

Southeast Asia's Geopolitical Centrality and the U.S.-Japan Alliance



AUTHORS

Ernest Z. Bower
Murray Hiebert

Phuong Nguyen
Gregory B. Poling

*A Report of the CSIS Sumitro Chair
for Southeast Asia Studies*

Southeast Asia's Geopolitical Centrality and the U.S.-Japan Alliance

AUTHORS

Ernest Z. Bower
Murray Hiebert
Phuong Nguyen
Gregory B. Poling

A Report of the CSIS Sumitro Chair for Southeast Asia Studies

June 2015

CSIS | CENTER FOR STRATEGIC &
INTERNATIONAL STUDIES

ROWMAN &
LITTLEFIELD

Lanham • Boulder • New York • London

About CSIS

For over 50 years, the Center for Strategic and International Studies (CSIS) has worked to develop solutions to the world's greatest policy challenges. Today, CSIS scholars are providing strategic insights and bipartisan policy solutions to help decisionmakers chart a course toward a better world.

CSIS is a nonprofit organization headquartered in Washington, D.C. The Center's 220 full-time staff and large network of affiliated scholars conduct research and analysis and develop policy initiatives that look into the future and anticipate change.

Founded at the height of the Cold War by David M. Abshire and Admiral Arleigh Burke, CSIS was dedicated to finding ways to sustain American prominence and prosperity as a force for good in the world. Since 1962, CSIS has become one of the world's preeminent international institutions focused on defense and security; regional stability; and transnational challenges ranging from energy and climate to global health and economic integration.

Former U.S. senator Sam Nunn has chaired the CSIS Board of Trustees since 1999. Former deputy secretary of defense John J. Hamre became the Center's president and chief executive officer in 2000.

CSIS does not take specific policy positions; accordingly, all views expressed herein should be understood to be solely those of the author(s).

© 2015 by the Center for Strategic and International Studies. All rights reserved.

ISBN: 978-1-4422-4086-5 (pb); 978-1-4422-4087-2 (eBook)

Center for Strategic & International Studies
1616 Rhode Island Avenue, NW
Washington, DC 20036
202-887-0200 | www.csis.org

Rowman & Littlefield
4501 Forbes Boulevard
Lanham, MD 20706
301-459-3366 | www.rowman.com

Contents

Acronyms and Abbreviations	iv
Preface	v
Acknowledgments	vii
Introduction	1
1. Current Outlook from Southeast Asia: Centrality and Balance	8
2. ASEAN within the Asia Pacific	19
About the Authors	34

Acronyms and Abbreviations

AEC	ASEAN Economic Community
APEC	Asia-Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
ASEAN-5	Indonesia, Malaysia, Philippines, Singapore, and Thailand
CLCS	Commission on the Limits of the Continental Shelf
CNOOC	China National Offshore Oil Corporation
EAS	East Asia Summit
FTA	free trade agreement
FTAAP	Free Trade Area of the Asia Pacific
GDP	gross domestic product
OECD	Organization for Economic Cooperation and Development
PIF	Pacific Islands Forum
RCEP	Regional Comprehensive Economic Partnership
ReCAAP	Regional Cooperation Agreement on Combatting Piracy and Armed Robbery against Ships in Asia
SCO	Shanghai Cooperation Organization
TPP	Trans-Pacific Partnership
UNCLOS	United Nations Convention on the Law of the Sea

Preface

The purpose of this report is to apply research and an in-depth understanding of Southeast Asia's history, politics, economics, and regional trends to look forward two decades and anticipate how trends may develop and impact the U.S.-Japan alliance. It also intends to look at how the alliance should adapt to these potential trends. The report seeks to provide key findings and recommendations for how the United States and Japan can work to encourage outcomes that promote regional peace and prosperity.

To accomplish that objective, the research team at the Sumitro Chair for Southeast Asia Studies at the Center for Strategic and International Studies (CSIS) conducted nearly 100 interviews, convened several roundtables and off-the-record discussions, and performed extensive research to describe Southeast Asia's thinking today, how it got there, and scenarios for the future.

Former U.S. national security adviser and CSIS counselor and trustee Zbigniew Brzezinski defines “geopolitics” as the study of a country's history and geography. His concise description brings into play the multiple factors that need to be considered to understand a country or region's sense of place and its destiny. These inputs include human and physical geography, economics, and politics. Southeast Asia today finds itself at the center of the geopolitical future of a region this paper will refer to as the Indo-Pacific, specifically referring to the nations in an arc from South to Northeast Asia.¹

Understanding the Association of Southeast Asian Nations (ASEAN), founded in 1967, is vital for the U.S.-Japan alliance. For the United States, the more engaged Japan becomes in strengthening ASEAN and its institutions, the better an ally it becomes. And for Japan, the same is true about U.S. engagement in ASEAN.² For both allies, more sophisticated understanding of and multilayered engagement with Southeast Asia is necessary. They share a stake and a responsibility to encourage one another in this effort. At its core, this effort must be supported by a clearer domestic political consensus than now exists in either

1. The Indo-Pacific is a region whose definition is still evolving. It generally includes the traditional Asia Pacific—East Asia, the Pacific Islands, and parts of the Americas—along with the eastern Indian Ocean and its littoral states, especially India. The region encompasses all 18 members of the East Asia Summit: the 10 ASEAN states of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam, along with Australia, China, India, Japan, New Zealand, Russia, South Korea, and the United States.

2. Ernest Z. Bower and Michael J. Green, “U.S.-Japan-ASEAN Trilateral Strategic Dialogue,” CSIS, January 5, 2011, http://csis.org/files/publication/110105_Bower_USJapanASEAN.pdf.

country that investing in ASEAN economically and from a security perspective is a core national security mandate.

At stake is how the Indo-Pacific order will be defined in the next 20 years. China is asserting its interests with a clear strategic vision and desire to create a Sino-centric model for Asian development and security, as is argued in *Decoding China's Emerging "Great Power" Strategy in Asia*.³ China's governance model does not require national consensus on foreign policy or national security like that in the United States and Japan. Therefore China appears to be, in the near term, a more agile and strategic actor. It is allocating funds and diplomatic focus more quickly and consistently than other countries. How China builds political consensus for its foreign policy and national security will be determinative for the region. If China pursues strongly nationalistic themes and reinforces them, it will be harder for its neighbors and the alliance system to succeed in the shared current objective—namely, to create regional structures that allow China to feel secure and strong, but convince it to help define and abide by international rules governing the actions of nations.

China's size and proximity to Southeast Asia, and a perceived lack of transparency about Beijing's goals and objectives (What does China want? What does China want to be? How will China achieve its goals?), create a natural demand pull among ASEAN countries to seek more balance and a desire for greater involvement by other powers in defining how the region will be organized. Specifically, ASEAN hopes to promote itself as the core for political, economic, and eventually sociocultural integration in the Indo-Pacific. Its principal vehicle for achieving that objective is the East Asia Summit (EAS).

The United States and Japan support this ASEAN goal, but both countries must evolve their national political consensus and invest in, adapt, and create new institutions. The United States and Japan should embrace their values, including deepening their partnerships with commercial and nongovernment entities in the private sector, and modernize their bureaucracies to effectively utilize the U.S.-Japan alliance to build trust and promote regional peace and prosperity over the next 20 years.

3. Christopher K. Johnson, et al., *Decoding China's Emerging "Great Power" Strategy in Asia* (Washington, DC: CSIS, June 2014), http://csis.org/files/publication/140603_Johnson_DecodingChinasEmerging_WEB.pdf.

Acknowledgments

In 2013, the Sasakawa Peace Foundation and the Center for Strategic and International Studies established a bilateral commission of distinguished policymakers and scholars to develop a strategic vision for the U.S.-Japan alliance. This report is intended to inform the commissioners' findings, as well as the general public. The authors thank the Sasakawa Peace Foundation for its generous support.

Introduction

As they face the new geopolitical realities of the twenty-first century, the United States and Japan will be required to modernize and reorient their engagement in the Indo-Pacific.

The geopolitical math is compelling: Asia is now and will be, for the coming decades, the primary source of global economic growth and dynamism, and it will present the century's most serious security challenges. U.S. and Japanese national interests are at stake in Asia, and the two governments must work more closely to provide leadership and create political, security, and economic space for the emergence of an ASEAN-based architecture compatible with and able to influence global architecture. Additionally, these efforts must respect and allow for ASEAN to continue to pursue strategic balancing, an identifying characteristic of the regional grouping and most of its members.

The United States has begun to recognize this strategic requirement by talking about the need to “pivot to Asia” or “rebalance toward Asia.” Yet no U.S. president has yet invested in establishing the domestic political foundation to support the deep, balanced, and comprehensive engagement that is required to promote and protect U.S. interests in Asia in the coming decades.

The same is true in Japan. Effective diplomacy is needed to create trust, transparency, and confidence among Japanese in a new regional architecture for promoting peace and prosperity across the Indo-Pacific region. The focus on economic reform led by Prime Minister Shinzo Abe is a necessary but not sufficient condition for the country to be fully engaged and invested in that diplomacy.

In the United States, current policy assumptions, institutions, and the political foundation supporting foreign policy are rapidly becoming anachronistic. In other words, the United States is not prepared for the required paradigm shift and new mind-set needed to articulate and implement a comprehensive strategy to promote its long-term national interests in Asia. This shift will need transformative political leadership to set the vision and implement significant changes to the domestic understanding of U.S. national interests, and significantly upgrade the sustained level of engagement by U.S. officials in Asia.

The United States must modernize its engagement across the Indo-Pacific by building on long-standing opportunities to invest in an ASEAN-centric model that will form a basis for strengthening existing alliances, enhancing new partnerships, and creating a strategic

platform that will allow countries throughout the region to integrate their economies on a rules-based model, define regional security norms, and invest in public goods together.

Basic conditions required for the success of this evolution in foreign policy are in place, but need to be advanced through vision, diplomacy, and a commitment to lead. Other elements of a successful effort need to be developed and institutionalized. Building the necessary foundation will be based on an evolution in Americans' understanding of the fact that Asia already plays a pivotal role in their lives—a role that will increase exponentially throughout the coming decades.

There is a well-established bipartisan consensus that Asia is important to the United States. Successive U.S. presidents, both Republicans and Democrats, have deployed a highly consistent foreign policy approach toward Asia. Notwithstanding other requirements for focus and resources such as fighting wars in the Middle East, U.S. policy recognizes that being involved in how Asia is organized now and in the future is a core national interest. President Barack Obama reiterated this during his first Asia trip in his 2009 address in Tokyo, confirming the importance of Asia to the United States and famously referring to himself as the United States' "first Pacific president."

