BEYOND BINARY CHOICES? Navigating great power competition in Southeast Asia

JONATHAN STROMSETH



TRILATERAL DIALOGUE ON SOUTHEAST ASIA:
ASEAN, AUSTRALIA, AND THE UNITED STATES

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EXECUTIVE SUMMARY

The Brookings Institution has launched a new trilateral initiative with experts from Southeast Asia, Australia, and the United States to examine regional trends in Southeast Asia in the context of escalating U.S.-China rivalry and China's dramatic rise. The initiative not only focuses on security trends in the region, but covers economic and governance developments as well. This report summarizes the main findings and policy recommendations discussed at an inaugural trilateral dialogue, convened in Singapore in late 2019 in partnership with the S. Rajaratnam School of International Studies (RSIS) and the Lowy Institute.

A key theme running throughout the dialogue was how the region can move beyond a binary choice between the United States and China. In this connection, Southeast Asian countries could work with middle powers like Australia and Japan (admittedly a major power in economic terms) to expand middle-power agency and reduce the need for an all-or-nothing choice. Yet, there was little agreement on the feasibility of such collective action as well as doubts about whether the Association of Southeast Asian Nations (ASEAN) has the capacity to create independent strategic space as U.S.-China competition continues to grow. Southeast Asian participants noted that Beijing has successfully leveraged its signature Belt and Road Initiative (BRI) to expand its soft-power in the region, to the detriment of U.S. influence, while voicing concern that development aid and infrastructure finance are increasingly becoming a proxy for geopolitical competition — especially in mainland Southeast Asia, home to a plethora of separate initiatives with minimal coordination between them. In the governance domain, participants saw little evidence that China is actively promoting a new political model based on authoritarianism or state capitalism. Beijing is trying to undermine the appeal of the Western democratic model by highlighting its flaws, however, and may be encouraging authoritarianism through the power of example.

The trilateral dialogue also generated initial recommendations for cooperation among regional partners, or for action by the partners individually. For instance, participants said the United States should better define the end goal of U.S. Asia policy today: Is it to

reestablish preeminence, construct a new balance of power, preserve the rules-based order, or some combination of these elements? Strategic competition should be a means to an end, they noted, not an end in itself. In addition, the United States, Australia, Japan, and ASEAN should try to improve coordination of development assistance in mainland Southeast Asia, or the Lower Mekong subregion, exchanging information on their respective activities. They should also encourage China to multilateralize BRI on a project-by-project basis, mitigating strategic economic competition in the process. Meanwhile, the United States and other donors could expand assistance to ASEAN countries for negotiating and managing large infrastructure projects, from both Chinese lenders and private investors, to encourage transparency and reduce the corruption often associated with administering such endeavors.

With a second trilateral dialogue planned for late 2020, the report considers where substantive gaps remain among the issues covered at the trilateral and identifies topics that deserve deeper analysis going forward. Regarding middle-power agency, for example, future discussions could investigate whether this is indeed a "middle-power moment," when middle powers have a genuine opportunity to increase collaboration and influence as great-power rivalry heats up in the region. If so, how can middle powers actually exercise this influence and on what issues? In the economic realm, future discussions could further examine how the United States, Australia, and Japan can effectively implement an evolving trilateral infrastructure partnership in Southeast Asia, promoting high governance standards in the process. What type of projects should be pursued and where? Moreover, it would be instructive to investigate what such initiatives may imply for infrastructure cooperation with China. Do they foretell a

The region is...emerging as a hotbed of strategic competition between China and the United States.

new form of geopolitical competition and a more bifurcated region, or is there still room to engage China, multilateralize BRI, and reduce strategic economic rivalry over time?

Finally, as this report goes to press, the coronavirus disease 2019 (COVID-19) is

spreading throughout the world, including Southeast Asia. In addition to health and safety impacts, the region is expected to experience major economic and social dislocations depending in part on how other economic partners, including China and the United States, respond to and recover from the global pandemic. While the long-term effects are hard to gauge at this time, future discussions will need to consider how COVID-19 will affect political developments, socio-economic trends, U.S.-China relations, broader geopolitical shifts, and other critical issues addressed in this report.

INTRODUCTION

Southeast Asia figures prominently as a testing ground for China's development as a great power and as a gateway for its global expansion in the future. The region is also emerging as a hotbed of strategic competition between China and the United States. China is asserting its influence in Southeast Asia through economic statecraft and farreaching efforts to secure its sovereignty claims in the South China Sea. For its part, the Trump administration is promoting a Free and Open Indo-Pacific (FOIP) strategy that explicitly challenges China's expanding influence, warning other countries that Beijing is practicing "predatory economics" and advancing governance concepts associated with rising authoritarianism in the region.2 Meanwhile, the Association of Southeast Asian Nations (ASEAN) has developed its own "Outlook on the Indo-Pacific" based on inclusiveness and ASEAN centrality, while regional powers like Japan and Australia are increasing engagement with the region through trade, investment, and deepening political and security ties.

Much is at stake for U.S. foreign policy and American interests in the region. Southeast Asia includes two U.S. treaty allies in Thailand and the Philippines, important security partners like Singapore, and key emerging partners such as Vietnam and Indonesia. Taken together, the 10 ASEAN countries boast the third largest population in the world at 650 billion. In addition, ASEAN is the fifth largest economy in the world with a GDP of \$2.8 trillion, and the top destination for U.S. investment in the Indo-Pacific at \$329 billion (more than the United States has directed to China, Japan, South Korea, and India combined). Almost 42,000 U.S. companies export to ASEAN, supporting about 600,000 jobs in the United States.³

During 2019, rivalry between the United States and China intensified significantly in this dynamic region. Many Southeast Asians are apprehensive about China's strategic intentions in this context. At the same time, regional leaders are uncomfortable with the Indo-Pacific strategy of the Trump administration that has been perceived as presenting a choice between Washington and Beijing, even if that may not be the intent. Indonesian President Joko Widodo has called for a vision of the Indo-Pacific that includes China, declaring that ASEAN and China have no choice but to collaborate. For his part, Singapore Prime Minister Lee Hsien Loong has said proposals for "Indo-Pacific cooperation" are welcome if they are inclusive and deepen regional integration, but they should not undermine ASEAN arrangements or "create rival blocs, deepen fault lines or force countries to take sides."

With these developments in mind, Brookings has launched a new trilateral initiative with experts from Southeast Asia, Australia, and the United States to examine regional trends and assess the impact of China's rise. The inaugural dialogue took place in Singapore in late October 2019 in partnership with the S. Rajaratnam School of International Studies (RSIS) of Singapore and the Lowy Institute of Australia. Typically, such meetings have focused on security issues, but this initiative broadens the aperture to cover economic and governance trends as well. At the Singapore dialogue, for instance, panel discussions focused on "Strategic Landscape and Contending Visions for Southeast Asia," "Governance Trends in Southeast Asia," and "Economic Developments and Challenges," with the latter focusing especially on infrastructure. This report summarizes the paper presentations and related discussions that took place at the dialogue, including initial recommendations on possible areas of cooperation among regional partners.

