



Understanding, analysing and countering Chinese non-military efforts to increase support for, and decrease resistance to, Beijing's strategic and defence objectives in Southeast Asia:

Indonesia, Malaysia, the Philippines, Singapore, Thailand & Vietnam

Adjunct Professor John Lee

Senior Fellow, Hudson Institute & United States Studies Centre (University of Sydney)

Dr. Lavina Lee

Senior Lecturer, Department of Modern History, Politics and International Relations, Macquarie University

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Introduction

In April 2017, Japan's Ministry of Foreign Affairs released its "Free and Open Indo-Pacific Strategy"¹ (MoFA Strategy). This describes how Tokyo will broaden its worldview and strategic role under the Shinzo Abe era defined by the desire to make a "proactive contribution to peace" on the back of the reinterpretation of the Japanese constitution to allow the use of its Self Defence Forces for "collective security" actions.

Some seven months later in November 2017, Australia released its *2017 Foreign Policy White Paper (FPWP)*,² the first comprehensive blueprint to guide Australia's foreign engagement since 2003. In it, the promotion, strengthening and defence of "an open, inclusive and prosperous Indo-Pacific region" was identified as the highest priority for the country's foreign policy in the decade ahead.

Then in December 2017, the White House released the *National Security Strategy of the United States of America (NSS)*. In a document which represented the first comprehensive articulation of foreign policy objectives to be pursued by the Donald Trump administration, the NSS promised that the U.S. would "respond to the growing political, economic, and military competitions we face around the world". This included "preserving peace through strength" and "advancing American influence" to promote "a world which supports American interests and reflects [America's] values".³

In placing the NSS in a regional context, the document argues that "A

geopolitical competition between free and repressive visions of world order is taking place in the Indo-Pacific region." The strategic response is to "redouble our commitment to established alliances and partnerships, while expanding and deepening relationships with new partners that share respect for sovereignty, fair and reciprocal trade, and the rule of law".

These three pivotal documents are different in style and emphasis with the MoFA Strategy being the least forward-leaning and the NSS the most. Even so, all three documents are remarkably well aligned in terminology, principles, objectives and means, even if Japanese documents tend not to be as explicit about the intensifying strategic competition with China. At the heart of all three approaches is the concept of a Free and Open Indo-Pacific (FOIP) which reaffirms the security and economic rules-based order which has existed since after the Second World War — especially as it relates to freedom of the regional and global commons such as sea, air and cyberspace, and of the way nations conduct their economic affairs.

In the authors' conversations with politicians, officials and policy experts 1-2 years ago (especially in the US) there was strong confidence that the FOIP would gain strong buy-in from Southeast Asian states. As many interlocutors argued, China has constructed seven artificial islands in the South China Sea and steadily expanded its military assets on these features in a highly contested maritime area. Beijing continues to build military buildings, port facilities, radar and sensor installations, hardened shelters for missiles brought to these artificial islands and built airstrips and aircraft hangers. It

¹ <http://www.mofa.go.jp/files/000259285.pdf>

² <https://www.fpwhitepaper.gov.au/>

³ <https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>

has built significant storage facilities for fuel, water and ammunition. To entrench its de facto control over contested areas, Beijing has pressured other states to suspend exploitation of natural resources within their own exclusive economic zones, including by threatening economic punishment. All this is occurring despite previous promises not to militarise the artificial features and the handing down of a binding arbitration award by the Permanent Court of Arbitration which largely invalidates the legal claims China has made to most parts of the South China Sea.

Moreover, it was considered by many of these interlocutors that the highest and most enduring strategic priority for the small and/or vulnerable maritime Southeast Asian states (which includes the countries covered in this report: the Philippines, Vietnam, Thailand, Singapore, Malaysia and Indonesia) was to avoid being dominated by another great regional great power. The FOIP offered a vision of enhanced and entrenched sovereignty for large and small states against domination and coercion in contrast to Beijing's unspecified but seemingly Sino-centric vision of order in Asia.

Additionally, the FOIP expands the geo-strategic scope to include the Indian Ocean. Most notably this brings the potential great power of India into greater strategic play, increasing the balancing options for all nations wary of Chinese dominance and coercion.

Finally, the FOIP is a complementary framework to the alliance and defence relationships between the US and allies and partners. It is also a complementary framework for closer defence relationships between Southeast Asian

powers, and between Southeast Asian states and regional countries such as Australia and Japan. It was thought that these denser security networks will help in keeping the US fully engaged in the region and make it more difficult for China to challenge or alter the preferred strategic status quo for the six Southeast Asian states.

The record over the past couple of years has been disappointing for those hoping there would be a more unified and robust response to Chinese strategic and defence activities and policies emanating from Southeast Asia. On the one hand, Southeast Asian capitals all broadly welcome the US and allied military presence as a balancing and constraining factor against the prospect of Chinese dominance. The defence-to-defence relationships with the US remain as strong and productive as in the previous decade and all welcome closer strategic and defence ties with US allies such as Japan and Australia. In September 2019, Singapore and the US renewed the 1990 Memorandum of Understanding regarding United States Use of Facilities in Singapore (which allows the US to use Singaporean air and naval bases) for a further 15 years. In conversations with officials and services from the Philippines and Thailand, views on the role of US and Australian defence forces and cooperation with the latter are overwhelmingly warm and positive.

On the other hand, any hoped for overt 'pushback' by Southeast Asian nations (individually and collectively) has been modest if not disappointing. Southeast Asian nations remain silent on the importance and legally binding nature of the PCA Award in the face of continued and flagrant Chinese violation of those principles and laws. Instead, the ASEAN

states have been co-opted by China in taking the focus away from UNCLOS principles and international law and instead concentrate on the completion of a China-ASEAN Code of Conduct (CoC) which is neither binding nor places any significant restraint on Chinese actions. Even then, China's de facto seizure and consolidation of contested areas in the South China Sea is occurring as negotiations on a CoC drag on.

Since the PCA Award was delivered in July 2016, Southeast Asian states and ASEAN barely publicly mention the Award, the importance of international law more broadly, or China's violation of legal and normative principles occurring in their own maritime backyard. To be fair, the decision of the then incoming Rodrigo Duterte government to play down the significance of the Award (largely on the basis that American security guarantees for the Philippines were inadequate and unreliable) decreased incentives for other Southeast Asian states to emphasise the importance of UNCLOS. Nevertheless, there is little public support given to American, Australian or Japanese actions that reaffirm the legal right of free passage and overflight even if officials from all these countries admit privately that they approve of US and allied efforts to maintain these freedoms.

Whereas there were criticisms of the Barack Obama administration that it showed inadequate resolve against China, there are now widespread

Southeast Asian apprehensions that the Donald Trump administration is taking too confrontational an approach to China and becoming too eager to force Southeast Asian nations to 'choose' between the US and China. While some of the Southeast Asian criticisms of decisions taken by the Trump administration (such as its withdrawal from the Trans-Pacific Partnership and the political neglect of diplomacy in the region at the highest levels) is understandable, the deliberately non-confrontational policies adopted by Southeast Asian states even preceding the Trump administration has undoubtedly provided diplomatic cover for China to extend its reach and presence in the region.⁴

With respect to the FOIP, the early response of Southeast Asian states ranged from 'agnostic'⁵ to 'silent'.⁶ Vietnam, Singapore, Indonesia and perhaps Thailand were not inherently opposed to the focus on the Indo-Pacific but had reservations about openly juxtaposing a 'Free and Open Indo-Pacific' to a Chinese alternate view of order. Of these countries, Indonesia and possibly Vietnam appeared the most supportive but only under the condition that the concept enhanced ASEAN's role and standing. Malaysia and the Philippines remained largely silent. Most were suspicious that the FOIP led surreptitiously to renewed emphasis on a revised Quad grouping and that the US, Japan and Australia were preparing to

⁴ See John Lee, "ASEAN Must Choose: America or China," *The National Interest*, Nov/Dec 2018, <https://nationalinterest.org/feature/asean-must-choose-america-or-china-39067?page=0%2C1>

⁵ See Bilahari Kausikan, "ASEAN: Agnostic on the Free and Open Indo-Pacific", *The Diplomat*, 27 April 2018,

<https://thediplomat.com/2018/05/asean-agnostic-on-the-free-and-open-indo-pacific/>

⁶ See Premesha Saha, "The Quad in the Indo-Pacific: Why ASEAN Remains Cautious", *ORF Issue Brief 229*, February 2018, https://www.orfonline.org/wp-content/uploads/2018/02/ORF_IssueBrief_229_QuadASEAN.pdf

welcome India into the strategic mix with decreased emphasis on, and relevance for, ASEAN.

The point is that contrary to especially US expectations, the Southeast Asian countries embrace of the FOIP as a counter-dominance approach to China has been underwhelming despite increasing concerns with the latter's policies and behaviour and strong individual support for the American naval presence in the region. Even as China has extended its militarisation and hold of artificial islands, collective criticism of Beijing's policies has been moderated since the PCA Award was released in 2016. Individual criticism of China by Southeast Asian nations is infrequent. This is occurring even though Chinese, and not American, policies present the greater challenge and disruption to the preferred order and status quo of these Southeast Asian nations.

This report arises out of the above observations. *How is China attempting to build support for, or else increase acceptance of its policies in Southeast Asia, especially in the South China Sea? If such support is not forthcoming, how does Beijing seek to overcome opposition to these policies or at least neutralise or sideline those entities and individuals who might disagree?*

It is in this context that the authors have analysed and discussed (with over 100 Southeast Asian, American, Japanese, Taiwanese and Australian interlocutors):

- ***The strategy and approach behind Chinese non-military activities to advance its strategic and military objectives in six maritime Southeast Asian nations: the Philippines, Vietnam, Thailand, Singapore, Malaysia and Indonesia;***

- ***How successful that strategy or approach has been;***
- ***Why are frameworks such as the FOIP less popular or successful in terms of Southeast Asian buy-in than previously expected; and***
- ***What recommendations can be made on how Australia might respond?***

The report is the result of the authors' own research and analysis informed and sharpened by the insights gained from these interactions (and not simply the reproduction of various conversations pieced together).

PART 1: CHINESE STRATEGIC APPROACH TO SOUTHEAST ASIA

China's evolving Southeast Asian approach

In a survey of over 100 articles written by Chinese Academy of Social Science foreign policy experts from early this century to around 2011, the authors found that about four in every five were about the US. More specifically, the overwhelming focus was how China could best limit, circumvent, bind or else reduce American power and influence, especially in the region.

Notably, and at a time when the US still held high hopes that China would emerge as a 'responsible stakeholder' in the regional and global system, most of the Chinese experts surveyed viewed tension and competition with the US as a 'structural inevitability'. Significantly, many Chinese experts viewed the US as a 'unique' superpower that not only seeks to maintain its material superiority but is hard wired to spread its democratic values in Asia. One assumed corollary is that the US will have immense difficulty accepting a greater leadership role for Beijing so long as the Communist Party remains exclusively in power.

This is not to say that China did not then appreciate the strategic importance of Southeast Asia. China expended great effort in the first decade of this century to remodel its diplomatic image from 'rogue dragon' to that of a satisfied 'status quo' country willing to work within existing structures and with a growing economy offering 'win-win' relationships with

neighbours. Indeed, the period leading up to 2008 (when the Global Financial Crisis hit advanced economies) was widely known as the period of China's 'charm offensive' toward Southeast Asia.

Even so, that charm offensive was primarily a 'defensive' measure. China was in no position to challenge the US and was not keen to offer the US and other states strong reason to inhibit China's rise. With respect to Southeast Asia, China's priority was to prevent ASEAN states from band-wagging with the US against China. This was achieved through the older maxim of 'Hide your strength, bide your time' and relentless lip service paid to ASEAN institutions and processes.

Chinese officials would occasionally stray from that script and reveal a more chauvinistic and dismissiveness side such as the widely reported comment by then Chinese Foreign Minister Yang Jiechi at the ASEAN Ministerial Meeting in Hanoi in 2010 when he reminded counterparts that 'China is a big country and other countries are small countries, and that's just a fact.' Even so, China was far more risk averse and defensive when it came to policies and actions in Southeast Asia. Much of the focus remained on how best to respond to US power and influence without alienating much of the region.

While there is debate as to whether the Xi Jinping era represents as radical a departure from the 'Hide your strength, bide your time' game-plan of predecessors,⁷ there is no doubt that China in the Xi-era has been more willing

⁷ For example, Rush Doshi argues that there has been a high level of consensus between the Xi Jinping era and previous administrations with respect to China's aims, methods and mindsets: "Hu's to blame for China's foreign assertiveness?",

Brookings Institution Global China Report, 22 January 2019,
<https://www.brookings.edu/articles/hu-to-blame-for-chinas-foreign-assertiveness/>

to take bigger risks in pursuit of its objective of limiting, circumventing, binding or else reducing American power and influence, and eventually easing the US out of Asia. In addition to the change in risk tolerance, there have also been significant changes in strategic approach since 2012 even if some of the thinking can be traced to an earlier time.

(a) From strategic defence to security offence in Southeast Asia

It is commonly observed that China partially dispensed with its 'charm offensive' or 'smile diplomacy' and assumed a more assertive posture on contentious issues such as the South China Sea from 2008 onward – with further acceleration of that assertive posture when Xi Jinping assumed power from 2012 onward.

However, Beijing's strategic and diplomatic approach to Southeast Asia, and objectives in the region, also evolved alongside this more assertive posture, especially from around 2014 onwards as Xi consolidated his power.

First, China's region of direct strategic interest has been expanded. Previously, Beijing's objective was for the People's Liberation Army Navy (PLAN) to acquire the capacity to deter the US from intervening in any potential conflict through inflicting 'prohibitive costs' on the US. This would be largely achieved through advancements in the PLAN's anti-access/area-denial (A2/AD) capabilities.

In the last few years, the 'region' of primary strategic and military interest has been expanding. While the highest priority remains the prevention of

'splittism' occurring in Taiwan, Tibet and Xinjiang, the operational objectives and desired capabilities have been enlarged and are more ambitious. Beijing now seeks the capacity to dictate activity within the First Island Chain, permanently counterbalance the naval actions of other countries beyond the first Island Chain (i.e., sea control within the First Island Chain and sea-control denial elsewhere,) and protect its interests in further flung places (such as the Middle East.)

This is hinted at in its *2019 Defence White Paper*⁸ (the 10th Defence WP released) which states that:

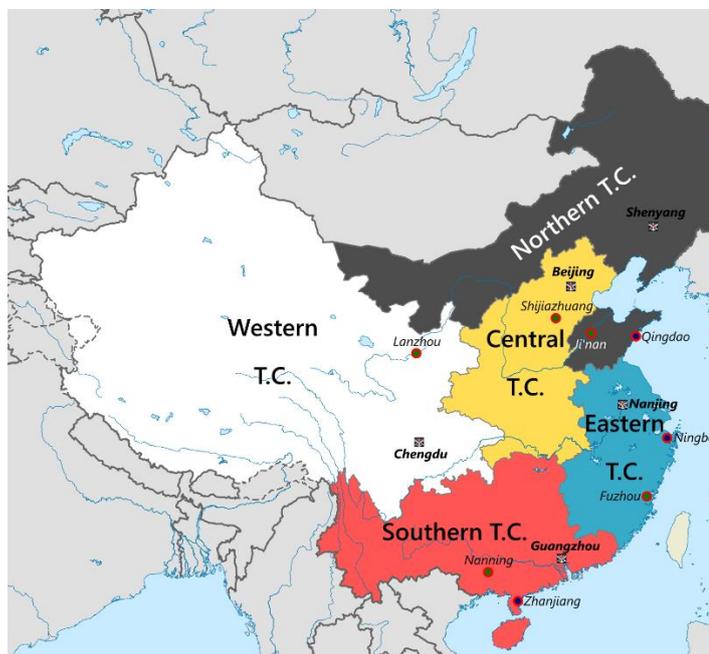
"China's armed forces defend important waters, islands and reefs in the East China Sea, the South China Sea and the Yellow Sea, acquire full situation awareness of adjacent waters, conduct joint rights protection and law enforcement operations, properly handle maritime and air situations, and resolutely respond to security threats, infringements and provocations on the sea... China's armed forces conduct air defence, reconnaissance and early warning, monitor China's territorial air and peripheral air space, carry out alert patrols and combat take-off, and effectively respond to emergencies and threats to maintain order and security in the air...Aiming at safeguarding national unity, China's armed forces strengthen military preparedness with emphasis on the sea."

To be sure, previous White Papers similarly pledged to acquire the capabilities to

⁸ China's National Defence in the New Era (Beijing: Foreign Language Press 2019),

<http://www.xinhuanet.com/english/download/whitpaperonnationaldefenseinnewera.doc>

defend China's 'territory' which also includes the South China Sea. However, the 2019 WP (and 2015 WP to some extent) offers a new emphasis on 'combat readiness and military training in real combat conditions' in reference to China's military capabilities in the South China Sea and broader Western Pacific. There is a newer and bolder tone that seems to go beyond inflicting prohibitive or heavy costs on the US and allied forces. An emphasis on greater coordination between the PLA's Eastern, Southern and Central Theatre Commands to carry out 'core missions' is an oblique reference to the desire to achieve the operational ability to hold and control maritime territories such as the South China Sea and conduct combat operations further in the Western Pacific and beyond.



Note that when it comes to China's strategic posture for 'local wars' (e.g., in

the South China Sea), the PLA still relies on the so-called 'active defence' doctrine which applies to all branches of the military. 'Active defence' states that China's military engages in a policy of strategic defence and will only strike militarily once it has been attacked. But there are two conditions attached to Active Defence.

The first is that such a 'defensive' posture is only viable if connected to an offensive operational posture. This means that an effective counterattack is only possible when the PLA is able to negate the enemy's offensive military assets in predetermined areas. The layperson's explanation might be that if a person is running at you with a knife, one does not go for his hand. One should ensure they are pre-emptively positioned to stab at that person's legs.

The second condition is that 'active defence' explicitly states that a first strike that triggers a Chinese military response need not be military in nature. It could be political, such as a Taiwanese declaration of independence or a Southeast Asian nation moving in to claim a disputed island or land feature.

The first condition leads logically to the importance to China of PLA dominance within the First Island Chain.⁹ The second provides an open-ended 'defensive' reasoning and justification for the use of such dominance to achieve political objectives or to deter other countries from adopting policies that harm Chinese core interests as defined in documents such as the 2019 WP and elsewhere.

⁹ See C.J. Jenner, "Facing China's Sea Power: Strategic Culture and Maritime Strategy," CSIS Asia Maritime Transparency Initiative Report, 29

May 2019, <https://amti.csis.org/facing-chinas-sea-power-strategic-culture-maritime-strategy/>

Although no such words are used explicitly, the 2015 and 2019 Defence White Papers evinces an increasingly strident ambition to reshape the regional military order in its near periphery (such as in the South China Sea) as American pre-eminence fades and the balance of power shifts away from unipolarity. According to the 2019 WP, the mere entry of Chinese maritime territory by foreign naval vessels and surveillance conducted by countries such as the US and Australia is not only 'illegal' and provocative but undermines China's national security.

