



AVERTING DISENGAGEMENT

A Geoeconomic Strategy for the Trump Administration

in Southeast Asia

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About the Derwin Pereira Series

This policy brief is part of the Derwin Pereira Southeast Asia Foreign Policy Series, which convenes a bipartisan group of current and former senior government and regional specialists. Each policy brief in the series will focus on the diplomatic, economic, and security dimension of Southeast Asia policy facing the next administration. This project was made possible due to the generous support of Derwin Pereira.

About the Asia-Pacific Security Program

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

Introduction

It will take months for the new U.S. administration to craft a coherent strategy for the Asia-Pacific region. But the United States can take numerous steps to avert disengagement from the region, especially from Southeast Asia. This paper calls for initiating an internal interagency policy review to create a multi-faceted geoeconomic strategy to complement ongoing efforts to create a stronger network of security partners for countering maritime instability, terrorism, and other threats.

Despite populist campaign rhetoric that included occasional allusions to a trade war or a reevaluation of the “One China” policy, the Trump administration’s emerging Asia policy appears to be following a more conventional course of careful, measured engagement.¹ This may not yet be reflected in regional perceptions, but the idea that America’s embrace of economic nationalism will not alter the fundamental commitment to regional security or stable relations with China are reflected in early assurances to allies and the reaffirming of longstanding cross-Strait policy.² Provided the Trump administration stays actively engaged, brings real investments and capabilities to the region, and produces results, the fear of an uncertain, unpredictable America may gradually disappear.

Filling the economic policy and rule-making vacuum left by withdrawing from the Trans-Pacific Partnership (TPP) would go a long way toward reassuring the region while finding new ways to advance the American interest.

Clearly the situation in Asia remains dynamic, and U.S. inaction is a policy by subtraction. But the United States needs to do more than block negative security and trade trends and have a positive and proactive set of initiatives to focus on and work in tandem with allies and partners in the region.

While some scholars can identify myriad impediments to Asia’s continued growth, the reality is the region remains rich with opportunity. Analysts who only look at Asia’s problems fail to account for the region’s long-term strengths and the rest of the world’s

considerable weaknesses.³ Growing economies, maturing institutions, and demographic dynamics have shifted the geopolitical calculus, nowhere more prominently than Southeast Asia. The 2017 World Economic Forum in Davos, Switzerland, highlighted the Association of Southeast Asian Nations (ASEAN), which has “630 million people, most of them still very young, with forces of industrialization, urbanization, and accelerating technology adoption and improving education.”⁴ Further, important elections loom in Cambodia, Indonesia, Malaysia, and Thailand.

Fortunately, significant engagement opportunities abound in 2017 with emerging U.S. partner Vietnam set to host the Asia-Pacific Economic Cooperation (APEC) summit meeting and U.S. ally the Philippines in the rotating leadership chair during the milestone 50th anniversary of ASEAN’s founding. President Donald Trump needs to attend both forums in November, but he must also be equipped with initiatives that combine his priorities with the region’s opportunities.

Yet despite these opportune events—well-timed because they fall toward the end of the first year of a new administration still in the early stages of coming together—Southeast Asia continues to be largely overlooked by the United States. China has quickly begun leveraging its relatively favorable position in the vacuum left by the Trump administration’s decision to withdraw from the TPP.⁵ However, there remains overwhelming economic opportunity and considerable political will in Asia to engage the United States.⁶ After all, virtually every country wants an alternative to excessive dependence on China, and the United States must also find a new equilibrium in bilateral relations with China. The Trump administration must navigate the risks and opportunities to develop and initiate a new geoeconomic strategy in Southeast Asia.⁷

This policy brief will use geoeconomics—the utilization of economic means for geopolitical ends—to chart the path forward not only for the Trump administration, but also for the long-term interests of the United States. This brief will conclude with policy recommendations for the administration to maintain and grow American power and prosperity in the region.

