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SOUTHEAST ASIA: CAUGHT IN THE MIDDLE OF US-CHINA COMPETITION
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PARTICIPANTS:

Host:

DAVID DOLLAR
Senior Fellow – John L. Thornton China Center, Foreign Policy Program
Global Economy and Development Programs

Guests:

JONATHAN STROMSETH
Lee Kuan Yew Chair in Southeast Asian Studies
Senior Fellow - Foreign Policy, Center for East Asia Policy Studies, John L. Thornton China Center

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DOLLAR: Hi, I'm David Dollar, host of the Brookings trade podcast, Dollar & Sense. Today we're going to talk about Southeast Asia and how it is caught in the middle of U.S.-China competition. In particular, the U.S. is pushing for a Free and Open Indo-Pacific. China has its Belt and Road Initiative. And, we want to talk about how this is playing out in specific countries of Southeast Asia. Our guest is Jonathan Stromseth, Senior Fellow at Brookings and the holder of our Lee Kuan Yew Chair in Southeast Asian Studies. Welcome to the show, Jonathan.

STROMSETH: Thank you for having me, David.

DOLLAR: So the U.S. has proposed this Free and Open Indo-Pacific concept. Why don't we start by talking about that. What is it and how is it being received by Southeast Asian countries?

STROMSETH: Well, the Free and Open Indo-Pacific strategy, sometimes called FOIP, -- it's not such a great acronym -- is really at root a maritime security strategy that in some ways was first mooted conceptually by Prime Minister Abe of Japan who talked about a kind of coupling of the Indian and Pacific Oceans. In the U.S. context, it is reflected in Southeast Asia through increased security assistance, to allies and emerging partners, and so on.

It also had very little economic content at the beginning. It has a little bit more now. Secretary of State Pompeo did announce 100,000,000 or so of digital connectivity energy security assistance, and we have more recently seen MOUs with Japan and Australia to support sustainable infrastructure in the region.

In terms of the response of Southeast Asia countries, I think, to some extent, they'd like to see more energy and purpose coming from the U.S. in how it views engagement in the region generally and Southeast Asia in particular. But, it's pretty underwhelmed by scale of economic engagement, particularly when you compare it to the Belt and Road Initiative of China.

They're also a little concerned that ASEAN, the Association of Southeast Asian Nations, which is sort of seen as a kind of central architectural feature in the region, is being lost in the shuffle a little as the Indo-Pacific strategy emphasizes a quadrilateral security dialogue that includes the U.S., Japan, Australia, and India.

DOLLAR: So, it sounds like, at least as a start, what I'm hearing you say is that the Indo-Pacific Initiative is really more of a security initiative. And, we're going to turn to China's Belt and Road in a moment. That's really more of an economic program.

STROMSETH: Yeah. I think it has its origins as a security initiative, and I think the Trump administration is now trying to build in some economic elements. And, I think some of those efforts should

be lauded and watched and encouraged, but they've got a long way to go. I should just also add that in terms of the regional response, they are concerned that the Indo-Pacific strategy has a real anti-China kind of bent to it. It formally labels China a strategic competitor. It warns countries in the region about the predatory economics of China, as China is trying, according to the strategy, to achieve regional hegemony, and so on.

So, it does sort of set up what is a possible choice in the region between China and the United States. And, I should say that China has certainly been kind of promoting a binary choice of its own for quite a while.

DOLLAR: So, all 10 of the countries in the Association of Southeast Asian Nations have more economic exchange with China than with the U.S. Is that right?

STROMSETH: Generally speaking, the U.S. does export a lot. I think U.S. business engagement with Southeast Asia should be acknowledged. It is quite robust. I think last year the U.S. exported well over \$100 billion in both goods and services to the region. But, Chinese economic engagement with the region is growing really fast. It's been the largest trading partner with the ASEAN countries for over a decade.

It's FDI lags a little behind the United States. But, as we've discussed a little, if you add Hong Kong, where a lot of Chinese FDI to the region comes through, it may actually be ahead. And, also, there are just so many tourists going to Southeast Asia from China. I think the average number of American tourists in the region per year is 3 or 4 million. I think last year there were 28 million Chinese tourists going to Southeast Asia.

DOLLAR: Right. So, you've touched on some important aspects of the economic relationship between China and Southeast Asia -- trade, tourist, direct investment. China's also lending a lot of money to ASEAN countries for infrastructure as part of the Belt and Road Initiative. I believe nine of the 10 ASEAN leaders attended the recent Belt and Road Forum in Beijing. So, let's talk about how Belt and Road is playing out on the ground. Maybe start with some specific countries. I think Malaysia has been a big participant. Is that right?

