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DEEPENING UNCERTAINTIES

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At the mid-point in the tenure of President Donald Trump, Southeast Asian leaders have largely accepted that the era of special attention to the region, which began in the second term of George W. Bush and continued through the Obama administration, has largely passed, if only temporarily. To be sure, Southeast Asia is included in the Indo-Pacific framework and will figure to some extent in Washington's plans to counter China's Belt and Road Initiative, which will be partially implemented through the Better Utilization of Investment Leading to Development (BUILD) Act. The region continues to hold up one side of the conflict with China over sovereignty and island-building in the South China Sea and so can be assured of continued attention from the US Indo-Pacific Command. Apart from these broad issues and initiatives, US-Southeast Asian dynamics have returned to a *status quo ante* of the 1990s, when Washington was focused on geopolitical shifts in other regions, and relations with Southeast Asian nations were bilateral and spiky.

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A more difficult balancing act

The primary theme in US–Southeast Asian relations in the waning months of 2018 was reaction to ratcheting tensions in US–China relations. Bilateral relations could be better described in terms of episodes than trends. Among these were a faceoff between Vice President Mike Pence and Myanmar State Counselor Aung San Suu Kyi over the Rohingya crisis at the East Asia Summit (EAS); demands from Malaysia that the investment bank Goldman Sachs return funds they received from the 1 Malaysia Board Development Berhad (IMDB); and renewed threats from the Trump administration to forcibly deport Indochinese refugees resulting from the Vietnam War. However, one development may herald a new turn in Trump’s trade policy: the announcement that Washington and Manila would begin negotiations on a free trade agreement.

Southeast Asian governments expect turbulence on multiple fronts in 2019, not necessarily in their relations with Washington but as a consequence of US actions in other regions. The greatest dislocation is likely to be fallout from the trade war between the United States and China, launched officially in September when the Trump administration imposed \$200 billion in tariffs on Chinese goods entering the US. Previous tariff regimes had been aimed at businesses, but the September tranche primarily hit consumer goods. Deeply entwined in China’s supply chain, Southeast Asia was inevitably affected. However, the impact was uneven across the region, benefitting some economies, such as Vietnam, and disadvantaging others. Although the US and China have entered into a 90-day negotiation period to resolve their trade problems and head off further US tariffs, Southeast Asian leaders worry that an agreement, if one is reached, may not stick. Apart from the economic impact, they also fear the increasing strategic costs of a serious rupture between the US and China. That threat became more imminent when the annual APEC Economic Leaders’ Meeting in Papua New Guinea adjourned without a formal statement for the first time in the group’s history, due to the failure by the US and China to find common ground on trade.

By year’s end, senior officials in the region were increasingly – and publicly – worried that a serious downturn in US–China relations could threaten the core rationale for ASEAN.

Southeast Asian economies are generally invested in both the Chinese and US supply lines, and it would be difficult if not impossible for them to swing completely to one trading partner if forced to choose. Although negotiations on the Regional Comprehensive Economic Partnership (RCEP) are scheduled to conclude in late 2019, and implementation of the scaled-down Trans-Pacific Partnership (TPP-11) has commenced, Southeast Asian leaders are resigned to the freeze on further trade liberalization in the region that results from the Trump administration’s refusal to join in.

Instead, they fear political pressure to align with Washington or Beijing on security issues, which could severely damage the carefully constructed balance among regional powers that ASEAN has maintained since the end of the Cold War. At the conclusion of the East Asia Summit in November, Singapore Prime Minister Lee Hsien-Loong admitted reluctantly that, although Southeast Asian countries would prefer not to take sides in disputes between regional powers, they might be forced to do so.



Figure 1 Leaders pose during a photo shoot at the East Asia Summit in November. Photo: South China Morning Post

A new ISIS surge?