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Out with the Old: Critically Evaluating the Trans-Pacific Partnership

At its core, the TPP was a geoeconomic agreement. It aspired to create a tighter and more efficient economic network while also establishing a new set of global norms to govern the future of international trade. The United States already had free trade agreements (FTAs) with six of the 11 other TPP stakeholders. For the United States, the TPP promised to invigorate well-established trade relations with countries such as Australia, Japan, New Zealand, and Singapore, while offering up de facto FTAs with new partners like Malaysia and Vietnam. The TPP also protected key U.S. industries, such as those related to the digital economy and agriculture.

Geopolitically, the TPP smoothed out the supply chains in the Pacific with clarifications on rules of origin and stronger dispute settlement mechanisms to prevent major conflicts stemming from economic disagreements among the participating nations.⁸ Moreover, the creation of a strong economic block in the Pacific accountable to a single set of rules would force nonmember states like China to adopt the same rules to remain competitive.

However, the TPP also had many flaws that helped hasten its demise. Some objections to the TPP were procedural: Many Americans opposed the secrecy of the TPP negotiation process, which was reflected in both 2016 presidential candidates opposing the TPP.⁹ The more important objections, however, were substantial.

First, the TPP divided ASEAN. Only three of the ten ASEAN countries were included in the agreement. The economic and political efficacy of an agreement in Southeast Asia that excluded Indonesia and Thailand was questionable at best. Second, the TPP did not include any chapters on economic warfare. For the TPP to be geoeconomically effective, it must include aspects like sanctions coordination and collective protections against currency manipulation.¹⁰

The requiem for the TPP as negotiated should be short and measured.¹¹ Although the agreement did not ultimately take root, it still provides a fertile starting point from which to plant a smarter and more comprehensive geoeconomic agenda for Southeast Asia—one that can address the domestic imperative of creating economic opportunity in the United States. Some form of an improved TPP may well be put back together over time, but paths to get there will be different for the United States and other countries.

For instance, Japan could move forward with other TPP members, while the United States could seek new bilateral accords and attempts to review the trilateral North American Free Trade Agreement (NAFTA). Forward-looking rules in realms such as the digital economy might be cherry-picked from the TPP and introduced into NAFTA and some bilateral accords.



Although the Trump administration has decided not to pursue the TPP, it would be wise for the United States to build on the foundation of the TPP and formulate a geoeconomic agreement. (Government of Chile)

Defining “America First”: Priorities of the Trump Administration

In stark contrast to former President Barack Obama’s rules-based foreign policy, the rhetoric for which emphasized alliances, global development, and human rights, the Trump administration has prioritized protecting American interests and national security by way of a “peace through strength” policy.¹² According to the White House website, the Trump administration has explicitly listed the following foreign policy objectives in this order:

1. Defeat ISIS and other Islamic terror groups
2. Rebuild the American military
3. Embrace diplomacy to make friends and allies¹³

For international economic policy, the Trump administration’s priority is to pursue tough and fair agreements to “grow [the U.S.] economy, return millions of jobs to America’s shores, and revitalize our nation’s suffering communities.”¹⁴ In addition to withdrawing from the TPP, the international economic objectives of the Trump administration are to ensure any new deals are in the interests of American workers, and to crack down on countries that violate trade agreements.¹⁵ But early in the Trump administration, it is far from certain how much confrontation and competition will be part of an “America first” economic policy, and how different parts of the administration will reconcile competing objectives, including those of a new National Trade Council and a more protectionist Department of Commerce.¹⁶

Further encumbering these broad policy goals, the 2016 election emphasized concerns including health care, taxes, and specific international targets such as terrorism and China. Therefore, Southeast Asia will not be the highest regional priority for the administration. However, the United States needs to think beyond reactive crisis management and more about positive opportunities, both the easy wins and long-term investments.

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Pivotal Adjustments: What Winning Looks Like in Southeast Asia

The Obama administration’s wholesale “Pivot to Asia” arguably lacked nuance for the differing situational dynamics and U.S. priorities in different parts of Asia, especially those in Northeast and Southeast Asia.