STROMSETH: Yeah. It's really kind of been an interesting evolution. I think initially, in strict economic terms, the region really welcomed the Belt and Road Initiative by and large. Of course, there's 10 countries, so they have different perspectives and attitudes toward China among them. But, Malaysia's an interesting case.

Malaysia, I think, is the largest recipient of BRI projects. One hear's a number of, say, 14 billion, although these numbers are hard to discern. But, in Malaysian elections last year, Dr. Mahathir bin Mohamad defeated Prime Minister Najib, partly by openly campaigning against Chinese influence and, to

some extent, against BRI projects. And, then he cancelled a high-profile \$20 billion railroad project.

But, just very recently, in the last few weeks, that has been renegotiated and he managed to, I think, lop off about a third of the overall cost, and it's back on. And, it also has come with new support from Malaysia for BRI that was expressed in Beijing at that second Belt and Road Forum last month.

So, I guess what I'm saying is, Malaysia kind of typifies some trends I've been seeing in the region, which is there is definite concern about sustainable financial debts, which Mahathir was concerned about, and we've seen some pushback. But, you're also seeing kind of an emerging dynamic between Southeast Asia and China. Each are getting a little smarter in the way they deal with each other.

We see this with Indonesia that's more concerned about environmental and social impacts, labor content, that kind of thing. And, also, I think reflected in Xi's speech and other events at the Belt and Road Forum. China seems to be learning how to learn from its mistakes. Let's put it that way.

So, there's kind of a mutual dynamic of learning that, I'm guessing, will make BRI more sustainable over the long-term. And, as you said, nine out of 10 leaders out of the 36 or so -- that's a big number --

DOLLAR: Out of the 36 leaders total --

STROMSETH: Total.

DOLLAR: -- who are in the forum. Right.

STROMSETH: From the world. We're from Southeast Asia. And, there would have been 10 of 10, I think, if the Indonesian election hadn't coincided, basically, with the forum. So, that's a pretty good endorsement, I would say.

DOLLAR: So, I think your Malaysia example highlights a number of interesting things. So, it suggests to me that democratic governance is important. You had an election in Malaysia where this was an issue, and people expressed their views, and Mahathir actually then used that as a basis to renegotiate with China. And, that shows these recipient countries have agency. They may be smaller than China, but Malaysia renegotiated that project.

We've seen this in other countries -- Pakistan, -- not in your region, but just as an example. And, then, the Chinese are showing some pragmatism, --

STROMSETH: Yeah.

DOLLAR: -- as you say. So, they adjusted the Malaysia projects, and maybe this will all turn out okay.

STROMSETH: Well, I think it's certainly a work in progress from both sides. But, I do think that, though there's a great difference in attitudes, as I mentioned, among the different Southeast Asia countries,

a country like Vietnam, right on China's border with territorial disputes, might have particular unique concerns. But, by and large, along with these concerns about transparency, sustainability, local labor content, and so on, it is true that the Southeast Asian countries are pushing back, doing some renegotiating, and we'll sort of see how it plays out.

DOLLAR: Okay. So, let's take a very different kind of country in Southeast Asia, Laos. I don't think it has particularly good governance. That's my understanding. So, what are the Chinese doing in Laos, and how is that working out?

STROMSETH: Well, I think of Laos as sort of an example or reflecting kind of what's going on in mainland Southeast Asia today, or among the five Mekong countries. We call them Cambodia, Laos, Myanmar, Vietnam, and Thailand. Now, Laos is particularly small. Like Vietnam, it borders China. And, China has a kind of subregional initiative in mainland Southeast Asia called the LMC, or the Lancang-Mekong Cooperation Initiative.

And, there, they are very focused on building a series of dams. In other words, they're also focused on infrastructure and hydropower. And, not surprisingly, Laos and, say, Cambodia, has been quite supportive of China's other strategic concerns in the region, like the South China Sea. So, they've been supportive of, say, Chinese positions.

Interestingly, Laos recently actually voiced support for China's vision, in a sense, for the region, which is called a community of common destiny or community of shared future, which in official terms is about inclusiveness and win-win cooperation. But, it does raise a lot of concerns among other countries about whether China's developing a kind of sinocentric network in the region in political and strategic terms.

I would say that, broadly speaking, China does see Southeast Asia as kind of a testing ground for their rise as a global power, generally. It's in their backyard. And, they sort of see how they can learn and play that game there.

And, finally, on this point, I would just say there is a growing concern in Southeast Asia that, although they've been very, very concerned for years about China's island building and militarization of the South China Sea, because a number of ASEAN countries have their own territorial claims. There's a growing concern that maybe they focus too much on the sea and forgot about the land.

In other words, China's economic influence is growing so quickly and so fast in mainland Southeast Asia that it might be creating sort of permanent divisions between maritime and mainland Southeast Asia within the ASEAN context.