The 2019 WP does single out Japan and Australia as two US allies which have banded closer to the US to maintain US-led military and technological superiority. Notably, no Southeast Asian nation is mentioned in this context. One inference might be that Beijing views Southeast Asian nations as passive strategic/security price takers.

(b) From an American obsession towards a 'small states' approach

China's American obsession has not dissipated but it has been complemented by much greater emphasis on a 'small states' approach, especially as it pertains to Southeast Asian policy.

Even prior to Xi, it was apparent to China that America's strength in the region which is based on robust alliances was also its potential vulnerability: the US depended on the acquiescence of allies and partners to maintain its forward position in the Indo-Pacific. If one could change the cost/benefit calculations of these allies and partners in China's favour, then the US is immensely exposed as a geographically distant power. In this context, China learnt lessons from the US withdraw from Subic Bay in the early

1990s. When asked to leave or downgrade its presence, American forces might do so grudgingly but peacefully.

In some respects, the more assertive behaviour by China from this decade onward has caused Japanese and Australian allies to reaffirm and enhance their alliances with the US and security relationship with each other. But if Japan and Australia serve as the northern and southern anchors of the US-led security system, the soft heart or underbelly remains Southeast Asia. Unlike Japan and Australia, Southeast Asian states consider the cost of balancing against another great power too onerous compared to the benefits of hedging. Whereas Chinese efforts at seducing Japan and Australia away from the US have largely failed, there is still far more in play for China vis-à-vis Southeast Asia.

Moreover, China does not need to comprehensively 'win over' Southeast Asia to acquire an advantage over the US and its allies. If Beijing can merely prevent key states from balancing against China, continuing to hedge and/or remain neutral even as China is extending its militarisation of the region, the US and its allies will find it increasingly difficult to prevent Chinese dominance in Southeast Asian maritime theatres. In other words, simply minimising the strategic and military relevance and agency of Southeast Asian states works in China's favour given it is the PLA which is strengthening its presence in the region and not the US and its northern and southern allies.

Xi has noticeably put more strategic and diplomatic emphasis on small states than

his predecessors,¹⁰ frequently under the banner of 'all-dimensional diplomacy'.¹¹ Putting more focus and resources into a 'small states' approach is also beneficial for China for several reasons. Small states are less powerful and usually less important to other great powers. This means they are more likely to hedge or remain neutral rather than balance even if there is an aggressive power in their neighbourhood such as China. At the same time, China is a geographically proximate great power unlike the US. As a permanent presence in the region, Beijing does not need the consent of other states to hold and extend its presence and influence. There is therefore more scope for China to coerce and intimidate neighbouring small states than there is for a country such as the US. As Chinese Foreign Ministry spokesperson Hua Chunying warned in 2015 in reference to a question about China 'bullying' Southeast Asian states over contested claims in the South China Sea, "small states should not make unreasonable demands."¹²

Small states in Southeast Asia are also 'cheaper' to win over or else to buy their silence or neutrality, especially if they are low-income authoritarian political economies where elite-capture becomes much more feasible. From a Chinese point of view, relatively insignificant increases in state-directed investment, infrastructure building and influx of tourists creates a disproportionately large benefit

for these struggling smaller economies. This has been amply demonstrated when it comes to successful Chinese efforts to ensure ASEAN is incapable of arriving at a consensus that would be detrimental to Chinese interests. Bear in mind that each state carries the same voting rights in various institutions (even if their influence might be disparate).

Their smallness also does not preclude some of them from being important from a geo-strategic and military point of view. Of the 42 ports in 34 countries where Chinese firms have been involved in construction which could serve Beijing's strategic interests, the majority are small states where such investments will buy considerable influence. These include Hambantota in Sri Lanka, Kyaukpyu in Myanmar and Sihanoukville in Cambodia.

This is reaffirmed by a growing discourse amongst Chinese strategists about cultivating 'strategic support states.' In a 2015 consensus of fifty Chinese scholars on 'China's periphery diplomacy in the Xi Jinping era,' a 'strategic support states' is achieved through regional cooperation and providing economic and public goods as China expands. According to one extensive analysis, one of the principles of cultivating a 'strategic support state' is ensuring "China has the ability and resources to guide the actions of the country so that they fit into [China's] strategic needs."¹³

¹⁰ See Hoo Tiang Boon (ed.), *Chinese Foreign Policy Under Xi* (New York: Routledge 2017.)

¹¹ "China promotes all-dimensional diplomacy," *Xinhua*, 31 May 2013, http://www.chinadaily.com.cn/china/2013xivisit/2013-05/31/content_16551915.htm

¹² Foreign Ministry Spokesperson Hua Chunying's Press Conference, Ministry of Foreign Affairs of the People's Republic of China, 22 January 2015,

https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/t1230645.shtml

¹³ Devin Thorne and Ben Spevack, *Harboured Ambitions: How China's Port Investments Are Strategically Reshaping the Indo-Pacific* (Washington DC: C4ADS 2017), p. 20: <https://static1.squarespace.com/static/566ef8b4d8af107232d5358a/t/5ad5e20ef950b777a94b55c3/1523966489456/Harbored+Ambitions.pdf>

(c) *From defending to promoting authoritarianism*

In the recent past, China merely wanted to deflect criticism of its authoritarian system. It still seeks to do that but is moving to promote its approach as a superior one for developing economies around the region and world.

Despite persistent denials this is the case, the evidence that it is engaged in an ideological contest is clear. On the day of Donald Trump's inauguration, the Chinese state-owned newspaper *People's Daily* devoted an entire page to editorials criticizing Western democracies as chaotic and suffering from "social crises." They claimed that democracy had "reached its limits" and contrasted it unfavourably with China's one-party system, which offered stability, social harmony, competent policymaking and implementation, and economic progress.¹⁴ When announcing that he had abolished presidential term limits during the 19th Congress of the CCP in October 2017, Xi declared that China is moving to the "centre stage" and that its authoritarian model "offers an option for other countries and nations who want to speed up their development while preserving their independence; and it

offers Chinese wisdom and a Chinese approach to solving problems facing mankind."¹⁵

Importantly, the model since Deng Xiaoping of "hiding strength and biding time" has been abandoned. According to Xi, as China becomes a leading global power from 2035 onward, the Chinese people will enjoy the "common property" of the international system. Xi also stated that "the Chinese nation will stand with a more high-spirited image in the family of nations" and "socialism with Chinese characteristics" is a "new choice" for other developing nations seeking to grow economically while maintaining their independence."¹⁶

Beijing's promotion of its political values and standards goes far deeper than official pronouncements and mere declaratory policy. The CCP leadership has augmented support for authoritarian regimes—for example, that of Cambodia's Hun Sen.¹⁷ Autocratic regimes are significantly overrepresented as recipients of Chinese financing. In the period from 2000-2014, of the top 10 recipients of Chinese developmental assistance, six were dictatorships and three were 'competitive authoritarian regimes' where electoral processes exist but are engineered to avert power transfers from the ruling group.¹⁸

¹⁴ See Rosalind Mathieson and Keith Zhai, "China Slams Western Democracy as Flawed," Bloomberg, January 23, 2017, <https://www.bloomberg.com/news/articles/2017-01-22/china-slams-western-democracy-as-flawed-as-trump-takes-office>; and Ben Blanchard, "'Crises and Chaos': China's State Media Slams Western Democracy ahead of Communist Party Congress," Reuters, October 17, 2017, <http://www.businessinsider.com/r-china-state-media-attacks-western-democracy-ahead-of-congress-2017-10?IR=T>.

¹⁵ Liangyu, "Socialism with Chinese Characteristics Enters New Era: Xi," Xinhua, October 18, 2017,

http://www.xinhuanet.com/english/2017-10/18/c_136688475.htm.

¹⁶ Zheping Huang, "Your Five-Minute Summary of Xi Jinping's Three-Hour Communist Party Congress Speech," Quartz, October 18, 2017, <https://qz.com/1105337/chinas-19th-party-congress-your-five-minute-summary-of-xi-jinpings-three-hour-speech>.

¹⁷ Hannah Beech, "Embracing China, Facebook and Himself, Cambodia's Ruler Digs In," *New York Times*, March 17, 2018, <https://www.nytimes.com/2018/03/17/world/asia/hun-sen-cambodia-china.html>.

¹⁸ See Lavina Lee, "Democracy Promotion: ANZUS and the Free and Open Indo-Pacific Strategy,"

China is not just promoting authoritarian values but teaching tactics for repression and exporting apparatuses used for domestic coercion to willing authoritarian clients.¹⁹ It has gone beyond forcing foreign firms to agree to its restrictive internet and social media standards to championing its standard of “internet sovereignty,” which gives every government the right to regulate online information and rejects a universal freedom of information standard.²⁰

In the United Nations, China promotes the innocuous sounding “community of shared future for human beings” as an alternative to the notion of universal human rights. The former concept is based on the right of each country to interpret what “human rights” actually means, and insists that other countries should respect and accept that human rights will have different meanings for each country.²¹ With respect to ASEAN, China is promoting an ASEAN-China Community of Common Destiny to engineer a smooth transition to a China-

centric and hierarchical region.²² Perhaps most concerning is China’s increased willingness to interfere in, and covertly influence, the domestic decision-making institutions and debates in democratic nations. This includes the promotion of Chinese authoritarian values.²³

The proponents of this model in China (and elsewhere) begin from the position that any political system ought to be assessed according to practical outcomes and that there is no intrinsic value to liberal-democratic systems that emphasize individual rights and freedoms without regard to the consequences. China argues that it has resolved the alleged contradiction between the subordination of individual rights and freedoms to one-party rule, on the one hand, and positive social and economic outcomes, on the other—a contradiction the Communist regimes in the Cold War-era failed to address. As Xi claims, the CCP is meeting the basic needs of over one billion people, and its authoritarian

United States Studies Centre Report, July 2019, <https://united-states-studies-centre.s3.amazonaws.com/uploads/036/dc6/7f1/036dc67f12bef1a48031c405e872cdbc2ecd7867/Democracy-promotion-ANZUS-and-the-Free-and-Open-Indo-Pacific-strategy.pdf>

¹⁹ See “China’s Trade in Tools of Torture and Repression,” Omega Research Foundation, Amnesty International, 2014, <https://www.amnestyusa.org/wp-content/uploads/2017/04/asa170422014en.pdf>.

²⁰ Lucy Hornby, “China Defends State Control over Internet at Technology Forum,” *Financial Times*, December 3, 2017, <https://www.ft.com/content/dad122c8-d7e8-11e7-a039-c64b1c09b482>; and Jinghan Zeng, Tim Stevens, and Yaru Chen, “China’s Solution to Global Cyber Governance: Unpacking the Domestic Discourse of ‘Internet Sovereignty,’” *Politics and Policy* 43, no. 3 (2017).

²¹ H.E. Wang Yi, “Advance the Global Human Rights Cause and Build a Community with a Shared Future for Mankind” (remarks at the Opening Ceremony of the First South-South Human Rights Forum, December 7, 2017), http://www.fmprc.gov.cn/mfa_eng/wjz_663304/

<http://www.wilsoncenter.org/sites/default/files/magicweaponsanne-mariebradyseptember162017.pdf>

²² See Hoang Thi Ha, “Understanding China’s Proposal for an ASEAN-China Community of Common Destiny and ASEAN’s Ambivalent Response,” *Contemporary Southeast Asia* 41:2, 2019, pp. 223-54.

²³ See Christopher Walker, Shanthi Kalathil, and Jessica Ludwig, “How Democracies Can Fight Authoritarian Sharp Power,” *Foreign Affairs*, August 16, 2018,

<https://www.foreignaffairs.com/articles/china/2018-08-16/how-democracies-can-fight-authoritarian-sharp-power>; John Garnaut, “Australia’s China Reset,” *Monthly*, August 2018, <https://www.themonthly.com.au/issue/2018/august/1533045600/john-garnaut/australia-s-china-reset>; and Anne-Marie Brady, “Magic Weapons: China’s Political Influence Activities under Xi Jinping” (paper presented at a conference hosted by the Taiwan Foundation for Democracy, Arlington, September 16–17, 2017), <https://www.wilsoncenter.org/sites/default/files/magicweaponsanne-mariebradyseptember162017.pdf>.

system has made it possible for people to live fulfilling and materially better lives.²⁴

There is immensely fertile ground for such messages to take hold. In a Southeast Asian region where Singapore is the only high-income per capita economy, the promise of rapid development under authoritarian rule is attractive. In Asia, only Japan and the Philippines had sustained experience with democratic governance prior to 1990. There are few genuine, committed democrats in Asia (i.e., those who reject all other forms of government no matter what occurs). Instead, democracy is viewed in somewhat more instrumental terms. This is brought out in a 2017 survey by the Pew Research Center of citizens from the Philippines, Vietnam, and Indonesia where only 15%, 8%, and 12%, respectively, were “committed democrats” who favoured electoral democracy under any circumstances. The majority— 67%, 79%, and 75%, respectively—had a positive view of electoral democracy but would consider less democratic governance by experts, a strong leader, or the military under various circumstances.²⁵

Bear in mind that more than half of the region's population who were born after 1981 have had no direct experience of the “hard authoritarianism” that characterized much of Asia in the decades after World War II.²⁶ Whereas committed democrats will blame the party in power for suboptimal outcomes that do not meet popular expectations,

uncommitted democratic societies may well blame the system itself for perceived failures. Indeed, this deeply embedded “instrumentalist” view of democracy appears to help account for the phenomenon of either authoritarian resilience or democratic erosion in Asia in recent times. As the authors discovered in conversations with interlocutors throughout Southeast Asia, Beijing is relentlessly working to seize that mantle of ideological and political leader in the region.

(d) Setting ‘discourse, prices and policy’ in the region

China previously focused on benefitting from the regional and global economic system and order while reducing its vulnerabilities to external actions and exogenous shocks.

While such participation is still essential, there are now tireless and creative attempts to enable China to set ‘discourse, prices and policy’ in ways that lock-in privileges, advantages and agency for China when it comes to hard institutional set-up and practice (e.g., membership of groupings deciding on norms, policies and/or actions,) normalising certain forms of economic activity, and influencing technological, technical or legal standards in Southeast Asia. In this context, initiatives that were primarily conceived to reduce domestic vulnerabilities and create new avenues for economic growth and export opportunities without further reforms to the Chinese political economy (such as

²⁴ “China Focus: Principle Contradiction Facing Chinese Society Has Evolved in New Era: Xi,” Xinhua, October 18, 2017, http://www.xinhuanet.com/english/2017-10/18/c_136688643.htm.

²⁵ Richard Wike et al., “Globally, Broad Support for Representative and Direct Democracy,” Pew

Research Center, October 16, 2017, <http://www.pewglobal.org/2017/10/16/globally-broad-support-for-representative-and-direct-democracy>.

²⁶ See Yun-han Chu and Bridget Welsh, “Millennials and East Asia's Democratic Future,” *Journal of Democracy* 26, no. 2 (2015): 151–64.

the Belt and Road Initiative and Made in China 2025) have been transformed into grand strategy designed to rewrite rules for how regional nations compete and interact.

Achieving the objective of setting 'discourse, prices and policy' offers Beijing far more leverage over Southeast Asian states than would otherwise be the case as it places China in a unique position to predetermine or decide the current and future winners and losers of various interactions. From this point of view, the objective is to institutionalise and entrench the Communist Party's Leninist approach to political economy (i.e., a system where all economic activity serves the interest of the Communist Party and the Chinese state) beyond China's borders and throughout Southeast Asia.

In this sense, it is not just about China benefitting disproportionately from economic activity with Southeast Asian entities. It is about Beijing being able to offer or withdraw opportunity according to political and strategic considerations and the cobbling together of a contemporary system for Southeast Asian states to offer fealty and tribute in return for access and opportunity.

(e) Controlling and manipulating grand narratives

If China possesses a 'magic weapon' to help it gain support for its strategic and security policies in Southeast Asia, it is the considerable success Beijing has had in controlling and manipulating grand narratives.

Under Xi, the narrative offered by China to the Southeast Asian audience has changed remarkably. Previously, China was desperate to emphasise its sense of vulnerability and scale of domestic

challenges to counter fears about its accumulation of comprehensive national power. Since around 2014, China has moved toward promoting (rather than downplaying) strength and concealing (rather than highlighting) vulnerability.

This is evident in its 2019 Defence WP which is as much a propaganda as a doctrinal or policy document. For example, unlike the previous nine Defence WPs, the 2019 version is proudly littered with examples of PLA activity even when referring to contested regions such as the South China Sea. While the 2019 Defence WP is open about the military and technological gap the PLA must narrow to become a global military leader, the document is nevertheless boastful about the increasing tempo and sophistication of PLA activities:

"Since 2012, China's armed forces have deployed vessels on over 4,600 maritime security patrols [in the South China Sea] and 72,000 rights protection and law enforcement operations, and safeguarded maritime peace, stability and order..."

Similarly, Beijing prefers to overstate rather than understate the expansiveness and ambition of flagship economic industrial policies such as the Belt and Road Initiative (BRI) and Made in China 2025. With respect to the BRI, projects involving Chinese firms in the 65 or more countries along the BRI are often counted as BRI projects even if that project was not conceived with the BRI in mind or preceded the formal announcement of the BRI. While the BRI began as a policy framework to relieve pressure on some serious domestic economic problems (such as to create external markets for excess capacity arising out of massive

and chronic over-investment and to develop stubbornly moribund economies in the inner and western provinces,) Xi's May 2017 speech at the 1st Belt and Road Forum framed the Initiative as one emanating from the enduring greatness of the Chinese civilization in grandly laying out the vast ambition of the BRI.²⁷

More broadly, and unlike his predecessors since Deng Xiaoping who all stressed the scale and depth of Chinese vulnerabilities and challenges Xi makes the case for the inevitability of Chinese success and dominance to an external audience. One can see this in the way Beijing actively promotes its model and approach as a superior political and economic one compared to that of the US. In the author's conversations with interlocutors in the Southeast Asian countries, the narrative and message of inevitable Chinese success and dominance is consistent and persistent in their (the interlocutors') conversations with official Chinese counterparts.

An important corollary of this narrative is that the region is an 'optional' strategic interest for the US, and in any event, the US will always be periodically distracted by other global priorities (such as in the Middle East) or else be taken in inconsistent directions by the vagaries and irrationalities of different administrations and domestic politics. In contrast, the Communist Party led China is permanently in the region, unchanging in its objectives, fundamentally undeterrable and prepared to pay any

cost to achieve its objectives, and focused first and foremost on Asia.

