

## **United States Studies Centre**

Institute Building (H03)  
The University of Sydney NSW 2006  
Australia

**Phone:** +61 2 9351 7249

**Email:** [us-studies@sydney.edu.au](mailto:us-studies@sydney.edu.au)

**Twitter:** @ussc

**Website:** [ussc.edu.au](http://ussc.edu.au)



# THE DYNAMICS OF US-CHINA-SOUTHEAST ASIA RELATIONS

Dr Bates Gill, Dr Evelyn Goh  
and Dr Chin-Hao Huang

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The United States Studies Centre at the University of Sydney deepens Australia's understanding of the United States through research, teaching and public engagement. Through rigorous analysis of American politics, foreign policy, economics, culture, and history, the Centre has become a national resource, building Australia's awareness of the dynamics shaping American society — and critically — their implications for Australia.

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*Cover photo: US President Barack Obama with ASEAN leaders during the Special US-ASEAN Summit in California, February 2016 (Malacañang Photo Bureau)*

Research conclusions are derived independently and authors represent their own view, rather than an institutional one of the United States Studies Centre.

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# Executive summary

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- **The majority of Southeast Asian states welcome a stronger regional presence for the United States. But this re-orientation towards the United States should be tempered by the expectation that, over the medium-term, most of Southeast Asia will continue to seek a fairly even-handed “hedging” vis-à-vis both the US and China. This is intended to maximise their strategic autonomy during an uncertain period of intensified great power competition.**
- **While Beijing can point to many successes in Southeast Asia, it will continue to face many challenges in achieving greater authority and influence among its nearest neighbours, including in Southeast Asia. The Chinese leadership struggles with balancing its aspirations for regional influence against growing concerns as to its coerciveness in pursuing its interests, especially in the South China Sea.**
- **It is clearly an American interest and imperative to deepen and sustain US strategic engagement in the region, all the more so as China continues to grow in military, economic and diplomatic strength. This will require careful attention to concerns and priorities of partners in Southeast Asia, including in balancing their relations with China. Troublingly, there are signs among US political leaders, including leading contenders for the US presidency, that strategic engagement in Asia may not be a priority.**

Southeast Asia is at the centre of the shift in gravity within the geopolitically important Indo-Pacific region and is increasingly becoming a locus for strategic competition between the United States and China. As such, Southeast Asia demands far greater US attention and presents enormous opportunities and challenges for strengthening US engagement in the wider Indo-Pacific — economically, diplomatically, politically, and through security ties.

China, on the back of impressive economic growth, has sought to anchor its influence by exercising its increasing material power capabilities, diplomatic skills, and tactical intimidation, though this is often undercut by a strategic vision whose implementation appears

largely in-flux and inconsistent. Chinese President Xi Jinping has sought to demonstrate more visibly China’s resolve to bolster its influence in the Indo-Pacific and beyond, albeit in an incremental manner to test US limits and reactions.

Forging an effective US strategy in Southeast Asia starts with understanding the region from the inside out. Only with deep knowledge of the goals, perceptions, hopes, and intentions of Southeast Asian countries themselves can Washington craft policies that further US national interests, help stabilise the region, and continue the peace and prosperity that has characterised the region for the past three decades.

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This report builds on the work of three country studies, published in November and December 2015, which focused on Indonesia, Myanmar and Vietnam. We are grateful to the authors for their excellent work on those studies and for accompanying us on our field work in those countries: Dr Jürgen Haacke, London School of Economics; Dr Natasha Hamilton-Hart, University of Auckland; Dr Dave McRae, University of Melbourne; and Mr Bill Hayton, BBC journalist and associate fellow with Chatham House.

We would also like to thank four additional sets of supporters who helped assure the success and impact of our study. In carrying out our country studies, we benefited enormously from our local partners: the Centre for Strategic and International Studies, Jakarta; the Myanmar Institute of Strategic and International Studies, Yangon; and the Diplomatic Academy of Vietnam, Hanoi. We were also fortunate to meet with and have the support of the US Ambassadors in Jakarta, Yangon, and Hanoi — respectively Ambassador Robert O. Blake, Jr, Ambassador Derek J. Mitchell, and Ambassador Ted Osius — and we thank them and their senior staffs for their time and thoughtful insights.

Three senior advisors offered critical guidance, insights and recommendations throughout the project in reviewing and critiquing our work: Dr Michael Green, Center for Strategic and International Studies, Washington, DC; Dr Robert Sutter, George Washington University, Washington, DC; and Professor Brantly Womack, University of Virginia, Charlottesville, Virginia. Our institutions also provided essential support, allowing us to complete this important work: the United States Studies Centre at the University of Sydney; the Strategic and Defence Studies Centre at the Australian National University; and Yale-NUS College in Singapore.

Conducting this study involved a great deal of project coordination across so many institutions and individuals as well as strong research assistance. Fortunately we had two smart and highly-dedicated individuals who provided outstanding support in this regard — William Read and William Hobart, both with the United States Studies Centre — for which we are extremely grateful.

We would also like to acknowledge that each of us authored separate sections of this report. Dr Goh wrote part two on *Southeast Asia and the great powers: strategies, policies, challenges*; Dr Huang wrote part three on *Chinese strategy, policy, and challenges*; and Dr Gill wrote part four on *US strategy, policy, and challenges*. All three of us jointly contributed to the introduction, conclusions and recommendations.

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## Dr Bates Gill

Professor of Asia-Pacific Strategic Studies  
Australian National University

## Dr Evelyn Goh

Shedden Professor of Strategic Policy Studies  
Australian National University

## Dr Chin-Hao Huang

Assistant Professor of Political Science  
Yale-NUS College

# 1. Introduction

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Extending from the Indian subcontinent in the west to the Pacific shores of the Americas in the east, the Indo-Pacific is the world's most dynamic region economically, home to more than half of the world's population and economic output, and increasingly complicated as regional actors pursue their economic and security interests within a landscape of shifting power and influence.

Established and emerging powers of the Indo-Pacific — most importantly China and the United States, but also others such as India, Japan, Indonesia, and Vietnam — are caught up in a complex web of deepening economic dependencies and growing security uncertainties. Over the past several years, confrontations between claimants in the South China Sea (SCS) have risen dramatically while US and Chinese differences over freedom of navigation and over flight in those waters threaten to spill over into conflict.

Southeast Asia is at the centre of this strategic picture and is increasingly becoming a locus for strategic competition between the United States and China. As such, Southeast Asia demands far greater US attention and presents enormous opportunities and challenges for strengthening American engagement in the wider Indo-Pacific — economically, diplomatically, politically, and through security ties.

As the strategic centre of gravity in the Indo-Pacific shifts toward Southeast Asia, the authors of the present study have undertaken a two-year project with the support of the John D. and Catherine T. MacArthur Foundation to examine emerging US security partnerships in the region and the dynamics of US-China-Southeast Asia relations.

We were initially drawn to examine emergent and somewhat more difficult cases of American engagement in the region, resulting in the first set of reports from the project on US relations with Indonesia, Myanmar, and Vietnam.<sup>1</sup> These countries all have longstanding and complex relations with the United States and China, each have recently re-engaged in more positive relations with Washington, all have extensive trade and diplomatic relations with China, and all have past and current tensions along their common land or maritime frontiers with China. These country studies explained in detail the strategic

environments of these Southeast Asian states, assessed their respective security relations with the United States and China, and examined how these countries are seeking to strike an appropriate balance between the two major powers.

The present capstone report builds on that first phase to examine and interpret the larger three-sided strategic dynamic of China, the United States and Southeast Asia and how future American engagement in the region should fit in to that dynamic. This report assesses: (1) Southeast Asia's strategic outlook and prospects in its dealings with China and the United States; (2) China's strategic rationale and prospects in Southeast Asia and how the United States affects those calculations; and (3) the United States' strategic rationale and prospects in Southeast Asia and how China affects those calculations. The report puts forward several important strategic, economic, diplomatic, and security-related principles and policies that should be articulated and implemented as high priorities for the US Government now and as a new administration and Congress take office in early 2017.

A fundamental conclusion of the report is that *vigorous and effective American engagement of the Indo-Pacific region will endure as a strategic imperative for the United States* long after President Obama departs office early next year.

However, remarkably, there are signs among the leading contenders for the US presidency that strategic engagement in Asia may not be a high priority. That would be a major mistake on America's part. There remains a high expectation in the Indo-Pacific and in Southeast Asia in particular of a continued US focus of economic, diplomatic, and security-related resources to the region. There is a growing gravitation towards the United States, in both security and economic terms, as Southeast Asian states — both individually and within ASEAN — look to establish a stronger regional standing for themselves and balance a more muscular China. A sustained, coherent, and carefully crafted US Southeast Asia engagement strategy should tap into this increasingly positive sentiment and assure the American presence can continue to contribute to prosperity, stability and sociopolitical development in this increasingly important region.

## 2. Southeast Asia and the great powers: strategies, policies, challenges<sup>2</sup>

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### Strategic imperatives and approaches

As a collection of small- and medium-sized post-colonial states located in what has often been perceived as being a relatively peripheral part of the world, Southeast Asia suffers from external and internal strategic insecurities. Because of an intense post-independence struggle for regional dominance between Indonesia and Malaysia, the core regional security principle of the six original non-communist members of the Association of Southeast Asian Nations (ASEAN) centred on the prevention of intramural hegemony.<sup>3</sup> This renunciation of dominance by any single actor has since extended to preventing the exercise of regional hegemony by any one external power. Against this background, since the mid-1990s, Southeast Asian strategic concerns about an increasingly powerful China have focused on its potential to dominate East Asia to the exclusion of other major players.

Broadly, the region's strategic thinking is marked by two additional principles: uncertainty and diversification. Uncertainty is the principle by which these relatively small and diverse states manifest their deep collective sense of vulnerability vis-à-vis bigger actors. Uncertainty and trepidation about China's growing might is focused upon the imperative to gauge Beijing's strategic intentions vis-à-vis the region and the world, in the short term as well as in the long run. At the same time, Southeast Asian states are acutely sensitive to the crucial role of the United States in regional security. Thus, the question of American interest and commitment is a constant theme in the management of regional uncertainty, ranging from worries about US isolationism post-Vietnam War and after the Cold War, to recurrent post-Cold War concerns about the concentration of American attention in the Middle East to the exclusion of other parts of the world. Many Southeast Asian policy initiatives related to developing military relationships with major powers and regional security institutions reflect the need to manage these twin uncertainties.<sup>4</sup>

The second key principle guiding Southeast Asian strategic thinking is the imperative of diversification.

Deriving from their location and history as a crossroads between East and South Asia, all Southeast Asian states acknowledge that they cannot avoid being part of the ambit of the big powers — but they share the desire not to fall within the exclusive sphere of influence of any one great power alone. Since the end of the Cold War, the United States has been the preponderant power in East Asia, mainly because of its superior military projection capabilities, but also because it is viewed as a guarantee in two ways: geographical distance mutes its domination, and its non-imperial history suggests the benignity of its power. Nevertheless, Southeast Asian states have constantly sought to diversify their economic and strategic dependencies by seeking closer ties with China, and also Japan and India.

For the developing Southeast Asian states, which are located at the strategic crossroads between China and India, and between the Pacific and Indian Oceans, diversification in the economic realm is just as crucial as in the security realm. During the Cold War, the first wave of developing countries in the region (the non-communist “old” ASEAN) relied upon access to American and Japanese markets, technology and investment.

Since 1990, all the Southeast Asian states have plugged into the opportunities and risks offered by China's rapid growth. China's industrial development has reshaped the regional political economy, re-orientating almost all the Southeast Asian economies towards a regional production network centred on final assembly in, and overseas export from, China. As a result, China's trade with ASEAN grew dramatically from US\$8 billion in 1980, to US\$178 billion in 2009 (during which it became ASEAN's largest external trading partner), to nearly US\$480 billion in 2014.<sup>5</sup> China is now among the top three trading partners for every ASEAN country, and the ASEAN-China Free Trade Agreement (ACFTA) that came into effect in 2010 created the world's largest free trade area, comprising 1.9 billion consumers and US\$4.3 trillion in annual trade. As mutual investment also rose to more than \$130 billion by 2014, Chinese and ASEAN leaders have agreed to further increase trade to \$1 trillion by 2020, and investment to \$150 billion within eight years.<sup>6</sup> Moreover, China has driven

economic regionalism across wider East Asia by supporting certain financial and economic institutions such as the ASEAN Plus Three, Asian Development Bank, and the new Asian Infrastructure Investment Bank. Given that China overtook Japan as the world's second-largest economy in 2010 and surpassed the United States as the largest trading nation in the world in 2013, Southeast Asia's intensifying economic interdependence with China is an undeniable fact.

Indeed, so much is the imperative of maintaining close economic ties with China shared among all the Southeast Asian states, that this economic interdependence may be regarded more as a constant than a variable when trying to understand their relative strategic alignment choices. There is occasional variation in the extent to which particular countries may choose short-term trade-offs, but all the ASEAN states try to the best of their ability to keep on separate tracks both their security relationship with the United States, and their economic relationship with China; those that

experience political or security tensions with China try to insulate their economic ties from those tensions.

At the same time, individually and collectively, the ASEAN states have responded to their growing economic interdependence with China by continuing to diversify their ties with other economic powerhouses. Even Laos, the poorest of the Southeast Asian countries, managed early on to leverage Chinese interest in infrastructural investment to bargain with the World Bank to fund controversial hydropower mega-projects.<sup>7</sup> And rising dependency on China helped to push the isolated military regime in Myanmar towards reforms from 2011 onwards, so as to diversify its strategic ties.<sup>8</sup> Alongside a plethora of bilateral trade liberalisation agreements, since ACFTA came into effect, ASEAN has also ratified a Comprehensive Economic Partnership with Japan, a free trade agreement (FTA) with South Korea, a joint FTA with Australia and New Zealand, and a trade-in-goods agreement with India. The United States has thus far signed an FTA with Singapore,



Image: Rainer Lesniewski



and with ASEAN as a whole, it has had a Trade and Investment Framework Arrangement (TIFA) in place since 2006 to enhance trade and investment and promote ASEAN regulatory liberalisation. At the end of 2012, the Obama administration launched the US-ASEAN Expanded Economic Engagement initiative, a new framework for economic cooperation to help lay the groundwork for ASEAN countries to prepare to join high-standard trade agreements such as the Trans-Pacific Partnership (TPP).

Understanding these core imperatives suggests that China's rise has brought significant strategic economic benefit to Southeast Asia. This consideration has placed a clear limit to how much regional states are willing to

antagonise China on a variety of fronts, including by taking action that suggests they are "ganging up" with outside powers to encircle China. Within those limits though, China's rise has nevertheless proved strategically beneficial for Southeast Asia in security terms: first, because it offers opportunities for strategic diversification and helps to

prevent sole dependence upon US strategic dominance for stability in the region. At the same time, rising China provides a vital strategic rationale to anchor longer-term US attention in Southeast Asia, mitigating the region's fears about American inconstancy.<sup>9</sup>

The above strategic imperatives have translated into what is often referred to as a "hedging" approach towards great powers. Broadly speaking, hedging behaviour in Southeast Asia comprises three elements. First is the complex engagement of China politically, economically and strategically, aimed at socialising Chinese leaders into peaceful norms-based conduct. Such engagement policies may be understood as a constructive hedge against potentially aggressive Chinese domination. Second, hedging entails indirect balancing, or persuading other major powers, particularly the United States, to act as counterweights to Chinese regional influence. The third element is a general policy of enmeshing a number of regional great

powers to give them a stake in a stable regional order. All told, Southeast Asian states are in fact hedging against three key undesirable outcomes: Chinese domination, US drawdown in the region, and an unstable regional order.<sup>10</sup>

For the purposes of this project, our concern is with a narrower band of these strategic concerns, namely how Southeast Asian countries position themselves between the United States and China. In this regard, one of the most widely-used definitions of Southeast Asian hedging sees it as a set of strategies aimed at avoiding a situation in which these states have to choose between straightforward alternatives such as balancing, bandwagoning or neutrality. Instead, they cultivate "a middle position that forestalls or avoids having to choose one side at the obvious expense of another."<sup>11</sup> Such "triangular" hedging is at heart "a class of behaviours which signal ambiguity regarding great power alignment",<sup>12</sup> against the background assumption that there is usually a trade-off, in the form of a zero-sum alignment choice, to be made between one great power and the other. By this narrower understanding of triangular hedging, countries that are already treaty allies with one of the two great powers cannot really be said to be hedging, and stronger hedgers are those that achieve greater degrees of ambiguity in relative alignments.

