noting that Chinese aggression occurred at a time when the U.S.-India relationship was growing more aligned, and the U.S.-China relationship was rapidly deteriorating. Whatever China's motivation, the result has been to reinforce India's growing ties with the United States, Japan, and Australia.

Chapter Two: The View from America's Quad Partners

The Biden administration appears likely to retain the Trump administration's competitive approach to China, but also to reinvigorate U.S. alliances and partnerships in the Indo-Pacific. Among America's allies in the region and beyond, Japan most closely shares U.S. views of the challenge strategic competition with China poses. Reinforcing the U.S.-Japan alliance, which decision makers in both Washington and Tokyo regard as essential to achieving their respective national interests in the Indo-Pacific, will be a top priority. Australia and India will also play important roles in dealing with the challenges that China and the COVID-19 crisis present in the Indo-Pacific.

Cooperation between the United States, Japan, India, and Australia occurs bilaterally, trilaterally, and between all four countries via the Quad. The Quad—whose antecedent was the Tsunami Core Group, which was formed as a mechanism for the four countries to coordinate responses to the 2004 tsunami in the Indian Ocean—has gone through several iterations since it was established in 2007.⁸⁴ The Trump administration revived the Quad before the pandemic began and, as detailed in the previous chapter, the Biden administration is making the Quad a key component of its approach to the Indo-Pacific. Although the four member countries have not forged an agreement on how to precisely define the Quad, it is evolving into an important forum for regional cooperation on various strategic issues and could be used to even greater effect in this regard.

Diplomatic Trends

The downturn in relations between China and each of the Quad countries in the wake of the COVID-19 crisis has spurred them toward greater cooperation with one another and strengthened their desire to elevate and operationalize the Quad to balance growing Chinese influence and aggressive behavior.

The COVID-19 pandemic arrived during an inflection point in Japan-China relations. After the relationship hit a low point in 2012, the administration of former Japanese Prime Minister Shinzo Abe made mending fences with Beijing a diplomatic priority. Since then, the Japanese government has simultaneously worked toward achieving diplomatic understanding with China while also watching Chinese coercive economic statecraft and military assertiveness with a wary eye. The Trump administration's erratic approach to the Indo-Pacific contributed to concerns in Tokyo that the

United States might either abandon Japan or entrap it in a conflict with China.⁸⁵ These concerns led Tokyo to pursue improved diplomatic relations with Beijing. China's increasingly provocative behavior since the pandemic began spurred lawmakers in Prime Minister Yoshihide Suga's party to push for an end to rapprochement, however, and cancel Xi's already postponed visit to Japan.⁸⁶ This move occurred amid a decrease in Japanese domestic favor toward China, which recently hit its lowest point since 2013.⁸⁷

Suga likely will seek to keep Tokyo's relations with Beijing from spiraling downward, especially because China maintains economic leverage over Japan in spite of Tokyo's recent efforts to reduce it. This mindset will guide how Japan frames its actions in the region. For instance, Japan took steps during the last several years to fill the regional leadership vacuum declining U.S. influence created, most notably by expanding positive engagements in Southeast Asia through the Free and Open Indo-Pacific (FOIP) Strategy.⁸⁸ Because many of Japan's objectives within the FOIP framework are antithetical to Chinese regional interests, however, Japan has framed them as positive contributions intended to maintain transparency and the rule of law, rather than as measures targeting China.⁸⁹

Southeast Asia is at the heart of Japan's FOIP strategy. Tokyo's vibrant diplomacy, broad appeal, and strong economic relationships in Southeast Asia uniquely position Japan to be a regional champion of good governance and liberal democratic standards. In a survey conducted immediately before the pandemic, ASEAN-based respondents voiced higher confidence in Japan than in the United States and China combined to "do the right thing" to contribute to global peace, security, prosperity, and governance.⁹⁰ The same study also highlighted the reality that Japan is the region's widely preferred partner in terms of broadening strategic options beyond picking a side in the U.S.-China competition.

The coronavirus pandemic created new demands in Southeast Asia for assistance and investment, and thus created an opportunity for Japan to accelerate its positive engagement with the region. In February 2020, soon after the pandemic emerged, Japan contributed a modest amount of assistance to Southeast Asian nations. Even while struggling to mobilize its domestic COVID-19 response, Tokyo has progressively increased support through the second and third waves of the virus. To date, Japan has extended over \$1.5 billion in loans to help ASEAN countries recover from the pandemic, a sum that goes a long way toward mitigating

regional swings in Beijing's direction due to COVID-19 assistance from China.⁹¹ Tokyo also supported a feasibility study on the establishment of an ASEAN Centre for Public Health Emergencies and Emerging Diseases, and then pledged an additional \$50 million to operationalize it in 2021.⁹²

Japan has matched this economic assistance with high-profile diplomatic overtures. In August, Foreign Minister Toshimitsu Motegi embarked on an in-person diplomatic tour of Southeast Asia to lay the groundwork that further bolstered Japan's medical diplomacy.⁹³ Most notably, Suga used his first overseas trip as prime minister to visit Vietnam and Indonesia last October, sending a strong signal of support to Southeast Asian nations. The timing of Suga's trip—immediately after Japan hosted a Quad meeting in Tokyo—was also likely intended to mollify ASEAN stakeholders concerned that attention to the Quad came at the expense of engagement with ASEAN.

While Japan has adjusted its foreign policy in response to China's behavior since the outbreak, India and Australia have seen even greater shifts in their bilateral relations with China in the past year. Both have clashed with China—militarily in India's case, and economically in Australia's. Australia and India have also grown closer to one another, as evidenced by increasing cooperation and consultation across the security, defense, economic, and tech sectors. Expanding ties between the two countries contributed to the reinvigoration of the Quad.

Australia is one of America's closest allies, but the two diverged during the Trump administration over the best approach to the Indo-Pacific. The Trump administration pushed a more confrontational China-centric agenda, whereas the Australian government sought a wider regional focus that emphasized a positive agenda for the Indo-Pacific.⁹⁴ Indeed, Canberra devoted considerable effort to directing the Trump administration's attention toward the Indo-Pacific's needs, including by spearheading a multitude of initiatives intended to support the COVID-19 recovery in Southeast Asia and the Pacific.⁹⁵ Although Australia has no intention of adopting a zero-sum approach to China, its policy toward China has sharpened notably in recent years, including: leading global efforts to push back against Chinese political interference and disinformation; banning Huawei from 5G networks; condemning Chinese human rights abuses in Xinjiang and aggression in the South China Sea; and, perhaps most notably, calling for an international inquiry into COVID-19's origins.⁹⁶

In response to Canberra's calls for an investigation into the origins of COVID-19, Beijing suspended imports from four of Australia's largest meat processors, which between them had accounted for 20 percent of Australia's beef exports to China.¹⁰⁷ Beijing also imposed an anti-dumping duty of 73.6 percent and an anti-subsidy duty of 6.9 percent on Australian barley.¹⁰⁸ The Chinese government has sought to economically coerce Australia on numerous occasions in response to policy decisions that CCP leaders interpreted as directly challenging the critical interests of not just

their country, but also their party.¹⁰⁹ Thus, China's use of economic coercion is not new. However, two things are different this time. First, China was willing to use economic coercion against Australia despite incurring substantial costs to its own economy.¹¹⁰ Second, Chinese behavior created a powerful public backlash in Australia on both the left and right ends of the political spectrum, as well as among business leaders.¹¹¹ Trust in China among Australians has halved in the past two years, according to successive Lowy Institute polls.¹¹²

SOUTH KOREA: MANAGING COVID-19, SEEKING STABILITY WITH CHINA

South Korea's handling of the coronavirus pandemic ultimately ranks among the best in the world. The country has received high praise for its mass testing, aggressive contact tracing, and strict quarantining efforts, which have kept infection rates relatively low (around 100,000) and deaths to a minimum (around 1,700).⁹⁷ Its economy has also fared better than any other Organisation of Economic Co-operation and Development (OECD) country, with a projected 2020 decrease in GDP of only 1 percent.⁹⁸

The praise for Seoul's pandemic response contrasts with severe criticism directed toward President Moon Jae-in during the initial phase of the virus outbreak, when he declined to shut down travel between South Korea and China. It is possible Moon chose not to enact a travel ban in an attempt to minimize the seriousness of the situation and prevent widespread panic; however, many South Koreans believed he was putting the country at risk in order to placate China.⁹⁹ For much of the population, the inaction of their president during a crisis reminded them of the failure of Moon's disgraced predecessor, Park Geun-hye, to act swiftly during the 2014 Sewol ferry disaster that killed over 300 people.¹⁰⁰

