



**G | M | F** The German Marshall Fund  
of the United States  
STRENGTHENING TRANSATLANTIC COOPERATION

**Asia Program**

2018 | No.13

# THE LIBERAL ORDER IN THE INDO-PACIFIC

JANKA OERTEL, ANDREW SMALL, AMY STUDDART



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# INTRODUCTION

The liberal international order is under threat on multiple different fronts, both domestic and international: from populist forces to Russian interference in democratic elections, from anti-EU movements to the backlash against new trade agreements, from the rise of great power revisionism to questions regarding U.S. alliance commitments. These developments are leading core defenders of the liberal international order to focus their attention closer to home, and — as a result — questions about the future of the liberal order in Indo-Pacific itself have assumed less urgency, especially when coupled with the immediate security challenge from North Korea. However, the longer-term battle for the future of the liberal international order will likely be determined in the Indo-Pacific. It is in this vital region that the order is being challenged by a clear alternative in the form of a rising China. Democracies in that region are frontline states in this regard and although U.S. and European leadership is essential, the actions that they take will determine not just their own future but that of the order itself.

The long-term trends in the region have been positive: freer and more open economies, the consolidation of democracy in former authoritarian states, and the persistence of the “long peace” in Asia. Yet recent years have seen real setbacks: China’s growing military assertiveness, democratic rollback in several countries in the region, and the establishment of an economic order that is leaving states more vulnerable to coercion. Some of these developments reflect global trends, whether the rise in strong-man leadership, the growing ambition of authoritarian states’ efforts to reshape their neighborhoods, or the political pressures that are facing the international trading system. Others are unique to the region, such as the danger presented by a nuclear North Korea. But many of the challenges are tied to the fact that the threats to the liberal order posed by the authoritarian state with the most potent combination of military and economic power are at their most acute in Asia. The most advanced applications of Chinese “sharp power” techniques are playing out in Taiwan. The most direct

exercise of China’s coercive military power is playing out in the South China Sea. The fastest growth in economic dependency and Chinese debt traps is playing out across developing Asia, from Laos to the Maldives.

These threats are more intertwined than they have ever been. Any response that focuses on military deterrence without an adequate economic strategy or that proposes “high-standard” trade and investment packages without addressing the political conditions that lead to developing countries accepting vast levels of “low-standard” Chinese finance in the first place is likely to fail. On this front too, developments in recent years have given cause for concern. The U.S. withdrawal from the Trans-Pacific Partnership (TPP), fixation with bilateral trade deficits, and protectionist measures have undermined the potency of the economic offer of the liberal democracies. The U.S. voice on human rights and democracy in the region has faded, emboldening leaders in the region who believe that undermining the rule of law and democratic norms is not only a cost-free proposition but may even be applauded. And while the Trump administration is continuing to increase U.S. military presence and activities, allies in Asia have grown more anxious about the reliability of U.S. commitments, the predictability of decision-making in Washington, and the disconnect between security and economic policy, such as the U.S. willingness not only to impose tariffs on allies but to do so on national security grounds.

The picture is certainly not unremittingly bleak. American friends and allies have responded to these challenges by stepping up their own efforts rather than by bandwagoning with China. The TPP countries moved ahead with the slightly adapted and redubbed Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), in the absence of the United States, while Japan and the EU closed the world’s largest bilateral free trade agreement. Japan and India have exercised leadership in pushing back against and developing

alternatives to the most problematic manifestations of China's Belt and Road Initiative. Seoul has shown notable diplomatic dexterity in navigating threats of war on the Korean peninsula. The U.K. and, to an even greater extent, France have made symbolically important steps in expanding the European security role in Asia, from freedom of navigation operations to the recent French basing agreement with India.

The current U.S. administration is also setting in motion important shifts in U.S. strategy that are likely to outlast it. There is a major reorientation in U.S. China policy that reflects a greater emphasis on competition across the economic, security, and ideological spheres, which is moving ahead with strong bipartisan support. There is greater awareness of the advantages of joint action in addressing the challenges of China's rise, not only with traditional regional security allies but with other economic powers and extra-regional partners and allies. There are increased efforts to coordinate on areas ranging from trade to infrastructure, whether through the re-established U.S.–Japan–India–Australia “quad” or the U.S.–Japan–EU trade chiefs' new trilateral meetings, which are heavily focused on addressing challenges related to China. The risks that capricious decisions and “friendly fire” incidents, such as the recent steel tariffs, will undermine some of these efforts are high. But credit is owed to the efforts of many in the Trump administration who are laying the groundwork for a more effective long-term U.S. response, from the “Free and Open Indo-Pacific” strategy, and the National Security Strategy, to the National Defense Strategy, as well as racking up some short-term successes, such as marshaling the “maximum pressure” campaign on North Korea.

The wherewithal certainly exists to secure and maintain a liberal order in the Indo-Pacific, given the combined economic and military power of the United States and its friends and allies. But achieving that will require a deep, thoroughgoing commitment to sustaining the economic and security conditions for liberal democracy in the region amid serious and growing pressures. While some of the strategic language is in place, and new structures of cooperation are taking shape, it would be delusional to pretend that there is confidence among like-minded powers that current efforts are anywhere close to sufficient.

This report is intended to provide an overall assessment of the liberal order in the Indo-Pacific and evaluate the approaches by the major democratic powers to sustain and defend it. It will be followed by a series of shorter policy briefs looking at how those democratic partners and allies can craft a more effective set of responses to the challenges.

GMF's mission is to strengthen transatlantic cooperation in the spirit of the principles underlying the Marshall Plan. Throughout this report, we use the term “liberal international order” to refer to these principles: an open, rules-based international system founded on shared values, principally: democracy, the rule of law, and the protection of human rights. These shared values underpin a pluralistic, tolerant world, in which peoples determine their own futures and borders are not changed by force. This report thus identifies and assesses three pillars of the liberal order in three chapters: open economies, common security, and democratic governance and human rights.

This work grows out of GMF's longstanding convening and research on Asia and on challenges to the liberal international order and, given GMF's focus on transatlantic cooperation, places particular stress on the current and potential role for Europe in the Indo-Pacific. For many years, the Europeans have been legitimately criticized for the limitations of their approach to Asia. Yet recent years have seen important shifts in the EU's China policy, more concerted efforts to develop a rounded approach to Asia, the successful completion of major FTAs in the region, and concrete steps to increase a European hard security role. More importantly, as appreciation grows of the centrality of trade, investment, and economic strategy to the security and political direction of the Indo-Pacific, the weight placed by other states on the role of one of Asia's principal economic powers is naturally growing with it. This report therefore also outlines a basis for a model of cooperation that goes beyond the quad and the ASEAN-centric regional institutions to include the EU and its member states as critical partners to ensuring that the liberal order in Asia is maintained.

# TRENDS

## Most Positive Trends

### *Allies and Partners Stepping Up*

Across the three pillars, we have identified some significant positive trends: U.S. allies are stepping forward to take leadership Washington has abdicated or provide stronger support. This was the case in important trade agreements — notably the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU–Japan free trade agreement — after the United States withdrew from Trans-Pacific Partnership (TPP). The efforts of Japan especially were central in both these projects, which send a strong signal that the liberal, open trading system could survive. In other realms, we have also seen allies stepping up. France has given the United States important backup by increasing its naval presence in and around the South China Sea, while Japan is providing essential military aid to South East Asia.

### *Allies and Partners Converging*

There is also some positive movement on economic cooperation between the United States and its partners. The views of like-minded actors are slowly converging on the shared economic challenges posed by China, on issues ranging from investment screening and overcapacity to the Belt and Road initiative. Japan, India, Australia, and increasingly the EU and the United States have also begun to step up their own efforts in supporting Asian connectivity; while the BRI poses a major challenge, it has also had a galvanizing effect. The standout example is Japan’s successful pursuit of the deep-sea port deal in Maldives. If Japan and its partners coordinate more, they should be able to offer an appealing alternative to BRI funding in enough important cases to make the difference. Despite differences on trade policy elsewhere, China is a major area of agreement and Japan, the EU, and the United States have made some progress toward

developing a more coordinated approach on trade, though this risks being undermined by the Trump administration’s current ad hoc policies, for example with regard to steel and aluminum tariffs.

### *Allies and Partners Withstanding*

Despite Chinese attraction and coercion and the waning appeal of democracy globally, several regional democracies — Japan, South Korea, Taiwan, and India chief among them — have demonstrated the considerable entrenchment of democracy in the Indo-Pacific. Similarly, the “long-peace” in the region is also holding as cooler heads have thus far prevailed, despite significant provocations both in the realm of maritime and even nuclear security. This too is a positive note, though perhaps a troublingly tenuous one.

## Most Worrying Trends

### *China's Growing Assertiveness*

China is becoming more assertive and less rule-abiding. With growing military capabilities and growing disrespect for established international rules and norms in its immediate neighborhood and beyond, China is the largest challenge to the future of the liberal order in Asia from a security perspective. Similarly, China’s expanded use of economic coercion, and the growing dependency of states across the Indo-Pacific on Chinese finance, pose serious risks to a liberal political and security order in the region. The Belt and Road initiative has created or deepened debt traps for a number of countries, and Beijing has utilized forms of economic pressure for political and security ends. In the current state, miscalculations, accidents, and misunderstandings can lead to military escalation when the established norms and mechanisms to

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provide a safety net continue to be ignored. After decades of stability in Asia-Pacific major power war has become a plausible option.

### *Toxic U.S. Trade Policy*

The Trump administration's trade strategy risks dividing allies in their approach to China and has weakened the capacity of the advanced industrial democracies to present a compelling alternative economic offer to states in the Indo-Pacific. The U.S. withdrawal from TPP, the push for bilateral agreements premised on reducing trade deficits, and tariffs that hit US allies, have made it harder to mount a common response to the Chinese economic challenge.

### *Inequality Undermining Democracy*

Income inequality in various emerging economies in the region is giving rise to public dissatisfaction, populism, and social discord. The poor in several states increasingly see democracy as a nice to have that comes at the expense of their economic well-being, rather than a system that will allow for general improvements in their lives.

### *Technologically Abetted Control*

China is developing technological tools for control — the social credit system chief among them. China's artificial intelligence research is also highly advanced. We should be very worried about seemingly rational technological developments that are ultimately designed to further — if not totalize — state control, not least because these can also be easily exported and shared with like-minded rulers.

# RIVAL ECONOMIC ORDERS

BY ANDREW SMALL

WITH CONTRIBUTIONS FROM AMY STUDDART

Traditionally, any assessment of the “liberalism” of the economic order in Asia was focused on the freedom and openness of the economies in the region — protection of domestic markets, non-tariff barriers, trade integration, procurement practices, and similar metrics. In addition to economic openness being seen as an end in itself, the theory ran that the resulting economic interdependence would help ensure strategic and political stability in the region, as it had in Europe in the aftermath of the World War II. This sat at the heart of the EU’s efforts to export its model of integration to the region — particularly in its work with ASEAN — and was also an important strand of U.S. policy in the region, most recently with TPP.

In recent years, economic, political, and security issues in the region have become ever more intertwined. Questions of economic dependence and the gravitational pull of the Chinese market already loomed large in Asian countries’ political calculations. But in recent years China’s use of direct economic coercion has increased, including against the Philippines and Japan over maritime and territorial disputes, and toward South Korea, over the stationing of advanced U.S. missile defense technology, the THAAD system.<sup>1</sup>

Even more striking has been the impact of the huge new outflows of Chinese financing and investment, with concerns that Beijing will use “debt traps” to secure political compliance, access to dual-use facilities, and other strategic goals. There are some elements of complementarity among the major economic integration schemes in the region — China’s Belt and Road Initiative (BRI), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the new version of the Trans-

Pacific Partnership agreement minus the United States, and the Regional Comprehensive Economic Partnership (RCEP), as well as a range of bilateral trade and investment agreements that the European Union has concluded with regional economies. All of these initiatives do improve trade liberalization and connectivity, but they are also at the heart of an intensifying competition over rival visions for the region. Ensuring the economic resilience of states in the Indo-Pacific and embedding them in a rules-based framework is becoming an essential condition for a well-functioning, liberal political and security order.

## Two Competing Economic Models

On one side are the high-standard agreements driven by the world’s advanced economies, which were launched after the failure of the World Trade Organization’s Doha round, and address many of the issues that are not captured by the existing multilateral framework, including digital economy provisions, intellectual property protection, labor protection, environmental protection, dealing with state-owned enterprises, and regulatory convergence. TPP and the bilateral free-trade agreements of the EU were not originally conceived with China in mind. The previous U.S. administration hoped that TPP might act as a catalyst for economic reform in China itself, much like its accession to the World Trade Organization, while the EU also anticipated that its FTAs — dubbed “Asia minus one” by some European officials — might have the side-benefit of pushing China to negotiate more seriously on the two sides’ bilateral investment treaty, which could ultimately pave the way for FTA negotiations. Yet with economic reform in China not moving

<sup>1</sup> Terminal High Altitude Area Defense. The system has advanced radar capabilities, which — as China argues — infringe upon Chinese defense capabilities.

toward greater liberalization and openness (quite the opposite), overcapacity problems worsening, and the Chinese Communist Party taking an even greater role in the direction of the Chinese economy, these trade agreements, valuable in their own right, have also ended up taking on a more explicit quality of economic counterbalancing.

The alternative for the states of the Indo-Pacific region to the Western-initiated agreements is the Chinese BRI, which was originally framed as a Eurasian counterpoint to TPP but has since taken on a more amorphous quality that includes “Silk Roads” running everywhere from the Arctic to outer-space. Despite its all-encompassing scope, the most important focal points of the first phase of BRI are still in Asia. South Asia, Southeast Asia, and Central Asia have attracted the largest initial flows of investment, and incorporate many of the projects that most embody the ambitious infrastructure plans of the initiative, with the construction of ports, pipelines, roads, and railway lines across the continent. The BRI’s emphasis on connective infrastructure certainly fills a crucial gap: the Asian Development Bank (ADB) has identified needs of \$26 trillion over the next 15 years. Even the higher end of the BRI’s purported scale still covers only an increment of the region’s mid-term requirements.

The initiative is also seen as a means of translating economic influence into an assortment of illiberal strategic goals, whether through political pressure on individual states, support of authoritarian government, the extension of elements of China’s domestic model (through tools such as the “Digital Silk Road”), and a general rebalancing away from the dominance of the liberal, Western-led economic system. But there remain serious questions about whether the BRI will actually fulfill these genuine gaps or provide poor quality, corrupt, politically-connected projects that create relations of economic dependence instead of the sustainable, high-quality projects that countries really need. As a result, the BRI has prompted additional efforts by others to establish or expand their own connectivity efforts, including

**“ Despite its all-encompassing scope, the most important focal points of the first phase of BRI are still in Asia.”**

Japan’s Partnership for Quality Infrastructure, Japan and India’s Asia-Africa Growth Corridor, and the EU’s Euro-Asia connectivity plans.