STRATEGIC LANDSCAPE AND CONTENDING VISIONS FOR SOUTHEAST ASIA

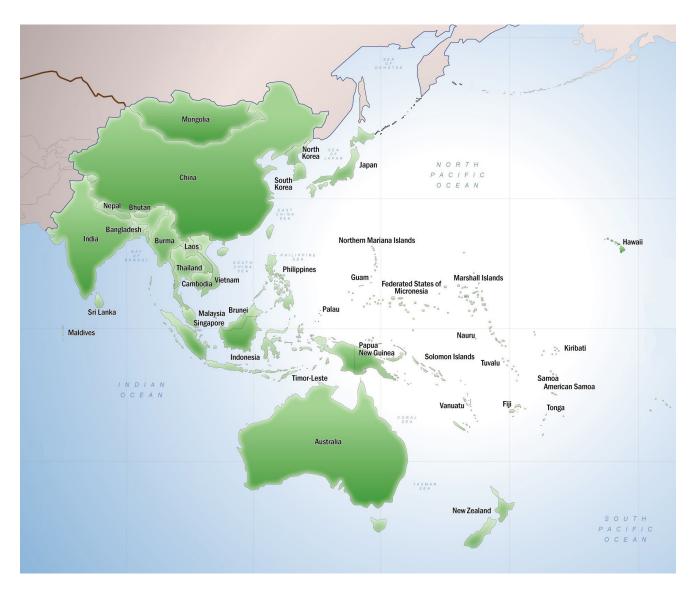
Setting the scene

This first session focused on growing great-power rivalry in the Indo-Pacific, as reflected in divergent strategic visions, and how the region is responding to these trends. Since 2013, for example, Beijing has been prioritizing a highly proactive form of "neighborhood diplomacy" with the aim of promoting a "community of common destiny" in China's neighborhood areas.⁵ Economic statecraft, or the use of economic tools to pursue

foreign policy goals, is fundamental to this evolving foreign policy doctrine. China is pursuing this statecraft through a host of new institutions and projects, especially the Belt and Road Initiative (BRI), an ambitious effort to strengthen infrastructure, trade, and investment links between China and other countries in the region and beyond. Prominent projects in Southeast Asia include hydropower dams, oil and gas pipelines, and extensive railway plans. China has also carried out aggressive moves to defend its expansive sovereignty claims in the South China Sea based on the "nine-dash line," its historical claim that encircles roughly 90% of the contested waters.

The Trump administration's FOIP strategy is a direct response to China's more assertive approach to the region, especially in the maritime domain. The substantive content of FOIP has emerged slowly since 2017 through an assortment of speeches, fact sheets, and op-eds written by administration officials.⁶ The strategy was codified more comprehensively at the Shangri-La Dialogue in June 2019, when the Pentagon released its Indo-Pacific Strategy Report focusing on preparedness, partnerships, and promoting a networked region. The report underscores Washington's commitment to a safe, secure, prosperous, and free region, and sets out four "common principles" that all countries in the region should uphold: 1) respect for sovereignty and independence of all nations; 2) peaceful resolution of disputes; 3) free, fair, and reciprocal trade based on open investment, transparent agreements, and connectivity; and 4) adherence to international rules and norms, including those of freedom of navigation and overflight.7 China is singled out for its aggressive and predatory behavior, particularly its militarization of the South China Sea. Beijing also uses economic leverage, influence operations, and "implied military threats to persuade other states to comply with its agenda," while seeking "regional hegemony" as a prelude to "global preeminence" over the long-term.8

As the Indo-Pacific concept has taken root, Southeast Asian countries have responded with efforts to develop a more-ASEAN centric approach. These efforts, led by Indonesia, came to fruition in June 2019 when ASEAN released its "ASEAN Outlook on the Indo-Pacific" (AOIP) at the 34th ASEAN Summit in Bangkok. Key themes reflected in the AOIP document are inclusiveness, economic development and connectivity, and "ASEAN Centrality," the notion that ASEAN provides the central platform within which regional institutions are anchored.9 To this end, the document called for an "inclusive regional architecture" while emphasizing that ASEAN-led mechanisms like the East Asia Summit (EAS) should serve as platforms for dialogue and implementation of Indo-Pacific cooperation. Analysis from regional policy experts reflect concerns that the U.S. Indo-Pacific strategy is not only anti-China, but is dismissive of ASEAN, despite regular statements from the Trump administration voicing support for ASEAN Centrality. These concerns have been exacerbated by the return of "the Quad" - the informal quadrilateral security dialogue comprised of Japan, Australia, India, and the United States - triggering worries about how ASEAN fits into broader Indo-Pacific arrangements.



Modified from "USINDOPACOM Area of Responsibility," USINDOPACOM, https://www.pacom.mil/About-USINDOPACOM/ USPACOM-Area-of-Responsibility/.

In Australia's assessment, meanwhile, China's rapid growth is accelerating shifts in the relative economic and strategic weight of different countries in the Indo-Pacific, according to the government's 2017 "Foreign Policy White Paper." In Southeast Asia, for instance, the white paper notes that "China's power and influence are growing to match, and in some cases exceed, that of the United States." As competition for influence sharpens in the region, Canberra is determined to remain a leading economic and strategic partner of ASEAN and its member states, with the goal of supporting "an increasingly prosperous, outwardly-focused, stable and resilient Southeast Asia."10 Prime Minister Scott Morrison has also affirmed that Australia's "vision of the Indo-Pacific has ASEAN at its core."11 Additionally, Australia has a substantial interest in the stability of the South China Sea and the norms and laws that govern this international waterway. Alongside these policies for Southeast Asia, Canberra is stepping up its engagement with the Pacific Islands and Timor-Leste. In this connection, it supports Timor-Leste's ambition to join ASEAN and achieve greater economic engagement with the region. 12

Paper presentations

During the trilateral dialogue, scholars from the United States, ASEAN, and Australia reflected on the above trends with special attention given to the policies and challenges of their own country or region. Each session began with a series of paper presentations.

In a paper on the Trump administration's FOIP strategy, Brookings scholar Lindsey Ford noted that the administration has actually sustained most of the traditional building blocks of U.S. Asia strategy - such as creating security through a network of regional allies and partners — promoting economic prosperity, and encouraging good governance and shared principles. Yet, these aspects of the FOIP narrative "have been over-shadowed, and at times undermined, by broader muscle movements in U.S. foreign policy, including the downward spiral in U.S.-China relations and the President's own erratic instincts on alliance policy and international trade." The administration's persistent use of punitive economic tools - notably investment restrictions, tariffs, and sanctions - have overwhelmed its narrative about free and open economic relations, Ford writes. In addition, while the administration's determination to push back more actively against China has become a rare point of bipartisan consensus in the U.S. Congress, it has also engendered regional perceptions that FOIP is more focused on containing China than on promoting stability and prosperity. As a result, close partners like South Korea and ASEAN "have been reluctant to fully endorse the U.S. FOIP concept or be seen as aligning too closely with FOIP-branded initiatives."