While Moon's early misstep in the pandemic crisis did not cost him support in the April 2020 legislative elections—in which his Democratic Party experienced resounding success—it did highlight the economic and political tightrope that the Blue House walks whenever China is involved.¹⁰¹ In 2016, Seoul announced its intention to install the U.S. terminal high altitude area defense (THAAD) system despite Beijing's objections. In response, China leveraged its position as South Korea's largest trading partner to inflict significant economic damage.¹⁰² Seoul went ahead with the installation, but Moon, whose government was shaken by the intensity of Beijing's coercive reaction, announced that he would henceforth pursue "balanced diplomacy" with the United States and China when Seoul and Beijing normalized relations shortly after he took office the following year.¹⁰³

Furthermore, Moon has made clear his highest diplomatic priority is improving relations between North and South Korea, and he aims to enlist China's help in this endeavor. Since talks between the United States and North Korea stalled in 2019, Seoul has reached out to Beijing about resuming suspended talks with Pyongyang, including when South Korea's Unification Minister met with China's ambassador to South Korea in August 2020. In November 2020, Moon expressed to Chinese Foreign Minister Wang Yi his hopes that Beijing would serve a "constructive role" in improving relations between the two Koreas.¹⁰⁴

Seoul's interest in nurturing good relations with Beijing did not prevent it from participating in Quad meetings that also included New Zealand and Vietnam in spring 2020 to address pandemic-related challenges. However, Seoul has taken an overall cautious approach to the Quad to avoid aggravating China or working closely with Japan. Seoul's participation in the Quad meetings was particularly important because its success in responsibly managing the virus outbreak (despite its currently torpid vaccine roll out) while preserving civil liberties set a powerful example that stands in stark contrast to the approach China took.¹⁰⁵

It is unclear whether Seoul would be willing to participate in future Quad meetings that enlist other countries to address non-COVID-related activities or issues. South Korea's New Southern Policy, through which it is expanding economic and diplomatic engagement with various Southeast Asian countries, could create opportunities for aligning Blue House efforts with those of the United States individually, or with the Quad countries collectively. Washington and Seoul already have made efforts to increase engagement on their respective climate, digital, and public health initiatives in Southeast Asia. Responding to the recovery needs of Southeast Asia could provide at least ad hoc opportunities for integrating efforts by South Korea with any new initiatives coordinated via the Quad. Similarly, although formal South Korean participation in the Quad is unlikely, there is also space to expand defense cooperation among South Korea, Australia, and India.¹⁰⁶

In response to spreading Chinese influence in Southeast Asia and the Pacific, two regions where Australia has traditionally claimed a leadership role, Canberra is planning to spend hundreds of millions in foreign assistance. In late 2020, the Australian government announced plans to spend \$500 million on COVID-19 vaccines and the support needed to administer them effectively to countries in Southeast Asia and the Pacific.¹¹³ This funding is in addition to more than \$300 million over two years that the Australian government committed to help Pacific Island countries and Timor-Leste cope with the economic impact of COVID-19, and \$58 million into the COVAX vaccine scheme to ensure access to vaccines for Indonesia, Cambodia, Laos, Burma, the Philippines, Timor-Leste, Vietnam, and Pacific Island nations.¹¹⁴ Canberra is also reportedly working on an aid package for five nations in Southeast Asia that would commit hundreds of millions of dollars over four years to mitigate drought conditions resulting from Chinese hydropower dams on the upper Mekong.¹¹⁵

For several decades, there has been growing, bipartisan support in the United States for deepening ties with India, which U.S. policymakers view as a “geopolitical counterbalance, an economic alternative, and a democratic contrast to China.”¹¹⁶ As a result, successive U.S. administrations have taken the view that India’s rise is a positive development in its own right, and one which the United States should support.

Although support remains both strong and bipartisan, there are growing concerns among some members of Congress during the last several years about New Delhi’s treatment of minorities, its commitment to religious freedom, and its revocation of autonomy and detention of political leaders in Kashmir. For New Delhi, the Trump administration’s protectionist approach on trade—including the suspension of Generalized System of Preferences (GSP) to India in the spring of 2019—and its handling of COVID-19 each sparked their own set of concerns. However, none of these issues have knocked the strategic relationship off course.

While U.S.-India ties have strengthened, India-China relations have deteriorated over the last decade. A warming in the relationship appeared possible following the Mamallapuram summit between Xi and Indian

Prime Minister Narendra Modi in October 2019, but the Himalayan border crisis of 2020 has cast a long shadow over India-China relations. The crisis was a seminal event in India-China relations and Indian foreign and security policy writ large. Key sectors of India’s economy are highly dependent on China, making it susceptible to economic coercion. New Delhi has responded to Chinese military aggression by stepping up efforts to reduce its economic reliance on China, while simultaneously expanding diplomatic engagement in parts of the Indo-Pacific and increasing cooperation with the United States, Japan, and Australia.

New Delhi also is seeking to compete with China in the area of vaccine diplomacy. The global need for COVID-19 vaccine has allowed India to spotlight its pharmaceutical industry and become a key player in the vaccine diplomacy effort. Before the COVID-19 pandemic, India was already manufacturing about 60 percent of the global share of vaccines. Soon after starting its domestic vaccination campaign in mid-January, India began exporting vaccine to several South Asian and Southeast Asian nations, including Sri Lanka, Bangladesh, Nepal, Maldives, Burma, and Afghanistan. The Serum Institute of India (SII—the world’s largest vaccine manufacturer) produces 2.5 million doses daily of the Oxford-

AstraZeneca vaccine, called Covishield. Local Indian firm Bharat Biotech has also developed a COVID-19 vaccine called Covaxin that was approved for emergency use this year. SII has pledged

For several decades, there has been growing, bipartisan support in the United States for deepening ties with India, which U.S. policymakers view as a “geopolitical counterbalance, an economic alternative, and a democratic contrast to China.”

to provide 200 million doses of Covishield to COVAX. At the time this report was written, India had already exported approximately 41 million vaccine doses to emerging markets, the U.N., and COVAX.¹¹⁷ Modi calls India’s ambitious global vaccine distribution effort “vaccine *maitri*” (*maitri* is the Sanskrit word for friendship). As detailed in the previous chapter, these efforts will get a major boost thanks to planned U.S., Japanese, and Australian funding of vaccine production in India and distribution throughout the region.

While the United States’ initially poor response to COVID-19 may have provided an opportunity for China to push its narrative that the United States is a waning power, Beijing’s aggressive political, economic, and military behavior in the months following the outbreak of the global pandemic further reinvigorated the Quad.

In spring 2020, the Trump administration began seeking ways to involve South Korea, Vietnam, and New Zealand in Quad activities and initiatives related to COVID-19.¹¹⁸ The seven countries addressed vaccine development, stranded citizens, economic assistance, and coping with the global economic impact of the pandemic. These initiatives were not indicative of plans to formally expand Quad membership, but they nevertheless illustrated how the forum could act as an engine to bring in different countries to address challenges like the ones created by COVID-19.¹¹⁹ The Biden administration has demonstrated its intention to prioritize the Quad in achieving its Indo-Pacific goals. The Quad already met virtually at the foreign-minister level on February 18 and discussed a wide-range of issues, including the COVID-19 response, climate change, countering disinformation, counterterrorism, maritime security, and the need to restore democracy in Burma. As the previous chapter detailed, the Quad held its first-ever leader-level summit in March, at which the four members announced an ambitious plan to boost vaccine production and distribution. Its public commitment to coordinate on major issues where the security and development needs of Indo-Pacific countries intersect, such as climate change, also underscores a commitment to regional cooperation.

Economic Trends

While economic interdependence between Japan and China has continued to grow despite volatile diplomatic relations, Tokyo began taking steps in 2018 to reduce its economic reliance on Beijing and chip away at Chinese economic clout in the region. Japanese policymakers have sought not only to reduce their own country's susceptibility to Chinese economic coercion, but also pursued domestic and regional economic initiatives to promote alternatives to doing business with China.¹²⁰ After the United States eschewed the TPP, which was a major blow to Japan, Tokyo took on the bulk of the responsibility for shepherding the newly transformed CPTPP, which it viewed as a counterweight to Chinese regional economic clout.¹²¹ In response to BRI, Tokyo in 2019 took the lead on developing the U.S.-Japan-Australia trilateral infrastructure project partnership. Months later, Tokyo also joined Washington and Canberra to launch the Blue Dot Network, which, once operationalized, will bring together public, private, and civil society sectors to act as a clearinghouse to certify and promote transparent and sustainable infrastructure projects.¹²²



In March 2018, all of the original TPP signatories, except for the United States, met in Santiago, Chile, to sign the new CPTPP agreement. Japan led the charge to rework the TPP into the CPTPP in the absence of U.S. involvement. (Kyodo News Stills via Getty Images)

In addition to attempts to guard against China expanding its regional economic clout at Japan's expense, Tokyo has sought to respond to security threats from Beijing's technological aspirations and companies like Huawei.¹²³ Initiatives to address these vulnerabilities took off in earnest in 2019, when Japan introduced a number of defensive economic security policies intended to overhaul its investment screening, export controls, and supply chain resiliency.

