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Middle power game

C. Raja Mohan India's pivot to the United States

Nick Bisley Australia's incrementalist hedging in a fractured order

Aileen Baviera Is the Philippines moving to middle-power diplomacy?

Lauren Richardson The logic of Seoul's approach to Pyongyang ... **and more**

ASIAN REVIEW

Lex Rieffel and Michael Castle-Miller: Building Indonesia's new capital

This issue of *East Asia Forum Quarterly* is dedicated to Aileen Baviera

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From the Editors' desk

The changing geopolitical context compels middle powers to act. Countries have responded by forming explicit alliances, building upon hedging strategies or altering their leanings from one great power to another. The need for collective action is more urgent than ever to deal with emerging regional and global challenges.

Middle powers thrive in a rules-based international order— a world of international standards and international organisations where multilateralism is key. This helps to level the playing field for countries that cannot exercise the leverage that big powers can. Smaller nations can find redress, for example, in turning to International Court of Justice rulings or the World Trade Organization's Dispute Settlement Mechanism, which is presently on life support. When these systems falter, small and middle powers are less secure and confident in their international dealings.

One challenge to cooperation amongst middle powers is that they tend to think of others as competitors. ASEAN has been relatively successful in achieving some level of regional cooperation and centrality. But this is coming under new stress not only from great-power rivalry, but also from bad blood resurfacing between external partners such as Japan and South Korea. Middle powers need to come together to cope with external pressures and to develop convergent interests. If middle powers bicker, then collective leadership will suffer.

This issue of *East Asia Forum Quarterly* looks at middle powers and the range of priorities they have. Some are focused on their domestic priorities while others are more eager to shape the political, economic and security dimensions in the region. Our contributors offer a variety of perspectives on the challenges that middle powers face and identify the call of middle-power vision in defending the rules-based order. In this sense, the question of middle power collective leadership has gained more urgency and their current policies and strategies in our region seem woefully insufficient.

Asian Review looks at the plan for a new Indonesian capital, cultural undertones between Vietnam and the United States, and dimming prospects for Malaysia's economic reform.

Simon Tay and Jessica Wau

This issue of *East Asia Forum Quarterly* is dedicated to Aileen S.P. Baviera, Founding President of Asia Pacific Pathways to Progress, who died on 21 March 2020, from pneumonia related to COVID-19. Dr. Baviera was a Professor and former Dean of the University of the Philippines Asian Center, and a leading expert in China-Southeast Asia relations. The Editors and EAF team are saddened by the loss of a highly valued colleague and generous friend.

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COVER: Prime ministers link up: Cambodia's Hun Sen, left, New Zealand's Jacinda Ardern and India's Narendra Modi at the 3rd Regional Comprehensive Economic Partnership Summit in November 2019.

PICTURE: Ahit Perawongmetha / Reuters.



Workers erecting a welcome sign for the 2019 Bangkok ASEAN Summit: the group is responding to increasing tensions between great powers in the region.

The Indo-Pacific Outlook: a new lens for ASEAN

SIMON TAY AND JESSICA WAU

WITH China–US tensions and geopolitical turbulence increasing, many in the Asia-Pacific have looked at how ASEAN would respond to remain united, central and relevant. ASEAN’s Outlook on the Indo-Pacific (AOIP), released in June 2019, is a response to the rising contention between great powers as well as a lens for ASEAN’s future priorities.

In the period before the AOIP’s formulation, the two great powers

with interests in the Asia-Pacific set out contending views on the region. The United States and its allies—Japan, Australia and India—talked up multiple versions of a free and open Indo-Pacific. These coalesced into one point: concerns about China’s ambitions as a rising power.

China’s Belt and Road Initiative (BRI) set out another vision for the region. China’s neighbours, including ASEAN member states, welcomed the BRI as a way of enhancing connectivity through better infrastructure. But the BRI was also accused of creating

debt traps and being used as a tool for Beijing’s ambitions of building a Sinocentric world.

The China–US conflict also paints a new scenario, one exemplified in US government actions against Chinese telecom giant Huawei. Rather than enabling a seamless and interconnected world, technological competition led to exclusionary sanctions and disruptions in global value chains. The AOIP addresses these tensions in four priority areas of collaboration: maritime issues, connectivity, the United Nations’

Issue Editors

Simon Tay, Chairman of the Singapore Institute of International Affairs.

Jessica Wau, Assistant Director (ASEAN) at the Singapore Institute of International Affairs.

Series Editors

Peter Drysdale, Head, East Asia Forum and East Asian Bureau of Economic Research, Crawford School of Public Policy, ANU.

Shiro Armstrong, Director, Australia–Japan Research Centre, and Editor, East Asia Forum, Crawford School of Public Policy, ANU.

Editorial Staff

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Editorial Advisers: Peter Fuller, Max Suich.

Production: Peter Fuller, Words & Pics.

Email Peter.Drysdale@anu.edu.au, Shiro.Armstrong@anu.edu.au.

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Sustainable Development Goals, and broader areas of economic cooperation.

ASEAN's external partners have expressed their support for the *AOIP* and some welcome the document as ASEAN's attempt to control the narrative. But beneath the diplomatic niceties, the general reception has been mixed. Some feel disappointed that the *AOIP* was unclear and lacking in specifics that could advance an ASEAN agenda.

But unlike previous 'Indo-Pacific' visions, the *AOIP* targets openness, inclusivity and ASEAN centrality. For China, there was a sense that ASEAN should have maintained its emphasis on the Asia Pacific region rather than respond to the Indo-Pacific nomenclature. China's State Councillor and Foreign Minister, Wang Yi, has said that China has always maintained an open and constructive attitude in regional cooperation that is consistent with the principles and ideas of the *AOIP*.

There are divergent views on how the *AOIP* should be treated in future. Some ASEAN leaders see it as final, while others see it as a work in progress. The *AOIP's* existence is thus offered polite recognition. This can be seen from the ASEAN Foreign Ministers' retreat, which 'reaffirmed the importance of the *AOIP* as a guide for ASEAN's engagement with the wider Asia Pacific and Indian Oceans'. The *AOIP* acts as a common reference point, allowing ASEAN member states to engage with other countries to ensure that rules and principles are upheld.

The *AOIP* also has a functional influence on how ASEAN's agenda will develop. This is expected particularly in the four areas of cooperation highlighted in the document. The *AOIP* has potential to serve a new

The *AOIP* also has a functional influence on how ASEAN's agenda will develop

perspective in relation to connectivity and infrastructure.

National plans by ASEAN member states are the primary consideration. Aligned to these different national plans are bilateral offers and deals. The national plans and bilateral assistance often have little relationship to the regional Master Plan for ASEAN Connectivity (MPAC 2025). This lack of connection between national and ASEAN-level development can diminish the prospect of providing public goods for the region. Instead, these national and bilateral deals end up being exclusionary. An ASEAN member state may feel a greater sense of competition than cooperation with another ASEAN member state. The national–bilateral framework can push a country to bend towards the will of a greater power.

This need not be the case. There is an array of options for partnerships and infrastructure investments in ASEAN. Besides China's BRI, Japan has launched its Partnership for Quality Infrastructure scheme and the US-led Blue Dot Network hopes to have a certification scheme on projects in the region. South Korea plans to channel funds into smart city development projects. More efforts are needed to see how these projects fit into ASEAN's existing initiatives, such as MPAC 2025, with its rolling pipeline of projects.

The next priority for these projects would be to measure up the terms

of the deal against the *AOIP* and ensure that ASEAN is consistent with its principles of openness and inclusivity. This would de-emphasise the influence that bilateral donors receive over national and regional plans. Prioritising bilateral deals from one particular donor could have consequences that affect the whole region. This could distort national development plans or affect ASEAN integration.

Looking ahead, the *AOIP* should be used as a lens for regional development to enable ASEAN to implement its priority areas of cooperation. Some aspects of the *AOIP* are already embedded in ASEAN's activities. For example, ASEAN has had joint military exercises with

both China and the United States on separate occasions. ASEAN countries have always sought to engage with all and not side with one great power over another. But in other areas of cooperation, such as connectivity and infrastructure development, more direction and clarity is needed.

The coming months will bring occasion to look at the *AOIP* in relation to connectivity and infrastructure and determine whether its principles can be increasingly influential. Indonesia, an *AOIP* enthusiast, will take the lead because it will hold the World Economic Forum on ASEAN and Indo-Pacific Infrastructure and Connectivity in July. Another signpost will be the ASEAN mid-term review that will

evaluate ASEAN's progress towards the ASEAN Community Vision 2025 for an integrated, peaceful and stable community.

The *AOIP* does not promise any new mechanism, nor are its principles new. It will act as a lens through which the principles it espouses can be viewed. In the example of connectivity and infrastructure, it can bring about a new perspective that can lead to a new way of prioritising actions. **EAFQ**

Simon Tay is Chairman of the Singapore Institute of International Affairs.

Jessica Wau is Assistant Director (ASEAN) at the Singapore Institute of International Affairs.



China's Foreign Minister, Wang Yi, at the 2019 ASEAN-China Ministerial Meeting: He says China has maintained a constructive attitude to regional cooperation.

PICTURE: ATHIT PERAWONGMETHA / REUTERS

India's pivot to the United States

C. RAJA MOHAN

AT A time when much of Asia is reconciling itself to the regional dominance of China and increasing political distance from the United States, India is going the other way—moving into an ever-closer partnership with the United States and making a more intensive effort to balance China in the Indo-Pacific. This is a very different India to the one that defined itself in terms of ‘non-alignment’ during the Cold War, subsequently emphasised ‘strategic autonomy’ and later joined Russia and China in promoting a ‘multipolar world’ to weaken the US hyperpower during the 1990s. What has changed for India in the last three decades?

The reorientation of India's great-power relations is driven by two factors. One is the rise of China and Delhi's growing power imbalance with Beijing. The other is Prime Minister Narendra Modi's success in overcoming the entrenched anti-US sentiment in the Indian political and bureaucratic establishment.

The rise of China has become the single most important challenge facing India. Although India has a long record of befriending China, it has found Beijing largely unresponsive to Indian concerns. And as the gap in comprehensive national power widens in favour of Beijing (China's GDP, at US\$14 trillion, is nearly five times larger than that of India, now barely touching US\$3 trillion), the traditional perception in Delhi of a broad parity

with China has become unsustainable.

It is being replaced by the recognition that China is bound to expand its influence in India's near and extended neighbourhood at Delhi's expense. Meanwhile, the wider the gap, the less the incentive for China to settle the dispute over the long and contested frontier between the two nations in Tibet and Xinjiang.

China has not been responsive to India's demands for more balanced bilateral trade (the trade deficit with China was running at around US\$50 billion in 2019). More broadly, Delhi is coming to terms with the fact that it can no longer rely on Russia to balance China as it did from the 1960s to the 1990s. Delhi now sees Moscow drifting into a tighter embrace with Beijing.

That has made a closer security partnership with the United States a central theme of India's foreign and security policies in the past two

It was one thing to move forward with the United States but entirely another to publicly flaunt the bonhomie with Washington

decades. Along with growing volumes of bilateral trade (US\$160 billion in 2019) and increasing purchases of US defence equipment (at a cumulative figure of US\$20 billion over the last two decades), Delhi has opened up to greater interoperability between the armed forces of the two nations, intensive counterterrorism collaboration, and political cooperation in the region and beyond.

Underlying the new strategic warmth—but not always stated clearly—is the shared need to balance China. Although this change emerged in the foreign policy discourse in Delhi and Washington at the turn of the millennium, its salience began to increase only in the last few years, when Narendra Modi took charge as prime minister in 2014.

That a significant expansion of India-US security cooperation took place under Modi remains an interesting political puzzle. On the face of it, Modi seemed to have no ostensible reason to devote special attention to the US relationship. He was in fact denied a visa to the United States after the 2002 anti-Muslim riots during his tenure as the chief minister of Gujarat.

Beyond the personal, the Bharatiya Janata Party (BJP) was by no means enthusiastic about building a strong relationship with the United States. The BJP had aligned with the Communists in opposing the civil nuclear initiative with the United States and sought to bring down the Manmohan Singh government



Indian Prime Minister Narendra Modi and US President Donald Trump at the Ahmedabad rally which 'celebrated the special relationship' with the United States.

during 2005–08. If Manmohan Singh was hobbled by opposition to a US partnership from the Communists and much of the Congress Party itself, Modi had to cope with the deeply held wariness about the United States among Hindutva ideologues.

