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The US Increasingly Turning to the Indo-Pacific Both For Strategic But Also Economic Reasons: LESSONS FOR THE EUROPEAN UNION

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1

Introduction

From “Asia-Pacific” to “Indo-Pacific”, there’s clearly an ongoing changing geopolitical dynamic in Asia indicated in the evolving narrative. “Indo-Pacific” was initially a geographical concept that refers to an area covering all nations and islands surrounding the Indian Ocean and the Pacific Ocean. Its emergence as a political term could date all the way back to the 1920s, when the German geopolitician Karl Haushofer first used it in his works such as *Geopolitics of the Pacific Ocean*, but it was still not commonly used until 2010 when Hillary Clinton drew more attention to it by recognizing the rising importance of the Indo-Pacific and explaining why the US’ Asia-Pacific had evolved to be an “Indo-Pacific” concept. Since then, it has gained increasing popularity in works of geoeconomics and

politics, seemingly supplanting the previous common term “Asia-Pacific” viewed by many scholars. Although “Indo-Pacific” was constructed to incorporate some important regions around the Indian Ocean and recognize their importance, particularly India, it is frequently used in international power debate and is viewed and criticized by some Chinese scholars to be a quasi “alliance network” aiming to contain China’s rising influence.

The US’ enduring interest in the Indo-Pacific stems from both the economic and strategic fronts. With large youthful populations and growing economic potentials, the Indo-Pacific region stands vital to the future prosperity for the US as well as the rest of the world. What’s also important is that, as the world is looking to tilt supply chains beyond China, countries like India and ASEAN seem to be natural alternatives and the region is thus crucial for the diversification. Despite the rising economic importance, it is also a region that underwent significant risks of instability in the past decades, such as the nuclear threat from North Korea and tensions in the South China Sea.

¹ Clinton, Hillary. “America’s Engagement in the Asia-Pacific.” Oct. 28th 2010, Honolulu, HI (disponible en línea).

² Clinton, Hillary. “America’s Pacific Century.” *Foreign Policy Magazine*, Oct. 11th 2011 (disponible en línea).

The US' strategic pivot to the region has become increasingly evident during the last decade, from Obama's "Pivot to East Asia" regional strategy to, most recently, the Biden's Indo-Pacific Economic Framework (IPEF). These efforts first started on the military side, as were seen in the US' increased military deployment in the region under Obama "Pivot to East Asia" strategy, but later extended to the security side by Trump, and further on the economic front by the Biden administration. It not only aimed to strengthen its influence and enhance ties with countries in the region, but more importantly to contain China's rising power. This paper digs into the US' strategies in the Indo-Pacific and is structured in the following four sections. In the first section, we will analyze how the US policies have evolved in the Indo-Pacific region over the last decade. In the second section, we get into the US' economic interests in the Indo-Pacific that are becoming increasingly important as it pushes for an alternative supply chain. We will then analyze the implications of the US' Indo-Pacific strategies for China in the third section and review the consequences for Europe in the fourth.

2

How Did the US Indo-Pacific Policies Evolve?

Obama Administration: "Pivot to East Asia" Marked the Start of US Indo-Pacific Strategy (IPS)

