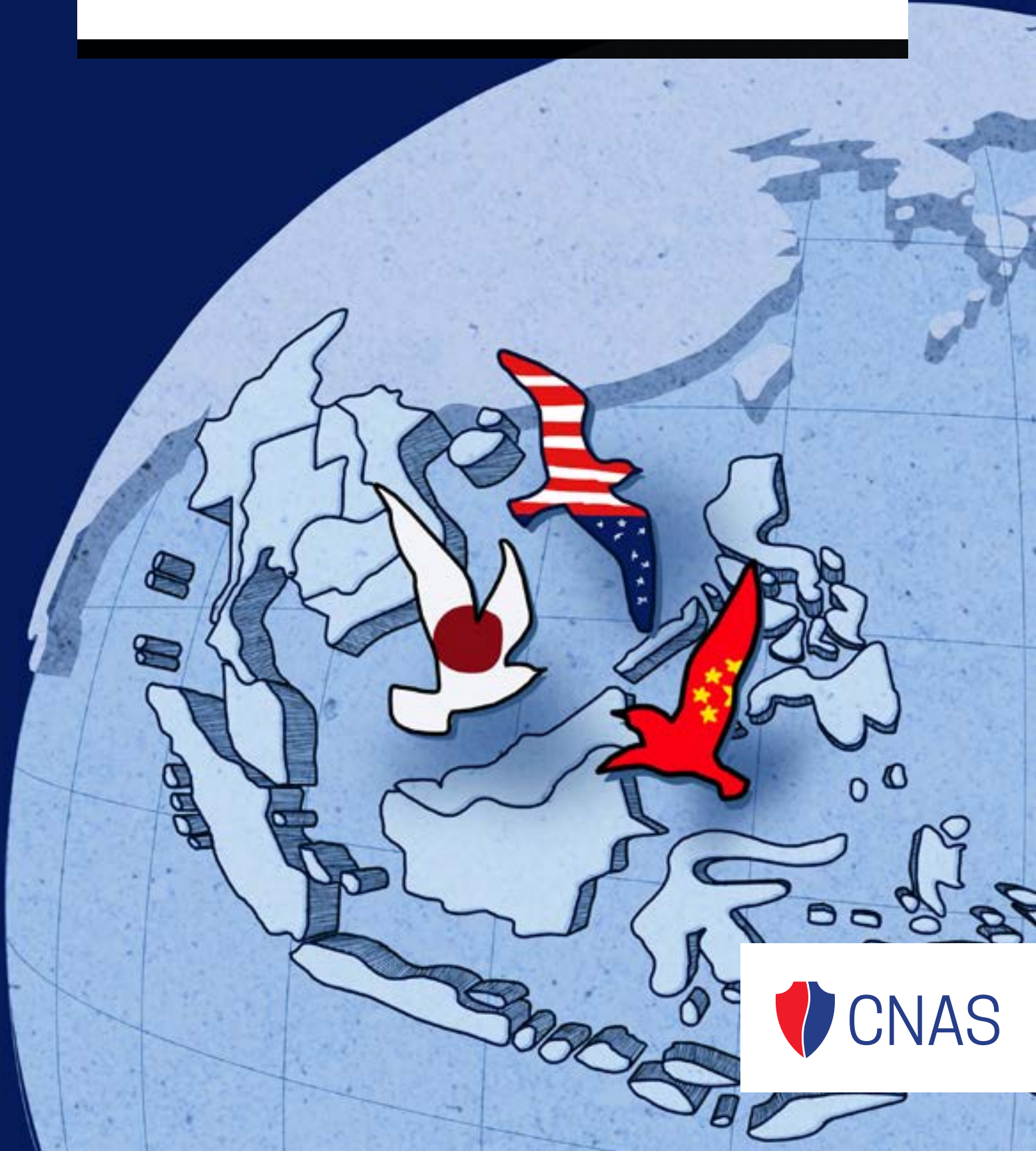


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Contested Spaces

A Renewed Approach to Southeast Asia

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About the Asia-Pacific Security Program

The Asia-Pacific Security Program seeks to inform the exercise of U.S. leadership in Asia by analyzing how the United States can rebalance its priorities, shape a rules-based regional order, modernize traditional alliances, build the capacity of new partners, and strengthen multilateral institutions and respect for the rule of law. From exploring rising maritime tensions in the region, to crafting ways to renew key alliances and partnerships, to articulating strategies to extend and enhance U.S. influence, the program leverages the diverse experiences and background of its team, deep relationships in the region and in Washington, and CNAS' convening power to shape and elevate the conversation on U.S. policy across a changing Indo-Pacific.

CONTESTED SPACES

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Executive Summary

As the competition between the United States and China to shape the course of the 21st century intensifies, Southeast Asia has become a contested space. A region where geopolitical orientations remain fluid, Southeast Asia lies at the front line of Beijing's expanding diplomatic influence, economic leverage, and military capability. At stake is whether countries across the region can retain their economic sovereignty and freedom of decision, and whether governance in the region will broadly trend toward greater freedom and openness, or the opposite.

Now is the time to revisit America's approach toward Southeast Asia. After reaching a high point during the Obama presidency, U.S. engagement with the region lost momentum at the outset of the Trump administration. That has since changed, as the Trump administration has come to recognize that its overall effort to compete with China will falter if it fails to get Southeast Asia right.

As the United States renews its approach toward Southeast Asia, it is not alone. U.S. allies and partners in the wider Indo-Pacific region and beyond can play a critical role in enabling Southeast Asia to chart a future on its own terms. In particular, Japan, with its long-standing economic ties in the region and enduring diplomatic influence, stands out. And while Washington and Tokyo already coordinate their strategies toward Southeast Asia to a degree, ample room exists for new joint initiatives.

State of Play

Southeast Asia has emerged as the most contested space in the Indo-Pacific. The following observations, which are based on extensive field research,¹ capture the regional state of play:

- China has adopted a well-resourced and comprehensive approach to Southeast Asia that aims to draw large segments of the region into its sphere of influence.
- Beijing has sown enduring divisions among the members of the region's premier multilateral organization, the Association of Southeast Asian Nations (ASEAN), while making more limited progress toward driving wedges in U.S. regional alliances.
- Countries in the region generally remain hesitant to align more overtly with the United States, even if the result is ultimately detrimental to their long-term freedom of choice.
- States in Southeast Asia currently do not perceive a comprehensive U.S. economic strategy that offers a meaningful alternative to China's combined trade and investment.
- U.S. efforts to promote greater self-defense capabilities for many countries in Southeast Asia will, at best, yield meaningful dividends over the long term, potentially after 2030.
- Japan broadly shares a common vision with the United States for Southeast Asia: to empower countries to chart their own destinies while gradually becoming more economically open and democratic.

A RENEWED APPROACH TO SOUTHEAST ASIA

The United States should craft a comprehensive, whole-of-government approach to the region along four primary axes: economics, security, diplomacy, and its alliance with Japan. The following are a selection of the high-impact recommendations advanced in the report:

Recommendations: Economics

- **Promote Bilateral Trade and Investment:** This starts with the U.S. trade representative making a renewed effort to negotiate bilateral free trade agreements (FTAs) with the Philippines and Vietnam.
- **Emphasize Region-Driven Infrastructure Solutions:** Specifically, the United States should seek to partner with ASEAN to implement its 2025 master plan for regional connectivity.

Recommendations: Security

- **Elevate the Focus on Illegal, Unreported, and Unregulated (IUU) Fishing:** The United States should support Indonesia's call for an international consensus to add IUU fishing to the United Nations Convention against Transnational Organized Crime.
- **Supplement U.S. Freedom of Navigation Operations:** Taking a page from the successful participation of the High Mobility Artillery Rocket System (HIMARS) in the 2016 Balikatan exercise with the Philippines, the United States should deploy new types of capabilities to the region that demonstrate the flexibility and variability of America's rotational military presence.

Recommendations: Diplomacy

- **Emphasize Programs that Address Acute Domestic Needs:** Follow up on successful programs such as the recently completed U.S. aid program that measurably reduced the high-visibility issue of stunting in Indonesia, for example, by partnering with a brand-name American hospital to open a branch in countries such as the Philippines or Indonesia, where high-quality health care is scarce.
- **Launch a "Truth Campaign":** The United States should issue a brief white paper that lists every unlawful action that Beijing has conducted in the South China Sea, including the environmental damage caused by its land reclamation activities.

Recommendations: U.S.-Japan Alliance

- **Advance Joint Infrastructure Collaboration:** The United States and Japan should develop a priority list of infrastructure projects in Southeast Asia based on geopolitical concerns and align strategic investments into these targeted projects.
- **Promote Regional Resilience to Chinese Disinformation:** The United States and Japan should work together to help countries across Southeast Asia identify Chinese online influence campaigns and counter disinformation emanating from Beijing.

Introduction

With its rapidly growing economies, strategic geography, and diverse regime types, Southeast Asia is emerging as the most contested region of the Indo-Pacific. The United States and its allies – above all, Japan – are engaged in a competition with China to shape the development and governance pathways of countries in the region, as well as their overall strategic alignments. Beijing has adopted a well-resourced, whole-of-government approach to Southeast Asia that, over the long term, aims to draw large segments of the region into its sphere of influence.² As China’s already significant economic presence continues

With its fluid country orientations and geographic position as the hinge between the Indian and Pacific oceans, Southeast Asia has emerged as a key testing ground for the Free and Open Indo-Pacific Strategies that both the United States and Japan have championed.

to grow due to its substantial infrastructure investments in Southeast Asia, so too has its ability to influence the region in the security and political domains.³

U.S. efforts in Southeast Asia, particularly in the aftermath of America’s withdrawal from the Trans-Pacific Partnership (TPP) in early 2017, have taken a lower profile and, at times, created openings for China to advance its objectives in the region. Moving forward, America’s ability to synchronize its priorities and regional initiatives with key allies, most notably Japan, will be critically determinative of Southeast Asia’s long-term strategic alignment.

With its fluid country orientations and geographic position as the hinge between the Indian and Pacific oceans, Southeast Asia has emerged as a key testing ground for the Free and Open Indo-Pacific (FOIP) Strategies that both the United States and Japan have championed. Beijing’s steady militarization of its artificial islands in the South China Sea is the most visible example of its attempts to probe the durability of the rules-based order in the region.⁴ Thus far, China’s tactics in the “gray zone” between peace and armed conflict have placed the United States, Japan, and other supporters of a free and open vision for the region

into a largely reactive posture. The United States has undertaken more regular freedom of navigation operations (FONOPs) in the South China Sea, increasingly in concert with naval patrols by its allies and partners, including France and the United Kingdom.⁵ Yet these activities have not deterred China from further militarization of its outposts, a fact readily apparent to regional stakeholders.

