

## **Marijana Maksimović, PhD**

Senior Research Associate  
Institute of Social Sciences, Belgrade, Serbia  
Center for Economic Research  
E-mail: mmaksimovic@idn.org.rs  
Orcid: <https://orcid.org/0000-0002-6420-8869>

## **Đurđica Stanković**

Research Assistant / PhD Student  
Institute of Social Sciences, Belgrade, Serbia  
Center for Political Research and Public Opinion  
E-mail: djstankovic@idn.org.rs  
Orcid: <https://orcid.org/0000-0001-9708-3276>

# **GEOECONOMIC FRAGMENTATION AND QUADRILATERAL SECURITY DIALOGUE: DID IT COME TO CHANGES IN RELATIONS IN THE INDO- PACIFIC REGION**

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### ***Abstract***

*Geo-economic fragmentation has become increasingly apparent through recent changes in the global economy. Major powers, particularly the United States, China, Russia, and India, are seeking to strengthen their positions in international markets, contributing to the emergence of a multipolar order. This paper examines changes in international economic relations and networks, with a particular focus on the role of the Quadrilateral Security Dialogue (QUAD). An analytical approach was used to assess China's role in the Indo-Pacific region, while a comparative method was applied to compare the QUAD with other regional frameworks and initiatives, including ASEAN, RCEP, IPEF, and developments in the South China Sea. The findings suggest that the QUAD functions primarily as a security framework while also supporting trade cooperation among its members. Consistent with the concept of middle powers, it seeks to influence the regional balance in the Indo-Pacific. However, trade diversification remains dependent on the development of other regional initiatives and their trade policies.*

**Keywords:** *geoeconomics, fragmentation, QUAD, China, South China Sea*



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## 1. INTRODUCTION

Just a century ago, geopolitics was viewed within the framework of national borders, while geoeconomics was seen as a collective term for a country's national resources (Cvetićanin & Maksimović, 2023). Today, the comprehension of geoeconomics is considered in the context of foreign policy strategy, with the main focus being on the state as a key actor in foreign policy and international relations (Scholvin & Wigell, 2018). Geoeconomics has become a strategy inherent to a country's international policy, utilizing economic means to achieve strategic objectives. The geostrategic application of economic power is a practical manifestation of geo-economics, with the use of economic leverage taking a position immediately behind that of military power in the formation of political power (Norrington, 2024). The term "geo-economic fragmentation" refers to changes caused by policies affecting the sources and destinations of cross-border flows, often driven by strategic considerations such as national and economic security, sovereignty and autonomy (Gopinath, Gourinchas, Presbitero, & Topalova, 2024). Geo-economics encompasses four indicators: a) trade intensity; b) geographic distance; c) geopolitical distance; and d) import concentration (Seong, White, Birshan, Woetzel, Lamanna, Condon, & Devesa, 2024). It is also able to utilize the internet and artificial intelligence (geotechnology), pandemics, finance, energy, trade, human mobility, and climate change as strategic tools. Therefore, the development of the IT sector now shapes the structure of international geopolitical and geoeconomic relations more than ever before (Nedelcu, 2024; Darie, Miron, Ciure, 2024). Today, states must contend with globalized information, which can grant them power that can be asymmetrically fragmented (Zorko & Sršen, 2020). For example, although economic coercion existed in earlier decades, today in the globalized world it gives media campaigns and sanctions a deeper and more harmful influence, one that was not present before. "That is why connectivity conflicts are becoming the 'other means' of global politics. They are less costly. They are more effective. As a result they are becoming more prevalent. And as they proliferate across the world they are killing many more people than conventional warfare" (Leonard, 2021, p. 4). "Gravity model estimates point to significant declines in trade, FDI, and portfolio flows between countries in geopolitically distant blocs since the onset of the war in Ukraine, relative to flows between countries within the same bloc" (Gopinath et al., 2024, p. 1). The level of trade between Russia and China has more than doubled since the beginning of the Russian invasion of Ukraine, which has led to an increase in trade and investment within the Asian bloc. This leads to the conclusion that this invasion acted as an additional driver (i.e. had a developmental role) of geo-economic fragmentation (Gopinath et al., 2024; Seong et al., 2024; Aiyar, Chen, Ebeke, Garcia-Saltos, Gudmundsson, Ilyina, Kangur, Kunaratskul, Rodriguez, Ruta, Schulze, Soderberg, & Trevino, 2023).

Great Powers seek to establish dominance over weaker states, which navigate between allies and followers. Small states that are legally sovereign may, under such circumstances, change sides, abandon passive neutrality, and

align themselves with a major power that they deem more beneficial to support. Rising Powers, with their newly emerging ambitions, disrupt the balance that had previously existed among countries. China's rise in this century has been achieved in this regard not through warfare, but through trade. It has aimed to expand its influence through the Belt and Road Initiative, the String of Pearls, as well as through institutionalized hierarchy, i.e. by means of its voting record at the IMF, UN, and other international institutions. This is race for supremacy and domination over certain geographical regions – under conditions of unequal economic development – has given rise to an unstable global political economy. Likewise, those countries in possession of vast energy resources, such as Russia and India, strive to secure a prominent position in international economic relations. However, the most significant role is played by social institutions, which must mitigate the harmful impact, instability, inefficiency and uncertainty arising from the international market. Additionally, the UN, IMF and WTO play a significant role, although their capacity is limited, as are their resources, in spite of their international mandates. Practical implementation issues remain within the domain of regional and national efforts, as they are unable to address problems on a global scale.

With the emergence of the 'new triad' of the US, China and the EU (with the previous one having been the US, Japan and the EU), the most important geoeconomic motive is participation in global competition due to the strategic control it brings and the economic potential of infrastructure that is introduced. However, infrastructure policy is often used as a means of controlling the expansion of industrial production or gaining access to basic networks and value chains. The new concept of geo-economics in the 21<sup>st</sup> century is the control of political-economic spaces, access to key markets and technology, transnational value chains, and also as a tool for information gathering. Digital and physical connections, as well as the routes between economic spaces, are those that dictate the pace of exchange (Abels & Bieling, 2024). For example, in the case of the United States, Mexico became the largest trading partner in 2023, and trade with Vietnam is also on the rise. However, China also recorded an increase in trade with Vietnam. This all points to Vietnam's potential to become a major global supplier for certain types of goods (Seong et al., 2024). The American–Chinese rivalry intensified at the beginning of the 21<sup>st</sup> century with China's expansion in the Asia-Pacific region and its growing power. The United States sought to establish a policy of 'soft containment' of China, which led to it forming an alliance with Japan, Australia and India. Geographically speaking, the Indo-Pacific region is defined as the area where the Indian and Pacific Oceans converge, along with the East and South China Seas. It is, in fact, a place where the interests of the United States, China, Japan, Australia, the EU, France, and also ASEAN (*The Association of Southeast Asian Nations*) intersect.

