

## **Southeast Asia: A New Regional Order**

Nobuto Yamamoto

Regional international relations and the diplomatic game in Southeast Asia have undergone alterations since the late 1990s. Whereas in the Cold War period the United States-China and Soviet-China relations cast shadows on regional affairs, in the post-Cold War period the international order in Southeast Asia, as well as in East Asia, has been shaped by the triangular relationship among the United States, Japan, and China.

From the 1950s until 1998, the regional order in Southeast Asia was simple; the United States provided peace and security with its military power and Japan offered economic cooperation with its technological dominance, while Southeast Asian nations concentrated on postcolonial national consolidation and nation building. Southeast Asian nations knew the intentions of the United States and Japan, so the diplomatic game was relatively uncomplicated. As for security in Southeast Asia, the U.S.-organized security system, based on its hub and spokes concept, which maintained its preeminence against the influences of the Soviet Union and China.<sup>1</sup>

The rise of China, however, has fundamentally changed the rules of the game. Members of The Association of Southeast Asian Nations (ASEAN) have adopted a diplomatic policy that prioritizes balance among the United States, Japan, and China. For instance, since the events of September 11, 2001, ASEAN has largely cooperated in the United States' "war on terror." The region's sizable Muslim population, from the American perspective, has made Southeast Asia

---

<sup>1</sup> Donald E. Weatherbee and Ralf Emmers, *International Relations in Southeast Asia: The Struggle for Autonomy* (Totowa, NJ: Rowman & Littlefield Pub Inc, 2005); Peter Katzenstein, *A World of Regions: Asia and Europe in the American Imperium* (Ithaca and London: Cornell University Press, 2005).

“the second front” in efforts to contain international Islamic terrorist networks.<sup>2</sup> On the other hand, in 2005, Southeast Asian nations did not enthusiastically support Japan’s effort to become a permanent member of the U.N. Security Council, largely due to the country’s complicated and tense relationship with China. Thus, the rivalry between Japan and China has affected the diplomatic game in the region, and the instability it causes has come to compose a "threat" in Southeast Asia. The resulting triangular relationship between the United States, Japan, and China has offered both opportunities and challenges for Southeast Asia.

How does the rise of China shape the regional structure of Southeast Asia? How do changes in the rules of the game affect the diplomatic behavior of Southeast Asian nations? How is the regional order maintained in the twenty-first century? In order to understand these changes, we shall examine the development and characteristics of regional cooperation, as well as diplomatic tactics and strategies of the individual countries Southeast Asia and ASEAN as a whole.

### The Rise of Regionalism

East Asia has recently experienced what can be characterized as the emergence of regionalism. Two factors deserve to be mentioned in this regard. First is the monetary and financial crisis of 1997; second are the changes in Japan and China with regard to their reaction to the crisis. The monetary and financial crisis that began in Thailand in 1997 and spread to the rest of Southeast Asia and South Korea damaged the international perception of the East Asian economy, which went from "miracle" to "meltdown." The crisis continued in 1998 and set off political effects

---

<sup>2</sup> James A. Tyner, *America’s Strategy in Southeast Asia: From the Cold War to the Terror War* (Lanham: Rowman & Littlefield Publishers, 2007), 181-204.

such as the collapse of the Suharto government in Indonesia. The dire situation left a strong impression on the affected governments as to the depth of economic interdependence of East Asia. Also, it triggered a chain reaction in terms of economic cooperation among East Asian nations.

The Japanese Ministry of Finance quickly reacted to the monetary and financial crisis. Between August and September 1997, the idea of an Asian Monetary Fund was launched as a new regional system to deal with the crisis. This movement failed due to opposition from the United States, but it went on to become the motor behind present-day currency and financial cooperation in East Asia. The movement represented a new Japanese attitude toward regional economic integration. The Japanese government had previously emphasized trade liberalization, which considered economic regionalism a promotion of economic protectionism and an obstruction to the deregulation of world trade. This view, however, changed dramatically. Japan now sees regional economic integration not in contradiction with multilateral economic liberalization. This evolving viewpoint led Japan to focus on strengthening economic relations with Southeast Asian nations, and to the conclusion of its first Free trade agreement – with Singapore.

Following Japan, China changed its passive posture on economic regionalism to a more aggressive one. China, too, has aimed at strengthening economic relations with Southeast Asia and has aggressively pursued an Free trade agreement (FTA) with ASEAN.

