

Achieving a ‘Delicate Equilibrium:’
Are Southeast Asia’s Maritime States Indonesia and the
Philippines Hedging China?

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Abstract

One of the prescient questions within international relations today concerns the rise of China and what strategies states should deploy in response. This is particularly pertinent in the Asia Pacific neighbourhood. Southeast Asian states especially face a perennial challenge: how to balance economic and security interests between China and the US. This thesis examines the concept of hedging as a means of understanding the strategic choices adopted by the Indonesia and the Philippines in response to rising Chinese hegemony in Asia. This thesis applies the innovative hedging model developed by Kuik to determine if Indonesia and the Philippines are hedging China and, if so, what strategies Jakarta and Manila have adopted. The application of Kuik's model to the foreign policy strategies and behaviours of Indonesia and the Philippines has been a useful approach to determine whether these two cases are hedging China and to what degree. This thesis concludes that Indonesia and the Philippines have adopted hedging strategies comprised of micro options which are not static but fluid and dynamic. This study further demonstrates that understanding the drivers and behaviour of key Southeast Asian states and the degrees to which they are rejecting or accepting power is critical.

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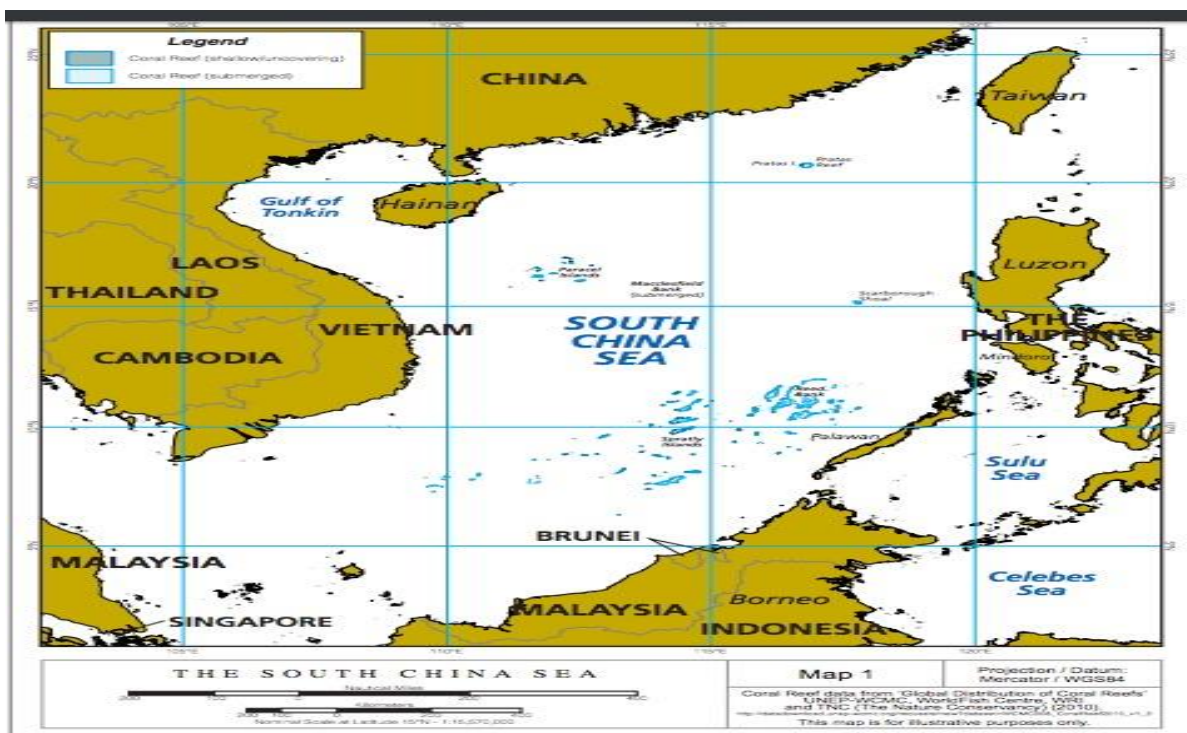
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Figure 1. Map of Southeast Asia and China



Source: <https://commons.wikimedia.org/w/index.php?curid=531467>

Figure 2. Map of the South China Sea



Source: <https://pca-cpa.org/wp-content/uploads/sites/175/2016/07/PH-CN-20160712-Award.pdf>

Introduction

This thesis examines the concept of hedging as a means of understanding the strategic choices adopted by the Republic of Indonesia (hereafter Indonesia) and the Republic of the Philippines (hereafter the Philippines) in response to rising Chinese hegemony in Asia. This thesis applies the innovative hedging model developed by scholar Cheng-Chwee Kuik to determine if Indonesia and the Philippines are hedging the People's Republic of China (hereafter China) and if so, what strategies Jakarta and Manila have adopted.

The Rise of China and Southeast Asia's Response

The rise of China and its implications for the Asia Pacific – and beyond – is a central albeit not new question within contemporary international relations. Two decades ago, Johnston and Ross examined one of the central realist questions which has dominated international relations, and particularly proponents of hegemonic stability theory,¹ since the late 1990s: will China's emergence as a rising power have a destabilising impact on the international system and how will states be affected – and how will they respond?² In the twenty years that have passed since Johnston and Ross posited that question, the scholarship on China's rise and its implications has burgeoned into a dedicated field that examines all facets of China's rising hegemony from its historical underpinnings through to its soft power successes. The predominant question, however, is whether China can rise peacefully.

Preoccupation with China's rise and what it means for the Asia Pacific is equally true at the sub-regional level. As Goh writes, "Southeast Asia and the Association of Southeast Asian Nations (ASEAN) have become an important focus for those seeking to develop an understanding of regional strategies to cope with the changing distribution of power after the Cold War,"³ namely the rise of China. There are increasing demands to chart "the complex relationship between China and the Southeast Asian states in an age of rising Chinese

¹ Charles P. Kindleberger. (1973). *The World in Depression, 1929-39*. Berkeley. University of California Press. Later proponents include Robert Keohane. (1984). *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton.

² Alastair I. Johnson and Ross, Robert S. (1999). *Engaging China: The Management of an Emerging Power*. London and New York: Routledge.

³ Evelyn Goh. (2008). Great Powers and Hierarchical Order in Southeast Asia. Analyzing Regional Security Strategies. *International Security*, 32(3), 113-157.

power.”⁴ Consequently, there is a growing body of literature concerned with the strategic choices made by Southeast Asian states in response to China’s rise and the inherent tension between economic interests and security concerns. Ian Storey, for example, has reviewed the array of complex strategic responses from Southeast Asian countries for whom “the benefits of economic interdependence conflict with the strategic aim of obviating Chinese regional dominance via techniques of power politics.”⁵

Goh argues that “our understanding of how the relatively small states of Southeast Asia engage in great power management has grown significantly” over the past two decades.⁶ She suggests that the “tendency during the early 1990s to view Southeast Asian policymakers as having “no strategy” has been replaced by a small industry of scholars and analysts explicating Southeast Asian strategies towards the great powers.”⁷ Not surprisingly, there are contested views on how second tier states in the Asia Pacific are adapting to China’s rise. Scholars primarily disagree over whether Southeast Asia is balancing against China or accommodating, aligning, or even bandwagoning with it.⁸

Since 2009 and 2010 the security dilemma has intensified due to China’s more assertive approach to maritime territorial disputes in the South China Sea and the United States’ rebalance to the Asia Pacific.⁹ Accordingly, as Goh argues, the Southeast Asian landscape has increasingly resembled realist predictions of power balancing in the form of growing security cooperation with the aim of countervailing the greatest perceived threat China.¹⁰

Hedging as Adaptation

How small and medium-sized states – also referred to as secondary or second tier states - respond to a rising power is a central question in international relations. The conventional

⁴ Nicholas Khoo. (2014). Book Review. Ian Storey. *Southeast Asia and the Rise of China: The Search for Security*. London and New York: Routledge. *Asian Politics and Policy*, 6(3), 482-483.

⁵ Ibid.

⁶ Evelyn Goh. (2016). Southeast Asian Strategies toward the Great Powers: Still Hedging after All These Years? The ASAN Forum, July - August, 4,(4), February 22. Retrieved from <http://www.theasanforum.org/southeast-asian-strategies-toward-the-great-powers-still-hedging-after-all-these-years/>.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

response to this question amongst international relations scholars for many decades has been that states are likely to either *balance against* or *bandwagon with* that power.¹¹

There are, however, other policy options for secondary states and these are gaining increasing attention. Roy, for example, argues that the policy choices of small and medium-sized states can be broadly defined as adhering to four – rather than merely two - strategies: hedging; engagement; balancing; and bandwagoning.¹² Roy argues that Southeast Asian states have employed two principle strategies in response to rising China: engagement and hedging.¹³ These strategies are not necessarily mutually exclusive. One scholar describes this strategy as ‘omni-enmeshment’, a deliberate effort to entangle China (and the United States) in a web of interdependent economic and diplomatic relations in the hopes of influencing and forestalling any aggressive intentions.¹⁴ Scholars agree that most secondary states in Asia are not pursuing the traditional dichotomous strategies of balancing or bandwagoning¹⁵ but seeking a middle way.

This thesis is concerned with hedging as strategic adaption. Hedging offers greater policy choices for small and medium-sized states as it enables states to keep open more than one strategic option against the possibility of a future security threat.¹⁶ Hedging can be defined as the following:

“a set of strategies aimed at avoiding (or planning for contingencies in) a situation in which states cannot decide upon more straightforward alternatives such as balancing, bandwagoning, or neutrality. Instead they cultivate a middle position that forestalls or avoids having to choose one side [or one straightforward policy stance] at the obvious expense of another.”¹⁷

¹¹ Cheng-Chwee Kuik. (2008). The Essence of Hedging: Malaysia and Singapore’s Response to a Rising China. *Contemporary Southeast Asia*, 30(2), August, 159-185.

¹² Denny Roy. (2005). Southeast Asia and China: Balancing or Bandwagoning? *Contemporary Southeast Asia*, 27(2), 306.

¹³ Ibid.

¹⁴ Evelyn Goh. (2005). *Great powers and Southeast Asian regional security strategies: omni-enmeshment, balancing, and hierarchical order*. Working Paper No. 84. Singapore: Institute of Defence and Strategic Studies.

¹⁵ Darren J. Lim & Zack Cooper. (2015). Reassessing Hedging: The Logic of Alignment in East Asia. *Security Studies*, 24(4), 696-727. See also Kuik, The Essence of Hedging: Malaysia and Singapore’s Response to a Rising China, 159-185.

¹⁶ Ibid.

¹⁷ Evelyn Goh. (2006). *Understanding ‘Hedging’ in Asia-Pacific Security*, PacNet 43, 31 August.

Hedging is one of the most commonly used descriptors for the behaviour of states towards China and captures the conflict states face between balancing security and economic interests.¹⁸ Increasingly, it is applied to Southeast Asian states as a means of understanding the conditions under which they choose to hedge against China and the range of policy options available to them.

The challenge is how to evaluate and interpret hedging. Cheng-Chwee Kuik offers a model that provides a clear conceptual parameter to measure and compare the hedging behaviour of states across time.¹⁹ Kuik's model consists of a two-pronged approach: the concurrent adoption of 'returns-maximizing' and 'risk-contingency' options.²⁰ Within each option, there are a series of micro choices for states that incorporate security, economics, and diplomacy and can be treated as a state's overall strategy towards another state.²¹ Kuik's model offers a nuanced tool to interpret the strategic choices of second tier states and is therefore a highly appropriate lens through which to analyse the strategic choices and policy options adopted by Indonesia and the Philippines in response to rising China.

This thesis will compare and contrast the complex strategic responses of two maritime states - to heightened Chinese assertiveness and influence in Southeast Asia over a ten year period between 2006 and 2016 with a particular focus on the implications of the 2016 South China Sea arbitration decision and the changes in national political leadership within the two chosen country case studies. This thesis will argue that the strategy increasingly being adopted by Southeast Asian states – specifically Indonesia and the Philippines - is that of hedging which is arguably a mix of both realist balancing in their respective bilateral relations with China and a liberal institutionalist approach through multilateral collective security means. This has allowed for the greatest amount of flexibility within the overarching hedging approach. This thesis will argue that Indonesia and the Philippines have each adopted distinct strategic

¹⁸ See the works of Roy. (2005). Southeast Asia and China: Balancing or Bandwagoning?; Evelyn Goh. (2007). Southeast Asian perspectives on the China challenge. *Journal of Strategic Studies*, 30 (4-5), 809-832; Van Jackson. (2014). Power, trust, and network complexity: three logics of hedging in Asian security. *International Relations of the Asia Pacific*, 14(3), 331-356.

¹⁹ Cheng-Chwee Kuik. (2016). How Do Weaker States Hedge? Unpacking ASEAN states' alignment behaviour towards China. *Journal of Contemporary China*, 25(100), 504-505.

²⁰ Kuik. (2008). The Essence of Hedging: Malaysia and Singapore's Response to a Rising China; Kuik. How Do Weaker States Hedge?, 504.

²¹ Ibid.

responses to a rising China that have evolved over the past decade and which can be broadly categorised as variants of the hedging approach. It will question how the hedging strategies adopted by each country differ and whether the hedging strategies adopted are sustainable in the face of an increasingly complex strategic environment in which Chinese influence and assertiveness is a central dynamic.

Thesis Structure

This thesis is structured in the following manner. *Chapter One* posits the research question and examines and reviews the relevant literature and positions the question within the broader body of international relations literature. *Chapter Two* and *Chapter Three* applies Kuik's model of hedging to the Indonesia and the Philippines cases to determine if each case is hedging China and if so, what policies have been adopted. Lastly, the *Conclusion* draws together the arguments presented in this thesis and concludes that both Indonesia and the Philippines are hedging China but in notably different ways leading to different outcomes.

Research Methodology

Research methods are 'techniques for collecting data'²² and this thesis has adopted a mixed methods approach using qualitative (textual analysis) data collection techniques in investigating the two case studies. This approach is an appropriate method for international relations research²³ and supports an empirical approach²⁴ to answering the theoretical problem.

The case studies selected in this study were chosen for their relevance to the research question and the theory in question.²⁵ In the case study selection process, it was imperative

²² Alan Bryman. (2008). Of methods and methodology. *Qualitative Research in Organizations and Management: An International Journal*, 3(2), 159-168.

²³ See Andrew Bennett and Colin Elman. (2007). Case Study Methods in the International Relations Subfield, *Comparative Political Studies*, 40(2), 170-195; Mark NK. Saunders, Lewis, Philip. and Thornhill, Adrian, Formulating the research design. In M. Saunders, Lewis, P. and Thornhill, A. (2007). *Research Methods for Business Students*, 4th edition, Harlow: Pearson Education Limited.

²⁴ Christopher Lamont. (2015). *Research Methods in International Relations*, London: Sage, 21-22.

²⁵ Jennifer, Mason. (2002). *Qualitative Researching*, London: Sage; David Silverman. (2005). *Doing Qualitative Research: A Practical Handbook*, 2nd edition, London: Sage.

that the case studies were drawn from Southeast Asian cases which meant drawing from the ten states that make up ASEAN. As the question of China's rise is directly linked to the role of the United States as a security guarantor, it was necessary to select cases which were attempting to balance both economic and security interests. Of the ten ASEAN states, the regional minnows – Laos, Cambodia, and Brunei – were excluded because the three increasingly fall under China's sphere of influence. Of the remaining cases – Vietnam, Malaysia, Singapore, Myanmar, Thailand, Indonesia and the Philippines – the latter two were selected for the following reasons.

Indonesia and the Philippines are both archipelagic Southeast Asian middle powers. They are maritime states with, in the case of Indonesia, maritime ambitions. Indonesia and the Philippines both have growing economic ties with China – in both cases China is a leading economic partner. Indonesia and the Philippines both have maritime disputes with China in the South China Sea although the respective disputes and the approaches to crisis management adopted are different. Indonesia and the Philippines both also share ambivalent relations with the United States despite increasing security cooperation. The parallels between the two cases allows for a useful foundation to explore how two similar Southeast Asian states are each responding to the rise of China.

Chapter One: Literature Review

This chapter examines the concept of hedging as a means of understanding the strategic choices adopted by Indonesia and the Philippines in response to rising Chinese hegemony in Asia. Hedging is a concept rooted in realist balance of power theory and an increasingly popular lens through which to interpret the strategic foreign policy choices made by second tier states in Asia. This chapter begins by broadly examining the realist school of thought in the context of Asia before exploring balance of power theory and the two strategies most commonly associated with it: balancing and bandwagoning. The chapter will then consider the more moderate – or “middle way” - concept of hedging as a strategic alternative which, as the following two case study chapters will demonstrate, Indonesia, and the Philippines have adopted to varying degrees and with specific national characteristics.

Realism

The realist school of thought has dominated the study of international relations since it was articulated as a rejection of idealism in H.E. Carr’s 1939 *Twenty Years Crisis*²⁶ and, later, in Hans J. Morgenthau’s seminal book which posited six principles of political realism and ‘a realist theory of international politics.’²⁷ Collectively, these texts form the foundations of classical realism. However, the realist school seeks a longer claim tracing its origins to Athenian historian and General Thucydides’ History of the Peloponnesian War (431-404 BC).²⁸

The three key concepts which define realist theory are anarchy, the balance of power, and the national interest. To expand this further, realism as a theoretical tradition is centred upon four propositions: first, that the international system is anarchic meaning that no actor exists above states that is capable of regulating their interactions; states must arrive at relations with other states on their own, rather than it being dictated to them by some higher controlling entity and

²⁶ John Mearsheimer. (2002). E.H. Carr vs. Idealism: The Battle Rages On. *International Relations*, 19(2), 139-152.