An upswing in trade tensions between Washington and Beijing may have been foreseeable, but Trump’s announcement by tweet on Dec. 18 that he would withdraw US troops from Syria immediately, followed soon after by announcement of his intention to draw down troops in Afghanistan, caught Southeast Asia off guard. White House officials have since underscored that the administration would seek a more gradual and conditional withdrawal from Syria, but Trump’s apparent decision nevertheless had a chilling effect on US allies in the region.

Trump's surprise announcement has implications for Southeast Asia beyond the reliability of the US as an ally. Few leaders in the region share his optimism that ISIS is on the ropes; in Southeast Asia, the Islamic State has been on the upswing for the past two years as Indonesian and Malaysian fighters return from the Middle East. The 2017 siege of Marawi City was a coup for the terrorist group, in that it took Philippine security forces six weeks to regain control. Since then, ISIS affiliates have been more vocal about their ambitions of establishing a Caliphate in the region. Sudden shifts in conflict-prone areas of the Muslim world – such as Syria and Afghanistan – have the potential to energize ISIS operations in other regions.

The costs – and opportunities – of the tariff war

The reactions by Southeast Asian leaders to the US-China tariff dispute have alternated between fear and hope. The list of fears includes secondary tariffs on Southeast Asia, more likely to be from Washington than Beijing; Chinese dumping of surpluses (which has begun); Chinese transshipment of goods; and attempts by both China and the US to force Southeast Asian countries to choose one or the other.

On the other hand, there is a general consensus that considerable international investment and other assets will be relocated to Southeast Asia. A survey conducted by US Chamber of Commerce in Beijing in November revealed that half the manufacturing companies polled intend to relocate facilities out of China, many signaling that they would consider moving their manufacturing base to Southeast Asia. Vietnam and Thailand would be the largest recipients of this relocation.

Some Southeast Asian countries also believe they will benefit from diversion of trade in specific sectors. For example, Cambodia anticipates it will see increased trade in textiles, and the Philippines expects to increase its garment trade. But this will be uneven. A Nikkei survey released in November sheds some light on the early impact of the tariffs imposed on China in September on Southeast Asia in terms of changing orders for export goods. Not surprisingly, orders have increased for Vietnam while those for other countries, such as Malaysia, have decreased.

Early readings of both business leaders and government officials in Southeast Asia suggest that there is some daylight between the region's governments and private sectors. In general, Southeast Asian government leaders appear to see the US-China trade war as a net negative, while business leaders see it as a net positive. One explanation for this discrepancy may be that governments are more likely to see all the ramifications of trade tensions between Washington and Beijing – not only on trade but also on security and diplomacy – while the business sector is more narrowly focused on economics.

Moreover, recent remarks from Trump administration officials that Washington will demand structural changes in the Chinese trade regime in the current round of talks, which Beijing is almost certain to resist, may presage a return to the “Asian Values Debate” of the early 1990s. Then, the cultural and political clash was driven by China, Malaysia, and Singapore on the Asian side and the United States on the side of the West. Although Singapore would likely try to avoid taking sides if the debate is revived, Malaysian Prime Minister Mahathir Mohammad would probably be willing to reprise his role.

A new trade direction through Manila?

The Trump administration came into office determined to revise or cancel US participation in multilateral trade agreements it deemed unfavorable to the United States. Accordingly, the US withdrew from the Trans-Pacific Partnership and renegotiated the US-South Korea Free Trade Agreement (KORUS) and the North American Free Trade Agreement (NAFTA). The administration also vowed to negotiate new agreements, singling out the United Kingdom, the European Union, and Japan.

In Southeast Asia, the only US FTA – with Singapore – is unlikely to be targeted by the administration for renegotiation, not least because Singapore has a trade deficit with the United States. FTA negotiations between Malaysia and the United States failed in 2008 but were folded into the Trans-Pacific Partnership. However, with the US now out of the TPP there is little possibility that talks on a bilateral FTA will be revived. Nor will there be an attempt to resurrect the failed negotiations on a US-Thailand FTA, which met sharp opposition from the Thai public in the early 2000s over pharmaceutical issues and quietly

died in 2006, when then Prime Minister Thaksin Shinawatra was overthrown by a military coup.