While these generalisations might be observed to hold broadly within the region, it is prudent to remember that, by dint of geography, history and ethnicity, Southeast Asia is a region characterised by as many differences and variations as by its similarities. In order to establish a baseline for present-day comparison, we may identify three groups of Southeast Asian states according to their alignment behaviour and options vis-à-vis the United States and China circa the mid-2000s.

#### US allies

The Philippines and Thailand are the only two formally aligned states in the sub-region. The Philippines has had a Mutual Defence Treaty with the United States since 1951 and hosted large US bases for more than 40 years after the Second World War. A new Visiting Forces Agreement (VFA) in 1999 allowed the United States to

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**Southeast Asian states are in fact hedging against three key undesirable outcomes: Chinese domination, US drawdown in the region, and an unstable regional order.**

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resume ship visits and conduct large military exercises with Philippine forces, and from 2002, US combat forces supported Filipino troops fighting insurgency in Mindanao. Thailand's US alliance is underpinned by the 1954 Manila Pact and 1962 Rusk-Thanasat communiqué. Thailand provided vital basing for US forces during the Vietnam War, and played an important post-Cold War role in US wars in the Middle East and Afghanistan, and regional disaster relief operations. Both countries were designated US "major non-NATO allies" during the early years of the "Global War on Terror". While both actively engage and enjoy deepening economic relations with China, their formal alignment with Washington entails rights and obligations in times of armed conflict — albeit to different degrees, depending on the particular circumstances — including conflict with China. More importantly, these are traditional, exclusive alliances, which as they stand, prevent both countries from contracting similar treaties with China. For this reason, these US treaty allies would be excluded from a strict definition of triangular hedging.<sup>13</sup>

### The China-constrained countries

Neighbouring countries whose security strategies prioritise the central role of China include the Indochinese states of Cambodia, Laos, and Vietnam; and Myanmar, whose military regime was sanctioned by Western countries post-1988. This group is defined by close proximity to China, especially the contiguous states, Vietnam, Myanmar and Laos. The smallest states — Cambodia and Laos — are also subject to the competing influences of the sub-regional powers (Thailand and Vietnam), and regard China as a welcome third-party balancer. After the Cold War, the so-called "CLMV" often appeared to gravitate towards Chinese influence because of the lack of strategic opportunity vis-à-vis other great powers.

### The hedgers

Indonesia, Malaysia, Singapore and to a lesser extent Brunei, are the most obvious hedgers. With neither treaty alliances nor ideological allegiances, they possess viable military-to-military ties with both the United States and China; and each pursues "balanced" political-economic ties with both great powers. All four

countries deliberately facilitate US forward deployment in the region. Most active is Singapore, which has hosted a US naval logistics command centre since 1992, allows American access to airbase facilities, and opened a naval base in 2001 capable of berthing US aircraft carriers. Its 2005 Strategic Framework Agreement with Washington allows expansion of bilateral cooperation in counter-terrorism, counter-proliferation of weapons of mass destruction, joint military exercises and training, policy dialogues, and defence technology.

Malaysia offers US forces port calls, ship repair facilities, jungle warfare facilities, and low-visibility naval and air exercises. Since the partial restoration of defence relations in 2005, Indonesia has regularly hosted visiting US naval vessels and the TNI has been anxious to access US assistance and defence technology. All four countries were founding members in 1995 of the annual Cooperation Afloat Readiness and Training (CARAT) military exercises with the US Navy; and Singapore, Indonesia and Malaysia participate in Cobra Gold, the largest annual US-led military exercise in the Asia-Pacific.

But all four countries also engage China significantly, including in military-to-military exchanges. Beijing also signed a "Strategic Partnership" agreement with Indonesia in April 2005, facilitating an annual defence dialogue, ministerial visits and port calls. Malaysia, Brunei and Indonesia, which have South China Sea (SCS) territorial claims that overlap with China's, either do not officially acknowledge these disputes, or deal with them in a very quiet manner. Indonesia has tried repeatedly to mediate a multilateral agreement between ASEAN and China, while Singapore keeps its distance as a non-claimant.<sup>14</sup> As part of their long-term insurance policy of socialising China, these hedger states all support efforts to enmesh China within regional institutions, though they disagree about including other great powers.

## Putting strategy into practice

The changes in the strategic landscape of East Asia since the mid-2000s are marked especially by regional states' responses to China's maritime assertiveness

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Washington's stance that the South China Sea territorial disputes should be resolved according to international law and its repeated affirmations of the bilateral alliance are read in Beijing as having "emboldened" the Philippines to militarise and internationalise the conflict.

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after 2009 and the US rebalance to Asia after 2011. In Southeast Asia, there has been a growth in behaviour that is often associated with balancing: increased military expenditures; defence postures re-oriented towards a key external threat; broadening and deepening of alliance relationships; and the pursuit of more targeted external security cooperation and support for defence capability development.<sup>15</sup> Against this background, how have the strategic choices of the three categories of Southeast Asian states panned out in practice, and with what effects on their relative positioning between the United States and China? What are the overall trends for Southeast Asian strategies towards the great powers, and how do the emerging security partnerships analysed in our project feature within these trends?

### US allies

Over the past decade, a pronounced divergence has grown between the two US treaty allies. Thailand has become caught in a strategic limbo vis-à-vis the United States because of military coups in 2006 and 2014 and the associated domestic political unrest. The resulting ambiguity about its military leaders' commitment to its security relationship with the United States has engendered a sense in Washington that Thailand is increasingly a "free agent" regarding its alignment choice. The major implication of this state of affairs is the relatively greater significance paid to the SCS elements of the Obama administration's rebalance, absent the ability to emphasise the continental leg of the US alliance system in Southeast Asia traditionally provided by Thailand.

In contrast, over the past five years especially, the Philippines has overtly leveraged the US alliance to resist Chinese maritime assertiveness. The Benigno Aquino administration has also committed funds to

military modernisation and cultivated defence ties with other US allies (although the extent to which the new Duterte government will carry through these plans remains to be seen).

Among the notable Philippines arms acquisitions in recent years are: two retired US Coast Guard *Hamilton*-class cutters refitted to be Philippine Navy frigates; two (out of a dozen ordered) FA-50 light fighter jets from South Korea; and two strategic sealift vessels from Indonesia. It has received four patrol boats from the United States, and bought ten high-speed coast guard patrol boats from Japan. Japan has also agreed to transfer used patrol planes with basic surveillance radar to the Philippine Navy, alongside P-3C Orion reconnaissance planes.<sup>16</sup> While its aim of achieving "minimum credible defence" is a painstaking project, the qualitative changes in Manila's strategic alignment behaviour are already significant. In the early 2000s, it had rebuilt its US alliance on the basis of anti-terrorism and counter-insurgency, using existing frameworks like the VFA and the annual *Balikatan* joint exercises. In contrast, their post-2010 alliance strengthening occurred in a climate of indignant nationalism and uncommon consensus on the part of Filipino leaders against Chinese assertiveness, and as part of the US rebalance, designed to convey refocused superpower attention on China's behaviour in Asia. Washington's stance that the SCS territorial disputes should be resolved according to international law and its repeated affirmations of the bilateral alliance are read in Beijing as having "emboldened" the Philippines to militarise and internationalise the conflict.

This revitalised Philippines-US alignment is focused on developing capabilities specific to countering Chinese incursions and defending Filipino claims in the SCS. It also includes maritime joint exercises such as CARAT, the Philippines component of which is more often than not conducted at SCS locations such as Subic Bay or Palawan.<sup>17</sup> For instance, the 2011 and 2015 CARAT exercises in Palawan featured three US guided missile destroyers and a US littoral combat ship respectively. The latter was immediately followed by an historic joint search and rescue operation between the Philippine and Japanese navies in the same location.<sup>18</sup>

The US-Philippines alliance strengthening has also been codified in new instruments, especially the 2014 Enhanced Defence Cooperation Agreement (EDCA), by which the Philippines can resume hosting large rotational deployments of US forces for the next decade.<sup>19</sup> The US rebalance already includes more rotational US deployments to the Philippines after the two sides agreed in 2012 that US forces would re-use facilities at their former bases.<sup>20</sup> In addition, there is a prospect of renewed longer-term US access to the deep harbours at Subic Bay — only 145 nautical miles from Scarborough Shoal (occupied by China in 2012), and less than 200 nautical miles from the new Chinese features constructed in 2015 — which would provide more efficient basing for US SCS operations than bases in Japan and Guam.

Manila has also begun negotiating a Status of Forces Agreement (SOFA) and a VFA to allow the Japanese military to use bases in the Philippines for refuelling and supplies, thus extending Japan's SCS patrol range.<sup>21</sup> The Philippine Senate also ratified a SOFA with Australia in 2012 after a five-year delay.<sup>22</sup> These moves to reopen bases again to foreign forces are an important indication that over the last five years, the Aquino government has felt sufficiently threatened to justify the trade-off between autonomy and alignment, despite domestic opposition and despite the risk of jeopardising economic ties with China. Be that as it may, the imperative of retaining economic benefits from China may circumscribe Manila's choices going forward. The Aquino government signed up to China's AIIB initiative in December 2015, not least because the country has large infrastructure needs. Under the previous Arroyo government, the Philippines did manage to put economic considerations above the territorial dispute, signing in 2004 a bilateral joint resources exploration agreement with China in some of the disputed areas.<sup>23</sup> That agreement was apparently part of a package of bilateral agreements including \$1.6 billion in Chinese loans and investments, and military assistance worth more than \$1 million. Manila, which had initially opposed ACFTA, eventually signed up in 2005, after which bilateral trade grew eight-fold, and China became the fifth largest ODA provider to the Philippines.<sup>24</sup>

### The hedgers

While not deviating from an overall long-term hedging strategy, since 2010 many of the hedgers have intensified elements of their deterrence policies against Chinese aggression in the short term. Notably, Singapore has extended clear support for the US "rebalance". Apart from the rotational deployment of 2500 marines in northern Australia, the element of the military rebalance most directed at the SCS involves basing up to four new US Navy littoral combat ships in Singapore. Singapore also announced an enhanced Defence Cooperation Agreement with the United States alongside the deployment of US P-8 Poseidon aircraft from the island in December 2015. The latter will complement existing P-8 staging points in Japan, the Philippines and Malaysia to facilitate US maritime air surveillance and anti-submarine coverage in the SCS. To support continued American political-economic leadership in the Asia-Pacific, Singapore officials have also repeatedly and publicly urged US leaders to push through the TPP as a crucial complement to its military preponderance.<sup>25</sup> As the Singapore Prime Minister put it to an American journalist: "If you are not prepared to deal when it comes to cars and services and agriculture, can we depend on you when it comes to security and military arrangements?"<sup>26</sup>

The other two actively hedging states, Indonesia and Malaysia, have adopted renewed maritime foci in their ongoing military modernisation to manage growing risks of maritime disputes with China.<sup>27</sup> Both have stepped up military acquisitions from, and cooperation with, the United States. As bilateral security cooperation with the United States recovered after 2008, Indonesia has been negotiating major defence purchases, including 30 F-16 aircraft (including spares and pilot training) and eight Apache helicopters and radar technology worth more than US\$500 million.<sup>28</sup> In its largest arms purchase in more than two decades, Malaysia announced in February 2016 the purchase of six attack helicopters from the United States for its Army Air Corps.<sup>29</sup>

Malaysia has tended to keep a low profile on its security cooperation with Washington — for example, it did not become a full participant at the Cobra Gold exercises



until 2011, and it has denied publicly that US P-8 aircraft are allowed to fly from its territory despite US sources to the contrary.<sup>30</sup> However, at the height of international publicity over China's large-scale reef reclamations in the SCS in November 2015, the Malaysian Defence Minister joined his US counterpart on an internationally publicised visit on board a US aircraft carrier sailing in the SCS off Borneo.<sup>31</sup> Earlier that year, the Indonesian and US navies held two exercises in 2015 at Batam Island, near the resource-rich Natuna islands located within China's nine dashed-lines.<sup>32</sup> Indonesia also signed a memorandum of understanding (MoU) for defence partnership with Japan in 2015, allowing the transfer of certain Japanese-manufactured equipment and "joint research and production" between their defence industries. Jakarta has reportedly requested radar systems and patrol ships from Japan.<sup>33</sup> They also launched a Japan-Indonesia forum on maritime security, and a joint defence and foreign ministerial dialogue in December 2015, the first for Japan with an ASEAN country.

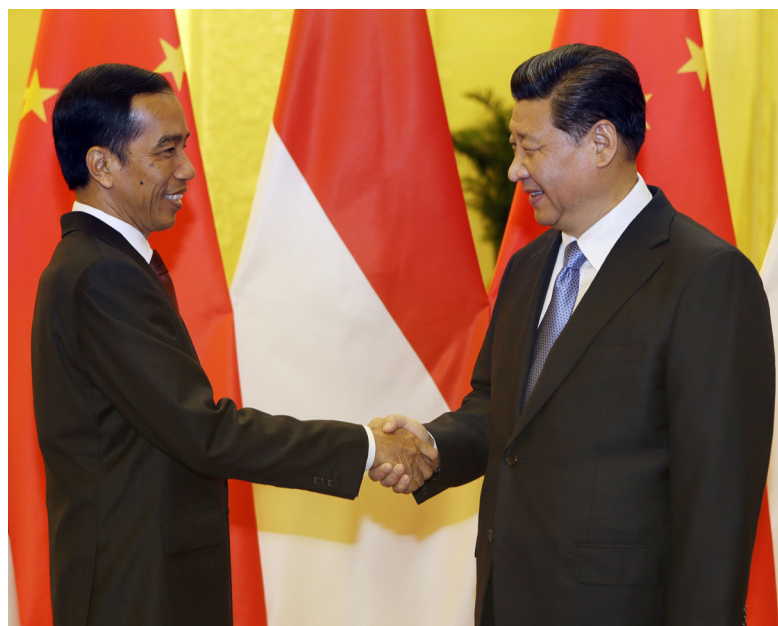
These new episodes of security cooperation and partnership are significant in light of Malaysia and Indonesia's evidently growing unease over China's approach to the territorial and fishing disputes in the SCS. Both have departed from their traditional

preference for a tight-lipped, low-profile, behind-the-scenes stance on these disputes. As ASEAN chair in 2015, Malaysia facilitated criticism of SCS land reclamation activities in the Foreign Ministers Meeting joint statement, and also allowed the ASEAN Defence Ministers meeting to end without a joint statement, deliberately reflecting the open split regarding the SCS disputes.<sup>34</sup> Since 2013, Malaysian officials have publicly discussed Chinese encroachment into Malaysian waters in an unprecedented manner. In June 2015, they announced the intrusion of a Chinese Coast Guard ship into Malaysian waters at South Luconia Shoals, southwest of the Spratlys. The vessel had reportedly been parked at the Shoals for two years, keeping Malaysian fishermen away from fishing grounds in the area. Malaysia had responded with weekly diplomatic protests, including at the leadership level, and had stepped up its navy and coast guard patrols in the area.<sup>35</sup> In May 2016 Malaysian authorities again publicised the incursion of around 100 Chinese fishing vessels accompanied by two Chinese Coast Guard ships near Luconia Shoals.<sup>36</sup>

This echoed Indonesia's unprecedentedly tough approach with the newly-elected Jokowi administration's policy of publicly sinking illegal foreign fishing vessels, many Chinese, caught within Indonesian waters in 2015. One of the President's close advisors warned the Chinese that Indonesia would consider taking the Natunas dispute to the international court of arbitration if they could not resolve it bilaterally.<sup>37</sup> This prompted the Chinese foreign ministry spokesman to offer for the first time a statement that China does not dispute Indonesia's sovereign control of the Natunas.<sup>38</sup> Regardless, another diplomatic fallout ensued in March 2016 when Jakarta publicised an incident in which a Chinese Coast Guard ship reportedly rammed and freed a Chinese trawler that was being towed by an Indonesian patrol boat for illegally fishing within Indonesian territorial waters off the Natunas.<sup>39</sup>

Malaysia and Indonesia have taken some stronger steps against selected Chinese maritime incursions recently, but there appear to be limits — for instance the Malaysian vessels monitoring Chinese incursions are reportedly strictly under orders not to provoke them in any way,<sup>40</sup> and both countries are continuing

Indonesian President Joko Widodo and Chinese President Xi Jinping  
*Photo: Ministry of Foreign Affairs, the People's Republic of China*





with diplomatic efforts to address the issue. At the same time, it is important to note that none of the hedgers have deviated from their long-standing deep engagement with China, and each has grasped opportunities to benefit economically from China's growth. They have supported China's Maritime Silk Route, AIIB and membership in RCEP. Unencumbered by territorial disputes, Singapore has maintained close working relations with China despite its stronger leaning towards Washington.

