

# The New Geopolitics of Southeast Asia



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➤ The New  
Geopolitics of  
Southeast Asia

# ➤ Executive Summary

Nicholas Kitchen, Editor, IDEAS Reports

Southeast Asia has long been a crucially important region in world politics. The Cold War may have begun and ended in Europe, but it was waged most fiercely in Southeast Asia. As what one senior American official described as the United States' 'Middle East detour' comes to an end, there is a renewed recognition globally that developments in Asia will determine the landscape of international politics over the coming decades.

The source of that certainty, of course, is the unprecedented economic rise of China, which is likely to become the world's largest economy in the next twenty years in a world where interdependence increasingly sees imperatives of geoeconomics trump issues of geopolitics. China has made immense progress over the last thirty years in forging new economic links with a region that it was previously estranged from. In its support for the region during the 1997-8 economic crisis and in its substantive cooperation with ASEAN, China has convinced regional states of its benign economic goals. Nonetheless, in Southeast Asia the 'great game' of geopolitics is alive and well, even resurgent. Territorial disputes in the South China Sea pit regional states against an intransigent Beijing, even as they become increasingly economically dependent on China. The much-vaunted American 'pivot' to the region – Washington's effort to 'rebalance' its foreign policy to focus on the preeminent strategic challenge posed by China's rise – allows regional states to hedge against China's more opaque intentions. At the same time, America's return to the region it left in helicopters from the roof of its embassy in Saigon, provokes suspicions of its deeper purpose, not least in Beijing.

In all this, Southeast Asian states risk becoming pawns in a geopolitical clash between the two extra-regional superpowers. This report analyses how the states in the region are responding to the challenge posed by the strategic interests of the US and China in their geography and economy. The contributors here find that most take a more benign view of Washington's intentions than they do Beijing's. Most regional states, too, see opportunity in being the object of the superpowers' interest. Yet there is an inherent danger in these countries wanting to have their cake and eat it too, in that the desire for bilateral gains with the superpowers may carry the cost of sacrificing wider regional interests. Already, ASEAN unity has cracked under the pressure exerted by the new geopolitics of extra-regional contestation, as for the first time in the organisation's history, ASEAN foreign ministers failed to agree a joint communique following their Phnom Penh meeting earlier this year.

To take advantage of the opportunities presented by China's rise and the United States' pivot, Southeast Asian states need to stand together in the geopolitical contest currently taking place in the region. This is no easy task: regional states are caught in what game theory would view as a classic 'prisoners' dilemma' that will require a deep degree of trust to escape. Yet it is only by avoiding the short-term gains of bilateralism and renewing regional multilateral structures that Southeast Asian states will be able to avoid being ultimately subsumed by the clashing superpowers.

ASEAN represents a market of over half a billion people, with a combined GDP growth currently double the global average. Yet its consensual approach to fostering regional economic integration leaves it ill-equipped to lead in the task of forging a regional strategy. ASEAN therefore requires reform and renewal to enable it serve as a third pole in the new geopolitics of Southeast Asia, with the capacity and authority to mitigate the strategic contest between China and the US. Failure to do so will mean surrendering the future of the region to the geopolitical interests of extra-regional powers. The alternative is for regional member states themselves to empower ASEAN to represent their collective strategic interests, and for Southeast Asia to forge a Southeast Asian future. ■

## ➤ The Clash

# ➤ Indispensable Nation? The United States in East Asia

Michael Cox

**A**t the end of World War II the United States faced three historic tasks: to recreate the conditions that would over time lead to the reconstitution of an open world economic system; to limit, and where possible, defeat the ambitions of those who after 1945 were pressing to push the world in a radically different direction to that favoured by America and its market allies; and finally, to incorporate old enemy states like Germany and Japan into an American-led international order.

In order to achieve these goals the United States possessed at least two assets: a confident world view born out of success in a war that left it with massive global reach and a vast amount of power. That said, the challenges it confronted were enormous – nowhere more so than in Asia. Here a brutal war had not only devastated most countries in the region; only four years after Japan's humiliating exit from the war, an authentic revolution actually occurred in arguably the most critical of all Asian countries: namely China. Whether or not the causes of communist success in China were the result of brilliant organisation, peasant discontent, the successful manipulation of nationalist sentiment or the backing of communist USSR (or a combination of all four) has long been debated by different generations of historians. Few though would dispute the hugely disturbing impact that the communist revolution in China was to have upon the wider Asian region. Nor could there be any doubt either about the implications of the Chinese communist revolution for the conduct of US foreign policy over the next three decades. Indeed, Mao Tse-Tung's particular brand of revolutionary communism not only brought the Cold War to Asia and guaranteed a permanent American presence in the region that endures to this day; it was also the root of the United States' decisions to intervene militarily on at least two occasions: first in Korea between 1950 and 1953, and then later in Vietnam, in an extended conflict that finally ended in America's most humiliating defeat. If the Cold War remained cold in other parts of the world it was anything but in Asia.

This essay traces what in global terms must be seen as one of the great transformations of the modern era: that which turned one of the most devastated and disturbed regions in the world after mid-century into one of the more stable and prosperous by century's end. The process of transition did not occur overnight. Nor did it occur without a mighty struggle between competing ideologies and rival states. But in the end, Asia – a most fiercely contested region for well over fifty years – underwent a massive change and did so, in part, because of the role played by the United States. Of course this came at a very high price in terms of lives lost, blood expended and democratic possibilities abandoned. Still, if the measure of success for any great power is the creation of an order in which its interests are guaranteed and its main rivals neutralised, then US policy in East Asia must be judged to have been successful. Nowhere was this more apparent than in Japan.

## **JAPAN, THE UNITED STATES AND THE NEW ASIAN ORDER**

As an emerging world power in the nineteenth century it was almost inevitable that the United States would quickly come to view the Pacific Ocean as an American lake. Indeed, at a very early date in its history, the United States was to pursue an expansionist westward policy that brought it into conflict with Japan by the middle of the nineteenth century and imperial China by the end. Certain in the knowledge that its own brand of muscular Christianity and robust enterprise were superior to anything on offer in Asia, Americans, like most 'normal' imperialists, viewed the nations with whom they came into contact with a mixture of contempt – the Chinese, according to one American observer were 'cold, snaky, slow, cowardly, treacherous, suspicious, deceitful people' – laced with a large dose of nineteenth century racism. The peoples of Asia offered little by way of inspiration, it seemed; thus the best one could do was either convert them to the Christian faith or teach them western ways and hope that one day, after years of careful tutelage, they would become as civilised as Americans themselves.

Ironically, the one country Americans seemed to admire most before being drawn into war with it was Japan, the only nation along the Pacific Rim that for a time, at least, looked to some in Washington as almost Anglo-Saxon in its desire to modernise its economy and state by imitating western methods. Initially a bulwark against imperial Russia (whose powerful navy Japan had defeated in 1904), later a counter to the USSR (after the revolution of 1917), and in possession of an altogether more developed material civilisation than that of decadent (and after 1911) disintegrating, China, until the early 1930s Japan seemed to be a natural partner for the United States in the Pacific.

All this was to change, though very slowly, as Japan began its conquest of Asia, beginning with its annexation of Korea in 1910 (about which the United States hardly protested at all), continuing with its invasion of Manchuria in 1931 (which again did not provoke much by way of a US response), going on with its attack on China six years later, and concluding with its devastating conquest of much of the rest of Asia in 1941, followed shortly thereafter by its attack

on the US Pacific fleet at anchor in Pearl Harbour. This 'day of infamy', as President Roosevelt was to call it, not only drew the United States into a Pacific War it had hitherto sought to avoid, but over time turned the United States into a permanent part of the Asia-Pacific strategic landscape, and later a major actor in Japan itself. Indeed, for at least seven years after the Second World War, the United State effectively governed Japan alone, and did so with a degree of cultural sensitivity and political acumen (made all the more necessary by the onset of the Cold War) that left an indelible and generally positive impression on the vast majority of Japanese.

Critical to the success of the new post-war relationship was a recognition by Japan and its ruling elite – since 1945 organised into the dominant Liberal Democratic Party – that Japan would accept its subordinate position to the United States in exchange for an American guarantee of its security. This in turn presupposed another bargain: between a United States willing – and indeed, enthusiastic – for Japan to concentrate most of its efforts on rebuilding and developing its not inconsiderable economic assets – critically dependent on ready access to the US market – in exchange for Japanese support for the United States in the larger international arena. Finally, underpinning the relationship was the understanding that while Japan might pursue certain external policies of its own, these would never be at the expense of regional order or US leadership. Japan, in effect, would be a semi-sovereign country.

No relationship remains entirely unchanged, and at times this very special relationship was to come under some strain, most notably in the 1980s, when high Japanese exports to the US began to create genuine economic disquiet in the United States. There were also a few on the Japanese right who continued to resent Japan's semi-sovereign status, and during the 1990s argued that Japan should now begin to say 'no' to its powerful patron across the Pacific. However, greater assertiveness towards the United States was not something that generally tended to recommend itself. In part, this had to do with domestic politics and the fact that the Liberal Democratic coalition that had run Japan since 1947 had no interest in

challenging an America. It also had a good deal to do with economics: the relationship had brought Japan nearly forty years of sustained growth (albeit with a blip in the 1990s), and most Japanese had no desire to upset something upon which their future prosperity continued to depend. Finally, it had more than a little to do with the region within which Japan happened to find itself. Here there remained unresolved tensions on the Korean peninsula. Post-communist Russia continued to hold on to territory that Japan regarded as its own. And as one century gave way to another, Japan faced its first serious regional challenge in the shape of China. Indeed, even with the decline of the Liberal Democratic political stranglehold on Japanese politics – and stirrings of anti-Americanism in some quarters – the rise of China and the fears this generated in Tokyo guaranteed a close relationship with the United States.

## **CHINA COMES IN FROM THE COLD**

If the foundational building block of America's post-war position in East Asia was its relationship with a one-time enemy, its greatest challenge was a nation with whom it had been closely allied until the late 1940s. However, having 'lost' China the United States came to view Mao's form of Marxism-Leninism as being especially threatening. Even as late as 1969, most Americans viewed China through a particularly hostile Cold War lens, a perspective reinforced at the time by the sheer turmoil through which China itself was then passing – the so-called Cultural Revolution – and by an increasingly desperate struggle America was waging in Vietnam against a communist enemy supported and armed by the Chinese (amongst others). To make matters worse, American conservatives, in particular, remained closely allied with the Republic of China (better known as Taiwan), whose leaders had every interest in continuing to foster distrust between policymakers in Washington and political leaders in mainland China.

The great strategic shift that initially broke the diplomatic deadlock and subsequently saw the United States opening up formal relations with Beijing has been described in great detail by both historians and students of international politics, including some of

those who were involved in this most remarkable – almost revolutionary – of diplomatic reversals. It has also given rise to a lively debate as to why it happened. Thus, according to one school of thought, the new arrangement was the product of Chinese and American recognition that their greatest enemy was less each other and more the USSR. Others have stressed America's effort to decamp as quickly as possible from Vietnam using China's diplomatic clout as at least one instrument by which to limit the damage to its own position in the region. Some have even suggested a longer term American goal of opening up China, and by so doing enticing it back into the western fold. No doubt all these factors played a role, though what now seems to have been a near inevitable and irreversible process at the time looked anything but. For instance, if Mao himself had not died in 1976, if the Chinese economy had not been so weakened by his earlier policies, or if the USSR had not acted with such ineptitude in the late 1970s with its invasion of Afghanistan, then it is just possible that the rapprochement that followed may have taken much longer or may not have happened at all. But in the end it did, transforming the international system and drawing China away from the deep diplomatic freeze into it which it had been consigned since the revolution of 1949.

The US rapprochement with China, followed in turn by Beijing's adoption of far-reaching economic reforms and ready acceptance that its own modernisation required an ever closer association with the global economy, set China on a new course that over the next twenty five years would have a major impact on both China and the world. Most obviously, by abandoning the path of revolution, China helped reinforce America's temporarily weakened international position following its defeat in Vietnam in 1975. There is also a good deal of evidence to suggest that by working closely with the United States and placing more pressure on the USSR, China may have played a significant role, too, in bringing the Cold War to an end. Finally, its new alliance with the United States made possible the final defeat of Marxism as a serious political challenge to capitalism in the Third World. As the well-known American theorist Francis Fukuyama noted in 1989, the death of Marxism in the 1980s occurred for several important reasons, including its

own failure to produce efficient economies that could compete under world market conditions. However, it was the effective (if not formal) abandonment of Marxist-inspired planning in China that did as much as Gorbachev's policies in the former USSR to make the case for liberal economics.

In spite of these critical changes, the relationship between the United States and post-Maoist China was never without its problems. Most obviously, the Chinese leadership were determined to ensure that economic change was not accompanied by political reform or a loss of control by the communist party – a development that in their view had had disastrous consequences for a once formidable USSR. China was clearly prepared to walk along the capitalist road previously feared by Mao; but it was not prepared to permit Chinese citizens the luxury of human rights or the freedom to choose their own political leaders. Secondly, there remained the outstanding issue of Taiwan, once the United States' key ally in the early Cold War, and now a democracy whose very existence posed a very real problem for a Chinese leadership committed to a 'one China' policy. Finally, there was the very real long-term problem of the impact of China's speedy rise on America's position within the wider international system. Optimists could claim, and of course did, that a buoyant and dynamic Chinese economy was good for the American consumer (cheap imports), good for the American economy (as China bought up the US debt) and good for regional economic growth (critically important following the Asian financial crisis of 1998). Yet there were more than a few in the United States who remained concerned about where this new dynamism might one day lead. As one observer put it, the real issue was not whether China was rising peacefully or not, but rather what would happen after it had finally achieved its ascent? As the first decade of the twenty first century drew to an end, few Americans seemed to have a clear answer.

## **THE UNITED STATES, KOREA AND THE LEGACY OF THE COLD WAR**

If the Chinese leadership revealed a shrewd appreciation of how effectively a formally communist state could take advantage of the global economy without conceding any of its power at home, its neighbour – and formal ally – North Korea demonstrated an equally shrewd understanding of how to survive under conditions where the tide of history was moving against it following the collapse of communism in Europe. Indeed, like South Korea, the North drew some very important lessons from the collapse of one very special communist state in particular: namely East Germany. But whereas the leaders in the South drew the not unreasonable conclusion that the regime in the North was destined to change – and that the main policy goal should be to ensure that its evolution did not happen too rapidly – those in the North concluded that everything short of war had to be done to ensure that the communist state they had built at such cost since 1945 did not change at all.

The method adopted by the North was a crude but simple one: using nuclear brinkmanship as a way of extracting concessions from its various opponents – most obviously South Korea – while forcing the wider international community (including the United States) to come to terms with the North. Fearful that its own survival was now in doubt, Pyongyang – whose nuclear programme had been raising some very real concerns in Washington since the late 1980s – began to push hard, and in 1993 even threatened to withdraw from the Nuclear Non-Proliferation Treaty (NPT). Not surprisingly, this sounded a series of very loud alarm bells ringing in Washington, forcing policymakers to look at their very limited options – including the appalling (and impossible) one of conventional war. Out of this process finally emerged the decision to cut what to many at the time looked like the only deal possible: the so-called 'Framework Agreement' of 1994, a compromise solution that made a series of concessions to the North Korean regime – including delivery of large amounts of oil and aid – in exchange for a promise that they would remain party to the NPT.

Few believed the agreement was perfect. But hardly anybody could see any serious alternative, including a highly nervous South Korea, whose leaders by now were desperately keen to maintain some kind of relationship with a regime whose rhetoric they seemed to fear a good deal less than its collapse.

The adoption of what many in the United States regarded as a flawed policy forced upon them by North Korean intransigence on the one hand, and a South Korean desire to maintain some kind of relationship with the North on the other, soon came under attack within Washington. The 1994 deal, critics on the right argued, was little more than a modern day form of appeasement whose only consequence would be to preserve a regime already doomed by history. It would also allow the communists in Pyongyang to play a game of divide and diplomatic rule between the United States and its once steadfast South Korean ally. Equally serious, in the opinion of critics, it did very little to slow the North's nuclear programme down in any meaningful way. Thus the Agreement was a failure in nearly every conceivable way. Naturally, no serious policymaker wanted confrontation for its own sake, but there was a desire to find a more robust approach to the North Korean problem, one that weakened this hideous regime rather than strengthening it, and punished it for its various transgressions – only one of which was having a nuclear programme – rather than rewarding it.

The incoming George W. Bush administration did not at first seek a major review of US policy towards North Korea. This though proved almost irresistible following the attack of 9/11 and President Bush's announcement of an altogether tougher policy towards all 'rogue' regimes. Indeed, by early 2002, he was already counting North Korea as part of a wider 'axis of evil', and insisting that the policy of the United States towards it could be nothing less than regime change. Inevitably this provoked a response from the North Koreans, who once more threatened to withdraw from the Nuclear Non-Proliferation Treaty (which they did in 2003), while pushing ahead again with its stalled nuclear programme. Thus began what looked to many observers like a rather dangerous diplomatic game conducted between all the interested parties (not just the United States and North Korea); one, however, which failed to prevent the North from acting in an increasingly aggressive fashion – as exemplified in 2006, when it conducted its own missile tests and confirmed that it had, at last, exploded a small nuclear device. This deliberately planned provocation nonetheless had the intended effect of forcing its enemies back to the negotiating table, and in 2007 nuclear inspectors were once again admitted into North Korea, while Pyongyang committed itself – yet again – to the NPT. Finally, in November 2007, North and South Korea's prime ministers met for the first time in fifteen years.

North Korea thus posed many significant challenges for US foreign policy in the years following the collapse of communism in other parts of the world. If nothing else, it revealed that the end of the Cold War, whatever its wider promise, threw up as many problems as it did opportunities. What North Korea also illustrated was that critical issues such as nuclear weapons would not necessarily wither away once the Cold War came to an end. If anything, the end of the Cold War era made these problems even more difficult to solve. Finally, in attempting to deal with the policies of a failing regime on a divided Asian peninsula, the United States discovered something that many Americans seemed to have ignored in the unipolar age: that however much power one happened to possess, this alone did not solve some very real problems. Furthermore, since there was no problem more difficult to solve than North Korea, it required the United States to 'get serious' about multilateralism and recognise that one had a much greater chance of solving these problems by acting with others, rather than acting by oneself. <sup>1</sup>

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1 James Clay Moltz and C. Kenneth Quinones, 'Getting Serious about a Multilateral Approach to North Korea', *The Nonproliferation Review*, Spring 2004

## EAST ASIA: PRIMED FOR RIVALRY?

The continued division of Korea and the many challenges it posed for the United States pointed to something more general about East Asia even after the end of the Cold War: that the region continued to contain within it many serious fault lines that were not easily amenable to simple diplomatic solution. Here the contrast with Europe could not have been more pronounced. Indeed, scholars of International Relations have been much taken with the comparison, pointing out that, whereas Europe – both during and after the Cold War – managed to create some form of a ‘liberal security community’, East Asia had not. Indeed, according to at least one influential school of American thought, East Asia, far from being primed for peace after the Cold War, was instead ‘ripe’ for new rivalries. In fact, according to Aaron Friedberg, writing in an influential and much quoted article published in 1993, Europe’s very bloody past between 1914 and 1945 could easily turn into Asia’s future.<sup>2</sup> Uncertainty about the future of North Korea, unresolved tensions between China and Taiwan, Japanese suspicion of China, China’s historical dislike of Japan, the persistence of authoritarianism, and last but not least, the legacy of a very bloody history stretching back many centuries, when taken together mean that the world in general – and the United States in particular – should remain deeply concerned about East Asia’s highly uncertain future.

This pessimism (inspired as much by philosophical realism as by a deep knowledge of the region itself) has over the past few years given way to an altogether less bleak assessment by American analysts and policymakers. Few believe that East Asia will be without its fair share of difficulties going into the twenty first century. That said, there is probably more to look forward to than dread.

First, the region has turned into one of the most economically dynamic in the world. Indeed, in global terms, the region now accounts for nearly 30 percent of world economic production. Nor does there seem much likelihood that it will slip backwards any time soon. On the contrary, the region overall appears to be economically ‘blessed’, not so much in terms of raw materials but in other, more intangible, but important assets including a culture of hard work – sometimes referred to as ‘Asian values’ – a plentiful supply of labour, a huge reservoir of capital, and a set of political and economic structures that allows the state to play a critical role in engineering successful economic outcomes. Nor in this lengthy list should one ignore the part played by the United States itself. Indeed, by opening its market to East Asian goods while providing the region with security on the cheap, the US has played what some would see as a very important part in generating stable growth throughout the region.

Second, though many states in the region continue to have powerful and emotionally charged memories of past conflicts, in and of themselves these are not enough to generate new conflicts in the present, especially in circumstances where regional trade and investment are rising rapidly. East Asia certainly carries more than its fair share of historical baggage (much of this deliberately exploited by political elites in search of legitimacy). The fact remains that economic pressures and material self-interest are increasingly driving countries in the region together, rather than apart. The process of East Asian economic integration may have been slow to develop (ASEAN was only formed in 1967). Nor has integration been accompanied by the formation of anything like the European Union. However, once regionalism began to take off during the 1990s, it has showed no signs of slowing down.

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<sup>2</sup> Aaron L. Friedberg, ‘Ripe for rivalry: prospects for peace in a multipolar Asia’, *International Security* (1993).

A third reason for greater optimism is Japan itself, which in spite of an apparent inability to unambiguously apologise for past misdeeds, plays a most pacific role in the region. Indeed, having adopted its famous peace constitution while renouncing force as a means of achieving its goals abroad (Japan also remains one the strongest upholders of the original Non Proliferation Treaty), it has demonstrated no interest at all in upsetting its suspicious neighbours by acting in anything other than a benign manner. Furthermore, by spreading its not inconsiderable economic power in the form of aid and large-scale investment, it has gone a very long way in fostering better international relations in the region. Even its old ideological rival – China – has been a significant beneficiary, becoming home by 2003 to over 5000 Japanese companies.

This leads us finally to the role of China itself. As we have already indicated, there are still some unanswered questions concerning China's long term position in the world. A great deal of American ink has already been spilt worrying about 'rising China' and the threat this is likely to pose to its neighbours and to the United States. Yet here again there may be more cause for optimism than pessimism, in part because China itself has openly adopted a strategy (referred to as the 'peaceful rise') that has been specifically designed to reassure other states that its economic ascent will not necessarily lead to new political or strategic problems. At the same time, China until very recently appears to have been more interested in building up its economic base at home rather than engaging in adventures abroad.

Yet the great unanswered question remains: can China continue to rise in its own region without causing fear amongst its neighbours and concern across the Pacific in Washington? Until the economic crisis of 2008 the answer to this would have almost certainly been a 'yes'. However, the last few years have seen the rise of new tensions in the region – in the South China Sea in particular – that have caused many states in East Asia to rethink their relationship with Beijing; and, in turn, look once more to strengthen their security partnership with the United States.

## **THE UNITED STATES: STILL INDISPENSABLE?**

Regional demands for a greater US presence point to America's still significant role in East Asia. Indeed, even in an era when it has become fashionable to talk of a diminished US role in the wider world, one continues to be struck by how central the United States remains in the thinking of all actors in the region. Thus China, for all its bluster, still sees the US as a vital partner. South Korea remains dependent on the US for its protection. And a host of other states in South East Asia – from Japan to Taiwan – maintain important ties with Washington that they show little inclination of wanting to give up. Nor do any other states appear willing to play the wider role that the United States plays.

At the end of the day, the position of the United States in East Asia is likely to endure for the very simple reason that many in the region have fewer doubts about its intentions than they do about many of their more immediate neighbours. East Asia may be in the process of shedding part of its bloody history, but the legacy of the past lives on to shape attitudes and beliefs in the region. More concretely, there are still a number of outstanding issues that remain unresolved and thus require an American presence to ensure they do not disturb the peace. So long as Taiwan worries about China, China resents Japan, and South Korea fears the North, there are few in the region willing to contemplate a future without the United States. If the US can be characterised as an Empire, then in East Asia it is one that remains a welcome guest at the high table of international politics. ■

# ➤ China and Southeast Asia<sup>1</sup>

Odd Arne Westad

**The most remarkable aspect of China's international development over the past thirty years has been its re-engagement with Southeast Asia. Until three decades ago China laboured under a self-imposed exile from the continent of which it is a part. In the early 1980s China had just fought a war with Vietnam, in which it lost at least 20,000 soldiers, and the other Southeast Asian states understandably viewed China with suspicion. India, along China's south-western frontier, was politically close to the Soviet Union and had regarded China as a diehard enemy since the 1962 war. It was an Asian world that seemed to have expurgated China from its midst. The central kingdom was no longer central, but distinctly peripheral to the rest of the continent.**

Now look at the situation today. A most striking change in China's foreign relations has taken place to its south. In spite of their differences over the division lines in the South China Sea, the Southeast Asian countries are today closer to China than they have been for at least a hundred years. Vietnam is a case in point.

## **NORMALISING RELATIONS**

China's most recent border war was with Vietnam, a country Maoist China had supported in its struggles for reunification against France and the United States. The 1979 war left deep scars in China. To most Chinese, its course demonstrated Vietnamese ingratitude, Soviet perfidy, and Chinese military weakness all in one. I visited the border areas not long after the war ended, and the shock was palpable. It was no secret to local people that China had lost the war, or at least not won it.

Chinese diplomatic ineptitude had brought about the brief but disastrous Sino-Vietnamese war of 1979. Throughout the late 1960s and 1970s, the Maoists had supported the radical Cambodian faction, the Khmer Rouge, especially after it took power in 1975 and introduced a Maoist-type state. When the Khmer Rouge leader Pol Pot repeatedly attacked Vietnamese territory, Beijing stuck by him because of its concerns over Hanoi's increasingly close relationship with the Soviets.

Throughout the 1980s China and Vietnam carried out a war by proxy in Cambodia, with Vietnamese troops keeping a new government in place in Phnom Pen. China continued to support the Khmer Rouge, despite the former regime's claim to lasting infamy being that it carried the only known genocide against its own population. Although China was not the only country that supported directly or indirectly the Khmer Rouge remnants fighting from the jungles of western Cambodia after the Vietnamese forces had thrown them out of the capital in 1979, it was the only one that kept a close political relationship with Pol Pot's group, supplying considerable amounts of weapons and funds to the Khmer Rouge both before and after 1979. Kaing Guek Eav, or Duch, who went on trial in 2009 for torturing and murdering 14,000 people in Tuol Sleng prison during Khmer Rouge rule, spent a year in China in the mid-1980s. Pol Pot himself spent two years there, ostensibly for medical treatment.

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<sup>1</sup> The text is amended from Odd Arne Westad, *Restless Empire: China and the World since 1750*, published by Basic Books earlier this year.

Vietnam withdrew from Cambodia in 1989, as the Cold War was coming to a close, but the terror of the Khmer Rouge continued up to the movement's self-destruction in 1997, when Pol Pot killed his second-in-command and then either died or was killed himself. In the meantime, Cambodia could begin its slow journey back from the nightmare it had experienced.

Nevertheless, the end of the Cold War had a deep impact on the Sino-Vietnamese relationship. With the Soviet collapse and with the war in Cambodia won by the Vietnamese (although at a terrible cost), both Hanoi and Beijing were eager to find a *modus vivendi*. As China's economy expanded, the Vietnamese Communist leaders became convinced that Vietnam had to reform its own economic sector. By the early 2000s, much inspired by the Chinese example, Hanoi had transformed its sluggish planned economy in a market-led expansion that in relative terms in Asia was second only to that of its northern neighbour. But the worries the Vietnamese leaders had over what they saw as Chinese attempts at controlling their country did not abate, and they were wary of Chinese investment, including that by returning Sino-Vietnamese who had fled during the war. Even so, China has become Vietnam's largest trading partner, and all forms of economic exchanges are increasing rapidly.

Despite good economic links and decent overall bilateral relations, some of the Sino-Vietnamese tension that we have seen through history continues today. Hanoi is particularly concerned over China's territorial claims in the South China Sea. This is a conflict that is threatening to overshadow much of China's relations with its neighbours to the south. But for Vietnam, having fought a recent war with China, these claims have a direct security relevance as well as economic implications. If Vietnam accepted the Chinese position, even in part, then almost all of its coast would be alongside waters controlled by the Chinese navy. It would also, many in Hanoi believe, be left out of the exploration of rich natural resources under the seabed and rich fisheries in the sea above. Having joined the Association of Southeast Asian Nations in 1995 and dramatically improved its relations with the United States, Australia, and Japan, Vietnam is trying to multilateralise the issue,

in order to balance China's growing power. China, on its side, is worried that Vietnam is spurning its offers of friendship and cooperation and that the country might become a cornerstone in a US-led containment policy toward China.

China has come a long way in normalising its relations with what is probably, in the long term, its most important neighbour in the region. But issues from history stand in the way of a full partnership. Still led by two communist parties, the two countries go through frequent spats over historical issues. Both sets of leaders insist that the other should censor nationalist sentiments on Internet sites or blogs. At the heart of the matter is the view, never completely forgotten in Beijing or Hanoi, that China is the central state in the region, and therefore expects, or demands, subservience by others. The Sino-Vietnamese agreement on the exact land borders between the two countries, signed in 1999, took ten years to implement amid accusations that both sides were moving century-old border markers in the dead of the night to gain advantage. It will not be easy for the two to achieve a balanced relationship.

## **FORGING LINKS**

The foreign policy that China's late leader Deng Xiaoping formed focused on forging closer links with Southeast Asia. The region is full of Chinese migrants who have done well as well as companies and individuals who could contribute to China's modernisation through trade and investment. Deng thought their involvement in the PRC would be less politically problematic than that of Americans, Japanese, and Koreans. The problem Deng's China faced was that most Southeast Asian states had leaders who saw China as a threat. They feared the political influence of the Chinese minorities in their own countries, and they resented the PRC because for almost a generation it had sponsored communist parties opposed to their governments. In countries like Malaysia, Thailand, Burma, and the Philippines, China had supplied communist-led guerrillas with money, weapons, and training to carry on civil wars. It was not an ideal starting point for opening up relations with the existing regimes.

In more ways than one, China got very lucky in its attempts to reach out to old elites in Southeast Asia. It could benefit from contacts with the Huaqiao, the Southeast Asian Chinese. Some of these connections had not even been broken during the Cultural Revolution. China could also build on the general assumption among the wealthy in the region that China would be a gigantic market for Southeast Asian goods if they could get in before other and more powerful foreigners were able to establish themselves there. From the early 1980s on, very much driven by the Chinese diaspora, Southeast Asian companies became a significant presence in China. Some of them, such as Thailand's Charoen Pokphand (Zheng Dai in Chinese), are now among the largest foreign investors there. The Vietnamese overthrow of the Pol Pot regime in Cambodia in 1979 also helped China in this regard. The PRC could stand as a *de facto* ally of the conservative Southeast Asian regimes against what they feared would be Vietnamese and Soviet attempts at controlling the whole region. Singapore's anti-communist leader, Lee Kuan Yew, told Western visitors that 'if the Chinese had not punished Vietnam, all of Southeast Asia would have been open to Soviet influence. Now it has gained 10 to 15 years. The Thai premier, for instance, is a new and relaxed man after the Chinese punitive expedition.' China's attempts at 'teaching Hanoi a lesson' may have been a disaster from a Chinese military perspective, but the stunned praise it brought Beijing from countries further south gave Deng time to quietly shelve his country's support for communist insurgencies outside its own borders.

