

# EASTASIAFORUM

ECONOMICS, POLITICS AND PUBLIC POLICY IN EAST ASIA AND THE PACIFIC

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*Quarterly*



## Strategic diplomacy in Asia

**Evelyn Goh and Jochen Prantl** Why strategic diplomacy matters

**Amitav Acharya** Coping with the changing world order

**Kishore Mahbubani** ASEAN at 50 ... **and more**

**ASIAN REVIEW – James Curran: The choice between sentiment and reality**

**Aileen S P Baviera: Duterte's China policy shift, strategy or serendipity?**

**Katherine Morton: The China factor in global governance**

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## From the editors' desk

Strategy involves connecting ways and means to specific goals, while diplomacy is one of the key means by which states navigate the chosen paths to their desired policy ends. Yet, the business of national strategy-making is increasingly fraught as many states today lack compelling national narratives such as empire, religion, independence, or the Cold War whereby to order strategic purpose. Thus, strategies themselves have become the object of national and international contest.

At the same time, states are faced with a wide range of interconnected risks and threats, making the strategic underpinning of diplomatic practice even more crucial than before, especially because the common reaction to complexity and uncertainty is to seek refuge in tactics. This challenge is especially acute in strategically dynamic regions like East Asia.

Hence 'strategic diplomacy'—diplomacy undertaken with purposeful strategic rationale, with a long-term focus on shaping the complex international system that nation-states must operate in—is a policy tool that needs development and sharpening. The collection of essays in this issue is drawn from our new multi-regional research program on strategic diplomacy. They present brief studies from Southeast Asia, a region evincing significant diplomacy with pronounced strategic motivations.

Leading regional scholars and practitioners from a range of disciplines examine the challenges of strategic diplomacy in regionalism, economics, law and security. These eight essays derive from a selection of papers presented at a workshop jointly organised by the Strategic and Defence Studies Centre and the Asia-Pacific College of Diplomacy at ANU, and the Lee Kuan Yew School of Public Policy at the National University of Singapore in February 2017.

The Asian Review section features essays on the pressures facing the Australia–US alliance, Philippine President Duterte's tilt to China, China's changing role in global governance, US–China relations under Trump and their implications for Southeast Asia, as well as the future of the China–Japan relationship.

*Evelyn Goh and Jochen Prantl*

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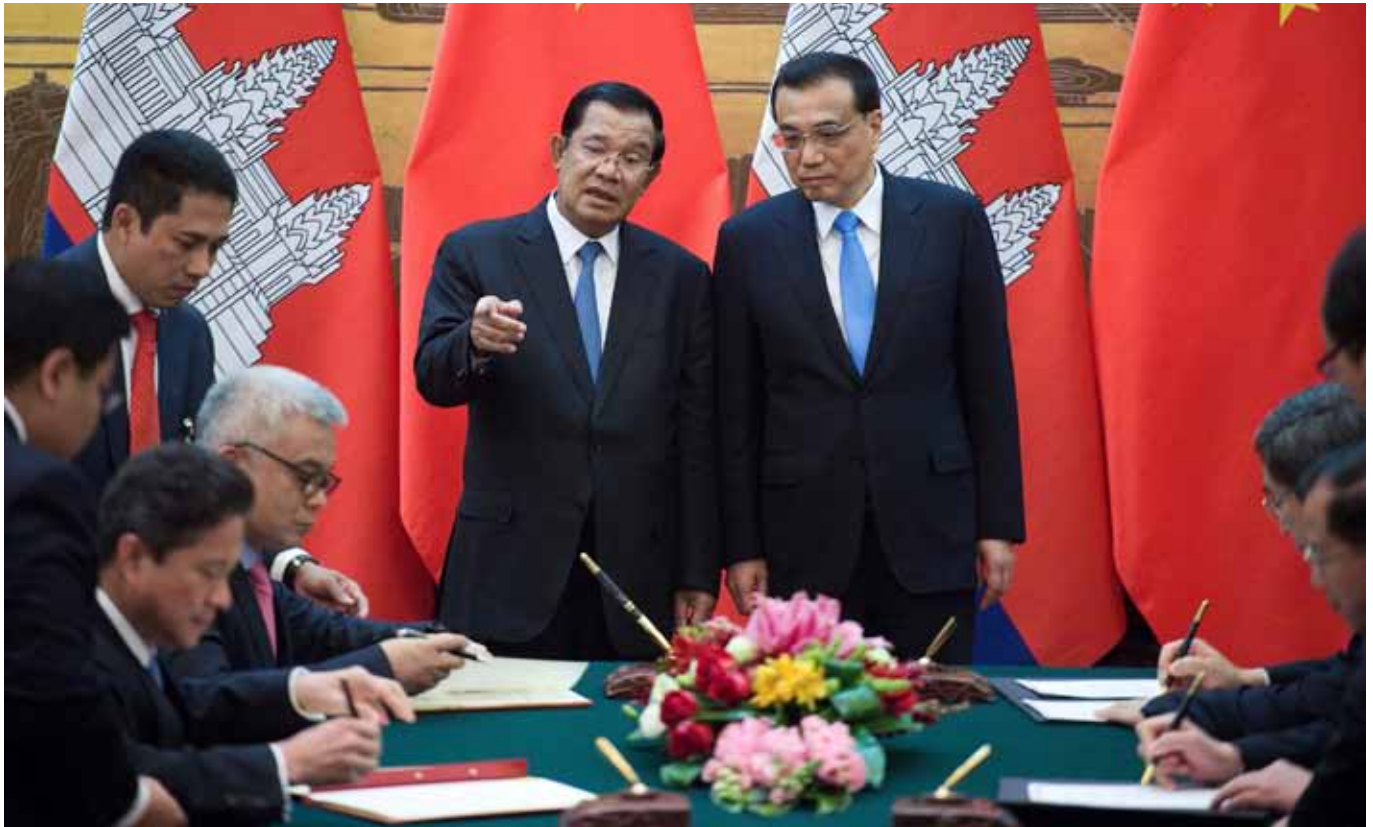
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COVER PHOTO: Philippine President Rodrigo Duterte talks to Cambodian Prime Minister Hun Sen before the opening of the ASEAN summit in Manila in April 2017. The group's success has been 'one of the undersold stories of our time'. PICTURE: ERIK DE CASTRO, Reuters.



Closer ties: Cambodian Prime Minister Hun Sen and Chinese Premier Li Keqiang at a signing ceremony in the Great Hall of the People, Beijing, in May 2017.

# Coping with the changing world order

AMITAV ACHARYA

**A** PRIMARY task of strategic diplomacy is to adapt to the changing contours of the world order.

The contemporary order, in place since the end of World War II and often called the US-dominated liberal hegemony, is changing. But it is not simply returning to the multipolar geopolitics of the prewar era, as many pundits and policymakers would claim. In the context of Asia, we often hear that 'Europe's past could become Asia's future,' as political

scientist Aaron Friedberg has written and others have echoed. This view is misleading. The prewar multipolar world was largely one of states, empires and colonies. Today, the main actors are not only great powers, or even just states. They are also international and regional institutions, corporations, transnational non-governmental organisations and social movements, transnational criminal and terrorist groups, and so on.

Economic interdependence today has become much more extensive and multidimensional, consisting of

trade, finance, and global production networks and supply chains. Prewar multipolarity, on the other hand, was mainly trade-based. What's more, there is a far greater density of relatively durable international and regional institutions today. Pre-World War I Europe had only one: the European Concert of Powers; the interwar period only had the short-lived League of Nations.

This emerging world order can be better understood as a 'multiplex world'.

The multiplex world is characterised

## EDITORIAL STAFF

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Evelyn Goh is the Shedden Professor of Strategic Policy Studies at The Australian National University.

Jochen Prantl is Deputy Director of the Coral Bell School of Asia Pacific Affairs and Associate Professor in International Relations, ANU.

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**Editorial Advisers:** Peter Fuller, Max Suich.

**Production:** Peter Fuller, Words & Pics.

**Original design:** Peter Schofield.

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

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by the absence of a global hegemon—such as Britain in the years before World War I, or the United States until now—although power inequalities and hierarchies remain.

Another notable feature of this emerging order is the proliferation of major actors. These are not just the great powers, as in a multipolar system, but also international and regional bodies, non-state groups, corporations and networks of individuals. The multiplex world is one of complex global and regional interdependence, covering not just trade, but also economic and ecological linkages, and transnational challenges.

Governance architecture has multiple levels, comprising global, regional, national and sub-national elements—cities are a good example of the latter. Each of these has links with formal and informal institutions and networks. And crucially, the multiplex world has multiple modernities, rather than a singular, liberal modernity—it is a world of cultural, ideological and political diversity, including alternative pathways to stability, peace and prosperity.

While Trump promises to ‘make America great again’, he is unlikely to reverse the decline of the American-led liberal international order. On the contrary, Trump’s election platform and statements on trade, alliances and immigration, if carried to their logical conclusion, will speed up the breakdown of the liberal order and hasten the onset of the multiplex world.

While the Trump regime shuns liberal internationalism, it is unlikely to stop globalisation. China and India are likely to push for globalisation without necessarily accepting the liberal values associated with it. The new globalisation will be politically

illiberal. It will be led more by the East rather than the West and by the emerging powers rather than established powers. It will be built more around south–south linkages than north–south ones. It will be more respectful of state sovereignty.

The future of ASEAN and ASEAN-led multilateralism in the multiplex era will be more complex, messy and uncertain than in the bipolar era, the ‘unipolar moment’ or the old-fashioned multipolar system.

A strategic approach to multilateralism must begin by recognising the limitations—and, to a certain degree, the possibility of obsolescence—of the existing ASEAN-led architecture, which faces major external and internal challenges.

Externally, the key challenge arises from changing great power dynamics. A multiplex world does not permit global hegemony by any single power. But what about regional hegemony?

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ASEAN also needs to rethink its purpose and agenda. This could involve some degree of downsizing, or cutting back on its tasks, in the manner of a corporation facing declining profitability

It is said, with some justification, that China seeks global multipolarity and regional unipolarity. But a Chinese effort to develop a Monroe Doctrine-like sphere of influence is unlikely to succeed because of the persisting limitations of Chinese material power as well as resistance from other powers in the region.

Still, the rise of China is raising concerns—some valid, some overstated—about a divide-and-rule approach from Beijing aimed at weakening ASEAN. What is clear is that China is no longer content with ASEAN-led multilateralism.

Instead China now pursues a three-pronged approach to regional engagement. First, it continues to engage with ASEAN and ASEAN Plus institutions while also viewing ASEAN as a competitor. Second, China is developing new institutions like the Asian Infrastructure Investment Bank (AIIB) that give China an important role but not necessarily hegemonic control. Then there are the projects stemming from the Belt and Road Initiative, which are largely bilateral and entirely dominated by Beijing.

Which of these three prongs will take precedence in China's vision and approach to the region? The answer will make a big difference to the future of ASEAN-centred multilateralism. The Belt and Road Initiative could easily compete with ASEAN-centred multilateralism and may even undermine it.

Another external challenge to the ASEAN-led architecture is the attitude and policies of the United States under the Trump administration. The new administration is unlikely to display the same interest in, and support for, ASEAN and the principle of ASEAN centrality as did the Obama administration. After pulling out of the Trans-Pacific Partnership the Trump



A supporter holds aloft a 'Make America great again' placard at a campaign rally addressed by Melania Trump in Berwyn, Pennsylvania, in November 2016. But the Trump administration is 'unlikely to reverse the decline of the American-led liberal international order'.

administration is not going to develop a region-wide trade group or join existing groups such as the Regional Comprehensive Economic Partnership (RCEP), but it may well pursue its own new bilateral and plurilateral initiatives on trade and security that could undermine ASEAN centrality.

If—and it's a big if—the United States' approach weakens US alliances in the region, especially the US–Japan alliance, ASEAN may lose a major geopolitical cushion for its multilateral diplomacy. The ASEAN-led architecture also faces major internal challenges. There can be no ASEAN centrality without ASEAN unity, and that is clearly fraying. Cambodia—the last Southeast Asian nation to join ASEAN—displays a noticeable lack of commitment to ASEAN's ideals and norms.

The expanded ASEAN is overburdened, overextended, and

understaffed both in terms of the numbers and professionalism of its secretariat. There is a huge gap between its expanded vision—with three communities, each with a grandiose vision and blueprint—and its capacity. For various reasons, domestic politics in the Philippines, Indonesia and Malaysia have reduced the commitments of these governments to ASEAN.

If ASEAN and its members are to adapt their strategic diplomacy to the realities of a multiplex world, they need to embrace a more selective and strategic approach to multilateralism. The distinction between bilateralism and multilateralism, which has never been clear-cut in Southeast Asia, is likely to become increasingly blurred. Thus a key challenge for ASEAN's strategic diplomacy would be to find new and creative synergies between the two.