Despite mounting concerns about China’s geopolitical ambitions, many countries in Southeast Asia remain reluctant to align overtly against Beijing, given their dependence on China for trade and investment and their concern about the geopolitical spillover of a revived great-power competition centered in the region. At the same time, they worry that new groupings – in particular, the quadrilateral dialogue that brings together the United States, Japan, Australia, and India (the “Quad”) – will diminish the role of the region’s premier multilateral organization, the Association of Southeast Asian Nations (ASEAN).⁶ Due to countries’ ambivalence about the Quad and their reluctance to aggravate Beijing, consensus within ASEAN on China policy has proved elusive, imposing sharp constraints on the association’s aspirations for centrality in the wider Indo-Pacific region.⁷ A well-calibrated U.S. approach to the region, therefore, requires that a vision for a free and open Indo-Pacific extends beyond the Quad and is founded on the belief that Southeast Asian nations must remain prosperous and independent.

Southeast Asia has also grown increasingly contested in the economic domain. While the United States and Japan remain leading economic actors in the region, in recent years China has emerged as the largest trading partner for ASEAN. The speed with which China has emerged as such is stunning; in 2000, its total trade in goods with ASEAN was only \$40 billion, but now, this number has reached nearly \$350 billion.⁸ Moreover, the region is a key focus of the Belt and Road – Beijing’s vision of a world connected by a web of Chinese-funded

A well-calibrated U.S. approach to the region requires that a vision for a free and open Indo-Pacific extends beyond the Quad and is founded on the belief that Southeast Asian nations must remain prosperous and independent.



Indonesian President Joko Widodo (L) with Facebook founder Mark Zuckerberg (R) at Tanah Abang Market, the biggest textile market in Southeast Asia, after meeting on October 13, 2014, in Jakarta, Indonesia. Indonesia has a population of 263 million, of which approximately 60 million are active users of social media. (Oscar Siagian/Getty Images)

physical and digital infrastructure. Through its infrastructure investments, China has obtained leverage over some countries in Southeast Asia, while also generating blowback, as governments and publics become increasingly concerned about the debt, corruption, erosion of sovereignty, and environmental degradation associated with Belt and Road projects.⁹ The digital domain has become a key element of China's Belt and Road in recent years, and here too, Southeast Asia has become an arena for competition. Countries in the region remain ambivalent about models of online governance. As China's information technology companies become key players in the region, Beijing is increasingly positioned to nudge Southeast Asia toward a more statist vision of the internet, where governments curate content and other stakeholders in the digital space, such as civil society, are sidelined.¹⁰

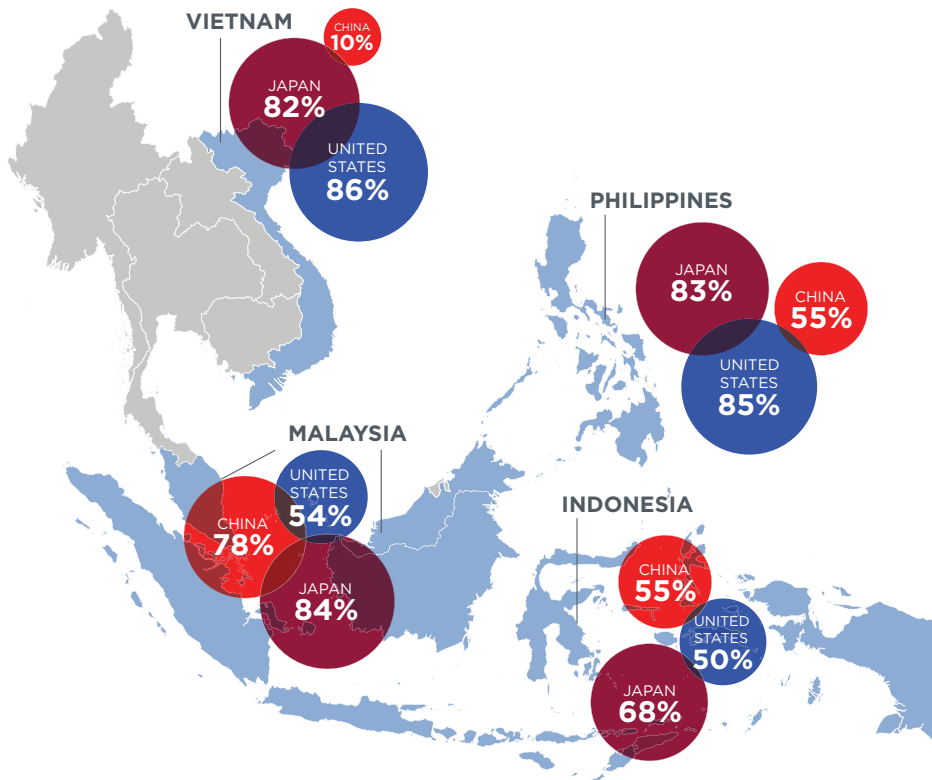
Lastly, and relatedly, governance structures in many Southeast Asian countries remain pliable and therefore contested. After a remarkable period of democratic expansion in which the region's most populous state – Indonesia – transitioned away from authoritarian rule and Myanmar embarked on a political opening, illiberal forms of government are now resurgent: A 2018 Freedom House report has shown a decline in democracy across Southeast Asia.¹¹ Finally, as previously noted, Southeast Asia's digital domain is coming under pressure as

governments seek to exert greater control over public political discourse, at the expense of freedom of expression and online privacy.¹²

This report proceeds in five main sections. The first explores the approaches of the major powers – the United States, Japan, and China – toward Southeast Asia. The remaining sections focus on how the United States can renew its approach to the region along four primary axes: economics, security, diplomacy, and its alliance with Japan. Each of these sections provides a more in-depth perspective on American policy and identifies concrete recommendations that, collectively, aim to enable Southeast Asia to chart a future on its own terms.

Major-Power Approaches to Southeast Asia

Within the Indo-Pacific, Southeast Asia is contested geopolitically, economically, and ideologically. Countries in the region seek to chart their own destinies, but the reality is that external powers will profoundly shape Southeast Asia's trajectory. U.S. engagement with the region has waxed and waned, while Japan has quietly built on its already strong economic ties to Southeast Asia and become increasingly active in the diplomatic and security domains. At the same time, Beijing has deployed a well-resourced, whole-of-government approach to advance its influence



**SOUTHEAST ASIAN COUNTRIES' VIEWS OF MAJOR POWERS
PERCENTAGE RESPONDING "FAVORABLE" (PEW 2017 GLOBAL TRENDS)¹³**

and shape the development and governance pathways of countries across the region.

United States

Over the past decade, America’s policies toward Southeast Asia have been overwhelmingly influenced by its geostrategic priorities in neighboring regions. This approach has resulted in a piecemeal vision, never quite amounting to a resounding U.S. presence within the region, but sufficient to maintain core aspects of political, security, and economic engagement. For Southeast Asian countries nervous about the long-term implications of an ascendant China, the perceived absence of a U.S. vision for the region has heightened immediate fears of abandonment. U.S. oscillation in its assessment of ASEAN as the primary vehicle for regional engagement has also fed broader concerns that America’s approach to the wider Indo-Pacific could jeopardize ASEAN centrality. U.S. policies toward Southeast Asia have varied by administration. Consequently, this section traces America’s approach to the region by focusing on the Obama and Trump administrations.

THE OBAMA ADMINISTRATION

The Obama administration was acutely aware of the strategic logic of renewed U.S. interest in Southeast Asia. Rhetorically and optically, President Barack Obama appeared more engaged than his predecessors.¹⁴ His personal connections with Indonesia and the 2016 Sunnylands Summit at which the United States hosted ASEAN leaders¹⁵ were strong signals of America’s enduring interest in the region. There was strategic underpinning to this approach – Obama’s time in office corresponded with heightened development and growth within Southeast Asia.¹⁶ However, uneven execution, poor resourcing, and second-term challenges such as the rise of the Islamic State and Russia’s invasion of Crimea created a gap between the Obama administration’s rhetorical commitment to the region and the reality of U.S. engagement.¹⁷ On balance, the region remained concerned about the durability

of U.S. commitment despite the Obama administration’s attempts to put America’s ties with the region on a positive trajectory.

To be sure, the United States made significant headway in Southeast Asia during Obama’s tenure in the White House. The administration’s decision to pursue participation in the East Asia Summit (EAS)¹⁸ opened a new mechanism for substantive discussions beyond the Asia-Pacific Economic Cooperation (APEC) forum and the ASEAN Regional Forum (ARF). From a purely logistical perspective, annual trips to the region enabled Obama to log valuable personal time with Southeast Asian leaders. The optics of portraying regional leaders as peers of the American president proved valuable for U.S. public diplomacy. The United States expended significant political capital in Southeast Asia to contest Beijing’s construction of artificial island outposts in the South China Sea.¹⁹ The Obama administration also championed subregional engagement, such as the Lower Mekong Initiative²⁰ to facilitate effective regional responses to transnational issues such as climate change and infectious disease. Additional diplomatic components of the



U.S. President Barack Obama attends a working luncheon with leaders of the Association of Southeast Asian Nations on September 24, 2010 in New York City. (Spencer Platt/Getty Images)

Obama administration's Southeast Asia approach tracked closely with broader global priorities, including a focus on women's empowerment, community development, anti-corruption measures, youth leadership initiatives, and promoting human rights.²¹

From 2008 to 2016, America's economic approach to Southeast Asia was predicated on the assessment that the TPP would be successfully negotiated and ratified. As the Obama administration's centerpiece policy initiative in Southeast Asia, TPP enabled U.S. policymakers to champion enhanced economic integration as the primary pathway to enduring regional stability.²² However, despite good intentions, the Obama administration's all-consuming focus on TPP created gaps in other economic policy areas, such as infrastructure. Similarly, U.S. development assistance and funding support for governance reform were consistently directed to other regions, underscoring the dissonance between the Obama administration's stated goals of "rebalancing" to the Asia-Pacific and final funding totals.²³ Even if TPP had gone into full effect, it is unclear whether U.S. economic engagement in Southeast Asia would have satisfied regional elites. Notably, TPP did not include all Southeast Asian states and, in a sense, fractured the region's broader trend toward a common ASEAN market.²⁴ Despite this relative surge in U.S. engagement across diplomatic and economic domains, in comparison to China's expansionism, Southeast Asian capitals continued to question the durability of Washington's commitment.