The announcement that Washington and Manila would open negotiations on a bilateral free trade agreement in November was unexpected. This will be a “greenfield” agreement, one that will start essentially from scratch rather than the revision of an existing agreement. For its part, Manila sees an FTA as a good defense against a US trade offense, that is, tariffs. By virtue of its inclusion in the 2003 ASEAN-China Free Trade Agreement, the Philippines has an FTA with China; adding one with Washington will help maintain balance in trade relations and may appease the Philippine public. Polls in November showed growing public disapproval of President Rodrigo Duterte’s handling of Philippine security in the South China Sea. Washington too has multiple motivations for pursuing an FTA, foremost of which is countering Duterte’s economic outreach to China since his inauguration, which received a boost when President Xi Jinping visited Manila Nov. 20–21.



Figure 2 Chinese President Xi Jinping meets with Philippines President Rodrigo Duterte at Malacanang Palace on Nov. 20. Photo: *The Diplomat*

BUILDing a role for the United States in infrastructure?

Duterte’s motivation in seeking a new economic relationship with China is primarily focused on securing financial and technical assistance for infrastructure development. For most of the decade Beijing has pursued infrastructure partnerships with Southeast Asian countries, with the ultimate goal of forging new transportation networks in the region that would serve Chinese economic and strategic interests. These plans pre-date the Belt and Road Initiative (BRI) and have been folded into that broader scheme.

Although Beijing has encountered resistance to many of its projects in the region – from Southeast Asian governments uneasy about falling into “debt traps,” and from affected local populations – it has also capitalized on political shifts. Since the 2017 crackdown on the Rohingya in Myanmar, which has brought sharp criticism and sanctions from the West, China has moved to revive talks on infrastructure with Nay Pyi Taw, aiming to establish a China-Myanmar Economic Corridor (CMEC). If it comes to fruition, the corridor will run from China’s Yunnan Province to Mandalay in central Myanmar, and then east and west to the Kyaukphyu Special Economic Zone (SEZ). Progress toward the corridor will be halting at best, but Myanmar’s downturn in relations with the West, particularly the United States, will boost momentum in the near-term.

In recent months, the Trump administration has been vocal in warning of the strategic risks that BRI presents and has promised to increase US infrastructure investment abroad. In October, Congress provided some means toward that end with passage of the BUILD Act. The bill is one of the first new US initiatives linked to the Trump administration’s Indo-Pacific framework, which Vice President Pence underscored in his address at the East Asia Summit in November.

Without doubt, BUILD funds will increase the US share in infrastructure projects abroad, but the fine print has given some Southeast Asian leaders pause. While Pence and other administration officials have set the level at \$60 billion, the total funds appropriated by Congress, the reality is likely to be little more than half that amount. The legislation creates a new development finance entity to replace the Overseas Private Investment Corporation (OPIC); however, in inheriting OPIC, this entity will also inherit the drawdown already made on OPIC funds, leaving roughly \$37 billion for new projects. Some of this amount will likely go to partnerships for US companies in Southeast Asia, but South Asia and Africa will also lay claim to a significant portion of the pot.

Strategic upswing in Cambodia

A timely development in Washington’s growing concern over Chinese influence and control in the poorer and smaller countries of Southeast Asia is renewed speculation over the establishment of a Chinese naval base in Cambodia. This speculation is based on an

opaque Chinese port project underway for the better part of a decade in Koh Kang province on the Gulf of Siam. When finished, the port is rumored to be deep enough to accommodate Chinese frigates and destroyers, as well as container ships, giving the PLA Navy a strategic outpost on mainland Southeast Asia and another opening to the South China Sea. Moreover, the facility would potentially draw a minor maritime country in Southeast Asia, as opposed to a claimant country, into the maritime conflict. The would-be base's proximity to Thailand, a treaty ally of the US, would give it added geostrategic significance.