²⁷ Hans J. Morgenthau. (1978). *Politics Among Nations: The Struggle for Power and Peace*, (5th edition, revised). New York: Alfred A. Knopf, 4-15.

²⁸ David Boucher. (1998). *Political Theories of International Relations: from Thucydides to the present*, Oxford: Oxford University Press; Chris Brown, Terry Nardin, and Nicholas Rengger, (eds.). (2002). *International Relations in Political Thought*, Cambridge: Cambridge University Press.

the international system exists in a state of constant antagonism; second, states are the most important actors; third, all states within the system are unitary, rational actors which means that states are pre-disposed to the pursuit of self-interest and that groups strive to attain as many resources as possible; fourth, that the primary concern of all states is survival and that, in order to survive, states build up military power to survive, which may lead to a security dilemma.²⁹

Realism can be broadly grouped into three strains: classical, neoclassical,³⁰ and structural (or neorealist).³¹ From the 1970s onwards, the realist tradition can be further divided into sub-schools:³² neorealism³³ and its two offshoots: defensive³⁴ and offensive³⁵ realism; and neoclassical realism.³⁶ Leading neorealist Kenneth Waltz argued that classical realists' powerful insights into the workings of international politics were weakened by their failure to distinguish clearly between arguments about human nature, the internal attributes of states and the overall system of states.³⁷ Waltz's neorealism proved insufficient in the 1980s to answer many of the dominant questions within international relations, and as a consequence, two new theoretical sub-schools emerged - offensive and defensive realism -³⁸ building on neorealism's emphasis on systemic pressures as a means of understanding the foreign policy behaviours of states.³⁹ Offensive and defensive realism attribute the same kinds of foreign policy behaviours to states only differing in the degree to which states pursue security and seek to accumulate power.⁴⁰

²⁹ Jack Donnelly. (2008). The Ethics of Realism. In Christian Reus-Smit, Duncan Snidal (Eds.). *The Oxford Handbook of International Relations*, Oxford: Oxford University Press, 150.

³⁰ A term coined by Gideon Rose. (1998). Review: Neoclassical Realism and Theories of Foreign Policy. *World Politics*, 51(1), October, 144-172.

³¹ Kenneth Waltz. (1959). *Man, the State and War*, New York: Columbia University Press; Waltz. (1979). *Theory of International Politics*, New York: McGraw Hill.

³² William C. Wohlforth. (2010). Realism and Security Studies. In Myriam Dunn Cavelty and Victor Mauer (Eds.) *The Routledge Handbook of Security Studies*. London and New York: Routledge. 10.

³³ Robert Jeffrey Art. (2004). Europe hedges its Security Bets. In T.V. Paul, J.J. Wirtz, & M. Fortman (Eds.) *Balance of Power: Theory and Practice in the 21st Century*. Stanford: California University Press. 179-213; Barry Posen. (1984). *The Sources of Military Doctrine: France, Britain, and Germany between the World Wars*. Ithaca, NY: Cornell University Press.

³⁴ Waltz, *Theory of International Politics*; Robert Jervis. (1978). Cooperation Under the Security Dilemma. *World Politics*, 30(2).

³⁵ John Mearsheimer. (2001). *The Tragedy of Great Power Politics*. New York, NY: W.W. Norton..

³⁶ Wohlforth. Realism and Security Studies. 10.

³⁷ Waltz. *Man, The State, and War*. cited in Wohlforth. Realism and Security Studies. 11.

³⁸ Ibid., 12-13.

³⁹ Rose. (1998). Review: Neoclassical Realism and Theories of Foreign Policy. 137.

⁴⁰ Snyder. (2002), 151-152; Mearsheimer. (2001), 31; Waltz. (1979), 126.

The end of the Cold War in the early 1990s witnessed the rapid rise of other perspectives on security, including constructivism which considers the historical, social and cultural influences on international relations. However, realism has continued to dominate the contemporary security debate.⁴¹ There remain, however, differing perspectives about the utility of realism as a lens through which to understand Asian regional dynamics. Neo-classical realists Aaron Friedberg, Paul Bracken and Thomas Christensen, are among those who argue that Asian “states [are] locked in a competition for power and behaving according to balance-of-power logic.”⁴² Friedberg argues that “the prospect of a multipolar system emerging in Asia cannot be an especially comforting one” and predicts that “twenty-first century Asia may come to resemble nineteenth century Europe. Asia, like Europe, will probably contain a group of big powers (including China, India, Russia, and Japan, with the United States playing a role from across the Pacific) as well as several somewhat less powerful, but still potentially quite capable actors.”⁴³ Capie and Evans also acknowledge that “self-help and bilateral security arrangements remain the cornerstones of regional security practice” in the region.⁴⁴

In contrast, David Shambaugh argues that “realist theory seems particularly incapable of explaining such a complex and dynamic [Asian] environment, and it thus tends to offer oversimplified (and sometimes dangerous) policy prescriptions.”⁴⁵ Amitav Acharya, as Khoo notes, claims that “realist perspectives on Asian security” demonstrate an “exaggerated, almost vulgarized faith in the balance of power.”⁴⁶ In response, Nicholas Khoo argues that the actual policy of Asian states is deeply realist in orientation and that “what the region now needs—as a matter of urgency—is a return to realist-informed policy analysis. More precisely, we should return to the first principle of realism, namely that a great power can only be balanced by a great power.”⁴⁷

⁴¹ Sorpong Peou. (2002-03). Withering Realism? A Review of Recent Security Studies on the Asia-Pacific Region. *Pacific Affairs*, 75(4), 575-584

⁴² Ibid., 576.

⁴³ J. Richard Ellings and Aaron L. Friedberg. (2001). *Strategic Asia: Power and Purpose, 2001-02*. Seattle, Washington: The National Bureau of Asian Research, 11.

⁴⁴ David Capie and Paul Evans. (2002). *The Asia Pacific Security Lexicon*. Pasir Panjang: Singapore, Institute of Southeast Asian Studies, 7, cited in Peou, Withering Realism, 580 .

⁴⁵ David Shambaugh. (2004-05). China Engages Asia: Reshaping the Regional Order. *International Security*. (Winter 2004-05), 99.

⁴⁶ Amitav Acharya. (1999). Realism, Institutionalism, and the Asian Economic Crisis. *Contemporary Southeast Asia*. April, 9.

⁴⁷ Nicholas Khoo. (2014). Is Realism Dead? Academic Myths and Asia’s International Politics. *Orbis*. Spring, 196.

Balance of Power

Balance of power theory, which seeks to explain alliance formation, is one of the most fundamental enduring concepts of international relations⁴⁸ and is a core tenet of both classical realism and neo-realism.⁴⁹ Alliance and the balance of power—two focal concepts of alignment politics—are among the most widely studied and frequently revisited subjects in the scholarly literature on inter-state affairs.⁵⁰

While there has been some criticism over the lack of a definition and scholars disagree on the precise meaning of the term,⁵¹ balance of power theory became the cornerstone of international politics throughout the 18th and 19th centuries.⁵² Kenneth Waltz, the founder of neorealism, argued that “balance-of-power politics prevail wherever two, and only two requirements are met: that the order is anarchic and that it be populated by units wishing to survive.”⁵³ Mearsheimer refers to this as the Waltzian baseline: that Waltz deduces that states will care greatly about their position in the balance of power⁵⁴ and will, therefore, balance against power. Balance of power theory is inherently structural in nature: it connects state behaviour to the distribution of power among major actors in the international system and predicts that actors will balance directly against stronger states because power differentials represent an inherent security threat to the weaker side.”⁵⁵ The theory posits that states will check dangerous concentrations of power by building up their capabilities (‘internal balancing’) or aggregating their capabilities with other states in alliances (‘external balancing’).⁵⁶

⁴⁸ T.V Paul, James J.Writz & Micheal Fortman. (2004). *Balance of power, theory and practice in twenty first century*. California: Stanford University Press.

⁴⁹ Claude (1962); Waltz (1979); Mearsheimer (2001).

⁵⁰ See Arnold Wolfers. (1959). (Ed.). *Alliance Policy in the Cold War*. Baltimore, MD: The Johns Hopkins Press; Stephen M. Walt. (1987). *The Origins of Alliances*. Ithaca, NY : Cornell University Press; Inis L. Claude, Jr. (1989). The balance of power revisited. *Review of International Studies*, 15(2), 77–85; Glenn H. Snyder. (1997). *Alliance Politics*. Ithaca, NY : Cornell University Press; Paul, Wirtz & Fortmann (2004). *Balance of Power: Theory and Practice in the 21st Century*; Cheng-Chwee Kuik. (2016). How Do Weaker States Hedge? Unpacking ASEAN states’ alignment behavior towards China. *Journal of Contemporary China*, 25(100), 500.

⁵¹ Inis L. Claude. (1962). *Power and International Relations*. New York: Random House; Paul (2004); Michael Sheehan. (1996). *Balance of Power: History and Theory*. New York: Ithaca..

⁵² Sheehan, *Balance of Power*..

⁵³ Kenneth N. Waltz. (1979). *Theory of International Politics*. Reading, MA: Addison-Wesley.

⁵⁴ John J. Mearsheimer. (2009). Reckless States and Realism. *International Relations*, 23(2), 243.

⁵⁵ Brock Tessman & Wojtek Wolfe. (2011). Great Powers and Strategic Hedging: The Case of Chinese Energy Security Strategy. *International Studies Review*, 13(2), June, 214-240.

⁵⁶ Wohlforth. (2010). Realism and Security Studies, 15.

Paul, Wirtz, and Fortman's volume on balance of power theory and practice in the 21st century seeks to re-evaluate balance of power theories given recent changes in world politics.⁵⁷ It is argued that skeptics and critics of realism believe that balance of power theory has become irrelevant in the face of growing global social forces, while proponents—in particular, realists—contend that balance of power dynamics still operate in world politics in varying forms and intensities.⁵⁸ Proponents suggest that traditional balancing through alliance formation and military build-up is significant, but it seems able to capture only one, albeit the most significant, form of balance of power behaviour.⁵⁹ Balance of power theory is often drawn upon in the context of the distribution of power to Asia and within in Asia – most notably in relation to the rise of China and the role of the United States,⁶⁰ however, increasingly in reference to India and Japan and other regional actors.⁶¹

Balancing and Bandwagoning

Balancing and bandwagoning are two distinct hypotheses under the umbrella of balance of power theory about how states will select their alliance partners by whether states ally against or with the principal external threat.⁶² As Walt writes:

“When confronted by a significant external threat, states may either balance or bandwagon. Balancing is defined as allying with others against the prevailing threat; bandwagoning refers to the alignment with the source of danger.”⁶³

Balancing theorises that states, especially small ones, will perceive rising powers as threats that must be checked by forming alliances (external balancing) and military modernization

⁵⁷ Paul, Wirtz, & Fortman. (2004). *Balance of power, theory and practice in twenty first century*.

⁵⁸ Ibid., Introduction.

⁵⁹ Ibid.

⁶⁰ Robert R. Ross. (2006). Balance of Power Politics and the Rise of China: Accommodation and Balancing in East Asia. *Journal of Security Studies*, 15(3); Derek McDougall. (2012). Responses to 'Rising China' in the East Asian Region: soft balancing with accommodation. *Journal of Contemporary China*, 21(73); Rajan Menon. (2013). Asia's Looming Power Shift. *The National Interest*, September-October. Retrieved from <http://nationalinterest.org/article/asias-looming-power-shift-8955?page=show>.

⁶¹ Manjeet S. Pardesi. (2015). Is India a Great Power: Understanding Great Power Status in Contemporary International Relations. *Asian Security* 11(1), 1-30; Manjeet S. Pardesi (2016). Is India a South Asian or an Asian Power? In Knut A. Jacobsen (Ed.) *Routledge Handbook on Contemporary India*. London: Routledge; Xenia Wickett, John Nilsson-Wright & Tim Summers. (2015). The Asia-Pacific Power Balance. Beyond the US-China Narrative. Research Paper, Chatham House, The Royal Institute of International Affairs, September.

⁶² Stephen M. Walt. (1987). Alliances: Balancing and Bandwagoning. *The Origins of Alliances*. Ithaca: Cornell University Press., 110.

⁶³ Ibid.

(internal balancing).⁶⁴ In contrast, bandwagoning posits that states may accept a subordinate role under the rising power and leverage on that power as a source of strength for them to advance their interests.⁶⁵

The origins of balancing and bandwagoning can be traced back to Waltz and other scholars in the 1980s and 1990s when the discourse of alignment decisions shifted away from the focus on alliance (and the opposite choices of non-alignment and neutrality) toward the ‘balancing versus bandwagoning’ debate.⁶⁶ Balance of power theory has traditionally focused on balancing which is defined as allying with others against the prevailing threat, while states that have bandwagoned have aligned with the threat.⁶⁷ What tactic a state uses, Mearsheimer argues, depends on how the polarity of a system impacts on the state.⁶⁸ States can engage in both internal balancing (increasing economic and military strengths and capabilities) and external balancing (increasing their security through alliances).⁶⁹

Balancing is also divided into hard or soft balancing. *Hard balancing* is a traditional realist or neorealist strategy often exhibited by states engaged in intense interstate rivalry whereby states adopt strategies to build and update their military capabilities, as well as create and maintain formal alliances and counter-alliances, to match the capabilities of their key opponents.⁷⁰ *Soft balancing* involves tacit balancing short of formal alliances and occurs when states develop limited security understandings with one another to balance a potentially threatening state or a rising power.⁷¹ Soft balancing is often based on a limited arms buildup, ad hoc cooperative exercises, or collaboration in regional or international institutions; these policies may be converted to open, hard-balancing strategies if and when security competition becomes intense and the powerful state becomes threatening.⁷²

⁶⁴ Kenneth Waltz. (1979). *Theory of International Politics*. AddisonWesley, MA, 5-12.

⁶⁵ Randall Schweller. (1994). Bandwagoning for profit: Bringing the revisionist state Back in. *International Security*, 72-107.

⁶⁶ Cheng-Chwee Kuik. (2016). How Do Weaker States Hedge? Unpacking ASEAN states’ alignment behavior towards China. *Journal of Contemporary China*, 25(100), 500. See also Lawrence Martin. (Ed.) (1962), *Neutralism and Nonalignment: The New States in World Affairs*. Westport, CT: Greenwood, for the Washington Center of Foreign Policy Research; Peter Lyon. (1968). Neutrality, neutralism, non-alignment. *International Relations* 3(6), 444–450.

⁶⁷ Stephen M Walt. (1987). *The Origins of Alliances*. New York: Cornell University Press, 17.

⁶⁸ John Mearsheimer. (2010). Structural Realism. In Tim Dunne, Milja Kurki & Steve Smith (Eds.) *International Relations Theories*. New York: Oxford University Press, 85.

⁶⁹ Waltz, *Theory of International Politics*, p.118.

⁷⁰ Paul, Wirtz, & Fortmann, *Balance of Power: Theory and Practice in the 21st Century*.

⁷¹ Ibid.

⁷² Ibid.

Bandwagoning is a strategy employed by small or weak states who align with a rising or dominant power in contrast to balancing which is a rejection of it.⁷³ Waltz's contribution of bandwagoning to balance of power theory demonstrated states had an alternative choice to balancing.⁷⁴ States bandwagon for two reasons: First, to align with the larger power to avoid being attacked by it, and, second, to share in the spoils of victory.⁷⁵ Not surprisingly, the balance and bandwagon scholarship has been increasingly challenged by a growing literature on the 'alternative' alignment choices that emerged throughout the post-Cold War era including engagement, binding, buck-passing, soft balancing and, more recently, hedging and limited-alignment.⁷⁶

How small and medium-sized states – also referred to as secondary or second tier states – respond to a rising power is a central question in contemporary International Relations (IR) and, as Kuik suggests, the conventional response to this question amongst mainstream IR scholars for many decades has been that states are likely to either *balance against* or *bandwagon with* that power.⁷⁷ Roy suggests that the policy choices of small and medium-sized states can be broadly defined as adhering to four strategies: hedging; engagement; balancing; and bandwagoning.⁷⁸ As a policy choice for small and medium-sized states facing a potential regional hegemon, hedging means keeping open more than one strategic option against the possibility of a future security threat.⁷⁹ Kuik, drawing on the definitions of theorists Kenneth Waltz, Stephen Walt and Randall Schweller, argues that the “balancing” school describes how states — especially the smaller ones — respond to the perception of a rising power as a growing threat by developing strategies including alliance formation (external balancing) and armament building (internal balancing).⁸⁰

⁷³ See Cladi & Locatelli, (2012); Goh, (2005); D.C. Kang, (2007); Kuik, (2008); Mearsheimer, (2001).

⁷⁴ Waltz, *Theory of International Politics*, 126.

⁷⁵ Cladi & Locatelli, (2012); Goh, (2005); Kuik, (2008); Mearsheimer, (2001); Walt, (1987).

⁷⁶ Kuik. How Do Weaker States Hedge? 500-501. See also Alastair Iain Johnston and Robert Ross. (Eds.) (1999). *Engaging China: The Management of an Emerging Power*. New York: Routledge; John Mearsheimer. (2001). *The Tragedy of Great Power Politics*. New York: W.W. Norton; Robert A. Pape. (2005). Soft balancing against the United States. *International Security* 30(1), 7–45; Evan S. Medeiros. (2005). Strategic hedging and the future of Asia–Pacific stability. *The Washington Quarterly* 29(1), 145–167; John D. Ciorciari. (2010). *The Limits of Alignment*. Washington, DC: Georgetown University Press; T. J. Pempel. (2010). Soft balancing, hedging, and institutional Darwinism. *Journal of East Asian Studies* 10, 209–238.

⁷⁷ Kuik. The Essence of Hedging. 159-185.