THE TRUMP ADMINISTRATION

While both 2016 major-party presidential nominees opposed ratification of the TPP, President Donald Trump's long-standing opposition to broad multilateral trade deals set the economic relationship between the United States and Southeast Asia on an immediate collision course. After withdrawing from the trade pact on his first full day in office, Trump placed little emphasis on the region, other than its role in addressing administration-wide priorities, such as reciprocal trade and immigration irritants.²⁵ In preparation for his attendance at the U.S.-ASEAN Summit, the East Asia Summit, and APEC, Trump hosted three Southeast Asian leaders at the White House in the fall of 2017.²⁶ In conjunction with this increased engagement, then-Secretary of State Rex Tillerson delivered a speech on U.S.-India relations that included the first public language on America's Free and Open Indo-Pacific Strategy.²⁷ These comments, and the president's subsequent trip, represented the Trump administration's first high-level attempt at articulating a coherent regional vision.

Trump's November 2017 trip to Asia featured the official rollout of the U.S. FOIP Strategy. Notably, public remarks and statements emphasized the role of U.S. quadrilateral engagement with Japan, Australia, and India.²⁸ Commentators immediately seized on this development as indicative of a new U.S.-led, anti-China "alliance" of sorts and assumed that the Trump administration's approach would come at the expense of ASEAN



U.S. Secretary of State Mike Pompeo speaks during the Indo-Pacific Business Forum at the U.S. Chamber of Commerce on July 30, 2018, in Washington. Pompeo delivered a keynote address on “America’s Indo-Pacific Economic Vision” at the forum. (Alex Wong/Getty Images)

centrality.²⁹ In an effort to provide states with a viable alternative to the TPP, Trump vowed during the trip to pursue bilateral free trade agreements (FTAs) with any nation committed to “free, fair, and reciprocal” trade.³⁰ In practice, the Trump administration’s regional trade agenda has neglected Southeast Asia and remained focused instead on the largest economies in the region, clustered in Northeast Asia.³¹

In July 2018, Secretary of State Mike Pompeo, Secretary of Commerce Wilbur Ross, Secretary of Energy Rick Perry, and other Cabinet-level officials hosted an Indo-Pacific Business Forum to address regional concerns about America’s economic staying power and announce specific deliverables. Many of the initiatives unveiled address key regional needs. In particular, the Digital Connectivity and Cybersecurity Partnership; Asia EDGE (Enhancing Development and Growth through Energy); and Access Asia, which will include the Department of Commerce’s 2019 flagship trade mission, are all emblematic of specific and granular programmatic shifts supporting broader U.S. economic engagement in Southeast Asia.³² However, these specific deliverables were overshadowed by the limited funding for these proposals. Even when framed as a “down payment” on America’s regional economic engagement, the dollar total of \$113.3 million generated concern in Southeast Asia and beyond about America’s ability to resource an economic agenda already truncated by withdrawal from TPP.

A bright spot in the Trump administration’s approach to Southeast Asia spotlighted at the Indo-Pacific

Business Forum is its intense interest in enhanced allied cooperation. In particular, the trilateral infrastructure initiative announced in cooperation with Japan and Australia has the potential to shape U.S. and allied regional infrastructure investments for years to come.³³ The initiative, based in a clear-eyed recognition that any one nation’s resources will be insufficient to provide a credible alternative to China’s development model, could serve as a foundation for possible continued coordination on a host of economic issues.

PAPUA NEW GUINEA ELECTRIFICATION PROJECT

The Trump administration’s joint announcement with New Zealand, Japan, and Australia to form the Papua New Guinea (PNG) Electrification Partnership presents a potential model for future cooperative development agreements in the region. The PNG Electrification Partnership, which aligns with U.N. Sustainable Development Goals and PNG’s own internal development priorities, was designed to enable PNG to achieve a 70 percent electrification rate by 2030. The partnership was underwritten by high-standard procurement practices and designed to ensure that the PNG government did not take on an unsustainable debt burden. Furthermore, the pooled funding model enabled a variety of stakeholders to contribute, transforming a previously cost-prohibitive initiative into an attainable project for all involved stakeholders.³⁵



Papua New Guinea Prime Minister Peter O’Neill (C) is greeted by (L-R) Australian Prime Minister Scott Morrison, Japanese Prime Minister Shinzo Abe, New Zealand Prime Minister Jacinda Ardern, and U.S. Vice President Mike Pence after the leaders signed an agreement for electricity during the Asia-Pacific Economic Cooperation Summit in Port Moresby, Papua New Guinea, on November 18, 2018. (Saeed Khan/AFP/Getty Images)

More recently, in November 2018, Vice President Mike Pence made efforts to carry forward U.S. momentum in Southeast Asia through attendance at the APEC, ASEAN, and East Asia Summit gatherings. To be sure, Trump's absence at these summits made headlines and partly robbed the administration of a much-needed public diplomacy boost. Even so, Pence made a consistent and strong case for continued U.S. regional engagement, repeatedly noting the United States' \$1.4 trillion in regional foreign direct investment (FDI) stock and its enduring commitment to high standards. Deliverables announced on the trip, such as the Papua New Guinea (PNG) electrification project and the U.S.-ASEAN Smart Cities Partnership, showed strong potential for increased U.S. engagement in areas that Southeast Asia prioritizes.³⁴

Throughout 2019, America's evolving approach to Southeast Asia will likely remain beset by accusations of programmatic underdevelopment. Release of the Trump administration's fiscal year (FY) 2020 budget priorities will be a key indicator of its relative re-prioritization of Southeast Asia amid competing global demands. Even more consequential will be whether the U.S. Congress decides to appropriate the required funding to support robust engagement with Southeast Asia, and across the Indo-Pacific region more broadly. If Trump sits out another series of trips to the region, he will stoke fears that his administration undervalues its strategic importance.

Japan

With little fanfare, Japan has for the past several decades remained the most consistently engaged major power in Southeast Asia, particularly across the diplomatic and economic domains. This year marks the 46th year of diplomatic exchanges between Japan and ASEAN, which were informally initiated in 1973, then later formalized in March 1977 with the convening of the first Japan-ASEAN Forum.³⁶ These diplomatic ties were then energized by the influx of Japanese companies into ASEAN markets in the mid-1980s against the backdrop of the yen's rapid appreciation.³⁷ In the intervening years, ASEAN member states have remained a key investment destination for many Japanese companies. In 2018, Japan was the second-largest source of foreign direct investment into ASEAN, second only to Singapore.³⁸

Yet trade and investment represent only one dimension of Tokyo's far-reaching engagement with the region, which also encompasses activities ranging from humanitarian assistance and disaster relief (HA/DR) efforts to maritime capacity building. Japan's FOIP Strategy stewarded by Prime Minister Shinzo Abe strikes a careful

balance between values-based diplomacy – particularly in support of free trade, the rule of law, and freedom of navigation – and diplomatic inclusion, such as through engaging countries with nondemocratic regimes and weak human rights records.³⁹ Although Japan does not usually make competition with China an explicit part of its public diplomacy, its approach to Southeast Asia is nonetheless intended to set forth a positive alternative vision for countries in the region that are reluctant to side overtly with either China or democracies such as the United States and Japan.

DIPLOMACY

Japan broadly shares a common vision with the United States for Southeast Asia: to empower countries to chart their own destinies free of external pressure while gradually becoming more economically open and democratic. To advance this vision, Tokyo has taken a number of actions in the diplomatic domain, ranging from high-level summitry to stepping up its contributions to HA/DR efforts in the disaster-prone region. In October 2018, Abe chaired the 10th Mekong-Japan Summit Meeting in Tokyo to renew Japan's strategy for economic and

Japan broadly shares a common vision with the United States for Southeast Asia: to empower countries to chart their own destinies free of external pressure while gradually becoming more economically open and democratic.

security cooperation with the countries of the Mekong Delta, including Vietnam, Cambodia, Thailand, and Myanmar.⁴⁰ The 21st annual Japan-ASEAN Summit Meeting in Singapore followed shortly thereafter, during which Japan and the heads of the governments of ASEAN member countries collectively reaffirmed their commitment to a “rules-based Indo-Pacific region that is free and open.”⁴¹ Even at a time of strained U.S.-Philippine ties, Japan has worked to cultivate relations with President Rodrigo Duterte, including through a series of loans for key transportation infrastructure and disaster relief projects.⁴² For example, after Typhoon Haiyan hit the Philippines in November 2013, destroying more than 1.1 million homes and displacing more than



Japanese Prime Minister Shinzo Abe (center left) participated in the 21st Association of Southeast Asian Nations (ASEAN)-Japan Summit on November 14, 2018, in Singapore. Leaders from around the world gathered in Singapore during the 33rd ASEAN Summit as well as related summits. (Ore Huiying/Getty Images)

4 million people, Japan swiftly provided more than \$66 million in aid to Manila.⁴³

Human-capital building has emerged as another key element of Japan’s diplomatic outreach to the region and is an area where Japan maintains a significant, if narrowing, competitive advantage over China. Indeed, Japan is at the forefront of the movement to develop partnerships across government, private industry, and local universities that not only promote technical expertise in host countries but also provide Japanese companies with a ready-made workforce to support their regional supply chains. The governments of Japan and Vietnam, for example, recently established postgraduate programs at Vietnam National University through which Vietnamese students can earn master’s degrees in public policy, environmental sciences, nanotechnology, and other technical subjects under the auspices of the Vietnam-Japan University Project.⁴⁴

In its diplomatic initiatives within Southeast Asia, Tokyo has wrestled with the extent to which values-based diplomacy should shape its engagement with the region. On the one hand, Japanese officials are acutely aware that values-based discussions face a difficult audience in the many countries of Southeast Asia where democratic institutions remain frail or nonexistent. In light of this, some argue that Japan’s

FOIP concept ought to be strictly strategic in nature and divorced from discussion of values and principles. On the other hand, values remain a key differentiator of Japan’s engagement with Southeast Asia.