As a Chinese-majority state and the most dynamic economy in Southeast Asia, Singapore has played a particularly important role for China. Deng Xiaoping visited there in 1978, in his first foreign visit after having retaken the reins of power in Beijing. Deng, the proponent of 'muscular growth' as he called it, was most impressed with what he saw. Deng had last visited Singapore in 1920, when it was a colonial backwater where the Chinese existed to do the work for British authorities. By the late 1970s Singapore was a powerhouse. It was in most respects everything Deng wanted China to become. After returning to Beijing, Deng stressed the need to learn from Singapore's social order and stability, from its economic versatility, and from the role the government had in promoting and

steering growth. For three generations of Chinese Communists, Singapore had been everything there was reason to hate: capitalism, class oppression, and closeness to the United States. In the 1980s and 1990s it became an object of emulation, especially as social and political unrest in 1989 threatened to derail Deng's plans. It also became an economic partner. Singapore is now the fifth largest investor in China and a primary conduit for the import of technology, including forms of technology that China finds it difficult to obtain elsewhere.

Lee Kuan Yew, the Singaporean leader, taught the new Chinese leadership much about the region he operated in. By the 1990s he stressed the importance of the regional organisation, ASEAN. Originally set up in 1967 as a framework for cooperation among anti-communist governments, ASEAN soon took on a much broader significance in terms of regional integration. After the Cold War it began a set of ambitious programs for deepening cooperation among member states. And it added new members: Vietnam in 1995, Burma and Laos in 1997, and Cambodia in 1999. Today's ASEAN states, which together have almost 600 million people in them, are aiming for an economic community not unlike the European Union.

For China the emergence of ASEAN was both a threat and an opportunity. Lee and other Southeast Asian leaders were at first told that China preferred to deal with individual states, not regional organisations. Then, as it became clear that ASEAN would not accept a divide-and-rule approach and that the organisation was an increasingly integrated force for regional stability, the Chinese government changed tack. Since the late 1990s, cooperation between China and ASEAN has gone from strength to strength, with real practical progress underlying the often fuzzy language about Asian values and common heritage. On economic issues, the big northern neighbour has come to be seen more as a partner than a threat through a number of new formal and informal mechanisms. China's support for regional currencies during the economic crisis in 1997-1998 convinced even those who had been critical of Chinese policies in the past that Beijing now had no interest in economic dislocation to its south. An ASEAN-China Free Trade Area came into force in 2010, but there are still difficulties in the trade relationship that need to be sorted out.

## SECURITY PERCEPTIONS

As we have seen in the case of Vietnam, now a key member of ASEAN, institutional cooperation does not always translate into security perceptions. If one speaks with leaders from the Southeast Asia region, the overarching problem of living next to a giant is always present, in all its facets. In broad outline, the relationship is not unlike the one between the United States and Latin America. But China's southern neighbours are, relatively speaking, far more powerful than those of the United States, not least because they are better organised. Uncertainties over who will be in a position to develop the resources that border the Southeast Asian region create mutual suspicions and potential conflict. ASEAN countries are for instance worried about Chinese links with Myanmar, a resource-rich member state that is, despite the recent opening-up, still run by a particularly incompetent military dictatorship. The regional organisation has been pushing for reform in Myanmar, while China has seemed happy with status quo.

But first and foremost the main ASEAN members are concerned over Beijing's claims to most of the small islands within the South China Sea. This vast maritime area holds immense riches – oil, gas, and mineral ores – and both the ASEAN countries and China want to develop it. These waters also contain the world's busiest commercial sea lanes. China and Vietnam have already clashed over ownership of some of the islets, with China occupying nine of the Spratly Islands, over which Vietnam also claims sovereignty. Now other ASEAN states are getting increasingly concerned about China's motives and its actions. Chinese maps show Scarborough Shoal, about 120 miles from Subic Bay in the Philippines, as Chinese territory, and claim reefs as far south as thirty miles off the coast of Borneo, all in the name of 'historical rights'. From 2010 some ASEAN members have leaned heavily toward internationalising the issue, seeking support from the United States and other powers, such as India. All such attempts in the past have met with a stern reaction from Beijing, which has now begun speaking of the South China Sea as a Chinese 'core interest'.

There is obviously much that still can go wrong in the Sino-ASEAN relationship, in spite of a hopeful beginning. Within ASEAN, the biggest economy and the most powerful military are both Indonesian. With a rapidly growing population of close to 250 million people, Indonesia has now become the key power in the region, and its relationship with China has not always been easy. The CCP had supported the Indonesian Communist Party, which was crushed in a military crackdown in 1965. In the massacres that followed the military takeover, Chinese-Indonesian communities were targeted and thousands of innocent people killed. The Indonesian constitution contained anti-Chinese restrictions all the way up to the reintroduction of democracy in 1998. People of Chinese ancestry are still underrepresented in politics and military affairs but massively overrepresented in business; it is often said that Chinese-Indonesians control up to two-thirds of the Indonesian private economy. There is much uncertainty in the relationship between Beijing and Jakarta, although the two are working together within an ASEAN framework.

The contradictory form of the Sino-Indonesian relationship came to the fore in 1998, a year many Indonesians celebrate as the beginning of their country's democracy. As the strongly anti-communist Suharto dictatorship ended, Indonesians of Chinese descent were attacked in many parts of the country by mobs that accused them of amassing illicit wealth during the dictator's rule. For older Chinese, who had had relatives killed thirty years before by the dictator's forces on suspicion of being communists, the wanton murders and rapes in 1998 were signs that if you were of Chinese descent in Indonesia you were in constant danger whatever you did. One report described the ordeal of a Sino-Indonesian family who ran a little corner store in a suburb of Jakarta: 'Among the looters were people known to the family, including the local meatball seller, who made off with a television set. Others stole the photo-copier from the store and then later tried to sell it back to the family for a high price. A year after the attack the family were operating their store again, supplying basic goods to the neighbourhood.' Unlike after 1965, the PRC government's reaction was measured. It stressed that Sino-Indonesians were, above all, Indonesian citizens who should be protected by their own government.

Student protests in Beijing were quelled by the authorities, who wanted a good relationship with the post-Suharto regime in Indonesia.

China's fear today is that Indonesia, and Southeast Asian states more generally, will increase their cooperation with the United States as a result of Beijing's economic rise and more powerful international position. Military and diplomatic planners whom I have spoken with see such a development as quite likely. The United States had a close strategic relationship with Indonesia during the Suharto dictatorship from 1965 to 1998, and most of the Indonesian leaders are oriented toward the United States culturally and educationally. They are also aware of the positive impact in the country of President Barack Obama having spent four years there as a child. Beijing is trying to use its new economic muscle to be seen by Jakarta as an equal of the United States. Right before Obama's first visit to Jakarta as president in 2010, China offered investments of \$6.6 billion in desperately needed infrastructure improvements. But such forms of economic cooperation are just turning the existing situation around very slowly, especially as the United States is rebalancing to focus on the region with the ending of its wars in Iraq and Afghanistan.

The South China Sea issue is less of an immediate concern to Indonesia than to some of the other ASEAN members, but Jakarta has made a point of full ASEAN solidarity on the matter. Unfortunately for both countries, especially in the longer run, China's ocean claims overlap with Indonesia's economic zone in one area, which happens to be part of the world's largest gas field off the Natuna Islands. The Indonesian government has reacted very negatively to what it sees as Chinese attempts at intimidating its neighbours. When some ASEAN states tried to raise Law of the Sea concerns at the ASEAN regional forum meeting in 2010, the Chinese foreign minister reminded his counterparts very sharply about the difference in size between China and its southern neighbours. The Indonesians will not have it; a former top foreign policy maker told me afterwards that 'Indonesia is a serious country that will not be bullied'.

Not surprising, then, that the Indonesian armed forces in 2009 carried out a joint exercise with the United States, code-named Garuda Shield. They, and other ASEAN militaries, stress that they believe a US presence in the region is needed in order to balance the growing power of China. The Indonesians have also sought closer relations with India, China's rival further west. China's response has been halting. Most Chinese leaders believe that a gradual and measured approach to Southeast Asia, combined with China's rising economic power, will prevent great power rivalries in the region. They tend to stress China's historical ties to the area, and their peaceful development over a long period of time. But Beijing is in no mood to barter away what it sees as Chinese rights in return for a stable relationship. In 2010 China held its biggest naval exercises ever in the South China Sea, with ships from all three main Chinese fleets participating. For the first time since the fifteenth century, China has a predominant naval presence in the southern seas. ■

# ➤ Southeast Asia Between China and the United States

Munir Majid

**The new geopolitics of Southeast Asia is dominated by the emerging regional rivalry between China and the United States. The contest has been highlighted by incidents in the South China Sea where the US has made clear its interest in ensuring freedom of navigation and in the peaceful settlement of China's disputes with smaller regional states. Some in the Pentagon project an 'AirSea Battle' in the region similar to the 'AirLand Battle' planned during the Cold War – a scenario given credence by US Secretary of Defence Leon Panetta's announcement at the Shangri-La Dialogue in June 2012 of an American naval force 'rebalancing' in the Pacific from the current 50 percent to 60 percent by 2020. More widely, historian Arne Westad describes Southeast Asia as 'The decisive territory, on the future of which hangs the outcome of a great contest for influence in Asia.'<sup>1</sup> Indeed, the rivalry extends well beyond maritime issues, and Southeast Asian states have been drawn into this contest, whether or not they have disputes with China in the South China Sea. What led to this strategic turn, how the maritime disputes might develop, and the diplomacy required to negotiate the tensions and determine the future of regional institutions, are matters of some complexity. Close proximity to events and issues can lead to premature conclusions. There has, therefore, to be a certain level of circumspection in any commentary on the new geopolitics of the region. Nevertheless, any analysis of this situation must project future trends and outcomes, even as contemporary events are weighed against their long-term strategic significance.**

## STRATEGIC CONTEST

Not all is new in the 'new' geopolitics of Southeast Asia. What is new is the priority the United States has declared it is now giving to the region. This follows a period of relative neglect since the end of the Vietnam War, and the more recent American focus on Afghanistan and Iraq, even if there was an engagement with Southeast Asia in the aftermath of 9/11. Since the United States' departure from Indochina, and especially in the last two decades, China's economic rise has seen the depth and breadth of its influence in Southeast Asia, and indeed the world, increase. At the same time, American security and military preoccupations in the Middle East and Central Asia, as well as the financial and economic crisis since 2008, have caused its regional role to diminish. A new strategic reality has therefore been evolving in Southeast Asia, driven by China's economic rise against a background of the US' foreign policy adventurism and its relative economic decline.

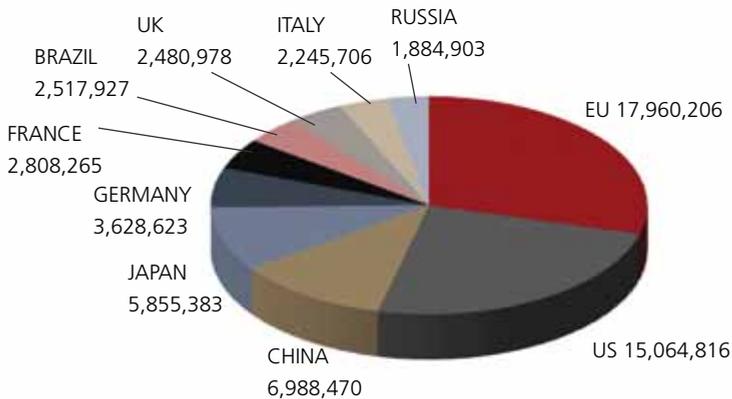
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<sup>1</sup> Foreword in Munir Majid, *9/11 and the Attack on Muslims*, Kuala Lumpur, MPH Publishing, 2012. For a useful American perspective on the rivalry see Aaron L Friedberg, *A Contest for Supremacy*, New York, W.W. Norton, 2011. Arne Westad has recently published a magisterial work on the modern foundations of China's view of the outside world: see Arne Westad, *Restless Empire, China and the World since 1750*, New York, Basic Books, 2012.

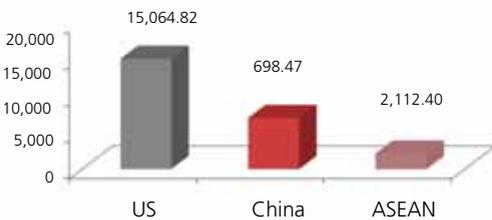
The Obama administration has decided to attempt to arrest this regional strategic drift with a strategic 'pivot' towards the Asia-Pacific. The US protests it has always been an Asia-Pacific power, but it had been a while since it acted like it, at least insofar as Southeast Asia was concerned.<sup>2</sup> Now it has done so through clear strategic policy pronouncement and diplomatic manoeuvring. There is a new contest for influence in Southeast Asia.

The pivot is taking place in the context of deepening Chinese regional relationships. China's economic rise and success not only won the admiration of Southeast Asian countries, but also helped Beijing establish strong trade and financial ties with them. China is now the second largest economy in the world (figure 1), with economic growth of about 9-10 percent per annum since the late 1970s, even as the American share of global GDP declined since 1999. The size of the Chinese economy is expected to surpass that of the US by 2030. As of 2005, China had lifted over 600 million people out of a dollar-a-day poverty. It is the world's largest exporter and will probably be the biggest importer as well in the not too distant future. It is the world's largest holder of foreign exchange reserves. It has become the world's biggest creditor, lending more to the developing world than the World Bank. China's economic and financial might has particularly been felt in Southeast Asia as that of the United States receded, especially since the Asian financial crisis of 1997-98, when with the United States conspicuous by its inaction, China's refusal to devalue the renminbi (RMB) was of great help to struggling Southeast Asian economies. Beijing's economic diplomacy since then has been deft and effective. The China-ASEAN dialogue process had started with the Senior Officials Consultation meeting in

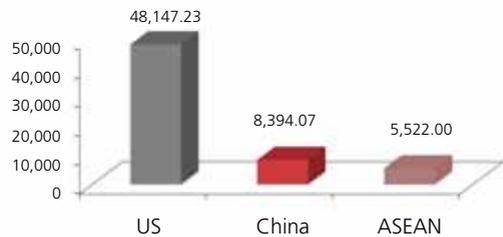
**Figure 1: GDP Current Prices (in billions of US dollars) 2011**



**GDP Current Prices (2011)  
(billion dollars)**



**GDP based on PPP per capita GDP  
(units current international dollars)**



Source: World Economic Outlook Database, IMF

<sup>2</sup> US Secretary of State Hillary Clinton remarked during a visit to Malaysia in November 2010: 'Since day one of the administration, Obama and I have made it a priority to re-engage with Asia-Pacific as we know that much of the history of the 21<sup>st</sup> century will be written in this region because it is the centre of so many of the world's biggest opportunities and challenges.' Secretary Clinton fully developed the point, America's Pacific Century in *Foreign Policy*, November 2011.

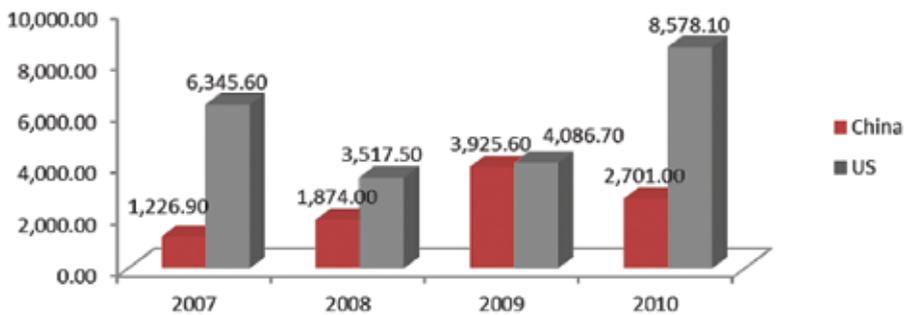
1995, and in the wake of Asian financial crisis, China, along with Japan and South Korea, accepted ASEAN's invitation to attend an informal summit in Kuala Lumpur in 1997, which evolved into ASEAN+3 (APT). By October 2003, China had acceded to ASEAN's Treaty of Amity and Cooperation (TAC). The China-ASEAN Free Trade Area (CAFTA) came into effect in January 2010.

Regional economic integration in East Asia as a whole has proceeded apace. Intra-regional exports have been growing in the past decade from 34 percent in 2002 to over 50 percent in the ASEAN+3 region (figure 2). The rest of the region is riding on China,

even if the final products are still destined for the huge consumer markets of the US and Europe. Since 1993 China has been a net importer in regional trade. About 50 percent of China's component imports are from Japan, Taiwan and South Korea. In terms of FDI, Japan has over 30,000 companies investing over \$60 billion in China; South Korea also over 30,000 investing more than \$35 billion; Singapore is involved in over 16,000 projects with investments of over \$31 billion. Even Taiwan, with whom China has a non-negotiable 'core interest' problem, has over \$110 billion invested on the mainland, and just in August this year signed an investor-protection agreement

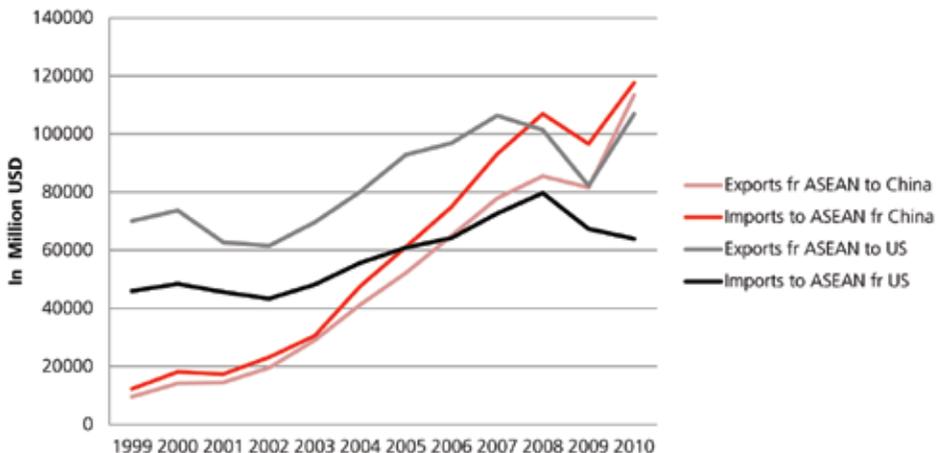
**Figure 2:**

**China and US Direct investment in ASEAN (US million dollars) 2007-2010**



Source: ASEAN Statistics Database

**Direction of ASEAN Imports and Exports (China vs US)**



Source: ASEAN Statistics Yearbook, China Daily, Office of the United States Trade Representative

with Beijing (Taiwanese firms are responsible for 60 percent of China's hardware exports). Furthermore, multinational companies account for 60 percent of China's total trade, and 80 percent of the value of their exports is imported. Indeed, about 60 percent of all imports into the US emanate from US subsidiaries or sub-contracted firms operating in China. What these figures show is that it is not simply 'Chinese' exports that determine the geoeconomic terrain of the region. Instead, China is at the centre of regional and international division of labour.

Moreover, all the surpluses are recycled. Paul Krugman calls China a 'T-bills republic', such is its integration in the global and regional economy. During the Western financial and economic crisis of 2008, China pulled its weight with a RMB4 trillion (\$586 billion) stimulus package. East and Southeast Asian countries were better able to contend with the 2008 crisis not only because of the improvements they had made in corporate governance, foreign exchange reserves, bank capitalisation and regulation since the Asian crisis of 1997-98, but also because of China's emergence as a key driver of economic growth.<sup>3</sup> Following the Asian crisis, China had been instrumental in the setting up of the Chiang Mai Initiative Multilateralisation (CMIM) to support economies in the ASEAN+3 region facing short-term liquidity problems with a pool of foreign exchange reserves presently standing at \$240 billion. A regional office based in Singapore has been set up to conduct the kind of macro-economic surveillance the IMF does, with the CMIM standing ready to give financial support of up to two years based on agreed covenants. China's economic rise, while enabled by the US-led open global financial and economic system, has also been achieved by doing the right economic and financial things together with regional states. As a result, seven Asian economies have been identified as the future engines of global growth, with the growth in the emerging middle class being a key driver (figure 3).

**Figure 3: Engines and Drivers of Growth**

**Engines of Growth (Asia-7 Economies)**

Between 2010 and 2050, they will account for 87 percent of total GDP growth in Asia and almost 55 percent of global GDP growth. They will thus be the engines of not only Asia's economy but also the global economy.

| Country           | 2010<br>GDP<br>(MER<br>trillion) | 2050<br>GDP<br>(MER<br>trillion) |
|-------------------|----------------------------------|----------------------------------|
| PRC               | 5.7                              | 62.9                             |
| India             | 1.4                              | 40.4                             |
| Indonesia         | 0.7                              | 11.4                             |
| Japan             | 5.4                              | 8.2                              |
| Republic of Korea | 1.0                              | 3.7                              |
| Thailand          | 0.3                              | 3.2                              |
| Malaysia          | 0.2                              | 2.6                              |
| Total Asia -7     | 14.8                             | 132.4                            |

Source: IMF World Economic Outlook, Oct 2010; Centennial Group Projections 2011

**The Emerging Middle Class is a Key Driver**

The middle class is the source of savings and entrepreneurship that drives new products and processes. Growth comes mainly from new products and most growth happens when new products are targeted at the middle class. Consumption by the global middle class accounts for one-third of total global demand.

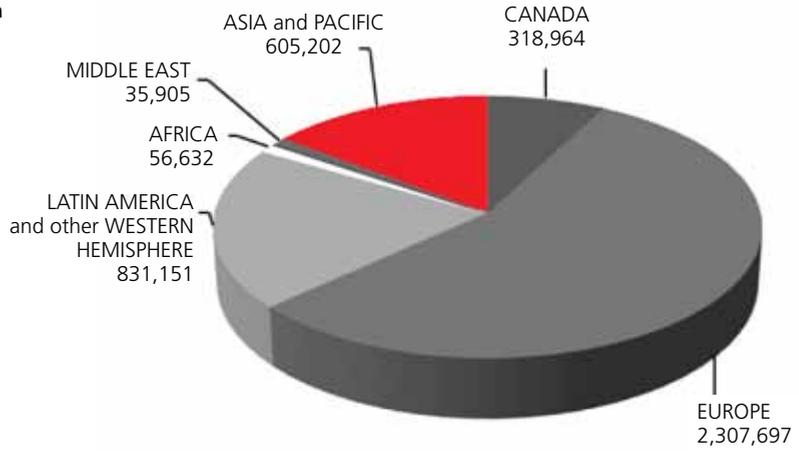
| Country           | 2030         |             |                      | 2050         |             |                      |
|-------------------|--------------|-------------|----------------------|--------------|-------------|----------------------|
|                   | Middle class | Upper class | GDP per capita (PPP) | Middle class | Upper class | GDP per capita (PPP) |
| PRC               | 1,120        | 40          | 21,100               | 1240         | 190         | 47,800               |
| India             | 1,190        | 15          | 13,200               | 1400         | 210         | 41,700               |
| Indonesia         | 220          | 5           | 13,500               | 250          | 40          | 37,400               |
| Japan             | 100          | 20          | 48,900               | 60           | 40          | 66,700               |
| Republic of Korea | 30           | 20          | 60,200               | 10           | 35          | 107,600              |
| Vietnam           | 80           | 2           | 11,900               | 100          | 15          | 33,800               |
| World             | 4,990        | 580         | 19,400               | 5,900        | 1,500       | 36,600               |
| US                | 185          | 190         | 65,500               | 120          | 290         | 98,600               |
| Germany           | 50           | 30          | 51,300               | 2            | 60          | 77,800               |

Source: Centennial Group Projections 2011

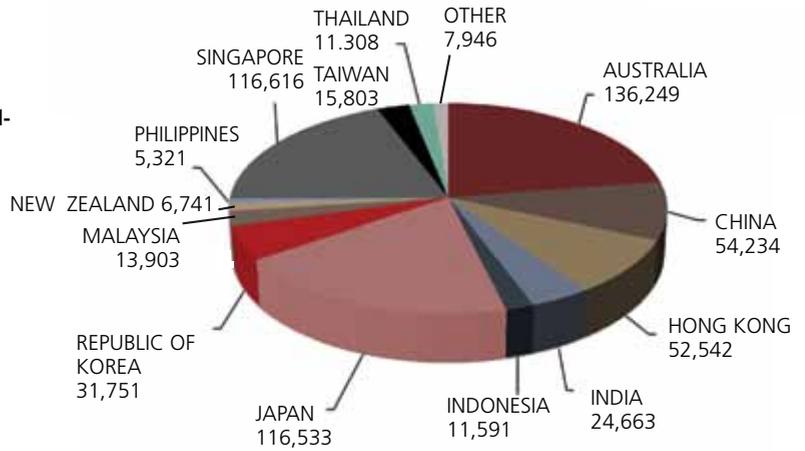
<sup>3</sup> Morgan Stanley report, 6 November 2008.

**Figure 4: Southeast Asia's Relative Position in US Investments**

**US Direct Investment  
Position Abroad on a  
Historical-Cost Basis  
(in US millions of  
dollars), 2011**

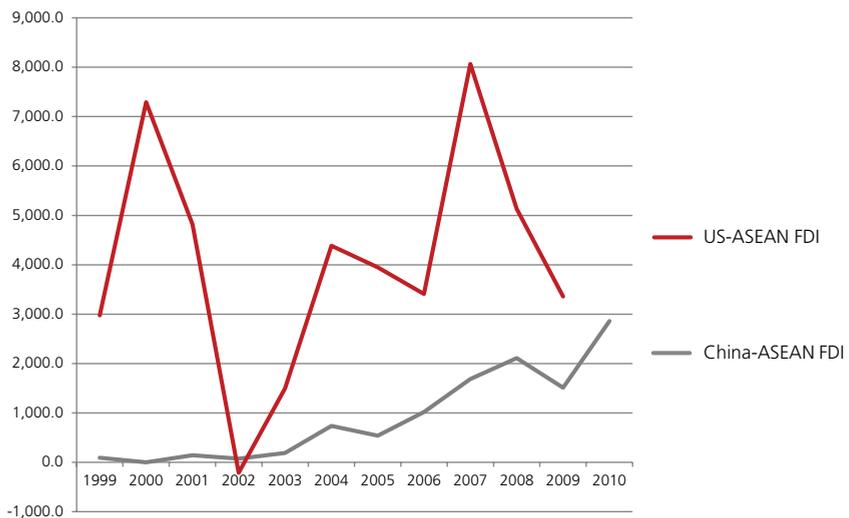


**US Direct Investment  
Position Abroad in Asia  
and Pacific on a Historical-  
Cost Basis (in US millions  
of dollars), 2011**



Source: ASEAN Statistics Yearbook, China Daily, Office of the United States Trade Representative

**Figure 5: China vs US Foreign Direct Investment in ASEAN**



Source: ASEAN Statistics Yearbook, China Daily, Office of the United States Trade Representative

Impressive though such numbers and trends are, they only represent the foundation of a future prospect, a work-in-progress. While the story of China's and Asia's economic rise is absorbing, coming as it does at a time of relative American economic decline, it is important to avoid the temptation to treat future projections as current reality. The United States' economy is still by far the largest and most sophisticated single economy in the world. It is a substantial market for ASEAN, and US investment in the region is still substantially greater than China's (see figure 4). The United States also retains significant technological superiority, as well as structural advantages including the reserve currency role of the US dollar, that together mean that the US has greater capacity to extract itself from its economic problems than any other nation in the world.<sup>4</sup> Moreover, China's massive holdings of dollar-denominated assets are a double-edged sword, described by some as 'symmetrical' interdependence.<sup>5</sup> Finally, of course, the US has a military force without equal, ensuring American command of the global commons. In 2011 the US spent over eight times more on defence than China, its nearest competitor (see figure 5). The \$739.3 billion Pentagon budget comfortably exceeded the \$486.4 billion of the next nine powers, of whom only two could be remotely conceived as 'hostile' – China and Russia.

In the past couple of years or so, the US government has been less reticent about being seen to be promoting US trade, investment and technology in Southeast Asia. At the end of 2010 Hillary Clinton, while on an official visit to Malaysia, found time to showcase the cutting-edge technology of GE and Boeing. The US-ASEAN Business Council, which shadowed her visit, was represented at a much higher level than has usually been the case. In July 2012, the US Secretary of State spoke in Siem Reap at the end of a business promotion seminar jointly organised by the Council, the US Treasury and the Department of State. This concentrated US effort, not often seen in Southeast Asia, let alone in Cambodia, Beijing's close ally, came just after the Phnom Penh ASEAN Foreign Ministers meeting that failed to agree to a joint communique for the first time in its history because of differences over how to mention incidents in the South China Sea disputes. Apart from strong US government involvement, what stood out was a willingness to be politically agnostic in the furtherance of strategic economic interest. The next morning the US business delegation continued to Myanmar, accompanied by senior officials from the US Treasury. In these and other diplomatic endeavours, there is a desire to signal a strong economic dimension to the pivot distinct from the security and military concerns that have dominated the headlines.

However, there are shortcomings in what the US is offering. Leaving aside the administration's domestic economic and political difficulties, its proposed economic arrangements in East and Southeast Asia, in contrast to China's, are distinguished by their failure to be inclusive. The Trans-Pacific Partnership (TPP) initiative, apart from excluding China, also leaves out Cambodia, Laos and Myanmar, whilst including Vietnam and welcoming all other Southeast Asian states. Whatever the curious criteria for membership that is being applied here, it encourages regional division. The American insistence on rules-based economic integration or engagement has also slowed progress in forging free trade agreements (FTAs), for example one with Malaysia which has been stalled for some time over issues like procurement rules and freedom of investment. Although the Obama administration now appears to want to concentrate on the TPP rather than individual FTAs, the coupling of political and human rights issues with US trade and investment causes resentment and uncertainty among many regional states.

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4 See Carla Norrlof, *America's global advantage: US hegemony and international cooperation*, Cambridge University Press (2010).

5 See, for instance, Joseph S. Nye, Jr, 'China's Bad Bet Against America,' PacNet Newsletter, March 25, 2010

All this is in sharp contrast with the way in which China conducts its relations with the region without apparent precondition.<sup>6</sup> Whatever the US's domestic legal and policy predisposition, it will have to bring to the table a package of economic benefits that is not compromised by high political costs. Of course there are American technologies and corporations without equal in the world which could tip the balance, but there are also proximate companies emerging from China such as Huawei and Lenovo; just as Sony, Toyota and Samsung emerged in the past. The region has moved on from the time when American technologies and corporations were singularly dominant.

As with its economy, companies and technologies, the United States as a global political power no longer exercises sole dominion in Southeast Asia. China's economic counterweight has shifted the scales. However, the US is not waiting to be reduced to sub-primacy in the region as a result of what some have dubbed Chinese 'domination by stealth'. While singular but hugely significant events such as China's increasingly assertive approach in the South China Sea disputes may appear to have reignited US involvement in the region, there is a broader 'rebalancing' strategy to register American power and influence, and to thwart a *de facto* Chinese Monroe Doctrine over Southeast Asia.

However, the diplomacy of rebalancing faces a number of challenges. The US is not 'returning' to 'virgin' Southeast Asian territory. In recent decades the region has been transformed by a focus on economic development, and if the US wants to engage the region it has to recognise this, and rather than seek to dislodge any party instead strive to enjoy combined prosperity. Of course the region, including China, developed on the back of American markets, but this is global interdependence, from which American corporations and consumers also benefited. It is not a debt owed by anyone. The Americans understandably wish to benefit from the projected Asia-Pacific growth in the future, but participation has to be on an inclusive basis if autarchic arrangements or trade wars are not to develop which will stunt that prosperity. For a start, an inclusive TPP which includes China would show economic good faith. This would have far-reaching geoeconomic ramifications and will undercut exclusively East Asian arrangements favoured by China. Beneath the superstructure of evident strategic contest there is a deep unresolved conflict of ideas over economic and political order. When Francis Fukuyama wrote about the end of history he did not ask the East Asians.<sup>7</sup> There is a nascent East Asian, largely state-based, model of development that offers an alternative to the American neoliberal model Fukuyama prematurely proclaimed triumphant with the demise of the Soviet Union. The weaknesses of the Western model highlighted in the financial crisis of 2008 and the subsequent recession – financial market excesses, over-consumption, under-saving and massive private and public deficits – are part of the contemporary economic landscape, and for it to retain its appeal demonstrable repair to correct the damage done is needed. While the 'Chinese' model is by no means fully formed and, indeed, has serious weaknesses, the United States should not expect to just gloss over the evident shortcomings of the Washington Consensus and the economies based on it.