Writing from a Southeast Asian perspective, analyst and academic Richard Heydarian asserted that China's rise over the past decade has represented both a rapid shift in the regional balance of power and a direct assault on the legitimacy of the U.S.-led liberal international order. China is not only introducing ambitious multilateral economic initiatives like BRI, but is also expanding its military muscle through land reclamation and weaponization of artificial islands in the South China Sea. He describes the U.S. FOIP strategy as a combination of diplomatic pressure, economic cooperation, and deepening military countermeasures vis-à-vis China, carried out in tandem with likeminded powers that are likewise perturbed by Beijing's challenge to the existing order. As he notes, however, the Indo-Pacific and FOIP discourse is often viewed skeptically in Southeast Asia as a thinly-veiled containment strategy against China by Washington and the other members of the Quad.¹³ ASEAN categorically rejects any narrow definition of China as a hegemonic threat that has to be contained by a counter-coalition of powers, and instead sees Beijing as an "indispensable stakeholder" that should be engaged on an institutionalized, if not conciliatory, basis through ASEAN mechanisms.

In this evolving regional context, Heydarian views the AOIP as a defensive attempt at reasserting ASEAN centrality. But instead of just asserting centrality, ASEAN should also achieve and earn a pivotal role in shaping the emerging 21st-century order in the Indo-Pacific. The reality, he writes, is that ASEAN's refusal to choose on key geopolitical issues "represents a choice itself, potentially leading to its peripherality in regional affairs."

Finally, Herve Lemahieu of the Lowy Institute explored Australia's unique role as a middle power that bridges the Pacific, where it is the dominant resident power, and Southeast Asia, where it must work with and through equals. Far from being hapless victims, middle powers will become increasingly important in an age of great-power competition. When two superpowers are gridlocked, he writes, "the actions of the next rung of powers will constitute the marginal difference," and the fate of the regional order

(or disorder) will be determined by "the interests and choices of a 'long tail' of large and small powers in managing the ups and downs of U.S.-China competition." Furthermore, since neither the United States or China can dominate the other in the Indo-Pacific, middle powers like Australia have an opportunity to cooperate with Southeast Asian countries to build an inclusive alternative to both Sino-centric and U.S.-led versions of regional order. Australians share the greatest overlap of geographically derived interests with the more proximate middle powers of Southeast Asia, especially Indonesia, and the resilience and independence of Southeast Asia functions as the "protective membrane" for Australian security.

Lemahieu also calls on Canberra to facilitate and deepen cross-regional linkages between Southeast Asia and the Pacific, helping to diversify the international relations of Pacific Island nations and minimize the risk that they will become overly dependent on China. At the same time, Australia's "Pacific Step-Up" should not come at the cost of a "Southeast Asia step down"; Canberra should instead prioritize an "ambitious 'outer ring' of strategic interests rather than risk withdrawing into an inward looking and defensive 'inner ring' in the Pacific."

Discussion and recommendations

U.S. Asia policy: These presentations sparked a lively debate among dialogue participants about U.S. policy, middle-power agency, and ASEAN's capacity and role, among other topics. On U.S. Asia policy, ASEAN participants voiced concerns that it had become too narrowly focused on China, forcing Southeast Asian countries into a binary choice that they do not want to make. The Trump administration seems to be focusing exclusively on confronting China, participants said, whereas previous U.S. administrations had used a carrot-and-stick approach with Beijing that blended competition with cooperation. Participants also felt U.S. policy was too concentrated on defense and security, to the detriment of diplomacy and development, allowing China to fill the soft power vacuum and capture the narrative through BRI.

Binary choice and middle power agency: Related to this discussion, several participants said it is time for the region to move beyond a binary choice between the United States and China. At one level, this can be accomplished by disaggregating strategic competition issue-by-issue. Such an approach would allow for issue-based agency by individual countries in the region. Countries can maintain close security ties with the United States, for instance, while also having close economic ties with China. At another level is the broader question of middle-power agency, collective action, and the role and capacity of ASEAN. In other words, Southeast Asian countries can work with middle powers like Australia and Japan (admittedly a major power in economic terms) to expand middle-power agency and reduce the need for an all-or-nothing choice between China and the United States. Participants disagreed about the feasibility of facilitating such collective or multilateral action, with one calling it "middle-power romanticism," while others thought it may be realistic in discreet issue areas like choices over 5G technology.

ASEAN's role and capacity: Participants were also divided on whether ASEAN can itself function as a middle power or has the capacity to create independent strategic space in the region in the face of escalating U.S.-China rivalry. Some argued that ASEAN is currently confronting the gravest institutional crisis in its history. The association only experienced this level of great-power competition when it had five or six members during the Cold War, but not since it has expanded to 10.14 Not surprisingly, the current

geopolitical push and pull is exposing internal fissures in the larger grouping that are challenging the ASEAN's consensus model of decisionmaking. Other participants, however, felt that ASEAN does not need to take sides and can overcome the present challenges by asserting ASEAN centrality.

In addition to discussing these issues, the trilateral dialogue generated initial recommendations for possible cooperation among regional partners, or for the partners individually. These recommendations either appeared in the papers or came up in discussion, generally reflecting the perspectives of individual participants. They do not represent a consensus among the dialogue participants as a whole. Recommendations for this session included:

- Clarify U.S. policy goals: Southeast Asian participants said the United States should better define the end goal of U.S. Asia policy today: Is it to reestablish preeminence, construct a new balance of power, preserve the rules-based order, or some combination of these elements? Strategic competition should be a means to an end, they noted, not an end in itself. It was also proposed that all parties should begin conceptualizing what a multipolar world might look like in Asia, and what their respective roles would be within it.¹⁵
- Operationalize middle-power agency and regional cooperation: To advance middle-power agency, middle powers need to become more proactive in developing alternative approaches to addressing regional challenges, such as the provision of public goods like infrastructure finance. At the same time, regional partners such as Australia and the United States should focus trilateral coordination less on external security and more on helping ASEAN achieve its sustainable economic development goals. For this to occur, partners outside of Southeast Asia need clearer guidance from ASEAN countries about the type of public goods they are looking for and where they prefer to find them.
- Support digital connectivity: As an example, ASEAN has made it a priority to improve
 digital connectivity within Southeast Asia, and the United States and Australia are
 both participating in ASEAN's Smart Cities partnerships. As countries continue to
 debate international norms and standards in the cyber and digital domains, ASEAN,
 Australia, and the United States might consider launching a trilateral dialogue on
 digital governance.¹⁶
- Advance ASEAN centrality: ASEAN centrality cannot just be claimed; it has to be
 earned. To facilitate, ASEAN should conduct a formal dialogue to flesh out what
 this concept actually means in the current regional context and how to achieve it in
 practical terms. Alternatively, or perhaps in parallel, ASEAN countries could pursue
 minilateralism, whereby core, likeminded Southeast Asian countries adopt more
 expedient and robust responses to shared threats, including in cooperation with
 external powers.¹⁷
- Encourage ASEAN-Pacific Dialogue: ASEAN and the Pacific Islands Forum (PIF) should develop a formal Dialogue Partnership, institutionalizing cross-regional dialogue and cooperation between their international secretariats. A number of ASEAN member states are already Dialogue Partners to the PIF. Both organizations also have a Dialogue Partnership with the European Union, which is helping to build greater understanding of the potential for enhanced multilateral governance in their regions.¹⁸



Malaysia's Transport Minister Anthony Loke Siew Fook (3rd L) and China ambassador to Malaysia Bai Tian (3rd R), gesture during the relaunch of the East Coast Rail Link (ECRL) project in Dungun, Terengganu, Malaysia, July 25, 2019. REUTERS/Lim Huey Teng