This paper will discuss QUAD, a bloc significantly smaller than BRICS, but one that is nonetheless also important in terms of international politics, international economic relations, and also regional relations. This scientific paper is divided into two parts. The first contains a review of the literature related to

geo-economic fragmentation, while the second addresses the position and role of the QUAD in the Indo-Pacific region. In this context, two research questions are posed: RQ1: Does QUAD affect the transformation of the international economy in the Indo-Pacific, or does it only affect the balance of power in relation to China and the US? RQ2: What are the differences of economic cooperation within QUAD in comparison to those within other regional economic initiatives (ASEAN, RCEP, IPEF and The South China Sea)? The methodological framework includes an analysis of China's role in the Indo-Pacific region. Using a comparative method, the relevance of QUAD in international and regional relations in the Asia-Pacific region, as well as in relations with China, is presented. Subsequently, a comparison of QUAD with other initiatives such as ASEAN, RCEP, IPEF and the South China Sea is provided. All of these initiatives have overlapping interests, but their goals vary. In addition, the results obtained with the help of empirical indicators suggest that QUAD affects the intensities of exchange between the member countries, but especially with the USA. They also show the trade exchange between the USA and China. This can be seen in the graphs in Graphs 1, 3, 4, 5 & 6, where an inflationary effect has been added to the nominal values, and the data are presented in real values, with 2015 being taken as the base year.

## 2. LITERATURE REVIEW

The uneven economic recovery from the 2008 financial crisis, COVID-19 and Russia's 2022 military intervention have further contributed to the process of fragmentation. Today international economic relations are intertwined with economic and political factors such as investment, the functioning of institutions, the rule of law, as well as issues of sustainable development and digitalization<sup>1</sup>. Accordingly, Thirlwell (2010) explicitly identified the reasons for the renewed relevance of geoeconomics, stating them to be the following: globalization; an attempt to establish multipolarity; the more frequent occurrence of financial and other crises; the decline in incomes of workers and middle-class citizens; increased impoverishment, i.e., the emergence of scarcity; and the rise of state capitalism. Furthermore, Dari, Miron and Curi (2024) indicate that occurrences of large and rapid changes are a major underlying cause of instability. The essence of the geoeconomic concept is to make strong connections between geopolitics, international economics and security: "Therefore, geoeconomics studies the economic aspect of geopolitical processes and their dependence on economic factors" (Cvetičanin & Maksimović, 2023, p. 603). In the research of Aiyar et al. (2023), it was pointed out that geopolitics actually leads to the risk of geo-economic fragmentation, but that there can also exist strategic issues of national security, such as a defensive boundary or protection of an energy asset. Furthermore, for example, it can be a strategic goal that is a feature of national

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<sup>1</sup> "New global order induced by the crisis is the one defined by re-globalization as a bottom-up process, with new subjects other than states, and smart business solutions leading towards prosperity rather than geopolitics" (Zorko & Lučev, 2021, p. 112).

aspirations, for example increased autonomy. Geoeconomic fragmentation was initially heralded by the fragmentation of trade in goods, which encompassed a wide range of trade, financial and fiscal measures, such as customs duties, tariffs, subsidies, price adjustments for specific goods, export restrictions, and payment regulations (Alvarez, Sollaci, Andaloussi, Maggi, Stuermer, & Topalova, 2023). This is particularly significant for large multinational corporations that implement a much broader array of business policies compared to companies operating solely within national frameworks (Konina & Savinov, 2023). Customs duties, or import duties in the Indo-Pacific region, in some cases lead to an increase in the price of goods imported from countries that have introduced them. Importers opt for other countries, and this creates a situation of trade diversion. For example, the RCEP provides for the elimination of up to 90% of tariffs for member countries, and an increase in trade among/with the members of this initiative is expected, which encourages regional integration and attracts foreign direct investment (FDI) to those countries (ASEAN, 2025). However, tariffs can, in this way, lead to a fragmentation of trade. US tariffs on Chinese goods have diverted trade to Vietnam, Thailand and the ASEAN countries, leading to an increase in exports from Southeast Asia. On the other hand, US tariffs on Indian products of 26% led to a drop in Indian exports of around 6.4% in 2025 when compared to the previous year. Global business and trade connections are also changing along geopolitical lines in parallel to geopolitical fragmentation and tensions (Gopinath et al., 2024). During the process of geo-economic fragmentation, it is not uncommon, for example, for (hidden) intertwined financial networks to hinder the effectiveness of business management efforts (Babić, de Graaf, Linsi, & Weinhardt, 2024).

The process of fragmentation has its advantages, namely nearshoring, the development of value chains in geographically proximate countries, and the faster transfer of knowledge. However, more negative consequences include increased adaptation costs, reduced capital flows, a decline in international cooperation as a source of technological diffusion, restrictions on migration, and the transformation of financial globalization into financial regionalization. Alongside all of this, the emergence of new regional blocs is a direct consequence of geoeconomic fragmentation, i.e. the fragmentation of capital and its flows (Aiyar, Malacrino & Presbitero, 2024).

## **2.1. Implications of geoeconomic fragmentation for business leaders**

Geoeconomic fragmentation and human resource management are interwoven through the implications of emerging international circumstances for business leaders. Business leaders should be aware that strategic planning includes geopolitical and geoeconomic alignment; the perspectives of the international market being important elements of a country's national security (Gopinath et al., 2024). The successful transformation or transition of a company, specifically a multinational company (MNC), within the newly created circumstances is largely dependent on the attitude(s) of managers (entrepreneurs)

(Pozega & Ribic, 2022). For example, adjusting to the upcoming multipolarity, will affect the state of macro- and micro-economic equilibria, and create a new configuration of the political economy at the international level (Nedelcu, 2024; Darie, Miron & Ciure, 2024). Research has shown that companies that lack a plan for dealing with major changes and the ability to manage in such situations, such as geo-economic fragmentation (this also applies to COVID-19), exhibit an increased likelihood of failure within three years (Duhacek Sebestova et al. 2025). “Globalization, economic growth and development, but also specific social and political demands, impose on companies the necessity of applying a management system that will enable adaptation to challenges in the short term and maintaining business stability in the long term” (Britvić et al. 2024: 557). Given that economics itself has emphasized an applied approach since the 1970s, as well as the development of software and algorithms that are able to process large quantities of data, it has become easier to monitor complex changes and trends. Managers, as carriers of MNCs, can encourage technological and other innovations, or provide solutions to problems in the open market (Sajter, 2024).

However, human resources, or, more precisely, the leaders of MNCs, who are responsible for one-third of global exports of goods and services, should be well-versed in geo-economic fragmentation. They are the decision-makers in international business: they determine relocations of company production, and forge connections with new economies and maintain contact with existing ones. They must monitor macroeconomic shocks or changes in the labor market, all of which can affect the financing and positioning of SMEs.