While there are countries that have important roles in both the high-standard agreements and BRI, such as Malaysia, there is a soft dividing line between the schemes, which have seen Vietnam pushing to integrate with the high-standard schemes and showing little enthusiasm for more Chinese infrastructure development, while states such as the Maldives and Pakistan have accelerated their economic dependence on China. Straddling these two rival “clubs” are a series of lower-standard agreements, with RCEP the most significant pan-regional effort, and a number of bilateral FTAs.

Unlike TPP and BRI, these are not major rule and norm-setting efforts, but at best a means of achieving somewhat stronger tariff reductions in goods trade and limited openings on services, and hence appealing to states such as India that have thus far been reluctant to further open their economies.

## Shift in U.S. Economic Policy

The biggest development in the last year, and the big “X factor” in any assessment of the liberal economic order in Asia, is the shifting U.S. approach to trade and economy policy. In 2017, this could be defined mostly by how other countries reacted to this shift: The U.S. withdrawal from TPP soon after President Trump took office saw the remaining TPP countries pressing ahead with the CPTPP in its place, the EU–Japan FTA was finalized, and China went on a public “pro-globalization” push while giving even higher profile to the BRI through the “Belt and Road Forum,” a summit of heads of state and government as well as ministerial level representatives from all over the world, held in Beijing in May 2017.

Despite the fact that the new administration had made clear that free trade is no longer seen as a strategic goal in and of itself, many of the threats of outright protectionism in the election campaign appeared to be contained. Indeed, there had initially been some positive signs from Washington — the U.S. “Free and Open Indo-Pacific Strategy” appeared

to be laying the groundwork for a more serious U.S. response to the BRI, including coordination on connectivity initiatives through the re-established U.S.–India–Japan–Australia “Quad,” and a nascent trilateral alliance on trade with the EU and Japan, which culminated in a joint statement in December 2017 to strengthen the commitment to ensuring a level playing field in international trade.<sup>2</sup>

But so far, 2018 has seen the United States moving forward not only with anticipated measures against China but tariffs on steel and aluminum that will also hit friends and allies, even if some (including the EU, at the time of writing, but not including Japan) are exempted. These not only threaten to launch a new phase of economic counter-liberalization but significantly undermine the capacity of the allies to coordinate their approaches. While China remains the biggest challenge, the critical question in the coming year will thus be less whether the United States is able to galvanize a liberal economic order in Asia but more whether it will enable China to gain illiberal influence through incidents of friendly fire.

In this complex and overlapping framework of trade agreements, strategies, and initiatives, what is conducive or unconducive for the liberal economic order in the Indo-Pacific to prevail?

## From TPP to CPTPP

The Trans-Pacific Partnership (TPP) was hailed as a “21st Century Mega-Regional Trade Agreement,” second in size and scope only to the EU’s Single Market. Beginning as the “Trans-Pacific Strategic Economic Partnership Agreement” concluded in 2006 between Brunei, Chile, New Zealand, and Singapore, the agreement changed dramatically in ambition when President George W. Bush brought the United States into the talks later that year. Australia, Peru,

and Vietnam joined the negotiations in November 2008; Malaysia entered them in October 2010 and the other two NAFTA partners, Canada and Mexico, began participating in October 2012. The talks appeared to be going at a languid pace when Japan became a negotiating partner in May 2013. Despite complications, the accession of Japan, a traditionally protectionist economy, was expected to bring, the negotiations were then essentially finished in two and a half years, with final signature on February 5, 2016.

The original TPP agreement, covering a combined population of some 810 million consumers, an economy of nearly \$30 trillion (nearly double that of the EU), and an import market in 2015 of \$4.8 trillion, covers both the full range of market access provisions (trade in goods and services, investment and government procurement), as well as numerous “rules”

areas such as the protection of Intellectual Property Rights (IPR), general investment protection, labor and environmental standards in its 30 chapters and 6,000 pages.

TPP also served as a vivid example of the disconnect between U.S. elites and the American public. Viewed primarily as a strategic move by the Obama administration as part of its “rebalance” to Asia, little work was done to make the political case for the agreement prior to its submission to Congress. The complicated nature of an agreement with so many parties became an easy target that quickly ran into political headwinds and both Hillary Clinton and Donald Trump campaigned against the agreement in 2016. It remains to be seen whether America’s trade retrenchment is a temporary phase or more permanent feature of American policy.

Following the announcement in January 2018 by the United States to withdraw from TPP, there were concerns that the agreement was effectively dead, given the scale of the U.S. market and the importance of U.S. participation for TPP’s capacity to function as the future gold standard of trade rules. The new U.S. administration signaled its intention to enter

“ ***In the absence of further reform and opening, India risked being left out of the advanced, high-standard economic club that the United States and Japan were building.*** ”

<sup>2</sup> Office of the United States Trade Representative, “Joint Statement by the United States, European Union and Japan at MC11,” December 2017, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/december/joint-statement-united-states>.

bilateral negotiations with individual TPP members, with the TPP concessions functioning as a baseline rather than an indication of countries' negotiating limits.

Yet rather than entering into what would have been a highly disadvantageous set of bilateral negotiations, by November 2017 the remaining TPP countries were able to agree to a revised version of the agreement, known as the CPTPP. This involved a set of changes to the investment and intellectual property chapters that suspended or amended provisions that were U.S. priorities, including issues of patent protection that had been important to U.S. pharmaceutical companies and a restriction in the scope of the use of the investor-state dispute settlement mechanism. In March 2018, following tariff threats, the Republic of Korea — which only has a bilateral free trade agreement with the United States, and was not part of the TPP negotiations — was the one country to agree a separate side deal with Washington on revisions to KORUS reached after the Trump administration threatened to withdraw from the original agreement.

The TPP in its previous form did also provide a source of external pressure on India: In the absence of further reform and opening, India risked being left out of the advanced, high-standard economic club that the United States and Japan were building. With the U.S. withdrawal from the pact last year, the perceived costs of Indian inertia in trade policy are less acute. And the world's largest democracy is now engaged without full conviction in negotiations with the EU and is the strongest drag on RCEP. Yet CPTPP itself remains a high-standard intellectual property agreement and maintains critical sections unaltered, notably on dealing with state-owned enterprises, that had been conceived partly with China in mind.

The withdrawal of the United States shrinks the scale of CPTPP to 13.5 percent of global GDP and 15.2 percent of total global trade turnover, rather than 38.2 percent of global GDP and 26.5 percent of trade turnover. But it was a strong demonstration that the other states committed to a liberal economic order in Asia were willing to take important steps to maintain it, even in the absence of U.S. leadership — setting a valuable precedent that advances in the liberal economic order, at least, may well continue without “Pax Americana.” This is reinforced by the fact that the EU — the world's largest trading entity was accelerating its own trade negotiations with countries

concerned about shoring up the global trading system and the security of their own economic position in the Indo-Pacific. What is still to be determined is whether the remaining states will continue to expand the trading bloc by incorporating regional swing states that were left out of the first round.

## **EU Free-Trade Agreements in the Indo-Pacific**

The European Union has been the driver of the other major high-standard agreements in the Indo-Pacific. These have often been underplayed, particularly in U.S. debates, where the EU is typically not seen to be a significant actor in the region. With the conclusion of the EU–Japan agreement in 2017, the world's largest FTA to date, this is beginning to change. In fact, for many countries in the region, it is the EU — rather than the United States or China — that is their largest economic partner: The EU is, for instance, India's largest trading partner and investor and ASEAN's largest investor and second largest trading partner after China. Developing countries in the region also benefit from the special arrangements under the EU's preferential trade arrangement to support sustainable development and good governance (GSP Plus, which applies to Sri Lanka, Pakistan, the Philippines) and the tariff-free access offered to least-developed countries under the EU's “Everything But Arms” program (Afghanistan, Bangladesh, Bhutan, Cambodia, Laos, Myanmar, Nepal, and Timor-Leste).

In addition to the agreement it ratified with Korea, the EU is conducting its own FTA talks with all TPP members (except Brunei) with which it does not yet have such an agreement. The EU had launched negotiations with ASEAN as early as 2007 and is in negotiations with Indonesia, the Philippines, and Thailand. The FTA with Korea has been in force since 2016, negotiations on the FTA with Singapore were concluded in 2014, Vietnam in 2016, while the FTA negotiations with Japan were concluded last year. Unlike the United States, the EU has also been engaged since 2007 in FTA negotiations with India, though these have proved more frustrating than the negotiations in East Asia. The EU also took the opportunity of the launch of negotiations over a bilateral investment treaty with China to establish parallel negotiations with Taiwan. The intention is

ultimately to stitch some of these agreements together into a region-to-region deal. The nub of this is ASEAN — after prior negotiations on a EU-ASEAN FTA stalled, the EU moved instead toward deals with individual countries, but if a critical mass of ASEAN agreements is secured, this would be revisited.

Notably, the EU, U.S., and Japanese efforts have been mutually reinforcing. EU negotiators note that the EU Korea FTA negotiations were expedited by KORUS, while negotiations with Vietnam and Japan benefited from (and strengthened) the TPP negotiations. The value of the EU FTAs is that, along with TPP, these are the high standard, deep and comprehensive agreements. The EU–Vietnam agreement, for instance, is described as “the most ambitious and comprehensive FTA that the EU has ever concluded with a middle-income country,” with significant provisions on sustainability, environment, and human rights as well as tariff reductions, IPR protections and a new approach to investment protection that is likely to be replicated in other cases as the EU navigates internal controversies over its standard Investor-State Dispute Settlement (ISDS) mechanisms. Negotiators see the EU–Vietnam agreement going beyond TPP in certain areas.

But the most striking agreement has been the EU–Japan agreement, which covers 30 percent of global GDP and not only slashes Japanese tariffs on European agriculture in return for EU tariffs on automobiles, it pushes forward cooperation on standards and regulations, and opens up public procurement markets. After lagging behind TPP for so long, the U.S. withdrawal from TPP became the catalyst for the deal to be finalized, with the two sides heralding “a powerful signal that two of the world’s biggest economies reject protectionism” and the intention to “shape global trade rules in line with our high standards and shared values.”

“ ***Beijing has itself tended to use FTAs as political exercises, demonstrations of diplomatic power, or instruments of foreign policy rather than substantively meaningful economic agreements.*** ”

In addition to the EU’s positive strategy, Brussels has also moved toward a more critical position on Chinese trade and investment. Despite considerable pressure from Beijing, the EU refused to grant China “market economy status,” a decision that has brought the two sides into conflict at the WTO. The EU has also toughened up its bilateral trade defense instruments and introduced proposals for strengthened screening of Chinese investments. In the process, the EU has been moving toward closer coordination with Washington and Tokyo. While

transatlantic cooperation on China between DG-trade and United States Trade Representative has quietly proceeded for many years, a trilateral trade coalition has previously convened on China very rarely — for instance, on the three sides’ successful joint case on rare earths at the WTO. In practice, the three sides share a significant range of concerns on issues ranging from overcapacity to Chinese

intellectual property theft. There are differences in the relative weight that they attach to the WTO as the means to address China trade challenges but the trade chiefs from the three sides — Robert Lighthizer, Cecilia Malmström, and Hiroshige Seko have met and delivered public statements on their intention to coordinate approaches. At the time of writing, though, there is a real risk that this will be undermined by the Trump administration’s decision to impose steel and aluminum tariffs on “national security” grounds, where US allies have either been granted temporary and provisional exemptions or no general exemptions at all.

## **China’s Response to TPP/ CPTPP and the EU Trade Deals**

China’s relationship to TPP has been complicated. Until Japan joined the negotiations, TPP was predominantly seen by the Chinese as a political or strategic exercise rather than a meaningful agreement with the capacity to reshape trans-Pacific and global trade. The Obama administration ramped up the U.S. focus on TPP as part of its rebalance to Asia, a policy

which was met with some skepticism in China: Not only was it seen as antagonistic, it was also initially seen as somewhat toothless. Beijing has itself tended to use FTAs as political exercises, demonstrations of diplomatic power, or instruments of foreign policy rather than substantively meaningful economic agreements. TPP seemed, at the time, to fit within that approach: a political rather than economic agreement.

Japan's decision to join the negotiations, however, transformed the agreement from one in which the U.S. was deepening its relationships with smaller countries, where China would still retain significant economic leverage, to one in which the major economies of the Asia-Pacific were banding together to establish the rules that would govern the 21st century economy. China's exclusion from TPP — and now CPTPP — could thus put it at a significant economic as well as strategic disadvantage. Economist Peter Petri calculated in 2013 that China was set to lose \$46 billion by 2025 by being absent from the TPP. Even without the United States, CPTPP will lead to significant losses for China, and gains for the TPP's 11 members.

Nominally, China had been attempting to undergo a significant set of economic reforms, announced in 2013. On paper, many of the reforms looked like the right sort of thing to move the Chinese economy beyond its resource and export-dependent model. However, a series of political challenges have led to reforms being poorly enacted, not enacted at all, or actively thwarted. Some in China started to see the need for an outside jolt that could be used to force reform and disrupt vested interests, from SOEs to local government agencies to central government ministries. TPP looked like it might fit the bill. This would be a repeat of the WTO accession strategy, which had been used to radically reform the Chinese economy only a decade before.

On the part of the United States and Japan, the TPP initiative was indeed meant as a kind of corrective jolt. In the words of one senior Obama administration official, the goal in China policy has been to “shape

the preferences of a rising power.” At its most sophisticated, the goal is not to undermine Chinese economic success. Instead, it was about ensuring that China's success is dependent upon it operating within norms and rules that underpin the foundations of the liberal order.

In negotiating the TPP, the member countries were precise about creating rules with China in mind — while exceptions have been made for the initial signatories, the agreement included strong language on the role of state owned companies and IP protection, for instance. After initially declining to be part of the TPP negotiations, Xi Jinping suggested that China could be interested in joining the negotiations at the 2013 Sunnylands summit. In theory, that discussion is ongoing in the context of the CPTPP, and China has joined dedicated meetings of TPP and non-TPP members. However, without the strength of the United States on the other side of the negotiating table, it would be far more difficult to persuade Beijing to make the concessions that current signatories require.