Substantive opposition to engagement with the United States came from the bureaucratic establishment. Large sections of the Ministry of External Affairs, the armed forces, the Defence and Home Affairs ministries, and the science bureaucracy were sceptical of collaboration with the United States and had argued against any major change of policy that would strengthen ties with Washington. India's public discourse on the United

States had always been far more critical and negative than of any other relationship and tended to oppose Modi's significant departures from the presumed foreign policy canon.

Multiple levels of opposition meant even the simplest elements of cooperation with the United States could not be advanced during the United Progressive Alliance (UPA) years (2004–14).

It is quite evident now that Modi came into power in 2014 with a determination to change this situation. From inviting a US president (Barack Obama) as the honoured guest at India's annual Republic Day celebrations to flipping India's position on climate change to work with the United States, from reviving

the 'quad' framework with the United States, Japan and Australia to signing the so-called foundational military agreements with Washington, Modi took steps that were previously inconceivable.

It was one thing to move forward with the United States but entirely another to publicly flaunt the bonhomie with Washington. In two large rallies—one in Houston with the Indian American community in September 2019 and one in a massive public reception for President Donald Trump in Ahmedabad in his home state, Gujarat, in February 2020—Modi celebrated the special relationship and proclaimed the United States to be India's most important partner.

Back in the summer of 2016, Modi

declared in his address to the US Congress that India had put behind 'historic hesitations' in its engagement with the United States. In making the United States the very anchor of India's great-power relations, Modi has demonstrated that those were not empty words.

On the face of it, Delhi's enthusiastic embrace of Washington to counter China might seem like a surprising exception to India's international relations, as defined by non-alignment. Yet the originator of non-alignment, Jawaharlal Nehru, turned to the United States for support when war broke out with China in 1962. While President John F. Kennedy responded with vigour, his successor, Lyndon Johnson, did not follow through. Nehru's successors turned to Moscow and signed a security treaty with Russia in 1971. What is different

this time is the depth of India's security cooperation with the United States and the intensity of the political leadership's commitment in Delhi to the partnership.

As it draws closer to Washington, Delhi is unlikely to become a London or Tokyo to the United States. Modi is acutely aware of the pitfalls of relying too much on the United States for India's security. He is conscious of the current turbulence in US domestic politics and the prospect for quick shifts in US external orientation. Therefore Modi is eager to retain the traditional security partnership with Moscow and carefully manage the difficult and increasingly asymmetric relationship with Beijing.

India has no option but to compete with China without locking itself into a costly confrontation. Modi is also aware that Washington and Beijing

will always be tempted to arrive at some mutual accommodation that might not always be in the interests of China's neighbours. As he copes with China's rise and hedges against US unpredictability, the Indian Prime Minister is also eager to develop stronger ties with other middle powers like France, Japan, Vietnam, Indonesia and Australia. Today India is more open to minilateral as well as multilateral security cooperation.

Modi's departure from the past relies on Delhi discarding traditional inhibitions it once held in all its dealings with Washington and instead seizing the possibilities to strengthen India's own position among the great powers. **EAFQ**

C. Raja Mohan is Director of the Institute of South Asian Studies at the National University of Singapore.



A street artist puts the finishing touches to a mural on the route that President Trump and Prime Minister Modi were to take in Ahmedabad in February 2020.

PICTURE: AMIT DAVE / REUTERS

The illusion of a middle power moment

ANDREW CARR

TO BE a middle power requires a modest disbelief in power. These states take their medium-sized resources and direct them towards big objectives. This may be reactive—searching for self-preservation in the face of a hostile larger power. It might also be proactive—trying to shape institutions and norms to build a more hospitable environment.

Over the past few decades significant scholarly ink and political rhetoric have been expended on middle powers' potential contribution to the maintenance and expansion of the international order. Speculation was particularly active in the early 2010s, with a 'renaissance' of academic theorising and a new organisation for middle-power states—MIKTA (named for the member states Mexico, Indonesia, South Korea, Turkey and Australia). But as the new decade dawns middle-power potential remains wanting. With structural and domestic trends discouraging activism, middle-power norm entrepreneurs are moving from endangered status towards extinction.

Norm entrepreneurs seek new standards of appropriate behaviour. While anyone can simply call for states to change their behaviour, successful campaigns involve four elements. First, there is a need to frame the new approach desired, establishing for it a persuasive rhetorical jacket. If this description can be tied to existing community notions—expanding liberty or supporting justice, for

example—so much the better.

Norm entrepreneurs then need to apply resources, establishing an organisational platform for their actions. This may mean a new bureaucratic organisation or multilateral institution. Third, there needs to be a strategy for socialisation, which targets rhetoric and resources that help convert key actors and spread the norm. Finally, the norm entrepreneur needs to be willing to sustain criticism and endure. Changing standards of behaviour necessarily undermine established positions and norm changes can take many years to achieve.

The prototypical example of this kind of behaviour by a middle power was Australia from the late 1980s to the early 2000s. While involved in numerous campaigns, Canberra's most

Middle powers will continue to be interested in the norms of their regions and how they can proactively influence them to seek peace and prosperity

notable efforts sought to liberalise trade, secure the non-proliferation of weapons of mass destruction, and establish cooperation on irregular migration. In the latter case, Australia embodied the sense of originality implied by the entrepreneur label. In the former two cases, it simply brought new energy to help spread and strengthen existing norms.

By the early 2000s the middle-power label was freed of its Western origins and increasingly applied to countries such as South Korea, Indonesia, Turkey, Mexico and South Africa. South Korea particularly wrapped itself in middle-power icons and language by beginning campaigns on the environment and development. The high point came in 2013 when MIKTA was formed as a G20 offshoot. In a joint op-ed, the five foreign ministers of MIKTA announced their 'common interest in strengthening multilateralism, supporting global efforts for stability and prosperity, [and] facilitating pragmatic and creative solutions to regional and global challenges.'

On the academic side, these years also saw hope for a 'middle power moment'. The global structural transition was welcomed for opening spaces for these countries to shape international politics. Most of this research came from scholars based in a middle power who wanted their country to adopt a more stereotypically middle-power approach—that is, liberal and cosmopolitan. They also sought to address wider problems, from the US—

China relationship to climate change and global poverty.

As we survey the arrival of the 2020s it is clear such hopes were misplaced. The middle-power moment never arrived. The willing disbelief in power that fuelled officials and scholars is fading. Many middle-power states are shifting to a more reactive search for security. This does not mean they will not occasionally try and promote norms, but the idealistic tone of the 2010s is out of place with the world we are now entering.

There are several reasons for this downturn. Structurally, the global order has become less hospitable to influence from the middle. Australia's 20th century norm entrepreneur efforts were indulged by a benign hegemon in the United States which did not see negotiations in stark zero-sum terms. Other great powers, such as China and India, as well as institutions like the United Nations, the European Union or the Association of South East Asian Nations, have also proven unwilling or cumbersome sponsors for middle powers to work through. This places most of the resource demands for initiating and driving normative change back on middle powers themselves.

There were also domestic shifts that made norm entrepreneurship harder. Australia is on to its sixth prime minister since 2010, Turkey's President Erdogan fought off a claimed coup attempt in 2016 and South Korea had to jail a president in 2018. Alongside economic, technological and environmental disruption, these challenges have reduced the appeal of international normative initiatives which offer few, if any, direct rewards to local voters.

Finally, there is an ideational shortfall. At the end of the Cold War, Australia was optimistic that its



US President Donald Trump in discussion with Australian Prime Minister Scott Morrison, right, and Australian Finance Minister Mathias Cormann at the G20 Summit in Osaka in June 2019. Without clear and compelling ideas, it is hard to justify building expensive organisational platforms.

brand of liberal democratic capitalism represented the way of the future. In the early 2000s, many outside the West hoped new—and exportable—forms of government beyond the 'Washington consensus' could be developed. Both dreams have fallen short. Without clear and compelling ideas, it is hard to justify building expensive organisational platforms or risking serious criticism to promote change among your neighbours.

Middle powers will continue to be interested in the norms of their regions and how they can proactively influence them to seek peace and prosperity. If Australian leaders, spurred by the recent catastrophic fires, want to get serious about global

climate change efforts, there is a rich historical record to mine. Yet the bar for genuine norm entrepreneurship, which was only barely approachable at the end of the 20th century, seems to be moving steadily out of reach in the 21st. Instead, we are likely to see middle powers being more reactive in their approach, with shorter time horizons and more transactional practices. Power can be doubted, but not forever. [EAFQ](#)

Andrew Carr is a Senior Lecturer in the Strategic and Defence Studies Centre at The Australian National University.

Small states show the value of multilateralism

JASON YOUNG

S MALL states such as New Zealand lack the decisive military power or economic leverage needed to pursue their interests unilaterally. They must live with asymmetrical power relations. An obvious example is New Zealand's relationship with China.

China is New Zealand's largest trading partner and an important source of migrants, international students, tourists and investment, but New Zealand represents less than one per cent of China's total imports and exports. How is it possible for a small state like New Zealand to exert influence in its relations with large and powerful states like China?

The strategy pursued by successive New Zealand governments has been to leverage international law and organisations like the World Trade Organization (WTO). Such bodies provide small countries with the tools to defend and forward their interests in bilateral negotiations through agreed norms of diplomacy and treaty-making, and to ink economic agreements that are framed, supported and defended by the WTO.

The 2008 New Zealand–China Free Trade Agreement is but one example of how international organisations underpin New Zealand's relationship with China. The Vienna Convention on the Law of Treaties (1969) represents another foundational institution.

Without recourse to these international rules and norms, countries like New Zealand would

struggle to create a level playing field for their people and businesses. The nation-state system would descend back into a hierarchical order where might is right and smaller countries are forced to sacrifice self-determination for survival.

We have a chance to avoid this, but nothing about the establishment of our embryonic form of global governance was predestined.

In the postwar years, the dominant Western powers were prone to exert their influence unilaterally. This remains the case. But what differentiated the postwar era from others was the development of international organisations built upon the principles that nations and individuals are equal, and that fair and impartial rules should govern their interactions.

The United Nations General Assembly, the WTO, the United Nations Framework Convention on

Non-liberal powers . . .
may challenge the
liberal foundations of
the international system
and revise international
institutions to reflect their
norms and values

Climate Change and the International Criminal Court of Justice represent significant milestones in the development of multilateralism and global governance—even if imperfect and hampered by great-power rivalry and interests.

New Zealand has prospered under an international system where liberal polities have dominated in a fortuitous combination of multilateralism and like-minded dominant players.

But today the distribution of global power and influence is shifting. Western powers no longer have a monopoly on science, industry or ideas. The rise of non-Western and non-liberal powers, most significantly China, have burst that bubble and are pushing the world towards a potentially explosive form of multipolarity.

Changes in the relative distribution of power challenge the interests of existing powers and embolden rising powers. Non-liberal powers, given the opportunity, may challenge the liberal foundations of the international system and revise international institutions to reflect their norms and values.

A concerted and coordinated effort is required to maintain the values of open commerce, democracy and human rights. This will be a hard fight, a fight for hearts and minds, and one that can no longer ignore the reality that, according to *The Economist* Intelligence Unit, only 5.7 per cent of the world's population live in full democracies.

Existing international organisations

are our best starting bet for managing the rise of non-liberal polities and for allowing a contest of ideas between a variety of nations and peoples to be managed with fairly applied rules. They are our best hope for finding consensus on common challenges like climate change and for promoting orderly competition.

Small states by necessity pursue their interests and influence through multilateral institutions with a view to maintaining the international system on which they depend for their survival and status. Their experiences offer insight into how the traditionally dominant states and the rising powers can pursue their interests in a multipolar world.

Some powerful countries are already turning strongly toward multilateralism. Japan is a case in point, signing up to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and promoting the rules-based order through its Indo-Pacific strategy. The European Union maintains a foundation of multilateralism, international law and human rights in its international policy. But much more can be done.

Other nations have been selective in their adherence to the norms and rules of the international system. The US–China trade war is one of the most egregious cases in point.