As well as the decisions of MNCs – both individually and collectively – the question of whether trade will fragment or diversify is also largely contingent on government policy regarding international trade. This requires an understanding of the context of the country in which operations are situated, the direction of research trends, recruitment of human resources, and a constant search for talent. Business leaders promote inclusive economies and shape the discourse of change related to resilience against market uncertainties (Seong et al., 2024). MNCs are forced to adapt to the situation, by respecting the realities and policies of various alliances and initiatives, and adapting to nearshoring and friend-shoring (Gopinath et al., 2024, Seong et al., 2024). Thus, MNCs become an instrument of both geoeconomics and geopolitics. Over time, they have collectively realized the danger of excessive dependence on China and striven to reduce it. At the same time, selective internationalism, which implies limiting cooperation as well as the dosed control of technology, is in force, as is so with management of relations within blocs and alliances. At the same time, the model of state capitalism is once more being strengthened, through state-driven demands for infrastructural and technological control, as well as control over energy sources and strengthened environmental protection (Alami & Dixon, 2020). Furthermore, in economic reality, in addition to formal institutions, there are also informal institutions that give rise to changes in habits and opinions (Soylu, 2022). In those circumstances, geo-economic fragmentation arises due to the

strengthening of other countries that want to become independent, influential, and even Great Powers themselves, and in such circumstances, QUAD represents an important geopolitical and geo-economic alliance that plays the role of a buffer.

### **3. THE POSITION AND ROLE OF THE QUAD IN THE INDO-PACIFIC**

QUAD is in essence a diplomatic and security forum; an organized response to growing instability in the Indo-Pacific region, with the aim of confronting China and its expansion. It was first established in 2007, initiated by then-Japanese prime minister Shinzo Abe, with the support of the prime ministers of other QUAD members, and initially foreseen to last for one year. QUAD is a minilateral platform characterized by its flexibility, as it has a smaller number of member countries, and is therefore more functional. Japan called this initiative the “Free and Open Indo-Pacific”. It was established in response to the 2011 earthquake and tsunami that devastated the country, and was accompanied by joint military exercises called Malabar. In the same year, Japan signed a security agreement with India aimed at promoting defense cooperation along maritime routes in the Indo-Pacific. India is an important strategic and trade partner, not only for Japan but also for the entirety of QUAD. These countries held a number of joint military exercises between 2007 and 2017, sometimes also involving countries outside the alliance. On the margins of ASEAN, the QUAD was renewed again in 2017, once again at the initiative of Shinzo Abe. Upon assuming the presidency in the United States in January 2025, Donald Trump encouraged the further development of QUAD activities in the form of an alliance of four countries: the United States, India, Japan and Australia. QUAD 2.0 envisages respect for Asian rules and international law. The key issues are those of climate, energy, new technologies, health security and infrastructure (Saini, 2023). A special emphasis is placed on territorial disputes in the South China Sea, supremacy over its islands, and the influence of the countries surrounding it. For these reasons, it has earned the moniker “Asian NATO” from Beijing (Kumar & Khan, 2024; Agnihotri, 2022; Rai, 2018). The wish to assert dominance in the Indo-Pacific region is significant, because the area is home to over four billion people, and accounts for more than 65% of global GDP (Saini, 2023). However, Chinese foreign minister Wang Li expressed distrust regarding the revival of this grouping, claiming that it will disperse ‘like foam in the sea’. Nevertheless, the minister added that it poses a significant security risk and is underlaid by an intention to stimulate geopolitical competition, viewing it as a response to China’s strong revisionism and believing that its strengthening threatens the country’s interests in the South China Sea (Chellaney, 2021).

The focus of QUAD is placed on continuous concern for the international trade order and the increased risk of nuclear war. The core objectives of QUAD are to maintain the key sea routes in the Indo-Pacific, without the military or political dominance of any single state, in order to ensure

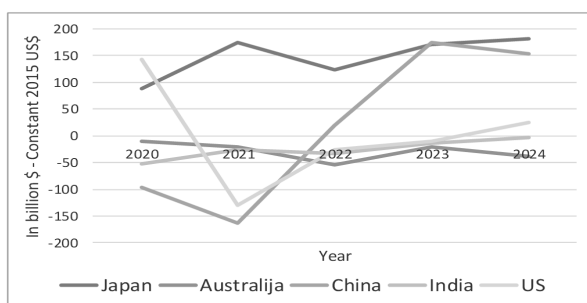
freedom of navigation and free trade, as well as to promote connectivity and infrastructural development. However, at every summit, the emphasis is on preserving the maritime order, which entails adherence to security rules for the East and especially the South China Sea. For this reason, the member countries of this alliance oppose the utilization of coercion and unilateral actions in the Indo-Pacific region (Smith, 2021; Dhiraj, 2021). The meetings between US president Trump and Indian prime minister Modi in January and February 2025 primarily focused on trade and energy issues. Modi was expected to announce the procurement of American aircraft and drones, a deal to import American energy resources, and joint participation in energy projects. India records a surplus in trade with the US, in the amount of approximately 35 billion dollars as of 2024, which speaks of the developed trade cooperation between these two countries (Shukla, 2025). Although India considers that the current QUAD does not align with its expectations, this alliance still serves its interests (Singh & Teo, 2020). It can be concluded that QUAD has evolved into an institutionalized alliance that upholds the rule of law, promotes free trade, and encourages prosperity in the region. With this, it gains its direction and path for addressing challenges (Kumar & Khan, 2024).

However, the question arises as to whether China's expansion is leading to changes in the security architecture of the Indo-Pacific. "Beijing is widely regarded as using military, political, and, above all, economic means of power with the aim of weakening US pre-eminence in the region" (Heiduk, 2023, p. 61). As India has traditionally been committed to non-alignment for many decades, it does not wish to be entangled in the Chinese–American strategic rivalry, although, due to disputes with China in the Indian Ocean, it does not feel completely secure against threats that country. However, security issues and the joint conducting of naval exercises indicate a convergence regarding maritime security. For this purpose, the Indo-Pacific Partnership for Maritime Domain Awareness (IMDA) initiative was established, which, in addition to addressing non-traditional security issues, enables the collection of intelligence data and monitoring of Chinese military activities (Hatakeyama, Wilkins, Hirono, & Envall, 2024). At the beginning of the 2020s, India strengthened its partnership with Japan and Australia by signing the Mutual Logistics Support Arrangements (MLSA) with Australia, thereby committing to conduct air and naval exercises for the purpose of strategic defence, as well as the Agreement on the Implementation of Science and Technology in the Field of Defence. With Japan, it has advanced bilateral relations, elevating them to a "Special Strategic and Global Partnership" in the defense sector, by signing contracts on procurement and cross-services in 2020 and a memorandum on the transfer of defense equipment and technology (Agnihotri, 2022). Improved coordination between member countries is evident, regarding both climate disasters and regional control, as well as satellite monitoring of smugglers in oceans and seas (Heiduk & Wirth, 2023; Envall, 2019).

