The Quad’s Next Chapter

By Karl Friedhoff
Introduction

The Quad—the country grouping including the United States, Japan, Australia, and India—now stands at a crossroads as it enters its third phase.

The Quad 3.0 comes as the grouping has established the dialogue as a meeting place for leaders of the four countries but must now decide what shape competition with China will take and how to best address that competition.

Thus far the Quad has struggled to find function for its form. Statements issued by Quad leaders stress the importance of “development, stability, and prosperity” in an effort to roll back China’s influence across the Indo-Pacific. However, its most high-profile activities focus on stability via high-profile military exercises. Closer internal coordination along the security axis serves to highlight the lack of visible progress on the external delivery of development and prosperity to countries outside the Quad.
Efforts to deliver development and prosperity are hemmed in by the Quad itself. Neither the United States or India are party to either of the major regional trade agreements—the CPTPP and RCEP. The Indo-Pacific Economic Framework (IPEF), held up by the Biden administration as America’s economic engagement with Asia, remains a mirage. Meanwhile, as the United States de-risks its economic relationship with China, it is effectively warning that doing business with Beijing may come at a cost to relations with Washington—an unpopular message across much of the Indo-Pacific. Additionally, any hint of security cooperation with China by smaller countries in the region creates a flurry of diplomatic reaction from the United States.

To move forward, the Quad needs to better balance its portfolio and how it messages that portfolio. The overt promotion of the security agenda is actively undermining perceptions of the Quad’s ability to engage on development and prosperity. A first corrective step is to balance the group’s internal goal of improved security coordination and cohesion with the Quad’s external goal of delivering development and prosperity to countries in the region. Committing to an agenda that brings the people of the region, not its seas, to the fore of the Quad mission should be a top priority.

This means rejecting the dogma that every China initiative in the region needs a Quad alternative. Instead, advancing Quad goals requires identifying China’s activities that can be co-opted for Quad purposes. This will mean working around, and sometimes with, China’s initiatives to better serve not only the Quad’s goals in prosperity and development but also the people of the region.

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Policy Recommendations

1. **Focus on people, not the sea.**

Southeast Asia is home to 680 million people and is collectively the fifth-largest economic bloc in the world. It is the gravitational center of the Indo-Pacific and should be the primary focus of the Quad’s efforts. If the Quad wants to compete with China’s influence in the region, its efforts should focus on outcomes that put the people of Southeast Asia at the fore. Maritime security activities will remain important for internal cohesion of the group, but better messaging and coordination of Quad initiatives focused on development and prosperity should be paramount.

2. **Keep the infrastructure, retire the Blue Dot Network.**

The BDN is a product for which there is no consumer. Countries across the region are uninterested in more expensive, slower-constructed infrastructure. Instead, the Quad should focus on coordinating their own existing and future bilateral projects with countries in the region. These projects should aim to transform existing transportation corridors into economic corridors by taking advantage of the strengths of Quad members: last-mile connectivity, health initiatives, schools, government and financial services, and digital public infrastructure.

3. **Promote the rollout of Digital Public Infrastructure (DPI) across the region.**

The promotion and rollout of digital public infrastructure—based on open standards and protocols—should be a priority. Throughout much of Southeast Asia, urban-rural divides often dictate access to government and financial services. DPI can help bridge those divides and allow each country to control its own data rather than being reliant on the technology and standards of any one supplier. More importantly, it will empower entrepreneurs across the region to take advantage of increasing physical and digital connectivity.
4 Empower the Development Finance Corporation (DFC) and its partners.

As outlined by the BUILD Act, the DFC’s mandate is to identify and invest in small- and medium-sized and female-owned enterprises. As DPI penetrates the region, these two types stand to gain the most from new access to digital platforms. In cooperation with sister organizations in Quad countries, the DFC should take the lead in identifying and investing in these businesses.

5 Seek dialogue and cooperation with organizations throughout the Indo-Pacific.

The Quad can go farther, faster by engaging existing minilateral groups in the region. One such organization is the Mekong River Commission (MRC), governed by Cambodia, Laos, Thailand, and Vietnam. The Mekong River is vital to the livelihoods of populations in all four countries, but the water flows of the lower Mekong are dramatically impacted by dams along its upper reaches in China. Cooperation with the MRC would help pursue goals that cut across a number of Quad working groups.

