



## **DOLLAR & SENSE: THE BROOKINGS TRADE PODCAST**

**“U.S. economic diplomacy in Asia”**

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*Episode Summary:*

President Biden recently completed his first trip to Asia, during which he launched Indo-Pacific Economic Framework for Prosperity with a dozen partners in the region. On this episode, David Dollar speaks with retired U.S. diplomat Susan Thornton about the pillars of the new framework, its relationship to existing trade relationships like CPTPP, RCEP, and ASEAN, and what incentives nations in the region have for cooperation with the U.S. and China. Thornton, a senior fellow in the Paul Tsai China Center at Yale Law School and a nonresident senior fellow John L. Thornton China Center at Brookings, also addresses U.S. economic diplomacy with Europe and how Russia’s war on Ukraine may affect America’s relationship with China and Asia more broadly.

**DOLLAR:** Hi, I'm David Dollar, host of the Brookings trade podcast Dollar and Sense. Today, my guest is Susan Thornton, a retired U.S. diplomat with almost 30 years of experience in the State Department, mostly working on Asia. She's currently a senior fellow at the China Center at the Yale Law School, and she's also a nonresident senior fellow with our Brookings China Center. So welcome to the show, Susan.

**THORNTON:** Thanks, David. Great to be here.

**DOLLAR:** So, President Biden recently made his first trip to Asia, and one of the main outcomes was launching the economic framework for the Indo-Pacific. So let's start with what's your general impression of this launch of the economic framework?

**THORNTON:** Yeah, well, first of all, I think we have to get this acronym right, because it's got to be the Indo-Pacific Economic Framework so we can call it the IPEF. My personal take on this is that it is necessary to have an answer to the question from countries in the region about what is the U.S. economic strategy, engagement strategy for Asia going forward, coming on the heels of President Trump's withdrawal from the Trans-Pacific Partnership and then the countries in the region that were remaining in that agreement carried it forward. And we've sort of been playing catch up ever since. So we have to be able to say what our answer is, and now we have an answer.

**DOLLAR:** So let's talk about some of the reactions in the region and distinguish between our close security allies and all the other countries, large number of developing countries in Asia. So, President Biden's trip actually was to South Korea and Japan. These are our two key security allies in Asia. How are they looking at this economic framework?

**THORNTON:** Yeah, well, I think the trip to Asia by the president, a big part of it was to launch this economic answer to the region, the Indo-Pacific Economic Framework. And certainly they've been working hard over the last few months to try to enlist some support for the pillars. There are four pillars in this framework, which I'm sure we'll get into discussing. And, of course, the allies in the region, particularly Japan, which is where they launched the framework, has wanted to have the U.S. be able to answer this question about economic engagement.

Of course, the answer Japan's been looking for, and actually Prime Minister Kishida said this during his remarks next to President Biden, that they support the Indo-Pacific Economic Framework, but what they're really hoping for is for the U.S. to come back into the agreement known now as the CPTPP.

And but certainly our allies are supportive of U.S. efforts to have this engagement strategy rolled out. And we did manage to have 12 countries in Asia sign up to this preliminary launch. Many of them are still not completely clear on what it is because effectively the U.S. has said it's the, it's the launch of a negotiation on issues covered by these four pillars and nobody really knows what the negotiation will contain yet. So, you know, they've signed up to talk to us and they're happy to talk to us, but they haven't made any commitments yet as part of signing up is my impression.

**DOLLAR:** Can you walk us through the four pillars and do you have a sense of which of these is particularly important or are they all equally important?

**THORNTON:** I really don't know as to the importance, but I think once we walk through them, we can talk a little bit about what's in them and then maybe that will emerge from our conversation.

The first one is on climate-related technology and what kind of cooperation can we put forward in that area. The second one is on supply chain resilience, and there's some discussion about how can we have an early warning system to track commodities, to know when there's going to be trouble in terms of availability of commodities needed for supply chains that are complicated and far flung. The third one is in the areas of good governance, anti-corruption, and tax reform. And we can talk more about that. And the last one is in the so-called area of trade policy, which translated for this agreement, seems to mean something about digital standards and e-commerce types of regulations.