Former secretary of state Hillary Clinton, who called for strengthening existing Asian alliances, seized on the strategic importance of developing a strong core engagement in ASEAN as a foundation on which the United States could help drive a peaceful and prosperous model for the development of Asia, enable the constructive expansion of roles for China and India, and empower the region's fast-growing middle class. To make her point, Clinton described ASEAN as the "fulcrum" of developing a regional economic and security architecture.¹

Key Findings

- Southeast Asia wants to see both the United States and Japan more engaged in all key areas, including economics, security, and people-to-people ties.
- Economic engagement is foundational for enduring security ties in the Indo-Pacific region.
- ASEAN's core objective is geopolitical balancing. In that context, China's actions, particularly in the South China Sea, have increased concerns about Chinese intentions.
- Japan is viewed positively in Southeast Asia, but there is concern over Japan's ability to play an influential role in the future due to economic stagnation, domestic political inertia, uncertainty over the role it will play in defense and security, an aging

1. Hillary Clinton, "America's Engagement in the Asia Pacific" (remarks at the Kahala Hotel, Honolulu, October 28, 2010), <http://m.state.gov/md150141.htm>.

demographic, and Japan's inability to resolve history-related issues with Northeast Asian neighbors.

- More U.S. engagement is desired in ASEAN, but the region fears that the domestic political foundation for economic and security engagement in Asia is being eroded by partisanship and a failure to focus on national security interests.
- The U.S.-Japan alliance will be judged by the extent to which it can continue to provide public goods in Asia, particularly in security areas such as humanitarian assistance and disaster relief, building maritime domain awareness, supporting confidence-building measures within the regional architecture, and supporting the modernization and capacity buildup of Southeast Asia's militaries.
- China is becoming more effective at promoting Sino-centric, economic-based initiatives that encourage Chinese-led economic integration efforts, but none of these initiatives seriously challenges the most practical and effective stimulus to Asian economic integration; namely, private-sector investment and regional/global supply chains.
- Southeast Asian support for a stronger U.S.-Japan alliance will depend on the ability of the allies to use the alliance to support and strengthen ASEAN, engage ASEAN diplomatically in trilateral initiatives, and invest in a regional architecture.

Recommendations

BUREAUCRATIC

- **Modernize bureaucratic engagement.** Focus on investing in and making ASEAN-based regionalism more effective. The United States and Japan should assign cabinet ministers, especially in the finance, education, energy, health, and agriculture portfolios, to annually participate in ASEAN ministerials and encourage other EAS ministers to attend. They should do so for purposes of engaging and strengthening ASEAN as the core of a viable regional architecture, meeting with their EAS counterparts, and developing a set of EAS ministerials that feed into and advise the annual meeting of EAS leaders.
- **Institutionalize trilateral diplomacy.** Begin by conducting an annual ASEAN-Japan-U.S. trilateral meeting including foreign and economic ministries. For other trilaterals, including with Australia, China, India, South Korea, and potentially others such as the European Union, pre-brief and de-brief ASEAN ambassadors in Washington, Tokyo, and third-country capitals.
- **Send ambassadors to ASEAN.** Encourage all ASEAN Dialogue partners to send ambassadors and establish missions dedicated to the ASEAN Secretariat in Jakarta. This means not having ambassadors to Indonesia serve double duty as an ambassador to ASEAN. Build diplomatic engagement with the ASEAN Secretariat and

proactively encourage ASEAN members to revise their current rules to allow more investment in the Secretariat, building staff, expanding resources, and increasing its legal authority.

- **Institutionalize and raise the level of engagement of the ASEAN-U.S. Dialogue.** Make it an annual event instead of meeting roughly every 18 months. Continue to alternate venues between the United States and the capital of the current ASEAN chair, but when the United States hosts, consider meeting outside of Washington, DC, and ask trade- or Asia-focused governors to host the meeting. Connect it with the Japanese-ASEAN Dialogue and other appropriate engagement channels. Reengage business and think tanks by inviting them to organize a track 1.5 meeting around the dialogue.
- **Establish regular interaction with an ASEAN Washington Committee.** This should occur through the ASEAN Washington Committee and the ASEAN Tokyo Committee, organized by the U.S. Department of State and the Ministry of Foreign Affairs, respectively. This interaction already occurs regularly between senior State Department and Foreign Ministry officials, but other secretaries and ministers, particularly from economic ministries and departments, should begin these exchanges as well.
- **Encourage the U.S. Congress and Japanese Diet to create a bilateral caucus** mandated to meet annually and empowered to engage third countries in EAS and, specifically, to engage ASEAN. Alternate the venue between the United States and Japan and consider meeting in ASEAN countries on an ad hoc basis.
- **Initiate diplomatic plans to ensure all ASEAN and EAS countries have access to membership in the Asia-Pacific Economic Cooperation (APEC) grouping.**

ECONOMIC

- **Conclude and approve the Trans-Pacific Partnership (TPP) agreement quickly.** Immediately set a vision for and articulate a plan for broadening TPP to a Free Trade Area of the Asia Pacific (FTAAP) on a rules-based foundation, with on-ramps for countries that cannot commit to all elements or chapters of a comprehensive agreement.
- **In the United States, establish and empower a national economic adviser to work with the national security adviser in the White House.** The official should be responsible for developing, articulating, and implementing a U.S. global economic strategy generally (encompassing trade, investment, financial markets, and all other economic engagements and tools) and specifically for the Indo-Pacific.
- **Articulate a modern Asia economic strategy.** The United States and Japan should individually articulate a long-term economic strategy for Asia that includes all EAS countries, including China. This policy should recognize that Asia is the core of

global growth, that global supply chains are driving economic integration effectively and practically, and that governments need to support these linkages to expand trade, investment, and innovation.

- **The United States and Japan should cooperate bilaterally and with others on regional infrastructure or connectivity.** This effort requires specific and innovative coordination in areas such as development strategies, investment promotion, and commercial diplomacy.
- **The United States and Japan should take leadership roles in reforming global financial and governance institutions** to allow for more representation by new economic power centers. Failure to take action will encourage China to continue taking the initiative and force Southeast Asian countries into hedging behavior.
- **Support the U.S. and Japanese private sectors so that they can tap into the tremendous opportunity to help shape and plan regional infrastructure in Southeast Asia.** If the U.S. government is serious about rebalancing its interests to Asia, making sure that its private sector effectively taps this opportunity should be a top priority. Some in Washington will need to rethink their perception of institutions such as the Export-Import Bank as being an embodiment of crony capitalism. Many companies in Asia, whether state-owned or private, often have strong partnerships with their governments. When possible, U.S. companies should consider joining hands with their Japanese counterparts, which already have a competitive edge in ASEAN.
- **Open the Japanese market to the export-led economies in Southeast Asia.** While Japanese investments are welcome across ASEAN, Southeast Asian countries still do not have much access to parts of the Japanese market, especially in the area of agricultural exports. This is partially why Japan was not able to transform its economic leverage in the 1980s and 1990s into sustained strategic influence in Asia. The Shinzo Abe government has taken steps to relax the visa process for several Southeast Asian countries in an effort to boost people-to-people exchanges and mutual understanding between Japan and ASEAN. To further integrate Japan with this fast-rising region, steps should be taken to allow more high-quality products from ASEAN to enter the Japanese market. This will also help some countries in ASEAN grow less dependent on their trade ties with China.

SECURITY

- **Encourage Japan to modernize its military role in Asia.** Southeast Asia welcomes Japan playing a more confident, proactive role in Asia generally, and is comfortable with Japan's military playing a larger role in regional security architecture, including the ASEAN Defense Ministers Meeting Plus (ADMM Plus).
- **Increase the pace and reach of ADMM Plus while encouraging ASEAN leadership.** Act as friends of the chair to encourage ASEAN voices promoting the concept

for the ADMM Plus to meet annually instead of every two years. Involve ASEAN ministries of defense and militaries in joint exercises throughout the Indo-Pacific.

- **Exponentially expand ASEAN defense, military, and intelligence officials' involvement in educational and training opportunities in the United States and Japan.**
- **Emphasize closer U.S.-Japan coordination on governance, democracy, human rights, and rule of law.** The United States and Japan now need to work together in a fully coordinated way on these issues in Southeast Asia, speaking with a coordinated voice.
- **Work with Southeast Asia and other regional partners to encourage India to take up a greater security role.** India is increasingly vital to the development of a regional security architecture and should be urged to offer practical assistance in enhancing Asia-Pacific maritime security.
- **Coordinate closely with ASEAN partners to remain vigilant in counterterrorism efforts and managing domestic radicalization.**
- **Complete surveys of features in the South China Sea.** The United States and Japan are both well placed to assist Southeast Asian states with desperately needed surveys of disputed features in the South China Sea. These surveys would prevent Chinese land reclamation work from erasing the chances of determining the original status of low-tide elevations and rocks, either through arbitration or negotiation, in the future.
- **Enhance ASEAN maritime domain awareness.** Work with willing Southeast Asian states, including the claimant nations, to boost and better integrate maritime domain awareness capabilities. This should include ongoing efforts to boost patrol and radar capabilities among the claimants, as well as sharing data from direct U.S. and Japanese satellite and aircraft surveillance.
- **Prioritize maritime security.** Continue efforts to place maritime security, including antipiracy, maritime patrol, and search-and-rescue efforts, at the heart of regional security architecture and collaboration. With the United States joining the Regional Cooperation Agreement on Combatting Piracy and Armed Robbery against Ships in Asia, or ReCAAP, in 2014, both Japan and the United States are now prominent players in Southeast Asia's most important maritime patrol and antipiracy institution. They should seek to boost the reach and capacity of the group, especially by urging Indonesia and Malaysia to join the grouping, with the eventual goal of convincing China to join as well.
- **Ratify UNCLOS.** The United States should immediately ratify the United Nations Convention on the Law of the Sea (UNCLOS) and do so before a potential award is declared in the Philippines' arbitration case against China.

- **Expand current work on the legality of maritime claims, such as through the U.S. State Department’s Limits in the Sea series**, to include all South China Sea littoral states’ claims, including those over waters and continental shelves generated by disputed features. This work could provide an important starting point for negotiation among Southeast Asian states of an agreed-on area of dispute and could urge them to clarify their own currently illegal claims (such as Vietnam’s straight baselines and Malaysia’s lack of clarity on its baselines and exclusive economic zone).
- **Lead diplomatic efforts rallying international support, anticipating an expected decision in the Philippines’ favor in its arbitration case against China**—and take a cohesive position within ASEAN in support of the court’s decision. While China will not recognize a decision against it in the immediate aftermath, sufficient international solidarity might convince Beijing to eventually clarify its claims in accordance with a limited decision from the court over the medium term.

1 | Current Outlook from Southeast Asia: Centrality and Balance

ASEAN's geography, specifically its place between and linking the two most important oceans of the twenty-first century, the Indian and the Pacific, make it the geopolitical epicenter of our time.

ASEAN's lack of a defining national identity is also a strategic strength in the context of a regional architecture. ASEAN does not have a sovereign self-image. That fact is inherent in its makeup of 10 countries with widely varying economic development levels and political systems, and approximately 625 million people speaking over 400 different languages, practicing different religions, and representing diverse races. This diversity ensures that ASEAN is not nationalistic. ASEAN naturally, instinctively, and by rule seeks consensus and balance. While in the past this diversity and apparent institutional indecisiveness was portrayed by many third-party policymakers and researchers as a weakness, these elements have become a strength when perceived in the context of ASEAN's role as a place for the states of the Indo-Pacific to meet, compete, and develop rules and governance to define regional order.

ASEAN's Strategic Objectives

What ASEAN leaders want most from regional strategic frameworks is balance that allows them to sustain reasonable security, protect their sovereignty, and grow their economies. Member countries have developed an innate geopolitical survival instinct—namely, to avoid being overtly influenced by any single outside power. That basic trait is found not only in ASEAN as a regional institution, but among its member nations individually.