ASEAN also needs to rethink its purpose and agenda. This could involve some degree of downsizing, or cutting back on its tasks, in the manner of a corporation facing declining profitability. A greater emphasis on the ASEAN Economic Community, and adopting a more limited and realistic agenda for the ASEAN Political–Security Community, may be timely and necessary.

ASEAN also needs to develop new informal coalitions among its members, including ‘ASEAN Minus’ approaches, to pursue its economic and security initiatives. This would mean developing ‘minilateralism’ on specific issues, like the Indonesia–

Malaysia understanding of the 1980s and 1990s, within the larger ASEAN-centric multilateralism.

The organisation needs to obtain resources and develop capacity by forging partnerships with other international bodies, including other regional institutions like the EU and the AIIB, in dealing with transnational challenges.

Finally, while it cannot entirely avoid getting involved in great-power rivalry, ASEAN needs to reconsider its role in the wider Asia Pacific, particularly its policy of engaging all the great powers on an ASEAN platform. Some degree of self-isolation, or strategies for avoiding a deep entanglement with great power

geopolitics, has to be revived. ASEAN could also think of forging closer ties with Japan, India, Australia and the EU to create some strategic space between itself and Beijing and Washington.

ASEAN must change its internal and external outlook alongside the world order in this multiplex era, or risk losing its status as a regional bulwark of economic and political cooperation. **EAFO**

*Amitav Acharya is the UNESCO Chair in Transnational Challenges and Governance, and Distinguished Professor of International Relations at the School of International Service, American University, Washington DC.*



Trucks transporting containers with imported items prepare to leave a port in Manila, The Philippines, in May 2016. The complex global multiplex world will cover not only trade, but economic and ecological linkages, and transnational challenges.

PICTURE: ERIK DE CASTRO / REUTERS



Former Singaporean foreign minister and 2007 ASEAN chairman George Yeo hugs Cambodian counterpart Hor Namhong at the summit, where Myanmar unexpectedly endorsed the statement on political shootings in Myanmar.

# ASEAN's strategic diplomacy at 50

KISHORE MAHBUBANI

**T**RY imagining a world where the Middle East is at peace. The thought seems almost inconceivable. Imagine a world where Israel and Palestine, two nations splintered from one piece of territory, live harmoniously. Impossible? This is what Malaysia and Singapore accomplished. After an acrimonious divorce in 1965, they live together in peace.

Imagine a world where Egypt, the most populous Islamic country in the Middle East, emerges as a stable and

prosperous democracy. Impossible? Then ask yourself how it is that Indonesia, the most populous Islamic country in Southeast Asia—with more than four times as many people as Egypt—has emerged as a beacon of democracy. Egypt and Indonesia both suffered from corruption. And both experienced decades of military rule, under Hosni Mubarak in Egypt and Suharto in Indonesia.

Yet Egypt remains under military rule while Indonesia has emerged as the leading democracy in the Islamic world. What explains the difference?

The one-word answer is ASEAN. ASEAN's success in practising strategic diplomacy over the past 50 years has been one of the most undersold stories of our time.

If one were looking around the world to find the most promising region for international cooperation, Southeast Asia would have been at the bottom of the list. Home to 240 million Muslims, 130 million Christians, 140 million Buddhists and 7 million Hindus, it is the most diverse region in the world. In the 1960s, when ASEAN was formed, the region had

garnered a reputation as ‘the Balkans of Asia’, due to its geopolitical rivalries and pervasive disputes.

It is remarkable that ASEAN emerged as the world’s most successful regional organisation after the EU from such unpromising beginnings. The rest of the world can learn many lessons in strategic diplomacy from ASEAN.

Today, ASEAN is more important than ever. It has become more than an important neutral zone for great-power engagement. Its success in forging unity in diversity is a beacon of hope for our troubled world.

What were the key factors that led to the creation of the culture of peace that ASEAN now enjoys?

The main impulse that drew together the five founding members of ASEAN was fear—fear that these countries would become falling ‘dominoes’ as Communism expanded.

Leadership, always critical in international affairs, was another factor. The ASEAN countries were blessed with relatively good leaders early on.

There was also an element of luck. ASEAN ended up on the winning side in the Cold War and benefited from other geopolitical accidents, such as the Sino–Soviet split of 1969.

The ASEAN countries successfully wove themselves into the thriving East Asian economic system at a time when world trade was expanding. They learned economic lessons from Japan and the ‘four tigers’, emulating the best practices of these successful East Asian countries in their national development policies. ASEAN’s decision to embrace free trade and open markets was not preordained. All the ASEAN countries were members of the Group of 77 in the UN, but they rejected the nationalist and protectionist policies that the

group advocated.

As the ASEAN dynamic gained momentum and the organisation moved towards creating hundreds of multilateral meetings a year, the Southeast Asian region became more closely connected. Webs of networks developed in different areas of cooperation, from trade to defence.

Were sceptics to attend and study ASEAN meetings, they would be surprised by the high levels of cooperation among officials. This ASEAN camaraderie has defused many potential crises in the region.

**O**NE shining example of the success of ASEAN’s strategic diplomacy occurred in 2007. In August that year, the world was shocked when monks in Yangon were shot during street protests after the unexpected removal of fuel subsidies led to a drastic overnight rise in commodity prices. Since ASEAN had admitted Myanmar as a member in 1997, there was a lot of pressure on ASEAN countries to make a statement criticising these shootings.

As an ASEAN member state, Myanmar had two options. It could have vetoed an ASEAN joint statement or disassociated itself from such a statement. Then there would have been a statement among the remaining nine countries criticising Myanmar. Many, including the nine other ASEAN foreign ministers, expected this to be the outcome.

At the time of the shootings, which began on 26 September 2007, the 10 ASEAN foreign ministers met in New York, alongside sessions of the UN General Assembly. Singapore was the ASEAN chair at the time. When the group drafted a strong statement criticising the shootings, George Yeo, then foreign minister of Singapore, who chaired these meetings,

suggested that the ASEAN statement should be made by the nine member countries excluding Myanmar. It was widely expected that Myanmar’s foreign minister, Nyan Win, would disassociate himself and his delegation from the statement.

To their surprise, Nyan Win agreed that all 10 countries, including Myanmar, should endorse the statement. This was a truly remarkable decision—the statement said that the ASEAN foreign ministers ‘were appalled to receive reports of automatic weapons being used and demanded that the Myanmar government immediately desist from the use of violence against demonstrators.’

Myanmar’s foreign minister had endorsed a statement criticising his own government. In assessing this surprising development, George Yeo said that, for Myanmar, ‘ASEAN was everything they had. ... They would be thick-skinned in receiving criticism, but they stuck it out, because we were their only hope. They didn’t want to be too close to China, even though they depended on China. India supported Aung San Suu Kyi initially and took an intermediate position, but was never close to them. The Western powers were pretty hostile.’

In short, even when there were sharp disagreements between Myanmar and its fellow ASEAN countries, Myanmar decided that sticking with ASEAN was preferable to opting out. Clearly the ASEAN policy of engaging the military regime in Myanmar with strategic diplomacy had succeeded. This story of engagement almost reads as a foil to the EU’s disastrous policy of isolating Syria.

ASEAN’s ability to foster peace extends outside its member states as well. In an era of growing geopolitical



pessimism, when many leading geopolitical thinkers predict rising competition and tension between great powers—especially between the United States and China—ASEAN has created an indispensable diplomatic platform that regularly brings all the great powers together. Within ASEAN, a culture of peace has evolved as a result of imbibing the Indonesian custom of *musyawarah* and *mufakat* (consultation and consensus).

Now ASEAN has begun to share this culture of peace with the larger Asia Pacific region. When tensions rise between China and Japan and their leaders find it difficult to speak to each other, ASEAN provides a face-saving platform and the right setting to restart the conversation. In particular, ASEAN has facilitated China's peaceful rise by generating a framework of peace that moderated

aggressive impulses. In short, ASEAN's strategic culture has infected the larger Asia Pacific region.

One of the miracles of the Asia Pacific is that significant great-power conflict has long been prevented, even though there have been enormous shifts of power among the great nations in the region. Of course, the reasons for this lack of conflict are complex. ASEAN's neutrality, which helps the organisation retain its centrality in the region, is one factor in keeping the region stable and peaceful.

This is why it is important that in the growing Sino-US geopolitical competition, both sides should treat ASEAN as a delicate Ming vase that could easily break. US and Chinese interests will both suffer if ASEAN is damaged or destroyed—delicacy in dealing with ASEAN is critical for both sides.

ASEAN is far from perfect—its many flaws have been well documented, especially in the Anglo-Saxon media. It never progresses in a linear fashion, often moving like a crab, taking two steps forward, one step backwards and one step sideways. Viewed over a short period, progress is hard to see. But despite its many imperfections, when one takes a longer view, ASEAN's forward progress has been tangible. In these interesting times, ASEAN's policies and practices of strategic diplomacy deserve greater study by the global community. **EAFQ**

*Kishore Mahbubani is Dean of the Lee Kuan Yew School of Public Policy at the National University of Singapore. He is the co-author with Jeffery Sng of The ASEAN Miracle: A Catalyst for Peace. This article contains excerpts from the book.*



ASEAN leaders link hands at the opening of the 2017 summit in Manila. The grouping's success in forging unity in diversity is 'a beacon for our troubled world'.

PICTURE: MARK CRISANTO / REUTERS

# New approaches to achieving ASEAN regionalism

TAN HSIEN-LI

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*We, the peoples of the Member States of the Association of Southeast Asian Nations (ASEAN) ... committed to intensifying community building through enhanced regional cooperation and integration, in particular by establishing an ASEAN Community comprising the ASEAN Security Community, the ASEAN Economic Community and the ASEAN Socio-Cultural Community, as provided for in the Bali Declaration of ASEAN Concord II ... hereby decide to establish, through this Charter, the legal and institutional framework for ASEAN.*

—ASEAN Charter (2007)

**T**HROUGHOUT its 50-year history of regional cooperation, legalisation and institutionalisation have not featured all that prominently in ASEAN's diplomatic repertoire. Especially in its formative years, ASEAN relied on political flexibility and institutional informality, eschewing binding legal relations. Even as laws and institutions were developed in ASEAN, adherence to them remained underwhelming.

While ASEAN regionalism has often been lauded for achieving relative regional security, it has simultaneously been derided as weak and ineffective due to the lack of adequate implementation of its collective vision. But there are clear signs that the organisation has been adapting itself to have stronger laws

and institutions since the ASEAN Charter was adopted in 2007.

Alongside political flexibility, ASEAN's ongoing legalisation and institutionalisation process is a conscious diplomatic strategy that is intended to, and will, have permanence. It is not a collective whim or reaction but a set of long-term cooperation and integration measures that member states have adopted to deal with significant geopolitical exigencies.

ASEAN's initial foray into legalisation and institutionalisation was tentative as diplomacy and flexibility were prioritised. The five founding members expressly chose to establish the organisation through the ASEAN Declaration (1967), a non-binding instrument. It was only after about a decade of cooperation that ASEAN adopted its first legally binding treaty, the Treaty of Amity

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ASEAN's strategic legalisation and institutionalisation are not slated for failure – there are procedural and reputational safeguards that compel progress

and Cooperation (1976), at the first ASEAN Summit. At that Summit, the member states established the ASEAN Secretariat and expanded the scope of regional cooperation beyond security to include economic development. They also developed ASEAN's institutional capacities to attain these goals.

Through the years, as ASEAN grew with the membership of Brunei, Cambodia, Laos, Myanmar and Vietnam, and the fields of cooperation intensified, regional decision-making modalities remained staunchly politically flexible and non-legalistic. There was a marked preference for consultation and consensus rather than actual compliance with the organisation's ever-growing body of laws and institutions, especially regarding economic integration. Only an estimated one-third of ASEAN instruments of cooperation were actually complied with in the organisation's first 40 years.

By the mid-2000s it was recognised that continuing this situation would be a grave strategic error for ASEAN's reputation and competitiveness. An appointed group of eminent persons tasked with assessing the organisation's new directions through the ASEAN Charter made three recommendations.

They first advised that for ASEAN to fully realise its primary goal of economic, sociocultural and political–security cooperation, the informal association needed to become a reliable and 'structured intergovernmental organisation' with



ASEAN Secretary-General Le Luong Minh at the opening ceremony of the 8th Cambodia-Laos-Myanmar-Vietnam summit in Hanoi in October 2016. The secretariat and secretary-general have played an increasingly important role in bolstering legal and institutional compliance within the bloc.

legal obligations. ASEAN needed to be an entity comparable to other international organisations in an intensely legalised global order. This included taking on legal personality and pursuing legal endorsement of the fundamental values of the international community, human rights and democracy.