So the first three pillars, it was said during the rollout, will be in the purview of the Commerce Department and the last one will be in the purview of USTR. And both Ambassador Katherine Tai and Commerce Secretary Gina Raimondo were present for the rollout and make comments about how it would be sort of taken further.

I think, you know, what I can say about the pillars and the comments that were made about the approach of the United States, it strikes me that a lot of these things have to do with kind of expanding U.S. domestic economic agendas overseas. And in fact, I think the Japanese prime minister mentioned this, that we want to sort of expand a global vision of how economies should work and foster things like environmental and labor standards, fairness in distribution of resources between corporations, government, workers, et cetera, things like tax reform and overseas tax safe havens, and things like that. This seems to be kind of pitching an effort to expand and embrace what is really a very much domestic, I think, economic issue for the Biden administration.

**DOLLAR:** So that's a really excellent enumeration, thank you, Susan. You know, listening to that, it does strike me that the the digital part of that, the issue of cross-border data flows, you know, how to regulate that, I do think that is a very important economic issue. All the big economies are struggling with that and taking different approaches, basically. So if the U.S. can get some harmonization among this group of Asia-Pacific economies on the rules for cross-border data and the expansion of the digital economy, I think that, you know, that's quite significant.

Some of the other things you mentioned, I guess I'm a little bit skeptical that the government is really going to be able to set up a surveillance system to know, I mean, there's so many products, the value chains are so complicated, anticipating, you know, where there's going to be some kind of shortage. I just I really don't think that's particularly realistic. So. So it'll be interesting to see it play out. I suspect, as with a lot of efforts, there'll be a mix of successes and—failure is probably too strong a word, but some of it will end up probably being, you know, relatively unimportant.

**THORNTON:** Yeah, I think for me, you know, these are all areas that various leaders of these various economies in Asia will care about. Right? And, you know, the problem is that they care about them in different ways. They have a little bit different agendas and priorities for their domestic economies and how they view these issues. And, at the end of the day, you know, they also have private-sector driven economies. So the government is not that well placed in a lot of these countries to intervene.

And we're seeing that problem in the U.S. as well. I mean, we've tried this business with monitoring supply chains. There was an attempt, you know, with semiconductors to try to figure out what's happened with the semiconductor supply chain and why the auto manufacturers in Detroit can't get the right chips to make cars. And they found that when they go back and trace it through the various private sector companies that manufacture these things—I mean, there are reasons why these things happened—but the private sector companies aren't so enthusiastic about revealing all of their customer orders and flows and data to the U.S. government. And I think this will be a problem throughout the effort to try to, to do this.

The other area where I guess the supply chain monitoring comes into play and is quite, sort of, timely and work being worked on now is the issue of sort of commodity minerals and rare earth minerals and other things like that that are needed in production and trying to map where those things are and where they come from and what kind of stores there are. I mean, I guess the one thing I can see coming out of this is an effort to sort of build up some kind of strategic reserves in various places which may or may not be a good thing, and, you know, depending on markets and prices may be doable or not doable, I don't know.

**DOLLAR:** Yeah, some of those rare earths are important inputs into military production and they're obviously, you know, you want the government to be on top of where these things are being sourced from. If you're looking at the whole economy, I think there's just too much complexity for the government to do this for a lot of different commodities, but for key ones that feed into our security, that that just makes a lot of sense.

So, in addition to President Biden's trip to Asia, shortly before that trip there was a summit with the ASEAN countries. These are the ten nations of Southeast Asia. Eight of the ten heads of state came to Washington for a summit meeting with President Biden. So, let's talk a little bit about how U.S. economic diplomacy and this economic framework is playing in Southeast Asia. You know, what's your impression of what these Southeast Asian countries want from the United States?