While this issue is nothing new, it strengthens a common perception in the US and Southeast Asian security communities of a growing military relationship between Cambodia and China, complementing Beijing's increasing economic domination in the country and a more pervasive Chinese presence in the country. (Chinese tourism to Cambodia increased by 72 percent in 2018 over 2017.) Joint military exercises have increased, and earlier this year Beijing pledged \$100 million to modernize the Cambodian Army.

In November, US diplomats raised the port issue with the Cambodian government and, according to Prime Minister Hun Sen, Vice President Pence wrote a letter to him expressing concern on the subject. Hun Sen denies the presence – or plans for – a Chinese naval base in Cambodia, but he would not be expected to make a public announcement of Chinese intentions in any case. He has said he plans to reply to Pence, but neither government has made public any correspondence on this issue. However, the latest round of speculation serves to draw international attention to more concrete and public trends in Cambodian cooperation with China that merit concern.

Reporting on the Rohingya crisis

On Sept. 24, the State Department released its long-awaited report on atrocities committed by Myanmar's military, the Tatmadaw, against Muslim Rohingyas in Rakhine State in late 2017. It followed on the heels of a United Nations report released in late August. A joint project of the Department's Bureaus of Intelligence and Research and of Democracy, Human Rights and Labor, the State Department report concluded that the violence in Rakhine was "extreme, large-scale, widespread and seemingly geared

toward both terrorizing the population and driving out the Rohingya residents." It found that the scope and scale of the military's operations were clearly planned and well-coordinated.

The reports have not yet resulted in new sanctions since those imposed by Western countries in mid-2018. Attempts in Congress to stiffen sanctions in the House were met with resistance in the Senate, where some lingering admiration for Myanmar State Counselor Aung San Suu Kyi remains in the leadership.

However, the reports have strengthened calls in the international community for accountability by the Tatmadaw. It is not clear how and under whose auspices such an exercise would be conducted. Myanmar is not a signatory to the International Criminal Court, along with the United States and China. It is legally possible that Bangladesh (which is an ICC member) could enter an action in the ICC against Myanmar; however, Dhaka will probably opt not to, in order to maintain positive relations with Nay Pyi Taw. The Bangladesh government will want to ensure that the 1 million Rohingya refugees on its territory are able to return to Myanmar someday.

The two countries were scheduled to take a small and tentative step in that direction in November, when 2,000 Rohingya were to be repatriated under a bilateral Memorandum of Understanding forged in early 2018. However, Dhaka cancelled the repatriation at the last minute when the United Nations protested the refugees return without protection and the designated Rohingya themselves refused to be moved.

This failed attempt was a backdrop for the meeting between Vice President Pence and Aung San Suu Kyi on the margins of the East Asia Summit in Singapore. To little surprise, the meeting was described as a standoff, in which Pence criticized Suu Kyi's government for atrocities against the Rohingya, which he said were "without excuse," and for the imprisonment of two *Reuters* journalists who reported on the crisis. Suu Kyi had no qualms about telling Pence, in a brusque press conference, that comments about Myanmar's internal affairs were best left to those who understood them.

Deporting Vietnamese

Proposed repatriations of another sort were also a source of controversy in late 2018 as the Trump administration continued to insist that it would deport Vietnamese nationals who had immigrated to the United States after 1975 and committed felonies after their entry into the US. This would run contrary to an agreement with the Vietnamese government that explicitly protects immigrants who entered prior to 1995, when the US and Vietnam normalized relations. Estimates vary, but community groups believe that as many as 9,000 Vietnamese-Americans could be subject to forcible return. Human rights watchdogs, veterans organizations, and Vietnamese-American advocacy groups mounted protests in December, claiming that if these immigrants were deported to Vietnam they would most likely be jailed there.

As the Trump administration continues to wrangle with Congressional Democrats over funding for a wall across the US-Mexican border, adjunct issues such as the deportation of Vietnamese with criminal records help to keep alive Trump's contention that immigration poses a threat to American security. However, it carries a political price, and the administration has received bipartisan complaints from Congress about the proposal. Trump may himself be impacted politically by such a decision. Although the Vietnamese-American community's 1.5 million people are a diverse group politically, older generation immigrants tend to identify as Republican and are unlikely to forget a blow to their community.