But the other hedgers also sought deeper partnerships with China after 2010, precisely because of their rising concerns over Chinese maritime intentions. Brunei agreed to undertake joint development in the SCS with Beijing in 2013 — currently the only claimant to have such an agreement. In the same year, Malaysia and Indonesia signed Comprehensive Strategic Partnerships with China, both committing to make progress in security cooperation, an area they had not previously prioritised. Malaysia started regular bilateral defence and security talks with China in 2012, joining Singapore (since 2008) and followed by Indonesia (since 2013).<sup>41</sup>

As one Malaysian scholar observes, the timing of these developments reflects a "pragmatic judgement" specific to hedgers, to insure against "all forms of security risks."<sup>42</sup> Thus, Malaysia — and to a lesser extent Indonesia — has responded to China's assertiveness not only by signalling its ability to increase security cooperation with other great powers, but also by trying to improve its relationships with China itself. Notably, both have tried to create different dynamics with China in sensitive maritime zones using defence engagement. In 2013-14, Indonesia held joint naval exercises with China in the SCS, and invited Chinese participation in the humanitarian disaster relief section of the multilateral Komodo exercises around the Natuna islands.<sup>43</sup> In September 2015, Malaysia conducted its first joint military exercise with China in the Malacca Straits and surrounding waters. Covering joint escort, search and rescue, and humanitarian rescue and disaster relief, it was the largest bilateral military exercise between China and an ASEAN country to date.<sup>44</sup>

We should note that these episodes of cooperation and confrontation are selective, ad hoc, and limited: the point of hedging is to send mixed signals, thus generating ambiguity vis-à-vis one's relative alignment. For instance, despite cooperation in earlier years, in 2016 the Indonesian Navy declined PLA suggestions of joint drills with ASEAN states in the SCS.<sup>45</sup> But we may also expect similar limits to its security partnership with the United States too: with its priority on "keep[ing] its options open," Jakarta "lacks the strategic imperative to greatly deepen cooperation" with either side.<sup>46</sup> While the Jokowi administration may find for the time being that its populist domestic agenda is served by a stronger line against Chinese maritime and fisheries incursions, this is no guarantee that it will be willing to pay the medium-term price of spoiling its overall relationship with China by adopting a more decisive retaliatory policy.

### **The China-constrained countries**

The most significant changes have taken place in two of the four China-constrained countries. Vietnam since 2009-10 and Myanmar since 2011-12 have managed to create previously infeasible political and security ties with the United States and its allies, so as to move along the spectrum towards joining the hedging states. They still feel the China constraint acutely, but their ability to signal ambiguity in alignment intentions towards the United States has increased. Indeed, in recent years their strategic agility may be said to have outstripped the established "hedgers" in the region.

Of all the Southeast Asian states, Vietnam has demonstrated the most significant alteration in its strategic posture. As observed in 2005, "Hanoi lacks external strategic partners that can offer the option of more active balancing against China. The United States is the obvious potential partner, but [the communist] Vietnamese leaders have deep reservations about creating a closer strategic relationship. ... This perception is supported by the invasion of Iraq, and the Bush administration's declared aim of spreading democracy around the world to ensure US security."<sup>47</sup> Since then, their security relationship has notably improved: they have held annual strategic dialogues since 2008, and defence policy dialogues since 2010;

conducted their first bilateral joint military exercise in 2010; and signed a Comprehensive Partnership in 2013.

While these developments reflected the gradual post-normalisation recovery of Vietnam-US relations, Hanoi has also been motivated by increasing concern over Chinese maritime assertiveness. As chair of ASEAN in 2010, Vietnam “internationalised” the SCS disputes by successfully lobbying Washington to make strong public statements on the dispute. Hanoi also began re-arming after years of neglect, prioritising naval spending, including the purchase of six Kilo-class submarines from Russia, the first of which are reportedly involved in patrolling the SCS.<sup>48</sup> The navy is also acquiring a substantial fleet of surface combatants and patrol and attack aircraft, and building large patrol vessels.<sup>49</sup>

In recent years, Hanoi also executed tactical political manoeuvres to flex its US alignment option when facing pressure from Beijing. At the height of the oil rig crisis in May 2014, Vietnam joined the US-led Proliferation Security Initiative (PSI). Two months later, a pro-China Politburo member visited the US State Department without the customary prior visit to China, and extended the invitation for the first visit to Hanoi by a US Chairman of the Joint Chiefs of Staff since the Vietnam War.<sup>50</sup> In late 2014, Washington eased existing arms sanctions to allow sales to Vietnam of maritime surveillance and lethal maritime security capabilities on a case-by-case basis. The United States has also overcome some serious ideological obstacles: in June 2015 their defence ministers issued a Joint Vision Statement mentioning mutual respect for each other’s political system, and in the following month the Vietnamese Communist Party General Secretary conducted what was in effect a state visit to Washington.<sup>51</sup> Like Indonesia and the Philippines, Vietnam has also turned to Japan: since upgrading their strategic partnership in March 2014, Japan has promised Vietnam patrol vessels, including radar and training.<sup>52</sup> Beyond US allies, since 2014 Vietnam has also boosted its strategic ties with India — previously focused on military exchanges and Soviet-era hardware maintenance — by signing MoUs on defence and coast guard cooperation. India has offered credit to supply four patrol boats and personnel training (including

reportedly for operating the new Russian submarines), and will set up a satellite tracking and imaging centre in southern Vietnam giving Hanoi access to data from Indian satellites that cover the region, including China and the SCS.<sup>53</sup>

Yet, Vietnam remains far from being an exclusive emerging security partner of the United States — it has worked harder than any other Southeast Asian country to retain deliberately intimate political, economic, and military ties with China. In 2010, even while Hanoi sought US pressure on China over the SCS disputes, Vietnam and China held five confidential meetings to discuss maritime disputes, and started a bilateral Strategic Defence and Security Dialogue.<sup>54</sup> The 2014 oil rig crisis was eventually de-escalated by Hanoi and Beijing conducting conflict management and resolution talks using the trusted mechanism of the bilateral Joint Steering Committee, in addition to dialogues across the party and military levels.<sup>55</sup>

Unlike Manila’s strategy of directly leveraging the US alliance, Vietnam’s strategy of self-help involves developing US military ties as much to express its autonomy as to temporarily offset Chinese power. Consider the limits placed on defence ties with the United States: American warships are allowed just one port visit per year, and no US warships are allowed in Cam Ranh Bay (in particular contrast to Russian warships, which are given preferential treatment). Indeed, Hanoi seemed to have stressed its strategic autonomy in allowing Russian refuelling at the Bay of strikers that controversially circled US military installations on Guam in 2015.<sup>56</sup> Furthermore, as noted by Bill Hayton, Vietnam does not take part in key types of security cooperation that the hedger states undertake: it does not participate in CARAT, and does not conduct naval passing exercises or cross-servicing to facilitate ship visits, joint exercises or emergency response.

Thus, Vietnam may have moved to the edge of the hedging group, but it is likely to remain a relatively weak hedger, activating its dual-track alignment options only when under duress. The key point here, common to the China-constrained mainland Southeast Asian states, is the necessary preoccupation with an ongoing

intense process of national consolidation, be it regime security, national unification, or economic growth. The Vietnamese Communist leadership, especially the older generation, “still fears the subversive intent of the United States” and is unwilling to trade Vietnam’s autonomy for risky permanent alignment with an offshore power.<sup>57</sup> Even with inter-generational leadership change, historical experience and geo-demographic realities will continue to fuel caution and pragmatism vis-à-vis China. The exigencies of domestic and party politics will necessitate balancing and trade-offs, mitigating obvious alignment one way or the other. For example, the apparent strengthening of conservatives and China-leaning leaders at the expense of more clearly pro-US liberal-leaning leaders resulting from the Party Congress in January 2016 might be read as a means to appease conservatives in light of recent easing of relations towards the US and support for the TPP.<sup>58</sup> To safeguard its imperative of autonomy, Vietnam may be expected to restrain China without making it impossible to live with, while borrowing US deterrence without becoming dependent upon it.

Such deep-seated constraints will also prevail in Myanmar, the other country in this group that has significantly changed its prospects for strategic positioning between the United States and China. Western sanctions on top of imposed military rule following 1988, forced Myanmar to compromise its foundational foreign policy principle of neutralism by moving into China’s orbit. This strategic straight-jacket did not ease until the post-2010 transition to a nominally civilian regime under President Thein Sein coincided with the Obama administration’s readiness for pragmatic engagement with Naypyidaw. The change in US policy dramatically altered Myanmar’s strategic options in political and economic terms. Apart from high-level leadership visits, Washington lifted most sanctions and removed obstacles to international financial institutional funding for Myanmar, signed a bilateral Trade and Investment Framework Agreement, and started limited military exchanges and cooperation. US allies also offered new opportunities: Japan, for example, forgave all of Myanmar’s bilateral debt and promised new assistance and US\$504 million in loans.<sup>59</sup> The resulting wider rebalancing of its external

relations has enabled Myanmar to diversify away from its previous extreme dependence on China.<sup>60</sup>

In substantive terms, the new US Myanmar policy is focused on promoting democratic governance and national reconciliation, and is likely to remain so as the country continues to struggle with democratisation and a national ceasefire with rebel ethnic groups. The bilateral defence relationship starts from a non-existent base and remains subject to the Myanmar government’s implementation of promised reforms.<sup>61</sup>

Yet, small steps like the beginnings of a US-Myanmar defence dialogue focusing on human rights, the rule of law and humanitarian assistance, or the invitation to a small group of Myanmar military officers to observe the humanitarian and disaster relief components of the 2013 and 2014 Cobra Gold

military exercises appear more significant alongside other strengthening regional US security partnerships. On the Myanmar side, ex-President Thein Sein’s willingness to offend Beijing by postponing the controversial Chinese-funded Myitsone Dam project in 2011 coincided with the US opening, and policy analysts now openly discuss using the US relationship to countervail Chinese influence.

While Myanmar has bought significant new room for manoeuvre between China and the United States, and while the new National League for Democracy government might be regarded as more pro-western than its predecessor, it is very unlikely to move towards outright alignment with Washington. Faced with the myriad urgent tasks of national stabilisation, the stark reality is that Naypyidaw cannot afford to alienate its neighbours. Not only does China remain a contiguous neighbour, Naypyidaw requires Chinese (and to a lesser extent, Indian) cooperation to manage and resolve the violent ethnic conflicts at the border. China is also heavily invested in Myanmar, in terms of

**In substantive terms, the new US Myanmar policy is focused on promoting democratic governance and national reconciliation, and is likely to remain so as the country continues to struggle with democratisation and a national ceasefire with rebel ethnic groups.**

commerce, migration, and infrastructure building — not least important pipelines constructed to transport oil and gas from Myanmar fields in the Bay of Bengal to China's Yunnan Province. These considerations clearly informed Aung San Suu Kyi's moves to establish cordial relations with Beijing just before, and soon after, her party's landslide victory in the November 2015 elections.<sup>62</sup> As Jürgen Haacke observes, China remains the most significant supplier of military hardware — including modern frigates, main battle tanks, armoured personnel carriers, artillery pieces, aircraft, and missiles — to the Myanmar military, despite deteriorating bilateral relations in recent years.<sup>63</sup>

Above all, Myanmar leaders — whether military or civilian — are focused on political consolidation and national development. These imperatives of reinforcing internal sovereignty and promoting economic growth will not be best served by seeking alignment with the United States in place of Myanmar's main gain from recent changes: the possibility of recovering its traditional neutralism, staying above the fray of great power conflicts that have engulfed it at various historical junctures, while trying to benefit from multiple great power engagement.

## **Southeast Asian hedging and the challenges ahead**

Over the past decade Southeast Asia as a whole has exhibited four trends in strategies towards the United States and China. First, more pronounced differences have emerged within the two groups at the extremes of the spectrum, the US allies and the China-constrained states. Second, the number of states that might be said to be "hedging" has grown, backing the claim that hedging is the most widespread strategy in the sub-region. Third, the hedgers have increased their "bets" on Chinese aggression in the short-run and have accordingly intensified elements of their insurance policies, including US security cooperation, in order to deter China. And finally, the median point on the sub-region's alignment spectrum has moved towards the United States.

The Southeast Asia case bears out the expectation that hedging is the preferred optimum strategy for non-

great power states.<sup>64</sup> The main determinant of success in such a strategy is the extent to which individual states can cultivate the necessary opportunities to place multiple bets and buy multiple insurance policies. Over the last ten years, hedging has come to prevail even more than before in Southeast Asia because two key transitional states — Vietnam and Myanmar — have managed to create such opportunities. As these two cases show, this ability is in turn vitally affected by successful processes of internal strengthening and national consolidation, regardless of the prevailing regime ideology.

Qualitatively, hedging behaviour has deepened in the sub-region. Despite the post-2011 trend of tilting towards the United States, the broadening modal group of hedgers — notably including Indonesia — has kept their doors open to good relations with, and even future relative tilts back towards, China. Even as they have emphasised short-term deterrence by supporting the US rebalance directly and via security ties with US allies, the hedgers are still trying to tackle the longer-term question of how to persuade China to be a peaceful and rule-bound great power. In the coming years, these states can also be expected to engage in more diffused hedging policies, such as by cultivating security relations with India and other major powers.

Nevertheless, there is no wholesale Southeast Asian turn towards zero-sum alignment with Washington. Even the two Southeast Asian US allies have not proved to be enthusiastic about sustaining exclusive alignment. After the Cold War, the vagaries of domestic politics have caused Manila to blow hot and cold on the alliance, and despite the strong pro-alliance stance of the current Benigno Aquino government, the May 2016 presidential elections may result in a new government with a different balance of attitudes towards the two great powers. Thailand has tended to wear its US alliance lightly when it comes to China, and the constraints faced by the current military regime will only facilitate its straddling of the boundary between alignment and hedging.

Hedging is a popular strategy in Southeast Asia because its vital purpose is to ensure "live" alignment options at each end, so as to facilitate mobility along the spectrum as and when necessary. Hedging is

also a fundamentally dynamic strategy. In the short term, hedgers may seem like they are leaning more one way; however, they will continue to preserve viable strategic options in the other direction. Overall, hedgers undertake constant adjustment to try to achieve the overall effect of equidistance between two competing great powers. As one foreign policymaker from Singapore put it recently, the “very essence of post-Cold War strategy” is “to position oneself to avoid having to make invidious choices,” and “US-China competition is in fact the essential condition that gives the rest of us the necessary room for manoeuvre to avoid invidious choices.”