There is good reason for existing powers—which fear the erosion of their dominance and relative power—to pursue their interests unilaterally. But there is also good reason for rising powers which fear that the international system does not reflect their preferences to revert to unilateralism. Such is the dilemma of the collective-action problem.

Understanding that our long-term interests are best served through



Competition on the field, cooperation in the international arena: New Zealand Prime Minister Jacinda Ardern and Japanese Prime Minister Shinzo Abe hold personalised rugby jerseys at their press conference in Tokyo in September 2019.

international cooperation and agreed principles of engagement is the cornerstone of a civilised world. This will require compromise and a degree of acceptance of difference if not agreement. No single country should always get what it wants or be able to fully shape the world in its own image.

With the distribution of global power shifting, it is time for all countries to think more like small powers. We must give primacy to multilateralism if we are to avert the tragedies of the past. The rational pursuit of narrow interest led us down a path where small and medium powers were trampled on and heavy costs were imposed upon the great powers.

Without a ‘rules-based order’, small states like New Zealand will be at an even greater disadvantage and

major powers will be frustrated and blocked from multilaterally achieving their own interests. Multilateralism and a rules-based order are not just a moral choice, they are necessary for a functioning world.

The international strategies of small states like New Zealand provide an important reference for how larger powers can manage competition and difference under conditions of multipolarity. Under such conditions, we’re all small states now. [EAFQ](#)

Dr Jason Young is the Director of the New Zealand Contemporary China Research Centre and an Associate Professor of International Relations at the Victoria University of Wellington.

Australia's incrementalist hedging in a fractured order

NICK BISLEY

AUSTRALIA has enjoyed an international order highly conducive to its interests and values since it began to develop its own foreign policy in the 1940s. Of the array of forces that create an international order, three have been of greatest significance for Australia: geopolitical stability, a dynamic and liberal global economy and a set of international institutions aligned to its strategic and economic disposition.

If China and the United States had not worked out how to co-exist in Asia in the 1970s, the region would still be riven by ideological conflict, rather than enjoying an economic growth phase unparalleled in human history. This would have significantly dampened Australia's economic growth, diverted more resources into defence spending and likely dragged the country into further conflict.

Instead, a period of great-power amity created an environment where nations were able to focus on domestic priorities. Australia's economic and security interests were aligned, as China's acceptance of US primacy meant that doing business with China was geopolitically unproblematic.

Australia has also benefited from the liberal economic and political values established by the international institutions that were created after 1945. Since the 1980s Australia has embraced a low tariff approach to trade that was made politically possible by the General Agreement on Tariffs and Trade and World Trade

Organization trade regime. Australia also prospered in an international environment in which countries with similarly liberal values were dominant.

The strength and success of the international order led many to assume that it would endure indefinitely. Yet great-power amity has been cast aside, with the United States and China now openly regarding each other as rivals. Other ambitious major powers also jostle for influence, including Russia and India, creating a turbulent strategic context. The institutions promoting liberal policies created after World War II, already under some strain, are now reaching breaking point as the United States no longer supports them.

Australia faces challenging circumstances. Its economic wellbeing is increasingly tied to a country, China, that is becoming the enemy of its security guarantor, the United States. The corrosion of liberal institutions reduces Australia's options and constrains its scope for influence. Geopolitical rivalry across a range

The core assumption of the incrementalist hedging approach is that major changes to policy are not needed

of domains and involving multiple great powers is becoming the defining feature of the strategic landscape; distinguishing between the economic and strategic aspects of competition is increasingly difficult.

In response to this dramatic recasting of its international milieu, Australia has opted for incrementalist hedging approach—making minor adjustments rather than radical changes to its existing strategic trajectory to hedge against the risks of great-power conflict.

The most significant adjustment Australia has made was the commitment to expand its war-fighting capabilities, as first flagged in the *2009 Defence White Paper* and concretely committed to in 2016. While the planned acquisitions are significant for Australia—doubling the size and scale of the submarine fleet and dramatically increasing its air force capability—they make only a marginal difference in terms of the regional strategic balance.

Australia believes that the United States will remain Asia's dominant power and continue to have the strategic vision and political will to underpin regional order in the coming decades. Yet there is growing evidence that the United States has badly underestimated China's power and purpose, is complacent about strategic transformation in Asia and has done little to prepare its population for the accompanying costs and risks of a long-term strategic contest with China.

Australia's incrementalist hedging

also focusses on maintaining strong, positive relations with all of Asia's major powers. Another aim is to advance regional multilateralism through activist diplomacy. Multilateral engagement seeks to increase Australia's influence and reinforce the status quo. It has also embraced the Indo-Pacific as a novel geostrategic construct guiding its international engagement.

Based on these actions, the core assumption of its incrementalist hedging approach is that major changes to its policy are not needed. In the face of a fundamental transformation of the strategic, ideational and economic environment, Canberra has determined that the course on which the ship of state is travelling needs only to be adjusted somewhat. Australian decision-makers believe that the nation's interests can ultimately align with that of the key regional powers.

One only needs to look at the

difficulty of maintaining effective relations with the major powers to see the flaws of this assumption. In just under five years, Australia and China have moved from establishing an annual premiers' dialogue and a free trade agreement to their relations reaching their lowest point since the Tiananmen Square massacre. Worryingly, this frigid state of affairs has become the new status quo. This change in Australia–China relations is not just a function of a more assertive and confident China or ineffective diplomacy from Canberra, it reflects the limits of incrementalism in a time of radical change. Australia cannot pursue policy as if it is still 2004.

Given the changes to great power relations, the nature of power and the rapid shift in how the United States views its interests and global role, the return on Australia's investment in its incrementalist approach will continue to decline.

The challenge thus is to determine

how Australia can advance its interests in a world where great-power rivalry and geopolitical instability is the norm, where power is shifting both its locus and form, and liberal values and institutions are in free fall. Assuming the never-ending dominance of the United States in Asia and functioning liberal institutions will not do.

The times demand bigger and more creative strategic thinking than incrementalist hedging. Whether that means Australia should move out of the US orbit, join a muscled-up military coalition to push back against China's ambitions or work with a whole raft of countries to reconstitute the international order is far from clear. But small changes during times of massive transformation will ensure a diminished Australia. **EAFO**

Nick Bisley is Dean of Humanities and Social Sciences and Professor of International Relations at La Trobe University.



A leaders' line-up at the Osaka G20 Summit in June 2019: Australian decision-makers believe the nation's interests can align with those of key regional powers.

PICTURE: JACQUES WITT / ABACAPRESS.COM / REUTERS



Building Indonesia's new capital

LEX RIEFFEL AND
MICHAEL CASTLE-MILLER

INDONESIAN President Joko 'Jokowi' Widodo's announcement last August that a new capital would be built in East Kalimantan has been widely met with scepticism. Scepticism is warranted. But some of the potential upsides of the project are being overlooked by both outsiders and the government alike.

Given what reputable scientists have concluded about climate change and the particular threats to keeping Jakarta's head above water, so to speak, the case for building a new capital—or simply a new city—in Indonesia is pretty strong.

Taking a step back, it is worth

reflecting on Indonesia's urban vis-à-vis its rural population. According to the United Nations, the urban share of Indonesia's population was 56 percent in mid-2019 and this share is projected to rise to 73 per cent in 2050. The urban population reached 152 million in 2019 and will hit 244 million in 2050. The Indonesian government faces the challenge of building a healthy, sustainable urban environment for roughly another 92 million people over the next 30 years.

The default approach to accommodating Indonesia's growing urban population is the same as everywhere else in the world: expand existing cities. But there are advantages to building new cities. Renovating or modernising an old

Indonesian President Joko Widodo and the Governor of East Kalimantan, Isran Noor, look over the location of Indonesia's planned new capital.

house tends to be more expensive than building a new house from scratch. The same goes for cities.

With smart planning, the cost of building a new city for a million residents or more can be considerably less than expanding an existing city for the same number of residents. One enormous advantage now of building new cities is that they can be located at elevations above the projected sea-level rise. Another advantage is designing an entire city to minimise the consumption of fossil fuel-based energy. A new city also provides

opportunities to create better policies and administrative institutions, which may be more difficult with existing government arrangements.

One can assume that Jokowi's advisors are well acquainted with these advantages, that they have examined potential locations for a new capital, and concluded that East Kalimantan is best.

Implementation then becomes the crucial issue and this is where some early descriptions of Jokowi's project raise concerns, particularly in three areas: people, land-value capture, and governance. In each of these areas, measures can be taken to make the project more successful, reduce costs and create an attractive urban environment for residents.

Implementing many of these steps, however, may exceed the Indonesian government's ability to challenge deeply entrenched vested interests.

Official government statements about the new capital city project have emphasised the infrastructure and the buildings. Not much has been said about people—neither the people who will be displaced in the process of building the new capital nor those who will become residents because government functions are relocated or because they anticipate a better life there and move voluntarily.

Fair compensation for people displaced by development has been a policy challenge for democratic governments for centuries. Indonesia can achieve favourable results by adopting a compensation policy with three elements: cash compensation for moving to new housing freely selected and designed by those displaced, guaranteed employment by infrastructure and building developers, and some form of equity in the project so that displaced people can receive a financial benefit if it succeeds. The last

element is the most controversial but goes the furthest towards meeting the goal of 'fair' compensation.

Implementation will be an immense challenge not only because of budget constraints but because there are no good precedents in Indonesia, because of budget constraints, and because land rights and land titling in Indonesia are exceptionally complicated matters.

The history of Shenzhen, China, provides an interesting example of what is theoretically possible for a project of this kind. When the Chinese government established the Shenzhen Special Economic Zone in 1980, it recognised local fishing villagers' right to collective ownership of pockets of land in the area. The villagers held their land in corporations and distributed shares among themselves. Shenzhen experienced explosive growth in the decades that followed, becoming a city of over 14 million people. The original villagers profited from this growth by turning their land into 'urban villages' with dense,

Allowing the new capital to become a political football will kill the project by creating uncertainty that discourages private investment and encourages inefficient, partisan investment of budget resources

affordably priced rental housing for the millions of rural-to-urban migrants that moved into Shenzhen.

A people-centred approach to building the new capital could be the key to avoiding mistakes made by other countries that have built new capitals, such as the Myanmar government's controversial move to Naypyidaw. Civil servants, who are expected to experience the bulk of disruption, will develop positive attitudes toward the project if they are consulted and see steps taken to address their concerns. Construction workers and other government service providers will also do their jobs more effectively if they are treated as partners and not as soldiers simply taking orders.

Perhaps Jokowi was already thinking along these lines when he spoke in mid-January about changing the 'mindset' of the Indonesian people in the process of building the new capital.

Jokowi's announcement put the cost of building the new capital at US\$33 billion. This figure was quickly criticised as an underestimate. But both perspectives view the project in the wrong way. If the project is designed well, it will be a money-maker, not a black hole. To achieve this, the government can use 'land value capture tools' that other countries have implemented successfully in the past 20–30 years.

The concept is simple. It's hard to grow up anywhere in the world without witnessing increases in land values associated with development. Most visibly, the rise in value is linked to infrastructure construction, the classic case being the erection of shopping malls at highway intersections. Rises in value also come with creeping urbanisation or gentrification.



Motorcyclists crowd an arterial road in Jakarta. The planned new capital has the prospect of reducing the manifold frustrations of urban congestion.

For generations everywhere, this value increase has mostly been captured by rich and powerful people, commonly labelled as ‘speculators’. They buy the land at a low price before the construction and then sell again at a high price when construction is complete, having done nothing else in the meantime to produce the value increase. They pocket the profit.

It doesn’t have to be this way—the increase in value as Indonesia’s new capital is built can be captured in various ways.

One option is for the government to retain land ownership in the new capital. This would allow the government to lease parcels of land to occupants and gradually increase rents as infrastructure improves and the land becomes more valuable. The growing rent income can then be used

to finance further improvements. This form of financing infrastructure through land value capture has been used successfully in a number of cities around the world, including Canberra in Australia and Ahmedabad in India.

Alternatively, Indonesia could implement a land value tax (LVT) for the new capital. Unlike a property tax, an LVT is imposed on the underlying value of land on a parcel. It does not tax the value of improvements made upon the land, such as buildings. Economists view an LVT as the optimal form of taxation because it can be taxed at up to 100 per cent without any harm to the economy, it is relatively easy to administer and it aligns the government’s financial incentives with good governance.

