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## The Economics-Security Nexus Under Trump and Xi: Policy Implications for Asia-Pacific Countries

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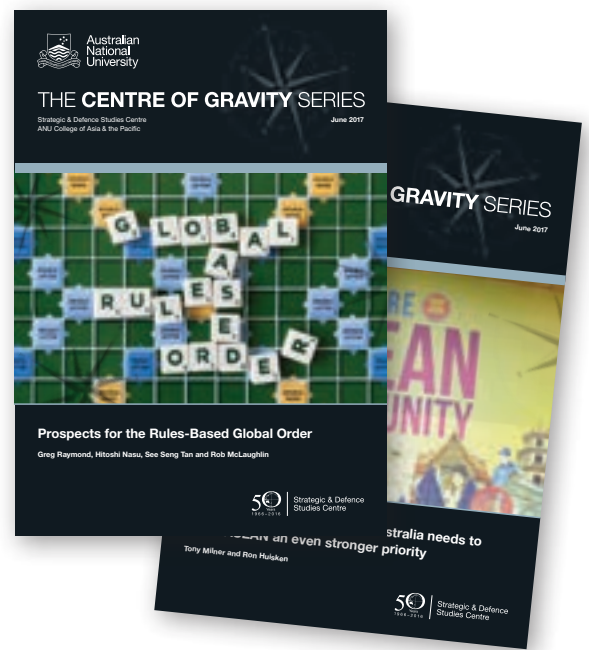


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# The Centre of Gravity series

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Robert Ayson coordinates the Asia-Pacific Economics-Security Nexus project supported by Victoria University's Asia-Pacific Trading Nation theme. This paper is the project's first published output. It builds on a Centre for Strategic Studies workshop in Wellington in December 2016 which also included scholars from the ANU and Singapore's Nanyang Technological University. The author is grateful for comments from colleagues on earlier versions of this paper.

# The Economics-Security Nexus Under Trump and Xi: Policy Implications for Asia-Pacific Countries

Robert Ayson

## Executive Summary

- ✦ Rather than anticipating an all-or-nothing choice between security interests with the US and economic interests with China, many Asia-Pacific countries have been making smaller choices to work with both great powers to encourage a regional equilibrium.
- ✦ North Korea's nuclear and missile provocations have encouraged some economics-security cooperation between China and the US in the Trump-Xi era.
- ✦ China has been using economic pressure unilaterally and competitively to advance its own security agenda in the region. In contrast the Trump Administration's withdrawal from the Trans Pacific Partnership raises uncertainty about America's economics-security influence in the region.
- ✦ While some ASEAN-centred regional institutions traverse both economic and security issues they are of limited help for countries seeking respite from more pointed instances of economics-security pressure.
- ✦ Small and medium Asia-Pacific countries might deepen their bilateral and plurilateral collaboration to reduce their exposure to the changing mix of pressure and reassurance coming from Beijing and Washington.

## Policy Recommendation

- ✦ Australia, New Zealand and Singapore should assess the support they can provide to each other, including in the exchange of ideas and experience, in managing economics-security pressures in a changing Asia-Pacific region.

### Not one big choice *between* the US and China but smaller economic and security choices *with* both

The links between economic and security considerations are intensifying in Asia. The economic side of the house favours China, the leading trade partner for many countries in the region. In contrast, the United States has been the main security guarantor. This informal division of labour often feeds the view that the region's smaller and medium powers might eventually confront an all-or-nothing choice between their main economic interests with China and their main security interests with the United States.

Australian Prime Minister Turnbull has been among those pushing back against this idea.<sup>1</sup> But whether or not we think a big choice between the US and China is approaching, regional countries have already been making smaller choices in their everyday relations with the two great powers. Several of them, including Australia and New Zealand, have chosen to get closer economically to China by negotiating Free Trade Agreements (FTAs). Many have also been making choices to deepen their security cooperation with the United States.



## Beijing may be putting in place an infrastructural sphere of influence.

While the BRI's final destination remains unclear, Beijing may be putting in place an infrastructural sphere of influence.<sup>4</sup> But rather than shifting decisively into China's orbit, Wellington has also been increasing its security ties with the United States, including in maritime military affairs. Like many other regional capitals, Wellington prefers a regional equilibrium in which *both* the United States and China feature strongly but where *neither* of them commands a monopoly of attention.