6 Keep the Quad the Quad.

There should be no effort to officially expand the Quad into the Quad Plus. Like-minded countries should be encouraged to join existing working groups, but even this is becoming more difficult. Due to the missing economic engagement, countries like South Korea are now less interested in the Quad. Instead, South Korea prefers to pursue its economic interests via other avenues. While countries like South Korea may continue to engage in the Quad’s working groups, much of that is done as a matter of box-ticking.
Internal and External Challenges to the Quad

Quad 1.0 lasted from its initial founding in 2007 to its then-indefinite hiatus starting in 2008. Its initial meetings established the format as a place for high-level dialogues but accomplished little else. Its reincarnation—Quad 2.0—came in 2017 after nearly a decade of hibernation in response to China’s propensity to use its growing security and economic weight to coerce its neighbors. To counter China’s increasing influence, the Quad sought better coordination between its participant countries across both traditional and nontraditional security areas. With the Quad now elevated to the leaders level and working groups established, this phase has come to an end.

In its nascent third phase—Quad 3.0—the external environment forms its own distinct challenge to the Quad. Southeast Asia is incredibly diverse and rapidly changing, China’s economic importance to the region is increasing, and the security environment is becoming more complex. For any country grouping, navigating these challenges alone would be a monumental task. But the Quad also faces two key internal challenges that will continue to hamper its ability to make progress on its stated goals. These challenges may not be resolvable but identifying them will be a key step in their management.

The Internal/External Dilemma

The Quad remains caught in an internal/external dilemma. Internal cooperation largely materializes as high-profile military exercises. These exercises are easier to coordinate given the limited number of participants and the experience of militaries in each country in conducting them. More importantly, they are easily communicable to the outside world. Press releases from all four countries are highly coordinated, and include language on the value of such exercises as well as photographs of accompanying military hardware. As progress in other areas lags behind, these types of exercises are held up as proof that the Quad agenda is alive and well.

But these outward displays of internal cooperation serve to highlight the difficulties facing the Quad on the delivery of its external agenda. The rest
of the Indo-Pacific is not blind. Many across the region look at the effort and money spent on military exercises and arrive at the conclusion that the real intent of the Quad is to contain China—not to deliver prosperity and development in the region. Of course, delivering on prosperity and development is a long-term goal filled with the difficult work of diplomacy, coordination, and investment of both time and money. These types of gains do not make for well-coordinated press releases or photo-ops. Each country already has extensive bilateral economic cooperation and development agendas in the region, and progress in one country’s agenda does not mean progress for the others. This makes communicating progress as a shared advance all the more difficult. It also poses the question if delivering development and prosperity should fall under the auspices of the Quad at all.

If this is to change, the Quad needs to leverage its combined discourse power to highlight the achievements of individual members of the Quad in the prosperity and development pillars as achievements of the Quad collectively. That may not come easily, but it should become a regular feature of the Quad 3.0 as it seeks to burnish its collective resilience as competition increases across Southeast Asia.

This is also an area that is ripe for the so-called Quad Plus. Even as interest from potential Quad Plus members wanes, their inclusion could have a multiplying effect. South Korea, for example, is a growing economic power in the region and its economic interests in Southeast Asia are quickly expanding. Leveraging its growing influence to tout the reach and accomplishments as part of the Quad initiative could prove beneficial.

**Divided Interests and Domestic Politics**

The Quad is also facing its own internal incongruencies. Apart from shared concerns about China, each member country must contend with its own motivations and domestic realities. This makes alignment over the longer-term less certain, encouraging agreement along the easiest to establish common ground for Quad countries: security and military exercises.

In 2017, the United States undertook an *epochal shift* in its China policy and US-China relations have continued to deteriorate since. The Biden administration insists the Quad is not an anti-China coalition but is an
“informal grouping” that shares similar interests and concerns. What is missing, however, is any semblance of an economic pillar in the US commitment to the region. IPEF is little more than an acronym and there is no hope that Congress will approve an actual trade agreement in the near future. Without a serious economic component, the United States will continue to cede economic influence to China in the region, and views of the Quad as an anti-China coalition will grow.

Japan is the most steadfast member of the Quad, driven by its concerns about China’s role in the region. US political dysfunction has strengthened Japan’s commitment to Quad renewal. While the Japanese public sees the US security commitment to Japan as credible, the US withdrawal from the Trans-Pacific Partnership in 2017 meant the United States would not be involved with the economic architecture of Asia for the foreseeable future. And it is this economic—not security—architecture that will most shape the region for decades to come. The Quad further ensures the involvement of the United States in the region, especially with the looming possibility of a Republican administration further diminishing the US role in Asia.