Tokyo has accelerated its efforts to address its vulnerabilities to Chinese economic statecraft and coercion, particularly in the case of supply chain analysis, since the COVID-19 crisis began. A key challenge for many countries, especially in the harsh economic climate of the pandemic, is finding the balance between resilience and economic efficiency. Economic security comes at a cost, particularly in Japan's case of being heavily reliant upon Chinese manufacturing.¹²⁴ But so does remaining vulnerable—since the pandemic started, supply chain disruption due to COVID-19-related labor trends in China have tested the limits of Japan's supply chain resiliency. In response to shortages of masks and ventilators when the need for them was most urgent, Tokyo adapted by adding certain items related to medical supply chains to its recent investment screening law.

Tokyo also began incentivizing Japanese companies in the medical sector to relocate from China to Japan or countries in Southeast Asia.¹²⁵ Tokyo views the latter as killing two birds with one stone because increased ties through greater economic engagement with ASEAN countries is a critical part of Japan's Indo-Pacific

strategy.¹²⁶ The relocation initiative soon expanded beyond medical equipment to other strategic sectors as well. For the time being, Tokyo is framing these actions as part of an effort to strengthen overall economic security through diversification, rather than protective measures directed at threats from a particular country. The Suga administration is likely to maintain that cover, even while warily observing China's increased regional military presence vis-à-vis Taiwan and the Senkaku Islands, growing U.S.-China and Australia-China tensions, the suppression of democracy in Hong Kong, and China's global campaign of corporate espionage.¹²⁷

A confluence of events—COVID-19's interruption of global value chains, declining investments from the United States and Europe because of pandemic-induced recessions, and China's sanctions on Australian exports—has created an adverse external economic environment for Australia. The lack of diversity in trade and investment ties—Australia relies heavily on the Indo-Pacific, especially China, for the former, and on the United States and Europe for the latter—made Australia especially vulnerable to external shocks like the ones the COVID-19 crisis created.¹²⁸ Diversification will be a long-term undertaking, but Canberra has begun taking steps in this direction by inking a trade agreement with Indonesia and developing economic engagement strategies aimed at India, Vietnam, and ASEAN.¹²⁹

Australia also has considerable supply chain dependencies and relies on imports from China for a range of critical goods, especially in the medical sector.¹³⁰ In a budget that Prime Minister Scott Morrison called, “the most important since the end of the Second World War,” Australia announced investments in major manufacturing and supply-chain resilience plans to address these vulnerabilities.¹³¹ The budget includes a AUD\$1.3 billion (USD\$930 million) Modern Manufacturing Initiative, which includes provisions for manufacturers to integrate into international supply chains.¹³² Canberra also committed AUD\$107 million (USD\$76 million) to a Supply Chain Resilience Initiative in which it will work with industry to identify vulnerabilities in Australia's supply chains, and then invest in projects to address those.

For India, the effects of the boundary and COVID-19 crises have been cumulative, insofar as they have reinforced and accelerated existing trends of Indian attempts to decouple economically from China and build supply chain resilience by reshoring or diversifying. India used Chinese military aggression, in particular, as a forcing function to step up efforts to reduce its economic reliance on China, decrease competition from Chinese companies, and advantage Indian companies,

In taking these steps, New Delhi was not only insulating itself from economic coercion, but also signaling to Beijing that India-China economic ties would no longer be compartmented from what was happening along their disputed borders.

particularly in the telecommunications sector. After the boundary crisis began, New Delhi banned over 200 Chinese smartphone applications, suspended Chinese investment contracts, held up Chinese exports at Indian ports, and amended its public procurement rules to require government approval for any investments from countries bordering India. India further hinted that it would use investment restrictions to exclude Chinese companies from participating in India's forthcoming 5G trials. In taking these steps, New Delhi was not only insulating itself from economic coercion, but also signaling to Beijing that India-China economic ties would no longer be compartmented from what was happening along their disputed borders.

While these efforts are notable, India-China economic linkages have increased substantially in recent years, and India will face difficulties in disentangling their commercial engagement. For instance, between April 2019 and March 2020, India imported more than \$65 billion worth of goods from China and exported around \$16.6 billion, leaving New Delhi with a nearly \$48 billion trade deficit with Beijing.¹³³ Moreover, although India is home to the world's third largest pharmaceutical industry by volume, it imports two-thirds of its active pharmaceutical ingredients—the key ingredients of drugs—from China.¹³⁴ China also has invested heavily in India's innovation ecosystem. Chinese technology companies have invested an estimated \$4 billion into Indian startups.¹³⁵ As of March 2020, 18 of India's 30 unicorns—startups valued at more than \$1 billion—were funded by Chinese companies.¹³⁶ Chinese exports of telecommunications and electronics products to India increased manifold over the last five years as India sought to transform into a digitally empowered society and knowledge economy.¹³⁷

Modi's government passed on the opportunity to join RCEP in spite of the potential benefits it would offer, including increased opportunity for Indian firms to participate in global value chains and attract more foreign investment.¹³⁸ The decision was in keeping with New

Delhi's highly protectionist economic policies. Numerous factors inform India's protectionist approach, and it is worth noting that one of the major complaints about previous free trade agreements is that they allowed an unchecked flow of Chinese exports to India.¹³⁹ The Modi government's decision not to join RCEP also may have been informed by its efforts to shift its approach to trade agreements away from other Indo-Pacific countries and toward the United States, United Kingdom, and European Union.¹⁴⁰ Washington and New Delhi were negotiating a trade agreement, which included a U.S. offer to partially restore GSP to India, during the tail end of the Trump administration, but no deal was struck before Trump's term ended.

The pandemic is refining the boundaries of what policymakers in many countries consider critical strategic sectors, and it has highlighted the tradeoffs between the efficiency and resiliency of supply chains and the dangers of over-reliance on China. In late 2020, Japan, India, and Australia launched a trilateral supply chain resilience initiative (SCRI) to reduce dependency on China.¹⁴¹ As part of this effort, Japan would share its supply chain analysis findings with China's major regional competitors and bring greater economic security to the Indo-Pacific.¹⁴² While Japan sees manufacturing opportunities in India, and India sees potential pharmaceutical markets in Australia and Japan, it is less clear which specific sectors Australia would prioritize. What is clear, however, is that supply chain disruptions, and especially Chinese ability to disrupt medical supply chains, have reinforced for all four Quad countries the merits of working together to further insulate their global supply chains from China.

Defense Trends

Defense trends related to Japan, Australia, and India have not been particularly affected by the COVID-19 crisis, but some recent developments are worth noting.

Chinese incursions around the Senkaku Islands have increased since the outbreak of the virus. As noted in the previous chapter, Chinese vessels entered the territory around the Senkakus for over 100 days straight in 2020, which set the record for the longest such streak since Tokyo nationalized the islands in 2012.¹⁴³ The timing of these incursions leads some in Tokyo to believe that China is using these operations to probe the U.S. and Japanese responses at a time when the U.S. naval presence had declined as a result of the COVID-19 crisis.¹⁴⁴ Despite this temporary decline, the U.S.-Japan defense relationship has remained steady. Former Prime Minister Abe's reinterpretation of the Japanese constitution in 2014 and subsequent national security legislation

passed in 2015, allowed Japan to further strengthen its defense relationship with the United States.¹⁴⁵ Increased defense spending has since enabled the Japanese Self-Defense Forces to make notable upgrades to its air and maritime defense systems.

For the past few years, Tokyo nervously awaited its turn as it observed the strain that troop cost-sharing negotiations with the Trump administration placed on other U.S. allies, including NATO and South Korea.¹⁴⁶ Soon after Biden took office, the United States and Japan agreed to extend the cost-sharing arrangement for another year as the two countries work out a new pact.¹⁴⁷ Japan and Australia also announced intentions to sign a reciprocal access agreement, the first of its kind for Japan since it signed a similar agreement with the United States 61 years ago.¹⁴⁸ This is an important development, but existing barriers will impede Tokyo's ability to expand defense ties with other important strategic allies.¹⁴⁹ Moreover, although Prime Minister Suga intends to continue major upgrades of Japanese defense capabilities, his efforts to boost the military's budget could be impeded by the need to address other domestic priorities exacerbated by the COVID-19 pandemic.¹⁵⁰

In summer 2020, Australian Prime Minister Morrison pledged to boost defense spending by 40 percent (approximately AUD\$270 billion) over the next 10 years, to include purchasing long-range military assets focused on the Indo-Pacific.¹⁵¹ According to Australia's new Defence Strategic Update, this spending will be accompanied by efforts to "shape, deter and respond" to grey zone challenges and high-end aggression.¹⁵² This shift and the increased defense spending behind it were a clear signal that Australia intended to take a more assertive approach to China, while simultaneously reducing its reliance on the United States by developing independent capabilities and forging closer military-military relations with Japan, India, and Indonesia. Reduced reliance on the United States does not necessarily mean less cooperation with the United States. At the Australia-U.S. Ministerial held during the summer, the two countries agreed to restart their bilateral force posture working group. As other analysts have observed, this development could help to strengthen Australia's role as a logistics, munitions, and operating hub for the alliance, and also enable a more integrated approach to allied and regional military planning.¹⁵³

Among the Quad countries, developments in the defense domain have been most pronounced for India. Longtime China experts in the Indian government described the boundary crisis as a turning point for their country.¹⁵⁴ In the aftermath of China's incursion, India expedited procurement of advanced military equipment, including almost 100 fighter aircraft, and began pursuing the

early deployment of new air defense systems.¹⁵⁵ India, however, still has a long way to go to close the modernization gap with China, and its defense spending remains about one-third of China's defense budget. It is unclear whether elected Indian officials are prepared to increase spending sufficiently if it comes at the expense of popular social welfare programs.