On the political side, while the pivot is essentially diplomatic in nature, its execution cannot be comprised purely of diplomacy. The catalyst for the pivot was a situation not only of reduced American regional influence but also of more assertive Chinese actions, especially in the South China Sea. When Hillary Clinton proclaimed at the ASEAN Regional Forum (ARF) in Hanoi in July 2010 that the US had an interest in freedom of navigation and the peaceful settlement of disputes in the South China Sea, she did so with the encouragement of regional states at the meeting, and not in a benign context. This is often noted as the first real instance of American re-engagement in the region. China was put on notice and indeed, at that meeting, indicated it did

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<sup>6</sup> Interestingly, a trilateral FTA, as well as an investment promotion agreement, will be negotiated later this year among China, Japan and South Korea (constituting altogether around 20 percent of global GDP) despite tensions with one another. Such pragmatism will make possible the third largest FTA in the world after NAFTA and the EU. With the three countries also having FTAs with ASEAN, this could reinforce an ASEAN-led East Asian multilateral structure – while, of course, the Americans would want an Asia-Pacific dimension so as not to be excluded. The three countries (including Taiwan, Hong Kong and Macao) account for 90 percent of East Asia's total GDP and over 90 percent of its foreign reserves.

<sup>7</sup> Francis Fukuyama, *The End of History and the Last Man*, London, Hamish Hamilton, 1992.

not appreciate being cornered. Whilst by the time of the East Asia Summit (EAS) meeting in Bali in November 2011, at which the US (and Russia) became members, the temperature had cooled down, there continued to be pressure on China about its actions and intentions in the South China Sea. Prime Minister Wen Jiabao handled the situation better than Foreign Minister Yang Jiechi did in Hanoi, soothingly noting comments on the disputes but repeating the Chinese mantra that they are best resolved bilaterally even if there might be regional concern, and swiftly proceeded to underline, in some detail, that the greatest challenge facing the region was economic. He referred consistently to 'East Asia' (as opposed to the Asia-Pacific), and emphasised how the region should be thinking about addressing the global economic problems facing it.

The United States, on the other hand, was more focused on political, security and military issues, and did not offer any guidance to the region on how the global economic problems could be addressed. Wen Jiabao's sub-text might well have been: the United States is the primary villain for the world's financial and economic problems, and is too busy grappling with its own to offer any leads to the region to which it has now come back. Of course, this reopens the whole argument over who is responsible for the global financial and economic crisis, a debate in which China and the region speak with one voice, emphasising the United States' mismanagement of the financial system and the unsustainable imbalances of Western economies that through public and private leverage have consumed more than they have produced for too long. Southeast Asia's conviction that economic discipline needs to be restored in the West, and in particular, that the United States' indebtedness needs to be reined in, highlights the intermingling of the economic with the political and security arguments, a feature of the regional strategic contest which the US cannot avoid and that China will always stress. Still, even from the purely political and security perspective, there will be questions asked about America's new commitment to the region, some founded, again, on economic sustainability. Many realists point to the risk of strategic over-stretch.<sup>8</sup> Even as the US's commitments in Iraq and Afghanistan end, it does not mean the pivot in the Asia-Pacific is intended to take up the slack – there is no slack at this time of austerity. And what exactly does the pivot mean in wider security terms and in respect of its application in particular situations? While the US can 'rebalance' its naval forces, for what exactly is that formidable military power intended, either as a deterrent or in conflict? From Hillary Clinton's forceful statement at the ARF in Hanoi, it would appear that the US will use naval force to ensure there is no interference with shipping and navigation on the high seas. However, despite the many incidents in the South China Sea, it has not been deemed that there has been interference requiring such intervention. In the episodes this year involving China against Vietnam and the Philippines, Manila in particular had hoped to draw in the US in the Scarborough Shoal standoff, but found that from an American perspective the incident did not amount to interference with navigation, and that the US did not regard localised incidents as attempts at settlement by forceful means. The state of flux in the South China Sea thus reflects the ambiguous finer details of the pivot, and raises the question of how seriously regional states should take the United States' commitment to project military power in support of its declared principles.

This in turn raises a deeper question of credibility and constancy of policy. While it is clear that the US intends to be actively involved in Southeast Asia once again, confirmed by its membership of the EAS in November last year, it remains to be seen how deeply and enduring that involvement will be. Naval arrangements are being introduced, revived or improved, including with the Philippines, Singapore, Thailand and Vietnam, which reflect the credibility of American presence. However, in the wake of Iraq and Afghanistan, the US's concerned but cautious approach to the Arab uprisings and its delicate handling of the Iranian nuclear issue mean that China will be watching to assess America's approach to its use of military power – as will the rest of Southeast Asia. For those regional states, the handling of the South China Sea is likely to be the critical measure. The concern is China might miscalculate if there are not clear lines of mutual understanding with the US beyond

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<sup>8</sup> For a recent illuminating discussion on the limits of contemporary American power see Dana Allin and Erik Jones, *Weary Policeman, American Power in an Age of Austerity*, Routledge for International Institute for Strategic Studies, London, 2012.

the last incident. On the other hand, while it can be expected the US will decide for itself the balance of risk and benefit from the use of military power, it must do so in a way that avoids either wishful thinking about the nature of an adversary or a self-fulfilling panic about that adversary's intentions and capabilities.<sup>9</sup>

Such detached analysis is not currently evident in the US, which exhibits a disturbing sense of suspicion and fear of China across all fronts. During a visit to Washington in May this year, I found influential Senators and think-tanks uniform in their view China could not be trusted and was getting out of hand. This constituency feels vindicated in that assessment by Beijing's claims and recent actions in the South China Sea. High officials in the State department were more circumspect, and wanted to know how the US could work better with states in the region, including in addressing the South China Sea problems. The US could make a real contribution by taking the approach that the deep seabed was the common heritage of mankind and fashioning American involvement in these issues on this basis, rather than simply repeating the mantra of freedom of the seas and peaceful settlement of disputes.<sup>10</sup> Without under-estimating its complexity or the political barriers involved, any engagement of the US along these lines could be a crucial step in winning over Southeast Asian States and, indeed, enlisting Beijing in a positive-sum game. However, the way relations between China and US are developing does not give much hope that creative engagement, especially in the strategic contest in Southeast Asia, will achieve much. Yet the animosity between American and Chinese elites will have to be addressed once the next Obama administration is in place and China's new leaders to be confirmed on 8 November find their feet.

Even then, domestic politics in both countries are not likely to allow easy accommodation. There is extreme polarisation in the US, which may also have foreign policy expression. President Obama's re-election still leaves unresolved the political paralysis in government between Congress and the White House. Whilst the President has wide-ranging prerogatives in foreign policy, the China question has deep domestic implications. A tough stance against Beijing could become an attractive trade-off for Congressional budgetary concessions, particularly if there is short-term economic benefit to be gained from that stance as well. A second term President Obama may surprise, but there will be domestic policy dues to pay, which may in the end bring out the pragmatist in him. There could be a 'tough' stance against China. In that eventuality, the pivot could become a hardball engagement in Southeast Asia, concentrated on the seas of North East and Southeast Asia. Regional states may be driven into making a choice between the US and China, something which they hope and imagine they can avoid. The impact of internal politics on China's foreign policy is also not to be underestimated. This is not only because of the purge of Bo Xilai or the coming change in the senior leadership of the Party. There is increasingly greater expression of popular views which can be channelled towards issues of foreign policy, especially where historical grievance animates nationalism, such as in the current relations with Japan. In addition, Chinese perceptions of their rise – as the second largest economy in the world on which the US depends for credit – can give rise to hubris. Internal politics, if it isn't already doing so, may therefore exert pressures on the Chinese leadership to prematurely show strength in international relations.

It is often said China prefers the clarity of Republican foreign policy to the nuance of the Democrats. This is of course an over-simplification. Henry Kissinger records Deng Xiaoping complaining of how he and President Nixon were not hindered by the savage Cultural Revolution from forging relations with China in the early 1970s, yet under George Bush snr the Tiananmen massacre became such an American bone of contention with China.<sup>11</sup> What made the difference was the impetus to seize the strategic moment – in Nixon's case the opportunity for strategic alignment with Beijing following the Sino-Soviet split. A tough stance against China could bring clarity to the hard strategic contest in Southeast Asia, and in doing so cause China's

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9 This is the 'duality' of George Kennan's wisdom, in a different context of course, quoted in Allin and Jones, *op. cit.*, pp.104-5.

10 The common heritage of mankind idea was one of the main issues that prolonged negotiations before the conclusion of the UN Convention on the Law of the Sea (UNCLOS) in 1982. It is this notion, expressed in the establishment of the International Deep Seabed Authority, which prevents the US Congress from ratifying the convention. For a passionate espousal of this idea see C.W. Jenks, *Law, Freedom and Welfare*, London, Stevens and Sons, 1963.

11 Henry Kissinger, *On China*, London, Penguin Books, 2012, p.425

peaceful rise to come off the rails. This would be bad news not just for China, but for Southeast Asia as a whole, with the region's hitherto economy-first-security-afterwards approach to international politics being sharply reversed. China's new leaders may struggle to deal with severe international and internal challenges being cast at the same time. The racy aspects of the Bo Xilai affair have been widely commented on, but the underlying and incremental loss of trust in how the country is being governed which it highlights has yet to be fully appreciated.<sup>12</sup> Combined with a slowing economy, rising unemployment and distributional issues, China's new leaders will be facing foreign policy challenges at a time of domestic distress, which does not make for stable external relations. Already, China has made some impulsive moves in the disputes in the South China Sea, and in its island disputes in northeast Asia. It has not quite thrown down the gauntlet, but conflict in the South China Sea has become the first serious test in the strategic contest between China and the US in Southeast Asia.

## **STORMY SOUTH CHINA SEA**

For much of this year hardly a day has passed without a report or commentary on issues and incidents in the South China Sea. Not since the Vietnam War has there been this level of foreign interest in Southeast Asia. Yet for regional states the disputes in the South China Sea have existed for many years, always with the hope that the disputes will not escalate into conflict, as countries in the region concentrated on economic development and cooperation, including with China, with whom four of them have maritime disputes (see figure 6). Even when there had been serious outbreaks of conflict, as in a naval battle in the Paracels between China and the then South Vietnam in 1974, or in 1988, when over 70 Vietnamese were killed in a naval battle with the Chinese in the Spratlys, there followed an attempt to carry on with peaceful regional life even as those disputes were not resolved and memories of conflict not erased. ASEAN countries and China signed the Declaration on the Conduct of Parties in the South China Sea in 2002, and the regional organisation has been working for over ten years without success on a more specific code of conduct to govern maritime activity in the disputed waters. As ASEAN worked in good faith to produce those governing documents it was hoped that the states involved would avoid misconduct; what is sometimes seen as muddling through is rather the way ASEAN has tended to work so as not to ruffle too many feathers. This ASEAN way – the slow motion effectuation of functional integration – has worked in promoting economic cooperation, even if not at the pace many would have liked, and in limiting conflict in the region in the last couple of decades or so.<sup>13</sup> But, almost suddenly, everything changed with the series of incidents in the South China Sea and premature proclamations of sovereignty, precisely the kinds of crises the muddling-through-to-functional-integration approach sought to avoid. The ASEAN approach of papering over cracks was a casualty when its Foreign Ministers met in Phnom Penh in July this year, but were unable to issue a joint communique for the first time in the organisation's 45-year history because of differences over how to word references to the South China Sea disputes and recent incidents.

What brought about this more impulsive and intransigent behaviour, both on the high seas and at the ASEAN council tables? China claims the American pivot and interference in the regional maritime disputes have encouraged claimant states to be more assertive. The two states cited – the Philippines and Vietnam – counterclaim that the Chinese vessels, both civilian and military, have become increasingly bullying at sea. The US continues to assert that it will not tolerate any interference with freedom of navigation and, whilst refusing to take sides in the disputes over rights and sovereignty of the islands, rocks and waters, to urge a peaceful settlement. Domestic constituencies, America's included, are becoming ever more agitated, as after

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<sup>12</sup> See, for instance, Lanxin Xiang, 'The Bo Xilai Affair and China's Future', *Survival*, June-July 2012, pp. 59-68.

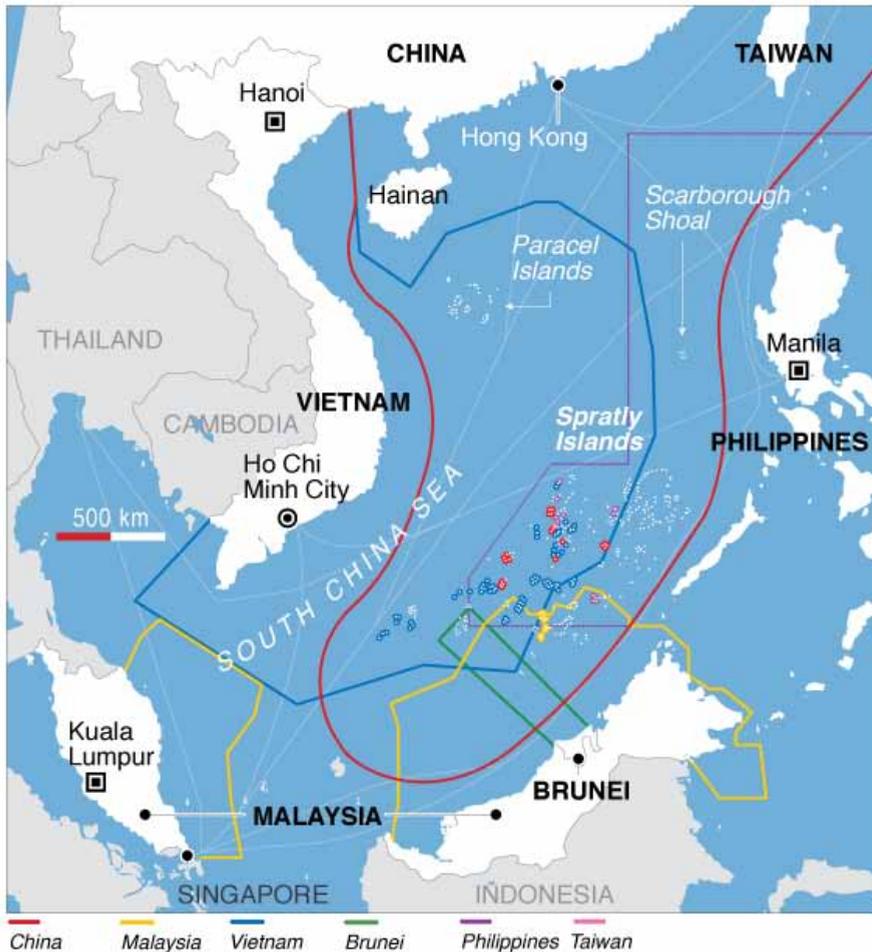
<sup>13</sup> See generally the Special collection of papers on ASEAN in the Cambridge Review of International Affairs, Volume 22, Number 3, September 2009 where, among other points, it is asked if the 'ASEAN way' is receding and whether ASEAN is just the vehicle for conflict avoidance rather than resolution.

each incident reports highlight the untold hydrocarbon wealth in the seabed (for example, 213 billion barrels of unproven oil reserves, against the 265 billion barrels of proven reserves held by Saudi Arabia in 2011, according to BP's Statistical Review of World Energy), as well as rich but fast depleting fisheries resources in their waters.

Internationally, China is often identified as the villain of the piece. This of course riles the Chinese when they believe they have absolute right on their side. China argues its claim to sovereignty, exclusive economic zone (EEZ) and continental shelf rights in most of the South China Sea can be traced back 2,000 years

to the Han dynasty. China says it can provide proof from the 13<sup>th</sup> century and, further, that in 1935 it published the full names of the 132 islands or so (unsurprisingly estimates of the numbers involved vary based on claims and definitions which are not clear) in the South China Sea, including Huangyan Island (also known as Scarborough Shoal, where there was a stand-off with the Philippines this year). China points out that its vessels have long been fishing as well as conducting scientific exploration, radio communications and sea traffic in the area, and that official recorded statements by the Chinese leadership reaffirm China's control of the territories. This historical basis for its claims notwithstanding, Beijing points out

**Figure 6: South China Sea Claims**



Source: Voice of America

<http://blogs.voanews.com/state-department-news/2012/08/15/china-bashes-western-meddling-over-south-china-sea/>

that Article 2 of the Law of the People's Republic of China on the Territorial Sea and Contiguous Zone of 1992 includes all the claimed islands and was not disputed by any country at the time (including the Philippines). According to the Chinese, the Philippines only started making public claims after mid-1997, culminating in the amendment of the Philippines Territorial Sea Baseline Act in 2009 – before then, official maps of the Philippines all marked Huangyan Island as outside Philippines territory. The Philippines, in contrast, contend that from 1734 colonial maps showed Scarborough Shoal as part of its territory. Beijing counterclaims that the 1734 maps were drawn by a missionary and were not official, whereas China had itself produced an official map in 1279 which shows that it discovered Huangyan Island.

All very substantive. Indeed, from the Chinese point of view, formidable in respect of its wider South China Sea claim and especially in regard to Scarborough Shoal. If so, the Philippines has responded, why not take the matter to the International Tribunal on the Law of the Sea established by the UN Convention on the Law of the Sea (UNCLOS), to which both countries are parties, or to the International Court of Justice (ICJ), knowing full well China had always ruled this out. Some contend the Philippines is seeking to score a moral point, others that it is willing to take a chance as it has little to lose. State attitudes to the settlement of international disputes by judicial means or arbitration is a vexed matter not amenable to easy generalisation.<sup>14</sup> Nevertheless, the greater the expanse of territory involved the less likely states are to subject its status to judicial determination, and major powers have been averse to any kind of reduction of their super-sovereignty on most matters, let alone one relating to territorial extent. China, of course, is in the good company of the United States in this, and its stance on judicial arbitration will not change. It would be better to recognise this reality and to find other ways to resolve the disputes peacefully.

Trying to do so without antagonising one party or another is particularly difficult given the bewildering number of claims and the wealth of resources at stake. The Philippines has not always been consistent in the pursuit of its claims. Between 2003 and 2005, it broke ranks with ASEAN and signed a number of energy cooperation agreements with China. PETROVIETNAM, Vietnam's Oil and Gas Corporation, also signed the agreement in 2005 for joint marine seismic survey in certain areas of the South China Sea with the Philippine National Oil Company (PNOC) and the China National Offshore Corporation (CNOOC). In it the Philippines 'made breath-taking concessions in agreeing to the area for study, including parts of its own continental shelf not even claimed by China or Vietnam. Through its actions, Manila has given a certain legitimacy to China's legally spurious 'historic claim' to most of the South China Sea.'<sup>15</sup> This agreement was allowed to lapse by the Arroyo administration when it expired at the end of June 2008, following allegations of kickbacks and corruption. Before the amendment to the Territorial Sea Baseline Act in 2009, debate in the Philippines was divided between the Senate and the House of Representatives, with the former choosing to define the Spratlys only as a 'regime of islands' outside the baselines and the latter expressly including Scarborough Shoal and the Spratlys within the country's territorial baselines. The Senate's version was passed in February 2008 – before the 2009 amendment reversed this position.

Since June 2010, the Aquino administration has taken a firmer stand in furtherance of Filipino claims. It is difficult to say if the Philippines has been encouraged by Hillary Clinton's notice of American interest in the South China Sea, but there have been indications of a willingness to assert Philippine interest. In April 2012, a two-month stand-off ensued in Scarborough Shoal when a Philippine warship tried unsuccessfully to apprehend eight Chinese vessels 'caught' fishing in disputed waters. The incident showed a number of Filipino dilemmas in the defence of its claims, with its desire to take action restricted by a lack of military capability and an economic dependence on China for trade and tourism. The Philippines has also sought to engage the US, but has been unable to draw either the State Department or the Navy into particular dispute

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<sup>14</sup> See Munir Majid, *Asian and African Attitudes to the Settlement of International Disputes by Judicial Means*, unpublished PhD thesis, Department of International Relations, London School of Economics and Political Science, 1978

<sup>15</sup> Barry Wain, *Manila's Bungle in the South China Sea*, Far Eastern Economic Review, January/February 2008.

situations; whilst the US expressed robust official support during President Aquino's Washington visit in June this year, there was no specific commitment to any particular South China Sea situation. The Philippines has also sought full ASEAN support, but at the same time not been averse to going-it-alone, and appealed to international law, but only when serving national interests. It might be time for the Philippines to pull itself together and reflect more deeply on a truly regional approach to the solution of the issues involved.

Vietnam has had even more difficulty confronting China's claims. Two out of three sets of territorial issues – the land border and delineation of the Gulf of Tonkin – have been largely resolved. The outstanding South China Sea overlapping sovereignty claims, particularly the Paracels and the Spratlys, put Vietnam in an unenviable position vis-à-vis China. Hanoi sees its new naval association with the US as a help, but keeps this arrangement limited, reluctant put all its eggs in one basket.<sup>16</sup> Vietnam also looks to Japan, South Korea and Australia for 'support', as well as to India and Russia. In September last year Hanoi signed an agreement with New Delhi to jointly explore in disputed waters, and the following month entered into a memorandum of understanding on defence cooperation enhancement, and has also been trying to entice Russia into oil and gas exploration. Clearly, the idea is to increase the number of nations with a stake in a peaceful Southeast Asia.

Vietnam has an advantage in having the opportunity to soothe relations with China through communist party-to-party fratricidal discussions, but has the greater disadvantage of having the most number of conflicting claims in the South China Sea with Beijing – framed by a thousand year history of conflict. Bilateral relations over the dispute have been bad, with accusations, skirmishes and threats. They have been exacerbated by Vietnam's agreement to allow oil exploration by international energy companies, Chinese attacks on Vietnamese fishing boats, Beijing's plans for tourist cruises in the disputed Paracels and military exercises in the region, and demonstrations and protests in Vietnam against China's 'hegemonic ambitions'. In January 2008 the China-Vietnam Steering Committee met in Beijing in an attempt to calm things down following the Chinese decision to create an administrative centre on Hainan for the Spratlys, Paracels and Macclesfield Bank in December 2007. This initiative failed, and in June this year Vietnam passed a law claiming sovereignty over the Paracels and Spratlys, as China raised Sansha City in the Paracels to prefecture level and 45 legislators were elected in July to govern the 1,100 Chinese people in the claimed areas, covering 772,000 square miles of the South China Sea.<sup>17</sup> To underline all this, later in July China's Central Military Commission approved deployment of two military garrisons – one army, the other navy – to guard the disputed islands.

The deployment caused the US State department to issue a statement of concern over the escalation, obtaining in return China's rejoinder that the Americans had no right to interfere in a matter of its sovereign jurisdiction. For good measure, the US Deputy Chief of Mission in Beijing was summoned to the foreign ministry. China feels its actions are unjustly selected out for criticism while the provocative activities of other claimants, particularly the Philippines and Vietnam, are glossed over or ignored. China has thus become less tolerant of criticism and more insistent on its sovereign rights. Chinese state-controlled newspapers have been particularly shrill in their insistence on China's freedom of action. The *China Daily*, in a commentary on 30 July this year, accused the US of double standards and reflected it was 'Better [for China] to be safe than sorry... [and] to safeguard its sovereignty and territorial integrity.' More broadly, it was of the view that the United States' strategic shift is intended to contain China. 'The current security environment for Beijing is the most complex and severe since the foundation of the People's Republic of China', an assessment that led it to conclude that, with respect to safeguarding national sovereignty and territorial integrity, no country would renounce the use of force. Alongside such thinly-veiled official warnings is a concentration of opinion calling for China to take a more aggressive stance, including from maritime agency chiefs, PLA officers and military advisers. An official

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16 During a discussion with the LSE Asia Research Centre on 8<sup>th</sup> November 2011, a delegation from Vietnam which included government officials contended that while ASEAN talks and talks, China talks and takes. There was a wish for unilateral declarations of interest on issues in the South China Sea, for example by the UK. A multi-layered approach was preferred from ASEAN to EAS to the wider international community.

17 China wrested *de facto* control of the Paracels following the naval showdown in 1974 when (then South) Vietnam withdrew. A 2,700 meter long runway was completed in Sansha city in 1990. Beijing claims to have established an administrative apparatus to manage its claimed islands since 1959.

with China Marine Surveillance argues that 'China now faces a whole pack of aggressive neighbours headed by Vietnam and the Philippines and also a set of menacing challengers headed by the United States, forming their encirclement from outside the region.' Responding to developments in July, Major General Zhu Chenghu, who once urged the use of nuclear weapons if American forces intervened in a conflict over Taiwan, accused the US of 'meddling' and said it was 'unreasonable and illegal' for the Philippines and Vietnam to claim territory that historically belonged to China, claiming that there had been no disputes in the South China Sea until the discovery of large amounts of gas and oil reserves in the 1970s. Cui Liru, President of the China Institutes of Contemporary International Relations, a Beijing think-tank closely linked to China's intelligence services, has also been urging a tough stance. At the World Peace Forum in Beijing in June he argued that China needed to do more in terms of demonstrating its sovereignty. Others at the forum voiced the view that China's patience had been tested to its limits and there was no room for further tolerance. Such official views are reflected on the ground, where formerly Hainan-based fishermen now in Sansha City ask why China should tolerate challenges to its sovereignty now that it is so strong.

The situation in the South China Sea has deteriorated precipitously. From the latter half of 2011 until early 2012, it was characterised by a more moderate approach from the Chinese, and a focus on diplomatic engagement, investment and trade with neighbouring countries. This came to an abrupt end with the Scarborough stand-off, and China has instead become both assertive and reactive. Whether or not Scarborough was a miscalculation by the Philippines, it is now used by China to defend its claims to a domestic audience. US Secretary of Defence Panetta's historic Cam Ranh Bay visit in June and the Vietnamese law of the sea passed that same month, similarly allowed China to claim encouragement and abetment by the US. China has rapidly come to view the disputes as a tool being used by the Americans to contain China, just as the US becomes more engaged in the region through the pivot. Nonetheless, China is once again making peaceable gestures with respect to the South China Sea issues. In September Xi Jinping, the soon-to-be-appointed Chinese leader, gave the assurance to

ASEAN leaders at a trade fair in Nanning that China wishes to solve the disputes peacefully. At the ASEAN Maritime Forum in Manila in October, China once again offered a grant for maritime cooperation in the South China Sea. It remains to be seen whether such gestures reflect a substantive softening of the Chinese position or merely the ebb and flow of diplomatic manoeuvring. What is surer is that states with a stake in the South China Sea do not want to be fully exposed to the caprice of the Chinese.

China's actions in its sea disputes have been bewildering and fraught with threat, and its threat and use of force have alarmed states in Southeast Asia. Such a belligerent foreign policy risks neutralising the goodwill Beijing has built in the region over almost two decades. While other South China Sea disputants, particularly the Philippines and Vietnam, are not exactly innocent, China has shown a disproportionate propensity to punish and to physically assert its sovereign claims in a manner that is disconcerting, and which frankly frightens regional states.

In the complexity of causes that have conspired to incite China's actions, its unsteady and erratic hand reveals a desire to be feared more than respected. Such a populist bellicose attitude cannot be allowed to rise to the level of official policy in a great power which claims to seek peaceable relations, even if as a hegemon. It is not just the threat or use of force that is a matter of concern. It is also the indifference to the interdependent economic good that such actions put at risk.

The beneficiary of China's strategic misjudgment will be the United States. The Chinese of course see the Americans as the cause of their discomfiture, but their inability to ride the US pivot towards Southeast Asia will ensure its success. If the Americans had intended to contain China in the rebalance in Asia-Pacific, they could not have asked for a better response than what Beijing has offered in the past of couple of years.

Yet the strategic contest in the region is by no means settled. The US still has to manage its relations with China, which extend far beyond the regional canvas. The dilemma the US cannot escape is how to integrate into the international system a rising power which will eat into American predominance in the world,

even if it will remain the preeminent power for a long time to come. The instinct to attempt to snuff out the rising power has to be resisted, even if such a strategy were possible. Washington has so far managed this well, in spite of the pressures of domestic opinion from both sides of the partisan divide. In Southeast Asia China has become economically preeminent, and whatever China's strategic mis-steps over the South China Sea disputes, the United States will not displace China's economic importance in the region. The test for the United States is to manage its relations with China in Southeast Asia as elsewhere without reflecting China's self-righteousness with its own sense of exceptionalism. The US must show it has come back to Southeast Asia not to displace China but to be a counterweight and a force for the regional good. ■

## ➤ The Theatre of Competition

# > Indochina

Ang Cheng Guan

**The renewed US engagement in Asia is one manifestation of the unfolding rivalry between the two superpowers, United States and China. One part of Asia where we can expect to see especially keen competition for influence is Indochina. To get a sense of how the relationships between three Indochinese states – Vietnam, Cambodia and Laos – and the two powers will develop, it is necessary to trace the trajectories of their relationships from the 20<sup>th</sup> century to the present.**

## THE COLD WAR YEARS

The diplomatic relationships of the Indochinese countries (Vietnam, Cambodia and Laos) with China and the United States have until recently been framed by the exigencies of the Vietnam War.

In the years immediately following WWII, Ho Chi Minh tried to secure American support for Vietnamese independence and unification. Had the Americans been forthcoming, Hanoi would not have had to turn to the Chinese communists after 1949. Indeed, in 1946, Ho chose to put up with the French rather than have the Chinese entrenched in Vietnam. For the United States, the 'loss' of China popularised the theory that communist gains in Indochina would set off a domino effect in the region, and as a result the United States' increasing commitment to the Vietnam War drove deeper Sino-Vietnamese ties. The strength of China and Vietnam's common interests against the United States during this period was such that differences were swept under the carpet.

Predictably, Vietnam's relationship with China began to unravel around the time of the Sino-US rapprochement – when the war was still on-going – and culminated in complete breakdown in the summer of 1978, swiftly followed by the Sino-Vietnamese War of February 1979. Throughout the 1980s, Vietnam consequently became dependent on the Soviet Union as a countervailing force against China. Gorbachev's decision to normalise relations with China put pressure on Vietnam to end its occupation of Cambodia (in parallel with the Soviet withdrawal from Afghanistan) and reassess its relationship with China, leading to a full restoration of diplomatic ties in 1991. The United States and Vietnam normalised relations in 1995, two decades after the end of the Vietnam War.

Cambodia's post-WWII diplomacy with China and the United States was also very much connected to the Vietnam War. Until his ouster in 1970, Sihanouk struggled to prevent Cambodia being sucked into the war. Relations with then-South Vietnam and Thailand (which Sihanouk saw as client states of the United States) were made more problematic by border disputes, and Sihanouk turned to China, who had endorsed Cambodia's policy of 'strict neutrality'. Yet at the same time, Sihanouk was concerned the implications for his royal line of any communist victory in Vietnam, and therefore toggled between both China and the United States. After the ouster of Sihanouk by the US-backed General Lon Nol in 1970 and the subsequent civil war that ended with the victory of the Khmer Rouge in 1975, the country moved decisively into the orbit of its Chinese bankroller until the Vietnamese occupation in 1979. Following Vietnam's withdrawal in 1989 and the Paris Peace settlements of the Cambodia problem in the early 1990s, China resumed ties with the restored Kingdom.