ECONOMICS

Extensive and long-running, Japan’s economic ties with Southeast Asia have continued to deepen in recent years. Tokyo was a key proponent of the TPP and, after U.S. withdrawal from the agreement, shepherded negotiations among the pact’s remaining members to a successful conclusion in December 2018; this culminated in a new trading bloc – the TPP-11 – that extends into Southeast Asia, covering Brunei, Malaysia, Singapore, and Vietnam.⁴⁵ Japan’s direct investment in ASEAN member countries has grown rapidly, from \$11.7 billion in 2012 to \$22 billion in 2017.⁴⁶ Total lending by Japanese banks to key developing economies in the region – Indonesia, Malaysia, Thailand, Vietnam, and the Philippines – has also expanded markedly, rising 45 percent compared with the five years prior to March 2018. These increases in investment and lending were in part set into motion by Japan’s 2008 Comprehensive Economic Partnership with ASEAN countries, including Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.⁴⁷

Beyond trade and investment, Japan has also deepened its economic ties with Southeast Asia through directing significant official development assistance (ODA) to a number of sectors, including education, health care, and transportation infrastructure. Its infrastructure investments into the East-West Economic Corridor, particularly in arterial road development and rehabilitation projects, have been indispensable to the economic development of the Mekong region.⁴⁸

Additionally, while there is a pronounced gap between China's pledged aid and infrastructure investments into Southeast Asia and delivered investments, Japan's ODA has remained consistent – with Tokyo having provided nearly 35 percent of global ODA to ASEAN since the 1960s.⁴⁹ More than 90 percent of China's actual or planned construction dates fall after 2013 and have amounted to \$155 billion, compared with Japan's infrastructure investments, which since the 2000s have totaled about \$230 billion.⁵⁰

SECURITY

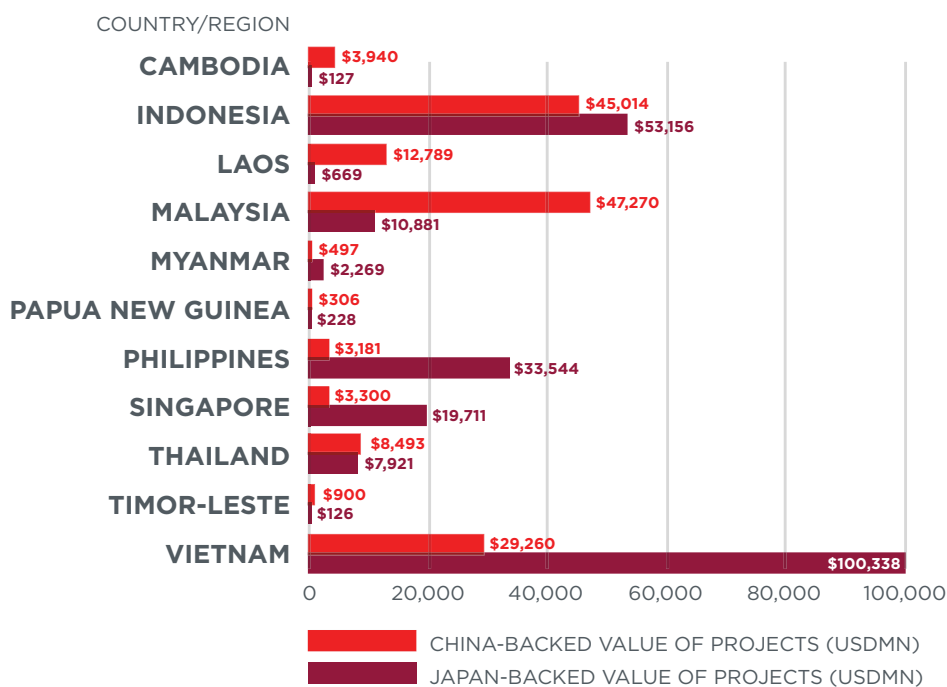
Compared to its diplomatic outreach and economic engagement, Japan's security role in Southeast Asia has remained relatively limited. Japan's regional partner capacity building focuses mostly on providing partners with a minimal defense capability. Maritime capacity has been at the forefront of cooperation with Vietnam, the

Philippines, and Malaysia, all front-line South China Sea claimant states.⁵¹ Tokyo has worked with countries in the region to upgrade their coast guards, including defense equipment and transfers to the Philippines' coast guard, which conducted joint anti-piracy drills in November 2018 in conjunction with Japan's coast guard.⁵² Japan also held its Eighth Maritime Security Dialogue with Singapore in September 2018, during which it expressed support for Singapore's Information Fusion Center at Changi Naval Base.⁵³ In the South China Sea, Japan has begun to play a growing role in pushing back against Beijing's outsized maritime claims. In September 2018, the Japanese Maritime Self-Defense Force (JMSDF) submarine Kuroshio docked at Cam Ranh International Port in Vietnam, marking the first time a Japanese submarine visited the country; the visit bore significant symbolic weight, particularly in the context of growing tensions over competing claims in the South China Sea.⁵⁴ Finally, in 2018, Japan, the United States, and India concluded in the Philippine Sea their 22nd iteration of the Malabar joint naval exercise.⁵⁵

Beyond the maritime domain, Tokyo facilitates cooperation with ASEAN on other functional issue areas such as counterterrorism and transnational crime under the umbrella of the ASEAN Plus Japan Ministerial Meeting on Transnational Crime (AMMTC + Japan) and the ASEAN Senior Officials Meeting on Transnational Crime (SOMTC) + Japan Consultation. The ASEAN Regional Forum and ASEAN Defence Ministers' Meeting Plus (ADMM-Plus) activities also serve as a forum for cooperation on cybersecurity issues, particularly as Japan serves as the co-chair of the ARF Inter-Sessional Meeting on Security of and in the Use of Information and Communication Technologies with Malaysia and Singapore for the period of 2018 to 2020.⁵⁶

China

Proximity and historical precedent play substantial roles in China's approach to Southeast Asia. While the imperial-era tributary system of "vassal states" has little in common with contemporary interstate relations, collective political memory of a Sino-centric region remains a powerful influence within contemporary Chinese official discourse.⁵⁷



CHINA VS. JAPAN IN SOUTHEAST ASIAN INFRASTRUCTURE INVESTMENTS

Source: BMI Key Projects Database

Accordingly, China's contemporary view of foreign policy has been characterized as a series of concentric circles, each of which is fraught with instability and potential challenges to enduring Chinese Communist Party (CCP) control.⁵⁸ This historical image is closely linked to President Xi Jinping's domestic policy goal of a "great rejuvenation" of the Chinese nation. As such, in contrast to the United States and other major-power approaches to Southeast Asia, Chinese engagement in the region is far more driven by domestic objectives.

Chinese foreign policy under Xi has rapidly shifted away from Deng Xiaoping's famous dictum to "hide your strength and bide your time" into a strategy of unapologetic expansionism.⁵⁹ While some Chinese scholars maintain that this strategy remains consistent with Deng's vision, others have attributed this shift to Xi himself and dissented from his more assertive approach.⁶⁰ Substantively, China's current approach to Southeast Asia is best understood by the CCP's own dictums for foreign affairs. In particular, Xi's emphasis on realizing a "community of common destiny for mankind" and promoting "peaceful development on the basis of mutual respect and win-win cooperation"⁶¹ underlies the CCP's goal of promoting a docile Asia-Pacific region, acquiescent to China's ever-expanding set of core interests. When engaging with Southeast Asian countries, China has conducted systematic state-sponsored economic coercion, diminished access to neighboring countries' rightful exclusive economic zones (EEZs), and facilitated rampant state-sponsored corruption.⁶² These behaviors are consistent with an ascendant power seeking to create and enforce favorable conditions on its periphery, giving credence to China's self-described return to "major country diplomacy with Chinese characteristics."⁶³

DIPLOMACY

Chinese diplomatic engagement with ASEAN has continued apace in recent years, although engagement falls short of the popular narrative depicting inevitable Chinese diplomatic dominance on its periphery.⁶⁴ At the leader level, Xi has traveled to Southeast Asia and Australasia only seven times since being named CCP chairman in 2012.⁶⁵ While this has included Xi's regular participation in APEC summits, China's attendance at ASEAN remains relegated to the premier level, leaving Premier Li Keqiang to represent China at key international forums. However, where leader-level interaction is more bounded, China's Foreign Ministry has continued strong regional engagement, demonstrating that a motivated and well-resourced bureaucratic cadre can deliver serious results.

Diplomatically, China remains focused on promoting Xi's vision of a "global network of partnerships," which, on a rhetorical level, champions the creation of strong nonaligned partnerships that differ from conventional security alliances.⁶⁶ For Southeast Asia, this means that an increasing number of countries and institutions have declared formal cooperation agreements with China. On the margins of the 2018 China-ASEAN Summit, China and the organization formalized a comprehensive document, "ASEAN-China Strategic Partnership Vision 2030," detailing an ambitious agenda for enhanced cooperation in the coming decade. Specifically, the vision statement focused on cooperation targets in the political and security, economic, and sociocultural realms, each of which would lead to a more tightly connected and interdependent region.⁶⁷

China's commitment to influencing individual ASEAN states to support Beijing's "core interests" in intra-ASEAN discussions is notable. Of particular concern is Cambodia's willingness to block statements critical of China on key issues, such as land reclamation in the South China Sea.⁶⁸ Soliciting individual ASEAN states' diplomatic support has enabled China to exacerbate institutional tensions and limited the organization's ability to speak with a clear, unified voice on sensitive issues. In exchange for diplomatic support, China has demonstrated a willingness to provide political cover to individual Southeast Asian leaders who pursue pro-Beijing agendas. For example, in advance of the July 2018 Cambodian election, Chinese hacking groups compromised multiple Cambodian election entities and political groups critical of Prime Minister Hun Sen, one of ASEAN's strongest defenders of Beijing's influence.⁶⁹ Additionally, when attempting to make inroads with former Malaysian Prime Minister Najib Razak, Chinese security officials offered to monitor and collect intelligence on Wall Street Journal reporters engaged in a long-term investigation into Najib's corruption.⁷⁰ Furthermore, China has made attempts to drive a wedge between the United States and its formal treaty allies in Southeast Asia. In particular, China's open feting of the Philippines' Duterte has caused considerable concern,⁷¹ leading to open speculation that Manila might abandon the alliance.⁷²

ECONOMICS

Over the past decade, there has been considerable growth in Chinese trade with Southeast Asia. This is in part attributable to the China-ASEAN Free Trade Agreement (which went into effect in 2010) and subsequent amendments to strengthen the agreement.⁷³

CHINESE INVESTMENT IN SOUTHEAST ASIA: A MURKY TRACK RECORD

Although China has played up the scope and scale of its investment in Southeast Asia, its actual delivery remains murky at times. For example, in 2018, Indonesia's investment coordinating board recorded \$2.7 billion in pledged Chinese direct investment, but Bank Indonesia – the country's central bank – said that only \$1.4 billion of these pledged investments have been realized. This shortfall in delivery, coupled with domestic ethnic tensions, has amplified the perception that Chinese companies are lowering infrastructure standards in Indonesia.⁸² Similarly, in the Philippines, more than two years after China pledged \$24 billion in investments in an October 2016 summit between Presidents Rodrigo Duterte and Xi Jinping, few projects have actually materialized, prompting concerns within the Philippines about Beijing's willingness to deliver on its promises.⁸³

Undoubtedly, the FTA has shown real results. In 2008, annual bilateral trade totaled \$192 billion; by 2018, bilateral trade was estimated to reach \$515 billion.⁷⁴ Fueled by gross domestic product (GDP) growth throughout the region and China's gradual shift toward a consumption economy, bilateral economic ties between China and Southeast Asia are likely to continue growing in the near term. As interdependency grows, this has created opportunities for China to selectively employ economic coercion, targeting key Southeast Asian states to escalate priority diplomatic and political concerns.⁷⁵ In spring 2018, Vietnam's state-owned petroleum firm was compelled to rescind oil exploration rights to an area that fell within its exclusive economic zone due to Chinese threats of force.⁷⁶ Thus, while greater economic engagement between China and Southeast Asia has produced clear economic gains for both parties, unforeseen political costs could complicate individual Southeast Asian states' ability to simultaneously pursue independent foreign policies.