Japan's current trade with ASEAN (almost \$136 billion in 2004) as well as that of the United States (more than \$136 billion in 2004) significantly exceeds that of China. Both China and Japan are offering growing markets for Southeast Asian goods and producing more goods for Southeast Asian nations. Japan-ASEAN trade jumped from \$119 billion in 2003 to \$135.9

billion in 2004. Such trends are likely to continue as both Japan and the United States proceed far more slowly in developing free trade agreements with China. Thus far, the United States has established bilateral free trade agreements with Singapore and entered into negotiations with Thailand and Malaysia. But more bilateral trade negotiations with the United States are likely to slow down in the near future due to concerns from poorer nations in Asia over foreign investment rules, antitrust regulation, transparency in government procurement, and U.S. agricultural subsidies.

Japan has been more aggressive in pursuing its own bilateral free trade agreements with an eye toward the formation of a regional FTA in the future; it has signed free trade agreements with Singapore, the Philippines, Malaysia, Thailand and Indonesia to date. In contrast to China, Japan talks less about what a regional free agreement will bring to the region, and more about the overwhelming benefits that it will bring to the Japanese economy, which runs a trade surplus with the region. China is assuming a leadership role in the regional economy and aggressively pursuing an ASEAN-China free trade agreement. Yet Japan remains the predominant source of investment, retains a larger trade relationship, and drives currency negotiations within the region. The United States continues to be the region's most important trading partner, but stagnant trade suggests that the United States may be finding other markets like China more attractive. The United States will rapidly lose its stature as the region's key trading partner unless it pays greater attention to contributing to Southeast Asia's economic growth.

China and ASEAN, however, are fundamentally rivals in terms of investment and trade, and therefore certainly don't have complementary economies. In 1992, ASEAN agreed on the formation of the ASEAN Free Trade Area (AFTA), aiming to strengthen its members' competitive edge. In 1998, ASEAN agreed to promote direct investment from outside its borders

and to form an ASEAN investment area to promote direct investment from developed countries in the region to underdeveloped countries in the region.

China is built into the regional production network formed in East Asia in the 1990s. Industrial clusters existing in various parts of China are gradually becoming industrial hubs. However, regional industrial hubs exist not only in China but also in Japan, NIES, and ASEAN. In other words, China is becoming embedded into the regional industrial structure.

While much of East Asian and Southeast Asian regionalism has revolved around economics, historically regional cooperation of East Asia, and especially in Southeast Asia, has been about security and politics. Moreover, it has been ASEAN, with its alliance of small nations in Southeast Asia, which has exerted a big influence in the transformation of regionalism in East Asia.

#### Transformation of ASEAN

ASEAN is a regional organization that was formed by five countries – Indonesia, Malaysia, the Philippines, Singapore, and Thailand – in 1967. Although the purpose of its establishment was regional socio-economic cooperation, arguably it has not accomplished anything significant. Instead, because its five member countries had anti-communist governments, it was perceived to be a regional anti-communist alliance. At the same time, it was vulnerable to collapse at any time due to intra-regional frictions, which have still not disappeared.

The expectations for ASEAN at the outset were relatively low. However, there was one common view: ASEAN nations needed to advance nation building and work toward national integration. In order to pursue this goal, they had to reduce mutual mistrust and promote

neighborly friendships. Diplomatically, ASEAN offered a venue for a ministerial meeting on a regular basis. The primary concerns of regional foreign ministers were security issues, which were stability of the region and in fostering trust between ASEAN nations. In 1971, ASEAN declared “The Zone of Peace, Freedom and Neutrality in Southeast Asia” (ZOPFAN) and put together “The Treaty of Amity and Cooperation in Southeast Asia” (TAC) in 1976. The latter promised that member nations would settle disputes between each other peacefully. War, for at least a time, had become unthinkable between ASEAN members, and ASEAN has therefore become a security community in this sense.<sup>3</sup>

Since the latter half of the 1970s, ASEAN tried to pursue economic cooperation, yet it failed to accomplish significant goals due to conflicting interests among member nations. Moreover, from the late 1970s through the 1980s, ASEAN faced a series of crises of unity due to differing attitudes among its members with regard to the Indochina conflicts, including the deteriorating relationship between Vietnam and Cambodia, the invasion by Vietnam of Cambodia, China’s invasion of Vietnam, and the Cambodian civil wars.

In the 1990s, ASEAN regained its dynamism.<sup>4</sup> Needless to say, the collapse of the Cold War was the primary cause. From the 1990s ASEAN expanded and intensified its role and function. First, it started to establish the AFTA in order to create regional economic integration. AFTA has been virtually established since 2003 and has taken steps toward more significant economic integration. Second, it extended its membership to include Indochinese nations – Vietnam, Laos, and Cambodia – as well as Burma. This expansion was accomplished in four

---

<sup>3</sup> Amitav Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order* (London: Routledge, 2001); Jurgen Haacke, *ASEAN’s Diplomatic and Security Culture: Origins, Development and Prospects* (London: Routledge, 2005).