Laos is the poorest member of ASEAN, and without much to offer in terms of raw materials, the country is often overlooked by analysts studying the geopolitics of the region. But landlocked Laos is actually of significant strategic importance. In 1960, when Eisenhower briefed the incoming President Kennedy, it was Laos rather than Vietnam that was the focus of his briefing. Although Laos faded into the background after the 1961 Geneva Conference, its pivotal position in the regional Cold War struggle never really diminished. Laos is the only Indochinese country that has maintained unbroken diplomatic ties with the United States from independence to the present, despite the deterioration in relations after the Pathet Lao came into power in 1975. Laos also maintained unbroken diplomatic relations with China, despite siding with Vietnam over its 1979 invasion of Cambodia, resulting in the downgrading of ties to the charge d'affaires level until the settlement of the Cambodia problem.

## **POST-COLD WAR**

Vietnam, Cambodia and Laos joined ASEAN after the end of the Cold War in order to become members of a club that would provide them legitimacy and gain them acceptance in the international community. They also hoped to buttress their independence as sovereign states. One common concern was China's ambitions, although the degree of concern amongst the three states varied.

A new phase in the relations between the three Indochina states, the United States and China thus began with the end of the Cold War. It was a slow process of reconciliation for all parties that took up much of the last decade of the 20<sup>th</sup> century and the first decade of the new century. This was particularly so with the United States, as both American and Indochinese policymakers took a long time to discard the baggage of the Cold War years.

## *China*

Having emerged from the Cold War as the three poorest countries in region, the Indochinese nations saw economic benefits from improving relations with China. The Chinese economy was then developing at a rapid pace and showed potential of becoming a global economic power in the future. For the two smaller Indochina countries – Cambodia and Laos – China also served their interests as a bulwark against Thai or Vietnamese hegemony, particularly since historically China had never physically invaded Cambodia or Laos. Beijing was also keen to improve relations with its immediate neighbours, strategically located along its southern border in what some writers have dubbed 'China's backyard'. China's good neighbourliness in Indochina stemmed from its desire for a peaceful and stable external environment to allow it to concentrate on its own economic development; the countries of Indochina, if not properly managed, could disrupt or contain its aspiration to be a global power.

Soon after the normalisation of relations in 1991, both Vietnam and China moved to resolve their outstanding bilateral issues, of which there were four. It took nearly ten years before Vietnam and China agreed on the demarcation of their land borders and the Tonkin Gulf in 1999 and 2000 respectively, thus settling two of the four issues. The remaining two - the sovereignty dispute over the Paracel Islands and that of the Spratly Islands persist till today. It is unlikely that Vietnam will be able to regain sovereignty of the Paracels as they are effectively under Chinese control. As for the Spratly dispute, the involvement of other claimants makes it more than a simple bilateral problem.

Cambodia took some years to coordinate a coherent foreign policy after the 1993 elections conducted by the United Nations, which saw the formation of an uneasy coalition government led by Sihanouk's son Norodom Ranariddh and Hun Sen. Since the breakdown of that coalition in 1997, Cambodia has been led by Hun Sen, whom Sihanouk once described as a more astute politician (and an image of himself) than his son Ranariddh. The Chinese had been unwavering in their support of Sihanouk and by extension his FUNCINPEC Party (led by Ranariddh), while Hun Sen was seen as a Vietnam protégé.

However, after 1997, Hun Sen began taking proactive steps to endear himself to China, most prominently when he cut links with Taiwan and paid a visit to Beijing to pay his respects. He also accepted China's help in building the National Assembly building after the 1998 elections which he won with a simple majority and thereafter became the sole prime minister. Like Sihanouk, Hun Sen has continued to maintain good relations with Beijing (despite its previous support of the Khmer Rouge). The Chinese have apparently now concluded that between them they prefer dealing with Hun Sen to Ranariddh, and China is now Cambodia's top aid donor and foreign investor. In the aftermath of the 45<sup>th</sup> ASEAN Ministerial Meeting (AMM) in Phnom Penh in July this year which failed to produce a joint communique – the first time it happened in ASEAN's history – the closeness of Sino-Cambodia relations has been the subject of intense regional scrutiny.

As for Laos, the successful settlement of the Sino-Laos frontier demarcation in 1992 has seen the development of a thriving cross-border trade. China has been actively competing with Vietnam for the political allegiance of Laos, and in 2010, China supplanted Thailand as the largest foreign investor in Laos. According to Dominique Van der Borghet of Oxfam Belgium, Chinese projects in Laos are on a large scale and have led to concerns in Vientiane that China, Vietnam and Laos are competing to use Laos as 'an extension of their territory.'

### *The China Threat*

Since the 1990s, there has been an uneasiness among Southeast Asian countries that China's rise might constitute a threat to the stability of South East Asia. Seeking to mitigate its neighbours' concerns, Beijing adopted a diplomatic charm offensive, emphasising that economic interdependence amongst the ASEAN countries and China was beneficial for all. The most notable examples are China's decision not to devalue its currency during the Asian Financial Crisis (1997), and the 2001 proposal to establish an ASEAN-China Free Trade Area (ACFTA) which came into effect in January 2010. The most recent is an in-principle agreement to create an Asian Free Trade Area. Yet China's efforts to co-opt its neighbours are not confined to economics. In 2003, China signed the

ASEAN Treaty of Amity and Cooperation (TAC), which commits Beijing to ASEAN norms in inter-state relations – mutual respect, non-interference in others' internal affairs, settlement of disputes in a peaceful manner, and the renunciation of the use of force. However, despite Chinese assurances, regional neighbours are yet to be fully persuaded that China will never seek hegemony. Such reservations aside, in the two decades after the end of the Cold War it remained essential for the Indochinese states to maintain good relations with their neighbour – a burgeoning economic (and in time potential military) giant – especially when there was no other countervailing power that they could count on.

### *United States*

Compared to Beijing, Washington was slow to improve relations with the three Indochina countries. It was not that Indochina was reluctant to win American favour – in the period after the end of the Cold War, the United States was universally recognised as the most powerful country in the world – but rather that the importance of Southeast Asia waned considerably in Washington following the Vietnam War. With the end of the Cold War, Southeast Asia also had to compete with a new Europe and events in the Middle East for Washington's attention. Washington did re-orient its attention towards Southeast Asia after 9-11, but its interest was largely confined to the issue of terrorism and thus had little impact on its relations with the Indochinese states, as Vietnam, Cambodia and Laos do not have substantial Muslim communities.

The top priority for Indochina and China since the end of the Cold War has been economic growth, jobs and trade. The United States expected political and economic reforms as prerequisites for closer bilateral relations, whereas China was less constrained by such concerns, if at all. The formation of the ASEAN Regional Forum in 1994 was a tool not simply to tie an emerging China to a multilateral network, but to keep the US engaged in the region as well. Indeed, China's diplomatic successes following the end of the Cold War were to a large extent enabled by the United States' apparent lack of interest in the region as a whole.

The main impediments to enhancing Indochina-US relations were the baggage of the Vietnam War and America's focus on human rights and corruption in those countries. Although diplomatic relations between the US and Cambodia were established after the UN-sponsored election in 1993, relations were cool as a consequence of Hun Sen's seizure of power in 1997 and his subsequent poor human rights record. Relations only improved from around 2006-07 when US officials began to become cognisant of the increasingly close ties between Phnom Penh and Beijing. In early 2007, Washington lifted a decade-old ban on direct aid to Cambodia, which observers viewed as a harbinger of better US-Cambodia relations. In 2010, US Secretary of State Hillary Clinton used the occasion of her visit to Phnom Penh to urge Cambodians to diversify their international relationships and not to be over-dependent on China, by which time the Chinese had already established a significant presence in the country.

In the case of Laos, although diplomatic relations with the US were never broken, the relationship was plagued by the legacies of the Vietnam War, including concerns about prisoners of war and personnel missing in action, unexploded munitions, the poor treatment of the Hmong by the Lao government, and the Laotian suspicion that long after the Vietnam War the CIA continued to be in league with the Hmong leader Vang Pao to undermine the Lao regime. Laos did not gain Normal Trade Relations (NTR) status with the United States until 2004, a prerequisite under US law for any bilateral trade agreement. The US arrest of Vang Pao in 2007 apparently gave the relationship a fillip, and his death in 2011 finally closed this chapter in US-Lao relations even if not fully. Hillary Clinton visited Vientiane in July this year, the first Secretary of State to do so in almost five decades.

Vietnam normalised relations with the US in 1995 (just before its admission into ASEAN) but was only given NTR status in 2001. Like Laos, the legacies of the Vietnam War, notably the POW/MIA and Agent Orange issues impeded the development of better bilateral relations, as conservative elements in the Vietnamese leadership remained suspicious of the United States. Since President Clinton visited Vietnam

in 2000 – the first US president to do so – relations have been improving, despite occasional hiccups over trade and human rights issues.

Across the post-Cold War era and until very recently, US relations with the Indochinese states were very much driven by Washington's broader interest in and engagement with ASEAN. For example, the US normalised relations with Vietnam on 11 July 1995, just before Vietnam became a full-fledged ASEAN member in the same month, but bilateral relations were slow to develop thereafter. After years of debate, Laos was finally granted normal trade status in 2004, the year Vientiane assumed the rotating ASEAN chair.

### **A NEW TURN IN INDOCHINA-US-CHINA RELATIONS?**

In January 2012, President Obama announced that the US intends to strengthen its presence in Asia, notwithstanding the largest cuts to the United States' defence budget since the end of the Cold War. The announcement also marks the beginning of a re-invigoration of US-Southeast Asia relations. Washington's new-found concern about a rising China at long last coincides with the long-running exhortation of the Southeast Asian countries for the US to be more engaged in the region in order to balance China.

It is, however, too soon to tell how the triangular relationships between the Indochinese states, the US, and China, will develop. As noted above, Hillary Clinton visited Laos in July this year after a five-decade hiatus, which is a good start. US-Vietnam relations are expected to continue to improve. Of all the Southeast Asian capitals, Hanoi is most enthusiastic about the US presence in the region; certainly, of the three Indochinese states, it is Vietnam that has the most problematic relations with China, and looks mainly - although not exclusively- to the US as a countervailing force against Beijing. As for Cambodia, their exceptionally close ties with China are no secret. Lee Kuan Yew was reported to have complained that China's close ties with the country (as well as Laos) meant that within hours, everything that is discussed in ASEAN meetings is known in Beijing. What is perhaps unexpected is Phnom Penh's failure, in its capacity as

ASEAN Chair of the 45<sup>th</sup> ASEAN Ministerial Meeting (AMM) in July 2012, to produce a joint-communique, and soon after it was reported that China had pledged more than \$500 million in soft loans and grants to Cambodia, which was interpreted by many as a 'reward' to Phnom Penh for putting China's interests on the issue of the South China Sea dispute ahead of the wider ASEAN community. Cambodia will need to recover the trust of its ASEAN colleagues, as well as better balance its relationship with China and its responsibilities as a member of ASEAN. The United States, too, will have to work much faster to improve relations with Cambodia and Laos if it hopes to steer Phnom Penh and Vientiane away from their over-reliance on China.

## **CONCLUSION**

Vietnam, Cambodia and Laos recognise that they each have to live with a neighbour that is generally projected to be the world's largest economic power sometime in the coming decade, with the implication that the 21<sup>st</sup> century will be 'China's century'. Each recognises the reality distilled by Lee Kuan Yew when he said that 'your neighbours are not your best friend, wherever you are', and that diplomacy is easier with 'those who are farther afield with whom we can talk objectively'.

History has shown that none of the Indochinese countries willingly choose to be under the tutelage of China. Vietnam, Laos and even Cambodia want the US to be engaged in the region. They all want to have good relations with Washington. But the United States' economic and financial difficulty is troubling, and there is uncertainty about America's long-term commitment to the region, despite the Obama administration's strategic pivot to Asia. In Indochina, there has been a revival of the debate about American decline which receded from prominence in the 1990s after the end of the Cold War appeared to refute Paul Kennedy's 1989 thesis in *The Rise and Decline of Great Powers*. On that broader debate, the jury is still out, but neither Vietnam, Cambodia nor Laos want to be caught flat-footed. Collectively, they all seek a US presence in the region as a hedge against Chinese dominance, but fear that were such a presence to become confrontational it would oblige them to choose between Washington and Beijing, the very choice that to date each has sought to avoid. ■

# ➤ Indonesia and the Emerging Sino-US Rivalry in Southeast Asia

Rizal Sukma

**R**ecent developments in the relationship between the United States (US) and China have heightened a sense of uncertainty about the future of East Asia. The two major powers seem to be on a path towards strategic rivalry, competing for influence. The US, for example, has begun to undertake several initiatives to deepen its alliance system and military presence in the region. China's policy towards the region has also created the impression that it, too, is seeking to expand its power projection and influence. As signs of strategic rivalry between the two great powers became increasingly evident, Southeast Asian countries began to ponder the future directions of regional politics. The Association of Southeast Asian Nations (ASEAN), which had tried to provide a web of multilateral platforms for major powers' engagement and interaction in the region, now has to face the possibility that a Sino-US rivalry might polarise ASEAN, turning the region once again into a theatre for great power competition.

As a member of ASEAN, Indonesia certainly feels this predicament. Jakarta cannot escape the imperative of having to conduct its foreign policy in the context of the complex relationship between the US and China. Leaning to one side is not an option. Indonesia needs and wants both the US and China as friends and partners, and would not want to see the superpowers become rivals, competing for influence in its neighbourhood. Moreover, Indonesia still believes that Southeast Asia should be free from any competition among extra-regional powers. However, Indonesia's strategic choices and responses are limited. As Jakarta is not in the position to dictate the strategic directions of Beijing-Washington relations, it pursues a policy of 'independence' by building close relationships with both powers. At the same time, Indonesia also works with other ASEAN countries to prevent Sino-US relations from sliding into a strategic rivalry. This is a position that reflects not just geopolitical realities, but that has been influenced by the primacy of domestic politics in Indonesia's foreign policy.

## **INDONESIA'S STRATEGIC INTERESTS**

For most Indonesian elites, Southeast Asia and ASEAN constitute the main area of interest in Indonesia's foreign relations. While the region has been described as 'the first concentric circle' of Indonesia's foreign policy, ASEAN is referred to as its *sokuguru* (cornerstone). Consequently, the stability, security and prosperity of Southeast Asia are Indonesia's core strategic interests. Indonesia continues to promote the idea of an independent Southeast Asia, capable of maintaining its autonomy in the face of rivalry and competition for influence among extra-regional powers. It presents itself as a strong advocate of 'regional solutions to regional problems' and affirms that the security of Southeast Asia cannot be genuinely attained through military alliance and collective defence arrangements either among regional states or between a regional state with extra-regional power. Indonesia instead believes that such regional vision can only be attained through a cooperative security system among regional countries, such as ASEAN, and between ASEAN and its regional partners, such as in the ASEAN Plus Three (APT) process and the ASEAN Regional Forum (ARF).

However, the context within which Indonesia has to pursue its vision of regional order has become more complex. East Asia in the 21<sup>st</sup> century is an area of increasingly diffuse power, with significant implications for regional and global power structures. Power shifts taking place in the region point to the redistribution of influence among key players. The rise of China constitutes the most salient aspect of such changes. Over the last thirty years, China has consistently demonstrated its ability to sustain impressive economic growth rates at an average of 10 percent. Along with its economic development, China's military capability has also improved significantly. As its economic power and military might increase, China has now emerged as the most influential actor in the region. India is also catching up as a major player. Japan, while still in deep domestic political and economic trouble, cannot be written off yet. Other regional powers – such as South Korea, Australia, and ASEAN – are not inactive bystanders. Moreover, power is also diffusing to non-state actors – the private sector, civil society organisations, organised crime, and terrorist groups. The US remains the most powerful nation on earth, but others are also on the rise.

Indonesia, like many other regional countries, recognises the potential implications of such changes for the region. That has been manifested in Indonesia's concerns over a number of issues. The first concern primarily relates to the question of China's rise, particularly how China is going to use its new stature and influence to pursue its national interests and objectives in the region. However, for Southeast Asian states, including Indonesia, China's rise is not conceived in terms of 'military threat', but more in terms of China's future role and place in the region, and how it will affect the regional security architecture. While China has consistently demonstrated its commitment to a peaceful rise and played a positive role for the stability and security of the region, the uncertainty surrounding China's rise remains a strategic challenge for regional states. Indonesia therefore remains anxious about how China is going to use its newly-acquired wealth and military power.

Second, the pre-eminent role of the United States in East Asia remains beyond doubt. However, its role and influence in the region are increasingly being limited by the rise of China, both in terms of Anti-Access/Area Denial military capabilities and the incentives China's sheer economic size creates for regional states. The US is therefore confronted by the necessity to maintain and ensure its political primacy, economic interests, and military preponderance, and has declared a renewed commitment and interest to play a more active role in the Asia-Pacific, especially in East Asia. This new intention has been reflected in the Obama administration's 'pivot' strategy towards the Asia-Pacific. The moves to strengthen its security and defence relationships with Australia, Japan, the Philippines, Singapore and Vietnam demonstrate the US' commitment to match such policy declaration with actions. The Pentagon has reinforced its military presence in the region by stationing 2,500 marines in Australia and two littoral combat ships in Singapore, and is planning to station 60 percent of its naval fleet in the Asia-Pacific by 2020. Equally important, the US has also taken some initiatives to deepen its economic role in the region, demonstrated most markedly by its decision to push for the Trans-Pacific Partnership (TPP) fair trade agreement.

Third, as China's rise becomes inevitable, and the US feels obliged to pursue a re-balancing strategy, it is far from certain how the Sino-US relationship is going to evolve in the future. While very few would want to see a strategic rivalry develop between the two great powers, recent developments suggest that this might be the case, indeed, the possibility of Sino-US rivalry is no longer remote, but rather an emerging reality. As a rising power with its own interests, China seems to see the US as the only power that might limit its regional aspirations. Meanwhile, the US is clearly opposed to the rise of a new power that might pose a challenge to its strategic pre-eminence in East Asia. At the same time, strategic rivalry between the US and China over maritime access, supremacy and dominance in two strategic oceans, the Indian Ocean and the South China Sea, is also of a particular concern. Rich in natural resources and crucial for sea

lines of communication, these two oceans are of significant strategic value for fundamental national interests, not only of major powers, but also the entire region and beyond.

These three strategic developments – the rise of China, the US' attempt to retain its primacy, and the implications of both for Sino-US relations – could undermine Southeast Asia's regional autonomy in two ways. First, any Sino-US strategic rivalry has the potential to polarise ASEAN, turning the region once again into a theatre for the pursuit of primacy among major powers. For example, differing responses from ASEAN member state to the US' decision to station marines in Darwin, Australia, highlighted the differences in strategic perceptions of individual member states. Second, if ASEAN becomes polarised amid the growing rivalry between the US and China, ASEAN's role as 'a manager of regional order' would become marginalised, which, in turn, would put ASEAN's centrality for regional states under serious stress. Both scenarios would pose a serious challenge to Indonesia's vision of an autonomous Southeast Asia free from rivalry, and extend competition for influence in the region. Therefore, the main challenge facing Indonesia and its regional partners is how to prevent the return of power politics to the region. Indonesia, together with other ASEAN countries, clearly expects both the US and China to exercise strategic restraint and emphasise cooperative elements in their bilateral relationship.

## **ELEMENTS OF INDONESIA'S RESPONSE**

Indonesia has responded to these emerging dynamics by relying on three approaches. First, ever since the revolution, Indonesia's foreign policy has been committed to abide by the principle of *bebas-aktif* (free and active). This normative principle, first declared in 1948, requires Indonesia not to take sides in any rivalry between great powers. Indonesia's relationship with China, which was suspended in 1967 until the restoration of diplomatic ties in August 1990, has improved tremendously over the last two decades. Significant changes in China's foreign policy since early 1980s, especially the termination of support for communist insurgencies in Southeast Asia and

the change in its policy towards overseas Chinese, effectively removed Indonesia's suspicion of China. In April 2005, Indonesia even concluded a strategic partnership agreement with China, which serves as the basis for what is fundamentally a stable and mutually beneficial relationship. At the same time, Indonesia's relationship with the US, which was strained during President George Bush administration, especially due to differences regarding the war in Iraq and the way the US pursued its 'war on terror', has now taken a new turn. Under the Obama administration, the US has begun to view Indonesia as an important regional partner, and both Indonesia and the US are now committed to forging a closer relationship under the Comprehensive Partnership Agreement (CPA), which has already brought significant agreements in science and technology cooperation, a private investment corporation and a credit facility to facilitate bilateral trade, and a framework contract arrangement on defence cooperation.

Indonesia's second approach elevates the principle of *bebas-aktif* to the regional level and seeks, together with other ASEAN states, to create a 'dynamic equilibrium' among major powers in Southeast Asia. Indonesia realises that no regional country can address emerging security challenges by working alone. In this regard, regional cooperation becomes relevant and important to address security challenges stemming from strategic uncertainties brought about by geopolitical changes. Indonesia has played an active role in shaping the emerging regional architecture in the region by ensuring ASEAN's centrality while encouraging greater participation by other major and regional powers in the regional processes. It supported the inclusion of India, Australia and New Zealand in the East Asia Summit (EAS) and, in 2010, invited the US and Russia to become members of the grouping. Indonesia has also taken steps to encourage the consolidation of ASEAN. Through the EAS process – together with other processes such as the ASEAN Plus Three (APT), the ASEAN Regional Forum (ARF), and the ASEAN Defence Ministerial Meeting Plus (ADMM-Plus) – Indonesia supported ASEAN's initiative to provide an institutional framework that would hopefully facilitate a cooperative relationship among the major powers, especially between the US and China.

Third, Indonesia has sought to improve its bilateral relations with other major and middle powers in the Asia-Pacific. Indeed, Jakarta has signed Strategic Partnership agreements with Japan, India, Australia and South Korea in the past decade. Japan is Indonesia's largest trade partner and continues to occupy an important place in Indonesia's foreign relations, particularly in terms of economic development. The two countries have held regular bilateral summits over the past few years in order to strengthen the concrete areas of cooperation under the Strategic Partnership. The recent partnership with India reflects both Jakarta's analysis that India is increasingly becoming an important East Asian power on its own right, and India's recognition of Indonesia's importance within ASEAN. Australia is Indonesia's closest neighbour and the interests of both countries have long been closely linked, a fact reflected in the depth of substantive cooperation in sectors such as fisheries and criminal law enforcement. South Korea is Indonesia's sixth most important trading partner (after Japan, China, Singapore, the EU and the US) and a major source of foreign direct investment to Indonesia. Since the signing of the strategic partnership in 2006, bilateral relations have expanded beyond the traditional areas of trade and investment cooperation to include security and defence, with South Korea supplying 16 T-50 Golden Eagle trainer jets to Indonesia. Indonesia's partnership with these major and middle powers clearly reflects Jakarta's desire to shape a regional order where other powers than the US and China can also have a role to play.

Indonesia's response to the emerging Sino-US rivalry can therefore be described as a 'hedging strategy' against uncertainty in the intentions of both the US and China. Despite recent improvements in bilateral relations, Indonesia continues to view the US as a hegemonic power with whom it has many converging and diverging interests. For example, while Indonesia welcomes US strategic commitment and regional engagement, Jakarta has been critical of US policy towards Middle East, especially its support to Israel at the expense of Palestine. Until very recently, the relationship with China has long been problematic. Although China's rise to great-power status has become inevitable, Jakarta remains uncertain whether a powerful China will continue to be a 'benign' partner.

Indonesia's hedging strategy is therefore aimed at moderating the potentially negative implications of the rise of China for regional order and simultaneously reducing America's dominance as a hegemonic power in the region. While the US presence and engagement in Southeast Asia is needed for the first objective, the rise of China works to serve the latter. In the tradition of *bebas-aktif*, a central element in Indonesia's response to the rise of China and the primacy of the US in the region has been a familiar sense of distrust toward extra-regional great powers, driven by historical experience that breeds a strong sense of nationalism, competitive domestic politics and a sense of regional entitlement.

### **NATIONALISM, DOMESTIC POLITICS AND REGIONAL ENTITLEMENT**

From the very outset of its post-colonial existence, Indonesia has expressed doubts over the role of extra-regional powers in Southeast Asia. This attitude is closely influenced by the country's experience in securing its independence that, in turn, created strong nationalist sentiments. In the 1950s and 1960s, Indonesia's experience dealing with internal dissident movements with the backing of external powers strengthened the received wisdom in Jakarta that extra-regional powers could pose a problem to its security interests. Second, nationalism manifested in the principle of *bebas-aktif*, still guides the conduct of foreign relations in the more democratic Indonesia of today. Thus, the most striking expression of nationalism in foreign policy has been evident in Indonesia's sensitivity to the role of extra-regional powers. Segments of Indonesia's elite and general public still harbour the view that major powers will always try to reap unfair advantages at the expense of Indonesia's own interests. Conspiracies notwithstanding, the manifestation of nationalism in foreign policy reflects Indonesia's broader rational desire to preserve national autonomy and defend it against any form of external interference and dependence.

Foreign policy in Indonesia has also been subject to competing domestic political forces. In 1952, for example, opposition forces managed to bring down a government by accusing it of deviating from the free

and active principle after it signed a security treaty with the US. As the sense of nationalism remains strong, and domestic politics have become more competitive in a more democratic context, taking sides or aligning itself too closely with any extra-regional great power carries a serious risk for the government, and becomes a divisive issue for domestic politics.

Indonesia's response to the growing rivalry between the US and China can also be seen as a reflection of 'a sense of regional entitlement.' Despite its formidable domestic problems, Indonesia continues to feel that it deserves to exercise a leading role in shaping not only the future course of ASEAN but also the directions of regional politics. Indonesia's sense of entitlement in Southeast Asia's regional politics continues to be reflected in its anxiety over any possible attempt by extra-regional powers to dictate terms of regional relations. Indonesia has always been, and still is, committed to pushing the attainment of an ASEAN Community as an instrument to consolidate ASEAN in the face of external pressures stemming from geopolitical changes in East Asia.

Indonesia, like many other regional states, sees the growing rivalry between the US and China as a challenge not only to its own interests but also to the region. In that context, Indonesia's response is likely to continue to abide by the principle of a 'free and active' foreign policy that is defined by the salient effects of nationalism, competitive domestic politics and a sense of regional entitlement. Consequently, it has opted to maintain strong diplomatic ties with both China and the US, and will continue to pursue a strategy of hedging aimed at moderating the potentially negative implications of the rise of China for regional order whilst at the same time reducing American dominance as the hegemonic power in the region. At the same time, through ASEAN, Indonesia also seeks to lessen the possibility of Sino-US relations drifting into a strategic rivalry. The success or failure of this strategy, however, will ultimately depend on the US and China themselves. ■

# ➤ Malaysia in the New Geopolitics of Southeast Asia

Johan Saravanamuttu

**D**espite being one of the smaller states in Southeast Asia, Malaysia has been able to punch above its weight in foreign policy, and particularly vis-à-vis the major powers in the region. Ever since its foreign policy shifted radically from a pro-Western to a non-aligned orientation in the early 1970s, Malaysia has been at the forefront of policy innovation in the face of the region's ever changing geopolitics. Some of these ideas have rubbed off on its neighbouring states - sometimes positively, sometimes negatively. Malaysia was arguably ahead of the curve as the first Southeast Asian state to recognise the People's Republic of China in 1974. This recognition came on the heels of Malaysia's call for the "neutralisation of Southeast Asia" and its initiative for a Zone of Peace, Freedom and Neutrality (ZOPFAN), formalised in the 1971 Kuala Lumpur Declaration. Malaysia's first Foreign Minister Tun Ismail Abdul Rahman, was among the earliest proponents the idea. He was also credited with suggesting the neutralisation scheme. The broad policy of ZOPFAN was adopted by the Association of Southeast Asian Nations (ASEAN), of which Malaysia was a founding member, in 1967. Another Malaysian initiative was that of 'non-aggression' pacts in the face of the relentless spate of conflicts and wars in Southeast Asia throughout the 1950s and 1960s.

In terms of addressing inter-state and regional political issues, the formation of ASEAN was a most welcome development for Malaysia. Not only did it confirm the end of the Indonesian "Confrontation" from 1963-1965, but it also provided Malaysia with a major regional platform to initiate policies for regional order and stability. The Malaysian government would certainly like to take some of the credit, along with Indonesia, for the implementation of the seminal Bali accords and the inking of the Treaty of Amity and Cooperation (TAC) in 1976 by the then six ASEAN states (Indonesia, Malaysia, Philippines, Thailand, Singapore and Brunei). Malaysia's approach to geopolitics in the Southeast Asian region since the 1970s has remained a two-level approach of seeking to reduce or eliminate inter-state conflicts, whilst instituting minimalist engagement with major powers active in the region. Malaysia's policy of non-alignment and its promotion of ZOPFAN has meant that it would rather not have major powers like the US, China and Russia (in the past, the Soviet Union) having a significant political or military presence in the region, and certainly no military alliances involving regional states. This is somewhat different from Singapore's approach, which is to see the major powers' presence as a force for stability and developing into some kind 'balance of power' in the region.

Recently, however, Malaysia has not been averse to having military exercises with the US, participating for the first time in the Cobra Gold and RIMPAC exercises in 2010. Hosted by the United States, these exercises are the largest multilateral military exercises in the Asia Pacific region and include US allies and partners such as the UK, France, Australia, Canada, Japan, the Netherlands, Colombia, Chile, Peru, Thailand, South Korea and Singapore. They are significant as measures to resolve some of the issues of interoperability between the military establishments of the partnering states. China, unlike the US, has fared poorly in conducting military exercise with Southeast Asian states. Malaysia, together with

Singapore, also has had an ongoing annual military engagement with Commonwealth states, under the Five Power Defence Arrangements (FPDA), but while this is a legacy of history, it continues to serve as an important confidence building measure for military cooperation between these two states and their Commonwealth allies.

With regard to denuclearisation, Malaysia has promoted and fully backed ASEAN's Nuclear Weapon-Free Free Zone (SEANWFZ) since its implementation in 1995. The treaty calls for the signing of protocols by the major nuclear powers – US, UK, China, Russia, France – but has stalled because the United States has demurred from participating until 2009. In 2011 Indonesia in its role as ASEAN chair indicated that it made a technical breakthrough in negotiations. All the major powers are now signatories to the less exacting protocols of the TAC.

## **ASEAN CENTRALITY IN MALAYSIAN FOREIGN POLICY**

Following the Vietnam War, there was a steady decline of US interest in the region. However, throughout the post-Cold War years and until today, ASEAN provided the basis for both inter-state stability and relations with major powers. It may be for this reason that for a time the US did not deem it necessary to provide too much of a guiding hand in Southeast Asian affairs. Despite its acknowledged weaknesses – such as its cumbersome consensual decision-making procedure and its reluctance to take positions and intervene on internal conflicts – ASEAN has remained central to Malaysian foreign policy.

This has been the case even in the most activist years of Malaysian foreign policy, under the tenure of Prime Minister Mahathir Mohamad. Mahathir's strident anti-Western stance and his Look East policy did not by any means derail the centrality of ASEAN as the main instrument of Malaysia's regional political relationships. Nonetheless, it was evident that Mahathir's Look East policy had favoured East Asian states leading to the exclusion of the Oceania states of Australia and New Zealand in the proposal for an East Asian Economic Grouping (EAEG) later to be turned into the East

Asian Economic Caucus (EAEC) within the Asia Pacific Economic Cooperation (APEC) formation. EAEC was abandoned after the establishment of ASEAN-Plus-Three in 1997, and later, the East Asian Summit (EAS) formed in 2005 included Australia and New Zealand.