This means saying yes to both Beijing and Washington, and it involves a mix of less-than-absolute economic and security choices to work with both parties.<sup>5</sup> But an accumulation of small choices can also create larger outcomes, communicating a sense of alignment that is not always initially intended.<sup>6</sup> Some countries aiming for equidistance between China and the US may still come across as favouring one side over the other. This may have been an image problem for Malaysia, for example.

There is no consensus on what a balanced approach looks like. Australia's ideal mix (which includes an especially strong US role) is different to New Zealand's, as is Singapore's. In some parts of the region, especially mainland Southeast Asia, China appears to face little sustained competition for influence from the United States.<sup>7</sup> This makes a balance difficult to achieve, unless second tier powers such as Japan become much more active.

Most regional countries benefit when the United States and China recognize that they share common interests in regional security *and* regional prosperity. In recent decades the region has enjoyed plenty of both. Ironically, this may be partly due to an imbalance of power: America's advantage over China in the projection of military power across maritime East Asia. This helped Washington retain a unique role as a security provider, including to its formal allies in the region. The resulting stability reassured policymakers and investors, making the US *security* role a necessary, but not sufficient, condition for Asia's prosperity.

America's contribution to a positive economics-security nexus also suited China whose principal concern was economic development. Accordingly, some argue that China chose to accommodate rather than contest America's maritime military predominance in Asia.<sup>8</sup> This informal great power bargain also allowed other regional countries to pursue economic agendas and worry less about providing for their own security.

But the US does not have a military monopoly and many states in the region have also begun to work more closely with the People's Liberation Army. Wellington's most recent Defence White Paper acknowledges that China's 'policies directly affect New Zealand's security and economy', and identifies China as 'an important strategic partner for New Zealand.'<sup>2</sup> Likewise China does not have a complete grip on economic interactions in the region. At least until the Trump Administration's arrival, many regional countries were deepening their economic connections with the United States through the Trans-Pacific Partnership (TPP) process.

These choices indicate that the region's small and medium players are seeking to enjoy the best of both worlds. They are not seeking to work with one great power at the expense of the other. And avoiding such a dilemma does not require US-China equivalence. The two great powers are at different stages. The United States already enjoys comprehensive sources of power in Asia, while China is still translating its economic might into diplomatic and military influence.

Nonetheless Beijing has a growing role as a rule-maker and regional institution builder. As China closes the influence gap on the United States, regional countries will find more new choices occurring in their relationships with Beijing. On the economic side these go beyond FTAs. For example, New Zealand was the first western country to sign up to China's Asia Infrastructure Investment Bank (AIIB). This can be taken as a sign of confidence in Beijing's view of future regional connectivity<sup>3</sup>, not least because New Zealand will also participate in China's Belt and Road Initiative (BRI).

This great power understanding looks increasingly fragile as China presses its claims for regional leadership, a trend accentuated under Xi Jinping. Yet bilateral trade and investment connections remain valuable to both great powers and remind them of the high costs of an Asian war. Neither acts as if their economic interdependence *guarantees* US-China peace. But we can have at least some confidence in the popular economics-security argument that international trade reduces the likelihood of war.<sup>9</sup>

The more the United States and China value their bilateral economic and security connections, the less that other regional countries should face zero-sum choices as they manage their relations with the big two. They are unlikely to find themselves making one big choice between economic inducements (where China has an advantage but not a monopoly) and security cooperation (principally with the United States, but also to some degree with China).

### China and the US have competed to exploit the economics-security nexus

This sounds like a harmonious arrangement. But China and the United States are also competing for regional leadership. They are trying to shape how others see them in economic and security terms. One way of doing this is to exploit economics-security links in their relationships with other powers, as well as with each other.

China is known for expressing its displeasure about the security policies of some of its regional economic partners by imposing unilateral trade sanctions or by indicating that aspects of economic cooperation may be at risk. As tensions grew between Beijing and Manila over the South China Sea in 2012, for example, China imposed limits on banana imports from the Philippines. These restrictions, officially explained as health precautions, but timed to coincide with disagreements over the Scarborough Shoal, were lifted in advance of President Duterte's visit to Beijing in 2016.