**THORNTON:** You know, I think it was great that we had the ASEAN summit in Washington and it was postponed from earlier in March. And the fact that we got it together and were able to have everybody come, it was the first one in Washington. Obama had had one earlier out in California. So, it's important that, you know, as a symbol and a signal that we're paying attention to ASEAN, the administration keeps talking about ASEAN centrality, but had not done a lot of engagement, frankly, with the ASEAN countries. And that's important.

I think, what are they looking for from the United States? Well, they're looking for clear signal that the U.S. is going to be engaged in the region, is going to continue to be committed both economically, diplomatically, and with security, but not, you know, overwhelmingly leaning on the security leg of that triad. And I think the diplomatic leg of the triad got a boost from hosting the summit. And I don't know if the economic leg of the triad is going to get much of a boost from this Indo-Pacific Economic Framework. I mean, most of these countries, you know, many of them have well, all of the ASEAN countries are part of the Regional Comprehensive Economic Partnership, which came into force in January of this year. So, that is a huge trade agreement that covers almost the entire region, including China, Japan, and Korea.

So what the U.S. now can offer, given that I think Katherine Tai's made it pretty clear that we're not doing any kind of market opening or trade agreements where we negotiate, you know, additional access to the U.S. market. And when they were asked about what are the incentives for countries in this Indo-Pacific Economic Framework, it was not a clear answer. So it's more just join our club, be in talks with the United States, have high standards, get a badge, a gold seal stamp of approval, that kind of thing. But not really anything that's going to offset the cost to these countries of making some of these moves.

So, I think they are still looking for what is the incentive. Maybe they can get some incentives from the United States in other areas like diplomatic and security, if they can't get it in economic. And maybe that'll be enough of a tradeoff for them to move ahead in some of these other areas where we want them to move. But, you know, they've also got to take into account the dynamics in the region, which is regional economic integration with China, a major trading partner and a lot of these economies are pretty export dependent and trade dependent at least. So, they're not going to write off their trade interests for the sake of being in the U.S. club. I don't think that will ultimately be enough.

**DOLLAR:** So, all of the Southeast Asian countries are in this new RCEP trade agreement together with China, Japan, South Korea. In addition, some of the Southeast Asian countries are borrowing quite a bit of money from China to build infrastructure as part of the Belt and Road Initiative. So, do you see this economic framework of the Indo-Pacific competing with China's Belt and Road Initiative and China's economic diplomacy in general? Or are actually the U.S. efforts complementary to what China is doing?

**THORNTON:** Yeah. It didn't strike me in the discussion so far off the framework that there is a lot of substance there with respect to investment in infrastructure. Although the U.S. of course has been talking a lot about that issue and has been beefing up the budget for the Development Finance Corporation and during the meeting with the Japanese and the Koreans, working together with them on addressing sort of investment needs in the region. And I think we'll continue to see the U.S. talk about that. But that doesn't seem to be addressed as clearly in the Indo-Pacific Economic Framework.

What was talked about more by, for example, Gina Raimondo, was trying to create incentives to improve environments so that U.S. businesses would move their investment out of China and into other countries that would be in this Indo-Pacific Economic Framework and maybe trying to attract some investment to the U.S. and create jobs in things like climate change, technology, et cetera, from some of the economies in the region. But it wasn't clear exactly what they're planning to do in order to do that. I mean, it seemed like the discussion was around having high standards and that would create an attractive investment environment.

Looking at the Indo-Pacific Economic Framework, the IPEF, from a business perspective, it's very hard to see, frankly, what's in it for business. And I'd be curious if you've heard anything from businesses about how they're reacting to it, because I haven't heard much, but just seems like a lot of it was aimed at sort of workers and and standards, which is going to increase costs. Right? And if you're a business person, those are things that are things you have to consider seriously if you're going to invest.

**DOLLAR:** Yeah, Susan, that's definitely what I'm hearing is some concern on the part of investors that a lot of this will end up just being additional regulation, additional costs or just

unrelated to, to a lot of pressing needs. You know, some of the countries we're talking about clearly need improvements on infrastructure. You know, Vietnam, for example, has, you know, some value chains have shifted out of China, or at least parts of them, to Vietnam. Vietnam has done very well over the last couple of years, but they have a lot of challenges in terms of their transport infrastructure, in their their capacity, you know.