As a moderate Muslim-majority state, Malaysia certainly places some importance in the Organisation of the Islamic Conference (OIC) but only as a complement to ASEAN. In the post-9/11 political climate, Malaysia advanced the moderate face of Islam during the short-lived tenure of Ahmad Abdullah Badawi, Malaysia's fifth Prime Minister and, with the encouragement of the US and ASEAN, Malaysia established the Southeast Asian Regional Centre for Counter-Terrorism (SEARCCT) in July 2003. More recently, under Prime Minister Najib Razak, Malaysia has been promoting the Global Movement of Moderates (GMM), with explicit US support. An international conference was hosted by Malaysia in January 2012 in Kuala Lumpur, which saw inclusion of 500 participants and speakers extolling the ethos and philosophy of moderation in dealing with global problems.

What, then, are the purported changing dynamics of the geopolitics in the region, particularly as we enter the second decade of the 2000s, and how have they affected Malaysia's foreign policy? Most observers have stressed that the economic rise of China and its concomitant ascendance as a global and regional power as the crux of the geopolitical changes in Southeast Asia. A second factor has been the United States' supposed loss of interest in the region, with allies concerned about the reduction in US defence spending while the Pentagon's budget is expected to shrink by USD487 billion in the next decade. However, the Obama Administration has made it clear that Southeast Asia, and particularly the Asia Pacific region, remains a major priority for the US. A particularly important gesture was his administration's assurance of a US "return" to Asia and its new role as a "pivot" in the region. This was backed up by the announcement of the rotational stationing of 2,500 US troops in Darwin, Australia, with the first 200 marines having arrived on 4 April 2012. Malaysia, like its ASEAN partners, has been positive about a US re-engagement in Asia, whilst being careful to balance

this with an equally cordial relationship with China (detailed below). US engagement with Southeast Asia has been steadily be ratcheted up until the actual first appearance of a US president at an ASEAN Summit on 18 November 2011 in Bali, Indonesia, a development that has been welcome by all ASEAN states.

Malaysia has made various overtures to both China and the US over the past few years in an apparent attempt to address the changing geopolitics. Soon after assuming the reins of government in April 2009, Prime Minister Najib Abdul Razak visited Beijing to celebrate 35 years of diplomatic relations, a period begun by Najib's father Tun Abdul Razak. Chinese President Hu Jintao returned the favour by visiting Malaysia in June that same year. Malaysia is China's largest trading partner in Southeast Asian, with bilateral trade in recent years surpassing \$50 billion. This fact was underlined by Chinese Premier Wen Jiabao when he visited Malaysia and Indonesia in April 2011. The Chinese leader signed a number of agreements worth \$ 1billion, including contracts between China's Huan Dian Engineers and Malaysia's Janakuasa for a coal-fired plant, an agreement between China's ZTE Corporation and Malaysia's DiGi to supply telecommunications infrastructure, and a Memorandum of Understanding between the state government and Beijing's Urban Construction Group Company to build 6.5km tunnel between Penang Island and the mainland.

Whilst enhancing relations with China, the Malaysian premier did not leave relations with the United States unattended. There was a much publicised telephone conversation with President Obama on 26 June 2009. As disclosed by official sources, the two leaders discussed bilateral and global issues of mutual concern, particularly those pertaining to North Korea, Afghanistan and Iran. The newly anointed Malaysian Prime Minister was keen to demonstrate to a domestic as well as a regional audience his constructive engagement with the Obama administration. Most importantly, Najib Razak and Indonesian President Susilo Bambang Yudhoyono attended the 47-nation Nuclear Summit held in April 2010 to institute better safeguards in the non-use and use of nuclear materials.

While the Obama-initiated event did not achieve much that was concrete, it seemed fitting that the Summit saw the participation of the two Southeast East Asian states noted for their strong anti-nuclear stances.

Malaysia's foreign policy has been in tight synchrony with ASEAN's approach to regional politics over the years and in the changing geopolitics of the region in the 2000s, this has remained so. In engaging with the major powers in the political and economic realms, Malaysia has deemed it fit to act through ASEAN instrumentalities or forums such as the ASEAN Regional Forum (ARF), the ASEAN-Plus-Three, East Asia Summit (EAS) and more recently, the ASEAN Defence Ministerial Meeting Plus (ADMM Plus). These forums have allowed Malaysia and its ASEAN partners to enhance confidence building on security issues and build upon East Asian solidarity and economic cooperation. The 27-member ARF allows for the maximum play and airing of regional security issues while the ASEAN +3 and EAS are more focused on East Asian economic collaboration. ASEAN has touted the establishment in 2010 of the ADMM- Plus, which includes all its Dialogue Partners, as a move of effective regional cooperation for disaster relief, counter-terrorism, maritime security, peacekeeping, and military medicine.

## **GEOPOLITICS OF THE SOUTH CHINA SEA**

Some of the most difficult issues in the region concern developments with respect to the South China Sea (SCS). Two sets of players are involved in these dynamics: the claimants to its territories, islands and features; and the outside powers and states that have an interest in maintaining sea lines of communications and freedom of navigation.

Malaysia is a major claimant in the SCS, along with China, Vietnam, the Philippines, Brunei and Taiwan. ASEAN as a group has attempted to engage with China through the 2002 Declaration on the Conduct of Parties in the South China Sea (DOC), which underscores universally recognised norms of international law based on the 1982 United Nations Convention on the Law of the Sea (UNCLOS). Not much progress has been made in resolving issues between the ASEAN

nations and China despite the setting up of a Joint Working Group that has held several meetings to date. The matter is further compounded by the vagueness of China's claims and the US insistence, although not as a claimant, to freedom of navigation in the South China Sea, on which China has remained silent. The annual value of US trade passing through the SCS is said to exceed \$1trillion and political analysts suggest that the US is increasingly concerned about China's recent assertiveness in the region. China's interest in the SCS is to be expected, given that it is, after all, *the* major littoral state to these waters. China's extravagant claims are based on its controversial U-shaped map drawn in 1947 extending to territories claimed by Malaysia and Brunei at its southern-most end. But what is particularly worrisome is the character of its claims, which remain rather vague, given that the nine dashed lines of its map at the southern extremity has never been explained in the lexicon of international law.

For its part, Malaysia has occupied a number of reefs and atolls, and stakes its claims based on its 1979 map, which extends its continental shelf along the Sabah and Sarawak coast into the Spratlys and Kalayaan area. To date, Malaysia has occupied eight features. In June 1983, Malaysia occupied Swallow Reef (Terumbu Layang Layang), which was subsequently turned into a tourist resort for bird watching and diving, complete with an airstrip. The Royal Malaysian Navy protects the islands with its vessels, anti aircraft guns and other military facilities. The Malaysian posture has drawn protest not just from the Philippines but also from Beijing and Hanoi. On occupying Swallow Reef, Malaysia deployed three F-5 fighters to Labuan to provide military backing to its claims. In 2004 Malaysia completed the Teluk Sepanggar naval base, which will house its two Scorpene-class submarines, the first of which, the KD Tunku Abdul Rahman docked into port in September 2009 while the second, KD Tun Razak arrived in July 2010.

**Figure 1: China's U-Shaped Claims in the South China Sea**



Malaysia's territorial claims in adjoining seas have resulted in serious encounters and minor military clashes with its neighbours. In recent years, since 2005, there have been naval clashes with Indonesia over overlapping claims in the "Ambalat" area of the Celebes Sea claimed by both countries. Malaysia has maintained consistent cooperation with Brunei, with a major agreement signed in 2009, while its most acrimonious relations in the past have been with the Philippines, which still has not formally withdrawn its claim to the Malaysian state of Sabah. The signing in 2006 of an agreement between PETRONAS, Malaysia's national oil and gas corporation, with China's Shanghai LNG company has interesting implications for Malaysia-China SCS relations and suggests that cooperation rather than confrontation could be the order of the day for the two claimants. To date, China has not entered into any joint development with Southeast Asian states in the South China Sea.

More recently, on May 6<sup>th</sup>, 2009, Malaysia-Vietnamese cooperation has taken the form of a submission to the Commission on the Limits of the Continental Shelf (UNCLOS) notifying the two countries' extended continental shelf claims in the SCS. The area covered was within the 200 nautical mile limit of the two countries and included part of the Spratly Islands and its adjacent waters. Malaysian Prime Minister Najib Razak said both countries had "more or less" sorted out the portions each country owned.

The very next day, on May 7<sup>th</sup>, China filed a note with the UN Secretary-General objecting that the area claimed was under Chinese sovereignty. Malaysia responded with a note asserting its legal right to claim the area and stating that it recognised the overlapping claims by various countries over the same territory. During his state visit to China in June, Razak intimated that China and Malaysia had reached an understanding and agreed to continue negotiations over all territorial disputes.

It is obvious, however, that the Malaysia-Vietnam joint submission would be problematic simply because of the multiple claimants to the SCS entities and, in particular, China's expansive U-shaped claim. The Philippines may have recently clarified matters for themselves by resorting strictly to an islands regime approach. However, the overall problem of multiple claimants also explains why the Joint Development Areas (JDAs) have been slow to take shape. Malaysia now has one major JDA with Brunei, which was agreed in 2009. According to Wisma Putra, Malaysia's Ministry of Foreign Affairs, the talks leading to the signing of the agreement represented the culmination of 20 years of tough negotiations. The two sides agreed to 'unsuspendable rights of maritime access', which guaranteed the right of movement by Malaysian vessels through Brunei territorial waters, provided Brunei's laws and regulations are observed. The Malaysian statement maintained that the settlement was premised on

**Figure 2: Malaysia-Brunei Commercial Arrangement Area**



UNCLOS principles, but it would appear that Malaysia has given up sovereignty claims to the Brunei Blocks of J and K in return for the establishment of a 40-year joint Commercial Arrangement Area (CAA) for purpose the exploiting of oil and gas. This development seemingly represents a new modality in the practice of JDAs. In the past, JDAs remained as disputed territories, with parties involved not agreeing to any finality of sovereign claims. In effect, Malaysia and Brunei may have taken the level of cooperation on disputed territories in the SCS to a new level but there remain elements of the bargain to which the public is not privy.

## CONCLUSION

Every era creates new parameters for political actors in international relations. Malaysia, as a small state, sometimes aspiring to be a 'middle power', has been able to adapt its foreign orientations and policies over the years. In the mid 1970s, its leaders devised policies consistent with a non-alignment posture. Yet with the formation of ASEAN and its growing influence, Malaysia was able to fashion relationships, together with other regional states, to bring about a high level of peace and stability in Southeast Asia whilst maintaining stable relations with outside powers.

ASEAN and its various instrumentalities are likely to remain as the basis on which Malaysia seeks to address the new dynamics of relationships in the region, and in particular the role of the US in the face of a more political assertive China. Under the Obama Administration, the US has returned with a new sense of mission to balance China's enhanced influence and presence in the region. Moreover, the changing politics of Southeast Asia itself, such as the political developments in Myanmar and the problems arising from the South China Sea, have conspired to re-engage the US in Southeast Asia.

The challenge for states like Malaysia in the face the changing political economy of the region, is whether it will hitch its wagon to an emerging China-linked East Asian economic integration or the larger Trans-Pacific Partnership (TPP) led by the United States. Malaysia, while having just joined the TPP, is unlikely to abandon East Asian integration in the long run.

Malaysia has remained an active player in the region by continuing to act to enhance ASEAN's norms, policies and preferences in maintaining Southeast Asia as a zone somewhat autonomous of major power dominance, but with a measure of engagement. The idea of a Nuclear-Weapon Free Zone for Southeast Asia (SEANWFZ), has been something which Malaysia has always supported, and remains as one modality of maintaining an equidistant relationship with the major powers. In 2012 Malaysia hosted the inaugural conference of the US-inspired Global Movement for the Moderates in Kuala Lumpur, but such vague groupings are unlikely to replace the more time-tested ASEAN.

Malaysia, like most of its fellow ASEAN states, is certainly committed to the three pillars of regional community building, namely, a political-security community, an economic community and a socio-cultural community. However, most of these goals remain amorphous and will most certainly not be achieved in the short or medium term. While it could be argued that ASEAN has become a pluralistic security community, most observers do not believe that ASEAN could become a fully-fledged economic community by 2015. This said, ASEAN remains the bedrock for regional relationships and Southeast Asia's own 'pivot' for its relationships with outside actors and powers. ■

# ➤ Myanmar: Now a Site for Sino–US Geopolitical Competition?

Jürgen Haacke

**A**fter the suppression of political protests in 1988, the United States' Burma policy was primarily focused on the restoration of democracy and support for Daw Aung San Suu Kyi and the National League for Democracy (NLD). The strong anti-regime thrust of this policy meant that until 2011, when the ruling military junta, the State Peace and Development Council (SPDC; previously known as the State Law and Order Restoration Council, or SLORC) handed over power to a nominally civilian government, Washington consistently ostracised Myanmar in international society. Moreover, the US systematically applied unilateral, broad-based sanctions, and persistently called for a genuine dialogue with the political opposition that would ultimately lead to a transfer of power. Very much influenced and buttressed by a network of exiled Burmese dissidents and solidarity organisations, various human rights and pro-democracy groups, as well as overwhelming support in both houses of Congress, US policy nevertheless failed to force Myanmar's leadership to compromise, let alone abandon their own political roadmap, as initiated in 2003. In the face of considerable US pressure, Naypyidaw relied above all on China for diplomatic protection at the UN Security Council, as well as financial assistance and expertise for limited economic development.

In 2009, the incoming Obama administration initiated a comprehensive policy review of US Burma policy that led to the adoption of a more pragmatic, yet still 'principled' policy of engagement vis-à-vis Naypyidaw. The principal policy change concerned the adoption of a senior-level dialogue alongside existing sanctions. For almost two years though the policy shift failed to produce major results, notwithstanding Daw Aung San Suu Kyi's release from house arrest during this time. However, within months of former Prime Minister U Thein Sein becoming the first President under the 2008 Constitution in late March 2011, the careful rapprochement between Washington and Naypyidaw, started two years earlier, soon paved the way for warmer bilateral relations. This happened when, from mid-2011 onwards, the new nominally civilian government opted to embark on a process of national reconciliation that in many ways satisfied American demands and hopes for such a process.

Interestingly, at a time when US policy toward Southeast Asia is widely seen to be underpinned by concerns regarding the People's Republic of China, the Obama administration suggested that its more pragmatic policy toward Myanmar was fundamentally about supporting democracy and human rights as well as stability and greater prosperity in Burma, rather than being about China. As Secretary of State Hillary Clinton put it:

'... we are not about opposing any other country; we're about supporting this country [Myanmar]... as I specifically told the president and the two speakers, we welcome positive, constructive relations between China and her neighbours... So from our perspective, we are not viewing this in light of any competition with China.'<sup>1</sup>

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1 Hillary Rodham Clinton, Press Availability in Nay Pyi Taw, 1 December 2011, [www.state.gov/secretary/rm/2011/12/177994.htm](http://www.state.gov/secretary/rm/2011/12/177994.htm)

While taking seriously the declaratory objectives of US Burma policy, this short paper will examine in what ways Myanmar nevertheless is already becoming a potentially significant site for Sino-US geopolitical competition in Southeast Asia. It will do this in three steps. First, it will assess whether it is plausible that the declared goals fully capture the rationale underpinning US Burma policy, given its broader regional policy and strategy. Second, the paper will briefly explore China's ambitions in Myanmar, as well as Beijing's reaction to Washington's efforts to normalise and deepen relations with Naypyidaw. Finally, the paper discusses both in what ways Naypyidaw's rapprochement with Washington fits the historical pattern of Myanmar foreign policy, and what this means for Myanmar's management of Sino-US competition.

## **THE OBJECTIVES OF THE OBAMA ADMINISTRATION'S BURMA POLICY**

The democratisation of Myanmar has constituted an important US policy objective for all recent U.S administrations. However, the embrace of pragmatic engagement in 2009 was an acknowledgement by the Obama administration that relying solely on sanctions in pursuit of political reforms and change in Myanmar made for a poor and failed strategy, and that better foreign policy instruments were available to the US to achieve this goal. Under Obama, dialogue thus became an important complement to sanctions. State Department officials in particular have played an important role both in the lead up to and since the initiation of the political process involving the new Myanmar government and Aung San Suu Kyi. These officials have communicated to Naypyidaw US expectations of the necessary steps and reform measures to advance the bilateral relationship. They have also closely interacted with Suu Kyi regarding political developments and her possible options in the context of political transition and the generational change at the top of Myanmar's (ex)-military leadership. US officials as such also seem to have played a key part in Suu Kyi's reassessment of how to approach those former military leaders now at the helm of the new civilian government. Similarly, US officials have discussed both with the government and ethnic groups the issue of national reconciliation.

Beyond the goal of promoting political freedoms and democratic governance in Myanmar, the adoption of a more pragmatic Burma policy also served other objectives. One was the strengthening of US relations with ASEAN. Although the George W. Bush administration had not overlooked Southeast Asia, Washington was soon primarily preoccupied with operations in Iraq and Afghanistan to the perceived detriment of its ASEAN ties. Bush's critics within the US had pointed to significant long-term policy drift that put at risk American economic, political and security interests, and called for a comprehensive ASEAN strategy that recognised both Southeast Asia's interest in global free trade and its important role in structuring regional security dialogues. The Obama policy team had also appreciated that President Bush's hard-edged Burma policy had to some degree complicated relations with the Association as a whole because Washington had applied pressure on ASEAN countries to advance political change in Myanmar. Though promoting such change was to some extent shared by regional countries, ASEAN governments generally thought that a policy focused on sanctions and ostracism was counterproductive. They preferred economic and diplomatic engagement. Worrying though from a Southeast Asia perspective was that Washington seemed prepared to hold the further development of ties with ASEAN hostage to the situation in Myanmar. Such perceptions and assessments, not least those from within ASEAN, required a response. The review of US Burma policy and Washington's decision to embark on a more pragmatic approach can thus be seen as part of an attempt not only to be effective in bilateral relations with Myanmar, but also to refashion US ties with ASEAN. When the policy adaption was announced, ASEAN countries welcomed it.

The Obama administration's focus on strengthening ties with ASEAN as an organisation, as well as with its member-states cannot, however, really be considered outside the context of China's rise as a great power and its deepening ties with Southeast Asia. China's relations with the ASEAN states had greatly improved on the back of the China-ASEAN free-trade agreement and Beijing's offer of Chinese aid, especially to countries in continental Southeast Asia, not least Myanmar.<sup>2</sup> It seemed that even countries such as the Philippines and Indonesia were susceptible to China's charm offensive and associated economic carrots. When the East Asia Summit, organised and nominally led by ASEAN, held its inaugural leaders' meeting in 2005, Washington was excluded, much to its concern.

To be sure, the United States has for some time generally welcomed China's growing stature and weight. However, Washington has also been concerned about China's growing military capabilities and it has sought to influence China's foreign policy choices by shaping the latter's regional environment, not least by revitalising relations with alliance partners and friendly states. The Bush administration suggested in 2005 that China should become a 'responsible stakeholder' in regional and international society, while simultaneously hedging against the possibility that Beijing would not. The Obama administration advanced a similar official position vis-a-vis China by emphasising the need for 'strategic reassurance', while continuing a dual strategy of engagement and balancing.<sup>3</sup>

The Obama administration has not only been prepared to counter and offset China's earlier charm offensive in Southeast Asia, but also to confront, for instance, what has been perceived as renewed Chinese assertiveness in the South China Sea. This has involved emphasising the importance of the freedom of navigation and diplomatically challenging Beijing regarding its actions and claims in the South China Sea. In November 2011, for instance, Hillary Clinton made clear that while Washington did not take a position on any territorial claim, the claimants should not resort to intimidation or coercion to pursue the latter.<sup>4</sup> That month, the United States also announced the deployment of a rotating contingent of 2,500 troops to Darwin, Australia.

Notably, the Obama administration continues to argue that it wants a 'strong progressive partnership' with Beijing, while asserting that the US is 'destined to play a strong critical, primary role in the Asia Pacific region for decades to come'.<sup>5</sup> To secure America's leadership role in the Asia-Pacific, the administration has identified six lines of action:

1. Strengthening bilateral security alliances;
2. Deepening US working relationships with emerging powers;
3. Engaging with regional multilateral institutions;
4. Expanding trade and investment;
5. Forging a broad-based military presence;
6. Advancing democracy and human rights.

These lines of action all form part of what has been referred to as Obama's 'pivot' towards the Asia-Pacific. In substantive terms, this involves, for instance, promoting the Trans-Pacific Partnership and joining the East Asia Summit. However, what Hillary Clinton called 'forward-deployed diplomacy' aims to make use of the full range of US diplomatic resources to 'every country and corner of the region'.<sup>6</sup> These diplomatic efforts to advance the security and prosperity of the region are underpinned by the US military's 'rebalancing'

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<sup>2</sup> See Bronson Percival, *The Dragon Looks South: China and Southeast Asia in the New Century* (Westport, CONN: Praeger Security International, 2007), Robert G. Sutter, *China's Rise in Asia: Promises and Perils* (Lanham, MD: Rowman & Littlefield, 2005).

<sup>3</sup> As Deputy Secretary of State James Steinberg put it in October 2009, 'China must reassure the rest of the world that its development and growing global role will not come at the expense of the security and well-being of others.'

<sup>4</sup> Paul Eckert and Manuel Mogato, 'Clinton warns against intimidation in South China Sea', Reuters, 16 November 2011, [www.reuters.com/article/2011/11/16/us-philippines-clinton-idUSTR7AF0JZ20111116](http://www.reuters.com/article/2011/11/16/us-philippines-clinton-idUSTR7AF0JZ20111116)

<sup>5</sup> Kurt M. Campbell, 'US Engagement in Asia', Remarks at the Institute of Security and International Studies, Chulalongkorn University, Bangkok, 10 October 2011.

<sup>6</sup> Hillary Rodham Clinton, 'America's Pacific Century', Remarks at the East-West Center, Honolulu, 10 November 2011.

towards the region.<sup>7</sup> Put differently, the US military is tasked to back principles of open and free commerce, the rule of law, open access by all to their shared domains of sea, air, space, and cyberspace, and resolving disputes without coercion or the use of force. To achieve this task Secretary of Defense Leon Panetta has announced 'a sustained series of investments and strategic decisions to strengthen our military capabilities in the Asia Pacific region'.<sup>8</sup>

Obama administration officials may insist that their goal is to improve 'strategic trust' between China and the United States. However, it is difficult to conclude that there is not a significant lack of trust that is very difficult for both sides to overcome. Chinese analysts increasingly see Washington moving beyond strategic ambiguity to embracing a containment strategy.<sup>9</sup>

Given this broader context of US-China relations, the United States' new Burma policy remains geared to the promotion of democratic governance and national reconciliation, but under President Obama it has arguably from the start also been made with China very much in mind. Statements regarding Myanmar initially made by administration officials may not always fully acknowledge this, given the significant and longstanding bipartisan support for regime change in Burma. However, the larger strategy outlined by the Obama administration supports this assessment. Also, it is useful to recall, for instance, that Assistant Secretary of State Kurt Campbell, who has been personally very much involved in leading the shift in Washington's approach toward Myanmar, not only focused extensively on China's rise and the balance of power in Asia before joining the administration, but has also been at the very heart of recalibrating US strategy toward the region. Similarly Ambassador Derek Mitchell, who in 2011 became the special representative and policy coordinator for Burma and then took up the long vacant post of US ambassador to Burma, may have had a longstanding interest in Myanmar, but he also remains known for his very significant expertise and contributions on developing strategy toward Southeast Asia and the wider East Asia-Pacific.

## **CHINA'S MYANMAR POLICY**

In the context of Deng Xiaoping's twin policies of reform and opening up to the outside world, Chinese policy advisors were emphasising the significance of Myanmar's geographical position by the early to mid-1980s. However, it was not until the beginning of this century that major infrastructure projects, such as the future oil and gas pipelines traversing Myanmar, were agreed. Today, Chinese SOEs are heavily invested in Myanmar's natural resource sector. Politically, China's government continues to celebrate its longstanding 'paukphaw' (kinship) relationship with Myanmar that was first formed in the 1950s, while Chinese leaders have generally appreciated the entrenched sense of nationalism among Myanmar's military leadership and its preference for foreign policy diversification.

Anecdotal evidence suggests that Chinese analysts working on Southeast Asia and Myanmar thus immediately understood that the 2009 US Burma policy review alone might be understood in Naypyidaw as an opportunity to open up new diplomatic space for decision-makers. China's government actually welcomed the Obama administration's pragmatic engagement policy; earlier, China had itself facilitated an unsuccessful dialogue meeting between Myanmar and US officials in 2007. However, more recent developments, not least the US' role in Myanmar's dramatic embrace of political and economic reforms, and the Thein Sein government's rapidly improving ties with the Obama administration, would seem to have left Beijing both startled and concerned.

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7 See US Department of Defense, *Sustaining US Global Leadership: Priorities for 21st Century Defense*, January 2012.

8 Leon Panetta, 'The US Rebalance Towards the Asia-Pacific', 11th IISS Asian Security Summit (Shangri-La Dialogue), 2 June 2012.

9 Lanxian Xiang, 'China and the 'Pivot'', *Survival* 54 (5) 2012, p.117.

During the decades in which various US administrations sought to break the military regime's political will, China had emerged as Myanmar's largest foreign investor, a key trading partner, and a very significant source of finance and expertise. The outcome of the US Burma policy review in September 2009 did not immediately threaten to alter the contours of this structural position, just as it did not immediately engender a fundamentally different relationship between Naypyidaw and Washington. Arguably, Chinese decision-makers were content to see that while the SPDC was in power the new US Burma policy had little effect on either Myanmar's relations with Washington or the domestic politics of Myanmar itself.

China's government apparently expected this state of affairs to continue even after the transition in late March 2011 to a nominally civilian government, despite Suu Kyi's release the previous November and ongoing international clamour for political change. Indeed, the overwhelming victory of the USDP in the problematic and much criticised 2010 elections followed by the transfer of power to a younger generation of former military leaders, which saw long-serving Prime Minister Thein Sein become Myanmar's new President, seem to have led China's government to initially believe that the new government in Naypyidaw would not significantly deviate from longstanding SPDC positions, not least on national reconciliation and political reforms. With an elected and hence arguably more legitimate government in place, China itself pushed for a comprehensive strategic cooperative partnership, which was formally agreed during U Thein Sein's first visit as President to Beijing in May 2011.

From Beijing's perspective, such a partnership would build on and reinforce its existing economic and political relationship with Naypyidaw. In 2006-7 China provided Naypyidaw with important diplomatic protection, as Washington and London claimed that Myanmar posed a threat to regional peace and stability. This culminated in the China-Russia double veto in January 2007 of a draft resolution introduced by Washington and London at the UN Security Council. China itself became subject to considerable US diplomatic pressure following the veto. Yet rather than acquiesce to American calls for sanctions or add to international pressure for regime change, Beijing went no further than favouring an acceleration of the military's own political roadmap to democracy. This support for the military government reflected China's abiding interest in Myanmar's political stability. There were also specific interests, both for Yunnan – China's southern province that borders Myanmar – and Beijing, including border security, the safety of Chinese investments, and the construction and future operation of dual gas and oil pipelines from the Bay of Bengal to Yunnan.

Moreover, at one level, China's push for a comprehensive strategic partnership was not that remarkable because Beijing had already agreed similar partnerships with numerous other countries both within Southeast Asia and beyond. However, active bilateral diplomacy conducted in this context revealed a significant interest among Chinese political and military leaders in expanding the limited military cooperation that has characterised Sino-Myanmar relations to date. China's desire for greater military cooperation seemingly was rooted in its strategic interest in access to the Bay of Bengal, in the context of Beijing's apparent longer-term objective to develop a naval presence in the Indian Ocean. A plan of action to implement the partnership was endorsed by foreign ministers Jian Jiechi and U Wunna Maung Lwin in July 2011. What specific new forms of military cooperation, if any, have been agreed is not clear.

Indeed, following President U Thein Sein's visit to Beijing in May 2011, Chinese decision-makers soon enough found bilateral ties exposed to new political currents within Myanmar as President U Thein Sein suspended the massive Myitsone hydropower project in Kachin State in late September, which the China Power Investment Corporation had been constructing since late 2009. This decision was ostensibly taken in response to widespread domestic opposition reportedly also supported by Aung San Suu Kyi. In Western countries the suspension was mostly understood as a symbolic move against overbearing Chinese influence. For Beijing the

decision arguably raised questions about its relations with Myanmar more generally and the implications for this and other Chinese investments in Myanmar more specifically.

The pace of improvements in US-Myanmar relations since August 2011 has exceeded most expectations, and both Washington and Naypyidaw were moved to reassure Chinese officials when Secretary Clinton visited Myanmar in December that year. Since then, however, US-Myanmar ties have continued on their upward trajectory as highlighted by President U Thein Sein's visit to the US in September 2012.

The Chinese government may voice understanding for Myanmar's efforts to diversify its international partners, but nevertheless will find any move towards possible alignment between Washington and Naypyidaw difficult to accept in practice. Yet over time limited alignment is likely to be sought by the United States; certainly the Obama administration's aim is for Washington to forge a better relationship with Myanmar than it currently enjoys with Vietnam. Many in China thus see the change in US Burma policy as part of a larger effort to encircle and contain China. From Beijing's point of view, the changes in bilateral relations to date probably already imply that the scope of China's future cooperative relationship with Myanmar could be more limited than previously expected: political-military cooperation represents the area most likely affected, but normalised relations with Washington will of course also allow Myanmar to seek alternative sources of capital and expertise from international financial institutions, Japan and Western countries.

With America keen to deepen its warming ties with Myanmar, China's government has openly stated its expectations pertaining to Naypyidaw's future foreign policy orientation. For instance, in talks with former Vice President U Tin Aung Myint Oo, State Councillor Dai Bingguo declared China's interest in a 'peaceful, stable, independent and prosperous Myanmar'. Chinese leaders have also called for strengthening strategic trust between the two countries, as well as improved coordination and cooperation. Some have even proposed the consolidation of ties between the Communist Party of China and Myanmar's Union Solidarity and Development Party.

Beyond such rhetoric, China has also sought to take concrete steps to rebuild confidence and reinforce its relations with Naypyidaw. For instance, Chinese interlocutors have continued to facilitate dialogue between the government and some armed ethnic groups. China's recent response to Kachin refugees seeking refuge along and across its border was also more measured than some might have expected given its previous reaction to the military and political decapitation of former Kokang leader Peng Jiasheng in 2009. Not surprisingly, China's government has unambiguously voiced support for Myanmar's economic reforms and development goals. When the United States and Europe were debating how and when to dismantle sanctions imposed against the SPDC, Beijing pointedly reiterated its call on Western countries to lift sanctions to promote stability and development in Myanmar. Also around this time, in New York, Beijing proposed that the Myanmar 'Group of Friends' at the UN assume a more practical role to bolster the country's economic development. These positions and initiatives suggest that PRC decision-makers are loathe to cede political ground to Washington,, attesting to a competitive dynamic at play. How is this competition likely to affect Myanmar's foreign policy?

## **MYANMAR FOREIGN POLICY**

Historically, Myanmar's political leaders have pursued a nonaligned foreign policy to manage the complex mix of external and internal political-security pressures that the country has confronted since independence. Despite this nonalignment, China has always had a special place in Myanmar foreign policy, which to some extent has found expression in emphasis on the kinship or 'paukphaw' character of their relationship, and the Five Principles of Peaceful Coexistence. While China presented a multifaceted challenge for Burma during the SLORC/SPDC years, Naypyidaw was able to rely on the People's Republic for diplomatic support and protection, especially when the United States sought to exert concerted multilateral pressure at the UNSC. Yet even during this period, however, Myanmar formally pursued a nonaligned foreign policy, and at most entertained with Beijing what might be called limited alignment in practice.