The threats in Northeast Asia remain largely consistent: North Korea continues its nuclear and missile developments, China remains a growing strategic competitor, and South Korea and Japan are still critical allies to the United States. This has merited the repeated use of a limited number of policy tools: international sanctions and opprobrium for North Korea, measured competitive-cooperative engagement with China, and consistent statements of solidarity and military support for Seoul and Tokyo. Although Northeast Asia may steal much of the international spotlight, U.S. policy in Northeast Asia only pivoted at the margins.

Southeast Asia, on the other hand, has seen dramatic turns. Apart from the legal and political standoff in the South China Sea, the Obama administration signed the Treaty of Amity and Cooperation and joined the East Asia Summit process, built on the George W. Bush administration’s support for the TPP, lifted an arms sale embargo on Vietnam, posted its first ambassador to Myanmar, and even fell out of favor with a traditional ally in the Philippines. The same logic that applied to the Obama administration—namely, that Southeast Asia provided the greatest opportunity for effective U.S. engagement—also applies to President Trump and his Asia policy team. The challenges and opportunities in Southeast Asia are dynamic and ripe for a Trump administration seeking easy wins that put America’s economic interests first.

Desired Outcomes

Thus far, the Trump administration has emphasized the need to show results. Initiating the repeal of the Affordable Care Act, commencing new construction on a southern border wall, and the intention of more severe vetting of travelers from Middle East hot spots are all seen as fulfilling important campaign promises. The Trump administration is likely to similarly emphasize outcome-based policies based on prosperity and security in crafting a Southeast Asia policy.

PROSPERITY: ECONOMIC DEALS THAT OPEN MARKETS

President Trump won the presidential election in part because of his promise to bring back U.S. manufacturing jobs. But surely the administration will want to

restore not just parts of the traditional manufacturing and commodities industries like steel and minerals, but also pillars of the 21st century economy. Therefore, the Trump administration is likely to look at trade deals that lower barriers for U.S. goods to enter Southeast Asia and make it easier for foreign firms to invest and do business in the United States. The discourse of tariffs and barriers coming from the White House is likely to be one of many tools to help achieve more positive objectives, namely the Trump administration's quest to negotiate better trade deals to lower the barriers for U.S. exports.

SECURITY: STRATEGIC HEDGING AGAINST CHINA

President Trump has shown a proclivity to pursue a more competitive relationship with China than his predecessors. With advisors like U.S. Trade Representative Robert Lighthizer, Commerce Secretary Wilbur Ross, and Peter Navarro as Assistant to the President and Director of Trade and Industrial Policy, the Trump administration will be looking for better trade and business deals for the United States. Coupled with a national security team interested in countering China's assertiveness in the South China Sea and elsewhere, U.S. policy is likely to try to strengthen its military presence in Southeast Asia. Southeast Asian countries may soon find a more ready and willing partner for military drills and maritime patrols in the region, as well as fewer strings attached to military and security assistance packages.

Assessing Threats

Navigating these outcomes, however, also will require simultaneously planning for the possible threats to U.S. interests in Southeast Asia.

SOCIAL TENSIONS: A POLITICAL AND ECONOMIC RISK

Social tensions are coming to the fore in many Southeast Asian countries. These ethnic and religious tensions increase the risks for U.S. investments in Southeast Asia by destabilizing the market and hampering economic growth. As China found out through stalled investments in Libya and Sri Lanka, social tensions can cut into a country's bottom line.¹⁷ Religious tensions in ASEAN states like Indonesia, Myanmar, and the Philippines also invite greater proliferation of transnational crime and terrorism.¹⁸ Further, the growing income inequality in Southeast Asia will hamper its middle-class market and brings into question the sustainability of Southeast Asian economies.¹⁹ While these general concerns are not new, the particular economic and political risk outlook must be properly assessed and understood to ensure sustainable engagement in Southeast Asia.