<sup>4</sup> Michael B. Yahuda, *The Post Cold War Order in Asia and the Challenge to ASEAN* (Singapore: Institute of Southeast Asian Studies, 2006); David Martin Jones and M.L.R. Smith, *ASEAN and East Asian International Relations: Regional Delusion* (Cheltenham Glos: Edward Elgar Publishing, 2006).

years between 1995 and 1999, and now ASEAN consists of ten nations of Southeast Asia. Third, in 2003 it began to seek the establishment of a security community, an economic community, and a socio-cultural community. It adopted a charter at the 13th ASEAN Summit in November 2007 in Singapore. Fourth, it has functioned as a subsystem of larger regional systems such as the Asia-Pacific Economic Cooperation (APEC) in economic issues (1989) and the ASEAN Regional Forum (ARF) in security affairs (1994). In 1997, “ASEAN plus Three” was created, which functions as a coordinator of cooperation between ASEAN and China, Japan, and South Korea. It is a multifunctional framework that includes monetary and financial cooperation, economic cooperation and political security cooperation. Furthermore, extra-regional nations like China, India, and Japan joined the TAC to show their commitment to stability in Southeast Asia. Indeed, it provided the basis for the formation of the East Asian Summit in 2003.

The expansion of ASEAN has had some negative consequences. The strength of ASEAN with its function mainly as an informal club – with its ways of informalism, of avoiding strict legalistic institutions and binding resolutions – has caused the constraints of institutional capacity and legalistic mechanisms to deal with the problems it faces. It was unable to confront the new enemies of a globalized world: currency speculators (such as in the 1997 financial crisis), pandemic diseases (the SARS crisis of 2003), underground terrorist groups (Jemaah Islamiyah’s regional network and activities), and environmental issues (such as forest fires and haze problems) since the mid-1990s. The expansion of its membership also has projected internal problems in ASEAN. Most pressingly, with regard to human rights violations in Burma, ASEAN cannot reach an agreement on how to deal with the ruling junta, mostly due to lasting aversion to external interference on what the members consider domestic matters. Moreover, the

so-called “ASEAN divide” – the economic disparity between long-time members and new ones – cannot help but throw dark clouds on the expansion strategy.

## Southeast Asia and China

The rise of China is not tantamount to the establishment of China’s hegemony in Southeast Asia. Although it cannot be denied that China’s economic and military presence has been growing in the region, there is no evidence that China dominates the regional order. Southeast Asian nations do not consider China’s presence or rise as a threat, but rather recognize their relations with China an opportunities as well as a challenge. China has risen as a regional power, but thus far has not posed any kind of threat to the region.

Since the 1990s China has regarded itself as a regional power in East Asia.<sup>5</sup> The international situation since September 11, 2001 has been a fair wind for China to promote a new phase of Sino-U.S. relations. Since 2003, China has started to push for a new regional diplomatic strategy called “peaceful rise.” First, China has the intention of constructing and maintaining a stable relationship with neighboring countries. Its fundamental objective is a stable Sino-U.S. relationship, but good relations with neighboring countries can serve as a hedge when Sino-U.S. relations retreat. Second, since the 1990s China has positively participated in various regional forums. Third, the international society, China only accepts selective responsibilities.

---

<sup>5</sup> Saw Swee Hock, Sheng Lijun, Chin Kin Wah (eds.), *ASEAN-China Relations: Realities and Prospects* (Singapore: Institute of Southeast Asian Studies, 2005); Ho Khai Leong and Samuel C.Y. Ku (eds.), *China and Southeast Asia: Global Challenges and Regional Challenges* (Singapore: Institute of Southeast Asian Studies, 2005).

China's strategic intention requires paying attention to Southeast Asia. In order to maintain domestic order and stability, China needs to maintain her economic growth. For this purpose, it is necessary to secure energy resources, which requires a steady security environment and the reduction potential threats. Southeast Asia is an important region for China because its stability is essential for maritime resource transportation, which ensures its economic growth. China considers ASEAN members as its key strategic partners, particularly with regard to economics and security. In terms of economics, China and ASEAN reached an agreement for an FTA in 2001; the China-ASEAN Free Trade Zone (FTZ) is expected to be realized 2010. As for security, various security-related conferences have been held, such as the ARF and the Shangri-La Dialogue, for bilateral and multilateral ministerial fora.

As a strategic partner, China has expanded and strengthened its relationship with ASEAN, even when not all of its members have equal strategic meaning for China. Securing the sea lane to China, for instance, is among the major challenges. China's increasing dependency on oil from the Middle East requires the stability of the Strait of Malacca and the South China Sea, which form the transportation route to China. Therefore, China needs to establish a stable relation with neighboring nations such as Malaysia, Singapore, Indonesia, Vietnam and the Philippines. In fact, in 2002, China and ASEAN signed a joint declaration concerning the Code of Conduct in the South China Sea, despite the territorial problem over the Spratly Islands. This is the beginning of creating peace regime in the South China Sea. China's actions reflect her flexible strategic thinking to create constructive relations with ASEAN nations.