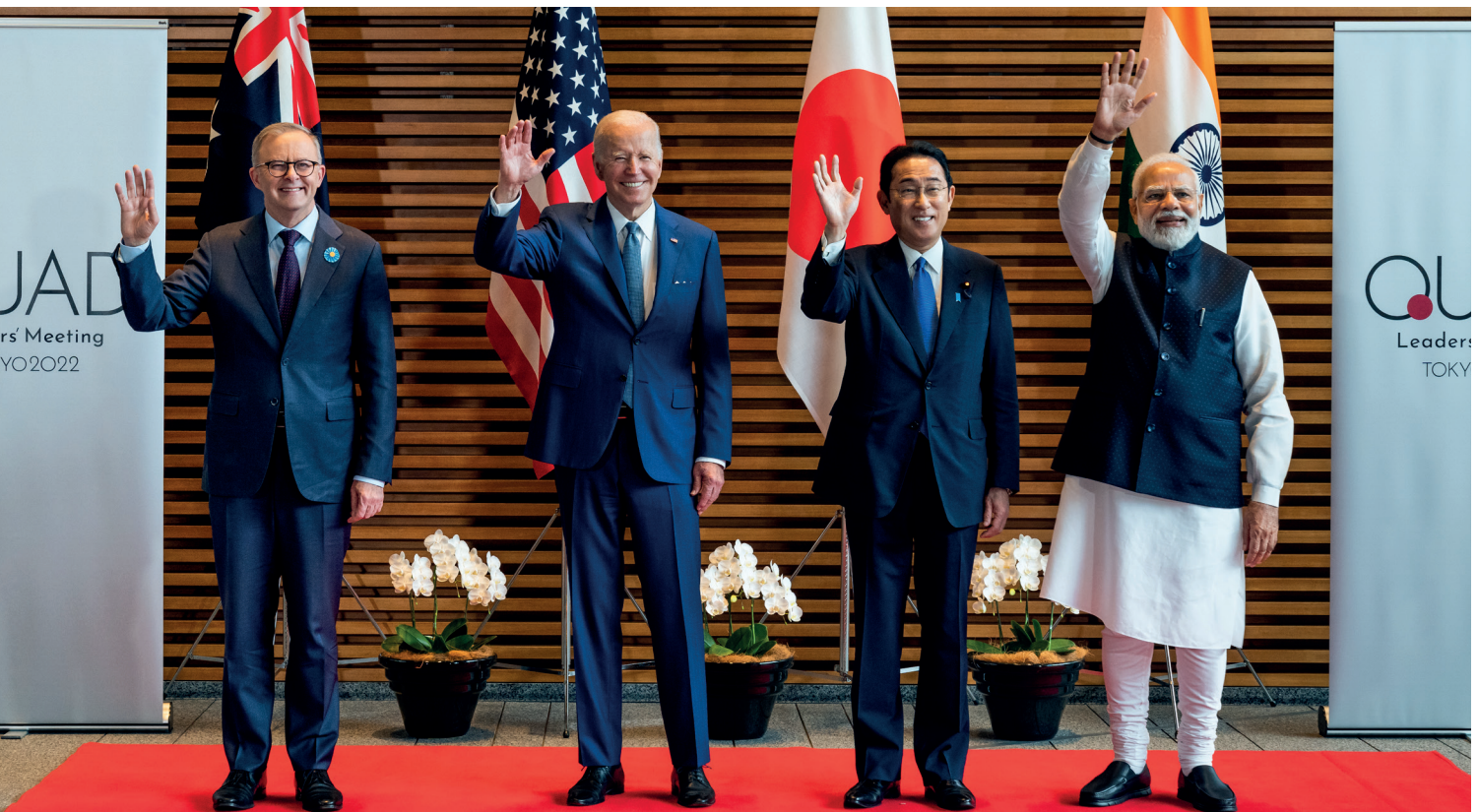
The US' Indo-Pacific policies first emerged in the Obama Administration, and during the time, expanding military presence in the region was the primary focus. In 2011, US President Barack Obama rolled out the "Pivot to East Asia strategy", or "rebalancing strategy", under which it sought to expand and intensify the American role in the Asia-Pacific. The pivot came at a time when China was particularly viewed as a rising regional power, and Obama's "Pivot to Asia" strategy was thus considered by many Chinese scholars as a direct move aiming to contain China's rise. Having military bases and thousands of troops in Japan and South Korea, the US had long preserved a significant role in Asia, but it was clearly seeking to push further with the rebalancing strategy. As part of the plan, the US announced new troops and equipment to Australia and Singapore. The US' Free Trade Agreement (FTA) with South Korea entered in force in 2012, and the US also engaged in negotiations in Trans-Pacific Partnership (TPP), which was signed in February 2016.