Whether by retaining ownership of land or establishing an LVT, land-value

capture is how Indonesia’s new capital can be built without being a budget buster, especially if governance of the capital is designed to encourage and facilitate private investment.

Perhaps the biggest threat to building the new capital successfully is obstruction from political parties. In a country like Indonesia, where political parties care more about personal power than social issues, allowing the new capital to become a political football will kill the project by creating uncertainty that discourages private investment and encourages inefficient, partisan investment of budget resources.

One sign of danger is already visible with regard to governance. Current Defence Minister Prabowo Subianto and his brother Hashim Djojohadikusumo reportedly own

more than 200,000 hectares of land in the districts selected to be the site of the new capital in East Kalimantan. Prabowo, who lost the 2019 presidential election to Jokowi, and his family are politically controversial. While sources close to Prabowo have declared that he will give the land freely to the government if asked for it, the potential for a deal that enriches Prabowo or his family or his friends must be very high.

Another sign of danger comes from reports of commitments from mega-investors to participate in building the new capital. These include commitments from the United Arab Emirates and the chairman of Softbank, a Japanese multinational conglomerate holding company. These investors are likely seeking profits in ways that are not aligned with the best interests of Indonesian citizens.

One way to take party politics out of the process of building Indonesia's new capital is to vest governance in a board of non-political technocrats.

Paul Romer, the co-winner of the 2018 Nobel Prize in Economic Sciences, first articulated this solution 15 years ago under the names of 'charter cities' and 'reform zones' when looking for a new way to promote economic reform in developing countries. Romer's ideas proved controversial and difficult to implement in practice, but a new, more pragmatic version of the concept is known as 'sustainable development zones'.

At the heart of the sustainable development zone concept is the creation of a legally constituted, apolitical governance structure. A sustainable development zone management entity is granted temporary, limited authority to govern those aspects necessary to sustain a dynamic and healthy city. This entity

Putting people at the heart of the process, capturing the increase in land value, and creating a trustworthy governance structure can make Indonesia's new capital city a model for urban development elsewhere

provides basic infrastructure, licenses and regulates businesses, adopts a building code, regulates construction, administers tax collection and carries out other public service functions on behalf of the government.

The sustainable development zone management entity's revenue is derived from land-value capture and a portion of the income tax collected from residents, giving it an economic incentive to govern in a way that supports sustainable economic growth. The government receives far more revenue than it otherwise would from the area through the greatly increased tax revenue and the captured land value. The sustainable development zone management is accountable to residents through laws, inspectors general, 'watchdog' organisations, residents' councils, impartial dispute-resolution, and claims procedures that protect the rights of vulnerable groups.

The key attribute of the sustainable development zone concept is social

sustainability—confidence that the urban development process will not be disrupted by political infighting or hijacked by powerful private interests.

Critics of Indonesia's new capital raise legitimate concerns. Many new city projects have been disasters. It is normally unwise to adopt a 'build it and they will come strategy' because businesses need to be located where market forces naturally draw them—generally near existing major cities. But in Indonesia's case, there is great demand for new, well-governed, resilient urban space. If the new city in East Kalimantan has truly special institutions that incubate good governance, it could exceed expectations. Institutions are the number one factor in the success or failure of economies, after all.

Short of this idealistic solution, the best hope for above-average governance may lie in achieving transparency—something that seems difficult for Indonesia. Transparency would need to entail the publication of large contracts, full access for the media to policies and plans and full disclosure of the activities of state-owned enterprises.

Putting people at the heart of the process, capturing the increase in land value, and creating a trustworthy governance structure can make Indonesia's new capital city a model for urban development elsewhere in Indonesia. Alternatively, the project could be recast as simply building a new model city and only making it Indonesia's capital when it is already functioning successfully and sustainably. [EAFQ](#)

Lex Rieffel is a Non-Resident Fellow at The Stimson Center, Washington, DC.

Michael Castle-Miller is the CEO of Politas Consulting.



An official arranging flags before a meeting of US Secretary of State Mike Pompeo and Vietnamese Foreign Minister Pham Binh Minh in Hanoi.

A Farewell to Arms on the Ho Chi Minh Trail

JAMES BORTON

THE shower of bombs dropped by the United States' B-52s along the Ho Chi Minh Trail during the Vietnam War struck both fear and resolve into the heart of 18-year-old North Vietnamese Army veteran Khat Quan Thuy.

The elaborate highway system, surfaced in places with crushed rocks and logs, ran through the brutal jungles of Cambodia and Laos and was the primary artery for moving troops, supplies and vehicles through some of the world's harshest terrain.

It was under the jungle canopy and within hidden bunkers and caves that the Communists received instruction in Ernest Hemingway's *A Farewell to Arms* and *The Old Man and the Sea*.

'Before the war, we knew little about foreigners and had little access to books. Yet, when I was in school, I read *The Old Man and the Sea*,' says Thuy, now the 69-year-old editor of *Van Nghe*, Vietnam's literary weekly newspaper. Indeed, it was not unusual for soldiers to gain understanding about Americans through a reconnaissance of literature.

Vietnam appears to have taken

a page straight out of Washington's practice of cultural diplomacy and the Cold War cultural export of 'American Corners'—the US Department of State-sponsored initiative highlighting US culture, history and literature.

There is a clear convergence of cultural diplomacy and the effectiveness of literature in establishing bridges between nations. Over 20 years ago at a joint Vietnam–US arranged program, 'The Future of Relations Between Vietnam and the US,' Vietnamese delegates expressed eagerness to learn more about the United States and welcomed the

opportunity to read more works by Hemingway and other great American authors.

At this event, former major general Le Van Cuong from Vietnam's Ministry of Public Security also asserted that 'Americans have not really understood Vietnamese people and we should put our past behind us'. With the war over and history marching forward, the United States' relations with Vietnam have been deeper and more diverse since former US president Bill Clinton announced the formal normalisation of relations in 1995.

Ironically, the Vietnamese appreciation of Hemingway originated because the United States Information Agency forbade the distribution of his works through its centres during the Cold War. Officials deemed his work—especially *The Sun Also Rises*, *The Old Man and the Sea* and *A Farewell to Arms*—as not being hostile enough to communism.

There are many reasons why the Vietnamese are reading Hemingway and it may have more to do with the craft than the author's politics. Carl Eby, a Hemingway scholar, suggests that 'Hemingway's stylistic preference for simple, direct sentences, and his disdain for inflated diction make him ideal for second language learners'.

Hemingway's lean, disciplined prose made writing and living seem simple. His spare sentences—with few adverbs or adjectives—make it easy for foreign readers to access his stories. Catherine Cole from the University of Wollongong suggests that Vietnamese audiences favour such word usage, and the enigma and reflection in Hemingway's work.

Few readers dispute that *A Farewell to Arms* strongly captures Hemingway's criticism of war, as the story of Frederick Henry and

For Vietnamese intellectuals and writers, South Vietnam's surrender on 30 April 1975 marks not just the fall of a country and the exodus of citizens but also the fall of literature

Catherine Barkley reveal lives caught up in the chaos and confusion of war. His novel illustrates the complexities of patriotism and unreliable international alliances.

Others believe there were many details of Hemingway's life that attracted Vietnamese readers, including his participation in the Spanish Civil War, his close connection to Cuba (an ally of Vietnam) and his suicide, which could have been used by North Vietnam as evidence that he was tired of US politics and society.

It was largely the United States' hubris and naivety that caused it to get stuck in the tragic Vietnam quagmire. While it may not be feasible to rebrand or recreate the 'American Corners' program, there is need to revisit some parts of it. The Trump administration's misguided foreign policy shows disdain for allies and embrace of dictators like Kim Jong-un and Vladimir Putin. The 'America First' campaign slogan has set the United States on an isolationist path—it's no wonder that some foreign leaders are reshaping alliances.

Ten years ago the late US Senator Richard Lugar—a former chair of the US Foreign Relations Committee—stressed the need for the United States to interact with the world if it wished to change how it is perceived by other countries. Hemingway's work demonstrated his understanding of this. He was involved in three major conflicts, both World Wars and the Spanish Civil War, and wrote about each of them.

Loss was inevitable for Hemingway and he knew firsthand that war claims lives, innocence and truth. These universal truths were also examined by Vietnam's Bao Ninh's *The Sorrow of War* who, like Hemingway, connects the tragedy of war to the loss of youth. Hemingway's *Soldier's Home* deals with the alienated soldier and his displacement from society. Both writers evoke the language of war as a burden. Many scholars contend that war marked the loss of American innocence and the bell continues to toll for all still engaged in combat.

For Vietnamese intellectuals and writers, South Vietnam's surrender on 30 April 1975 marks not just the fall of a country and the exodus of citizens but also the fall of literature. 'Saigon would be renamed Ho Chi Minh City, its boulevards, avenues and streets also renamed to commemorate revolutionary figures, events and slogans. So too, Vietnamese literary history would be eventually dismantled, systematically rewritten, or outright erased; books would be banned, confiscated and burned; writers silenced, censored and imprisoned,' writes Hai-Dang Phan, author of *Reenactments*.

Frank Stewart, the founding editor of *Manoa*, tells a story that after the war, a veteran from the United States and one from Vietnam meet and discuss their experiences. The

Vietnamese veteran reveals that he likes American literature, and he names a number of his favourite authors, such as Steinbeck and Hemingway. He tells the American that his government sent troops into battle with copies of many American novels so that they could get to know the Americans better.

Since Vietnam's renovation—referred to as *Doi Moi*—began in 1986, the nation's literature has reflected changes in political liberalisation, economic transformation and globalisation. Vietnam's writers previously adhered to the uniform Communist Party revolutionary culture of socialist realism with its collective ethos. It has now evolved

into a pluralised culture that validates individual experiences captured in the novels of more Vietnamese authors.

Many Vietnamese writers, such as Phan Hon Nhien and Vo Thi Hao, have been fellows at the International Writing Program at the University of Iowa. The Bureau of Educational and Cultural Affairs at the US State Department supports this cultural initiative.

This cultural diplomacy had an impact on several Vietnamese writers. Da Ngan is a 69-year-old author and former resistance fighter who wrote her career-defining novel *An Insignificant Life* about the travails of war, hardships, poverty and perseverance. She married fellow

writer Nguyen Quang Than. Both were members of the Vietnam Writer's Association in Hanoi before relocating to Ho Chi Minh City in 2008.

She left her family to join the War at the age of 14. Her father was a member of the national resistance organisation called the Viet Minh and was imprisoned in Con Son—notorious for its penal facilities during the French colonial era—where he died. In 1968 she went to U Minh in Cau Mau province to write for newspapers where there was a library for 'war warriors'. 'I was dazzled by the novels of Hemingway, John Steinbeck and Jack London,' she claims.

Le Minh Khue, who fought against American troops from 1965 to 1969,



Pham Quang Vinh, Vietnam's Ambassador to the United States, with the late Senator John McCain, who was a prisoner of the North Vietnamese during the Vietnam War. Vietnam's cultural diplomacy strategy is designed to promote 'mutual understanding with other countries, especially the United States'.

PICTURE: JAMES BORTON

was also a war correspondent for *Tien Phong* from 1969 to 1975. *The Distant Stars* chronicles her military experience and is widely celebrated in Vietnam.

‘The day I went to the front, I left my family, my parents, brother and sisters, this sweet home of mine shaken by the turmoil of war. My comrades and I were then students who quit high school to join the heroic atmosphere of the moment. We had, of course, many books in our knapsacks. The ones I brought with me were Ernest Hemingway and Jack London, two authors whose novels and short stories had been translated into Vietnamese and were prized by my parents,’ Khue says.

Hemingway’s *A Farewell to Arms* remains required reading by Vietnam’s general education program. What draws Vietnamese publishers, translators and readers to Hemingway and Jack London are the authors’ representation of the poor and their struggle to survive. Before the advent of ‘American Corners,’ the Vietnamese obtained translated copies of Hemingway’s works to better understand the Americans.