ASEAN also wants regional stability and peace. Its members prioritize the opportunity to pursue economic growth in ways that sustain domestic political stability, such as equitable growth, investment, capacity building, training and education, and development of infrastructure.

In part because of its colonial experience in the nineteenth and first half of the twentieth centuries, ASEAN views security through an economic lens. ASEAN and its members will remain wary of a perceived security-led focus on Asia in general and their countries in particular. For Southeast Asia, economic engagement is the foundation of a sustainable security regime.

Map of ASEAN



Source: Wikimedia Commons.

This view of regional security is also derived from ASEAN's historical role as a trading region. Throughout their history, the lands that comprise the ASEAN countries today were the trading routes and markets linking great empires in Northeast Asia, South Asia, the Middle East, and Europe. ASEAN's people personify this centrality in their diverse races and religions. In fact, ASEAN's economy represents the most trade-dependent regional grouping in the world.

Due in part to its historical context, ASEAN remains relatively more open to ideas and input from the world generally and its trusted partners in particular. ASEAN diplomacy is based on the principle of mutual respect and consideration. These are core ingredients to building trust. And trust is a necessary condition for effective regionalism in Asia.

As early as 1976, ASEAN's leaders understood that it was in their mutual interest to become central to regional efforts to promote security and economic growth. In that year, President Suharto of Indonesia hosted the first ASEAN Summit in Bali and the ASEAN leaders signed the Treaty of Amity and Cooperation.

In 1978, ASEAN held its first summit with a partner country at the inaugural ASEAN-Japan Summit. That meeting was significant because it marked a turn within ASEAN to begin looking outward and underlined a new understanding of the role of the institution as a buffer and channel to engage regional and global powers. So, in addition to establishing a mechanism for managing internal tensions and building trust, especially because other founding nations did not know what Indonesia's intentions were after its period of *konfrontasi* with Malaysia, ASEAN's leaders recognized the need for the institution to play a role in managing relations with global and regional powers and promoting investment and trade.

ASEAN leaders became more committed to this strategic construct in the mid-1980s, when the United States and Japan began competing for economic leadership in the region. As ASEAN grew concerned with Japan's increasingly intense economic focus, and therefore about Japan overbalancing its relationship with the region, new consultative mechanisms for U.S.-ASEAN engagement were encouraged. After Japan presented ASEAN with detailed plans for economic development, identifying countries as centers for production of various products based on Tokyo's definition of Southeast Asian states' comparative advantages in early 1980s, ASEAN began to reach out to Washington, DC, with increasing urgency. Under Japanese plans, Thailand was identified as a regional automotive production center, Malaysia as an electronics hub, and so on.

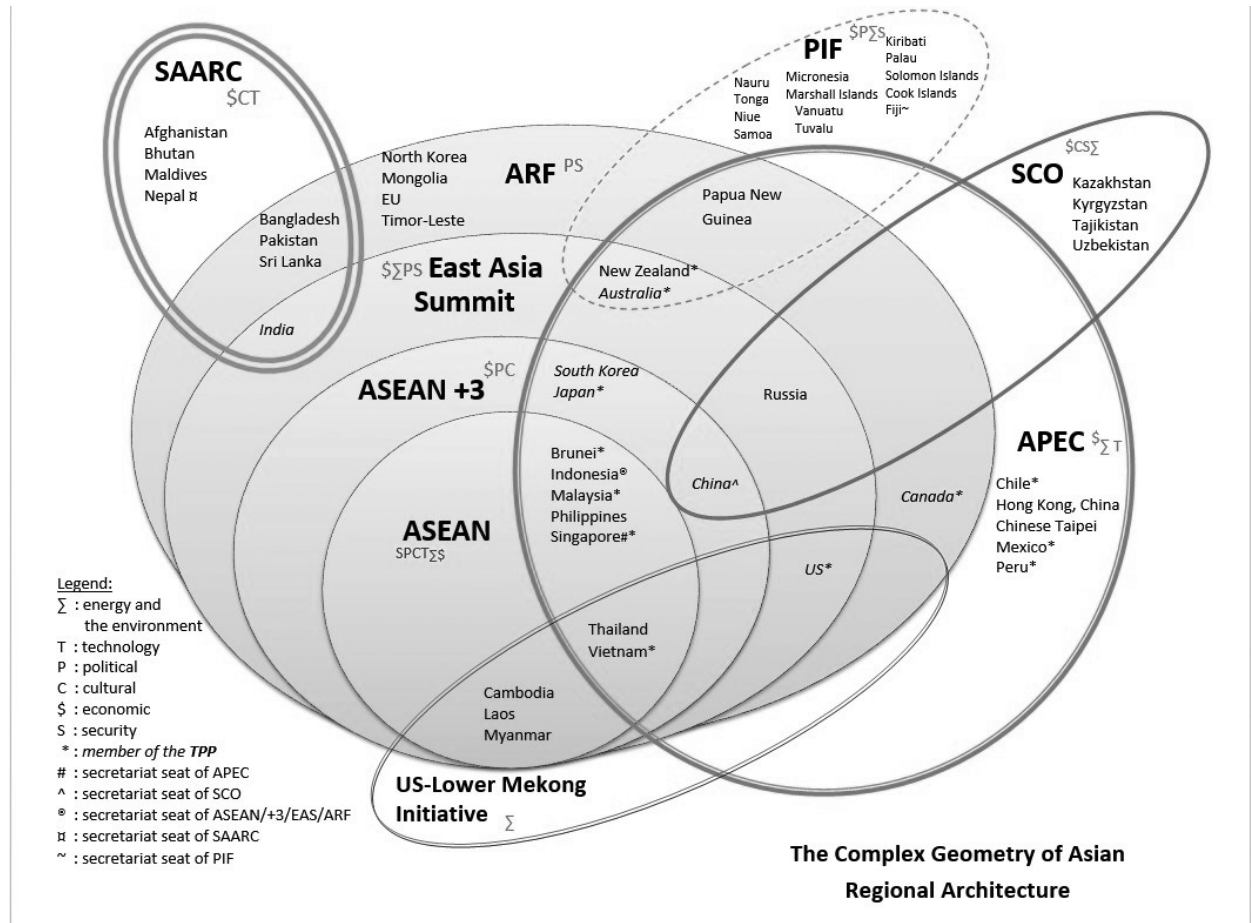
While ASEAN embraced Japan's willingness to invest, it also worried about the implications of Tokyo dominating its economic development and integration. ASEAN wanted balance and feared Japan's focus would create an asymmetric relationship between Tokyo and ASEAN. It was in this context that then-U.S. secretary of state Cyrus Vance supported the creation of an ASEAN-U.S. Dialogue that now meets roughly every 18 months; an Economic Cooperation Committee designed to provide a forum for a U.S. government inter-agency group, coordinated by the economic team in the State Department's Bureau for East Asian and Pacific Affairs, to interact with the ASEAN ambassadors in Washington; a U.S.-ASEAN Center for Technology Exchange; and a nascent U.S.-ASEAN Business Council.¹

The legacy of those initiatives are the ASEAN-U.S. Dialogue, which is convened by the U.S. Department of State and ASEAN counterparts (though they meet too irregularly and should hold an annual engagement), and the independent U.S.-ASEAN Business Council. Both still exist today as important institutions that underpin American engagement in Southeast Asia. These institutions should be considered success stories but they also represent vehicles that need to be invested in further and used to broaden and deepen understanding of why engagement in Southeast Asia is vital to promoting and protecting U.S. economic and national security interests in Asia and globally.

ASEAN's leaders recognized in the late 1980s that the group must expand to include all of the key nations making up mainland and maritime Southeast Asia. ASEAN needed size and scale to make it internationally credible. Leading advocates for expansion, such as

1. Donald E. Weatherbee, *Historical Dictionary of United States–Southeast Asia Relations* (Lanham, MD: Scarecrow Press, 2008), 375.

Asia-Pacific Regional Architecture



Source: U.S. State Department and CSIS.

Prime Minister Mahathir Mohamad of Malaysia, recognized the need for ASEAN centrality in order to credibly drive an agenda for luring China into playing a more constructive regional role and helping to establish and implement rules for economic integration. Mahathir also made the case that Asia needed to integrate itself to compete with what he saw as global regional blocs being established in North America, through the North American Free Trade Agreement, and in Europe, as the European Union expanded and integrated.²

Accordingly, ASEAN membership grew from the original five founding members in 1967 to 10 countries by 1999.

Today, ASEAN has achieved its strategic goal of attaining international credibility. It is still working toward its goal of playing a central or balancing role in the development of regional policies.

2. Ashraf Abdullah, "EAEC Idea Revived," *New Straits Times*, November 26, 2000.

The ASEAN region is comprised of a population of 625 million and has a combined economy of \$2.4 trillion, making it the third-largest economy in Asia and seventh in the world.³ From 2001 to 2013, ASEAN was the second-fastest growing economy in Asia behind China. In 2013, the grouping's per capita gross domestic product (GDP) was greater than that of India and over half that of China. ASEAN is the epicenter of regional economic integration, fulfilling its historical legacy as a trading center. While individual ASEAN countries have signed many bilateral free trade agreements (FTAs), ASEAN as a grouping has five FTAs, with Australia and New Zealand, China, India, Japan, and South Korea. Negotiations are under way with the EU.

ASEAN also plays a central role in the regional architecture. Since 2009 the chair has hosted two ASEAN summits per year, bringing together regional leaders and holding associated meetings with dialogue partners from across the Asia Pacific. Since 2005, the chair has also hosted the East Asia Summit (EAS), a meeting of leaders from 18 countries, including the 10 ASEAN countries as well as Australia, China, India, Japan, New Zealand, South Korea, and, since 2011, Russia and the United States.⁴

ASEAN's Collective Position and Future

In order to play the central role it aspires to, ASEAN must become stronger as an institution. Its leaders recognize this challenge and have articulated a vision and set plans in action to work toward this goal. ASEAN's perspective on China's role has developed over time. It has evolved since China's emergence as a regional leader and economic engine during the "charm offensive" period stretching from roughly 1999, in the midst of the Asian financial crisis, to 2009, the year China submitted its nine-dash line claim over the South China Sea to a United Nations commission.

Since that time, ASEAN's recognition of the need for strengthening its integration and central role in a new economic and security architecture has taken on an enhanced sense of urgency.

Looking to the future, ASEAN members states have recognized that they need one another not only for economic competitiveness reasons, but to protect their sovereignty and territorial integrity. The most urgent current concern of the collective grouping is China and the need to comprehend what Beijing's goals are regionally and globally, and how it will use its increasing economic power and military capacity.

Therefore, ASEAN members generally are concluding that they need to act individually to professionalize and modernize their military capabilities, redirect their national security objectives to include more focus on external threats and awareness, and at the same

3. Satu P. Limaye et al., *ASEAN Matters for America/America Matters for ASEAN* (Honolulu, HI: East-West Center, 2014), https://www.usasean.org/system/files/downloads/asean_matters_for_America.pdf.