Last year, John Key (New Zealand's Prime Minister at the time) arrived in Beijing to messages in government-linked newspapers that if Wellington wanted an enhanced FTA it might want to stay quiet on China's South China Sea policy.<sup>10</sup> Once that message had been delivered, these stories disappeared from the internet. Bates Gill and Linda Jakobson note similar pressures have been brought to bear on Australia.<sup>11</sup> And China recently signalled its disapproval of Singapore's external policy by excluding Prime Minister Lee from a BRI leaders meeting.<sup>12</sup>

It is unlikely that China expects to extract all-or-nothing choices where governments side with Beijing and forsake connections with Washington. China may simply be expressing its view in a material way and hoping that its pressure persuades countries to come a little closer in their positioning. Beijing's best hope could be that an accumulation of small choices in its favour eventually translates into decreasing regional influence for the United States. If Washington cedes power to China in Asia it will not happen in one fell swoop but gradually in a series of small moves.

Beijing's pressure on individual countries may also be intended to show other parts of the region that it has increased leverage which it may deploy on later occasions. It is intriguing to speculate how many Asia-Pacific countries have modified their behaviour in *anticipation* of material pressure from China even if they have not directly experienced it themselves.<sup>13</sup>

The United States has also exploited economics-security connections in this competitive quest for regional influence. This is not a new trend. But a relatively recent example attracted particularly close attention: the Obama Administration's promotion of the TPP. With China gaining regional status from its strong economic position, military balancing could only get America so far. Accordingly Washington wanted to contest China's role in shaping the rules for Asia's economic integration. And as the 2016 Presidential election loomed, the outgoing Obama Administration argued that abandoning the TPP would hand a major victory to China.

US involvement in the TPP certainly promised economic gains. New Zealand, for example, wanted to offset the absence of a bilateral FTA (which is now, somewhat ironically, back on Wellington's drawing board<sup>14</sup>). But security arguments also took on importance. New Zealand may have been very sensitive



**If Washington cedes power to China in Asia it will not happen in one fell swoop but gradually.**

about ideas that the TPP was designed to exclude or contain China.<sup>15</sup> But Wellington was becoming more concerned about China's approach to regional security, including in the South China Sea. This elevated the importance of a comprehensive US regional presence. For Wellington, there was nothing better that Washington could do than remain part of the TPP process. A similar message was delivered at the White House by Singapore's Prime Minister.<sup>16</sup>

## Some Asia-Pacific countries may have modified their behaviour in anticipation of material pressure from China.

Had the United States remained within the TPP's auspices, it would not have been able to dominate Asia's economic integration. For many Asia-Pacific governments, the TPP complemented other economics-security connections. Some of these arrangements have not involved Washington,<sup>17</sup> and the overall trend favours China more than it does the United States. Even so, an active American role supported hopes for a regional equilibrium, helping to keep the economic and security options open for smaller and medium powers.

In America's absence, the 11 member TPP now enjoys de facto leadership from Japan, a role Shinzo Abe has welcomed.<sup>18</sup> The locus of the economics-security argument has also been moving. In an interview following a successful visit to Japan, New Zealand's Prime Minister Bill English argued that the TPP had 'more relevance as a strategic agreement at a time when the US has pulled back, where China and Japan are taking leadership and where they're all feeling a bit threatened and destabilised by what's going on with North Korea.'<sup>19</sup>

### The US has relied on China's economic influence to address the North Korean security challenge

No regional country, including Japan, can replicate the economics-security reassurance traditionally provided by the United States. President Trump seems predisposed to eschewing that role. During the campaign, two of his leading economic advisers argued that while Barack Obama and Hillary Clinton 'billed the TPP as a national security measure to help contain a rising China,' the TPP (along with the North American Free Trade Agreement and the acceptance of China's participation in the World Trade Organization), would 'only weaken our manufacturing base and ability to defend ourselves and our allies'.<sup>20</sup>