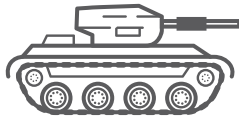
Since its unveiling in 2013, China's Belt and Road has served as its principal platform for bilateral engagement with Southeast Asia. In particular, the Maritime Silk Road element of this platform endeavors to bind China and Southeast Asia through a web of physical and digital infrastructure, with a special emphasis on naval

port development. In some ways, China's Maritime Silk Road is meeting real infrastructure needs. The Asian Development Bank assesses that developing Asia will require \$26 trillion in infrastructure development prior to 2030 to meet the region's needs.⁷⁷ However, over time, it has become increasingly evident that China's Maritime Silk Road is not solely a development tool, but also a mechanism to attain diplomatic leverage. Projects in Malaysia, Myanmar, Cambodia, Indonesia, and Laos, among others, have come under scrutiny for saddling recipient countries with unsustainable debt to Chinese state-owned enterprises (SOEs).⁷⁸ In April 2018, International Monetary Fund (IMF) chief Christine Lagarde warned, "ventures can also lead to a problematic increase in debt, potentially ... creating balance of payments challenges."⁷⁹ After the landmark May 2018 Malaysia election, which returned Prime Minister Mahathir Mohamad to power, evidence of Belt and Road's complicity in Malaysia's own corruption scandals began coming to the fore. To the region's surprise, Mahathir announced that his government would review previously concluded Belt and Road agreements and railed against the "new version of colonialism" emerging.⁸⁰ Onlookers have assessed that Southeast Asia's initial "all-in" approach to Belt and Road is quickly evolving; in a sense, the "honeymoon is ending."⁸¹

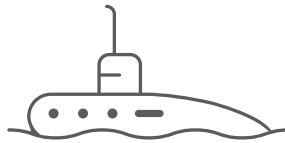
While China's Belt and Road is most often discussed in relation to hard infrastructure projects, evidence is emerging that the CCP views the initiative as an invaluable aspect of its efforts to create a "community of common destiny for all mankind." Important dictums encompassing this vision, namely "Xi Jinping Thought," "One Belt, One Road" and "community of common destiny for all mankind," were enshrined in the Chinese Constitution at the 2017 19th Party Congress, underscoring the CCP's rapid coalescence around China's more outward-looking global orientation.⁸⁴ Scholars such as Liza Tobin have highlighted senior members of China's foreign policy apparatus stressing the linkages between Xi's broader global vision and the implementation of the Belt and Road.⁸⁵ These connections reveal that China views the Belt and Road as a means to an end – the creation of a global order more acquiescent to China's core interests. Overall, the Maritime Silk Road will remain the primary vehicle for bilateral engagement between China and Southeast Asian nations. With that, the region will face increased development prospects, but at the cost of advancing China's vision of an accommodationist Sino-centric region.

THAILAND

MAJOR CONTRACTS



38 VT-4 tanks worth more than **\$200 million.**



Three S26T diesel-electric submarines worth **\$411 million.**

MAJOR MILITARY EXCHANGES



Joint commercial defense facility between Thailand's Defense Technology Institute and China North Industries Corp.

MALAYSIA

MAJOR CONTRACTS



Four littoral mission ships worth **\$277 million.**

18 coastal defense frigates worth **\$278 million.**

MAJOR MILITARY EXCHANGES



Creation of Defense Cooperation Committee in April 2017.

Joint naval exercise, Peace and Friendship 2018, between China, Malaysia, and Thailand in the Strait of Malacca.

CAMBODIA

MAJOR CONTRACTS



\$100 million

in military grants for training and equipment for Cambodian military.

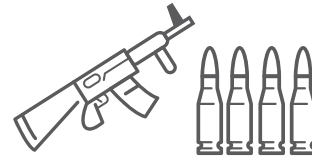
MAJOR MILITARY EXCHANGES

Dragon Gold joint military exercise with PLA focused on counterterrorism and rescue operations in 2017.

First-ever naval training exercise between PLAN and Royal Cambodian Navy in 2016.

PHILIPPINES

MAJOR CONTRACTS



Donation of **3,000** M4 rifles, **3 million** rounds of assorted ammunition, and **30** rocket-propelled grenades to Philippine National Police.

Memorandum of understanding to purchase **\$500 million** in weapons and defense assets.

MAJOR MILITARY EXCHANGES

Chinese naval ships visited the Philippines for the first time since 2010 in April 2017. Philippine coast guard sent **20 officers** to train in China in May 2018.

Resumption of Philippines-China Annual Defense Security Talks in December 2017.

INDONESIA

MAJOR CONTRACTS



\$75 million

in arms purchases from China, including 730 shipborne close-in weapon systems.

MAJOR MILITARY EXCHANGES

Indonesian legislature's ratification of Indonesia-China defense cooperation agreement in 2016.

28th Chinese naval escort task-force technical stop at Port of Tanjung Priok, Jakarta, Indonesia.

SIGNIFICANT CHINESE WEAPONS SALES AND MILITARY EXCHANGES WITH SOUTHEAST ASIA (2016-2018)⁹²

SECURITY

Beijing's newfound determination to claim sovereignty over disputed features in the South China Sea has proved to be a key driver of tensions between China and Southeast Asian nations with competing territorial claims. In particular, the construction and militarization of artificial island outposts in the South China Sea has generated real security concerns throughout maritime Southeast Asia. Since at least 2015, China

has engaged in a dredging and construction campaign to transform features in the South China Sea into bona fide basing locations.⁸⁶ In spring 2018, Beijing deployed cruise missiles and surface-to-air missiles to the disputed features, raising the stakes for continued U.S. and allied naval operations within the region.⁸⁷ This has been coupled with a significantly expanded People's Liberation Army Navy (PLAN), coast guard, and maritime militia presence in the South China Sea,

including a PLAN fleet review that was “the largest of its kind in 600 years,” and an increasingly aggressive posture toward U.S. FONOPs.⁸⁸

However, as China seeks to expand the scope of its regional engagement in Southeast Asia, formal military cooperation remains a space in which it is at a distinct disadvantage compared with the United States. In part to address this disparity, Beijing has identified nontraditional security challenges as an area for current and future cooperation between China and ASEAN member states. Certainly, the rise in natural disasters and persistent regional counterterrorism challenges make nontraditional security cooperation an enticing prospect for both Southeast Asia and China. From Beijing’s perspective, nontraditional security cooperation facilitates enhanced military-to-military cooperation, thereby creating additional confidence-building mechanisms and providing valuable intelligence on partner countries’ approach to military operations. Interest in cooperation between China and ASEAN on anti-drug smuggling, counterterrorism, and counterpiracy dates back to 2002.⁸⁹ However, actualizing this coordination has been irregular at best.⁹⁰ The vast majority of engagement was relegated to case-specific cooperation between law enforcement agencies.⁹¹ Nonetheless, as the People’s Liberation Army (PLA) continues to gain capacity, Southeast Asian countries will have more to learn from Chinese humanitarian assistance and disaster relief measures.

Looking ahead, China’s overarching approach to Southeast Asia will continue to be dictated by the CCP’s immediate domestic objectives. From Beijing’s vantage point, China-ASEAN relations will remain inexorably tied to the party’s goal of achieving the “great rejuvenation” of the Chinese nation. In practice, this means a future in which Southeast Asia is more deferential to Beijing’s interests and less democratic. To advance a different future, where countries can freely chart their own destinies, the United States must renew its approach to Southeast Asia, in concert with Indo-Pacific allies and partners, starting with but not limited to Japan.

A Renewed Approach to Southeast Asia: Economic Cooperation

The United States lacks a comprehensive regional economic strategy that offers growing Southeast Asian economies a meaningful alternative to China’s combined trade and investment initiatives. Unable to overcome the widespread and enduring disappointment associated with its withdrawal from the TPP, the Trump administration during its first two years struggled to articulate

a specific, yet commensurately ambitious economic agenda that reaffirms America’s enduring commitment to Southeast Asia and the wider Indo-Pacific.

However, there is cause for optimism that the coming two years will yield more favorable results. The Trump administration is aware of Southeast Asia’s hunger for more engagement and continues to seek programmatic-level, private-sector-based wins – such as the PNG Electrification Partnership – to meet this demand.⁹³ The upcoming FY 2020 budget will be the Trump administration’s first opportunity to fully incorporate new funding

The truest test for the Trump administration’s economic agenda in Southeast Asia will be its ability to sell disparate programs as a comprehensive economic strategy with political support.

into its budget submission since the announcement of the FOIP Strategy. Yet, any executive branch budget submission will only be a first step. The recent passage of the bipartisan Asia Reassurance Initiative Act (ARIA) indicates strong congressional support for increased U.S. engagement in the Indo-Pacific – both in the economic and security domains.⁹⁴ Given the power of the purse held by Congress, the passage of ARIA bodes well for a significant funding increase to support U.S. regional priorities – including economic engagement – in calendar year 2019.