The challenge for policymakers from both China and the United States seeking security partners in Southeast Asia is to understand the motivations for, and thus limitations on, what their existing and potential partners are willing to do. Rather than employing exclusive power-balancing by aligning with one side, they ultimately seek “an omnidirectional state of equilibrium that will enable [Southeast Asian states] to maintain the best possible relations with all the major powers and thus preserve autonomy.”<sup>65</sup> Rather than simply assuming that the process of relative strategic



re-orientation towards the United States since 2009-10 will continue into a “new normal” in the medium-term, we may more confidently expect that the majority of Southeast Asian states will aim for more even-handed “hedging” vis-à-vis both the United States and China going forward, in order to maximise their own strategic autonomy during an uncertain period of intensified great power competition.

US President  
Barack Obama  
and US Secretary  
of State Hillary  
Rodham Clinton  
with Aung San  
Suu Kyi

*Official White  
House Photo by  
Pete Souza*



## 3. Chinese strategy, policy and challenges<sup>66</sup>

### Strategic vision

China's continuing growth in power and influence, and what this means for the future of the international system, is arguably the single-most important, unanswered question in global politics. By many measures, China has already completed a regional power transition, with regional distribution of capabilities and wealth changing rapidly over the past generation. For instance, China's share of regional gross domestic product grew from seven per cent in 1988 to 46 per cent in 2014, while Japan fell from 72 per cent of regional GDP in 1988 to 24 per cent today.<sup>67</sup> During this period, China's GDP saw a thirtyfold increase to more than \$9 trillion and is now the second largest economy in the world. Its GDP per capita is nearly \$7000 and military spending currently accounts for nearly 10 per cent of total global military expenditures.

Beijing will apply this power based on a strategy which stems from a balance of continuity and change in the Chinese leadership's priorities and goals. The regime continues to be guided by the central tenet that maintaining a peaceful and stable external security environment is essential for continued domestic growth and development. This core idea builds from Deng Xiaoping's vision in the early 1980s where he concluded that the world was tending toward peace and development, that the likelihood for major, global wars were diminishing, and as such China could expect and benefit from a stable international environment to carry out its much-needed domestic reform and development. This basic principle was similarly continued under Deng's successors with such principles as the "new security concept" and "China's peaceful development."

Reaffirming these preceding strategic concepts, the current Chinese leader, Xi Jinping, presented the "Chinese dream" upon taking the helm. The concept has been linked to Xi's call for the "great rejuvenation of the China nation," achieved through "good external conditions for China's reform, development, and stability."<sup>68</sup> The vision promotes two major aspirations that are of significance to the regime: first, the vision to build a "moderately well-off society" by 2021, the 100th anniversary of the founding of the Chinese

Communist Party; and, second, the vision of becoming a fully developed nation by 2049, the 100th anniversary of the establishment of the People's Republic of China.

The political implications of the "Chinese dream" are worth noting. It consolidates such enduring themes as the "new security concept" and "peaceful development" into a new ideological foundation that Xi coined upon consolidating his power base. In a major policy document in late 2013 penned by State Councillor Yang Jiechi, the "Chinese dream" is a cornerstone vision and guiding ideology that represents "a continuation and development of the important thinking of China's peaceful development in the new era."<sup>69</sup> Yang also noted that the concept reaffirms past goals and strategies while crediting Xi's contribution and authority to link principles with practice.

The socio-economic goals behind the "Chinese dream," when achieved, would strengthen and augment China's comprehensive national power, wealth, and influence in the region, placing it on a competitive level playing field vis-à-vis the United States. Yang reassured that in spite of China's growing capabilities, "promoting healthy and stable relations with the United States, as well as with Beijing's other major diplomatic partners is the inherent requirement of the 'two centenary goals' and the inevitable demand for our overall strategy of peaceful development."<sup>70</sup>

The emphasis on maintaining a stable and peaceful external environment hints at China's reluctance to add to its long list of domestic challenges at home<sup>71</sup> by risking highly provocative actions abroad, especially with the United States. This does not mean, however, that China will not take steps to delimit and challenge the United States' resolve, leadership and authority in the region. In fact, Beijing has been unrelenting in exerting its influence through varying degrees of charm offensive and tactical intimidation in its regional foreign policy to test US standing as the region's security guarantor.<sup>72</sup> As will be discussed below, on occasions, China has succeeded in exercising its increasing material power capabilities. Other times, its actions reflect conflicted policies at odds with regional concerns and interests of sovereignty, independence, and stability — all of which suggest the actual implementation of Chinese strategic vision remains in flux and inconsistent.

## Putting strategy into practice

Putting these strategic principles into practice, Chinese decision-makers have adopted and implemented a more dynamic approach in China's external relations. As Minister of Foreign Affairs Wang Yi reflected on the country's new, diplomatic approach, he summarised that "'active' is the most salient feature of China's diplomacy in the past year."<sup>73</sup> The new leadership under Xi Jinping emphasises a multifaceted foreign policy approach that accentuates the positive aspects of increasing bilateral and multilateral business, trade, and economic activities in and around the region, all the while carving out a more robust military deterrence and security presence in its periphery.

In Southeast Asia, there are at least three overarching developments of such policy implementation: demonstrating resolve in the SCS, advancing regional influence through economic integration, and delimiting US influence and standing in Asia.

## Demonstrating resolve in the South China Sea

Prior to the US announcement of a "rebalance" to Asia, China had ramped up activities and asserted its territorial claims in the disputed waters with greater resolve. China's more assertive efforts have included encroaching into other claimant states' exclusive economic zones in the SCS, unilateral declarations of fishing regulations in contested maritime areas, building artificial structures through dredging to support its territorial claims in the Spratly archipelago, and the landing of a military aircraft — a historic first — on Fiery Cross Reef for an emergency medical evacuation of three Chinese nationals, among others.<sup>74</sup>

The rationale for such activism in the SCS seems to contradict the aforementioned vision of Chinese foreign policy, namely to maintain a stable, external environment while focusing on domestic priorities and reform. The SCS, however, touches on a particularly sensitive issue for the Chinese leadership: territorial integrity. Even as China has sought to maintain a constructive relationship with Southeast Asia, it

has maintained a less flexible line toward making concessions on issues pertaining to sovereignty claims.<sup>75</sup> Herein lies a key contradiction in China's foreign policy approach. Its stated policy of promoting peace and development and repeated reassurances to its neighbours about China's rise appear duplicitous in the face of coercive economic, political, coast guard, fishery and military actions that pressure Southeast Asian and other countries (notably the United States) to respect a broadening array of Chinese interests in the SCS.

Most notably, China and the Philippines engaged in a tense stand off in 2012, when a Philippine Navy surveillance plane detected Chinese fishing vessels in the Philippine-claimed Scarborough Reef engaging in illegal fishing and poaching of protected corals, endangered clams, and sharks. Officials in the Philippines quickly deployed its naval vessels to arrest and detain the Chinese fishermen. The Chinese maritime surveillance ships nearby were informed of the arrest and protested the Philippines' deployment of naval vessels for the interdiction and law enforcement operation, accusing Manila of militarising the dispute. The Chinese Government then quickly responded with coast guard and maritime ships to prevent the Philippine authorities from detaining the Chinese fishermen, spurring a tense ten-week stand-off between the two sides. Chinese maritime vessels cast a wide rope barrier at the mouth of the reef, trapping some Filipino fishermen in the area and then prevented their re-entry once they were permitted to exit. Subsequently, the United States helped broker the dispute. The Philippines withdrew its naval forces from the Scarborough Shoal, but Chinese maritime vessels maintained their positions which effectively ceded the reefs to Chinese patrol and control.

Likewise, in May 2014, China's abrupt deployment in the disputed Paracel Islands of a forty-storey oil rig,

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One of the disputed Paracel Islands in the South China Sea  
Photo: H Phone

known as the “Haiyang Shiyou 981”, along with a protecting armada of more than 100 fishing and other vessels shocked the region and particularly Vietnam, the other main claimant to these islands in the SCS. Observers point to the incident as a clear indication of China’s provocative and coercive behaviour and of violating Vietnam’s sovereignty, specifically its 200-nautical mile economic exclusive zone (EEZ) and its claimed continental shelf. Vietnam promptly protested the oil rig deployment and confronted the protecting armada with coast guard and fishing fleets, frogmen deploying nets and other obstacles. A Vietnamese foreign ministry briefing in June 2014 reported that 19 official Vietnamese vessels were damaged by Chinese ramming and water cannon attacks, injuring 12 Vietnamese officers. Vietnamese media in late May also highlighted the sinking of a Vietnamese fishing boat after being rammed by a Chinese government ship. On the other side, the Chinese Government claimed that as many as 63 Vietnamese vessels confronted the rig and protecting Chinese boats, ramming Chinese government ships 1416 times since the deployment of its oil rig.

More recently, where military instalments have been built, Chinese officials emphasised their “defensive” purposes. For instance, at the conclusion of the 10th East Asia Summit (EAS) in November 2015, Chinese foreign policy officials acknowledged “building and maintaining necessary military facilities...what is required for China’s national defense and the protection of those islands and reefs.” In November and December 2015, the Chinese military also carried out two naval drills in the SCS involving major destroyers

and frigates from each of China’s three fleets, carrier-based helicopters, and new submarines. China’s defense ministry called the exercises “a routine arrangement” that were arranged “in accordance with this year’s naval training plan.”<sup>76</sup> These actions point to China’s emerging confidence to defend as well as to advance its own sovereignty claims. At the same time, it is important to recognise that since 1988, the conflict remains of low-level intensity without incurring any battle-related deaths. It is also interesting to observe that civilian assets, such as commercial fishing boats and coast guard vessels, appear to be the preferred mode of engagement when clashes do occur between China and its neighbours in these territorial disputes.<sup>77</sup> Nonetheless, China’s activities of late reflect a more demonstrable resolve to engage “in an incremental effort...to reassert control over the land features and waters contained in the nine-dash line.”<sup>78</sup>

## Deepening regional economic integration

Under Xi’s leadership, China has placed additional emphasis on economic engagement in its peripheral diplomacy in Southeast Asia. At a major policy study conference in October 2013, Xi reaffirmed some of the core visions and principles of China’s foreign affairs, including the “period of strategic opportunity” through 2020 for China’s continued growth and development, and the need for a stable external environment to implement reforms on the domestic front. As such, Xi emphasised that Beijing must strive to make China’s neighbours “more friendly in politics and economically more closely tied to us,” to treat regional neighbours as “friends and partners, to make them feel safe and help them develop,” and to forge a stronger sense of “common destiny” between China and its neighbours in the regional community.<sup>79</sup>

In many areas, such as trade and investment, China’s ties with Southeast Asian countries have been increasing in recent years. For example, China is ASEAN countries’ largest trade partner, where two-way trade stands at \$350 billion in 2013, or 14 per cent of Southeast Asia’s total trade volume. Between 2012-2014, the combined Chinese investment flows (including Hong Kong) to the

Southeast Asian bloc averaged 11.3 per cent of total foreign direct investment inflow to ASEAN, surpassing US investment of 8.8 per cent during the same period.<sup>80</sup> China is also the only country besides Australia and South Korea to increase foreign direct investment to Southeast Asia for each of the last three years.

The 2013 directive from Beijing's highest levels expands China-Southeast Asia economic ties in significant ways. Xi Jinping and Li Keqiang visited all ten ASEAN countries in their first year in office, in the hopes of building stronger regional ties, increasing regional competitiveness and deepening economic growth. The newly-proposed maritime silk road, for instance, would link economies spanning across South Asia, Central Asia, and Southeast Asia, with China as the hub. Likewise, building up regional "connectivity" through investment in infrastructure networks like highways, railways, and pipelines, remains a major priority for China and its neighbours in the Southeast Asian periphery. On the financial side, China spearheaded and rallied regional support for the establishment of the Asian Infrastructure Investment Bank (AIIB).

In spite of advancing a number of important economic initiatives, Chinese leaders have been placed on the defensive because of the conclusion of negotiations of the US-led Trans-Pacific Partnership (TPP) in 2015, a regional trade deal that is seen as a competition to China's push for free trade agreements in the ASEAN Plus Three grouping and the Regional Cooperation Economic Partnership (RCEP). Moreover, Chinese officials have encountered renewed skepticism in using promised advances in Chinese trade and investment initiatives to divert Southeast Asian attention away from problems caused by their actual implementation, as well as by Chinese activities over the SCS.

Chinese infrastructure projects in Indonesia, for instance, have a follow-through rate of just seven per cent of pledged investments, compared with 62 per cent for Japan.<sup>81</sup> Up to 80 per cent of proposed mining deals, a sector of Chinese competitive advantage, go unimplemented.<sup>82</sup> Chinese state-owned enterprises involved in major infrastructure projects in Southeast Asia are also getting more push back from local governments in Southeast Asia, owing to their poor and inconsistent records with environmental impact,

lack of corporate social responsibility, labour standards, and limited transfer of technology and employment opportunities for local communities.<sup>83</sup> The gaps in pledged investments and their actual implementation thus reflect a major weakness in China's economic initiatives, meaning its regional influence can be more limited than commonly believed.

Furthermore, Chinese economic largesse may not have brought the level of influence that Beijing has long sought in the region, resulting in the Chinese leadership to shift toward tactical moderation in its actions and rhetoric to ease tensions and manage differences. At the 2015 East Asia Summit in Kuala Lumpur, Chinese Premier Li Keqiang responded to rising criticism of China in the SCS with a five point proposal that reaffirmed China's position on the sensitive dispute but also acknowledged regional concerns for "calm waters in the region" and "the expeditious establishment of an effective Code of Conduct."

## Delimiting US influence in Asia

Since assuming office, Xi and senior Chinese officials have characterised China's relations with the United States as one reflecting a "new style of great power relations." According to Minister of Foreign Affairs Wang Yi, China and the United States will "break the historical pattern of conflict and confrontation between major countries" and come up with a negotiated mechanism to defuse inevitable tensions and confrontation. In formal meetings with US senior officials, Wang has indicated the need for greater "mutual respect" as the basis of the new great power bilateral relationship, especially in such areas as "sovereignty and territorial integrity, social system and development path, and core interests and concerns."<sup>84</sup> Most notably, Chinese officials have been reluctant to add such references as adherence to international law and norms, human rights, accountability and good governance — issues that are of interest to the United States — as areas in need for more "mutual respect." As China analyst Christopher Johnson observes, "the goal is to ensure that the competitive elements in the [US-China] relationship — and particularly those that carry a high risk of escalation — remain firmly under policy control. In a less benign assessment, China is



using the framework of a new style of great power relations to seek US acquiescence to China's definition of its 'core interests.'"<sup>85</sup>

It also appears that Chinese officials believe that its growing material power capabilities will in due course convince and persuade its neighbours that there is more to gain from working and aligning with Chinese interests than from deterring and challenging them, all with the added benefits of preventing the formation of a containment coalition against China on its periphery.

As has been seen by the response of countries to the founding of the AIIB, many countries are even ignoring direct pressure from the United States and actively joining the China-sponsored bank. Key US allies such as Australia, South Korea, the Philippines, and Thailand have all agreed to join, as have India, Indonesia, Malaysia, Singapore, and Vietnam, among many others. Many countries in Southeast Asia base their decision to join the AIIB on the recognition that there is an estimated infrastructure financing gap of nearly \$8 trillion in the region over the next decade, and that

participating in the bank would provide a significant opportunity for commodities and minerals, agriculture, and services in the region.