ECONOMIC DEVELOPMENTS AND CHALLENGES

Setting the scene

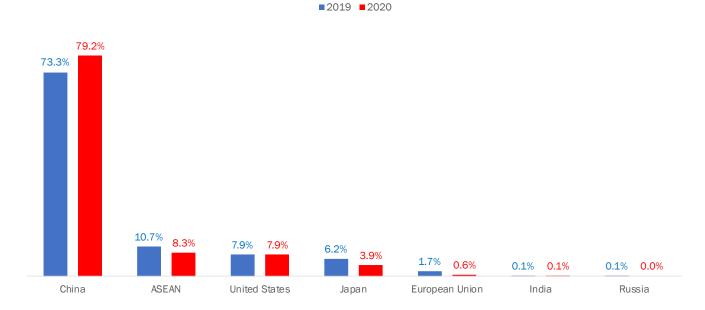
According to the Asian Development Bank (ADB), Southeast Asian economies will need \$210 billion per year in infrastructure investment from 2016 to 2030 just to keep up the momentum of economic growth. In this context, Japan and China are by far the largest bilateral infrastructure financiers in Southeast Asia. Data compiled by Lowy scholar Roland Rajah indicate that China's financial commitments for infrastructure projects totaled \$42 billion from 2008 to 2016, compared to \$37 billion for Japan. Meanwhile, current data from Fitch Solutions indicate that Japanese-backed projects in the region's six largest economies — Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam — are valued at \$367 billion, compared to China's tally of \$255 billion, although Fitch only counts pending projects, or those at the stages of planning a feasibility study, tender, and currently under construction.

Chinese economic activities are particularly conspicuous in mainland Southeast Asia, where Beijing has cultivated the Lancang-Mekong Cooperation (LMC) mechanism to coordinate BRI projects and advance its economic and political ambitions in this critical subregion on China's immediate periphery. Established in 2015 among the six countries that comprise the Greater Mekong subregion (Cambodia, China, Laos, Myanmar, Thailand, and Vietnam), the LMC promotes cooperation across a range of economic and cultural domains, but the driving force is infrastructure.²² Beijing has set aside over \$22 billion under the mechanism to support projects focusing on technological

connectivity and industrial development as well as trade, agriculture, and poverty alleviation. In Laos, for instance, Beijing is bankrolling the \$7 billion China-Laos railway project, extending almost 260 miles from the Chinese border to Vientiane, a project that amounts to almost half the country's gross domestic product (GDP).²³

China's rising economic influence has generated unease and pushback in Southeast Asia over contract terms, corruption, and possible debt traps. However, as reflected in Malaysia's successful renegotiation of the Chinese-financed East Coast Rail Link project in 2019, ASEAN countries appear to be getting smarter in the way they are managing BRI and negotiating with China.²⁴ Beijing is also showing a capacity to learn from its implementation mistakes, make adjustments, and preempt criticism from the region going forward. In sum, there appears to be a mutual learning dynamic at play that will make BRI more resilient and enduring in Southeast Asia over time.²⁵ Not surprisingly, Southeast Asian policy experts, businesspeople, and other stakeholders have an acute awareness and recognition of China's growing economic influence in the region, as reflected in Figure 1, even as they remain wary of its long-term strategic intentions.

FIGURE 1: IN YOUR VIEW, WHICH COUNTRY/REGIONAL ORGANIZATION HAS THE MOST INFLUENTIAL ECONOMIC POWER IN SOUTHEAST ASIA?



Source: The State of Southeast Asia: 2019 and 2020 Survey Reports (Singapore: ASEAN Studies Center, ISEAS-Yusof Ishak Institute, January 2019 and January 2020), http://www.iseas.edu.sg/images/pdf/TheStateofSEASurveyReport_2019. pdf and http://www.iseas.edu.sg/images/pdf/TheStateofSEASurveyReport_2020.pdf.

Finally, China's economic advance has encouraged other countries to reform and step up their own infrastructure plans for the region. The United States recently transformed the Overseas Private Investment Corporation (OPIC) into the new International Development Finance Agency (DFC), doubling OPIC's \$30 billion investment ceiling to \$60 billion, while Australia has revamped its export credit agency, now called Export Finance Australia, giving it more leeway to finance overseas infrastructure projects. In late 2018, Australia and the United States also joined Japan to form a Trilateral Partnership for Infrastructure Investment in the Indo-Pacific in order to promote sustainable infrastructure based on high standards — notably good governance, open procurement, debt sustainability, and environmental and social safeguards. Most recently, in November 2019, the three

countries launched the Blue Dot Network, a multi-stakeholder initiative designed to evaluate and certify nominated infrastructure projects based on high quality standards and principles.²⁶ Another key goal of these initiatives is to incentivize private-sector financing for infrastructure development throughout the region.

Paper presentations

In the first paper for this session, Brookings scholar David Dollar examined U.S. and Chinese infrastructure initiatives in Southeast Asia, seeking to combat common misconceptions and unsubstantiated rhetoric. Investing in infrastructure is a crucial aspect of a successful growth strategy, Dollar says, and traditionally ASEAN countries could rely on Western support through bilateral financing and multilateral development banks. However, Japan is now the only significant financier among Western donors. From 2015 to 2017, Japan committed \$13 billion to transport and energy infrastructure in ASEAN countries, whereas no other donor reached \$1 billion per year in these sectors.²⁷ Meanwhile, China is rapidly expanding its infrastructure financing under BRI through two policy banks, the China Development Bank and the Export-Import Bank of China, motivated by both economic and strategic considerations. Since China's money is mostly non-concessional, Beijing has been accused of "debt-trap diplomacy" - i.e., of saddling countries with higher-interest debt that they are unable to repay, giving China leverage over the borrowing country. However, looking at the data on external debt relative to gross national income (GNI) for ASEAN countries, Dollar finds that most are in very good shape as of 2018. The exceptions are Laos, with an external debt to GNI of 90%, and to a lesser extent Cambodia at 68%, but even Laos can avoid a debt crisis if it holds off on new projects while digesting the existing pipeline.

For Dollar, the most striking finding is the heterogeneity of country experiences under BRI. Projects are mostly in transport and power but are diverse, spanning international rail, urban transport, expressways, hydropower, carbon-based power, transmission lines, among others. Some recipient countries have authoritarian political systems, whereas others are more democratic.

Picking up on these themes, Roland Rajah examined the renewed interest of the United States and Australia in the sustainable infrastructure agenda in Southeast Asia, and in coordinating their expanded and revamped infrastructure efforts with Japan. According to Rajah, the current approach of these partners is unlikely to provide a credible response or alternative to China's Belt and Road Initiative. The emphasis on mobilizing more private capital for infrastructure development, for instance, simply cannot deliver the dividends needed to compete with the scale of BRI. Nor is an emphasis on high infrastructure standards likely to deter Southeast Asian governments from pursuing Chinese projects as long as China continues to be perceived as offering faster, less risk-averse, and more responsive support compared to alternatives available from traditional partners. Facing these challenges, says Rajah, the trilateral partners need to improve the competitiveness of their own infrastructure approaches to be more streamlined and fit-for-purpose. More ambition is needed as well. Contrary to the assumption that it is impossible to match China's financing scale, Rajah argues that the gap is actually not insurmountable and a moderate increase in official development assistance would be enough for the trilateral partners to keep pace.