The United States provided material support to India during the boundary crisis by increasing information and intelligence sharing and expediting the supply of critical military equipment and gear. Washington also leased two MQ-9 armed predators that were delivered to India in the summer of 2020, and expedited delivery of cold weather gear to support the deployment of the Indian military along the LAC through the winter. In another sign of the growing strategic convergence between the United States and India, the two countries concluded two more foundational defense agreements that formalize legal frameworks for operational defense cooperation. Concerns persist in the United States about India's fiscal limitations when it comes to defense spending, as well

as its military ties with Russia. There is also the potential for India to become tied down on the LAC at the expense of developing naval anti-access capabilities that could restrict Chinese maneuverability in the Indian Ocean region.¹⁵⁶ Despite these concerns, the trajectory of U.S.-India defense and security ties is positive, aided in large part by increasingly shared concerns about Chinese assertiveness in the Indo-Pacific.

Amid the background of Chinese economic coercion toward Australia and border aggression toward India, the two countries signed a major defense agreement in summer 2020 allowing them to use each other's military bases.¹⁵⁷ For the first time in over a decade, India also invited Australia to participate in its annual Malabar naval exercise in the fall of 2020, along with permanent exercise participants, the United States and Japan. These developments coincided with interest in expanding Quad cooperation to the defense sector, although how far quadrilateral defense cooperation may go remains uncertain. There has been interest in holding a Quad defense ministers meeting, but it has yet to materialize.



2020 marked Australia's second participation in the Malabar naval exercises, which for the past several years had only included India, Japan, and the United States. The first and only time all four Quad countries participated in Malabar was over a decade ago in 2007. (Getty Images)

Chapter Three: Spotlight on COVID-19 in Southeast Asia

Southeast Asia, home to some of the most dynamic economies in the Indo-Pacific, is where competition for influence between the United States and China is most intense. Many Southeast Asian nations share U.S. concerns about China, but their economies are increasingly reliant on China and they are anxious for Washington to put forward a positive agenda for the region. In fact, ASEAN recently became China's largest trading partner, surpassing the United States and European Union.¹⁵⁸ China still ranks third behind the United States and Japan in annual foreign direct investment (FDI) in ASEAN, but its total does approach U.S. levels if Chinese investment includes FDI from Hong Kong.¹⁵⁹ Moreover, Beijing is lending billions to the region as part of BRI and other initiatives.¹⁶⁰ The United States, for its part, provides over \$800 million annually in foreign assistance to ASEAN countries.¹⁶¹ But the efforts it has launched to promote sustainable infrastructure in Southeast Asia have yet to bear much fruit.¹⁶²

Even beyond the numbers, the Trump administration took a China-centric and largely transactional approach to the Indo-Pacific. It also failed to articulate a positive vision for U.S. engagement with Southeast Asian countries that accounted for their needs. Compounding this lack of vision was former President Trump's diplomatic neglect of Southeast Asia, as well as the United States' decision to opt out of the TPP, which limits Washington's ability to offer a viable economic alternative to Beijing. Although Trump administration officials emphasized to their Southeast Asian counterparts that ASEAN would remain central to U.S. multilateral engagement in the region, insufficient U.S. attention undermined these pronouncements.¹⁶³ Most notably, Trump never appointed an ambassador to ASEAN, although he did nominate one toward the end of his term, and he skipped the ASEAN summit every year in office except his first.¹⁶⁴ This inattention fueled concerns among some ASEAN members that the Quad might replace ASEAN as the core of the U.S. regional framework.

The demands of recovering from the COVID-19 crisis, which has hit the United States harder than most countries, could make it even more difficult for the United States to address some of the pressing priorities of Southeast Asian nations. Yet, the crisis has also created needs within the region that, if the United States could help meet them, would help Washington show it can carve out time and resources for Southeast Asia. Notably, such an effort also would benefit U.S.

businesses and investors. Failure to find time and resources for Southeast Asia is likely to lead the United States to fall further behind in its competition with China for influence.

The Crisis

Southeast Asian countries have, on the whole, recorded lower transmission and fatality rates per capita than those in other parts of the world. At the time this report went to press in mid-March 2021, Southeast Asia had 2,634,491 confirmed cases of COVID-19 and 56,361 deaths, according to a tracker maintained by the Center for Strategic and International Studies.¹⁶⁵ The pandemic has not hit all Southeast Asian countries equally. The two most populous—Indonesia and the Philippines—were also the most impacted. Indonesia did not implement nation-wide, large-scale restrictions or good testing protocols after the pandemic began, and since then has been plagued by inconsistent policies at the national and local levels and inefficiency when it comes to mobilizing health resources.¹⁶⁶ The Philippines, which accounts for the second most cases and fatalities after Indonesia, was slow to implement travel bans, testing, and contact tracing. The government subsequently put in place lockdown measures, but enforcement has been inconsistent.¹⁶⁷ Burma escaped an early onslaught of infections, but experienced a surge in cases toward the end of the summer. For the most part, other countries in Southeast Asia either were spared early on and avoided spikes since then, or brought the virus under control through lockdowns and other mobility restrictions, strictly enforced quarantine measures, testing and contact tracing, and public messaging that encouraged precautionary behavior.

Although Southeast Asian countries, with the exception of Indonesia and the Philippines, have avoided high fatality rates, the pandemic's impact on the region has made its health systems and socioeconomic conditions more fragile.

The COVID-19 crisis has underscored the importance of strong public health systems. While this challenge is not unique to Southeast Asia and the negative effects on the health systems of ASEAN member states are not uniform, there are common threads, such as adverse impacts on health services delivery, the health workforce, and financing. Some countries have faced shortages of hospitals with bed capacity, necessary equipment, laboratories, and medical supplies. Shortages of health personnel, especially front-line workers, and test kits have also been a challenge. ASEAN activated existing regional mechanisms and platforms to address

gaps and improve the ASEAN member states' health systems by "conducting rapid information sharing and technical exchanges, risk assessment, risk communication, contact tracing, exchange of laboratory readiness and response action, and capacity strengthening."¹⁶⁸ Recognizing the need for new public health initiatives, ASEAN established the COVID-19 ASEAN Response Fund—supported by \$1 million donations from both Japan and South Korea—to assist with medical supplies shortages, vaccine research, and future emergencies.¹⁶⁹ ASEAN member states nevertheless face massive strains in health financing.

Economically, Southeast Asian countries are suffering a "triple shock" from the pandemic, containment measures, and the broader global recession.¹⁷⁰ These countries are especially exposed given that their economies are heavily dependent on the rest of the world, including reliance on trade, tourism, and foreign investment.¹⁷¹ Most of these nations will economically rebound in 2021, but, in many cases, recovery is unlikely to make up for the 2020 downturn.¹⁷² In part, this reflects the more limited monetary and fiscal policy space these countries have. Moreover, although trade is likely to increase as global economic activity resumes and short-term capital slowly returns to the region, the negative impacts of the COVID-19 crisis on tourism, human capital, and productivity are likely to have a lasting impact on inclusive longer-term growth.¹⁷³

Although trade is likely to increase as global economic activity resumes and short-term capital slowly returns to the region, the negative impacts of the COVID-19 crisis on tourism, human capital, and productivity are likely to have a lasting impact on inclusive longer-term growth.

The economic downturn has fueled social unrest in several Southeast Asian nations, leading to repressive government actions in response. While it is unclear whether the COVID-19 pandemic will accelerate trends of illiberalism in the region, the pandemic has increased the pressure on governments to deliver on public health, law and order, and economic recovery. Southeast Asia has a long history of authoritarian development that

challenges the notion that democracy is necessary to produce a stable platform for economic growth. The pressures of dealing with COVID-19 have renewed questions about what sort of government is best able to manage pressing, large-scale social problems.¹⁷⁴ The pandemic also provided some governments predisposed toward illiberalism with a rationale for deploying authoritarian tools. The domestic policies of the governments in the Philippines and Thailand were already putting increasing strain on the long-standing U.S. alliances with both countries before the pandemic began. Domestic policies in Cambodia and Burma dimmed opportunities for the United States to cooperate with these countries as well. After the COVID-19 crisis began, Cambodia, the Philippines, and Thailand each used the pandemic as an excuse to restrict gatherings, shut down protests, and arrest demonstrators.¹⁷⁵ The recent coup in Burma, although not directly related to the COVID-19 crisis, has closed the door on cooperation at least for the time being.