⁷⁸ Denny Roy. (2005). Southeast Asia and China: Balancing or Bandwagoning? *Contemporary Southeast Asia*. 27(2), August, 306.

⁷⁹ Ibid.

⁸⁰ Waltz, *Theory of International Politics*. Cited in Kuik. The Essence of Hedging, 160.

This is particularly the case, Kuik suggests, “if the rising power’s aggregate capability is accompanied by geographical proximity, offensive capability, and offensive intention.”⁸¹ The “bandwagoning” school, by contrast, proposes that “states may choose to crouch under — rather than contain against — a fast emerging power” and accept a subordinate role to the dominant power in exchange for profit.⁸² Moreover, hedging may be the only viable option for smaller states as their strategic relations with the great powers are focused on mitigating their respective vulnerabilities and dependencies.⁸³

Hedging

This chapter now turns to the theoretical focus of this thesis: the under-studied phenomena of hedging.⁸⁴ Evan Medeiros observed in 2005 that hedging is ‘highly underdeveloped both in the international relations theory and the security studies.’⁸⁵ As Kuik notes in 2016, this observation remains true.⁸⁶ Hedging’s relative obscurity within IR theory perhaps explains the disagreement over the origins of hedging and the lack of a commonly accepted definition. Baogang He suggests that hedging is thought to be rooted in containment⁸⁷ – linking it to the United States’ policy of containment towards the Soviet Union during the Cold War.

In contrast Kuik suggests that the concept of hedging was borrowed from finance and entered the IR lexicon much later, in the 1990s.⁸⁸ The link between hedging and containment is contested with a number of scholars suggesting that hedging differs significantly from containment and is increasingly regarded as a distinct strategy⁸⁹ distinguishable from balancing, containment, bandwagoning, buckpassing, and other more straightforward strategic choices.⁹⁰

⁸¹ Stephen Walt. (1985). Alliance Formation and the Balance of World Power. *International Security* 9(4) Spring, 3–43, cited in Kuik, The Essence of Hedging, 160.

⁸² Randall Schweller. (1994). Bandwagoning for Profit: Bringing the Revisionist State Back In. *International Security* 19(1) Summer, 72–107. Cited in Kuik. The Essence of Hedging, 160.

⁸³ Alice Ba. (2005). Southeast Asia and China. In Evelyn Goh. (Ed.). *Between and Between: Southeast Asian Strategic Relations with the US and China*. Singapore: Institute of Defence and Strategic Studies, S. Rajaratnam School of International Studies, 93–108.

⁸⁴ Kuik. How Do Weaker States Hedge? 502.

⁸⁵ Ibid., 502–503.

⁸⁶ Ibid., 503.

⁸⁷ Baogang He. (2012). Politics of Accommodation of the Rise of China: the case of Australia. *Journal of Contemporary China*, 21(3), 53–70.

⁸⁸ Kuik. How Do Weaker States Hedge? 502.

⁸⁹ Evelyn Goh. ‘Understanding Hedging in Asia-Pacific security,’ PacNet 43, August 31, 2006; He, (2012); Mukherje, (2009).

⁹⁰ Goh. (2006). Understanding Hedging in Asia-Pacific security.

Within the IR literature, hedging can be found in two bodies of IR literature: on big powers' post-Cold War strategies and on secondary states' alignment behaviour.⁹¹ Increasingly, hedging is used to describe the behaviour of secondary or second tier Asian states in relation to the rise of China.⁹² This thesis is concerned with hedging in the context of secondary states' behaviour in response to the rise of China. Hedging has been proposed as a third way whereby states pursue engagement and integration while continuing to emphasise realist-style security cooperation and armament.⁹³ Tessman and Wolfe argue that hedging is a structural theory of interstate competition by extending the logic of traditional balance of power theory in order to account for a wider range of foreign policy behaviour, while maintaining a strong emphasis on structural incentives that critics found lacking in the soft balancing approach.⁹⁴

Hedging is defined by Kuik as an insurance-seeking behaviour under high-stakes and high-uncertainty situations, where a sovereign actor pursues a bundle of *opposite* and deliberately ambiguous policies vis-à-vis competing powers to prepare a fall back position should circumstances change.⁹⁵ It is achieved through the leveraging of one or more of the following strategies or a combination of all three: security, economic and diplomatic.⁹⁶ Robert Manning and Przystup, Sutter and Park, for example, emphasise the security focus of hedging including the build-up of military capabilities, arms sales, and security alliances.⁹⁷ Roy and Park regard hedging as an alliance building strategy which can include low-intensity

⁹¹ Kuik. How Do Weaker States Hedge? 502; Chien-peng Chung. (2004). Southeast Asia–China relations: dialectics of 'hedging' and "counter-hedging. *Southeast Asian Affairs*. Singapore: ISEAS, 35; Brock Tessman. (2012). System structure and state strategy: adding hedging to the menu. *Security Studies* 21(2), 192–231.

⁹² Goh, Meeting the China challenge; Rosemary Foot. (2006). Chinese strategies in a US-hegemonic global order: accommodating and hedging. *International Affairs* 82(1), 77–94; Kuik. The essence of hedging.

⁹³ Randall Schweller. (1999). Managing the Rise of Great Powers: History and Theory. In Alastair Ian Johnston & Robert S. Ross. (Eds.). *Engaging China*. New York: Routledge, 1-32.

⁹⁴ Brock Tessman & Wojtek Wolfe. (2011). Great Powers and Strategic Hedging: The Case of Chinese Energy Security Strategy. *International Studies Review*, 13(2) June, 214-240.

⁹⁵ Kuik. How Do Weaker States Hedge?, 504.

⁹⁶ Chung. (2004). Southeast Asia–China relations; J.H. Chung. (2004). East Asia Responds to the Rise of China: Patterns and Variations. *Pacific Affairs* 82(4), 657-675; Foot. (2006). Chinese strategies in a US-hegemonic global order: accommodating and hedging, 77-94; Evelyn Goh. (2005). *Meeting the China Challenge: The U.S. in Southeast Asian Regional Security Strategies*. Policy Studies Monograph, Washington: D.C.: East-West Center; Goh, 'Understanding hedging in Asia-Pacific security'; Evelyn Goh. (2008). Great Powers and Hierarchical Order in Southeast Asia: Analyzing Regional Security Strategies. *International Security*, 32(3), 113-157; Kuik, The Essence of Hedging; J.J. Park, (2011). The US-led alliances in the Asia Pacific: hedge against potential threats or an undesirable multilateral security order. *Pacific Review*, 24(2), 137-158.

⁹⁷ R. Manning & J. Przystup. (1999). Asia's Transition Diplomacy: Hedging Against Futureshock. *Survival*, 41(3), 43-68.

balancing and in which multilateral institutions have a role to play.⁹⁸ In contrast, Evelyn Goh, Rosemary Foot, Kuik, and others regard hedging as a combination of strategies (even if these strategies are considered distinct, such as security and economics), which seeks to balance (including through indirect balancing), contain and engage.⁹⁹ This group also values the role of alliances but there is some divergence between those that regard hedging as an avoidance strategy¹⁰⁰ and those that regard it as an active strategy.¹⁰¹

Definitions of hedging as a concept remain, however, imprecise. Amongst the growing body of scholars analysing hedging – including those interested in hedging in the Asia Pacific – there are a number of definitions offered. Goh, whose definition – or variations of it - has become one of the most commonly used, suggests that hedging strategies encompass both balancing or containment and that hedging is “a set of strategies aimed at avoiding (or planning for contingencies in) a situation in which states cannot decide upon more straightforward alternatives such as balancing, bandwagoning, or neutrality.”¹⁰² States instead cultivate a middle position that forestalls or avoids having to choose one side [or one straightforward policy stance] at the obvious expense of another.¹⁰³

Hedging is not just about avoidance, however, as Goh argues that engagement policies are pursued at the same time as indirect balancing policies which are designed to counter the target state's ability to constrain the subject state, either through non-specific deterrence or defense strengthening, or through building diplomatic, economic, and political relationships with third states or organizations that can be converted into leverage against the target state when relations with it deteriorate.¹⁰⁴ Goh makes two further contributions to understanding hedging: (1) that hedging is an actual strategy; and (2) that hedging is a strategy for small states, not large or powerful ones.¹⁰⁵

⁹⁸ Roy, *Southeast Asia and China: Balancing or Bandwagoning?*.

⁹⁹ Goh, *Meeting the China Challenge*; Foot, Chinese strategies in a US-hegemonic global order; Kuik, *The Essence of Hedging*.

¹⁰⁰ Goh, *Meeting the China Challenge*; Understanding ‘hedging’ in the Asia Pacific.

¹⁰¹ Kuik, *The Essence of Hedging*.

¹⁰² Goh, *Understanding Hedging in Asia-Pacific security*.

¹⁰³ *Ibid.*

¹⁰⁴ *Ibid.*

¹⁰⁵ Goh, *Meeting the China Challenge*; Understanding ‘hedging’ in Asia-Pacific Security; Great Powers and Hierarchical Order in Southeast Asia.

Cheng-Chwee Kuik is another key contributor to the field of hedging. Kuik views hedging one of many forms of alignment behaviour distinguishable from other alignment choices (for example, pure balancing and pure bandwagoning) because it is ambiguous and contradictory – at once both competitive and cooperative.¹⁰⁶ This is what Kuik refers to as the *mixed and opposite strategy*. Kuik therefore defines hedging as a behaviour in which a country seeks to offset risks by pursuing multiple policy options that are intended to produce mutually counteracting effects, under the situation of high uncertainties and high stakes.¹⁰⁷

Like others, Kuik places hedging on the continuum between balancing and bandwagoning, however, Kuik's hedging model takes this further by creating a two-pronged approach the concurrent adoption of 'returns-maximizing' and 'risk-contingency' options.¹⁰⁸ Within each option, Kuik puts forward a series of micro choices for states that incorporate security, economics, and diplomacy and can be treated as a state's overall strategy towards another state. In doing so, Kuik offers a different conceptualisation of the term hedging as an alternative alignment behaviour.¹⁰⁹ Kuik's model offers a clearer conceptual parameter to measure and compare the hedging behaviour of states across time.¹¹⁰

Kuik presents two policy options: risk-contingency options and return-maximising options. Risk-contingency options consist of *economic-diversification* a part of the broader economic pragmatism seeking to diversify trade and investment links to avoid dependency or "economic hedge"); *indirect balancing* a policy aimed to minimize security risks by using military means of forging defense partnerships and upgrading one's own military, but without directly targeting at a specific country or "military hedge"); and *dominance denial* (a policy devised to minimize geopolitical risks of facing a preponderant hegemon by using non-military means to cultivate a balance of influence among the powers or "political hedge").¹¹¹ These three options reflect the degree of power rejection.¹¹²

¹⁰⁶ Kuik, How Do Weaker States Hedge, 502.

¹⁰⁷ Kuik, The Essence of Hedging, 163.

¹⁰⁸ Kuik, The Essence of Hedging; How Do Weaker States Hedge, 504.

¹⁰⁹ Kuik, How Do Weaker States Hedge, 504.

¹¹⁰ Ibid., 505.

¹¹¹ Kuik, The Essence of Hedging, 166; Kuik, How Do Weaker States Hedge, 505.

¹¹² Cheng-Chwee Kuik & Gilbert Rozman. (2015). Introduction to Part 1: Light of Heavy Hedging: Positioning Between China and the United States. In Gilbert Rozman, *Joint US-Korea Academic Studies*, 25, 3. Retrieved from <http://www.keia.org/sites/default/files/publications/introduction - light or heavy hedging.pdf>.

Return-maximising options consist of *economic pragmatism* (a policy sought to pragmatically maximize economic returns from a power also “economic hedge”); *binding-engagement* (a policy designed to maximize diplomatic benefits by engaging and binding a big power in various institutionalized bilateral and multilateral platforms, for the functions of creating channels of communication and increasing the status-quo tendency of the power’s behavior); and *limited bandwagoning* (a policy intended to maximize political benefits by forging a partnership with a big power through selective deference or selective collaboration on key external issues, *but without* accepting a subordinate position.)¹¹³ These three options reflect the degree of power acceptance.¹¹⁴

Importantly, Kuik argues that hedging is a *broad* strategic orientation which consists of a bundle of policies, and not a single policy or strategy.¹¹⁵ Accordingly, hedging must entail three policy elements: (a) an insistence on not taking sides among competing powers (or, in the case of big powers, not fully aligning ones’ own interest and support with another power); (b) the practice of adopting opposite and counteracting measures; and (c) the use of the opposite acts as instruments to pursue the goals of preserving gains *while* cultivating a ‘fall back’ position.¹¹⁶ Kuik suggests that abandoning *any* of these elements (e.g. from not taking sides to openly tilting towards a power against another, like in the case of Aquino’s Philippines and Abe’s Japan) would signify a shift from hedging to some other strategy (e.g. balancing or bandwagoning).¹¹⁷

Hedging in Southeast Asia in Response to the Rise of China

International relations scholars have sought to interpret and characterise Southeast Asia’s mixed approaches to regional security after the end of the Cold War and with the rise of China as either an example of realist balancing or liberal institutionalism. A point of tension exists between those scholars who primarily disagree over whether Southeast Asia is balancing against China or accommodating, aligning, or even bandwagoning with it¹¹⁸ and those scholars who argue that most secondary states in Asia are not pursuing the traditional

¹¹³ Kuik, *The Essence of Hedging*, 166; Kuik, *How Do Weaker States Hedge*, 505.

¹¹⁴ Kuik & Rozman, *Introduction to Part 1: Light of Heavy Hedging: Positioning Between China and the United States*, 3.

¹¹⁵ Kuik, *How Do Weaker States Hedge*, 504.

¹¹⁶ *Ibid.*

¹¹⁷ Kuik, *How Do Weaker States Hedge*, 504.

¹¹⁸ Goh, *Understanding Hedging in Asia-Pacific security*.

dichotomous strategies of balancing or bandwagoning¹¹⁹ but seeking an alternative or middle strategy. What all scholars agree on is that, as Goh puts it, the political and security policies of key Southeast Asian states vis-à-vis great powers (namely China and the US) do not fall neatly into the categories of balancing or bandwagoning but could be more accurately categorised as “hedging” or not overtly choosing sides despite some variation in strategic preference and behaviour.¹²⁰

Moreover, as Kuik argues, all ASEAN states have pursued the two-pronged *mixed and opposite strategy* towards the re-emerging China.¹²¹ Furthermore, ASEAN countries have all demonstrated a growing desire to develop closer ties with the neighbouring giant via bilateral diplomacy and multilateral forums since the 1990s, none of them have shown a clear sign of jumping on China’s bandwagon in the strict sense of the term.¹²² Chung suggests that ASEAN states are engaging in a form of pragmatic hedging behaviour which is principally motivated by the need to optimise economic benefits and minimise security risks in response to an environment of uncertainty, primarily driven by the rise of China as an economic and military power.¹²³

In most cases, engagement of China, for example, has remained the main policy and indirect balancing through sustaining US forward deployment and military deterrence in the region is “the hedge”.¹²⁴ Goh argues that any analysis of hedging must include an examination of which state(s) and what outcome(s) a country is hedging against, as often there are multiple targets and aims of hedging.¹²⁵ Recognizing the necessary complexity of hedging strategies means that it becomes essential to ask which part of a combination of policies is in fact “the hedge.”¹²⁶ Hedging patterns amongst Southeast Asian states are complex, nuanced and, importantly, increasingly, fluid. Chung’s observation in 2004 that Southeast Asia hopes to maximize economic opportunities with China but is uncertain as to the region’s future foreign and security policy orientation¹²⁷ is equally valid today. In a potentially post-US pivot Asia

¹¹⁹ Darren J. Lim & Zack Cooper. (2015). Reassessing Hedging: The Logic of Alignment in East Asia. *Security Studies* 24(4), 696-727. See also Kuik, The Essence of Hedging

¹²⁰ Goh, Understanding Hedging in Asia-Pacific security.

¹²¹ Kuik, How Do Weaker States Hedge, 503.

¹²² Ibid.

¹²³ Chung, Southeast Asia–China Relations, 36; Goh, Understanding Hedging in Asia-Pacific Security.

¹²⁴ Goh, Understanding Hedging in Asia-Pacific security.

¹²⁵ Ibid.

¹²⁶ Ibid.

¹²⁷ Chung, Southeast Asia-China Relations, 35.

Pacific, the defence and regional institutional strategies of Southeast Asian states are aimed as much at hedging against the possibility of a U.S. drawdown in the region as possible Chinese aggression or domination.¹²⁸ Chung argues that Southeast Asian countries have adopted a pragmatic form of “hedging” or “fence-straddling” behaviour of combining economic engagement with strategic hesitation when it comes to dealing with China as a rising power.¹²⁹ Arguably, however, it cannot be said that all Southeast Asian states are displaying less strategic hesitation and more overt security engagement. Cambodia and Laos are two examples of overt bandwagoning with China.

Roy argues that Southeast Asian states – with the exception of Cambodia and Laos - are far from passive in its response to China’s rise and have employed two principal strategies: engagement and hedging.¹³⁰ Roy suggests that hedging has included a modest level of defence cooperation with the United States, which may be called low-intensity balancing against China.¹³¹ Roy suggests that the region bandwagons with China only to the extent that it desires trade with China and seeks to avoid the costs of alienating the region's rising great power.¹³²

David Kang presents a counter argument, suggesting that China’s rise has not prompted fear or alarm among its Asian neighbours and consequently, regional states have not acted in accordance with balance of power politics, but instead they have largely accommodated, rather than balanced against, Chinese power.¹³³ Kang further suggests that a region-wide understanding that China is simply resuming its traditional role as the “dominant state in in East Asia,” has accompanied China’s rise.¹³⁴ This, Kang argues, directly stems from the long history of the Sinocentric tributary system in which “the dominant state is essentially benign, the smaller state would prefer an accommodating stance that allows it to benefit from warm relations with its neighbor”.¹³⁵

¹²⁸ Ibid.