Perhaps no country stands to gain more from the Quad than India. India's core security concern is now China following the deadly 2020 confrontation along their disputed border in the western Himalayas. This has created greater interest in security cooperation with the Quad in an effort to blunt China’s potential military adventurism. Underlying this, however, are expectations that India will be a key economic beneficiary of a coordinated effort to diversify supply chains away from China. Its available workforce, low wages, and ample government support could make it a prime destination for industries in critical goods looking for safe investment environments outside of China. While this will keep production of key technologies in a Quad country, it would also fuel an economic boom in India. The security dimension will keep India committed to the Quad in the near-term, but if the expected economic gains do not materialize, interest could wane.

Australia’s relations with China have steadied over the past two years. However, there is growing appetite to tackle China’s influence in Australia’s domestic politics and lingering anger about China’s economic coercion following Australia’s call for an independent investigation into the origins of COVID-19. But there are domestic tensions. Western Australia exports
prodigious amounts of iron ore—54 percent of the world’s exports of iron ore in 2021 and 34 percent of all of Australia’s exports that same year—81 percent of which was consumed by China. Policy positions in Canberra that damage those exports will disproportionately affect Western Australia, creating a fault line through domestic views of what the Quad aspires to achieve. This internal tension may mean a more limited vision for the Quad in which it acts as a body to outline norms for the region via leaders’ statements and helps to coordinate the policies of each country.

Recentering the Quad

Focus on the People, Not the Seas

Southeast Asia is home to roughly 680 million people and is collectively the fifth-largest economic bloc in the world. These two factors make it the gravitational center of the Indo-Pacific. When the United States and Quad members talk about competing with China, it is here where the competing sides are most likely to come into contact. But it is also an economically, politically, and ethnically diverse region where progress will require multi-year, multi-pronged efforts—usually on a country-by-country basis. These factors make engagement and progress piecemeal, and few countries have shown the diplomatic focus and patience to take on such an effort. Moreover, the very nature of the required commitment does not lend itself to press releases, media coverage, or photo-ops. But it is here where the true essence of competition with China lay.

Compounding the challenge is that a focus on development and prosperity initiatives in Southeast Asia—be it via the Quad’s six leader-level working groups or other initiatives—is not an area that will naturally promote Quad cooperation. Each country already has its own development, aid, and economic cooperation portfolio, and these will not be brought under the auspices of the Quad.

However, as China’s official development finance to the region has declined both in absolute and relative terms, the Quad should seize the opportunity to better coordinate its own aid and development packages to the region. In doing so, the countries should come together to craft a holistic strategy
for each country in the region. This approach would promote the pursuit of projects that appear as part of a larger plan, building in coordination from the beginning rather than being ad-hoc.

Inherent to this approach will be an understanding that to truly compete with China in Southeast Asia, the Quad—and especially the United States—needs to start with the basics of actually showing up. US administrations have often failed in that basic task, most recently by announcing President Biden would skip the East Asia Summit hosted in Indonesia.

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Beyond this, the Quad must recognize that competing with China does not mean opposing China’s initiatives or offering direct alternatives at every turn. Instead, it requires an assessment of the accomplishments of China’s projects, the gaps that have been have created, and how Quad countries can work both around and with those projects to better meet the needs of populations. This would mean a strategy of co-opting transportation corridors created by China’s Brick and Road Initiative investments and transforming them into economic corridors. Prosperity and development will not ultimately be found in cubic meters of concrete poured. It will be found in how people leverage that concrete for their own benefit, and that is the competition in which the Quad should seek to dominate. Moreover, this is a shift China seems to already be making a its economy slows. In the first half of 2023, a majority of BRI engagement took place as investments, while construction fell to roughly 30 percent.

Tightly Focus Infrastructure, Retire the Blue Dot Network

Throughout Southeast Asia, new miles of road and rail are creating transportation corridors once again stitching together the region. But
transportation corridors are not synonymous with economic corridors. The Quad should focus on the latter. This would entail a centering its work on some of the most vulnerable communities in the region. The urban-rural divide in Southeast Asia continues to pose a serious challenge to prosperity gains and ensuring that these communities are tied into the new networks is vital. Infrastructure projects for these communities would focus on last-mile connectivity, expansion of energy delivery grids, access to healthcare and education facilities, and digital connectivity.

BRI was the subject of intense scrutiny over the past decade, leading to an endless amount of hyperventilating in and around Washington, DC, almost all of it misplaced. In response to China’s push to undertake large infrastructure projects—largely underwritten by its state-owned enterprises—the Quad has made infrastructure a priority. In 2022, it created the Quad Infrastructure Coordination Group aimed at bringing the development-financing agencies of all four countries together to focus on coordinating investment in infrastructure across the Quad countries.