Lastly, Khuong Minh Vu of the Lee Kuan Yew School of Public Policy assessed how ASEAN countries are navigating the recent turbulence caused by the U.S.-China trade war. While economic growth has been negatively affected by the trade war, the region as a whole has generally avoided a major shock or significant deteriorating trend. The trade conflict may harm ASEAN's economic prospects by creating global uncertainty and a slowdown in ASEAN's major export markets, but it could also stimulate the region's growth by motivating multinationals to shift production and investments to ASEAN countries to facilitate exports to the United States and reduce dependence on China's production capabilities. Vu argues that amid the global uncertainty caused by the trade war, the best strategy for ASEAN is to undertake more robust and fundamental reforms — such as stimulating structural change by shifting resources from lower to higher value-added activity, and supporting innovation and technology acquisition to improve efficiency and productivity. In the context of the U.S.-China trade war, Vu writes, ASEAN needs to act proactively, rather than just react to events, in order to be "prepared and competitive for the future development landscape."



"U.S., Australia, Japan Delegation Travels to Indonesia to Explore Investment Opportunities" (U.S. Embassy & Consulates in Indonesia, August 28, 2019), https://id.usembassy.gov/u-s-australia-japan-delegation-travels-to-indonesia-to-explore-investment-opportunities/.

Discussion and recommendations

Japan's role in the region: A key discussion theme in this session was Southeast Asia's high regard and appreciation for Japan's role in the region, especially in the infrastructure domain. In the words of one participant: "Japan asks little but provides a lot." It was also noted that Japan is well-resourced, flexible, inclusive, and is willing to cooperate with China. When Prime Minister Shinzo Abe visited China in October 2018, for instance, 52 memoranda of understanding (MOUs) were announced encouraging business cooperation in third-country markets in such fields as transportation, energy,

and health care. Although implementation remains a work in progress, the MOUs have signaled to ASEAN countries that Japan is willing to engage China, and that its Indo-Pacific strategy is qualitatively different from the U.S. version.²⁸ According to the abovenoted ISEAS survey, moreover, Japan is the most trusted major power in the region, with 61.2% of respondents indicating that they are confident or very confident that Japan will "do the right thing" to contribute to global peace, security, prosperity, and governance. Japan is the only major power to achieve an overall trust level above 50% in the 2020 survey, followed by the European Union (38%), the United States (30.3%), China (16.1%), and India (16%).

Debt traps: Dialogue participants agreed with paper presenters that the U.S. debt-trap narrative about China is overblown and is not contributing to constructive discussions or approaches to infrastructure development in Southeast Asia.

Politicization of aid and development: Participants expressed concern that development assistance is increasingly becoming a proxy for great-power competition in Southeast Asia. This requires recipient countries to factor in geopolitical considerations when deciding whether to accept or decline infrastructure financing, often causing them to hedge. The competition is most conspicuous and tangible in mainland Southeast Asia, or the Lower Mekong subregion, where China is promoting the LMC, the United States continues to support the Lower Mekong Initiative (LMI), and Washington and Tokyo recently launched the Japan-U.S. Mekong Power Partnership (JUMPP). The trilateral infrastructure partnership of Japan, Australia, and the United States also appears to be eyeing this area. One participant described the Mekong subregion as a "spaghetti bowl" of separate aid initiatives with little coordination between them. The participant encouraged the United States and Australia to design and support development projects that Mekong countries actually want, urging them to better align their projects with the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS), a homegrown initiative designed to promote sustainable development in the subregion.

Recommendations related to this session included:

- Improve coordination of development assistance in the Mekong: The United States, Australia, and ASEAN are all engaging in the Mekong through different dialogue mechanisms. They should explore opportunities to better align their approaches by exchanging information on their respective activities, sharing country-level needs assessments, and developing coordinated initiatives on water and resource management.²⁹
- Encourage the World Bank to focus more on infrastructure: The World Bank should focus more on infrastructure and reduce processing times for its loans, giving developing countries competitive alternatives. In addition, multilateral development banks should assist ASEAN governments to consider and manage BRI projects, using existing infrastructure advisory facilities to provide technical assistance.³⁰
- Multilateralize BRI: The United States, Japan, and regional countries should encourage China to multilateralize BRI on a project-by-project basis, mitigating strategic economic competition in the process. The economic slowdown in China, coupled with increased borrowing and heightened risk, could persuade Beijing to move in this direction.

• Strike a balance between high standards and efficiency in infrastructure financing: The current focus of the trilateral partners on "high standards" may prove ineffective in competing with China's BRI. Efforts to streamline processes and strike a better balance between managing risk and delivering results are needed. This could provide a useful agenda for the Blue Dot Network.³¹

GOVERNANCE TRENDS IN SOUTHEAST ASIA

Setting the scene

The conventional wisdom among Southeast Asia watchers is that democracy has been declining in the region for several years. Observers point to the military coup in Thailand in 2014, President Rodrigo Duterte's drug war and extrajudicial killings in the Philippines, Prime Minister Hun Sen's dissolution of opposition parties and muzzling of the media in Cambodia, and the rise of religious and political intolerance in Indonesia. Even the glow of Aung San Suu Kyi's historic electoral victory in Myanmar in 2015, ending decades of outright military rule, is fading as nearly 750,000 Rohingya Muslims have fled to Bangladesh to escape ethnic cleansing by the Myanmar military. This "democratic decline," or "regression to authoritarianism," is typically attributed to such chronic problems as political corruption, weak electoral systems, and high levels of inequality.³²



The evolving "pull of power" from Beijing and Washington may also be affecting political trends in individual Southeast Asian countries. Meanwhile, as discussed extensively at the trilateral dialogue, Southeast Asia is also witnessing a dramatic rise of Chinese power and influence throughout the region, as well as a significant escalation of U.S.-China rivalry. Analysis of this growing rivalry has focused largely on the

security realm and divergent efforts to define the broader regional order. However, the evolving "pull of power" from Beijing and Washington may also be affecting political trends in individual Southeast Asian countries as China exemplifies, and perhaps even propagates, a political model that could appeal to leaders seeking economic growth opportunities without commensurate political liberties or constraints on their power.³³ This session considered the potential impact of China's rise on governance trends in the region, as compared to internal drivers and historical factors inherent to the countries themselves.

Paper presentations

Lowy scholar Ben Bland set the stage for this session by investigating the intersection between contemporary governance challenges and longstanding historical tensions in Southeast Asia. While analysts and academics often ascribe the recent challenges to sweeping trends like the spread of divisive social media or the increasing appeal of China's authoritarian model, Bland argues that it is more instructive to see the problems in their own unique historical context. In particular, he argues that many of the major governance problems faced by countries in the region — including Indonesia, Malaysia, Myanmar, the Philippines, and Thailand — are "the result of long-running tensions, which in some cases date back to when these nations were forged from the embers of colonial empire." For example, Indonesia has developed remarkably

resilient, free and fair elections since the fall of Suharto in 1998, but according to Bland, it has failed to reform its political system to curb the dominance of Suhartoera elites. Indonesia is also still struggling to resolve the relationship between Islam and the state, a conundrum that dates back to its origins as an independent nation in 1945.