The level of foreign direct investment (FDI) in the QUAD countries and China is shown in Graph 1. The level of FDI indicates how much capital a

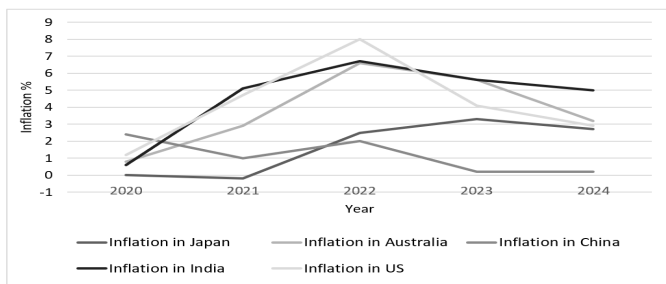
country has, which acts as a proxy of investors' confidence in it. Foreign direct investment can mitigate the negative effects of changes in tariffs and trade policies. For example, the highest uncertainty was for China in 2025 after the US introduced tariffs for strategic sectors. On the other hand, annual inflation shows how much the price of goods and services has risen year-on-year. Graph 2 shows that, in the period 2020–2024, for example, the lowest inflation in China was in 2021, while its highest inflation was in 2023.

Graph 1 Foreign direct investment real value in \$ billion (Constant 2015 US\$):  
Japan, Australia, China, India, United States



Source: World Bank. 2026, authors' calculation

Graph 2 Inflation, consumer prices (annual %): Japan, Australia, China, India, United States

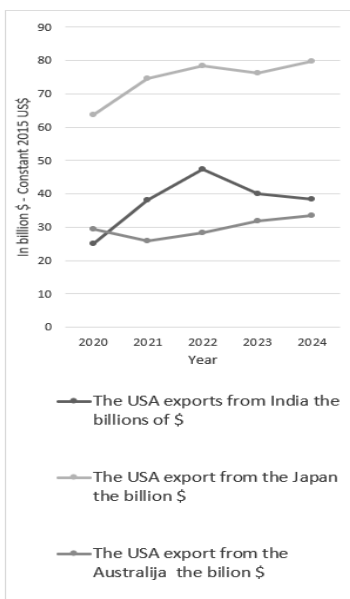


Source: World Bank. 2026, authors' calculation

For example, when looking at Graphs 1 and 2, it can be seen that Japan had the highest level of inflation in 2022 and the lowest amount of FDI in 2020. It is worth mentioning that Japan has the most stable FDI, largely due to the stability of the market and compliance with the law. In the USA, inflation has continuously increased from 2021 to the present, while in China it has decreasing from 2022, which has resulted in greater levels of FDI. Meanwhile, FDI in Australia evidences a decline from 2023, having peaked at 58.64 billion dollars in 2022. It can be seen from Graph 1 that, in India, FDI in the period from 2020 to

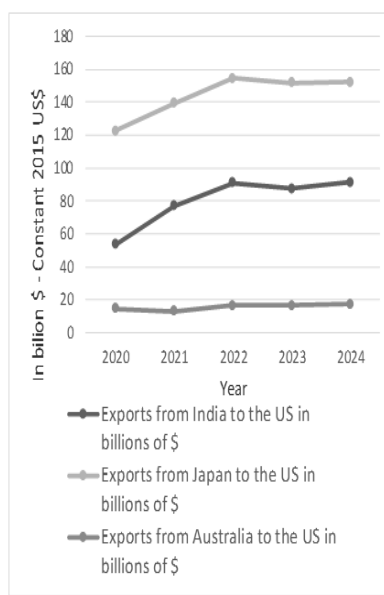
2024 lay in the minus. In 2024 it amounted to -2.89, which represents the smallest negative in this observed period. However, FDI inflows to Asia fell by only 12.8% over the year to September 2025 compared to that to September 2019, while Chinese FDI grew by 1.9% over the same period in the region. The reason behind this is that, since 2019, capital from China has been progressively reallocated to the rest of Asia, with a sectoral rebalancing towards industries such as semiconductors, renewable energy and metals. It is important to note that global multinational enterprises (MNEs) looking to diversify away from China have remained in the region, with total FDI inflows to the rest of Asia having grown by 65.3% between 2019 and 2024. China will direct its FDI towards economies with which it has free trade agreements, stable market access and countries with a large number of suppliers. As a result, the US will have to deal with competition from China in this region (Nguyen-Quoc & Tan, 2026).

Graph 3 Total exports (all products real trade values) from the USA to India, Japan and Australia in the period 2020–2024 in billion \$ (Constant 2015 US\$)



Source: Trade Map 2025 and World Bank 2026, authors' calculation

Graph 4 Total exports (real trade values) from India, Japan and Australia to the USA in the period 2020–2024 in billion \$ (Constant 2015 US\$)



Source: Trade Map 2025 and World Bank 2026, authors' calculation

The real value of foreign trade shown (inflationary effect included) is shown in Graph 3 and Graph 4, where the real value of the foreign trade exchange

of the USA with India, Japan and Australia in the period 2020–2024 in US dollars is given, with 2015 having been taken as the base year. Two-way trade volume is highest between the US and Japan. When looking at bilateral trade relations, the US imports the most goods from Japan. In 2020, the US imported the most vehicles (excluding railway or tramway vehicles) from Japan, totalling 122.5 billion dollars, with imports of these products having increased to 148.0 billion dollars by 2024. This is immediately followed by the import of nuclear reactors, boilers, machinery, and mechanical appliances and their parts; imports amounted to 49.8 billion dollars in 2024, representing an increase compared to 2020, when they totalled 40.9 billion dollars. Following on from this are electrical machines and equipment and their parts; apparatus for recording and reproducing sound, and televisions. On the other hand, the US mostly exports mineral fuels, mineral oils and products of their distillation to Japan, alongside bituminous substances, with exports having increased from \$6.9 billion in 2020 to \$12.0 billion in 2024. Next are pharmaceutical products, totaling 3.9 billion dollars in 2020, but rising to 8.2 billion dollars in 2024 (Trade Map, 2025).

As for India, the USA mainly imports electrical machinery and equipment and their parts; sound recording and reproducing apparatus, and televisions, followed by pharmaceutical products and natural or cultured pearls, precious or semi-precious stones, noble metals, and related. The import of pharmaceutical products in 2020 amounted to 8.3 billion dollars, growing to 12.3 billion dollars in 2024. Exports from the US to India are predominantly composed of mineral fuels, mineral oils, products of their distillation and bituminous substances, amounting to \$6.9 billion in 2020, and \$12.0 billion by 2024 (Trade Map, 2025).

From the data presented, it can be seen that US has the most intensive trade exchange with Japan, followed by India, and finally with Australia. However, QUAD does not force member countries to trade exclusively with each other. What redirects trade among the countries of the Asia Pacific region is the customs policy and belonging to the aforementioned RCEP or ASEAN.

