

AN AMERICAN STRATEGY FOR THE INDO-PACIFIC IN AN AGE OF U.S.-CHINA COMPETITION: ENHANCING ALLIANCES, ECONOMIC ENGAGEMENT, AND REGIONAL STABILITY

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Executive summary

The United States is a leading Indo-Pacific power with an abiding interest in sustaining a strong alliance network and maintaining a free and open regional order that delivers peace, stability, and economic prosperity. The Indo-Pacific is a dynamic region experiencing a rewiring of the lines of security and economic cooperation, as minilateral networks continue to grow and mega trade agreements take hold. The most significant development in the Indo-Pacific is the emergence of China as a peer competitor to the United States. Chinese actions that undermine vital U.S. interests include the use of coercion — whether in the form of gray-zone tactics, political interference, economic pressure, or military force — to weaken the U.S. alliance system in Asia, press unilateral territorial claims, and settle international disputes with disregard to international law. China also seeks to undermine democratic resilience in the region and incorporate Taiwan into the People's Republic of China, even though its people reject the terms offered.

To sustain U.S. interests and efforts in the Indo-Pacific, we offer three sets of recommendations:

1. **Deepening alliances, partnerships, and coalitions.** The U.S. should deepen its security alliances, enhance minilateral cooperation initiatives such as the Quad, engage actively with the Association of Southeast Asian Nations (ASEAN) and its individual members, including Indonesia, Singapore, and Vietnam; deepen relations with India; and redouble efforts to promote trilateral U.S.-Japan-Korea collaboration.
2. **Increasing economic engagement and opportunity.** The United States should strive to obtain economically meaningful outcomes through the Indo-Pacific Economic Framework (IPEF), devise supply chain resilience initiatives that foster cohesion with U.S. partners, partake in digital trade agreements, and restore trade liberalization to its policy toolkit. The United States should pursue membership in the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)

to advance its economic and foreign policy interests, and it should coordinate with allies and partners to deliver infrastructure finance to enable regional connectivity in the physical and digital domains.

3. **Enhancing deterrence and sustaining the long peace.** On Taiwan policy, the United States should enhance communication with both Beijing and Taipei to strengthen deterrence and reassurance and to establish conflict-avoidance measures. Given North Korea's nuclear and missile provocations, the United States must continue to reassure its allies, particularly South Korea, of its commitment to extended deterrence, while leaving room for engagement if the North Korean regime decides to return to the negotiation table. Since China is continuing to make aggressive moves to enforce its far-reaching sovereignty claims in the East China and South China seas, the United States must continue to assert the importance of a rules-based maritime order that includes freedom of the seas and unimpeded commerce.

Where the United States sits on the Indo-Pacific

U.S. policy and leadership in the Indo-Pacific are based on strong foundations: the bipartisan recognition of the centrality of the Indo-Pacific to America's long-term security and economic interests, the unparalleled network of bilateral alliances and growing multilateral partnerships, the United States' technological lead and supply of private investment, and the United States' role as a security anchor for a rules-based order.

However, the United States' Indo-Pacific strategy has important shortcomings, many of them self-inflicted. Two in particular stand out. First, a credibility deficit due to polarization and gridlock in domestic politics, which have resulted in sharp fluctuations in U.S.

foreign policy and increased doubts among partners about the staying power and direction of U.S. policy in the region. Second, a lopsided approach that rests on America's military prowess and security role but fails to maximize its diplomatic heft and underwhelms in its economic engagement approach. The United States has decided to unilaterally retire a key tool to advance mutual economic interests — trade liberalization — thereby ceding ground to China, which is ramping up its diplomatic and economic clout through membership in regional trade agreements.

Why the Indo-Pacific region matters

The Indo-Pacific has occupied pride of place in Republican and Democratic administrations alike, with the clear recognition that it will shape the 21st-century world order. It is the most dynamic economic region and is home to several mature, technologically advanced democracies that are longtime allies or partners of the United States. As the region continues to make strides with an outward-looking economic model, it is expected that the vast majority of the world's middle class will eventually reside in Asia.¹ Unfortunately, the Indo-Pacific is bedeviled by existing and new security challenges that include tensions in the Taiwan Strait, intractable territorial disputes in the South China Sea, an expanded nuclear and missile program in North Korea, a renewed military standoff along the Sino-India border, and the continuing fallout from the 2021 military coup in Myanmar.

