

FSVC REPORT ON FSVC/KAS WEBINAR “SECURITIZATION” OF ECONOMIC ISSUES IN U.S. AND EU RELATIONS WITH CHINA

On December 3, 2021, the Financial Services Volunteer Corps (FSVC) hosted with the Konrad-Adenauer-Stiftung (KAS) a fourth webinar under the program “Fostering Economic and Political Cooperation Among Key Countries in a Post-COVID-19 Environment”. The webinar focused on the implications of the increasing entanglement of economic and security issues in interactions with China. The main presenters were Kanti Bajpai, Director of the Centre on Asia and Globalisation at the Lee Kuan Yew (LKY) School of Public Policy in Singapore, and Angela Mancini, Partner and Head of Control Risks’ Southeast Asia office. Evan Laksmana, Senior Research Fellow at the LKY School of Public Policy, also offered his perspective.

The webinar helped to explore what this increased “securitization” of economic issues means for U.S. and EU relations with China, and for future global economic growth, and how it is playing out in Southeast Asia (SEA). For the U.S., issues of national security are a major factor in defining foreign economic relations. In countries such as Germany, there is a deep-rooted belief that economic relations can be disentangled to a large extent from political objectives and that business follows its own rules. This belief, however, is now being challenged. If global economic growth post-COVID-19 comes from China, how great a risk is overreliance on China? Is it possible to isolate certain economic issues from security issues? The consensus was that it is increasingly difficult to do so.

Countries in SEA are directly impacted by these issues as they must handle relations with both the U.S. and China. China has dominated trade in SEA for nearly a decade, but the U.S. and EU also have substantial investments in the region. In SEA, economic interdependence is perceived as having been weaponized and manipulated by the U.S. and China in recent years. A key question raised was whether they must choose between the U.S. and China, and consensus was that neither countries nor businesses in SEA want to choose, but are feeling more pressure to do so given the sharpening of the U.S.-China rivalry. Furthermore, there was discussion about whether, despite continued economic engagement at the moment, the trend will be increased decoupling between the West and China in business (given issues such as intellectual property rights) but also more broadly (given differences in political and social concepts). Other key observations included the following:

Cold War 2.0? – There is a general sense in SEA that the U.S.-China relationship can be described as a new “Cold War”. Similarities to the former Cold War include the following:

1. Both countries have negative perceptions about each other’s worldviews and ideologies.
2. There are flash points, particularly in East Asia, such as Taiwan and the South China Sea, which could draw the U.S. into the affairs of East Asia, and Asia more broadly.
3. There are alliance-like formations. The U.S. has formal alliance relationships with nearby countries (e.g., Japan, South Korea) so the U.S. can project power into SEA handily with its naval and air force. While China does not have formal alliances, its connectivity and infrastructure outreach through the Belt and Road Initiative (BRI) has an alliance-like element and motivation.
4. There is both a hard and soft power competition brewing between the U.S. and China in SEA, and that competition is sharpening.

One key difference with the former Cold War is that security and economics are much more intertwined now given China's extensive global economic entanglement. Concern was raised about the use of the "Cold War" label however, as mistakes could be made in terms of policy insight and policy conclusions drawn from the former Cold War.

This "Cold War" Presents Challenges to SEA – Countries in SEA have been close to the U.S. strategically since the late 1960s. Recent events, however, have raised concerns, including about the commitment of the U.S. to its allies (e.g., Japan, South Korea) under President Trump, and the decision of the U.S. to pull out of the Trans-Pacific Partnership (TPP). At the same time, countries in SEA are being drawn into the Chinese economic orbit and these U.S. decisions seem to strengthen China's economic presence in SEA. In response, most countries in SEA are hedging, preferring economic and trade relations with China while relying on the U.S. for security issues. This puts the region in a challenging situation: it wants a U.S. presence so as not to have to increase its own defense efforts, and it wants economic links to China but does not want to be overwhelmed economically by China. The fear is that this hedging option may disappear as the U.S.-China competition sharpens and that countries in SEA may be forced to choose. U.S. policymakers, for example, may not be explicitly asking countries to make a choice, but there is currently significant agenda setting and issue linkage tied to great power politics. This has a polarizing effect and is concerning to countries in SEA as they seek to defend their strategic autonomy.

No Single SEA Response to U.S.-China Rivalry – In this tense environment, four or five countries have begun to tilt perceptibly toward China: Cambodia, Laos, Thailand, Myanmar and, to some extent, Malaysia. Singapore and Vietnam are perhaps the closest to the U.S. strategically, while Indonesia and the Philippines are somewhere in between. One reason for these different responses is that countries in SEA have a different set of foreign policy options at their disposal, and these options are limited. For example, some countries (e.g., Indonesia) rely on the Association of Southeast Asian Nations (ASEAN), while others (e.g., Singapore) develop non-ASEAN options. Within countries themselves, there can also be inconsistent responses to the U.S. and China due to different power and veto holders. For example, in some countries (e.g., Indonesia, Singapore), the business community has stronger ties to China while the security and military forces are more integrated with Western powers. Countries in SEA are also seeking to position themselves strategically amid this U.S.-China rivalry. Singapore wants to have agency and be an honest broker that examines issues individually on the basis of principles rather than always collaborate with the U.S. on one issue and with China on another. It also wants to be relevant by virtue of its ideas, including in areas such as technology and sustainability. Finally, it was noted that, while U.S.-China tensions are a significant challenge to SEA, there are other "Cold Wars" to deal with (e.g., between China and Japan), as well as traditional security concerns between SEA countries, long-term strategic challenges (e.g., North Korea) and daily operational challenges such as illegal fishing and transnational crimes.