¹²⁹ Ibid., 37.

¹³⁰ Roy, *Southeast Asia and China: Balancing or Bandwagoning?*, 306.

¹³¹ Ibid., 305.

¹³² Ibid.

¹³³ David C. Kang. (2007). *China Rising: Power, Peace and Order in East Asia*. New York: Columbia University Press.

¹³⁴ Ibid., 4-10.

¹³⁵ Ibid., 19.

In modern times, this translates to Asian states – with the possible exceptions of Japan and Taiwan – viewing their economic inter-dependence with China as a positive factor that will enable the rise of China to be mutually beneficial.¹³⁶ But can five centuries of trade and tribute¹³⁷ adequately explain the behaviour of small states to a rising China in the 21st century? One way of answering this question is to examine how Asian populations are responding to China's impact on their country and perceptions of the China-United States strategic rivalry.

A 2014 study by Yun-han Chu, Liu Kang and Min-hua Huang which draws on Asian Barometer Survey data between 2010 and 2012 suggests that Northeast and Southeast Asian states differ in their likelihood of naming China or the United States as the most influential player in Asia, with North East Asian states assigning that role to China, and South Asian states assigning it to the United States.¹³⁸ The researchers attribute this result to the geographic and cultural proximity of the regions to China, which is positively correlated with their degree of political and social interaction.¹³⁹ The authors find that the rise of China been largely recognised and welcomed by East Asians, despite some apprehension about China's strategic intentions to its neighboring countries. Mongolia, Japan, Taiwan and South Korea are stand out exceptions.¹⁴⁰ As the graph below shows, in 2012 there is some divergent albeit largely positive views held of China's impact on the region. In the Philippines, for example, 73% of survey respondents viewed China's impact on the region favourably, compared with 64% in Indonesia.

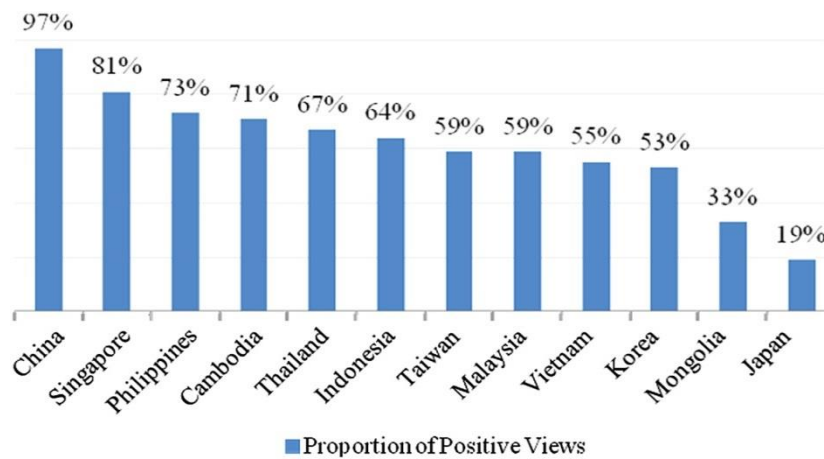
¹³⁶ Steve Tsang. (2008). *China Rising: Peace, Power and Order in East Asia*. Times Higher Education. Book review. February 28. Retrieved from <https://www.timeshighereducation.com/books/china-rising-peace-power-and-order-in-east-asia/400748.article>.

¹³⁷ David C. Kang. (2010). *East Asia before the West: Five centuries of trade and tribute*. New York: Columbia University Press, 180.

¹³⁸ Yun-han Chu, Liu Kang & Min-hua Huang. (2015). How East Asians View the Rise of China. *Journal of Contemporary China*, 24(93), 398-420.

¹³⁹ Jeeyoon Ashley Ahn. (2016). How China's Neighbors Are Reacting to Its Rise as a World Power. *Chicago Policy Review*, July 20.

¹⁴⁰ Yun-han Chu, Liu Kang & Min-hua Huang, How East Asians View the Rise of China, 398.



Source: Asian Barometer Survey, Wave III, (2010-2012)

A secondary question examined Asians' positive perceptions of China's influence in their own countries with the Philippines responding most favourably with 82% and Indonesia at 76%.¹⁴¹ Because the study took place during a period of regional stability and before the South China Sea and East China Sea tensions elevated in 2012, the authors argue the study provides a useful base-line. In 2012 tensions escalated significantly as a consequence of a series of incidents: in March China detained 21 Vietnamese fishermen in the Paracel Islands claiming they had been fishing illegally in Chinese waters; in April the Philippines Navy discovered the Chinese fishing vessels off Scarborough Shoal illegally harvesting coral and other marine life; the United States and the Philippines held a joint military exercise in response; in June Vietnam passed a maritime law claiming sovereignty over the Spratley and Paracel Islands and China raised the administrative status of the islands to prefecture level; in September Philippine president Benigno Aquino renamed the Philippine's western maritime territory the West Philippine Sea.

It is important therefore to compare the above baseline study with more recent statistics that reflect the escalation of tensions in the South China Sea from 2012 onwards. The 2014 Global Attitudes Survey by the Pew Research Center reveals a significant shift in perspectives on China and the threat that China poses.

¹⁴¹ Ibid., 406.

How Asians Rate China, India, Pakistan, Japan and the U.S.

Favorable views of ...

<i>Views in:</i>	China	India	Pakistan	Japan	U.S.
	%	%	%	%	%
Bangladesh	77	70	50	71	76
China	–	30	30	8	50
India	31	–	15	43	55
Indonesia	66	62	52	77	59
Japan	7	63	19	–	66
Malaysia	74	46	43	75	51
Pakistan	78	13	–	51	14
Philippines	38	50	33	80	92
South Korea	56	59	30	22	82
Thailand	72	45	27	81	73
Vietnam	16	67	36	77	76
U.S.	35	55	18	70	–

Source: Spring 2014 Global Attitudes survey. Q15a, b, h-j.

PEW RESEARCH CENTER

Source: Spring 2014 Global Attitudes Survey, Pew Research Center.

Respondents were asked to rate China and the United States (as well as India, Pakistan, and Japan) and the data is revealing. 66% of Indonesian respondents viewed China favourably compared to 55% who viewed the United States favourably; 38% of Philippine respondents viewed China favourably compared to 92% who viewed the US favourably.

Taking into account differences in methodology, the statistics do reveal a significant drop in favourability rating towards China. When asked which country is the greatest ally or threat, 58% of Philipinos saw China as a threat and 83% regarded the United States as an ally; 25% of Indonesians saw China as the threat and 28% the United States as an ally.¹⁴² In the face of heightened tensions over the territorial disputes in the South China Sea and corresponding concerns over the PLA's military modernisation, it is clear that Beijing's assurances that its intentions are benign and its rise peaceful have not been convincing.¹⁴³ This was further revealed in the Global Attitudes Survey question regarding concerns that territorial disputes with China could lead to military conflict. 93% of Philippino respondents were concerned;

¹⁴² Pew Research Center, *Global Attitudes Survey, Chapter 4: How Asians View Each Other*, July 14, 2014. Retrieved from <http://www.pewglobal.org/2014/07/14/chapter-4-how-asians-view-each-other/>.

¹⁴³ Zheng Bijian. (2005). China's "peaceful rise" to great-power status. *Foreign Affairs* 84(5), 18–24; Elizabeth Economy. (2005). China's rise in Southeast Asia: implications for the United States. *Journal of Contemporary China* 14(44), 409–425.

and 52% of Indonesians.¹⁴⁴ This data can be explained by geographic proximity and the fact that the Philippines is a claimant state.

What this data reveals is that public perceptions in the Philippines and Indonesia towards China have shifted significantly in a relatively short period of time between 2012 and 2014. Using Kuik's model, the following two chapters will evaluate whether public perceptions are reflected in whether the governments of the Philippines and Indonesia have engaged in hedging tactics towards China.

Conclusion

The concept of hedging has increasing utility and significance within the field of international relations however the definition has for the large part remained conceptually broad. Much of the literature uses hedging in the context of the rise of China. Hedging is, therefore, a conceptual tool by which to interpret the strategic foreign policy choices made by second tier states in Asia. The overarching consensus is that Southeast Asian states are hedging towards China however there is a clear need to critically examine these assumptions.

But as this chapter has demonstrated, the scholarship on hedging is evolving with attempts by leading proponents to develop clearer conceptual definitions and parameters for the strategy. Kuik's model is the leading example of this and will form the basis for analysing how the two following case studies – Indonesia and the Philippines- are responding and aligning with rising China and whether their behaviour can be considered hedging.

Importantly, Kuik recognises that hedging is a *broad* strategic orientation which consists of a bundle of policies, and not a single policy or strategy.¹⁴⁵ He offers a range of indicators by which to consider whether a state is hedging: from the risk contingency options of economic diversification, indirect balancing and dominance denial to the returns maximising options of economic pragmatism, binding engagement and limited bandwagoning. In that respect, Kuik seeks to advance a far more comprehensive and nuanced definition of hedging which provides scholars and analysts with a more sophisticated set of tools by which to evaluate a state's hedging behaviour.

¹⁴⁴ Pew Research Centre, *Global Attitudes Survey*.

¹⁴⁵ Kuik, *How Do Weaker States Hedge*, 504.

Chapter Two: Indonesia

This chapter applies the model developed by Cheng-Chwee Kuik outlined in Chapter One to a series of case studies beginning here with Indonesia. It uses Kuik's model to determine if Indonesia is hedging China and if so, what strategies has Jakarta adopted.

This chapter begins by examining the 'degree of power rejection' by considering the the risk contingency options of risk diversification, indirect balancing and dominance denial. This chapter then examines the 'degree of power acceptance' via the returns maximising options of economic pragmatism, binding engagement and limited bandwagoning. As noted elsewhere, these options are not mutually exclusive and Indonesia could be pursuing all five at one time. As Kuik argues, that hedging is a *broad* strategic orientation which consists of a bundle of policies, and not a single policy or strategy.¹⁴⁶ Kuik put forwards a series of micro options for states that incorporates security, economics, and diplomacy and can be treated as a country's overall strategy towards another country.¹⁴⁷

Background

Indonesia's relations with the People's Republic of China (hereafter China) have been, at times, strained and contentious since Indonesia's independence from the Netherlands in 1945. It is a particularly complex relationship heightened by Indonesia's long-standing "free and active" foreign policy, a term coined by Indonesia's first vice-president, Mohammad Hatta in 1948¹⁴⁸ and Indonesia's membership of the Non-Aligned Movement, the inaugural conference of which was held in Bandung in 1955. This has seen Indonesia vacillate in its relations with China from courting Beijing under President Sukarno to the freezing of diplomatic relations under Sukarno's successor, Suharto, and the cultivating of relations with the United States and other Western economies.¹⁴⁹

On the one hand, Indonesia has to balance its foreign relations with China with whom there are tensions over the South China Sea and, specifically, Natuna Island; and, on the other

¹⁴⁶ Ibid.

¹⁴⁷ Ibid., 502.

¹⁴⁸ Mohammad Hatta. (1953). Indonesia's Foreign Policy. *Foreign Affairs*, April.

¹⁴⁹ Bimo Yusman & Ted Piccone. (2014). Indonesian Foreign Policy: 'A Million Friends and Zero Enemies'. Brookings Institute, February 14. Retrieved from <https://www.brookings.edu/articles/indonesian-foreign-policy-a-million-friends-and-zero-enemies/>.

hand, Indonesia is aware of the tendency of its Indonesian Chinese population¹⁵⁰ to be targeted or scapegoated during periods of unrest or violence. This is due to two distinct factors: first, Beijing's alleged backing of Indonesia's communist movement in the 1960s¹⁵¹ and perceptions of Indonesian Chinese control of commerce.¹⁵² Most notably, the anti-communist purges which followed the 30 September movement of 1965 and the targeting of Indonesian Chinese businesses and rape of Indonesian Chinese women during the mass riots in Jakarta in 1998.¹⁵³

Rizal Sukma argues that, "the logic of the "triangular threat"- the PRC, PKI and ethnic Chinese – prevented Jakarta from restoring diplomatic relations with Beijing for almost 23 years."¹⁵⁴ When Indonesia signed a Strategic Partnership with China in 2005 it signalled a shift from the mutual apathy – if not distrust – that had informed the bilateral relationship for decades.¹⁵⁵ The growth in military-to-military ties that followed, coupled with an incredible expansion in economic ties, seemed to vindicate this argument. Following the implementation of the China–ASEAN Free Trade Agreement in 2010, China even became Indonesia's largest trading partner. This development is remarkable considering that Indonesia did not resume formal diplomatic ties with China until 1990¹⁵⁶

Goh and Roy suggest that Indonesia's policy towards China is a variation of hedging, balancing, or bandwagoning strategies.¹⁵⁷ An alternative argument put forward by Indonesian

¹⁵⁰ According to the 2010 population census in 2010, there are 2.8 million ethnic Chinese living in Indonesia, accounting for 1.2% of the total population. It is thought that this number could be much higher because many Indonesians are still reluctant to admit they are of Chinese descent, fearing discrimination. *BBC News*, 'New voting power of Chinese Indonesians,' 2 July 2014. Retrieved from <http://www.bbc.com/news/world-asia-27991754>.

¹⁵¹ Taomo Zhou. (2014). China and the Thirtieth of September Movement. *Indonesia*, 98, October, 29-58.

¹⁵² Christian Chua. (2011). Be rich, stay rich. *Inside Indonesia*, Edition 104: Apr-June . Retrieved from <http://www.insideindonesia.org/be-rich-stay-rich>; *The Guardian*. Jakarta's violent identity crisis: behind the vilification of Chinese-Indonesians. November 25, 2016. Retrieved from <https://www.theguardian.com/cities/2016/nov/25/jakarta-chinese-indonesians-governor-ahok>.

¹⁵³ Approximately 700 shops were looted and burned in the predominantly ethnic Chinese business district in western Jakarta. *BBC News*. Indonesia: Why ethnic Chinese are afraid. February 12, 1998. Retrieved from http://news.bbc.co.uk/2/hi/events/indonesia/special_report/51981.stm; *BBC News*. New voting power of Chinese Indonesians. 2 July 2014. Retrieved from <http://www.bbc.com/news/world-asia-27991754>.

¹⁵⁴ Rizal Sukma. (2009). Indonesia-China Relations: The Politics of Re-engagement. *Asian Survey* 49(4), 591–608.

¹⁵⁵ Rahul Mishra & Irfa Puspita Sari. (2010). Indonesia- China relations: Challenges and Opportunities. November 22. Retrieved from https://www.files.ethz.ch/isn/136917/IB_China-Indonesia.pdf.

¹⁵⁶ Evan A. Laksmana. (2011). Variations on a Theme: Dimensions of Ambivalence In Indonesia-China Relations. In *The Rise of China: International Perspectives*. *Harvard Asia Quarterly*, 13(1) Spring, 24.

¹⁵⁷ Goh, Meeting the China Challenge: The U.S. in Southeast Asian Regional Security Strategies, *Policy Studies*, 16 (2005); Roy, Southeast Asia and China: Balancing or Bandwagoning?.

scholars Laksmana and Sukma is that Jakarta's policy towards China is characterized by persistent ambivalence.¹⁵⁸ Others argue that Indonesia's policy towards China is informed by its perception of China and the projection of its image of domestic ethnic Chinese.¹⁵⁹ This in turn was shaped during the post-independence years by the spread of communism, the role of the Indonesian Communist Party (PKI), and the loyalty of the small but economically powerful Indonesian Chinese.¹⁶⁰ The catalyst that led to the Suharto Government suspending diplomatic relations with China was Beijing's alleged involvement in the 1965 Gestapu Affair, an abortive coup attempt carried out by elements of the Indonesian Communist Party (PKI), and seen by the Indonesian Armed Forces (ABRI) as an attempt by Beijing to turn Indonesia into a communist client state.¹⁶¹

Laksmana argues that, as a result, China has traditionally been viewed as a threat to Indonesia's domestic political stability and national security.¹⁶² This argument, he contends, prevailed for much of the first four decades of bilateral relations after 1950, which included a period of "frozen" diplomatic relations from 1967 to 1990.¹⁶³ Jakarta's resumption of diplomatic relations with China in 1990 and China's rise in the 1990s, alongside the advent of democratisation in Indonesia in 1998 changed, but did not fundamentally overhaul, this domestic threat perception.¹⁶⁴

Then President Suharto's decision to re-engage with China during the New Order was predicated on four domestic factors: (1) a change in the domestic basis of legitimacy from political stability to economic development, informed by a need to adjust to China's growing economic power; (2) a change in economic interests, as the drop in oil prices forced Indonesia to emphasize industrialization and manufacturing, partly oriented toward China's growing market; (3) a change in domestic power relations, as Suharto's unchallenged political rule in the 1980s allowed him to go against the anti-Beijing camp in the military; and

¹⁵⁸ Laksmana, Dimensions of Ambivalence in Indonesia-China Relations, 24; Rizal Sukma. (2009). Indonesia's Response to the Rise of China: Growing Comfort Amid Uncertainties. In Jun Tsunekawa (Ed.). *The Rise of China: Responses from Southeast Asia and Japan*. Tokyo: The National Institute for Defense Studies, 139.

¹⁵⁹ Rizal Sukma. (2002). Indonesia's Perceptions of China: The Domestic Bases of Persistent Ambiguity. In Herbert Yee & Ian J. Storey. (Eds.) *The China Threat: Perceptions, Myths, Reality*. London: Routledge, 2002, 138.

¹⁶⁰ Laksmana, Dimensions of Ambivalence in Indonesia-China Relations, 25.