Second, they advised that ASEAN should be more actively visible in the international order to take advantage of the economic opportunities brought about by regional economic integration. A coherent economic bloc

would attract more foreign investment and enable the region to compete with China and India.

Third, they noted that the overt lack of respect for rule of law and institutions not only tarnished ASEAN's reputation but also prevented member states from reaping the expected rewards of cooperative endeavours.

Since ASEAN already possessed adequate hard and soft laws, member states simply needed to work on implementing and complying with these commitments in a timely

fashion. Further, monitoring and dispute-settlement mechanisms needed to be established across all areas of regional cooperation. In particular, the ASEAN secretary-general and the secretariat were to monitor regional legal and institutional compliance.

These strategies formed the core of the ASEAN Charter as it mapped out the trajectory for the tri-pillared (political–security, economic and sociocultural) ASEAN Community. In the first decade of this transition, there has been an unsurprising tendency to backslide due to path dependencies. Monitoring oversight has not been exercised by the ASEAN secretary-general or the secretariat, and none of the ASEAN dispute settlement mechanisms have yet been used.

In particular, enthusiasm for legalisation and institutionalisation has not yet emerged in national or ASEAN Secretariat departments that deal less directly with law or handle sensitive issues such as internal economic policies, forestry and agriculture. These departments are understandably more protectionist and are reluctant to move to a structure of rules and institutions. It is unsurprising therefore that the launch of the ASEAN Community was fraught with defensive justifications that the full attainment of community goals needed more time and resources beyond the formal deadline of 31 December 2015.

But ASEAN's strategic legalisation and institutionalisation are not slated for failure—there are procedural and reputational safeguards that compel progress.

For one, the charter is ASEAN's first constituent treaty that lays a strong foundation for compliance with regional laws and institutions. It is a permanent fixture in ASEAN regionalism unless it is superseded

by a subsequent constituent treaty, which is unlikely due to the grave credibility costs in a highly legalised contemporary international order. The cornerstone ASEAN Community Vision 2025 document reinforces the norms articulated by the charter.

If they default on the charter and other ASEAN laws, and fail to comply with regional agreements, ASEAN states will be unable to attain the economic profit promised by cooperation. This is in addition to the loss of goodwill and potential retaliatory action when such commitments are broken. Recalling that economic disputes are increasingly resolved through adjudicatory mechanisms, ASEAN's economic partners would likely use the settlement mechanisms stipulated

in ASEAN treaties rather than pursue lengthy diplomatic negotiations to resolve disagreements.

Today, network governance plays a central role in intra-ASEAN relations. A genuine reform effort can be seen among the officers who work on ASEAN issues in the national ministries and the ASEAN Secretariat. For example, in customs procedures, officers are keen to regularise procedures in line with the rule of law and institutions. Networks of shared experiences among regional counterparts are increasingly built through capacity-building initiatives jointly organised by regional and external stakeholders. Even more encouraging has been the recent establishment of dedicated monitoring units in the ASEAN Secretariat to

build each of the three pillars of the ASEAN Community.

The officers of ASEAN and its member states are demonstrating an increasing adherence to the rule of law despite considerable obstacles. Slow as the progress might be, the transformative power of law and institutions once they are set in motion cannot be ignored. Greater familiarity and usage will reinforce and bring more uniformity to regional legalisation and institutionalisation. As this strategy evolves, its particular characteristics will go on to define a unique new model of ASEAN regionalism in the global order. **EAFO**

*Tan Hsien-Li is an Assistant Professor at the Centre for International Law, National University of Singapore.*



The ASEAN Secretariat headquarters in Jakarta. Today, 'network governance plays a central role in intra-ASEAN relations'.

PICTURE: GUNAWAN KARTAPRANATA / CC LICENCE



US President Donald Trump and Australian Prime Minister Malcolm Turnbull on board USS *Intrepid* in May 2017: but is the president a 'true believer' in the alliance?

# Weighing the choice between sentiment and reality

JAMES CURRAN

**A**USTRALIA has retreated to sentimentalism in dealing with the shock of Donald Trump's election. The other Asian US allies are wary of raising unrealistic expectations of what can be achieved with Trump in office. Japan, clearly hedging its bets, is pushing to revive the Trans-Pacific Partnership without the United States. The Philippines and Malaysia, seeing no credible US response to China's assertive behaviour in the South China Sea, continue to deal with Beijing directly on territorial disputes.

Yet the Australian government clearly believes that cuddling up to Trump—as demonstrated at the recent leaders' meeting in New York aboard the USS *Intrepid*—offers some kind of strategic reassurance in an era of volatility. Why?

Canberra's approach is not new. In the last 15 years there has been increasing sentimentality in the US–Australia relationship. Indeed the events in New York probably represent something of a high point in the fusion of the alliance with Australian military mythology, as dinner guests were shown stirring videos drawing a

line all the way from Australians and Americans fighting at Le Hamel in 1918 to contemporary conflicts in the Middle East.

At face value, of course, this is no bad thing. But reliance on this particular narrative of the alliance may mislead both the US and Australian publics.

It reinforces the expectation in Washington that Australia will always be there. As one Obama administration official said pointedly in 2015, 'all our allies give us headaches, except for Australia. You can always count on Australia.'

Is there any reason to think that this view has changed under a transactional president like Trump? The pageantry in New York might have well given the President a much-needed lesson on alliances. But the danger is that Australia is led to believe, perhaps mistakenly, that Trump is now a true believer in the alliance. As his handling of the THAAD missile defence issue in South Korea and NATO funding in Europe show, he has not entirely left behind his campaign rhetoric that stressed the need for allies to do and pay more.

It's little wonder then that the insurance premium view of the alliance still reigns supreme in Canberra. The more Australia puts in, so this Cold War thinking goes, the more likely it will be that the United States will come to Australia's defence in an hour of need.

That might be true if there was an outright case of military aggression against Australia. But where the United States has perceived its interests to differ from Australia in Asia, sentiment about the alliance has in the past meant little. Think of the West New Guinea and Confrontation crises in the 1960s, or East Timor in 1999.

Right now, at the very moment when a US president retreats from the language of pax Americana, Australia's Prime Minister and Foreign Minister still talk of the United States of the past rather than the country Australia is dealing with today.

One explanation for this elevation of the sentimental alliance might be the desire of senior bureaucrats in Australia's national security community to preserve it from the whims and vicissitudes of individual leaders.

Perhaps the best way to handle Trump's unpredictability and

inexperience on the world stage is to smother him in history, leaving the issues of substance to the senior policy professionals. Seen in that light, the events aboard the *Intrepid* might best be viewed as an adroit movement of the red cape in front of the American bull.

But why does this sentimentalism have such a strong hold for alliance true believers in Australia?

The answer lies partly with the strategic anxiety surrounding China's rise, and partly with the belief that by appealing to the historic role of the United States in the region, Canberra can somehow arrest isolationist trends in Washington. But there is another, crucial dimension fuelling this emotional rendition of the relationship: the legacy of Iraq.

Among those in Australia who supported the US invasion in 2003—particularly in the bureaucracy and the commentariat—there is an ongoing need to extract something meaningful from this strategic disaster. They emphasise that Canberra achieved deeper US–Australian

military integration, strengthened intelligence links and secured a free trade agreement with the United States. But given the regional strategic environment over the last decade there is every reason to think that the alliance would have developed this way irrespective of whether Australia had sent troops to the Middle East.

Any renewal of the public case for the alliance in Australia has to strike a balance between sentimentalism and realism. The Whitlam, Fraser, Hawke and Keating governments achieved this in both their public language and policy. They stressed the benefits of the alliance but also emphasised that the relationship with Washington alone did not define Australia's global optics.

The forthcoming Australian White Paper on foreign policy presents the opportunity to begin articulating how the country should deal with an inward-looking, nationalist United States. The international order that the United States built after 1945 is not collapsing but it is at a transition point. Now more than ever is the time to emphasise that Australia's peace and prosperity in the region will depend on its relationships not just with Washington, but also with Beijing, Jakarta, Tokyo and New Delhi.

The Trump presidency, in all its swirling chaos and unpredictability, should be providing governments with the very spur they need to refit the alliance for these new circumstances. In doing so, Australia might sensibly eschew the comfort of sentiment and stress once more the need for a more nimble and agile Australian presence in the region and the world. **EAFO**

*James Curran is Professor of History at the University of Sydney and a Non-Resident Fellow at the Lowy Institute for International Policy.*

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The Whitlam, Fraser, Hawke and Keating governments . . . stressed the benefits of the alliance but also emphasised that the relationship with Washington alone did not define Australia's global optics



Children run to join the welcoming ceremony for Philippine President Rodrigo Duterte in Beijing in October 2016.

# Duterte's China policy shift: strategy or serendipity?

AILEEN S P BAVIERA

**D**eparting from the previous government's opposition to Chinese assertiveness in the South China Sea, Philippine President Rodrigo Duterte has downplayed maritime disputes in favour of pursuing close economic and political ties with China.

This shift has been rewarded by pledges of major fund infusions in support of Philippine infrastructure development, with a long wish list of projects now in the pipeline. Filipino fishermen have returned to their normal fishing activities around Scarborough Shoal, albeit under watch by Chinese Coast Guard.

In contrast to its past efforts to diplomatically isolate the Philippines, China now sees the Philippines as a welcome partner in its Asian Infrastructure Investment Bank and Belt and Road Initiative (BRI). China has also come around to signing with ASEAN a Code of Conduct for the South China Sea, although at best that will be a protracted process, and at worst, an exercise in futility.

While China's island construction activities continue unabated, there have been no reports of the major provocative actions that had become almost daily media fare in previous years. No construction activities are underway on Scarborough Shoal, which some attribute to the United

States and the Philippines signalling that this would be a 'red line' that China should not cross. Instead, bilateral dialogue between Manila and Beijing has resumed, including recent talks on the dispute itself, following Duterte's participation in the BRI Forum.

Can relations between Manila and Beijing truly have transformed overnight, considering their hostility only a year ago? Can the two nations' vital interests have changed so drastically that they can simply turn a new page and start on a clean slate? Or do the goals remain the same—even though the strategies have taken a significant turn?

Duterte's strategy of not

abandoning but de-emphasising and compartmentalising territorial and maritime issues is a wise move that can pay off if done smartly. By delinking economic relations from management of the disputes, Manila can benefit from Beijing at a time when sustained high growth and investor confidence in the Philippines coincides with a massive investment drive by China as part of the BRI. The challenge will be to see to it that China itself separates the two aspects of relations, considering that it had previously used economic leverage against the Philippines for political ends.

Duterte's China policy shift also reduces disagreement within ASEAN over the handling of the disputes. At the same time, it forces some of the other stakeholders who were formerly free-riding on Philippine efforts to do more on the issue, thus easing pressure on the Philippines.

Security relations with the United States remain strong, being highly institutionalised, while cooperation with Japan and other countries are growing. Military-to-military contact and Coast Guard talks with China have also resumed, hopefully leading to renewed confidence-building and reduced risk of miscalculation.

So far, the policy shift's relatively successful outcomes have relied somewhat on fortuitous developments well beyond Duterte's control. Serendipity has played a role.

One factor was the favourable arbitration ruling itself, which is now part of international jurisprudence. Manila is as much duty-bound as China is to comply with the ruling. Former president Aquino's successful 'lawfare' opened a new platform for management of the disputes, one that the two governments should pursue if they are genuinely

PICTURE: PRESIDENTIAL COMMUNICATIONS OPERATIONS OFFICE, REPUBLIC OF THE PHILIPPINES



President Rodrigo Duterte: good fortune.

committed to rule of law.

The second serendipitous event was the election of US President Donald Trump. When Obama stepped down, Manila's disputes with Beijing already ran the risk of becoming less about the former's maritime rights and entitlements and more about major power competition. Considering Trump's yet unclear foreign policy towards China, Beijing has reason to act more thoughtfully in the South China Sea. But because Trump's commitment to engage in the South China Sea is also unclear, the

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Former president Aquino's successful 'lawfare' opened a new platform for management of the disputes

Philippines has reason to put military cooperation with the United States on the backburner and return to a mainly diplomatic track.

The third fortuitous development for Duterte is Xi Jinping's launch of the BRI, a bold campaign for China-led economic, infrastructure and financial connectivity that would link 65 countries from Asia, Europe and Africa. China hopes it will spur global economic growth, stimulate development in its poor frontier provinces and put its excess industrial capacity into profitable use.

The successful implementation of the BRI will elevate China further into the ranks of leading countries, but it relies on China using soft diplomacy and demonstrating internationalist credentials. China would have to downplay nationalist emotions and restrain military adventurism. This could give Duterte breathing space both for repairing relations with China and reorienting the US alliance towards more convergent objectives.