Trump doubts economic multilateralism because the involvement of smaller countries dilutes Washington's bargaining power.<sup>21</sup> His mercantilist tendencies complicate America's traditional relationships. Campaign messages suggested allies needed to pay more for the security outcomes they apparently were enjoying at America's expense. In his first Presidential visit to Europe, Trump not only excoriated NATO allies for their defence spending commitments, but also failed at that time to explicitly reinforce America's obligations under Article 5 of the treaty.<sup>22</sup>

But rather than a fresh start with a new suite of options, many of the foreign policy questions facing the Trump Administration are familiar ones for the United States. In the Asia-Pacific region, the most urgent of these is the accelerating pace of North Korea's nuclear and missile programs. Here Trump's approach so far has been zero parts violent use of force against Pyongyang, two parts gunboat diplomacy, and plenty of reliance on coercive versions of the economic-security nexus.

Those advocating violent action against North Korea's facilities need to contend with Pyongyang's capacity to cause catastrophic damage to South Korea. Military escalation on the peninsula would also have important economic effects<sup>23</sup>, potentially fanning out across the region. China's long-standing interest in North Korea's security is also a limiting factor. Should a limited American attack precipitate serious escalation as Pyongyang responds, Beijing might also be brought into the action, even though China has been indicating to Pyongyang that it has not written a blank cheque for its irresponsible ally.

US military capabilities are not irrelevant in this picture. But in North Asia (unlike the Middle East and Central Asia) they are used to generate threats and avoid violent action. As the crisis surrounding North Korea's nuclear program intensified in early 2017, the Trump Administration doubled down on the familiar American mantra that 'all options' were 'on the table'.<sup>24</sup> Vice President Pence suggested that the US cruise missile attacks against a Syrian airbase and the detonation of a massive fuel air explosive against ISIS targets in Afghanistan, were a signal for North Korea as well. But much of the American playbook, including flights of nuclear-capable bombers into airspace over the peninsula,<sup>25</sup> is familiar stuff with a mixed track record. Trump's promise of severe action against North Korea should Kim Jong-Un continue to threaten the United States, reiterated in September by Defense Secretary Mattis, unnerved many onlookers. But this also appears to have been an exercise in coercive diplomacy, albeit a very risky one.

With little sign that military options can stop Kim Jong-Un in his nuclear tracks, and with the price of using violent force so high, the Trump Administration has relied heavily on variations of the economics-security nexus. This is clear in the new President's approach to China. As Xi Jinping arrived in Florida in April 2017, some expected Mr Trump to play tough on US-China trade relations. He had been advised during the campaign that China's trade posture was a recipe for American weakness.<sup>26</sup> Trump had indicated he might slap major tariffs on Chinese imports to help bring jobs back to the United States, and name China as a currency manipulator on his first day in office.





But this is not what happened at Mar-a-Lago: Trump sought Xi's agreement to place extra pressure on North Korea, which had conducted a provocative missile launch just before the summit.<sup>27</sup> Trump did so playing a two-track game. If China did not apply sufficient pressure to North Korea, the United States would go it alone.<sup>28</sup> But if Beijing punished North Korea, Trump said he would look more favourably on US-China trade questions.<sup>29</sup> At about this time it became known that China was not being listed in a prominent US report as a currency manipulator. Trump tweeted that this would not have been the right thing to do when there was a real possibility of China's extra cooperation against North Korea.<sup>30</sup> His willingness to penalise China remains limited: the recent announcement of an *investigation* into China's intellectual copyright practices does not mean that a Sino-US trade war is imminent.

### Some cooperation with the US, but China is using economics-security pressures unilaterally elsewhere

Similarly, Trump expects Xi to use an economics-security logic towards North Korea. He wants Beijing to use economic pressure to influence Pyongyang's security policy. But China's past efforts in this regard have not proven very stringent or successful.<sup>31</sup> Other countries, including the United States, have not had great success either. Brendan Taylor argues that 'there is little if any evidence to suggest that the application of sanctions against North Korea has had any meaningful effect on Pyongyang's decision-making calculus'.<sup>32</sup>

