

stars insights: 23 July 2020

Intensifying U.S.-China Competition Creates New Challenges for Southeast Asia



*Southeast Asian states are rightfully concerned about the deteriorating U.S.-China relationship, raising critical questions about how states seeking positive relations with both powers can adapt to quickly changing circumstances. Some fear that the two powers will force small states to choose sides, while others worry that shifting global supply chains will negatively impact countries that have carved profitable niches for themselves. The key question is whether Southeast Asian states will suffer or find opportunities to benefit. Globalization is not dead, but due for a recalibration, writes **Drew THOMPSON**, Visiting Senior Research Fellow at Singapore's Lee Kuan Yew School of Public Policy.*

Choosing sides amidst tensions

Prime Minister Lee Hsien-loong has noted in several speeches and interviews that Singapore does not want to choose sides between its primary economic partner, China, and its primary security partner, the United States. It can be argued that choosing sides is a false dichotomy which ignores small-state agency and affirmative policy options, but the sentiment that U.S.-China tensions puts considerable pressure on small states is genuine and legitimate. The shortcoming of the analogy of having to choose sides between China or the U.S. is that there is one grand decision to be made, rather than many smaller choices centred on the interests of the small states themselves, rather than the preference of either the U.S. or China. Making choices is also not an all-or-nothing decision between the U.S or China, nor is it strict neutrality and non-alignment. Southeast Asian states instead will make many choices based on how they define their own societal, economic and security interests, and in many cases those choices could align with either the U.S., China or Japan or the EU on any given issue.

Southeast Asian states retain considerable agency to choose their own course and preserve their sovereign choices, however, albeit in a more complex environment where cost-benefit predictions are less certain, making those choices more difficult. For example, in the recent effort led by the EU and Australia to initiate an independent investigation of the origins of the SARS-2 virus that causes COVID-19, Indonesia was the only Southeast Asian state of the initial 62 countries that signed on while China still bitterly opposed the initiative.

Economic challenges

Economic risks from U.S.-China competition is a critical concern for Southeast Asian states. The "decoupling" concept is rejected by many, but China's role as the global centre for manufacturing and assembling of globally sourced components is diminishing. China's costs, particularly labour costs have steadily increased over the last decade, driving many low-margin manufacturers to shift production to cheaper bases, such as Vietnam. The U.S.-China trade war has accelerated that trend, leading many companies to adopt a "China+1" strategy where one factory remains in China to supply the China market, while a new factory is established in a second country to supply global markets. Many other factors are affecting investment and trade flows, including Chinese industrial policies which favour domestic companies, and China's use of economic coercion against countries over political differences. The overall result is a global effort to diversify supply chains and reduce market dependence on China. This strategy emphasizing diversity and resilience is a far cry from the notion of separation implied by the term, "decoupling."

Small states in Southeast Asia could be in a strong position to benefit from this development, providing they can adapt, invest in key infrastructure, and reform regulatory regimes to enable them to capitalise by adding new value to supply chains and absorb new direct investment. While it is tempting to predict whether the U.S. or China will win a trade war, the potentially biggest winners are Southeast Asian states that have an educated work force, good infrastructure, low-levels of corruption, and business-friendly regulatory systems which will attract technology and investment. Likewise, realigning economies to lessen dependence on China and increase economic integration within Southeast Asia will enhance resilience and lessen the threat of any one country using trade as a coercive measure.

Security challenges

Economic security alone cannot preserve the sovereignty and interests of small states in an era where globalisation is retreating, multilateralism provides fewer benefits and U.S.-China competition increases risk. For Southeast Asian states, it is small consolation that U.S.-China security competition is more acute in Northeast Asia where irredentism and territorial disputes between China and U.S. allies remain major flashpoints. U.S. interests in Southeast Asia and the South China Sea are much less likely to lead to outright conflict with China. Threat perceptions of China vary significantly between Northeast and Southeast Asia, with Japan and Taiwan in particular perceiving China as a direct and even existential security threat. Southeast Asian states have a more balanced view of the challenges that China presents, in some cases perceiving greater security threats from neighbours, domestic insurgencies or trans-national threats such as terrorism.

China characterises U.S. military operations in the South China Sea as destabilising and contributing to tensions, while the U.S. declares its objective is to preserve rights and principles, primarily deterring the use of force to settle disputes. U.S. interests in the South China Sea are not territorial (with the exception of the Philippines' dispute with

China, which by extension becomes a U.S. issue due to the alliance). U.S. interests are primarily oriented towards maintaining the ability to move freely through the South China Sea to access the Indian Ocean and Middle East, rather than controlling it. This is a critical distinction. The South China Sea is not something the U.S. must fight for. It must fight to get past it.

ASEAN centrality and regional resiliency

ASEAN is the primary multilateral architecture in the region, but it is not likely to ameliorate the challenges posed by intensifying U.S.-China competition. Southeast Asia is sometimes conflated with ASEAN which is a mistake since each member of ASEAN is culturally and politically distinct, and each state has its own interests. ASEAN is also not an alliance that constrains or binds its members to mutual defense or collective security efforts directed at external adversaries. ASEAN does bring benefits to its members, however, and the premise of ASEAN centrality is universally embraced, making it an effective platform to effectively and efficiently engage non-members. ASEAN primarily creates an effective framework for its ten members to enhance their own diplomatic interactions and address concerns in the "ASEAN Way" emphasising consensus and mutual interest. Within ASEAN, member-state sovereignty remains the paramount consideration, and the ASEAN organisation itself is intentionally weak. Unlike the European Union, ASEAN does not have a distinct foreign policy, and it does not constrain its members by imposing standards or principles on its members. By design, ASEAN offers few immediate and direct solutions to the dilemmas posed by rising U.S.-China tensions, though the ASEAN free trade area provides opportunities for members to increase intra-ASEAN trade to diversify and reduce dependence on China.

Southeast Asian states should not exclusively perceive U.S.-China competition as a threat forcing them to choose sides in order to survive. If Southeast Asian states are to thrive, they must choose themselves, make choices based on their interests, rather than those of the U.S. or China, diversify their economic relationships to enhance resilience and independence.



Drew THOMPSON is a Visiting Senior Research Fellow at the Lee Kuan Yew School of Public Policy at the National University of Singapore. From 2011 to 2018, he was the Director for China, Taiwan and Mongolia in the Office of the US Secretary of Defense where he was responsible for supporting the Secretary and managing military-to-military relations. He was previously the Director of China Studies and Starr Senior Fellow at the Center for the National Interest in Washington, D.C. Prior to joining the Center, he was the National Director of the China-MSD HIV/AIDS Partnership in Beijing, a 5 year, USD 30 million HIV/AIDS program established by Merck & Co. and the Chinese Ministry of Health.

This article was first published on 29 May 2020 by [Global-is-Asian](#), in a slightly different form. The views expressed here are solely those of the author and they do not necessarily represent or reflect the views of the stars Foundation.

[stars insights](#) are exclusive contributions by business leaders and experts who scan the horizon to discuss geopolitical, economic, technological and further trends and developments which will impact society and business in the next few years.

[Impressum](#)