The widening of Asia's diplomatic, economic, and institutional order to include the United States but to also move beyond the United States began in earnest in the wake of the Asian financial crisis of 1997. Following that crisis, two mutually exclusive viewpoints about the role of US-dominated international institutions — such as the IMF, World Bank, and ADB — have emerged. One, largely centred in the United States, sees these institutions as obviously more transparent, careful, and reliable. The other view, largely centred in Asia, sees these institutions as promoting American power and pushing a particularly ideological perspective. As Evan Feigenbaum has pointed out, "[I]t was the crisis of 1997–98 that left a particularly searing legacy on many Asian countries. The United States was perceived to be disconnected and aloof."<sup>86</sup> The roots of searching for alternative or complementary institutional means and relations by which to deal with their economic and security situations is thus not new, and is not a function

Chinese President  
Xi Jinping and  
US President  
Barack Obama  
*Official White  
House Photo by  
Pete Souza*





of China's rise, per se. Rather, East Asian states have always engaged in what Evelyn Goh calls "complicity and resistance" vis-à-vis the United States.<sup>87</sup>

China has gradually emerged as a regional great power, and it has been eager to offer policy alternatives in its peripheral diplomacy. According to one prominent US analyst, Beijing's "less awestruck view of US power also has the important side effect of imbuing Xi with greater confidence to more deliberately court contributions from China's other important foreign partners rather than pursuing a single-minded focus on the United States."<sup>88</sup> In contrast to former Chinese President Hu Jintao's emphasis on seeking common ground with the United States and avoiding serious problems with Washington, Xi has sought to demonstrate more visibly China's resolve to carve out its own sphere of influence regionally and globally, albeit in an incremental manner to test US limits and reactions. Several analysts have identified a number of activities China has taken under Xi's watch that are occurring at the expense of US interests in the regional order.<sup>89</sup> Such a policy pursuit, in Beijing's calculations, would deter neighbours in the region from pursuing policies that run counter to Chinese interests, with the larger and longer-term goal of delimiting US influence and leadership in Asia.

## Challenges for China in Southeast Asia

Given China's growing influence in the region, to what extent has it been successful with its bold and more active foreign policy approach of late? One way to assess the challenges for China's foreign policy principles and practice is to examine how some of the key countries in Southeast Asia are responding and managing their relations with China, the United States, and each other.

Indonesia and Vietnam, two key emerging security partners in Southeast Asia for the United States, illustrate how the region is managing this unfolding dilemma. Indonesia has maintained a general preference for no single dominant, external power in Southeast Asia. In the SCS, for instance, Indonesia

has remained largely reticent on the territorial dispute with China, and by implication avoided taking a more active role in leading ASEAN on the issue. However, in 2015, Indonesian leaders have begun to voice their concerns about regional tensions in the SCS and their implications for Indonesian security and sovereignty. In September 2015, the Indonesian defence minister said that the government would upgrade military facilities on the Natuna Islands in the SCS as well as in nearby Borneo in view of recently increasing "threats" in the area. Shortly thereafter, Indonesia's coordinating minister for political, military and security weighed in that Jakarta might follow Manila and take China to court over its SCS claims that may extend to the Natuna Islands.

Indonesia's preference to refrain from alliance entanglements with major powers or costly hostilities with other countries is consistent with its core and longstanding principle of a "free and active" foreign policy. Instead, it strives to carve out its own niche diplomacy and activism in regional and international affairs. Indonesian President Joko Widodo has recently highlighted Indonesia's strategic opportunity to emerge as a key actor in maintaining the delicate security balance in the region, where Indonesia would serve as a "global maritime fulcrum" through which global trade, commerce, and maritime traffic would pass through the country and link the Pacific and Indian oceans. Rather than siding exclusively with the United States or China, Indonesia envisions it would be a strategic opportunity for regional littoral states to increase access to all of the major power markets, all the while benefiting from military assistance, reassurances, and training from any combination of these powers.

Vietnam is another interesting case in point. It sits next to an economic giant and has had close albeit complicated ties with China.<sup>90</sup> In spite of recent difficulties, particularly with the oil rig crisis, high-level communications continue to undergird a cordial bilateral relationship. During his state visit to Vietnam in November 2015, Xi Jinping laid out a seven-point proposal on deepening bilateral ties that included: maintaining high-level dialogue; expanding cadre training at the party-to-party level; and broadening bilateral investment, trade, and economic linkages

through the “Belt and Road Initiative” as well as Vietnam’s “Two Corridors and One Economic Circle Plan,” among other initiatives. Xi also called for a stronger partnership between China and Vietnam in pushing forward the full implementation of the AIB, upgrading the China-ASEAN free trade agreement, and making progress on the ongoing trade negotiations with the RCEP. On the security front, Xi also proposed that the two sides increase training and cooperation on UN peacekeeping operations, border control, and countering illicit trafficking in drugs and people. Regarding the disputes in the SCS, Xi urged the two

sides to “control their differences, gradually accumulate consensus and expand common interests through bilateral negotiations, and strive to achieve the common goal of joint exploitation.”

In a 20-minute speech before nearly 500 members of the Vietnamese National Assembly, Xi acknowledged that there have been notable differences on certain

issues, but that the two sides can weather such disruptions. Key Vietnamese legislators, however, were concerned that Xi’s speech focused on platitudes but lacked substance and skirted the key points regarding the SCS and other issues of concern to Vietnamese interest. The state visit was billed to put bilateral relations back on track. The party has traditionally been close to Beijing, with notable exceptions such as during 1979-1991, but with mandatory retirement by the party old guard in 2016 and with lingering concerns over Beijing’s continued provocations in the SCS, Hanoi continues to maintain a diversifying approach in its foreign affairs.

As a result, Vietnam’s relations with the United States have grown closer and marked a high point with the historic meeting in July 2015 between Nguyen Phu Trong, general secretary of the Communist Party of Vietnam (CPV), and US president, Barack Obama, at

the White House. However, human rights and lingering suspicion over the wartime legacy remain persistent challenges to any further deepening of bilateral ties. Guided by pragmatism, the CPV leadership consciously avoids being co-opted into the US agenda of actively deterring China that would cause any unnecessary complication for Hanoi’s multi-dimensional engagement with Beijing. At a CPV Central Committee meeting in July 2003, senior Vietnamese officials outlined the country’s basic strategy toward major external powers, emphasising such key concepts as *doi tac* — cooperation — and *doi tuong* — struggle. In other words, Vietnamese leaders understand that any future engagement with Beijing and Washington will be shaped by elements of both cooperation and contention. As Vietnam foreign affairs specialist Bill Hayton opines, “Ultimately the CPV leadership wants Beijing to see it as a bulwark against United States interference in the region and the United States to see it as a potential partner in its strategic competition with China.”

Given the delicate balance in its foreign policy approach, Vietnam has been cautious about developing over-reliance on any major power on the security front. This is evident with its Cam Ranh Bay port facilities. With US concern about Chinese naval activity increasing, so did its interest in making use of Vietnamese ports. US warships began making port visits to Vietnam in November 2003, but were limited to Saigon, Danang and Haiphong. The United States has been eager to gain access to Cam Ranh Bay, arguably Vietnam’s most strategic deep-water harbour. In August 2011 the first US ship docked at the port for repairs, but they were logistics vessels — part of US Military Sealift Command — not warships. It appears that Vietnam has declined US interest to secure basing rights, storage or even logistical arrangements at Cam Ranh Bay.

Instead, Vietnam has identified economic ties as the most substantial area of common interest for Hanoi and Washington. As Hoang Binh Quan, chair of CPV’s Commission for External Relations, puts it, “We look to the United States for a lot of things: cooperation in education, science and technology, investment, markets, healthcare and culture.” Hoang is particularly keen to see the United States grant Vietnam market-economy status to boost bilateral trade and

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investment, as well as to see continued progress in TPP negotiations. If successful, the TPP will give Vietnam low-tariff access to nearly 40 per cent of the world's economy, providing an excellent opportunity for Vietnam to further increase its exports, attract foreign investment, create jobs and grow its economy. Among other implications, the prospect of the TPP is encouraging Chinese foreign direct investment (FDI) to Vietnam in the textiles and clothing industries and reducing its trade imbalance with China.

In sum, since 2012, Xi Jinping has shown an ability to move Chinese foreign policy in bolder and more active ways than his immediate predecessors. In particular,

his vision for a rejuvenated nation — the Chinese dream — is both reflective and aspirational. However, Xi's message of continued reassurance to its neighbours implies the persistent challenges of translating China's increasing material power capabilities into benign sources of regional and global influence. Likewise, Xi's aspirations to assume greater authority and legitimacy may only materialise when China tempers its sense of self-righteous exceptionalism and use of coercion and intimidation in foreign affairs.<sup>91</sup> Until then, Beijing will continue to face many challenges in achieving greater authority and influence among its nearest neighbours, including in Southeast Asia.

## 4. US strategy, policy and challenges<sup>92</sup>

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### Strategic imperatives and approaches

Southeast Asia is an area of increasing strategic importance to American interests and in many ways is becoming an arena of strategic competition between the United States and China.

With about 25 per cent of all traded goods and 25 per cent of seaborne oil passing through the Malacca Straits, the strategic role of Southeast Asia in assuring global and regional economic vitality is clear.<sup>93</sup> In addition, with a population of nearly 640 million in 2016, the ten-member Association of Southeast Asian Nations (ASEAN) will be an increasingly important market for US exports and investment. The formal establishment of the ASEAN Economic Community at the end of 2015 and the membership of Brunei Darussalam, Malaysia, Singapore and Vietnam in the Trans-Pacific Partnership (TPP) free trade agreement further underscore the economic potential in US-Southeast Asia relations.

Diplomatically, Southeast Asia also offers numerous opportunities for American engagement through multilateral institutions which are centred on ASEAN or closely involve Southeast Asian countries. The best examples of these organisations include the East Asia Summit (EAS), the ASEAN Regional Forum (ARF), the ASEAN Defence Ministers Meeting-Plus, and the Asia-Pacific Economic Cooperation (APEC) forum. Preparation for and participation in these high-level meetings by the US president and senior US officials assures American attention is focused in Southeast Asia and greatly improves the prospects that US interests in the region can be advanced.

Socially and politically, the region is changing in ways which resonate with American interests and values. Most countries in ASEAN are becoming more open socially and politically, though with large differences among them. Emerging in the late-1990s from several decades of authoritarian rule, Indonesia now lays claim to being the world's third largest democracy. Other countries in the region are moving towards more open polities, albeit slowly and often painfully, such as Myanmar, Malaysia, and the Philippines. Others

appear to be moving in the opposite direction, such as Thailand, where the military seized power in 2014.

Of course, several countries in the region remain dominated politically by a single party or leadership group — as in Brunei Darussalam, Cambodia, Laos, Singapore, and Vietnam. But that said, the rapid growth of the middle class in Southeast Asia — estimated to reach 400 million by 2020<sup>94</sup> — is not only a harbinger of economic growth but can lead to more accountable and open governance systems across the region. It is precisely the dynamic and changing sociopolitical nature of these countries which heightens the American imperative to engage and influence these changes consistent with US interests and values.

There are also more sharply-defined security challenges which drive greater American strategic engagement in the region. Two of these challenges stand out: countering violent extremism and reducing potential instabilities in the region arising from China's emergence as a more powerful and assertive military power. In both cases, Washington sees countries in Southeast Asia — both treaty allies as well as other security relationships — as critically important partners to help address these long-term security challenges.

Across all these growing areas of strategic interest for the United States in Southeast Asia, China looms large. China's rise has greatly contributed to the growing economic importance of the Indo-Pacific broadly speaking and has been a driver behind ASEAN's economic success in particular. Looking ahead, Washington will aim to establish a stronger rules-based and liberal economic order within the Indo-Pacific which favours US business and investors in competition with China's. ASEAN's leadership in establishing and developing many of the region's multilateral institutions was motivated in part by the expectation that integrating — not isolating — China is the best option to mitigate the instabilities associated with its rising power.

In trying to promote greater government openness, accountability, and democratisation in Southeast Asia, Washington implicitly draws comparisons to China's authoritarian model. So too American economic engagement in the region emphasises its rules- and

market-based approach, casting Chinese economic engagement as less open, more opaque, and statist. And as China's military power grows to challenge American presence and partnerships in the region, Washington will seek out stronger defence and security relationships in Southeast Asia in response. In short, much of the current and future American interest in bilateral ties with ASEAN and with individual ASEAN members will be shaped by a third party — China. In many ways, it is this triangular dynamic which underlies much of the US strategy and policy toward Southeast Asia today and in the future.

## Putting strategy into practice

Official American economic, diplomatic and security focus on Southeast Asia received a significant boost in late-2011 with the declaration by the Obama administration of a US “pivot” toward the Indo-Pacific.<sup>95</sup> Of course, as a Pacific nation in its own right, the United States had never “left” the region and successive US administrations in the post-Cold War era oversaw and encouraged a steady deepening of American engagement and presence in the Indo-Pacific. As Nina Silove has shown, an intensification of US strategic engagement in Asia, motivated in response to China's growing power and influence in the region, was a key aspect of the Bush administration's foreign policy.<sup>96</sup> Almost immediately upon coming in to office, in 2009, President Obama said in Japan on his first Asian trip as president, “[T]here must be no doubt. As America's first Pacific president, I promise you that this Pacific nation will strengthen and sustain our leadership in this vitally important part of the world.”<sup>97</sup>

However, in declaring in 2011 its intention to “pivot” more intensively toward the Indo-Pacific, the Obama administration advanced three major points to set this effort apart. First, the pivot to Asia was intended to be a demonstration of the Obama administration commitment to wind down the conflicts in Afghanistan and Iraq and instead give greater priority to focusing US power and resources toward the dynamic Indo-Pacific region. Second, the Obama administration presented a detailed strategic case for the importance of the Indo-Pacific to the long-term domestic and foreign

policy interests of the United States. Third, a plan of action was put forward to bolster American influence in the region through deepened economic interaction, greater diplomatic engagement, stronger efforts to promote human rights and democratisation, and a strengthened US military presence. The “pivot”, or as it has become known, the “rebalance” toward the Indo-Pacific became one of the Obama administration's most prominent foreign policy initiatives.

## Economic aspects

The most prominent economic component of the rebalance is the TPP which reached several important milestones over the past year. In June 2015 the US Congress approved Trade Promotion Authority or “fast track” legislation, meaning Congress would only be allowed an up or down vote on the TPP agreement rather than a chance to renegotiate or reject specific elements of it. In October, the 12 negotiating parties to the TPP completed an agreed text and in February 2016 the parties signed the final document. Looking ahead, a number of other Indo-Pacific countries have expressed interest in the TPP, including Indonesia, the Philippines, South Korea and Thailand.

The TPP now awaits ratification processes in the member states before entering in to force. Given the ongoing presidential election season in the United States, it is unclear whether Congress will vote on the TPP during President Obama's remaining time in office.

Interestingly, as the Obama administration pressed ahead to conclude the TPP and gain “fast track” authority from Congress, the TPP was increasingly cast in strategic terms and in terms of competition with China. In October, President Obama stated, “Without this agreement, competitors that don't share our values, like China, will write the rules of the global economy.”

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US Secretary of State John Kerry meets with Chinese Minister of Foreign Affairs Wang Yi

Photo:  
US Department of State



In speaking to leaders of the TPP countries in Manila in November he stressed that the parties have a “shared vision” and “common values” in pursuing “their interests and prosperity peacefully, based on common rules of the road on an open, level playing field.”<sup>98</sup> The US Trade Representative also spoke of the “strategic logic” of the TPP: “The positive power of trade, and of TPP in particular, is one of our most important tools for dealing with one of this century’s greatest challenges,” which is to “revitalise the rules-based order and to do so at a time when there are competing visions for the global economy.”<sup>99</sup> Even the US Secretary of Defense, Ashton Carter, weighed in on the strategic importance of the TPP, saying “In terms of our rebalance in the broadest sense, passing TPP is as important to me as another aircraft carrier.”<sup>100</sup>

## Diplomatic aspects

The Obama administration also stepped up US diplomatic engagement in the Indo-Pacific, and in Southeast Asia in particular, as part of the rebalance effort. The annual US-ASEAN Leaders Meeting was started in 2009 involving the heads of all 11 countries. The 2012 meeting launched the US-ASEAN

Expanded Economic Engagement initiative with the aim of expanding trade and investment between the United States and ASEAN members. In 2013, the “leaders meeting” was upgraded to a “summit” the third of which, in November 2015, announced the establishment of a “strategic partnership” between the United States and ASEAN. At President Obama’s invitation, a “Special ASEAN-US Summit” was convened in Sunnylands, California, in February 2016.