## Cooperation between Xi and Trump on North Korea may be fitful but its importance should not be under-rated.

While economic sanctions may not change the security picture on the Korean peninsula, they are unlikely to risk truly catastrophic harm. Compared to some alternatives (including the use of violent force) they may be the least ugly choice available. Beijing knows Washington has limited options and that its quest for economics-security pressure on Pyongyang depends on the choices that China makes.<sup>33</sup> This reduces America's bargaining power over China, although Trump may have been obfuscating this reality through a confusing pattern of alternating positions. He began by praising China for putting pressure on Pyongyang, including by halting coal imports from North Korea.<sup>34</sup> But the evidence was mixed: as well as concerns in Washington that North Korea was using Chinese supply chains to evade UN-authorized sanctions<sup>35</sup>, China-North Korea trade appeared to be increasing.<sup>36</sup> Trump then complained that China was doing not nearly enough, and the United States placed sanctions on a small number of Chinese firms with close

North Korean connections.<sup>37</sup> Those US measures against Chinese firms were widened even though China had agreed to stiffer sanctions at the Security Council and even though its economic pressure on Pyongyang had started to become more evident.<sup>38</sup>

The cooperation between Xi and Trump on North Korea may be fitful but its importance should not be under-rated. Despite its doubts about the United Nations system, the Trump Administration has cooperated with China and other Council members to draft additional sanctions which have been passed unanimously and publically in the wake of further North Korean ballistic missile tests. This means that the use of economic pressure by China (and the United States) on North Korea enjoys a significant amount of international endorsement.

Regardless of its effectiveness in changing North Korea's behaviour, this limited US-China collaboration is welcomed by countries in the region desiring positive relations between the two biggest powers. While Japan is often worried by signs of Sino-US policy coordination, Shinzo Abe is reported to have told South Korea's new President Jae-in Moon that 'The only way to make North Korea listen is through Chinese economic and American military pressure'.<sup>39</sup>

But small and medium countries in the region should not expect relief from economic-security pressures fanned by great power competition. In connection to the very same North Korean challenge, Beijing has used economic pressure to signal its displeasure at the Republic of Korea's agreement to deploy the US Terminal High Altitude Air Defence system (THAAD).<sup>40</sup> While Seoul and Washington explained this deployment as a response to the growing North Korean threat, Beijing views the radar capacities of this system as a challenge to its own missile forces, and thus to the strategic balance upon which its security depends.

Reduced Chinese tourism to South Korea and business for South Korean firms operating in China were expected to lower the ROK's economic growth by 0.2 per cent of GDP.<sup>41</sup> That said, earlier instances of China's economic pressure do not appear to have succeeded in changing South Korea's mind on missile defence.<sup>42</sup> But in a happy turn of events for Beijing, the election of President Moon has brought into office a South Korean leader who is skeptical about the deployment of the missile defence batteries. The resulting improvement in relations with China saw some circumstantial evidence of a relaxation of Beijing's sanctions pressure on the ROK.<sup>43</sup>

Even if Moon's approach is explained as a function of domestic politics from which alliance relations can be quarantined, this remains an important episode for other US allies and partners to be aware of. From time to time they too will make security choices that do not please China, and they will want to be aware of the likely costs ahead of these decisions. Unlike the sanctions pressure on North Korea, much of which has specific Security Council endorsement, Beijing's pressure on South Korea seems disconnected from wider notions of legitimate conduct. South Korea, after all, is anything but a rogue state. What does this say to other countries in good standing with the international community? And what does it mean for expectations of China's approach to its trade agreements in situations where it has security disagreements with these economic partners? These are important questions for policy-makers to consider.



### **At a time when extra reassurance would help, the Trump Administration offers economics-security uncertainty**

The bigger uncertainties right now relate to the future course of American policy, including its management of economics-security connections. Some signs of promise have been evident. Avoiding a trade war, at least to this point, has been good news for the region. A speedy escalation in protectionism would seriously harm the interests of New Zealand, Australia, Singapore and others and would also be a blow to the rules-based approach to trade disputes embodied in the World Trade Organisation.<sup>44</sup>

Regional partners of the US and China may also have been reassured that Trump and Xi agreed to establish four new bilateral dialogue mechanisms in place of the US-China Strategic and Economic Dialogue. One of these, the new Comprehensive Economic Dialogue had its first Ministerial-level meeting in Washington in July 2017. But any promise of a new era in US-China collaboration was overtaken by a failure to agree on the path ahead for the bilateral trade relationship, complicated by Trump's zero-sum reading of bilateral trade balances.<sup>45</sup> Also troubling was the possibility that his Administration would resort to a seldom-used trade law, allowing trade restrictions on the basis of US national security interests and bypassing America's WTO commitments.<sup>46</sup> This would be an economics-security connection where the United States becomes less reassuring to a number of its partners.