¹⁶¹ Ian J. Storey. (2000). Indonesia's China Policy in the New Order and Beyond: Problems and Prospects. *Contemporary Southeast Asia*, 22(1), April, 145-174.

¹⁶² Laksmana, Dimensions of Ambivalence in Indonesia-China Relations, 25.

¹⁶³ Ibid.

¹⁶⁴ Ibid.

(4) a desire for Suharto's Indonesia to play a more assertive global role, which necessitated normal relations with China.¹⁶⁵

Thawing of diplomatic relations did not dispel the perception of threat from China. Importantly, Storey has argued that the Indonesian military continued to view China through the prism of national security.¹⁶⁶ However, Indonesia was also acutely aware of "missing out" on China's economic reform programme and against the advice of the Indonesian military, Suharto restored direct trade with China in 1985.¹⁶⁷ However, although there were significant overtures to develop a more constructive relationship with China, Jakarta continued to err on the side of caution. Rather than engaging bilaterally on political and security matters, Indonesia preferred to deal with China within a multilateral framework through either ASEAN or the ASEAN Regional Forum (ARF).¹⁶⁸ This could be seen as a strategy of binding engagement.

Following the end of the New Order in 1998, the post-Suharto Governments saw a succession of presidents¹⁶⁹ who increasingly sought engagement with China. The Habibie and Wahid administrations were dominated by the Timor-Leste crisis in 1999 and the referendum which led to Timor-Leste's independence from Indonesia in 2002, although Wahid did visit China in December 1999. During Sukarnoputri's presidency, there was an increasing normalisation of relations with a succession of state visits. In 2000 then Chinese Vice President Hu Jintao visited Indonesia followed a year later by Premier Zhu Rongji and in 2002 Sukarnoputri visited China. The frequency of high level bilateral engagement revealed the growing recognition of the importance of Indonesian-Chinese economic relations.

Moreover, in 2003, under US ban on military sales, Indonesian defense officials discussed arms deals with China, seeking an alternative option for military purchases.¹⁷⁰ Dewi Fortuna Anwar has argued that while the United States was preoccupied with the wars in Iraq and

¹⁶⁵ Laksmana, Dimensions of Ambivalence in Indonesia-China Relations, 26; Rizal Sukma. (1999). *Indonesia and China: The Politics of a Troubled Relationship*. London: Routledge.

¹⁶⁶ Storey, Indonesia's China Policy in the New Order and Beyond: Problems and Prospects, 148.

¹⁶⁷ Ibid., 149.

¹⁶⁸ Laksmana, Dimensions of Ambivalence in Indonesia-China Relations, 26.

¹⁶⁹ B.J. Habibie (1998-99), Abdurrahman "Gus Dur" Wahid (1999-2001), Megawati Sukarnoputri (2001-04) and Susilo Bambang Yudhoyono "SBY" (2004-2014).

¹⁷⁰ Jeongseok Lee. (2012). Hedging against Uncertain Future: The Response of East Asian Secondary Powers to Rising China. Paper prepared for the International Political Science Association XXII World Congress of Political Science, Madrid, Spain, July 8-12. Retrieved from http://rc41.ipsa.org/public/Madrid_2012/lee.pdf.

Afghanistan and gave scant attention to affairs in the Asia-Pacific region throughout the George W. Bush administration, China transformed its relations with countries in Southeast Asia and with the Association of Southeast Asian Nations (ASEAN).¹⁷¹ That year, however, US-Indonesia relations did enter a new phase as Washington DC sought Southeast Asian partners in the ‘War on Terror.’

During Yudhoyono’s presidency relations with China improved even further. Under Yudhoyono, regarded as a sophisticated internationalist,¹⁷² China became Indonesia’s top trading partner in 2010, in 2011 Indonesia and China agreed to begin joint arms production, and in 2013 relations between Indonesia and China were upgraded to a strategic partnership.¹⁷³ This was particularly in the areas of enhanced defence and scientific cooperation and research but included infrastructure investment. These initiatives reflect Indonesia’s hedging strategy consisting of engagement, accommodation and soft balancing and, as discussed in subsequent sections, Indonesia’s broader strategies reflect a nuanced and complex approach to managing the rise of China. Then Foreign Minister Marty Natalegawa advocated a “dynamic equilibrium” among the major powers, particularly in the regional context, which envisaged a more cooperative system of relations between powers without any clear-cut adversaries.¹⁷⁴

When President Joko Widodo (hereafter “Jokowi”) took office in 2014, relations with China were already on an upward trajectory. Jokowi sought quickly to establish even closer ties with Beijing during the first months of his presidency. His first overseas state visit was to Beijing, notably not visiting the US until a year later. As will be discussed, Jokowi has sought to engage China as an economic partner whilst managing geopolitical tensions surrounding

¹⁷¹ Dewi Fortuna Anwar. (2013). An Indonesian Perspective on the U.S. Rebalancing Effort toward Asia. The National Bureau of Asian Research, February 26. Retrieved from <http://nbr.org/research/activity.aspx?id=320>.

¹⁷² Paul Kelly. (2015). Susilo Bambang Yudhoyono: friend and statesman. *The Australian*, September 28. Retrieved from <http://www.theaustralian.com.au/news/inquirer/susilo-bambang-yudhoyono-friend-and-statesman/news-story/1c37dd68325d0d4b10323278cf4d5bd7>. Under SBY, Indonesia’s foreign policy was characterized by the pursuit of “one million friends, zero enemies,” Anwar, ‘An Indonesian Perspective on the U.S. Rebalancing Effort toward Asia.’

¹⁷³ Gatra Priyandita. (2015). Don’t expect too much from growing Sino–Indonesia ties. *East Asia Forum*, November 7. Retrieved from <http://www.eastasiaforum.org/2015/11/07/dont-expect-too-much-from-growing-sino-indonesia-ties/>.

¹⁷⁴ Anwar, An Indonesian Perspective on the U.S. Rebalancing Effort toward Asia.

the waters off Indonesia's Natuna Islands and the broader implications of an increasingly powerful and assertive China.¹⁷⁵

2.1 Risk Contingency Options

Economic Diversification

Economic diversification is the first risk contingency option explored here. Indonesia is the largest Southeast Asian economy with the projected GDP forecast growing at 5% a year over 2016-2020 at which stage it is projected that Indonesia will have an estimated GDP exceeding USD\$1 trillion.¹⁷⁶ This is remarkable given that the Indonesian economy was the most affected by the 1997 Asian Financial Crisis (AFC) which resulted in the Indonesian economy shrinking by 13.7 per cent.¹⁷⁷ Notably, the two significant events which occurred in relative quick succession – the 2004 Indian Ocean tsunami and the 2008 Global Financial Crisis (GFC) - did not impact Indonesia's economic recovery following the AFC. This is in part due to the province of Nanggroe Aceh Darussalam (Aceh) accounting for only 2 per cent of Indonesia's overall GDP and that the reduced agricultural production in the region has been largely offset by reconstruction spending.¹⁷⁸ Following the GFC, Indonesia maintained positive growth having arguably learnt how to buffer its economy following the AFC.¹⁷⁹

Although Indonesia has moved away from a more diversified trade and investment strategy to one in which China is now a leading partner, as a consequence of dramatically improved diplomatic relations between Jakarta and Beijing, Indonesia retains strong links with other Asian economic powerhouses – specifically, Singapore and Japan.

¹⁷⁵ Rizal Sukma. (2004). Indonesia's Perceptions of China: The Domestic Bases of Persistent Ambiguity. In Herbert Yee & Ian J. Storey. (Eds.). *China Threat: Perceptions, Myths, and Reality*. London: Routledge, 253-258. Rizal Sukma. (2009). Indonesia-China Relations: The Politics of Re-engagement. *Asian Survey*, 49(4), 591-608; Sukma, Indonesia's Response to the Rise of China

¹⁷⁶ *The Jakarta Post*. GDP of 4 ASEAN nations to exceed \$1 trillion by 2030. April 14, 2016. Retrieved from <http://www.thejakartapost.com/seasia/2016/04/14/gdp-of-4-asean-nations-to-exceed-1-trillion-by-2030.html>.

¹⁷⁷ Tulus T. H. Tambunan. (2010). The Indonesian Experience with Two Big Economic Crises. *Modern Economy*, (1), 156-167, 159.

¹⁷⁸ Milovan Lucich, Nathan Dal Bon & Elisha Houston. (2007). *The Indonesian economy after the Boxing Day tsunami1 and Treasury's role in the Government Partnership Fund*. International Economy Division, Australian Treasury, Canberra. 106.

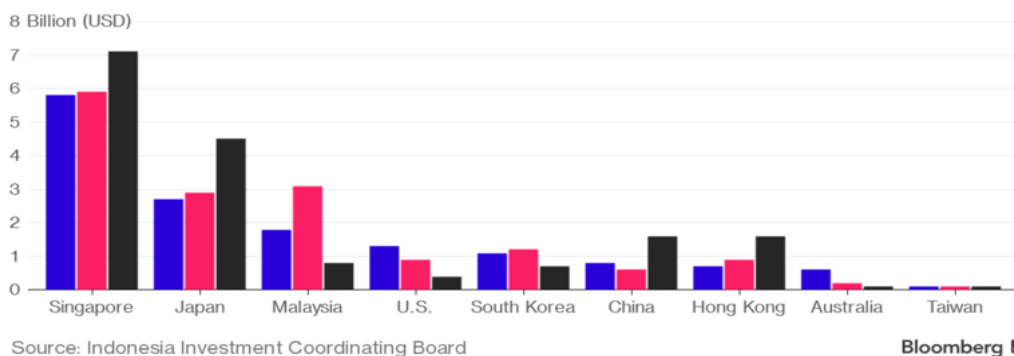
¹⁷⁹ Thee Kian We. (2012). *The Indonesian Economy After the Global Financial Crisis*, Indonesian Institute of Sciences (LIPI), October 24. Retrieved from https://crawford.anu.edu.au/acde/ip/pdf/lpem/2012/2012_10_24_-_SEADI_Thee_Kian_Wie.pdf.

Singapore is the top – and growing - investor in Indonesia, with US\$7.1 billion between January and September 2016, increasing by 44 per cent compared to US\$5.9 billion in 2015. Bilateral trade between Indonesia and Singapore grew significantly from US\$10.4 billion in 2000 to US\$41.5 billion in 2015.¹⁸⁰ In 2015 Singapore was Indonesia's largest trading partner. Indonesia's outward direct investment to Singapore has increased from \$638 million in 2010 to \$2.4 billion in 2014.¹⁸¹ In 2015 Japan announced 140 billion yen (\$1.17 billion) in official development assistance to help build Indonesia's railway network.

The Breakdown

Direct foreign investment in Indonesia by country of origin

■ 2014 ■ 2015 ■ 2016 (Jan-Sept)



Source: <https://assets.bwbx.io/images/users/iqjWHBFdfxIU/iGpl2HyIhUqQ/v2/800x-1.png>

The US is the fourth-largest investor in Indonesia, contributing 4 percent of the total accumulated foreign direct investment in Indonesia from 2005 to 2015, after Singapore (42 percent), Japan (28 percent) and the UK (5 percent), however foreign direct investment from the US slumped to about \$400 million from \$2.4 billion in 2013 and decreased from \$3.4 billion in 2005 to \$444 million in 2015.¹⁸²

While Indonesia's exports to the US increased from US\$11 billion in 2001 to \$21 billion in 2015, the US' share of the country's total exports declined from 17 percent in 2001 percent to 12 percent in 2015. Similarly, the share of Indonesia's imports from the US as a proportion of

¹⁸⁰ *Straits Times*. (2016). Hopes for deeper Indonesia-Singapore economic ties. November 15. Retrieved from <http://www.straitstimes.com/opinion/hopes-for-deeper-indonesia-singapore-economic-ties>.

¹⁸¹ Ibid.

¹⁸² Lili Yan Ing. (2017). Trump's economic policy and impact on Indonesian economy. *The Jakarta Post*, February 22. Retrieved from <http://www.thejakartapost.com/academia/2016/11/29/insight-trumps-economic-policy-and-impact-on-indonesian-economy.html>.

total imports also decreased from 10 percent to 5 percent over the same period. This shows that while trade between Indonesia and the US is growing, trade with other trading partners (e.g. Singapore, China and South Korea) is growing even faster.¹⁸³ Based on data provided by BKPM, the US invested US\$1.16 billion on 540 projects in Indonesia throughout 2016.¹⁸⁴

The US's share of foreign direct investment to Indonesia declined to 2 percent in 2016 from 8.3 percent in 2013, despite former President Barack Obama pledging stronger ties with Asia.¹⁸⁵ Following the election of President Donald Trump in November 2017, the head of Indonesia's Investment Coordinating Board (BKPM), Thomas Lembong, suggested that Indonesia may have to "put a little more effort into making itself attractive for United States investors in the wake of a protectionist Donald Trump presidency" although hinting that the Indonesian government would simultaneously try to seek "back up" investors from other countries in case US firms have to abide by policies made by President Trump."¹⁸⁶

Indirect Balancing

The second risk contingency option is indirect balancing. Indonesia has adopted indirect balancing strategies through increasing its security cooperation and defence diplomacy with powerful key states such as Japan, as well as its traditional defense partner, the United States.

Possibly the most significant of Indonesia's 'indirect balancing relationships' is the one it has built with Japan which occupied Indonesia during World War II between 1942 and 1945. In 2010 then General Secretary of Indonesian Foreign Affairs Imron Cotan included a 're-emerging Japan' as a challenge Indonesia would need to contend with in addition to a rising China and India.¹⁸⁷ Jakarta has approached the increasingly proactive Japan with some caution but in 2013 talks were held between then Japan Ground Self-Defense Force (JGSDF) Chief of Staff, General Eiji Kimizuka, and former Indonesian President Susilo Bambang Yudhoyono to discuss establishing military cooperation between Japan and Indonesia. This

¹⁸³ Ibid.

¹⁸⁴ Faruda Susanty. (2017). Indonesia seeks 'back up' of US investment: BKPM. *The Jakarta Post*. February 22. Retrieved from <http://www.thejakartapost.com/news/2017/01/30/indonesia-seeks-back-up-of-us-investment-bkpm.html>.

¹⁸⁵ *Bloomberg News*. (2016). Why Indonesia Is Chasing China's Billions. November 1. Retrieved from <https://www.bloomberg.com/news/articles/2016-10-31/china-deepens-economic-ties-with-indonesia-as-investment-doubles>.

¹⁸⁶ Susanty, Indonesia seeks 'back up' of US investment: BKPM.

¹⁸⁷ Sukma, Indonesia-China Relations: The Politics of Re-engagement, 591–608.

marked the beginning of Japan's new strategy to enhance its influence beyond economic relations by positioning itself as a key military aid donor within the region. The mutually advantageous defence partnership meets one clear objective: the balancing of China. In that respect, Indonesia has tapped into Japan's desire to actively counter Chinese influence in Southeast Asia and has positioned itself as a key security partner.

In 2015 Indonesia and Japan signed a defence pact to promote dialogue and cooperation, capacity building by Japanese, defence equipment development and bilateral cooperation in peacekeeping missions. In addition, Japan agreed to strengthen cooperation in maritime security, including the establishment of a Japan-Indonesia maritime security forum, and the development of marine-related industries.¹⁸⁸ That year, the inaugural Japan-Indonesia Foreign and Defense Ministerial Meeting was held to further defence cooperation.¹⁸⁹ The Indonesia-Japan relationship had been elevated to a strategic partnership with shared commonalities, specifically maritime concerns and counter-terrorism, and Japan's agreement to participate in multilateral joint exercises such as KOMODO as well as capacity building assistance.¹⁹⁰

In 2017, during Japanese Prime Minister Abe's visit to Indonesia, Abe stated that "Japan will actively encourage cooperation on maritime security and encourage the development of the remote islands of Indonesia."¹⁹¹ In light of Japan's disputes with China over the Senkaku/Diaoyu Islands in the South China Sea, Abe's comment could be construed to be a veiled reference to Japanese support for Indonesia's sovereignty over the waters off the Natuna Islands.

Turning to Indonesia's defence and security relationship with the US, cooperation has waxed and waned since the 1960s with the suspension of military ties following human rights abuses by the Indonesian TNI in the 1990s, followed by greater counterterrorism and law

¹⁸⁸ *South China Morning Post*. (2015). Indonesia and Japan agree to bilateral defence cooperation deal. March 24. Retrieved from <http://www.scmp.com/news/asia/article/1745708/indonesia-and-japan-agree-bilateral-defence-cooperation-deal>.

¹⁸⁹ Ministry of Foreign Affairs of Japan. (2015). Japan-Indonesia Foreign and Defense Ministerial Meeting. December 18. Retrieved from http://www.mofa.go.jp/sa/sea2/id/page3e_000437.html.

¹⁹⁰ Ibid.

¹⁹¹ *Straits Times*. (2017). Indonesia, Japan to deepen defence ties amid China challenge. January 15. Retrieved <http://www.straitstimes.com/asia/se-asia/indonesia-japan-to-deepen-defence-ties-amid-china-challenge>.

enforcement cooperation during the George W. Bush years.¹⁹² In 2001 the Indonesia-United States Security Dialogue was established and Indonesia has sought to benefit from the opportunities presented through revitalised military aid cooperation. While restored defence ties with the US serve to indirectly balance against China, domestic considerations are equally important. US – and Australian – assistance has been critical for example, to Indonesia’s domestic counter-terrorism efforts which were certainly successful in terms of the dismantling of the extremist Islamic group Jemaah Islamiyah (JI)¹⁹³ following the 2001 Bali bombings. Ongoing US support will be critical in the fight against ISIS-inspired radicalisation, particularly as ISIS territory is threatened in the Middle East and foreign fighters return to Southeast Asia.