While national interests may not have changed, these serendipitous changes in circumstances paved the way for adjustments in Philippine strategy in directions preferred by both Duterte and by China. If the three factors together were a spate of good fortune for Duterte, China too has serendipity to thank for the opportunity to pull back from the brink and change course. Whether China makes full use of this or not is still in question, but the opportunity is there. **EAFO**

*Aileen S P Baviera is a Professor of China Studies and International Relations at the University of the Philippines.*

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# The China factor in global governance



KATHERINE MORTON

**G**LOBAL governance is a collective enterprise focused on solving problems and delivering global public goods. It provides an evolving, normative framework for the expansion of international cooperation in global policymaking.

While it is premature to claim that global governance is now a thing of the past, it would be equally misleading to suggest that the current system has adapted to contemporary realities.

For the architects of the postwar international order, the idea of governing the world rested upon the logic of the nation-state. Emerging in the aftermath of a devastating war, the United Nations provided the bedrock for an 'imperfect system' to be built upon incrementally in accordance with shifting international

conditions. This system has stood the test of time. But in today's world, both the risks and opportunities arising from global interconnectivity call for unprecedented levels of international cooperation well beyond the confines and capacities of the nation-state.

Despite the practical and moral imperatives to respond to contemporary challenges, the transition towards a more pluralistic form of global governance, inclusive of emerging powers, remains fraught with tensions. In part this is because of rising concerns over China's potential to change international rules in ways that compromise the existing liberal order, as well as its capacity to deliver public goods. It is also a consequence of the difficulties involved in apportioning rights and responsibilities across numerous state and non-state actors.

ABOVE: The UN Security Council voting on 28 February 2017 on a resolution to ban the supply of helicopters to the Syrian government. How China positions itself in the council is an important indicator of its future role in international peace and security.

Of greatest concern is the retreat from collective responsibility emanating from inside liberal states. US President Donald Trump's 'America first' doctrine, the United Kingdom's withdrawal from its 44-year commitment towards European integration and the rise of far-right nationalism and protectionism in the West are symptomatic of a broader malaise within liberal societies.

Does this mean that we should give up on the idea of governing the world? Or can the existing global framework of rules and institutions adapt?

Much will depend upon whether liberal states can work in tandem with China in tackling the core challenges that face global governance.

One major challenge is shifting towards a genuinely global project inclusive of diverse experiences beyond the West. China is now playing an active role in this transformation, both in reforming existing institutions, and in sponsoring new rules, institutions and norms.

While the Chinese approach is at odds with the liberal tendency to view democratic ideals as essential to the international order, it is important to recognise that, until recently, Chinese elites have been highly sceptical of a project that seeks to advance democratic rule. This has now changed under President Xi Jinping's regime as China seeks to protect its expanding economic interests while gaining social prestige—gradually enhancing its contributions to international peace, security and development.

Addressing the gaps in global economic governance, such as the rules on international investment, presents a tangible opportunity for cooperation with China. Twenty years ago the Multilateral Agreement on Investment, giving investors the freedom to move money in and out of countries without restriction, was taken off the OECD agenda. We still do not have a global investment regime and that ambition seems unrealistic at a time of growing protectionism and concern over national security.

Yet restoring public confidence in the benefits of inward investment requires safeguards to protect workers and the environment. These frameworks help to reduce the political temptation to rely on ad-hoc decision making that undermines trust in the investment regime. China also has a stake in the development of an

equitable regime and legal safeguards that would protect its foreign assets abroad.

The weakness of state-centric governance poses another challenge for global governance. Old alignments based upon geopolitical divisions do not sufficiently address transnational challenges affecting societies across the globe—from irregular migration to terrorism and violent extremism, illicit trade, and environmental disasters precipitated by climate change.

China is not immune from these threats. Still, working with China to strengthen collective security arrangements presents challenges as well as opportunities. In the case of counter-terrorism, for example, the dilemma over how to secure the nation against terrorist threats while protecting civil liberties is particularly acute for China. In Xinjiang the Chinese government's 'people's war on terror,' directed against the 'three forces' (*sangu shili*) of separatism, religious extremism and terrorism, has blurred the line between internecine struggle and counter-terrorism.

More recently the involvement

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An approach that seeks open, fair and legitimate governance . . . is our best option for maintaining a political equilibrium during a period of structural transition

of Chinese nationals in global terrorist networks has led to greater cooperation within the Shanghai Cooperation Organization (SCO), particularly in sharing intelligence, repatriating terrorists and financing counter-terrorism operations. As the consensus over terrorism is weak at the global level, countering violent extremism—unlawful violence in pursuit of political or ideological goals—has the potential to provide a common platform for achieving a greater balance between strategy and the rule of law, if not a means of bridging the normative divide between the SCO and the Organization for Security and Cooperation in Europe.

A rise in ideological competition within global and regional institutions presents an additional challenge. The United Nations Security Council (UNSC) remains the paramount institution for ensuring peace and security, yet it remains a highly exclusive club. The veto power afforded to the five permanent UNSC members is often perceived as an entitlement, which further undermines confidence in the rules-based international order.

Gridlock among the permanent five over the crisis in Syria is reminiscent of the Cold War era, with China frequently aligning with Russia in what is often referred to as an axis of convenience. Over the past five years Russia has vetoed seven UNSC resolutions on the Syrian conflict, alongside China's six.

How China moderates its positioning in the UNSC is an important indicator of its future role in international peace and security. It is now the second-largest contributor to the UN peacekeeping budget (10.29 per cent of the total US\$7.87 billion from July 2016 to June 2017) and 2600 Chinese combat troops are currently



Stepping out on the Road: Chinese Foreign Minister Wang Yi outside the press conference venue to announce the conclusion of the Belt and Road Forum in Beijing on 15 May 2017. It will be hard for the initiative to achieve successful outcomes without international financial, economic and environmental safeguards.

deployed in UN peacekeeping missions. The stakes are now much higher for diplomats and the Chinese public.

At the regional level, the initial political furore over Chinese sponsorship of the Asian Infrastructure Investment Bank (AIIB) shows how mistrust on both sides can undermine positive intentions. At the time of its establishment in January 2016, it was seen by many as a prelude to the creation of an alternative World Bank, or even a new economic order.

Such claims were grossly exaggerated. Headquartered in Beijing, the new bank has an authorised capital stock of US\$100 billion; ongoing projects are co-sponsored with the World Bank, and the articles

of agreement confirm a partnership model with other multilateral institutions. It is possible that US Senate approval for an increase in China's voting rights within the IMF and World Bank may have conditioned this forward-looking response.

The Belt and Road Initiative—China's expansive transcontinental infrastructure and development framework—poses a similar dilemma concerning the overlap between strategic and development objectives. But just like the AIIB, it will be hard to achieve successful outcomes in the absence of international financial, economic and environmental safeguards. The United States' withdrawal from the Trans-Pacific Partnership means that China is now

the lead player in regional integration and, therefore, far more exposed to international criticism.

As a counterbalance to ideological competition, enhanced cooperation on climate change presents a bright spot on the horizon. Yet it is unlikely that China will take the lead on this issue. While a commitment towards reducing emissions on a voluntary basis will likely endure, burden-sharing remains a central prerogative in negotiating international cooperation, and domestic priorities continue to drive China's low-carbon policies.

The question now is: can a cautious approach towards international cooperation lead to the effective delivery of public goods?

US political scientist Joseph Nye

recently questioned whether China could fall into the ‘Kindleberger trap’. Charles Kindleberger, the intellectual architect of the Marshall Plan, argued that when the United States replaced Britain in the 1930s as the largest global power, it failed to carry the burden for the provision of public goods, leading to the Great Depression and war.

While this prediction merits attention, it fails to take into account that China is not acting alone. As a global actor, it is still playing catch-up and in some respects benefiting from being a late developer—emulating, learning and re-inventing. In particular, the intellectual ideas underpinning China’s role in global governance are still in the making and rely on interactions with the outside world.

These overlapping challenges underscore the importance of taking a new, pragmatic approach towards global governance—one that recognises the risks arising from political fragmentation and the revival of ideological competition across security, economic and cultural domains of international politics. Under these conditions, it is not enough simply to set up more representative institutions and hope that better governance will prevail. The lack of trust in existing institutions is best overcome through action, rather than making more declaratory statements.

As China has not fully accepted the liberal international order, there are doubts about whether deeper reform can be achieved. Part of this is due to timing. China’s domestic priorities continue to trump global imperatives, and it maintains a state-guided, ideologically driven approach towards the rule of law and human rights. This will likely continue to stymie efforts to



The presidents of Russia, China and Argentina, Vladimir Putin, Xi Jinping and Mauricio Macri, attended the Roundtable Summit Phase One session of the Belt and Road Forum at Beijing’s Yanqi Lake Conference Centre on 15 May 2017. The ideas underpinning China’s role in global governance are still in the making.

create a strong partnership between China and liberal states.

That said, an approach that seeks open, fair and legitimate governance in dealing with the challenges of the contemporary era is our best option for maintaining a political equilibrium during a period of structural transition. Perhaps this approach, reviving political theorist David Mitrany’s traditional functionalist principle of a ‘working peace’ across continents, would be more effective than a grand universal design.

After all, the preservation of principled arrangements for governing international affairs lies in cooperation in practice. In a speech at Chatham House in 1948, Mitrany introduced his transcontinental perspective: ‘It seems to be the fate of all periods of transition that reformers are more willing to fight over a theory than to pull together over a problem. At this stage, I can only be given credit for the claim that I do not represent a theory. I represent an anxiety.’

Today, our anxiety is of a different kind—that the rules-based international order appears now on the verge of disintegration. China’s stronger political leverage means that international politics is likely to become less transformative and more transactional over time. We are likely to witness more bargains over the rules, but not necessarily more conflict over strategic priorities.

We can and should be more confident about the limits to power in the contemporary era. Despite the vanity of President Trump’s ‘peace through strength’ rhetoric, it is doubtful whether any state, no matter how powerful, has the capacity to govern the world single-handedly. It is this unshakable reality that provides optimism for the future of global governance. [EAFQ](#)

*Katherine Morton is Professor in China’s International Relations, School of East Asian Studies, University of Sheffield.*

# Trump and China: implications for Southeast Asia

ROBERT SUTTER

**T**HE Obama government remained positive about US–China relations until the end of its tenure in January 2017. Yet despite many important areas of cooperation, American attitudes to China have hardened.

On the campaign trail, Democratic presidential candidate Hillary Clinton, the Obama administration's first-term secretary of state, sharply criticised a wide range of Chinese government actions. Republican nominee Donald Trump promised trade retaliation. Chinese specialists judged that Trump, as a pragmatic businessman, could be 'shaped' to align with Chinese interests and would ultimately be easier to deal with than Clinton.

President-elect Trump soon upended these sanguine expectations with a few gestures, comments and tweets. He accepted a congratulatory phone call from Taiwan's President Tsai Ing-wen. When China complained, he criticised Chinese economic policies and military advances in the South China Sea. Trump went on to question why the United States needed to support a 'one China' position and avoid improving contacts with Taiwan.

President Trump eventually was persuaded to endorse—at least in general terms—the traditional American view of the 'one China' policy. His informal summit meeting with President Xi Jinping in early April went well, though it sandwiched his surprise announcement that US

missiles had struck a Syrian airfield that was used to carry out a widely condemned chemical weapons attack.

Overall, the US leader put his Chinese counterpart on the defensive. He made clear how quickly he could take a wide range of surprise actions with serious negative consequences for China. Beijing was compelled to prepare for contingencies from a US president who values unpredictability and tension in achieving goals.

Gone was the Obama government's commitment to positive ties with China. It became clear that Beijing could no longer rely on the policy transparency, measured responses, and avoidance of dramatic action or spill-overs among competing interests that characterised the previous administration. In the view of American critics, 'no-drama' Obama enabled Xi to expand in the South China Sea and carry out other

bold moves without the danger that the resulting tensions would lead to serious US retaliation.

After the summit, the Trump government kept strong political pressure on China to use its economic leverage to halt North Korea's nuclear weapons development. While stoking widespread fears of conflict on the peninsula, President Trump stressed his personal respect for President Xi. He promised Beijing easier treatment in pending negotiations on the two countries' massive trade imbalance and other economic issues.

The crisis over North Korea put a premium on US interaction with China. Planned arms sales to Taiwan, freedom of navigation exercises in the South China Sea, and other US initiatives that might complicate America's search for leverage to stop North Korea's nuclear weapons development were put on hold. The Mar-a-Lago summit wrap-up from the Chinese foreign minister contained only a one-sentence reference to the South China Sea.

China's new uncertainty over the US president added to reasons for Beijing to avoid—at least for now—controversial expansions in the disputed South China Sea. Beijing was also loathe to take expansionist actions that would upset their efforts to woo Philippine President Rodrigo Duterte away from the previous government's close alignment with the United States. The overall result was a temporary respite in China's South China Sea aggrandisement. How long this will last is a guessing game.