Path to Recovery

As is the case for the United States and many other nations, a top priority for Southeast Asian countries has been securing vaccine access and distribution. This is critical, even for countries that have not been hit hard by COVID-19, because without an effective vaccine and the logistical capabilities necessary to distribute it, economic recovery will be even more difficult. Rather than choosing between competing vaccines, most Southeast Asian countries are pursuing models that cobble together different options based on availability, effectiveness, distribution, and cost. For example, as of late December, Indonesia had ordered 125.5 million Sinovac and 30 million Novavax doses, while simultaneously seeking another 16 million from Gavi, as well as 100 million more of the Oxford-AstraZeneca and Pfizer-BioNTech vaccines. Indonesia was also developing 57.6 million doses of its own Merah Putih vaccine, making it one of several countries creating its own vaccine to use in tandem with doses procured from other sources.¹⁷⁶ As noted in the first chapter, China has a head start on vaccine diplomacy in Southeast Asia, where it has sent over 60 percent of its global supply of vaccines, but the Quad countries recently announced an ambitious effort to boost vaccine production and distribution.

Vaccine distribution will mark the beginning of a transition period from the crisis phase to the recovery phase of the pandemic, but there will be a liminal space between the two. Smart containment policies will be critical during this time, even for countries that have avoided large infection rates. In addition to the steps that

individual governments are taking to address potential new COVID-19 outbreaks, as well as future health emergencies, ASEAN is in the process of developing the ASEAN Regional Reserve of Medical Supplies for Public Health Emergencies and the ASEAN Strategic Framework for Public Health Emergencies. The former will mobilize voluntarily earmarked medical supplies from ASEAN member states in the event of future emergencies.¹⁷⁷ The latter is intended to enhance ASEAN's preparedness, detection, response, and resilience to public health emergencies by identifying financial and resource mechanisms to increase support and investments in public health emergency preparedness, scaling up resource mobilization if necessary, and establishing mechanisms to sustain laboratory and medical surge capacity in the event of public health emergencies.¹⁷⁸ In addition to these frameworks, the Japanese-supported ASEAN Centre for Public Health Emergencies and Emerging Diseases intends to enhance integrated and sustained ASEAN preparedness, response, and resilience to public health emergencies, particularly on emerging and reemerging infectious diseases.¹⁷⁹

In general, the COVID-19 crisis has underscored the importance of building stronger public health systems. Terawan Agus Putranto, the chair of the ASEAN Health Ministers Meeting, identified numerous areas where member states need to undertake reforms to build resilient health systems in anticipation of future outbreaks and pandemics, including: educating and deploying human resources in line with future health problems; strengthening primary health care; upgrading health facilities in isolated, border, and geographically remote areas; building self-reliance in pharmaceuticals and medical devices; reinforcing health security; improving communicable diseases prevention and control, including immunization; boosting health financing and the use of information technology; and raising community empowerment to practice healthier lifestyles.¹⁸⁰

The pandemic has taken a major economic toll on Southeast Asian nations. During a June summit, ASEAN leaders outlined the contours of a shared effort to aid the region's economic recovery from the COVID-19 pandemic and, in November, agreed on a comprehensive framework to support regional recovery.¹⁸¹ In addition to enhancing health systems, the framework also includes maximizing intra-ASEAN market and economic integration; accelerating an inclusive digital transformation; strengthening human security, including by ensuring gender equality, labor protections, and social safety nets; and focusing on environmental sustainability.¹⁸² When considering prospects for recovery, it is important to

note that potential economic growth in Southeast Asia was already declining before the pandemic—this is partially due to the labor supply shrinking in some countries as a result of demographic trends.¹⁸³ The COVID-19 crisis will exacerbate these and other trends, especially with regard to trade, in ways that will likely impact how quickly countries in the region can rebound.

First, economic recovery in Southeast Asia will be tied closely to exports. The speed and extent of this recovery will depend on countries' ability to export beyond the region, including to the United States and European Union. This will matter more for some countries than others depending on the nature of their exports. For example, countries such as Malaysia and Vietnam are likely to benefit more from the global manufacturing cycle, whereas recovery for energy producers like Indonesia will depend more on commodity reflation. The speed with which the U.S. economy recovers and enables American consumer spending to increase will be a factor in how quickly key Southeast Asian countries bounce back. While global markets will continue to matter, the crisis has deepened trade integration in the Indo-Pacific, where demand for final goods and services is still limited.¹⁸⁴

The COVID-19 crisis has contributed to a greater desire for self-reliance and protectionism in some areas, meaning that governments outside the Indo-Pacific may seek to encourage reshoring in a way that would bypass Southeast Asia.

Second, COVID-19 reinforced the trend of diversifying supply chains, specifically relocating some of them from China. Any increased effort to diversify supply chains away from China could redound to the benefit of Southeast Asian economies, some of which were already benefiting from this shift prior to the pandemic. The CPTPP and RCEP will make it more cost effective to locate supply chains in participating countries, provided they have the necessary infrastructure, suggesting that Southeast Asian countries could provide viable alternatives for companies seeking to move out of China.¹⁸⁵ However, the COVID-19 crisis has contributed to a greater desire for self-reliance and protectionism in some areas, meaning that governments outside the Indo-Pacific may seek to encourage reshoring in a way

that would bypass Southeast Asia.¹⁸⁶ When considering the potential benefits of supply chain shifts for these countries, it is important to note that the supply chain movement out of China, even if COVID-19 accelerates it, will take time and money and have unpredictable impacts on the economies of Southeast Asia.

Third, the COVID-19 crisis has reinforced and exacerbated the need for investment in human capital, including accelerating the trend toward automation and digitization.¹⁸⁷ Workers in the service and manufacturing sectors were hit hardest in many Southeast Asian countries, and not all these jobs will return, at least in the near-term. This is especially true for trade in face-to-face services, like tourism, education, and international transportation.¹⁸⁸ Investments in education and health care would boost economic growth by increasing labor supply and productivity, which would also benefit from expanding the participation of women in the labor force. The need to invest in digital equipment and literacy has also become even more critical. Over the medium- to long-term, diversification will reduce the costs of acquiring skills that boost productivity.¹⁸⁹ In the near-term, however, Southeast Asian countries will need to develop digital infrastructure and invest in human capital to enable their citizens to join the digital workforce or find other lines of work. Neither objective will be easy to accomplish.

Fourth, government efforts to mitigate economic pain caused by the COVID-19 crisis have led to growing fiscal strains and concerns over debt management. In turn, these strains have put limits on the size of stimulus packages that Southeast Asian governments can provide.¹⁹⁰ Concerns about fiscal strain could also limit the types of investment necessary to mitigate other challenges. For example, meeting infrastructure investment needs, which were already vast, will be even more difficult as a result of shrinking fiscal space.¹⁹¹ Additionally, investments in social protection programs will remain critical for mitigating the immediate impacts of the crisis and creating conditions for economic recovery. Such programs are necessary to help workers reintegrate into the economy and ensure that the short-term impacts of the COVID-19 crisis do not cause long-term harm to human capital, productivity, and economic opportunity.¹⁹² Notably, concerns about debt increases, which may inhibit foreign investment in some cases, could make it more difficult for governments to invest in human capital and optimize potential opportunities, such as the ones created by digitization. Although international negotiations around debt have deferred payment, this development has not reduced debt burdens for countries in Southeast Asia at the time of writing.¹⁹³

Chapter Four: Challenges, Opportunities, and Recommendations

Competition with China is multifaceted, but at its core are two competing models of governance. One of the most profound geopolitical effects of the COVID-19 crisis is that it has badly shaken confidence in American competence at a time when other political crises in the United States are raising questions about the American system of governance itself. This challenge is especially acute in the Indo-Pacific, where Beijing will point to its model's success in combatting the pandemic in contrast to the U.S. failure. It is difficult to separate the impact that the Trump administration's mishandling of the pandemic had on American primacy from ways in which primacy was affected by other crises, such as the January 6 insurrection and other challenges to the U.S. democratic system that originated from too many of its own elected officials. A critical challenge, albeit one beyond the scope of this report, is for the United States to get its own house in order—politically, economically, and in terms of bringing the pandemic under control.

It would be a mistake, however, to assume that the United States should pull back from its efforts abroad because of the work it must do at home. To the contrary, the United States has a role to play in helping address growing global economic inequality, anxieties about the interdependence that globalization has produced, and concerns about the shortcomings of democracy as a model of government.¹⁹⁴ The COVID-19 crisis has exacerbated existing political and economic problems, many of which must be addressed collectively. Indo-Pacific countries are likely to judge America's ability to help them deal with the fallout from COVID-19 as a test of its credibility, competence, and commitment to the region. Thus, the pandemic poses distinct challenges and opportunities for the United States in terms of its diplomatic and economic instruments of statecraft. It also heightens the dangers of a longer-term deterioration of the U.S. economic position and could have pernicious second-order effects on the U.S. military position.