Increased U.S. and China Initiatives in SEA and Different Messaging – In SEA, both the U.S. and China have increased their initiatives to compete for the hearts, minds and markets of the region. U.S. initiatives include the TPP (until it pulled out), the "Pivot to Asia" policy under President Obama, the Free and Open Indo-Pacific (FOIP) strategy under President Trump, the Blue Dot Network with Australia and Japan, the Quadrilateral Security Dialogue (the "Quad") with Australia, India and Japan, and AUKUS with Australia and the UK. The U.S. has also made a comeback in terms of its vaccine diplomacy and has recently conducted high-level visits, including from Vice President Harris and Secretary of Defense Austin. For domestic reasons, however, it has chosen not to work on trade deals thereby limiting the economic options it can propose in SEA. China has also launched several initiatives in SEA, including the BRI and bilateral aid projects, and has made its vaccines widely available in the region. It recently hosted the

leaders of ASEAN countries and Chinese senior officials visited countries across SEA following the high-profile visits from the U.S. Overall, it was noted that the U.S. has a less consistent and visible presence in SEA than China, due in part to its geographical remoteness from SEA. It cannot match China's diplomatic efforts, which are very active and persistent. China's messaging is also very clear: Chinese dominance is inevitable. In contrast, the messaging from the U.S. is much more complicated and is not coming through as clearly. On the other hand, recent polls show that perceptions of China are very poor in SEA, due largely to wolf warrior diplomacy in the South China Sea, developments with Taiwan and Hong Kong, and growing worry about China's economic dominance. SEA is looking to the U.S. (and Europe) to make an economic comeback to counter this dominance, and the business community in SEA is looking to the U.S. and China to find a more effective way to manage their relationship as it is currently not working.

Hardening U.S. Policy Toward China, and Lack of Reciprocity from China – To SEA, the Biden administration is providing less erratic policies than the Trump administration. However, there is concern that there may be again a reversal of policies at the next U.S. midterm or presidential elections, and there is therefore more reticence to return to the way things were prior to the Trump administration. In terms of the U.S.-China relationship, there is no nuance in the U.S. position, with both Republicans and Democrats wanting to be seen as being tough on China. U.S.-China relations are now more tense, and it is unclear in SEA whether the U.S. approach of “cooperate where we can and compete where we must” will be well received by China. In general, there was concern that, like many, President Biden's advisors that work on China may not know what is really happening inside the Chinese government. This could lead to miscalculations due to a lack of reciprocity from China in terms of not only trade and investment policy, but also substantive dialogue.

Business is Booming in SEA and China, but with Risks – On the business side, the trend in SEA is optimism thanks to significant growth across several sectors, including technology and businesses related to technology (e.g., data centers). There is also a major transition occurring toward energy renewables. In a recent survey conducted by AmCham Shanghai, 60% of its members noted that they are increasing investments in China this year (compared to 20% last year), despite increased discussions in the U.S. and the West about decoupling. Some decoupling is occurring, particularly in the technology sector, but a significant number of U.S. and EU firms see business opportunities in China, and the Chinese strategy is to keep making it attractive to do business together. U.S. businesses are concerned however about the reputational risks of an investment (e.g., how to present it to the press, investors), intellectual property theft and the risk of detention, which is underreported and often due to companies running afoul of China's stringent regulation related to data.

From a Chinese business perspective, large Chinese technology firms want to expand internationally but it is no longer viable for them to enter the U.S. market. Aside from the U.S., China has geopolitical challenges with India, the EU is too strict in terms of privacy regulation, Latin America is not a large market, and China has been struggling with several issues in Africa. Chinese firms are therefore focusing heavily on SEA, even though they see risks in SEA too. In particular, they are concerned that governments that need tax revenue given the pandemic and the decrease in tourism will first target Chinese technology firms and tax digital payments, for example. Some Chinese technology companies are also concerned that they are subjected to more stringent and expensive processes than Western investors in certain countries in SEA (e.g., Singapore).

