

The Quad Should Promote Economic Freedom for a Quick COVID-19 Recovery

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KEY TAKEAWAYS

The Quadrilateral Strategic Dialogue between the U.S., Australia, Japan, and India has potential to become an even more powerful Indo-Pacific economic partnership.

Members of the Quad should focus now on working together to speed the economic recovery from the coronavirus while emphasizing economic freedom.

Quad members should prioritize economic freedom at home, remove barriers to trade and investment, and invest in strategic pursuits like the Blue Dot Network.

The Quadrilateral Strategic Dialogue between the U.S., Australia, Japan, and India (the Quad) is not just an important diplomatic and strategic relationship, but has the potential to be an even greater economic partnership in the Indo-Pacific region. Working together now will be essential for a quick economic recovery from the COVID-19 pandemic.

Already the Quad-plus partners South Korea, Vietnam, and New Zealand are communicating ways to deal with the spread of COVID-19.¹ In the same way that the devastatingly tragic 2004 tsunami triggered the Quad, the global COVID-19 crisis should give birth to a new era of Quad cooperation that includes the expansion of economic freedom.

Greater cooperation with an emphasis on economic freedom can help to speed up these countries' respective recoveries. Removing barriers to doing

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business, including trade and investment, can support employment and spur economic activity. Promoting economic freedom and transparency should be a pillar of their global engagement as business activity returns to normal. On the other hand, without structural reforms at home focused on economic freedom, Quad economies can expect a delayed return to normal.

Four Countries to Lead the Recovery

The Quad was originally formed as a cooperative of shared interests—whether responding to natural disasters or strategic engagement. It only makes sense that the Quad’s next focus should be on a quick and efficient economic recovery. A swift recovery for the Quad economies would benefit not only its four members, but would support their economic partners elsewhere in the Indo–Pacific as well.

The economic activity in these four countries is substantial. The Quad represents not just one-quarter of the world’s population (1.8 billion people), but a little over one-quarter of the world’s economic activity (measured by gross domestic product). Trade between the Quad economies topped \$440 billion in 2018, while the Quad traded almost \$6 trillion with the rest of the world.² One-quarter of all global foreign direct investment flows (averaging over \$380 billion a year) comes from Quad countries.³ And by 2018, the Quad held a foreign direct investment stock of \$8.7 trillion—roughly one dollar for every four dollars ever invested abroad.

Economic Freedom in the Quad

There are, however, huge differences in economic freedoms among the Quad economies. And these differences in economic freedom could mean a slower recovery for those less economically free.

Australia is the fourth-freest economy in the world, according to The Heritage Foundation’s *2020 Index of Economic Freedom*.⁴ With an overall score of 82.6 out of 100, Australia is considered a “free” economy. With respective overall scores of 76.6 and 73.3, the U.S. and Japan are both considered “mostly free” economies. India, with an overall score of 56.5, is considered a “mostly unfree” economy.

Before the economic impact from the COVID-19 pandemic, Quad economies had average economic growth for their respective levels of development. Unemployment was also low. All that is changing now. And, unless the Quad economies concentrate on structural reforms focused on economic freedom as they work to re-open their economies, they can expect a struggle to achieve merely average economic growth.

Prioritizing economic freedom, whether by reducing tariff and non-tariff barriers for traded goods and services, easing domestic tax burdens on consumers and businesses, easing restrictions on the movement of labor and job mobility, or reducing red-tape regulations that inhibit business activity, can support a speedy recovery. India, for example, has high tariff rates on imports, a patchwork of labor laws, and an opposition to foreign competition that restricts economic activity. The U.S. also has tariffs that it has increased over the past few years, as well as overbearing regulations. Australia has a particularly high tax burden. Japan's government has a spending problem.