While taking advantage of Beijing's diplomatic cover, the increasing economic dependence on China in the face of Western sanctions was becoming a major concern for Myanmar's nationalist military leaders. Veteran Burma analyst Bertil Lintner has repeatedly stressed that an internal study of Myanmar-US relations calling for improvements in bilateral relations to alleviate the potential costs of Myanmar's reliance on China conducted by Naypyidaw as early as 2004.<sup>10</sup> In the event, the top military leadership clearly found it difficult to balance ties with China by building a better relationship with the United States for as long as the George W. Bush administration was in power, although the SPDC's interest in a dialogue with Washington was communicated both before and after the completion of its political roadmap in September 2007. Only with the Obama administration undertaking a review of Burma policy did a promising opportunity for a constructive new relationship with the US emerge.

Warmer ties with the United States are bound to yield many positives. American investments in Myanmar are now again possible, which should contribute at minimum to the creation of some new jobs; important in this regard is also the opportunity for Myanmar-based producers to export again to the US. Moreover, Myanmar's evolving relationship with Washington is bound to result in the renewal of educational and institutional capacities, as well as social capital. Bilateral and wider international assistance to deal with urgent humanitarian and development issues within the country will also become available. This, in turn, should make it more likely, for instance, for the Thein Sein government to successfully address not least the complex emergency that has characterised the country for long.

The new relationship with Washington has not only served to help legitimise the incumbent government, but also allowed Myanmar leaders to cast aside representations of the country as a pariah state in regional and international society. It has also made possible the wider rebalancing of Myanmar's external relations. Countries that were erstwhile persuaded or pressured by Washington to play hardball with the military government have been able to reconsider their position toward Naypyidaw. Quite striking, for instance, is Japan's planned level of future economic engagement, which would have been impossible during SPDC rule, but which the Thein Sein government has successfully encouraged. Meanwhile, Myanmar's fellow members in ASEAN are keen for Naypyidaw to reinforce Southeast Asian regionalism, whereas before Myanmar was collectively criticised and at times isolated. Clearly, Myanmar sees ASEAN as having a very important political function, underlined by its application to assume the Association's chairmanship in 2014. Regarding new avenues of military cooperation, Myanmar seems destined to attend as an observer the forthcoming Cobra Gold exercise, the largest multilateral exercise the United States conducts in the Asia-Pacific region. Organised in Thailand on an annual basis, Cobra Gold involves several other participating countries from Southeast and East Asia, such as Indonesia, Malaysia, Singapore, South Korea and Japan.

Notwithstanding these developments, it is difficult to envisage Myanmar breaking anytime soon with a key pillar of its foreign policy, namely the principle of nonalignment. The rebalancing of Myanmar's foreign relationships to date seems entirely compatible with contemporary practices of nonalignment. The reform policies enacted hence are unlikely to mean that China will no longer have a special place in Myanmar diplomacy. After all, China is an established cooperative partner and a direct neighbour. Burning bridges with China is thus not in Naypyidaw's interest.

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<sup>10</sup> See, for instance, Bertil Lintner, 'Realpolitik and the Myanmar Spring', *Foreign Policy*, 30 November 2011, [www.foreignpolicy.com/articles/2011/11/30/democracy\\_myanmar](http://www.foreignpolicy.com/articles/2011/11/30/democracy_myanmar) [accessed 2 December 2011]. The study was authored by Lt Col Aung Kyaw Hla at the Myanmar Defense Services Academy.

Also, it seems likely that at least the government of President U Thein Sein will not want to be too beholden to Washington, just as it does not want to be too beholden to Beijing. Indeed, the opening to America is not devoid of its own challenges. The odd piece of anecdotal evidence suggests that some of Myanmar's officials feel that Washington is pushing rather hard even at this stage for new forms of bilateral cooperation. What remains to be seen is whether long-held memories and suspicions of the United States have already dissipated across the political and military leadership.

So far, warmer ties with the US have hinged on President Thein Sein following through not only with the necessary steps and concessions that have allowed Daw Aung San Suu Kyi to rejoin and legitimise the political process started under the SLORC/SPDC, but also a series of other important steps, such as the release from prison of critics of the former military regime. Given the results of the 2012 by-elections, in which the NLD thrashed all other political parties, there remain questions about the political future of those who won office on the back of the problematic 2010 elections. It is also far from clear whether the constitutional changes to which Daw Suu Kyi aspires will be achievable before the 2015 elections. While the Obama administration has offered backing to President U Thein Sein's government in support of his willingness to engage in reforms, American policy makers are bound to watch closely how Myanmar's former generals will manage the process of political change over the next few years.

## **CONCLUSION**

As the Obama administration is keen to support Thein Sein's dual project of political reconciliation and economic reforms, with China's rise clearly in mind, the geopolitical competition over Myanmar between Washington and Beijing is set to intensify. The present US role in Myanmar's political and economic reforms will in all likelihood lead in the future to a greatly expanded presence in the country. By comparison, China's often much exaggerated political hold over Naypyidaw has taken a knock with US-Myanmar rapprochement. Its significant economic presence in Myanmar will continue, however. Significantly, far from pulling back, the Chinese leadership also seems eager to continue to boost the bilateral relationship with Naypyidaw, which will probably prompt more rounds of competition for greater influence between Beijing and Washington concerning Myanmar.

By normalising relations with Washington, Naypyidaw will have gone some way to restoring the balance historically favoured in Myanmar's external relations. To progress with its domestic reform agenda, the Thein Sein government seems committed both to warmer relations with Washington as well as pursuing the comprehensive strategic cooperative partnership it agreed with China. However, evidence suggests that the Thein Sein government knows it will need to carefully manage the attention and interest from both Beijing and Washington.

Finally, one should not assume that developments in Myanmar over the next three years will necessarily amount to an entirely smooth political transition. So far the NLD has been the major beneficiary in party political terms from the present process of reconciliation long urged by Washington. With the political future of representatives and officials of the previous regime possibly in doubt, there is at least the question over how much internal pressure the President will yet face and be able to resist regarding a possible recalibration of the current political course and concessions in the name of national reconciliation. In turn, the resulting decisions of this process are likely to affect Naypyidaw's relationship with Washington and Beijing. ■

# ➤ The Philippines

Emmanuel Yujuico

**The Philippines is no stranger to geopolitics. It stood near the frontier of ideological struggles as the Cold War raged in the Asia-Pacific. Not only did American bases in the Philippines figure in the Korea and Vietnam conflicts, but the Philippine Expeditionary Force to Korea (PEFTOK) also fought on behalf of the United States against North Korean and Chinese forces. In the post-Cold War era, however, the Philippines finds itself in a changed world. In 1991, the United States left Clark Air Force Base and Subic Naval Base as the communist threat to the region receded. Few probably suspected then that the Philippines would have to reckon with another rising, ostensibly communist power, in a few years' time.**

Alike practically all other countries and regions, the Philippines has had to consider the relative rise of China amidst American decline. However, its foreign policy interests are contextually shaped by its American colonial legacy and enduring ties with the United States on one hand, and its historical influences from and geographical proximity to China on the other. Another layer of complexity is added by the Philippines being part of the Association of Southeast Asian Nations (ASEAN), in which fellow member nations have their own ideas about their collective role in responding to Sino-American tussles over regional hegemony.

This contribution will review the sociohistorical, military and economic factors that shape Philippine foreign policy towards China and the United States. When these factors are considered, it remains evident that the United States retains an advantage over China in having closer relations with the Philippines. That said, the United States would be mistaken to think that it has implicit backing whenever the Philippines must choose between rewarding Chinese or American interests. That said, the Chinese may yet discover that influence over the Philippines' external relations also has its price. Sociohistorical, military and economic advantages that either China or the United States holds in its dealings with the Philippines are not fungible or readily transferrable into advantages in other realms, since cultural, military and economic actors differ, while Philippine public opinion tends to fixate on current events.

## **SOCIOHISTORICAL ASPECTS**

If the contest between China and the US for Filipino affections solely concerned cultural affinity, then the United States would have a convincing advantage. Despite its American period of colonisation being far shorter than its Spanish one, the Philippines' ties with the United States are deeper and more extensive. While Chinese interactions with residents of the Philippine islands date back to a far earlier time, China itself has largely been unable to translate sociohistorical linkages into 'soft power' that it can leverage.

As Michael Cox argues elsewhere in this report, part of the United States' lasting appeal lies in foreigners being able to see themselves as emigrants living some variant of the American Dream. Nowhere is this intuition more evident than with Filipinos, who have been among its most avid consumers. Despite the Philippines' population being less than a tenth of China's, Filipino-Americans lag behind only Chinese-Americans as the second largest Asian minority in the United States. With Philippine education and medical

systems modelled on those of the US, Filipinos fluent in English have readily assimilated into American society, reaching native standards of living when windows of opportunity have opened.

Filipino entertainment is also heavily influenced by Filipino successes breaking into the mainstream of American pop culture. Arnel Pineda from Olongapo City near Subic Bay became an overnight sensation when Neal Schon of the San Francisco-based band *Journey* made Pineda their new lead singer after watching him perform on YouTube. Similarly, Charice Pempengco gained global fame by appearing on the hit TV show *Glee* playing an exchange student. Boxer-turned-congressman Manny Pacquiao has earned most of his fame in Las Vegas bouts, even boasting that he helped Democratic Senator Harry Reid win re-election in 2008 by asking Filipino-American Nevadans to vote for Reid. Hence, a colonial mentality remains evident in how Filipinos view 'making it big' as doing well in America.

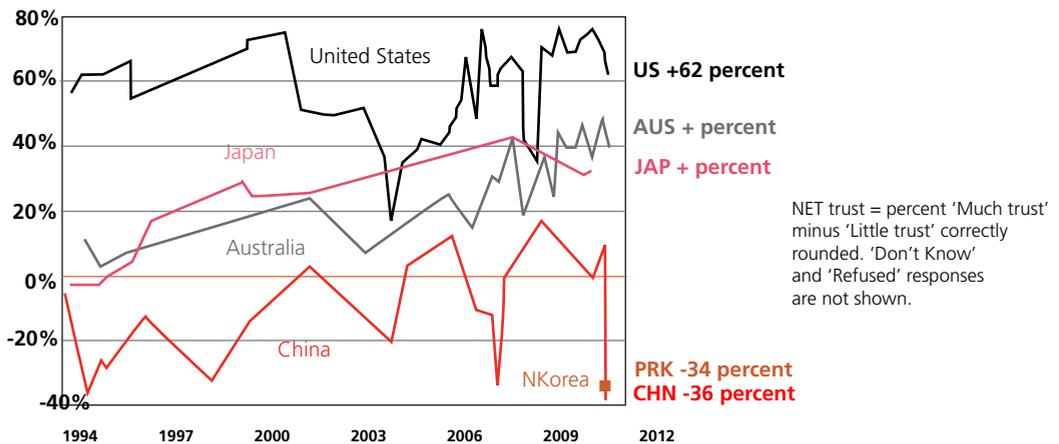
Vocal but minority voices aside, it comes as no surprise that Filipinos generally regard their former colonisers warmly. Opinion poll after opinion poll verifies this assertion. Even after the Bush administration sullied world opinion of the United States, the Philippines still regarded it favourably. In a BBC World Service poll conducted after George W. Bush's re-election in 2004, 63% of Filipinos viewed his victory as conducive

for world peace and security – the most in a sample of eighteen nations. Pertinently for this discussion, Philippine opinions of China are not as favourable and routinely rank well below those expressed for the United States.

To be sure, the Philippines is heavily influenced by Chinese culture and history. Historians believe that Chinese traders have plied their wares in the Philippine islands since the ninth century, with many subsequently settling there. Further, it has been led by persons of mixed Chinese ancestry in current President Benigno Aquino III as well as his mother, Corazon Aquino. The Philippine's national hero, the novelist Jose Rizal, was likewise a Chinese *mestizo*. As elsewhere in the region, Filipino business elites are predominantly of Chinese heritage. Chinese New Year is even a national holiday in the Philippines.

Yet, from a foreign policy standpoint, it is remarkable that China has been unable to translate these historical influences into something more substantial. Opinion polls reflect guardedness among Filipinos who are more likely to distrust than trust China, especially after 2012's run-ins at the disputed Scarborough Shoal which began when a Philippine navy vessel stopped Chinese fishing boats for allegedly taking endangered marine species illegally. In other words, the whole of these influences in winning over Filipino hearts and minds remains less than the sum of their parts.

**Figure 1: Net Trust in Selected Countries**



Source: Social Weather Stations Second Quarter 2012 Social Weather Report. <http://www.sws.org.ph/pr20120813.htm>

## SECURITY ASPECTS

An enduring stumbling block to closer Filipino-Chinese relations remains dominion over contested areas in the South China Sea lying near the Philippines. Although these areas are within the Philippines' 200 nautical mile Exclusive Economic Zone (EEZ) and are outside China's, the latter makes historical claims for dominion over them. Illustrating the contentiousness of this dispute, as a result of the recent incidences near the Scarborough Shoal, which began in April of 2012, President Aquino issued an administrative order renaming the maritime areas of the disputed Scarborough Shoal and Spratly Islands the 'West Philippine Sea.' Although estimates of their recoverable energy resources vary, few doubt their potential as well as their strategic importance for shipping and fishing. It is with regard to the South China Sea that China's charm offensive aimed at its Southeast Asian neighbours falls short.

China's military resources outstrip not just those of its Southeast Asian neighbours contesting islands in the South China Sea, but all of them put together. Naturally, China's diplomatic overtures have had to address Southeast Asian nations' concerns that the PRC may use its overwhelming military advantage to secure these waters.

Earlier this century, China made noteworthy conciliations that promised progress towards a durable resolution to the South China Sea dispute. In 2002, it signed on to the Declaration on the Conduct of Parties in the South China Sea (DOC), a '21st century-oriented partnership of good neighbourliness and mutual trust.' The following year, China became the first country outside the region to sign ASEAN's Treaty of Amity and Cooperation (TAC). Subsequently, however, China has not been able to build on earlier goodwill. Very limited progress has been made: ASEAN members attribute this to Chinese unwillingness to make the DOC a binding resolution. China could instead agree to take the matter to the International Court of Justice which adjudicates territorial disputes, or the International Tribunal of the Law of the Sea, which handles those over the interpretation of the UN Convention on the Law of the Sea (UNCLOS), and which all concerned have ratified.

Countries in the region believe that China's unwillingness to 'multilateralise' this dispute despite the DOC making references to international law in general - and UNCLOS in particular - stems from China's desire to maintain power asymmetries by dealing with ASEAN members individually instead of collectively. On their own, ASEAN parties to this territorial dispute like the Philippines and Vietnam have limited capabilities in terms of military might or diplomatic clout. Whether this truly is China's intention or not, this 'divide and conquer' perception certainly does not help the tenor of Filipino-Chinese relations.

Conversely, a country which is *not* a signatory to UNCLOS – the United States – has been able to take advantage of Filipino-Chinese differences over the South China Sea, less through providing material assistance, but more by means of implicit guarantees. In 2010 when South China Sea claimant Vietnam held the rotating ASEAN chairmanship, it raised the matter at the ASEAN Regional Forum (ARF) meeting. US Secretary of State Hillary Clinton stoked the flames of the dispute when she stated that the United States had a 'national interest' in keeping the region's sea lanes open for trade. Although China denounced this action as intervention in a matter the US was not privy to, the US's declared stake in the South China Sea dispute vividly depicted its effort to reengage in the Asia-Pacific region.

That reengagement, following what Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell called 'a middle east detour' in the decade following 9/11, builds on historic security arrangements. Although the US left its Philippine bases in 1991, the Mutual Defence Treaty of 1951 still stands. Moreover, the US navy has participated with various Southeast Asian navies including that of the Philippines in annual Cooperation Afloat Readiness and Training (CARAT) exercises as well as the US-Philippine *Balikatan* (shoulder to shoulder) exercises. Pointedly, *Balikatan* exercises were held this year in Palawan near the Philippines' disputed claims with China. Prior to the Obama administration's 'pivot', the Philippines' longstanding difficulties with Muslim extremists and its measured pace of development compared to regional peers, meant it was receptive to assistance through participation in the global war

on terror. However, the South China Sea imbroglio has presented the US with a 'hegemony on the cheap' option as Southeast Asian claimants seek to hedge against a noncommittal China.

## ECONOMIC ASPECTS

Economically, the Philippines finds itself caught between China and the US as they compete for its affections. Unlike in the sociohistorical and security realms, neither holds a clear advantage. China has been better able to portray itself as sharing common ground with the Philippines. Once more, this situation illustrates the non-fungible nature of differing geopolitical resources.

Even now, the United States remains the Philippines' largest trading partner. Generally speaking, this relationship has been friendly, with a few minor exceptions such as a recent WTO case the US successfully brought against the Philippines over discrimination against imported liquor. US economic influence in the Philippines is extended via the presence in Manila of Washington-based lender the World Bank, as well as the Asian Development Bank, whose largest shareholder alongside Japan is the United States.

Merchandise trade aside, Philippine service exports also benefit from American consumers, with the country's move to a post-industrial economy heavily conditioned by the US market. Unbeknownst to many, the Philippines surpassed India as the world's call centre capital in terms of both employees and revenues in 2010. While higher value-added business process outsourcing (BPO) services remain in India, routine tasks such as customer service are now handled by Philippine-based outfits. This growth can be attributed to an innate hospitality coupled with a grasp of English – taught from primary school level onwards – and Filipinos' familiarity with American culture. In 2010, eighty percent of Philippine BPO exports went to the United States.

Nonetheless, questions remain about Philippine reliance on the United States as an export market. Not only has the US experienced an economic crisis that has forced its consumers to retrench, but American incomes have stagnated since the turn of

the new millennium. Despite the US market being by far the world's largest and the Philippines' advantages exploiting it, diversification remains welcome to cushion the local economy from shocks emanating from America.

China presents an interesting economic counterweight. Collectively, ASEAN is China's third largest trading partner after the EU and the US, surpassing Japan in 2011. Conversely, China is ASEAN's largest trading partner. Alike with its fellow ASEAN members, China has amassed a fair amount of goodwill with the Philippines in the economic realm. Here, China is better able to portray itself positively as a benign force interested in South-South cooperation for development, despite the competition China presents for a number of Philippine exports, including a number of light industries involving the manufacture of garments and textiles.

A watershed event in China's economic relations with its near neighbours was the Asian financial crisis of 1997/98. Many crisis-hit nations remain critical of how the then-prevalent 'Washington Consensus' orthodoxy of liberalisation, deregulation and privatisation was demanded by the US in exchange for IMF emergency funding. Socioeconomic hardships attributed to blanket implementation of such policies made Southeast Asian nations particularly wary of a repeat. To its credit, China then did not devalue its currency to remain export-competitive with these already-suffering nations. That when confronted with its own crisis America did exactly the opposite via *deliberalisation*, *reregulation* and *nationalisation* cast further doubt on American motives.

Aside from moving closer to ASEAN by joining the ARF and signing the TAC, a further pillar of China's bid for influence has been to set up economic mechanisms to prevent a repeat of the Asian financial crisis and enmesh China in regional trade. The Chiang Mai Initiative Multilateralisation (CMIM) establishes a common pool of emergency funding to deal with balance of payments issues. Together with Japan, China has the largest commitment to the fund at \$38.4 billion. Another mechanism is the Asian Bond Market Initiative (ABMI) that has seen total regional bond market issuances expand from \$196 billion in 1997 to \$5.9 trillion in 2012.

The Asian Financial Crisis was in no small part due to relying too much on capital from outside the region, when Asia has enormous savings that can be used for investment. Hence, the emergence of a wider and deeper regional capital market should benefit not only the region's savers but also its entrepreneurs.

The ASEAN-China Free Trade Agreement (ACFTA) agreed to in 2002 (and which came into effect in 2010) set ASEAN on a course to sign many more similar trade deals, including with South Korea, Australia & New Zealand, and India. ACFTA established a template for other economic suitors of ASEAN in joining ARF and signing the TAC *before* negotiating an FTA, thus linking security and economic matters. While economists complain about 'trade diversion' effects arising from multiple FTAs co-existing, the political ramifications of such deals may be equal to or even outweigh economic considerations.

The United States' pivot towards the region has followed a similar pattern. It only signed the TAC with ASEAN in 2009. Prior to that, the United States, in contrast to China and ASEAN's ACFTA, had had next to no success in establishing an FTA in the Asia-Pacific. The Asia-Pacific Economic Cooperation (APEC) has been its preferred vehicle for launching such initiatives, but its proposed Early Voluntary Sector Liberalisation (EVSL) and Free Trade Area of the Asia-Pacific (FTAAP) have fallen to deaf ears. Despite its various security arrangements with America, the Philippines has not necessarily supported US efforts to promote an APEC-based FTA.

The same holds true at the present time with the much-hyped Trans-Pacific Partnership (TPP) enlargement discussions. In a case of 'if you can't beat 'em, join 'em,' the United States is seeking to expand an existing FTA whose membership consists of APEC members Brunei, China, New Zealand and Singapore. Wary of being frozen out of regional trade deals, the United States seeks to use TPP to not only safeguard its trade preferences (such as strong intellectual property provisions), but also to create bandwagon effects to blunt Chinese momentum. Already, American trade authorities have welcomed the participation of Australia, Japan, Malaysia, Peru and Vietnam. The lack of Philippine interest in TPP despite it being

an obvious American vehicle to maintain regional influence underlines the former's independent streak in economic diplomacy.

Along with many other developing members of APEC, the Philippines has been noticeably keener on technical assistance for capacity building. Signing on to several FTAs may be confusing or even detrimental, if the country in question does not have the institutional capacity to facilitate trade. Although lacking in glamour, processes such as improving utilisation rates of preferential tariffs, automating customs procedures and identifying countries of origin more readily are matters requiring attention. Insofar as the US does not always recognise that trade facilitation precedes and improves gains from trade liberalisation, it has had trouble gaining the favour of developing APEC members like the Philippines.

## CONCLUSION

After reviewing the sociohistorical, security and economic aspects of the regional contest for Philippine affections between the US and China, it is evident that no suitor has an outright advantage in all three. As we have seen, each suitor has its own set of idiosyncrasies when it comes to approaching this Southeast Asian nation. While their foreign policies do help shape Filipino views of the US and China, these policies alone do not solely shape such views.

On the balance, however, there remains a durable tie between the Philippines and the United States that China has yet to approach. In recent years, Chinese officials have invoked the peaceful voyages of Chinese explorer Zheng He to parts of the Orient and beyond in the fifteenth century as a historical example of goodwill: despite China's overwhelming economic and military clout then, the admiral did not colonise the places he visited, and this example is meant to soothe present concerns of developing nations of a once more ascendant Middle Kingdom. Yet, as far as the Philippines is concerned, the United States has been more successful in presenting Uncle Sam as a benevolent uncle than China has in casting Zheng as a peaceful voyager seeking support from other shores. Unresolved territorial disputes over the South

China Sea belie this desired image of benevolence – especially for the Philippines, which has been attempting to read the tea leaves over PRC policy on this matter for quite some time.

That senior Chinese officials hint the South China Sea is a 'core national interest', implying that it is on par with Taiwan and Tibet among PRC territorial priorities, inspires particular caution given China's military might compared to that of its neighbours. Still, the more jingoistic elements of this claim are counterbalanced by a need to elicit the support of others in the neighbourhood. It is here where the Philippines has attempted to play a better hand by using ASEAN as a middle power 'bully pulpit,' though again China has been more attuned to negotiating economic arrangements than security arrangements with ASEAN.

To the surprise of some, then, the US-Philippine relationship remains durable even at a time when the United States is supposedly losing its foothold in any number of countries and regions. Cultural affinity and blood ties between both nations run deep. While the Philippines now has several economic ties with China, public opinion suggests these are more out of economic necessity than any real affection. Moreover, the Philippine economy complements that of the United States more than it does China's, given linguistic differences and that Chinese and Philippine exports often find themselves in competition in third markets.

In simple terms, the Philippines remains a country for America to lose and one for China to gain in the great game of the Asia-Pacific, where each nation's endorsement matters in the contest for regional influence. ■

# ➤ The Pragmatic 'Little Red Dot': Singapore's US Hedge Against China

Robyn Klingler Vidra

*We are a little red dot but we are a special red dot. We are connected with the world, we play a special role. And we are not going to be in anybody's pocket.*

- Minister Mentor Lee Kuan Yew, 2009

**The cornerstones of Singaporean foreign policy towards the United States and China are constituted by security considerations, economic liberalism and a dedication to pragmatic non-alignment. Above all, pragmatism has led the Singaporean approach to the Eastern and Western powers. Diplomatically, Singapore aims to be neutral and free from alliances, even in its close relations with both the US and China. Security-wise, Singapore has called for the involvement of the US in Asia Pacific across the Cold War and Post-Cold War periods as a hedge to local regional powers, particularly in light of China's military modernisation. Access to the large American consumer market has been considered crucial to Singapore's economic 'miracle' but the American share of trade has declined in recent years as trade with Asian partners, and particularly with China, has accelerated. Singapore maximises economic opportunities through growing market ties with China, while avoiding bandwagoning. Singapore hedges its cultural, spatial and economic proximity to China with robust diplomatic, military and economic relations with the US and through regional participation in ASEAN and international organisations. By doing so, Singapore pursues its grand desire to remain uniquely Singaporean.**

Singapore punches above its weight. For a state with a mere five million residents and 700 square kilometres of land, its economic production, security position and political leadership in Southeast Asia are remarkable. Singapore's significance is also demonstrated by the time and attention it has received from great powers, including the US and China. The 'Little Red Dot' phrase comes from Former Indonesian President B.J. Habibie's remark during the Asian Financial Crisis, claiming that the non-green (i.e. non-Muslim Malay) state of Singapore was neither a friend nor of significance to him. Months later, Habibie's Indonesia faltered and was forced to seek help from the Little Red Dot of Singapore, among others, and the well-capitalised island nation acquiesced. To assure its own survival, small but significant Singapore has aided its neighbours when in need – due to financial crisis or natural disaster – regardless of ideological or cultural differences. Yet it has passionately avoided overly close alliance with, or becoming a 'satellite' of, regional great powers, be it the United States, Japan or China.

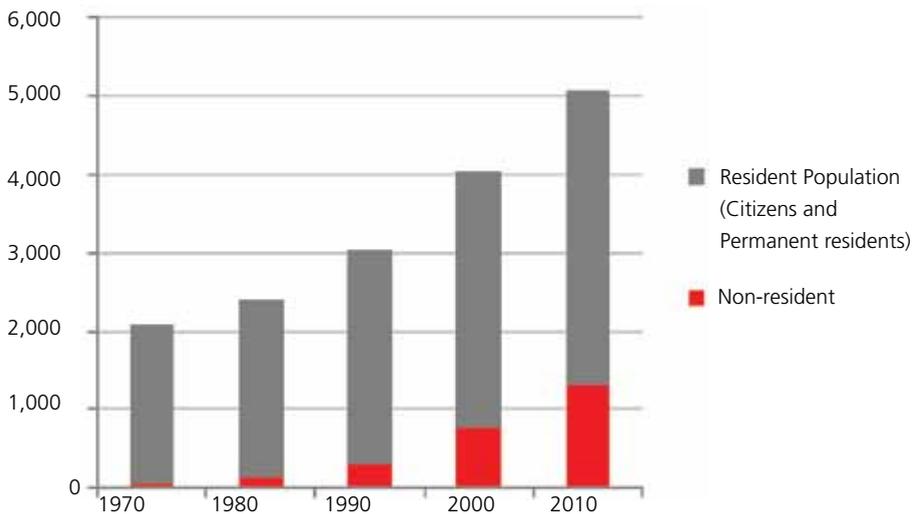
## HISTORY, CULTURE AND DOMESTIC POLITICS

Domestic cultural concerns act as a magnified mirror for regional concerns vis-à-vis China, Malaysia and Indonesia in particular, and are increasingly prominent in Singapore's foreign policy formulations. From the time that Sir Stamford Raffles claimed Singapore as a colonial territory for the British East India Company in 1819, Singapore has been a society of multi-cultural immigrants. Singaporeans are ethnically Chinese (74 percent), Malay (13 percent) and Indian (9 percent). This diverse population shares a turbulent history, from the end of British colonial rule to the exit of Japanese occupiers after World War II and separation from the Malaysian Federation in 1965. From the birth of the Singaporean state, the predominantly Chinese political leadership sought policies that would instill a Singaporean identity, rather than prompt further racial tensions. To foster multiculturalism, and create an internationally competitive labour force, English was chosen as the primary language in the education system, along with each student also needing to study in their home language (Mandarin, Tamil or Malay). Despite the Hokkien background of the Singapore Chinese, the government adopted a 'Speak Mandarin' campaign in 1979 to aid in the country's global competitiveness and to capitalise on the opportunities presented by China. Singapore's language selection is

telling of its pragmatism and balancing of Chinese and English markets. Its political leadership thus ensures economic relevance by having the citizenry speak English and Mandarin, but maintains Asian culture and ethnic diversity by retaining Singapore's multilingual nature.

In addition to Singapore's ethnic diversity, there have also been significant immigration flows to the Lion City. This phenomenon has recently sparked political controversy, including the 2011 'Curry Wars', which began in response to complaints lodged by a Chinese family about the smell coming from the flats of their Indian neighbours cooking curries. The backlash to this anti-curry action ignited protests, as Indian and Malay residents felt the Chinese majority was suppressing their culture. This is not the first time racially-motivated protests have been staged in Singapore - there were violent race riots in 1964 and 1969. The recent Curry Wars are said to be a manifestation of the rising frustrations over the number of Chinese immigrants to Singapore; there are now more than 1 million Chinese nationals living in the country. It is not only Chinese immigrants, however, who have moved to the island. The country is a melting pot for ex-patriot business professionals. 22 percent of its non-resident immigrants are skilled workers and professionals – many of whom are

**Figure 1: Singapore Population growth 1970 - 2010**



Source: Singapore Department of Statistics

American and European – and foreign workers account for approximately 37 percent of Singapore's population of 5,077,000. Non-residents, including both unskilled foreign workers and professional expatriates, have risen from 60,000 in 1960 to 1.3 million by 2010, in the context of a doubling of the resident population (see figure 1). The rising population aggravates existing strains on the provision of resources, and threatens to intensify cultural tensions in an already-sensitive multi-cultural environment. Population growth has exacerbated controversial issues, including the overheated housing market and concerns over becoming a Chinese satellite. Despite these tensions, Prime Minister Lee Hsien Loong's National Day rally speech in 2011 reiterated the historic importance of immigration and foreign talent to Singapore, and he encouraged his citizens to 'accept the discomfort' associated with crowding more people onto the island.

Rising social tensions have been accompanied by a strengthening critique of the single party leadership by the People's Action Party (PAP). PAP ruled Singapore under Lee Kuan Yew as Prime Minister from 1965 to 1990. The following two Prime Ministers, first Goh Chok Tong, and then Mr. Lee's eldest son, Lee Hsien Loong, who took office in 2004, were also drawn from the party. The PAP had won between 61 and 86 percent of seats in each election since independence from Malaysia in 1965. In May, 2011 PAP suffered its worst election result since the state's formation, in which it won only 60 percent of the vote and the Workers' Party secured five seats, an outcome that has been dubbed the 'Singapore Spring'. Responding to this heightened cynicism, PAP's political leadership launched an independent inquiry into their compensation packages, the result of which was the well-publicised announcement in January 2012 that the world's best paid head of state, Lee Hsien Loong, would take a 50 percent salary cut. Singapore boasts one of the world's least corrupt political systems, which according to PAP is precisely because they are well paid and therefore not incentivised to take bribes or to partake in excessive fundraising activities. In fact, the World Economic Forum has ranked Singapore the strongest institutional environment globally due to its lack of corruption, political stability and high level of

Government transparency. However, even this long-defended PAP position was chipped away following the result of the 2011 elections.