4. P. S. Suryanarayana, "U.S., Russia to join EAS: ASEAN," *Hindu* (Delhi), October 29, 2010, <http://www.thehindu.com/news/international/us-russia-to-join-eas-asean/article855321.ece>.

time invest in effective regionalism to enhance interoperability and collective security. These objectives are designed to promote security and preparedness to cope with threats including natural disasters as well as potential armed conflicts.

Meanwhile, ASEAN's leaders are carefully assessing regional dynamics, including which powers they believe have a long-term commitment to their region, as well as the economic interest and financial and political capacity to sustain that engagement.

ASEAN countries are individually and collectively assessing the interests and capabilities of key outside countries and what roles these countries can and will play. The conclusions of this ongoing assessment is where the core of ASEAN's planning and future mind-set is being formed. Will the United States be able to sustain or enhance its "rebalance" to Asia? Can Japan reform its economy and rebuild its confidence to play a leading role in the region? What is China's path, and how will it use its economic power and increasing military capacity regionally? Can India do more than "Look East"?

In the meantime, ASEAN has to prepare for contingencies based on its dynamic assessment of the relative roles of its partners and fellow members of the EAS. In this context, ASEAN's leaders have concluded that they must, at a minimum, create a credible argument for sustaining ASEAN's central role in a new regional security and economic architecture. They also are beginning to recognize a mutual security interest in a more cohesive ASEAN, and have begun to see that economic integration can contribute to and not undercut the competitiveness of individual member countries.

Fortuitously, and generally consistent with geopolitical events, ASEAN leaders set specific goals for the grouping's effective political, economic, and social integration in the ASEAN Charter, which was adopted at the 13th ASEAN Summit in Singapore in November 2007.⁵

The initial success of the charter was in transforming ASEAN into a more robust and law-based intergovernmental organization. ASEAN was conferred a legal identity, new organs, including a coordinating committee, and a standard process of membership application. Also on the agenda at the summit was the adoption of the ASEAN Economic Blueprint, which spelled out the long road to an ASEAN Economic Community (AEC) by the end of 2015 (originally 2020).

According to the ASEAN Charter, the main goal of the organization is "the creation of a more integrated community involving three pillars: political, economic, and sociocultural cooperation."⁶ Since the establishment of the ASEAN Free Trade Area in 1992, tariffs between ASEAN countries have been cut significantly. By 2015, tariff rates among all ASEAN countries are expected to fall to near zero, a major step toward regional economic integration.

5. ASEAN, *ASEAN Charter* (Jakarta: ASEAN Secretariat, 2008), <http://www.asean.org/images/2012/publications/ASEAN-Charter.pdf>.

6. *Ibid.*

While a significant amount of attention has been paid to the economic integration pillar—defined as the AEC in the lead-up to 2015—the charter also contained other ambitious goals. For instance, member countries agreed to establish an ASEAN human rights body, which it did in 2009.⁷

An important motivation for ASEAN to enhance its integration is its desire to be the foundation of emerging regionalism connecting the Indo-Pacific region. At first this instinct was fueled by a sense of global competition. Mahathir tabled the concept of an East Asia Economic Caucus in 1991 amid his concerns that North American and European blocs were forming and creating self-interested trading blocs with scale that could dominate Asian nations standing alone or in a less organized structure. Mahathir's idea was carefully studied by the East Asia Study Group reporting to the leaders of the ASEAN +3 countries—the ASEAN 10 with China, Japan, and South Korea. It was shaped into a concept for ASEAN-based regionalism.

The original concept of the EAS was to focus on those 13 Asian countries, but several ASEAN members, looking forward and making the strategic case for balance and a comprehensive approach to open regionalism, pushed for and won approval to include Australia, India, and New Zealand in the original formulation of a 16-member EAS. The ASEAN +3 Summit in 2004 decided to hold the EAS the following year, and the ASEAN +3 Ministerial Meeting in Laos in July 2004 confirmed that 16 countries would be included. The first EAS was hosted by Malaysia's prime minister, Abdullah Badawi, in Kuala Lumpur in 2005.

Internal Dynamics within ASEAN

What slows ASEAN in achieving its collective strategic objectives is the fact that its member countries are working through their own domestic political evolutions. At different times, different nations are dealing with national politics that have an impact on how fast or slow each country can move toward advancing regional goals.

Generally, ASEAN countries share the innate need for geopolitical balancing, as discussed earlier. But at times specific countries have domestic needs that cause them to demur or even oppose concepts nearing the stage of ASEAN consensus. Most analysts have remarked on this divergence when noting the differences between ASEAN countries in their approach to the South China Sea issue, but the same dynamic affects many other areas of decisionmaking, including decisions about whether and how to further empower the ASEAN Secretariat, trade and investment reform within ASEAN, and negotiating agreements with outside partners.

ASEAN member countries are going through demographic, economic, and political changes that influence their geopolitical calculations. The rate of change and timing differ, but the net impact is a relatively slow decisionmaking process in ASEAN, and one that outsiders misread as indecisiveness. In fact, ASEAN is moving in some predictable

7. Cha-am Hua Hin Declaration on the Intergovernmental Commission on Human Rights, Cha-am Hua Hin, Thailand, October 23, 2009, <http://www.asean.org/images/archive/documents/Declaration-AICHR.pdf>.

directions, and these dynamics can suggest key elements about how ASEAN may respond to regional geopolitical developments in the next two decades.

In general, ASEAN countries are experiencing changes influenced by factors that impact them all. Every ASEAN country except Thailand was colonized, and as they found their unique paths to independence, strong leaders and their political institutions—such as Lee Kuan Yew’s People’s Action Party in Singapore, Suharto’s GOLKAR in Indonesia, or Ho Chi Minh’s Communist Party in Vietnam—took power. These leaders centralized control and used their military and security forces to preserve territorial integrity and promote internal security, and as a channel for building national consciousness. Economically, the most successful countries moved to transition from postcolonial agrarian-based to newly industrialized systems.

Politically, leaders moved to ensure the dominance of their own political vehicles and used the levers of power to perpetuate their rule. The results were impressive in terms of spurring relatively fast economic growth, building infrastructure (at least in some cases), and alleviating poverty. Lacking were investments in educational systems to sustain and develop innovative growth, in institutions to promote human rights and transparency and to broaden participation in governance, and in environmentally and socially sustainable growth.

From a general perspective, ASEAN’s successes resulted in strong growth, urbanization, and the rapid expansion of young populations with increasing access to cities and technology connecting them to national, regional, and even global trends and ideas, and more financial resources. The result is a fast growing and active middle class. The Organization for Economic Cooperation and Development (OECD) estimates Asia’s middle class will increase from about 500 million people today to 3.2 billion by 2030.⁸

This dynamic has resulted in a push for more participation in governance, less tolerance of corruption, and pressure on legacy governments to adapt or cede control.

The most obvious example of these changing forces is Indonesia, where former president Suharto was forced to step down amid a financial crisis after 31 years of leading his country. Indonesia’s current president, Joko Widodo, known commonly as “Jokowi,” was chosen by a direct election system and hails from that newly emerging, economically empowered ASEAN middle class. Traditional ruling parties around the region are facing similar political pressures and these trends are likely to increase over the next 20 years.

If the United States and Japan want to broaden and deepen alignment with ASEAN countries over the next 20 years, they must engage in a more nuanced way, reaching out beyond traditional interlocutors, such as government officials and leaders of large businesses, to think tanks, civil society, the media, and social and technological innovators.

8. Homi Kharas, *The Emerging Middle Class in Developing Countries* (Paris: OECD, 2010), 28, <http://www.oecd.org/dev/44457738.pdf>.

Demographics of ASEAN

Relative to Northeast Asian countries, most ASEAN members are characterized by large and growing young populations. Young people in a fast-expanding consumer class, with more access to technology and nontraditional sources of information, are seeking more from their governments than ever before. They are prioritizing transparency and rule of law and better services. Specifically, they expect governments to provide or create environments that allow private investment and effective resource allocation in infrastructure, access to education and health, and a cleaner environment.

The growing middle class in ASEAN countries also tends to have strong nationalist tendencies. In some cases, such as Indonesia, they are pressuring their governments to both create jobs and seek more local equity in businesses and national resource development and at the same time invest in militaries capable of protecting national interests.

Myanmar, Thailand, and Vietnam all fall under the average fertility rate for developed countries. But ASEAN members like Indonesia (the fourth-largest country in the world) and the Philippines (the 12th largest) more than make up for this. According to CSIS senior associate and world-renowned demographer Richard Jackson, a combination of reduced fertility rates and greater life expectancy has placed emerging markets, especially those in Southeast Asia, in a demographic “sweet spot.”⁹ While most of the developed world will see declining growth rates and steadily aging populations over the next few decades, Southeast Asia will benefit from a demographic dividend in which the total dependency burden on society will fall and the share of the population in their working years will rise.

By 2009, the growing middle class in the Asia Pacific had risen to 525 million, or 28 percent of the global middle class, and consumed nearly \$5 trillion.¹⁰ OECD global growth trends suggest that by 2034, the global economy could reach \$200 trillion, with Asia representing 34 percent of total global output. By then regional countries like Malaysia and Thailand could have economies larger than that of France.¹¹

Politics within ASEAN

Changes in politics among ASEAN’s member countries over the last 20 years are a harbinger for changes that may take place in the coming two decades. Generally the region is moving toward more open, participatory models of governance and the strengthening of institutions. While high-profile moves in the opposite direction, such as the May 2014 coup in Thailand, attract headlines, a closer look suggests that ASEAN’s incumbent governments

9. Richard Jackson, Neil Howe, and Keisuke Nakashima, *Global Aging and the Future of Emerging Markets* (Washington, DC: CSIS, 2011), http://csis.org/files/publication/110307_Global_Aging_future_of_Emerging_Markets.pdf.

10. Kharas, *Emerging Middle Class*, 16.

11. *Ibid.*, 22.

are moving quickly, even with a sense of urgency defined by survival, to adapt to increasing demands of more engaged and discerning constituencies.

A good example of the apparent resilience of more open models is Indonesia, where Jokowi rose quickly through the political ranks, first as mayor of a midsize city on Java called Solo, then governor of Jakarta, to become president of Indonesia. His ascendance is remarkable because he is not from the military, nor from the country's traditional ruling families or business elite. Jokowi's platform is based on reform and delivery of services. His power base is rooted in support from common people. His self-described trademark is implementation and follow-up. He has demonstrated the power of this new force in Indonesian politics by doing things like crowdsourcing input on his cabinet.

New domestic political trends will influence ASEAN's geopolitical outlook in the coming years.

While Jokowi has clearly prioritized domestic reforms, both political and economic, and delivery and implementation of services above foreign policy, he is simultaneously in touch with Indonesians' nationalistic sense that now is their time. This emerging nationalism seeks to elevate Indonesia into what Indonesians see as their rightful role—one consonant with the country's status as the world's fourth-largest country. There is an appetite among Indonesians to assert their interests as a nation.