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Trump's Southeast Asia policy at best reflects belated and episodic attention based on a poorly staffed administration with no coherent strategic view



US President Donald Trump and Chinese President Xi Jinping, with first ladies Melania Trump and Peng Liyuan, at the 'informal summit' at Trump's Mar-a-Lago estate in April 2017. China now has to deal with a US leader who values 'unpredictability and tension in achieving goals'.

The Trump government's preoccupation with North Korea and China reinforced a prevailing drift in American policy in Southeast Asia. Trump and his officials have announced the end of the Obama government's 'pivot to Asia' policy and repudiated its economic centrepiece, the Trans-Pacific Partnership.

The Obama administration attached high priority to Southeast Asia, which has traditionally been second in American attention to Northeast Asia. In contrast, Southeast Asia was rarely mentioned in the long 2015–16 US presidential campaign. Donald Trump's only references to the region were occasional criticisms of China's island building in the South China Sea.

Trump's Southeast Asia policy at best reflects belated and episodic

attention based on a poorly staffed administration with no coherent strategic view. Only very recently have they begun to take steps to show interest in positive engagement with Southeast Asia.

On security, Secretary of Defense James Mattis and Vice President Michael Pence have been leading administration officials in persuading the president to play down his campaign rhetoric on Japan and South Korea—namely that American alliance commitments to these allies were dependent on their payments to the United States. US military presence in these countries is viewed as a stabilising influence by US partners in Southeast Asia.

There have been some efforts to further assuage Southeast Asian

partners. Vice President Pence visited Indonesia in April and told officials that President Trump would attend the upcoming US–ASEAN and East Asian summits in the Philippines, as well as the APEC summit in Vietnam in November 2017. The vice president's stop in Australia was broadly reassuring, but administration commentary devoted little attention to the troubled US alliances with the Philippines and Thailand.

At the end of April President Trump called the leaders of Singapore, the Philippines and Thailand. Inviting the latter two to visit the White House represents a break from the Obama government's arms-length treatment of both governments on human rights grounds. But the president then left town after the

House of Representatives passed its controversial health care bill. He was at his estate in New Jersey and hence unavailable to meet with ASEAN foreign ministers visiting Washington that week.

On the South China Sea disputes, the Trump government has followed a cautious approach. It has so far avoided the periodic freedom of navigation exercises by US Navy ships targeted against Chinese claimed land features that were deemed illegal by an international tribunal in 2016. In Indonesia, Pence repeated the administration's insistence on 'fair trade' with Indonesia, one of many Asian countries whose trade surplus with the United States has placed them under review by the new administration.

Human rights issues in Southeast Asia—ranging from authoritarian strongman rule in Cambodia and Communist dominance in Vietnam to the newly democratic Myanmar government's controversial crackdown on the oppressed Rohingya community—have received much less attention from the Trump government than from previous administrations. Recent presidential invitations to Philippine and Thai leaders underline this new US pragmatism on human rights issues.

Southeast Asian officials are correct in complaining that they have few counterparts in the Trump government, particularly in the State and Defense departments, due to the administration's remarkable slowness in nominating appointees. Some governments, notably Vietnam, are making the best of the situation, carrying out agreed-upon visits from senior leaders this spring. More common among Southeast Asian states is a wait-and-see approach, as the Trump government slowly fills

the ranks with appointees who can formulate US foreign and security policies relevant to the region.

As they wait, those seeking a coherent and well-integrated US strategy toward Southeast Asia are likely to be disappointed. Barring an unanticipated crisis, the preoccupations of the Trump administration with other priorities seem likely to continue for the foreseeable future. Perhaps lower-ranking officials, once in office, will be able to craft a strategy worthy of the name. But they will have to convince their superiors of the importance of accepting and carrying out this strategy amid a din of other problems at home and abroad.

On key issues in Southeast Asia, there appears to be broad agreement within the Trump government—shared by congressional leaders—on the need to strengthen the American security position in Southeast Asia along with the rest of the Asia Pacific. President Trump's proposed increase in defence spending will presumably support recent congressional legislation such as the Asia-Pacific

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Barring an unanticipated crisis, the preoccupations of the Trump administration with other priorities seem likely to continue for the foreseeable future

Stability Initiative and the Asia Reassurance Initiative Act. How far the initiatives will go in actually expanding the US presence in the region will depend on administration and congressional willingness to modify or end the ongoing sequestration limiting defence and other discretionary government spending.

While many Republicans are willing to consider deficit financing in order to increase defence spending, Republican 'budget hawks,' who reportedly include the current director of the Trump government's Office of Management and Budget along with many in Congress, oppose it. Increases in defence spending may therefore be contingent on cuts elsewhere.

While congressional Republicans include strong advocates of human rights, democracy and American values in the conduct of US foreign policy, the early Trump government has largely followed a pattern of pragmatic treatment of these issues. Consistency in this stance will presumably be welcomed by more authoritarian Southeast Asian leaders, as well as leaders in more pluralistic states like the Philippines, Myanmar and Malaysia who were targeted for criticism by the Obama government and continue to be attacked by congressional and US non-government advocates.

Achieving a unified and sustained position on US economic and trade issues—with Southeast Asia or elsewhere—promises to be more difficult than consistency on security and foreign policy values. Key appointees have records very much at odds with one another. Some strongly identify with the president's campaign rhetoric pledging to deal harshly with states that 'treat the United States unfairly' and 'take jobs' from American workers. Others stick to conservative

Republican orthodoxy in supporting free trade. Reports of political alliances in the White House have been widespread, often with presidential advisor and son-in-law Jared Kushner and Economic Council Director Gary Cohn on one side and Commerce Secretary Wilbur Ross and US Trade Representative Robert Lighthizer on the other.

Policy is said to move back and forth between these two camps, though the circumstances behind this dynamic remain unclear. The president chose these officials and has a long record of welcoming sharply alternative views among his staff. Where Trump himself will come down in this debate, and whether he will stick with a position, is very unclear.

How much influence the United States will lose or gain in these uncertain surroundings remains to be seen. Much will depend on how well or how poorly China 'fills the gap' caused by drifting American policy. For now, Beijing seems poised to play down controversial expansion and stress China's economic beneficence as manifested in the Belt and Road Initiative. Either way, there are risks—depicting China as a paragon of free trade is belied by practice. And as seen in the recent practice of governments in Myanmar, Taiwan, South Korea and Australia, for many neighbours, economic closeness to China breeds angst and wariness of its economic dominance.

While some analysts may offer a clearer trajectory, for now it seems that US–China competition in Southeast Asia is more likely than not to remain a muddle for some time to come. **EAFQ**

*Robert Sutter is Professor of Practice of International Affairs at the Elliott School of International Affairs, George Washington University.*

# Two tigers: a new normal or a fleeting respite?

ROBERT A MANNING  
AND  
JAMES J PRZYSTUP

**A**N OLD Chinese proverb captures a core dilemma of Sino–Japanese relations, and perhaps about the future of regional order in East Asia: 'Two tigers cannot live on one mountain.'

While there is long-term uncertainty about the China–Japan relationship—for the past two millennia the two have only seen shifting hierarchical relations—today the relationship shows the semblance of a 'new normal'. Both Prime Minister Shinzo Abe and President Xi Jinping have committed themselves to advancing the relationship in 2017,

Economic and diplomatic relations have been relatively stable since the 2014 Abe–Xi 'four-point' agreement, though both sides differ on its interpretation

the 45th anniversary of normalisation and the 40th anniversary of the Japan–China Peace and Friendship Treaty.

At the same time, the ongoing low-intensity confrontation in the East China Sea is emblematic of the long-term uncertainty shrouding the future of the relationship.

For Japan, China's rapid transformation has been something of a psychological shock, a change with which it is still coming to terms. In 2000, China's GDP was US\$1.2 trillion, four times smaller than Japan's. By 2010, China's US\$6.1 trillion GDP had surpassed Japan's. By 2016, it was US\$11 trillion, more than twice that of Japan.

Today China is Japan's largest single trading partner, with two-way trade in 2015 amounting to almost US\$279 billion, nearly 30 per cent of Japan's total trade. Yet in a July 2016 survey of Japanese companies operating in China, 40 per cent of the nearly 3000 respondents recommended cutting back on business operations, citing political risk. Only 8 per cent favoured expanding or developing business operations. According to China's Ministry of Commerce, Japanese investment in China declined by 25.2 per cent in 2015.

This trend echoes recent reports from EU and US chambers of commerce in China, which complain of increased difficulties of doing business there. It reflects a widespread





perception that President Xi is reversing some of Deng Xiaoping's 'reform and opening' policies in pursuit of more nationalist, mercantilist industrial policies.

China's booming economy has also supported the ongoing modernisation of the People's Liberation Army, with double-digit increases in defence spending for most of the past two decades. This has been a matter of increasing security concern among defence planners in Tokyo and in political circles where references to the China 'threat' are not uncommon. Japan's Defense White Paper for 2016 includes pointed references to threats from China and its 'efforts to change the status quo'. The US Department of Defense estimates the 2016 Chinese defence budget at over US\$180 billion. That would make it more than four times larger than Japan's US\$43 billion defence budget, which has held steady

at about 1 per cent of GDP for over two decades.

Nevertheless, at present relations appear to have evolved into something of an uneasy 'two-track' framework. Senior business leaders, parliamentarians and diplomats meet on a quasi-normal basis, while low-level military challenges continue in the disputed Senkaku/Diaoyu islands and in the maritime domain and airspace around Japan.

There are periodic eruptions around 'history issues', occasioned by revisionist textbooks or senior Japanese visiting the Yasukuni Shrine, which commemorates Japan's war dead, including some who are considered war criminals. Despite these tensions, economic and diplomatic relations have been relatively stable since the 2014 Abe–Xi 'four-point' agreement, though both sides differ on its interpretation.

In recent months, both economic ties and diplomacy have forged ahead. Senior Chinese and Japanese diplomats met in April to discuss a possible Abe–Xi meeting during the July G20 meeting in Germany. They are also trying to arrange a trilateral Japan–China–South Korea summit. And in early May, Chinese and Japanese finance ministers met in Yokohama for their regular bilateral financial dialogue.

Nevertheless, beneath the appearance of business-as-usual normalcy, public opinion in both countries is moving in the opposite direction. A recent Pew survey conducted in both China and Japan reported overwhelmingly negative mutual feelings, with 86 per cent of Japanese respondents having an unfavourable view of China and 81 per cent of Chinese respondents having an unfavourable view of Japan.

At the same time, there is an undeniable undercurrent of strategic competition. China has asserted its bid for regional and global hegemony with the creation of the Asian Infrastructure Investment Bank and its 'Belt and Road' Eurasian-centred infrastructure vision. Abe, defining Japan as a proactive contributor to peace, has stepped up investment as well as economic and security aid to Myanmar, the Philippines and Vietnam. He has announced more than US\$100 billion in multi-year infrastructure investment to 2030. Japanese Official Development Assistance is focused on strategic objectives in Southeast Asia, in particular maritime capacity building.

The Abe government has expressed strong support for the Permanent Court of Arbitration's judgment on the South China Sea, and its opposition to unilateral change to the status quo—that is, China's island construction in the South China Sea. Japan has also affirmed its support for unimpeded freedom of navigation. China, of course, declared the ruling 'null and void' and 'with no binding force' and repeatedly cautioned Japan against involvement in disputes to which 'it is not a party'.

Far more worrisome is the unabated low-level confrontation in the East China Sea, with China contesting Japan's administrative control of



PICTURE: TONY GENTILE / REUTERS

Prime Minister Shinzo Abe, whose government has increased aid to Southeast Asian countries.

the Senkaku islands, claimed by China, which knows them as the Diaoyu. This appears to be driven by a Chinese desire to end its 'century of humiliation'. Japan's parliament claimed sovereignty over the islands after the Treaty of Shimonoseki, which ended the 1895 Sino-Japanese War.

Chinese air and naval activity in the waters around the islands appears to have an objective at odds with the US freedom of navigation operations (FONOPS) in the South China Sea. The United States has no territorial claims there but has a vital interest in the unimpeded freedom of navigation, using FONOPS inside claimed territorial waters to demonstrate that interest. In contrast, China's increasing air and maritime incursions into the East China Sea appear aimed at disrupting—and perhaps eventually replacing—Japan's administrative control over the islands, which falls under the US-Japan Security Treaty.