The Indo-Pacific region is also experiencing crucial changes from the vantage point of Washington. The U.S. "hub-and-spokes" bilateral alliance system in Asia is increasingly operating in tandem with a network of strategic partnerships, issue-specific trilaterals, and interest-based coalitions such as the Quad (which includes Australia, India, Japan, and the United States). The region's economic architecture is also experiencing profound change characterized by the emergence of mega-trade agreements,

the proliferation of national security controls over international economic transactions, and a reconsideration of industrial policies. A most significant development in the Indo-Pacific is the emergence of China as a peer competitor to the United States.

U.S. interests in the Indo-Pacific: A networked region

The United States is a leading power in the Indo-Pacific. It has an abiding interest in sustaining a strong alliance network and maintaining a free and open regional order that delivers peace, stability, and economic prosperity. As such, the United States offers a positive and attractive vision for the region by championing freedom of navigation; upholding internationally recognized borders; preventing economic, military, and other forms of coercion; creating broad economic opportunities; enhancing freedom of choice for all actors in the region; and supporting human rights.

To advance this positive vision of regional order, the United States must work effectively with allies, partners, and other regional actors in the Indo-Pacific. This means deploying important U.S. assets across the security, diplomatic, economic, and technology fields and engaging with multilateral and regional institutions.

In recent years, U.S. policymakers have described the Indo-Pacific as a networked region. Bilateral alliances still form the core of the security architecture, but the United States has placed an increasing emphasis on networks of countries with shared interests and strategic partnerships formed among U.S. allies, as well as on trilaterals such as the Australia-United Kingdom-United States (AUKUS) security pact and minilateral initiatives such as the Quad. These flexible coalitions underscore that regional players beyond the United States are also concerned about China's assertiveness. They also have a vital stake in the Indo-Pacific and can offer additional resources.

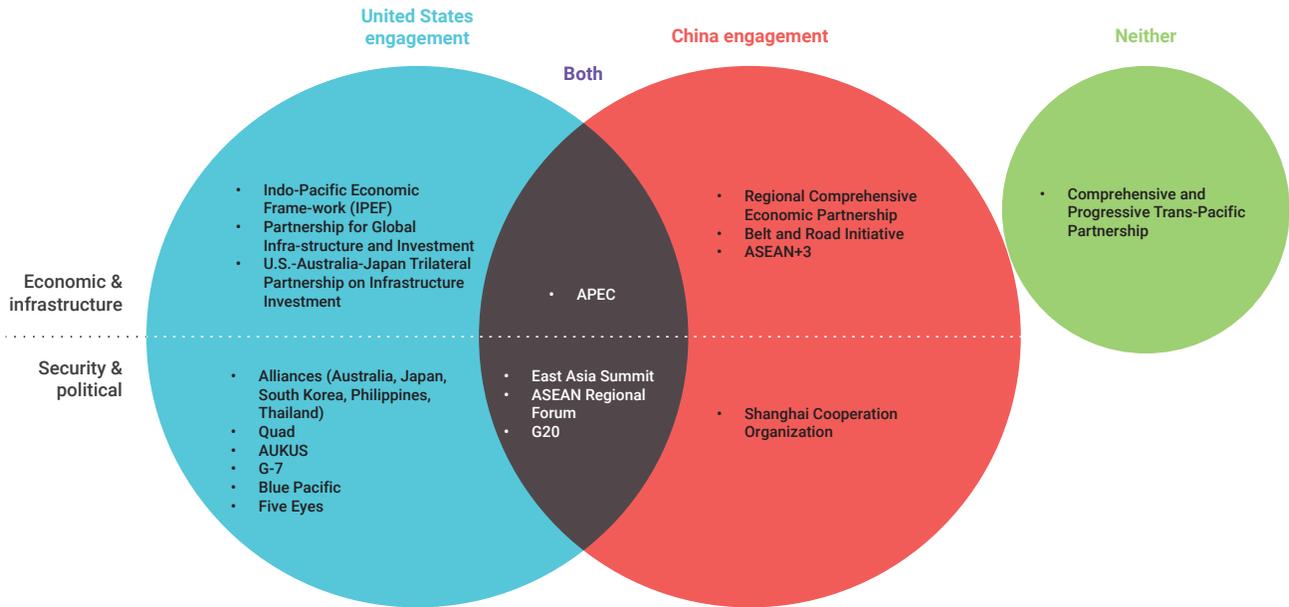
More broadly, minilateral and multilateral groups can help supply public goods to the region; they facilitate habits of cooperation and forge horizontal trust networks among key regional players.