The same can be said for Mr Trump's commitment to renegotiate (or even cancel) the KORUS free trade agreement between the United States and South Korea. This trade policy threat came as the two allies were working closely on North Korea, a shared security concern. It came when South Korea was taking economic risks in its relations with China (its leading market) by deepening its missile defence cooperation with Washington. (This KORUS threat re-emerged on the eve of North Korea's sixth and largest nuclear test). Mr Trump's expectation that South Korea should contribute \$1billion to that system also raised the potential costs for Seoul.<sup>47</sup> And, as we have seen, coming onto the scene was a government more doubtful about missile defence, whose leader subsequently claimed that some of the THAAD launchers had been installed in South Korea without proper consultation.<sup>48</sup> Trump's management of economics-security choices with one of its leading allies in Asia is not a reassuring model for other partnerships.


In this fluid situation, smaller and medium powers may doubt the reliability of the great power equilibrium. They may question how much the United States is now able to reassure them when China applies unilateral economic pressures to shape their security perceptions and policies. At a time when protectionist sentiment is in the air, Washington may have few options to offer countervailing economic incentives to dilute these efforts.<sup>49</sup> As a symbolic turning point, America's withdrawal from the TPP, while not removing the US from regional markets, may exacerbate these troubling perceptions.

Washington's reduced ability to apply economic power may leave it relying even more on its obvious military advantages. But the violent use of military force in Asia remains a very costly proposition. Hence America's reliance on military signalling, including in the South and East China Seas, is likely to intensify.<sup>50</sup> Speaking at the launch of the Pentagon's newest aircraft carrier, Mr Trump said that 'Wherever this vessel cuts through the horizon, our allies will rest easy and our enemies will shake with fear because everyone will know that America is coming, and America is coming strong'.<sup>51</sup> But the US advantage over China in the manipulation of military pressure in maritime Asia has been closing.<sup>52</sup> And while America's influence attempts are designed to stop short of actual armed conflict, they nonetheless exacerbate China-US competition and the pressures placed on local states.

### **Smaller states have options in facing pressure and uncertainty from China and the US, but some of these are more promising than others**

Fully acknowledging that economic and security challenges cannot be considered in isolation is imperative for policy makers who have not yet made this necessary adjustment. Joining up the policy machinery to encourage these analytical connections can be an important starting point.<sup>53</sup> But coordination is not an end in itself. Including multiple agencies in developing a national response, which may be easier in smaller states, may increase the chances of a good fit between the resulting policy and the country's external environment. But it is no guarantee of that.

There may be some unilateral options available, although it is important to be cautious about what these involve. It would be very risky for even a medium sized regional power to oppose economics-security pressure by attempting a countervailing response. Many of the recent attempts at economics-security pressure discussed above exploit trade connections to encourage a change in the smaller target's security calculus. It stands to reason that most small powers have limited ability to harm the economic interests of the larger states through their own responses (unless, for example, they had a near monopoly on a rare resource or were a dominant market for a particular good or service<sup>54</sup>). For a country like New Zealand, a tit-for-tat retaliation to limit trade might not only increase the chances of damage to its own economy. Its normative reputation as a champion of free trade would also be in question. Wherever possible then, regional countries should seek redress within the rules based system including through avenues such as the World Trade Organization dispute settlement process.



## **Washington's reduced ability to apply economic power may leave it relying even more on its obvious military advantages.**

But there are other options. One is simply to ignore the pressure, or at least to give the impression that one is doing so. This is very difficult, however, if the economic pressure has been declared by the coercer, especially if it involves an important part of the target country's national economy. But at the same time, allowing market reports to indicate a problem exists without making a major issue of the pressure politically might suit attempts to indicate to the great power in question that attempts like this are unlikely to yield results. Indeed the most obvious form of resistance is simply to show no sign whatsoever of policy change, including the reiteration of statements on security issues that are consistent with what has occurred before.