Consequently, Jokowi has begun to articulate a new geopolitical vision for his country as a "global maritime nexus." At the EAS in Naypyidaw, Myanmar in November 2014, he laid out five pillars of his new vision:

1. A revival of Indonesia's maritime culture, recognizing the link between the country's archipelagic geography, identity, and livelihood.
2. Improved management of Indonesia's oceans and fisheries through the development of the country's fishing industry and the establishment of maritime "food sovereignty" and security.
3. Boosting Indonesia's maritime economy by improving the country's port infrastructure and its shipping and maritime tourism industries.
4. Maritime diplomacy that encourages Indonesia's partners to work together to eliminate conflict arising over illegal fishing, breaches of sovereignty, territorial disputes, piracy, and environmental concerns like marine pollution.
5. Bolstering Indonesia's maritime defenses, both to support the country's maritime sovereignty and wealth, and to fulfill its role in maintaining safety of navigation and maritime security.¹²

12. Adelle Neary, "Jokowi Spells Out Vision for Indonesia's 'Global Maritime Nexus,'" *CSIS Commentary*, November 26, 2014, <http://csis.org/publication/jokowi-spells-out-vision-indonesias-global-maritime-nexus>.

This new confidence and assertion of Indonesia's geopolitical centrality and identity is a hint of where ASEAN will go in coming years. The sense of identity, the current historical moment, sovereign interest and related core commitments to professionalize and modernize industry, technological capabilities, and security and military capacity—all are themes that will increase around Southeast Asia.

This trend is important to understand because it enhances ASEAN's sense that it will not accept a tributary role to global powers, and also indicates that ASEAN will fiercely protect its sovereignty and identity. More bluntly, ASEAN does not want to be dependent on, or model itself after, other countries, and this sense of independence, neutrality, and centrality will advance as ASEAN member countries work through their political and economic developments.

2 | ASEAN within the Asia Pacific

ASEAN's View toward China's Rise¹

Southeast Asian nations have watched closely as Chinese president Xi Jinping has consolidated his leadership in Beijing. They are looking for answers to questions they consider to be existential; namely, “What is the new China?” and “What does China want to be?” China’s geopolitical heft and proximity put these questions atop every country’s list of exogenous national security issues and economic opportunities and threats. While all members of ASEAN are asking the same questions, none of them has the answers.

Divining China’s intentions is a foreign policy priority in ASEAN. Related to this issue is a preoccupation with understanding the intentions and capabilities of the United States, along with other geostrategically relevant countries such as Australia, India, Japan, South Korea, and, to some extent, the European Union. The United States is the most important of these countries.

While common themes dominate ASEAN members’ perceptions of China’s evolving foreign policy, specific countries’ perspectives vary based on a number of factors, including geography, economic relations, sociocultural ties (including linkages to indigenous Chinese populations), history, and maritime and territorial disputes.

In general, ASEAN’s members share the following perceptions of China’s evolving foreign policy:

- Xi has been able to consolidate power more quickly and effectively than any Chinese leader since Deng Xiaoping, arguably holding a stronger position than Deng. Xi’s ability to create a national security apparatus and lead reform of the military and economy point to a uniquely strong Chinese leader. ASEAN believes a decisive and powerful leader in Beijing will answer one important question that was hard to judge under his predecessors: Are provocations by Chinese maritime authorities and military assets in the South China Sea the result of autonomous decisions by commanders and local officials, direct instructions from Beijing, or some combination of the two?
- ASEAN sees Xi as a strong nationalist who will put China’s interests, including its priorities regarding sovereignty, above all other considerations. While early

1. Much of the following section originally appeared in Johnson et al., *Decoding China’s Emerging “Great Power” Strategy*.

statements from Xi's government indicated a policy of good neighborliness toward ASEAN,² actions speak louder than words. And those actions have demonstrated that China intends to aggressively push its advantage in the South China Sea and other areas.³

- An optimistic and hopeful thread running through ASEAN foreign policy is the view that once Xi consolidates power, he might use that clout to reform and strengthen China's economy, gain civilian control of the People's Liberation Army and Navy, and shift China's foreign policy toward a focus on working with its neighbors rather than challenging or controlling them. This view has been repeatedly undercut by Chinese actions.
- A more realistic and pervasive view among ASEAN countries is that despite Chinese rhetoric, its actions speak louder than its words. ASEAN leaders fear that a focused Xi wielding real power could mean a much more assertive Chinese foreign policy, especially if Beijing perceives weakness and relative inattention in Washington. This is the worst-case scenario for ASEAN, as it would destabilize the region and force ASEAN to reach out even more emphatically to the United States, Japan, Australia, and others, including India, to counter Chinese aggression.

ASEAN countries believe Chinese behavior is dependent to some degree on what Beijing believes Washington can and will do—meaning its commitment to the “rebalance” toward Asia and its capacity to follow through. They worry that China sees weakness and inconsistency when it looks at Washington's foreign policy in general and commitment to Asia in particular. ASEAN believes China sees a United States in a cycle moving toward isolation, a well-established historical pattern following engagement in costly foreign wars (Afghanistan and Iraq). Decisionmaking in how to deal with conflict in Syria and Ukraine are seen as symptomatic of this phenomenon. China also perceived the United States as backing off its support for the Philippines, a treaty ally, by not retaliating when Beijing broke a 2012 agreement with Manila to leave the disputed Scarborough Shoal.⁴

China sees a United States divided by partisan ideology and not driving toward national interests, which resulted in President Obama having to cancel his planned Asia trip and participation in the EAS and APEC leaders meeting in October 2013. Beijing also questions the sustainability of the U.S. economic recovery and its ability to fund a modern defense force posture that aims to place 60 percent of U.S. military assets in the Pacific Command's area of responsibility. ASEAN does not see Obama or congressional leaders building a political foundation for U.S. engagement in Asia, and this is causing the grouping to pursue

2. “Xi Jinping: China to Further Friendly Relations with Neighboring Countries,” Xinhua, October 26, 2013, http://news.xinhuanet.com/english/china/2013-10/26/c_125601680.htm.

3. Carl Thayer, “China Escalates Fishing Disputes in the South China Sea,” cogitASIA, January 13, 2014, <http://cogitasia.com/china-escalates-fishing-disputes-in-the-south-china-sea/>; Phuong Nguyen, “China's Air Defense Zone Highlights Need for Contingency Planning in Southeast Asia,” *CSIS Commentary*, December 12, 2013, <http://csis.org/publication/chinas-air-defense-zone-highlights-need-contingency-planning-southeast-asia>.

4. Keith Bradsher, “Philippine Leader Sounds Alarm on China,” *New York Times*, February 4, 2014, http://www.nytimes.com/2014/02/05/world/asia/philippine-leader-urges-international-help-in-resisting-chinas-sea-claims.html?_r=1.

hedging strategies, reserving the opportunity to accommodate China if the United States fails to focus comprehensively.

Economics is security in Asia. ASEAN countries believe economic engagement is the core of a sustainable security strategy in Asia. Economic might drives a nation's geostrategic mandate. Many ASEAN countries are concerned that China will use its growing economic power to drive its sovereign agenda, which explicitly includes victory in its disputes with Brunei, Malaysia, the Philippines, and Vietnam in the South China Sea. China has become either the largest or second-largest trading partner of almost every ASEAN country over the past decade.⁵ While China is not a large investor in ASEAN yet, capital flows from Chinese entities to Southeast Asia are on the rise.⁶

ASEAN worries that U.S. trade and economic policy is ideological and inconsistent with its geostrategic objectives. For instance, instead of engaging ASEAN and other important Asian markets, either individually or through attempting to join the ASEAN-centered Regional Comprehensive Economic Partnership (RCEP)—the preferred economic engagement vehicle of most of the EAS⁷—the United States has focused on the TPP, which involves only 4 of 10 ASEAN countries and for which only 7 of 10 are eligible.⁸ For the United States to join the RCEP would require that Washington negotiate an FTA with ASEAN as a grouping, which U.S. officials have concluded would be too difficult because several ASEAN countries would find it difficult to open their markets to the extent that the U.S. government demands.

China benefits from a weak ASEAN. Southeast Asian nations believe that China does not want to see a strong and integrated ASEAN as envisioned in the group's charter.⁹ China has repeatedly acted to divide ASEAN in its quest to press its case in the South China Sea disputes. This was on display most prominently at the 2012 ASEAN Ministerial Meeting in Phnom Penh, when the group for the first time failed to issue a joint communiqué due to Chinese pressure on Cambodia as the host to keep mention of the South China Sea out of the document, despite the wishes of the other ASEAN members.¹⁰

China tolerates regional architecture but seeks bilateral leverage and Sino-centric models. Members of the grouping hope to use ASEAN-centric regional architecture such as

5. World Trade Organization (WTO), *Trade Profiles 2013* (Geneva: WTO, 2013), 32, 36, 89, 116, 130, 146, 163, 180, 198, http://www.wto.org/english/res_e/booksp_e/trade_profiles13_e.pdf.

6. Association of Southeast Asian Nations (ASEAN), "Table 27: Top Ten Sources of Foreign Direct Investment Inflows in ASEAN," October 30, 2013, <http://www.asean.org/images/resources/2014/Jan/StatisticUpdate28Jan/Table%2027.pdf>.

7. The RCEP negotiations include all of the EAS members except Russia and the United States, which are the only members of the summit without a free trade agreement with ASEAN.

8. The TPP negotiations include Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. The agreement is only open to members of APEC, which does not include Cambodia, Laos, or Myanmar.

9. The ASEAN Charter declares the organization's ultimate goal as the creation of a more integrated community involving three pillars: "political, economic, and sociocultural cooperation." ASEAN, *ASEAN Charter* (Jakarta: ASEAN Secretariat, 2008), 3, <http://www.asean.org/archive/publications/ASEAN-Charter.pdf>.

10. Ernest Z. Bower, "China Reveals Its Hand on ASEAN in Phnom Penh," *CSIS Commentary*, July 20, 2012, <http://csis.org/publication/china-reveals-its-hand-asean-phnom-penh>.

the EAS to socialize China into norms of regional discussion, rulemaking, and legal compliance. ASEAN understands this model of structural accommodation because four of the original members—Malaysia, the Philippines, Singapore, and Thailand—successfully used it to bring the fifth—a large and hard-to-understand Indonesia—into the regional fold when they founded ASEAN in 1967.¹¹

However, ASEAN recognizes that China prefers to use its size and economic clout to dominate its regional relationships by focusing on bilateral ties or on regional structures that China can dominate. Two examples of this phenomenon are China's strong desire to resolve the South China Sea maritime and territorial disputes bilaterally while dragging out negotiations to establish a legally binding code of conduct, and China's preference for the ASEAN +3 process to drive economic integration in Asia. ASEAN's economic and financial leaders report that China dominates and drives the ASEAN +3 meetings. This is one reason most ASEAN countries have worked hard to bring the United States and others into the EAS and embraced the RCEP as an alternative to the Sino-centric ASEAN +3.

Dynamics of Trade and Investment in the Region

Some of the most important themes concerning Southeast Asia's economic future facing U.S. and Japanese policymakers will be:

- Will the United States be able to orchestrate a TPP agreement and order, connecting itself to the fast-rising economies in the Asia Pacific, or will the region move toward a more Asian-centric economic order as China would prefer?
- Who will underwrite the rules for the new international economic system in Asia? What will the institutions and norms regulating cross-border economic interactions look like in the next 15 to 20 years?
- Will the U.S. private sector be able to compete in the long run with companies that receive far greater support and backing from their governments to invest in the region, especially in infrastructure and energy projects?
- Will Japan recover from its economic recession and adopt a more open approach on trade with the rest of the region?
- Will major ASEAN members be able to embrace structural economic reforms and move into the ranks of industrialized economies and high-income countries?