Rising cultural and political tensions domestically continue to necessitate care in foreign policy decisions. Despite having a Chinese majority, Singapore is neither bandwagoning with China nor seeking to distance itself from the People's Republic, as a neutral policy is required to avoid sparking further domestic unrest. Cultural differences have not substantially affected Singapore's relationship with the United States, despite what Minister Mentor Lee Kuan Yew has suggested to be a substantive difference between Singapore's Asian values and those of the US. Singapore, like some of its ASEAN peers, welcomes the Obama administration's 'pivot' back to the Asia Pacific region, regardless of domestic political differences. Going forward, Singapore will continue to tread carefully with its foreign policy towards China and Muslim states, as foreign policy toward these states can give rise to further domestic difficulties.

## **ECONOMIC DRIVERS**

Economic success has long been considered crucial to the survival of the Singaporean state. One of the Asian Tigers - and considered an economic miracle by many - Singapore went from a 'third world country to a first world nation' in one generation, according to the title of Lee Kuan Yew's 2000 book. Since 1965 Singapore has balanced single-party leadership and state intervention in the economy with active global economic integration. The government has set the agenda for private sector activities and has also created industries through state-owned enterprises, such as the internationally acclaimed Singapore Airlines. Also central to Singapore's competitive efforts has been the courting of multi-national companies that have brought capital, technology and management expertise, as well as providing access to foreign markets and well-paid jobs. Singapore has integrated into fast growing areas of the world economy, becoming a hub for semiconductor manufacturing, the busiest port in the world, and a global financial centre. In addition, the state itself is well capitalised as a result of policies such as the mandatory pension contributions to the

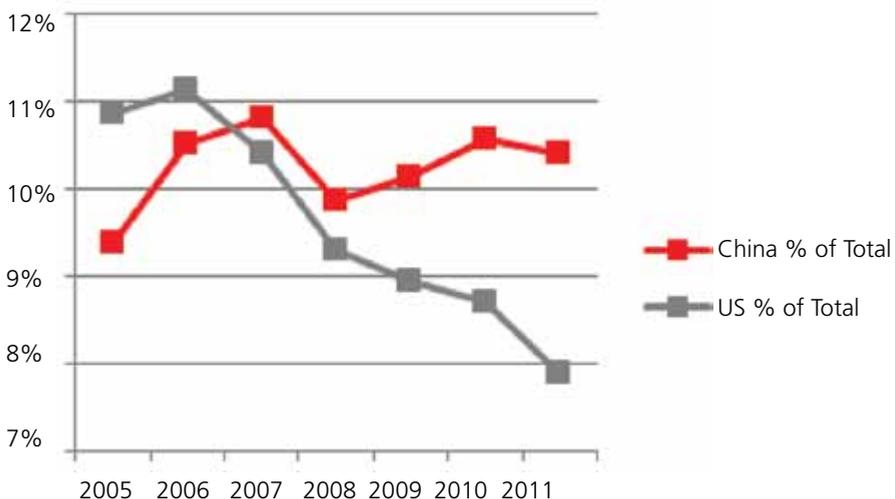
Central Provident Fund. Today Singapore boasts one of the world's largest official foreign reserves of over \$237 billion, which gives it the financial independence to pursue non-alignment strategies.

Singapore has deliberately forged close economic relations with regional, middle and great powers to achieve its economic goals. Singapore has signed bilateral free trade agreements (FTAs) with both China (the CSFTA in 2009) and the US (the USSFTA in 2004) to continue delivering on this priority. Despite Singapore's small size, it is an important partner to the world's largest economies. It is the largest trading partner for China in Southeast Asia, and the 2004 USFTA was the first bilateral trade agreement that the US signed with any Asian country. Despite robust trade with the US and China, Singapore's policymakers are clear in their desire to not fall into economic dependence on either partner. Access to both markets is important, but maintaining trading relationships with other states, particularly its ASEAN +3 (which includes Japan and Korea in addition to China) partners, is similarly pursued. To avoid too large of a concentration, the share of Singaporean trade with the US and China has hovered around a maximum of 10 percent each (see figure 2).

In recent years the United States' percentage share of Singapore's total imports and exports decreased, while Singapore's share of trade with China has increased since the Financial Crisis. As of 2011, 70 percent of Singapore's total trade was with Asian trading partners and two of its top trading partners are members of ASEAN (Malaysia and Indonesia). Singapore's EU trade in 2011 accounted for just 6.3% of its total trade, while trade with its ASEAN partners (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand and Vietnam) represented 26.3%. Figure 3 demonstrates the regional economic integration Singapore has achieved, as well as the positions of the US and China as key trade partners.

Over the last decade in particular, Singapore, as well as Hong Kong, has strived to be a hub for foreign investment into China. The Chinese-speaking island nations promote their infrastructure, local language skills and cultural affinity with China as their competitive advantages. However, fears are that as confidence in Chinese institutions grows then these advantages will diminish, with the result that Singapore would lose FDI as investors deal in China directly. Singapore therefore sees its strategic relationship with the US as a hedge

**Figure 2: Singapore's Trade with the US and China as percent of total trade figures**



Source: Singapore Department of Statistics

against increasing Chinese economic dominance, and uses its deepening engagement with its ASEAN partners as another avenue to diversify away from China economically.

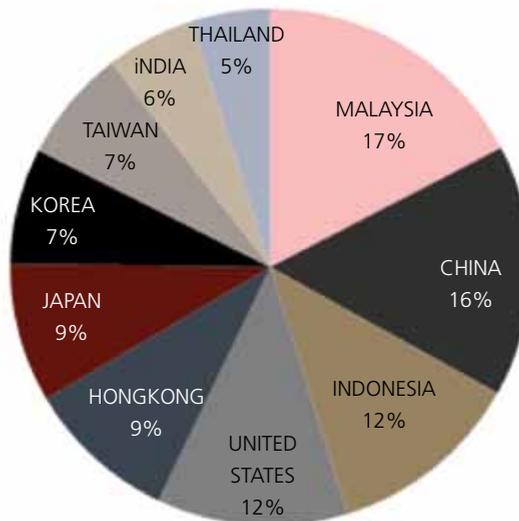
### MILITARY AND DIPLOMATIC STRATEGY

Military prowess is important to Singapore, as demonstrated by its world class Singapore Armed Forces, military conscription, and relatively high defence spending. However, it would be wrong to view Singaporean foreign policy primarily through a hard power or military security lens. Singapore maintains a 'Total Defence Policy', striving to defend itself from attacks across economic, military, civil, social and psychological spheres. For Singapore, military capability, together with economic success and social cohesion, is an essential ingredient of its longevity. The tenets of economic liberalism, along with an active military deterrent, have been central to Singapore's overall strategy, complemented by a diplomatic independence in foreign policy that in Lee Kuan Yew's words has seen the state strive to not be

'anti-any country', but rather only pro-Singapore. There is an ideological commitment to pragmatism and impartiality that guides Singaporean military and diplomatic relations, including its close and complex interactions with the United States and China.

Singapore's political leaders have supported the active role of the United States in the region across the Cold War and post-Cold War periods, as a 'hedge' against the rise of its neighbours, notably Indonesia and China. Despite disagreements over democratic and human rights issues such as freedom of speech and an independent judiciary, the US-Singapore bilateral relationship has been close, both diplomatically and security-wise. Minister Mentor Lee Kuan Yew and others have long-standing relationships with American political leaders. As a testament of their close diplomatic and military ties, since 1999 the Changi naval port has been used by the American navy, with approximately 100 ships stopping in Singapore each year. The expansion of the US-Singapore naval relationship followed the reduction of the US naval presence in the Philippines in 1992. However, concerns

**Figure 3: Singapore's Top 10 Trading Partners in 2011 (Total Imports & Exports in USD million)**



Source: Singapore Department of Statistics (2012).

about US military capacity are bubbling to the surface, particularly following the January 2012 announcement that the US would cut approximately \$500 billion in defence spending.

Unlike the long-established US-Singapore relationship, Sino-Singapore diplomatic relations only began in 1990. In the early years, Singapore and its ASEAN partners were sceptical of China's motives and approached the relationship with apprehension. Today, however, much of the remaining tension between Singapore and China relate to Singapore's relationship with Taiwan. This issue has not been at the centre of Sino-Singapore relations since a 2006 PAP visit to Taipei, though concerns about tensions in the Taiwan Strait are beginning to resurface. For now, Chinese diplomatic relations with Singapore continue to flourish, and in 2010, to mark twenty years of Sino-Singapore relations, Prime Minister Lee Hsien Loong met with Chinese Vice President Xi Jinping and outlined areas for further collaboration. More robust relations between governments, in information sharing, and culturally, through exchange programmes, were specifically mentioned as priority areas in which China and Singapore could work on to improve their collaboration in regional and multilateral issues.

Of course, an area that is noticeably absent in Singapore's relationship with China is military collaboration. Singapore's security relationships continue to be dominated by the United States rather than China. This is not unusual for ASEAN states and others, as China's 'peaceful rise' has not been accompanied by any notable military alliances. Instead, China's military rise has been unilateral, and is a process that is gaining momentum through China's military spending and modernisation efforts. The further build-up of the largest active army in the world, with 2.3 million soldiers, has provided the impetus for increased military spending across Asian states. Australia, Korea and Indonesia have increased defence budgets, and Singapore's defence spending in 2011 was up to \$12 billion, which accounts for 6 percent of GDP. In addition to local increases in military capacity, the United States' role as the military balancer has become even more important in a region increasingly concerned about China's rise, territorial claims over islands, and instability on the Korean peninsula.

However, given weakening American military and economic might, and projections that China's military spending may surpass the US by 2035, the power of the US security hedging role may be diminishing.

## CONCLUSION

Pragmatism is the virtue guiding Singaporean foreign policymaking. From its days as a new state in the 1960s, keeping the Little Red Dot on the map has been the priority. Within the domestic context, social cohesion, conscientious public service, and a first world quality of life have been avenues through which the single-party Singaporean government has sought to achieve stability. Externally, maintaining close and fruitful relationships with major – as well as minor and middle – powers has similarly been part of its Total Defence strategy. Singapore has viewed the rise of China as an opportunity to be a regional hub for investment flows and as a driver of economic attention to the region. However, Singaporeans are adamant that they will not become a satellite of China, or any other great power. As a result, whilst Sino-Singapore relations continue to deepen, Singapore is diversifying its economic and security interests, particularly through its encouragement of an American presence in the South China Sea as a hedge against China's regional aspirations. The US-Singapore relationship is long-established and positive across economic, military, and diplomatic spheres. Though democratic and cultural understandings may differ, this has not marred the overall relationship, and America's commitment to Asia, in light of regional tensions and China's military rise, has been welcomed by Singapore.

Domestic political and cultural tensions, such as the Curry Wars in August 2011, and the 'Singapore Spring' election result in May 2011, have shown that Singapore's people increasingly want their voices heard in domestic and foreign policy matters. No longer is it assumed that PAP knows what is best, and the well-educated, well-travelled and ambitious populations are making their opinions known. They want a mutually beneficial relationship with China, but not an endless flow of immigrants, or to be overwhelmed by Chinese culture. Singaporeans want to continue sending their best and brightest students to the United States for

university, and for the American presence in East Asia to persist. Despite the increase in domestic cultural and political activism, young Singaporeans are still lamenting that Singapore's future will be characterised by pragmatic partnerships with states and foreign corporations in both the West and East.

Despite shifts in external and domestic conditions, the philosophy guiding Singapore's foreign policy strategies, particularly with respect to the US and China, remains pragmatic. President Obama's rededication of American interest to the region confirms the status quo for Singaporean objectives – of keeping the US active in Asia as a hedge against rising powers and as a provider of stability. Singapore continues to grow ever closer economically, culturally and diplomatically with China, but the 'Little Red Dot' is careful to not be subsumed by the emerging Asian superpower. Singapore will remain, just as its well-trodden tourism slogan boasts, *uniquely Singapore*. ■

# ➤ Thailand's Foreign Policy in a Regional Great Game

Thitinan Pongsudhirak

**A**s one of five treaty allies of the United States in East Asia alongside Australia, Japan, the Philippines, and South Korea, Thailand plays a pivotal role in this fluid region. During the Cold War, its alliance with the US trumped other hedging considerations, as Bangkok remained staunchly committed to anti-communism, but since the collapse of the Soviet Union its relations with Washington have become increasingly prickly, especially on bilateral trade issues over intellectual property and environmental and labour standards. Concurrently, Bangkok's relationship with Beijing has solidified to the extent that of all of the United States' treaty allies in the region, Thailand enjoys the closest diplomatic ties with China. While its stock of multilayered connections with the US remains dense and diverse, especially in military-to-military aspects, the flow of Thailand's relations and contacts is increasingly towards China, forging the rise of a bloc that might be dubbed 'CLMT' (Cambodia, Laos, Myanmar, and Thailand). These countries are strategically central to what is fast becoming a great game of sorts in mainland Southeast Asia, in view of Washington's cultivation of treaty allies and strategic partnerships around China's eastern and southern rim as part of its strategy of geopolitical reinforcement. The contours and dynamics of Thailand's foreign policy outlook and posture are thus portentous for the shape and content of geopolitical outcomes in East Asia.

The following analysis addresses the direction of Thai foreign policy in the context of broader dynamics in mainland Southeast Asia. The upcoming East Asia Summit in Phnom Penh and the relative calm and stability under the government of Prime Minister Yingluck Shinawatra present a timely occasion for a forward-looking assessment. Unsurprisingly, the Yingluck government has maintained Thailand's traditional focus on concentric circles of foreign relations, focused first and foremost on immediate neighbours next door, followed by the major powers and the broader regional context. Thailand's strategy, informed by Southeast Asia's fluctuating geopolitical dynamics and elusive regional architecture, reflects its role and position in the context of an emerging division between mainland and maritime states in the region.

## **THAILAND'S NEXT-DOOR FOCUS UNDER YINGLUCK**

After more than a year in office on an overwhelming electoral mandate, Prime Minister Yingluck has translated her solid domestic standing into growing international credibility. While the direction of her government's foreign policy is still inchoate and tentative, Yingluck's priority on next-door relationships is clear. Alongside Myanmar's political transition and economic reforms, Thailand's focus on its immediate neighbours has placed a renewed and unprecedented spotlight on mainland Southeast Asia as an emerging sub-region in its own right, straddling China and the Indian subcontinent and attracting the interest of major powers keenly aware of its immense potential and prospects.

Yingluck's first few months in office were largely written off as her government was consumed with handling a floods crisis. When Thailand's worst deluge in decades subsided by January 2012, the Yingluck government began to implement its raft of campaign pledges in earnest. These mainly pandered to domestic electoral bases, and included a hike in the daily minimum wage, rice price guarantees, and rebates for first-time purchases of homes and cars. While supporters cheered these promises fulfilled, perennial critics of Yingluck's brother, former Prime Minister Thaksin Shinawatra, condemned these and other 'populist' policies as fiscal profligacy. Largely absent from the cut-and-thrust of Thai politics in Yingluck's first year has been foreign relations.

As her domestic agenda went into motion, Yingluck went abroad more often. Her role in foreign affairs became prominent because the foreign minister, Surapong Tovichakchaikul, is seen more as Thaksin's trusted lieutenant than Thailand's chief diplomat. For the same reason, senior diplomats at Thailand's foreign ministry were more salient in setting policy tone and content. The multifaceted diplomacy of Yingluck's foreign policy apparatus set out to restore key relationships with immediate neighbours, particularly Cambodia and Myanmar. Yingluck visited both countries early in her administration, Phnom Penh in September 2011 and Yangon and Naypyidaw the following December, and has revisited both countries since.

Cambodia was Thailand's most pressing foreign policy priority. The Preah Vihear Temple controversy erupted in 2008 under the administration of Samak Sundaravej, Yingluck's predecessor and Thaksin's then-proxy, as UNESCO World Heritage status for the site revived a long-standing border dispute. Thai-Cambodian relations reached a nadir in 2009-11 under the Democrat Party-led government of Abhisit Vejjajiva. The anti-Thaksin yellow shirts and Abhisit's fiery foreign minister, Kasit Piromya, had been instrumental in the attack against Samak's government for allowing Cambodia's application to UNESCO. Prime Minister Hun Sen of Cambodia also contributed to the bilateral controversy and complications by taking Thaksin's side. In 2011, prior to the election, both sides engaged in military skirmishes in the contested 4.6 square

kilometres land area where Preah Vihear Temple is located, claiming more than two dozen lives, scores of injuries, and thousands of displaced bystanders. It was the worst regional conflict since ASEAN's formation 45 years ago. Under Yingluck, and thanks to the amity between Thaksin and Hun Sen, the Thai-Cambodian front has regained calm and stability. The bilateral spat has been depoliticised, and military presence on both sides has been scaled down dramatically. The next potential flashpoint is the International Court of Justice's clarification of its 1962 ruling (which awarded the temple but not the adjoining land to Cambodia) expected in the next few months, a case Cambodia submitted during Abhisit's tenure. If the contested area is adjudicated in Cambodia's favour, the anti-Thaksin columns are likely to go on the march again. However, Thailand's ties with Cambodia appear cordial as long as the Thaksin camp is ensconced in power.

Thailand's western border stands in marked contrast. The Democrat Party-led government did not preside over bilateral turmoil and mayhem but went along with Myanmar's opening and reforms following the November 2010 elections. That Yingluck's government has followed suit and broadened this bilateral partnership is attributable to Myanmar's indispensable role in Thailand's future economic development. Relations with Myanmar are remarkably non-partisan in deeply polarised Thailand, reflecting the degree of Thai dependence on Myanmar, which runs the gamut from migrant workers and natural gas imports to drugs suppression. Yingluck has redoubled Thailand's commitment to the multibillion-dollar development of the Dawei deep sea port megaproject, initially awarded in 2010 to Italian-Thai Development, a heavyweight in the Thai construction industry, but in which the Thai government has effectively assumed a lead role in project financing, design and development. Irrespective of Thailand's colour-coded political divide, whichever side is in power will recognise Myanmar as Thailand's most vital bilateral relationship.

To a lesser extent, Laos and Malaysia are crucial to Thailand's foreign policy outlook, but they have not figured as centrally in recent times as Cambodia and Myanmar. Laos exports substantial hydropower to Thailand and is in the process of building the controversial Xayaburi dam, which is opposed by a

myriad of human rights and environmentalist groups. The land-locked communist state's accession to the World Trade Organisation after 15 years of negotiations and preparations is likely to spur steady economic growth over the next decade and diversify its aid, trade and investment patterns away from China and Thailand towards the rest of the world. Vientiane's WTO accession can be seen as Laos' 'coming out' manoeuvre, designed to address the imperative of economic development whilst maintaining centralised rule under its communist party. It is a grand exercise in 'having its cake and eating it', not unlike similar non-democratic regimes in Hanoi, Beijing and other residual communist states. Malaysia, engrossed in its own growing political tensions, has maintained stable relations with Thailand, and Bangkok appears in need of Kuala Lumpur's assistance to resolve the Malay-Muslim insurgency in its southernmost border provinces, one of the deadliest internal conflicts in the world that has claimed more than 5,000 deaths since January 2004. High-level Malaysian officials have reportedly offered to be a third-party broker, but such efforts thus far have not borne the hoped-for fruits of peace and stability.

## **THE MAJOR POWERS IN THAILAND'S ORBIT**

Among the countries of Southeast Asia, Thailand holds special and resilient relationships with all of the region's major powers. While its neighbours have had difficult relations in the recent or distant past with either China or Japan, Thailand has long been counted as a valued partner by both Beijing and Tokyo, even as it remains a formal ally of the United States. It is these strong relationships with major powers in the constellation of regional relations that Thai policymakers are trying to leverage and harness for Thailand's role and standing on the global stage in the months ahead.

The formal alliance with the US is the most conspicuous. Bangkok signed on to the Manila Pact in 1954, which established the Southeast Asia Treaty Organisation (SEATO) – effectively a precursor to ASEAN. The alliance was cemented by a joint communiqué between the two countries in 1962 as the Cold War intensified. Established almost 180 years ago, Thai-US relations reached their contemporary apex in June

2003 when former Prime Minister Thaksin Shinawatra visited former President George W. Bush at the White House and returned with a package of reciprocal benefits. Thaksin enticed the Bush administration to start negotiations for a bilateral free-trade agreement, and Thailand was given 'major non-NATO ally' (MNNA) status in exchange for sending Thai troops (mainly in support areas of medicine and engineering) to assist in both US-led wars in Afghanistan and Iraq. Thailand also signed on to the Container Security Initiative, a programme intended to increase security for maritime cargo shipped to the United States, and provided exemptions for US personnel in legal cases involving the International Criminal Court. Not since the Cold War, in which Thai soldiers fought alongside American GIs in Korea and South Vietnam, had the Thai-US relationship been so significant.

After a military coup ousted Thaksin in September 2006, partly owing to the bilateral trade negotiations that skirted around civil society scrutiny, Thai-US relations increasingly drifted, held hostage by Thailand's domestic political volatility and turmoil. The Americans have tried during the post-coup period to 'revitalise' this bilateral alliance, one of its five major bilateral treaty spokes in East Asia, in both Track I and II endeavours, but thus far to no avail, as neither side sees much urgency in this process. The Thai government is content to avoid the political controversy closer ties with US would likely generate domestically, and American policymakers are yet to coalesce around a shared diagnosis of the problem to underpin their strategic diplomacy. The Thai-US alliance is certainly not what it used to be, and appears in need of a complete revamp after more than two post-Cold War decades.

China has greater freedom in formulating bilateral ties than the US, unhindered by the input-output bottom lines and accountability requirements that constrain the Americans, and as a result the Chinese have deftly fostered close ties with Bangkok. Thai-Chinese relations have warmed to levels unseen since the anti-Vietnam years when Thailand was ASEAN's frontline state in a standoff against the Hanoi-backed Heng Samrin regime in Phnom Penh, a united front that included the Beijing-supported Khmer Rouge.

While Thai-Chinese ties have never been estranged since their normalisation and Bangkok's adoption of a one-China policy in the mid-1970s, this subtle but deepening bilateral partnership is reinforced by the role of the overseas Chinese, who have become economically integrated and ethnically seamless entrepreneurs in Thailand's economic development. As China's economic rise becomes the defining feature of regional politics in the 21<sup>st</sup> century, Thailand's natural omnidirectional hedging between the major powers has augured well for the Bangkok-Beijing axis. China was the only major power to recognise Thailand's putsch in 2006 and allowed high-level contacts with coup-appointed government officials. Military ties have deepened in recent years, as the Chinese have sponsored more Thai middle-ranking military officers for training in China than ever, and the two countries have undertaken joint military exercises every year since 2003. Indeed, in 2007 Thailand was the first Southeast Asian country to host the People's Liberation Army on its territory.

Similar claims can be made for the unprecedented number of Thai students receiving scholarship opportunities to study in China. More Confucius institutes dot the Thai landscape than in any other Southeast Asian country. China also provides sanctuaries and mobility for Thaksin and a frequent home for Thailand's Crown Princess Maha Chakri Sirindhorn. Much of the recent deepening in Thai-Sino ties builds on the late 1990s when Thailand's most devastating economic crisis in decades was met with Chinese goodwill, aid and loans, while the US Treasury stood by in favour of a painful IMF bailout package. For the Chinese, their interests in Thailand are about open-ended relationship-building for long-term strategic gains rather than short-term convertible benefits. Irrespective of how Thailand's domestic political instability plays out, the Chinese will likely end up on the winning side. Such a long-term view is enabled by the continuity afforded by long periods of stable Chinese leadership and a top-down authoritarian system that can decide and operate on long-range planning. As a result, a new 'CLMT' grouping appears in formation among Cambodia, Laos, Myanmar, and Thailand. The acronym used to be 'CLMV', which included Vietnam and denoted new

ASEAN members in the 2000s. CLMT, on the other hand, refers to the mainland-based sub-region that is increasingly under China's influence.

To be sure, the US also went along with the Thai coup in its own way, notwithstanding its pro-democracy rhetoric and automatic suspension of IMET (International Military Education and Training program), as WikiLeaks cables have revealed. But ironically Washington has not reaped the same credit. As a telling example, Thaksin's visit to the US in August 2012 elicited howls of protest and a demonstration in front of the US embassy in Bangkok, whereas his regular appearances in China and Hong Kong were treated as par for the course in Thailand. The request by the US' National Aeronautics and Space Administration to conduct a joint study of climate change with its Thai counterparts, which was viewed by anti-Thaksin elements with suspicion, had to be cancelled in June 2012. Thailand has veered towards Beijing for understandable reasons of shared heritage, as well as strategic hedging and geopolitical interest, but its relative drift from Washington is a conundrum. Revitalising Thai-US relations first and foremost requires an admission and a prognosis of this drift. Insisting and pretending otherwise, as US officials and diplomats have inclined, is likely to favour Beijing at Washington's expense. It would be beneficial neither to Washington nor Bangkok, which aspires for a balanced footing among the major powers.

Beyond China and the US, Thailand's true and fortuitous friend is Japan. When the region was ravaged by the Second World War, the characteristic disunity of Thai leaders enabled Bangkok to end up officially on Japan's losing side. Unlike their regional peers, Thais harbour no latent ill will from the 1940s towards the Japanese, and the Japanese know and respect that. Bangkok is their longstanding economic springboard, a regional headquarter of choice that suits and caters to Japan's interests and preferences. Recent China-Japan tensions have caused a rethink among Japanese companies and small- and medium-sized enterprises, and more of them are likely to diversify away from China towards Southeast Asia and Thailand in particular for its production and industrial support networks.

## **MAINLAND, MARITIME AND REGIONALISED SOUTHEAST ASIA**

In recent years, other major powers with less historic ties to the region have made growing forays into Southeast Asia. India's two decades of 'Look East' policy has made only limited progress, and the huge recent power outage in India has brought India's broader strategic wherewithal into doubt. Nevertheless Thailand has always been close to India on the people-to-people Track III basis. India provides the roots of Thai culture, language, and religion. Thousands of Thai students have been boarding in the Indian foothills for decades, even when New Delhi was more insular and its economy leant towards socialism. As the 'new' Japan, South Korea's impressive rise as an OECD country with growing 'middle power' status, soft power projections such as the regionally popular Dae Jang Geum television series, and the viral Gangnam Style on youtube videos, bodes well for Thailand. Unlike China and Japan, South Korea is an East Asian country where ordinary Thai passport holders do not need a visa to visit, thanks to Thailand's wartime contribution in the early 1950s. Seoul in the northeast of the region and Bangkok in the southeast form an ideal geographical partnership of like-minded countries with similar backgrounds. More can be made of Thailand's promising ties with other rising regional middle powers such as Australia, which views Thailand as the most important ASEAN member after Indonesia. Even Russia, a new member of the East Asia Summit, enjoys a special friendship with Thailand dating to the late 19<sup>th</sup> century when Siam (as Thailand was known until 1939) was in search of powerful European friends to counterbalance European imperialism, particularly France's territorial ambition. As for the European Union, Thailand can count on strong partnerships in trade and investment with key European countries, including Germany, the United Kingdom and the Netherlands. Even the long history of enmity with France does not engender lasting bitterness among Thais.

Thai leaders are currently cognisant of this optimal and unrivalled mix of major powers relations in Thailand's orbit. But Thailand's international problem is its domestic politics. Until its existential domestic conflict is resolved, Bangkok is likely to underachieve and underwhelm despite its past profile and future potential as an up-and-coming middle power in mainland Southeast Asia.

Thailand's focus on its next-door neighbours and the dynamics and contours of its near abroad and farther afield enables a different lens with which to view regionalism. ASEAN is Southeast Asia's regional organisation, and Asia's most durable. It has succeeded in preventing interstate wars from within since its founding in 1967. ASEAN has reached the pinnacle of its integration efforts in its attempt to forge an ASEAN Community by the end of 2015, resting on the three pillars of ASEAN Political and Security Community (APSC), ASEAN Economic Community (AEC) and ASEAN Socio-Cultural Community (ASCC). The blueprints of these plans are ambitious, and ASEAN is expected to need to relaunch its Community objectives, but the organisation is likely to be able to maintain its momentum. Owing to historical mistrust in East Asia, the ten-member organisation has proved its staying power as a steer and steward of regional cooperative vehicles, spanning Asia-Pacific Economic Cooperation, the ASEAN Regional Forum, the ASEAN Plus Three, the East Asia Summit, and, more recently, the ASEAN Defence Ministers' Meetings Plus.

But the region of Southeast Asia is moving ahead in the face of regionalist rhetoric and aspirations. Maritime Southeast Asia features states that have locked horns with China over territorial claims in the South China Sea. The Philippines and Vietnam are at the forefront, with Malaysia, Indonesia and Brunei in support, vis-à-vis China. The South China Sea has thus become an arena of tension and conflict, inviting the US as a countervailing superpower to check Beijing's assertiveness, especially in view of the Obama administration's declared Asian 'pivot' and its broader geopolitical rebalancing strategy. The interests and concerns of maritime Southeast Asian states are divergent from the CLMT, which were either silent or supportive of Cambodia's pro-China stance at the annual regional ministerial meeting in Phnom Penh in July 2012, when ASEAN failed to produce a joint statement due to the insistence of the Philippines and Vietnam on including language on the South China Sea disputes.

On the other hand, mainland Southeast Asia's CLMT is growing as a sub-regional market of more than 200 million consumers, when southern China is included. Mainland Southeast Asia, which connects Northeast, South and Southeast Asia and more than 3 billion people in all, has thus entered an unprecedented period of promise and expectation, revolving around Myanmar's nascent transformation under the leadership of President Thein Sein and opposition leader Aung San Suu Kyi, and Thailand's restored next-door ties. The ongoing development of infrastructure on the mainland is increasingly connecting land routes in all directions, east-west and north-south. Borders erected during colonial times matter decreasingly as the flows and movements of goods, peoples, trade, and investment allow development trends to criss-cross the area. It is a sub-region being courted, as in the Central Asian great game of the 19<sup>th</sup> century, by China as the regional superpower and the United States with its staying power as an extra-regional hegemon, with Japan heavily invested, and India as a civilisational cradle. Yet for all the economic opportunity sensed by the major powers, contestation cannot be ruled out, particularly in the Mekong where potential dam developments may give rise to issues of energy security. Myanmar may be where China meets India, but Myanmar-Thailand forms the strategic corridor that could pivot and mould the shape of things to come on the mainland, with broader repercussions for the entire Asian landmass.