Philips Vermonte of the Centre for Strategic and International Studies (CSIS) Indonesia delved further into the Indonesian case by analyzing different trends and challenges that are affecting the process of democratic consolidation in the country. He notes that the April 2019 elections — which resulted in the reelection of President Joko Widodo for a second term — should have been a propitious sign since it was Indonesia's fourth direct presidential election and fifth parliamentary election since the country democratized in 1999. Yet, Vermonte points to recent political developments suggesting that Indonesia is far from a consolidated democracy today. These developments include the rise of identity politics, seen most vividly during the 2017 Jakarta gubernatorial election, when incumbent governor Basuki Tjahaya Purnama (Ahok), a non-Javanese Christian of Chinese descent, faced a debilitating smear campaign from conservative Muslim groups that invoked religious and racial sentiment. Counterbalancing this trend, however, is the rise of technocratic governors at the provincial level, suggesting that Indonesian voters are also looking for leaders focused on better governance and improved public service delivery.

Vermonte concluded on a pessimistic note, pointing out that successful economic growth in China and other non-Western economies has not been associated with democratic development and freedom. "What can spell trouble for developing countries like Indonesia," he writes, "is that China might inspire and even be used as a working model that a certain level of economic development is indeed possible without opting for democracy."

Finally, Thomas Pepinsky of Cornell University widened the aperture and provided a panoramic overview of governance trends in Southeast Asia, offering two main findings based on existing empirical data. First, he finds no evidence of region-wide democratic erosion in either the short or medium term. Cases of democratic regression like Thailand have been matched by cases of opening and liberalization in Myanmar and Timor-Leste, however halting and incomplete. Other regularly cited cases of democratic backsliding, such as Cambodia under Hun Sen or the Philippines under Rodrigo Duterte, are "simply the latest iterations of medium-term political processes specific to each country." Second, Pepinsky finds little correspondence between democratic practices and civil liberties, on the one hand, and effective and capable governance, on the other. In other words, Southeast Asia as a region "is characterized by a decoupling of governance and regime type." Governance indicators for Thailand have remained roughly constant, for instance, despite dramatic political change on multiple occasions.

With respect to China, Pepinsky recognizes that China's rise is an inescapable reality for politicians and mass publics alike in Southeast Asia, and notes that the decoupling of democracy and governance could provide an opening for the "Beijing model" to take root in the region. In his view, however, China's economic policies and diplomatic actions are not directly encouraging authoritarian capitalism or incentivizing countries to follow a particular national political or economic model. Instead, China's primary objective for Southeast Asian countries is to "establish and maintain regional dominance, which

is best accomplished by working with governments of any type within the region and pushing for issues in China's strategic interest (i.e., megaprojects, dams, South China Sea)."

Discussion and recommendations

During this session, participants engaged in a broad discussion of Chinese influence on governance trends as well as regional developments more broadly.

China model: Southeast Asian participants saw little evidence that China is actively promoting a new political model in the region based on authoritarianism or state capitalism, but they noted that China is trying to undermine the appeal of the Western democratic model by highlighting its flaws. In addition, although Beijing may have stepped up efforts to influence domestic outcomes or public opinion in Southeast Asia, this was being done to promote Chinese strategic interests in the region or to bolster the position of the Chinese Communist Party at home.

Indirect effects: Some participants discussed the possible *indirect* effects of China's growing influence on governance trends in the region. In other words, even if China is not proactively promoting an authoritarian model of development, it might still be reinforcing authoritarian tendencies or inhibiting democratic consolidation in some countries through the export of surveillance technologies, expansion of its state media footprint, or provision of financial support through development aid, infrastructure investments, and other modalities.

Socializing with Southeast Asia: Finally, participants said China is "socializing" with ASEAN countries to an increasing degree, sending a continuous flow of missions and groups to the region in recent years. The Chinese "are in listening mode compared to five years ago," said one participant, even contracting local think tanks to conduct studies on BRI implementation experiences, warts and all.

Recommendations related to this session included:

- Take the long view: The current governance challenges make it hard for Australia, the United States, and other Western governments to deepen engagement with ASEAN countries, especially as China expands its influence in the region. Still, Western governments should not succumb to resignation in the face of seemingly intractable problems; rather, they should endeavor to better understand the historical roots of Southeast Asia's contemporary governance issues, craft their assistance accordingly, and commit for the long term.³⁴
- Approach governance reform and democracy promotion separately: Instead of trying to re-couple democracy and accountability within Southeast Asia, based on the hypothesis that one will produce the other, it is important acknowledge their decoupling and treat each as a separate issue worth pursuing in its own right. Donors looking to promote accountability, for instance, can look for areas of agreement with local counterparts, such as transparent frameworks, dispute-resolution procedures, and data transparency. In terms of democracy, it is important to recognize that Southeast Asians desire democratic rights for the same reasons as others around the world: because these rights provide voice and allow citizens to advocate for their own civil liberties.³⁵

Promote transparency in infrastructure investments: In connection with the
economic discussion above, the United States and other donors should continue
to offer assistance to select ASEAN countries in negotiating and managing
large infrastructure projects, from both Chinese lenders and private investors,
to encourage transparency and reduce the corruption often associated with
administering such projects.

CONCLUSION

The foregoing discussion, reflecting the papers and interventions at the trilateral dialogue, offer a rich and comprehensive analysis of key challenges facing Southeast Asia amid escalating U.S.-China rivalry. With a second trilateral dialogue planned for late 2020, however, it is also useful to consider where substantive gaps remain among the issues covered at the trilateral, and to identify topics that deserve additional attention and deeper analysis going forward.

For instance, future discussions could investigate whether this is indeed a "middle-power moment," when middle powers have a genuine opportunity to increase collaboration and influence as great power rivalry heats up in the region. If so, how can middle powers actually exercise this influence and on what issues? Will ASEAN play a central role, or could we see the emergence of minilateral initiatives involving select ASEAN countries? In the economic realm, moreover, future discussions could further examine how the United States, Australia, and Japan can carry out their trilateral infrastructure partnership in Southeast Asia, effectively implementing the Blue Dot Network and promoting high governance standards. What type of projects should be pursued and where? Lastly, it would be instructive to investigate what this and other similar initiatives may imply for infrastructure cooperation with China. Do they foretell a new form of geopolitical competition and a more bifurcated region, or is there still room to engage China, multilateralize BRI, and reduce strategic economic rivalry over time?

When considering these issues and challenges, one geographic area appears to be particularly critical as a test case and harbinger of things to come: namely mainland Southeast Asia, where Chinese economic influence has grown so extensively in recent years. Future discussions could look more closely at this critical subregion, examining how the current plethora of competing aid and infrastructure initiatives can be better coordinated — including how the trilateral partners of Australia, Japan, and the United States could support and better synchronize with homegrown platforms like ACMECS.