Looking ahead

As it braces for the possibility of further tensions in the US-China relationship in 2019 – and political and economic fallout from that for Southeast Asia – the region also faces several political transitions that may be impacted by growing uncertainty in the global economy. In Thailand, if elections do not go as the junta plans (that is, continued political control by the military), an economic downturn will strengthen incentives for the military to hold onto power, or to retake it if a civilian political party wins a substantial majority.

Current polls show that Joko Widodo will likely win re-election in April, but they also indicate that the greatest factor that will influence the polls will be economic conditions. The

September and December tsunamis have placed additional pressure on the government to provide relief and exposes it to greater public criticism. Increased uncertainty may even affect the resolutely stable Singapore. Although the country is not due for general elections until 2020, Prime Minister Lee Hsien Loong has raised the possibility of holding polls in 2019, specifically citing the unstable regional and global economy. He would likely do this to control the transition to his successor while he is in a position of greatest power.

Although the Trump administration will continue to take a more *ad hoc* approach to Southeast Asia in comparison to the Obama era, the inauguration of a new Congress with a divided majority may invigorate greater interest in the region on the Hill. Over the past two years the Southeast Asian embassies have revived their regional and country caucuses in Congress, and they will seek further activity through them on such issues as trade, immigration, and economic assistance. However, chairs and membership in the Asia subcommittees will not be determined until late January, after which time the Congressional agenda on policy toward Southeast Asia should become clearer.

CHRONOLOGY OF US-SOUTHEAST ASIA RELATIONS

SEPTEMBER – DECEMBER 2018

Sept. 2, 2018: Court in Myanmar sentences Wa Lone and Kyaw See Oo, *Reuters* journalists, to seven years in prison for violating state secret laws related to their reporting on the killing of Muslim Rohingya by security forces.

Sept. 4, 2018: US Vice President Mike Pence calls on Myanmar's government to reverse a court ruling that [imprisoned](#) two *Reuters* journalists for seven years and to release them immediately.

Sept. 5, 2018: Singapore and Malaysia [agree to postpone](#) construction of the KL–Singapore High-Speed Rail until May 2020; Malaysia will pay Singapore \$11 million for costs incurred in suspending the project.

Sept. 7, 2018: Myanmar's government [“resolutely rejects”](#) a ruling by the International Criminal Court (ICC) that said the body has jurisdiction over alleged deportations of Rohingya Muslims to Bangladesh as a possible crime against humanity.

Sept. 21, 2018: Vietnamese President Trang Dai Quang dies after a year-long illness. He is replaced by Communist Party Secretary Nguyen Phu Trong, who will wear both the party and the state hats for the next two years.

Sept. 28, 2018: A 7.4 magnitude earthquake and tsunami strikes the Indonesian island of Sulawesi, killing nearly 1,350 people.

Sept. 30, 2018: US Navy carries out a freedom of navigation operation (FONOP) in the Spratly Islands as the USS *Decatur*, a guided-missile destroyer, sails within 12 nm of Chinese artificial islands at Gaven and Johnson Reefs as part of a 10-hour patrol.

Oct. 5, 2018: Congress passes the Better Utilization of Investment Leading to Development (BUILD) Act, which will create a new entity to aid US companies in developing partnerships abroad for infrastructure projects.

Oct. 9–12, 2018: Assistant Secretary of State for International Security and Nonproliferation Christopher Ford travels to Singapore, Vietnam, and Thailand for consultations on policy measures to maintain “maximum pressure” on North Korea to promote denuclearization on the Korean Peninsula.

Oct. 10, 2018: US and the Philippines announce they will begin “scoping exercises” intended to move toward the negotiation of a free trade agreement in November. Since then, the timing for commencement of talks has slid into 2019.