The result is a potentially dangerous game of chicken that could easily lead

to incidental conflict that could rapidly escalate. Tokyo is in the process of moving more defence assets to small inhabited islands, most of which lie between Okinawa and the Senkaku/Diaoyu island group. Japan frequently scrambles fighter jets in response to Chinese aerial activity in the area—this occurred a record 853 times in 2016. Japan has assigned a coast guard fleet to respond to—and drive out—a growing Chinese Coast Guard presence, as well as maritime militia (fishing boats working with China's coast guard) and fleets of fishing boats.

While both governments remain committed to establishing an air and maritime communications mechanism to manage the risks of incidental engagement, diplomats have yet to finalise an agreement.

The larger question of the strategic trajectory of Sino-Japanese relations towards 2030 is nested within this uneasy two-track framework. Against this difficult political background, is there a new equilibrium or balance of interests that both sides can live with? Or is some version of the Thucydides trap—where the fear of a rising power among established powers escalates into conflict—looming in the future? We suspect that the future strategic balance in Northeast Asia will rest significantly on how the North Korea question plays out. [EAFQ](#)

*Robert A Manning is a Senior Fellow at the Atlantic Council, Washington DC.*

*James J Przystup is a Senior Fellow at the Institute for National Strategic Studies at the National Defense University, Washington DC.*

*The views in this article are the authors' and do not represent the views or policies of the Atlantic Council or the National Defense University.*

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# Rethinking Southeast Asian strategic economic diplomacy

HENRY WAI-CHUNG YEUNG

**I**N TODAY'S global economy, characterised by cross-border production networks, the need to understand the changing ways in which the state and firms work together has become even more pressing. While the state plays an important role in supporting these production networks, it is firms and other private organisations—industry associations and standards organisations, for example—which coordinate and organise these networks.

UNCTAD's World Investment Report 2013 estimated that some 80 per cent of today's world trade is conducted through firms in these production networks—they're the backbone and central nervous system of the global economy.

In Southeast Asia, many economies are heavily involved in production networks, some of which are highly

regional in nature. The ASEAN Investment Report 2016 suggests that regional production networks will be critical in realising the ASEAN Economic Community's goals, which include building a single market of over US\$2.5 trillion and a single production base of over 620 million people. As Escaith et al argue in the last edition of *East Asia Forum Quarterly*, 'understanding the nature and dynamics of these production networks will be more important to securing stable and fair growth throughout the region.'

We need to rethink the strategic diplomacy of economic development—it can no longer be entirely state-driven in an era of global production networks. I use the concept 'strategic coupling' to describe the mechanism of strategic economic diplomacy through which domestic firms couple their specific initiatives and advantages with those of global lead firms. Through this process,

firms coordinate diverse production networks spanning across national and regional territories.

The Apple–Foxconn case is one example of strategic coupling at work. Taiwan's Foxconn is instrumental not only in manufacturing Apple's iPhone success, but also in integrating Taiwan and mainland China into the iPhone's global production networks.

But this well told story has a critical and often missed dimension—the even more crucial role played by South Korea's Samsung, Apple's major competitor in the global mobile handsets market, which has also supplied critical components to successive generations of iPhones assembled by Foxconn.

While serving as the iPhone's largest supplier by value of components, Samsung has kept busy building its own brand production networks throughout East and Southeast Asia, including a giant industrial park in Bac Ninh province in northern



Vietnam. Opened in 2009, Samsung's smartphone production there has transformed a province of rice fields into Vietnam's second-largest export centre after Ho Chi Minh City.

While the state and its policy initiatives in Taiwan, mainland China, South Korea and Vietnam facilitated this Foxconn–Apple–Samsung strategic coupling in East and Southeast Asia, they are not the only domain through which this new mechanism of economic development can be effective and successful.

My recent work *Strategic Coupling* shows that some East and Southeast Asian economies have industrialised rapidly during the past two to three decades for reasons other than their strong developmental states, market-distorting initiatives and industrial policies at home. Equally if not more important are the organisational and technological innovations developed by national firms, such as Samsung and Hon Hai (Foxconn's parent). These firms seize opportunities embedded in the cross-border production networks spearheaded by global lead firms from advanced industrial economies in North America, Western Europe and Japan.

The state's capacity to steer national economic development and 'govern the market' has become more constrained since the 1990s. The transformation of state roles has led to the weakening of the state's embedded autonomy in countries like South Korea and Taiwan. State institutions began to facilitate the redistribution of state power across multiple state and non-state institutions. Through policy instruments, states have moved towards more horizontal and functional policy in support of domestic firms and industries that take advantage of growing global opportunities—for example,

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The politics of industrial and sectoral choice is confounded by the growing uncertainties of today's global economy

promoting industrial upgrading and innovation, and facilitating trade and investment.

As Southeast Asian states move from active economic intervention to facilitating strategic coupling between firms and global production networks, developmental partnerships start to broaden from top-down state–firm relations to include inter-firm networks. This new mechanism of strategic economic diplomacy recommends a dynamic conception of state–firm relations in the changing context of global economic governance—one that goes beyond the debilitating market–state dichotomy.

The integration of Vietnam into Samsung's global production network is a good example of this rethinking of strategic economic diplomacy. This strategic coupling stems from Samsung's competitive-cum-cooperative relationship with Apple. Samsung's US\$15 billion investment in Vietnam represents a strategic imperative to diversify away from mainland China, where Foxconn is dominant. It allows Samsung to tap into strong existing industrial clusters in Singapore, Malaysia and Thailand.

What does the strategic coupling story suggest in terms of public policy? While it is now much harder for almost any Southeast Asian economy to develop internationally competitive

vertically integrated industries, there remains significant room for a new kind of strategic economic diplomacy—one that encourages domestic firms to tap into the developmental opportunities inherent in most global industries.

The question of the beneficiaries of state-led initiatives has become much more complicated. When the East Asian 'tiger' economies entered the new international division of labour in the 1960s, there was no question as to who would benefit the most from state-led industrialisation—domestic firms and national champions. But as today's national firms are less domestic in their outlook and activity, one may question whether they should be the only beneficiaries of a renewed form of industrial policy. As more domestic firms couple with global production networks, the presence of foreign firms in the national economy will grow.

The call for a more calibrated approach to strategic economic diplomacy brings with it the possibility of focusing on more niche policies that nudge strategic coupling. As industrial production becomes ever more fragmented and globalised, state planners in Southeast Asian economies will find it harder to identify which products and technologies should be developed in their domestic industries.

Today's obstacles to economic development are less about large capital outlays and scale of investment, and more about developing specialised niches within different global industries. In most global industries characterised by vertical specialisation and modularisation (transport equipment, ICT, agro-food and so on), a niche approach to industrial policy is likely to yield stronger coupling networks than a 'big spurt' approach to state-led industrialisation.

# Commercial diplomacy could lift ASEAN airlines to new heights

The politics of industrial and sectoral choice is confounded by the growing uncertainties of today's global economy. When some of the Asian 'tiger' economies began their industrial transformation in the 1960s and the 1970s, industrial policy was relatively straightforward. It was highly selective and focused on promoting labour-intensive, heavy and chemical industries. Now, as these industries mature, value creation and capture tends to be much greater in new innovation-based industries in the manufacturing and service sectors, such as nanotechnology, biomedicine, green tech and digital media. Here, catching up is not just a matter of capital investment led by state-controlled financial institutions and elite industrial development agencies. The sheer complexity and wide range of actors and interests with specialised knowledge in these industries makes it rather unruly for bureaucratic targeting, even for a state with well-coordinated industrial policy.

In such a challenging world of extraordinary uncertainties, strategic economic diplomacy is one approach to industrial transformation and economic development. Looking forward, the post-developmental state should focus on creating broad-based capabilities in new technologies, product and process innovations, and market development, rather than choosing specific winning firms, industries or sectors. **EAFC**

*Henry Wai-Chung Yeung is Provost's Chair and Professor of Economic Geography at the Department of Geography and Co-Director of the Global Production Networks Centre, National University of Singapore. He is the author of Strategic Coupling: East Asian Industrial Transformation in the New Global Economy (Cornell, 2016).*

ALAN KHEE-JIN TAN

**I**N 2010 ASEAN and China concluded an air transport agreement to establish a liberalised market access regime for both sides' airlines. Yet the benefits from the arrangement were unbalanced, with China making much bigger gains in access than the ASEAN states. A closer look at this imbalance makes clear the need for a true single market in aviation across ASEAN.

The ASEAN states had attempted to negotiate as a bloc to increase their bargaining position against China. Up to this point, market access had been governed by bilateral agreements between the individual ASEAN states and China. These agreements typically imposed strict caps on the number of flights or types of aircraft operated by each party's airlines in the other's market.

The 2010 ASEAN–China Air

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This asymmetry is caused by the ASEAN states' unwillingness to treat their region as a unified market

Transport Agreement (ATA) relaxed these restrictions in line with the progressive liberalisation of airline market access worldwide. Because there are multiple actors in the ASEAN–China game, each ASEAN state's aviation relationship with China depends not only on its bilateral dealings with China but also those with the other ASEAN states. Along the way, 'satisficing' arrangements, which suffice but are barely satisfactory, have come to be accepted, reflecting the realities of the political imbalance between ASEAN and China.

The ATA paved the way for the abolition of all capacity, frequency and aircraft-type restrictions on point-to-point routes between ASEAN countries and China. In practical terms, an ASEAN carrier like Singapore Airlines now enjoys unlimited penetration into any number of Chinese cities from Singapore, subject only to airport congestion and 'slot' restrictions in major cities. Correspondingly, Chinese airlines can now make use of unlimited connections and capacity between any number of points in China and any number of points in the 10 ASEAN states.

At first glance the ATA seems like a goldmine for ASEAN airlines, allowing them unlimited access to mainland China, but a deep aeropolitical imbalance between the two remains. An individual ASEAN airline can only connect from its home

territory to China, but not from points in other ASEAN states with China (the so-called ‘seventh freedom’). Yet, crucially, Chinese carriers can effectively connect any point in China with any point in each of the ASEAN states.

This asymmetry is caused by the ASEAN states’ unwillingness to treat their region as a unified market. If ASEAN had a common aviation market its member states would have been able to negotiate unlimited operations between all points in ASEAN and China for their respective airlines. Ultimately, this deficiency arises from ASEAN’s own internal realities and has little to do with China.

In effect, the ASEAN states have agreed to an arrangement that does not appreciably advance the collective interest of the group beyond the sum of their individual interests. Instead the ATA appears to have strengthened the Chinese carriers, which are now the only airlines that can truly connect any two given points between the respective land masses in an unlimited fashion. While Chinese carriers are not as competitive or well-managed as some Southeast Asian carriers, they are quickly expanding and will become significant competitors in coming years.

The ASEAN situation today is comparable to that which European states faced in their earlier aviation relationship with the United States. In order to correct that asymmetry, the European Commission asked EU member states to give it the mandate to negotiate anew with the United States. As it turned out, the Commission prevailed—the EU was soon able to forge the European Common Aviation Market and to negotiate with the United States from a position of greater combined



The seventh-freedom right is a key to allowing ASEAN airlines reap the benefits of China traffic.

strength.

This culminated in the United States–EU Air Transport Agreement of 2007, which effectively allowed any EU carrier to carry traffic between any EU point and any United States point, balancing what the US airlines were already enjoying.

There is no doubt that ASEAN must eventually achieve the same result with China and other trading partners. Efforts to do so will only gain traction if the ASEAN states first liberalise among themselves.

ASEAN governments must start

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The 10 ASEAN member states lack a directional supranational facility like the European Commission

allowing each other the ‘seventh freedom’ of the air—an airline’s right to carry between one foreign country and another without a service to their home country—if they are to carry traffic between any point in ASEAN and China. This is the only strategic way to match the Chinese airlines’ ability to do the same thing. Instead of achieving full liberalisation among themselves first, the ASEAN states have proceeded to adopt an ATA with China that could prove disadvantageous to their carriers in the long run.

To be fair, a liberalisation movement does exist within ASEAN, but it is ongoing and nascent. The 10 ASEAN member states lack a directional supranational facility like the European Commission that can compel states to pursue a common regional interest. With vastly differing stages of development and airlines of varying strengths, the ASEAN member states have tremendous variance in aeropolitical interests.

The decision to pursue an ATA with China was made at the behest of those

# What type of East Asian order will China accept?

more liberal states, like Singapore and Malaysia, which have strong airlines, supported by a proactive ASEAN Secretariat. The rationale was to jumpstart the nascent intra-ASEAN liberalisation movement. But these states must now contend with the interests of bigger and more conservative states like Indonesia and the Philippines, which prefer a slower pace of liberalisation to protect their airlines from stronger regional rivals.

Due to this lack of agreement, the ASEAN states now have in place the erroneously labelled 'Single Aviation Market'. In short, it is 'single' only in name. The crucial seventh freedom—which would allow, for example, a Thai carrier to station aircraft in Singapore and operate them to Indonesia—continues to be resisted by most ASEAN states and their airlines.