Finally, as this report goes to press, the coronavirus disease 2019, or COVID-19, is spreading throughout the world after first appearing in Wuhan, China in November 2019. The virus is also affecting Southeast Asian countries, especially Malaysia and Indonesia, which are reporting the largest number of cases and deaths to date, respectively. In addition to health and safety impacts, the region is expected to experience major economic dislocations owing to reduced tourist flows from China, diminishing Chinese demand for exports, and the disruption of BRI projects as Chinese workers are barred from travel to project sites.³⁷ These trends could change, however, if the Chinese economy recovers and the U.S. economy tips into recession, or worse, as COVID-19 spreads across the U.S. population, shuttering the U.S. economy and hammering U.S. trade with the region and the world. While the long-term effects are hard to gauge at this time, future discussions will need to consider how COVID-19 will affect political developments, socio-economic trends, U.S.-China relations, broader geopolitical shifts, and other critical issues addressed in this report.

APPENDIX I: TRILATERAL DIALOGUE PARTICIPANTS AND OBSERVERS

Center for East Asia Policy Studies, The Brookings Institution

Delegation from The Brookings Institution/the United States

David Dollar*

Senior Fellow The Brookings Institution

Lindsey Ford*

David M. Rubenstein Fellow The Brookings Institution

Bruce Jones

Vice President and Director of the Foreign Policy Program
The Brookings Institution

Thomas Parks

Country Representative for Thailand *The Asia Foundation*

Thomas Pepinsky*

Professor of Government Cornell University

Mireya Solís

Senior Fellow and Director of the Center for East Asia Policy Studies The Brookings Institution

Jonathan Stromseth

Senior Fellow and Lee Kuan Yew Chair in Southeast Asian Studies The Brookings Institution

Delegation from the Lowy Institute/Australia

Ben Bland*

Director of the Southeast Asia Project Lowy Institute

Malcom Cook

Senior Fellow Institute of Southeast Asian Studies

Huong Le Thu

Senior Analyst of the Defence and Strategy Program Australian Strategic Policy Institute

John Lee

Senior Fellow at the United States Studies Centre University of Sydney

Herve Lemahieu*

Director of the Asian Power and Diplomacy Program Lowy Institute

Richard McGregor

Senior Fellow Lowy Institute

Roland Rajah*

Director of the International Economy Program Lowy Institute

Greg Raymond

Research Fellow Australian National University

Eve Warburton

Postdoctoral Fellow National University of Singapore

Delegation from RSIS/ASEAN

Mely Caballero-Anthony

Head of the Centre for Non-Traditional Security Studies S. Rajaratnam School of International Studies

Termsak Chalermpalanupap

Lead Researcher at the ASEAN Studies Centre Institute of Southeast Asian Studies

Richard Heydarian*

Research Fellow National Chengchi University

Collin Koh Swee Lean

Research Fellow at the Institute of Defense and Strategic Studies S. Rajaratnam School of International Studies

Joseph Liow

Research Adviser and Tan Kah Kee Chairin Comparative and International Politics S. Rajaratnam School of International Studies

Nguyen Hung Son

Bien Dong Institute for Maritime Studies Diplomatic Academy of Vietnam

Karen Pitakdumrongkit

Deputy Head of the Center for Multilateralism Studies S. Rajaratnam School of International Studies

Charlotte Setijadi

Assistant Professor of Humanities Singapore Management University

Philips Vermonte*

Executive Director Center for Strategic and International Studies / Jakarta

Khuong Minh Vu*

Associate Professor Lee Kuan Yew School of Public Policy

^{*} Denotes participants who authored a paper

Charmaine Willoughby

Associate Professor in the Department of International Studies De La Salle University

Additional Singapore-based attendees

William Choong

Shangri-La Dialogue Senior Fellow for Asia-Pacific Security International Institute for Strategic Studies - Asia

H.E. Barry Desker

Distinguished Fellow and Former Ambassador S. Rajaratnam School of International Studies

Ralf Emmers

Dean and President's Chair in International Relations S. Rajaratnam School of International Studies

Nicolas Fang

Director of Security and Global Affairs Singapore Institute of International Affairs

Khuong Yuen Foong

Vice Dean and Li Ka Shing Professor in Political Science Lee Kuan Yew School of Public Policy

Ziad Haider

Senior Associate and Simon Chair in Political Economy Center for Strategic and International Studies

Selina Ho

Assistant Professor and Program Chair Lee Kuan Yew School of Public Policy

C Raja Mohan

Director of the Institute of Southeast Asian Studies National University of Singapore

Daljit Singh

Senior Fellow and Coordinator in the Regional Strategic and Political Science Programme Institute of Southeast Asian Studies

Sarah Teo

Associate Research Fellow in the Regional Security Architecture Programme S. Rajaratnam School of International Studies

Yeo Lay Hwee

Adjunct Fellow
Nanyang Technical University

Observers: ASEAN

Liew Chin Tong (keynote) Deputy Minister of Defence of Malaysia

Adrian Ang (rapporteur)
Research Fellow in the U.S. Programme
S. Rajaratnam School of
International Studies

Amanda Trea Phua (rapporteur) Senior Analyst in the U.S. Programme S. Rajaratnam School of International Studies

Observers: Australia

Sophia McIntyre

Assistant Secretary of the Southeast Asia Regional Engagement Branch Southeast Asia Division, Department of Foreign Affairs and Trade. Australia

Kate Duff

Deputy High Commissioner Australian High Commission, Singapore

Nicholas Kay

First Secretary Australian High Commission, Singapore

Observers: Japan

Kaori Hayashi

Senior Representative in Singapore Japan Bank for International Cooperation

Takashi Komori

Advisor to the Office for Peace Building and Reconstruction Infrastructure and Peacebuilding Department, Japan International Cooperation Agency

Denotes participants who authored a paper

APPENDIX II: CHRONOLOGY OF THE REGION

October 2018 - February 2020

October 5, 2018

The Better Utilization of Investment Leading to Development (BUILD) Act was passed by the U.S. Senate and House of Representatives. It established a new U.S. development agency: the U.S. International Development Finance Corporation (USIDFC). It also doubled the U.S. Overseas Private Investment Corporation's (OPIC) development funding cap to \$60 billion worldwide.

November 8, 2018

Australian Prime Minister Scott Morrison delivered his "Australia and the Pacific: A New Chapter" address at the Lavarack Barracks in Townsville, Queensland. The speech highlighted the progress and future endeavors for Australia's national security plans, including its Pacific Step-Up policy, which identifies the Pacific Islands as a major foreign policy priority for Australia.

November 12, 2018

The U.S. OPIC, Australia's Department of Foreign Affairs and Trade (DFAT) and Export Finance and Insurance Corporation (EFIC), and the Japan Bank for International Cooperation (JBIC) signed an MOU to launch the Trilateral Partnership for Infrastructure Investment in the Indo-Pacific.

November 11-15, 2018

The 33rd ASEAN Summit was held in Singapore. On the sidelines at the 21st China-ASEAN Summit, the two parties agreed to finalize negotiations on the Code of Conduct for the South China Sea by 2022. They also agreed on an "ASEAN-China Strategic Partnership Vision 2030."

November 14-15, 2018

The 13th East Asia Summit was held in Singapore. On the sidelines, assistant secretary level officials of the Quad met for the third time.

November 16, 2018

U.S. Vice President Mike Pence made a speech at the Asia-Pacific Economic Cooperation (APEC) Summit in Port Moresby, Papua New Guinea, where he further expressed the U.S. government's resolve to address the U.S.-China trade imbalance and the security challenges China poses in the Indo-Pacific.