Between the 1960s and 1980s, investment by multinationals from the United States and Japan played a pivotal role in jump-starting the major economies of Southeast Asia, particularly the manufacturing sectors of Singapore, Malaysia, and Thailand. This investment propelled Singapore into the ranks of Asia's newly industrialized economies. The United

11. Shaun Narine, *Explaining ASEAN: Regionalism in Southeast Asia* (Boulder, CO: Lynne Rienner, 2002), 14–15.

States and Japan during this period also emerged as the most important trading partners for many of the ASEAN countries.

In 2004, the United States was ASEAN's top trading partner with two-way goods trade reaching \$192 billion.¹² By 2013, U.S. trade in goods with ASEAN had grown to \$333 billion, up 60 percent over the previous decade, but its ranking in the region had slipped.¹³

Over the past decade or so, as China's economy has surged, the country's trade with ASEAN reached \$444 billion in 2013.¹⁴ China has become the largest trading partner for most Southeast Asian countries, pushing the United States down to fourth place, behind the European Union and Japan. ASEAN countries, particularly Indonesia, export massive quantities of commodities to fuel China's growth and have emerged as key component manufacturers in the global supply chain focused around assembly plants in China.

The total stock of U.S. foreign direct investment in ASEAN reached \$189 billion in 2012 (the last year for which data is available), driven by projects in manufacturing, finance, insurance, and nonbank holding companies.¹⁵ U.S. companies are the top aggregate investors in Southeast Asia and their cumulative totals top investment from Japan, China, and South Korea combined.¹⁶

But Japanese companies have sharply ramped up their investment in Southeast Asia in recent years as labor costs have risen in China and maritime disputes have escalated in the East China Sea. Investment by Japanese companies in Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam doubled in 2012 to \$22.8 billion.¹⁷

Japanese firms recently have looked to frontier Southeast Asian markets, such as Laos and Cambodia, in search of investment opportunities in countries that have long been viewed as part of China's sphere of influence. And the Japanese government has increased its aid in an effort to counter China's growing influence on its southern flank.

In 2012, Japan provided Vietnam, which has faced increasing Chinese assertiveness in the South China Sea, \$1.7 billion in economic assistance, the largest of any country, while also stepping up aid to Cambodia, Laos, and Myanmar. Japan's recent push seems to be replicating its strategy in Thailand in the 1980s and 1990s, when Japan helped finance the country's infrastructure development. In 2012, Japanese car manufacturers and

12. Ernest Z. Bower and Murray Hiebert, *Developing an Enduring Strategy for ASEAN* (Washington, DC: CSIS, January 2012), xi, http://csis.org/files/publication/120105_Bower_DevelopEndurStratASEAN_Web.pdf.

13. Office of the U.S. Representative (USTR), "Association of Southeast Asian Nations (ASEAN)," <http://www.ustr.gov/countries-regions/southeast-asia-pacific/association-southeast-asian-nations-asean?page=6>.

14. "China, ASEAN calling for expanded economic cooperation," *Asia Pacific Daily*, May 8, 2014, <http://en.apdnews.com/news/91410.html>.

15. USTR, "Association of Southeast Asian Nations (ASEAN)."

16. Unpublished fact sheet prepared by U.S. Embassy in Singapore, November 2014.

17. Aaron Sheldrick, "Japan investment in Southeast Asia surges amid China slump," Reuters, April 18, 2014, <http://www.reuters.com/places/china/article/2014/04/18/us-japan-china-investment-idUSBREA3H08N20140418>.

electronics companies invested about \$10 billion in Thailand and another \$3 billion in Vietnam.¹⁸ Japanese firms are also funding a special economic zone in Myanmar that could boost investment in the country's manufacturing export sector.

China has mounted a "charm offensive" of its own in Southeast Asia, dramatically stepping up its trade and investment and assistance projects in Southeast Asia. Some of this increase in trade was prompted by the 2010 ASEAN-China Free Trade Area, which slashed tariffs to zero on more than 90 percent of the goods traded between China and the more developed economies of ASEAN, but did not move substantially into nontariff aspects of the countries' economic activity such as services, investment, intellectual property rights, or labor and environment issues.¹⁹

The growing economic importance of Southeast Asia was highlighted in 2013 by the fact that foreign direct investment in the ASEAN-5 (Indonesia, Malaysia, Philippines, Singapore, and Thailand) outstripped investment in China for the first time in over a decade. The ASEAN-5 received \$128.4 billion in foreign direct investment compared to China's \$117.6 billion. Ironically, a big share of this investment came from China, now the world's third-largest investor.²⁰

Beijing recently launched a new \$40 billion Asia Infrastructure Investment Bank, which in part will compete with the Japan-led Asia Development Bank, to provide funding to help meet Southeast Asia's massive infrastructure needs.²¹ China has also announced a Maritime Silk Road project that is expected to lead to increased Chinese investment in maritime infrastructure in the Asia Pacific to promote increased trade throughout the region.²²

Even in Southeast Asian countries with which Beijing has had maritime conflicts in recent years, such as Vietnam and the Philippines, China is a major trading partner and provider of soft loans for development. China is Vietnam's largest trading partner, has helped with railroad and hydropower development, and is a major supplier of inputs for Vietnam's large garment and rice export sectors.

China often uses its development assistance and investment projects to gain access to natural resources. Its practices also include mandating that work is done by Chinese

18. Warangkana Chomchuen and Mitsuru Obe, "Japan Inc. Goes Deeper Into Southeast Asia," *Wall Street Journal*, September 28, 2014, <http://www.wsj.com/articles/japan-inc-goes-deeper-into-southeast-asia-1411953543>.

19. Shanthi Kalathil, "Influence for Sale? China's Trade, Investment and Assistance Policies in Southeast Asia," *CNAS East and South China Seas Bulletin 4* (September 2012), <http://www.cnas.org/content/bulletin-4-influence-sale-china%E2%80%99s-trade-investment-and-assistance-policies-southeast-asia>.

20. Sophie Song, "Southeast Asia Receives More Foreign Direct Investment (FDI) Than China, Which Is Now the World's Third-Largest Investor," *International Business Times*, March 5, 2014, <http://www.ibtimes.com/southeast-asia-receives-more-foreign-direct-investment-fdi-china-which-now-worlds-third-largest>.

21. "Why China is creating a new 'World Bank' for Asia," *The Economist*, November 11, 2014, <http://www.economist.com/blogs/economist-explains/2014/11/economist-explains-6>.

22. Jamil Anderlini, "China foresees outbound investment of \$1.25tn in a decade," *Financial Times*, November 9, 2014, <http://www.ft.com/intl/cms/s/0/806fe102-67de-11e4-acc0-00144feabdc0.html#axzz3LjbiCG42>.

companies and often using imported Chinese labor. The aspects of Chinese assistance in Southeast Asia create domestic political opposition. For example, violent protests erupted at the Chinese-invested Letpadaung copper mine in Myanmar in 2012.²³ In Vietnam, the 2009 investment by a Chinese mining group in a bauxite mine in the Central Highlands prompted strong opposition from environmentalists, monks, and retired soldiers.²⁴

China's stationing of a giant oil rig, Haiyang Shiyou 981, on the continental shelf of Vietnam in the South China Sea in May 2014 prompted massive protests against Chinese and perceived Chinese investment projects in Vietnam. These incidents caused recognition among Vietnamese officials that they would need to diversify their economic ties.

Hanoi decided in 2010 to join the negotiations on the 12-nation TPP, which includes the United States and Japan, in an effort to broaden its sources of trade and investment. The three other ASEAN members are Brunei, Malaysia, and Singapore.

ASEAN leaders recognize the important role China's economic dynamism has played in the region's strong economic growth, but they continue to rely on the United States to provide peace and security in the Asia-Pacific region. At the same time, ASEAN leaders are looking for the United States to adopt more proactive trade and investment policies toward the region to balance China's increasingly dominant economic role. While many ASEAN officials appreciate U.S. efforts to promote a strong trade and investment architecture in the region through the TPP, they are concerned that it includes only four Southeast Asian countries.

How Southeast Asia Fits into U.S. Economic Strategy

The United States has three main objectives in its economic policy toward Asia: promoting U.S. jobs and growth at home, crafting a rules-based regional economic architecture for the future, and laying the foundation for a larger U.S. presence in the region in the long run. Southeast Asia is at the center of all of these objectives.²⁵

The region is the fourth-largest trading partner of the United States. In 2013, U.S. goods trade with ASEAN totaled 206 billion.²⁶ These fundamentals mean boosting economic ties with ASEAN will be critical if the United States wants to double U.S. exports over five years in order to support 2 million new U.S. jobs, an objective set out by President Obama.

23. Thomas Fuller, "Violent Raid Breaks Up Myanmar Mine Protest," *New York Times*, November 29, 2012, http://www.nytimes.com/2012/11/30/world/asia/myanmar-security-forces-raid-protest-camp.html?_r=0.

24. Seth Mydans, "War Hero in Vietnam Forces Government to Listen," *New York Times*, June 28, 2009, <http://www.nytimes.com/2009/06/29/world/asia/29iht-viet.html?pagewanted=all>.

25. See Matthew Goodman, "U.S. Economic Engagement in East Asia and the Pacific," statement before the U.S. Senate Committee on Foreign Relations, Subcommittee on East Asian and Pacific Affairs, December 18, 2013.

26. USTR, "Association of Southeast Asian Nations (ASEAN)."

The United States has an interest in shaping an open, rules-based system of trade and investment in the Asia-Pacific region that can address the challenges of the twenty-first century. While the TPP is designed to serve this goal, it is only a building block to broader and deeper economic integration in the region. To help ASEAN fit into this regional strategy, both sides have launched the U.S.-ASEAN Expanded Economic Engagement initiative, which is intended to help lay the groundwork for other ASEAN countries to join the TPP if they choose to do so in the future. Besides Brunei, Malaysia, Singapore, and Vietnam—which are actively participating in the TPP negotiations—the Philippines and Thailand are two other ASEAN countries that have expressed interest in joining the TPP. Indonesia, by far ASEAN’s largest economy, has not indicated a strong interest in joining TPP yet, but it has made clear its intention not to allow China to dominate its economic development. Protests and deep opposition to the China-ASEAN FTA were factors in the ousting of the Indonesian trade minister, Mari Pangestu, who oversaw the completion of that agreement.

Almost every government in Southeast Asia understands the need to undertake economic reforms in order to meet the demands and aspirations of their peoples. However, since the region comprises economies at different levels of development, the United States also has different sets of bilateral issues with each country, making an attempt to have a more coordinated economic strategy for the region somewhat difficult.

Finally, amid concerns in Asia about the political dysfunction in Washington and U.S. staying power in the region, securing a central place for the United States in Asia’s economic order will reinforce U.S. presence and influence in region. New economic powers in Asia beyond Japan and the United States, including China, South Korea, and India, have emerged as important players in trade, investment, finance, and technological innovation. In particular, China made clear during its hosting of the APEC summit in 2014 that it has its own economic vision for the region, including its revival of the FTAAP initiative. In this context, U.S. security commitments toward allies and friends in Southeast Asia will be less credible if the United States is perceived as playing a weak role in the region in trade and investment.