One can debate whether it is hubris or performance on the part of Chinese counterparts when it comes to the confident promotion of these narratives. Either way, buy-in into these narratives is the essential underpinning for Chinese strategic success. For small states, the will to resist even a coercive great power is greatly diminished if there is consensus that great power will dominate regardless of whether other states disapprove of China's behaviour. Striking an uneven accommodation or removing oneself from the fray is preferable to balancing against the future dominant power. For small states, one must not fight the future but learn to make the best of it.

[From coercion and 'sharp power' to 'authority' and 'leadership'](#)

In December 2017, the National Endowment for Democracy released a widely read report on the 'sharp power' of authoritarian countries.²⁸ This referred to the reliance by countries such as China on forms of influence and persuasion which were based on intimidation, misinformation and distraction rather than persuasion and attraction. In addition to overt economic, political and military coercion, the use of 'sharp power' in countries such as Singapore²⁹ is an undeniable part of Chinese statecraft and Beijing's toolkit vis-à-vis Southeast Asia.

[content/uploads/2017/12/Sharp-Power-Rising-Authoritarian-Influence-Full-Report.pdf](#)

²⁹ See Russel Hsiao, "A preliminary Survey of CCP Influence in Singapore," *China Brief* 19:13, 16 July 2019, <https://jamestown.org/program/a-preliminary-survey-of-ccp-influence-operations-in-singapore/>

²⁷ See "Full text of President Xi's speech at opening of Belt and Road Forum, *Xinhua*, 14 May 2017: http://www.xinhuanet.com/english/2017-05/14/c_136282982.htm

²⁸ *Sharp Power: Rising Authoritarian Influence* (Washington DC: National Endowment for Democracy 2017), <https://www.ned.org/wp->

If China only relied on coercion and insidious forms of 'sharp power', then Southeast Asian states would be more likely to embrace the FOIP and countenance more active balancing measures against the prospect of Chinese dominance. If China were only coercive and subversive, the worst fears held by Southeast Asian nations about the undesirability of an Asian hegemon in their midst would lead to their greater acceptance of the taking on greater risk to prevent the emergence of that hegemon. However, China has been proactive and creative in persuading Southeast Asian states to hedge rather than balance against Beijing.

As a complement to these grand narratives, China is thinking more deeply and creatively about enduring and effective foundations for the accumulation and exercise of power and influence over Southeast Asian states. Beijing is cognizant of the likelihood that the significant powers in the region will not become Chinese allies in the manner that Japan and Australia are with the US.

Indeed, the 2019 Defence WP reaffirms that Beijing will not seek alliances with any country. For that reason, 'dominance' based on overwhelming material superiority is probably not possible, or at least will not be enduring even if achieved. Constant 'coercion' of other states might eventually convince these states to balance against Beijing. These alone cannot be a sound future basis for Chinese power and influence.

It is for these reasons that Beijing is attempting to enhance its 'authority' and 'legitimacy' as its power grows in relative

terms, being also aware of the likelihood that its increase in relative power will not occur indefinitely. Whereas coercion relies on threats or actual punishments to shape or change the behaviour of others, the notion of 'authority' is based on the 'legitimate' exercise of power. Such authority is a more efficient and enduring way to exercise power because it induces compliance from smaller powers who recognise or accept the right of China to impose obligations on them.

The recognition of that 'right' might be moral, normative or based on a longer-term material calculation. Whichever it is, the point is that smaller countries come to accept there are rules for the great Chinese power and different rules for smaller powers. Unlike the FOIP framework, the Chinese proposition is inherently hierarchical. If accepted, that hierarchy reduces the need for China to rely on mere threats or punishments.³⁰

Consider the primary forms of diplomatic messaging China uses for Southeast Asia compared to messaging reserved for Western liberal democracies such as Australia, the US and the European Union states. With respect to the latter, China promotes the motion of 'mutual benefit' and 'win-win'. In the authors' conversations with Southeast Asian interlocutors, there is more emphasis on the permanence and greatness of Chinese civilization which is the enduring basis for hierarchical but stable and benevolent relationships with smaller states in Asia. Importantly, according to Beijing, the permanence and greatness of Chinese civilization both guarantees the success of China's re-emergence (as

³⁰ See David A. Lake, "Domination, Authority, and the Forms of Chinese Power," *The Chinese Journal of International Politics* 10:4 2017, pp. 357-82.

that re-emergence is natural) and Beijing's claims that the Chinese overlord will be just and fair (as it has been for millennia according to the Communist Party's view of history.)

China has attached these narratives to actual policies directed toward Southeast Asian states. For example, the BRI is designed to spur 'common development' through the strengthening of infrastructures, networks, connectivity and enhanced people-to-people interactions and exchanges. To Southeast Asians, Beijing is not apologetic that the BRI is China-centric or even that Chinese entities are the primary beneficiaries. Countries are often flattered by being told that they form essential nodes for a vast China-centric network. But the overriding message is that benefits can flow to the entire region only if the great Chinese civilizational state is at the centre of economic, political and diplomatic life in the region.

Whereas the impersonal and ruthless market-based principles will create short-term winners and losers based on the merit-based measurement of profitability, embracing the Chinese system will give participants guaranteed and enduring benefits even if these are unevenly distributed.

Southeast Asian countries are well aware that Chinese financing and building of infrastructure and other capital expenditures, the direction of development assistance and grants, and even the receiving of Approved

Destination Status to boost Chinese tourism numbers is partly based on Chinese 'largesse' rather than impersonal market forces which seems to drive Japanese, American and Australian economic activity in Asia. This is all about China making a moral, normative and material case for its unique hierarchical authority.

Bear in mind the primary target for China are elites, and the moral, normative and material case is largely designed to achieve 'elite capture' or co-optation throughout Southeast Asia. Domestically, 'elite capture' is how the modern Chinese Communist Party has remained in power and what it has learnt to do best.³¹ In Southeast Asia, Beijing has discovered that the most efficient way to gain consent for its strategic and security policies or at least stifle opposition is to win over elites or else silence them. One report, which is consistent with the author's observations, is that elite-to-elite diplomatic outreach accounts for about 90 percent of China's outreach to these countries.³²

It is also worth noting that the external purpose of China's United Front Work Department is fundamentally designed to complement all the above objectives by promoting:

- the narrative of inevitable Chinese dominance and greatness of the Chinese civilizational state;
- the expectation that the CCP led Chinese state is fundamentally

³¹ See Minxin Pei, *China's Trapped Transition: The Limits of Developmental Authority* (Mass: Harvard University Press 2006); Richard McGregor, *The Party: The Secret World of China's Communist Rulers* (London: Penguin Books 2010).

³² S Custer, B Russell, M DiLorenz, M Cheng, S Ghose, J Sims and H Desai, *Ties that Bind:*

Quantifying China's public diplomacy and its 'good neighbour' effect (Williamsburg V.A.: Aiddata at the College of William & Mary 2018), http://docs.aiddata.org/ad4/pdfs/Ties_That_Bind--Full_Report.pdf

undeterrable and is willing and able to absorb any cost in achieving its objectives. In contrast, the US is 'undependable' and always at risk of 'abandoning' Southeast Asia;

- the virtues of China's hierarchical order above that of the US-backed 'rules-based order'. This includes the guaranteed gains derived from embracing that hierarchical China-centric order versus the uncertain benefits of the 'rules-based order';
- that Chinese strategic and security policies (including in the South China Sea) are a necessary component of establishing this more virtuous and beneficial order;
- the Communist Party has been entrusted with the great rejuvenation of Chinese civilization and the state and it is the only legitimate authority over the Chinese peoples (including those in other countries.) Therefore, opposing the policies and principles of the CCP is tantamount to defying the will of the 1.4 billion people who are part of the enduring civilization.

Note also that China realises any smooth and legitimate transition to a China-centric hierarchical system requires the co-optation of, or at least must complement the existing ASEAN framework. Since China became an ASEAN Dialogue Partner in 1996, it has established almost 50 mechanisms with

ASEAN. Common to all these mechanisms is to establish Chinese moral and normative authority and legitimacy based on the central role of China in providing stability and security through promoting economic development and connectivity. A prominent example is China's attempts to integrate the BRI with ASEAN's connectivity agenda with the modification that the benefits of ASEAN connectivity can only be maximised if the latter is linked to a broader BRI framework. As Singapore's Bilahari Kausikan further argues:³³

"China's natural gravitational pull is being enhanced by various infrastructure projects... These projects have geopolitical consequences, intended or not. They could in effect merge southwest China and mainland Southeast Asia into one economic space. International boundaries will... remain as lines on maps. But they could be relegated to inconveniences or irrelevancies.

When one analyses mechanisms from upgrading the ASEAN-China Free Trade Area to a Special ASEAN-China Defence Minister's Meeting to ASEAN-China Cultural Cooperation, the fundamental approach and message is the promotion of China-centric economic opportunities in underpinning political, security and cultural advancement and cooperation. As Xi Jinping puts it, "When the big river is full of water, the smaller ones never run dry."³⁴

³³ Bilahari Kausikan, "ASEAN: Vital but Limited," *NUS Lecture*, 13 March 2019, <https://mediaweb.ap.panopto.com/Panopto/Pages/Embed.aspx?id=5d96fb17-70a2-444d-ae69-aa0f00a3921e>

³⁴ Quoted in Ruan Zongze, "Forging a Community of Shared Destiny for Mankind: The Global Dream of China," *China International Studies* Jan/Feb 2016, <https://ccefblog.wordpress.com/2016/03/14/forgi>

Even with mechanisms at the sub-regional levels that are not explicitly ASEAN mechanisms such as the Pan-Asian (or Kunming to Singapore) railway or Lancang-Mekong Cooperation, the underlying approach is the same. It is all about connecting the material (and therefore political and security) destiny of these nations to China.

As pointed out earlier, resistance is pointless but the small state giving oneself to the 'propensity of things' and embracing that as 'natural' will 'condition' these states to act in accordance with China's wishes.³⁵ The Chinese message at the September 2018 China-ASEAN Expo in Nanning was that "China welcomes ASEAN countries aboard the express train of China's economic development... and will share the dividends of economic growth with ASEAN."³⁶

[ng-a-community-of-shared-destiny-for-mankind-the-global-dream-of-china/](#)

³⁵ See Francois Jullien's notion of 'shi' in *A Treatise on Efficacy: Between Western and Chinese Thinking*, translated by Janet Lloyd (Honolulu: University of Hawaii Press, 2004.)

³⁶ Liu Zihua and Shi Ruipeng, "Plan to upgrade China-ASEAN trade agreement unveiled," *China Daily*, 13 September 2018, <https://www.chinadaily.com.cn/a/201809/13/WS5b9991b6a31033b4f4655b69.html>

PART II: SOUTHEAST ASIA'S RESPONSE – COUNTRY ANALYSIS & RECOMMENDATIONS

ASEAN: falling into Chinese traps

The geographical distance of the US and the enduring Southeast Asian fear of abandonment which has been exacerbated by the relative decline of American power means that China is in a structurally stronger position to engage with ASEAN on a consistent basis. This is evidenced by the annual speculation as to whether the American President will attend the East Asian Summit, and if not, what that indicates about Washington's commitment to the region. This matters to Australia because the perception of a neglectful or aloof US towards ASEAN creates opportunities for China to fill that space regardless of how proactive and constructive countries like Australia and Japan might be.

These structural and geographical disadvantages for the US do not fully explain China's diplomatic success with ASEAN in advancing Chinese security interests. Indeed, whereas ASEAN was recently viewed as a diplomatic buffer against Chinese attempts at dominance, one could argue that it has become inadvertently complicit in terms of helping China to achieve its security objectives in Southeast Asia.

For example, drawn out Code of Conduct negotiations allow China to admonish other powers, especially the US and its allies, for interfering in the process. By using economic largess or else coercion to pick off selected countries it has prevented the emergence of any consensus within ASEAN. At the same time Beijing continues to unilaterally and

illegally expand and consolidate control over areas of the South China Sea whilst deflecting criticism by pointing out that it is tirelessly seeking a diplomatic and negotiated solution with Southeast Asia nations.

Many ASEAN states privately complain to the US and Australia about Chinese actions. At the same time, they publicly demand, and have received, support for 'ASEAN centrality' and the organization's principles of 'neutrality' and 'inclusiveness'. Individual countries, including claimant states, insist they must never be forced to 'choose sides' when it comes to disagreements between Washington (and allies) and Beijing even though they take a clear-eyed view of what the latter is really up to in their backyard. They remain extremely reluctant to openly support any action by the US or allies that would enrage China in the name of preserving regional goodwill and stability.

In short, ASEAN has not been able to place any significant restraints on Chinese security activities even as Southeast Asian nations insist that regional diplomacy and agendas must be driven by (or at least supported by) ASEAN norms, mechanisms and processes.

If China has hitherto outplayed the US (and allies) in the ASEAN game, how has it done so given the still prevalent and profound fears about Chinese dominance held by most ASEAN member states?

Much of it can be attributed to the fact that China has seemingly hoodwinked or else manipulated ASEAN into believing that:

- Its (ASEAN's) current diplomatic strategies towards China will allow

it to maintain 'diplomatic centrality' (when it is China setting the terms of reference and pace of negotiations when it comes to issues such as disputes in the South China Sea).

- Current decisions (or non-decisions) taken by ASEAN are consistent with both a counter-dominance and hedging approach preferred by member states;
- ASEAN is getting the benefits of cooperation with China without unacceptable risks or costs;
- It is the US and its allies which are intent on forcing ASEAN (and member states) to 'choose' sides whilst China is content for ASEAN to accept some of its initiatives and reject others.

China has achieved this through:

- Manipulating the hedging strategies and mindsets of ASEAN member states in ways which preserve the illusion they are hedging when in fact they are committing to strategic decisions with long-term consequences;
- Persuading ASEAN and member states to focus on short-term gains and/or avoiding short-term losses rather than on long-term gains and/or avoiding long-term losses.
- Positioning Chinese policies as the 'natural evolution' of developments whilst characterising US and allied actions as disruptive counter actions that carry risk and costs to ASEAN and the region.

For example, China's 'full support' for the ASEAN setting of diplomatic agendas is

conditional on these agendas focusing on the Code of Conduct rather than the importance of the 2016 Arbitration decision and the dismissal of Chinese notions of 'historic rights' which predates modern international law. China does not explicitly insist on exclusivity and is supportive of ASEAN summits and other ministerial meetings with other powers, thereby creating the impression that it is comfortable with ASEAN declining to choose and take sides – seemingly in support and understanding of their hedging instincts. Yet, given that it is China changing strategic and military 'facts on the ground' in the South China Sea, treating the activities of all sides as prima facie equal plays into China's hands.

In this context, the conduct of the first ever ASEAN-China maritime drill in 2018 carries more significance than the 2019 ASEAN-US maritime exercises because it is China (and not the US) actively challenging and changing the status quo. Similarly, the ASEAN reluctance to actively engage with the FOIP concept and suspicion of the Quad on the basis that it challenges ASEAN centrality suits China because ASEAN (and its ostensible diplomatic centrality) is incapable of placing any strategic restraints on China. All China needs to do is to pay homage and lip service to the notion of 'ASEAN centrality' and to occasionally pretend as if ASEAN is an effective institution in tempering Chinese actions to persuade ASEAN to persist with the current trajectory.

In return, ASEAN is being institutionally conditioned to accept the Chinese argument that its activities and objectives in the South China Sea are the 'new normal'. What ought to be perceived as a 'dominance' play by China is instead

interpreted as China invariably regaining its natural place in the region. By extension, any attempts to counter that new normal (such as FONOPs or other allied activities) is subsequently assessed as inherently disruptive and risky.

To be sure, China's approach to individual ASEAN states will vary as will the hedging responses of individual ASEAN members with respect to their ASEAN and non-ASEAN policies. Individual country analyses will be offered below.

[Influencing and shaping Southeast Asian 'hedging' behaviours](#)

The Chinese approach to Southeast Asia has not only evolved but is relentlessly and patiently applied. The purpose is to shape the interests and perspectives of elites, and in doing so influence the hedging activities of the countries in a manner that better serves China's interests.

The authors have also found that the Chinese study of Southeast Asian hedging behaviours is far more sophisticated and extensive than that of the US and allies such as Japan who focus more on abstract principles than they do on behavioural methodology and observation (i.e., how elites and states can become 'conditioned' to behave in certain ways or accept certain outcomes through manipulation of interests, incentives and narratives). This has allowed China to have far more influence over hedging behaviours of the smaller states than ought to be the case.

It is clear China deeply understands the reality that Southeast Asian countries tend to have to similar approaches when it comes to how they respond to Chinese actions in strategic and security areas.

These approaches fall within two categories:

- (i) Maximise strategic options or space in the longer-term (or avoid making any strategic choices now from which it is difficult to retreat or alter if circumstances change. This often entails making short term choices even though many Southeast Asian states (incorrectly or else ingenuously) remain adamant that no such short-term choices have been made.
- (ii) A cost/benefit approach or analysis. Some nations focus on maximising long-term gains and/or minimising likely long-term costs and are prepared to accept short-term costs or sacrifice short-term gains to achieve that. The less strategic nations or regimes focus on securing short-term gains or else minimising short-term costs without thinking too deeply about long-term costs or gains.

Commitment to these objectives mean that most Southeast Asian nations will continue to hedge (albeit in varying ways to each other) rather than balance or bandwagon. This is because hedging or not making decisive choices is perceived to be the best way to maximise future strategic options while hedging is seen to be far less costly (and often much more beneficial) than alternatives in the short-term.

The following sections will analyse how China's broad strategy for Southeast Asia and country-based approaches have manipulated, altered or influenced the

hedging strategies of the six case study countries. It will also look at how that is shaping the way these countries respond to Chinese strategic and security policies.

The following sections will also consider the empirical or real-world factors which interact with the hedging mindsets of the countries, for example how ASEAN fits into their hedging strategies, how economic interactions and the integration of supply chains affect notions of strategic options/space and cost/benefit calculations, and how relations with Australia are relevant to hedging behaviours now and in the future.

[Indonesia](#)

(a) Hedging Mindset

As far as the appeal of Chinese narratives is concerned, our exchanges with Indonesian interlocutors suggest that acceptance of these messages is mixed and has been negatively influenced by more recent and contradictory Chinese policies and action. The perception of Chinese power as being strong, growing, and with an inevitable upward trajectory is prevalent among decision-makers, with none making direct mention of China's domestic political and economic challenges and the negative impact this may have. China is consistently viewed as already firm and unrelenting in pursuing the aim of regaining its place as the natural centre of Asia.

However, whilst most view relations with Beijing as a source of economic benefit in the short term, the prospect of the return of a Chinese hierarchical order is viewed with trepidation and as something to be actively avoided (or at least delayed), rather than a benevolent order to be welcomed.