The United States is not alone in its competition with China. Although Washington might struggle to make a compelling case for the virtue of democratic governance based on how it handled the pandemic, it can point to successful responses by Indo-Pacific democracies. South Korea, Taiwan, Australia, New Zealand, and Japan all managed the COVID-19 crisis while preserving the rights and dignity of their citizens. Moreover, Indo-Pacific

democracies, especially Japan, Australia, and India, have been increasingly active across the diplomatic, economic, and military domains. Developments since the pandemic began underscore the importance of reinforcing and expanding cooperation with these countries bilaterally, trilaterally, and via the Quad.

To foster a more networked approach in the region, the United States should also consider ways to integrate the work of the Quad with that of ASEAN and to integrate other Indo-Pacific countries, like South Korea and Taiwan, in Quad activities and initiatives. The United States currently treats engagement with the Quad and ASEAN as two separate strands of its Indo-Pacific policy. This is understandable, insofar as the two groupings serve different, yet complementary goals. The Quad is important because it fosters cooperation between four critical, democratic countries with sophisticated militaries, while ASEAN is a long-standing forum in which ASEAN members themselves can formulate joint positions and cooperative approaches. Considering the initial iteration of the Quad arose as an effort to coordinate disaster relief, responding to the needs of the region following the COVID-19 crisis could provide an impetus for expanding Quad cooperation with ASEAN. The need to marshal regional responses to COVID-19 also creates potential opportunities to integrate the Quad into the region more broadly by providing countries with an à la carte menu of activities on which to cooperate. Such an approach would create opportunities for ASEAN member countries, South Korea, Taiwan, and some European countries to coordinate with all four Quad countries on specific initiatives.

The Diplomatic Domain

First and foremost, vaccine diplomacy is critical. China is already providing vaccines to Southeast Asian countries, while the United States is perceived to be pursuing “vaccine nationalism,” with a projected vaccine stockpile large enough to inoculate every American twice.¹⁹⁵ The U.S. pledge to contribute \$4 billion to COVAX is an important development, but COVAX will only vaccinate a portion of the overall global population.¹⁹⁶ The Quad’s plan to work together to boost the production of vaccines in India and distribution across Southeast Asia is a critically important step, and will build on India’s already notable vaccine diplomacy efforts. There are additional options the United States could pursue unilaterally or in concert with the Quad and other countries to address vaccine needs in the Indo-Pacific. In addition to the immediate need for vaccine production and distribution, it will also be necessary to push back against Chinese

disinformation about the effectiveness of Western-produced vaccines. Finally, the pandemic has highlighted the importance of strong public health systems and preparedness for potential future crises.

LINES OF EFFORT

Pursue a menu of vaccine diplomacy options unilaterally and in concert with the other Quad countries.

Coordination with the Quad countries to financially support increased vaccine production in India and distribution across the Indo-Pacific was one of the options this report was set to recommend. As the report went to press, the United States and its fellow members of the Quad announced plans to take this step. Specifically, the United States, Japan, and Australia plan to fund the Indian production of at least one billion vaccine doses, including the Johnson & Johnson single-shot vaccine, by the end of 2022, and their distribution in the Indo-Pacific.¹⁹⁷ It is critical that the Quad swiftly follow through with implementation. Although this plan is likely to constitute the main U.S. vaccine diplomacy effort in the Indo-Pacific, there are additional options it could pursue unilaterally or in concert with the Quad and other countries.

- *Option One: Lay the groundwork for an eventual smooth transition from distributing vaccines in the United States to distributing them abroad.* The U.S. government faces enormous domestic pressure to ensure that it has taken care of its population before providing surplus vaccines to other countries. There is a risk, however, that the



The United States has implemented three vaccines proven to effectively prevent deaths caused by COVID-19. Once the urgent need for vaccines in the United States begins to decrease, Washington can begin to offer its vaccine supply to Southeast Asian allies and partners. (Getty Images)

message America sends to the region is one of vaccine nationalism at a time when other countries are in need. The Biden administration anticipates that the United States will have sufficient vaccine supply for every adult in the country by early summer. It is already planning to send millions of unused doses of the AstraZeneca vaccine, which has not been approved for use in the United States, to Mexico and Canada.¹⁹⁸ Washington should also consider making a portion of any additional surplus vaccines available directly to key countries in the Indo-Pacific, especially as a stopgap measure for priority populations given that the one billion dose target set by the Quad may not be reached until the end of 2022. To prepare for this option, the Biden coronavirus task force should work with vaccine distributors and partners in state governments to set realistic timelines and supply chains for global vaccine shipments. Depending on the amount of vaccine doses available, it may be necessary to select key recipient countries, such as Indonesia, Vietnam, and the Philippines. Working with ASEAN to coordinate where vaccines are distributed is another alternative. In either case, it will be important to ensure recipients are prepared for efficient vaccine distribution upon shipment.

- *Option Two: Provide financial support to fund the purchase and distribution of vaccines in the Indo-Pacific, especially among Southeast Asian countries.* Providing foreign assistance presents the most straightforward method of financial support, and one that recipients will easily recognize. Because of the logistical difficulties involved in distributing vaccines, the financial costs of distribution should be factored into any such support. The United States has already pledged billions of dollars to COVAX and to boost the production of vaccines in India, and there are limits to how much it can offer in the way of foreign assistance. Keeping these limitations in mind, the U.S. government should consider additional targeted financial assistance—coordinated with Australia and Japan, both which have pledged aid worth hundreds of millions of dollars—to help Southeast Asian countries fill any gaps in vaccine procurement and distribution.¹⁹⁹ As with the above option, this support could be a helpful stopgap measure given the time it will take to produce one billion doses in India and then distribute them.
- *Option Three: Consider additional steps to boost vaccine production by supporting distributed manufacturing capacity in the Indo-Pacific.* The development of effective vaccines in such a short time is extraordinary, but sufficient production and distribution has not matched this achievement. Deconcentrating manufacturing

capacity could help boost production, as well as have the added benefit of boosting the economic prospects of the countries where production occurs. Facilitating distributed manufacturing would require involvement in complex multilateral and public-private negotiations, including determining who will pay for increased manufacturing, who is responsible for storing and distributing vaccines, and who owns decisions about distribution. The Quad's ambitious plan to boost vaccine production in India to produce one billion doses by the end of 2022 is a major step forward. Depending on needs regionally and globally, the U.S. government, on its own or in coordination with Japan and Australia, should also consider facilitating an arrangement wherein American companies enter into manufacturing arrangements with Indonesia, which also has untapped vaccine manufacturing capabilities. The United States should also explore coordinating any additional efforts with the Access to COVID-19 Tools Accelerator and other institutions, such as the Gates Foundation and Wellcome Trust, which have been promoting distributed manufacturing of vaccines.

- *Option Four: Create an Indo-Pacific COVID-19 response mechanism that includes Quad and ASEAN countries, plus South Korea, Taiwan, New Zealand, and the Pacific Islands.* The sheer scale of vaccine development efforts and surpluses available means that developing countries already have access to an increasingly broad and diverse portfolio of vaccines that can be mixed and matched for different populations. At the time this report went to press, 13 vaccines had been authorized and approved in one or more countries, and dozens were in various stages of development and testing.²⁰⁰ The Quad's plan to produce and distribute vaccines simplifies the landscape in some respects, but Indo-Pacific countries are still likely to pursue multiple options. The ASEAN Health Sector has been involved in coordinating numerous initiatives to respond to the COVID-19 crisis, but there is still a need to access data and resources for essential medical supplies, including vaccines. Moreover, no similar coordination exists for other countries in the Indo-Pacific. There is an opportunity for the Quad to take the lead on developing a mechanism for navigating the complex vaccine environment. This mechanism could serve as a way to bridge the Quad—which is well-positioned to advance activities around distribution and assist with vaccine production and procurement—with ASEAN. It also provides a venue for including South Korea, Taiwan, New Zealand, and the Pacific Islands. This type of mechanism could provide a multi-purpose forum:

- Enabling regional countries to share data with one another, including about what is happening in the vaccine marketplace, thereby providing member governments with greater transparency to inform decision-making.
- Facilitating the pooling of country and donor resources for vaccine storage and distribution.
- Addressing the logistical challenges related to distribution, including identifying regional private sector entities that could be incentivized to repurpose their distribution systems.
- Negotiating rules of the road to enable increased mobility in ways that also provide protections when it comes to both the spread of COVID-19 and individual privacy.