Regardless of China's view on potentially joining the TPP/CPTPP, there is a significant disadvantage to accepting a pre-agreed framework rather than negotiating one. As a result, China has pursued a series of alternative arrangements. The most significant of these agreements the Regional Comprehensive Economic Partnership (RCEP). In addition to China, RCEP includes much of the Asia Pacific: the ASEAN countries, Japan, Korea, New Zealand, Australia, and India. While RCEP is often judged as a China centric, it should instead be conceived of as an ASEAN effort to deepen integration between its members and the countries with which it has FTAs.

While important, it is clear that RCEP will be neither as comprehensive nor ambitious as TPP/CPTPP. This is in part due to the diversity of its membership: The negotiations include the two most populous countries in the world — China and India — alongside countries like Brunei, home to less than 500,000 people. Its economies are varied in every possible way. Some countries are known

**“ Unlike in East Asia, in Eurasia there is significant scope for cooperation and an 'almost non-existent risk of military confrontation' with the United States.”**

for their openness to free trade, others notorious for their protectionism. To be sure, the ratification of CPTPP negotiations has led to an increased sense of pressure among those who are not signatories, but significant domestic challenges and differences in negotiating objectives remain, and — in the case of India — are becoming even more challenging. RCEP negotiations are unlikely to conclude soon, despite the optimistic deadlines announced by negotiators, and — once the agreement is ratified — is likely to make only modest gains in opening up Asian trade. But for China, a substantially more ambitious initiative has also been underway.

## China's Alternative: The Belt and Road

China rolled out the two components of its Belt and Road initiative a month apart. The Silk Road Economic Belt (SREB) was announced by Xi Jinping during a visit to Kazakhstan in September 2013 with the 21st Century Maritime Silk Road (MSR) announced in Xi's speech to the Indonesian parliament in October 2013, when he also set out China's plans to establish an Asia Infrastructure Investment Bank were also set out. Although the two elements of the scheme are often appraised together, they are in many ways distinct, reflecting the Chinese debates that preceded the initiative.

In 2012, Wang Jisi, a leading Chinese foreign policy thinker, published a widely-circulated article arguing that China should rebalance its strategy to the west as part of the response to the U.S. pivot to Asia. His argument remains one of the clearest articulations of the economic and strategic considerations behind the BRI: that China should draw more heavily on the traditional continental orientation in its foreign policy and develop an international strategy to underpin rebalancing efforts from the coastal to the interior regions; that the westward-facing economy, running down the old Silk Road, now has the highest growth potential and should be a new focus for China's economic strategy; that addressing China's terrorist threat

requires stabilizing the countries in its western periphery, which can be facilitated through economic efforts; and that unlike East Asia, where competition between great powers is intensifying, in Eurasia there is significant scope for cooperation and an "almost non-existent risk of military confrontation" with the United States. The U.S. "pivot" would see a drawdown of its presence in the Eurasian heartland, with the diminution of the U.S. military footprint in Afghanistan and neighboring countries that were part of the framework to support operations there. Even in the Middle East, the United States would be less willing to involve itself militarily in order to avoid distraction from the long-term opportunities and challenges in Asia. As a result, China was facing more pressure to its east and south, and a very different context to its west, one which represented both risks and opportunities: a geostrategic "opening" as a result of reduced U.S. security presence, yet also the problematic repercussions of diminished efforts by the United States to combat threats from militancy and terrorism there. A more pro-active westward strategy was hence partly a strategic choice, but in other respects a necessity if those threats were to be contained.

The argument tapped into an older continentalist argument about China's foreign policy orientation which contended that the Eurasian continent provides the best theater within which China can realize its rise, underpinned by close relations with the principal Eurasian mainland powers, Russia and Europe. This argument had many opponents, however. Interested groups ranging from the PLA Navy to China's coastal provinces argued that the maritime realm is where

**“ The most telling arguments that fed into BRI came not from competing geo-strategic visions but from China's commerce ministry.”**

China's most important security tasks, economic opportunities, and testing grounds for its rise as a great power still lie. A "westward strategy" risked China being drawn into precisely the unstable regions from which the United States was now extricating itself, just as

Washington was finally placing more serious strategic attention on the East Asian maritime realm. Some in the PLA described the idea of a vacuum in Eurasian for China to fill as a "trap," which recurs in the "One Belt, One Trap" phrase that circulated in the early days of the initiative.

But the most telling arguments that fed into BRI came not only from competing geo-strategic visions but from China's commerce ministry, which laid out the case for using an external push to supply/provide infrastructure connectivity as a means to deal with China's overcapacity problems. The strategy would combine elements of Japanese industrial strategy from the 1970s — when the economy went through its transition from low to high value production — with 19th century grand projects on the scale of the Suez and Panama canals. With the Chinese economy facing diminishing returns on domestic investment, a growth slowdown, the threat of large-scale job losses, and a weak external environment for Chinese exports, a large-scale set of infrastructure and industrial development schemes outside China would allow its industry to benefit from an externalization of the last 20 years of Chinese domestic strategy. Infrastructure investments overseas would provide projects for Chinese firms, build new markets for Chinese products, and address many of the logistical constraints impeding Chinese exports from interior provinces through Central Asia, South Asia, and South East Asia. Industrial zones overseas would provide platforms for the global expansion of lower-value Chinese industry, retaining the strength of the manufacturing sector even as an economic transition was underway. Early connectivity initiatives of this sort after Xi Jinping took office were not framed as a grand strategy but rather as a disconnected set of “corridors.” Before Xi's 2013 announcements, State Council Premier Li Keqiang was sent out to promote a pair of such schemes in India and Pakistan. The Bangladesh-China-India-Myanmar Corridor (BCIM) would focus on addressing the inadequate land connections that exist between Yunnan province, in China's southwest, India's north-east, and Bangladeshi ports. The China-Pakistan Economic Corridor (CPEC) would connect Xinjiang province, in China's northwest, with the Pakistani ports of Gwadar and Karachi, with an assortment of energy projects and economic zones in between.

Many other elements of China's push for regional connectivity also predate the BRI. Pipelines in Central Asia, rail routes through Russia to Europe,

and many other overseas Chinese investments existed well before 2013. The multi-trillion-dollar infrastructure needs in Asia to which China was responding had been laid out by bodies such as the ADB for many years. Some strategic impulses, such as the desire to develop alternative transportation routes to the sea routes that pass through “chokepoints” in the Malacca Straits, are also longstanding features in Chinese foreign policy thinking. But BRI provided an organizing concept for the disparate elements of Chinese policy.

“ ***BRI encompasses justifications that are at best less than wholly consistent, at worst outright contradictory.*** ”

The overall framework that eventually emerged, then, was not the geopolitically coherent plan of Wang Jisi's framing but the agglomeration of two distinct strategic notions, maritime and continental, underpinned by an urgent economic impetus: support Chinese industry and stop it from hemorrhaging jobs. As a result, the initiative encompasses justifications that are at best less than wholly consistent, at worst outright contradictory. Some Chinese analysts saw BRI as a rival and counterpoint to TPP and the U.S. Asia rebalance. Others see precisely the opposite: as a potential area of cooperation with the United States, with scope for complementary between the region's different economic initiatives.

While the scheme moved forward relatively tentatively in its first couple of years, 2017 was effectively its “coming out,” — and already there has been cause for concern. Some of the largest projects, including CPEC, the Thai Eastern Economic Corridor, Indonesia's high-speed railway line and Myanmar Kyauk Pyu port project have been moving forward, albeit at very variable speeds. But it has been the smaller states in the Indo-Pacific that have come to embody a number of the more concerning elements of the initiative: the critique is that countries are “overpaying” for projects — with much of the money in practice being diverted for other purposes — and then being saddled with debt, which China then leverages for other goals. The exemplary case was the 2017 renegotiation of the debt Sri Lanka had accumulated for a number of white elephant projects under the Rajapaksa government — which pre-date the BRI — that saw Colombo handing over a large stake in Hambantota

port to Chinese companies. The Center for Global Development has identified a number of other states in the region whose debt levels under the BRI have surged — Pakistan, the Maldives, Mongolia, Laos, Tajikistan, and Kyrgyzstan — while in the wider Indian Ocean Region, Chinese investments in Djibouti have come under growing scrutiny. Unlike the AIIB, which Beijing set up to be a multilateral project, with an international board, international staff, and close cooperation with other IDBs, the BRI has functioned almost entirely bilaterally — or even unilaterally, with Chinese financing institutions largely funneling money to Chinese companies for their overseas activities.

Coupled with the BRI's close integration with other instruments of Chinese power projection, during a period of assertive authoritarian rule under Xi Jinping, the initial open-mindedness on the part of many liberal democracies has instead moved toward skepticism and concern.

## India: The Skeptic

Despite its doubts, India had agreed in 2013 to move tentatively forward with land-connection infrastructure plans for the BCIM corridor. It had joined the Chinese-initiated AIIB. The Modi government had also shown interest in relaxing the rules that had restricted Chinese investment in India in the past. In this sense, New Delhi was not approaching the BRI from a position of deep pre-existing hostility. Yet in the early stages, India was surprised to see a number of its ports feature on semi-official maps of the BRI, and China to place the BCIM corridor under the BRI's auspices — in neither case with any consultations. This was then rendered even more problematic by Beijing's decision to include the China-Pakistan Economic Corridor (CPEC) under the BRI rather than as a separate and distinct initiative.

CPEC has provided the main focus of the formal objections that India raised with China over the BRI, since it transits territory that India disputes — and that China has long acknowledged is disputed. But in reality the cross-border transit elements of the scheme are relatively minor, the package of investments in Gilgit-Baltistan and Kashmir proper is small, and other countries — including the United States — have supported development projects in these territories

without similar objections. It is hard to make the case that there is a significant material change to the status quo, that CPEC is a violation of a pre-existing understanding, or that there is a consistent and principled objection to all economic development efforts in Kashmir. In this sense, CPEC is better understood as derivative of broader Indian concerns about the deepening Sino-Pakistani relationship, the security implications of China's economic influence in its neighborhood, and tensions on other issues between the two sides, from India's membership of the Nuclear Suppliers Group to worsening flare-ups at the border.

The strength of Indian antipathy to the BRI was manifest in its decision — despite considerable Chinese lobbying — to be the only major country not to send a serious delegation to the Belt and Road Forum in May 2017. India's statement on the eve of the forum summarized its concerns, from the “financial responsibility to avoid projects that would create unsustainable debt burden for communities” to demands that projects “must be pursued in a manner that respects sovereignty and territorial integrity.”

## *India's Response Has Taken Three Forms*

The first has been heightened attention to diplomatic and economic outreach in its own backyard. Modi has paid visits to virtually every neighboring state since taking office, expanded India's development financing, deepened economic coordination efforts with institutions such as ASEAN and BIMSTEC, and pushed forward a multimodal regional corridor from Kolkata to Kanyakumari. While India faces various constraints of its own, from its lack of financial firepower to pressing infrastructure demands at home, it has sought to work in conjunction with deeper-pocketed partners, principally Japan, to expand beyond its bilateral agenda.

The second element has been the establishment — and enforcement — of some clear red lines regarding Chinese military presence. In 2014, Chinese submarines paid surprise port calls in Colombo. Sri Lanka and India had an agreement that the Indian side would receive prior notification of any such visits, and the failure to do so on the part of the Rajapaksa government appeared to portend a Sino-Sri Lankan security relationship that was

moving in a problematic direction. These were a catalyst for Indian efforts to bolster and unify Rajapaksa's opponents, and his subsequent loss in the 2015 elections acted as a warning to others, notably the Maldives and Bangladesh. The combination of carrot and stick was most strikingly in evidence for the Bangladesh Matarbari port deal.

The third element has been the effort to shape the narrative around the BRI, both through public communication and private interaction with other governments, where India has been the only country to raise its concerns consistently at the very highest political levels. While many countries had objections of their own, India has been effective at changing minds.

For both India and China, the question is where to go next. India has been successful in imposing practical and reputational constraints on the BRI in South Asia but now faces a protracted contest in its own region rather than having the scope to negotiate a set of terms with China under which BRI projects are conceived with better fit for India's own economic needs. Beijing still has the means to continue to secure projects and advance its economic cooperation with many South Asian governments but in a confrontational and politicized environment that is doing damage to the broader perception of the BRI. Although competition between China and India will certainly continue, the question in the coming year will be whether the two sides are able to reach a new modus vivendi over the way it is conducted, where India is able to condition and leverage the BRI in South Asia, in return for a greater degree of political acquiescence — an approach that would look more like that of Japan.

## Japan: The Apt Competitor

Japan was the fastest out of the gate with its alternative schemes to BRI, though these are more accurately seen as an adjustment, expansion, and strengthening of existing efforts rather than a "response," given how deeply Tokyo has generally been involved in the region's trade and investment historically. In Southeast

Asia, while China has become the largest bilateral trading partner, Japan remains the larger investor. Japan's experiences with infrastructure development across Asia meant that it was well-placed to see precisely why the BRI gave cause for concern but also to understand just how difficult it would be both for China to execute its plans effectively and to convert them into lasting political advantage. As a result, Tokyo's efforts have been the most comprehensive but also notably measured.

Japan has sought to compete directly with BRI, with an expansion or addition to its own infrastructure investment schemes, including the \$200bn Expanded Partnership for Quality Infrastructure, which will see a 30 percent overall increase in Japanese support to infrastructure investment in the five-year period to 2020, the High Quality Infrastructure Export Expansion Initiative, which will nearly double support to infrastructure exports, and the Asia-Africa Growth Corridor, drawn up in partnership with India. This is coupled with a mobilization of the private sector, including a relaxation of conditions for Japan Bank for International Cooperation (JBIC) loans, and an expedited process for Japan International Cooperation Agency (JICA)

**“ Japan has become the unexpected leader in efforts to hold the liberal economic order together and even to deepen it.”**

loans and grants. Japan has also expanded its support to infrastructure financing through the multilateral institution in which it still plays the leading role, the ADB. In sensitive cases, Japan has closely coordinated its efforts with other BRI skeptics to good effect. In the case of Bangladesh's deep-water port project, Tokyo coordinated with India and the United States to win a crucial bid away from Beijing. Japan's governmental development agency offered its largest after yen loan to Dhaka, which was coupled with political pressure from New Delhi and Washington, and the first major contract was awarded to Japanese companies to build a deep-water port at Matarbari. An alternative port on Sonadia, which the Chinese had been negotiating conditions to support as part of BRI, is now on ice.