In 2010 the United States lifted the ban on arms exports to Indonesia which had been imposed several decades earlier.¹⁹⁴ It is important to note, that despite the ban on arms exports and military-to military cooperation, defence ties were not cut completely with a USD\$17.9 million program under the Defense Department Appropriations Act (P.L. 107-117) that allowed Indonesian military officers to “attend U.S. military educational institutions and selected regional centers for non-lethal training.”¹⁹⁵ A year earlier, Indonesia had obtained a USD\$56 million maritime radar system from the United States.

After defense relations were fully restored in 2005, the US quickly became Indonesia’s principle military partner. Relations continued to steadily improve hinging on two key issues: concern that Southeast Asia would become the second front in the War on Terror and the US’s pivot to the Asia Pacific. In 2014 over 500 exchanges, joint exercises and other activities were held between Indonesia and the US. In 2015 bilateral relations reached a new level following Jokowi’s visit to the US and the signing of the expansive and far reaching Joint Statement on Comprehensive Defense Cooperation which included new areas such as the co-development and co-production of defense equipment. An action plan was also signed

¹⁹² Prashanth Parameswaran. (2015). The new U.S.-Indonesia strategic partnership after Jokowi’s visit: Problems and prospects. Brookings Op Ed, December 8. Retrieved from <https://www.brookings.edu/opinions/the-new-u-s-indonesia-strategic-partnership-after-jokowis-visit-problems-and-prospects/>.

¹⁹³ *East Asia Forum*. (2016). Indonesia’s measured response to terror. February 29. Retrieved from <http://www.eastasiaforum.org/2016/02/29/indonesias-measured-response-to-terror/>.

¹⁹⁴ Murphy, Ann Marie. (2010). US Rapprochement with Indonesia: From Problem State to Partner. *Contemporary Southeast Asia*, 32(3), 362-387.

¹⁹⁵ Dana Dillon. (2002). Military Engagement with Indonesia in the War on Terror. The Heritage Foundation, June 12. Retrieved from <http://www.heritage.org/asia/report/military-engagement-indonesia-the-war-terrorism>.

to expand the US Defense Institution Reform Initiative (DIRI) Program in Indonesia however there has been some criticism of the slowness of operationalising the action plan. In addition to the stable of defence agreements, a “Memorandum of Understanding on Maritime Cooperation” was signed which included a focus on maritime security.

Indonesia has been cautious, however, over being too overtly pro-Washington in response to the South China Sea dispute. The 2015 US-Indonesia joint statement contained a paragraph on the shared concerns of both sides in regards to the South China Sea, including a reference to safeguarding maritime security, and upholding freedom of navigation and overflight.¹⁹⁶ As has been noted, Indonesia’s foreign policy outlook in general and its cautious position on the South China Sea in particular prevent it from expressing strong public words of support for the United States - this is especially the case given the importance the Jokowi administration has placed on boosting economic ties with China thus far.¹⁹⁷

Dominance Denial

The third risk contingency option is dominance denial. This section examines whether Indonesia has engaged in a dominance denial strategy by developing closer relations with major powers in the Asia Pacific region, namely the US and Japan, in order to hedge against China. In 2015 Luhut Pandjaitan, Indonesia’s then Coordinating Minister for Politics, Legal and Security Affairs, made a public statement on the rising tensions between China and Japan and the importance of the US as a balancing, sobering influence.¹⁹⁸ This was of utmost concern for the region and Pandjaitan argued that the US could and should continue to make a crucial difference to Asian strategic outcomes.¹⁹⁹

Indonesia’s relationship with the US has, like its relations with China, been equally ambivalent and shaped by an acute sensitivity towards Western neo-colonialism stemming

¹⁹⁶ White House. (2015). *Joint Statement by the United States of America and the Republic of Indonesia*, Office of the Press Secretary, October 26. Retrieved from <https://obamawhitehouse.archives.gov/the-press-office/2015/10/26/joint-statement-united-states-america-and-republic-indonesia>.

¹⁹⁷ Parameswaran, The new U.S.-Indonesia strategic partnership after Jokowi’s visit.

¹⁹⁸ Luhut B. Pandjaitan. (2015). The US and Indonesia: Time for a special relationship. *The Straits Times*. October 23. Retrieved from <http://www.straitstimes.com/opinion/the-us-and-indonesia-time-for-a-special-relationship>.

¹⁹⁹ Ibid.

from its recent history as a Dutch colony and the perception amongst Indonesian elites that the US presented a “soft power threat” through its crusade to promote democracy and human rights worldwide, which has the effect of stirring up domestic discontent and separatism.²⁰⁰ This was acutely felt following then US President Bill Clinton’s unambiguous tying of future financial assistance to Indonesia’s willingness to restore security following the post-referendum violence in Timor-Leste. On September 10 1999, the US cut all military cooperation programmes and Clinton, on the eve of his departure to New Zealand to attend the 7th APEC summit in Auckland, expressed his deep concern that the Indonesian military had failed to halt gross human rights abuses in Timor Leste.²⁰¹

Indonesia has, however, hedged against China by responding positively to US engagement as an offsetting power against China’s influence.²⁰² This began with cooperation for the ‘War on Terror’ during the George Bush Jnr administration despite ongoing bans on US weapons sales to Indonesia. However, as Smith argues, while there were examples of substantive cooperation between Indonesia and the US in the war on terrorism, differences remain.²⁰³

The Bush Administration’s plan to restore military-to-military relations floundered on objections from Congress and Indonesia refused to support US military action in Afghanistan and Iraq, while the general public in Indonesia remain distrustful of US foreign policy.²⁰⁴ Indonesian public opinion of the US reflected this. A 2002 Pew Research Center’s Global Attitudes Project found that roughly six-in-ten Indonesians (61 per cent) had a favourable view of the US, while only 36 per cent expressed an unfavourable view.²⁰⁵ Public attitudes shifted significantly following the US invasion of Iraq with a 2003 Pew Global Attitudes survey revealing only 15 per cent of Indonesians had a positive view, while 83 per cent

²⁰⁰ Roy, *Southeast Asia and China: Balancing or Bandwagoning?*, 316.

²⁰¹ *New York Times*. (1999). Statement by President William J. Clinton. The Fate of East Timor; In Clinton’s Words” East Timor, Waco, Clemency Offer, and Other Issues. September 10. Retrieved from <http://www.nytimes.com/1999/09/10/world/fate-east-timor-clinton-s-words-east-timor-waco-clemency-offer-other-issues.html>.

²⁰² Anthony L. Smith. (2003). From Latent Threat to Possible Partner: Indonesia’s China Debate. In Satu Limaye. (Ed). *Asia’s China Debate*. Honolulu: Asia-Pacific Center for Security Studies.

²⁰³ Ibid.

²⁰⁴ Ibid.

²⁰⁵ Richard Wike & Kathleen Holzwart Sprehe. (2010). Indonesia: The Obama Effect. Pew Global Attitudes Project, Pew Research Center, March 18. Retrieved from <http://www.pewglobal.org/2010/03/18/indonesia-the-obama-effect/>.

voiced a negative opinion.²⁰⁶ The election of Barrack Obama returned public sentiment to its highest with 63 per cent holding a favourable view and 30 per cent an unfavourable view.²⁰⁷

US-Indonesia relations at the government level also improved significantly after the election of President Barrack Obama in 2009 and with the high public approval ratings came high expectations as a consequence of the Obama administration's rebalance to the Asia Pacific. And, significantly, the two countries agreed to the establishment of the US Indonesia Comprehensive Partnership in 2010. In 2015 the Indonesia-US bilateral relationship was formally elevated further to a strategic partnership following President Joko Jokowi's state visit to the US in October that year.

Most importantly, the United States and Indonesia established a new annual ministerial strategic dialogue to institutionalize regular high-level consultations.²⁰⁸ There was also attention given to broadening out the "Track II," or non-government track, in U.S.-Indonesia relations, a key priority which Indonesian foreign minister Retno Marsudi had also mentioned in her keynote address to the U.S.-Indonesia Society (USINDO) in October 2015.²⁰⁹ Yet, despite the US being an obvious strategic ally for Indonesia and the attempt on both sides to reinvigorate the relationship, strategic and economic ties have remained lukewarm although there has been some progress. In February 2017 a US-ASEAN Business Council organised delegation of investors from 10 major US companies²¹⁰ visited Indonesia with the aim to invest \$1billion over the next three to five years.²¹¹

On the diplomatic front, Indonesia-US relations are less clear in light of the Trump Administration however it is likely that the business as usual approach will continue in the short-term. Whether there is any practical policy convergence between Indonesia and the US is likely to be determined by domestic factors and concerns over the Trump Administration's so-called 'Muslim Ban' and Jakarta's apprehensiveness over the direction of Trump's China policy.

²⁰⁶ Ibid.

²⁰⁷ Ibid.

²⁰⁸ Paramerswaran, The new U.S.-Indonesia strategic partnership after Jokowi's visit.

²⁰⁹ Ibid.

²¹⁰ Including the Ace Group, Cigna, the Coca-Cola Company, DuPont, Intel, Medtronic, Monsanto, and Procter & Gamble.

²¹¹ *Jakarta Globe*. US Companies Eying More Than \$1b Investment in Indonesia. Retrieved from <http://jakartaglobe.id/business/us-companies-eying-1b-investment-indonesia/>.

2.2 Returns Maximising Options

Economic Pragmatism

Economic pragmatism is the first of the returns maximising options and it has clearly been adopted by Indonesia in its economic strategy towards China. Jokowi rode to power on a wave of pro-business rhetoric in Indonesia's 2014 presidential election and a key plank of his economic development platform was rooted in shoring up the country's outdated and inadequate infrastructure.²¹² Jokowi pledged to boost economic growth to 7 percent by 2019 and launched a national strategic infrastructure programme.²¹³

In order to achieve this, Indonesia has sought to engage China as a trading and investment partner and thus maximise the economic returns of Beijing's heightened interest and engagement in Southeast Asia. Jakarta has effectively tapped into Beijing's "One Belt One Road" aspirations in order to meet its own national infrastructure development programme. Chinese investment has surged following five meetings between Jokowi and Chinese President Xi Jinping in the past two years.

In 2011 China became Indonesia's largest trading partner and in 2016 China overtook the US and is now the third investor in Indonesia behind Singapore and Japan.²¹⁴ As the Indonesia Investment Coordinating Board graph below demonstrates, President Jokowi's concerted effort to court China has been immensely successful. Chinese investment in Indonesia has more than doubled since 2015. Foreign direct investment from China stood at \$1.6 billion in January to September 2016, up from about \$600 million for the whole of 2015.²¹⁵

²¹² Oxford Business Group. (2015). A series of high-profile projects should help narrow Indonesia's infrastructure gap. Retrieved from <https://www.oxfordbusinessgroup.com/overview/ramping-series-high-profile-projects-should-help-narrow-country%E2%80%99s-infrastructure-gap>.

²¹³ Oxford Economics. (2015). Building Indonesia's future Unblocking the pipeline of infrastructure projects. Outlook to 2025, 4. Retrieved from <https://www.pwc.com.au/asia-practice/publications/pwc-outlook-unblocking-the-pipeline-of-infrastructure-projects-c.pdf>.

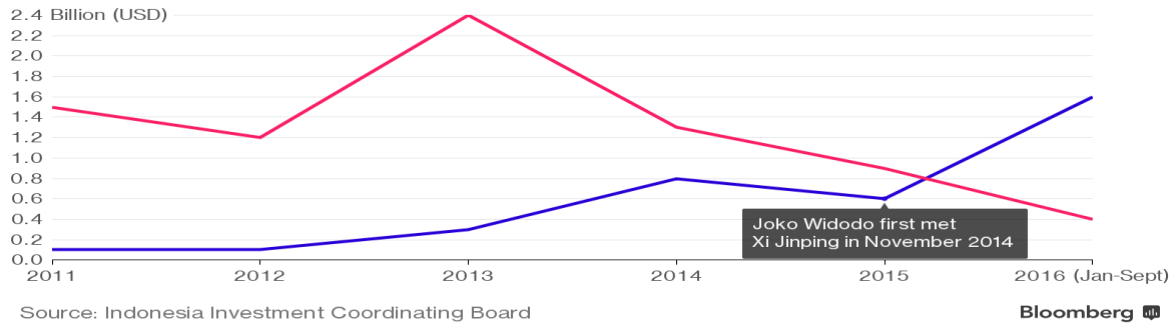
²¹⁴ *Bloomberg News*. (2016). Why Indonesia Is Chasing China's Billions. November 1. Retrieved from <https://www.bloomberg.com/news/articles/2016-10-31/china-deepens-economic-ties-with-indonesia-as-investment-doubles>.

²¹⁵ *Ibid*. The article states that 'Chinese investors pledged \$6.1 billion in investment in Indonesia in the nine-month period.'

Shifting Tides

China's direct foreign investment into Indonesia surged in 2016

■ China FDI ■ U.S. FDI



Source: <https://www.bloomberg.com/news/articles/2016-10-31/china-deepens-economic-ties-with-indonesia-as-investment-doubles>

In 2015, the Jokowi Government launched 43 infrastructure projects with a total investment of up to USD \$52 billion.²¹⁶ From an Indonesian government perspective, increased Chinese investment supports President Jokowi's ambitious national infrastructure programme to build roads, ports and railways.²¹⁷ For the Chinese Government, Indonesia provides a site for offshore manufacturing and a key link in China's One Belt, One Road policy. China is offering vast amounts of money to Southeast Asia for infrastructure projects for the maritime portion of the revitalized Silk Road, which, combined with an overland route through Eurasia, is known as "One Belt, One Road."²¹⁸



Source: <https://www.bloomberg.com/news/articles/2016-08-14/why-china-s-plan-to-build-a-new-silk-road-runs-through-singapore>

²¹⁶ *Indonesia Investments*. (2016). 2016 Indonesia Infrastructure & "One Belt, One Road" Investment Conference. Retrieved from <http://www.indonesia-investments.com/news/trade-expos-exhibitions/2016-indonesia-infrastructure-one-belt-one-road-investment-conference/item7108?searchstring=china>.

²¹⁷ *Bloomberg News*, Why Indonesia Is Chasing China's Billions.

²¹⁸ *Bloomberg News*. (2016). Why China's Plan to Build a New Silk Road Runs Through Singapore. August 15. Retrieved from <https://www.bloomberg.com/news/articles/2016-08-14/why-china-s-plan-to-build-a-new-silk-road-runs-through-singapore>.

Jakarta's engagement with Beijing's "One Belt, One Road" strategy has been significant. Jokowi visited China in 2015 to declare Indonesia's support for the Chinese-backed Asian Infrastructure Investment Bank (AIIB) and invite Chinese investment in Indonesia's national infrastructure project. The Chinese-Indonesian relationship was discussed in terms of a "strategic partnership" and a "maritime partnership" with a total of eight agreements, including deals on taxation, high-speed rail, aerospace and marine search and rescue, signed.²¹⁹ Jokowi stated he hoped the two countries could reach a currency swap deal and have US\$150 billion in bilateral trade by 2020.²²⁰

In June 2015 Indonesia has signed a \$20bn Memorandum of Understanding with China Development Bank to finance infrastructure. In 2016 Indonesia hosted the "Indonesia Investment and "One Belt, One Road" Investment Conference" with the theme "A Call to Partnership Under the Strategy of "One Belt, One Road." A joint AIIB and World Bank project National slum upgrading urban infrastructure worth US\$1.7bn to US\$217m (AIIB funding)²²¹ as outlined in the January 2016 of Presidential Regulations No. 3 and 4 of 2016 on Acceleration of the Implementation of National Strategic Projects and Presidential Instruction No.6 of 2016 on Acceleration of National Strategic Projects.

There are concerns, however, that slower growth in China would weaken global demand for raw materials which is one of Indonesia's key exports. Although Indonesia has sought to ensure a degree of economic diversification, China remains a critical trading and investment partner. The implications of a slowing Chinese economy could be significant for Indonesia's economic development.

²¹⁹ *South China Morning Post*. (2015). Widodo invites Chinese firms to back infrastructure projects in Indonesia. March 27. Retrieved from <http://www.scmp.com/news/china/article/1748114/widodo-invites-chinese-firms-back-infrastructure-projects-indonesia>.

²²⁰ Ibid.

²²¹ *The Economist Intelligence Unit*. (2016). China's AIIB: a surprisingly normal bank. October 28. Retrieved from <http://country.eiu.com/article.aspx?articleid=104763594&Country=Indonesia&topic=Politics>.

Binding Engagement

Binding engagement is the second returns maximising option to be explored. Indonesia has increasingly sought to engage through binding strategies towards China which is a marked difference from the New Order period. In a joint statement, China and Indonesia agreed to improve communication on official policies, advance maritime infrastructure links, deepen cooperation in industrial investment and major project construction, and improve cooperation to develop a "maritime partnership". President Xi also called for more cooperation with Jakarta on youth and religious exchanges. Zhang Jie, an expert on regional security at the Chinese Academy of Social Sciences, said China wanted Indonesia to act as a coordinator among Southeast Asian countries amid rising tensions over the South China Sea, stating that "though Indonesia does not completely accept China's territorial claims in the area, it tends to stay neutral," Zhang said.²²²

Amidst concerns that ASEAN was faltering in its role to respond to the South China Sea dispute including failing to issue a joint statement on how to manage the tensions, in 2012 Indonesia's then Foreign Minister Marty Natalegawa adopted a more proactive stance and sought to mediate the dispute by pushing for a regional framework. Natalegawa engaged in shuttle diplomacy to encourage Beijing to come to the diplomatic table to complete a Code of Conduct (CoC) agreement, including presenting a so-called "zero draft" for a CoC that took the November 2002 "Declaration on the Conduct of Parties in the South China Sea" (DoC) as its foundation.²²³ Beijing rejected Indonesia's efforts to mediate the dispute thereby removing any possibility for ASEAN member states to reach a consensus on the issue.