Beijing's positive narratives about the benefits of China's rise for those who support it have been contradicted and undermined by its own policy stance and actions around the Natuna Islands. Persistent incursions into the EEZ of the Natunas – with the bold support of the Chinese coastguard - are viewed as a direct challenge to Indonesia's territorial sovereignty, its status and rights as an archipelagic state, and an indicator of how China will treat others in the region as it continues to rise.

The narrative that China's economic rise will 'lift all boats' has not also demonstrably changed public perceptions of Chinese investment and trade as a threat to national economic sovereignty, and as unequally benefiting Chinese interests rather than Indonesian interests. As such, Indonesia's hedging mindset has not demonstrably shifted in Beijing's direction. Rather, there are increasing voices convinced of the importance of keeping a balance between returns maximisation (primarily economic) and risk contingency (primarily economic diversification and indirect balancing) in relations with Beijing, and of the importance of the United States as a balancing force.

Understanding Indonesia's hedging mindset, and its relations with both the United States and China starts with its longstanding 'independent and active' foreign policy philosophy that was formulated in the 1940s and continues to be deeply ingrained in current strategic thinking. The objective of the policy is to ensure strategic autonomy and involves two strategies: maintaining 'pragmatic equidistance' between major regional powers and 'omni-enmeshment' of these powers within institutional frameworks. Pragmatic equidistance precludes formal alliances in favour of limited alignments that allow Indonesia to exploit the benefits of strategic partnerships with

many great powers simultaneously. None can be seen to be favoured over any other to maximise flexibility and security and economic choices in the long-term in circumstances where strategic uncertainty exists.³⁷

Strategic autonomy/independence has also been pursued through a strategy of 'omni-enmeshment', familiar among South East Asian states which involves drawing great powers into formal institutions that are rule bound, to socialise those states into norms of conflict avoidance, cooperation and acceptance of the status quo. ASEAN and its main institutions have played this role of 'enmeshing' the US and China in the region under the former's terms, with Indonesia positioning itself within the organisation as *primus inter pares* to increase its greater influence and value to these powers.³⁸ Such influence is meaningful only insofar as ASEAN remains central and united.

When looking at Indonesia's response to Chinese initiatives in recent years, we can see little change to these goals and strategies. Indonesia continues to be pragmatic – by seeking to maximise economic benefits (primarily infrastructure investment) in the short term – while attempting to maintain a level of equidistance between both the US and China. The greatest area of vulnerability – where Indonesia could find its autonomy compromised in the long term in favour of Beijing – is in the economic realm. China has become Indonesia's top

trading partner, its top destination for exports (12.6% of total exports in 2016),³⁹ and since President Jokowi came to power, Chinese FDI has increased dramatically overtaking Japanese investment to be the second largest source (after Singapore) in 2017.⁴⁰

Unlike his predecessor Yudhoyono, President Jokowi is primarily focused on propelling trade and economic development, has little interest in the nuances of geostrategy, and assesses foreign relations and institutions narrowly in terms of the direct (and immediate) economic benefits for the nation. With the Indonesian government's tax base being narrow and the 2003 Fiscal Law capping deficits at 3 percent of GDP,⁴¹ the government is keen to source funding for infrastructure development that does not involve either government capital or a financial guarantee. It was on this basis that China outbid a Japanese proposal to build the Jakarta-Bandung High Speed Railway (JBHSR) in September 2015, a project that China considers a BRI project, but Indonesia does not.⁴² China has offered to provide more funding for maritime infrastructure development, with Jokowi viewing the Maritime Silk Road component of the BRI as being highly compatible with his own Maritime Toll Road (*Tol Laut*) initiative. The latter envisages the development of ships, harbours and port facilities in West and

³⁷ See Evan A. Laksmana, "Pragmatic Equidistance: How Indonesia Manages its Great Power Relations", in David B. H. Denoon (ed.), *China, The United States and the Future of Southeast Asia* (New York: New York University Press, 2017), pp. 113-135.

³⁸ *Ibid.*

³⁹ Leo Suryandinata, "The Growing 'Strategic Partnership' between Indonesia and China faces difficult challenges", *ISEAS Trends in Southeast Asia Report*, 2017 no. 15, p. 6.

⁴⁰ Erwida Maulia, "Japan Slips to Third Place as Belt and Road Money begins to flow", *Asian Nikkei Review*, 1 February 2018, <https://asia.nikkei.com/Politics/International-relations/China-becomes-Indonesia-s-No.-2-investor-with-infrastructure-drive>

⁴¹ See *OECD Economic Surveys: Indonesia* (Paris: OECD, October 2018), <http://www.oecd.org/economy/surveys/Indonesia-a-2018-OECD-economic-survey-overview.pdf>

⁴² *Op cit.* Leo Suryandinata, p. 14.

East Indonesia to improve internal and external trade.⁴³

Apart from the President's favourability toward greater Chinese investment, interlocutors also consistently mentioned the role of specific ministers in awarding infrastructure contracts to Chinese SOEs who stand to benefit personally and through their patronage networks from Chinese infrastructure projects (eg. Luhut Binsar Pandjaitan who is seen as highly problematic in this regard).⁴⁴

Despite these vulnerabilities to Chinese economic influence, there are factors which limit the extent to which Indonesia's independent foreign policy and hedging strategy can be compromised: economic nationalism, anti-Chinese public sentiment, and the Natuna Islands dispute.

- Public opinion demonstrates a high level of economic nationalist sentiment. This is likely to be based on widespread public perception that the 2010 ASEAN-China FTA has led to an influx of Chinese consumer goods and a crowding out of domestic producers with the trade balance in China's favour for some years.⁴⁵

Further, since 2015 there has been growing public scepticism over the employment benefits arising from Sino-Indonesian joint projects – and discontent with the Jokowi Administration's guardianship of the national interest. This started with a number of social media campaigns and investigative reports by small newspapers alleging the illegal presence of large numbers of unskilled Chinese migrant workers employed in Sino-Indonesian projects 'taking away' Indonesian jobs. In 2016, there was a highly influential but exaggerated claim of 10 to 20 million illegal Chinese workers in Indonesia which had to be explicitly rebutted by the government.⁴⁶

In the 2017 nationwide survey conducted by ISEAS, 62% of Indonesian adults thought that close economic ties with China would bring 'a little' benefit to Indonesia, and only 27.7% assessed the benefit as 'a lot'.⁴⁷

- Bolder and more aggressive social media disinformation campaigns were waged by Jokowi's opponents in the lead up to the

⁴³ Leo Suryandinata, "Indonesia to be Maritime Power? Not so fast", *Straits Times*, 11 December 2014; op cit. Leo Suryandinata. Indonesia is also a member of the AIIB and has received funding for a Sumatra toll road, power plants and dam maintenance as of 2017.

⁴⁴ See *Coalruption: Shedding Light on Political Corruption in Indonesia's Coal Mining Sector* (Jakarta: #Bersihkan Indonesia 2018), <https://auriga.or.id/wp-content/uploads/2018/11/COALRUPTION-EN-1.pdf>; Howard Dick and Jeremy Mulholland, "Old Money: Indonesia beyond cronyism," *Indonesia at Melbourne*, 14 May 2018, <https://indonesiaatmelbourne.unimelb.edu.au/old-money-indonesia-beyond-cronyism/>

⁴⁵ From January-July 2018 for example, Indonesia's accumulative trade deficit to China was US\$3.09

billion. Excluding oil and gas products, the trade deficit was US\$10.34 billion. See Ministry of Commerce, People's Republic of China, "Statistics on China-Indonesia Trade in January-July, 2018", 4 September 2018,

<http://english.mofcom.gov.cn/article/statistic/lanmubb/ASEAN/201809/20180902788480.shtml>

⁴⁶ In 2015, the Manpower Minister stated that the total number of foreign workers in Indonesia stood at 70,000 out of a total workforce of 129 million. See op cit. Leo Suryandinata, p 20.

⁴⁷ Diego Fossati, Hui Yew-Foong and Siwage Dharma Negara, *the Indonesian National Survey Project: Economy, Society and Politics*, Trends in Southeast Asia, no. 10/2017 (Singapore: ISEAS-Yusof Ishak Institute, 2017), p. 42, [https://www.iseas.edu.sg/images/pdf/TRS10_17%20\(002\).pdf](https://www.iseas.edu.sg/images/pdf/TRS10_17%20(002).pdf)

recent 2019 election,⁴⁸ with Jokowi charged with being a lackey of both the ethnic Chinese *Tionghoa* community and the CCP. In other words, the Chinese worker issue has also become mixed and conflated with existing underlying animosity among many Indonesians against *Tionghoa* community who are viewed as unfairly dominating Indonesia's domestic economy, despite only being around 5% of the population.

For example, a 2017 survey by the Wahid Foundation found that 60 percent of respondents disliked particular ethnic groups, with a majority putting ethnic Chinese Indonesians in this category.⁴⁹ Public opinion, media scrutiny, the electoral salience of anti-Chinese sentiment and the risk that increased Chinese investment could cause a return to ethnic violence should place significant constraints on any government's future decisions.

- There is also a significant level of suspicion about China's motives among elites, with almost all interlocutors mentioning the risk of Indonesia becoming vulnerable to Chinese economic dominance/dependence via the BRI. Government interlocutors emphasised that Chinese initiatives are 'scrutinised 300%', with pro-Beijing voices in the minority.

Most approved of the cautious approach taken by the bureaucracy in selecting projects

for funding that fit Indonesia's long-term needs, rather than China's Maritime Silk Road objectives.

For example, of the eleven projects offered by the government to China for investment in 2017, only three were port projects – in Kuala Tanjung, Bitung, and Bali – which have long been designated as future international hub-ports that enhance connectivity across the archipelago but do not feature on China's BRI map. All projects are not exclusively offered to China but also to other nations/private companies for investment.

Further, BRI project MOUs signed by the government in 2018 include national interest and risk mitigating conditions such as the guaranteed employment of Indonesian workers, ownership by Indonesian companies, the involvement of private Indonesian companies (rather than SOEs), the preclusion of government guarantees to avoid potential sovereign debt traps, environmental protection measures, and opportunities for technological transfer.⁵⁰

- The final constraint is Indonesia's determination to defend the EEZ of the Natuna Islands from Chinese activities. Recent and increasingly bold incursions into this EEZ by Chinese fishing vessels, backed by coastguard vessels has significantly raised deep concern that Jakarta's sovereignty over the Islands, control over the maritime resources contained within it, as well as the

⁴⁸ For example, see Tabita Diela and Fanny Potkin, "'We're not Chinese officers': Indonesia fights anti-China disinformation", *Reuters*, 25 May 2019, <https://www.reuters.com/article/us-indonesia-election-fakenews/were-not-chinese-officers-indonesia-fights-anti-china-disinformation-idUSKCN1SU1QM>

⁴⁹ See Dewi Fortuna Anwar, "Indonesia-China Relations: Coming Full Circle?", *Southeast Asian Affairs*, vol. 2019: 145-161 at p. 157.

⁵⁰ Authors' interviews with Government officials undertaken in Jakarta in October 2019.

broader territorial and maritime legal rights Indonesia has acquired as an archipelagic state under UNCLOS are under threat. Moreover, in defending rights of access and asserting legal claims over the waters of the Natunas China has also clearly undermined the credibility of its 'benevolent hierarchy' narrative.

Prior to 2016, Indonesia attempted to downplay Chinese illegal fishing in the Natuna waters to avoid involvement in the South China Sea disputes and maintain a position as an 'honest broker'.

However, since 2016 several incidents have occurred which have resulted in a more confrontational position by Indonesia in defence of its sovereignty. There were two incidents of note in that year. The first occurred in March 2016 and involved the Indonesian Navy arresting eight Chinese fishermen operating in the Natuna EEZ, the ramming of their seized fishing boat by a Chinese Coast guard vessel, followed by formal diplomatic protests by Indonesia. The second May 2016 incident involved the use of live ammunition by the Indonesian Navy in 'hot pursuit' of a Chinese vessel. Elites and the public supported these robust actions by the Indonesian government even though it led to

escalating diplomatic tensions with China.

Even so, the May 2016 incident did not lead to Chinese coastguard intervention, suggesting that limited pushback against China is possible and desirable. Note that Jakarta's reactions were firm and forthright in rejecting outright a Chinese Foreign ministry statement asserting that the two countries had 'overlapping claims for maritime rights and interests'. Indonesia has stated previously that it does not recognise the legal validity of the nine-dash line under UNCLOS.⁵¹ In a symbolic demonstration of intent, President Jokowi soon after visited the Natunas and held a cabinet meeting aboard the same Naval vessel involved in the second incident.⁵²

Then in July 2017, a new map of the Republic of Indonesia was issued, renaming the part of the South China Sea falling within the Natuna EEZ the 'North Natuna Sea', with no retraction following Chinese protests. Since then, the Jokowi Administration has taken steps to increase Indonesian control over the Islands and its waters in the short and long term. These include increased naval patrols, the upgrade of military capabilities on the islands, the deployment of advanced weapons, policies to increase population transfer, and

⁵¹ See Leo Suryandinata and Mustafa Izzuddin, "The Natunas: Territorial Integrity in the Forefront of Indonesia-China relations", *ISEAS Trends in Southeast Asia Report*, 2017 no. 5, July 2017.

⁵² See K. Kapoor and f. Jensen, "Indonesia President Visits Islands on Warship, Makes Point to China," *Reuters*, 23 June 2016, [https://www.reuters.com/article/us-southchinasea-indonesia/indonesia-president-](https://www.reuters.com/article/us-southchinasea-indonesia/indonesia-president-visits-islands-on-warship-makes-point-to-china-idUSKCN0Z909D)

[visits-islands-on-warship-makes-point-to-china-idUSKCN0Z909D](https://www.reuters.com/article/us-southchinasea-indonesia/indonesia-president-visits-islands-on-warship-makes-point-to-china-idUSKCN0Z909D); Iis Gindarsah, "Indonesia's Strategic Hedging and the South China Sea", in NIDS, *Maintaining Maritime Order in the Indo-Pacific*, NIDS International Symposium on Security Affairs 2017, published February 2018, <http://www.nids.mod.go.jp/english/event/symposium/pdf/2017/e-02.pdf>;

the development of fisheries and hydrocarbon infrastructure.

- The recent incursion of around 50 Chinese fishing vessels escorted by two coast guard ships and a frigate in the Natuna EEZ in December 2019 was met with a very robust response by the Indonesian Coast guard, strong diplomatic protests and a symbolic visit by President Jokowi to the Lampa Strait Naval Base. All of this suggests that Indonesia's resolve to protect its maritime rights is hardening.⁵³

(b) Recommendations

Prima facie, Australia is obliged to work within Indonesia's 'pragmatic equidistance' policy: Jakarta will not want to be seen to be taking strategic or military sides between the US and allies on the one hand and China on the other.

At the same time, and unlike most other Southeast Asian powers, Indonesia has a sense of itself as a 'big' regional power and is less tolerant of diplomatic slights and insults. This might be turned into common advantage in the following ways:

- Frame activities as 'counter-dominance' or 'dominance denial' activities. For example, Australia-Indonesia maritime and naval activities should have explicitly developed counter-dominance or dominance denial frameworks and objectives. Australian assistance to increase Indonesia's maritime and naval capabilities should follow the same rationale and messaging.
- One of the major obstacles for Indonesia to increase its maritime

capacity and better protect its own strategic interests is the dominance of the army and 'land-based concerns' over that of its navy and maritime concerns. Australia's Defence Cooperation Program (DCP) and other frameworks for defence cooperation and interaction should focus more on developing a maritime focus with the Indonesian National Armed Forces (TNI) – maritime capability, interoperability, strategy and doctrine - even if this means less emphasis on 'professionalising' the culture, norms and organisation of the TNI. (This will mean decreased emphasis in relative terms on language training, army operations, and organisational development and management.)

These latter subjects are not unimportant but could absorb Australian efforts for little meaningful strategic return. In contrast, the authors found that there is high regard for Australian views on maritime aspects by defence, military and strategic elites in Indonesia.

- Australia can encourage Indonesia to view all activities according to a counter-dominance or dominance-denial perspective which does not entail taking strategic sides or making decisive strategic decisions (which Jakarta does not want to do.)

For example, Indonesia does not need to take sides when it comes to great power activities in the SCS. Jakarta can assess US FONOPs according to whether it advances

⁵³ Jefferson Ng, "The Natuna Sea Incident" How Indonesia Is Managing Its Bilateral Relationship With China", *The Diplomat*, 15 January 2020,

<https://thediplomat.com/2020/01/the-natuna-sea-incident-how-indonesia-is-managing-its-bilateral-relationship-with-china/>.

or sets back Indonesia's counter-dominance or dominance-denial objectives. The same assessments should be made about Chinese activities, the BRI, Japan's increased strategic and economic role, the blossoming US-Japan-Australia strategic relationship, Australia's Pacific Step-Up, the importance of UNCLOS and international law, and China's strategy and tactics towards ASEAN. In virtually all these cases, the policies which Australia supports also enhances the dominance-denial objectives of Southeast Asian countries and Jakarta can be led to the same conclusion.

- There is poor strategic thinking capacity in the Indonesian system, especially with respect to maritime issues, relative to the preparedness of Indonesia to stand up and protect its interests vis-à-vis China.

Simply holding more Track 2 meetings on the issue is unlikely to produce meaningful results. Smaller and closed-door Track 1.5 Indonesia-Australia meetings (with the agenda and participants nominated by the respective governments) is likely to be more useful. This is because non-governmental thinkers do not tend to have strong influence amongst decision makers in Jakarta (with some rare exceptions.) It is better to either have Indonesia politicians/officials, or their nominees, in the room to discuss counter-dominance or dominance-denial perspectives.

As one suggestion, the entrée into a more analytical (and critical) treatment of Indonesia's Indo-Pacific Cooperation concept is to frame the discussion around how

the concept can better serve Indonesian counter-dominance or dominance-denial objectives. For the moment, the Indonesian concept does not go far beyond the somewhat impotent ASEAN principles of its own centrality, inclusiveness and friendship. There is little development of how such aspirations can be reflected in policy, much less outcomes.

However, Jakarta recognising the importance of being seen to be engaging with the FOIP is a breakthrough of sorts and should not be wasted. An appropriate Track 1.5 meeting as described above could be useful.

Indications are that Jokowi is sceptical of the substantive benefits ASEAN and other international institutions has delivered. Weakened assertion of leadership by Indonesia within ASEAN has removed a powerful voice for UNCLOS as the basis of ASEAN's dealings with China including the CoC. Even so, the ASEAN support for the Indonesia-led Indo-Pacific Concept demonstrates that the assertion of Indonesian leadership within ASEAN can be effective.

Given the inflexibility of the consensus approach and a desire to avoid Chinese displeasure, ASEAN is more effective when it is engaged in mutually beneficial agendas (e.g., economic and infrastructure connectivity and tariff reduction agreements) that do not involve overtly taking sides. This includes the setting of broad objectives or standards in economic areas. In contrast, it is less effective when dealing with strategic agendas which involve relative gains and/or zero-sum frameworks which require the taking of sides or making longer term strategic decisions.