These direct, head-to-head contests with BRI have not always seen Japan win out: China secured the contentious high-speed rail contract in Indonesia, for instance, against Japanese competition. But in the round, competition with BRI is possible. There may be

a vastly greater scale of Chinese resources available to BRI, but most countries have only a limited number of projects with real security salience — such as potential dual-use ports — and their capacity to absorb investment also has limitations. As a result, rather than seeing competition to BRI as a doomed task, Japan has already demonstrated that it is possible to “win” in cases that really matter and to maintain levels of investment that match or exceed China’s own, ensuring that countries do not simply sink into dependence on Chinese financing. More recently, Japan has offered to cooperate with China on BRI in limited and conditional ways. Japan sent the LDP Secretary General, Toshiro Nikai, to the Belt and Road Forum in May 2017 and the government has drawn up guidelines and potential financial assistance for Japanese firms to participate in sustainable BRI projects that have no potential military use.

Even more important than the head-to-head infrastructure investment competition and the modest efforts at cooperation has been Japan’s leadership role in the high-quality FTAs, which represent the genuine alternative framework to the BRI. Here, where India is largely absent and the United States has withdrawn, Japan is the Asian power that has done the most to keep TPP alive in its new form and to stitch these efforts together with the largest extra-regional trading bloc, the European Union. A more cautious Tokyo that had been unwilling to make difficult strategic calls on opening up its economy in the last few years would have left the liberal economic order in Asia in a fragile condition; instead, with the United States stepping back under the Trump administration, Japan has become the unexpected leader in efforts to hold it together and even to deepen it.

## **Europe and the United States: The Stirrings of Competition**

The most significant European response to BRI is in Europe and its periphery, which does not fall under the scope of the report, as well as the EU’s FTAs in Asia, detailed above. But 2017 was the year in which the EU also decided to move forward with plans for its own “Euro-Asia connectivity” scheme, largely marshaling existing EU instruments, such as the EIB, but with the aim of directing them under a clearer strategy, which is due to be rolled out in 2018. Similarly, the United States has begun to push ahead with regional

connectivity efforts under the auspices of the “Free and Open Indo-Pacific” strategy. While this has not yet involved any new resources being committed, the United States is adjusting its private sector financing instruments, such as OPIC, coordinating more closely with partners in the newly-resumed “Quad,” expanding bilateral cooperation with Japan and Australia in conjunction with this, pushing the MDBs to step up their own infrastructure financing efforts, and more publicly criticizing Chinese “predatory economics” in a diplomatic effort to encourage countries to be more wary of the BRI.

While some of these initiatives have been drawn up cooperatively — the United States, Australia, and others now clearly supplementing India and Japan’s earlier efforts, from Taiwan’s “New Southbound Policy” to Australia’s “ASEAN–Australia Cooperation Initiative” — there is still too little coordination between the various schemes. In particular, there is still a tendency to see them through the parameters of Asia’s security geography rather than its economic geography, which means that far too little attention is paid to the EU despite its considerable economic weight. The deficiencies in the various efforts are also obvious — the United States now lacks a serious trade strategy for Asia, and has few resources devoted to connectivity efforts; the EU has a trade strategy but is only now moving forward seriously with a connectivity strategy beyond its own periphery; India has taken investment questions in the region seriously, but is virtually absent from discussions about high-standard trade arrangements.

Japan is the only actor that has all the dimensions of strategy in play to underpin a liberal economic order in the region. But if a liberal political and security order is to be secured, all the like-minded countries will need a relatively coherent and complementary set of approaches — and at the very least, need to ensure that their strategies do not actively undermine any chance for the economics in Asia to support a free and open region in the face of growing threats.

Beyond correcting these deficiencies there are several steps that can be taken in developing alternative economic frameworks for the region.

First, we need to put in place coordination mechanisms on strategic economic issues that reflect a combination of economic power and shared values, not just

geographic proximity. The like-minded countries still have substantial economic resources to deploy, and in many regions continue to be significantly larger investors than China, but collective efforts to leverage this are still very limited.

Second, we need to strengthen and streamline the offer available to countries — while some turn to Chinese financing so that they can avoid the strictures of conditionality, others simply lack access to finance or struggle with the existing infrastructure-financing frameworks. As the political opening of Myanmar vividly illustrated, many do not want to end up in a relationship of dependency with Beijing and countries are ultimately willing to make some difficult political and economic choices to avoid it when the rewards for doing so are clear.

Third, in a limited number of potential Chinese projects of the highest concern, such as critical infrastructure or projects with potential military utility, there will often be ways of deploying collective leverage to deny China a controlling stake, make it costly to countries to make the choice, and, preferably, give them another viable option instead, as the Bangladesh port case illustrates. This will involve political and legal instruments as well as economic ones.

Fourth, we need to provide more support to countries in their dealings with China, in areas ranging from planning capacity and risk assessments to expertise in how to navigate China's complex system of financing and SOEs. This should go beyond governments in power to include support to journalists, civil society, and political parties to ensure that they are able to scrutinize the often-opaque deals and projects properly.

Fifth, we need to have a relatively common approach when it comes to engagement with the BRI. Given the scale of the infrastructure needs in the region, Chinese financing — if it goes into the right projects in the right way — should also be part of the solution. All the like-minded parties have a roughly comparable set of conditions in mind and should be speaking from a similar script when it comes to the nature of the projects where we could potentially work with China: sustainable, financially viable, non-military projects that employ healthy numbers of local workers and companies. A form of conditional engagement, given

that Beijing still cares about the political legitimacy of the BRI, should still be one of the means employed to improve the quality of Chinese projects.

In the end, however, although there are tactical steps that can be taken, dealing with the risks of a Sino-centric economic framework, with all the attendant political and security concerns, is going to be a long-term process of embedding countries in political and economic frameworks that ensure they are resilient, that debt levels are manageable, and that they have a balanced set of trade relationships. Here, we should not be excessively alarmist — between the United States, the EU, Japan, India, Australia and other regional partners, the markets and investments on offer will outweigh China's for some time to come. We need to take the risks seriously and mobilize collectively to address them but that will also mean pushing back against the mythology of the impossibility of competing with China, which only serves to reinforce the notion that there is no alternative.

# CHALLENGES TO THE SECURITY ORDER

BY JANKA OERTEL

WITH CONTRIBUTIONS FROM MATT JOYCE AND SARAH RAINE

The peaceful and stable strategic environment enjoyed in the Asia-Pacific region since the Korean War is wavering. The region has seen no major military confrontation for more than four decades. The U.S. alliance system coupled with democratic transformations in Japan, South Korea (and Taiwan) created two generations of stability. China's reform and opening policy was also steadying, since it required a stable neighborhood to invest in and trade. China prioritized this development over large defense expenditures. Over the past five years, however, the security political parameters have shifted and are increasingly confrontational — especially between the dominant powers of the region, China and the United States, but also between China and its regional neighbors.

Two key drivers increase strategic instability, challenge military alliances and undermine the rule of law: China's growing strategic footprint, and the real and perceived U.S. retreat from global affairs.

Stability in the Asia-Pacific is not only a regional issue; it is at the same time about the viability of the liberal international order in a much broader sense, as the fastest growing and most populous region around the globe is vital for the economic prosperity of all large economies. How are China's rise and U.S. retreat affecting midterm military power relations — and how is this shaping the security order in Asia? In the following chapter, we will address China's capabilities in terms of hard power as the largest challenger to the existing order, the indications for an open arms race in the Asia Pacific and address the strategic intent of the parties involved. Additionally, the focus will be on cooperative mechanisms emerging that could support a stabilization of the strategic environment and help safeguard the premises of a liberal international order.

Following the assumption that alliances between liberal states are supportive in upholding the principles of the liberal international order, the respective effectiveness in reaching that goal will be assessed.

Finally, three flashpoints of strategic instability are identified. For each of these theatres, potential developments and trends conducive or destructive to the liberal order are outlined and recommendations on how to support the liberal order are provided.

## Drivers of Instability and Disorder

The increasing instability in the strategic order and the tests to the rule of law, both derive from shifts in and between the region's two biggest military powers, China and the United States.

### *China's Growing Strategic Footprint*

China's rise has been the subject of intense academic and popular scrutiny. While China continues to develop economically and build its hard and soft power, it is no longer accurate to refer to "China's rise" in the present tense. China has officially risen into the ranks of global super powers and continues to gain economic, military, and strategic clout.

China is a selective proponent of the liberal international order. In the military realm China's engagement in UN peacekeeping operations is often lauded as an example of China's integration into the multinational security order embodied in the UN system. China is the largest troop contributing nation among the permanent members of the Security

Council, and third largest contributor to the UN budget (likely replacing Japan as the second largest contributor as early as 2019 for the 2019–21 budget). China is already the second largest contributor to the UN’s peacekeeping budget and might soon become the largest contributor of troops, after committing an additional 8,000 strong stand-by peacekeeping force in 2017. China’s military and strategic rise has been embedded in international institutions. It is the first time in history that a rising power has been so deeply intertwined in, and confined by, an international institutional and legal framework.

However, in its immediate neighborhood, China is pursuing a different strategy and it remains highly ambivalent toward the validity of international norms and rules. China is increasingly attempting to set its own rules, and growing more able to do so — due to massive military modernization and military build-up, but also through the presentation of alternative ideas and narratives for regional and inter-regional order, specifically in form of the BRI. At the same time, the Chinese leadership is aptly making use of global distraction: The election of U.S.

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***The perception of U.S. retreat is amplified by China’s increasing financial and military clout.”***

President Trump as well as the Brexit discussions, the migration crisis, as well as the security situation on the Korean peninsula, Russian interference in the U.S. election, and the continued war in Iraq, Afghanistan, and Syria have kept Western political attention busy and especially European countries with limited foreign policy bandwidth are struggling to give China’s changing policy approach the necessary attention. By selectively undermining, ignoring, or re-interpreting international norms and rules, China’s growing clout is the largest driver of strategic instability in the Indo-Pacific region and beyond.

### ***Real and Perceived U.S. Global Retreat***

The election of Donald Trump, with his “America-First” agenda extended and accelerated a process of U.S. disengagement that had already begun under the Obama administration.

Despite “America First”, it can be argued that on a military level the United States is working with key regional allies — Japan, South Korea, Taiwan, Australia — more closely than ever. 2017 saw no reduction in U.S. military engagement in the Asia Pacific compared to previous years. On the contrary, in response to the North Korean nuclear threat there were even more military exercises in this specific context. For the first time in a decade, for example, three aircraft carriers were simultaneously deployed around the Korean peninsula and jointly performed air-defense drills, sea surveillance, and defensive air-combat training as a massive show of force and a means to improve allied interoperability.

However, while no U.S. retreat is evident in the military dimension, the strategic implications of the “America First” agenda are manifest in a *perceived* U.S. retreat from a leadership role in the region. Comments and tweets by the U.S. president have left allies unsure about the reliability and strength of the alliance. The U.S. commitment to Taiwan’s defense has been questioned given growing pressure from Beijing and an unorthodox U.S. president who often seems to disregard

longstanding U.S. policy. Trade policy has become a factor of strategic insecurity in relations with U.S. allies, despite continuity and even enhancements in the military realm. Additionally, the lack of importance allotted to international law and human rights in the statements of the U.S. president undermine the foundations of international legal agreements.

This approach has made allies feel less secure, and led them to adapt their national security considerations; it has also emboldened challengers. Trump’s nationalistic rhetoric resonates with Russian and Chinese leaders, who want to refocus on national sovereignty and non-interference. In his speech at the 2017 UN General Assembly, Russian Foreign Minister Sergey Lavrov praised President Trump for his emphasis on national sovereignty. The international legal developments over the past more than 70 years serve as an integral part of the established order and have put limits on national sovereignty and non-interference. Turning back the

tide on these developments, even if only in rhetoric to begin with, will have a significant roll-back effect on liberal principles that underpin the international order.

The perception of U.S. retreat is amplified by China's increasing financial and military clout. Xi Jinping's concept of a global "community of common destiny" is a direct challenge to the underlying principles of the liberal order. But without a convincing counter narrative openly propagated by the United States and its allies and partners, it might just stick.

The U.S. withdrawal from UNESCO, the Paris climate agreement, and TPP will likely have a limited impact on the actual policies pursued by the United States. None of these actions are unprecedented and the impact can arguably be mitigated. It does, however, significantly decrease the overall perception of U.S. leadership in the world. If this trend continues, it will take new coalitions to uphold agreed international legal principles and established norms in Asia and beyond to regain credibility. This is where a role for new alliances between Europe and Japan, South Korea or South East Asian countries could come into play, alliances that rely less on military dominance but on agreement on international rule of law. France, for example, despite its military scope, is determined to underline its commitment to upholding the law of the sea in the Asia-Pacific. Paris has started its own freedom of navigation operations (FONOPS), including at times other European military assets for "EU FONOPS" and has also argued that European navies should coordinate their presence in the region.

## **Destabilizing Midterm Trends in Military Power**

The Asia-Pacific is the most militarized region in the world. It is home to five nuclear powers (excluding North Korea) and seven of the ten largest militaries. The U.S. remains by a large margin the most potent military actor in the region in all aspects of hard power. However, other actors have also significantly upgraded their capabilities — first and foremost China. The People's Republic has made notable improvements regarding its defense equipment, but also with respect to command and control structures. China has invested heavily in acquiring asymmetric

capabilities to deny military freedom of action within the first island chain and assert strategic control in its immediate neighborhood.

While Japan, India, South Korea, and Australia among others have also increased defense spending in the past, China's military power remains the largest overall challenge to the established balance in the Indo-Pacific.

## *China's Leaner, Meaner Command*

Since the beginning of 2016, the Chinese PLA has been undergoing even more ambitious and extensive reforms driven by an understanding that despite the PLA's impressive hardware advances it requires sweeping structural and operational changes in order to successfully defend Chinese "core interests."

Perhaps the most important change is the bifurcation of the chain of command into separate operational and administrative chains, with the newly created Theater Commands exercising operational control over joint forces. Drawing on the examples of numerous advanced militaries, but especially the United States, the PLA operational chain of command now runs from the Central Military Commission (CMC) through the newly created Theater Commands (TC) to subordinate operational units, while the administrative chain of command runs from the CMC through the service headquarters to operational units.

Other notable changes include the elimination of the former four general departments and consolidation of their functions under an expanded CMC; the creation of a separate army headquarters — in theory reducing the influence of the PLA Ground Forces and placing it on equal footing with the navy and air force; creating a leaner force by cutting 300,000 personnel, mainly from the ground forces and headquarters units, and boosting the size of the navy and air force; and the establishment of the Strategic Support Force, reported to oversee PLA space, cyber, and electronic warfare domains, as well as provide command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) support to operational commanders.