Growing Military Tension in SEA – The assumption that economic interdependence has positive spillovers on security competition, and that trade and investment entanglements promote peace and

stability, even between severe rivals, was questioned. In SEA, there is growing concern about potential conflict and that some countries in SEA may be drawn into it due to their location. In Indonesia, for example, the Defense establishment is discussing the idea of developing an anti-access capability in case there is a U.S.-China conflict. SEA is also concerned that there is now a reaction-counterreaction cycle that countries in SEA cannot stop. For example, AUKUS breeds more tension, tension from China then leads to more response from Australia and others, and so on. The most acute worry is that the situation in Taiwan erupts, leading to pressure on countries in SEA to make difficult choices. The South China Sea is less of a concern given ongoing diplomatic dialogue on the issue. In terms of military readiness, countries in SEA are generally underdeveloped except for Singapore, leaving countries unable to defend themselves in case of conflict.

ASEAN is Unlikely to Play Central Role – The question was raised about how ASEAN can work together more closely on urgent issues like COVID-19 vaccination, and so that smaller countries (e.g., Cambodia) do have choices and can hedge if they want to. There is growing concern, however, among both external partners and ASEAN states themselves, about the value and effectiveness of ASEAN amid great power politics and the pandemic recovery. ASEAN is focused on processes and norms building, with frequent meetings among members, and is not outcome-driven. There are also growing divisions within ASEAN, due in part to the intensity of the U.S.-China competition and the launch of initiatives such as AUKUS, FOIP, BRI and the Quad, which are putting significant pressure on members. The notion of ASEAN centrality (i.e., that ASEAN should lead all major groupings and coalitions, and other arrangements) is eroding quickly, with certain individual ASEAN states being content with developing non-ASEAN options. It would require one or two countries (e.g., Indonesia) to push the ASEAN agenda forward.

APPENDIX I – BIOGRAPHIES OF SPEAKERS

Kanti Prasad Bajpai

Kanti Bajpai is Director of the Centre on Asia and Globalisation and Wilmar Professor of Asian Studies at the Lee Kuan Yew School of Public Policy, National University of Singapore. His areas of interest include international security, Indian foreign policy and national security. He is currently working on a book on India-China relations. Prior to this position, he was Professor of International Politics at Jawaharlal Nehru University and Professor in the Politics and International Relations of South Asia at Oxford University. From 2003 to 2009, he was Headmaster of The Doon School in India. He taught at the Maharajah Sayajirao University of Baroda, and has held visiting appointments at Wesleyan University, Columbia University and the University of Illinois, Urbana-Champaign. He has also held visiting appointments at the Rajiv Gandhi Foundation, Joan B. Kroc Institute for Peace, Notre Dame University, the Brookings Institution and the Australian Defence Force Academy. Most recently, he was a Distinguished Fellow at the Institute for Defence Studies and Analyses in New Delhi. Dr. Bajpai writes a regular column for the Times of India.

Angela Sapp Mancini

Angela Sapp Mancini is a Partner at Control Risks and head of the firm's Southeast Asia office, based in Singapore. She is responsible for Control Risks' practices across Southeast Asia, including Singapore, Indonesia, Vietnam, the Philippines, Thailand, Malaysia and Myanmar. Ms. Mancini is a Certified Public Accountant (CPA), formerly with Deloitte & Touche, and has worked in financial services and economic development for 20 years. She has been posted in Russia, Indonesia and Egypt, and has worked extensively in India, China and Sub-Saharan Africa. Her technical specialties are compliance and audit, anti-corruption and financial risk management. Prior to this role, she was based in New York as Control Risks' Managing Director, heading up the firm's accounts team for Eastern Americas and leading the Financial Services practice in the Americas. Prior to joining Control Risks, Ms. Mancini was Managing Director and Head of Asia, Russia and Africa programs at FSVC. She is a member of the Council on Foreign Relations, and appears regularly in the media, including on BBC, CNBC, Bloomberg News, NPR and Channel NewsAsia, and in the Wall Street Journal and Financial Times.

Evan Laksmana

Evan Laksmana is a Senior Research Fellow with the Centre on Asia and Globalisation at the LKY School of Public Policy, National University of Singapore. His research focuses on military change, civil-military relations and regional security in the Indo-Pacific as well as Indonesia's defense and foreign policies. He was previously a senior researcher at the Centre for Strategic and International Studies in Jakarta and a Visiting Fellow with the ISEAS-Yusof Ishak Institute in Singapore. He has also held visiting and research positions with the National Bureau of Asian Research, the Lowy Institute for International Policy, the German Marshall Fund of the United States, and the S. Rajaratnam School of International Studies, NTU. He has taught at or given lectures to the Indonesian Defence University, Australian National Security College, Indonesia Air Force Staff and Command School, and others. His scholarly research has appeared in the *Journal of Contemporary Asia*, *Asian Security*, *Asia Policy*, *Asian Politics & Policy*, *Defense & Security Analysis*, *Defence Studies*, *Contemporary Southeast Asia*, *Journal of the Indian Ocean Region*, and others. His chapters have appeared in books published by New York University Press, Routledge, Manchester University Press, and others. He has written for *The New York Times*, *Washington Post*, *Foreign Policy*, *Foreign Affairs*, *South China Morning Post*, for RAND Corporation, Brookings Institution, and others.