From the empirical data presented for the Indo-Pacific region, it is evident that trade interdependence is increasing, but, with the more-intense involvement of China in the region, geopolitical tensions are rising, with the countries in that region – including those of QUAD – becoming strategic trade competitors. In this sense, the field of geoeconomics does not consist only of import and export or struggles for the market, which companies are responsible for, but becomes a strategic source of raw materials, competitiveness and security.

### **3.1. QUAD and China**

The collapse of the unilateral system came about due to the rise of China, the rise of several great powers, reforms of international organizations, and the ambitions of the United States to remain hegemonic. China's rise has been contributed to by offensive measures, for example the export ban on rare

earth elements to Japan. The strategic context of the revival of the QUAD initiative should be seen as a response to China's "String of Pearls" strategy; the name given to China's strategic encirclement of the Indian Ocean and India itself with a network of ports and military bases. This initiative is China's effort to exert influence through economic, military, diplomatic and geopolitical means within the framework of its maritime strategy. For QUAD, the "String of Pearls" initiative is highly significant, as it challenges the influence of the United States in Asia, the Indian Ocean, and the South China Sea region. The "String of Pearls" exerts China's influence over countries such as Bangladesh, Myanmar and Pakistan, as well as the pipeline through Islamabad, the naval base in Gwadar, Xinjiang province, and facilities that serve to collect intelligence data in the Bay of Bengal and Sri Lanka. China provides assistance to countries in the international environment for their domestic development, as a grateful recipient of raw materials and energy resources. With such an approach, China has increased oil imports from Sudan, but also gas imports from Myanmar, in its role as the largest oil consumer in the world. In the countries that make up the 'String of Pearls', China controls the ports, can station its navy, and can encourage the introduction of customs and other port tariffs, thus discouraging competitors. If China places a port under its influence in the Indo-Pacific region, it means that the US Navy will have one less port on its side (important for maintaining a military presence). Therefore, it can be said that the formation of QUAD is a direct result of China's assertive foreign policy and security policy in the Indo-Pacific region (Leonard, 2021, Tucker, 2022). China aims to neutralize India's efforts to gain influence in military, political, and business spheres. By doing so, it restricts India's access to abundant energy resources, and influence over countries, their ports and maritime routes. China demonstrates that it does not base its power on colonial and imperial ambitions, that it does not engage in confrontation, but rather develops strategic and geopolitical 'pearls' through soft power, i.e. by encouragement rather than coercion (Kim, 2011). External sources of energy and raw materials are necessary for China in order to achieve continuous development and political stability. Simultaneously, it seeks to manage structural social and technological changes. Stability is an issue of high importance to China, because it is undermined by uneven development, made by underdeveloped interior regions and advanced development in the coastal areas. China has established a 'socialist market economy', and the imperative of increased economic development compels it to maintain good neighborly relations in the region, as it requires additional sources of energy and raw materials. The growing military, economic and diplomatic power in the Asian region makes China the Asian Dragon, and its development marks it as a prosperous and modern country. The dissatisfaction of Thailand, Indonesia, Malaysia, Singapore and the Philippines (key partners in securing sea routes from the Middle East to Asia) with this occasionally hinders China's ambitions, as they are strong allies of the United States. Moreover, China is becoming highly

influential thanks to the Shanghai Cooperation Organization (SCO).<sup>2</sup> In this regard, India has demonstrated a very pragmatic initiative by establishing constructive relations in the Asian region; a direct result of this being China's recognition of India's claims over the state of Sikkim in the Himalayas.

With its boom, it even threatens to surpass the "Asian Tigers"<sup>3</sup> who have been synonymous with successful industrialization and economic growth (Pehrson, 2006). Current politics and large-scale business in today's multipolar world closely collaborate, which can be seen in the interaction between the Chinese state and the accompanying national oil companies (NOCs). The state serves as a lever for initiating NOCs in the search for new 'pearls'. The NOCs are commercial representatives of large capital and big business, and have become global competitors in the energy market. The Chinese state and the NOCs operate as 'China, Inc.' in order to achieve long-term military dominance and commercial energy needs (Kim, 2011). In addition, given the mass movement of goods and the dynamic growth of e-commerce, China has faced the challenge of overcoming barriers in terms of tax, customs and legislative practices. For these reasons, the New Silk Road was initiated, which includes the digitization of supply chains and the development of transport infrastructure. It involves connecting China, the countries of Central Asia, the Middle East, Europe (the transport market of China and the EU has been in continuous development since 2008 thanks to the Belt and Road Initiative) and Africa. The most important corridors are the Trans-Caspian Corridor (China–Central Asia–West Asia corridor, also called the New Asian Land Bridge), and the Trans-Siberian Corridor (New Eurasian Land Bridge); the bridge between China and Europe (Nowak, Kirchner & Kolinski, 2022). China has increased its share in trade with geopolitically closer partners, as well as with developing economies from which it seeks to import goods. An example of this is the import of nickel from Indonesia, which is geopolitically closer to China than Canada is.

The visualization of trade in goods between the US and China indicates that bilateral trade in goods between these two countries is highly dynamic. Graph 5 and Graph 6 below present trade according to the volume of exchange. US investments in China in the period from 2022 to 2023 fell by 70% compared to the period from 2015 to 2019, as the USA aims to reorient its trade toward ASEAN economies, where US investments from 2022 to 2023 have doubled in comparison to the period from 2015 to 2019. However, the US's purchase of neodymium magnets from China speaks of a stable trade exchange between the two countries.

The United States is redirecting foreign direct investment and trade to Mexico, the UAE, and India. Between 2017 and 2023, the China increased its exports to countries in Latin America, the Middle East, and Russia, shifting them away from Japan and South Korea. It must also be noted that between 2018 and 2021, China invested heavily in lithium assets, much more so than the United

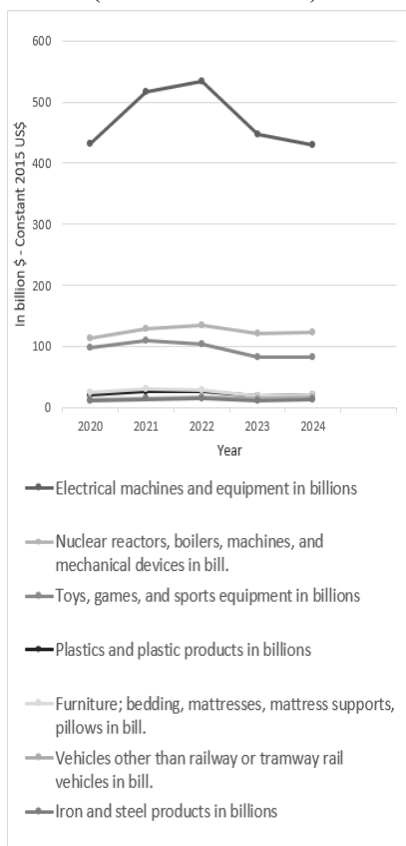
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<sup>2</sup> Its members are the PR China, Russia, Uzbekistan, Tajikistan, Kyrgyzstan and Kazakhstan, while the observer countries are India, Iran, Pakistan and Mongolia.