Despite positive momentum at the level of particular initiatives, the Trump administration continues to struggle with its overarching narrative. At its core, Southeast Asia favors enduring, inclusive multilateral institutions and champions ASEAN centrality and unity. Trump’s brusque treatment of multilateral institutions, in some ways, is perceived as a pointed rejection of Southeast Asia’s central approach to governance. While increased allied coordination will continue to be well-received on a project-by-project basis, the region is likely to harbor suspicions about Trump’s personal commitment to deliverables. For a region such as Southeast Asia, hyper-focused on U.S. engagement and high-level summitry, a substantive but quiet economic approach will prove a tough sell. The truest test for the Trump administration’s economic agenda in Southeast Asia will be its ability to sell disparate programs as a comprehensive economic strategy with political support. This task will be made easier given the growing skepticism in the

region surrounding China's overarching economic narrative, the Belt and Road, which has become a lightning rod for concerns about the corruption, loss of sovereignty, debt, and environmental degradation accompanying Chinese investment.⁹⁵

Overall, the Trump administration and the U.S. Congress are positioned to implement a series of meaningful initiatives in alignment with Southeast Asia's own economic goals. These initiatives should include the following:

Promote Bilateral Trade and Investment: The Trump administration must focus in Southeast Asia on what it has identified as the fundamental components of regional economic engagement – bilateral trade and investment ties. There is an enduring trust deficit stemming from U.S. withdrawal from the TPP and the absence of concrete progress on bilateral free trade agreements in Southeast Asia. In both the Philippines and Vietnam, expert communities contend that the United States should push through bilateral FTAs expeditiously. These agreements ought to not simply open up investment opportunities for U.S. companies in Southeast Asia, but should be politically packaged to appeal to the aspiring middle classes of these countries, reassuring them that U.S. presence in the region is scoped to empower growing economies. More broadly, there is a sense that the United States has not reached its full potential as a direct investor in the region. For example, in the Philippines, while the United States was the second-largest direct investor in the period from 2008 to 2017, officials in Manila have argued that the total value still falls short of what the U.S. government and private sector can inject into their economy.⁹⁶ Initiatives at the Department of Commerce, the U.S. Export-Import Bank, and the new U.S. International Development Finance Corporation (USDFC) should support renewed efforts by the U.S. trade representative (USTR) to negotiate bilateral FTAs in Southeast Asia and rapidly implement the U.S.-ASEAN Trade and Investment Framework Agreement (TIFA).⁹⁷

Prioritize Digital Cooperation: As Southeast Asia seeks to close the development gap, digital connectivity will remain a key regional economic priority. Enhancing digital connectivity within Southeast Asia would align with key ASEAN and APEC goals. In the 2018 Chair's Statement, APEC member states identified "enabling an open, accessible, and secure environment for the growth of, the digital economy ... and promoting stability, security, trust, confidence and protection of consumer rights" as essential and urgent tasks for the years ahead.⁹⁸ Momentum toward modernization and the excitement

about Southeast Asia's digital future present opportunities for U.S. companies to expand their footprint in the region. As U.S. companies seek to establish and gain support for their preferred international standards in areas such as telecommunications and internet governance, aligning approaches with Southeast Asia will prove beneficial in the long term. In addition, the presence of U.S. technology companies to advance key strategic sectors, such as e-commerce, can go a long way toward conveying to Southeast Asian nations the benefits of engaging in global markets. Where U.S. technology firms decline to compete in Southeast Asia, they will cede ground to companies from other countries, particularly China. For example, even though Amazon announced a major new investment in Indonesia in September 2018, its presence in the region lags far behind Alibaba, one of China's information technology national champions.⁹⁹

THE U.S.-ASEAN SMART CITIES PARTNERSHIP

The recently announced U.S.-ASEAN Smart Cities Partnership is a promising template for further U.S. engagement in high-tech industries. ASEAN member states' urban centers are facing serious challenges due to rapid urbanization, poor infrastructure, and environmental quality concerns. To promote investment and find common solutions to address shared challenges, Singapore identified the creation of the ASEAN Smart Cities Network as a priority deliverable for its 2018 chairmanship. As an outcome of the 2018 U.S.-ASEAN Summit, Vice President Mike Pence committed to an initial U.S. investment of \$10 million in the program.¹⁰⁰ While this direct assistance is useful to demonstrate high-level political commitment, the United States must focus on broadening this engagement to incorporate the private sector.

Emphasize Region-Driven Connectivity Solutions: A comparative advantage of U.S. infrastructure investment is its willingness to collaborate with local governments and institutions on locally developed connectivity solutions. In 2016, ASEAN adopted the Master Plan on ASEAN Connectivity 2025 (MPAC 2025), which identified sustainable infrastructure, digital innovation, seamless logistics, regulatory excellence, and people mobility as foundational pillars.¹⁰¹ Rather than developing independent connectivity initiatives, the

United States should seek to partner with ASEAN on implementing the MPAC 2025. This approach would underscore U.S. commitment to sustainable, needs-based development. Implementation of MPAC 2025 also offers opportunities to deepen American private-sector engagement in the region. The Department of Commerce and other agencies should actively promote American companies' understanding of and investment in areas prioritized by MPAC 2025, particularly in sectors where U.S. involvement has the potential to increase. Within Southeast Asia, the Lower Mekong region in particular holds tremendous opportunity for U.S. investment in regional infrastructure, with a more deliberate, long-term strategy that emphasizes bolstering "east-west" connectivity among Vietnam, Laos, and Cambodia. This focus would align with numerous MPAC 2025 goals and further integrate Laos and Cambodia, which are slipping into China's sphere of influence, into the broader ASEAN economic community.

Develop Innovative Mechanisms for Economic Engagement: Despite numerous, profitable opportunities, U.S. businesses remain reluctant to enter a distant and foreign environment in Southeast Asia. Better facilitation and support, perhaps as an adjunct to the creation of a new USDFC, would go a long way toward galvanizing additional U.S. private-sector interest in Southeast Asia. Finding ways to supplement U.S. development finance tools such as risk insurance, for example, by effectively using the USDFC's new equity authority, could incentivize U.S. companies engaged in sectors as varied as information technology and health to agriculture and food processing to become more active in Southeast Asia.

Ride the Green Wave: Climate change remains one of the most profound nontraditional threats Southeast Asia faces today. Long-range Asian Development Bank (ADB) estimates project that, absent climate mitigation measures, environmental conditions could reduce the region's projected GDP in 2100 by 11 percent.¹⁰² Renewable energy infrastructure research and development therefore presents another unique opportunity for U.S. engagement, as Southeast Asian countries, such as Indonesia, are looking to diversify energy away from coal, identify novel energy sources, and catalyze further private-sector job creation. Offshore wind farms, solar power, ethanol, and geothermal energy sources have the potential to meet real energy demand without sacrificing environmental sustainability. However, when developing new programs, U.S. departments and agencies should closely study lessons learned from previous forays into

sustainable energy. Alternative energy development was the one lackluster achievement of an otherwise successful Millennium Challenge Corp. compact recently completed in Indonesia.¹⁰³ U.S. companies will also need to be particularly conscientious of extractive industry baggage, given past alleged misconduct by U.S. corporate actors.¹⁰⁴

A Renewed Approach to Southeast Asia: Security Engagement

In recent years, both Republican and Democratic administrations in the United States have sought to build greater ally and partner capacity in Southeast Asia. Specifically, Washington has provided Southeast Asian countries with intelligence and systems to achieve a better understanding of the regional operating environment; equipment and technology for improving self defense and law enforcement; training and education across governmental agencies; and opportunities for exercising with others to improve readiness and interoperability. These lines of effort expanded significantly during the Obama administration, and they have endured, and in some ways, been strengthened during the Trump administration.¹⁰⁵ In parallel with the United States – and sometimes in concert – Japan and other countries have deepened their commitment to capacity building and security assistance with Southeast Asia.

Still, multiple obstacles – time, terrain, and trust – pose major challenges to advancing U.S. security cooperation. In Southeast Asia, despite American attention and resources, more resilient and capable militaries and coast guards will not emerge quickly. Given the absorptive constraints of many countries in the region, efforts by the United States and its allies and partners to promote greater self-defense capabilities will, at best, yield mean-

Still, multiple obstacles – time, terrain, and trust – pose major challenges to advancing U.S. security cooperation.

ingful dividends over the long term, potentially after 2030. In the meantime, China's ability to project power into the region has radically improved, and the gap between the PLA, China's coast guard, and its maritime militia and the local navies and coast guards of Southeast Asia will only grow in the coming years.¹⁰⁶ It will be challenging for the United States to play the long game on capacity building, due to the inevitable frustration and fatigue that will grow as countries in Southeast Asia

struggle to meaningfully invest in their self-defense.

The second obstacle in Southeast Asia to U.S. security cooperation is geographic. Even with substantially greater U.S. assistance, archipelagic countries such as Indonesia and the Philippines will continue to struggle to monitor and police their vast maritime exclusive economic zones. At the other end of the spectrum, a city-state such as Singapore, even with a close U.S. security partnership, cannot change its lack of territorial depth.¹⁰⁷ Likewise, Vietnam, Laos, and Myanmar will continue to share a border with China, and this proximity creates a degree of vulnerability that stronger security ties with Washington will never fully mitigate. Meanwhile, the United States and its allies and partners in the wider Indo-Pacific, such as Japan, India, and Australia, must operate mostly from outside Southeast Asia, while Beijing, particularly with its new artificial island outposts, is well-positioned to maintain a constant and substantial presence in the maritime heart of Southeast Asia – the South China Sea.¹⁰⁸

The third obstacle is a lack of trust in the reliability and staying power of the United States, not to mention of other American allies and partners. Countries in Southeast Asia see a historical record in which the United States has occasionally sought to retrench from regional threats and responsibilities, a concern that has been heightened in recent years.

Although significant, none of these obstacles is insurmountable. There is a significant appetite within the region for cooperating with the United States and standing up to overweening external powers. As one analyst puts it, “Southeast Asians highly value their sovereignty, and they have rejected great power hegemony from Western or Asian nations in the post-Second World War period, except when it is temporarily expedient or left with no other alternative.”¹⁰⁹

Moreover, American security engagement with the region contains a number of foundational activities that

There is a significant appetite within the region for cooperating with the United States and standing up to overweening external powers.

have proved successful over time. Humanitarian assistance and disaster response operations and cooperation with Southeast Asian governments to prepare for future such contingencies have saved lives and generated significant goodwill.¹¹⁰ Capacity building, especially

around basic coast guard and other law enforcement agencies, and around maritime domain awareness, has positioned nations in Southeast Asia to better protect their sovereignty and EEZs over the long term. Bilateral, minilateral, and larger multilateral military exercises and training opportunities have created greater readiness for dealing with a range of future contingencies.