How Southeast Asia Fits into China’s Economic Strategy

The goal of China’s regional economic strategy is to boost growth of the Chinese economy. China’s rise since the early 1990s has created a unanimous reaction across the region: ASEAN countries want to benefit from China’s economic dynamism, but at the same time feel threatened, realizing they will have to compete with China for export markets and capital for years to come. ASEAN countries also worry that China will use its growing economic power as leverage in sovereignty disputes, for instance in the South China Sea, or to mandate China-centric rules and standards limiting the region’s global economic reach and balance.

Southeast Asia's place in China's economic vision continues to evolve, contingent on what Beijing believes its periphery should look like in order for it to deliver economic growth, promote its own security, and sustain political legitimacy at home. What is clear is that China is no longer a competitor with Southeast Asian countries for export markets, as it was in the 1980s and 1990s; it is now a core market to which ASEAN countries want to be connected.²⁷

Currently, ASEAN is China's third-largest trading partner, and China is ASEAN's top trading partner. Chinese Premier Li Keqiang has proposed expanding bilateral trade from \$444 billion to \$1 trillion by 2020.²⁸

In the next decade or two, President Xi Jinping's recently formulated vision of "a community of common destiny," which promotes further interdependence between China and its neighbors, will likely serve as one important guiding compass for China's interactions with Southeast Asian countries.

A number of economic incentives have been born out of this vision, which focuses mainly on trade and infrastructure. There are proposals to upgrade the ASEAN-China Free Trade Area; create greater cross-border connectivity and economic cooperation (e.g., China-Malaysia Industrial Park, the China-Indonesia Economic Cooperation Zone, the China-Cambodia Modern Agriculture Experiment Center, China-Thailand Industrial Park, China-Vietnam Cross-border Economic Cooperation Zone, and Guangxi Beibu Gulf Economic Zone); and expand economic corridors (e.g., the Greater Mekong Sub-region, China-India-Myanmar-Bangladesh economic corridors). There are also planned infrastructure projects along the much-touted Maritime Silk Road that will potentially connect trade routes from China to Europe via the littoral waters of Southeast Asia.

Beijing has good reason to be confident that its economic offensive will pay off. ASEAN desperately needs better infrastructure to achieve higher economic growth and for governments to sustain political legitimacy with a more demanding and empowered middle class. Beijing has established itself as ready to deliver on that front, but questions around the terms of China's support and related governance issues have been raised and will grow in importance.

But as it dangles economic carrots in front of its Southeast Asian neighbors, China has signaled its willingness to use sticks to punish governments that may be acting in ways that deter Beijing's interests.²⁹ While ASEAN countries did not always associate trade dependence on China as a threat to their national security, some have begun to question whether they can ever understand China's intent.

27. Phuong Nguyen, "China's Charm Offensive Signals New Strategic Era in Southeast Asia," *CSIS Commentary*, October 17, 2013, <http://csis.org/publication/southeast-asia-corner-18th-and-k-streets-chinas-charm-offensive-signals-new-strategic-er#commentary>.

28. "China, ASEAN to Accelerate Upgraded FTA Negotiations," *China Daily*, November 6, 2014, http://www.chinadaily.com.cn/china/2014-11/06/content_18880611.htm.

29. Nguyen, "China's Charm Offensive Signals New Strategic Era in Southeast Asia."

The various vehicles deployed to achieve Beijing's vision will in the long run have the effect of creating a Sino-centric regional order, but may not necessarily lead to sustainable growth and prosperity for Southeast Asian countries. By themselves, these incentives are not designed to usher in the kind of necessary reforms to take the region to the next growth level, which would require, among other things, undertaking reforms in finance, education, regulatory frameworks, and the decisionmaking process, and strengthening the role of the private sector.

For their part, Chinese leaders understand that plans for economic integration with ASEAN will help reassure the region about the "China threat" and, in the long run, convince ASEAN states that challenging Beijing's leadership will not be worthwhile. In doing so, China proposed during APEC 2014 that the grouping's 21-member countries launch a feasibility study of the FTAAP.

At the same time, whether China can successfully rebalance its economy in the next several decades will be a decisive factor in how China and ASEAN perceive each other from an economic standpoint. And this will in turn determine whether Southeast Asia will stay receptive to Beijing's regional vision.

For instance, if China rebalances its economy toward domestic demand-led growth, intra-regional trade between China and ASEAN will likely expand further, assuming the demand from China will be large enough. Gross domestic product growth in ASEAN as a whole could benefit from this outcome. But unless ASEAN's member economies continue to attract significant amounts of investment and capital from other sources (e.g., the United States, Japan, South Korea, and the European Union), reform their domestic institutions and regulatory frameworks, and integrate economically among themselves, they may end up growing even more dependent on China.

The South China Sea Disputes

Beijing often traces the current round of tensions with its southern neighbors in the South China Sea to U.S. involvement that began with then-secretary of state Clinton's support for Southeast Asian claimants' rights at the 2010 ASEAN Regional Forum (ARF) in Hanoi. However, experts in Southeast Asia identify China's reaction to several submissions to the UN Commission on the Limits of the Continental Shelf (CLCS) in 2009 as the starting point for the latest frictions, and for the steady demise of the charm offensive.

In 2009, Malaysia and Vietnam made a joint submission to the CLCS concerning their overlapping claimed, extended continental shelves in the southern portion of the South China Sea. Vietnam also made a separate submission to part of its shelf in the northern part of the sea. These submissions came in just under an extended deadline that was negotiated in 2001 to assuage the concerns of developing countries over the original time frame for submission. The new 10 year deadline, which retroactively dated from May 1999, was accepted by all nations, both in Asia and abroad, that had ratified UNCLOS, though

loopholes were provided should technical, fiscal, or political hurdles prevent them from meeting it.

China's reaction was to deposit a copy of its nine-dash line claim to nearly the entirety of the South China Sea as a *note verbale* in objection to the Malaysian and Vietnamese joint submission. It was the first time China submitted the nine-dash line to an international body.

The reaction from the Southeast Asia was swift, with not only Malaysia and Vietnam, but also Indonesia and the Philippines, submitting their own *notes verbales* in objection to the nine-dash line. Since that crystallizing moment in the disputes, the Southeast Asian claimants have faced one incident after another, convincing them that Beijing's intentions in the South China Sea are neither negotiable, in line with UNCLOS, nor respectful of its smaller neighbors' interests.

In every major regional forum since 2009, especially those under the aegis of ASEAN, the issue of perceived Chinese assertiveness in the South China Sea has been prominently discussed. Until 2012 it was mainly raised obliquely, at least in public documents and statements, via references to maritime security, peaceful resolution of disputes, and respect for international law. But following the standoff between Chinese and Philippine vessels at Scarborough Shoal that started in May 2012 and continued for months, eventually leaving China in control of the feature that was previously under effective Philippine jurisdiction, ASEAN claimants have grown increasingly forthright in their references to tensions in the South China Sea.

In the last few years, the region has seen increasingly aggressive actions taken by fishing and paramilitary forces to enforce claims and block those of neighbors. Those incidents related to oil and gas exploration offer prime examples. In March 2011, Chinese ships threatened to ram an exploration vessel, operated by Philippine-UK joint venture company Forum Energy, at Reed Bank near the Spratly Islands. Chinese ships cut the underwater cables being towed by Vietnamese survey ships in June 2011 and November 2012, and on several occasions harassed Malaysian oil exploration vessels in 2012 and 2013. Tensions over oil exploration hit a new peak in May 2014 with the China National Offshore Oil Corporation (CNOOC) placing its deepwater drilling rig Haiyang Shiyou 981 in waters south of the Paracel Islands disputed with Vietnam. That incident sparked two months of run-ins between Chinese and Vietnamese vessels that very easily could have escalated into more overt violence.

Overt threats and acts of violence, whether state sanctioned or incidental, are proximate causes for fear in Southeast Asia, but are not what is really at the core of the pervasive sense of unease in the region regarding China's intentions in the South China Sea. The heart of the issue from the ASEAN perspective is the purposeful ambiguity of Beijing's claims—the seeming unwillingness to declare the legal limits and rationale for claims, and thereby potentially open up a dialogue on how and where to cooperate in disputed waters. Instead, Southeast Asian states perceive that China's intention is to eventually occupy all features in

the South China Sea and establish de facto sovereignty over all the waters within the nine-dash line as if they were territorial waters, in contravention of the 1982 UNCLOS.

This fear regarding China's perceived intentions has grown sharper over the last two years as ASEAN states have witnessed a disconnect between rhetoric and actions from Beijing. Since early 2012, most official Chinese pronouncements, especially from the Ministry of Foreign Affairs, have insisted that the nine-dash line is only a claim to the "islands and adjacent waters" within it.

Yet Southeast Asian states have watched as Chinese actions seemed to contradict this position. In 2012, CNOOC tendered several oil and gas blocks that fell in large part well outside the area that could be considered the adjacent waters of the Paracels or Spratlys. Similarly, when the Philippines that year announced its own round of bidding for offshore blocks, Beijing strenuously objected to those off the coast of Palawan that could not possibly be considered to lie on the potential continental shelf of any of the Spratlys. And in January 2014, Chinese vessels stopped at James Shoal off the coast of Malaysian Borneo—well outside the entitlement of any of the Spratlys and roughly 60 feet underwater—to drop steles, declaring it Chinese territory, and hold a ceremony with marines vowing to defend China's sovereignty.

Southeast Asian concerns have ratcheted to new heights since mid-2014 with revelations that China has embarked on an unprecedented campaign—both in scope, speed, and ecological destruction—to increase the size of its occupied features in the Spratlys by dredging soil from the seabed. The work has worrying security implications and will allow China to significantly boost the number of patrol vessels and planes it has in the area. It will also open the possibility of Beijing declaring an Air Defense Identification Zone in the South China Sea, especially as it has been confirmed that China is constructing an airstrip on at least one of the features—Fiery Cross Reef. It also raises worrying legal concerns that China could, in effect, be hiding evidence regarding the original status of rocks, islands, or low-tide elevations—features that are prominent components of Manila's case before a tribunal at the Permanent Court of Arbitration.

U.S. SECURITY ENGAGEMENT

Perceived bullying by China in the South China Sea, and the worry among ASEAN nations that they are seeing only the beginning of a trend that will continue unchecked, has driven Southeast Asian states to welcome greater U.S. security involvement in the region. This has come with a speed and to a degree that Washington could not have hoped for without the perception of a threat from Beijing.

Singapore, which has been no stranger to troop and ship visits and joint exercises and training with the U.S. military, boosted a previous agreement to host two of Washington's new littoral combat ships and their troop contingents; it now hosts four of the vessels.

The Philippines, after unceremoniously evicting U.S. forces from Subic Bay Naval Base and Clark Air Base two decades ago, earlier this year signed an Expanded Defense Cooperation Agreement that will see an increased rotational deployment of U.S. troops at Philippine bases—reportedly to include Oyster Bay on the South China Sea. Under that agreement, which is currently mired in the Philippine Supreme Court, the United States will significantly improve Philippine military installations and pre-position more equipment. Most importantly, the United States will be able to expand facilities on Palawan to allow a much larger and more sustained patrol capacity over the South China Sea.