I think what's often missing from these discussions is China is just so much bigger than these other economies that, you know, talk about value chains leaving China, moving elsewhere. China has got about 25% of world manufacturing output. It's very hard to move, you know, that kind of scale. You can have small amounts of it moving, but it's unlikely you're going to get very large amounts.

Let me also say, I thought it was really interesting that the Singapore foreign minister, his comment was that Singapore is happy to participate in this economic framework with the U.S. Singapore also supports China's application to join the the renamed Trans-Pacific Partnership. A lot of these countries are going to want to pursue that kind of approach, that the U.S. and the Chinese efforts can be complementary. And countries, you know, don't want to have to choose between China and the United States. And that's that's the kind of attitude they're going to take.

**THORNTON:** Yeah. I think China has kind of responded to U.S. moves in the region by putting themselves out there as the kind of economic partner of choice. And this effort to try to start talking to countries about the CPTPP, I think is a serious one. Singapore has I think had some discussions with the Chinese. I think other CPTPP partners have already started having discussions with the Chinese. I mean, it's hard to see, frankly, given where the Chinese are at the moment, given some of the challenges they're facing now with their economic growth trajectory, COVID lockdowns, and other things, how they would move to CPTPP membership quickly. But I think having these discussions is something that a lot of the countries in the region are going to want to eventually be part of and see what they could get from it. So, that'll be enticing for them.

And when you look at what they would ideally like, I'm sure they would ideally like the U.S. to come into the CPTPP before China because that would increase the standards and the weight of the agreement and also backstop what China would probably have to sign up to in order to get in. So that is probably what they're hoping, but we don't see any signs of the U.S. considering that at the moment.

And I'd really be curious about your views on this digital trade, digital economy, cross-border data flows issue, because, I mean, I think it is true that countries in the Asia-Pacific region are very interested in sort of expanding their a role in digital trade, the digital economy. They all have national champions in the digital space that are quite developed. But it strikes me that the U.S. hasn't been able to make a lot of headway on a lot of this with the European partners who would be even more, if you will, uniform and like-minded about what it is we're trying to do in this space. And so it strikes me that having a sort of a digital program with Asia is maybe a step number two after getting some work done with the Europeans, which I haven't been able to tell how fast or how far that work with the Europeans is actually going. But it seems like it's difficult.

**DOLLAR:** Yeah, no, I think that's an important point. But basically, China, the U.S., and the European Union are all taking somewhat different approaches to cross-border data issues.

China's got the most protectionist approach, but Europe has that very strong focus on privacy. And I personally respect a fair amount of that, you know, trying to find a balance between making economic use of data, but protecting people's privacy. It's not it's not an easy issue. But I agree with your sense of your comment, that I don't see the U.S. and Europe that far along and reaching some kind of compromise. And you would think that would in some sense set the standard that you can then take into the Asian relationships.

But Susan, since you brought up Europe, I didn't want this conversation to only be about about Asia. That's the kind of what's gotten our attention recently. But I think the Biden administration has put a lot of effort into their economic diplomacy with Europe. And my impression is there's been some progress. In particular, I wanted to ask you about this Trade and Technology Council that the U.S. and Europe have set up. Can you say a little bit about that? And is that actually is that making progress? Is that going to make progress? And does it help us with some of these diplomacy issues in Asia?

**THORNTON:** Well, I do think that it's important to have these conversations with Europe. I mean, we haven't had enough diplomacy and actually detailed talks on specific subjects with Europe in recent years. So, this is kind of re-initiating that and figuring out where the convergences and divergences are.

Of course, the Biden administration's approach to global economic management has been much closer to what the Europeans want to pursue than the previous administration's. So they were able to do this in the context of sort of the G7 and G20, this global tax sort of leveling kind of minimum tax payments for overseas tax havens. That was a big accomplishment, I think, for the Biden administration, and the Europeans were crucial to that.