Two mega-trade agreements have significantly advanced regional economic integration. The CPTPP is the most ambitious trade liberalization project, with ambitious economic rules and broad tariff elimination. The Regional Comprehensive Economic Partnership agreement is the largest trade deal in the world, and China is a member. The United States is not a party to these large regional trade agreements. Instead, the administration of U.S. President Joe Biden has opted to launch negotiations under the IPEF to promote cooperation on supply chain management, digital economy and labor standards, clean infrastructure, and anti-corruption. However, there are no current plans to provide market access preferences.

There are, of course, other overlapping and parallel networks that operate in the Indo-Pacific space. They include the Asia-Pacific Economic Cooperation forum, ASEAN, the ASEAN Regional Forum, and the East Asia Summit forum; the Compacts of Free Association (in the Pacific Islands) and the Indian Ocean Rim Association; and Chinese-led multi-lateral efforts such as the Shanghai Cooperation Organization and the Asian Infrastructure Investment Bank.

FIGURE 1

The US and China in a networked Indo-Pacific



China's policies in the Indo-Pacific

China's capabilities and ambitions have grown substantially. The country is now the largest goods trading partner for most regional economies, and it exercises formidable military power with sizable and nontransparent defense expenditures.² China's influence is felt more acutely in its neighborhood, demonstrated by its expansive claims in the South and East China seas, its border conflicts with India, and its increasing use of economic coercion in the region. The country's landmark Belt and Road Initiative aims to close the infrastructure finance gap, boost regional connectivity, expand markets, and secure Beijing's leadership in the Indo-Pacific.

Although the policy community continues to debate China's ultimate objectives in the region, it is clear that several of Beijing's recent actions are a direct challenge to the interests of the United States and its allies and partners. Broadly speaking, Chinese attempts to establish a sphere of influence that

aims to marginalize the United States and close off international sea and air lanes constitute red flags. A non-exhaustive enumeration of Chinese actions that undermine vital U.S. interests include the use of coercion — whether in the form of gray-zone tactics, political interference, economic pressure, or military force — to weaken the U.S. alliance system in Asia, press unilateral territorial claims, and settle international disputes with disregard to international law. It also includes Chinese efforts to undermine democratic resilience in the region and incorporate Taiwan into the People's Republic of China, even though its people reject the terms offered.

Other formidable challenges for the United States and its partners include the fusion of civil-military relations in China and the resurgence of state capitalism practices that seek to dominate the most advanced technologies and economic sectors.

Policy recommendations

To sustain its leadership in the Indo-Pacific and effectively manage relations with China, it is crucial for the United States to ensure its own domestic renewal. What the United States accomplishes domestically will be closely watched by external actors who will be making choices for their national interests based on perceptions of U.S. strength or weakness. Domestic renewal priorities should include reducing political polarization; addressing socioeconomic gaps; investing in science, innovation, and competitiveness; and attracting global talent.

On the foreign policy front, we offer three sets of recommendations:

1. DEEPENING ALLIANCES, PARTNERSHIPS, AND COALITIONS

- The U.S. alliance system in the Indo-Pacific should continue to play an essential role in sustaining an open and stable regional environment. U.S. alliances are critical for projecting power and a forward presence. This in turn provides reassurance to regional partners and boosts deterrence.
- The United States and its partners should continue to innovate through the creation and augmentation of regional issue- or interest-based groupings like the Quad, AUKUS, and the Partners in the Blue Pacific.
- There is a need to enhance trilateral U.S.-Japan-Korea (UJK) cooperation on both the security and economic fronts. Rather than hold frequent, ad hoc trilateral meetings, the United States might consider further institutionalization of UJK trilateralism by convening a regularly held UJK strategic dialogue similar to the U.S.-Japan-Australia strategic dialogue. This would convey a stronger political will behind UJK trilateral relations to both U.S. allies and competitors.
- The Biden administration should continue to deepen cooperation with India where interests converge – bilaterally and with other partners – while managing differences (for example, on Russia). In particular, there is space for additional security, economic, and technological coordination and collaboration in the Indo-Pacific since both countries have largely overlapping visions and concerns. These include ensuring a multipolar region – in contrast to a unipolar Asia dominated by China – where the United States is an active and welcome player, principles like freedom of navigation are respected, and countries are free to make choices without the threat or use of force or coercion. The two countries should also share their frank assessments and expectations of each other in the event of Indo-Pacific contingencies.
- The United States should also continue to assist India with enhancing its deterrent capabilities, while being prepared for additional Sino-Indian crises.
- Engagement with ASEAN is critical. Consistent and robust participation in East Asian summitry, including the many initiatives and platforms that operate under the principle of ASEAN centrality, is a building block to deeper and multifaceted U.S.-ASEAN relations. At the same time, U.S. policy should recognize the rich diversity of Southeast Asia and develop customized approaches to advance mutual interests with specific nations in this subregion.
- The Biden administration should continue to engage ASEAN to formulate next steps in Myanmar, while simultaneously exerting pressure on the military junta through the United Nations. The junta's recent execution of four democracy activists has sparked dissatisfaction within ASEAN, stalling the grouping's "five-point consensus" plan.³ A fresh approach is needed.
- The United States should deepen relations with emerging partners like Indonesia and Vietnam. U.S. relations with Vietnam have expanded

considerably in recent years, and it may soon be time to elevate the relationship to a formal strategic partnership. This would send an important signal to others in the Indo-Pacific that U.S. relationships are innovative and growing and that Washington is committed to the region for the long term.

- The Biden administration should work with Congress to ensure that the U.S.-Indo Pacific strategy is well resourced across the diplomatic, security, economic, and people-to-people domains.

2. INCREASING ECONOMIC ENGAGEMENT AND OPPORTUNITY

- The United States should strive to achieve economically meaningful outcomes via the IPEF. The IPEF should become an inclusive framework open to future accession by parties willing to abide by high-quality economic rules.
 - To complement the IPEF, the Biden administration should develop a process for multitrack diplomacy to codify rules for the digital economy and should seek membership in compatible agreements.
 - The United States should devise supply chain resilience initiatives that address vulnerabilities in core components and products by developing trusted supplier networks and pursuing stockpiling and diversification strategies that facilitate cooperation with like-minded countries. Discriminatory measures, such as tax incentives that favor domestic assembly, may run afoul of international trade rules and undermine cohesion with partners.
 - The United States should play a constructive role in reforming and reactivating the World Trade Organization's dispute settlement mechanism to help ensure compliance with multilateral trade rules and reduce economic friction.
- The United States should reincorporate market access negotiations into its trade toolkit. Reciprocal market access negotiations create economic opportunities for American producers and workers, reduce the cost of living for consumers, and help American negotiators secure ambitious commitments from counterparts on cutting-edge rules and standards. Joining the CPTPP would secure these benefits, help reassure regional partners of meaningful and long-term U.S. economic engagement, and prevent a potential hollowing out of the CPTPP standards if China were to succeed in gaining significant exemptions in its accession bid.
 - The Biden administration should accelerate and operationalize infrastructure coordination in the region with allies and partners, especially Japan. In this effort, it should leverage both the Quad Infrastructure Coordination Group and the recently announced \$600 billion global infrastructure program to be implemented with G7 partners.⁴ More broadly, the United States should think about development partnerships more creatively; for instance, it could deploy financing to support the adoption and distribution of high-standard digital infrastructure in the region.

3. ENHANCING DETERRENCE AND SUSTAINING THE LONG PEACE

Taiwan

The Taiwan Strait conflict is fundamentally a political one, but it carries military dimensions. The unprecedented military exercises conducted by the People's Liberation Army after U.S. Speaker of the House Nancy Pelosi's visit to Taiwan signal that the military dimension is increasing in salience. The possibility of accidental clashes and miscalculation leading to a dangerous cycle of escalation is not trivial.