Huu Thinh, Vietnam’s poet laureate and Chairman of the Vietnam Writers’ Association, revealed that his desire as a teenager to learn more about US culture and how Americans think led him to read Hemingway’s works. Thinh underscored that Vietnam was still a poor country but was quick to point out that Hemingway’s stories have been taught in secondary schools for generations. He believes that Hemingway’s stories and their expression of humanity are in line with Vietnamese beliefs that favour kindness and raising voices against cruelty, injustice and war.

Thinh says that *The Old Man and the Sea* is naturally linked to

What draws Vietnamese publishers, translators and readers to Hemingway and Jack London are the authors’ representation of the poor and their struggle to survive

Vietnam, since it is a coastal country and there is love for nature in the story. As a former tank commander and war correspondent, he was quick to acknowledge that during the war Vietnamese soldiers wanted to know the enemy and sought out translated editions of books like *For Whom the Bell Tolls*, *The Old Man and the Sea* and Jack London’s *Call of the Wild*.

There are few studies that focus on Vietnam’s willingness to translate books and explore the culture of their enemy, but this was the case before the Communist Viet Minh forces defeated the French garrison at Dien Bien Phu. The poet Thinh asserts that the Vietnamese learned French and American literature very early, long before the wars took place, as these works reveal their enemy’s civilisation and humanity.


While Vietnam’s approach to cultural diplomacy remains nascent, the Diplomatic Academy of Vietnam and the Academy of Journalism and Communication have established some cultural diplomacy strategy courses. A key pillar of this is building

mutual understanding with other countries, especially the United States.

Anyone who visits Hanoi appreciates how passionate the Vietnamese are about their soccer and literature. La Thanh Tung, a Vietnamese writer and former deputy editor of the *Van Nghe*—a literature and art newspaper—spoke about the Hanoian admiration for culture and literature, best reflected at their Temple of Literature.

‘It’s most unfortunate that we know so much about American writers, like Hemingway, but that Americans know so little about our writers,’ Tung lamented. He also revealed that Bao Ninh, author of *The Sorrow of War*, was an unabashed fan of Hemingway.

There is now an even greater appreciation and reading of literature because of wider circulation of Vietnamese writing through English-language publishing houses and through improved access to work by the children of Vietnamese migrants to countries like Canada and the United States.

It is also interesting how many younger Vietnamese poets are influenced by Beat poets or hip-hop music. These generational conversations will allow increased access to work and ideas honouring Vietnamese literary traditions while also responding to wider influencers like Hemingway’s Cuban fisherman, Santiago in *The Old Man and the Sea*. ‘I think the sea is large enough for fishermen to catch their fish but maybe they must venture out further than they should go,’ says Tung. 

James Borton is a non-resident Fellow at the Center of Sea and Islands Studies at the University of Social Sciences and Humanities, Vietnam National University, Hanoi.



A construction worker walks past a 1MDB billboard. The government-run company has been implicated in financial scandals.

Malaysia's middling, misdirected economic management

STEWART NIXON

IF THE Malaysian economy were a car manufacturer, it would be Toyota circa 1995. A resilient and reliable global competitor, less renowned for high-end products and tightly held and controlled within the family; a laudable growth story built on a fundamentally sound basic model that had reached its natural ceiling. But whereas Toyota recognised the limits of its original business model

and adapted to prioritise influence over ownership, innovation over complacency and profitability over cronyism, the Malaysian economy remains firmly parked in its dated approach.

Malaysia in 2020 is a blurred vision of unrealised high-income aspirations in desperate need of reform-oriented political leadership; of leaders who prioritise sound policy over petty politics.

Hopes for a 'New Malaysia'

following the historic power transition of 2018 appear increasingly dim. Nearly two years on and the promises of Pakatan Harapan's manifesto remain largely unfulfilled and the economic policy landscape is disturbingly similar. Political infighting and shifting alliances within and between coalition parties produced an extraordinary governance crisis, eroding public and business confidence.

The strong economic performance of 2017–18 has withered and

dissatisfaction is growing. Concerns about rising living costs remain prevalent despite populist measures to abolish the goods and services tax (GST) and reintroduce petrol subsidies. Significant regional inequality and limited income growth for less educated and young people are major problems, as a recent World Bank report highlighted.

Living cost pressures are destined to continue as policy responses target symptoms rather than underlying problems. Treating symptoms is often the tool of choice for governments that have an aversion to difficult reforms.

The development of a social protection system has been impeded by the fear that it will create a lazy, welfare-dependent population. Comprehensive and targeted social protection remains an aspiration, with cash handouts guided by political expediency not genuine need. The former Barisan Nasional government's handouts have been curtailed and more narrowly targeted but the absence of a transformative replacement only worsens disadvantage.

A first step to implementing effective policy involves more clearly identifying the problem and the expected role of social protection. Social protection is not a replacement for an effective tax, transfer and welfare system, nor a holistic poverty reduction mechanism. It is a means of supporting the temporarily unemployed by helping with immediate living costs, retraining and redeployment. It reduces the risk of unemployment shocks for workers and improves the functioning of the labour market through increased mobility and negotiation. Considered in this light, social protection is less controversial and a better fit for the Malaysian political context.

Malaysia's tax-to-GDP ratio—at 11.5 per cent—is about a third that of OECD countries and declining, while fewer than 17 per cent of individuals and 5 per cent of companies pay tax. That's a major concern. A paucity of payers means a rarity of recipients: the rich keep their money and drive up prices while the rest struggle to make ends meet.

Abolishing the GST—a policy triumph in improving revenue sustainability and system capture—and levying Petronas and Bank Negara dividends to fund the shortfall, both exacerbated this problem. The recent stimulus package showed how little fiscal policy space remains for times of crisis, while also introducing measures that will further erode the tax base.

Tinkering with sin taxes and the marginal tax rate for the uber-rich is no substitute for the systemic overhaul needed to reinforce and redirect the government's fiscal footprint. Recognising that living cost anxieties are a symptom of the absence of redistribution from Malaysia's tax and transfer system, and instituting a more progressive tax system should headline

The recent focus on anti-corruption policing, while beneficial, addresses the symptoms of corruption and not the institutions that make corruption possible

the government's policy response, complementing social protection reforms.

The pension system is another contributor to living cost concerns. Mandatory contribution rates at 23–24 per cent of wages are high even by developed country standards and extreme by regional standards. That such a large share of the remuneration package is deferred, when it is needed for essential current expenses, contributes to inflated household debt, informal employment and underinvestment in education and healthcare. High pension rates reflect and compound transfer system inadequacies by reducing take-home income and lowering progressivity.

Not only do Malaysia's outdated tax, transfer, pension and social protection systems exemplify symptom-oriented policies, but they also highlight a middle-income mindset among policymakers at odds with its high-income aspirations. Such a mindset has been emboldened by the success of earlier policies that picked low-hanging reform fruit but resist exploring the deeper reform path of advanced economies. Malaysians should rightfully be sceptical of political leaders who insist on the need for 'more time' or claim that certain policies aren't suited to 'Malaysian conditions'. Thinly veiled excuses and reform lethargy are the hallmarks of governance caught in a middle-income trap.

The chief indicator of a middle-income mindset is the large role of government in economic activity. Liberalising trade and investment in sectors where there was little government involvement was the easy part. Relinquishing control of government-linked companies (GLCs) and turning off the dividend tap has proven much harder. Malaysia

PICTURE: OLIVIA HARRIS / REUTERS

has few peers in terms of government ownership. Government-owned firms represent around half the local share market and involve many of its most iconic firms. Effectively regulating—not running—the economy is the purview of governments in high-income economies.

Malaysia's unsuccessful privatisation experience during the 1990s—which was undermined by crony contract awards and ethnic favouritism—highlights the importance of open, competitive processes. A robust competition framework, including an end to the regulatory role of sector-specific departments and GLCs, is essential. The Malaysia Competition Commission needs to be legally and financially resourced to regulate all sectors. Government procurement and approval processes need to be sharpened to remove discrimination against non-Bumiputera and foreign bidders and prevent individual civil servants from making large procurement decisions unchecked.

Institutionalised corruption results from incestuous links between government agencies and companies. The recent focus on anti-corruption policing, while beneficial, addresses the symptoms of corruption and not the institutions that make corruption possible. The severity of this problem is well documented, whereas a willingness for government action is dispiritingly absent.

Another prime example of Malaysia's middle-income problem is education policy, or more accurately, education politics. Despite Malaysia's extraordinary achievements in providing basic education to practically all citizens, it has stumbled on the next step of generating skilled graduates ready for the global workforce. A common complaint among investors is that



Former Prime Minister Mahathir Mohamad, who led the Pakatan Harapan government. The promises of the party's manifesto 'remain largely unfulfilled'.

although graduates' technical skills are satisfactory, they lack soft skills, initiative and drive. Several aspects of the education system contribute to this. Foremost is a culture that requires strict obedience to superiors, mechanistic learning centred on memorisation, and a herd approach that ignores individual learning needs. Intellectual curiosity is suppressed by a reluctance to question educators.

The education system also effectively segregates students on ethnic lines from an early age. Instead of promoting cultural exchange, only a privileged minority mix with people outside their ethnic groups. Education policy divided along ethnic lines is inherently politicised, with reforms that would address common student needs thwarted by national identity arguments. Education policy remains an instrument of identity politics.

Embracing and championing diversity would help to spread different

ideas and diversify the economy. Phasing out policies favouring the Bumiputera is the key in this process, as a unified and harmonious national identity is impossible while institutionalised discrimination persists. Social mobility and poverty eradication measures that are blind to ethnicity and religion can build cohesion and more effectively harness the contributions of Malaysian citizens.

Embracing diversity would also mean that fewer innovative ideas would leave via emigration, while citizens abroad would be encouraged to return to a Malaysia that they can more readily identify with. The bureaucracy, policy-development and frontline services would also be enhanced by a more representative workforce. While their removal requires careful handling, retaining discriminatory measures that are well past their use-by date is a prescription for continuing mediocrity.

A middle-income mindset, treating symptoms rather than underlying problems, and overt discrimination form an unholy trinity in two key areas of international engagement: migration and foreign investment policies. Despite its colonial history providing first-hand evidence and around half its population at independence being composed of former migrants, Malaysia's policies now show a profound disregard for what motivates migrants. There is misguided belief in its temporariness—that immigration fills a short-term need that diminishes over time.

But development and increasing relative labour scarcity raise a country's immigration potential, making permanent settlement desirable. Malaysia's failure to provide formal pathways to permanent

residence and citizenship—essentially impossible for the low-skilled and greatly circumscribed for high-skilled immigrants—creates incentives for informal arrangements in a country with practically indefensible borders. The incentive misalignment is compounded by high entry levies, strict visa conditions that include restricted job mobility and maximum lengths of stay, inadequate integration services and negligible migrant rights. Informality has dangers and costs yet still represents the best or only choice for most immigrants.

A migration policy favouring business over migrant interests would at least suit economic needs. This is not the case in Malaysia, where political whims make policy equally unfriendly to businesses. Dizzying cycles of hiring freezes, raids, enforcement and amnesties together with levies and strict visa conditions make employing foreign workers a regulatory minefield.

The uncertainty stemming from policy shifts and the short-term nature of visas makes it hard to invest in medium-term planning and improving employee skills—to the detriment of foreign and local workers alike. Policies in recent years that have transferred legal and social responsibility for migrant workers to businesses have only made the situation worse. They have created a costly formal system akin to indentured labour, multiplied informal arrangements and further disempowered regulators. When a frustrated government is added to the mix, nobody is satisfied.

Cleaning up the mess will involve a clear but controversial solution underpinned by realigning incentives consistent with each stakeholder's objectives. To encourage migrants to cooperate with authorities,



As hospital waiting times lengthen and education facilities await repairs and upgrades, 'there is simply no avoiding the need to reinforce the revenue base'.

the government must offer more than a highly circumscribed and expensive temporary right to work. Bestowing rights is the government's sole prerogative and advantage in migration management. Offering an attractive package of rights—to work, change jobs, bring family, obtain healthcare and education, and settle permanently—would go a long way towards reducing incentives to operate outside the law.