In the Trade and Technology Council, I think they focused probably most of the initial focus was on the trade part because we had these disputes to resolve over Boeing-Airbus, over the steel 301 tariffs. And we did manage to do that. And that was not an easy thing to resolve. The Boeing-Airbus dueling lawsuits has been going on for more than a decade. So, I think those were good initial steps.

And in the resolution of the 301 steel tariffs, there was this added angle, which is so important to the Europeans, about climate and figuring out a way to deal with industries that are overly polluting and somehow penalize them for that. They saw that as a big win and as a maybe a template for how to go further.

Those are the kinds of things I think there should be a lot more discussion in the U.S.-EU TTC to talk about climate change technology and how how we're going to promote, not protect, facilitate the purchases of these technologies and the development of these technologies. But I'm not sure. I mean, this is an area where both sides think we're going to produce a lot of jobs in our respective countries. So there is a bit of competition there, obviously

On the digital trade, I think that's been harder. I think we're doing a lot of good work in the TTC on cybersecurity. In other words, what is it that we're both seeing about the security of our systems and how to best secure them against attacks. I think that's an area where we've probably made some progress, but I don't think that the areas of sort of standards are moving that quickly. And a big part of this, of course, is that these are private sector companies that are doing this. European governments are more, tend to be more interventionist in the

regulatory side than the U.S. government, but it's still hard for them as well because these are private companies with different kinds of goals and priorities and incentive structures than the U.S. government. So, you've got to figure out a way to regulate that doesn't so interfere with the private sector companies that they can't grow. So this is the horns of a dilemma in the U.S. and it's also a problem in Europe and it's going to be a problem in Asia as well.

**DOLLAR:** Last question I want to ask you, Susan, about the Ukraine war. Obviously, the Biden team is trying to shift the focus of the United States to some extent away from the Middle East and Europe toward Asia. You know, and then the Ukraine war comes along. And aside from being a terrible humanitarian crisis, it's, it's coloring a lot of different things. So how do you see the Ukraine war affecting our American relationship with Asia, with China, with these issues that we've been talking about?

**THORNTON:** Yeah. I mean, David, I think the Russian invasion is really a gut punch for U.S. foreign policy. And speaking of Europe, it's more like a 9/11 type event for Europe. I mean, it was it was hard enough for the Biden administration to kind of confront this American retreat from the world that Trump was prosecuting. And then, you know, we have domestic U.S. difficulties and partisanship, we have COVID recovery that we're still trying to orchestrate. But now, I mean, the U.S. government and Western governments are overwhelmingly focused on this Russia-Ukraine issue, confrontation, and a lot of the resources that you have to admit, I mean, a lot of resources are flowing. I think we've approved, the Congress has approved like \$54 billion in the last two months for aid to Ukraine, which is something like twice the annual budget of the U.S. Agency for International Development.

So, it's very hard, frankly, for the U.S. government when there's a crisis to focus on multiple things aside from the crisis. And this has been a problem for the pivot to Asia for decades, frankly. I mean, I think people are getting pivot fatigue. But since there's never a crisis in Asia, except for maybe when the North Koreans unleash one, it's hard for the U.S. government to maintain focus and we're seeing that I think again now. Of course it's great that they've spent this month doing a lot of Asian diplomacy and that helps, but it's going to be hard to sustain it amid a crisis in Europe.

**DOLLAR:** I'm David Dollar, and I've been talking to Susan Thornton, who's a nonresident senior fellow with our China Center, about U.S. economic diplomacy in Asia and a lot of different issues and challenges. And thank you very much, Susan, for helping us understand it.

**THORNTON:** You're welcome.

**DOLLAR:** Thank you all for listening. We release new episodes of Dollar and Sense every other week. So if you haven't already, follow us wherever you get your podcasts and stay tuned. It's made possible by support from producer Fred Dews, audio engineer Colin Cruickshank, and other Brookings colleagues. If you have questions about the show or episode suggestions, you can email us at podcasts at Brookings dot edu.

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Until next time, I'm David Dollar and this has been Dollar and Sense.