Eliminating barriers domestically should be a priority for each member of the Quad. As for priorities for cooperation, growth instead of punishment should be paramount. For decades, U.S. officials have been irritated by India's trade policies. Resolving them should now become a much bigger priority, not only because it will facilitate the two countries' strategic alignment, but because it will help both return to prosperity once the current crisis subsides. Therefore, instead of prioritizing punitive action that restricts trade, officials from both the U.S. and India need to push policies that make the trade of goods and services easier.

Transparency, communication, and reliability among Quad leaders will also be essential for a swift economic recovery. Certainty, not just for policy-makers but for businesses, too, will allow business deals to be made quickly. For example, the U.S. has yet to make a decision on automobile and auto part imports. Clarifying that auto imports, such as those from Japan, are not a threat to U.S. national security can help to remove uncertainty from the business environment.

The Quad Plus

The Quad is not alone. Economic partners around the world will be struggling to resume normal economic activity as well. Developing economies may be even more at risk as they become less able to service debts they have built up over the years from questionable development deals.⁵ These countries' recoveries will be just as important for the Quad as they look to resume trade and investment overseas.

Priorities for the Quad

The Quad will have to work together now more than ever to help lift each other out of this global recession. In the process, it will help build stronger relationships that can last for years to come.

To help mitigate the economic costs of the COVID-19 pandemic and facilitate a swift recovery, the Quad must:

- **Prioritize economic freedom at home.** Removing regulatory red tape will encourage businesses and employees to return to work as quickly as possible. For example, eliminating hurdles for employers to hire and fire will actually get people back to work sooner. Removing requirements on digital commerce can help to build on the online presence that has grown since the lockdown and widespread telework began. Opening up state-supported sectors to privatization and competition can create new opportunities for investment. Quad members should also make sure that deregulation efforts at the national level carry over to the state and provincial levels.
- **Remove barriers to trade and investment and keep the Quad outward looking.** Tariff and non-tariff barriers only increase the cost of goods and services. The average applied tariff rate among Quad members ranges from 2.5 percent to 17.1 percent. Removing these costs will help those who rely on imports most. Quad members should be moving forward on trade and investment liberalization when possible, especially where such cooperation is made easier by broader strategic convergence, not on creating a closed trade block. This means not just finalizing trade and investment partnerships with each other but, looking for new partners, such as Taiwan.
- **Review new foreign investments.** Some malign foreign investors may use the global recession to merge with or acquire businesses in sectors critical to Quad countries' national interests. Quad members should use their respective tools to review *any* questionable investments and communicate with each other any emerging trends. This may also include coordination on limiting the export and re-export of strategically sensitive technologies. Quad members should consider emulating the proposals made in the 2018 Foreign Investment Risk Review Modernization Act and Export Control Reform Act.⁶
- **Fix the Better Utilization of Investments Leading to Development (BUILD) Act of 2018.** In addition to enhancing practical cooperation on infrastructure with Quad members, the U.S. should reform the BUILD Act,⁷ the legislation that created the Development Finance Corporation (DFC). Specifically, the DFC should make

countering Chinese influence in strategic arenas an explicit goal of the new institution. When it was proposed, the DFC was billed as a new tool to advance U.S. strategic interests and provide alternatives to countries seeking infrastructure investments without the strategic baggage accompanying China's Bridge and Road Initiative (BRI). This should be made explicit in the DFC's statement of policy, purpose, the establishment of enterprise funds, and in the reporting requirements.

- **Build the Blue Dot Network (BDN) with strategic purpose.** At a time when China's BRI has attracted growing global scrutiny, the U.S., Australia, and Japan, have unveiled the BDN initiative, designed to promote "high-quality trusted standards for global infrastructure development."⁸ Given that three of the four Quad members are already involved—the U.S., through the DFC; Australia, through its Department of Foreign Affairs and Trade; and Japan, through its Bank for International Construction—the group should welcome India as a key member of the BDN.

A Long Road Ahead

The road to recovery will take time, but the sooner the Quad can prioritize economic freedom in its recovery strategies, the sooner things can return to normal.

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Endnotes

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