Manila has also welcomed increasing visits by U.S. Navy ships in recent years—nearly doubling the number of visits from 2012 to 2013. And the two nations have boosted joint exercises, including more than doubling the number of U.S. troops involved in the 2015 iteration of the annual Balikatan joint exercises, which include a substantial focus on maritime security, amphibious assault, and island defense.

The Philippines has also stepped up efforts to modernize its armed forces and capabilities in the hopes of establishing what it has called a “minimum credible defense.” To this end, the United States has provided the Philippines with two former *Hamilton*-class Coast Guard cutters, with a third likely to be sent. Manila has also agreed to purchase 12 fighter jets from South Korea—its first jet procurement in three decades—and will likely purchase another 12. And it has secured a new long-range patrol craft, with equipment mainly purchased from U.S.-based Raytheon, in the hopes of boosting its maritime domain awareness and patrol capabilities.

In the most highly publicized development in the early days of the Obama administration’s rebalance to the Asia Pacific, Australia signed agreements to host a rotating contingent of 2,500 U.S. Marines in Darwin and a U.S. Air Force presence in northern Australia. Arrangements are under way to increase those commitments from the United States.

U.S. allies and strategic partners are not the only countries in Southeast Asia that have sought a greater security relationship with the United States in the face of uncertain Chinese intentions in the region. Vietnam has grown increasingly eager to forge a defense relationship with Washington, especially in the face of China’s oil rig deployment. The United States and Vietnam signed their first military agreement since the end of the Vietnam War in 2011, touching on cooperation in military medicine. The following year, then-defense secretary Leon Panetta made a historic visit to Cam Ranh Bay, site of a major U.S. Navy base during the war.

In July 2013, the United States and Vietnam launched a comprehensive partnership that, among other things, will increase military cooperation. Washington and Hanoi have begun engaging in regular defense dialogues and now take part in annual noncombat naval exercises. All of this embryonic engagement made a long-sought leap during the visit of Deputy Prime Minister Pham Binh Minh to Washington in early October 2014. The Obama administration agreed to partially lift the long-standing ban on the sale of lethal arms to Vietnam in order to boost Hanoi’s maritime capabilities. Meanwhile, Vietnam is eager to

boost its naval deterrence capabilities, most visibly by acquiring six *Kilo*-class subs from Russia.

Malaysia has also grown increasingly nervous about China's long-term intentions in the South China Sea and its own relative weakness in the maritime sphere. This situation has grown more acute in light of China's display of sovereignty, and disregard for Malaysia's interests, at James Shoal. Kuala Lumpur in 2013 decided to establish its first independent marine corps, to be housed at an expanded base on Borneo. During a visit to Washington, Malaysia's military chief expressed an eagerness to learn from the example of the U.S. Marine Corps in this endeavor. The Marine Corps, and general buildup of Malaysian naval and amphibious capabilities in Borneo, serve two purposes: both to protect against intrusions from the Philippines' Sulu Archipelago, and to better monitor and deter Chinese activities in the South China Sea. And during the first visit to Malaysia by a U.S. president since 1966, Obama and Prime Minister Najib Razak agreed in April 2014 to launch a comprehensive partnership that will include stepped-up military exchanges.

STEPPED-UP JAPANESE ENGAGEMENT

Over the past two years Japan has stepped up its maritime assistance to Vietnam and the Philippines in the midst of territorial disputes with China in the South China Sea. In late 2013, Japan offered the Philippine Coast Guard 10 patrol vessels in an effort to boost its maritime domain awareness, and a few months later made a similar commitment to Vietnam.³⁰ The ships for the Philippines are being provided under very generous loan terms and will more than double the size of the Philippine Coast Guard. The first of those ships will be delivered by late 2016. The ships for Vietnam will go a long way in helping it build up its sorely undermanned coast guard.

Australia is also seeing a renaissance in relations with Japan, and Self-Defense Forces now engage in rotational training in northern Australia. In addition, Japan is widely reported to be the front-runner to win a contract to produce Australia's next generation of submarines.

The Japanese government in 2014 began looking to revise its official development assistance regulations to allow Tokyo to provide aid to foreign militaries for the first time.³¹

Japan is also increasing its assistance and investment in Southeast Asia to counter China's growing clout in the region. Vietnam received \$1.7 billion in aid from Japan in 2012, the largest amount Tokyo provided to any country. Japan is also ramping up aid to Cambodia, Laos, and Myanmar, long seen as traditional allies of China.³²

30. Gerald Baker and Jacob M. Schlesinger, "Abe's Strategy: Rearrange Region's Power Base," *Wall Street Journal*, May 26, 2014, <http://www.wsj.com/articles/SB10001424052702304811904579585702903470312>.

31. Atsushi Hiroshima, "Abe Administration Seeks to Revise ODA Charter to Assist Militaries," *Asahi Shimbun*, April 1, 2014, http://ajw.asahi.com/article/behind_news/politics/AJ201404010044.

32. Chomchuen and Obe, "Japan Inc. Goes Deeper into Southeast Asia."

Japan has been a regular participant in the annual Cobra Gold exercises in Thailand since they were launched in 1982. The Cobra Gold exercises are organized by Thailand and the United States, but militaries from more than a dozen Asia-Pacific countries, including China, regularly participate or attend as observers. Beginning in 2012, Japanese forces began participating in the annual Balikatan (shoulder to shoulder) exercises organized by the Philippines and the United States in the Philippines.

THE WAY FORWARD

States across the Asia Pacific recognize the inevitability of China's taking its traditional place as the region's heavyweight, and they do not necessarily want to slow or stop that rise. But they want Beijing to play its role in regional and global leadership as a great power that respects the legitimate interests of smaller states, and that abides by the rules and norms of the twentieth-century international system even while pushing it to adapt to the twenty-first.

To this end, a stable Asia-Pacific region will be dependent on China recognizing that it has more to gain by taking a position of preeminence in the region within the strictures of international laws and norms. But the prospects of China rising within the bounds of the international system currently seem less sanguine among Southeast Asians, mainly due to China's actions in the South China Sea. Convincing Beijing to clarify the meaning of the nine-dash line, and refrain from actions that imply a claim beyond the bounds of the islands and adjacent waters within it, would go a long way toward assuaging Southeast Asian concerns. Similarly, authorities in Beijing must be convinced to seriously consider calls by Southeast Asia to institute a freeze on construction and other provocations in disputed areas, and to work with ASEAN to delimit the area actually in dispute in the South China Sea and conclude a binding code of conduct to apply in that area.

About the Authors

Ernest Z. Bower is senior adviser and Sumitro Chair for Southeast Asia Studies and codirector of the Pacific Partners Initiative at the Center for Strategic and International Studies. He is recognized as a leading expert on Southeast Asia. He is president and CEO of Bower-GroupAsia, a business advisory firm he founded. Before forming his company, he served for a decade as president of the U.S.-ASEAN Business Council, the top private business group composed of America's leading companies in Southeast Asia. Over 20 years, he helped to build the Council from the ground level, working with government and private-sector leaders from the United States and Southeast Asia.

Bower is widely recognized as one of the strongest proponents for close ties between the United States and Asia. He has been an adviser and innovator in creating programs and vehicles to broaden and deepen ties bilaterally and regionally. He engineered key private-sector initiatives such as the U.S.-Singapore Free Trade Agreement Coalition, the U.S.-APEC Business Coalition, and numerous campaigns resulting in significant expansion of commerce. In recognition of his work, the king of Malaysia has awarded him the Darjah Panglima Jasa Negara, pronouncing him holder of the title *Datuk* in Malaysia. The president of the Philippines also awarded him the rank of *Lakan*, or commander, for his service to the Philippines. Bower is currently the U.S. chair of the Advisory Council on Competitiveness for the Vietnamese prime minister and serves on the boards of the Special Olympics, the Institute for Religion & Public Policy, the American Australian Education and Leadership Foundation, the United States–New Zealand Business Council, the Malaysian-American Society, and the United States–Indonesia Society. He also served on the U.S. Department of State's Advisory Committee on Trade and Investment. Bower holds a bachelor's degree from Colgate University and studied Mandarin Chinese at Middlebury College's Sunderland School of Foreign Language.

Murray Hiebert serves as senior fellow and deputy director of the Sumitro Chair for Southeast Asia Studies at CSIS. Prior to joining CSIS, he was senior director for Southeast Asia at the U.S. Chamber of Commerce, where he worked to promote trade and investment opportunities between the United States and Asia. Hiebert joined the U.S. Chamber in 2006 from the *Wall Street Journal's* China bureau, where he covered trade, intellectual property rights, and China's accession to the World Trade Organization. Prior to his Beijing posting, he worked for the *Wall Street Journal Asia* and the *Far Eastern Economic Review* in Washington, reporting on U.S.-Asia relations.

From 1995 to 1999, Hiebert was based in Kuala Lumpur for the *Far Eastern Economic Review*. He covered the Asian financial crisis and also reported on developments in Singapore. In the early 1990s, he was based in Hanoi for the *Review*, reporting on Vietnam's economic reforms. He joined the *Review's* Bangkok bureau in 1986, covering political and economic developments in Vietnam, Cambodia, and Laos. Hiebert is the author of two books on Vietnam, *Chasing the Tigers* (Kodansha, 1996) and *Vietnam Notebook* (Review Publishing, 1993).

Phuong Nguyen is a research associate with the Sumitro Chair for Southeast Asia Studies at CSIS. She manages research projects on U.S. foreign policy in the Asia Pacific, with a focus on countries in Southeast Asia and the Association of Southeast Asian Nations. Her areas of specialization include international security in Asia, China's strategy and policy toward Southeast Asia, and political and economic reforms in authoritarian countries. She received an MA in international affairs from the School of International Service at American University and a BA in finance and accounting from Murray State University. Nguyen is fluent in English, French, and Vietnamese.

Gregory B. Poling is a fellow with the Sumitro Chair for Southeast Asia Studies and the Pacific Partners Initiative at CSIS. He manages research projects that focus on U.S. foreign policy in the Asia Pacific, with a special concentration on the member countries of the Association of Southeast Asian Nations. His current research interests include disputes in the South China Sea, democratization in Southeast Asia, and Asian multilateralism. Poling's publications include *Sustainable Energy Futures in Southeast Asia* (CSIS, December 2012), *The South China Sea in Focus: Clarifying the Limits of Maritime Dispute* (CSIS, July 2013), *A U.S.-Indonesia Partnership for 2020: Recommendations for Forging a 21st Century Relationship* (CSIS, September 2013), and *A New Era in U.S.-Vietnam Relations: Deepening Ties Two Decades after Normalization* (CSIS, June 2014). Poling received an MA in international affairs from American University, a BA in history and philosophy from Saint Mary's College of Maryland, and studied at Fudan University in Shanghai.

CSIS | CENTER FOR STRATEGIC &
INTERNATIONAL STUDIES

1616 Rhode Island Avenue NW
Washington, DC 20036
202-887-0200 | www.csis.org

ROWMAN &
LITTLEFIELD

Lanham • Boulder • New York • London

4501 Forbes Boulevard
Lanham, MD 20706
301-459-3366 | www.rowman.com