These extensive reforms underline the Communist Party's desire to build a military that can defend China's strategic interests: deter U.S. or allied intervention in case of conflict; prevail in "informationized local war," increase centralized control over the military, professionalize the ranks and reduce corruption. Once complete, these reforms are expected to greatly improve the PLA's ability to conduct complex joint operations across the conflict continuum, including high intensity operations against the United States and its allies. However, as these ambitious targets will require several years of training to reach, it is unlikely that the CCP will deem the PLA ready to conduct major combat operations within the projected five-year reform period, or by the end of 2020.

While critics like to say that the PLA lacks combat experience, since it has not fought a war since 1979, this should not create a false sense of security. After all, the United States has not fought a peer or near-peer competitor since World War II. While 16

years of counterinsurgency operations have tested and proven U.S. troops in combat, these lessons do not automatically transfer over into high-intensity operations against a near equal competitor. Both the PLA and the U.S. military are addressing this weakness, trying to build relevant experience through realistic high intensity force on force training rotations at their respective combat training centers.

China has also demonstrated its military strength in the wider neighborhood. In the South and East China Sea, China makes regular incursions into the territorial seas and airspace of disputed territories. These incursions are primarily conducted by white hull maritime law enforcement vessels, often with gray hull Chinese navy ships supporting over the horizon. In what could be called "FONOPS with Chinese characteristics" these operations are clearly intended to establish a record of dispute over the ownership of these territories and non-acquiescence to the current international legal status quo.

## *The Arms Race is Well Underway*

In recent years, the dominant theme in Asian security affairs has been the building of conventional military capability. Overall defense budgets in Asia have risen between 5–6 percent annually since 2012 with China accounting for at least 40 percent of the total spent in the last year, a figure which would likely be much higher when accounting for unreported arms expenditures and research and development. On average, over the past decade, arms expenditures in Southeast Asia have risen by 57 percent, with some states more than doubling their arms purchases. Despite this increase, China's officially reported 2016 defense budget exceeded by nearly 20 percent

that of all other South China Sea and East China Sea claimant states combined. Additionally, the growing nuclear and ballistic missile threat from North Korea has pressured South Korea and Japan to bolster missile defense and other military capabilities.

**“ Even developments which are defensive in nature seem sinister when viewed through a lens of strategic mistrust. ”**

On the U.S. side, despite years of continued combat operations in the Middle East, the U.S. military has shifted the preponderance of military power to Asia. The 2018 U.S. National Defense Strategy states that the United States is acutely "aware that [its] competitive military advantage has been eroding" and that "[i]nterstate strategic competition, not terrorism, is now the primary concern in U.S. national security." The U.S. will back up this assessment with an increase in U.S. military spending. The recently signed 2018 National Defense Authorization Act (NDAA) authorizes increased military spending to approximately \$700 billion, with further provisions to bolster U.S. and allied capabilities and readiness in Asia.

## *Strategic Mistrust is Fueling Instability*

Mistrust of neighboring states' strategic intentions is driving strategic instability in Asia and the corresponding arms race. Even developments that are defensive in nature seem sinister when viewed through a lens of strategic mistrust. A case in point being the recent high-profile controversy over the

deployment of THAAD, the U.S. missile defense system, in South Korea. Although intended by the United States and South Korea as a defensive measure against the North Korean ballistic missile threat, China perceives this as another element of U.S. containment efforts.

While China views its unprecedented military growth as a necessary security investment in order to be able to defend its legitimate (and non-negotiable) interests, it has led to significant instability in the region, spurring hedging and balancing among U.S. allies and partners in Asia. The Chinese coast guard is an illuminating example. Since 2010, China has reportedly increased the tonnage of its Coast Guard by 73 percent. An increase in lightly armed “white hulls” would normally not be of great concern for neighboring countries, as they typically serve a law enforcement agenda (in contrast to the navy’s “grey-hull” ships that serve a national security agenda). However, China has repeatedly used these non-combative forces to threaten and intimidate rival claimants and enforce its maritime claims in the South and East China Sea. Thus, a law enforcement coast guard force becomes a paramilitary force helping to undermine the rule of law. This blurring of lines creates further mistrust, with a spiraling effect. Tokyo has attempted to push back on these efforts below the threshold of military power and provided the Philippines and Malaysia with coast guard patrol vessels. The new or decommissioned vessels support the very limited capabilities of the South East Asian nations in counterbalancing China’s presence and support law enforcement capabilities.

## Helping Partners Help Themselves

Part of the U.S. response to the environment of strategic mistrust and militarization, has been increased emphasis on strengthening allies and partners throughout the region. Europe has been strongly engaged in military capacity building, especially through defense cooperation and arms exports to Australia, India, Indonesia, Japan, Singapore, South Korea, and others. Despite the rhetoric and perception of U.S. retreat so far the United States has demonstrated clear commitment to maintain the regional security order. For the DoD, Building Partner Capacity (BPC) is a broad

term which encompasses security cooperation and security assistance activities designed to develop third country ability for self-defense and multinational operations and promote specific security interests. BPC can take on many forms, including the provision of training, equipment, participation in exercises among others. Recent U.S. efforts for BPC in Asia — such as those detailed in the 2015 Maritime Security Strategy, have revolved largely around maritime domain awareness, interoperability, and information sharing, with the intention of creating a regional common operational picture. Improving Southeast Asian states’ ability to detect, share, and react to activity in the South China Sea is intended to deter Chinese coercion of rival claimants and promote the peaceful resolution of disputes in accordance with international law.

One key example of this is known as the Southeast Asia Maritime Security Initiative (MSI). First unveiled by former U.S. Secretary of Defense Ashton Carter at the 2015 Shangri-La Dialogue and then incorporated into the 2016 National Defense Authorization Act (NDAA), the MSI pledges \$425 million over five years. Stated goals of the program are to improve maritime domain awareness with the effort to build a regional common operational picture, improve partner infrastructure, logistics, operational procedures, and capabilities to create a more effective and interoperable maritime security network in the South China Sea. Although the MSI is sometimes criticized for being an insufficient amount to address the current shortfalls and challenges, the five-year budget allocation is a clear sign of continued U.S. commitment to regional stability through investment in partner capacity.

Building upon the foundations of the MSI and the Rebalance more broadly is the ambitious Indo-Asia-Pacific Stability Initiative. Currently authorized in the 2018 NDAA, it was initially proposed by Senator John McCain as a \$7.5 billion allocation over five years (2018–2022) to fund improvements to U.S. and allied warfighting capacity in the region, including quantitative and qualitative improvements in military hardware, increased rotational presence, improved operational infrastructure, pre-positioned equipment and munitions stocks. The Indo-Asia-Pacific Stability Initiative is significant in that it demonstrates bipartisan commitment to sustaining the international security order in Asia and the

important role that regional allies and partners play in that goal, in contrast to some of the president's less positive rhetoric regarding allied cooperation.

## A Region of Multiple Alliances

In the Asia-Pacific, the U.S. alliance system is a key feature of the liberal international order. The entire region saw rapid economic development due to the stability provided by U.S. security guarantees. This is what continues to make the alliances valuable for the Asian partners: They combine security with prosperity and have allowed the allies to not only build leading economies but also encouraged democratic transformation.

The United States are the key ally of all advanced liberal democracies in Asia. The election of Donald Trump marks the first time that a U.S. president has been openly critical of this concept of alliances. Nonetheless, the 2017 Index of U.S. military strength ranks the operating environment for the U.S. military in Asia as (still) favorable (4 out of 5) with the network of alliances being excellent (5 out of 5).

The U.S.–Japan alliance is arguably the strongest and most central of the bilateral U.S. alliances in the region. Its strength lies in the high degree of interdependence and strong convergence of mutual interests. The alliance dates back to the post-World War II order and is based on the Treaty of Mutual Cooperation and Security. An armed attack against the respective other will be jointly addressed according to the respective constitutional constraints. Additionally, the United States is granted the right to use Japanese territories for its military bases in the Indo-Pacific. Currently, about 54,000 American service members are stationed in seven U.S. bases in Japan, serving as the United States key outpost for its military posture in the Indo-Pacific theater. Japanese president Abe has doubled down on the alliance since the election of U.S. President Trump. The two leaders enjoy a close personal relationship and have reinforced their joint commitment. Japanese president Abe has been a staunch proponent of increasing the security role of the Japanese Self-Defense Forces in protecting the existing security order in the Indo-Pacific region, especially with respect to China's growing military role and influence.

The U.S.–South Korea alliance has been severely tried in recent months by the threat emanating from North Korea. The almost 30,000 military personnel stationed in South Korea are a cornerstone for the current stability in East Asia and have been the embodiment of the long-term U.S. strategic commitment to the region. Recent rhetoric emanating from the Trump administration regarding the necessity of pre-emptive military action against the regime of Kim Jong-un in North Korea coupled with economic pressure on South Korea and a calling into question of the Korea–U.S. Free Trade Agreement (KORUS) have played into China's hands, and could weaken the U.S. alliance system in the Indo-Pacific. Thus far, however, all military activity around the Korean peninsula under the Trump administration has taken place in close coordination with or with participation of the South Korean armed forces. In response to the variety of threats by the Kim regime there have been several joint shows of force and there is no indication that U.S.–South Korea military relations are wavering. Any military action on the Korean peninsula without the explicit support of the South Korean government could have a detrimental effect on the foundations of the trust in the alliance. Therefore the recent diplomatic overtures by the South Korean regime and the Trump administration's agreement to engage in direct talks with the North Korean leadership are stabilizing the alliance. However, if direct conversations actually do take place and fail, the military option remains one of the few options left on the table. Military action that precipitated a full-scale war with North Korea would likely lead to hundreds of thousands if not millions of casualties and have significant strategic and economic consequences throughout the region, empowering China and likely undermining the health of the liberal international order.

Australia, India, and Japan have long been concerned about China's increasing ability to project power beyond its borders. India and Japan have significantly upgraded their diplomatic and security cooperation. The close personal relationship between Prime Ministers Abe and Modi has contributed to improved coordination. Recently joint military exercises have been held. Additionally, albeit still in its infancy, a strong commitment to defense cooperation has

been voiced, especially in anti-submarine warfare that has reached increasing prominence due to rapid advances in the capabilities of the Chinese navy.

## The Indo-Pacific and The Quad

The United States used to focus its regional initiatives on the Asia-Pacific region. With the new administration under President Trump a new terminology, inspired by key U.S. allies, is gaining traction — the *free and open Indo-Pacific*. Indo-Pacific captures a definition of the region that has been promoted by Australia, India and Japan for quite some time. This narrative — which had also already been used selectively by some members of previous U.S. administrations — defines the geographic area more broadly and has gained traction in U.S. discourse. Free and open is a thinly veiled critique of China's outward power projection that manifests itself most prominently in the BRI.

The revitalization of “The Quad” the quadrilateral security initiative founded more than a decade ago by Australia, India, Japan, and the United States is the logical manifestation of the shift from the Asia-Pacific to the Indo-Pacific and closer relations between the like-minded democracies. It is based on maritime security concerns with joint naval exercises and patrols, but cooperation in regional hotspots (Afghanistan) could also be intensified. First and foremost, however, it is driven by a joint understanding and willingness to promote rules-based international order.

A decade ago the Quad idea was driven mainly by Japan but never lived up to the expectations awarded to it. Arguably, interests among the four participating nations have converged over the past few years around grievances with China, despite their very different relationships with Beijing.

The idea of a free and open Indo-Pacific is appealing to the liberal democracies in Europe, which are also grappling with a more assertive China in their immediate neighborhood. Additionally, Europe's

maritime powers France and Great Britain find more inclusion in the narrative, as their area of military activity also stretches into the Indian Ocean. Europe has an interest in upholding international law and has jointly criticized infringements on freedom of navigation. Despite being mostly absent in active military engagement in Asia, it contributes to a changing power balance with significant defense cooperation and arms sales to almost all Asian nations. Including Europe more strategically in Asian security questions could be beneficial to upholding international law and broadening a liberal counterbalance. The question is how to incorporate leading European strategic actors into the Quad or a similar framework to move beyond the deepening of bilateral relationships with key regional actors.

## China's Allies

The various alliances in the Indo-Pacific region are a phenomenon of the post-World War II order in Asia. The United States for pragmatic reasons of supporting their interest in a liberal and cooperative order have engaged heavily in these alliance structures. China has long followed a much more Sino-centric policy and has been a staunch opponent of formal alliances. The Shanghai Cooperation

Organization is based on close security cooperation especially with Russia, but also with Eurasian countries. But since both India and Pakistan joined the organization in 2017, it has become even more sidelined for China's immediate security interests. China's only formal treaty ally is North Korea. However, China has always displayed a

certain degree of ambivalence about the alliance. Even during times of much closer ties to the North Korean leadership than is currently the case, China's willingness to treat its commitments as binding in a military sense remained questionable.

Despite this general unease with formal alliances, China does engage in close military and security relations with other countries, notably with Pakistan.

“  
***Including Europe more strategically in Asian security questions could be beneficial to upholding international law and broadening a liberal counterbalance.***”

China's close relationship with Pakistan runs back to the aftermath of China's 1962 war with India and the mutual perception that the two sides would benefit from closer cooperation in dealing with their common opponent. In the intervening decades, Beijing has sought to support Pakistani capabilities as a counterbalance to India in South Asia, becoming its largest arms supplier and providing assistance to the most sensitive aspects of Pakistan's nuclear and missile programs. Recent years, however, have seen the relationship growing even closer as China looks to virtually the only country it trusts as a partner to expand its global power projection capabilities, from PLA Navy access to Pakistani ports to deepened cooperation on counter-terrorism training for Chinese overseas missions, while India's take-off as a power and strengthening U.S.–India relations magnify the original rationale for the relationship. The addition of a significant economic dimension, through CPEC, to what had previously been a security-centric partnership has also drawn the two sides into a tighter political embrace as the BRI's "flagship" initiative leads to a major expansion of Chinese investments, personnel and assets inside Pakistan.

## Recommendations on Flashpoints of Strategic Instability

Within the general context of instability that Beijing's new ambitions have generated, there are three clear flashpoints where small shifts could trigger major confrontation: the South China Sea, Taiwan, and North Korea. Given the importance of these theatres, it is also here where we can observe developments that are both conducive or destructive to the liberal order.