Oct. 11, 2018: Inaugural ASEAN Leaders' Gathering, hosted by Indonesian President Joko Widodo, is [attended](#) by leaders of Southeast Asian nations and the IMF, World Bank, and UN.

Oct. 18–20, 2018: Fifth ASEAN Defense Ministers Meeting (ADMM-Plus) [convenes](#) in Singapore. Territorial disputes in the South China Sea are a focus of discussion, as well as disaster relief, maritime research, and antiterrorism efforts.

Nov. 11–15, 2018: The [33rd ASEAN Summit](#) and other ASEAN-related meetings are held in Singapore. Thailand will assume the ASEAN chairmanship on Nov. 15.

Nov. 12, 2018: At the ASEAN Meeting on Business and Investment in Singapore, Malaysian Prime Minister Mahathir Mohammad says that Goldman Sachs “cheated Malaysia” in its dealings with the state fund 1MDB and indicates that the US government would help return fees that Goldman earned from the fund.

Nov. 14, 2018: Vice President Pence addresses the East Asia Summit in Singapore and says there is no place for “empire and aggression” in the Indo-Pacific region. He emphasizes that smaller countries must be allowed to prosper, an obvious reference to Southeast Asia.

Nov. 14, 2018: In a meeting with Myanmar State Counselor Aung San Suu Kyi, Vice President Pence declares that the crackdown on Rohingya in Rakhine State in late 2017 by the Tatmadaw was “without excuse.” He calls on Suu Kyi to pardon two imprisoned *Reuters* journalists. Suu Kyi suggests the US position on these issues lacked understanding of conditions in Myanmar.

Nov. 14-15, 2018: The [13th East Asia Summit \(EAS\)](#) is hosted in Singapore by Prime Minister Lee Hsien Loong.

Nov. 16, 2018: Senate Human Rights Caucus, led by Sen. Thom Tillis, issues a statement applauding Vice President Pence for “affirming the United States’ commitment to a free and independent press and delivering a strong criticism of the treatment of the Rohingya” during his meeting with Aung San Suu Kyi.

Nov. 16, 2018: State Department releases statement welcoming the judgment of the Extraordinary Chambers in the Courts of Cambodia that found two Khmer Rouge leaders, Khieu Samphan and Nuon Chea, guilty of crimes against humanity when the Khmer Rouge were in power in Cambodia 1975-79.

Nov. 26, 2018: Guided-missile cruiser *USS Chancellorsville* [conducts](#) a freedom of navigation operation in the South China Sea by sailing near the Paracel Islands. A Chinese vessel shadowed the *Chancellorsville* as it sailed past the islands, but all interactions “were deemed safe and professional,” according to anonymous US officials.

Nov. 29, 2018: Following on Mahathir’s comments in Singapore, in an interview with the *Financial Times* Anwar Ibrahim, leader of the Parti Keadilan Rakyat (PKR) party in Malaysia, demands that Goldman Sachs return \$826.59 million it collected to raise bonds for 1MDB.

Dec. 11, 2018: US [returns](#) the Bells of Balangiga to the Philippines after their removal from the Church of San Lorenzo de Martir following a violent episode between US forces and Filipino revolutionaries over 100 years ago.

Dec. 17, 2018: Malaysia’s Attorney General [files](#) criminal charges against three Goldman Sachs employees for attempting to embezzle \$2.7 billion from the state fund 1Malaysia Development Berhad (1MDB).

Dec. 21, 2018: Congressman Ed Royce, then-chair of the House Committee on Foreign Affairs, and Congressman Mike McCaul send letter to Secretary of State Pompeo and Homeland Security Secretary Kirstjen Nielsen expressing deep concern by reports of the administration’s intentions to deport Vietnamese immigrants “who have lived in the United States more than 23 years.”

Dec. 23, 2018: An unexpected tsunami, thought to be caused by the collapse of the Anak Krakatau volcano, hits the coast of Indonesia’s Sunda Strait, killing over 300 people and injuring over 1000.