With large youthful populations and growing economic potentials, the Indo-Pacific region stands vital to the future prosperity for the US as well as the rest of the world

Trump Administration: Further Push on the IPS and the Revival of the Quad

Trump's Indo-Pacific Strategy is a continuity of the US' strategies in the region initiated by his predecessor, but it is also a reaction to China's global and regional strategies announced between 2013-2017. In 2013, China announced its grand strategy of the Belt and Road Initiative (BRI), an important foreign policy dedicated to promoting infrastructure development in the developing countries. China also proposed the China-Pakistan Economic Corridor (CPEC) in 2013 and the China-Myanmar Economic Corridor (CMEC) in 2017, which served as two pillars of China's Indian Ocean strategy. These efforts aimed at enhancing trade and investment ties with these countries and thus strengthening its economic and political presence. As China's ambition became increasingly clear, the West was looking to counter the BRI and provide an alternative proposal to the countries involved (Wu & Colombage). Against this backdrop, US President Donald Trump, during his Asia trip in November 2017, outlined his vision for a free and open Indo-Pacific, further pushing on the Indo-Pacific Strategy. In the 2017 National Security Strategy of the United States, it stated the importance of the IPS and claimed that "a geopolitical competition between the free and repressive vision of world order is taking place in the 'Indo-Pacific region'", and that "China seeks to displace the United States... but the United States must marshal the will and capabilities to compete and prevent unfavorable shifts in the Indo-Pacific region" (Han).

In this context, the Trump Administration also revived the Quadrilateral Security Dialogue (Quad) in 2017, which had ceased since 2010 following the departure of Australian Prime Minister Kevin Rudd. The Quad is a strategic security dialogue between Australia, India, Japan, and the US, and one of the driving force



(De izq. a dcha.) El primer ministro australiano Anthony Albanese, el presidente estadounidense Joe Biden, el primer ministro japonés Kishida Fumio, y el primer ministro indio Narendra Modi, posan para una fotografía en Kantei, la oficina y residencia oficial del primer ministro japonés, el lunes 24 de mayo de 2022, antes de la reunión de los líderes del Quad. Cumbre en Tokio. (Foto oficial de la Casa Blanca de Cameron Smith)

behind its rebirth was to counterbalance against China's growing power and influence. During the next four years of the Trump Administration, the Quad was taken to a new era with development and expansion, with dialogues covering wide-ranging issues such as maritime security and economic connectivity (Wei).

Although Trump's Administration greatly advanced security cooperation under the Indo-Pacific Strategy, moves on the economic fronts were somewhat halted. Trump withdrew the US from the Trans-Pacific Partnership (TPP) as soon as he took office, thus the TPP never entered into force. In January 2018, Trump's Administration announced to increase tariffs on solar panels and washing machines to 30%-50%. Two months later in March, an imposition of tariffs on steel (25%) and aluminum (10%) was also announced, impacting most countries including China, and this was later also applied to the European Union, Mexico, and Canada. Besides drawing back from multilateral free trade agreements, scholars also found the economic cooperation was limited during Trump's Administration. In July 2018, Pompeo announced that the US would spend USD 113 million in the Indo-Pacific to expand economic engagement. The spending, however, appeared to be modest compared to China's (Scott).

The Quad is a strategic security dialogue between Australia, India, Japan, and the US, and one of the driving force behind its rebirth was to counterbalance against China's growing power and influence

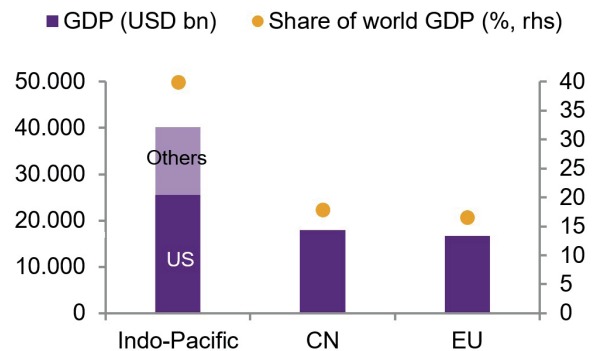
Biden: More Push on the Economic Front with the Indo-Pacific Economic Framework (IPEF)

Biden continued and upgraded the Quad from only senior official-level and ministerial-level in Trump's time to a leader-level summit, holding regular dialogues to facilitate cooperation as a way to better rival China. Furthermore, the Biden administration largely shifted from the longstanding strategic ambiguity to strategic clarity on the Taiwan issue, pushing further on the Taiwan policy. It is also attempting to bring a bilateral US-Taiwan relation to a much broader "US + alliance – Taiwan" relations through alliance coordination (Ye).