### South China Sea

China's large scale land reclamation and militarization efforts in the South China Sea (SCS) have had a major impact on regional stability. It has established 3,000 meter runways and deep water berthing areas on outposts in both the Paracel and Spratly islands, allowing access for nearly all types of PLA Air Force aircraft and PLA Navy ships. China has deployed

radar systems on its outposts throughout the SCS, and surface to air missiles and anti-ship cruise missiles on Woody Island in the Paracels. China has thus extended its operational reach, enabling fighter and surveillance aircraft coverage as well as radar coverage throughout the SCS. This provides China with positional advantage through increased forward presence of naval and maritime law enforcement vessels, and allows the Chinese armed forces to pose a threat to U.S. and allied assets at greater distances from the Chinese mainland, and assert *de facto* sovereignty over disputed territory and features.

The territorial conflicts in the South China Sea are just as much a legal problem as they are a security concern. The underlying assumption of the liberal order is that the international legal framework that has been agreed upon so far is continuously refined to meet the needs of a world that is constantly changing. It was never intended to be stagnant, but — by those designing the foundations of international law — regarded as a constant process. The codification of international law is inscribed in the UN Charter and it is the duty of the UN General Assembly to promote "international cooperation in the political field and encourage the progressive development of international law and its codification."

The role of international law is particularly important in strategic arenas where the interests of big countries meet those of medium and smaller countries. As Filipino diplomat Alberto del Rosario indicated in his open letter to ASEAN: "Through international law, a country of 100 million people is the equal of another more than ten times its size. In no other arena, would we have the same footing." The prevalence of the rule of law and the future of the liberal order are deeply intertwined in the South China Sea and which has implications far beyond the immediate regional context.

In the South China Sea, the regional states have decided to at some point agree on a Code of Conduct. Arguably, the focus on such a formal agreement is currently overrated. While its eventual emergence (and observance) would be an indicator of the future of the liberal order, the difficulty of moving on from the non-binding Declaration of the Code of Conduct is indicative of the gap between aspiration and reality when it comes to enforcing multilateral rules-based governance in the South

China Sea. A fig-leaf agreement for the agreement's sake that cannot be implemented, not least because some parties have no intention of complying, is not supportive of the liberal international order, and might even undermine its principles.

Upholding the principles of the liberal international order in the South China Sea requires respecting the spirit as well as the letter of the law. Especially China has demonstrated its ability to exploit the difference between the two while it enlarges its sphere of influence and ability to project its military power.

### Recommendations

**Freeze the development of disputed islands:** The states involved in territorial conflicts in the region should push for freeze proposals on destabilizing construction projects on disputed islands. Getting China to agree on halting the surge in dredging to expand territory is key. With every day passing by without the United States, Europe, or its partners and allies in the Indo-Pacific challenging China's policies directly and substantively, the situation will further erode. Other states, for example Vietnam or the Philippines, are also engaged in reclamation and construction activity, but are increasingly susceptible to China's diplomatic and economic pressure.

**Invest in deterrence:** Away from the disputed islands the smaller countries need to increase their defense capabilities to protect their interests. There is a role for external actors in capacity building when it comes to coast guard training, maritime surveillance, interoperability, military sales, and military exercises.

**Prioritize rule of law and do not cede ground:** The rule of law must be constantly upheld to be protected. One-off criticism of infractions is not enough. "Rule of law operations," underlining the freedom of navigation and the observance of international law should become a standard procedure in military operations of those countries that wish to protect the principles of rule of law in the region and beyond. As we lose focus, (territorial) facts on the ground are changed, but, even more detrimentally, attempts are

underway to construct alternative legal narratives that change the (legal) status quo in ways that are not supportive of the liberal international order. China's draft for a maritime traffic safety law is one of many examples. In international law, undisputed action can turn into customary right. Persistence in criticism is thus not only of political but also of legal relevance.

**Calling out hypocrisy:** China's BRI (see chapter on Economic Order) claims to decry any strategic agenda and calls for multilateral cooperation, open markets and peaceful win-win cooperation. This is the opposite of the clear sphere of influence approach in the South China Sea — both projects — despite geographic congruence — do not fit together. At the same time adherence to international law needs to become central to the narrative and practice of those countries supporting the idea of a liberal international order again.

**Maintain freedom of navigation operations:** China's growing clout is nowhere more evident than in the South China Sea. If the United States and others were to reduce freedom of navigation operations, there could be a development toward quiet acquiescence to Chinese claims. This is a troublesome development for international maritime law and could have serious repercussions for the protection of the sea lanes of communication. The North Korean nuclear threat has overshadowed the situation in the South China Sea in the debates in the United States, Japan, and Europe lately. If continuously overlooked, the South China Sea will drift fully into China's sphere of influence.

“ *If continuously overlooked, the South China Sea will drift fully into China's sphere of influence.* ”

### Taiwan

The future of Taiwan is arguably the most important case when it comes to the survival of the liberal international order in the Indo-Pacific. Taiwan is a democratically governed major economic power in the region. The survival of the democratic system in Taiwan should be of key concern to all supporters of the liberal international order in the Indo-

Pacific. The security of Taiwan has been guaranteed for decades by the United States and its deterrent capabilities. Insecurities regarding the credibility of U.S. security guarantees has contributed to embolden the Chinese government to be more assertive toward Taiwan — both rhetorically and militarily.

The reunification of the mainland with the “renegade province” is one of China’s core interests and would be the ultimate domestic political victory for Chinese President Xi. Over the last few months of 2017 China’s military has increased its military exercises around Taiwan. In December, the PLA Air Force conducted “island encirclement patrols.” The Chinese Navy is also sending the Liaoning, their aircraft carrier, through the Taiwan Strait with increasing frequency. In late 2017, a representative of the embassy of the People’s Republic of China in the United States explicitly threatened that Beijing would be forced to militarily respond if the U.S. Navy was to resume port calls in Taiwan as alluded to in the National Defense Authorization Act. In 2018, Beijing established a northbound air corridor up the Taiwan Strait without consultation with Taipei. President Xi also threatened the island in March 2018 after President Trump signed into law legislation encouraging additional exchanges between U.S. and Taiwanese officials.

As with the South China Sea conflicts, here too continuing focus on Pyongyang could be a boon to Beijing. The People’s Republic has not given up on reunification plans. The Chinese government is concerned about secessionist tendencies, and almost certainly feels emboldened by the lack of a forceful response of the international community to Russia’s annexation of Crimea. This prompted no direct military response and a muted response with regard to the substantial breach of international law, which was mainly comprised of economic sanctions. The ripple effects of deterioration in upholding the international rule of law are especially significant for the Taiwan case.

“ **Every statement must be clear that the status of Taiwan will not become a bargaining chip in trade negotiations.** ”

## Recommendations

**Prevent creeping change to status quo:** Those countries interested in preserving the liberal international order should clearly signal to China that any change to Taiwan’s current status quo is unacceptable. This includes continuing to uphold close defense relations with Taiwan and signaling to the Chinese military that exercises near Taiwan will be under scrutiny of the United States and its allies. In January 2018, President Xi told the Chinese forces to strengthen real combat training. Retired Chinese major general Xu Guangyu commented: “This is the first time since the founding of the country that instructions on military training have been directly issued by the chairman of the CMC, and it shows that improving combat readiness is now a strategic mission for the Chinese military.” Taking Taiwan back by force would be a major violation of international law and a serious threat to regional order.

**Do not use Taiwan as bargaining chip:** In a potential trade war between the United States and China, or in any action regarding the Korean peninsula, Taiwan could become collateral damage. The United States and its allies must be clear that the status of Taiwan will not become a bargaining chip in trade negotiations, to ensure that Taiwan’s democratic transition and emergence as a strong supporter of liberal values remains a success story of the liberal international order.

**Support Taiwan's inclusion in multilateral governance:** It is significant to find a long-term strategy to combat Beijing's efforts to exclude Taiwan in multilateral governance from global health, global climate, to global trade to ensure that Taiwan's representation and interests are respected. The exclusion of a democratically governed entity from multilateral global governance institutions taints the principles of the liberal international order.

**Ensure adherence to "One-China" policy:** At the same time, the agreed upon "One-China" principle should not be unilaterally altered to accommodate China's interests as long as Taiwan does not democratically decide to change it.

## *North Korea*

2017 marked an alteration to previous confrontation cycles on the Korean peninsula. Whether indigenously produced or imported: North Korea has convincingly demonstrated that it has intercontinental ballistic missiles (ICBM) with a striking range that far exceeds previous models at its disposal. This has raised the threat potential for the United States markedly.

By testing missiles in flight over Japan, the ICBM capabilities have also altered the strategic parameters for Japan. While North Korea must assume that it is taking a calculated risk, the potential for accidents looms large and could set off a confrontation that could easily spiral out of control. China, Russia, and South Korea were well within striking range long before the latest ICBM announcements. But the military technological advancements and the nuclear capabilities are highly worrisome for all parties involved. Additionally, the growing threat of military involvement has raised fears of regional destabilization, refugee flows, and nuclear proliferation. Even if a nuclear North Korea did not use its weapons, it is possible that the regime would sell its nuclear technology to anyone under pressure who can pay the price.

Various key elements of the liberal international order are at stake in North Korea: the credibility of the UN Security Council, the effectiveness of legal measures within the UN sanctions regime, as well as the future relevance of the agreed nonproliferation framework.

Deterring, hedging, engaging and even an attempt to militarily defeat North Korea, all options are on the table. In the short term, the largest destabilizing factor remains the unpredictability of the situation.

### **Recommendations**

**Support South Korea in its attempt to foster dialogue:** In the interest of strategic stability and adherence to the international rule of law, a negotiated

settlement is the preferable solution. However, a long-term solution with the endgame of denuclearization of the Korean peninsula seems unlikely given the advances the Kim regime has made. Talks for the sake of talking can buy the North Korean leadership time it needs to perfect its missile technology and decrease the likelihood of denuclearization.

**Keep robust sanctions in place:** While there is hardly an alternative to some form of dialogue, the economic pressure on the North Korean leadership should remain as high as possible. The sanctions put in place unanimously by the UN Security Council are a clear indication of international unity in the desire to tackle the problem with the instruments provided by the rules-based international order. Sanctions evasion must be detected and called out more forcefully. Investments in the international ability to detect sanctions evasion should be made (increased personnel, oversight, maritime surveillance). There is room for the United States, Europe, South Korea, and Japan to enhance cooperation. Sanctions evasion could also be even more seriously sanctioned by Europe to increase the cost and uphold diplomatic pressure.

**Uphold the Nonproliferation Treaty:** The multilateral nonproliferation treaty has been chronically ignored and sidelined. However, it remains the sole basis for governing nuclear power on the international stage and has prevented a massive proliferation of nuclear weapons during the Cold War era. After decades of nuclear disarmament, currently all nuclear weapons states are modernizing and some even growing their arsenals. The survival of the Iran nuclear deal will be a litmus test for the chances of survival of multilateral governance mechanisms in the realm of nuclear weapons.

**Discourage unilateral pre-emptive military action:** The discussion of the feasibility of pre-emptive military action has recently been fashioned by the U.S. administration. While also popular in the Japanese debates, the discussion alone contradicts the interests of South Korea, which would bear the brunt of any preventive or reactive military answer from Pyongyang. This kind of talk undermines trust in the U.S.–South Korea alliance and is destructive to the trust in international legal mechanisms and the power of diplomacy in a rules-based international order.

# THE MODERN DEMOCRATIC ORDER

BY AMY STUDDART

Developments in China in the first months of 2018 spell serious challenges ahead for democracy in the Indo-Pacific. President Xi Jinping has removed term limits, cementing his long-term rule and winding back the progress that had been made by his predecessors in normalizing successions in China's political system. The introduction and export of the social credit system looks set to create an entirely new way of controlling a public, more comprehensive than anything that has come before it. China is evolving into a hyper-modern authoritarian state with global ambitions. Over the last two decades, the country has intentionally exported some of its anti-democratic practices and rules where that has supported Beijing's interest. It has also inspired aspiring strong-men, authoritarian states, and even lured publics who believe that centralized power can bring rapid improvements to their economies. It is both essential and urgent that like-minded powers work together in the region to protect, defend, and advance both democracy and the universal values it helps to promote.

According to the Economist Intelligence Unit democracy index, Asia is the least democratic region in the world. At the same time, it is the region that has most improved in terms of human rights and democratization over the last couple of decades. However, while long-term trends are positive for democracy in the region, 2016 and 2017 registered some significant setbacks — particularly in Myanmar, Hong Kong, Thailand, North Korea, and the Philippines. These difficulties cannot be entirely separated from the broader geopolitical environment in which Asia sits. China's expanding economic and political influence, alongside setbacks to both democracy and democracy promotion in the United States and Europe, have combined to create an environment in which authoritarianism is

an increasingly appealing choice — a challenge of increasing sharp and soft power on China's side, and a decrease in the same on the part of the United States and Europe. In the meantime, however, Japan and India — as well as other democracies in the Indo-Pacific — set inspiring examples for the political stability that democracy can deliver, and have increased their efforts to support democratic progress in the region. With 60 percent of the world's population and the fastest growing economies in the world, the fate of democracy in the Indo-Pacific is intricately linked to the fate of democracy generally.

This chapter of the report assesses the long-term trends in Asian democracy and whether those are set to continue or to reverse. We assess the state of democracy in ten short case studies (Taiwan, Indonesia, South Korea, Myanmar, Sri Lanka, Maldives, Thailand, Philippines, Cambodia, Hong Kong), and look at the role that major actors can and should play in the region in order to continue to lay the conditions for democratic progress and make recommendations for where resources and efforts will be best directed. We pay special attention to the way in which technology is playing both a positive role in supporting democratic forces, and the ways in which it is being used — or could be — to undermine democracy.

The news for democracy in the Indo-Pacific is not all bad. Some of the most hopeful global stories about democracy have come from Asia over the last few years. Japan is at its most politically stable in decades, positioning the country to taking a leading role in the region and to set an example of democracy at its best. Likewise, politics in India are stable, despite some concerns about rising Hindu nationalism, with the government there able to create and implement policies that will not only drive progress

domestically, but will allow the country to play a positive role in the region. The Taiwanese elections demonstrated the solidity of Taiwan's democracy, the population's increasing liberal-mindedness, and marked the clear emergence of an anti-authoritarian trend. Large-scale, peaceful protests brought down the South Korean government of Park Geun-Hye after a corruption scandal. Each of these developments is a demonstration of how strongly democracy has become a part of the social and political fabric in those countries. Others are progressing in fits and starts. Indonesia's 2019 elections will be a crucial moment for democracy in the country. Hong Kong's public remains democratically minded, but Chinese intervention is leading to systemic set-backs and undemocratic outcomes and behaviors — with some in Hong Kong starting to believe and behave as if the battle for democracy on the island is lost. Malaysia's April 2018 election will be a pivotal moment in that country's political evolution.