Build shared mechanisms for tackling Chinese disinformation about the origins of COVID-19 and the efficacy of Western vaccines. In addition to launching information and disinformation campaigns regarding the origins of the virus and the benefits of China's model of governance for combating it, Beijing is also promoting disinformation about the efficacy of non-Chinese vaccines. Vaccine diplomacy is first and foremost about distributing physical doses of vaccines, but it is also critical to ensure that people have accurate information about the effectiveness of democratic government responses to COVID-19 and of the vaccines available to them. As with a real virus, viral online disinformation will not stop spreading unless it is actively fought. The United States should take three immediate steps, which could form the basis for longer-term partnerships among democracies that are focused on jointly combating online disinformation.

- Prioritize efforts coordinated by the Global Engagement Center to combat Chinese-promoted disinformation about the origins of the pandemic and the effectiveness of American and European vaccines.
- Identify opportunities to highlight the success that democratic allies, such as Japan, Australia, New Zealand, South Korea, and Taiwan, have had in managing the COVID-19 crisis.
- Work with the Quad countries to create an Indo-Pacific dialogue on online vaccine disinformation—modeled on the G7 rapid response mechanism—to fast-track information sharing about emerging transnational disinformation sources and narratives on vaccines, and to exchange best practices on combating vaccine disinformation. Canada, which has led the G7's work on creating shared solutions to the problems afflicting all 21st-century democracies, could be brought in to help lead the new Indo-Pacific-specific initiative.

Prioritize public health and emergency preparedness in Quad and ASEAN engagements, and increase public health assistance to Southeast Asian countries. COVID-19 has underscored the need for action and cooperation on the biomedical and public health fronts. Cooperation in the area of public health could take various forms, as different countries will have different needs and capabilities. The Quad provides an ideal forum for strengthening crisis preparedness among the four member states, as well as coordinating public health assistance to other countries, either individually or through multilateral forums like ASEAN.

- Increase the number of public health dialogues the United States holds with other countries bilaterally, trilaterally, and through the Quad and ASEAN.
- Engage with Quad countries and other close allies to prepare for future health crises in the Indo-Pacific by exploring joint medical supply production capacity and joint stockpiling of critical supplies.
- Increase coordination with Quad countries, other key allies, and non-governmental organizations on public health assistance to ASEAN and ASEAN member states. Recipients will have different needs, and donors will bring different capabilities, but broadly speaking there is a clear need for upgrading health facilities, strengthening primary health care coverage, training medical staff, and boosting administrative capacity. The ASEAN Centre for Public Health Emergencies and Emerging Diseases—which Japan supported, Australia committed to help fund, and on which numerous outside experts consulted—is one example of the type of initiative that is worth pursuing.
- Facilitate dialogues through the Quad and ASEAN for sharing best practices. For example, after MERS, South Korea passed comprehensive public health legislation, which helped it to manage COVID-19 without infringing on individual privacy. U.S. institutions, including the Center for Disease Control and Johns Hopkins University, are setting standards for mapping and visualizing key data during the health crisis. These institutions could be invited to present on their methodology and explore possibilities for collaboration.
- Engage like-minded countries on research, development, and setting standards when it comes to digital privacy. This will be paramount in the public health space as artificial intelligence for diagnostic purposes becomes more important, and also critical in the event surveillance and contact tracing are needed to combat a COVID-19 resurgence or future pandemic.

The Economic Domain

The United States needs an economic plan as part of its strategic positioning in the Indo-Pacific. The recommendations below are intended to inform a more comprehensive effort by identifying ways in which Washington should account for the economic challenges and opportunities created by the COVID-19 crisis. These recommendations focus mainly on using economic statecraft to further U.S. influence, but it is worth noting that the United States also needs to take steps to address the overall deterioration of its regional economic position, which may worsen as a result of COVID-19's effect on economic trends. The negative economic effects of the pandemic on the Indo-Pacific are extensive. In Southeast Asia, these effects are setting back years of anti-poverty work, requiring countries to assume unsustainable debt, eroding human capital, and exacerbating transnational criminal behavior and corruption. These economies are heavily export based, so their recovery is dependent on reversing regional and global downturns in trade. India has also suffered mightily and is seeking to recover while simultaneously decoupling sectors of its economy from China. Failure to aid the economic recovery in these countries would cede additional ground to Beijing. Although we would not expect efforts to help the region recover economically from the COVID-19 crisis to be the sum total of America's strategic approach, they are likely to be a key indicator by which American commitment to economic engagement in the region is judged.

LINES OF EFFORT

Prioritize helping Indo-Pacific countries, especially those in Southeast Asia, deal with debt problems resulting from or exacerbated by the COVID-19 crisis.

The United States should work with close allies and partners to help regional countries deal with debt issues through multilateral forums. The more support the United States can directly provide or facilitate through multilateral institutions like the G20, the more likely regional countries are to pursue debt renegotiations through these multilaterals. This will increase transparency, which benefits borrowers and the United States, and limits the exposure of these countries to potential Chinese economic coercion. The United States should take the following four steps:

- Work with close regional allies, including Quad countries, as well as the European Union, United Kingdom, and European allies to ensure that all relevant stakeholders, including China, adhere to the recently agreed upon common framework in the G20 for addressing debt problems.

- Supplement technical and analytical support from the IMF and World Bank to borrowers, including by deploying small teams of lawyers and financial experts to key countries.
- Consider supporting more realistic debt sustainability targets and encouraging major U.S. corporate lenders to write down exposure.
- To increase transparency, work with Quad and ASEAN countries on developing a mechanism for countries negotiating loans with China to exchange information in order to strengthen their negotiating position.
- Work with allies and partners to press China to join international development financing groupings like the Paris Club, which reduce conflicts among lenders when debt crises occur around the globe.²⁰¹

Accelerate implementation of existing assistance programs for infrastructure and human capital development in the region and enhance coordination with other Quad countries on the delivery of assistance.

COVID-19 has slowed necessary infrastructure development in Southeast Asia, derailed plans for increasing and upgrading labor productivity, and slowed labor mobility throughout the region. The pandemic is also driving a shift toward the tech and public health sectors, which fuels the need for countries to develop workforces with the requisite vocational and professional skills to take advantage of that shift. The United States has tools of economic statecraft that it can mobilize to meet these needs, and should take the following steps:

- Fast-track operationalization of the Blue Dot Network, which has yet to establish an organizing authority or expand membership beyond a few countries.
- Ensure the International Development Finance Corporation (DFC) is sufficiently staffed to carry out its ambitious goals in the Indo-Pacific. While the budget of DFC was doubled to \$60 billion annually in legislation that passed in 2018, the organization is still plagued by staffing shortfalls.
- Direct USAID assistance to the region to support greater investment in human capital development, especially building digital skills, and in other aspects of the expanding digital economy.
- Expand coordination with Japan and Australia to enable joint investments in Southeast Asia that could increase the strategic effectiveness of assistance to recipient countries.
- Increase support for regional initiatives, such as the ASEAN Institute for Green Economy, which are

intended to yield multilateral solutions to economic problems that intersect with global challenges, such as climate change and the COVID-19 crisis.²⁰²

- Catalyze development in the digital domain by establishing new initiatives focused on strengthening innovation ecosystems across partner nations. Possibilities include new venture capital seed-funding mechanisms and programs focused on human capital development, such as a digital peace corps.²⁰³

Pursue small-scale trade initiatives, while simultaneously exploring the costs and benefits of entering the CPTPP. Joining the CPTPP will remain difficult for domestic political reasons, but the option deserves a thorough exploration. Congress should hold hearings to assess the costs and benefits—for the U.S. economy, the American workforce, and U.S. engagement in the Indo-Pacific—of joining the CPTPP. The Biden administration should work with Congress to identify possible areas for renegotiation in the event the United States did seek to join.²⁰⁴ Along a parallel track, there are smaller initiatives the Biden administration can pursue:

- Consider pursuing so-called “skinny deals” that don’t need to go through Congress and prioritizing digital trade agreements and other agreements that might replicate parts of the CPTPP. Digital trade agreements are not only achievable, but also necessary to address an increasing number of advanced technology challenges and ensure the digital economy evolves in a way that is not inimical to U.S. and allied interests. For instance, the United States could leverage the U.S.-Japan-ROK-Taiwan semiconductor nexus to formulate a Pacific Rim digital trade agreement.²⁰⁵
- Consider expanding the GSP in Southeast Asia and using it as an incentive in certain instances toward specific objectives, such as improved labor standards.
- Review and renegotiate the terms of the trade agreement the Trump administration had been negotiating with India, while also weighing the potential to expand it to include issues such as intellectual property against the time horizon that such an expansion would necessitate. Any deal should be considered alongside discussions with New Delhi about restoration of India’s GSP status.
- Pursue a coordinated effort that leverages the Japan-EU-United States trilaterals to engage the WTO to put in place new global rules for trade, investment, technology, the environment, and the digital world.²⁰⁶