As Biden maintained and strengthened the security dimension under the US Indo-Pacific strategy, his policies also expanded to promote economic engagement in the region. In May 2022, the Biden administration launched the Indo-Pacific Economic Framework (IPEF), an economic initiative with the four pillars of connected economy (trade), resilient economy (supply chains), clean economy, and fair economy. Prior to the IPEF, in 2021, China signed the Regional Comprehensive Economic Partnership (RCEP) with other Indo-Pacific nations including all ASEAN countries and even some close US allies such as Australia, Japan, New Zealand and South Korea. It came after 10 years of negotiations and finally entered in force in January 2022. Moreover, after the withdrawal of the US from the TPP, Japan and other countries revived it and renamed it the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which was ratified in 2018. While the US negated the possibility of rejoining the current conversion of TTP, it was aware of the need to reinforce its economic impact, and thus came the IPEF as a move to achieve this aim (Forough).

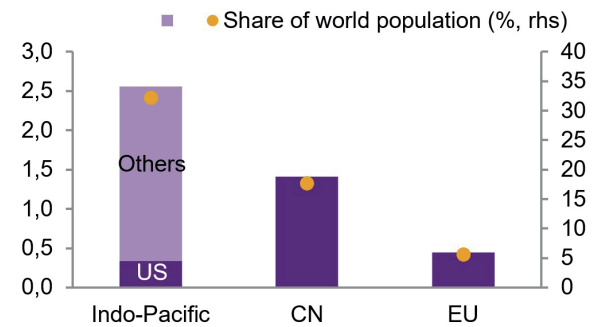
and is set to enjoy the future prosperity from the young and energetic workforces within this region, particularly in ASEAN.

Figure 1: GDP Comparison (2022)



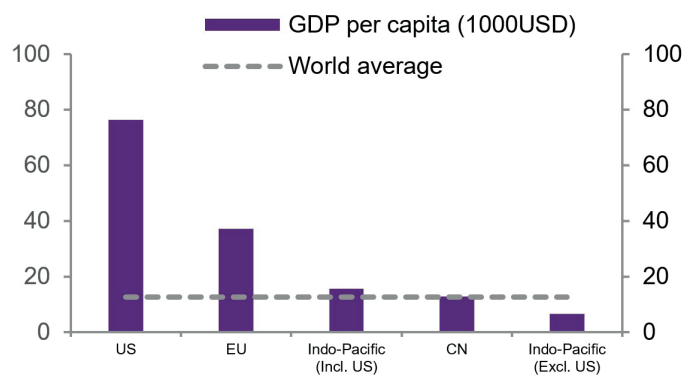
Source: World Bank

Figure 2: Population (2002)



Source: World Bank

Figure 3: GDP per Capita (2022)



Source: World Bank

However, the GDP per capita of the Indo-Pacific region, with the US excluded, was only around USD 6613 in 2022, falling short of the world's average level of more than USD 12000 (Figure 3). Even with US considered, the Indo-Pacific only merely passed the global level, indicating the degree of underdevelopment in this region.

3

The Economic Interests in the Indo-Pacific Increasingly Important as the US Pushes for an Alternative Supply Chain

Despite endless debates over the region's definition, the launch of the IPEF by the Biden's administration in May 2022 has made clear the concept of Indo-Pacific from an American point of view. As is stated in the document, Australia, Brunei, India, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, Vietnam—the initial partners of the IPEF—together with the United States, represent 40% of world GDP³.

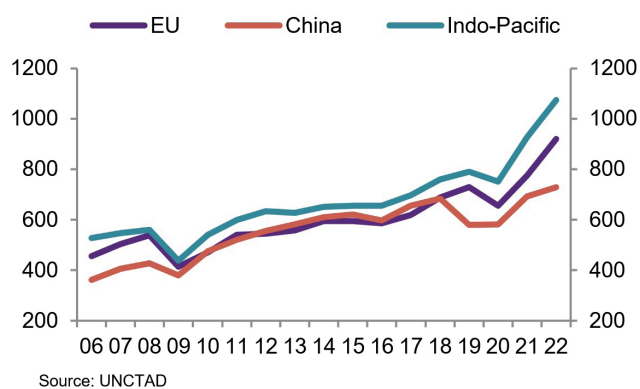
Defined this way, the Indo-Pacific is apparently one of the most important regions worldwide, whose GDP is more than twice of that of China and the European Union, the world's second- and third-largest economy respectively (Figure 1). Meanwhile, as this region covers some of the world's most populous countries, such as India, Indonesia and the US, the Indo-Pacific makes up almost one third of the world's total population (Figure 2)

³ "FACT SHEET: In Asia, President Biden and a Dozen Indo-Pacific Partners Launch the Indo-Pacific Economic Framework for Prosperity." *The White House*, The United States Government, May 22nd, 2022 (disponible en línea).