## Taiwan

The 2016 election in Taiwan was a marked contrast to the political crack-down that was ongoing in China at the time — and particularly with regard to Hong Kong. For the fourth time, Taiwan held a peaceful, fair election. The nationalist party Kuomintang ceded defeat without complaint, allowing for the peaceful transition of power that is among the most striking and positive characteristics of established democracies in which both the political system and the will of the people is respected, regardless of those who do not like the outcome. There were no accusations of corruption. Women won 43 of 116 seats, along with the presidency.

Taiwan is also making major inroads in using new digital technologies to deliver democratic goods and solicit greater public input. A crowdsourcing tool, vTaiwan, uses advanced algorithms to help understand the map of public opinion around divisive policy challenges. It has led to genuine changes in policy, including on how to handle the sharing economy and the controversial question of online alcohol sales. It is now lauded as one of the best examples in the world of deliberative democracy, and is a rare example in the region of emerging technologies being used to encourage and advance democracy and open society, rather than as a means to further control.

China, meanwhile, is increasing its pressure on the country. Chinese bombers and fighter jets have been conducting “island encirclement” flights and Beijing has taken provocative action with a new air route up the Taiwan Strait. Tourism to Taiwan and imports from the country are being discouraged. As of last year, Panama no longer recognizes Taiwan after a successful pressure campaign that Beijing hopes to replicate with Taiwan's remaining diplomatic partners. At the suggestion of a senior Trump administration official visiting Taiwan, the influential Chinese newspaper *Global Times* (often described as a mouthpiece for the Chinese Communist Party) wrote, “If any U.S. high-level official pays an official visit to Taiwan, Beijing will treat it as severe provocation and adopt all possible countermeasures, including uniting Taiwan by military force.” The U.S. Congress has since passed the “Taiwan Travel Act”, encouraging official travel to Taiwan. Meanwhile, Beijing has been conducting political interference campaigns via social media and attempting to infiltrate Taiwanese political parties.

## Hong Kong

In 2014, proposed reforms to Hong Kong's electoral system marked the start of a new phase in the battle between democracy activists and Beijing in the battle for Hong Kong's political future. The 2014 reforms would have empowered the Hong Kong election committee, widely seen as being pro-Beijing, to choose the candidates to put forward for reelection. Not only was the proposal a step back from the already undemocratic process for electing the chief executive, the proposal rescinded a 1997 promise from Beijing to have the Chief Executive of Hong Kong elected through universal suffrage by 2017. The proposal led to widespread protests lasting 79 days.

Since then, the crackdown on democracy has increased. In 2016, three student protestors were imprisoned — one in a maximum-security prison, leading to questions about the independence of the Hong Kong judiciary. The 2016 legislative election saw candidates rejected on the basis that their political beliefs were “unconstitutional.” 2017 saw democracy activists jailed; book-sellers disappeared; legislators removed from their posts for failing

to swear an allegiance to China; and, in December, the arrival of mainland security officials conducting immigration checks in a Hong Kong train terminal.

The failure of the pro-democracy movements in Hong Kong is leading many to feel that the fight is a futile one, and that life will need to be lived within the political constraints imposed by Beijing. The lack of international support — and particularly from the United Kingdom — for the movement has no doubt played a role in leading to that sense of dejection.

## Indonesia

Indonesia's young democracy has been relatively stable since its first election in 1999. This is no small feat given the country's size, location, and ethnic and religious diversity. In the 2000s, Indonesia put democracy at the center of its foreign policy and used its status as a leading democracy as a soft power tool, establishing the Bali Democracy Forum to facilitate regional cooperation and spread democracy through Asia, and. More recently, however, economic nationalism has become front and center in the Indonesian approach to the world, and there are some causes for concern regarding domestic threats to Indonesia's democracy.

Since taking office in 2014, President Joko Widodo has taken a backseat on democracy promotion in the region, instead putting an economically nationalist agenda at the heart of Indonesia's foreign policy.<sup>1</sup> This is a reflection not only of his priorities, but also those the Indonesian public. Neither candidate in the presidential elections gave any meaningful attention to democracy promotion, instead focusing on the impact of foreign economics on domestic economics, and Indonesia's crippling problem with inequality. This is reflected in a rising belief that democracy comes at the cost of economic well-being.

As the regional economic architecture discussed in the previous section is articulated and built, actors who wish to see democracy flourish in the region should

“ **Actors who wish to see democracy flourish in the region should be careful not to spark accusations of mercantilist behavior.** ”

be careful not to spark accusations of mercantilist behavior, and should work with Indonesia on both the reality and the perception that economic openness can improve the country's domestic economy and lead to felt increases in prosperity for the Indonesian public.

In addition, Islamic militancy — with links to the Islamic State - has been on the rise in Indonesia. 90 percent of the Indonesian public strongly disapproves of Islamic militancy, which will make it hard for militants to gain a real foothold. However, militants have attempted to sway elections. As the 2019 presidential election nears, election monitors should pay especially close attention to extremist Islamist forces, and the links to military leaders in the country. Joko Widodo is a target for those groups, with militant leaders attempting to ensure that he does not secure a second term.

## South Korea

In May 1980, the South Korean military killed thousands of democracy protestors. February 2017 was a marked difference. Hundreds of thousands of South Koreans took the streets to peacefully protest President Park Geun-hye, to great effect. She was impeached and is now going through due process. A by-election was called leading to the election of a new president. While the corruption and other charges against President Park may have seemed like a blow to democracy, the fact that she is facing consequences is a boon for the power of people in South Korea, and indicates democratic entrenchment in the country.

Since the by-election, South Korea has seen a peaceful transfer of power. While President Park has maintained her innocence and refused to attend court-hearings, the democratic system remains strong with the public voicing their views through peaceful protests and other non-disruptive means. The disagreements and differences of opinion do not appear as if they will have any destabilizing impact.

<sup>1</sup> Joshua Kurlantzick, "Keeping the U.S.-India Relationship Moving Forward," Council on Foreign Relations, February 2018, [https://cfrd8-files.cfr.org/sites/default/files/report\\_pdf/CSR81\\_Kurlantzick\\_Indonesia\\_With%20Cover.pdf](https://cfrd8-files.cfr.org/sites/default/files/report_pdf/CSR81_Kurlantzick_Indonesia_With%20Cover.pdf).

The protests were also a positive example of technology's impact on democracy. South Korea is one of the most connected countries in the world. In 2017, 76.81 percent of the South Korean population owned a smart phone — far higher than any other country in the region. The video capabilities of smart-phones and organizing capabilities, information distribution capability of social media facilitated the transparency of citizen journalism and collective action.

South Korea is an excellent example of the stability that democracy provides. However, the country has not tended to be a democracy promoter in its neighborhood. Much of South Korean foreign policy has focused on the situation in North Korea and in large part because of this South Korea, perhaps more than any other country in the region, has a very delicate line to walk between China and its democratic allies. The country has tended to be relatively reserved in its global leadership role — with the exception of the Presidency of Lee Myung-bak who was famously internationalist in his outlook for South Korea. At a governmental level, that is unlikely to change. However, South Korea's positive example should be cited and pointed to in democracy promotion efforts. The country demonstrated clearly what a peaceful reckoning with corruption and the abuse of power can look like, and its positive reputation and soft-power in Asia could serve as useful example for other nations dealing with similar problems.

## Myanmar

For those who would seek to see democracy and a respect for human rights advance in Asia, Myanmar is a heartbreaking case. Believed a few years ago to be a new beacon for democracy and political reform, Nobel laureate Aung San Suu Kyi is now complicit in what has been described as a genocide. Just as the lack of an effective international response to the civil war in Syria led to the collapse of any semblance of order in the Middle East, those standing idly by while atrocities are being committed in Myanmar are putting the liberal order at risk.

Thousands have been killed, and seven hundred thousand have been displaced. Villages have been burnt, stories of gang rapes are common, and reports suggest that many are being buried alive, among other instances of torture. While media attention has

focused on the atrocities committed against the Rohingya, the UN special rapporteur for Human Rights in Myanmar has warned that atrocities against other ethnic groups in the country are just as concerning. Ethnic cleansing has also been accompanied by various other attacks on democracy and freedom: the jailing of two Reuters journalists for reporting on the crisis — Mr. Wa Lone and Mr. Kyaw Soe Oo; the spread of disinformation, and the continued centrality of the country's military, which remains able to act independently of the elected government.

Here, technology has played a divisive role. Facebook — the gateway to the web for most Burmese — has given extremists a platform to stoke ethnic division that they otherwise would not have had. Wirathu, a Buddhist monk who describes himself as a “Burmese bin Laden”, was banned from giving sermons in the country in 2017, but his popular Facebook profile remained active and his posts widely circulated until Facebook finally took measures to close it down on February 28th of this year. In the period between, he spread rumors about the Rohingya people and raised fears among the Buddhist community across Asia — not just in Myanmar — that their faith and way of life was under attack. In Myanmar especially, disinformation spreads across the social media platform like wildfire, with digital literacy so low that citizens are rarely able to distinguish between truth and falsehoods.

Working with the EU, the Myanmar government has recently developed legislation to curb actions online that might lead to social destabilization. While this may be a necessary step forward in the current context, the EU and others should monitor the use of the law closely, as it is ripe for abuse — especially in a country that does not yet have an established media, judiciary, or civic ecosystem.

## Sri Lanka

The results of the Sri Lankan general election in 2015 were broadly seen as a boon for democracy in the country. The previous administration — led by Rajapaksa since the end of the Sri Lankan civil war in 2009 — had changed the Sri Lankan constitution to do away with presidential term limits and

expand the power of the office. The country had grown close to China, giving Beijing the contract for its major port projects. When the Supreme Court made decisions Rajapaksa disliked, he fired the chief justice. Corruption in the country was rampant and getting worse, with Transparency International giving the country a score of 38/100 on corruption in 2015, and ranking it 83 out of 168 countries.

The coalition government of President Maithripala Sirisena came to power pledging to reform the constitution, address corruption, and bring together the ethnic groups in the country. Sirisena has, so far, been good to his word. Among his first acts was an amendment to the constitution unraveling the changes to term limits, reducing the powers of the presidency, and adding powers to the prime minister's office. His government has been less solicitous of Beijing.

However, while the intent of Sirisena's presidency seems genuine, the slow pace of delivery has put pressure on the coalition government, which seems to be unraveling. Sri Lanka's local elections in February, now seen as essentially a referendum on the Sirisena government, saw Rajapaksa's party sweep the local councils. While ordinarily these difficulties would reflect the usual to-and-fro of a democracy, they are cause for concern given the fragility of Sri Lankan democracy, the continued popularity and ambitions of Rajapaksa and his party, and the rising religious and ethnic strife.

In March, the government imposed a state of emergency and blocked a number of social media platforms in response to mob attacks on Muslims, which led to the destruction of Muslim-owned businesses and homes. As with Myanmar, social media platforms have played a role in fermenting religious strife and social discord, and — as a result — the government has blocked Facebook, WhatsApp, Instagram, and Viber (another messaging app). The nation's civil war is not so distant and tensions remain high. As a result, Sirisena's political project — based, as it is, on the inclusion of minority interests — is a fragile one.

## The Maldives

In 2012, the first democratically elected president of the Maldives — Mohamed Nasheed — was ousted in a coup. Since then, the tiny island nation of the Maldives has become the site of what has been described as “the new great game” between India and China. The current president — Abdullah Yameen — has sold a number of islands to Chinese investors, reportedly skimming some money off the top. He rushed a Maldives–China FTA through the Maldivian parliament with only one day for review, and, according to the Center for Global Development, signed around \$1.3 billion in other deals with Beijing. The opposition party has said that the vast majority of Maldivian debt is owned by the Chinese, and that the country is currently directing around 10 percent of its budget toward servicing that debt.

According to the Japanese foreign ministry — who have provided photographic evidence — Maldivian tankers owned by the Yameen family have been seen transferring goods to North Korean ships.

In the first months of 2018, this newly cozy relationship with China has led to protests on the streets. The Maldivian Supreme Court declared invalid several of Yameen's convictions of his (now-incarcerated) political opponents. As a result, President Yameen declared a state of emergency, arrested Supreme Court justices, and threw his half-brother in jail, along with a number of protestors. Outside powers have made strongly critical statements but hopes at this stage are largely focused on the country being able to proceed with scheduled elections later in 2018. The elections will need to happen and be viewed as fair to avoid the country being plunged into deeper crisis.

## Thailand

Thailand is an important example of what can go wrong in a promising democracy. In the 1990s, Thai democracy seemed well functioning. It conducted several peaceful elections and established strong rules and norms around human rights, freedom of speech, and political participation. In 2001, against a backdrop of income inequality, Thaksin

“ *Thailand is an important example of what can go wrong in a promising democracy.* ”

Shinawatra — prime minister from 2001 to 2006 — came to power on a platform that promised reforms and programs to benefit Thailand's poor — worthy goals that masked an authoritarian approach and saw the winding back of the rights and rules that had been so hard won in the 1990s. The educated middle class, which had been so essential to democratic success in Thailand in the 90s, sought to remove Thaksin from power, facilitating the 2006 military coup.

Joshua Kurlantzick, a scholar at the Council on Foreign Relations, contends that the major challenge to democracy in Thailand stemmed from the easing off of civic activists and nongovernmental organizations, who wrongly believed their work to have been done, paving the way for Thaksin's anti-democratic policies.<sup>2</sup> While that is certainly an important piece of the picture, the influence of other authoritarian regimes in the region, dissatisfaction with the slow pace of democratic deliberation, and the concerns of those left behind in an expanding economy, all combined to foster authoritarianism and public support thereof.

Thailand's latest constitution is, theoretically, a step toward democracy — enshrining rules about the electoral system. In reality, however, it has been critiqued as a formalization of the military's political role, and has bestowed the monarchy with increased powers. The new laws also impose a series of bureaucratic hurdles for aspiring politicians and political parties, which have been critiqued as impossible to overcome. Theoretically, Thailand has a general election scheduled for November 2019. It is expected that the military will find cause to postpone the election.

## Philippines

Politics in the Philippines has taken a draconian turn. Human Rights Watch estimates that 12,000 have been killed by state forces and vigilantes de facto encouraged by the government in President Rodrigo Duterte's self-proclaimed “war on drugs.” The Duterte administration itself has confirmed “less than 4000” — still a shocking figure. Many among these numbers

are teenagers. Women have also increasingly been a target. In February of this year, Duterte issued this warning to female guerilla fighters: “There’s a new order coming from the mayor. We will not kill you. We will just shoot you in the vagina.” This follows from his comments during his 2016 presidential run: “I was angry because she was raped. That’s one thing. But she was so beautiful. The mayor should have been first.”