ASSERTIVE CHINA: A GROWING ALTERNATIVE TO THE UNITED STATES

Growing Chinese assertion has been well documented. Even by early 2012, Patrick Cronin and Robert Kaplan warned about China's resurgent claims in the South China Sea, writing: "In the not-too-distant future, China's reemergence and its concomitant ability not only to press these claims but back them with military capabilities may call into question the credibility of American military might and decades of U.S. regional predominance: predominance that has kept regional disputes from escalating into warfare."²⁰ By 2014, Michael J. Green and Zack Cooper pinpointed that "China has increased its mercantile and paramilitary pressure on Japan, Vietnam, and the Philippines in pursuit of its territorial claims."²¹

For the United States specifically, China poses two distinct threats in Southeast Asia.

First, China is creating its own parallel series of international institutions and agreements as alternatives to the current U.S.-led system. Economist Fred Bergsten argued in 2008 that "[China] is pursuing strategies that conflict with existing norms, rules, and institutional arrangements."²² Leveraging its immense market and impressive economic growth, China has stood up the Asian Infrastructure Investment Bank and the New Development Bank (formerly known as the BRICS Development Bank). These institutions and agreements



China has established its own Beijing-led international institutions, especially in the economic and development realm, as alternatives to the U.S.-based international order. (Asian Infrastructure Investment Bank)

tempt countries to bypass and subvert current U.S.-led institutions like the Asian Development Bank, the World Bank, and the International Monetary Fund. These new organizations, combined with new capital investments as part of a “Silk Road Economic Belt” and a “Twenty-first Century Maritime Silk Road” (commonly referred to as China’s One Belt, One Road, or OBOR initiative) increase the financial and economic gravity of Beijing, which puts Washington at a disadvantage in determining the future of business and trade in Asia.²³ Having seized the high ground of global economic leadership at Davos, Switzerland, in January, President Xi Jinping plans to host a OBOR summit in May and a BRICS summit in September before strengthening his leadership position at the 19th National Congress of the Communist Party of China this fall.

Second, China is eroding confidence in U.S. partnerships and alliances in Southeast Asia by offering seemingly better aid packages with fewer preconditions. This is most apparent in security aid, where the United States has stalled military sales and aid to Malaysia, the Philippines, and Thailand to protest real concerns over alleged governmental corruption, reports of extrajudicial killings, and military subversion of democratic institutions, respectively. Undeterred by these potential abuses, China has quickly filled this void, drawing these traditional U.S. allies and partners closer into Beijing’s orbit.²⁴ Thus far, the United States under President Trump has signaled both a desire not to meddle in the internal affairs of others (a cardinal principle among ASEAN members) and to shore up cooperation with America’s two treaty allies in Southeast Asia.²⁵ The United States needs to continue to champion American values, especially the rule of law and human rights, but it can do so in most cases by differentiating between national security priorities and areas where the United States should be working with civil society.

Based on the assumption that the Trump administration will only actively pursue an easy win policy, the most important task now is to determine which of these policies are also “smart win” policies.

Winning in Southeast Asia: Policy Pathways for Effective Engagement

Even with the outcomes charted and threats mapped out, there is still broad flexibility among policy pathways the Trump administration could pursue. Based on the assumption that the Trump administration will only actively pursue an easy win policy, the most important task now is to determine which of these policies are also “smart win” policies.

Increase Bilateral Free Trade Agreements and Bilateral Investment Treaties

Former Assistant Secretary of State Kurt Campbell shared in *The Pivot* that “Asia may well be the most important battleground in shaping the future of the global economy.”²⁶ The only way the Trump administration can keep its promise to cut better deals for the American people is to invest the effort required to make them. The United States begins with a strong negotiating position—it is still the preeminent economic superpower and U.S.-ASEAN trade grew by an annual average rate of 5 percent from 2001 to 2012.²⁷ In 2015, the Obama administration also calculated ASEAN as the United States’ fourth largest export market as it supported more than 370,000 American jobs.²⁸

Increased FTAs and bilateral investment treaties with Southeast Asian countries would grow these figures to bolster the U.S. economy and support more jobs in the United States. However, when creating and negotiating these deals, the United States must emphasize lower tariff and nontariff barriers for U.S. exports as well as lower barriers for foreign direct investments to enter the United States.