December 31, 2018

President Donald Trump signed the Asia Reassurance Initiative Act (ARIA) into law, which seeks to further develop U.S. policy to address challenges in the Indo-Pacific. ARIA articulates a broader vision of the U.S. commitment to its partners and allies in the Indo-Pacific, including defending security interests, economic interests, and values.

February 27-28, 2019

Leader Kim Jong Un of North Korea and U.S. President Donald Trump conducted their second meeting, this time in Hanoi, Vietnam.

March 24, 2019

General elections were held in Thailand, resulting in a win for the Palang Pracharat Party's coalition, which gained a majority in its Parliament. Thailand's Parliament subsequently reelected the coalition's candidate Prayuth Chan-o-cha as prime minister.

May 13, 2019

Midterm elections were held in the Philippines, resulting in President Rodrigo Duterte's allies maintaining their hold on the majority in Congress and their takeover of the majority in the Senate. No opposition politicians won a seat in the Senate.

April 17, 2019

General elections were held in Indonesia, resulting in a re-election win for President Joko Widodo (known as Jokowi). In the legislative elections, Jokowi's Indonesian Democratic Party of Struggle (PDI-P) won the most seats, followed by Prabowo Subianto's Gerindra, then Golkar, the National Awakening Party, the Nasdem Party, and the Prosperous Justice Party.

April 25-27, 2019

The Second Belt and Road Forum was held in Beijing, China, where President Xi Jinping announced \$64 billion in new deals.

May 31-June 2, 2019

The 18th Asia Security Summit: IISS Shangri-La Dialogue was held in Singapore, where Prime Minister Lee Hsien Loong urged the United States and China to resolve their trade and security issues in his opening remarks.

On June 1, then-Acting Secretary of Defense Patrick Shanahan released the U.S. Department of Defense comprehensive "Indo-Pacific Strategy Report."

June 8-9, 2019

The G-20 meeting of finance ministers and central bank governors was held in Fukuoka, Japan, where its participants endorsed the new "G20 Principles for Quality Infrastructure Investment," which strives to improve debt sustainability for countries seeking development.

June 26, 2019

Australia Prime Minister Scott Morrison delivered his "Where We Live" foreign policy speech at Asialink, an Australian think tank, in the leadup to the G-20 Summit. Prime Minister Morrison's speech reiterated the Australian government's commitment to maintaining regional stability and prosperity in the Indo-Pacific.

June 28-29, 2019

The G-20 Summit was held in Osaka, Japan, where leaders discussed trade, climate change, and other matters.

On the sidelines, President Donald Trump and Prime Ministers Shinzo Abe and Narendra Modi met for the 2nd Japan-American-India Trilateral Dialogue to discuss improved connectivity and infrastructure development in the Indo-Pacific.

June 20-23, 2019

The 34th ASEAN Summit was held in Bangkok, Thailand, where ASEAN released its "ASEAN Outlook on the Indo-Pacific," which stressed the importance of ASEAN centrality and also called for ASEAN-led mechanisms like the East Asia Summit to serve as platforms for discussions on Indo-Pacific cooperation.

August 1, 2019

At the 10th annual Lower Mekong Initiative Ministerial meeting in Bangkok, Thailand, U.S. Secretary of State Mike Pompeo announced the launch of the Japan-U.S. Mekong Power Partnership (JUMPP), which aims to develop the Lower Mekong's regional electricity grids with the U.S. initial commitment of \$29.5 million under Asia EDGE, along with a commitment to countering transnational crime and trafficking with the U.S. initial commitment of \$14 million.

September 26, 2019

The foreign ministers of the Quad met for the first time on the sidelines of the 74th U.N. General Assembly.

October 31-November 4, 2019

The 35th ASEAN Summit was held in Bangkok, Thailand, where U.S. National Security Advisor Robert O'Brien delivered President Donald Trump's invitation to the ASEAN leaders for a special summit in the U.S. in the first quarter of 2020.

November 4, 2019

The 2019 Indo-Pacific Business Forum was held in Bangkok, Thailand, where the United States, Australia, and Japan announced the establishment of a trilateral development initiative, "The Blue Dot Network." The three partners seek to support development opportunities in the region, as well as promote global trust standards and responsible development.

The U.S. Department of State also released its "A Free and Open Indo-Pacific" report at this forum, summarizing the implementation of two years of U.S. diplomatic, economic, governance, and security initiatives in the Indo-Pacific region.

November 4, 2019

The 14th East Asia Summit was held in Bangkok, Thailand. On the sidelines of the East Asia Summit, senior officials from the foreign ministries of Australia, India, Japan, and the United States met to further discuss collaboration through the Quad in counterterrorism, cyber issues, development finance, maritime security, humanitarian assistance, and disaster response.

November 4, 2019

The 3rd Regional Comprehensive Economic Partnership (RCEP) Summit was held in Bangkok, Thailand, where it was declared that 15 of the original 16 members had concluded the text-based negotiations on an RCEP free-trade pact. India decided not to join RCEP at this time due to protectionist concerns. Officials are aiming to sign the pact sometime in 2020.

January 17, 2020

The ASEAN Foreign Ministers' Retreat was held in Hanoi, Vietnam, where the

ASEAN Foreign Ministers discussed President Donald Trump's invitation for a special U.S.-ASEAN summit in Las Vegas on March 14. All 10 members of ASEAN agreed to participate in the summit, though Philippine President Rodrigo Duterte and Malaysia Prime Minister Mahathir Mohamed stated that they would send representatives in their stead.

February 28, 2020

The Trump administration announced that the special U.S.-ASEAN summit in Las Vegas was postponed due to growing concerns regarding the spread of COVID-19.

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ABOUT THE AUTHOR

Jonathan Stromseth is a senior fellow at Brookings, where he holds the Lee Kuan Yew Chair in Southeast Asian Studies in the Center for East Asia Policy Studies. He also holds a joint appointment with the Brookings John L. Thornton China Center.

Stromseth has broad experience as a policymaker, scholar, and development practitioner. From 2014 to 2017, he served on the secretary of state's policy planning staff, advising the State Department's leadership on China, Southeast Asia, and East Asian and Pacific affairs. Previously, he was The Asia Foundation's country representative to China (2006-2014) and to Vietnam (2000-2005), and is a three-time recipient of the Foundation's President's Award for extraordinary program leadership. He has also conducted research as a Fulbright Scholar in Singapore, worked for the United Nations peacekeeping operation in Cambodia, and taught Southeast Asian politics at Columbia University. In the scholarly domain, he is co-author of China's Governance Puzzle: Enabling Transparency and Participation in a Single-Party State (Cambridge University Press, 2017). Other publications include a multi-volume series on U.S.-Vietnam relations as well as articles on policymaking in Vietnam, geopolitical trends in Southeast Asia, Chinese foreign policy, and foreign aid cooperation in Asia.

He holds a B.A. from St. Olaf College and an M.I.A. (Master of International Affairs), M.Phil. and Ph.D. from Columbia, where his studies focused on comparative politics and international relations in the Asia-Pacific region. He is a member of the Council on Foreign Relations.

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