For these reasons, Australia should encourage and work with Indonesia to take the lead within ASEAN to:

- Define standards of foreign investment and economic activity that includes protection for national benefit/interest (domestic employment, transparency in tendering and terms, technology transfer, labour standards, environmental protection).

This might include giving more specifics to ASEAN's connectivity and infrastructure agendas regardless of whether these are relevant to the BRI or not. (In this sense, ASEAN need not specifically commit to an explicit stance on the BRI and its strategic implications.)

- With respect to strategic issues, Australia should seek to work with Indonesia (and Vietnam, Singapore, Malaysia, the Philippines and perhaps Thailand) to shift from an inclusiveness and neutrality agenda towards a counter-dominance or dominance-denial one.

Malaysia

The election of Dr Mahathir Mohammed and his Pakatan Harapan (PH - "Alliance of Hope") coalition to power in May 2018 raised considerable expectations of a 'new dawn' in both Malaysian domestic politics and its regional policies. Under

Najib Razak, Malaysia had enthusiastically deepened its economic relationship with China with the high point being the signing of fourteen memoranda of understanding with Chinese companies worth US\$34 billion after the latter's state visit to the PRC in November 2016.⁵⁴ PH's successful election campaign to ouster Najib Razak and the Barisan National coalition included strong critiques of Malaysia's increasing dependence on Chinese trade and investment.

The overarching themes of these critiques were two-fold.⁵⁵ The first linked Razak's decisions to enter Chinese funded, but Malaysian government guaranteed, infrastructure megaprojects as exposing Malaysia to a debt trap. With Malaysia's government debt reaching 55.57% of GDP in 2018⁵⁶, linkages were drawn to Sri Lanka's Hambantota Port and the prospect that Malaysia would eventually be forced to relinquish strategic assets to China. The deterioration of Malaysia's government debt position was further tied to the 1MDB scandal with Prime Minister Razak accused of compromising the national interest and selling of Malaysian sovereignty and strategic independence to China in order to cover up his own personal corruption, and of those around him. The accusations of corrupt motives were amplified by hard questions over the economic viability over the projects, inflated project costs, opaque/closed tendering processes, the

⁵⁴ "Malaysia not being sold off to China, Says Najib", *Today Online*, 16 January 2016, <https://www.todayonline.com/world/asia/msia-pm-denies-selling-malaysia-chinese>; Cassey Lee, "Deepening of Malaysia's Economic Ties to China: What are the implications?", *ISEAS Perspective*, 20 December 2016; Joseph Sipalan, "Malaysia's Najib risks backlash at home after deals with China", *Reuters*, 7 November 2016, <https://www.reuters.com/article/us-malaysia->

<ching/malaysias-najib-risks-backlash-at-home-after-deals-with-china-idUSKBN1320EY>.

⁵⁵ See Amrita Malhi, "Race, Debt and Sovereignty - The 'China Factor' in Malaysia's GE14", *The Roundtable*, 2018, vol. 107(6): 717-728.

⁵⁶ Country Economy, "National Public Debt Malaysia 2018", <https://countryeconomy.com/national-debt/malaysia>, last accessed 19 January 2020.

lack of provision for local employment and technology transfer, and the 'crowding out' effects for local SMEs.⁵⁷

The second cast the BN as encouraging new real estate developments that sold off Malaysia's sovereign and strategic territory to China, and worse, would be exclusively inhabited by an influx of new Chinese migrants to Malaysia. This narrative focused on the US\$42 billion Forest City Development, a luxury residential development capable of housing 700,000 people on reclaimed land in the Johor Strait, only a few kilometres from the Malacca Strait. In this case, 60 percent of the equity for the development was owned by Chinese development company Country Garden Pacific who designed and marketed the development for the Chinese market. As the prices of the dwellings were set beyond the capacity of most locals, Chinese buyers accounted for eighty percent of the owners of units sold before the election, allowing accusations by PH of a sell off of sovereignty to find electoral appeal.⁵⁸ Dr Mahathir likened the project to the historical decision of the Sultan of Johor to hand over control of the island of Temasek – now Singapore – to the British saying "We sold the land to the British...Now it is no longer our country."⁵⁹ These two facts were cast by the PH

election machine as BN's abdication of its duty to protect the nation, and the Bumiputra, with the prospect of new Chinese immigration stirring up existing racial divisions.

After taking power, the new government appeared to be following through on its election promises by renegotiating or cancelling existing Chinese-Malaysian projects that Mahathir had often described as "unfair" and miring the country in debts it could not afford. In August 2018, following a state visit to China by Mahathir, the government announced it had cancelled the US\$20 billion East Coast Rail Line (ECRL) subject to renegotiation with the Chinese contractors, as well as two oil and gas pipeline projects costing US\$1 billion each, the Multi-Product Pipeline and Trans-Sabah Gas Pipeline.⁶⁰ The government had for some time flagged the suspicious inflation of contract prices and accused the former government of siphoning US\$700 million dollars of funds borrowed from China to pay of the debts of 1MDB.⁶¹ Mahathir's comment in Beijing that "We do not want a situation where there is a new version of colonialism happening because poor countries are unable to compete with rich cities, therefore we need fair trade"⁶² was particularly damaging for China's BRI

⁵⁷ See Tham Siew Yean, "Chinese Investment in Malaysia: Five Years into the BRI", *ISEAS Perspective*, 27 February 2018.

⁵⁸ Op cit. Malhi, p. 721; Joseph Sipalan, "Malaysia says no to foreign homeowners in Forest City project", *Reuters*, 17 August 2018.

⁵⁹ Soo Wern Jun, "Mahathir launches bitter attack on Forest City project", *Free Malaysia Today*, 30 December 2017, <https://www.freemalaysiatoday.com/category/nation/2017/12/30/mahathir-launches-bitter-attack-on-forest-city-project/>

⁶⁰ "ECRL and pipeline projects axed", *The Star*, 22 August, 2018, <https://www.thestar.com.my/news/nation/2018/08/22/ecrl-and-pipeline-projects-axed-it-added-to-the-countrys-debts-and-we-cannot-afford-it-explains-dr-m>

[8/22/ecrl-and-pipeline-projects-axed-it-added-to-the-countrys-debts-and-we-cannot-afford-it-explains-dr-m](https://www.thestar.com.my/news/nation/2018/08/22/ecrl-and-pipeline-projects-axed-it-added-to-the-countrys-debts-and-we-cannot-afford-it-explains-dr-m)

⁶¹ Blake H. Berger, "Malaysia's Cancelled Belt and Road Initiative Projects and the Implications for China", *The Diplomat*, 27 August 2018, <https://thediplomat.com/2018/08/malysias-canceled-belt-and-road-initiative-projects-and-the-implications-for-china/>

⁶² Quoted in Richard McGregor, "Mahathir, China and Neo-Colonialism", *Nikkei Asian Review*, 30 August 2018, <https://asia.nikkei.com/Opinion/Mahathir-China-and-neo-colonialism>

narrative of shared prosperity, particularly coming from an elder statesman of the non-alignment era.

Despite these optics, Mahathir's second coming did not signal an unprecedented hard turn against China. Malaysia has not stepped away from the BRI or its close economic relationship with China more generally. On 12 April 2019 it was announced that the ECRL project would now go ahead after a renegotiation of the contract with a reduced cost of around one third and an increase in local contractor participation from thirty to forty percent.⁶³ During his second visit to China, the Prime Minister delivered a strong endorsement of the BRI in a keynote address at the Second Belt and Road Forum in Beijing in late April 2019, and concluded three MOUs on the purchase of Malaysian palm oil, the development of industrial parks and logistic hubs related to the ECRL, and reinstated the Bandar Malaysia transit hub development (integral to the ECRL and a future KL Singapore high speed rail link) that had been put on hold in 2017 by the previous government. Further agreements were concluded on with China's SenseTime, the China Harbour Engineering Company and Malaysia's G3 Global to build the first Artificial Intelligence Park in Malaysia.⁶⁴

Further, rather than attributing blame and ill motives to China for creating the conditions for a 'debt-trap', the new government has placed responsibility for the economic and strategic

vulnerabilities associated with Malaysia's high levels of national debt at the feet of the former government. In reference to the BRI, Mahathir subsequently argued "If countries prefer to borrow huge sums of money, well, that is your decision. You make that decision, you know capital flowing into the country exerts some influence over the country. So it is up to the countries concerned to make sure that the money flowing into their country is not borrowed money, is not money for infrastructure, but maybe limited to money for investment in productive processes." He has also cast China's use of economic power to "enlarge their influence" as a "natural reaction".⁶⁵

(a) Hedging mindset

Malaysia's approach is difficult to read but it is clear it has not abandoned a hedging strategy when it comes to dealing with the strategic uncertainties associated with factors such as the future strategic balance in the region. Whilst the US Justice Department's key role in the 1MDB scandal put Malaysia-US relations under strain, this did not appear to affect the defence relationship. Malaysia continues to participate in US led exercises like Cobra Gold, RIMPAC, Pacific Partnership, Southeast Asia Cooperation and Training (SEACAT) and bilateral exercises such as Keris Strike and Cope Taufan. Regular military exchanges, education and training continues and US warships also use Malaysian ports for maintenance, re-supply.⁶⁶ The US has assisted Malaysia with improving its maritime domain awareness capabilities

⁶³ Ooi Tee Ching, "ECRL project to be re-launched this month", *New Straits Times*, 8 July 2019, <https://www.nst.com.my/business/2019/07/502524/ecrl-project-be-re-launched-month>

⁶⁴ See Lye Liang Fook, "China-Malaysia Relations Back on Track?", *ISEAS Perspective*, 15 May 2019.

⁶⁵ Bhavan Jaipragas, "'Chinese by nature are very good businesspeople': Malaysian Prime Minister Mahathir Mohamad's exclusive interview in full", *The South China Morning Post*, 8 March 2019.

⁶⁶ See Author redacted, "Malaysia: Background and US Relations", CRS Report for Congress R43505, 18 May 2017 p. 10;

in the South China Sea including the provision of twelve ScanEagle drones through its Maritime Security Initiative.⁶⁷ Malaysia's defence relationship with China is still weak in comparison. This represents the continuation of some dominance denial initiatives as part of a hedging strategy.

However, the authors assess Malaysia's approach as a 'light hedge' with Malaysia's policy of non-alignment⁶⁸ and equidistance and beginning to lose its moorings and resulting in a tilt toward China. The response of Malaysia's elites to China – whether under the Najib government or the current PH coalition – is guided primarily by their need to maintain internal legitimacy. The majority Malay population demands two things from their leaders: a defence of bumiputra special privileges and continued economic development. The Barisan National (BN) coalition, under the leadership of Dr Mahathir was credited domestically with engineering Malaysia's steady rise up the development ladder, and it was he who first took a pragmatic economic approach to Chinese trade and investment. It was a faltering of the country's economic performance, that ate away at the BN's electoral appeal over successive elections. This drove the Najib government toward an even deeper embrace of Chinese investment⁶⁹ under the BRI, and then became a lifeline for Najib to extract himself from graft allegations associated with the 1MDB scandal.

The new government has not ultimately shifted from taking an economically pragmatic approach to China – despite the risks to Malaysia's sovereign independence – because of its need to establish and consolidate electoral credibility over the BN. The new government's primary agenda has been to consolidate the government's finances, reduce government debt, and bolster its credentials as a 'clean' government.

Conversations with interlocutors confirm however, that there is growing frustration and impatience within the electorate about the new government's ability to turn around Malaysia's economic performance, to put forward positive economic initiatives as opposed to deflecting blame to the previous government, and to demonstrate their ability to govern effectively. This pressure is magnified because most new ministers have never been in government. Hence, Prime Minister Mahathir's approach to Chinese backed mega-projects is one of debt-consolidation, and he has gone to great lengths to reassure China that despite his negative campaign rhetoric Malaysia is very much open to Chinese investment and trade.

What has changed is the new government's insistence that the terms of such investment must be more clearly in the national interest. This includes the renegotiation of the ECRL to expand participation by Malaysian firms and workers, the prospect of technology transfer to Malaysian companies, a more

⁶⁷ "Malaysia Confirms US Aid Package In Shape Of Aerial Drones", *Eurasia Review*, 9 June 2019, <https://www.eurasiareview.com/09062019-malaysia-confirms-us-aid-package-in-shape-of-aerial-drones/>

⁶⁸ See *Foreign Policy Framework of the New Malaysia*, p. 27.

⁶⁹ See Cheng-Chwee Kuik, "Malaysia Between the United States and China: What do Weaker States Hedge Against?", *Asian Politics & Policy*, 2016, vol. 8(1):155-157.

rigorous analysis of costs, and an emphasis on investment that is 'productive' and which opens market access to China for Malaysian companies.

Nevertheless, not all aspects of the long-term national interest are addressed under this approach. Whilst the PH coalition describes its economic approach as inclusive, that is, that investment by other countries is welcomed, its growth strategy remains highly dependent upon China. During his 2019 state visit to China, Mahathir for example publicly declared his hope that Malaysia would become China's main trade hub in Southeast Asia.⁷⁰ Without the active pursuit of diversification in current trade and investment strategies Malaysian governments will find their freedom of action more deeply compromised in the long term.

As far as Chinese narratives are concerned, the authors assess that Malaysia's elites have absorbed many of China's positive narratives. Most view China's rise to be inevitable and that its upward trajectory is assured. Further, and more worryingly, Malaysian elites are beginning to accept the broader narrative that those who support China's rise will be benevolently rewarded under the new order. That Malaysia's re-joining of the BRI in 2019 was immediately compensated by Chinese largesse in the form of promises to buy palm oil products, a US\$20bn a year export earner for Malaysia that has been put under risk by

the EU decision to ban imports by 2020, reinforced this perspective.

The current leadership also appears to have a benign view of the implications of a coming Chinese led order. For example, in a post-election interview with the South China Morning Post, Prime Minister Mahathir went so far as to say: "we have had China as a neighbour for 2,000 years, we were never conquered by them. But the Europeans came in 1509, in two years, they conquered Malaysia. So the attitudes of different countries are different. China's attitude of course is to gain as much influence as possible. But so far China doesn't seem to want to build an empire. So we will remain free people."⁷¹

Finally, Malaysia's economic dependency on China has deeply affected its approach to defending its interests in the South China Sea. Like other claimant states, Malaysia has directly experienced bolder encroachments by PLAN ships in its EEZ in the South China Sea (near James Shoal, South Luconia Shoal and North Luconia Shoal) each year since 2013, with some involving flotillas of fishing boats that have disrupted access by Malaysian fishermen. Malaysia's response to these incursions has been muted with the previous government preferring to quietly increase air and sea patrols of these areas, suppress news of these incursions in the press, to assure the public of Malaysia's continuing control over these waters, and to lodge quiet diplomatic protests.⁷² Direct confrontation on the sea has been

⁷⁰ Op cit. Lye Liang Fook, p. 5.

⁷¹ Bhavan Jaipragas, "'Chinese by nature are very good businesspeople': Malaysian Prime Minister Mahathir Mohamad's exclusive interview in full", *The South China Morning Post*, 8 March 2019.

⁷² See Elina Noor "Understanding Malaysia's Approach to the South China Sea Dispute", in Murray Hiebert, Gregory B. Poling and Conor Cronin (eds.), *In the wake of Arbitration : papers from the Sixth Annual CSIS South Sea Conference*, CSIS, January, 2017". pp. 18-29.

avoided to ensure that economic benefits are not put at risk.

In this context, the new government has surprised many by showing a willingness to confront China's conflicting claims to the South China Sea and to potentially use arbitration procedures within UNCLOS as per the Philippines. On 12 December 2019 the government submitted a claim to the UN to extend Malaysia's continental shelf beyond 200 nautical miles off the northernmost point of Borneo. This is an extension of the joint petition put forward by Vietnam and Malaysia in 2009 and absorbs the legal findings of the Permanent Court invalidating China's 9-dash line and clarifying maritime rights associated with land features in the Spratly Islands. The Malaysian government has so far held firm in the face of Chinese protests with the Foreign Minister remarking, "For China that the whole of the South China Sea belongs to them, I think that is ridiculous."⁷³

Malaysia's decision to join with other claimant states in engaging in lawfare is an interesting development and a break from the recent past. Whether it signals a real change in hedging behaviour will only be known if China exerts significant diplomatic and economic pressure on Malaysia which it hasn't yet done.

Malaysia too has significant capacity constraints, with its current budget crisis has meant that defence spending for 2020 will barely increase to US\$3.7 billion.⁷⁴ The Foreign Minister Saifuddin

Abdullah recently admitted that Malaysia's naval assets "are smaller than the Coast Guard vessels from China", which now had a near continuous presence around South Luconia Shoals off the state of Sarawak.⁷⁵ Given these real material constraints, engaging in lawfare is one of Malaysia's few options to try to hold its ground against Chinese claims.

However, if China pushes back and exerts meaningful coercive pressure, it will be extremely difficult for Malaysia to withstand that given its economic dependency on China.

Recommendations

Malaysia cannot be relied upon to take a sustained robust stance against China even though it might periodically push back hard on isolated issues which affect its immediate interests.

On a spectrum, of the six states in this study, Malaysia's hedging strategy vis a vis China is second only to Thailand in relation to its relative weakness and vulnerability to compromise. Malaysia is only lightly hedging against the potential consequences of China's rise. Priority is given to the short-term maximisation of economic benefits of trade/investment with China with potential compromise to long-term foreign policy autonomy being lightly counteracted by efforts towards indirect balancing (increasing military capacity and enhancing relationships with the US and others).

⁷³ "Malaysia Stands by Claim to Increase South China Sea Territory", *Benar News*, 3 January 2020, <https://www.benarnews.org/english/news/malaysia/sea-territory-01032020170333.html>

⁷⁴ "Malaysian defence budget growth to slow in 2020", *Janes Defense News*, 13 October 2019. <https://www.janes.com/article/91863/malaysian-defence-budget-growth-to-slow-in-2020>

⁷⁵ "Malaysia needs to be ready for the worst in South China Sea: foreign minister", *Reuters*, 17 October 2019, <https://www.reuters.com/article/us-malaysia-southchinasea/malaysia-needs-to-be-ready-for-the-worst-in-south-china-sea-foreign-minister-idUSKBN1WW0EU>

Nevertheless, Malaysia still wants to build its military capacities to defend territorial interests in the South China Sea. It is open to working with the US and other Western powers to keep its military options open.

However, under Mahathir, there are constraints on how close Malaysia will work with the US at the highest levels despite the continuation of institutional mil-to-mil links. Washington's support for Israel is a major complicating factor in this regard as is its perceived antagonism to the Muslim world.