Balance reshoring with diversification of supply chains and emphasize efforts to help allies and partners deepen their own supply chains. Some private sector entities were already moving supply chains out of China before the pandemic. The COVID-19 crisis provides an impetus for diversifying supply chains to reduce reliance on a single country. Where the United States has a comparative advantage, it should leverage it to pursue reshoring. Where it does not, the aim should be on working with allies, partners, and industry to promote supply chain diversification and facilitate shifts out of China to other Indo-Pacific countries. This would reduce dependency on Beijing for other countries and private sector companies, while simultaneously promoting economic recovery in destination countries. This effort will be especially critical in terms of technology supply chains, where it is essential for the United States to facilitate shifts to trusted allies and partners if the United States cannot reshore them. To this end, the United States should take the following steps:

- Work with Japan, Australia, and India, which have already launched the Supply Chain Resilience Initiative, to support the initiative’s objectives.
- Implement the supply chain choke point analysis framework that Japan piloted to identify critical areas where Quad countries have strategic dependencies on China, and pursue enhanced cooperation with Japan on supply chain monitoring.
- Engage private industry to map out where the opportunities are to capture high-value segments of supply chains, where it will be more feasible to try to facilitate shifts away from China and toward other Indo-Pacific countries, and what it would take for industry to execute these shifts.
- Where reshoring is not an option for the United States, work with industry to identify suitable alternatives to China. For example, the United States could coordinate with Quad countries on providing incentives to industry to relocate and provide targeted infrastructure and technical assistance—unilaterally or in tandem with Japan or Australia—to increase the appeal of key countries, such as India, Indonesia, the Philippines, and Vietnam, that would be alternative locations for production.
- To offset the risks related to diversification and reduce the risks related to future instability or need to rely on China for critical supplies, work with Japan to create shared strategic reserves of medical and other supplies, and with countries in South and Southeast Asia to help them create their own stockpiles.

Expand opportunities for Quad engagement on economic issues in the Indo-Pacific. Economic cooperation is challenging because even the closest allies can be economic competitors, and democratic countries have only so much control over their private sector enterprises. There is space, however, for greater engagement on economic issues, and for “coalitions of the willing” to pursue collective action on issues of common concern, such as China’s economic coercion.²⁰⁷ Engagement and collective action should not be limited to the Quad, but it nevertheless provides one forum for promoting these efforts.

- Expand Quad dialogues to include an annual trade ministerial.
- Leverage the Quad framework to increase coordination on development and infrastructure assistance in South and Southeast Asia.
- To counter Chinese economic coercion directly, issue a joint statement by all four members condemning China any time it engages in economic coercion against any country, consider coordinating assistance to any country that is targeted, and pursue an agreement that if one of them is targeted by China then the others pledge not to unfairly take advantage of the situation.²⁰⁸
- Coordinate with ASEAN, civil society, and the private sector to organize a Quad-ASEAN conference in Southeast Asia focused on post-pandemic economic recovery. Work with the Quad countries, ASEAN, and relevant stakeholders in society and the private sector to translate this into an annual event that could serve as an economic analogue to the security-oriented Shangri-La Dialogue.

Defense Cooperation

The COVID-19 crisis is having less of a direct effect on the U.S. military—as compared to economic and diplomatic—position in the Indo-Pacific. However, potential declines in defense spending could make it even more difficult for the United States to project power credibly. This reinforces the need to adapt the U.S. approach to warfighting in ways that could necessitate reductions in force presence in the Indo-Pacific. Simultaneously, the United States needs to help allies and partners develop their own capabilities to challenge China’s power-projection. The United States can take steps to mitigate potential strains on defense budgets and force presence that would be a net positive even if such strains do not eventuate. It should also seize opportunities to expand the U.S.-India defense relationship and promote stronger defense ties between all four Quad countries.

LINES OF EFFORT

Increase defense integration with Japan and Australia.

The United States must move away from a focus on primacy and shift toward deterring China by building effective denial capabilities and helping allies and partners build them as well. The need for greater domestic spending in response to the COVID-19 crisis could lead the U.S. defense budget to shrink—if not next year, then in out-years—while China appears poised to spend more. Recognizing that how the United States spends its money is as important as how much it spends, the gap in U.S. and Chinese military capabilities nevertheless could continue to narrow as a result. Any budget crunch would make the aforementioned shift even more critical. There are affordable steps the United States can take in the near-term, including:

- Develop integrated command and control structures with Japan.
- Further integrate operational capabilities with Japan and align domain operational concepts. Explore the development of a common operational concept for integrating emerging technologies into warfighting.
- Use the next U.S.-Japan-Australia Trilateral Strategic Dialogue to explore expanding integrated planning mechanisms to improve their alignment on doctrine and force structure with the United States.
- Create allied research and development pools or defense innovation hubs with Japan and Australia to better harness emerging technologies.²⁰⁹

Adapt exercises to account for potential reductions in presence and possible future disruptions to training cycles.

The pandemic has disrupted joint exercises as well as training cycles, creating visible readiness challenges. Although this is likely to be less of an issue as militaries are vaccinated, it is possible that given the current fiscal climate, the United States may need to cut force presence in the region in order to move forward with modernization. The United States can take steps to offset concerns among regional allies and partners about U.S. commitment, including:

- Deploy smaller numbers of forces for longer periods of time to embed with allies and partners in various capacities. Although this likely would have limited operational benefit, doing these types of rotations for longer periods of time would enable the United States to offset potential shortfalls in presence.

- Guard against reductions in combined exercises to fund high-intensity joint exercises, and explore including key allies and partners in the latter.
- Expand multinational training exercises, especially in anti-submarine warfare, which is critical for key regional allies and partners, including Japan and India.

Seize opportunities to expand the U.S.-India defense relationship. Chinese aggression against India along the Line of Actual Control has expanded the opportunity for increasing Indian defense cooperation with the United States. To strengthen the U.S.-India defense relationship the United States should:

- Fully exploit the four defense enabling agreements the United States has signed with India over the past several years to enhance the two countries' interoperability and information and intelligence sharing. Also, shift the focus of the Defense Technology and Trade Initiative away from big-ticket items and toward codevelopment with India of smaller platforms and emerging technologies.
- Hold regular tri-services exercises with India, incorporating cyber and electronic warfare into the exercises, and elevate the U.S.-India cyber-defense dialogue, which held its first virtual meeting in September 2020.
- Develop integrated maritime domain awareness (MDA) capabilities, harmonizing technical capabilities to the greatest extent possible. To enhance collaboration on MDA, grant India access to the U.S. base at Diego Garcia in exchange for U.S. access to the Indian base on the Andaman and Nicobar Islands.

Seek opportunities to reinforce and expand defense ties between all four Quad countries. In addition to increasing Indian defense cooperation with the United States, there is an opportunity to expand defense ties across all four Quad countries. Indian interest in expanded cooperation comes at a time when Australia has indicated its determination to play a greater regional role, including on military capacity building, and Japan has taken steps to enable it to contribute more to defense cooperation with the United States and other countries in the Indo-Pacific. To strengthen defense ties between the Quad countries:

- Pursue agreement among member countries on using the Quad as a forum to increase information exchanges about respective regional capabilities and strategize on burden-sharing throughout the Indo-Pacific.
- Work with India to make Australia a permanent member of the annual Malabar naval exercise and consider expanding Malabar to become a tri-service exercise.
- Consider joint access arrangements regarding Diego Garcia, Andaman and Nicobar Islands, and Cocos Islands in order to maximize Quad power projection in Indo-Pacific waters.

Conclusion

Beijing's growing economic might, military modernization, and aggressive diplomatic efforts were already eroding America's competitive advantage and shifting the regional balance of power in the Indo-Pacific before the COVID-19 crisis began. The pandemic has accelerated trends in the diplomatic, economic, and defense realms in ways that reinforce structural challenges for the United States, but also create opportunities for it to compete more effectively against China.

Restoring U.S. alliances and partnerships in the Indo-Pacific is critical to competing more effectively against China. The U.S.-Japan alliance remains a linchpin for any such effort. Tokyo's diplomatic warming with Beijing has cooled since the COVID-19 crisis began. Aggressive Chinese behavior toward Australia and India in the wake of the pandemic has spurred both countries to sharpen their policies toward China. Together, these four democracies are enhancing their diplomatic, economic, and defense cooperation bilaterally, trilaterally, and through the Quad, which promises to be a core component of the U.S. approach to the Indo-Pacific.

Another key factor that will influence the geopolitical dynamics of the Indo-Pacific moving forward is the extent to which the United States and its fellow Quad democracies can help Southeast Asia recover from the COVID-19 crisis. The U.S.-China competition for influence is intense in Southeast Asia, and so the ability of the United States to deliver on a positive agenda for regional recovery will be a key test of its competence, commitment, and credibility in meeting challenges of the Indo-Pacific. Done correctly, such efforts also provide an opportunity to build ties between the Quad and ASEAN, and to reinforce a web of networked relationships among their respective members.

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