In addition to these measures, the Obama administration acceded to the Treaty of Amity and Cooperation in Southeast Asia in 2009, established a diplomatic mission to ASEAN in Jakarta — the first ASEAN dialogue partner to do so — and also joined the annual East Asia Summit process in 2011. From entering office in 2009 through May 2016, the president made ten separate trips to the Indo-Pacific, visiting a total of 13 countries, some of them multiple times: Australia (2 times), Cambodia (1), China (2), India (2), Indonesia (2), Japan (4), Malaysia (2), Myanmar (2), Philippines (2), Singapore (1), South Korea (4), Thailand (1), and Vietnam (1). At the end of 2016, he will make one more trip to the region for the G-20 summit in China and the EAS in Laos. With these trips, President Obama will have made the most visits to Asia of any sitting US president.

Also on the diplomatic front, President Obama hosted a number of important bilateral summits in the United States for key Indo-Pacific leaders in recent years. In a significant step for US relations with Myanmar, that country's leader, Thein Sein, visited Washington in May 2013, the first by a leader of Burma/Myanmar in more than 45 years. In June 2014, President Obama met with Chinese President Xi Jinping in a "shirtsleeve summit" in Sunnylands, California, in an effort to build greater candour and normalcy to US-China relations. In 2015, the leaders of China, Japan, South Korea, Indonesia and Vietnam all held bilateral meetings with President Obama in Washington.

The July 2015 visit of the General Secretary of the Communist Party of Vietnam, Nguyen Phu Trong was of particular interest as he has no formal protocol counterpart in the US Government, but nonetheless met with President Obama in the White House, all part of deepening ties between these two former rivals. In October 2015, Indonesian president Joko Widodo, also known as Jokowi, made his first visit to Washington since his election in 2014. His visit was marked by the signing of \$20 billion in US business investments for Indonesia, Jokowi's pledge that Indonesia would join the TPP in the future, and upgrading the bilateral relationship from a "comprehensive" to a "strategic" partnership, including a new Ministerial Strategic Dialogue between the US Secretary of State and the Indonesian Foreign Minister.

## Defence and security aspects

The Obama administration has also sought to bolster US military presence in the Indo-Pacific as well as a range of military-to-military relationships in the region. A significant driver in this effort has been a "demand pull" from the region, especially since the late-2000s and early-2010s, as China has exerted its influence and interests more actively in the Indo-Pacific and especially in Southeast Asia. In promoting the rebalance strategy, US Secretary of Defense Leon Panetta said in 2012 that by 2020 the current 50-50 balance of forces between the Atlantic and Pacific oceans would be shifted to a 60-40 split in favour of the Indo-Pacific region. This shift will be reflected in

part through the increased rotational deployment of US forces and equipment through facilities in countries such as Australia, the Philippines, and Singapore and through enhanced defence cooperation agreements with key allies and other security partners.

In Southeast Asia, the Obama administration sought a number of new defence- and security-related arrangements. At the end of 2015, the United States and Singapore signed an Enhanced Defence Cooperation Agreement to expand their defence and security ties. The agreement will build on the 1990 Memorandum of Understanding and the 2005 Strategic Framework Agreement between the two countries and will govern expanded cooperation across military, policy, strategic, technology, and non-conventional security issues. Singapore for the first time hosted the rotational deployment of a US P-8 surveillance aircraft in late 2015 and by 2016 is expected to host three US littoral combat ships and may host up to four by the end of 2017.

Washington and Manila also reached an Enhanced Defense Cooperation Agreement in 2014. The agreement will allow for the rotational presence of American troops in the Philippines and for the construction of facilities on Philippine bases for American use. In March 2016 the two sides announced that presence would be at five Philippine bases, including Antonio Bautista Air Base on the island of Palawan, located just east of the Spratly Islands. While in Manila for the annual APEC leaders meeting in November 2015, President Obama made a point of visiting a Philippine naval base and declared, "We have a treaty obligation, an iron-clad commitment to the defense of our ally the Philippines."<sup>101</sup> While his statement did not mention China by name, it was aimed to support the Philippines in its ongoing dispute with China over claims in the South China Sea (SCS).

In addition to these measures, the Obama administration announced new initiatives totalling \$250 million over fiscal years 2015 and 2016, intended to strengthen Southeast Asian maritime security capabilities. This includes \$79 million in assistance to the Philippines and the handover of a US Coast Guard cutter and a naval research ship to the Philippine Navy. Vietnam is to receive approximately \$40 million in US

assistance to build its maritime surveillance capacity. In 2016, Washington also agreed to lift its arms embargo on Vietnam. Assistance will also go to Indonesia (\$20 million) and Malaysia (\$2.5 million) to help these countries improve their maritime surveillance and enforcement capabilities.

It is important to add that all of these measures in cooperation with Southeast Asian states have been undertaken in parallel with a higher-profile American military presence in the SCS, especially in

the past two years. US actions have included several freedom of navigation and overflight operations. The head of US Pacific Command, Admiral Harry B Harris, stated in early 2016 that as “we [the United States] continue down the path of freedom of navigations, you will see more of them, and you will see them increasing

in complexity and scope in areas of challenge.”<sup>102</sup> US-China military tensions have subsequently increased in the area, including Pentagon accusations of “unsafe” Chinese fighter jet intercepts against US operations.<sup>103</sup>

## Special focus: Indonesia, Myanmar, Vietnam

Indonesia, Myanmar, and Vietnam stand out as three of the most interesting cases of Washington’s enhanced ties in the region.<sup>104</sup> Each of these countries have recently experienced more positive relations with the United States following periods of bitter differences. All three have intensive trade and diplomatic relations with China, but also have varying levels of disputes and tensions along their respective frontiers with China. Washington has devoted considerable effort to building closer economic, political and security-related ties with these three countries as part of its rebalance to the Indo-Pacific.

### Indonesia

For most of the period since its independence in 1949, Indonesia has maintained a cooperative and mutually supportive relationship with the United States. One of the most notable exceptions to this overall point was the hostility triggered by American support for separatist rebellions in the late 1950s. But even at the worst point in relations with Indonesian President Sukarno, American officials and military personnel developed close connections with Indonesian military officers and others opposed to Sukarno. Despite its declaratory commitment to a “free and active” foreign policy that eschewed formal alliances, Indonesia was clearly aligned with the United States during most of the Cold War.

Indonesia’s democratisation and America’s need for allies in support of its counter-terrorism campaign from 2001 saw the resumption of security cooperation and the shelving of human rights concerns raised by the United States in the 1990s. A 2013 report on the bilateral relationship, co-authored by a former US deputy ambassador to Indonesia, testifies to the depth and breadth of the relationship.<sup>105</sup>

In November 2008, toward the end of the George W. Bush administration, Indonesian president Susilo Bambang Yudhoyono first proposed that Jakarta and Washington sign a comprehensive partnership agreement in order to broaden and deepen the relationship. That proposal was followed in early 2009 by the visit of Hillary Clinton to Indonesia, making it her second stop on her first trip abroad as Secretary of State. The Comprehensive Partnership between the two countries was officially launched during President Obama’s visit to Indonesia in November 2010.<sup>106</sup> The relationship was further upgraded to a “strategic partnership” during Jokowi’s visit to Washington in October 2015 which is to include an annual ministerial-level strategic dialogue between the US secretary of state and the Indonesian foreign minister.<sup>107</sup>

In terms of economic relations, US-Indonesia trade has not seen significant growth in recent years, stabilising at a total of between \$24 and \$27 billion since 2010. The most recent figures show Indonesia maintaining a trade surplus, with Indonesian exports to the United

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States reaching \$19.6 billion in 2015 while Indonesia took in \$7.1 billion in US exports.<sup>108</sup> By comparison, China has a healthy trade surplus with Indonesia, with an estimated \$23.8 billion in exports to Indonesia while taking in approximately \$15.3 billion in trade from Indonesia, for a total of just over \$39 billion.<sup>109</sup>

However, the United States remains among the most significant sources of foreign direct investment (FDI) into Indonesia. In cumulative terms from 2010 to 2014, the United States was the third largest source of inward FDI, after Singapore and Japan. The United States also remains a significant source of official development aid, with the US Agency for International Development (USAID) running a large mission in Indonesia; in 2010 the US Peace Corps returned to Indonesia after a 45-year hiatus.

Overall, the economic relationship is a mixture of friction and longstanding familiarity. The United States has often pushed for greater liberalisation and freer market access for US companies, an agenda that meets substantial opposition from groups within Indonesia. American investors focus their concerns on unfair discrimination against foreign investors, regulatory restrictions and corruption.

Until shortly before Jokowi's visit to the United States in October 2015, Indonesia also appeared unlikely to join the US-led TPP. During the visit, however, Jokowi conveyed that Indonesia intended to join the TPP. However, it remains to be seen whether Jokowi can muster the requisite political support within Indonesia to join the trade pact.

In the security sphere, US-Indonesia relations have been marked by ups and downs owing to human rights concerns on Washington's part. Since the 2001 terrorist attacks in the United States, however, the relationship has been increasingly close and cooperative. The United States has provided funding for Detachment 88, a special counter-terror unit of the Indonesian National Police since the Bali bombing of 2002. In response to the Aceh tsunami at the end of 2004 and the Aceh peace accords in 2005, military-to-military ties resumed along with reduced restrictions on the International Military Education and Training (IMET) program, Foreign Military Financing (FMF), and

Foreign Military Sales (FMS). In July 2010, the Obama administration announced a gradual re-engagement with the Kopassus special forces in Indonesia, though US restrictions still prevent a full normalisation of relations between the US and Indonesian militaries.

In October 2011, US Defense Secretary Leon Panetta noted more than 150 "activities, exchanges, and visits with the Indonesian military" across three key areas: humanitarian assistance and disaster relief, maritime security and free sea access, and peacekeeping operations. The announcement of the new "strategic partnership" between the two countries in October 2015 noted that number had reached more than 200 bilateral military activities annually.<sup>110</sup> During Jokowi's visit to Washington in October 2015, the two sides also issued a new Joint Statement on Comprehensive Defense Cooperation which aims to deepen bilateral ties in such areas as co-development and co-production of defence equipment, cooperative logistics, military professionalisation, maritime cooperation, peacekeeping, humanitarian assistance and disaster relief, and countering transnational threats.

In other areas, the two countries agreed to cooperation between the FBI and Indonesia's National Police aimed at eradicating terrorism and Indonesian and American anti-narcotics agencies also cooperate, with the US Drug Enforcement Administration formally opening a country office in Indonesia in 2011.

Indonesia's procurement of US weapons and other military equipment has also advanced in recent years. According to US Department of State statistics, the value of US arms sales to Indonesia reached \$500 million over the three years 2010-2012.<sup>111</sup> Major transfers and pending deals since 2008 have included 30 F-16 aircraft, eight Apache combat helicopters, and hundreds of anti-tank missiles.<sup>112</sup>

Although Indonesia's security partnership with the United States is larger and more longstanding than with China, the depth of the partnership should not be overstated. The Indonesian side lacks the strategic imperative to greatly deepen cooperation or to upgrade its own capacities to become a more capable partner, and Indonesia continues to keep its options open and wishes to maintain a diversity of cooperative defence



relationships. The dominant theme in statements from senior Indonesians is that they welcome the US rebalance to Asia and military cooperation with Indonesia.

### Myanmar

During the Cold War, the United States, for the most part, respected Burma's non-aligned and neutralist foreign policy. The United States became the primary provider of arms to the Burmese military for a decade from the late 1950s. During the 1960s, America's rapidly escalating military engagement in Indochina did not prompt the military government of General Ne Win to publicly condemn US actions, in line with Burma's neutralist principles. However, true to non-alignment, at no point did General Ne Win seek American assistance in his country's mammoth military struggle against the Communist Party of Burma.

Following Burma's violent military crackdown against anti-regime protests in 1988, a major shift in US policy was set in motion. This policy shift hardened when the military did not allow the opposition National League for Democracy (NLD) to form a government after winning the 1990 elections. For the next two decades, US Burma policy was essentially driven by a combination of major human rights concerns and Washington's support for the restoration of democracy. As late as 2008, the administration of George W. Bush, backed by many in Congress, followed the widely shared policy of seeking regime change in Myanmar.

September 2009 marked a shift by the Obama administration to seek "pragmatic engagement", later also termed "principled engagement", towards Myanmar. The key idea underlying pragmatic engagement was that the Obama administration should aim to influence developments in Myanmar on the basis of a political dialogue at senior levels. According to the administration, embarking on a direct dialogue did not imply an abandonment of the main goals underlying US Burma policy until then: to foster real political change ("credible democratic reform"), to improve human rights ("immediate, unconditional release of political prisoners"), and to promote national reconciliation ("serious dialogue with the opposition and minority ethnic groups").

When Myanmar president Thein Sein reached political accommodation with Daw Aung San Suu Kyi in August 2011 and introduced initial reforms, President Obama commented positively on Myanmar's "flickers of progress" and asked Secretary of State Hillary Clinton "to explore whether the United States can empower a positive transition in Burma."<sup>113</sup> Undertaking her groundbreaking visit to Myanmar in late 2011, Clinton made clear that the United States would reciprocate under the formula of "action-for-action."

Myanmar's April 2012 by-election, won comprehensively by the NLD, proved a milestone for bilateral ties. In response, Secretary Clinton outlined several action items, including sending an accredited ambassador, re-establishing an in-country USAID mission, creating the framework for private organisations based in the United States to commit to non-profit activity designed to assist the population at large, and facilitating travel to the United States for select government officials and parliamentarians.

In November that year, President Obama visited Myanmar while en route to the East Asia Summit in Cambodia. President Thein Sein made a landmark visit to the United States in May 2013 — the first by a Burmese head of state in nearly 50 years. President Obama made his second trip to Myanmar in November 2013 as Naypyidaw hosted that year's East Asia Summit.

In return for further reforms in Myanmar, the US administration provided approximately \$375 million in development assistance over the 2012, 2013, and 2014 fiscal years, with a focus on national reconciliation, democratic institutions, economic development, health, and regional cooperation.<sup>114</sup> In fiscal year 2015, the United States provided \$50 million in humanitarian assistance to Myanmar.<sup>115</sup> US assistance programs — including by the departments of State, Commerce, Health and Human Services, Energy, Labor, Defense, and Treasury — have also aimed to enhance human rights, civil liberties, and the rule of law. Significant emphasis has been placed on political education and support measures designed to ensure free, fair, and credible elections in 2015, including political party development and general voter education.

With the NLD victory in the November 2015 elections, the United States and Myanmar are looking to further advance their relationship across economic, diplomatic and security ties.

Regarding the economic relationship, up until 2013, a general ban prevented imports from Burma to the United States under the Burma Freedom and Democracy Act. However, in spite of the expiration of the broad import ban and the establishment of the 2013 Trade and Investment Framework Agreement between the two countries, bilateral trade has lagged and has yet to regain the heights attained before the import ban was introduced. US goods exports to Myanmar in 2013 amounted to US\$145.8 million, with imports from Myanmar standing at only US\$29.9 million (60 per cent of which were fish and seafood). In 2014, bilateral goods trade was more evenly balanced, with US\$92.9 million in US exports and US\$92.7 million in imports. The most recent figures through 2015 show an increasing trade volume but with a trade balance favouring the United States, with \$227.3 million in US exports to Myanmar and \$143.9 million in US imports from Myanmar.<sup>116</sup>

Numerous American companies are eager to invest in Myanmar. According to the State Department, until mid-2014 US companies had apparently committed \$612 million in investments, \$200 million of which are to be realised by Coca-Cola by 2018.<sup>117</sup> While Washington has eased financial and investment sanctions, investments are not allowed with the Ministry of Defence, state or non-state armed groups, or entities owned by the above or a person blocked under the current sanctions program.

To date, security cooperation between Washington and Naypyidaw has been limited. There has, however, been routine contact between defence officials at relevant forums such as the US-ASEAN informal defence ministers' meeting and the ADMM-Plus.

Within the narrow policy guidelines set, interaction between representatives of the two militaries has also increased. This started with the visit of the *USS Bonhomme Richard* to Myanmar in November 2012 and has been followed with more tangible cooperation. For instance, the Obama administration accepted

Thailand's request for Myanmar military officers to observe certain parts (e.g. humanitarian assistance/disaster response) of the multilateral Cobra Gold exercises. The two sides have also been working on POW/MIA issues, as approximately 730 Americans who fought in Burma during the Second World War remain unaccounted for.