Nevertheless, there are some potential avenues to alter some of Malaysia's behaviours in a more positive direction:

- Kuala Lumpur is dipping its toe in the water when it comes to the sue of lawfare with its preparedness to join with other claimant states in using the Permanent Courts findings in their updated submissions.

Australia can offer Malaysia all appropriate legal and diplomatic assistance in this context.

- Malaysia 's dominance denial capabilities are poor because of severe budgetary constraints that are likely to persist. Efforts to assist with capacity building could be explored within the Five Power Defence Arrangements (FPDA), especially when it comes to maritime domain awareness, intelligence sharing and training.

This is more palatable to political elites and the domestic audience given the absence of the US within the FPDA.

Overall, while Mahathir is nowhere as personally compromised as Najib when it comes to China, the former has decades of biases against the US and West which will not change. The acceptance of many of China's narratives has only reinforced Mahathir's view that an accommodation with China is far more important than assisting with measures to preserve US pre-eminence.

While Malaysian defence interlocutors tend to share the same concerns about China as Australian counterparts, political and economic elites expect the emergence of a China-dominated region, view the consequences as being relatively benign and are adjusting accordingly.

In official bilateral conversations, Australians have tended to shy away from challenging many Malaysian assumptions and arguments about the US and China for fear of offence. This reluctance does not serve our interests. Our silence and lack of contestation is often perceived by Malaysians as tacit agreement.

Therefore:

- Just as Malaysia often challenges the wisdom of our increasingly close relationship with the US, we ought to do the same (in diplomatically acceptable terms) when it comes to Malaysia's relationship with China.
- Moreover, Japan's contemporary strategy in deepening the trilateral relationship with the US and Australia to counterbalance China ought to be brought into the conversation as there is deep respect and warmth for Tokyo.

There would therefore be value in more regular Track 1.5 meeting with Malaysia, Japan and Australia after conferring with Tokyo on this. This need not be a large gathering but a small roundtable. One is unlikely to be able to change Mahathir's mind and worldview, but senior bureaucrats and ministerial advisers will engage on these issues.

The Philippines

(a) Hedging Mindset

It is common amongst experts to point out that the more 'equidistant' approach of Rodrigo Duterte towards the US and China is relatively 'normal' for the Philippines and the more confrontational policies of the previous Benigno Aquino III administration is the exception rather than the norm.

Even so, the current administration stands apart from predecessors. While previous leaders such as Fidel Ramos and Gloria Arroyo emphasised friendship and the importance of economic relations with China over strategic and territorial disagreements, Beijing's activities in the region (including in the South China Sea) were far more constrained in the 1990s and first decade of the 2000s than they were when Duterte came to power. Eager to bury or at least keep the 2016 PCA Award 'in his back pocket', Duterte is the first president to openly call for the downgrading of the US alliance in favour of a quasi-alliance with China.

Indeed, Duterte evinces a visceral anti-American sentiment which goes beyond anything exhibited by his predecessors. Rather than pursue a more 'equidistant' or non-confrontational policy towards great powers, which is common amongst

Filipino leaders, Duterte spent the first two years of his tenure going out of his way to insult the US on the one hand, and praise and welcome China as a friend and ally in an unprecedented manner.

It is important to separate three aspects with respect to the current Filipino hedging mindset: 1. *Duterte's visceral or non-intellectual disposition*; 2. *Duterte's strategic and hedging calculations*; and 3. *The institutional strategic or hedging calculation and/or mindset within the Philippines which will likely be enduring*.

With respect to Duterte's personal disposition against the US, there are many theories as to its origin/s. One of the authors of this report met with several direct advisers to Duterte and also had the opportunity to be one of the dozen or so people in the room during two relatively frank and uninhibited conversations between Duterte and then Foreign Minister Julie Bishop in 2017.

It is clear Duterte's ill feelings towards the US is deep, long-standing and unlikely to ever change. He had an especially deep aversion to then President Barack Obama who he sees as weak, hypocritical and an 'intellectual snob'.

With issues such as his war against drugs, his political opponents, his dislike for elites from Manila etc., Duterte was able to follow a prepared script and even put his views forward in a somewhat compelling manner. When the issue turned to the US, it was obvious that his negative emotions took over.

It is also apparent that Duterte's advisers do not challenge his views of the US as doing so could be a career ending move. In this sense, those around him will explicitly or tacitly affirm his anti-American

views even if they continue to caution against moving too close to China.

It is also apparent that Duterte's unusually favourable views of China, and Xi Jinping in particular, is linked to his dislike for the US. One is expressly contrasted with the other:

- China might be ruthless and disrespectful of international law, but it is not hypocritical or inconsistent like the US. As an adviser pointed out, one of Duterte's often repeated observations is that the US gives far more military and other aid to authoritarian countries such as Saudi Arabia than it does to the Philippines whilst having the temerity to criticise the President's war on drugs even as Washington is silent on institutional human rights abuses in Saudi Arabia.)
- China does not have formal alliances but does not over-promise. In contrast, the US is a formal ally of the Philippines but cannot be relied upon to come to Manila's assistance.
- China focuses on 'real' issues that matter such as economic development and poverty alleviation while the US focuses on 'first world' issues that have little relevance to developing countries such as unachievable labour and environmental standards, and inclusiveness agendas.
- Chinese leaders and the Chinese people are hard-working and determined while Americans are indulgent and 'soft'.

From this point of view, Duterte's emotive reasoning leads him to conclude that China, rather than the US, is the more

important country for the Philippines into the future.

With respect to Duterte's strategic and hedging calculations, his domestic priorities must be factored in. For Duterte, it is the Manila elites who care most about US interests, perspectives and values. These elites are Duterte's political and moral enemies. Indeed, the rejection of the pro-US view is intrinsically linked with Duterte's political and individual positioning in the Filipino political landscape. As far as Duterte is concerned, it is the rejection of America's quasi-imperialism and hypocrisy which stands him apart from the usual 'swamp' of Filipino elitist politics.

Beyond domestic political calculation, Duterte's conclusion seems to be that the US sees only Japan and Australia as its valued allies in the region. The Philippines is too small, too different culturally, and at too incongruent a stage of its economic development for the US to really care about what happens to the Philippines. Hence, and despite Secretary of State Mike Pompeo's confirmation that the US will come to the aid of the Philippines in the South China Sea in February 2019, Duterte does not believe the US will ultimately do so. (Bear in mind that suddenly trusting the US assurances would invalidate much of the inherent lifetime biases held by the President.)

It is also worth noting that given the underlying framework of Duterte's personal biases, Beijing has found a willing believer of its various messages and narratives designed to shape the decisions of strategic small states.

For example, Duterte frequently lauds the 'guaranteed' gains arising out of friendly accommodation and even obeisance to China in contrast to the uncertain

benefits derived from a closer strategic relationship with the US or support for initiatives such as the FOIP. This perception was strengthened in the early days of Duterte's presidency when his deferential visit to China in October 2016 led to some US\$24 billion worth of deals being announced. Similarly, Duterte points to the linking of China's BRI with Duterte's 'Build, Build, Build' program and a MoU's on joint oil and gas exploration in disputed areas between the two countries as evidence of guaranteed gains derived from his change in policies vis-à-vis the US-China.

That only a fraction of the value of projects have been realised is countered by Duterte's argument that the Philippines is still 'better off' than if he were to 'bow before' American imperialism or maintain the foreign policy status quo of Manila elites. Preconceived biases about American incompetence and Chinese adroitness and determination also leads Duterte to exaggerate the benefits to the Philippines of the BRI's Maritime Silk Road and downplay the benefits to the Filipino economy from interaction with advanced economies such as the US.⁷⁶

These biases have also led Duterte to conclude that China is fundamentally undeterrable (especially with respect to the South China Sea) while the US is prevaricating and lacking in resolve. This leads him to come to the calculation that resisting China (including using lawfare as a tactic) will likely lead to war, which would be the worst of all possible outcomes for the Philippines. On that basis, even a manifestly unfair but

enduring settlement with China is preferable.

The so-called 'deep state' – bureaucrats, professional advisers, civilian and military officials – as well as academics, policy makers, influential commentators etc., do not generally agree with the perspectives of Duterte and his inner circle. The dozens of such individuals that the authors spoke to express strong disagreement and even disgust with the direction of Duterte when it comes to relations with the US/China and South China Sea issues.

Although there is disagreement about the extent to which the US can be relied upon notwithstanding Pompeo's assurances, there is widespread acceptance that Duterte has got the 'balance' wrong and that the President has decreased (and not increased) strategic options for the country. In this context, there is relief Donald Trump is seen to be combative and vindictive towards rivals and allies. The consensus is that Duterte would not dare show the level of disrespect and dismissiveness to Trump that he did with Obama. While this is not a strong basis for a reinvigorated alliance, it does provide one level of restraint on the actions and words of Duterte.

More than this, the authors found that there was no sense of defeatism or willingness to submit amongst the deep state and other opinion formers as there is in countries such as Thailand. On the contrary, there was preparedness to contemplate the future sacrifice of blood and treasure if other countries (e.g., the

⁷⁶ For a forensic analysis of the real and perceived benefits of the BRI, see John Lee, *China's Economic Slowdown: Root Causes, Beijing's Response and Strategic Implications for the US*

and Allies (Washington DC: Hudson Institute 2019), https://s3.amazonaws.com/media.hudson.org/Le_e_Chinas_Economic_Slowdown_FINAL_WEB.pdf

U.S., Japan and Australia) were prepared to do the same.

Indeed, there was willingness to consider how the Philippines might become a more effective strategic player and hedge more cleverly to maximise its options even if doing so attracted the higher risk of Chinese retaliation and coercion. Indeed, many contrasted the more forward leaning approach of Vietnam in a favourable light compared to that of their own country.

Importantly, there is widespread acknowledgement that a closer relationship with the US and the latter's allies is the key to the Philippines becoming a more effective strategic actor. There is also growing understanding and acceptance that the Philippines cannot be passive when it comes to the evolving bilateral relationship and role of the US in the region. The more important a strategic role played by the Philippines vis-à-vis the US and its allies, the more credible the US security guarantee.

In this sense, the psychology is changing from 'waiting out' the Duterte era to shaping, resisting or undermining the strategic approach of the President. For example, the military is growing increasingly bold in thwarting Duterte's efforts to begin the separation from the US such as plans to remove US Special Forces from Mindanao, decrease the number of joint military exercises and terminate joint patrols between the navies of the two countries within Filipino's EEZ. There have been occasions where the military has simply refused to carry out the orders of the President.

The fortunate outcome is that the institutional apparatus underpinning the deepening of US-Filipino cooperation is

intact even if they have been somewhat downgraded by Duterte. These include the Mutual Defence Treaty, Visiting Forces Agreement, Enhanced Defence Cooperation Agreement, Balikatan Exercises etc.

Additionally, and prior to Xi's visit to Manila in November 2018, both leaders declared that the bilateral relationship between the two militaries would be upgraded to 'comprehensive, strategic cooperation'. However, none of the almost 30 MoUs promoting such closer cooperation were signed, in large part due to concerted resistance from the Armed Forces of the Philippines (AFP).

(b) Recommendations

It is obvious Australia cannot be seen to be questioning the direction taken by the Filipino President to decide the country's strategic approach and direction. However, Australia can help direct or push developments in a more favourable direction.

In the recent past, the strong institutional and popular disagreement with Duterte's turn towards China did not affect his domestic political standing which is based on the alleged effectiveness of his war against drugs, willingness to take on the well-connected Manila elites and insiders, his emphasis on infrastructure building and other economic policies which promise to bring broad benefits to the country, and his general 'can do' approach which was contrasted with the prevarication and ineffectiveness of the 'usual political elites.' For these reasons, Duterte's political rivals and detractors remained largely silent.

This is changing. It is now broadly commented upon that Duterte's turn to

China has not brought the economic benefits that were promised. For example, of the US\$24 billion promised after the 2016 visit to Beijing, at least US\$15 billion worth of projects was significantly modified or cancelled.

Most of the other promised projects have not yet been fully confirmed. Of the 10 big-ticket projects that China promised to finance leading up to November 2018, only one – a US\$62 million Chico River Pump Project – has been concluded by both countries.⁷⁷ Others have either been cancelled or are at the negotiation or project design stage.

Moreover, Duterte's outreach to China has not significantly changed Beijing's policies in the West Philippine Sea (WPS). A political turning point was reached following the Recto Bank Incident in June 2019 when a Filipino fishing vessel was struck by a larger Chinese trawler illegally fishing in Filipino waters with the Chinese vessel abandoning the Filipino fishermen to their fate. (They were subsequently rescued by a Vietnamese vessel.)

Duterte's response to initially ignore, and then downplay the seriousness of the incident, caused outrage from within the deep state and broader population. That a presidential spokesperson gave the following four justifications shortly after the incident only served to call into direct question the folly and ineffectiveness of Duterte's general approach to China:

- i. The Philippines needed to protect its overall relationship with China, especially Chinese financing for infrastructure;

- ii. As a friend of the Philippines, the Chinese government would not have permitted Chinese vessels to fish in Filipino waters;
- iii. Enforcing the constitutional requirements to protect its sovereign waters would only lead to the start of an 'unwinnable' war against China;
- iv. The Chinese action was based on a previously unannounced verbal agreement with President Xi.

These justifications served to emphasise that Duterte's approach had failed, was compromising the country's core interests, had emboldened China, or else was being executed without due process or diligence.

The June 2019 Incident was perhaps the first time that Duterte's approach to the South China Sea became a matter of domestic political and policy interest. The Incident also encouraged government officials to more openly defy the President. For example, on 1 August 2019, the Department of National Defence released a forthright statement on the West Philippine Sea affirming the paramount importance of the 2016 PCA Ruling and that the Philippines is in legal possession of the West Philippine Sea.⁷⁸

The entry of the South China Sea into domestic calculations has had immediate effects. In Duterte's fifth visit to China in August-September 2019, the

⁷⁷ See Renato Cruz De Castro, "China's Belt and Road Initiative (BRI) and the Duterte Administration's Appeasement policy: Examining the Connection Between the Two National Strategies," *East Asia* 36, 2019, pp. 205-27.

⁷⁸ See Eimor Santos, "DND says China presence in West Philippine Sea is like 'squatting'," *CNN*, 1 August 2019, <https://www.cnn.com/news/2019/8/1/dnd-china-vessels-west-philippine-sea.html>

President raised the 2016 PCA Award for the first time.⁷⁹

The point is that Duterte's turn towards China is emerging as a political liability and area of considerable vulnerability for Duterte for the first time. At the same time, there is strong momentum growing to support working with the US and partners to resist Chinese activities from within the government and a large section of elites and influencers in the country.

Duterte needs more evidence of quid pro quo success and breakthroughs with China to justify his poor interest in defending the country's rights in the WPS. It is not in Australia's interest for Manila to conclude poor deals with Beijing that would allow Duterte to claim success when he has merely diluted sovereign rights and privileges vis-à-vis the WPS.

Issues where Australian expertise and assistance (standalone or in joint efforts with the US and Japan) would be useful might be:

- (i) Working with relevant Filipino senior officials to ensure any evolution and realisation of the China-Philippines 'memorandum of understanding on oil and gas development' does not compromise Filipino sovereignty. In particular, it is problematic if China is able to unilaterally set the terms of the agreement when it comes to effective control of the regions to be developed,

how disputes will be resolved, and which entities are to be involved if any disputes arise. More broadly, it is not in anyone's interest (except China's) if the PCA ruling is to be effectively sidelined or extinguished in any bilateral agreement.

It is important to encourage the Philippines to take a legalistic approach to negotiations such that the country's Constitutional and legislative requirements (such as the 1972 Oil and Gas Development Act) which protects its sovereign interests are not bypassed. This is in contrast to the Chinese approach which emphasises 'mutual respect, fairness and mutual benefit, flexibility and pragmatism and consensus, through equal and friendly consultations.'

The Filipino defence establishment would also welcome outside efforts to ensure that third parties (such as the US and Australia) are not excluded from access to parts of the WPS.

- (ii) Duterte is desperate for large infrastructure financing agreements to be concluded with China. Beneath the President, the Filipino system is becoming

⁷⁹ See Lye Liang Fook, "China-Philippines Relations: Duterte's China Visit and Prospects for Oil and Gas Exploration," *ISEAS Perspective* No.

80, 3 October, 2019, https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2019_80.pdf

increasingly cautious about tying themselves into extensive financial arrangements with Chinese entities.

Such caution needs expert guidance as financial traps or disadvantageous commercial arrangements are not always easy to identify within large and complex projects. Filipino officials have admitted to the authors that they do not always have the in-house expertise at their disposal and working with Japanese and Australian officials would be welcomed. (The Presidential office would not look favourably on overt reliance on American officials.)

- (iii) The Armed Forces have a renewed determination to enhance its maritime and air defence capabilities. The changing domestic political environment has forced Duterte to ostensibly accept the importance of this and soften against defence cooperation with the US – as long as the latter is not explicitly aimed against China.

In the first 2 years of the Duterte administration, the US and Australia emphasised counterinsurgency and anti-terrorism cooperation to maintain institutional links between the defence

establishments. The Filipino Armed Forces are now seeking to push the envelope and refocus on maritime and air defence requirements and the arrival at a new strategic and military 'balance' which will create more complications for China.

There is renewed institutional, elite and public appetite to speak forthrightly and creatively on what that 'balance' might look like.

For example, how to better move the dial under institutional arrangements such as the Enhanced Defence Cooperation Agreement with the US? What further can the Philippines gain from Australia (and Japan) when it comes to maritime and air defence capabilities? What does China want to do in the Scarborough Shoal? What are the implications of a Chinese militarised artificial island in the Scarborough Shoal given Beijing's operational bases in the Paracel and Spratly Islands?

Filipino defence and other officials have indicated they would welcome the substance and optics of Australia, Japanese and American discussion on this issue with Filipino counterparts.

- (iv) More broadly, there is newfound domestic institutional and public appetite to fairly assess the pros and cons of Duterte's tilt toward China. Unlike earlier days, Duterte cannot simply dismiss or denigrate critics on this issue and his earlier insistence that he had a master plan to get the most out of China is less and less credible.

The intent is not to openly denigrate or criticise Duterte but to give support to the changing domestic conversation about what an appropriate 'balance' in Filipino relations with regional powers might look like.

Singapore

(a) Hedging Mindset

Strategic elites in Singapore are the most sophisticated and intellectually engaged out of all the countries looked at in this report. For this reason, Australia-Singaporean conversations on strategic issues tend to be far more productive and profound than with any other partners in Southeast Asia. Even so, there are some troubling aspects and developments that would work against both Singaporean and Australian strategic interests.

Given Australia's familiarity and intimacy with Singapore's strategic reasoning and action, a brief summary in this report should suffice. Singapore has often been described as having a 'siege' mentality given inherent vulnerabilities associated with the country's small size, absence of a hinterland and subsequent lack of strategic depth, dependence on trade

for all essential resources, vulnerability to naval blockade, its location within a neighbourhood it does not trust, and the lack of formal allies that could be relied upon to come to its protection.