It appears that maritime Southeast Asia is increasingly leaning towards Washington, whereas mainland Southeast Asia, led by Thailand, is more influenced by Beijing. Regional discussions and meetings on peace and stability should focus on the ever-elusive and contested regional architecture. A working regional framework must rely on the China-US relationship. If China can step back on its South China Sea claims and the US can reassure Beijing of its benign rebalance, both maritime and mainland states in Southeast Asia would have more common interests under the ASEAN umbrella, which can act as a bridge and linchpin of regional security and stability. ■

## ➤ Conclusion

# ➤ Forging a Regional Strategy

Munir Majid

**It was to be expected that international politics in Southeast Asia would change with the greater weight of participation of extra-regional powers. However, the speed with which that change has taken place, barely two years after the American pivot and Beijing's greater assertiveness in the South China Sea, has taken many by surprise. The dynamics of the new geopolitics of Southeast have undoubtedly driven a deterioration in regional order, as the pressures and inducements of the superpowers incentivise bilateral dealmaking over multilateral arrangements. Whether a new system of order needs to be constructed, or the present architecture needs to be repaired and augmented, is a matter regional states urgently need to address – and will only be able to do so effectively along with those extra-regional powers.**

States in Southeast Asia have historically tended to regard economic development as a panacea. Yet the new challenges presented by the emerging distribution of power in the region demand changes in the way regional states approach the task of order-building. Up to now, Southeast Asia's strategy has largely been ASEAN-based. Whilst the 'ASEAN way' of managing regional order has often been criticised, the organisation has achieved much in the last 45 years.<sup>1</sup> The 'ASEAN way' has served its time well, building on mutual confidence, working on the basis of consensus, and proceeding at the pace of its slowest member. In the present impatience with ASEAN it is often forgotten how far the region had to come since the 1960s. Then, Indonesia's confrontation of Malaysia had just ended. Singapore and Malaysia had split in acrimony after two ill-fated years of federation. The Philippines had been pursuing its claim on the Malaysian state of Sabah. Only Thailand – the founding meeting in 1967 was held in Bangkok – did not have an immediate dispute with its neighbours, although the Vietnam War was raging next door. ASEAN was an historic initiative for peace and stability, led by towering regional statesmen. Even so, the meeting almost broke up without a joint communiqué over differences on the wording with respect to foreign military presence in the region, but the leaders knew one another well and appreciated the importance of the enterprise they were embarked on.

Over the last 45 years, much has been achieved, particularly in the economic field, and especially on trade. The membership has expanded from the original five to the present ten. The inclusion of the continental states of Cambodia, Laos, Vietnam and Myanmar in the 1990s was particularly significant for broader regional integration. Whilst the move represented a risk to cooperation by widening the social, political, economic and foreign policy differences within the grouping, there was a wisdom to it in preventing the periphery from threatening the core. The cost was a two-speed ASEAN, but one that nevertheless remained well accommodated, particularly in the economic field. The ASEAN approach of inclusion rather than isolation was for many affirmed by Myanmar's 2010 rehabilitation, although, of course, there were more significant domestic factors that moved Naypyidaw. Still, membership of the regional grouping had served to avoid animosity between Myanmar and ASEAN, and allowed it some influence with the regime.

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<sup>1</sup> For a broad overview of such critiques, see Nick Bisley, *Building Asia's Security*, Routledge for International Institute for International Affairs, 2009, London. The contemporary dimensions of those arguments were reflected in *Divided We Stagger*, *The Economist*, August 18, 2012.

However, with the region and the world changing so fast around it, ASEAN's incremental and consensual approach is unable to provide pro-active leadership. ASEAN states have avoided the construction of an encompassing order for regional peace and stability because there might not be a consensus for such a grand bargain. So Southeast Asia has kept ASEAN as it is. Ostentatious plans for integration, with target dates, were accompanied by a ready understanding that if they could not be achieved without a change in ASEAN's structure, then as long as there was some progress towards them that would suffice. As intra and then extra-ASEAN cooperative arrangements grew, new layers of dizzying arrangements were put in place without detailed enumeration of how those arrangements were to function and to relate to one another. The only structural commentary was the oft-repeated wish the ASEAN platform would be the basis of any new regional super-structure. But can the 'ASEAN way' survive the increased involvement of extra-regional powers in the Southeast Asia? The East Asia Summit (EAS) – and the expansion of its membership – could not be explained as simply the expansion of the 'ASEAN way' with other states. Some of those states dwarfed ASEAN, and had objectives that were obviously incongruous with the regional grouping – despite the repeated mantra of using ASEAN as the platform. That platform is now creaking and could give way. Unless ASEAN states work to repair the foundations of their condominium, they risk drifting into a new system of regional alliances based on classic balance of power.

## ASEAN'S STRUGGLES

When, on the 13<sup>th</sup> of July this year, ASEAN foreign ministers could not agree on a communique at the end of their meeting in Phnom Penh, for the first time in the organisation's history, it was described first as a disaster. Then as a dent to the organisation's credibility. Later still, a setback. Finally, it became commonplace to claim that different perspectives on the South China Sea dispute do not on their own define what ASEAN is about. ASEAN is in denial. At a time when the new geopolitics of Southeast Asia are being formed around it, such an attitude is dangerous, because the issues of power politics and instability grow more pronounced while the organisation is divided.

In the wake of the Phnom Penh meeting, relations between two member states, Cambodia and the Philippines, have deteriorated. There have been accusations and counter-accusations of who was responsible for the communique not coming out, and of the Cambodian ambassador being summoned to the foreign ministry in Manila but not turning up, and finally being recalled home, souring ASEAN's 45<sup>th</sup> anniversary celebrations in August this year. One senior Cambodian official wryly noted that the communique debacle showed that ASEAN has reached maturity, implying that it has now to face up to the reality of the differences within the grouping. On the South China Sea, most commentators see two camps – with Cambodia, Laos and Myanmar siding with China against the other seven, who believe the most recent incidents involving China with the Philippines and Vietnam should at least be mentioned by ASEAN. It would be more accurate to point to a floating middle of states that feel that the Philippines was over-emotional about the Scarborough Shoal incident and behaved outrageously in accusing the Cambodians of switching off the microphone as its Secretary of Foreign Affairs Albert del Rosario was pressing the issue. Meanwhile, true to the ASEAN way of seeking to avoid discomfort, Malaysia feted Chinese foreign minister Yang Jiechi during his official visit in August with a dinner party involving 20,000 of his counterpart's constituents for *Iftar* (the breaking of fast during Ramadan). Yang Jiechi's long-promised official visit also included Brunei and Indonesia. Beijing wanted to declare to the world that its relations with ASEAN were as good as ever, and Yang Jiechi said as much.

If ASEAN is not completely at sixes and sevens, it is certainly not particularly united. Before the latest round of South China Sea incidents this year, a majority of ASEAN member states had encouraged Hillary Clinton to make the statement she did at the ARF meeting in Hanoi. After China was put on notice – and the Chinese foreign minister was particularly angry with Singapore at that meeting – diplomatic developments largely put China on the defensive. Whoever was responsible for causing the recent incidents, and there are those within ASEAN and without who point fingers at member countries, it is clear there is no effective regional mechanism to address them. It is left to the ASEAN disputant with China, with the US expected to

act as insurance in a worst case scenario, though without any clear indication of where the American tipping point lies. ASEAN has made little progress on conflict prevention, let alone dispute resolution. The South China Sea disputes have become a moving reflection of the strategic contest between China and the US in Southeast Asia, a dynamic which does not wait on the passive acquiescence of the ASEAN way.

Even as ASEAN members sought to engage American interest in the South China Sea disputes they were not clear on what exactly it was they wanted. They clearly sought an American counterweight to balance China, but have been unable to clarify in their own minds whether that counterweight should be used to constrain, deter or contain China. Each of these – or all of them – entails a diplomacy and regional arrangement quite different from what ASEAN is equipped to do. It is therefore left to each member state to fend for itself, with the dominant strategy being to hedge between the superpowers. Thus, during a visit to Washington in February this year the Singapore foreign minister said the US should be careful not to make China feel a containment strategy was being targeted against it, even as Singapore encouraged the US to be more active in Southeast Asia. This week of diplomacy in the US was followed by a three-day visit to China, with whom the island state has strong economic relations. Since these meetings, Singapore has expanded its agreement for US naval facilities in the city-state – apparently without affecting its very significant economic ties with China. Malaysia enjoys the best of relations with both China and the US, in a way the Philippines does not. Cambodia seeks to avoid turning its back on America even as it embraces, or is embraced by, China. Myanmar now looks forward to greater American economic engagement but whilst augmenting its ties with neighbouring China, although it appears not to remember the combined ASEAN contribution that in the past ensured that Naypyidaw was not totally isolated. Thailand has a military treaty arrangement with the US, but does not seek to antagonise China. Vietnam is the most exposed to China, historically, geographically and politically, but is taking a steady approach in seeking security and military support from the Americans. The smaller member states, such as Brunei and Laos, do not have much room to hedge, especially the latter which because of its location falls under China's sphere of influence. Even hedging, if not adroitly conducted, could develop into playing both ends against the middle, and in either case, if regional conflict is not contained or resolved, its outbreak would put ASEAN states between a rock and a hard place.

## THE NEED FOR REGIONAL LEADERSHIP

Only Indonesia has the capacity and inclination to play a regional diplomatic role in the new geopolitics of Southeast Asia. As the Phnom Penh foreign ministers meeting broke up in acrimony, Indonesia's President Susilo Bambang Yudhoyono despatched his Foreign Minister Marty Natalegawa on an ASEAN diplomatic mission to restore a veneer of unity. His effort was successful in salvaging six points of agreement, although the Cambodians maintained those points had always been there in the communique the Philippines had not agreed to in Phnom Penh.<sup>2</sup> Clearly, the damage has been done and it will take more than a diplomatic papering over of the cracks to repair. Indonesia's diplomatic efforts are continuing, in an 'informal diplomacy' endorsed by the Chinese foreign minister during his Jakarta visit in August.

However, there are serious challenges ahead. The Indonesians did an admirable job as chair of ASEAN in 2011, leading the development of guidelines to the Declaration on the Conduct of Parties in the South China Sea (DOC, 2002) and working with ASEAN on the elusive code of conduct (COC). China has stated its support for the DOC, but is less enthusiastic about the COC, although it has not ruled it out altogether. This reflects its preference for the disputes to be addressed bilaterally, as well as its aversion to any kind of multilateral legal commitment to constrain its freedom of action in what Beijing regards as a matter of sovereign right. Indonesia continued to work on the COC with ASEAN members at this year's UN General Assembly. There is now what

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<sup>2</sup> The six-points still did not mention China directly, but made clear references to the declaration on conduct, its guidelines, the code of conduct, restraint and non-use of force and peaceful resolution in accordance with international law and UNCLOS.

the Indonesians call a 'zero-draft' COC, a formulation clearly designed to placate Chinese sensitivities. Senior ASEAN officials met Chinese policymakers in Pattaya, Thailand at the end of October to move towards realising the COC, but China continues to prefer to concentrate on the non-legalistic and less specific DOC. The test will be what happens at the November ASEAN summit and the other meetings with extra-regional powers that follow. The ASEAN summit must address the South China Sea disputes substantively, rather than attempting to compensate for a lack of progress with a wordy expression of progress in all other aspirational areas that is often typical of ASEAN. Leadership transition in China and a new Obama administration in the US are an added complication. So as not to return to square one, the Indonesian effort should be given institutional blessing by ASEAN leaders to elevate it above the status of 'informal diplomacy'. In the medium term, there will also be a new Indonesian President in 2014, and the capable Marty may not remain as Foreign Minister. With so many imponderables, there is all the more reason for ASEAN to get its act together.

Thus, the least the ASEAN leaders summit should aim to achieve is to give official support to the Indonesian-led diplomatic effort. If the leaders do not support it, the likelihood is that ASEAN will be at the margins of regional diplomacy as the strategic contest between China and the US is played out. The possibility that Indonesia may go-it-alone in its pursuit of 'dynamic equilibrium' also cannot be ruled out.<sup>3</sup> Indonesia has offered the leadership that ASEAN needs, the kind that led to the formation of ASEAN in 1967. The Malaysian foreign minister Anifah Aman did suggest after meeting his Chinese counterpart that it would be useful if ASEAN states resolved the disputes among themselves first before they approached China to solve the disputes with Beijing. This is a tall order, particularly while the Malaysians themselves are understandably preoccupied with their domestic politics in the lead up to elections. The claims overlap and cannot all be resolved without affecting China whose nine-dash line alone could claim 80 percent of the South China Sea if it is not properly defined. The broad issues of international law that need to be clarified have been generally well covered by Robert Beckman, but even so they need to be more comprehensively broadened to include rights and conflicts which may need to be resolved on the basis of equity under Article 59 of UNCLOS and to drive joint development based on the idea of the common heritage of mankind.<sup>4</sup> A regional communitarian approach, led by ASEAN after taking into account all legal and equitable considerations, would be of great benefit, and certainly preferable to the prevailing general statements which stager dispute resolution efforts in an unsustainable way.

Malaysia in particular could bring to the table the salient features of its successful understanding with Thailand in 1979 on a joint development area, one of the first applications of the principle of joint development in territorial disputes in the world. More broadly, Malaysia could use the goodwill stemming from its excellent relations with China to provide joint leadership in an ASEAN engagement of China to address the South China Sea disputes in a cooperative manner.<sup>5</sup> Singapore appears to have decided to take a back seat now that Indonesia has taken the lead, but can be engaged to become more active once there is a joint ASEAN effort. After all, Tommy Koh, Singapore's Ambassador-at-Large, was chairman of the law of the sea conference which originally and arduously negotiated UNCLOS. Thailand has internal political problems to which it gives first attention, but has always been proud that ASEAN was founded in Bangkok. Its professional foreign ministry will be able to see the threat to ASEAN of non-action, as well as the positives from the Gulf of Thailand joint development area with Malaysia. The Philippines may be sulking and brooding but, as Indonesian foreign minister Marty has shown, they can be cajoled. The passage of time does not only cause uncertainty that exacerbates instabilities in the South China Sea, but also could result in ASEAN losing its relevance to the regional order. The irony then would be that ASEAN failed not because it did not have the assets to play an effective role, but because it failed to exercise leadership at the time of greatest need.

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3 The concept has its antecedents in 1948 during Vice-President Mohammad Hatta's time: *Mendayung antara dua karang* (Rowing between two reefs).

4 Robert Beckman, *The South China Sea Disputes: How States can clarify their maritime claims*, RSIS Commentaries No. 140/2012 July 2012

5 For a well-documented analysis see Kwik Cheng-Chwee, *Malaysia's China Policy in the Post-Mahathir Era: A Neoclassical realist Explanation*, RSIS Working Paper No. 244 dated 30 July 2012

The founder member states of ASEAN have a responsibility to exercise that leadership as the new geopolitics of Southeast Asia takes shape, just as they did at the end of Indonesia's confrontation of Malaysia and in the midst of the Vietnam War. In the past, the ASEAN model has been useful in avoiding conflict and enabling a concentration on economic development. In the midst of the new strategic contest between China and the US, if ASEAN continues to proceed in the old way Southeast Asian states may be drawn into conflict. Even with respect to economic development, there are challenges ahead, not only in terms of ensuring an internally fair distribution of benefits, but also more immediately from the structural problems of a slowing world economy – including in China – and which themselves have political and security ramifications.<sup>6</sup> With the more immediate threat of conflict in the South China Sea, extra-regional states are already involved, making the repetition of the mantra of ASEAN centrality and the ASEAN way nothing more than wishful thinking.

## **EXTRA-REGIONAL PRESSURES**

When the EAS was expanded to 18 in Bali in November last year, the membership of the US marked a formal recognition of America's regional role, if not quite an endorsement of the pivot. With US re-engagement in the region and the strategic contest with China joined, it is unlikely that either of them will give primacy to ASEAN in the calculation of their interests and decisions they make to protect or project those interests – however much they claim to be committed to ASEAN's centrality in the region. As an economic entity, ASEAN did indeed constitute the platform for China's engagement with the region, particularly since 1997, and the US today wants similar engagement for shared prosperity, but there is no denying that they are far more powerful in all senses than ASEAN, even if it was united, could ever be. Other states from beyond the region, such as Russia, India and Australia, have also become participants in the crowded East Asian space, primarily through membership of the EAS, but mostly by pushing forward their interests, whether in conjunction with the US or not. It would be too clichéd to say that either ASEAN hangs together or it will hang separately. What is more likely is that without repositioning itself by taking into account the new geopolitics in the region, ASEAN will certainly lose its centrality and, increasingly, its relevance. Individual member nations will then have to fend for themselves as singular states in a highly contested regional order.

Over the past couple of years, the American pivot has caused a major change in the geopolitics of Southeast Asia by proclaiming the United States' strategic interest in the region and challenging China's developing dominance of it. Whether or not the US ever really 'left' the region, the fact that there was some debate in Washington over whether the right term to use was 'rebalance' or 're-engagement' only serves to underline the new strategic situation. The pivot, while by no means comprehensive, addresses the issues of America's role, engagement and strategic objectives – it is a reassertion of the United States' right to primary regional space and a confirmation that the US is not about to withdraw to a position of sub-primacy in the international system. American statements and actions since 2010 show the new emphasis and engagement with the region, and a willingness to challenge Beijing on a number of issues, especially pertaining to the South China Sea, and to contest China's growing influence over Southeast Asia, powered primarily by its economic rise. America is offering trade, investment and technology for shared prosperity across the Pacific, underpinned by the security of a new commitment of its naval forces.

This newly contested geopolitics is not to China's liking. Beijing criticises America's muscular re-engagement with the region as intrusive and destabilising. Its reactions have been unsteady and somewhat inconsistent, ranging from anger at what happened at the ARF meeting in Hanoi in July 2010, to a calm absorption of what was happening all around it at the EAS meeting in Bali in November 2011, to a strong stand on the

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<sup>6</sup> Some predict a great world economic crash precipitated by a hard economic landing in China. For an interesting perspective on the potential bursting of China's credit bubble see Merryn Somerset Webb, *The caustic Soda Connection*, FT Weekend Saturday July 28/ Sunday July 29 2012.

disputes in the South China Sea from April 2012, culminating in the division that was driven in ASEAN. The response to any American reaction to any Chinese action with respect to its South China Sea claims is sharp and shrill, and reminiscent of China's many 'serious warnings' issued to the US for America's responsive naval movements as Beijing shelled Taiwan's Quemoy island in the 1960s (the difference being that China is much more powerful now, both economically and militarily). Today, China's domestic politics – Bo Xilai's sacking and the ire of his supporters in particular – may have played a part in forming its assertive and unyielding posture, so as not to be exposed to any charge of not securing Chinese sovereignty in the South China Sea, but it has also to be noted that China always takes an uncompromising stand on sovereign 'core interests.'<sup>7</sup> In respect of maritime territorial disputes whether in Northeast or Southeast Asia, China has been quite consistent, even if there is sometimes afforded a margin for cooperation.

Moreover, the question of whether or not South China Sea disputes escalate into a significant conflict will not be determined solely by the actions of China and the US. Southeast Asian claimant states could provoke or be provoked into incidents that could precipitate a more serious crisis. Vietnam and the Philippines in particular have been most involved in incidents with the Chinese over disputed islands and waters in the past couple of years, in keeping with a trend established in the 1970s. Although a recent comprehensive assessment concludes there is not a high risk of major conflict, there remains a serious danger of miscalculation, by China, by regional disputant states, and by the US.<sup>8</sup> Indeed, the danger of Beijing miscalculating has been heightened by the American pivot, which arouses a new sense of threat perception by the Chinese who fear isolation and containment. The United States' renewed strategic commitment to the region may also encourage Southeast Asian claimant states to be adventurous, which could push at the limits of the still undefined circumstances for US military intervention. Assuming interference with freedom of navigation is a clear cause for such intervention, it has to be recognised such interference may not be the intended consequence of one state's actions, but rather the indirect result of a bilateral conflict between China and a regional claimant state. With increased military build-up such a conflagration becomes more likely, particularly if the prevailing climate of aggravation is sustained in the absence of progress towards an agreed solution.

Under such circumstances, how might American naval and air forces intervene, and with what calculated prospect of escalation? Apart from America's stated interest in freedom of navigation, the US has also proclaimed its support for the peaceful settlement of disputes. What does this mean? If it means the United States will not tolerate the use of force in the pursuit of the disputes, how much and what level of use of force would cause US intervention, and to what end? Would, for example, the new American engagement with the region permit the kind of conflict and outcome that took place in 1974 and 1988, when China defeated Vietnam in sea battles and established *de facto* control over the disputed Paracels? In this regard, China's actions in July this year in establishing an administrative and military presence in the Paracels to command the whole of its claimed expanse in the South China Sea can certainly be interpreted as a signal to Washington and the region of where Beijing will draw the line.

The muted American response to that assertion of China's sovereignty, and Beijing's fierce rhetorical assaults against even the slightest criticism of it, may not put an end to the maritime disputes. But China's *de facto* control of the Paracels and its threat of resistance by force will certainly make others – whether claimant states or extra-regional powers – more circumspect. In a broader strategic context, extra-regional states such as Australia and possibly India could become involved in an arc of alliances led by the US (together with American treaty partners in the region such as Thailand and the Philippines). However, the remit of such extra-regional powers is likely to be to simply hold the line, ensuring freedom of navigation is not interfered with whilst avoiding involvement in any fracas that may take place between claimant states and China.

<sup>7</sup> The massive anti-Japanese demonstrations across China in August this year over the Diaoyu/Senkoku island dispute may have been orchestrated to reduce attention on the commuted death sentence on Bo Xilai's wife for the murder of a British businessman.

<sup>8</sup> See International Crisis Group, *Stirring up the South China Sea (II): Regional Responses*, Asia Report No 229 – 24 July 2012. For the likelihood and dilemmas of US conflict with China across a spectrum of issues, and how best to avoid it see James Dobbins, *War With China*, Survival, August-September 2012.

Of course, if there is outbreak of hostilities with heavy fire and casualties, that might be a different matter. China, possessed with superior military power vis-à-vis the claimants, will know there is a limit, but exactly where it lies is not so clear. The danger of miscalculation is thus a serious threat to regional stability.

In such a situation of no-war no-peace in the South China Sea, the extensive exploitation of the rich mineral resources that are the prime cause of the claims and disputes is unlikely, except perhaps by China. Fishing will of course continue, and minor skirmishes are likely to continue to occur short of force, as one side or the other invokes the depletion of fisheries to justify arresting fishermen. Add to all this the vagaries of Sino-American relations in so many other areas, and the calls of their respective domestic constituencies, and it is clear that the geopolitics in the region are far from the situation Southeast Asian states want as they seek to further the processes of regional economic development begun when they set up ASEAN 45 years ago.

## BEYOND ASEAN

While the ASEAN objective of a region free of major power politics has always been something of a chimera, it had – in a characteristically ASEAN fashion – been vaguely achieved. However, the American pivot, in establishing the bounds of the strategic contest between China and the US in and over the region, has changed things. ASEAN states are involved, both in the general contest and in actual dispute in the South China Sea. But ASEAN, which has been effectively divided by the geopolitical pressures, risks becoming less relevant and increasingly marginalised. The ASEAN way – expressing karaoke-comfort and consensually progressing areas of evidently common good like trade and economic development whilst avoiding difficult problems – is no longer sustainable when extra-regional powers have raised the stakes and conflict is staring the region in the face. ASEAN has to develop effective conflict resolution mechanisms, a focussed functional scheme to engender more cooperative relations in the South China Sea, and some semblance of a strategy in the new geopolitical environment.

ASEAN sets great store by the Treaty of Amity and Cooperation (TAC, 1976) which contracting parties have to accede to before becoming members of the East Asia Summit. It refers to a Kantian ‘perpetual peace’ but, more substantively, Chapter IV of the treaty makes provisions for the pacific settlement of disputes. Both China and the US acceded to the TAC before becoming members of the EAS, and both repeatedly profess their commitment to ASEAN centrality. While there is the usual opt-out clause that does not preclude states not directly party to disputes from offering their assistance, and notwithstanding the reality that procedures for pacific settlement in other multilateral agreements like the UN Charter often are disregarded, ASEAN might do well to remind China and the US of their TAC regional obligations in Southeast Asia.<sup>9</sup> More importantly – and urgently – ASEAN should engage China on the basis of Chapter IV with respect to the South China Sea disputes. Indeed it could form the basis, other than the DOC of 2002, for negotiations towards the much-aspired COC.

ASEAN’s relationship with China has been good, especially around the strong economic ties forged in the past two decades, and should not be allowed to go to waste because of recent events. At the November 2011 ASEAN-China summit in Bali, before the downward turn of events this year, Beijing offered a \$472 million fund for maritime cooperation in the South China Sea. Joint exploration and exploitation of resources in the South China Sea, based on the demonstrable benefit of so much economic cooperation that has already taken place, is far from naive idealism. ASEAN needs to get together to think through the relationship with China and the problems in the South China Sea, in short, to engage with the new geopolitics of Southeast Asia. This will involve concentrated effort that is focused, detailed and specific. It will also require a recommitment of ASEAN unity, if regional states are to avoid divide and rule by China, or the US for that matter. But if ASEAN

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<sup>9</sup> Article 16 reads ‘...this shall not preclude the other High Contracting Parties not party to the dispute from offering all possible assistance to settle the said dispute. Parties to the said dispute should be well disposed towards such offers of assistance.’

commits to the regional problematic, it can incentivise individual member states, particularly those that have especially good relations with China, to expend some of that goodwill in the pursuit of the regional interest.

The trouble with ASEAN is that it has developed too many habits of a lifetime, and as officials scurry from one interminable meeting to the other, many question whether it is capable of changing in step with the regional political realities. Indeed, the whole ASEAN effort is now in absolute need of reassessment and new strategic thinking, tasks that require renewed leadership. Specifically, it will be necessary to reorganise the ASEAN secretariat to serve and support strategic ASEAN interests, led by a Secretary-General who is recognised and supported in fulfilling, perhaps for the first time, the role envisioned under Article 11 of the ASEAN Charter. The next Secretary-General will be Vietnamese. While there may be sensitivities in the context of present regional problems, it will be as good a time as any to revitalise the role of the Secretary-General and the secretariat. The summit meetings in Phnom Penh this November are critical. While it will be a great surprise if the outcomes are wide-ranging and substantive, it is crucial that they are positive and, very importantly, that there is a substantive agenda for ASEAN to develop the strategy for the organisation's future.

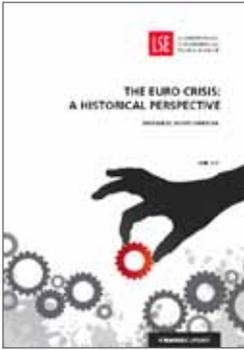
The Indonesian effort to foster the long sought-after COC, while showing leadership and urgency, is still narrowly focussed on a matter long overdue, and does not represent a fundamental reappraisal of ASEAN's role and effectiveness in regional political-security affairs. The ASEAN tendency to kick the ball into the long grass of the ARF, the ASEAN+3 and the EAS will only show up ASEAN disunity when a true consensus is not sought and forged on regional political-security affairs. The 'ASEAN platform' that is often spoken of, and which these extra regional groupings represent, is increasingly sat on by heavily endowed states from outside the region, and in the absence of ASEAN states committing institutional weight to the organisation it will be ridden roughshod over. Having community targets for 2015, including of political-security, is all well and good, but will be too little and too late when extra-regional rivalry and interests are impinging on Southeast Asia now.

While regional and other states may be able to have influence over particular issues and in some contexts, and ASEAN – if united – has the capacity to bring significant diplomatic weight to bear, the future of Southeast Asia hangs on how the world's most important bilateral relationship is managed. A trust deficit exists between China and the United States. There are historical presumptions, present unease and fears about the future. In Chinese historical perspective, China is a returning power with the semblance of a restoration while the Americans feel they are a rebalancing superpower who never left the region. In the conduct of their relations, China has tended to be aggrieved and self-righteous. The US, on the other hand, have this sense of exceptionalism that often jars. All this can cause relations in the strategic contest to be framed by two different senses of entitlement that are already fraught with the tension between a rising contemporary power and a unipolar power in relative decline. Moreover, China and the United States have to manage their relationship in the present in a situation where they are economically massively interdependent – a reality which neither likes but from which neither can escape.

In Southeast Asia their strategic contest is taking form in a hinterland and over an expanse of sea closer to China than to the US. This makes the Chinese nervous, and has precipitated some rather unsteady although assertive actions in the key strategic area of contest – the South China Sea. It is possible China could lose from this the goodwill of the positive economic relationships established with the region, particularly since 1997. Chinese reassessment of the situation is as much a necessary next move as regional engagement with China to restore the *status quo ante*.

Thus China would appear to be on the defensive. However, any American over-commitment in the region which does not recognise the change and development that have taken place in the region, in particular the extensive economic relations regional states have established with China, since the United States was last involved, would be resented. The US is not the predominant economic power it was in the past; there has been a failure of American financial and economic management that has coincided with China's successful economic rise. Therefore any US inclination to over-promise may not obtain ready regional acceptance. The American approach in the region will need to be more nuanced and balanced than it was in the past. The relationship with China, on which so much hangs, will be watched in the region to see if the US pivot is truly a policy of engagement of the region as opposed to the containment of China, which China perceives and has so far over-reacted to. Within the region, the US would err if it was only interested in taking advantage of China's mistakes rather than showing itself to rise above the pressures of geopolitics to play its proclaimed role to achieve peace, stability and prosperity in Southeast Asia.

The United States' posture will be crucial to determining how the nations of the region respond to the new geopolitics of Southeast Asia, but the United States can no longer determine the future of the region on its own. Southeast Asian states need to establish a third pole in the emerging balance of power by rediscovering the potential of regionalism. Only a reformed and renewed ASEAN, with the authority and capacity to mitigate the strategic contest between China and the US in the region, can enable Southeast Asia to forge a Southeast Asian future. ■



In this research report IDEAS explores the current euro crisis by looking at the debates preceding the conception of the euro. How can the early days of EU monetary cooperation help us understand today's predicament? And what lessons can we draw from them for the euro?

Emmanuel Mourlon-Druol was the Pinto Post-Doctoral Fellow at LSE IDEAS for the 2010-2011 academic year.

This essay is a revised version of an address to the General Assembly of the United Nations, to mark the International Day of Non-Violence, observed every year on Mahatma Gandhi's birthday, 2nd October.

Ramachandra Guha is a Senior Fellow at LSE IDEAS.



The signing of Anglo-French Defence Treaty has been one of the least reported, and analysed, of the UK coalitions Government's policies, whilst being, without question, one of its most significant. In the context of defence cuts on both sides of the Atlantic and the Channel, and of a Libyan operation in which Britain and France's dependence on American assets surprised some observers in Washington, this paper assesses the consequences of the Treaty for Anglo-French defence cooperation.

John Stevens is a Visiting Fellow at LSE IDEAS.

Since 1909 the international community has worked to eradicate the abuse of narcotics. A century on, the efforts are widely acknowledged to have failed, and worse, have spurred black market violence and human rights abuses. How did this drug control system arise, why has it proven so durable in the face of failure, and is there hope for reform?



The economic and political position of Europe in the world is changing, particularly its relationships with China and the United States. The Eurozone crisis represents a strategic opportunity for Europe to rethink itself and become a more powerful united force.

The report, *Europe in an Asian Century*, explores how China looms large in Europe's recovery from the crisis and is increasingly interested in Europe's future for economic and wider strategic reasons. And as the US increasingly focuses on Asia, Europe is impelled to carve a role for itself beyond the old certainties of the transatlantic relationship. Europe therefore has a pivotal strategic opportunity to capitalise on these shifts in global power to lay claim to the same key status as China and the US. However, the UK's obstructionism will prevent Europe from achieving this.

As the world continues to experience the fallout from the 2008 financial crisis, it is increasingly turning towards China. The outsourced 'workshop of the world' has become the world's great hope for growth, and the source of the capital the West's indebted economies so desperately need. Simultaneously, and in the United States in particular, commentators and policymakers have increasingly voiced concerns that the economic clout of a communist superpower might pose a threat to the liberal world order. These contradictory impulses – China as opportunity and China as threat – demonstrate one clear truth, exhibited in the Obama administration's much-trailed 'Asian pivot': that China is important.

It is in this context that this report attempts to provide a systematic assessment of the economic bases of China's foreign policy and the challenges the country faces as it makes the transition from rising power to superpower. In doing so, it is informed by a central question, of to what extent China's remarkable growth has given rise to a geoeconomic strategy for China's future.





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