Looking forward, the United States should build on these foundational activities through the following steps:

Elevate the Focus on Illegal, Unreported, and Unregulated (IUU) Fishing: In Southeast Asia, illegal, unreported, and unregulated fishing poses both an environmental threat and a challenge to the large number of communities dependent on the ocean’s bounty.¹¹¹ For instance, Indonesia has the world’s second-largest marine capture fishery, and despite significant government efforts, IUU fishing remains an overriding threat to its maritime economy.¹¹² Moreover, in Southeast Asia, IUU fishing is often associated with Chinese vessels.¹¹³ The United States should support Jakarta’s call for an international consensus to add IUU fishing to the United Nations Convention against Transnational Organized Crime (UNTOC), also known as the Palermo Convention.¹¹⁴ Doing so would earn the United States immediate goodwill and elevate a focus on a transnational challenge that implicates China.

Bolster Regional Information Sharing: Information sharing efforts remain uneven and disconnected, both within nations and across Southeast Asia. Enhancing the ability of countries to see better what is approaching or happening in their maritime peripheries can create everything from disaster resilience to higher degrees of reassurance. However, information fusion centers in Southeast Asia remain handicapped by the reluctance and inability of national governments and their various agencies to fully share information.¹¹⁵ The United States should work with governments in Southeast Asia to reduce these barriers and align regional efforts with the best practices of information fusion centers elsewhere. For example, as Australia works with the Pacific Islands states to create an information fusion center, there is an opportunity for cross-regional learning, but this can only occur if the United States is willing to support such efforts.¹¹⁶

Double Down on Vietnam: Among the nations of Southeast Asia, Vietnam is best positioned to develop capabilities to complicate PLA operations in peacetime, crisis, and conflict, due to a combination of its geography, existing force structure, growing military expenditures,

and threat perceptions of China. As Vietnam modernizes its air and maritime forces, including the Vietnam Coast Guard and Fisheries Surveillance Force, Washington should aid Hanoi as it enhances command, control, communications, computers, and combat systems, and intelligence, surveillance and reconnaissance (C5ISR) capabilities.¹¹⁷ The United States should encourage Vietnam to invest in low-cost, asymmetric platforms supported by a robust and resilient maritime domain awareness capability that would enable Hanoi to project power into the South China Sea. Although American equipment would enable closer interoperability with the United States, the reality is that given Vietnam's limited – if growing – military budget, it will have to turn to low-cost suppliers such as Israel and India, as well as Russia.¹¹⁸ While working to diversify Vietnam's arms imports away from Russia, the United States should continue to exempt Hanoi from economic punishment under the Countering America's Adversaries Through Sanctions Act (CAATSA),¹¹⁹ as the consequences to the larger U.S. security relationship with Vietnam would be devastating.

Supplement FONOPs: During the late Obama and early Trump administrations, U.S. freedom of navigation operations in the South China Sea became a litmus test of American resolve to “fly, sail and operate wherever international law allows.”¹²⁰ Although U.S. FONOPs continue to send a welcome signal of reassurance to Southeast Asia and American allies and partners in the wider Indo-Pacific and beyond, they have diminishing marginal returns. Nations have become accustomed to them, and FONOPs have not fundamentally altered Beijing's course in the South China Sea, including the militarization of its artificial island outposts, despite earlier pledges not to do so.¹²¹ The United States should continue to conduct FONOPs and to involve its allies and partners in complementary maritime operations in the South China Sea such as the joint U.S.-U.K. drills that occurred in January 2019.¹²² At the same time, the United States should deploy new types of capabilities to the region that demonstrate the flexibility and variability of America's rotational military presence. One potential model for this is the participation and test firing of the U.S. High Mobility Artillery Rocket System (HIMARS) during the 2016 Balikatan exercise in the Philippines – the first time this capability had deployed to the Pacific.¹²³

Clarify the U.S.-Philippines Mutual Defense Treaty: Tensions between Washington and Manila under the presidency of Duterte continue despite broad overall popular support in the Philippines for its alliance

with the United States.¹²⁴ Moreover, the lack of clarity surrounding American commitments to the Mutual Defense Treaty (MDT) with the Philippines remains a continued irritant in the relationship, and likely a driver of a recent call by Philippine Defense Secretary Delfin Lorenzana to review the bilateral pact.¹²⁵ The ambiguity of the MDT also holds the potential to embolden China. If a combination of pressure and inducement were to convince Duterte to try to abrogate the treaty, the United States could suffer an enormous blow to its position in Southeast Asia.¹²⁶ Without drawing red lines around specific maritime features that remain contested, the United States should make a declaratory statement that aggression against the armed forces or coast guard of the Philippines, irrespective of geography, would implicate the MDT.

Without drawing red lines around specific maritime features that remain contested, the United States should make a declaratory statement that aggression against the armed forces or coast guard of the Philippines, irrespective of geography, would implicate the mutual defense treaty.

A Renewed Approach to Southeast Asia: Diplomacy

More than a year out from the Trump administration's official announcement of its FOIP Strategy, the United States has a window of opportunity to double down on its diplomatic engagement with Southeast Asia. This begins with statements from senior levels of the U.S. government to clarify that FOIP is not purely a vehicle for U.S. competition with China, but rather represents a positive vision for the region. Pence helpfully highlighted “ASEAN centrality” during his remarks at the U.S.-ASEAN ministerial meeting in August 2018, and American leaders should continue to affirm the positive and prominent position that ASEAN holds within this vision, provided that it can act in unison.¹²⁷ The United States should optimize the pacing and sequencing of high-level visits to countries in Southeast Asia through timing around key events such as the 70th anniversary of U.S.-Indonesia diplomatic relations, which will occur

in December 2019. Last, but not least, America must show up at the presidential level for the annual regional summitry that will unfold in fall 2019. Rightly or wrongly, nations in Southeast Asia will interpret continued representation at the level of the vice president as signifying a diplomatic downgrade of the region.

Southeast Asia comprises a diverse set of states; to reap maximum diplomatic benefit, Washington should tailor its initiatives to the priorities of specific countries, provided they align with American interests. In practice, this could mean pursuing a bilateral FTA with the Philippines, constructing a liquefied natural gas (LNG) terminal in Vietnam, and partnering with Malaysia and Indonesia to realize their aspirations to emerge as innovation hubs.¹²⁸ Excitement about high technology across the region creates numerous opportunities for the U.S. government to craft new diplomatic initiatives that enlist American universities and businesses.

American diplomacy in Southeast Asia must also seek to reinforce good governance. Corruption, lack of transparency, and fragile institutions are not only inimical to long-term economic growth but create openings for China, which seeks to capture political elites in Southeast Asia in order to exert long-term influence over the future choices of their countries. The recent election in Malaysia notwithstanding, democracy is actually declining across the region, according to a recent report by Freedom House.¹²⁹ To be sure, some countries in Southeast Asia remain wary of U.S. democracy promotion, but American efforts to bolster accountability and combat corruption will likely resonate across much of the region.

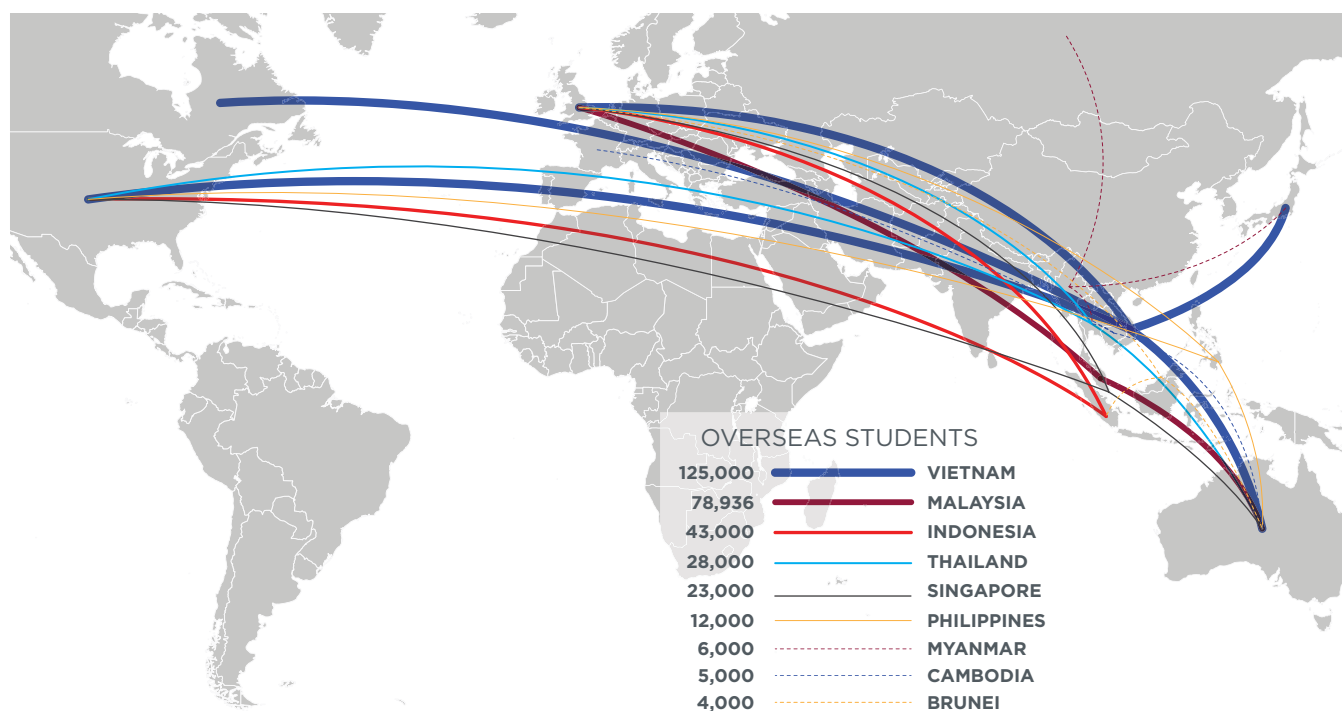
U.S. diplomatic resources at the federal level are inherently finite. As a guiding principle, the United States should broaden its diplomatic engagement with Southeast Asia, encouraging the growth of cooperative ties at the state-to-state, city-to-city, and even organization-to-organization level on issues such as climate change mitigation and the digital economy.