To stimulate cooperation from businesses, the government should focus on providing a consistent policy that guarantees timely and reliable medium-term migrant supply. Businesses can help to identify and sponsor the migrants best suited to permanent residency, but would not be responsible for individual migrants beyond their ordinary employment responsibilities. Migrants would be free to change employers while under a valid visa, creating a secondary market that discouraged migrant abuse and leading to a convergence of employment rights with local workers. Regulatory structures and conditions

should minimise opportunities and incentives for corruption among bureaucrats and law enforcement officers. An effective system must be more profitable to implement than abuse.

Foreign investment policy misalignment is less serious but follows a familiar pattern. Investment policies have been liberalised significantly and Malaysia's development has benefited greatly from earlier capital inflows that generated globally competitive manufacturing exports. Yet the government has baulked at full liberalisation of certain high-skill services industries where investment could spur regional growth and job creation. Such industries include legal, accounting, architectural, distribution and financial services.

Malaysia also persists with costly investment incentives—primarily tax breaks—to compensate for investment environment shortcomings. While it is debatable whether marginal short-term incentives influence decisions to relocate long-term investments,

any of the policy reforms discussed earlier would make them redundant. Dismantling GLCs and government competition is the most obvious of these, but education, migration and anti-discrimination reforms would be equally beneficial to investment competitiveness.

A demonstrated commitment to structural reform would secure more investment diverted by the US–China trade war than raising investment incentives.

These issues scrape the surface of Malaysian economic management approaches frozen in time. Centralised governance with limited local or popular participation persists, the most benign government deliberations and data remain concealed from public consumption, while the political leadership remains sentimentally driven to build cars and to make agriculture ‘sexy’ again.

Malaysia finds itself in a precarious, middling position of its own making in an uncertain and competitive global economy. Year-on-year growth remained below 5 per cent in every quarter since the Pakatan Harapan government took office, falling to a low of 3.6 per cent in the last quarter of 2019. The palm oil sector is reeling from India’s import ban, imposed in response to Mahathir’s weighing in on India’s Kashmir and citizenship politics. Export-oriented manufacturing growth has also eased amid civil unrest in Hong Kong and trade war and COVID-19 disruptions to global value chains. Meanwhile, Malaysia’s heavy reliance on consumption expenditure mirrors the fragile short-term nature of the policy framework, with investment declining in every quarter of 2019 and annual exports 1.7 per cent lower than 2018.

With household debt levels ‘elevated’, according to the Central

Bank of Malaysia, and living costs increasing household budgetary stress, the sustainability of robust consumption growth appears doubtful. While unfavourable external conditions partly explain growth weakness, the medium-term risks are home-grown.

Something also has to give on the fiscal front. Fiscal consolidation reliant upon expenditure cuts soon hits a point where further sacrifices become too great. Many would argue that point has already passed, as infrastructure crumbles, hospital waiting times lengthen and education facilities await repairs and upgrades. And this ignores the need to introduce social protection and tax transfers befitting an upper-middle-income nation. There is simply no avoiding the need to reinforce the revenue base and improve the social compact around taxation.

Malaysia the independent nation turns 63 this year. Toyota’s automobile business was 56 when it launched the Lexus as its successful luxury product and 64 when its Prius became the

As Malaysia prepares to showcase itself as the host of the Asia-Pacific Economic Cooperation (APEC) meetings in 2020, it must give thought to the image it hopes to project

first mass-produced hybrid vehicle to hit the road. It was 66 when it listed on the London and New York Stock Exchanges during a period when a Toyota family member was not the CEO. As circumstantial as this comparison may be, there is an uncanny parallel in the timing and need for dynastic regeneration.

As evident to restless Malaysians, a change of government is merely a change of driver, not a new model car. A new driver unwilling or unable to upgrade the old car faces a deteriorating driving experience, watching others overtake and replacement parts become obsolete. Malaysia’s economic engine still runs but is sputtering more than before and, as the months pass, fewer mechanics support forestalling essential upgrades.

As Malaysia prepares to showcase itself as the host of the Asia-Pacific Economic Cooperation (APEC) meetings in 2020, it must give thought to the image it hopes to project. It is yet to be seen whether it will be a nostalgic tribute to traditions and past successes meticulously polished for maximum shine, or an aspirational admission that it must learn from the reform experience of its regional peers.

There is no shortage of economic policy priorities Malaysia could highlight and no better opportunity to leverage international endorsement for challenging reforms. If it can grasp the opportunity, 2020 could be a watershed year ending ‘old’ Malaysia’s middling economic trajectory. **EAFO**

Stewart Nixon is a Research Scholar at the Crawford School of Public Policy, The Australian National University. He is currently stationed at the University of Malaya on a research visit.



US, Indian, Japanese and Filipino naval vessels taking part in a joint exercise in May 2019.

Is the Philippines transitioning to middle-power diplomacy?

AILEEN BAVIERA

THE Philippines was first a colony and then a formal treaty ally of the United States for so long that many Filipinos tend to take the existence of reciprocal defence obligations for granted. For the most part, the Philippines has always supported US security objectives when asked—whether during the Pacific War, the Korean War, the Cold War, the conflicts in Indochina or the ‘Global War on Terror’.

This support was not always unconditional or particularly strong. Domestic opinion and regional sensitivities still had to be

considered. Occasionally, tensions and disagreements that bedevil any asymmetric bilateral alliance emerged—including US concerns over entrapment and Philippine fears of abandonment.

But even the closure of major US military bases (Clark Air Base and Subic Naval Base) in the early 1990s following acrimonious negotiations to renew the basing agreement did not completely remove Manila’s importance as a strategic location for US operations in the Asia Pacific. Instead, the 1998 Visiting Forces Agreement (VFA) and the 2014 Enhanced Defense Cooperation Agreement were put in place to

ensure there was a legal framework to regulate the presence of US troops and the conduct of joint activities.

The security interests of the two sides continued to converge post-Cold War. As terrorist networks expanded across Southeast Asia and concerns grew over China’s maritime assertiveness in the disputed South China Sea, the Philippines still found the alliance useful for deterrence, capability-building and armed forces modernisation. The 2012 Scarborough Reef standoff with China and the 2017 Marawi siege by ISIS-inspired extremists are incidents etched in recent memory that underscore the continuing value of the 1951 Mutual

Defense Treaty for both sides.

Therefore, many were surprised when the Duterte administration served the US government notice of termination of the VFA on 11 February this year, to take effect after 180 days.

While the move has been justifiably criticised by many as whimsical, reckless and untimely, it has taken place in a context worth examining. Both internal factors—improved confidence buttressed by a growing economy, winding down of the longstanding Muslim separatist movement and a declining communist insurgency—and external factors—an improvement in bilateral relations with China, the worrisome trajectory of great power competition, the Trump administration's credibility issues and the greater security efficacy of other middle powers—are helping to push the Philippines out of path-dependent defence reliance on the United States.

Like other countries in the region, the Philippines fears getting caught in the crossfire should US–China animosity lead to conflict. China's effective use of carrots and sticks—economic incentives alongside coercive diplomacy and economic statecraft—has left countries ambivalent about their own priorities. The prospect of economic connectivity with China via the so-called Belt and Road Initiative is one that the pragmatic elites of the region do not lightly dismiss. This has led most regional governments to adopt hedging strategies on China, rather than balancing or containment behaviour.

At the same time, the security challenges that China presents expose the inadequacy and sometimes irrelevance of traditional security approaches. 'Grey zone' attacks—including coercive actions short of war or using civilian and paramilitary

actors on the frontlines—cannot be countered using the old tools that defence alliances have in their arsenals.

For the Philippines, losing control of Scarborough Shoal despite the Obama administration's role in the 2012 negotiations, as well as subsequent US inaction while China embarked on major island construction activities in the South China Sea, brought home hard truths about what one can realistically expect from an ally.

President Duterte is the first Filipino leader to publicly acknowledge this. This does not mean that US support is no longer needed or wanted—only that Washington's willingness to get involved cannot be presumed, and that its support carries its own risks and uncertainties.

Many countries in Asia are coming to terms with a strategic environment where China expects a louder voice in regional affairs. The challenge for these countries is binding China to a rules-based order to ensure that it respects the rights of its neighbours as sovereign if not equal states.

In Southeast Asia, the preferred order is one that is inclusive rather than exclusionary, where larger powers engage constructively. Weak or small states usually have little influence in these processes and are often pressured into taking sides or remaining silent. But middle powers may act to preserve their autonomy

In Southeast Asia, the preferred order is one . . . where larger powers engage constructively

amid great power competition.

This could explain why Duterte invokes the need to end dependence on the United States as a justification for terminating the VFA. Interestingly, ending the VFA reinforces the Trump administration's preference for minimising alliance obligations and comes at a time when China's assertiveness is making the Philippines' neighbours far more jittery. In this sense, the decision is creating more instability, not less.

Middle powers also seek to do more with other middle powers. The Philippines, for example, is cultivating defence and security partnerships with a variety of players, including Japan, South Korea, Australia, Indonesia, Malaysia, Vietnam, some European states and Russia.

Multilateral institutions such as ASEAN and its extended dialogue networks remain attractive platforms for middle powers to shape their strategic communities. But these institutions must be strengthened to remain relevant. As the concept of the 'Indo-Pacific' continues to be debated in terms of what it can contribute to regional stability and security, ASEAN 'centrality' will be challenged.

Will the Philippines gradually transform from a secondary power supportive of, and dependent on, US primacy into a middle power pursuing its own autonomous interests through more inclusive diplomacy? So far, no such vision has been articulated. But by moving farther away from the United States, Duterte is taking a gamble that may force him down this path. Otherwise, the only remaining alternative is alignment with China.

EARQ

Aileen Baviera was a Professor of China Studies and International Relations at the University of the Philippines.



Student activists protesting against Chinese influence during President Duterte's State of the Nation address in Manila in July 2019.

Change and continuity in the Philippines–China–US triangle

RICHARD JAVAD HEYDARIAN

SHORTLY after his landslide election victory in 2016, Philippine President Rodrigo Duterte declared his intention to chart a new course for the Philippines independent of the United States. Just months earlier, he made it clear that he intended to approach China for development assistance.

Four years on, Duterte has now shocked the world by unilaterally nixing the 1999 Visiting Forces Agreement (VFA)—the linchpin of

the Philippine–US alliance since the end of Cold War. Duterte's presidency marks the greatest transformation in Philippine foreign policy since America's colonisation of the country a century ago.

But just how transformational has Duterte's presidency been?

Some critics portray him as a Manchurian candidate—a 'Filipino Hugo Chavez'—who will turn a long-time US ally into China's regional proxy. Others dismiss him as more bark than bite, highlighting the robust fundamentals of Philippine–US

relations despite Duterte's repeated threats to sever bilateral relations.

A more careful examination reveals an indeterminate picture, where Duterte largely lacks unilateral power to dictate the country's foreign and defence policy. He faces concerted pushback from both the defence establishment and the general public, which view China as a leading strategic threat. There are concerted efforts, including by Duterte's top officials, to rescue the alliance, including the negotiation of a new version of the VFA. Even within his own cabinet,

several key officials seek to maintain the VFA, while the Philippine Senate, dominated by Duterte allies, has challenged the constitutionality of the Filipino president's unilateral decision at the Supreme Court. The result is a bifurcated foreign policy with various elite factions nurturing competing strategic patrons. This leaves the Philippines in a strategic twilight zone.

There are two competing schools of thought on Duterte's impact on Philippine foreign policy. The first posits that Duterte's grievous rhetoric should be taken seriously, but not literally. After all, he has yet to act on his repeated threats to eject US soldiers stationed in the country—it remains to be seen how the latest VFA decision affects this. Ironically, this view is common among observers from diametrically opposed camps—old hands in the American defence establishment as well as close Duterte advisors who repeatedly downplay the President's incendiary language.

The second school argues that Duterte's presidency is inflicting significant damage on the Philippine-US alliance amid a determined so-called 'pivot to China.' Duterte scrapped earlier plans to preposition US weapons in strategic bases across the Philippines, especially in airfields close to the disputed features in the South China Sea.

This school of thought effectively portrays the Philippines under Duterte as China's latest satellite state in Southeast Asia—or, using Duterte's own colourful rhetoric, 'a province of China.'

In reality, Philippine foreign policy under Duterte is a mixture of change and continuity. The element of change is relatively significant following almost a century-long alliance with the United States and, correspondingly, lukewarm to hostile ties with China.