The seventh-freedom right—resisted even within ASEAN—was nowhere to be seen in the ATA with China. Yet this is exactly what is required for airlines to be able to operate from any point in the region to China.

The absence of fully liberalised market access within ASEAN has a direct strategic bearing on their aviation relations with third states like China. By decrying the seventh-freedom right, the ASEAN states have failed to create a truly unified aviation market in the region.

The only way for the smaller ASEAN states to balance the might of their larger trading partners is to combine their individual markets and create a common market area. This is a major challenge for commercial diplomacy between Southeast Asia and China. **EAFQ**

*Alan Khee-Jin Tan is Professor of Aviation Law at the National University of Singapore.*

HUANG JING

**T**HE rise of China has irrevocably changed the economic and geostrategic landscape of the Asia Pacific. Southeast Asia, a region of immense economic potential and geostrategic significance, has become the focal area of competition among major powers, especially between the United States and China. The power that prevails in this competition will play a dominant role in reshaping the strategic balance and international order in the Asia Pacific and beyond.

The fast development of China's capacity to project power overseas has raised serious concerns and anxiety in the region. Virtually all Southeast Asian countries, except Thailand, were once in the hands of imperialist powers and went through brutal struggles for national self-determination and independence. Such bitter experiences make it natural for them to fear a fast-growing China, a country for which the nature of state power remains undetermined despite Beijing's 'peaceful rise' rhetoric.

Thus the Southeast Asian nations welcome, to varying degrees, US military presence in Asia. This is not just because the United States has been widely deemed a benign hegemon. Many in Southeast Asia see US presence as an effective way to maintain the strategic balance in the region.

The United States is a status quo

power. The ultimate goal of the US rebalance to Asia—a policy now abandoned by President Donald Trump with no replacement—was not necessarily to 'contain' China, but to preserve existing circumstances. The rebalance aimed to maintain and reinforce the international order and security arrangements based on the US-led alliance system established in the Asia Pacific after World War II.

By contrast, China is deemed a revisionist power that intends to reshape the regional order and security arrangements. Its assertive behaviour in the South and East China Seas seems to have confirmed Southeast Asian perceptions that China is trying to reinvent the regional order on its terms.

What kind of Southeast Asia, then, is desirable for China, given its national aspirations and interests? To answer this, we must first understand what China is trying to prevent. First and foremost, it does not want to see an anti-China coalition in the region, especially one led by the United States. Second, China does not want to see a politically divided and unstable Southeast Asia. Such a situation would provide convenient justifications for an outside power—the United States, for example—to intervene in Southeast Asian affairs.

From China's perspective, any substantial involvement of a 'foreign power' in its neighbourhood would be seen as a potential threat. As

history has shown, political turmoil in Southeast Asia can provoke waves of anti-Chinese activity, where overseas Chinese become scapegoats for internal socioeconomic conflicts. Not only would this pose a diplomatic challenge to Beijing, but anti-Chinese activity overseas could also stir up nationalistic resentment among the domestic public, undermining political stability at home.

An economically underdeveloped and fragmented Southeast Asia is not desirable for China, the largest trading nation on earth. As a beneficiary as well as a leading promoter of economic globalisation, China can gain enormously from a prosperous Southeast Asia. That's why China offered tremendous help to the Southeast Asian countries during the Asian financial crisis of 1997–98. As regional economic development revitalised, China's trade with ASEAN surged, increasing by over 880 per cent in 2000–15.

Obviously it is unrealistic to expect China to outcompete the United States and 'win over' Southeast Asia entirely. Thus, Beijing's top priority is to prevent the region as a whole from siding with the United States and its ally Japan.

As a non-Asian power, the United States simply could not sustain a massive confrontation with China in the region—in the South China Sea, for example—without a Southeast Asian country willing to provide it with a solid base for military operations. As long as Southeast Asia remains neutral in the US–China contest, China can eventually prevail in the region, given its rapidly growing economic and political weight and geopolitical proximity.

Thus a politically united Southeast Asia actually serves China's interests. Being neutral in major-power

competition makes it necessary for the Southeast Asian countries to stand together in international affairs—that's why 'neutrality' is one of the ASEAN principles.

Meanwhile China has endeavoured to promote economic integration between China and Southeast Asia. Southeast Asia is a focal area in China's Belt and Road Initiative (BRI). From Beijing's point of view, the function of the BRI is to promote joint economic development between China and participating parties. It is therefore compatible with ASEAN's scheme of economic integration.

As President Xi Jinping pointed out in his speech at the Conference on Interaction and Confidence-Building Measures in Asia in Shanghai on 21 May 2014, joint economic development through the BRI can help to develop common ground between China and Southeast Asian countries, where everyone has a stake in maintaining regional peace and stability.

From Beijing's perspective, economic integration and interdependence—achieved and reinforced through joint economic development—would bring about a 'community of common destiny'. In

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China's leaders have keenly realised that a confrontation with the mighty United States would not serve China's interests

this community, peace and security are maintained through cooperation rather than hinging on a balance of power.

But China's approach has yet to achieve the desired result. While the United States has tended to reinforce its presence in Asia, Southeast Asian countries remain unconvinced that China's approach would bring about peace and prosperity in the region.

Territorial disputes in the South China Sea have become the crux of these challenges to China's approach towards Southeast Asia. Despite repeated statements that the United States does not take sides in these disputes, the Obama administration seized on opportunities created by emerging tensions over the disputes and intervened. The US justification was that the United States has a substantial stake in maintaining regional peace and freedom of navigation in international waters.

Southeast Asian countries welcomed, to varying degrees, US involvement in the South China Sea. As a result the United States effectively took the strategic initiative and put China on the defensive in its own neighbourhood.

China's leaders have keenly realised that a confrontation with the mighty United States would not serve China's interests. While Beijing tends to be accommodating in dealing with the United States, it strives to increase its military capabilities in the South China Sea. The aim is not necessarily to prevail in a military confrontation, but to increase the costs the United States would have to bear in confronting China such that Washington would rather drive a bargain than go to war.

In addition to US–China strategic rivalry, there is also the competition between China and the other claimant countries in the South China Sea. Like





Philippine Navy personnel prepare a helicopter for takeoff during exercises with the US Navy. Uncertainty about US policy has played into Beijing's hands.

China, these countries have vital stakes of national security and sovereignty in these disputes. How the disputes are solved could substantially affect their economic development.

Here the asymmetry of force is overwhelmingly in China's favour and time is on China's side. While China has adopted an assertive approach in territorial disputes, its diplomacy in the region can be described as 'remunerative'. The aim is to optimise China's economic strength by offering incentives to those who opt to cooperate and put pressure on those who are defiant. Meanwhile, China's fast-growing military forces are used as a credible deterrent rather than as a means to achieve policy goals.

China wants to keep these two games separate. That is why China is firmly against 'internationalisation' of the territorial disputes in the South China Sea.

Specifically, China has adopted

a two-track strategy towards the territorial disputes, adopting a multilateral approach to manage tensions and promote joint development, while insisting on a bilateral approach to resolving the disputes. Meanwhile, Beijing has skilfully manipulated the 'friendly countries' in Southeast Asia to prevent ASEAN from taking a clear-cut position on the South China Sea issue.

Although last year's Permanent Court of Arbitration ruling overwhelmingly favoured the Philippines' claims, it seems that China has gained the upper hand on the South China Sea issue. While the dramatic policy change from newly elected Philippine President Rodrigo Duterte played an essential role, uncertainty caused by Donald Trump's election has also played into Beijing's hands. In addition to the Sino-Philippines rapprochement, Vietnam and Malaysia—the other two

major claimant countries in the South China Sea disputes—have also turned a corner in their relationships with China.

With this background, China has actively engaged ASEAN in negotiating a code of conduct in South China Sea. This came under the conditions that China would negotiate with the 10 ASEAN member countries simultaneously, before they could reach any consensus on the issue, and that the code would be used to manage the disputes, not solve them.

Still, given the rapid, ongoing changes in strategic balance throughout the region, it remains to be seen whether China's strategic diplomacy in Southeast Asia can really deliver what Beijing desires. **EAFO**

*Huang Jing is Lee Foundation Professor on US–China Relations at the Lee Kuan Yew School of Public Policy, National University of Singapore.*

# Who will replace the US in Southeast Asia?



YUEN FOONG KHONG

**W**HAT would Southeast Asia's strategic order look like if the United States were to retrench militarily from Asia?

Three scenarios are possible. In the first, two regional powers—Japan and Indonesia—fill the vacuum left by the United States. In the second, ASEAN takes on a leadership role. The third scenario looks to China as the power most capable of filling the strategic vacuum. This third scenario is the most plausible—absent a strong US military presence, virtually all of Southeast Asia is likely to 'bandwagon for profit' with China.

Southeast Asia has experienced a semblance of strategic order in the post-Cold War era. This strategic order is premised on the strong US

military presence in Asia, widespread acceptance of ASEAN norms and modalities, restraint on the part of potential regional hegemony—namely China, Japan and Indonesia—and finally, a model of domestic governance in Southeast Asia that privileges economic growth.

US military retrenchment from Asia—conceived of as an Asia where troops based in South Korea and Japan are withdrawn—is not implausible. In recent years, Americans have become weary of their country playing the role of world policeman. Polls have indicated that many Americans believe the United States should solve its problems at home before trying to solve those facing the world.

Capitalising on this theme of 'America first', presidential candidate Donald Trump threatened to withdraw

Filipino fishermen watch a Chinese Coast Guard ship patrolling the disputed Scarborough Shoal in the South China Sea in April 2017.

troops from Asia and Europe if US allies did not pay more for their upkeep—though his line seems to have softened since becoming president. Major strategic thinkers have also called for a policy of restraint or offshore balancing, where the United States would stop stationing troops in most regions of the world, dispatching them only as severe threats emerge.

But without 'boots on the ground', the credibility of US commitments is likely to be questioned by Asian allies. Put another way, the US–Japan, US–South Korea, US–Philippines and US–Thailand alliances may continue to exist but will be considerably

weakened. Similarly, strategic partnerships with countries such as Singapore, Malaysia, Indonesia and Vietnam are unlikely to be abrogated, but doubts will grow in Southeast Asia around the meaning and significance of these partnerships.

The first scenario that could emerge from a US withdrawal from East Asia is one where the two less obvious potential hegemon—Japan and Indonesia—make a bid to fill the strategic vacuum that is left. Indonesia's bid would be based on its status as the largest and most populous state in Southeast Asia.

But an Indonesian bid for leadership is unlikely to win the assent of the others for a variety of reasons. Indonesia does not possess the military or economic heft to entice support from other countries. Memories of the Sukarno years, where Indonesia sought to dominate the Malay Archipelago by force, would not be reassuring.

Japan has the military and economic heft to make a credible bid as the United States' successor. Claims about its ability to provide regional public goods—economic and strategic—are also believable, and would feature in the calculations of Southeast Asian leaders deciding whether to assent to Japanese leadership. The legacy of World War II, with Japan having invaded and occupied many Southeast Asian countries, would be an obstacle.

**N**EVERTHELESS, Japan seems to have only just woken up from its strategic slumber. Whatever regional initiatives it might advance are probably too little, too late. The one initiative on which it spent substantial political capital in the name of perpetuating the US and, by implication, its own ability to set the rules of the economic game—

the Trans-Pacific Partnership—was unceremoniously abrogated by the Trump administration. On historical legacy, strategic consistency and economic centrality, Japan seems to be lagging behind its main competitor, China.

Another possible scenario involves ASEAN taking the lead in forging a multilateral order, incorporating norms and principles found in the Treaty of Amity and Cooperation, the ASEAN Regional Forum, the ASEAN Charter and ASEAN Economic and Security Communities. Although there is likely to be some competition among the larger and richer ASEAN states to be first among equals, a troika of Indonesia, Vietnam and Singapore could play a lead role in streamlining and formalising the key norms governing intra-ASEAN relations. After 50 years of ASEAN diplomacy, a strategic order based on the absence of military conflict and the prevalence of rule- or norm-governed diplomacy is within reach.

The main challenge to this ASEAN-based strategic order is the role of external actors. Given the military absence of the United States, would China and Japan snicker at ASEAN's claim to leadership of the region? Probably. Since a China–Japan condominium is unlikely, each country would prefer to call the shots itself, with each seeking strategic allegiances with Southeast Asian countries.

Instead of ASEAN's current mantra of not wanting to choose between the United States and China, member states would likely be faced with the dilemma of choosing between China and Japan in their respective bids to replace the United States as the region's preponderant power. Japan's historical baggage in Southeast Asia would make it an unlikely choice. Still, there is a slight possibility that

both China and Japan would find an ASEAN-led strategic order convenient to avoid all-out strategic competition between themselves.