There are increasing concerns about freedom of the press in the country. Most notably, the Duterte administration has attempted to revoke the license of the popular online publication *Rappler*, which has been critical of the current government. The National Union of Journalists has reacted strongly against the decision, and an appeal is currently making its way through the courts — a sign that the democratic institutions in the country remain strong despite the president's inclinations.

Additionally, a *Rappler* report contends that pro-Duterte bloggers — who call themselves the “Diehard Duterte Supporters” (DDS) — are receiving government posts, funding, special access to government officials and other sources, and favorable licensing arrangements. The general online media landscape is filled with vitriol and disinformation, propagated in large part by Duterte's supporters.

The United Nations, the United States, and the European Union have condemned Duterte's anti-drug campaign, although President Trump has at times sent mixed messages to Duterte. After several EU lawmakers critiqued the war on drugs, Duterte said in an off the cuff speech to all EU member state ambassadors, “You leave my country in 24 hours. All. All of you.” The EU, for its part has threatened to cut back on preferential trade provisions should human rights abuses continue, leading Duterte to threaten to increase trade with China and Russia.

The Philippines remains a democracy — albeit one with an authoritarian, populist leader. The public now seems to be turning against him, with his approval ratings having dropped from 66 percent to 48 percent. While public safety and crime reduction is a major concern for the Philippines, the relentless focus on the war on drugs has left corruption unaddressed and a crumbling infrastructure

2 Joshua Kurlantzick, “Thailand: Political and Economic Lessons From Democratic Transitions,” *Pathways to Freedom* chapter preview, June 2013, [https://www.cfr.org/content/publications/images/csmd\\_ebook/PathwaystoFreedom/ChapterPreviews/PathwaystoFreedomThailandPreview.pdf](https://www.cfr.org/content/publications/images/csmd_ebook/PathwaystoFreedom/ChapterPreviews/PathwaystoFreedomThailandPreview.pdf).

ignored. Provided Filipino democratic institutions are able to stay sufficiently intact over the coming period, Duterte and his brand of authoritarianism may well be rejected in the next election. His re-election will require more than the theatrics of a war on drugs — it will become more important that he makes progress on economic issues and is able to deliver tangible improvements to the lives of Filipino citizens.

This provides some leverage to the EU and Japan, two of the country's most important trading partners. Japan's infrastructure push could also be leveraged in negotiations with the administration to ensure certain protections for democratic goods in the country. The EU is in the process of negotiating a free trade agreement with the Philippines similar to the trade deals concluded with Singapore or Vietnam. It has consistently underlined that the respect for human rights is part of any free trade agreement.

## Cambodia

Cambodia encapsulates the current challenges to democracy in Asia better than perhaps any other country. After 25 years of pouring billions of dollars of aid into the country, U.S. and European attempts to help foster a liberal democracy in the country seem to have failed. Hun Sen — the country's leader since 1985 — has declared that he intends to rule for “a couple more decades.” China's aid and investment in the country now surpasses all other countries combined. Hun Sen has said that the “Chinese leaders respect me highly and treat me as an equal.” This is a marked contrast to previous decades, where Western aid funding was contingent on the regime keeping some of its anti-democratic instincts in check.

While “democracy” has rarely been much more than a farce in Cambodia, Hun Sen has taken even more anti-democratic steps in the aftermath of the 2013 election, which has been the subject of an ongoing

battle between the ruling party and the opposition, with independent observers having identified multiple irregularities in the election process.

Nearly 70 percent of Cambodia's population is under thirty. They have little to no memory of Cambodia's painful history, and Hun Sen's argument for his rule — that he alone can prevent against a return to civil strife — does not resonate with them. They are hungry for change in the country, and were very active in the 2013 election — not only in voting, but in protesting and demonstrating both ahead of and after the elections.

In response, Hun Sen has cracked down. Citizens have been persecuted for relatively minor acts of political dissent, and independent news outlets have been shut down, most notably the Daily — a respected independent outlet. In September 2017, the government bought charges against the leader of the opposition party for “attempting to overthrow the government.” The opposition party has been dissolved.

Technology — and particularly Facebook — has again played a central role. On the one hand, the platform had been a central source for independent information as media outlets were closed down, although the circulation of such information will be reduced following changes to Facebook's newsfeed algorithm, which now prioritize items from family and friends rather than news sources or public figures. On the other hand, a case brought by one of Cambodia's leading opposition figures is currently making its way through the Californian courts, contending that Hun Sen — described by public relations firm Burston-Marsteller as the third most engaged politician on the platform — has been buying likes and manipulating users through disinformation campaigns.

After years of accusing America of being the “third hand” in attempts to bring about a color revolution in the country, Hun Sen has since lauded President Trump for his departure from a focus on human rights. However, the U.S. government beyond

“ ***It is significant that the soft power role of the office U.S. president no longer lends itself toward democracy promotion, but instead validates and supports authoritarian tendencies.*** ”

the White House has maintained a firm line. On February 28, the United States announced that it was withdrawing aid from the country given the political crackdown and human rights violations. Nonetheless, it is significant that the soft power role of the office U.S. president no longer lends itself toward democracy promotion, but instead validates and supports authoritarian tendencies.

## A Changing U.S. Role

The U.S. role as a promoter of democracy in Indo-Pacific has changed significantly over the last two decades. While President Trump's statements in support of autocrats and human rights abusers mark the most striking change, the approaches and policies of the Bush and Obama administrations are important to the current state of democracy in the region.

The Bush administration was a vocal supporter — at least on the surface — a strident supporter of both democracy and human rights, making it a central pillar of all foreign policy, but leading to a polarized global public opinion — especially in light of the failures at state-building and democratization in Iraq and Afghanistan. The Bush administration also struggled, as did its successors, with how to pursue so-called strategic cooperation with China while simultaneously holding Beijing accountable for its abysmal human rights record.

The Obama campaign ran in opposition to President Bush's self-described “freedom agenda,” with Obama suggesting that he would not impose American political thought on others, and instead emphasizing what his team described as universal values.

The Obama administration thus treated democracy promotion in Asia as a relatively low priority, focusing instead on an economic and strategic agenda, with the Trans-Pacific Partnership (TPP) and the renewal and recommitment to alliances in the region at the heart. President Obama was largely silent on the protests in Hong Kong, beyond platitudes calling for a “peaceful

resolution”; the U.S. and Thai militaries went ahead with a joint military exercise in the aftermath of the Thai military coup; President Obama was close to Najib Razik, the Malaysian prime minister who won a gerrymandered victory despite losing the popular vote, and subsequently took the popular leader of the more-liberal opposition party, Anwar Ibrahim, to court over charges of sodomy; and, in Myanmar, the Obama administration went ahead with lifting all remaining sanctions on the country in 2016, despite reports of persecution of the Rohingya. The Obama administration recognized the threat that an authoritarian economic juggernaut posed to U.S. influence in the region, and sought to counteract it — but did so in a way that saw the U.S. competing for influence on China's terms — trade and security — ignoring democracy activists and allies who would have benefitted from much needed support, holding back from condemnation of anti-democratic actors and actions, and working with those who wound back democracy.

This, then, is a significant element of the backdrop to the current state of democracy and democracy promotion in Asia. While early signs suggested that President Trump may well have taken a more committed approach to democracy in the region — his early phone calls to congratulate Tsai Ing-Wen and the Republican Party's historical commitment to democracy promotion as a pillar of its foreign policy — the reality is that Trump has far more admiration for authoritarian leaders than would be expected of a U.S. president. While his surprising relationship with Putin is the most commented upon, he has flattered Duterte, Xi Jinping, and others too. In response to the removal of presidential term limits in China, the president of the United States joked, “maybe we'll give that a shot.”

The administration has proposed to strip U.S. government funding from the National Endowment for Democracy and the National Democratic Institute, and make the International Republican Institute compete for funding with the private sector. This would mark a significant step back from the policy of using these institutions to build democratic

“ ***The United States government cannot be relied upon as the leader in the region for democracy promotion, at least not in the short term.*** ”

infrastructure overseas, a policy and architecture that has been in place since the Reagan presidency, and which every president since then has supported. In his September 2017 speech to the UN General Assembly, Trump emphasized national sovereignty, a point he made again at the APEC summit in Vietnam in November. He has paid no similar lip service to democracy in his public speeches.

This has two impacts. On the one hand, the key champion for democracy globally seems like a poor role model. On the other, for the many politicians, policy-makers and nongovernmental organizations in the United States who would see a commitment to democracy promotion continue sit at the heart of U.S. foreign policy, efforts have been hampered by cuts or threats of cuts to government funding, staffing challenges, and an inability to use the soft power capacity of the U.S. presidency.

As a result, the United States government cannot be relied upon as the leader in the region for democracy promotion, at least not in the short term. However, this does not mean that there are no actors in the U.S. to be worked with.

Democracy promotion has bipartisan support in the U.S. congress, which will make efforts to cut the budget assigned to institutions that carry out those mandates a challenge. Congressional leaders can also be relied upon as powerful advocates for democracy, and can issue reassurances that the U.S. position will not fundamentally change, regardless of the president's statements. Likeminded countries — Japan, the EU, and other democracies in the Asia Pacific — must make a concerted effort to engage congressional leaders.

U.S. technology companies have an important role to play in the region, and are increasingly open to suggestions as to how their role can be a beneficial one. Those who would see democracy advance in the region should publicly hold platform companies like Facebook, Wordpress, and Twitter to account, encouraging them to mitigate against the negative impacts their platforms are having on democracy in the region, and working with them to support democratic actors.

Some elements of U.S. leadership, however, will need to be replaced. Relative U.S. economic clout in the region is diminishing, and the China option provides an alternative to authoritarians who would rather money and investment without political conditions attached. Here, Japan and the EU can, and already have, been playing a useful role, though European officials now describe themselves playing a “lonely role” on democracy and human rights in Asia.

The United States alone is no longer able to inspire confidence in democracy as a political system. Fortunately, Asia has several examples of states that model the stabilizing impact of functioning democratic systems. In particular, the way in which South Korea has been able to peacefully address its political corruption challenges, and Indonesia's approach to Islamic militancy, should be held up as examples as to how democratic systems and structures can peacefully address and manage social and political challenges.

## Technology

Technology is changing democracy globally, and particularly in Asia. While citizens use social media to share information in environments in which an independent media have been shut down, others are using the same platforms to spread disinformation and foster social strife. While China develops the most advanced system of social control that has existed, vTaiwan has demonstrated the power that technology can have in engaging citizens directly in policymaking. The battleground for the future of democracy in the Indo-Pacific will partly take place online, and likeminded actors who would see democracy advance in the region will need to help create a vision of democracy that harnesses the positive power of technology while guarding against the risks of misuse. As of 2017, more than 50 percent of people in the Indo-Pacific own a smartphone. For many, the smart phone is their first connection to the digital world.

China is currently piloting its “social credit system” — a single score designed to rate the trustworthiness of citizens. By 2020, the system will become mandatory. The score is expected to impact who gets what job; goes to what school; and even whether a citizen can board a plane. While the system has

been developed for domestic use, China is already looking to export it. Authoritarian leaders and countries where crime and division loom large in the public consciousness will be prime candidates. Japan and other likeminded actors in the region must make it a priority to inform the public about the potential abuses of such a system and the impact it could have on human liberty, counteracting Beijing's narrative that the system will lead to greater trust and safety in society. There also needs to be greater cooperation between democratic allies in the region to expose efforts by Beijing and other authoritarian actors to use the openness of democratic societies as a weapon. Recent cases in Australia and New Zealand show that China is not limiting its attempts at foreign influence to its Mandarin-speaking near abroad.

Democratically minded actors also need to present a positive vision of the role that technology can play in democracy. More attention needs to be paid to the ways in which technology can expand democratic freedoms; make governments more transparent and accountable; empower citizens to share information and organize; and reduce bureaucracy and corruption. The use of vTaiwan to develop policies on seemingly divisive issues could serve as a useful example for deliberative consultation about varied challenges from liquor laws in Indonesia to translating religious division into fixable policy discussions. The Indian Aadhaar system, in which every citizen is provided with a unique identifying number, could be replicated to reduce corruption and facilitate redistribution in countries struggling with income inequality. The South Korean public's use of social media during the 2017 protests serves as a useful reminder that smart phones and Facebook can be important civic tools where digital literacy is high. Funding for digital literacy programs and knowledge of developments in civic and government tech will need to be embedded into overseas development assistance and democracy support programs. New actors in the technology industry and those familiar with government technology efforts should be engaged.

The negative impacts of technology on democracy will also need to be addressed. Platform companies like Facebook need to take on far more responsibility for the role that their companies play in facilitating the spread of disinformation, polarizing publics, and giving platforms to incendiary figures. Given the public opinion crisis facing the companies in the

aftermath of the U.S. election, there is currently an opening for engagement on broader political issues. Actors who care about democracy more broadly should apply public and private pressure on those companies to address the negative consequences of their platforms on the global democratic environment rather than focusing entirely on the United States.

## Conclusions and Recommendations

Democracy is not, at present, en vogue. This is in part due to the challenges in the West: the election of Donald Trump, and struggles with political and economic integration in Europe. It is also partially because of the challenge posed by increasing popularity of strongmen leaders and authoritarianism. China, in particular, presents a strong counter-example to democracy in which an authoritarian government has managed to bring hundreds of millions out of poverty at an incredible pace — perhaps in part because of the efficiencies and organizational capacities that authoritarianism presents. For many, the question has become “is poverty a worthwhile price to pay for democracy?” The response that democracy is a good in and of itself is an inadequate one. Instead, we must help emerging democracies address real challenges with redistribution policies and economic efficiency.

We must work to ensure that it is not only authoritarianism that sits at the cutting edge of technology. China's sesame credit system is currently being exported in seemingly innocuous ways, with serious potential ramifications for democracy in Asia and beyond. Democratic applications of technology exist — Indonesia's use of twitter as a way of creating a direct channel between politicians and those they serve; vTaiwan's cutting edge consultation process that helps to achieve something resembling consensus around otherwise divisive issues; the reach of mobile into rural India, putting banks, libraries, and communications systems into the pockets of individuals who previously had none of those things; and the free use of smartphones and social media to organize, facilitate and communicate from protests in South Korea.

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One consistent issue is countering overt Chinese activities designed to undermine democracy — particularly in Hong Kong and Taiwan. Here, the United States, Europe, and Asian powers have done less than they should, emboldening China and leaving democratic actors and activists without meaningful international support.

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