Another response is to reduce vulnerability to pressure from great power (A) by developing closer connections with great power (B) and (C), if these partners are available. Some Asia-Pacific countries have been attracted to developing closer security relations with the United States when they have

anticipated (or experienced) economic pressure from China. This was one of the advantages to them of the Obama Administration's rebalance. At the same time those closer security links with Washington may be partly what is motivating China's pressure. An economics-security dilemma is therefore possible in these circumstances.

The most obvious economic means for reducing vulnerability to economic intimidation is to avoid over-reliance on the relationship that is being pressured. That can be easier said than done when China is the leading trade partner of so many regional countries. As the three economies most dependent on China according to one 2015 report<sup>55</sup>, Australia, South Korea and Taiwan would seem to have additional reasons for trade diversification on account of their very close security relationships with the United States.

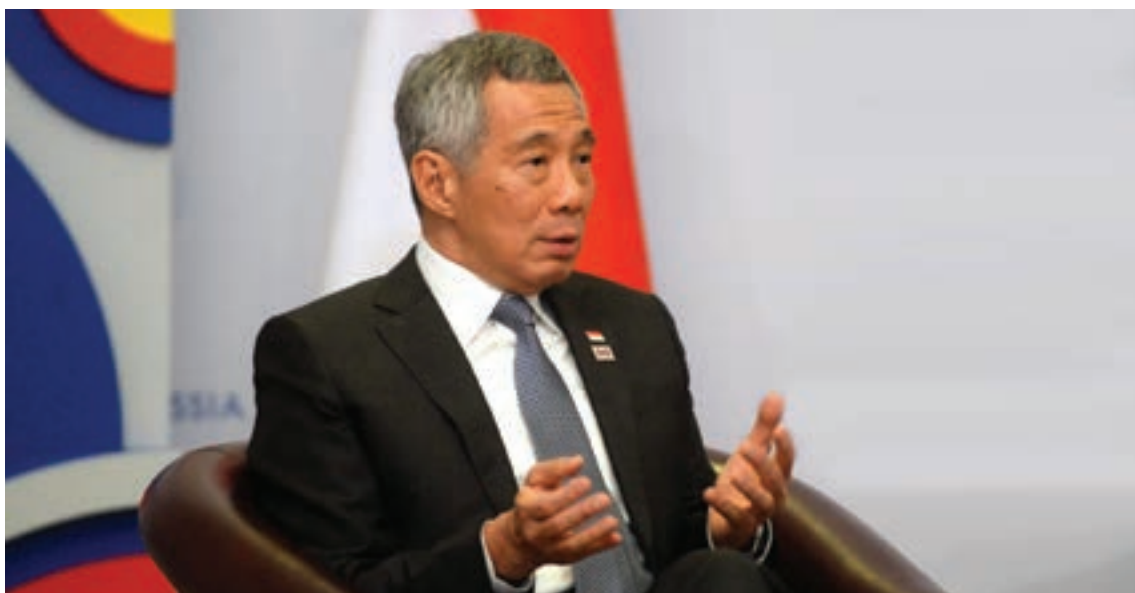
Washington's changed approach to the TPP is not much help here either, (although its continuing involvement in APEC may be some consolation). Given the region's uncertainties in the Trump era, alliance diversification which reduces reliance on US security assistance may create other options for managing economics-security pressures. But this may be very difficult to achieve: alternative allies may be much harder to find than alternative markets, just as strategic loyalties to the United States may weigh more heavily than sentimentality about markets.<sup>56</sup>

A further unilateral option might be to raise the risk of defection. If the giver and receiver of pressure are already in a close relationship the latter might threaten to bandwagon with a competing suitor. For example, while Fiji has an authentic economic development rationale for achieving closer links with China, the Bainamarama government may have also been tempted to play the China card to show Australia and New Zealand that their sanctions had been ineffective.<sup>57</sup> But defection is a tricky game. If the analysis presented at the start of this paper is accurate, Beijing and Washington will know that most of their regional partners want good relations with both of them in the quest for a regional equilibrium. There is only so much defection that such a strategy would allow for. Playing the China card to Washington or the US card to Beijing may come across as a hollow and desperate gesture.