The most likely scenario: China fills the strategic vacuum left by a departing United States, with virtually all of Southeast Asia bandwagoning with China, given the lack of a more viable alternative. Under this arrangement, the Southeast Asian strategic order would be underpinned by Chinese hard and soft power.

**C**HINA'S hard power attributes—growing military might, the development of asymmetrical military strategies, and its use of economic carrots and sticks—are well understood. Its soft power attributes, however, are less well established, in part because China had difficulty identifying them until recently. China's soft power does not reside in Maoism or the numerous Confucius Institutes found around the world. It is to be found in its One Belt, One Road idea, recently renamed the Belt and Road Initiative (BRI).

The BRI is attractive to the region because it builds infrastructure where none yet exists and connects key markets in the East and the West, particularly Europe. The fact that the BRI may be necessitated by China's need to export its excess economic capacity does not detract from its appeal. Leveraging China's post-1978 achievements in economic development, the BRI narrative harks back to China's illustrious past, when it was at the height of its economic power. The implicit message is that the BRI will come to fruition in ways similar to the ancient Silk Road, connecting China to Europe via land and the sea.

There are indeed formidable obstacles to the BRI becoming a

# Why strategic diplomacy matters for Southeast Asia

reality, not least because it trespasses through the backyards of India and Russia, two major powers ever-vigilant about their regional prerogatives. But if the BRI materialises, it will be the mother of all grand strategies—incorporating economics, politics and diplomacy to ‘win friends and influence people’ for China.

In return for opportunities to grow with China, Southeast Asia would accept China’s leadership and accommodate its key strategic interests—in much the same way they accepted those of the United States in the heydays of American military–economic dominance. The future of Southeast Asia looks increasingly like a Chinese lake, analogous to the ‘American Lake’ conception of post-Monroe Doctrine Latin America.

A Southeast Asia operating under Chinese leadership may be just as ‘rule governed’ as that operating under US auspices. It is just that the rules will have Chinese characteristics, like the explicit acknowledgement of hierarchy, non-interference in the domestic affairs of others and the hegemon’s ‘indisputable sovereignty’ over contested territory.

Some Southeast Asian states with maritime disputes with China may find the ‘indisputable sovereignty’ trope disturbing. But even they, after doing the cost-benefit calculus, are likely to conclude that, absent the United States, they can or must live with a China-led strategic order for the region. Strong economic growth means greater political legitimacy and that is something that most Southeast Asian governments understand. **EARQ**

*Yuen Foong Khong is Lee Ka Shing Professor of Political Science at the Lee Kuan Yew School of Public Policy, National University of Singapore.*

EVELYN GOH AND  
JOCHEN PRANTL

**S** EVENTEEN years ago, Cambridge theoretical physicist Stephen Hawking declared that the 21st century would be the century of complexity.

Why should we be concerned? Because—along with the ongoing shifts of relative power from West to East (and South) and from states to non-state actors—this complexity creates a level of uncertainty for policymakers that they cannot ignore. The double challenge of order transition and complexity makes government and governance harder.

But what is the difference between things that are complex, and things that are simply complicated—like aircraft or car engines? For one, a complicated system follows linear—that is, predetermined—dynamics. Second, there are manuals available to

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Small-scale problems have the potential to become tipping points with large-scale, system-changing consequences

operate the engines and fix problems, including system failure. As a result, a complicated system is relatively easy to maintain because the level of predictability is high, while the level of uncertainty remains low.

By contrast, complex systems—cities, societies, the human body, the weather and international orders—display dynamics that are not predetermined and hard to predict. Units or agents within a complex system are highly interconnected and interact in nonlinear ways. This means there is a fundamental disproportionality between cause and effect.

Understanding a complex system not only requires analysing the behaviour of the constituent agents but also how they interact with each other, and how this relates to interactions among other agents in the system. The complex system as a whole is more than the sum of its parts.

Complexity and shifting power dynamics are shrinking the policy space available to governments. Driven by what some have called the ‘fourth industrial revolution’, connectivity is transforming global affairs in three central ways.

First, strategic surprises, such as the financial crises in 1997–98 and 2008–09, pose a key challenge for governments. The unprecedented velocity of crises often reduces the time in which they can respond.

Second, policy issues are hard to



A Sea Hawk helicopter prepares to land on the flight deck of the USS *Ronald Reagan* in the South China Sea. In Southeast Asia during the past quarter-century, the 'dominant and fairly constant perception has been that regional stability ultimately rests upon the maintenance of American military primacy'.

isolate because they form nexuses with a range of interconnected problems—for instance, the nexus between nuclear non-proliferation, energy security and climate change.

Third, small-scale problems have the potential to become tipping points with large-scale, system-changing consequences. These are the so-called 'black swan' events with 'butterfly effects'. The breakdown of the Wall Street investment bank Lehman Brothers that triggered the 2008 global financial crisis is one example.

In sum, governments must cope with the twin effects of a shrinking policy space and the interconnectedness of policy issues they cannot control. The repercussions

for the analysis and design of global public policy are profound. Collective action problems must be situated in their complex systemic context. Rather than navigating dyadic and polyadic diplomatic relationships in achieving policy outcomes, policymakers must find ways to navigate the system.

Moreover, human cognitive biases persist. These include what Singaporean policymaker Peter Ho likes to call 'black elephants'—manifest problems that no one wants to address. Yet when the problem materialises, it will have black-swan impact with game-changing repercussions. For the contemporary East Asian regional order, two obvious black elephants are the possibilities of a severe economic

crisis in China and US military withdrawal from the region.

To be successful, policymakers must be innovative and adaptive. Their policies should be based on nonlinear and non-zero-sum concepts. And they need to strive to 'satisfice'—make the minimum commitment that suffices for all parties—rather than maximise core national interests. Strategic diplomacy provides a framework for such an approach.

Forging effective strategies is essential to maximising the policy space and minimising uncertainty. This is easier said than done in a world where there is no mutually agreed set of rules and principles on how societies should be organised

and relate to each other. Hence, strategies—whether national, regional or global—are hotly contested. Yet practising diplomacy with a renewed emphasis on strategy is crucial, particularly because the common reaction to complexity and uncertainty is to seek refuge in oversimplification, tactics and process.

Strategic diplomacy is both a diagnostic tool and a policy tool. It provides a conceptual framework to study what makes the region hang together, and to form strategies to diplomatically engage with the system. At the same time, it generates critical leverage to recast conventional analyses to arrive at different directions for policy planning.

Our wider strategic diplomacy project—of which this collection of essays is one part—has three analytical tasks.

The first is to examine the differences between traditional diplomacy and diplomacy undertaken with accentuated strategic rationale.

The second is to diagnose incidents of diplomacy that are pursued with the long-term objective of either maintaining or changing ‘the system.’

Third, we aim to account for the shorter-term diplomatic practices of contesting and negotiating conflicting strategic ideas and priorities.

Post-Cold War Southeast Asia provides a particularly informative set of cases for analysing the concept and practice of strategic diplomacy. This is because of its marked complex-systems characteristics as well as the range of examples of diplomacy undertaken in the region with intensified strategic rationale.

In a region shaped so distinctly by the United States’ hub-and-spokes bilateral alliances, the Southeast Asian countries have, since the mid-1990s, engaged in strategic diversification.

They have done so by expanding ASEAN-based multilateralism while helping to stimulate visions for longer-term regional integration in political and economic terms.

These regionalist enterprises serve the important function of nudging back into being a regional system where none has existed since the height of Western colonial interventions in the 19th century. In this new system, Southeast as well as Northeast Asian states interact with each other in an interdependent way, negotiating regional norms and conflicts. But ASEAN’s relative success in stimulating regionalism has created new challenges for strategic diplomacy.

The accentuated strategic rationale of creating regional institutions to help enmesh the great powers and provide a conduit for strategic competition has led to competitive regionalism. For example, ASEAN+3, the East Asia Summit and the ASEAN Regional Forum are channels of strategic diplomatic engagement that reflect contending visions of regional order. For these institutions, disagreement about the extent to which the regional order ought to be China-led is particularly acute. In this regard,

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ASEAN needs strategic diplomacy, possibly more than ever before, to navigate the rapid and complex transitions in geopolitics and economics today

ASEAN’s strategic diversification has structurally altered the regional system: as Amitav Acharya argues, it is now akin to a ‘multiplex’ cinema, with different options for regional cooperation and community.

From a complexity perspective, what happens in one ‘cinema’ can have unintended consequences on what happens in another ‘cinema’, and cumulatively create feedback effects across the regional system. For example, the collapse of the Trans-Pacific Partnership initiative with Trump’s surprise election has provided unprecedented impetus for negotiations for the Regional Comprehensive Economic Partnership (RCEP). If successful, the latter will set the standard for regional trade agreements, including for the services trade sector, in which it will provide less restrictive protection of intellectual property rights. This, along with the size of the Asian production and consumer markets, will create systemic path dependency that will in turn shape services and financial regulation at the global level.

The other set of challenges lies at the sub-regional level of strategic diplomatic practice. A political community designed to manage internal tensions, ASEAN needs strategic diplomacy, possibly more than ever before, to navigate the rapid and complex transitions in geopolitics and economics today.

Even as it celebrates significant successes in its 50th year, as Kishore Mahbubani notes, the association must still address the unfinished business of creating a Southeast Asian community in the political, economic and social senses. Here the challenges lie in leadership renewal, drive and the vision for how to sustain ASEAN’s strategic coherence and relevance—not just in Asia and the world, but

more importantly for each of its member states.

Yet ASEAN members have been adaptive and innovative in seeking ways to deepen regionalism. ASEAN increasingly uses formal institutionalisation and legalisation to establish itself as what Hsien-li Tan calls a 'reliable and structured inter-governmental organisation with legal obligations'. This is a significant departure from traditional ASEAN diplomacy, which prized flexibility and informality.

The strategic landscape is somewhat different when it comes to the economic realm. States in Southeast Asia cannot make international economic strategies the way they make foreign policy strategies. The economic order is more obviously a complex system, especially if we consider the cross-regional and transnational production networks into which most Southeast Asian economies are crucially plugged.

Within this landscape, the state must play alongside global corporations, transnational regulators and international economic institutions. The state's role and the strategic tools needed to leverage economic advantage and development have changed significantly, as the neat distinctions between states and firms—and between national and foreign—have dissolved.

The challenges of fostering competitive national industries, as Henry Yeung argues, are more complex in this context than in previous export-oriented industrial models. Strategic economic diplomacy entails state actors having to facilitate 'strategic coupling' between specific sectors of the national industry and key international corporations that orchestrate complex global production networks.

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The state's role and the strategic tools needed to leverage economic advantage and development have changed significantly

Yet governments still have crucial roles in economic regulation, especially trade agreements and other forms of conditional market access. Using the example of regional aviation markets, Alan Tan shows how Southeast Asia's existence as 10 national economies rather than a common market exacerbates the imbalances in economic power that these smaller states face, especially vis-à-vis China. Thus economic diplomacy with accentuated strategic rationale, aimed at evening out this systemic asymmetry, is increasingly required in managing Southeast Asian states' interactions with China.

If strategy is about connecting ways, means and ends, what should be the end-point of strategic diplomacy in Southeast Asia? Over the past 25 years, the general Southeast Asian preference has been to perpetuate the status quo in the East Asian order. Despite the proliferation of regional institutions, the dominant and fairly constant perception has been that regional stability ultimately rests upon the maintenance of American military primacy. In recent years, China's growing maritime assertiveness and the US pushback indicate great-power intolerance of the status quo.

Such dynamics raise urgent concerns about potential tipping

points in regional order—junctures at which the system is significantly destabilised and could tip over into something new and different. Huang Jing asks what is an acceptable Southeast Asia order for China, stimulating consideration of how strategic diplomacy might be used to keep the system below the threshold under which China may decide to create a new status quo. This is a vital question for strategic planning, particularly considering the uncertainties associated with Trump's Asia policy, which has heightened risks of cascading effects and nonlinearity in a destabilised complex system.

These are the conditions under which black-swan events are likely to occur: for example, a relatively small event such as China declaring an air defence identification zone in the South China Sea may generate unexpectedly large systemic consequences. At the same time, as Yuen Foong Khong reminds us, the region should also be alive to 'black elephants', especially that possible endpoint very few want to talk about: a regional order without the United States.

In dealing with these unpalatable uncertainties, the key insight of strategic diplomacy lies in making the Southeast Asian system more resilient as a whole—for it is only with resilience that complex systems can absorb shocks, self-organise and recover from crises to find new equilibria. [EAFQ](#)

*Evelyn Goh is the Shedden Professor of Strategic Policy Studies at The Australian National University.*

*Jochen Prantl is Deputy Director of the Coral Bell School of Asia Pacific Affairs and Associate Professor in International Relations, ANU.*



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