But this initiative has substantial overlap with BDN, which includes three Quad members—the United States, Japan, and Australia—along with the United Kingdom and Spain as members of the steering committee. The BDN is a high-minded product that promises sustainable, high quality infrastructure projects across the region. It is also a product with no consumer base. While China’s infrastructure projects may have their issues, they are delivered cheaply and quickly. Across the Indo-Pacific, there is little demand for higher cost, longer timeline infrastructure projects.

Accordingly, the BDN should be phased out, redirecting its initial $60 billion in funding into more-limited Quad infrastructure efforts that seek to take advantage of the expansive projects underwritten by China. The BDN creates confusion across the region about its goals, its relationship with the Quad, and the lack of any observable progress.

At the same time, the Quad should ensure that its aim is not a head-on competition with China. If China wants to continue to fund mega-projects throughout the region, the Quad should welcome that investment. Not only are Quad countries—excluding Japan—not in a position to fund these types of projects, but coordination across the Quad on such projects is highly unlikely.
due to their sheer complexity. Instead, the Quad should craft an infrastructure strategy that will deliver on projects that will put its limited funds to best use in not only addressing the needs of the region but also enhancing the work of its other working groups.

**Digital Public Infrastructure**

Over the past decade, Southeast Asia’s economic growth and development has been among the very best in the world. ASEAN countries grew at an average of 5.6 percent in 2022, according to the OECD. Those growth rates are predicted to stay above 4 percent in the coming years. But as the region has grown, that growth has not been equally distributed within the countries themselves. Southeast Asia is an incredibly diverse region, and as the region has developed, that development has often created exclusion along ethnic, gender, and urban-rural lines. The Quad—in close coordination with ASEAN—should make addressing that urban-rural divide via the development, rollout, and advancement of DPI a top priority.

According to ASEAN’s Framework Action Plan on Rural Development and Poverty Eradication, 75 percent of its population lived in rural areas as of 2015, and these rural areas are home to high levels of poverty and gender inequality. Of the more than 60 million female entrepreneurs in ASEAN, most of those own micro, small, and medium-sized enterprises, and yet they often have less access to credit, training, and government services. Moreover, the World Bank finds that more than 20 percent of all unbanked adults in the world are in Southeast Asia.

The Quad countries should not focus on growing the traditional digital infrastructure of cell towers, fiber networks, and data centers. There is already significant private investment in those areas and that process should be left to market forces. As connectivity continues to grow across the region, hundreds of millions of people in Southeast Asia will stand to benefit from new opportunities as e-commerce continues its rapid expansion.

Instead, the Quad should focus on ensuring that as digital connectivity penetrates rural areas, countries are ready to leverage DPI platforms to ensure increased access to government services, especially healthcare and education.
This will be a significant plank in a platform to reduce inequalities and ensure more equitable service in countries throughout the region.

To lead this effort, the Quad need look no further than India. Its unique universal identification system, known as Aadhaar, is now used by 99 percent of India’s citizens and has proven a success in both extending government services to those once marginalized as well as igniting a digital payments revolution as digital connectivity further penetrates the country.

Along with a DPI push to broaden and improve government services—especially to underserved populations—Quad countries should also coordinate and accelerate access to financial services via DPI. This not only means creating access to traditional banking, but also following India’s United Payments Interface model that allow direct transactions between users. This model not only allows for greater security via more robust authentication, it also puts countries in control of their own data flows.

**Leverage the Quad’s Development Finance Institutions**

Beyond the allocation of official development aid by each country, the Quad should elevate the role played by the development finance institutions in each country. Thus far, the role these institutions have played—and the cooperation between them—has received relatively little attention. But if the goal is to compete with China in the region, that will require not just development assistance, but bringing real investment into budding small and mid-size enterprises (SMEs). Taking advantage of the new physical and digital connectivity, SMEs can springboard to the next steps in growing their business.

As the Asia Development Bank notes, SMEs are critical to the economic health of Asia. Across the region, SMEs make up more than 96 percent of all businesses, but these businesses often lack the opportunity to grow due to a lack of appropriate credit facilities, little access to venture capital, and a broader need for technical assistance.
The US DFC should take the lead in identifying SMEs across Southeast Asia in which to invest, provide assistance, and then seek the cooperation of its partner organizations in the Quad countries to crowd in private investment.