In 2014 Jokowi reiterated Indonesia's desire to mediate the dispute and play a leading role in ensuring regional stability.²²⁴ However, Indonesia's mediation efforts to bind China to an ASEAN-led dispute resolution process have been largely unsuccessful. This has been further damaged, surprisingly, by Jokowi himself. Jokowi's growing lack of interest in ASEAN is thought to be due to Indonesia's foreign policy having become more nationalistic and

²²² *South China Morning Post*, Widodo invites Chinese firms to back infrastructure projects in Indonesia.

²²³ Donald E. Weatherbee. (2016). *Re-Assessing Indonesia's Role in the South China Sea*, ISEAS Perspective, Yusof Ishak Institute, April 21. Retrieved from https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2016_18.pdf.

²²⁴ *The Straits Times*. (2014). Indonesia can 'mediate in South China Sea row if needed. August 13. Retrieved from <http://www.straitstimes.com/asia/south-asia/indonesia-can-mediate-in-south-china-sea-row-if-needed>.

unilateral under Jokowi, heavily focused on supporting the administration's domestic infrastructure and nation-building agenda; less wed to the importance of ASEAN, and more impatient with ASEAN process and protocol.²²⁵

Where Jokowi has been more successful in pursuing a strategy of binding engagement is through regional economic integration. Indonesia has joined the Chinese-led Asian Infrastructure Investment Bank (AIIB), a move which reflects Jokowi's economic nationalism priorities. It also acknowledges China's role as a stabilising economic force within the region – a position China has held since the 1997 AFC. In a potentially post-Trans-Pacific Partnership era, the AIIB may become the key driver of regional integration with China anchored firmly at the centre.²²⁶

The 2005 strategic partnership agreement marked the forging of closer bilateral relations with China, and has also encouraged Beijing's close cooperation with ASEAN.²²⁷ Anwar contends that Indonesia strongly believes that the best way to ensure that China's policy toward the region is friendly is by convincing Beijing that it has a direct strategic interest in Southeast Asian security and prosperity.²²⁸ This is a clear binding strategy. Anwar argues that Indonesia has sought to integrate China into the regional architecture whilst also hedging against Beijing's overtures to form a regional institution in which China dominated. For example, when the East Asian Summit was first proposed in 2005, a number of ASEAN members and China envisaged that it would be the formalization of the ASEAN +3 with an additional noneconomic agenda.²²⁹

Indonesia, however, was concerned that in such a regional setting China would be able to dictate the summit's agenda, and therefore Jakarta argued for enlarging the EAS's membership by expanding the strategic boundary of East Asia to include India, Australia, and New Zealand.²³⁰ Anwar argues that with the "dynamic equilibrium" ideology in mind, and to

²²⁵ Malcolm Cook. (2016). Duterte, Jokowi and ASEAN. Commentary. ISEAS: Yusof Ishak Institute, May 10. Retrieved from <https://www.iseas.edu.sg/medias/commentaries/item/3072-duterte-jokowi-and-asean>.

²²⁶ David Doltar. (2015). China's rise as a regional and global power: The AIIB and the 'one belt, one road'. Brookings Institute. July 15. Retrieved from <https://www.brookings.edu/research/chinas-rise-as-a-regional-and-global-power-the-aiib-and-the-one-belt-one-road/>.

²²⁷ Anwar, An Indonesian Perspective on the U.S. Rebalancing Effort toward Asia.

²²⁸ Ibid.

²²⁹ Ibid.

²³⁰ Ibid.

complete the circle of powers within the EAS, Jakarta also strongly pushed for widening membership to include the United States and Russia.²³¹

Limited Bandwagoning

The third of the returns maximising options is limited bandwagoning.²³² In Indonesia's case, it could be argued that Jakarta has adopted a policy of limited bandwagoning intended to maximise political benefits by forging a partnership with China through selective deference or selective collaboration on key external issues, *but without* accepting a subordinate position.²³³ This is evidenced by three factors: (1) Indonesia's early attempts in 2012 to mediate the South China Sea dispute; (2) Indonesia's adoption of the delicate equilibrium' approach to the South China Seas dispute;²³⁴ and (3) Indonesian proactive response to Chinese intrusions into its EEZ off the coast of Indonesia's Natuna Islands.

The Natuna Islands are an Indonesian archipelago comprising of 272 islands situated in the South China Sea off the northwest coast of Borneo. China recognises Indonesian sovereignty over the Natuna Islands but Beijing's claims in the South China Sea as delineated by the nine-dash line overlaps with Indonesia's exclusive economic zone off the Natuna Islands. The East Natuna Block (also known as Block D-Alpha) is one of the world's largest gas fields, containing 46 trillion cubic feet of recoverable natural gas, which at 2009 figures was around 41 % of Indonesia's total reserves.²³⁵ The Natuna Sea is also a rich fishing ground which contributes significantly to the local economy.²³⁶

This section will examine Indonesia's 'delicate equilibrium' approach to the South China Sea and Indonesia's own territorial and sovereign interests in the South China Sea, namely safeguarding the Natuna Islands and its EEZ. Indonesia's approach to the management of the

²³¹ Ibid.

²³² Kuik, The Essence of Hedging, 166; Kuik, How Do Weaker States Hedge?, 505.

²³³ Kuik, How Do Weaker States Hedge?, 505.

²³⁴ Prashanth Parameswaran. (2016). Delicate Equilibrium: Indonesia's Approach to the South China Sea. In Enrico Fels & Truong-Minh Vu. (Eds). *Power Politics in Asia's Contested Waters Territorial Disputes in the South China Sea*. Springer.

²³⁵ Karen Agustiawan. (2011). Indonesia and Energy Security. Speech delivered by President and CEO of Pertamina at the Center for Strategic and International Studies. Washington D.C. Retrieved from https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/attachments/130411_KarenAgustiawan_Speech_revised.pdf.

²³⁶ Parameswaran, 'Delicate Equilibrium: Indonesia's Approach to the South China Sea,' p.321.

South China dispute has been referred to as a ‘delicate equilibrium.’²³⁷ This is in recognition of Indonesia’s nuanced role as a non-claimant, interested party – which has led to public criticisms of China’s conduct - and ‘honest broker’ in the South China Sea disputes.²³⁸

Parameswaran refers to this as the “delicate equilibrium” approach which consists of a hedging strategy comprised of four elements: engagement, enmeshment, traditional balancing and soft-balancing.²³⁹ It could be argued that the strategy of limited bandwagoning encapsulates those four elements. Jakarta has sought to balance between safeguarding its own rights while helping facilitate confidence-building on the South China Sea, and countering Chinese actions where possible while cautiously engaging Beijing bilaterally and multilaterally.²⁴⁰ Roy argues that Indonesia has rejected pure balancing or bandwagoning approaches and has instead chosen to pursue a classic hedging approach on the South China Sea issue.²⁴¹

Indonesia’s concerns over Chinese assertiveness over the Natuna Sea are long-standing and date back to the immediate years following Indonesia’s independence. China’s specific claims to the waters off the Natuna Islands can be traced to the 1993 Indonesian-sponsored Surabaya workshop on the Spratlys at which China “demoted” Indonesia from “mediator” to “unwilling participant” when China presented a map displaying its historic claims encompassing a portion of Indonesia’s EEZ off the Natuna Islands.²⁴² Three years later, the then Vice Governor of the Institute of National Resilience and subsequent defence minister, Juwono Sudarsono, stated in August of 1996, that “[my] pessimistic projection is that barring the possibility that China can gain access to resources other than the South China Sea area, then ASEAN countries will have to face the possibility of imminent military confrontation with China.”²⁴³ Shortly afterwards the Indonesian defence force, the Tentara Nasional Indonesia (TNI), conducted a large-scale tri-service military exercise in Natuna Island

²³⁷ Ibid.

²³⁸ Ibid., 319-320.

²³⁹ Ibid., 320.

²⁴⁰ Ibid., 323.

²⁴¹ Roy, *Southeast Asia and China: Balancing or bandwagoning?*.

²⁴² Douglas Johnson. (1997). Drawn into the Fray: Indonesia's Natuna Islands Meet China's Long Gaze South. *Asian Affairs*, 24(3) Fall, 153-161.

²⁴³ Rizal Sukma. (2009). Indonesia-China Relations: The Politics of Re-engagement. *Asian Survey*, 49(4) July/August, 591-608, 600.

signalling a strong message to China.²⁴⁴ According to a former high-ranking officer, the exercise reflected the TNI's concern about "the defense of the Natuna Islands against a potential Chinese military incursion."²⁴⁵

Indonesia, unlike other ASEAN states, the Philippines, Vietnam, Malaysia and Brunei, is not a claimant in the regional dispute but it has rejected Chinese claims that, according to the Chinese Foreign Ministry, there are overlapping claims on "maritime rights and interests."²⁴⁶ Specifically, Jakarta rejects China's inclusion of waters around the Indonesian-ruled Natuna Islands within Beijing's "nine-dash line"²⁴⁷ and the increasing incursion of Chinese fishing fleets – or "blue militia"²⁴⁸ – in the resource rich waters. Indonesian Foreign Minister Retno Marsudi stated that, although the dispute is a question of law enforcement and not politics, Indonesia's "position is clear that claims can only be made on the basis of international law. For Indonesia, we don't have overlapping claims in any form in Indonesian waters with China."²⁴⁹ Indonesia's Vice President Jusuf Kalla further stated that Indonesia would be more assertive in protecting its exclusive right to the waters around the Natuna Islands.²⁵⁰

A series of events have dramatically escalated tensions. In 2010 and again in 2013 armed Chinese vessels, including the Chinese coastguard and other maritime enforcement vessels have confronted and compelled Indonesian fisheries patrol boats to release Chinese fishermen apprehended for illegally fishing in Indonesian waters.²⁵¹ On other occasions the Indonesian Navy's Western Fleet has confronted Chinese fishing boats, fired warning shots,

²⁴⁴ Laksmana, Dimensions of Ambivalence in Indonesia-China Relations. The exercise involved approximately 20,000 troops, 40 aircraft and 50 warships.

²⁴⁵ Ibid., 29.

²⁴⁶ ABC News. (2016). Natuna Islands: Indonesia says no 'overlapping' South China Sea claims with China. June 22. Retrieved from <http://www.abc.net.au/news/2016-06-22/no-overlapping-claims-with-china-in-indonesian-waters-says-fm/7534498>.

²⁴⁷ Ibid.

²⁴⁸ Andrew S. Erickson & Conor M. Kennedy. (2016). China's Maritime Militia: What It Is and How to Deal With It. *Foreign Affairs*, June 23. Retrieved from <https://www.foreignaffairs.com/articles/china/2016-06-23/chinas-maritime-militia>; Andrew S. Erickson & Conor M. Kennedy. (2016). Countering China's Third Sea Force: Unmask Maritime Militia before They're Used Again. *The National Interest*, July 6. Retrieved from <http://nationalinterest.org/feature/countering-chinas-third-sea-force-unmask-maritime-militia-16860>; James Kraska & Michael Monti. (2015). The Law of Naval Warfare and China's Maritime Militia. *International Law Studies*, 91(450), 450-467.

²⁴⁹ ABC News, Natuna Islands: Indonesia says no 'overlapping' South China Sea claims with China.

²⁵⁰ Ibid.

²⁵¹ ABC News. (2016). Indonesia's Government accuses Chinese coastguard of infringing on its waters. March 22. Retrieved from <http://www.abc.net.au/news/2016-03-21/indonesia-says-chinese-coast-guard-infringed-on-its-waters/7264368>.

confiscated and burnt boats and detained crews.²⁵² China's foreign ministry spokesman Hua Chunying responded stating that Indonesia had used "excessive use of force" and that China strongly protested the "Indonesian navy warships' harassment of Chinese fishermen in the South China Sea".²⁵³ Hua further stated that the incident took place in "a traditional Chinese fishing ground where China and Indonesia have overlapping maritime rights claims" and "Indonesia's actions violated international laws, including the UN Convention on the Law of the Sea and the Declaration on the Conduct of Parties in the South China Sea, and harmed the lives and property of Chinese fishermen."²⁵⁴ He then urged "Indonesia to stop taking action that escalates tension, complicates issues, or affects peace and stability."²⁵⁵

Indonesia's response has been unqualified. In a 2014 op-ed in the Wall Street Journal, Indonesia's Military Chief General Moeldoko stated that "Indonesia is dismayed... that China has included parts of the Natuna Islands within the nine-dash line, thus apparently claiming a segment of Indonesia's Riau Islands province as its territory."²⁵⁶ He went further to state: "the Indonesian military has decided to strengthen its forces on Natuna. We will need also to prepare fighter planes to meet any eventuality stemming from heightened tensions on one of the world's key waterways."²⁵⁷

As part of Jokowi's pledge to develop Indonesia's frontiers, Indonesian Defense Minister Ryamizard Ryacudu announced that Indonesia will build several bases in the Natuna Islands to, as Jokowi stated, "safeguard the country's sovereignty and to help enforce the rule of law."²⁵⁸ In June 2016, Jokowi visited the Natuna Islands and held a symbolically charged limited cabinet meeting, which included his Cabinet Secretary, Chief Security Minister, Foreign Affairs Minister, Fisheries Minister and military chief, aboard the Indonesian Navy

²⁵² Yenni Kwok. (2016). Indonesian President Jokowi Visits the Natuna Islands to Send a Strong Signal to China. *Time*, June 23. Retrieved from <http://time.com/4379401/indonesia-china-jokowi-natuna-sovereignty-maritime-fishing-dispute/>.

²⁵³ *Xinhua News* (2016). Indonesian navy fires on Chinese fishing boat. June 20. Retrieved from <http://www.globaltimes.cn/content/989273.shtml>.

²⁵⁴ Ibid.

²⁵⁵ Ibid.

²⁵⁶ Moeldoko (2014). China's Dismaying New Claims in the South China Sea. *The Wall Street Journal*, April 24. Retrieved from <https://www.wsj.com/articles/SB10001424052702304279904579515692835172248>.

²⁵⁷ Ibid.

²⁵⁸ *NSNBC International*. (2016). Indonesia to Build Military Bases on Natuna Islands as South China Sea Dispute Destabilizes Region. July 3. Retrieved from <https://nsnbc.me/2016/07/03/indonesia-to-build-military-bases-on-natuna-islands-as-south-china-sea-dispute-destabilizes-region/>; Zachery Keck. (2015). Indonesia Is Building New Military Base in South China Sea. *The National Interest*. July 10. Retrieved from <http://nationalinterest.org/blog/the-buzz/indonesia-building-new-military-base-south-china-sea-13305>.

warship KRI *Imam Bonjol* that had confronted Chinese fishing fleets a week prior.²⁵⁹ In November 2016, Jokowi stated in an Australian media interview that there would be “no compromise on sovereignty,” pushing back against Chinese claims that waters near Indonesian islands are also traditional Chinese fishing grounds.²⁶⁰

Jokowi has also stated that China’s South China Sea claim has no basis in international law and has asserted Indonesia’s position as an “honest broker” in the dispute, whilst reiterating that peace and stability in the Asia-Pacific region is critical to economic growth.²⁶¹ However, Indonesian scholars argue that the limits of Jakarta’s ‘non-claimant’ position in the South China Sea have been exposed and that Jokowi is facing a growing call to abandon Indonesia’s neutral stance in the South China Sea dispute.²⁶² This presents a direct challenge to Indonesia’s long-standing ‘delicate equilibrium’ approach and is due to a number of factors. First, increasing Chinese assertiveness could potentially force Jakarta’s hand. This could be either as a direct challenge to Indonesian rights to explore the natural resources within the Natunas or the implications of increasing Chinese military encroachment as Chinese reclamation efforts position the Chinese military ever closer to Indonesia thus increasing the chances for encounters between Indonesian and Chinese military and fishermen.²⁶³

The continued failure of ASEAN to reach consensus or the fracturing of member states akin to 2012 could also prompt Indonesia to seek to resume a leadership role on the issue²⁶⁴ as could uncertainty regarding the US’s role in the Asia Pacific under the Trump Administration. Domestic Indonesian factors could also lead to a shift in policy; including fissures between the Indonesian military and civilian leadership.²⁶⁵ Jokowi’s concept of Indonesia as a Global Maritime Axis - declared at the 2014 East Asia Summit – could also

²⁵⁹ Ibid.

²⁶⁰ Keith Gosman. (2016). Indonesia’s Widodo Tells China No Compromise on Sovereignty. *Bloomberg News*. November 5. Retrieved from <https://www.bloomberg.com/news/articles/2016-11-04/indonesia-tells-china-no-compromise-on-sea-sovereignty-smh>.

²⁶¹ Kanupriya Kapoor & Linda Sieg. (2015). Indonesian president says China’s main claim in South China Sea has no legal basis. *Reuters*. March 23. Retrieved from <http://www.reuters.com/article/us-indonesia-china-southchinasea-idUSKBN0MJ04320150323>.

²⁶² Evan A. Laksmana. (2016). A post-non-claimant South China Sea policy. *The Jakarta Post*. June 20. Retrieved from <http://www.thejakartapost.com/news/2016/06/20/a-post-non-claimant-south-china-sea-policy.html>.

²⁶³ Parameswaran, Delicate Equilibrium: Indonesia’s Approach to the South China Sea, 331.

²⁶⁴ Ibid.

²⁶⁵ Greta Nabbs-Keller. (2017). Is Indonesia shifting its South China Sea policy? *The Interpreter*. March 26. Retrieved from <https://www.lowyinstitute.org/the-interpreter/indonesia-shifting-its-south-china-sea-policy>.

call into question its response to Chinese aggression in the South China Sea given that one of the GMA's pillars is the defense of its maritime borders and resources. Arguably, Indonesia's interest in mediating the South China Sea dispute was partially influenced by Jokowi's vision of Indonesia as a Global Maritime Axis (GMA).