A series of bilateral deals with these regional partners could be more advantageous for the United States than a multilateral agreement. Not only are bilateral agreements faster and easier to negotiate, which aligns well with the results-oriented administration, the United States can minimize trade concessions based on an individual country rather than making blanket concessions for the entire region.²⁹ To that end, the Trump administration should start with the larger markets and business environments of Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

The United States should specifically promote the energy industry in Southeast Asia. U.S. domestic energy production has steadily increased. In 2016 the United States became a net exporter of natural gas and is on a trajectory to become the world’s third-largest producer of liquefied natural gas for export by 2020.³⁰ At the

same time, the developing economies and societies of Southeast Asia will inevitably increase their demands.³¹ The United States should ensure and secure access to these energy markets as soon as possible.

Increase and Diversify Security Assistance Programs in Southeast Asia

Congress has considered and approved multiple initiatives to provide security assistance and training in Southeast Asia, including the Southeast Asia Maritime Security Initiative (MSI) that was part of the National Defense Authorization Act for 2017.³² However, these initiatives have stalled, and cooperative U.S. security operations in Southeast Asia like the multinational Cobra Gold have been scaled back due to concerns regarding democracy and human rights. Leading members of Congress are promoting a new Asia-Pacific Stability Initiative first proposed by Sen. John McCain (R-Ariz.) that could add \$1.5 billion a year over five years to reassure Asian allies and partners, including those in Southeast Asia.³³ The Trump administration

steady improvement in good governance, and an adroit U.S. policy can forge a quiet partnership with Manila and Bangkok to work in the right direction with respect to these sensitive issues. Resuming some security assistance—particularly the type that cannot be misused to support domestic human rights abuses or a crackdown on civil liberties—can become a show of good faith and respect for Southeast Asian allies. For example, in the Philippines, the United States should emphasize its security assistance is going to the military, which is not part of the problematic drug campaign. By resuming and increasing security assistance to these countries, the United States will ensure its seat at the table and that its voice continues to be heard.

In addition to reassuring traditional partners, the Trump administration should ensure that the MSI funds reserved for ASEAN are used effectively so mutual maritime objectives like domain awareness, increased port and customs security, and counterpiracy operations will be conducted successfully and consistently.

The Trump administration should adopt the idea of a stability initiative to reassure Asia—especially Southeast Asia—by helping to bolster presence, build local capacity, and advance cooperation across the vital maritime domain as well as in combating terrorism and other threats.

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Given continued reports of extrajudicial killings in the Philippines and an unrelenting military junta in Thailand, these concerns about human rights and democracy are valid. Equally valid, however, is that punitive disengagement as policy has not reversed these trends; rather, it has driven once-vital partners of the United States into the arms of its strategic competitors like China and Russia.³⁴ If security cooperation continues to be downsized, the United States will have immeasurable and perhaps even irreversible opportunity costs if these countries no longer deem the United States a viable security partner.

Therefore, the United States must adjust its policies to promote human rights and democratic values through increased engagement. There are many people in both the Philippines and Thailand that would like to see

USE MULTILATERALISM EFFECTIVELY

ASEAN has been critiqued for its slow-moving deliberation and decision-making process. Despite these flaws, it is undeniable that Southeast Asian countries have a clear and present will to maintain ASEAN as a forum to engage the world. Consequently, it is up to the United States to determine when and how to engage Southeast Asia at the multilateral level. To that end, the Trump administration should utilize the ASEAN channel to:

1. *Grow and integrate the business community with a focus on the digital economy.* Despite the close-knit supply chains of ASEAN countries, their disparate business environments make it difficult for U.S. firms to move their businesses between countries. Smoothing out business borders, particularly in the mobile and digital economy, would provide many benefits for U.S. businesses. The United States should work to establish the rules and norms for digital engagement as outlined by the former U.S. ambassador to ASEAN to increase connectivity in the biggest sector for growth in ASEAN countries.³⁵