For the US, the region's importance was further fueled by China's rise in the global supply chain. Since China's accession to the WTO in 2001, its share in the global trade has been on the rise and as of now, it has gained a central role in the international trade, supplying an overwhelming 21% of world manufactured goods in 2021. But the high reliance on China for delivering goods has become increasingly worrisome for the US and the rest of the world. The supply shocks that occurred during the outbreak of the COVID 19, when China imposed country-wide lockdowns which significantly hampered factory activities, woke the world to the risks of relying on one country for supplying essential products.

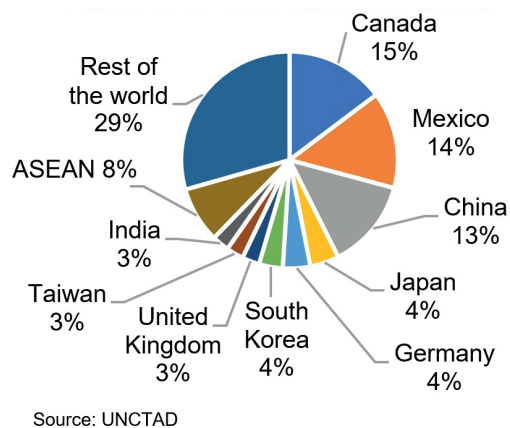
As the world is looking to diversify supply chains from China, countries like India and ASEAN are seen as natural alternatives given their attractive labor costs and massive manufacturing capacity. And thus, the Indo-Pacific as a trading partner is becoming ever more important for the US. In fact, its trade with the Indo-Pacific is rapidly accelerating and saw a total value of USD 1.1 trillion in 2022, whereas only USD 919 billion and USD 730 billion recorded for the European Union and China (Figure 4).

Figure 4: US Trade by Partners (USbn)



Source: UNCTAD

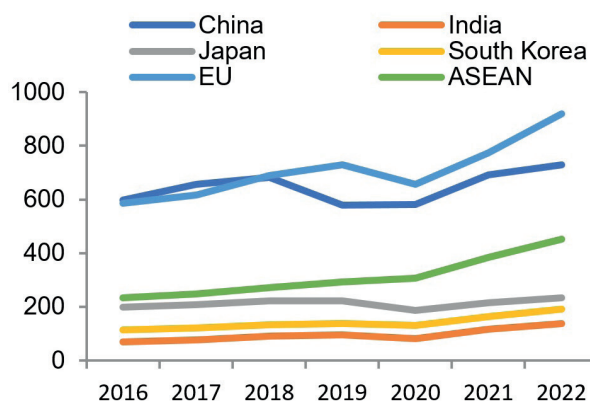
Figure 5: US Trade by Partner (2022)



Source: UNCTAD

Nevertheless, the US is yet to develop very tight trade relations with any individual Asian economies beyond China. In 2022, trade with India and ASEAN combined constituted 10.9% of the US gross trade value, whereas China alone gained an outstanding share of 13.4% and stood as the US' third largest trading partner (Figure 5). The US' trade with ASEAN increased rapidly from 2020-2022 (Figure 6), but it would still be long before ASEAN and India could really serve as an alternative to China in the supply chains.