Along with some think tanks and numerous analysts, the administration has pondered the possibility of promoting military engagement by building relationships with Myanmar's next generation of military leaders. Given the popularity and success of past IMET programs in Myanmar, the administration has considered restoring this program. However, aware of the resistance to this idea among non-governmental organisations and several members of Congress, officials from the departments of State and Defense by the end of 2013 proposed only the adoption of an expanded IMET, or E-IMET, that would focus on education and training in areas such as the civilian control of the military, international human rights law, international humanitarian law, as well as the management of defence resources, and cooperation on counter-narcotics.

The State Department included in its budget request for the 2015 fiscal year only the sum of US\$250,000 for an E-IMET program for Myanmar. Compared to funds sought by the State Department for other IMET recipients in Southeast Asia, this sum was modest.

Nevertheless, the State, Foreign Operations, and Related Programs Appropriations Act 2014 stipulated that none of the funds appropriated under IMET and Foreign Military Financing would be available to Myanmar. State Department funds made available were linked instead to Washington's democracy and human rights strategy.<sup>118</sup> The US State Department budget request for fiscal year 2016 did not request any IMET funding for Burma.<sup>119</sup>

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With the National League for Democracy victory in the November 2015 elections, the United States and Myanmar are looking to further advance their relationship across economic, diplomatic and security ties.

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The National Defense Authorization Act for fiscal years 2015 and 2016 similarly limited the scope of US Defense Department activities in relation to Myanmar to consultation, education, and training in relation to human rights, the laws of armed conflict, civilian control of the military, English language, and disaster relief.<sup>120</sup>

### **Vietnam**

In the broader context of the end of the Cold War, relations with Washington improved after Vietnam withdrew its troops from Cambodia in September 1989 and offered cooperation in the search for American servicemen missing in action during the Vietnam War. Diplomatic ties between the two were hurriedly restored in July 1995, two weeks before Vietnam joined ASEAN. Vietnam was granted Permanent Normal Trading Relations status by the United States in 2006.

In July 2013, the two governments declared a “comprehensive partnership” covering political and diplomatic cooperation, trade and economic ties, science and technology cooperation, education cooperation, environment and health, war legacy issues, defence and security, promotion and protection of human rights and culture, tourism, and sports.

In July 2015, during the visit to Washington of the General Secretary of the CPV, the two sides issued a Joint Vision Statement at the leadership level.<sup>121</sup> A comprehensive encapsulation of the two sides’ mutual interests, the statement affirmed their intention to deepen cooperation across diplomatic, economic, defence, education, science and technology, health, environment and law enforcement issues. Saying they are both “concerned about recent developments in the SCS that have increased tensions, eroded trust, and threatened to undermine peace, security, and stability,” they expressed their joint support for upholding freedom of navigation and overflight and opposition to coercion and force in the region. Interestingly, both sides noted that the relationship would develop “on the basis of respect for ... each other’s political systems,” an important acknowledgement sought by the Vietnamese.<sup>122</sup>

On the economic front, trade relations between the United States and Vietnam resumed in 1994, a year before the formal opening of diplomatic relations. There was a keen business lobby within the United States that worked to end sanctions in the face of opposition from some veterans’ groups and anti-communist Vietnamese-Americans. In 1999, Vietnam approved an enterprise law to promote the development of the private sector and, after a serious internal debate within Vietnam over whether to negotiate a Bilateral Trade Agreement (BTA) with the United States, the BTA was concluded in 2001.

Gaining Permanent Normal Trade Relations status from the United States in late 2006 helped open the door for Vietnam to join the World Trade Organization (WTO) in January 2007. WTO membership became a tool in the hands of economic reformers to force the pace of change — both to comply with new rules and also to force local industry to compete regionally and globally. Vietnam faces a similar set of issues as part of its membership in the TPP. The United States has yet to recognise Vietnam as a market economy and therefore still imposes some barriers to Vietnamese exports. Accession to TPP would make for a significant change to this policy.

Vietnam retains a large trade surplus with the United States. According to the US State Department, bilateral trade grew 100-fold from \$451 million in 1995 to approximately \$45 billion by 2015.<sup>123</sup> Vietnamese exports to the United States were valued at \$38 billion in 2015, while US exports to Vietnam were worth \$7.1 billion.<sup>124</sup>

As for security ties, though there had been talks between military representatives of both countries even before diplomatic normalisation, defence relations were perfunctory. The situation began to change after March 1997, when China dispatched an oil-drilling platform, the *Kantan III*, to Vietnamese-claimed waters south of the Tonkin Gulf, oil block 113 off Da Nang. In response, the Vietnamese summoned all the ambassadors of ASEAN states to a briefing and then, pointedly, invited the commander in chief of US Pacific Command, Admiral Joseph Prueher, to visit Hanoi. A week after that visit, the Chinese withdrew the oil rig.

In late 2003, the Vietnamese defence minister visited Washington and a US warship made the first port visit to Vietnam in 28 years. According to the US ambassador to Vietnam at the time, Raymond Burghardt, this was the moment when the two sides began to discuss strategic issues.<sup>125</sup> Vietnam and the United States agreed to exchange alternate visits by their defence ministers every three years. Vietnam's defence minister visited Washington in 2003 and 2009. A visit to the United States by Vietnamese Prime Minister Phan Van Khai in June 2005 opened the first leadership-level strategic dialogue between the two sides. The US defence secretary visited Hanoi in 2006 and 2012.

In October 2008, the two sides set up an annual Political, Security and Defense Dialogue, held at the vice-ministerial level, and led by the US Department of State and the Vietnamese Ministry of Foreign Affairs. In August 2010, the two defence ministries established an annual Defense Policy Dialogue at the vice-ministerial level. Both dialogues have become annual events with much higher profiles. The second Defense Policy Dialogue, in 2011, generated the Memorandum of Understanding on Advancing Bilateral Defense Cooperation, outlining cooperation in five areas: regularised high-level dialogues, maritime security, search-and-rescue, humanitarian assistance and disaster relief, and peacekeeping.<sup>126</sup> Since 2010, the US and Vietnamese navies have annually conducted low-level "naval engagement activities" which include expert exchanges on maritime domain awareness and submarine rescue, as well as local community service work and sporting events.

The Joint Vision Statement on Defense Relations, signed during the June 2015 visit to Vietnam by US Secretary of Defense Ashton Carter, foresees a deepening of defence and security ties, including the possibility of increased defence technology cooperation and trade. The visit also marked the first time a US Secretary of Defense toured a Vietnamese military base and inspected a Vietnamese Coast Guard cutter. During President Obama's visit to Vietnam in May 2016, it was announced that the US would sell 18 45-foot patrol boats to Vietnam's coast guard, provide support in establishing a peacekeeping training centre



Vietnamese President  
Trương Tấn Sang  
Photo: APEC

in Vietnam, and assist in Vietnam's commitment to deploy a field hospital for use by UN peacekeepers. The full lifting of the US arms embargo on Vietnam, also announced during that visit, points to some further US defence equipment and weapons exports in the future.

## Challenges for US strategy and policy in Southeast Asia

On balance, the United States has seen a number of successes in Southeast Asia and has achieved stronger economic, diplomatic, and security ties in the region over the past decade, and particularly over the past five years. Some of this success can be traced to the more assertive Chinese posture in the region in recent years and the region's capitals looking for ways to counterbalance China's influence and muscle-flexing. Nevertheless, looking ahead, the United States faces a number of challenges in advancing the rebalance policy and deepening its strategic presence in the Indo-Pacific.

Some of the challenges arise from factors ostensibly unrelated to the rebalance, but which will have an important impact on it. With a new president taking office next January, it is unclear how and whether the new occupant of the White House will prioritise America's role in the region. For reasons of successor politics alone, the next president will want to put her



or his own stamp on foreign policy which could mean new priorities and different policy prescriptions. At a minimum, as with every change in administration, the turnover of personnel and gaps in institutional memory will likely stall elements of the rebalance for much of the new president's first year in office. And to be sure, as in the case of the Obama administration, the next president will have many other pressing priorities to address both at home and abroad.

All that said, however, the Indo-Pacific will clearly remain of great strategic significance to the United States for decades to come, all the more so as China continues to grow in military, economic and diplomatic strength. Indeed, as recent polling demonstrates, Americans place a very high priority on the importance of strong and positive relations with key players in Asia, including China.<sup>127</sup> Vigorous and effective engagement of the region — under whatever policy label — will endure as a strategic imperative for America. But in pursuing that engagement, Washington will face a number of challenges within the region.

The broad strategic dynamics of the region — while offering compelling opportunities for US engagement — also present significant challenges. As discussed

in the preceding pages, throughout the region, and in Southeast Asia in particular, most governments are committed to preventing the emergence of any single hegemon. In addition, the uncertainties inherent in a rising China and lingering concerns about America's long-term commitment to the region means that many key Southeast Asia governments are looking to diversify their foreign relationships.

Those strategic viewpoints, combined with the deep interdependencies Indo-Pacific countries have with China and the United States, mean they are looking to strike a cautious balance between Beijing and Washington. Some will lean more favourably towards China and others towards the United States, and the degree of preference will differ across varying interests and issues. This is not necessarily contrary to US interests, but it makes the task of engaging in the region all the more demanding and delicate.

Within the ten members of ASEAN, the role of the organisation and other ASEAN-centred bodies such as the ARF and the EAS, are gaining in importance. Countries such as Indonesia and Vietnam are keen to see these organisations strengthened and for outside powers to work closely with them in the management

US Secretary of State John Kerry participates in the US-ASEAN Ministerial Meeting, September 2014  
*Photo: US Department of State*





of regional affairs. Washington would like to see stronger and more effective regional institutions in the Indo-Pacific but these institutions continue to have serious weaknesses. The current generation of leaders in Southeast Asia appear less committed to the success of these organisations than their predecessors. Moreover, ASEAN is often divided on key regional issues, such as the SCS, meaning the organisation adopts a lowest common denominator approach.

Economically, the United States is in increasing competition in the region with China. The presence of Chinese goods and capital will likely increase across the Indo-Pacific and in Southeast Asia in particular. While slowing somewhat, most signs indicate Chinese trade in the region, and particularly exports to China, will continue to see substantial growth, all the more so as low-cost consumer goods manufacturing for the Chinese market moves to other parts of Asia, including Southeast Asia. The Asian Infrastructure Investment Bank and the “One Belt, One Road” initiative could be very prominent vehicles for Chinese economic engagement in the region. With growing trade interdependencies and an increased Chinese investment footprint in the Indo-Pacific, and especially in Southeast Asia, some greater Chinese political and diplomatic influence will likely follow. Beijing will have to contend with the fact that its pledged investments often go unimplemented or, when implemented, are fraught with problems. However, with time, Beijing should be able to better manage much of the negative publicity which has attended its investments in Southeast Asia.

The economic centrepiece of the rebalance, the TPP, also faces serious hurdles ahead. Frontrunners for the US presidential race, Hillary Clinton and Donald Trump, have voiced their opposition to the TPP, and this is reflective of an emergent anti-free-trade mood within the US body politic. A number of key members of Congress have expressed their lack of enthusiasm for the agreement, or at least toward important provisions of it. It appears increasingly unlikely the up or down vote in the Senate to ratify the TPP will take place during the Obama presidency which risks having the agreement re-opened for negotiation within American political circles. This would likely doom the pact among

the other international parties and prevent it from going into effect.

Certain bilateral trade and investment relationships are also hobbled by ongoing sanctions and other limitations on doing business. For example, while the Obama administration has taken steps to encourage responsible trade and investment with Myanmar, US firms face a range of difficulties there: high political risk, poor infrastructure, the fact that natural resources are overwhelmingly located in unstable ethnic borderlands, and restrictions on the choice of business partners.

The United States also faces some political constraints to building closer relationships with countries in the region. This is especially true in Southeast Asia where in a number of cases past history and ongoing governance concerns complicate and restrain the US rebalance effort. In Myanmar, the continuing strong role for the military in the nation’s politics places strong limitations on American engagement, including investments and military-to-military ties. Engaging with the Communist Party of Vietnam is similarly constrained, though the two sides have made some promising steps forward at the political level in recent years. Nevertheless, military-to-military relations are limited and a partial embargo remains on American arms sales to Vietnam. The seizure of power by the military in Thailand has undermined political and military ties between Washington and Bangkok, and these strains are likely to continue for the near-term future.

It is worth noting the two-way nature of these political constraints. In Myanmar, for example, the military leadership remains highly wary of American expectations for political and economic reforms. Likewise, in spite of the remarkable progress toward reconciliation between Washington and Hanoi, political and military leaders in Vietnam are deeply suspicious of US subversive intentions, fearful that “peaceful evolution” and “regime change” are the ultimate US goal. Hence, these Southeast Asian leaders will urge a go-slow approach and insist on US recognition of their legitimacy.

On the security front, most countries in the region enjoy a relatively stable external environment, free of overt threats emanating from their neighbours. The security

concerns of greatest priority for most countries in the Indo-Pacific tend to arise from within their sovereign borders: maintaining economic growth and socio-economic stability, countering religious extremism, and quelling restive ethnic separatism. In Southeast Asia, this is particularly true. This will limit the willingness and capacity of many governments in Southeast Asia to open up strong military-to-military relationships with the United States. This is all the more so for many governments in the region concerned with provoking China through closer military ties with Washington.

Military-to-military ties between the United States and Southeast Asian partners are also often limited owing to ongoing sanctions and other political restrictions. For example, the US National Defense Authorization Act for fiscal year 2015 limits Department of Defense activities with Myanmar to consultation, education, and training

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in relation to human rights, the laws of armed conflict, civilian control of the military, disaster relief, and the English language. The legislation moreover came with specific reporting requirements to multiple Congressional

committees, touching not only on the future development of military-to-military cooperation, but also on how such engagement supports US national security strategy and promotes Myanmar's reforms. Overall, given past animosities with the United States and concerns that Washington aims to remove the Myanmar military from politics, the leadership of the Myanmar military will remain guarded in its engagement with the Pentagon.

In the case of US-Vietnam ties, while relations between the two militaries have markedly improved, nevertheless, even 13 years since military-to-military ties reopened, areas of practical cooperation remain limited. The Memorandum of Understanding on Advancing Bilateral Defense Cooperation signed by the two countries' defence ministers in September 2011 set out a relatively "soft" agenda for collaboration: high-level dialogues, maritime security, search-and-

rescue, humanitarian assistance and disaster relief, and peacekeeping. The June 2015 US-Vietnam Joint Vision Statement on Defense Relations calls for deeper security-related ties between the two countries, but progress will be slow owing to political considerations in both capitals. To date, only one visit to Vietnam by a US warship is allowed per year and it was only in April 2015 that the US and Vietnamese navies carried out their first at-sea exercise, a brief exchange to practice the Code for Unplanned Encounters at Sea (CUES). Highlights of the recent US-Vietnam Joint Statement, released at the conclusion of President Obama's visit to Vietnam in May 2016, include the confirmation that the ban on sale of lethal weapons to Vietnam has been fully lifted, and a renewed focus on US-Vietnam maritime cooperation, including a commitment to ongoing assistance with the Maritime Security Initiative. In other security-related cooperation, Washington also committed to assist Vietnam in its nonproliferation efforts through the Cooperative Threat Reduction program and will make the Foreign Military Financing program available to Vietnam which helps countries procure weapons, defence equipment and other defence services from the United States. The United States also reaffirmed its support for Vietnam's peacekeeping efforts with an aim of assisting Vietnam's first deployment of United Nations peacekeeping forces by 2017.

China's growing economic, diplomatic and military presence in the Indo-Pacific, and particularly in Southeast Asia, presents its own set of related challenges for US strategic engagement in the region. This is not to say that China enjoys superior advantages over the United States in Southeast Asia nor that China is destined to achieve regional dominance. But it is clear that China's presence is a geopolitical fact-on-the-ground which weighs heavily in the calculations of regional states as they calibrate relations with the United States.