The United States should work with allies and partners in Southeast Asia to improve maritime domain awareness and secure freedom of navigation in the region. (U.S. Navy/Mass Communication Specialist 3rd Class Amanda S. Kitchner)

2. *Improve maritime awareness and conduct joint security patrols in Southeast Asia.* To combat transnational criminal networks, maritime domain awareness is critical for establishing a regional law-enforcement framework. ASEAN members like the Philippines have specifically requested assistance in dealing with maritime issues.³⁶ The United States must answer with a regional strategy to address regional threats that protect the most valuable maritime trade corridor in the world. A network of other Indo-Pacific maritime powers including Australia, India, Japan, and South Korea could be more vigorously enlisted to augment U.S. efforts at building the domain awareness and defense capabilities of South China Sea littoral states.
3. *Promote education and human capacity-building programs.* China, understanding the value of education, has already planned to increase its number of foreign university students to 300,000 by 2020.³⁷ Education and human capacity-building programs are an absolute comparative advantage of the United States. The United States should continue to increase the soft power it wields by promoting these programs through ASEAN. Countries like Indonesia, for example, have called for business manager and engineer training.³⁸ The United States would benefit greatly by offering programs to address these needs while fostering friendly and familiar business environments for U.S. firms.

ENHANCING ALLIANCES: WORK SMARTER, NOT HARDER

China's geoeconomic strategy in Southeast Asia is to use its immense economic clout to buy acquiescence. The Philippines is the best illustration of this strategy's effectiveness. By offering massive aid packages and promises of investment in the Philippines, China neutered the United Nations Convention on the Law of the Sea's Permanent Court of Arbitration's July 2016 decision that ruled so favorably for the Philippines and against China.³⁹

To face this economic adversary, the United States must leverage its alliances and partners to mount an economic response. The United States should coordinate cooperative aid packages and investment bids with countries like Australia, Japan, and South Korea to compete with Chinese packages while minimizing the costs to the individual alliance countries. The first budget proposal coming from the Trump administration cut foreign aid, so the United States must cooperate with its allies to build joint aid packages.⁴⁰

Furthermore, these partners must work together to defend against currency manipulation or currency dumping. The Asian financial crisis exposed the vulnerability of volatile markets. The United States must take the lead in creating a more stable currency region in all the ASEAN countries to not only manage and sustain growth, but also to reduce vulnerabilities to malignant economic actors in the region.

The United States must leverage its alliances and partners to mount an economic response.

Policy Recommendations

The Trump administration must not allow a vacuum of power to develop in U.S.-Southeast Asian relations in the wake of the decision to withdraw from the TPP. Instead, the administration needs to fashion a comprehensive geoeconomic strategy to avert disengagement and seize the manifold opportunities in this region.

To remain fully engaged in Southeast Asia, the United States should sustain U.S. presence, backed by real investment and capability, focused on bilateral opportunities, supportive of ASEAN institutions, and buttressed by regional allies via the following five measures:

1. Attend all high-level and high-profile events in Southeast Asia, including the ASEAN Summit and the APEC Summit.
2. Capitalize on the remnants of the TPP and immediately begin discussion for bilateral investment treaties and bilateral free trade agreements with Southeast Asian countries, starting with the larger markets of Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.
3. Adopt proposals to build on security cooperation in Southeast Asia and the Asia-Pacific (the ongoing MSI and the newly proposed Asia-Pacific stability or reassurance initiative, for instance). Avoid preconditions to security cooperation and aid, especially in maritime affairs and counterterrorism operations, in the Philippines and Thailand while offering new packages to bolster the capabilities of Indonesia and Vietnam.
4. Encourage further business integration within ASEAN to harmonize the growing digital economies in the region through the U.S. ambassadorship to ASEAN.
5. Work with U.S. allies like Australia, Japan, and South Korea to build cooperative aid and security packages for individual ASEAN countries and their respective needs.

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