Unlike his China-sceptic predecessor Benigno Aquino—who took China to international court over South China Sea disputes—Duterte made it clear that Beijing is a preferred national development partner. He also proudly told the Chinese media that the United States is an unreliable partner, hence his preference for a 'meek' and 'humble' relationship with Beijing. This signals a largely transactional approach towards the great powers.

This dramatic shift in foreign policy marks a convergence of several factors. It's partly an upshot of Duterte's brand of proto-nationalism (or 'Dutertismo'), with his presidential campaign serving as a referendum on the Philippines' West-leaning liberal oligarchy. Duterte's decisive victory against his two US-trained rivals, Manuel Roxas III (Wharton) and Grace Poe (Boston College), served as a partial rejection of the country's US-centric foreign policy.

Duterte also adroitly exploited

The Trump administration is also doubling-down on pushing back against China, expanding defence aid and clarifying the parameters of its commitment to regional allies

a climate of fear, entrenched political patronage and historically high approval ratings to push the Philippines' 'presidential bandwagoning' system to its logical limit. As a result, he swiftly colonised different branches of the state, creating an imperial presidency for the first time since the fall of the Marcos dictatorship. The 'authoritarianisation' of the Philippines allowed Duterte—similar to other strongmen populists such as Recep Tayyip Erdogan and Vladimir Putin—to radically recast his country's foreign policy.

Duterte also exploited an acute credibility gap in US commitment to the Philippines, which was fully on display during the Scarborough Shoal crisis, the Obama administration's ambiguous stance on the bilateral alliance, and its tepid support after the landmark arbitration award at The Hague.

In stark contrast, China offered a clear matrix of costs—including military escalation—and benefits, namely large-scale investments. Former president Gloria Macapagal Arroyo, who ushered in a brief 'golden age' of bilateral relations with China, has also been among Duterte's chief foreign policy advisors. Still, Duterte faces concerted pushback from other centres of power in the Philippines, especially the defence establishment.

Philippine Defense Secretary Delfin Lorenzana, a former defence attaché in Washington, openly criticises China's 'bullying' of the Philippines. On multiple occasions, the Armed Forces of the Philippines (AFP) leaked information to the media about China's aggressive actions in the South China Sea, while openly calling on the government to take a tougher stance against China.

Trained and equipped by the Pentagon for decades, the AFP

also successfully lobbied to resume annual Balikatan exercises and war games with the United States in the South China Sea. Last year, the two allies conducted close to 300 joint military activities—the highest among America’s Indo-Pacific partners. The Philippine defence establishment has sought to block efforts by Chinese companies to gain footholds in strategic locations, including a major shipyard in Subic and a resorts project in Fuga Islands. The Philippine Navy also refused to evacuate its key facilities close to a strategic airport project that is set to be co-developed by a major Chinese company on the outskirts of Manila.

Conversations with senior Philippine defence and security officials show that the Philippines’ top brass remains broadly supportive of robust defence cooperation with the United States, with minimal appetite for close strategic ties to China. The Trump administration is also doubling-down on pushing back against China, expanding defence aid and clarifying the parameters of its commitment to regional allies such as the Philippines.

In contrast, the AFP is yet to sign a major defence deal or strategic agreement with China. Philippine National Security Advisor Hermogenes Esperon has openly warned about the potential national security ‘threat’ posed by Chinese investments in the Philippines. The views of the AFP—which has facilitated the downfall of two presidents in recent decades—matter to Duterte, who has openly confessed his fears that the military would oust him if he crossed certain redlines.

Despite his popularity, Duterte is under constant public pressure. Surveys repeatedly show that close to nine out of 10 citizens want the



US President Donald Trump and Philippine President Rodrigo Duterte meet at the 2017 ASEAN Summit in Manila. Duterte has flagged his interest in maintaining a ‘meek’ and ‘humble’ relationship with Beijing, but many in the Philippines’ defence establishment continue to see the United States as their country’s most important strategic partner.

Philippines to assert its sovereign rights and resist China’s encroachment into Philippine waters. Based on a recent survey conducted by the author and Charithie Jaoquin of the National Defense College of the Philippines, a significant number of mid-ranking officers view China as a leading external security threat, while they continue to see United States as the country’s most important strategic partner.

China’s behaviour isn’t helping Duterte either. Thanks to China’s relentless militarisation and ‘militia-sation’ of the South China Sea disputes—coupled with near-absence of any significant Chinese infrastructure investments—Duterte faces unabated pushback against his Beijing-friendly strategic orientation. At the same time, intensifying disagreements over human rights

issues, including US imposition of travel bans and other potential sanctions against top Philippines officials, has led to a de facto diplomatic freeze in Philippine–US relations.

The gravity of the situation became crystal clear when Duterte overcame top cabinet officials, including Foreign Secretary Teodoro Locsin Jr. and Defense Secretary Delfin Lorenzana, who publicly emphasised the importance of maintaining the VFA with the Pentagon.

By providing the legal framework for stationing US troops on Philippine territory, the VFA was effectively the operating system of the bilateral alliance. It facilitated large-scale US assistance including the deployment of troops and aircraft to affected areas during the Haiyan superstorm; provided critical special forces

training, surveillance drones and high-grade weapons during the Marawi siege by ISIS-affiliated elements; expanded defence aid; and expanded joint war games and drills in the South China Sea.

By unilaterally abrogating the deal, Duterte risks emboldening Chinese adventurism within Philippine waters, including the prospective militarisation of the contested Scarborough Shoal, which lies just over 100 nautical miles from strategic bases in Subic and Clark. He also risks weakening the country's ability to deal with a whole host of non-traditional security threats. Still, the two allies can negotiate interim measures to preserve their alliance, not to mention negotiate a new and more mutually favourable deal in the near future. One can't rule out another plot twist, namely a reversal of Duterte's VFA decision before its finalisation in August amid concerted internal and external pushback by the Philippine defense and political establishment. Nor is there any credible momentum towards securing comparable agreements with the US rivals, Russia or China despite all the talk of Duterte's 'pivot to the East'.

The upshot is a strategic stalemate, whereby the Philippines is neither developing a new alliance with China, nor fully abandoning its defence cooperation with the United States. Despite his best efforts to revolutionise Philippine foreign policy, Duterte has—at best—ushered in an era of strategic despondency. **EAFQ**

Richard Javad Heydarian is a Manila-based scholar, columnist and author of, among others, The Rise of Duterte: A Populist Revolt Against Elite Democracy, and The Indo-Pacific: Trump, China, and the New Struggle for Global Mastery.

Thai domestic politics threatens to derail its diplomacy

GREGORY V. RAYMOND

THAILAND has been a treaty ally of the United States since 1954, but its political direction since 2006—amid warming strategic ties with Beijing—indicates there are serious cracks in the alliance.

Rumbles from within the United States about the relationship have become louder in recent times. Some policymakers say that the two countries no longer share any strategic interests. A rupture is not imminent and the military-to-military relationship remains strong—the two countries hold more than 60 bilateral exercises a year and Thailand co-hosts the region's largest multilateral exercise, Cobra Gold. However, it is worth asking: what if the United States decided to end the 66-year-old treaty alliance?

The possibility arises because domestic influences are pulling Thai foreign policy in different directions. On the one hand Thailand's Sino-Thai business families would welcome a more overt move into China's orbit. They led the charge for economic integration with China after the economic reforms implemented under former Chinese President Deng Xiaoping, but were scarred by the Red Shirt protests in 2010 and have become critical of the United States'

democracy crusades.

But the monarchy, top echelons of the Thai military and the aristocracy retain a preference for some sort of Western alignment. Few send their children to school in China but many still enrol their children in the US and British education systems. The current army chief, fervent royalist Apirat Kongsompong—despite his distaste for Thailand's liberal political parties—looks to the US military for friendship, doctrine and equipment. King Vajiralongkorn still remembers fondly his time at Australia's military college, Duntroon, and was engaged in active combat against Thai communists in the 1970s.

Thailand's foreign relations have become increasingly entwined in its domestic politics since the coup of 2006, which unleashed a period of mass protest and political contest bereft of rules. Thai voters were divided on whether sovereignty resided with the people or with the monarchy.

Subsequent US censure of Thailand over its slide towards authoritarianism has affected the way the middle ranks of the Thai military see the United States. In a survey of 1800 Thai military officers conducted by John Blaxland and I (see our Centre of Gravity publication, *Tipping the Balance In Southeast Asia?*) between

2015 and 2017, respondents rated the United States as the 'Great Power' most likely to threaten Thailand.

Misgivings over continuing US commitment have played a part in changing Thai thinking. Thailand has prepared for life without a trans-Pacific alliance for decades. The departure of US troops from mainland Southeast Asia in 1976 was a profound strategic shock for Thai policymakers. Thailand adapted by coming to a rapprochement with China and eventually Vietnam.

When the Cold War ended, Thailand pushed ahead with a liberal foreign policy aimed at turning battlefields into market places, in part through deeper investment in ASEAN. Thailand's sense of ownership of ASEAN stems partially from its central role in founding the bloc. It also subscribes to the notion that ASEAN helps Southeast Asian countries to balance their interests against various great powers, including through ASEAN's combined economic weight and role as a strategic convenor.

But ASEAN is also a vehicle for Thailand's own aspirations for sub-regional leadership. Thailand's good fortune to be the only mainland Southeast Asian country not ravaged by colonialism, proxy wars or genocide in the twentieth century, as well as the assistance of the United States during the Cold War, gave it a head start on its neighbours.

In the 1990s, as Thailand experienced double-digit economic growth, it sought to entrench itself as the logistical and economic hub for mainland Southeast Asia, and as the link between mainland and maritime Southeast Asia. This vision of Thailand as a *Suvarnabhumi*, or 'Golden Land', has remained part of Thai national identity.

Thailand's rank as the second largest

economy in ASEAN and as the largest economy by far in mainland Southeast Asia helped to realise this vision.

Its geographical position between southern China, mainland Southeast Asia and Malaysia also helps.

Thailand continues to pursue the *Suvarnabhumi* vision by developing industrial parks and ports on the eastern seaboard. Industrial policies like the Eastern Economic Corridor also link three airports via high-speed rail. It shows a country whose national identity is now far different from the Cold War mindset in which it saw its neighbours as threats rather than opportunities, and which saw it enter into a military alliance with the United States.

These policies are an attempt by the authoritarian regime to gain legitimacy by stimulating economic growth amid the fallout from the US–China trade war. The military-dominated regime also enjoys cosy relations with its counterparts in Myanmar, Laos and Cambodia, all of which have cooperated across their borders to repress dissent.

But the *Suvarnabhumi* vision is now coming up against a competing regional vision—China's. When the

Although Thailand remains an important investor for Myanmar, Laos and Cambodia, it is no longer the economic partner of choice

vision was first enunciated, Thailand was in a relatively strong economic, diplomatic and military position.

Now, although Thailand remains an important investor for Myanmar, Laos and Cambodia, it is no longer the economic partner of choice. Since the Belt and Road began in 2013, China's Southeast Asian infrastructure projects such as dams, roads and power stations, as well as its special economic zones, have proliferated.

There are signs that Thailand is beginning to feel strategically constricted and is subtly pushing back. It is resisting China's push to blast the remaining rapids from the Mekong and is ignoring its push for a canal through the Isthmus of Kra. While China is rapidly building the high-speed rail link from Kunming to Vientiane, Thailand is delaying its leg from Nong Khai to Bangkok amid tough negotiations with Beijing.

Thailand is also moving to shore up the Ayeyawady–Chao Phraya–Mekong Economic Cooperation Strategy as an alternative subregional forum to China's Lancang Mekong Cooperative.

Thailand's strategic culture invests great stock in 19th century monarch Chulalongkorn's heroic diplomacy with colonial powers. Its elite see parallels with the current era of supposed 'great power' competition and US–China antagonism. But as Thailand succumbs to authoritarianism and expands its security ties with China, it risks its treaty alliance with the United States.

EARQ

Gregory V. Raymond is a Lecturer in the Strategic and Defence Studies Centre at The Australian National University and the author of Thai Military Power: A Culture of Strategic Accommodation, NIAS Press, 2018.



Members of the South Korean boy band BTS at the MAMA Awards in Nagoya in December 2019: pop culture exports mark the nation as an international player.