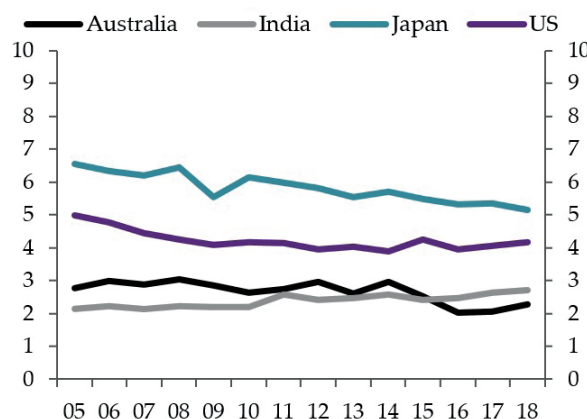
Figure 6: Trade by Partner (USDbn)



Source: UNCTAD

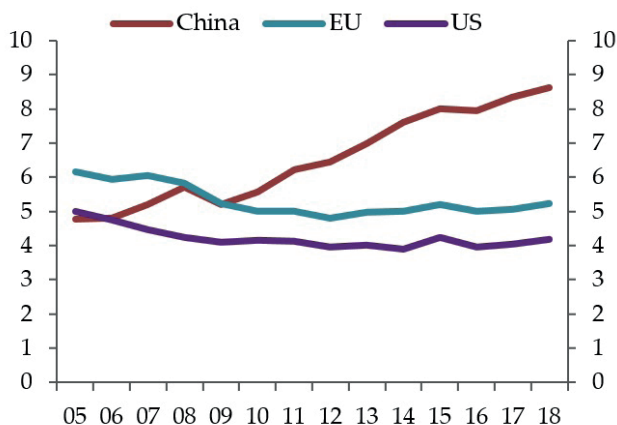
Given the importance of ASEAN in the Indo-Pacific, as well as the potential complementarities between core Indo-Pacific countries and ASEAN, ASEAN's bilateral participation in GVCs with other key players is examined. In fact, ASEAN has been reducing its supply chains integration with developed economies, including the US, since 2005 (Figure 7). This trend is particularly apparent for Japan and Australia, and less so for the EU and US. In contrast, ASEAN countries are rapidly increasing integration with China's

Figure 7: GVC Participation of ASEAN, by Partner (% of gross exports)



supply chains, which nearly doubled from 2005 to 2018. As of 2018, ASEAN's GVC participation with China was significantly higher than with the EU and US (Figure 8).

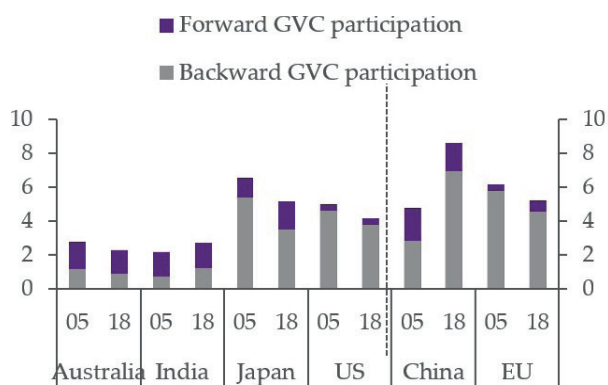
Figure 8: GVC Participation of ASEAN, by Partner
(% of gross exports)



Participation in GVCs, however, can come from two different angles, Foreign Value Added (FVA) and Domestic Value Added (DVX) in exports. The first one, also called backward participation, is the share of exports that stems from imports of intermediate goods and for which there is no domestic value added imbedded. The second is also called forward participation. Countries that produce higher value-added goods tend to have a larger share of forward participation in GVCs, as they do not need to import as many intermediate goods to be able to export.

By decomposing ASEAN's participation in GVC, it is clear that ASEAN is mostly an assembly platform, as its backward participation dominates global supply chains. This is particularly the case of ASEAN's

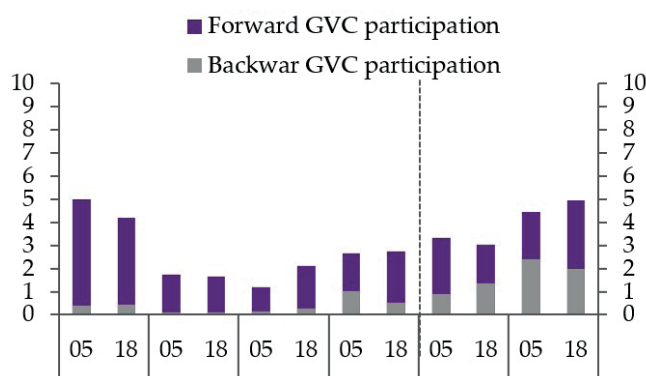
Figure 9: GVC Participation of ASEAN, by Partner and Type
(% of gross exports)



trade with the US and EU. In the same vein, ASEAN's increased integration with China largely came from backward participation, suggesting a lot of value added in exports from ASEAN into China and mostly imports of intermediate goods from China for re-export.