For these reasons, Singapore's strategy is entirely geared toward ensuring its survival, prosperity and sovereignty as a small and vulnerable state. It supports principles that are necessary to safeguard a small and weak maritime nation: rule of law, freedom from coercion, freedom of navigation, commitment to international institutions and the predictability and protections such institutions offer smaller countries etc. It positions itself diplomatically as an 'honest broker' but supports US strategic actions to maintain the latter's naval presence in the region. The paramount objective is to prevent the emergence of a hierarchical order in the region.

Strategically, Singapore ensures it is a valuable and constructive partner for like-minded countries such as the US, Japan and Australia. Its formal agreements with these countries are meaningful and impactful. Singapore also generally adopts a more analytical approach to ensuring it is not over-reliant economically and technologically on China even if it has not taken the harder line on companies such as Huawei compared to Australia. One of the blessings is that the lack of corruption and robust institutions offers Singapore good defences against Chinese attempts at elite capture even if business stakeholders in Singapore take a more benign view of China than do strategic elites.

Although privately conceding that the notion of ASEAN as an actor is somewhat of a 'convenient fiction', Singapore places high emphasis on ASEAN to

enhance the role and voice of smaller countries such as itself vis-à-vis great powers. This includes the ostensible setting of regional agendas and defining of conversations through the ASEAN convening process such as ASEAN+1 dialogue partner arrangement and broader multilateral platforms such as ASEAN+3, East Asia Summit, and ASEAN Defence Ministers Meeting plus Eight.

When it comes to its own direct interests, Singapore can be feisty. In the words of the current Ambassador in Canberra, when 'pushed into a corner, we grow thorns.' This is not mere rhetoric. On issues such as foreign influence or interference in its own institutions, Singapore has been prepared to take diplomatic heat from China. Singapore remained firm during the spat with Beijing over the detention of Singaporean infantry carriers that were transiting in Hong Kong from Taiwan. Singapore was against a suggested term in a future Code of Conduct that China acquire an effective veto over foreign navies undertaking joint exercises with Southeast Asian nations.

A special source of concern and angst for Singapore is that it is an ethnically Chinese majority country. This leads China to believe that Singapore should be sympathetic and defer to China out of ethnic kinship. As Bilihari Kausikan has observed, the fact that "overseas Chinese are expected, on crucial issues, to define their interests in terms of China's interest" has become an "existential issue" for Singapore. Doing so would mean that Singapore not only accepted China as a "geopolitical fact", but also "China's superiority as a norm of

international relations". Acceptance would be tantamount to accepting a hierarchical order within which Singapore would no longer be truly sovereign.

Note that an ethnically-driven foreign policy would undermine the core basis of national identity and social harmony in Singapore which is self-described as based on "multi-racial equality and multi-racial meritocracy"⁸⁰ (as distinct from a Chinese national identity.) That position was adopted initially to improve relations with its Muslim majority neighbours and now plays a part in the ongoing conditioning of Chinese expectations as well as shoring up internal societal resistance to foreign influence. Interlocutors expressed frustration over Beijing's repeated refusal to respect Singaporean perspectives in this context.

Finally, when it comes to the influence of Chinese narratives on the thinking of Singapore's foreign policy elites, the authors' interactions with Singaporean interlocutors suggest that such narratives have been accepted only partially. Elites do accept that China's national power is strong and growing but have not concluded that China will inevitably dominate. For some, China's economic vulnerabilities have been exposed as a result of the US-China trade dispute.

Many former serving foreign policy elites also observe that China is good at creating false narratives and/or binaries. One of these is that countries must choose between the US and China and there will be negative consequences for those choosing the US. As these

⁸⁰ Ambassador-at-large Singapore Ministry of Foreign Affairs, Bilihari Kausikan, "Why Small Countries Should Not Behave Like a Small

Country", 11 October 2017, <https://blogs.ntu.edu.sg/paralimes/2018/03/26/bilihari-smallcountries/>

'greybeards' argue, all countries have more choices than they think.

Former and serving government officials also mostly argue that the US is not in terminal or inevitable decline and is hard wired to compete with China in the region. Many believe the US will continue to contribute to a stable balance in the region (including with Japan, Australia and India.)

All the above reasons suggest that Singapore should be amongst the most constructive and helpful strategic partners in the region for Australia, but there are some reasons to be concerned.

There should be deep concern that modern and future leaders are becoming increasingly deferential to Beijing and lack the strategic wisdom to manage an increasingly demanding, chauvinistic, bullying and powerful China.

The problem begins at the top. For example, Prime Minister Lee Hsien Loong's Shangri-la speech was intended to take a middle position on US-China relations by subjecting both parties to critique. However, the speech notably failed to make mention of China's destabilising and intimidatory tactics in the South China Sea against other claimants, nor its militarisation of artificial islands, whilst calling on the United States to "integrate China's aspirations within the current system of rules and norms"⁸¹. In the context of Chinese behaviour and Xi Jinping's stated aims, this should be interpreted as a weakening of resolve by Singapore's leaders on the arbitration ruling, and a reward to Beijing for its coercive tactics.

This is certainly the view of former and serving officials who privately express growing concern that Singapore has not adapted its 'honest broker' approach in the face of China pushing the envelope in all areas. If only one great power is revising the territorial and political status quo in a negative direction, remaining in the 'middle' or continually calling for restraint by all sides is effectively acquiescing to the revisionist power.

The intensity with which the old guard of the foreign policy elite are openly defending Singapore's tradition of speaking truth to power is partly driven by them (the old guard) believing such principles are at risk of dilution or rejection. For example, the overwhelming denunciation by Bilahari and others of the opinion piece by Professor Kishore Mahubani criticising the wisdom of Singapore's long-standing position on the South China Sea suggests that older elites believe long-held principles must be vigorously defended. Individuals including high level former officials are increasingly outspoken about Chinese actions and are privately critical of what they believe to be the meek direction taken by the current government. In return, these established foreign policy figures have less influence on current leadership than was the case in the past.

Bear in mind that it is not only a matter of diplomatic language or even temperament and preparedness to incur Chinese displeasure – as important as these latter considerations are.

Singaporean leaders (especially PM Lee and FM Balakrishnan) were noticeably unenthusiastic about the reinstatement of

⁸¹ Prime Minister's Office of Singapore, "PM Lee Hsien Loong at the IISS Shangri-La Dialogue 2019", 13 May 2019,

<https://www.pmo.gov.sg/Newsroom/PM-Lee-Hsien-Loong-at-the-IISS-Shangri-La-Dialogue-2019>

the QUAD and the FOIP concept more generally. The former was considered a threat to ASEAN's relevance while the latter was considered unnecessarily divisive and provocative against China.

Although Singaporean attitudes to the QUAD and FOIP have softened, it was noteworthy that what some believe to be the most sophisticated strategic capital in Southeast Asia did not immediately view these developments as helpful for advancing Singapore's counter-dominance or dominance denial strategies vis-à-vis China or as developments that could help Singapore convince other Southeast Asian countries that the Chinese manipulation of ASEAN is the primary threat to ASEAN centrality and relevance (rather than the QUAD or the FOIP concept.)

As some older strategic elites in Singapore commented, the era of Lee Kuan Yew would have welcomed the QUAD and the FOIP concept as opportunities for Singapore to find new and creative ways to help counter-balance Chinese policies and actions. Instead, China using the diplomatic cover of the Code of Conduct negotiation process to extend gains in the South China Sea is seen as less troubling than the attempts of outside powers to counter Chinese behaviour.

Put bluntly, the current Singaporean government seems to consider avoiding incurring Chinese displeasure and protecting the fiction of ASEAN centrality more important than fundamental strategic objectives such as counter-dominance and dominance-denial.

Finally, during the term of the Obama administration Singaporean officials continually complained that the US needed to compete more vigorously in strategic terms with China in the region. In

the period of the Trump administration, US pushback and counterstrategies are seen as too disruptive and its consequences too unpredictable. There is also resentment that the Trump White House is not as consultative and open to discussion with countries like Singapore as previous administrations, while the contacts meticulously built up with American political and policy insiders are of less value to Singapore in the current era.

It is true that the Trump era is inherently disruptive and unpredictable and legitimate criticism can be made of the conception and execution of many American policies. Even so, the Singaporeans seem to be unprepared for the reality that any pushback and counter is intrinsically disruptive and unpredictable – and that disruption and unpredictability should not be inherently rejected, especially when one is seeking to challenge the normalisation of Chinese assertiveness and revisionism.

In short, many Singaporeans seem to underappreciate the reality that holding on to an aversion to disruption and unpredictability plays into the hands of China. Beijing wants smaller states to accept that it is undeterrable, the extension of its power unstoppable, and resistance futile. Singapore is inadvertently strengthening that Chinese narrative even if many Singaporeans explicitly reject the argument that Chinese dominance is inevitable.

Moreover, in the contemporary environment where Chinese strategic objectives appear fundamentally inconsistent with those of the US and like-minded countries and Beijing is pushing harder to advance them, the role of a Singaporean 'honest broker' is less

relevant than in the past. It was more relevant when there were still credible hopes China would emerge as a 'responsible stakeholder' and status quo strategic power.

In attempting to be an 'honest broker', Singapore will tend to be too accepting of the coercive and/or revisionist Chinese power. This seems to be evident in Prime Minister Lee's calling on the United States to "integrate China's aspirations within the current system of rules and norms" during his 2019 Shangri-La Dialogue keynote speech.⁸²

(b) Recommendations

Despite many concerns, there are many potentially constructive avenues that Australia could pursue.

Singapore is one of the few regional countries with the intellect, strategic vocabulary and institutional discipline to advance policies and conversations with strategic partners.

In the last few years, and in relative terms, Singapore has underperformed when it comes to demonstrating strategic wisdom and diplomatic initiative even as it remains a fierce protector of its own immediate interests. In particular, Singapore has been slow in updating its blueprint for managing China and adapting its counter-dominance strategy in the face of a more assertive China and in the era of the Trump administration with a higher appetite for risk and confrontation (which has helpful and unhelpful elements.) Australia needs Singapore to regain its strategic wisdom

and voice in a compelling and constructive manner.

Australia could propose working groups with Singapore (perhaps at the 1-star level and below) to consider clear thinking and specific policies directly linked to the following:

- US (and allied) disruptiveness is a necessary and desirable aspect of any counter strategy that seeks to confront and reverse negative trends (vis-à-vis Chinese behaviour). Rather than condemn or fear US disruptiveness, like-minded countries ought to make the best out of it (as Australia has and is doing under the Turnbull and Morrison governments respectfully).

How can Singapore do the same to enhance its own counter-dominance and dominance-denial objectives?

- There is a need to further develop ASEAN's Indo-Pacific concept in strategic and policy terms in ways that suit the interests of status quo powers and small states – or run the risk of the concept (and ASEAN centrality and Singapore's relevance) declining as a result.

Indonesia has demonstrated the initiative but lacks the strategic intellect and policy capacity of Singapore. How can countries like Australia work with Singapore to help the latter step up?

⁸² Prime Minister's Office of Singapore, "PM Lee Hsien Loong at the IISS Shangri-La Dialogue 2019", 13 May 2019,

<https://www.pmo.gov.sg/Newsroom/PM-Lee-Hsien-Loong-at-the-IISS-Shangri-La-Dialogue-2019>

- The Singaporean insistence on ASEAN centrality will not go away. How can we make that part of the solution to provide checks and balances against bad behaviour by great powers (rather than allowing ASEAN to provide diplomatic cover for such poor behaviour)?

Ultimately, the objective is to work with Singapore to revise its hedging and balancing approaches in a way which better serves its (and Australia's objectives).

It may be that the current leadership is too intransigent or short-sighted to recognise and correct its own shortcomings.

Even if that is the case, Singapore is keeping tabs on the agendas pursued by its friends and neighbours and hates to be left out or behind by developments and events.

Australian activities and progress in these areas with the US, Japan, Indonesia and other Southeast Asian countries will keep the current leadership interested in those agendas.

Finally, updating the mission and membership of the Five Power Defence Arrangements could be raised informally.

- Singapore and Australia could look at how better to use the FPDA to draw in larger and more significant British naval assets into annual exercises in the Boris Johnson era and beyond.

Much of UK's current strategic settings pertaining to Southeast Asia go back to 2010 (e.g., in the 2010 Strategic Defence and Security Review) which then

assumed a benign security environment. The Johnson government is likely to take a more realistic view but would not yet have specific and detailed policies in response.

- Both countries could consider adding layers to existing security architecture by inviting non-member states to observe FPDA exercises.

Indonesia would be a controversial (given apprehension about Indonesia was one of the original reasons the FPDA was formed in 1971) but potentially important observer given Jakarta's growing importance and role detailed in the Indonesia section.

Thailand

(a) Hedging mindset

Thailand has long boasted about its flexible foreign policy approach to avoid conflict or tension with major powers and maintain its sovereignty and freedom of action. However, there are a several aspects particular to Thai hedging approaches and mindsets which has led Bangkok to take a far more nonchalant perspective when it comes to Chinese strategic and security than the other Southeast Asian countries studied.

The overwhelming finding was that Chinese narratives detailed above have taken broader and deeper hold in Thailand than in the other countries. The vast majority of the roughly 30 Thai politicians, bureaucrats, serving military officers, business elites, journalists, academics and policy experts the authors spoke to already view China as

the dominant and most important economic power for Thailand and in the region. In this sense, the contest for economic leadership and dominance is already over with China the decisive and permanent winner.

Remarkably, China was widely admired for its wisdom, civilization, culture and recent economic achievements. More than that, contemporary China is seen as benevolent, fair and generous. One only needs to accept and accede to the authority and legitimacy of Beijing as the 'big brother' to share in the successes of partnership with China.

For example, many brought up the signing of the 2003 early harvest free trade agreement with China on agricultural items – seven years before the China-ASEAN Free Trade Agreement – as one example of the fruits of Thailand's special relationship with China. Others raised the prospect that Thailand was too important to China, including as the 'glue' or central hub for the Pan Asian railway, for Beijing to damage the bilateral relationship through overreach.

Thai interlocutors were open about the fact that their Chinese interlocutors were explicitly and relentlessly propagating these messages at all levels. The point is that most Thais interlocutors were prepared to welcome and accept the Chinese message. Indeed, many of them expressed the firm belief that Thailand enjoyed a special relationship akin to 'kinship' with China, with the expectation that Beijing offered Bangkok privileged access and took great care to ensure Thai concerns were addressed.

The Thais also express great confidence that they remain the proverbial tail which wags the dog and can secure advantages without detriment to the longer-term relationship when negotiating with China. The example frequently cited is the first phase of the High-Speed Railway (HSR) which involved a bidding war between Chinese and Japanese consortiums. For Thailand, the desire to attain the best commercial outcome in the bidding process for Phase One was 'gracefully' accepted by Chinese counterparts. Likewise, the knocking back of Chinese proposals for joint patrols on Thailand's section of the Mekong River in 2012 produced no ill-feeling on the part of Beijing.

This is contrasted with the US which was frequently described as 'spiteful', 'selfish', 'inconsistent' and 'interfering'. The obvious reference point was the deterioration in the bilateral relationship following the 2014 coup although the U.S.-Thai alliance was under strain prior to the coup.⁸³ Whereas Chinese entreaties to the Thai military government was perceived to be evidence of Beijing's 'non-interference' in Thai affairs, Thai interlocutors complained that the US always attaches 'self-serving' and 'hypocritical' conditions to the relationship. As one interlocutor put it, 'American doesn't understand Thailand or Asia... China is like Thailand and is Asian.'

This leads to the oddity that Beijing's support for the Thai Communist Party up to 1979 and the former's role in agitating for revolution has been all but forgotten or forgiven while the memory of US abandonment of Thailand during the

⁸³ See Ian Storey, "Thailand's Post-Coup Relations with China and America: More Beijing, Less

Washington," *ISEAS Trends in Southeast Asia* #20, 2015,

1987 Asian Financial Crisis is talked about as a recent event which demonstrates the American mindset. There is also little appreciation or interest in American support and largesse for Thailand during the Cold War.

When Thai interlocutors were asked what roles they would like the US to play in Thailand and the region, the general response was a metaphoric shrug of the shoulders: it did not matter because the US will matter less and less. In fact, it was perceived that the US could play useful niche 'balancing' or 'moderating' roles such as that performed by Japan, but Washington would matter less and less to Bangkok. Similarly, the US-led system of alliances and roles played by countries such as Australia would be constructive and helpful but not overly important. Indeed, it was expressed several times that countries like Australia ought to follow Thailand's example.

Furthermore, it is apparent that Thais view the threat of domestic instability as a higher priority than that posed by great powers. For government figures, it is about guarding political legitimacy and regime security. From this perspective, countries that enhance domestic stability are far more valued and one of the best ways of achieving that is through the creation of economic opportunity. From the government in Bangkok's point of view, the value attached to Beijing's support is contrasted with the tendency of liberal-democratic governments to promote an abstract set of principles without regard to the consequences for domestic Thai politics and society. There is not necessarily overt hostility toward

Western democratic nations like Australia or the US, but there is the perception that Thais need not listen to these Western countries.

The upshot is that Thais see little need to counter China's bid for dominance in the South China Sea, either because it is not perceived as a major security threat or because Chinese dominance is inevitable and benign for Thailand in any event. More so than any of the Southeast Asian countries investigated, Thailand takes a 'non-strategic' view of their external interests and with respect to the South China Sea specifically. In fact, according to some studies, the US (for the reasons offered) is seen as a greater threat to Thailand by government and non-governmental elites than China.⁸⁴

These perspectives and approaches have a profound impact on how Thailand implements its 'flexible' strategic posture or hedging strategy. Bangkok believes that the best way for it to maximise its strategic options in the longer-term is to deepen 'kinship' with China now. In what is the opposite of the Australian perspective, the longer it takes to recognise and accede to Chinese dominance, the poorer one's relationship with China and the fewer or poorer one's strategic options will be in the future. In this sense, Thailand is not seeking to avoid making a 'choice' – it is choosing a region of Chinese dominance and welcoming that world as one conducive to Bangkok's interest.

It also means that Bangkok does not believe it is seeking short-term gains and heightening longer-term costs or risks because it does not believe China will

⁸⁴ For example, see John Blaxland and Greg Raymond, "Tipping the Balance in Southeast Asia? Thailand, the United States and China," ANU

The Centre of Gravity Series, November 2017, http://bellschool.anu.edu.au/sites/default/files/uploads/2017-11/cog_37.pdf

damage Thai interests in the longer-term. From that perspective, the rational cost-benefit approach is to focus only on immediate or short-term gains (as there are few longer-term dangers). This might be a cheaper HSR, welcoming Huawei to develop Thailand's 5G network, or purchasing cheaper military equipment from China such as submarines.