China is the number one trading partner to half of the ASEAN states — Indonesia, Malaysia, Myanmar, Singapore, and Thailand — and is a major trading partner for most of the remaining five member states, making China the largest trading partner for ASEAN taken as a whole. The ASEAN-China Free Trade Area entered in to force in 2010 and an ASEAN-China agreement on

enhancing bilateral investment was reached in 2009. According to the Chinese Ministry of Commerce, accumulated bilateral investment between China and ASEAN reached \$150 billion by 2015.<sup>128</sup> In addition, China is helping drive the Regional Comprehensive Economic Partnership (RCEP), a free trade agreement involving the ten ASEAN member states plus the six partners which have free trade agreements with ASEAN: Australia, China, India, Japan, New Zealand, and South Korea.

Beijing maintains an active diplomatic presence across the region and has generally positive political relations with most of its neighbours, including in Southeast Asia. Even where some bilateral political relations have deteriorated in recent years — as with Myanmar, Vietnam, and the Philippines — these governments are nevertheless cautious to avoid open confrontation with Beijing. China is able to leverage its good relations with most ASEAN states to assure against any strong consensus within the organisation that might be contrary to Chinese interests. Beijing is able to do the same within the larger ASEAN-centred groupings in the region such as the ARF and the EAS.

Beijing has also stepped up its military profile in the region through steady modernisation efforts, joint military-to-military activities with regional partners, and greater investments in defence diplomacy. China's land-reclamation and facility-building in the SCS have gained the greatest attention, including on Mischief Reef,

Subi Reef, Fiery Cross Reef, and Cuarteron Reef, and resulted in a stronger military presence, in and around the Spratly Islands in the southern portions of the SCS. According to the Asia Maritime Transparency Initiative, if the land features of the Spratly islands are excluded, the nearest Chinese land feature to Mischief Reef is Hainan Island, is 599 nautical miles (approximately 1100 kilometres) away.<sup>129</sup> China's emplacements include airstrips, helipads, radar and communications facilities, wharves, and air defence systems.

As discussed in the previous section of this report, China faces many of its own serious obstacles in seeking greater influence in Southeast Asia. That said, China's economic, diplomatic and military-related activities in and around Southeast Asia will likely pose considerable challenges for Washington's strategic engagement in the region. Countries in the region do not want to be dominated by a single hegemon and hence welcome a strong and continuing US presence in all of its dimensions. While they have concerns about a rising China and its longer-term intentions, they have little choice but to seek basically constructive relations with Beijing to the greatest extent possible. Importantly, while China's growing power is worrisome, so too is the concern about growing rivalry between the United States and China and the possibility of conflict between the two — an outcome which would be disastrous for the region. Beijing is well aware of these concerns and will carefully manipulate them for greatest advantage over time.

## 5. Conclusions and recommendations

The past eight to ten years have seen a significant expansion of American strategic engagement in the Indo-Pacific region. Some of the most remarkable advances have been achieved in Southeast Asia, a part of the Indo-Pacific which was too often overlooked in Washington as strategic attention was drawn to Northeast and South Asia or even further afield to the Middle East and Persian Gulf regions.

The Obama administration's rebalance strategy in particular has provided the strategic rationale for a serious effort to focus American economic, diplomatic, and military resources in the Indo-Pacific and in particular to close the engagement gap which characterised US relations in Southeast Asia. This

effort has included the deepening of security-related ties with a number of new and old US partners in the region such as Indonesia, Malaysia, Myanmar, the Philippines, Singapore, and Vietnam.

But the future holds many questions about the strength and nature of a sustained American commitment

to strategic engagement in the Indo-Pacific overall and in Southeast Asia in particular. Will the next US administration strengthen American commitments in the region or weaken them in favour of other pressing priorities at home and abroad? Will China's growing power and influence in the region succeed in blunting US engagement or will Washington succeed in shaping Chinese choices through a mix of compellence and cooperation? Can the two powers expand their collaboration in areas of shared interests? How adept will Southeast Asian powers prove to be in balancing their relations with Washington and Beijing, and how will this in turn affect US engagement in the region?

Getting US policy right in Southeast Asia is essential to US grand strategy. However, a recurring debate in US grand strategy exists between those

advocating deeper engagement in the Indo-Pacific region, and those that argue that the United States is overcommitted, underfunded, and that retrenchment is the preferred option.<sup>130</sup> A more strategic way forward, however, requires a mix of engagement in the region with US security partners and paying closer attention to key regional partners' concerns and priorities.

Such a strategy does not simply amount to deeper security engagement by the United States with new and old partners in Southeast Asia. In fact, doing so would probably lead to severe overstretch of US resources, particularly at a time when funding and budgetary constraints are most acute. The engagement needs to be recalibrated in a way that is better targeted and focused and that supports multilateralism where key partners in the region assume greater involvement.

The Obama administration's rebalance to Asia is widely misunderstood. The policy was — and is — framed, first and foremost, in terms of the "soft" elements of US power. Then-Secretary of State Hillary Clinton argued that "It starts with forward deployed diplomacy."<sup>131</sup> A second dimension involves economic and business engagement such as the TPP, while the third and final dimension is military. As Brad Glosserman noted, "That order matters. Framing the rebalance is the recognition that US engagement of the Asia-Pacific region has been too narrow and the military has borne a disproportionately large burden."<sup>132</sup> Yet, the rebalance is often seen simply as a military response to China's rise for understandable reasons.

Security dilemmas can polarise the behaviour of rival states, thus confirming the other's worst-case assumptions and exacerbating tensions in the region. A rebalancing strategy that is solely based on the military and security domain can unnecessarily compound Beijing's insecurities and feed China's aggressiveness, undermining the possibility of cooperation between Beijing, Washington, and regional capitals in Southeast Asia. On the other hand, China's emergence as one of the most formidable powers in Asia — in both economic and military measurements — has been unfolding for the last three decades. This has included far more assertive

The past eight to ten years have seen a significant expansion of American strategic engagement in the Indo-Pacific region. Some of the most remarkable advances have been achieved in Southeast Asia, a part of the Indo-Pacific which was too often overlooked in Washington.

and coercive activities in recent years, particularly in the SCS. Thus far, however, the region has learned to engage, hedge, and adapt to China's rise, all without provoking war. Moreover, the region has benefited and continues to benefit from China's economic growth. At times, Southeast Asian powers have used their collective bargaining power to socialise China into a less disruptive power that complies with regional and global norms.

With these points in mind, several important strategic, economic, diplomatic, and security-related principles and policies should be articulated and implemented as high priorities for the US Government now and as a new administration and Congress take office in 2017.

## Signalling sustained strategic commitment

The strategic logic underpinning the rebalance has not changed since it was first formally articulated in 2011. If anything the reasoning has grown more powerful. The region remains the world's most dynamic and promising from an economic standpoint. Some of the region's giants, such as India and Indonesia, continue to emerge, haltingly but hopefully, as two of the world's largest democracies and potentially new economic powerhouses. In Southeast Asia in particular, a greater US presence is welcomed. In the face of a rising China, not only will American interests be profoundly affected, but Southeast Asia's comparatively weak institutions and capacities look to US support to help them cope more effectively with Beijing's growing power. It is clearly an American interest and imperative to remain deeply engaged in the region and to strengthen that commitment in the coming years.

In summary:

- The next president should make an early and highly-visible statement to demonstrate continuing US commitment to the Indo-Pacific and to Southeast Asia in particular.
- The administration should commit to delivering a new Indo-Pacific strategic review in 2017, coordinated out of the National Security Council.

- The new US secretary of state and US secretary of defense should make their first overseas trips to the Indo-Pacific.
- The president should firmly commit to participate in the suite of annual East Asia Summit (in the Philippines) and Asia-Pacific Economic Cooperation (in Vietnam) meetings towards the end of 2017. This should be in addition to at least one other major trip to the region with stops, at a minimum, in allied partners Japan and South Korea.

## Deepening economic engagement

Access to US markets, investments, and know-how remain powerful attractions in the Indo-Pacific, and especially in the emerging economies of Southeast Asia such as Indonesia, Myanmar, and Vietnam. The TPP trade deal stands out as the most important economic instrument for bolstering US trade and investment in the region. But the TPP is much more than a trade deal. Its entry-into-force would have strategic implications for American leadership, especially in setting the economic rules of the road for this dynamic region's medium- to long-term future while fostering a deepening set of economic interdependencies between the United States and its TPP partners. This is important as Beijing will continue to expand its influence and interests in the region primarily on the back of strong trade relations and a growing strategic investment portfolio across the Indo-Pacific.

In summary:

- The US Congress should move expeditiously to approve the Trans-Pacific Partnership agreement either in late 2016 or early 2017 and the president should sign it in to law.
- Once the TPP is in force, the United States should welcome membership by other countries in the region which meet the agreement's criteria, with a special effort made to bring China, Indonesia, the Philippines, and South Korea on board.
- The new administration should introduce an economic framework for cooperation with those states not yet in the TPP as a means to encourage



and plan for their eventual membership, and continue to invest resources into the US-ASEAN Expanded Economic Engagement initiative.

- The United States should encourage greater collaboration between the World Bank and the Asian Development Bank on the one hand, and the Asian Infrastructure Investment Bank on the other.
- Working together, the administration and Congress should open more pathways to expand responsible US trade and investment in Myanmar.

## **Bolstering diplomatic presence and engagement**

US diplomatic engagement is critically important in Southeast Asia as a means to bolster domestic and multilateral institutions in the region which are more accountable, responsive, and effective at home and abroad. Support for ASEAN-centred institutions such as the East Asia Summit, the ASEAN Regional Forum, the ASEAN Defence Ministers Meetings, and ASEAN itself not only helps build these institutions into more effective and coordinated bodies as part of a rules-based order in the region, such support also delivers a strong message of Washington's acknowledgement and appreciation of ASEAN's current leadership and future potential in assuring regional stability and prosperity. Working closely with ASEAN and its individual member states, the United States can promote positive outcomes on the economic, political, security, and social development issues which matter to American interests.

In summary:

- The US Government should actively sustain a comprehensive diplomatic plan to support the forthcoming decision by the Permanent Court of Arbitration regarding the Philippines case against China under the United Nations Convention on the Law of the Sea, and strongly encourage ASEAN and individual member states to voice their support for the decision as well. This diplomatic strategy, probably launched in mid-2016, should be taken up and sustained by the next administration.

- The US Government should support the ongoing "diversification" diplomacy of ASEAN states which seek a broader and stronger array of bilateral and multilateral economic, political, and security relationships.
- The Department of State should increase resourcing and staffing to boost the capacity of the US diplomatic mission to ASEAN in Jakarta.
- The US president should seek to hold the annual US-ASEAN Leaders Summit at least once every four years in the United States.
- The US Government should leverage the new US-Indonesia Strategic Partnership, announced in October 2015, to firmly establish more regularised, substantive, and impactful economic, diplomatic, security, technical, and people-to-people collaborations between the two countries.
- The US Government should invest greater political and development resources in the still-fragile political transition in Myanmar to assure its emergence as an independent, stable, democratic, and economically successful state.

## **Increasing effective security partnerships**

Washington has established a range of valuable and deepening security partnerships across the Indo-Pacific. Some of the most notable developments in recent years have involved new security ties with countries with which the United States has had troubled relationships in the recent past, such as Indonesia, Malaysia, the Philippines, and Vietnam. Some of these new relationships have arisen in part in response to China's more muscular military posture in the region, but not entirely so. America should build on this success, but do so in a way which fits with most Indo-Pacific countries' desire to strike a dynamic and beneficial balance in their relations with Beijing and Washington, tempers rivalry and avoids overt confrontation and conflict with China, and fosters strong consensus in the region in support of the US presence and its contribution to prosperity, security, and socio-economic development. This is particularly true in Southeast Asia.

In summary:

- The administration and Congress should assure sustained and growing financial support to maritime security initiatives in collaboration with Southeast Asian partners, with the aim of bolstering regional capacities in maritime domain intelligence, surveillance, and reconnaissance, maritime patrol and enforcement, and protection of maritime resources.
- The US Government should increase multilateral military-to-military opportunities for consultation, training, joint exercises, and interoperability among American allies (such as Australia, Japan and the Philippines) and other security partners in the region (such as India, Indonesia, and Singapore).
- The US Government should make resources available to help assure the continued regular meetings of the ten ASEAN defence ministers and the US secretary of defense (also known as the ADMM+1).
- Consistent with the security aims, interests, and capacities of individual ASEAN states, the United States should avoid a singular focus on China, and assure a broad-based security relationship including collaboration and capacity-building on counter-terrorism, counter-

proliferation, cybersecurity, search and rescue, disaster relief, and civil-military relations.

- With Vietnam, the US Government should steadily and consistently continue to open the defence and military-to-military relationship, including close consultations on Vietnam's needs in maritime domain awareness and defence, and introducing more complex joint military training activities.
- The US Government should continue engagement with China bilaterally, and with a more concerted effort in Southeast Asia multilaterally, to promote the value of freedom of navigation and overflight, expand and improve military maritime communications and risk-avoidance, and encourage negotiated outcomes across disputes in the SCS.

Forging an effective US strategy in Southeast Asia starts with understanding the region from the inside out. Only with deep knowledge of the goals, perceptions, hopes, and intentions of Southeast Asian countries themselves can Washington craft policies that further US national interests, help stabilise the region, and sustain the peace and prosperity that has characterised the region for the past three decades. The imperative of such an approach will only grow as Southeast Asia also grows in strategic importance in the years ahead.

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## About the authors

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### Dr Bates Gill

#### Professor of Asia-Pacific Strategic Studies at the Australian National University

Bates Gill is professor of Asia-Pacific strategic studies with the Strategic and Defence Studies Centre, Coral Bell School of Asia Pacific Affairs, Australian National University.

From 2012 to 2015 he was CEO of the United States Studies Centre and from 2007 to 2012 served as director of the Stockholm International Peace Research Institute.

He previously led major research programs at public policy think tanks in Washington, DC (Brookings Institution and Center for Strategic and International Studies) and in Monterey, CA (Monterey Institute of International Studies).

Among his professional affiliations, Gill serves on the boards of China Matters (Sydney) and the Rajaratnam School of International Studies (Singapore) and is a member of the board of advisors for the Shanghai Institutes for International Studies. He is also a member of the Council on Foreign Relations and the International Institute of Strategic Studies, and is an associate fellow with the Americas Program of Chatham House.



### Dr Evelyn Goh

#### Shedden Professor of Strategic Policy Studies at the Australian National University

Evelyn Goh is the Shedden Professor of Strategic Policy Studies at the Australian National University's College of Asia and the Pacific, where she is also the director of research for the Strategic and Defence Studies Centre.

She is co-editor of the *Cambridge Studies in International Relations* book series. Her research interests are East Asian security and international relations theory. She has published widely on US-China relations and diplomatic history, regional security cooperation and institutions in East Asia, Southeast Asian strategies towards great powers, and environmental security. Her key publications include *Rising China's Influence in Developing Asia* and *The Struggle for Order: Hegemony, Hierarchy and Transition in post-Cold War East Asia*.

She has held previous faculty positions at Royal Holloway University of London, the University of Oxford, and the Rajaratnam School of International Studies (Singapore), and visiting positions at the Woodrow Wilson Center and East-West Center, Washington, DC.





## **Dr Chin-Hao Huang**

### **Assistant Professor of Political Science at Yale-NUS College**

Chin-Hao Huang is assistant professor of political science at Yale-NUS College. He specialises in international security, especially with regard to China and Asia. He is the recipient of the American Political Science Association Best Paper Award in Foreign Policy (2014) for his research on China's compliance behaviour in multilateral security institutions. His field work has been supported in part by the United States Institute of Peace, UK Foreign and Commonwealth Office and the Rockefeller Foundation.

His research has been published in *The China Quarterly* and *International Peacekeeping*, and in edited volumes through Oxford University Press and Routledge, among others. He has testified and presented his work on China's foreign affairs before the Congressional US-China Economic and Security Review Commission.

He received his PhD in political science from the University of Southern California and BS with honours from Georgetown University. He has previously worked at the Stockholm International Peace Research Institute and Center for Strategic and International Studies.