DOLLAR: Right. So, the two countries we've talked about so far, Malaysia and Laos, are really quite

different. I know Laos -- in some of the analyses about the debt risks associated with the Belt and Road, Laos has stood out as a country that has taken on a lot of foreign debt, mostly from China, and is at risk of debt distress. Malaysia, on the other hand, is a well-governed country that's far away from any kind of external debt problems.

STROMSETH: Yeah.

DOLLAR: If I could shift gears, Jonathan, I know you've written about the effect of economic engagement with China on countries governance, and in particular you've written about Myanmar and Cambodia. China says it does not interfere domestically with politics or other issues. So what really is the issue about, engagement with China and how that affects governance?

STROMSETH: Well, I think this is another example where the way China operates in the region is, the way it does business is changing over time, particularly in the last few years. And, you're right, there has been a longstanding non-interference policy in the internal affairs of other countries. Generally, since the '50s or so, China's focus is maintaining good relations sort of with whatever country it does business, in terms of diplomatic or economic or security interests.

But, there were some alarm bells that went off at the 19th Party Congress when Xi Jinping spoke about China kind of representing a new option for other countries to sort of speed up their development. And, there was concern that perhaps China's really starting to promote its own model, perhaps an authoritarian model of development, for instance.

And, if you look at Cambodia in particular, for instance, China is the largest source of foreign investment, largest aid donor, trading partner, and all of that, and it has become sort of an indispensable ally of Hun Sen who's been in power since the 1980s. Also, in Myanmar you see that it's trying to improve its conditions for Belt and Road projects there and providing some cover for the Burmese government and military on the Rohingya issue.

And, so, there has been concern that China's growing support for these countries has maybe at least inhibited democratization or the consolidation of democracy, say in Myanmar, or, say, reinforced authoritarian trends in Cambodia. And, that's kind of how I see it. I don't see China actually promoting its own particular model of development. It might be exporting some worrisome technologies that are the toolkit of authoritarian countries. But, I actually tend to try to assess and weight kind of external drivers like China's rise against, say, internal drivers.

And, you know, Hun Sen, for instance, has had an iron grasp on the Cambodian countryside, really since he came to power, and the system there had its roots in (Inaudible) system. And, the political role of the Burmese military, for instance, has been institutionalized for many decades. So, I think we really have to

sort of weigh the external versus the internal drivers. But, I think there are, as I kind of said, some indirect effects of China's rise, particularly on the periphery.

DOLLAR: Would you agree with the assessment that in governance developments in a country like Myanmar or Cambodia primarily are internally driven but perhaps getting an assist from this interaction with China?

STROMSETH: Yeah, I think that's a good way of characterizing it. I would agree with that.

DOLLAR: And, it will be interesting to follow, because you've got such a diverse group of countries in Southeast Asia. Indonesia's a pretty well-functioning democracy. It's borrowing a lot from China. We're not going to have time to get into Indonesia and detail, but it'll be interesting to observe. Are there any effects of the Chinese interaction on Indonesian governance?

STROMSETH: Yes, and I think that's a very interesting question as well. I mean, I think there's kind of a debate among experts of Southeast Asian politics today. Has there been a kind of decline in democracy in the region or sort of an enduring authoritarianism on the other hand, which is the sort of dominant phenomenon.

But, I think, as you point out, despite strains and stresses, Indonesia appears to be a consolidating democracy. It just held presidential elections just weeks ago. And, also, we had quite an electoral surprise in Malaysia. And, these also seem to be countries that are dealing with China on the BRI and managing that pretty effectively in pushing back.

DOLLAR: So, let's talk a little bit about Vietnam. I know you were based in Vietnam from 2000 to 2005, heading the Asia foundation. Vietnam has been one of the most successful developing countries in terms of growth and poverty reduction. So, I'd like to start the Vietnam part, just with a very general question. Given your experience, what are some of the lessons you take from Vietnam's success?

STROMSETH: Well, you know, I actually had sort of two phases of my life living in Vietnam. This was a while ago now, but I did my PhD dissertation research in the mid-'90s, and I focused on how Vietnam was developing two sort of laws that would be the cornerstone of the new reforming economy. One was a domestic investment law in '95, the other was a landmark enterprise law in 2000.

And, these laws were really all about creating an equal playing field for the emerging private sector on the one hand and the longstanding and not very efficient state enterprise sector on the other. And, they were all about kind of creating better opportunities for the private sector to have access to land, access to credit, reduced entry barriers, and this sort of thing.

And, not only were they focused on these sort of important governance questions, or economic governance questions at that time, but they also drafted these landmark policies in a surprisingly

participatory way for a one-party state, a non-democracy, if you will. So, the Vietnam Chamber of Commerce, for instance, was very involved in the drafting of these laws, presenting the business community and that sort of thing.