Opportunities and Challenges

Given the U.S. and Japanese presence in the region, each Southeast Asian nation has had to calibrate its attitude toward China in a complex way, while ASEAN has an almost common policy toward China. Three policies – constructive engagement, hedging and balancing – are mixed in the context of regional international relations as well as individual domestic circumstances.<sup>6</sup>

The first is constructive engagement. Southeast Asian nations want to avoid a situation in which the national interest is put at risk due to the rise of China. They do not expect initiatives from China in economics, diplomacy and security, but rather try to maintain equal diplomatic relations with China through diplomatic bargaining. With China's positive approach to ASEAN through bilateral and multilateral diplomacy, ASEAN constructively engages China. ASEAN aims to stabilize the relationship with China through ARF, ASEAN plus Three and its FTA.

The second is a policy of hedging. Geographically and historically, Southeast Asian nations have regarded China as a potential threat. Indeed, it was not until in the 1990s when China normalized diplomatic relations with all the countries of Southeast Asia – with Indonesia in August 1990, Singapore in October 1990 and Vietnam in October 1991. A hedge vis-a-vis China means that excellent relations with other regional powers need to be developed. The most important relationship is with the United States, followed by Japan, the EU, Russia, and India. For instance, as individual nations, the Philippines and Singapore have engaged with China while maintaining close security ties with the United States. As for trade volumes, the United States and the EU are more important destinations for Southeast Asian exports, than China.

---

<sup>6</sup> Chien-peng Chung, "Southeast Asia-China Relations: Dialectics of 'Hedging' and 'Counter-Hedging'," *Southeast Asian Affairs 2004* (Singapore: Institute of Southeast Asian Studies, 2005), 35-53; Evelyn Goh (ed.), *Between and Between: Southeast Asian Strategic Relations with the U.S. and China* (Singapore: Institute of Defence and Strategic Studies, 2005); Bruce Vaughn, *China-Southeast Asia Relations: Trends, Issues, and Implications for the United States* (Washington: Congressional Research Service, The Library of Congress, 2005); Denny Roy, "Southeast Asia and China: Balancing or Bandwagoning?," *Contemporary Southeast Asia*, Vol. 27, No. 2 (2005), 305-322.

Japan and the United States have also invested and provided aid in large amounts in Southeast Asia. Thus, in terms of real economy, China has not yet surpassed other extra-regional powers. Therefore, the ASEAN nations hedge against China primarily by maintaining good relations with extra-regional powers through various diplomatic channels.

The third is a policy that the nations employ vis-à-vis China is a policy of balancing with regard to external powers. On the one hand, Malaysia and Indonesia have important ethnic-Chinese populations domestically and from time to time ethnic tensions have caused diplomatic tensions with China. Both countries at the same time have Muslim-majority, and therefore information exchange with the United States has recently been established in the context of “the war on terror.” On the other hand, Thailand plays the role of a hub in mainland Southeast Asia in terms of diplomatic and economic relations with China, Japan, and the United States. Its geopolitical importance has also increased due to the rise of the development of the Greater Mekong Sub-region. Indeed, Thailand will become an important economic corridor with the 2012 opening of the East-West Economic Corridor running through Vietnam, Laos, Thailand and Burma, and of the North-South Economic Corridor going from Yunnan Province of China, through Burma, Laos, Thailand, Cambodia, and Vietnam.

The combination of engagement, hedging, and balancing is the realistic response of Southeast Asian nations that seek to strengthen and stabilize the regional order in dealing with a rising China. The rise of China provides both opportunities and challenges for Southeast Asia, where both sides can be said to have acted based on a realistic profit-and-loss arithmetic. The rise of China itself creates neither international nor domestic problems; rather, it has encouraged local Southeast Asians, including ethnic Chinese, to form closer cultural links with China.<sup>7</sup> In

---

<sup>7</sup> This is partly because of the expansion and penetration of China’s soft power. Michael Vatikiotis, “The soft power of ‘Happy Chinese’,” *International Herald Tribune* (January 18, 2006); Joshua Kurlantzick,

other words, the fact that China is embedded in Southeast Asia has created new rules and a new regional environment for the region. Southeast Asia possesses the channels of bilateral and multilateral diplomacy in economics, politics, and security with the triangular relations between the United States, Japan and China, which increases the predictability of regional stability and order.

---

*Charm Offensive: How China's Soft Power Is Transforming the World* (New Haven: Yale University Press, 2007). It is to be noted, however, that ethnic Chinese in Southeast Asia have been transforming their identities since the 1990s because of rapid social changes, well before China has pursued its soft power policy.