The DFC was created by the **BUILD Act of 2018** with a mandate to prioritize its activities in less developed countries and to focus on small businesses and the economic empowerment of women. Throughout Southeast Asia, women’s labor participation rates are relatively high—57 percent [according to](https://www.un.org) UN statistics. In countries like Cambodia and Laos they own a majority of small businesses, 65 percent and 63 percent, respectively. However, the Asia Development Bank reports that only roughly 5 percent of women running microenterprises, 15 percent running small firms, and 21 percent running SMEs had access to financing. This is, in part, because women are at a disadvantage in having the usual collateral such as property, cash, and other assets.

It is in this area that the DFC and its partner organizations across the Quad can play an important role. As the Quad broadly undertakes activities to ensure better physical and digital access to newly or recently created infrastructure, development finance institutions have a critical part to play to ensure that business owners across the region can take advantage of new physical infrastructure as well as DPI to help grow their businesses. But these are not handouts. The BUILD Act specifically tasks the DFC with making “financially sustainable investments designed to generate measurable sociable benefits and build technical capacity in addition to financial returns.” In that role, recipients of DFC investment will also be trained and expected to adhere to best standards and practices on the ground, helping to set standards among new generations of the growing business community.

The work of development finance institutions put them in a unique position to undertake projects that will cut across all of the working groups established by the Quad. Taking a wide view of its investments and activities in the region will help support a people-focused approach to the Quad’s initiatives on prosperity and development.
Working with Southeast Asia’s Minilaterals

Southeast Asia is a complex region and it is also home to a web of minilaterals that exist both outside of and within ASEAN. While respecting ASEAN centrality will be key for all Quad activities in the region, the Quad countries should step up their engagement with minilaterals that address the importance and vitality of the Mekong River. While the Mekong does not touch every country in Southeast Asia, it is a vital waterway that has important implications for food security, health, energy production, biodiversity, sustainability, and tourism for a large swathe of the region.

The Mekong River is nearly 5,000 kilometers in length, and over its course starting from the Tibetan Plateau in China—where it is called the Lancang—runs through Myanmar, Laos, Vietnam, Thailand, and Cambodia. According to the Mekong River Commission (MRC), roughly 40 percent of the 65 million people living in the Lower Mekong Basin live within 15 kilometers of the river’s mainstream. In Cambodia, the Tonle Sap is filled by inflows from the Mekong during the monsoon and the lake’s fish provides 70 percent of the protein for all Cambodians.

The external facing work of the Quad should focus on the people of the region, not on displacing China and its efforts.

But shifting weather patterns combined with damming—both in and outside China—is bringing the Mekong under threat. China’s approach to water flows is to restrict those flows during the rainy season thus limiting downstream flooding. This may seem like a positive, but the region relies on this flooding for the water-intensive production of rice, to refill lakes like the Tonle Sap, and to aid fish in reaching spawning grounds. Limiting those flood waters has serious downstream effects.
Given the importance of the Mekong to the region, the Quad countries should engage existing minilateral groupings that focus on the Mekong and its importance to the region. These minilaterals include the Mekong River Commission and the Mekong-Ganga Cooperation. Some of this engagement is already in place. The Mekong-US partnership and the Japan-US-Mekong Power Partnership are good examples. Neither is fully a Quad initiative but help to illustrate how different country combinations within the Quad will need to form in order to better address the needs of the region.

As in its efforts in other areas, the Quad countries should avoid funding areas in direct competition with China. Instead, efforts should be directed toward allowing the people reliant on the Mekong to take advantage of new opportunities created by China’s investment. A focus on health, education, government services access, energy, and food security should be the top priorities. Moreover, the Quad countries need to undertake an extensive public diplomacy campaign to ensure these initiatives receive increased attention in order to make clear that its interests are not solely in military cooperation in and around the seas of Southeast Asia.

**Conclusion**

For the foreseeable future, the Quad will remain a balancing act. All four countries must balance their own security and economic interests along with potential domestic restraints. While military cooperation and exercises will continue, there is significant work to be done in advancing the Quad’s prosperity and development pillars across the region. In that effort, Southeast Asia and its people should be the focal point. Advancing the Quad pillars of prosperity and development will be at the very heart of competition with China in the coming decade. And as China’s activities in the region cool due to its own internal economic challenges, there is a significant opportunity for Quad countries. However, to take advantage of that opening the Quad must remain cognizant that its best chances of success will not always be in offering direct alternatives to China. Instead, it may often require working around and with China’s initiatives to further Quad goals.
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