A threat of defection could still be tactically useful as a signalling gesture. Little more than a month into the Trump presidency, Singapore's Prime Minister Lee Hsien Loong indicated that his country might find itself being 'coerced to choose between being friends with America and friends with China' in the event of a serious downturn in US-China relations.<sup>58</sup> This would be the antithesis of the inclusive great power equilibrium that Singapore's diplomacy has sought for years to encourage. But given Singapore's concerns over US trade policy, including in respect of TPP, this comment may have been a way of threatening future defection to China's side to encourage the Trump team to take Southeast Asia more seriously.

Almost all of the non-great powers in the region have limited capacity to manage economics-security pressures from larger states on their own.<sup>59</sup> One obvious response to this problem is to band together. While possibly as much by default as by design, some Asia-Pacific diplomatic institutions have anticipated an economics-security nexus of sorts. While coverage of the East Asia Summit often focuses on the regional security dimension<sup>60</sup>, this ASEAN-centred grouping made its first cooperative inroads in the areas of trade and energy.<sup>61</sup> And warnings that APEC should not be tempted to move onto security issues were ignored at the Auckland Summit in 1999 at the time of the East Timor crisis.

**There are options.  
One is simply to  
ignore the pressure.**



The alphabet soup of regional forums already offers three advantages to smaller states. The first is a point of contact with and into the wider region (something that remains crucial for New Zealand, for example). The second is a point of simultaneous engagement for the larger powers, rather than a linkage with one at the potential expense of the other. The third is that in combination (and sometimes individually) these processes cover both economic and security questions.

Yet these regional processes also present obvious limitations. A regional institution that grapples with both economic and security factors in the region is one thing. But it is quite another to have a regional venue devoted to the intersections between these factors, and how they are being exploited (even though the ubiquitous working groups on an issue like maritime security invites such connections to be made). Functional separation can remain a stumbling block.

Moreover it is not clear how much Australia, New Zealand, Singapore and their closest regional partners can expect from even the most promising multilateral groupings. Long-standing efforts to create a sense of political, economic and security community can't always hide national differences. As T.J. Pempel has observed, 'the nation-states of East Asia continue to be driven far more by their quite distinctive national agendas than by any preexisting regionwide comity.'<sup>62</sup>

## A further option might be to raise the risk of defection.

Alternatively a greater focus on selected bilateral connections and informal plurilateral collaboration might help manage the economic (and security) pressure that is already affecting the region. But this would require an increased willingness among collaborating states to be exposed to pressure in relation to each other's choices and problems. Australia might wonder how many of its closest East Asian partners would be ready to offer assistance each time it came under economics-security pressure. And it might be wondered how often New Zealand would express concern whenever one of its most valued East Asian partners was on the receiving end of unwanted economics-security pressure.

At the same time, it would have been an act of considerable imagination to foresee a situation where Japan was assuming the mantle of de facto TPP leadership. Australia's close security links with Japan have been a fact of regional diplomacy for several years. But even twelve months ago we might not have foreseen a joint statement from the Prime Ministers of New Zealand and Japan which raises the bar for their cooperation on economic and security questions and the connections between them. The joint media release from their May 2017 meeting emphasises 'the importance of close cooperation in realising TPP's strategic and economic benefits'.<sup>63</sup> That is a clear sign of the economics-security nexus coming to the forefront of views in very different parts of the Asia-Pacific region.

New connections, and deeper version of existing links, are more than possible in this environment. They are probably going to be necessary, not least because they challenge the view that each country can find an economics-security sweet spot by just thinking about their positioning between the two great powers. That approach allows too much scope for Washington and Beijing to wield pressure in their bilateral connections with small and medium regional partners, where their advantages are at their highest. The dangers that come from allowing them to do so seem only to have expanded now that we have moved into the Trump-Xi era of great power relations in the Asia-Pacific region. Continuing economics-security pressure from China and less reassurance from the United States could well be a hazardous combination.

### Policy Recommendation

- ✦ Australia, New Zealand and Singapore should assess the support they can provide to each other, including in the exchange of ideas and experience, in managing economics-security pressures in a changing Asia-Pacific region.

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