Subsequently, that second phase -- as you say, I was with the Asia Foundation, and I took some of my knowledge and learning from those earlier academic days and helped develop a project called the Provincial Competitiveness Index, which ended up ranking the entire country, province by province, on kind of business-friendly, business environment type of issues, such as these questions of whether the private sector has access to the same things as the state sector. So, I found a country that was quite focused on making sure they got the sort of policy and governance contexts right, to make sure that the business community could grow.

Now, having said that, I know that you spent a lot of time in Vietnam and were witness to these early reform days as well and played an important role with the World Bank, and then I know you went on to write quite influential studies on the relationship or linkage between good governance or good economic policy in aid effectiveness. I'm sort of wondering also what you take from that time and how it affected you going forward.

DOLLAR: Right. So, thanks for the question, Jonathan. I very much agree with your assessment that the basic policy environment is so important. And, for firms, you know, that could sound very micro things -- can you move goods through Customs, how many licenses do you need, how much corruption, red tape is there, but also the quality of infrastructure. So I came away from the Vietnam experience, thinking that the policy environment in many ways was the most important thing.

I remember writing that reform was more important than money, getting slapped down a bit within the World Bank for saying that. But, at the very least, I think both policy reform -- and then when I say money, was the World Bank financial business, it was largely financing infrastructure, finance through rehabilitation of the main North-South road, lots of ports and power stations, that kind of thing, very much what China's doing now, in general, with this Belt and Road Initiative.

So, I think the Vietnam experience reminds us that you really need the right policy environment in order to benefit from those infrastructure projects. Otherwise, you're at risk of just ending up with debt and projects that are not very successful. So, I would just mention briefly that I was impressed the Vietnam chose to join this Trans-Pacific Partnership.

And, Singapore and Malaysia in your region are also involved. Indonesia, Thailand, Philippines have all made noise about joining. And, so, I see that TPP enables these countries to improve trade facilitation and policy environment and maybe discipline their state enterprises in the case of Vietnam. Meanwhile,

China is financing a lot of infrastructure. That could potentially all work out quite well.

Last question, Jonathan, is are these countries in Southeast Asia, are they choosing between the United States and China, and if they have to choose, how's that going to go?

STROMSETH: Well, they really don't want to choose. And, when I go to the region, I think when Americans go to the region today you really hear this refrain, really, across the region -- don't make us choose. And, I think they're feeling this pressure from Beijing and now also I think from Washington under this Free and Open Indo-Pacific strategy that we started this discussion with.

I'm frankly concerned about this from a U.S. policy perspective. I think that the United States should tread quite carefully when it comes to forcing a choice or suggesting a choice, between China and the United States, in Southeast Asia, just as China's economic power and influence is growing so exponentially there.

And, I actually think, in a cold, hard calculation of American strategic interests in the region, wanting to maintain its role as a pacific power, even preventing the rise of a dominating hegemon, which is a longstanding policy of U.S.-Asia policy more broadly, you know, I think it could be self-defeating for the U.S. as ASEAN countries sort of look to the future, estimate the economic footprint of China in 10 or 20 years, calculate their likely interdependencies with Beijing. And, you know, they have to make some guesses and some projections about where they want to go in their bilateral relationships.

So, I think if the United States sort of takes the position my way or the highway, it's possible that the region could take another road. I do think that the current sort of tendency to try to sign these MOUs, say the U.S. MOU with Australia and Japan, to develop cooperative infrastructure efforts is an interesting development. I would encourage that further.

But, I think that my idea would be that hopefully this would help create a kind of credible alternative that would be high-quality infrastructure, sustainable infrastructure for the purpose of re-engaging China over time, not creating a bifurcated region or a kind of scenario where you have separate systems coexisting in the region. I actually don't think that's practical.

DOLLAR: So, I've been talking to Jonathan Stromseth, the holder of Brookings Lee Kuan Yew Chair in Southeast Asian Studies, and I think we've had a really interesting discussion about some of the trends in Southeast Asia. Many of these countries are borrowing from China as part of the Belt and Road, but they're interested in engaging with the U.S., certainly on the security side, many countries, as part of this Free and Open Indo-Pacific project.

And, then, I like your thinking of more of an economic content to that, providing some alternatives, and aside from the direct benefit to these countries, that should have an indirect benefit leading to higher-

quality Chinese projects. So, certainly, it seems to me these countries would like to see that they can continue to engage with both China and the United States.

STROMSETH: I agree with that.

DOLLAR: All right. Thank you very much.

STROMSETH: Thank you, David.

DOLLAR: Thank you all for listening. We'll be releasing new episodes of Dollar & Sense every other week, so if you haven't already, make sure to subscribe on Apple Podcasts or wherever else you get your podcasts, and stay tuned.

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