<sup>3</sup> South Korea, Taiwan, Thailand, Hong Kong and Singapore.

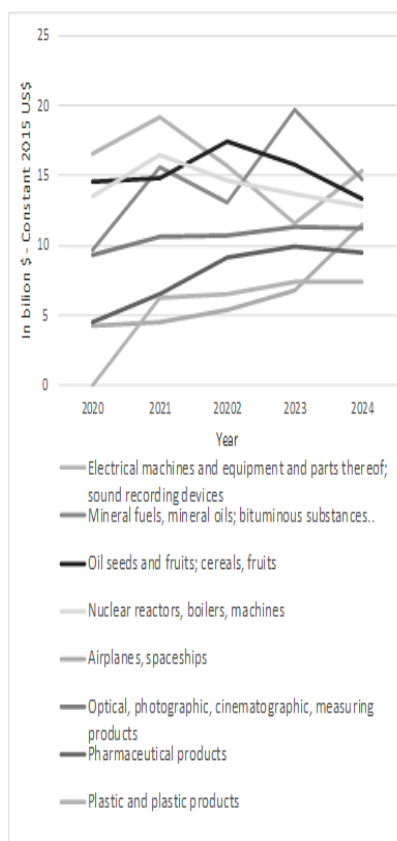
States, Canada, and Australia combined; furthermore, it is developing an iron ore mine in Guinea. We can cite the example of neodymium magnets that the USA imports from China, and this trade remains stable today. Since 2017, the United States has turned to Mexico and Vietnam, as well as Canada, indicating a phenomenon known as ‘nearshoring’. Since the US imposed tariffs on a wide range of goods imported from China in 2018, trade tensions have intensified. Customs duties have since then increased by three to six times. However, there has been investment by Chinese companies in countries that allowed them access to the American market, which leads to an elongation of supply chains, making them fragile and inefficient (Gopinath et al., 2024; Seong et al., 2024).

Graph 5 US imports from China (real trade values), total and by trade volume in the period 2020–2024, in US dollars (Constant 2015 US\$)



Source: Trade Map 2025 and World Bank 2026, authors' calculation

Graph 6 US exports to China, (real trade values), total and by trade volume in the period 2020–2024, in US dollars (Constant 2015 US\$)



Source: Trade Map 2025 and World Bank 2026, authors' calculation

China is experiencing rapid technological and economic recovery, and aims to emerge as a new hegemon.<sup>4</sup> The Belt and Road Initiative is indeed a ‘transnational project’, considered the most comprehensive and expensive on a global scale, with its main goal being the connection of three continents: Asia (primarily China), Europe and Africa, bringing new opportunities for the development of investment and trade between China and the countries located along this route (Stanković & Topalović, 2022, p. 53). This should prevent the influence and penetration of other countries and their ideas in the regions of major interest to China. China is currently the most powerful country in Asia, with the highest GDP growth, although Japan and India are close behind. In the Indo-Pacific region, through the ‘String of Pearls’ strategy, China is positioning itself as a regional hegemon. However, China is attempting, with the help of BRICS, to establish itself as a global hegemon and increase its global power (Rhodes, 2025).

### 3.2. QUAD and the South China Sea

One of the main reasons for the establishment of QUAD is the quality and complexity of relations between the countries in the South China Sea, which represents the second busiest maritime corridor in the world, right after the Mediterranean Sea, and through which a large portion of global trade passes. The countries with direct access to the South China Sea are: China, Taiwan, Vietnam, Malaysia, Brunei, Indonesia, the Philippines, and Singapore (Станковић, 2023). In addition to its significant trade and economic potential, the South China Sea holds considerable geostrategic and geopolitical importance, primarily for China, as it regards the South China Sea as its ‘security backyard’. China’s militarization of the South China Sea, the unilateral claiming of islands, and the overlapping and competing territorial claims of coastal states further complicate the situation in the region, highlighting the importance of the QUAD, which advocates for a free and open Indo-Pacific. The diplomatic and military arrangements of the QUAD members are a direct response to the increasing Chinese expansion in the South China Sea and the Indo-Pacific region (Srivithaya, 2021).

However, the QUAD members in the Indo-Pacific have thus far refrained from direct intervention in the disputes taking place in the South China Sea region. Bradford and Emmers (2024) cite three reasons for the QUAD’s passive stance in territorial and maritime disputes in the South China Sea. The first reason concerns the fact that each QUAD member has different strategic interests in the South China Sea; while the United States considers freedom of navigation a key factor in maintaining global stability, Japan and Australia continue to emphasize the primacy of economic and diplomatic relations with

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<sup>4</sup> It is important to note here that the word ‘hegemon’ in this context means a country seeks to dominate over others, primarily economically and militarily (hard power) and then politically and ideologically (soft power) (Merryam Webster, 2025; Britannica, 2025).

China.<sup>5</sup> The second reason is that the QUAD members aim for different outcomes in the South China Sea, meaning that none of them wants to engage in a direct conflict with China, due to economic and trade ties, as well as the uncertainty of conflict escalation. China continues to strengthen economic, trade and infrastructural ties with QUAD members, as well as with other countries in the Indo-Pacific region, emerging as their main trading partner (Rai, 2018). The third argument is that, although there are joint QUAD exercises, as well as diplomatic efforts, and that QUAD could have the potential to undermine regional stability and security if it intervenes in the South China Sea, it is centered around economic cooperation, not military, as is the case with alliances such as NATO (Bačan, 2022).

The positions of QUAD members regarding the South China Sea – as well as the launch of the Indo-Pacific Partnership to raise awareness of maritime cooperation – complicate maritime security in the Indo-Pacific on three tracks. The first track is the hindering of the possibility of joint cooperation between China and ASEAN member states in the adoption of a common Code of Conduct. The second track refers to the constant militarization of and arms race between China and the QUAD members, with each side having its own interpretation of maritime interests, rights and security. Finally, the third is the possibility that QUAD activity may encourage other South China Sea coastal states to become more engaged in, for example the strengthening of maritime control.

Trade in the Indo-Pacific region is of key significance due to the presence of three leading global economies: the United States, Japan and China. Precisely because of these countries' economic influence, approximately two-thirds of global maritime trade passes through this region (Ray, 2021); one-third passes through the South China Sea itself (Kipgen, 2020), with this amount exceeding five trillion dollars annually. In addition to its economic significance, the South China Sea is important for coastal states due to energy security. Over two-thirds of the energy resources of China, South Korea, Japan, and Taiwan pass through the South China Sea (Kaplan, 2011). In the event of an escalation of conflict, there would be great uncertainty regarding energy imports, as the countries in the region are not self-sufficient in terms of energy production, with their economies being dependent on oil imports, putting the coastal countries at energy risk in the event of conflict. Furthermore, the South China Sea is one of the world's richest seas in terms of natural resources and marine biodiversity. It is estimated that the South China Sea holds more than 15% of the world's oil and natural gas reserves (Стојановић & Шарановић, 2021). The World Bank

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<sup>5</sup> PR China has been Australia's largest trading partner for many years. China imports raw materials from Australia, such as iron, coal and natural gas, and exports consumer goods, machinery, and electronics. In 2024, bilateral trade between China and Australia amounted to 321.5 billion US dollars. In the same year, bilateral cooperation between China and Japan amounted to 357.4 billion US dollars, while between China and India it was 118.4 billion US dollars. Available at: <https://www.statista.com/>.

estimates that the reserves of the South China Sea exceed 900 trillion cubic feet of gas and over 700 billion barrels of oil.