The communications dimension of U.S. diplomacy in Southeast Asia remains a point of relative weakness. The United States should amplify its current initiatives through public channels, such as social media, that directly appeal to younger generations. Public diplomacy should underscore the depth of America's economic engagement in the region and the positive impact on local populations. For example, the U.S. government could publicize the fact that Accenture – one of the largest private-sector employers in the Philippines – employs nearly 50,000 Filipinos, while also providing extensive training and development and scholarship programs for recent graduates.¹³⁰

Given that most Southeast Asian countries are focused on sustaining economic growth and that Beijing remains the No. 1 trading partner of ASEAN, American diplomacy will have to walk a fine line that recognizes the reality that Southeast Asia has emerged as a contested space without framing U.S. engagement with the region as entirely driven by concerns about China. The most effective U.S. initiatives will find the overlap between the aspirations of regional states and what is required to bolster resiliency against Chinese influence campaigns and pressure. Specifically, the United States should pursue the following:

Promote Human-Capital Development: Human-capital development, inclusive of university-level education, vocational schools, and training in the technology sector, is a priority for most countries across Southeast Asia, particularly Thailand, Vietnam, Indonesia, and Malaysia. Contributing to human-capital development in Southeast Asia plays to American strengths and would enable the United States to draw a sharp distinction with China's poor reputation for transferring skills as part of its economic investment. Using funds from the Asia Reassurance Initiative Act if possible, the U.S. State Department should encourage American universities to partner with universities in Southeast Asia, particularly business administration, engineering, and other technical programs, for curriculum exchanges and vocational training. Building human capital could also encompass technology and small- and medium-enterprise cooperation programs. Here, the United States should look to a successful model that Japan and Germany have developed, whereby clinical colleges and university engineering programs in these countries offer joint curricula with their Thai counterparts.¹³¹ Notably, Pittsburgh's Carnegie Mellon started a joint university program with King Mongkut's Institute of Technology Ladkrabang in Bangkok in 2017, and other American universities could pursue similar arrangements.¹³²

Enhance Youth Engagement: The U.S. government, working in partnership with the private sector and American civil society, should more proactively engage the younger generation of Southeast Asians. Although U.S. bilateral ties with specific countries in Southeast Asia vary widely depending on electoral outcomes and human rights track records, people-to-people ties forged through established scholarship programs are a foundational component of U.S. regional engagement and can serve as ballast when official relations are in flux. The U.S. State Department's Young Southeast Asian Leaders



THE UNITED STATES AND ITS ALLIES ARE GENERALLY TOP DESTINATIONS FOR YOUNG SOUTHEAST ASIANS STUDYING ABROAD¹³³

Initiative (YSEALI)¹³⁴ and other consortium-based initiatives such as Fulbright University Vietnam have proved successful models for engaging the rising generation of Southeast Asians, but the United States needs to expand and invest more into these types of programs. This should be nested within a concerted effort to build the next generation of leaders within these countries, with a particular emphasis on female empowerment.

Emphasize Health Care as a Cooperative Priority: Increasing U.S. support of key health care programs in the region would deliver significant diplomatic dividends. Countries in the region struggle with a range of health care challenges; in Indonesia, for example, childhood stunting affects 37 percent of children under the age of 5, in parts of Southeast Asia, large numbers of people remain at risk of contracting tropical diseases such as malaria annually.¹³⁵ The United States, through the Millennium Challenge Corp., should explore a potential pact for the region – as it did in Indonesia up until 2018 – that would focus on health care.¹³⁶ At the same time, the U.S. government, through its new development finance corporation set to open in October, should incentivize marquee private hospitals to set up wings in several strategically vital countries in the region such as the Philippines and Indonesia where access to world-class

health care is entirely lacking. For a relatively small sum, such an effort would generate long-lasting goodwill.

Launch a “Truth Campaign” on China’s Economic and Military Activities: The U.S. State Department should issue a brief white paper that lists every unlawful action that Beijing has conducted in the South China Sea, including violations of environmental laws. Successful public shaming would require a single, up-to-date document around which allies, partners, and other like-minded states could rally. To disseminate this document across Southeast Asia, the United States could leverage media outlets, such as Voice of America, and online social media platforms in local languages. It could couple this public media campaign with private briefings for political leaders and military and intelligence officials across Southeast Asia, where possible, providing access to declassified or releasable information that further illuminates Chinese behaviors of concern.

A Renewed Approach to Southeast Asia: The U.S.-Japan Alliance

With Southeast Asia increasingly contested, U.S. engagement with the region should, where possible, occur in concert with external allies and partners. In recent years,



President Donald Trump greets Japanese Prime Minister Shinzo Abe as he arrives at the White House on February 10, 2017 in Washington. (Mario Tama/Getty Images)

America's approach has benefited from closer coordination with countries ranging from Japan to Australia to India, and on select issues, with the United Kingdom and France. Although the United States should seek to deepen its collaboration on Southeast Asia with all of these allies and partners, Japan stands out, given its long-standing diplomatic ties in the region and continued economic prominence. In many cases, the United States and Japan can simply align their activities and engage Southeast Asia in parallel. Indeed, many of the recommendations in this report for America's approach to the region would have equal merit in a Japanese context. However, the United States and Japan should also selectively expand bilateral cooperation. The following are high-impact areas where direct U.S.-Japan collaboration could bolster the rules-based order in Southeast Asia while offsetting Chinese influence.

Create a Southeast Asia Oceanographic Institute:

There is a dearth of research on the region's expansive marine ecosystems and a lack of public knowledge about the importance of environmental and ecological issues. The region would benefit from the creation of a new oceanographic institute that houses an international community of scholars who are focused on building cutting-edge knowledge about biodiversity, human pollution mitigation, and sustainable fishing practices – all of which are key to the livelihood of coastal communities.

The United States and Japan should jointly fund such an institute, locating it in one of the major archipelagic states of Southeast Asia, such as the Philippines.

Advance Joint Infrastructure Collaboration:

Moving forward, there is significant opportunity for U.S.-Japan joint cooperation projects through both public capital and private-sector financing, particularly in energy infrastructure development such as liquefied natural gas terminals. Institutions such as the future USDFC and the Japan International Cooperation Agency (JICA) and the Japan Bank for International Cooperation (JBIC) have the opportunity to develop a priority list of infrastructure projects in Southeast Asia based on geopolitical concerns and align strategic investments into these targeted projects based on these priorities. Public diplomacy through speeches and other official communications, as well as a series of forums across the region, can be used to promote the demand for high-quality infrastructure. Ultimately, however, engagement should not be publicly framed as containment of China, but rather as a means of shaping the outcomes of China's investment and infrastructure development initiatives. Beyond bilateral infrastructure cooperation, the trilateral infrastructure partnership between the United States, Japan, and Australia should be expanded to additional areas of economic engagement with the region. To enable this, coordination among embassy personnel based in

the region is essential, as commercial attachés based in Southeast Asian capitals, due to their on-the-ground perspective, are well-positioned to identify emerging areas for trilateral economic engagement.

Promote Resilience to Chinese Disinformation

Campaigns: Internally, China controls digital messaging by leveraging state-controlled bots and “content mills” as well as other forms of digital messaging amplification. Recently, Beijing has turned this ability abroad, using social media propaganda and misinformation to attempt to influence local elections that Taiwan held in late 2018.¹³⁷ As Chinese technology companies become a growing part of the digital ecosystem in Southeast Asia, societies in the region will confront a heightened risk that Beijing will seek to shape their domestic information environment to advance its geopolitical ambitions. The United States and Japan should work together to help countries across the region identify Chinese online influence campaigns and counter disinformation emanating from Beijing. The two allies should jointly prioritize the Philippines, Malaysia, and Indonesia, the three most populous countries within Southeast Asia that, according to the internet freedom score developed by Freedom House, rank partly free.¹³⁸ Given the relative influence of public opinion on their foreign policy decisions, they are particularly vulnerable to online Chinese disinformation campaigns.

Hold a Regional Maritime Domain Awareness Grand Challenge

The United States and Japan should invite teams of engineers and entrepreneurs from across Southeast Asia to participate in a contest modeled after the highly successful series by the Defense Advanced Research Projects Agency (DARPA) and focused on developing innovative and low-cost solutions to the region’s maritime domain awareness needs. Teams could compete to develop applications that would enable civilian fishing vessels to share information on a common platform, with the objective of developing an application like Waze for the maritime domain that could pool data from the automatic identification system (AIS) mounted on most commercial vessels and layer in cellphone pictures, text messages, and other forms of data.

Invest in Higher-Education Collaboration: Countries across Southeast Asia view human-capital development, especially vocational and technical training, as fundamental to becoming innovation hubs in their own right. In Thailand, for example, local universities have partnered with institutions such as Japan’s Kosen National Institute of Technology to develop training

modules to help Thai university students gain fluency in programs such as Python, which is used to operate artificial intelligence.¹³⁹ The U.S. State Department Bureau of Educational and Cultural Affairs should provide support to American universities to partner with both Japanese and Southeast Asian academic institutions to develop business administration, engineering, and other technical and vocational training programs. This collaboration could ultimately support the establishment of a U.S.-Japan research-focused higher-education institution – supported in part by the U.S. State Department and JICA – in a third country such as Indonesia, Malaysia, or Thailand. In any of these countries, such an institution, modeled after Fulbright University Vietnam, would be a keystone of effective higher-education governance and promote academic standards found in top-tier American and Japanese universities.¹⁴⁰

Conclusion

While the competition between the United States and China to shape the rules and values of the 21st century is increasingly global, Southeast Asia remains a uniquely contested region. China’s geographic proximity and ambitions to carve out a geopolitical sphere of influence – coupled with the lack of a major power within Southeast Asia that is highly capable and inclined to vigorously resist Beijing’s hegemony – renders the region particularly vulnerable.

If Southeast Asia succumbs to China’s vision of a world defined by might makes right, rigged economic interactions, and creeping authoritarianism, America’s larger approach to the challenge posed by Beijing will encounter a major setback. Conversely, if most nations in Southeast Asia can retain their economic sovereignty and freedom of choice and move toward more open and democratic forms of governance, the United States will demonstrate to China and the world that even in Beijing’s periphery, a rules-based order can continue to endure. The success or failure of America’s approach toward Southeast Asia thus looms large.

In approaching Southeast Asia, the United States is not alone. It has a number of high-capability allies and partners outside the region – above all Japan – that share its perspective and seek to ensure that Southeast Asia can independently chart its own future. American engagement with the region will prove far more effective if done in concert with these allies and partners. With countries in Southeast Asia increasingly wary of China, now is the time to renew America’s approach toward the region.

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