From the US' perspective, its bilateral linkages with Indo-Pacific countries, China, and the EU were generally stable from 2005 to 2018, with slight declines seen with ASEAN and China. Interestingly, the decrease in the US' GVC integration with China is in forward participation, which points to China adding a lot of value to its production, and reducing its dependence on intermediate goods from the US. This also contrasts with the fact that the US has been increasing its forward integration with other high-value adders such as Japan and the EU (Figure 10). The US does not seem to be losing value added in its exports with other Indo-Pacific partners, but China is an exception.

Figure 10: GVC Participation of US, by Partner and Type
(% of gross exports)



4 Consequences for Europe

Within the European Union, France, Germany, and the Netherlands were the first to lay out national strategies in the Indo-Pacific, officially recognizing the region's rapidly increasing importance, both economically and strategically. In March 2018, basing on observations of the major ongoing strategic transformation in the region, French President Emmanuel Macron set out the main principles and objectives of France's Indo-Pacific strategy, with pillars including security and defense, economic cooperation and multilateralism. It also advocated that the Indo-Pacific must be one of the main priorities for the European Union, and the latter should increase presence in the region. Germany followed suit in

⁴ "Foreign Minister Maas on the adoption of the German Government policy guidelines on the Indo-Pacific region." Federal Foreign Office, Germany Government, Sept. 2nd 2020 (disponible en línea).

September 2020, when it released its policy guidelines for the Indo-Pacific region, acknowledging the region as key to shaping the international order in the 21st century and a priority of German foreign policy.⁴ Since the publication of the policy guidelines, Germany engaged in “soft balancing” against China, and German diplomatic activities became more active in countries such as Australia, Singapore and South Korea (Ulatowski). Behind France and Germany, the Netherlands also developed an Indo-Pacific strategy in November 2020.

The three EU members have jointly initiated and pushed for a Pan-European Union level strategy, though which appeared to be less strategic than the US'. In 2021, the EU stepped up its Indo-Pacific Strategy, marking the beginning of the EU adopting a new and broad-based approach in the Indo-Pacific.

But there has been a vast divide among the EU member states in addressing China's status in the Indo-Pacific, which also poised a major challenge for future implementation of the EU strategy on Indo-Pacific. EU members adopt different views when it comes to the Indo-Pacific concept, with China whether or not included being at the center of the divide. The divergence could possibly involve different interests, and could also potentially affect their future involvement in the Indo-Pacific strategy (Grare & Reuter).

For the European Union, how the US and European Indo-Pacific strategies will influence the Transatlantic alliance is also worth noting. According to the ECFR's survey, Western European countries generally view the EU Indo-Pacific strategy as a way to better manage the Transatlantic alliance and an assertion of strategic autonomy. While Eastern European countries consider it a way to better align with the US and manage the Transatlantic alliance (Grare & Reuter). However, the European Union runs a risk that the US' increasing focus in the Indo-Pacific could potentially reduce the importance of the Transatlantic alliance.

fact, China remains very central for this region but the trend might be changing as investment in ASEAN and India from India, but also Japan, continue to increase.

These developments are extremely important for Europe to watch. In particular, the EU cannot remain isolated in the Atlantic as the US turns towards the Indo-Pacific. This is true not only in terms of security and soft power, but also in economic terms as the Indo-Pacific is already today the fastest-growing region in the world, offering enormous opportunities for trade and investment.

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5

Conclusion

This article reviews the economic aspects of a relatively new geopolitical concept, namely that of the Indo-Pacific, and the importance of the Indo-Pacific as an area which shares a number of ideas, notably that of a multipolar world, rather than one an ever-rising new power in the Indo-Pacific, namely that of China.

In the same vein, on the economic front, the Indo-Pacific is a massively large economic area but still not very integrated in terms of trade and supply chains. In