In addition, it is necessary to illustrate the other potential challenges that disputes and conflicts in the South China Sea may cause. For example, as a counterbalance to growing Chinese power, the QUAD can influence the prevention of an emergence of regional hegemony (Kulsoom, Hussain, and Shah, 2025, p. 49). The objective of QUAD's actions should be focused on maintaining an open and constructive relationship with China. The previous sections answered the initial research question: Does QUAD affect the transformation of the international economy in the Indo-Pacific, or does it only affect the balance of power in relation to China and the US? In short, it helps to establish the balance of power in the region because it acts as a political security initiative. It is not a classic economic alliance (as there is no clause on the free flow of goods), and it therefore has limited impact on the transformation of the international economy in the Indo-Pacific region. However, with the help of foreign direct investment, trade exchange, and exchanges of technology and energy, it affects competitiveness in the context of the Asia Pacific region.

### **3.3. QUAD: ASEAN, the Regional Comprehensive Economic Partnership (RCEP), and the Indo-Pacific Economic Framework for Prosperity (IPEF)**

The ASEAN economies are connected with the QUAD and are well integrated within the region, have developed and intensive trade in goods, and are also politically and culturally aligned. RCEP, IPEF and QUAD are initiatives that overlap in terms of interests, with their goals being related to the facilitation of trade and exchange, and attempts to overcome the shortcomings of existing agreements, as well as the shortcomings of the participant countries themselves.

ASEAN is a political and economic alliance of Southeast Asian countries.<sup>6</sup> Its goal is to promote unity, development and prosperity among Asian nations, primarily those from the Asia-Pacific region, with the aim of encouraging the region's sustainability. This also connects it with the economies of the QUAD (Seong et al., 2024). Today, ASEAN countries, along with India, are redirecting trade towards Russia and China. Nonetheless, ASEAN countries are not distancing themselves from the USA, as the USA has increased its investments in ASEAN countries, although Chinese investment has also grown. ASEAN and China signed a free trade agreement<sup>7</sup> whereby China seeks to expand its influence over ASEAN countries and weaken the influence of the QUAD (ASEAN, 2025).

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<sup>6</sup> Singapore, Indonesia, Thailand, Vietnam, Malaysia, Philippines, Myanmar, Brunei, Cambodia, Laos and East Timor

<sup>7</sup> Other partners are also involved, namely Japan, India, the Republic of Korea, New Zealand and Australia

RCEP is built on the ASEAN+1 (China) free trade agreements, aiming to provide a realistic and pragmatic framework for regional economic cooperation. RCEP, guided by the principles of consensus, seeks to persist in promoting dialogue and cooperation among its member states, with economic policy priorities focused on security and protectionism (Yunshak, 2025). One of the main objectives is the reduction of trade barriers (reducing tariffs to zero) and increased market access. Moreover, members strengthen economic partnership in order to provide their citizens with new employment opportunities and a higher standard of living. RCEP would thereby enable 27 million people to move into the middle class by 2035 (ASEAN, 2025). Following the example of ASEAN, it encourages Middle Powers to take the lead, aiming to avoid leadership by the US and China. Through this alliance, China promotes its vision of a multipolar world order. India (which is an active member of the QUAD) wants to avoid the great influence of China, and withdrew from the RCEP negotiations, opting instead to join IPEF (Surupa, 2022).

The role of Middle Powers in the Indo-Pacific region is extremely important, and contributes to a balancing of the influence of the US and China. Middle Powers need to connect with each other on the basis of comparative advantages, such as joint transit in the Indo-Pacific, then through maritime cooperation and intelligence gathering. They should also connect through the convergence of interests – particularly interests in free trade – in order to protect themselves if economic coercion arises. This especially applies to countries like India, Japan and the ASEAN countries. India, as a big country, and aspires to become a Major Power, one that does not depend on either the US or China, although it has developed trade relations with both of them. On the other hand, Japan has been tied to the US since its occupation in 1945, even through the strategy of military defense. With China's growing power, Japan is seeking to maintain good neighborly relations, and likewise with ASEAN countries. Thus, Japan has become a significant ally of the US, but also of China, and plays a major role in preventing the escalation of conflicts in the region. At the same time, Japan, together with Australia and Canada, has taken on the task of harmonization of the Middle Powers during negotiations in the Indo-Pacific. Those negotiations must be open, free and within the framework of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). While Japan has been a stable ally of the US for decades, India is trying to influence the region independently (having the potential to become the third Major Power in the region, or even globally), and the ASEAN countries are collectively trying to influence the balance in the region, even though they already largely control shipping routes and trade (Nagy, 2022). For now, the US's need for allies in the region will not decline, especially since there is an acute need for infrastructural development. In this, Canada and Australia see their opportunity to connect with fast-growing medium-sized economies that promote long-term growth, fair lending and the transparent work of institutions (Miller & Wilkins, 2019). Regional security depends on the actions of the two Great Powers – the US and China – but also on the influence of Middle Powers in the Asia-

Pacific region. While China uses institutional innovations and introduces new patterns of economic dependence to reshape the existing order, there are more credible actors in the region whose power challenges the transformation of the order in a linear fashion. However, the Middle Powers have seen that, behind the rhetoric of inclusivity, sovereignty, economic development and stability, China may manifest different behaviors, such as the militarization of artificial islands, but also the introduction of unofficial trade restrictions, occasional coercive behavior<sup>8</sup> (visible in the example of Canada, South Korea and Australia). With this, China pursues its own interests, and not the interests of the Middle Powers. For these reasons, the Middle Powers do not trust China's diplomatic actions. The struggle between the USA and China for a central role has brought with it a struggle over the very order in the region. With the emergence of informal partnerships (through QUAD, ASEAN and SCO, for example), the Middle Powers are becoming increasingly influential (Biyon, 2025).