Under this approach, the US and countries such as Japan are useful counter-bargaining chips for Thailand to achieve a better outcome on price or capability when it comes to partnering with China. But Thailand has less interest than the other Southeast Asian case study nations in pursuing a counter-dominance or even hedging strategy against China. Indeed, for many interlocutors, hedging is more relevant to how resilient or long-lasting American power and relevance will be. Maintaining the alliance with the US is more about keeping the US sufficiently on-side and less about fears that China will be a threat.

One can also explain much of the Thai thinking in another way. Intimacy with China brings immediate and guaranteed economic and political benefits with (the perception there are) few strings attached. Seeking intimacy with the US brings few guaranteed or consistent benefits and has political strings attached. Thailand views Australia as a very friendly country but one whose strategic direction is heading in very different ways to itself.

(b) Recommendations

The Chinese narratives accepted by Thailand about its inevitable dominance and benevolence will be difficult to refute until the flow of investments and other economic benefits are dramatically

slowed or if China is blamed for provoking a military conflict with another Southeast Asian country. Only a fundamental reconsideration of these narratives will cause Thailand to significantly revise its hedging and risk approach to China. For the moment, almost all Thai elites tend to be favourably disposed towards China.

Meanwhile:

- Thailand does not generally share the illusion that ASEAN can restrain great powers such as China but it values the ostensible maintenance of 'ASEAN centrality' to ensure the regional agenda remains fixed on the promotion of prosperity and economic opportunity (rather than on great power competition). In this context, it is important for Australia to emphasise that it is working within ASEAN frameworks to entrench principles of economic and financial sustainability when it comes to tapping into ASEAN priorities of connectivity and economic development.
- Similarly, the Australian interpretation of the FOIP should emphasise economic and governance principles of sustainability for developing and middle-income countries rather than focus too heavily on security and great power (zero-sum) competition. The purpose is to encourage Thailand to support minimal standards of transparency and commerciality and push for these principles to be included in Thai and ASEAN frameworks.
- The general Australian narrative is that it is in Canberra's interest to ensure that the strategic and economic options of ASEAN states

are never permanently or structurally bound to any country. If concerns are to be expressed, it can be framed in the context that Thai 'over reliance' on China is dangerous for Thailand and not in Australia's interest. In this sense, the FOIP should be framed as maximising sovereign freedom and choice.

- To the extent that one can encourage Thailand to question Chinese benevolence and intentions, the Mekong is probably the main issue which causes angst for the Thais when it comes to China. In the early 1990s, a confidential document was widely circulated within the Ministry of Foreign Affairs which concluded that China was intent on dominating mainland Southeast Asia.⁸⁵ Those fears linger amongst government and policy elites. China's management of the Mekong has become the proxy for what kind of great power it will be, and Beijing remains opaque about its water management policies and practices.

This has led Thai elites to remain somewhat sceptical that Beijing will consistently bind itself to the water-management rules established by the Chinese-led Lancang-Mekong Cooperation summit (LMC) in 2016 or allow independent experts to assess whether Beijing is adhering to its policies and promises. That scepticism is reinforced by China's refusal to join the Mekong River Commission (MRC) formed in 1996,

which requires members to allow experts to assess their dam and water management policies.

While Thailand does not want the Mekong issue to become a contested one involving great powers (contra. the South China Sea), Australia should still urge Thailand to view Beijing's promises about fair and responsible water management for all Mekong economies as the yardstick for Chinese benevolence and generosity. This is complemented by working with Thailand (and the other MRC members) – and through the Lower Mekong Initiative - to offer technical assessments of water management practices etc., so that Bangkok can accurately assess the impacts of various Chinese upstream activities and proposals.

The intention is not just to ensure the economic and environmental interests of Thailand are protected but to increase avenues for non-Mekong countries to play a constructive role along the Mekong. China already has a geographical advantage as there are no other great powers along the Mekong and the complete ascendancy of the China-dominated LMC as the regime to manage Mekong issues would cause other powers to become even less relevant to the geo-economic future of Thailand.

- Ultimately, the Thai hedge towards China will be difficult to shift as it is driven by the Thai belief in the

⁸⁵ Division of Political Affairs, *Recommendations for Proactive Policy Direction toward China*, No.

0304/145 (Bangkok: Archives and Library Division, Ministry of Foreign Affairs, 16 March 1992.)

narrative of inevitable Chinese dominance. While it is not constructive to openly challenge Thai faith in Chinese benevolence, Australia can at least offer some frameworks and principles against which Chinese benevolence or otherwise can be assessed.

- With respect to military-to-military relations, relationships with the US and its allies such as Australia are highly valued to maintain and improve the professionalism of Thailand's forces. While the Thai military is attracted to the lower price and lack of conditionality attached to Chinese equipment, hardware alone will not determine the preferences of the military.

It is also a considerable advantage for Australia that English has been institutionalised within the Thai military.

For these reasons, the military will continue to act as a partial 'stabiliser' in preventing a Thai switching of sides in China's favour.

Vietnam

(a) Hedging mindset

Vietnam is one of the top two or three Southeast Asian countries targeted by China when it comes to diplomatic overtures such as official and elite visits, official finance, and Party-to-Party

⁸⁶ See op cit. S Custer, B Russell, M DiLorenz, M Cheng, S Ghose, J Sims and H Desai, *Ties that Bind: Quantifying China's public diplomacy and its 'good neighbour' effect*.

⁸⁷ For example, see "How Asians view each other," Pew Research, 14 July 2014, <https://www.pewresearch.org/global/2014/07/14/chapter-4-how-asians-view-each-other/>; Laura

relations.⁸⁶ Even so, virtually all the dozens of political, bureaucratic, policy, economic and social elites we talked to perceive China to be an extreme threat to Vietnamese sovereignty and interests and are immensely distrustful of Chinese intentions. This is consistent with multiple studies and surveys.⁸⁷

More than this, the authors found that Vietnamese elites consider that the 'sacrifice of blood and/or treasure' might be necessary to protect Vietnam's sovereignty and national interests against Chinese actions and that doing so is not too high a price to pay. Indeed, all elites (not just from the military) believe that the willingness of Vietnam to 'give China a bloody nose' might be the most effective deterrent against a much more powerful China from overreaching against Vietnamese sovereignty and interests. *That across-the-board psychological preparedness to sacrifice blood and treasure and inflict some pain on China is unique amongst the countries studied.*

Of relevance to this report is the observation that the strategic realism and clarity of elites in Vietnam vis-a-vis China exceeds that of any other Southeast Asian country (even if the execution is not as agile and creative as Singapore's). Perhaps that realism and clarity is enhanced by the acute presence and sense of direct threat posed by China.

More than any other of the Southeast Asian countries studied, the authors found that Vietnamese officials and elites are

Silver, "How people in the Indo-Pacific view China," Pew Research, 16 October 2017, <https://www.pewresearch.org/fact-tank/2017/10/16/how-people-in-asia-pacific-view-china/>; "How are global views on China trending?," CSIS China Power 2018, <https://chinapower.csis.org/global-views/>

intensely focused on maximising their long-term strategic options and space even if there are short-term challenges and opportunities to attend to. It is also the case that Vietnam is cognizant of the long-term strategic and security costs associated with short-term economic benefits.

The upshot is that while Vietnam is still a strategic hedger in that Hanoi seeks to maximise its freedom of action and choice and avoid overcommitting in any way, it is adopting forms of hedging which focuses more on longer-term risk contingencies and management than it does on optimising short-term returns. In this sense, indirect balancing (through building up its own capabilities, forging strategic partnerships etc.) and dominance-denial (by avoiding economic and political subservience to China) are paramount and the pursuit of short-term gain and economic pragmatism ought not to contravene the more important former priorities.

This is evident in the evolution of its 1998, 2004 and 2009 Defence White Papers. While all these documents formally reaffirmed the 'Three Nos' – no military alliances, no aligning with one country over another, and no foreign military bases on its territory – the 2009 version identified 'territorial disputes' as a threat to national security for the first time. Importantly, the document called for more 'bilateral and multilateral defence cooperation', also for the first time. While that cooperation did not explicitly entail alliances, targeting another country or

foreign military bases, it does emphasise the importance of cooperation with countries that "respect mutual interests, independence, sovereignty and development."⁸⁸ In squaring that with the Three Nos, the document argues that because "defence cooperation is one of the most important factors for maintaining peace and stability in the region and around the world, it is also an important factor for achieving Vietnam's defence goals."⁸⁹

In 2016, the government released the *Overall Strategy for International Integration Through 2020, Vision to 2030*. This stated that Vietnam will make greater efforts to 'intensify defence and security relations with strategic and comprehensive partners.' The objective of such efforts is to enhance Vietnamese (strategic) freedom and independence, sovereignty, territorial integrity and other core national interests.⁹⁰ Hanoi has targeted the US, Japan and India (in that order of priority) when it comes to these defence diplomacy efforts. Meanwhile, Russia remains the country's largest provider of military equipment and technology.⁹¹

Vietnam does not expect that other countries will come to its military aid in the event of a conflict with China. Hanoi is realistic about what military exchanges, port visits, participation in regional defence forums, and the like, can achieve. This is consistent with longstanding mottos such as 'more friends, fewer enemies.'

⁸⁸ See *Vietnam Defence White Paper* (Hanoi: Vietnamese Ministry of Defence 2009), pp. 21-2.

⁸⁹ *Ibid.*, at 23-4.

⁹⁰ See Hai Ha Hoang and Duy Thai Nguyen, "Defence Diplomacy: Vietnam's New Approach

for National Security," *HNUE Journal of Science* 63:7 2018.

⁹¹ See Carlyle A. Thayer, "Vietnam's Foreign Policy in an Era of Rising Sino-US Competition and Increasing Domestic Influence," *Asian Security* 13:3, 2017, pp. 183-199.

However, the increased emphasis on defence diplomacy needs to be understood alongside the emergence of a broader strategy to increase Vietnam's importance (and the legitimacy of the ruling regime) to major and regional powers.

This includes:

- Positioning Vietnam as a contributor to regional peace and stability through support for international law and the sovereign and legal rights of all states (an implicit endorsement of the FOIP);
- Increasing the importance of Vietnam as a strategic and military complicating factor for China in the South China Sea;
- Developing the economies of coastal cities and connecting them to supply chains in Southeast Asia and other great power economies. This is designed to deter China from disrupting behaviour in Vietnam's EEZ.

This approach is an implicit theme in Vietnam's *Maritime Strategy toward the Year 2020* (adopted in 2007) and the *Sea Law of Vietnam* which was passed in 2012. The approach was also raised by several interlocutors.

The dominance-denial mindset is evident in Vietnam's economic policies. Consider

an estimate by the Global Infrastructure Outlook⁹² that Vietnam will need infrastructure investment of around US\$605 billion from 2017-2040, two-thirds of which will be for energy and roads. Current trends suggest that Vietnam will be more than US\$100 billion short.⁹³ This should make China's BRI difficult to resist for Vietnam. In fact, studies such as one by PWC indicate that Vietnam would benefit more from the BRI than any of the other countries we investigated.⁹⁴

Yet, Vietnam is more sceptical of the BRI than any other Southeast Asian country we investigated. Although Hanoi formally engages with the BRI, it has insisted that the principles of 'sustainability, effectiveness and inclusiveness' are paramount and that guiding frameworks be based on 'consensus, equality, voluntariness, transparency, openness, mutual respect and benefits, and compliance with... international law.'⁹⁵

To downplay the preferred Chinese narrative, Vietnam emphasises the 2003 'Two Corridors, One Belt' (TCOB) which seeks to improve connectivity between Yunnan and Guangxi with cities and provinces in North Vietnam as the underlying framework rather than the BRI. Indeed, an ongoing disagreement between Vietnam and China is whether the TCOB is part of, or distinct from, the BRI.

More importantly, when it comes to partnering and/or financing projects,

⁹² <https://outlook.gihub.org/countries/Vietnam>

⁹³ See Le Hong Hiep, "The Belt and Road Initiative in Vietnam: Challenges and Prospects," *ISEAS Perspective No. 18*, 29 March 2018, https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2018_18@50.pdf

⁹⁴ See "Singapore seen as especially attractive for Belt & Road Investment," *Consultancy Asia*, 16 August 2019,

<https://www.consultancy.asia/news/2435/singapore-seen-as-especially-attractive-for-belt-road-investment>

⁹⁵ See "President Tran Dai Quang concludes State visit to China," *Vietnamnet*, 16 May 2017, <https://english.vov.vn/diplomacy/president-tran-dai-quang-concludes-state-visit-to-china-349591.vov>

Vietnam's highest priority is to prevent over-dependence on China – a mindset which became entrenched after the 2014 Oil Rig incident. This is achieved through:

- Minimising or even refusing Chinese loans for critical infrastructure such as steel mills, coal-fired generators, high-speed railways and major highways;
- Prioritising funding from Japanese and other countries in these critical sectors (especially energy) even if this is less attractive commercially than from China;
- Seeking to draw Chinese funding into diversified public-private-partnership (PPP) structures as much as possible. This includes encouraging domestic consortiums to apply for Chinese loans within a PPP structure instead of it being a government-to-government transaction;
- Enacting regulations and laws which implicitly target Chinese companies (e.g., 2014 laws on construction and environmental protection and standards which were targeted against low-cost and low-quality Chinese contractors in the thermal energy sectors).
- Enthusiastic participation in multiple economic regimes such as the TPP and Eurasian Economic Union which do not involve China.

These hedging behaviours take place in a country where there are very few 'pro-China' elites or factions. The public view of China is overwhelmingly negative and Hanoi's failure to 'stand up' to China would be perceived by the political elites

as a threat to the regime. In this context, some earlier views that close relations between Communist parties of both countries could soften relations are no longer taken seriously.

None of the author's interlocutors considered that party-to-party relations could override the deep strategic distrust between the two countries. In fact, many considered the party-to-party relationship a form of intelligence gathering on what was really happening inside Chinese politics and what the political fissures within the Chinese Communist Party might be.

It is also important to note that Vietnam seems more cognizant of the dangerous nature of unconditionally accepting Chinese narratives than any of the other countries investigated. Vietnamese policy experts, academics and even officials took more seriously the domestic fragility and economic vulnerabilities of China than other elites in the Southeast Asian countries. None underestimated the challenge that growing Chinese power poses but they did not believe Chinese dominance was inevitable or that Beijing was largely undeterrable.

One left with the impression that it would be a hard and perhaps bloody road ahead but protecting Vietnamese independence and sovereignty is possible. The debates were more about the extent to which the 'Three Nos' policy had to be reinterpreted or altered and whether the traditional notion of strategic 'self-reliance' could withstand the evolving environment.

(b) Recommendations

In one respect, Vietnam's emphasis on risk and dominance-denial vis-à-vis China should mean that Hanoi and Canberra

become natural strategic partners and make good on the principles promulgated in the *Joint Statement on the Establishment of a Strategic Partnership between Australia and Vietnam*.⁹⁶

The key is to find ways to cooperate with Vietnam while paying adequate lip service to its Three Nos policy. While it is true that the Three Nos is constantly being reinterpreted to allow for a more proactive approach, the pace and nature of that interpretation needs to be determined by Hanoi.

Vietnam tends to focus on big powers such as the US, Japan, India and Russia – rather than Australia - when it thinks about winning friends and exploring cooperation as part of a counter-dominance strategy.

Australia-Vietnam strategic cooperation is still at a relatively early and exploratory stage. It is clear to the authors that Vietnam does not yet know what it is they would like to do with Australia and what genuine and feasible strategic cooperation would look like. But they are open to discussing ways that both countries could cooperate in a manner consistent with the evolving Vietnamese interpretation of its Three Nos approach.

This is an opportunity for Canberra to set the agenda at this early stage of the Strategic Partnership.

In particular:

- Aspects of the Japanese approach could be instructive. Vietnam-Japan strategic, security and economic relations are stronger

than they have ever been on the back of Japanese assistance for Vietnam's maritime capacity building and the heavy Vietnamese reliance on Japanese investment.

Significantly, Vietnam is a strong supporter of Japan's version of the FOIP and Tokyo's emphasis on principles of 'openness' (contra. the Sino-centric version) and 'connectivity'. Unlike with the US, deeper strategic cooperation and conversations with Japan do not create the same questioning of whether one is violating the Three Nos.

That same latitude ought to be given to Australia as the Canberra version of the FOIP is less confrontational and more consistent with multilateralism and respect for institutions than the US version.

In this context, the blossoming Australia-Japan strategic and security relationship would be of high interest to the Vietnamese. More trilateral mechanisms to deepen meaningful interaction with Vietnam would be beneficial and welcomed.

- It is also apparent that meaningful interactions between Vietnamese policy elites and Australian counterparts is extremely underdone. When it comes to Track 1.5 or officially endorsed Track 2 meetings, the fact that Vietnam's policy and think-tank elites are

⁹⁶ <https://dfat.gov.au/geo/vietnam/Pages/joint-statement-on-the-establishment-of-a-strategic-partnership-between-australia-and-viet-nam.aspx>

either Party entities or those with close connections to the Party can be helpful.

A Track 1.5 or Track 2 (bilaterally or trilaterally with Japan) would not formally carry the full endorsement of the Vietnamese government, meaning sensitive agenda items could be covered and conversations can be more honest than might be the case (from the Vietnamese side).

However, the Vietnamese participants of any government endorsed Track 1.5 or Track 2 would be insiders and their takeaways would feed directly into the decision-making system.

- Vietnam would be deeply interested in the Australian perspective on:
 - (i) A plausible and detailed view of what strategic and security cooperation with Australia would look like in 5-10 years;
 - (ii) Ways to keep the US fully and constructively engaged through bilateral and multilateral means;
 - (iii) Ways to enhance the diplomatic usefulness of ASEAN in opposing Chinese actions that harm our mutual interests; or alternatively, ways of bypassing ASEAN weaknesses to prevent the organisation from inadvertently offering diplomatic cover for China;
 - (iv) Ways of coping with pushback and coercion from

China when pursuing one's national interests.

- (v) The extent, limits and purposes of Australian overseas development assistance and cooperation that would be relevant to Vietnam.

It would be in Australia's interest to be proactive in shaping these conversations with Vietnam given that the latter is the country most unlikely to shift away from a counter-dominance mindset. It is important that Vietnam understand the Australian perspective on what counter-dominance means to Canberra and how that differs from Vietnam's view of it.

It would also give Australia a better idea of the potential and limits of the increasingly flexible Three Nos approach.

- In applying a dominance-denial mindset when it comes to Chinese investment and economic activity, Vietnam is only beginning to appreciate that certain forms of Chinese investment and domination of certain technologies can undermine Vietnamese countering or balancing approaches at a future time.

Australian expert and/or technical assistance in this regard is important and would be welcomed by Hanoi.