- The Biden administration should enhance communication with Beijing and Taipei to strengthen both deterrence and reassurance and to establish conflict-avoidance measures.

- More broadly, the administration must provide clear, consistent messaging concerning its China and Taiwan policies.
- A key message for China is that its current formula for resolving the dispute with a democratic Taiwan is a nonstarter. Beijing's inability to make progress in fulfilling its political objective of unification has led to frustration and increased military coercion.
- A key message for Taiwan is that it needs to enhance its military capabilities in a smart way and improve the performance of its democratic system. The United States can help strengthen Taiwan's position by undertaking significant economic negotiations with Taipei. These negotiations should aim to liberalize the Taiwan economy, and make it more competitive internationally, and provide "cover" for other countries to negotiate their own agreements. The end product of these negotiations (for example, a comprehensive agreement versus an array of subject-specific agreements) is less important than the content.

North Korea

North Korea's nuclear and missile program continues to challenge peace and stability in Northeast Asia. The regime's most recent nuclear doctrine released in September 2022 outlines conditions for the preemptive use of nuclear weapons and its desire to cement its status as a nuclear state.⁵ But despite growing concerns in the region, China has become less willing to cooperate with the United States on denuclearization efforts on the Korean Peninsula.

- In response, the United States must continue to reassure its allies, particularly South Korea, of its commitment to extended deterrence.
- U.S. strategic assets, including aircraft carriers, fighter jets, and nuclear submarines, can be deployed if necessary to signal a message to Pyongyang.

- More frequent joint exercises should be conducted to prepare U.S. and South Korean troops and to raise the costs of escalation for Pyongyang.
- While bolstering deterrence, the United States must continue to seek opportunities to engage North Korea and formulate an engagement plan should the regime decide to return to the negotiating table. Intermediate steps — including a freezing of capabilities and arms control measures — should be considered as part of a phased process toward denuclearization.
- The Biden administration should further press and encourage Beijing to play a constructive role in promoting denuclearization, stability, and peace on the Korean Peninsula.

East China Sea and South China Sea

China is continuing to make aggressive moves to enforce its far-reaching sovereignty claims in both the East China Sea (over the Senkaku, or Diaoyu, islands) and the South China Sea (over areas marked by a "nine-dash line").⁶ A key challenge for Japan and relevant ASEAN members (namely Brunei, Malaysia, the Philippines, and Vietnam) is that China is undertaking gray-zone activities that individually are not enough to provoke effective pushback from opponents. This strategy was especially evident in March 2021 when China sent about 220 fishing vessels to crowd out Whitsun Reef, a territory claimed by the Philippines.⁷

- In response, the United States must continue to assert the importance of a rules-based maritime order that includes freedom of the seas and unimpeded commerce.
- The United States should uphold its alliance commitments to all territories under Japanese administrative control and should continue to highlight and support the international Permanent Court of Arbitration's 2016 ruling in favor of the Philippines' maritime claims in the South China Sea.

- Senate ratification of UNCLOS would help strengthen U.S. claims in support of the rule of law and freedom of navigation.
- The U.S. military should continue to conduct freedom of navigation operations in the South China Sea when deemed appropriate. The United States should also encourage more U.S. allies and partners in the Indo-Pacific to participate in these operations.
- The United States should also take steps to operationalize the Indo-Pacific Partnership for Maritime Domain Awareness, launched at the Quad Leaders' Tokyo Summit in May 2022. One objective is to better track China's gray-zone activities and share the related data with ASEAN partners.
- To reduce risk and avoid conflict, the United States and its Southeast Asian partners should engage with and press China to conduct its operations in the South China Sea in a manner that is consistent with international norms and bilateral understandings that it has agreed to but has not abided by, including the 2014 Code for Unplanned Encounters at Sea.⁸
- In addition, the United States should provide diplomatic and material support to ASEAN claimants, especially the Philippines and Vietnam. This support should include the transfer of a third Hamilton-class Coast Guard cutter to improve Vietnam's maritime security capabilities.

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