Shaping South Korea's middle-power future

LEIF-ERIC EASLEY

SOUTH Korea's national identity as a rising middle power in Asia favourably contrasts with its colonised and war-ravaged past. The middle-power concept is useful for understanding Seoul's positive international role compared to neighbouring states with different levels of material capabilities, economic development and democratic governance. Middle-power goals, such as maintaining

diplomatic networks that encourage multilateralism, also provide a yardstick for South Korea's foreign policy performance. If Seoul falls short, addressing the North Korea challenge and defending a rules-based order in Asia will be ever more difficult.

South Korea's middle-power identity follows from necessity, ambition and recognition. The geopolitical realities of Asia place Seoul in the middle of a competitive dynamic among China, Russia, Japan

and the United States. South Korea shares a large region with many successful economies but resides on a divided peninsula with one of the world's most militarily threatening and human-rights abusing regimes. Seoul's alliance with Washington remains essential for dealing with North Korea, but South Korea has ambition for greater agency in global politics. It is determined to never again be a geopolitical pawn, as it was during historical wars between China and Japan, or when the Korean peninsula

was divided along the lines of great-power rivalry after World War II.

While a middle power cannot dominate its region, Seoul looks to shape Asia's future with pro-social norms and institutions. The New Southern Policy is the Moon administration's strategy for connecting North and Southeast Asia with physical and digital infrastructure and intersocietal linkages. As a beneficiary of economic interdependence, South Korea wants to avoid trade wars and military force as means of resolving disputes. In the words of Foreign Minister Kang Kyung-wha, 'by preemptively offering to cooperate with all neighbouring countries, we intend to create a virtuous cycle where expanded cooperation with one country leads to enhanced cooperation with another.'

Of course, identity is not just a function of circumstance and calculation, but a matter of pride and recognition. International actors increasingly recognise South Korea as a player, for convening summits to bridge developed and developing nations, for global brands like Samsung and Hyundai, and for pop culture exports like the band BTS and the movie *Parasite*. South Koreans take pride in this growing soft power. But while Seoul is making meaningful global contributions—including on technological standards, official development assistance (ODA) and UN peacekeeping—it faces three major challenges in maintaining a productive middle-power role in Asia's contested regional order.

First, South Korea's historical disagreements with Japan periodically short-circuit its middle-power diplomacy. The Moon administration pledged to keep history separate from security cooperation, but ongoing feuds with Tokyo have allowed anti-

South Korea can respond creatively to US burden-sharing pressures in ways that do not antagonise China or North Korea

Japan sentiment to be more salient than middle-power identity on issues of wartime compensation, symbols of incomplete reconciliation, and disputed islets. South Korean media routinely exaggerate the threat of Japanese militarism and undervalue cooperation with Tokyo. All this impedes Seoul's ability to contribute to regional security via intelligence sharing, ballistic missile defence, addressing sanctions evasion and export control violations, dealing with growing submarine threats, ensuring freedom of navigation, and coordinating humanitarian assistance and disaster relief.

Second, the liberal values of South Korea's democracy often come into friction with its realist foreign policy pragmatism in dealing with China. Seoul's middle-power role in Asia sometimes takes a back seat to a

deferential approach to its powerful neighbour and largest trading partner, informed by a belief that the diplomatic road to Pyongyang runs through Beijing. This leads South Korea to abstain from criticising human rights conditions in Xinjiang and Hong Kong, and from advocating for North Korean escapees, who are often exploited in China or repatriated to the torture chambers of the Kim regime. Seoul also tends to stay mum on China's maritime expansionism in the South China Sea, on questions of WTO compliance, and on international standards for China's regional economic strategy, the Belt and Road Initiative.

Third, domestic political polarisation—which in many countries involves ideological divisions on economic and social issues—extends deep into South Korean foreign policy. US President Trump's impeachment trial and the populism around Brexit look tame compared with the South Korean partisan context, where the past two presidents were sent to prison and the National Assembly is a physical battleground for contentious legislation. Single five-year presidential terms and an unstable political party landscape produce pendulum swings in policies toward North Korea and greater Asia. South Korea's internal divisions leave it susceptible to wedging tactics by other countries and cause a generally well-run government to engage in inefficient and inconsistent resource allocation for foreign policy initiatives.

Rising above this polarisation will require enlightened leadership with political restraint, and following the rule of law rather than weaponising it against ideological rivals. South Korean foreign policy needs more transparency to demonstrate democratic legitimacy and strategic

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OUR NEXT ISSUE . . .

**Immunising
Asia**



A protester wearing an anti-Terminal High Altitude Area Defense (THAAD) mask in Seoul. South Korea's internal divisions leave it susceptible to wedging tactics.

thinking about national interests. This will help Seoul avoid policy fantasies like decoupling from Japan to pursue a 'peace economy' with North Korea. Principled policies are needed to deal with North Korean nuclear weapons, missiles and human rights abuses, as well as non-traditional risks like the Covid 19 pandemic. Domestic unity is also important for responding to China's economic coercion—as witnessed during the dispute over deployment of the Terminal High Altitude Area Defense (THAAD) system.

Middle-power principles will help Seoul to dispel perceived zero-sum trade-offs between strengthening its alliance with Washington and managing its relations with Beijing and Pyongyang. South Korea can respond creatively to US burden-

sharing pressures in ways that do not antagonise China or North Korea. In particular, rather than think of their contributions to global public goods as 'alliance dues,' South Koreans can take pride in picking up the slack in areas where the superpower is underperforming, such as promoting free trade and mitigating climate change. Such global governance contributions will be appreciated by the United States and many other nations.

Seoul can unshackle its foreign policy from ideology and history by doubling down on building institutions in Asia. This will encourage economic and great-power stability in the region and eventually provide leverage towards a peaceful and rules-based unification on the Korean peninsula.

The Moon administration is

underusing the MIKTA (Mexico, Indonesia, South Korea, Turkey and Australia) grouping of middle powers in the G20, and has yet to fully incorporate India in its New Southern Policy. Seoul's free trade agreement and ODA policies could be better coordinated with those of Japan and the European Union. South Korea can also work more with like-minded partners Australia and ASEAN on regional capacity building. Such middle-power diplomacy will provide positive reinforcement for Korean national identity and persuasively demonstrate to other states the value of international cooperation. **EARQ**

Dr Leif-Eric Easley is an Associate Professor in the Division of International Studies at Ewha Womans University, Seoul.

The logic of Seoul's top-down approach to Pyongyang

LAUREN RICHARDSON

NORTH Korea's nuclear weapons program remains one of the key challenges to regional security in Asia. Dealing with this predicament has been the major foreign policy focus of South Korea's Moon Jae-in administration since its inauguration in 2017.

President Moon's approach to North Korea has been characterised by various forms of engagement. Initially he conducted crisis diplomacy aimed at de-escalating the surging tensions between US President Donald Trump and North Korean leader Kim Jong-un. This was a natural response to the rhetorical threats exchanged between the pair that ostensibly brought the Korean peninsula to the brink of war.

The crisis seemingly subsided with the advent of a season of diplomatic summitry between Kim and regional leaders. While this did not bring about significant progress on denuclearisation, Moon continues to engage bilaterally with the Kim regime and encourage the Trump administration to persist in the same vein.

Surprisingly, Seoul has not sought out cooperative partners in its diplomatic dealings with Pyongyang through coalition-building or multilateral diplomacy. As Jeffrey Robertson argues, such an approach would be consistent with South Korea's middle-power status and identity. It would also presumably be a more effective strategy given the complexities of denuclearisation.



PICTURE: KIM HONG-JI / REUTERS

South Koreans watch a news report of a North Korean submarine missile launching in October 2019. A multilateral approach could exert pressure to curb Kim Jong-un's nuclear program.

Indeed, Kim's nuclear program has so far been impervious to sanctions and various forms of diplomatic pressure. He is able to exploit the fractious nature of the regional political landscape, amid intensifying Sino-US rivalry. A multilateral approach would help to engender a united diplomatic front against Kim's nuclear proclivities and exert greater normative pressure on him to take steps toward denuclearisation.

What explains Moon's reluctance to adopt a more characteristically middle-power approach vis-à-vis his northern counterpart?

A number of considerations have informed his preference for a bilateral top-down diplomacy. First, the Moon

government's plan to resolve security tensions with Pyongyang is premised on establishing a peace regime on the Korean peninsula and was conceived in an inter-Korean framework. This approach is based on an assessment that North Korea's nuclear program does not constitute a discrete threat but rather, a side-effect of long-standing systemic structures of hostility on the peninsula.

From the perspective of the Moon government, at the root of such structures is the 1953 Korean Armistice Agreement that has framed bilateral interactions for decades, and has served as a symbol of the unfinished Cold War on the peninsula. The Demilitarized Zone that divides

the two Koreas along the 38th parallel is another structural manifestation of this hostility.

In accordance with this conception of inter-Korea relations, Moon's approach emphasises the need to formally end the Korean War through the conclusion of a peace treaty. It is assumed that this will serve as a confidence-building measure that will induce North Korea to take steps towards reversing its nuclear program. This policy essentially characterises security on the peninsula as a precondition to denuclearisation.

A second objective of Moon's engagement strategy is to deepen bilateral economic ties with Pyongyang. It is assumed that market interests will mitigate against hostile intentions in the north, and also improve the security environment on the peninsula and its surrounds. This approach recasts North Korea from an adversary to a potential market. It is based on the logic that increasing economic interdependence between the two Koreas will disincentivise the Kim regime from further developing its nuclear arsenal. In other words, the Moon government anticipates that a shared market will have a stabilising effect on relations.

South Korea's approach to the North Korea foreign policy challenge does not readily lend itself to middle-power diplomacy. In the Six-Party Talks process, a previous attempt at multilateral negotiation with Pyongyang, it became clear that there was great variance in the ordering of priorities among the member states. Based on this experience, Seoul has little confidence in the possibility of building a coalition that prioritises the establishment of a peace regime on the peninsula, and one that would regard this as a precondition to denuclearisation.

Many governments and would-be coalition partners in the region do indeed regard North Korea's nuclear weapons program as a discrete threat. There is also a salient belief in the region that signing a peace agreement and strengthening economic ties with North Korea would constitute unwarranted concessions. In light of these circumstances and the strategic reasoning of the Moon administration, it is unsurprising that Seoul has opted for a bilateral top-down approach in preference to middle-power diplomacy.

By establishing a new incentive structure that economically rewards North Korea for rolling back its belligerence, Moon is attempting to establish a new logic for inter-Korean relations. In his strategic thinking, rapprochement between the two sides will provide a solid foundation for the security of the peninsula, and this will have ripple effects for regional security.

Moon also continues to view the role of the United States as central to resolving the North Korean security dilemma. Although Moon has yet to convince Washington that a peace regime on the peninsula is a necessary precondition for denuclearisation, Trump has been relatively obliging of Moon's calls for sustained engagement with Kim.

Moon continues to view the role of the United States as central to resolving the North Korean security dilemma

As progress with North Korea appears to be lagging—and even backtracking—on many fronts, the Moon government may need to consider the possibility of there being a missing factor in the North Korean security equation: Japan. As long as Pyongyang remains in an antagonistic relationship with Tokyo—its historical and contemporary adversary—it is difficult to envision that the Kim regime will be willing to let down its defences. Since the structures of hostility that Moon wishes to dismantle extend beyond the peninsula to North Korea's surrounding environment, it would be worthwhile for Moon to incorporate Tokyo into his coalition of engagement.

The Moon administration's reluctance to build coalitions with neighbouring states, like Japan, is partly premised on a belief that such states have contributed to, benefitted from and even exploited the divided state of the peninsula. But it is becoming increasingly apparent that security assurances from Seoul and Washington alone will be insufficient to elicit change in the Kim regime's behaviour. The task of facilitating a rapprochement between Pyongyang and Tokyo and incorporating Tokyo into a coalition of engagement would undoubtedly be fraught with challenges. But if Moon could manage such a feat with Trump, anything is possible.

Assurances provided by Tokyo, Seoul and Washington, in the form of unilateral diplomacy, might just hold the key to realising Moon's objective of changing the Kim regime's assessment of its security environment. **EAFAQ**

Lauren Richardson is Director of Studies and Lecturer at the Asia Pacific College of Diplomacy, The Australian National University.

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