IPEF was launched in 2022 as a major trade initiative of the Biden administration in the Asia region with the aim of establishing a connected, resilient, clean and fair economy. It is designed to enhance trade policies, while not enforcing a uniform assumption of obligations (this is reflected in tariffs and preferences). It advocates for fair trade, enhancing climate change resilience through the use of clean energy, the strengthening of tax administrations, intensification of the fight against money laundering and bribery to reduce tax evasion (financial crime), and the combating of corruption in the region. While IPEF countries have witnessed an increase in trade with the US, they remain in the large part dependent on trade with China (Kitamura & Manyin, 2024; USTR, 2025). IPEF has a flexible and inclusive framework, and it is assumed that this was a major attraction for India. While India's reasons for joining IPEF can be seen as a mix of strategic and economic factors, in sum India chose IPEF as a counternarrative to China's infrastructural dominance over the region. Further, it enables India and the US to continue economic cooperation and undertake initiatives to achieve common interests. Moreover, IPEF is very active regarding the digital economy in the region, although the United States advocates for international standards and regulatory solutions, while India supports data localization (Surupa, 2022).

The above points to the specifics and differences of the presented initiatives, but also to the answer to the second secondary research question: What are the differences of economic cooperation within QUAD in comparison to those within other regional economic initiatives (ASEAN, RCEP, IPEF and The South China Sea)? As the first difference that can be highlighted, QUAD is a security forum, as presented above, around which it bases its initiatives. While the South China Sea is a geographical concept, which connects a much larger number of countries, it is a core focus of QUAD due to the territorial disputes that are being waged around it. As for ASEAN, its economy and the economy(ies) of

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<sup>8</sup> Coercive behavior does not suit Middle Powers, as it highlights their vulnerability.

QUAD, as well as the signatory countries of RCEP and IPEF, their interests coincide when it comes to the exchange of goods, and connections based on cultural values. Despite the fragmentation, member countries of these initiatives strive to overcome the gaps in mutual exchange in the Asia Pacific region. All the mentioned initiatives advocate non-preferential trade. However, while QUAD prioritizes trade with the US, ASEAN directs its trade towards Russia and China, without coming into conflict with the US. Furthermore, RCEP, like QUAD, advocates for the security of the member countries, as well as for free trade. However, RCEP emphasizes among its goals a higher percentage of employment in the signatory countries, as well as a higher standard of living, in order to create and strengthen the middle class. In contrast, the key issues of QUAD are maritime security, energy issues, climate, but also the Korean nuclear issue. Also, IPEF, like QUAD, deals with climate change and energy issues. What distinguishes IPEF from QUAD is the fight to strengthen tax discipline, the fight against financial crime and the fight against corruption. However, what QUAD and IPEF have in common is that they want to represent a counterbalance to China's infrastructural dominance in the Asia-Pacific region, and respect for Asian rules, as well as international law.

#### **4. CONCLUDING REMARKS**

Fragmentation and diversification of trade have emerged in response to increased geopolitical risks. However, fragmentation has provided an opportunity for countries and economies such as India, and those in Africa, Central Asia and the Middle East to increase their participation in global production networks. Chinese influence over the 'String of Pearls' has increased with the collapse of the Soviet Union, and China is asserting influence over the South China Sea, the East China Sea, and the Indian Ocean. In the international economic relations viewed in this manner, China seeks to establish itself as a regional hegemon, as well as a key player in international geostrategic and geoeconomic relations. The South China Sea represents – and will remain – a central point of disputes between many countries. China does not have open access to the Pacific, and therefore seeks to achieve all projections of its economic, political and military power through the South China Sea. Through the Belt and Road Initiative, China is realizing its ambitions for long-term dominance in light of commercial interests, military influence, and the expansion of soft power. The South China Sea, ASEAN, RCEP, IPEF, SCO, and NOC represent China's efforts to improve bilateral relations with other major powers (of which it has already been successful with regard to with Russia). By doing so, China is strengthening its international reputation, although India, Japan and Australia continue to rely on the American security apparatus and maintain a strong trade-related gravitational pull with the United States.

Still, QUAD remains an alliance with several clear objectives, namely those of countering China's expansion in the region and its ambitions,

establishing relations with ASEAN regarding security and institutional stability, and building regional cooperation with other countries surrounding the South China Sea through open dialogue and the concept Middle Power countries. In this context, QUAD represents an attempt to balance China's growing influence in the Indo-Pacific through a process of cooperation and joint action among member states based on shared values and interests. Although QUAD has emerged as a significant factor in the region's security framework, it cannot provide a comprehensive solution. In this sense, it advocates for free navigation and maintenance of maritime routes, as well as trade without coercion. Alongside this, member countries cooperate – albeit not necessarily exclusively – with one another. In this sense, it does not affect the transformation of the international economy in the Indo-Pacific, because this is predominantly affected by China and America. QUAD does not establish preferential arrangements, but indirectly affects trade through policy coordination and strategic trade guidance and customs policy.

In such circumstances, the solution to the problem should be sought by MNC leaders and policymakers within a functional market economy (reconfiguring the nature of economic activities), state capitalism, and selective internationalism. Future research related to QUAD and the Indo-Pacific region should focus on the above-mentioned topics and empirical findings and econometric models.

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***Dr. sc. Marijana Maksimović***

Viša znanstvena suradnica  
Institut za društvene znanosti, Beograd, Srbija  
Centar za ekonomska istraživanja  
E-mail: mmaksimovic@idn.org.rs  
Orcid: <https://orcid.org/0000-0002-6420-8869>

***Đurđica Stanković***

Istraživačka suradnica / Doktorandica  
Institut za društvene znanosti, Beograd, Srbija  
Centar za politička istraživanja i javno mnijenje  
E-mail: djstankovic@idn.org.rs  
Orcid: <https://orcid.org/0000-0001-9708-3276>

## **GEOEKONOMSKA FRAGMENTACIJA I KVADRILATERALNI SIGURNOSNI DIJALOG: DA LI JE DOŠLO DO PROMJENE ODNOSA U INDO- PACIFIČKOJ REGIJI**

***Sažetak***

*Analizom geoekonomskih promjena moguće je uočiti proces geoekonomske fragmentacije. Velike sile, ponajprije Sjedinjene Američke Države, Kina, Rusija i Indija, nastoje osigurati dominantan položaj na međunarodnom tržištu, što pridonosi jačanju multipolarnog poretka. Cilj rada jest prikazati promjene u međunarodnim gospodarskim odnosima i mrežama te istaknuti važnost QUAD-a (Kvadrilateralnog sigurnosnog dijaloga). Za analizu uloge Kine u indo-pacifičkoj regiji primijenjena je metoda analize, dok je komparativna metoda korištena za usporedbu QUAD-a s drugim regionalnim inicijativama, uključujući ASEAN, RCEP i IPEF. Rezultati istraživanja pokazuju da je QUAD sigurnosni okvir koji je pridonio jačanju trgovinske suradnje među svojim članicama. U skladu s konceptom srednjih sila, nastoji utjecati na ravnotežu snaga u indo-pacifičkoj regiji, dok preraspodjela trgovine ovisi o razvoju drugih inicijativa i njihovim carinskim politikama.*

***Ključne riječi: geoekonomija, fragmentacija, QUAD, Kina, Južno kinesko more.***

***JEL klasifikacija: F13, F51, F52, O52, F02.***