Conclusion

According to the criteria in Cheng-Chwee Kuik's model, Indonesia has pursued a broad and mixed approach towards China which reflects a bundle of power rejection and power acceptance strategies combining the risk contingency options of economic diversification, indirect balancing and dominance denial; and the returns maximising options of economic pragmatism, binding engagement and limited bandwagoning.

Indonesia responded to the 1997 Asian Financial Crisis by developing strategies to buffer its economy. This included pursuing a policy of economic diversification by strengthening its economic partnerships with Asian powerhouses Japan and Singapore particularly. Singapore is Indonesia's top trading and investment partner and Japan has proven itself to be an invaluable donor providing critical financial assistance to the large scale infrastructure development projects at the core of Jokowi's economic nationalism drive. China is, however, a leading economic partner thereby reflecting the imperative of economic pragmatism. China is Indonesia's third largest investor and likely to grow as long as Chinese growth does not slow (which in itself supports the need for economic diversification). Jokowi has successfully sought to tap into Beijing's One Belt, One Road aspirations and, in doing so, obtain the investment critical to supporting Jokowi's large infrastructure development, the National Strategic Program.

Indonesia's approach to increasing Chinese military assertiveness has been the adoption of indirect balancing and dominance denial strategies through increasing its security cooperation and defence diplomacy with powerful new security partners such as Japan, as well as its traditional defense partner, the United States. The latter relationship, however, has been one of mixed indifference.

Indonesia's crisis management approach has been to present itself as an honest broker, or mediator, and as a non-claimant with direct strategic interests in safeguarding its territorial waters in the Natuna Sea. This has resulted in an approach best described as reaching a 'delicate equilibrium' – a hedging strategy that reflects both binding engagement and limited bandwagoning strategies.

It can be concluded that of the risk contingency options, Indonesia has pursued economic diversification but remains heavily reliant on China as a trading partner. Indonesia has adopted indirect balancing and dominance denial strategies but the relationship with the US has been marked with a degree of ambivalence. Of the returns maximising options, Indonesia has fully adopted the economic pragmatism strategy; and partially adopted both binding engagement and limited bandwagoning strategies.

Chapter Three: The Philippines

Of the two case studies examined in this thesis, it is the case of Sino-Philippines relations which has proven to be the most fluid and complex. The current uncertainty is in large part due to President Rodrigo Duterte's leadership and contradictory foreign policy towards China and the United States – a situation which could be potentially further complicated by the ambiguity surrounding the Trump administration's approach to the Asia Pacific.²⁶⁶

This chapter will use Cheng-Chwee Kuik's model to determine if the Philippines is hedging against China and if so, what strategies has Manila adopted. It acknowledges that the strategies the Philippines have adopted towards China to date are by no means static. The one consistency in the relationship is the competing claims over the South China Sea. In light of the relatively new administration of President Rodrigo Duterte, this case study will also consider the policies of previous governments in order to evaluate Philippines' strategic behaviour towards China. This chapter will conclude that, despite some mixed messaging, the Philippines is hedging against China whilst sensitive to the country's economic development priorities.

This chapter will first explore the degree of power rejection via the the risk contingency options of risk diversification, indirect balancing and dominance denial. The second half considers the degree of power acceptance via the returns maximising options of economic pragmatism, binding engagement and limited bandwagoning. It is important to note that, as Kuik argues, hedging is a *broad* strategic orientation which consists of a bundle of policies, and not a single policy or strategy.²⁶⁷ Consequently, Kuik suggests that states have a series of micro options which incorporate security, economics, and diplomacy and which collectively can be treated as a country's overall strategy towards another country.²⁶⁸

²⁶⁶ Council for Foreign Relations. (2016). *What Future for the Asia Pivot Under Trump?* December 14. Retrieved from <http://www.cfr.org/asia-and-pacific/future-asia-pivot-under-trump/p38581>; Mira Rapp-Hooper & Harry Krejsa. (2017). *Congress and Asia Strategy in the Trump Administration*, Centre for New American Security, January 11. Retrieved from <https://www.cnas.org/publications/reports/congress-and-asia-strategy-in-the-trump-administration>; Chris Mirasola. (2017). Water Wars: Asia-Pacific Grapples with new American Administration. *Lawfare*. January 27. Retrieved from <https://lawfareblog.com/water-wars-asia-pacific-grapples-new-american-administration>.

²⁶⁷ Kuik, How Do Weaker States Hedge?, 504.

²⁶⁸ Ibid., 502.

Background

Philippines foreign relations have been dominated by its relations with the United States and China. The Philippines is one of the US's oldest allies in the Pacific²⁶⁹ and the Philippines is viewed in Washington DC as a key pillar of the US strategic rebalance to Asia.²⁷⁰ This has been to the Philippines' advantage. The relationship has not been without tensions, however, since the Philippines became independent from the US in 1946. Following independence, the Philippines and US established a formal security alliance underpinned by three agreements: the 1947 Military Bases Agreement (MBA) (expired 1992); the 1947 Military Assistance Program (MAP); and the 1951 Mutual Defense Treaty (MDT).²⁷¹ Under these agreements the US maintained a large military presence in the country, provided assistance to the AFP and extended a defence guarantee to the Philippines.²⁷²

Sino-Philippines relations have been similarly fluid over the past two decades in large part due to tensions over competing claims in the South China Sea – or West Philippines Sea. As was noted earlier, China claims it has historical rights over the South China Sea, specifically the Spratly and Paracel Islands, dating back to the Ming Dynasty.²⁷³ The Philippines lays claim to eight of the Spratly Islands and in 1968 President Ferdinand Marcos deployed troops to three of the islands in response to increasing Chinese and Vietnamese incursions.²⁷⁴ In 1978 the Spratly Islands were placed under the jurisdiction of the Philippines province of Palawan.²⁷⁵

After the withdrawal of US forces from the Philippines in 1992, subsequent presidents focussed more on internal development and less on proactive foreign policy. However,

²⁶⁹ There are four Philippines-United States Defence Treaties: Military Bases Agreement 1947-1992; Mutual Defence Treaty 1951; Visiting Forces Agreement 1998; Enhanced Defence Cooperation Agreement 2014.

²⁷⁰ Eleanor Albert. (2016). The U.S.-Philippines Defense Alliance,' CFR Backgrounder, Council on Foreign Relations, October 21. Retrieved from <http://www.cfr.org/philippines/us-philippines-defense-alliance/p38101>.

²⁷¹ Ibid.

²⁷² Ibid.

²⁷³ China's position is laid out in the following two reports: *Ministry of Foreign Affairs of the People's Republic of China, Position Paper of the Government of the People's Republic of China on the Matter of Jurisdiction in the South China Sea Arbitration Initiated by the Republic of the Philippines*, December 7, 2014. Retrieved from http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1217147.shtml; Chinese Society of International Law, *The Tribunal's Award in the "South China Sea Arbitration" Initiated by the Philippines Is Null and Void*, June 10, 2016. Retrieved from <http://www.csil.cn/News/Detail.aspx?AId=201>.

²⁷⁴ *Spratly Islands Conflicting Claims*, Global Security, 2013, Retrieved from <http://www.globalsecurity.org/military/world/war/spratly-conflict.htm>.

²⁷⁵ Ibid.

China's increasing assertiveness in the South China Sea caused then Philippines President Fidel Ramos to engage Beijing in dialogue whilst also securing a Visiting Forces Agreement (VFA) with the United States, recognizing that American hard power was necessary to at least slow down the pace of China's "creeping assertiveness."²⁷⁶

Ramos's subsequent successor, President Gloria Macapagal Arroyo sought to deepen the Philippines' hedging position vis-à-vis Washington and Beijing.²⁷⁷ However, leaked US Embassy cables revealed that the Arroyo administration had assented to the 2005 Joint Marine Seismic Undertaking (JMSU) Agreement in the Spratly islands in exchange for Chinese backed infrastructure loans - which led to then President Arroyo and her husband being charged with graft.²⁷⁸ The cables referred to illicit Chinese influence over the Philippines Government and pressure from Beijing over the signing of the Philippines Baselines Law.²⁷⁹

Arroyo's conciliatory approach to China was regarded by many as an affront to Philippines' sovereignty and a question of national security. In a surprising move, in 2009, Republic Act 9522 or the Philippines Baselines Law was enacted which ensured the baseline law was compliant with UNCLOS and reaffirmed the Philippines commitment to the ASEAN-China Declaration on the Code of Conduct in the South China Sea.²⁸⁰ It was heavily opposed by China and Vietnam.

In response to China's growing assertiveness in the South China Sea – and wary of the lessons and legacy of the Arroyo presidency - Benigno Aquino III aligned the Philippines much closer to the United States during his term between 2010 and 2016 and directly challenged China's claims in the South China Sea. This was a significant shift from Arroyo's approach. Baviera suggests that President Aquino's policy was significantly closer to a

²⁷⁶ Ian J. Storey. (1999). Creeping Assertiveness: China, the Philippines, and the South China Sea Dispute. *Contemporary Southeast Asia*, 21(1), April, 100.

²⁷⁷ Prashanth Parameswaran. (2016). The Limits of Duterte's US-China Rebalance. *The Diplomat*, October 24. Retrieved from <http://thediplomat.com/2016/10/the-limits-of-dutertes-us-china-rebalance/>.

²⁷⁸ Wikileaks, Cable 08MANILA1838, August 1, 2008.

²⁷⁹ WikiLeaks cables: Arroyo scandals affected Spratlys, Scarborough, ABS CBN News, April 17, 2012. Retrieved from <http://news.abs-cbn.com/-depth/04/17/12/wikileaks-cables-arroyo-scandals-affected-spratlys>.

²⁸⁰ Michael Garcia. (2009). The Philippines Baseline Law. Tokyo, Japan, 13 April. Retrieved from http://www.un.org/depts/los/nippon/unbff_programme_home/alumni/tokyo_alumni_presents_files/alum_tokyo_garcia.pdf.

balancing or containment approach towards China.²⁸¹ Notably, during Aquino's presidency, the Philippines sought to confront Chinese claims in the South China Sea through legal means and by aligning closer to the US and Japan.

In 2013 the Philippines filed the South China Sea Arbitration case at The Hague claiming that the rocky outcrops in the South China Sea could not be used as a basis for territorial claims. The Hague Tribunal overwhelmingly found in the Philippines' favour.²⁸² China refused to acknowledge the Court, recognise the claims²⁸³ and rejected the ruling.²⁸⁴ The South China Sea arbitration case shaped the Aquino administration's relations with China. Despite efforts to repair ties with China, the South China Sea arbitration case and the subsequent ruling significantly and not surprisingly undermined already strained relations between Manila and Beijing.²⁸⁵

The election of President Rodrigo Duterte in 2016 has led to what would appear to be a significant foreign policy shift. In contrast to Aquino's balancing or containment strategy, scholars are questioning whether Duterte will revert to a hedging strategy.²⁸⁶ Certainly, Duterte's contradictory messaging on the South China Sea issue has introduced an additional layer of unpredictability to regional geopolitics, unsettling the US, Japan, and presumably some countries in ASEAN who see the arbitration case alongside active support for the US military presence as potential game changers in the management of their own relations with China and the United States.²⁸⁷

²⁸¹ Aileen Baviera. (2016). President Duterte's Foreign Policy Challenges. *Contemporary Southeast Asia*, 38(2), August, 202-208.

²⁸² The ruling in favour of the Philippines is outlined in PCA Case No. 2013-19 In the Matter of the South China Sea Arbitration before An Arbitral Tribunal Constituted Under Annex VII To the 1982 United Nations Convention on the Law of the Sea between The Republic of the Philippines vs the People's Republic of China, Permanent Court of Arbitration, The Hague, Award of 12 July 2016. Retrieved from <https://pca-cpa.org/wp-content/uploads/sites/175/2016/07/PH-CN-20160712-Award.pdf>.

²⁸³ Ministry of Foreign Affairs of the People's Republic of China, Position Paper of the Government of the People's Republic of China on the Matter of Jurisdiction in the South China Sea Arbitration Initiated by the Republic of the Philippines, December 7, 2014. Retrieved from http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1217147.shtml.

²⁸⁴ *The Guardian*. (2016). Beijing rejects tribunal's ruling in South China Sea case. July 12. Retrieved from <https://www.theguardian.com/world/2016/jul/12/philippines-wins-south-china-sea-case-against-china>.

²⁸⁵ *The Guardian*. (2013). Typhoon Haiyan: China gives less aid to Philippines than Ikea. November 14. Zhu Feng, an international relations expert at Peking University, is quoted in the article stating that the amount donated 'reflects the political deadlock, if not outright hostility, between the two countries.' Retrieved from <https://www.theguardian.com/world/2013/nov/14/typhoon-haiyan-china-aid-philippines-ikea>.

²⁸⁶ Baviera, President Duterte's Foreign Policy Challenges, 202-208.

²⁸⁷ *Ibid.*, 204-205.

However, although there appeared to be an initial foreign policy shift away from the Philippines traditional ally, the United States, towards China, it is increasingly apparent that Duterte's initial foreign policy pronouncements were more rhetoric than substance. Fears that an actual foreign policy shift away from the US has occurred are largely unrealised. For example, despite Duterte's threat to scrap the 2014 Enhanced Defence Cooperation Agreement (ECDA), Philippines Defense Secretary Delfin Lorenzana has categorically stated that the benchmark of US-Philippines defence relations will not be scrapped.²⁸⁸ Moreover, these apparent policy contradictions must be seen in the light of playing the US and China off against each other. This chapter will examine the extent and nature of the shift and whether this reflects a marriage of hedging policies.

4.1 Risk Contingency Options

Economic Diversification

The first risk contingency option is economic diversification. Until the current Duterte Administration, the Philippines has pursued a pragmatic policy of economic diversification through trade and investment in order to avoid dependency on China. Although China ranks second amongst the Philippines' top five major trading partners, (Japan, China, the United States, Singapore and Hong Kong), the Philippines has succeeded in developing economic partnerships with other major economic powers and consequently has been the least dependent of Southeast Asian states on Chinese economic ties. How this could potentially change will be discussed later in the chapter.

Japan, the Philippines' top trading partner, has long been a key economic and trading partner and Manila has capitalised on Tokyo's desire to strengthen its engagement with Southeast Asia. In 2006 the Philippines and Japan signed the bilateral trade treaty, the Japan-Philippines Economic Partnership Agreement (JPEPA).²⁸⁹ In 2009 President Arroyo and Prime Minister Aso signed the Japan-Philippines Joint Statement "Fostering a Strategic

²⁸⁸ *Reuters*. (2017). Philippines says U.S. military to upgrade bases, defense deal intact. January 26. Retrieved from <http://www.reuters.com/article/us-philippines-usa-defence-idUSKBN15A18Z>.

²⁸⁹ Ministry of Foreign Affairs of Japan. (2006). *Agreement Between Japan and the Republic of the Philippines for an Economic Partnership*, Tokyo, September 9. Retrieved from <http://www.mofa.go.jp/region/asia-paci/philippine/epa0609/>.

Partnership for the Future between Close Neighbors” which sought to strengthen the economic relationship in the face of the global economic crisis, increase investment from Japan to the Philippines, and boost the region’s economy.²⁹⁰

This was further demonstrated by Japanese Prime Minister Shinzo Abe being the first head of state to visit the Philippines following Duterte’s election. In 2015 Japan was the Philippine’s top trading partner, accounting for a total trade worth USD\$18.669 billion or 14.4 percent of the country’s total trade; exports to Japan totalled USD\$12.301 billion while imports were valued at USD\$6.369 billion, posting a trade surplus of USD\$5.932 billion.²⁹¹ In 2017 Duterte effectively tapped into Japanese concerns over Manila’s increasingly close ties with China securing Japan’s pledge of JPY1 trillion (over USD8.8 billion) five year aid package to the Philippines, including government aid and private investments, to help its infrastructure development and strengthen strategic ties.²⁹²

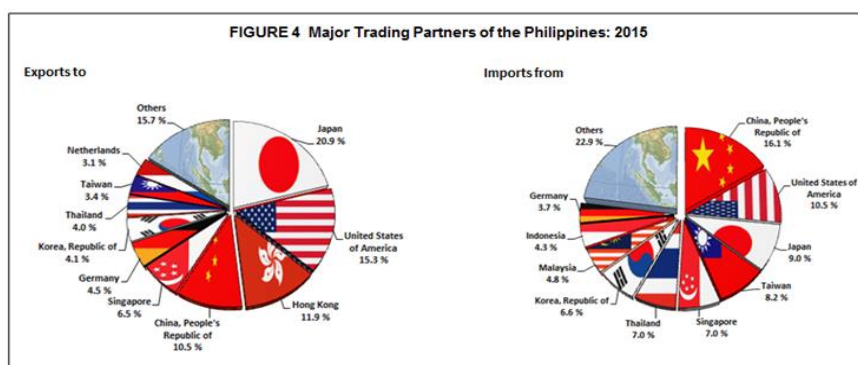
The US placed third accounting for 12.7 percent or \$16.491 billion total trade in 2015; Singapore ranked as the fourth largest trading partner of the country for 2015 with a total trade amounting to \$8.806 billion or a share of 6.8 percent to total trade; and Hong Kong was the country’s fifth largest trading partner in 2015 with total trade worth \$8.231 billion or 6.3 percent of the total external trade.²⁹³

²⁹⁰ Ministry of Foreign Affairs of Japan. (2009). *Japan-Philippines Joint Statement Fostering a Strategic Partnership for the Future between Close Neighbors - To overcome the present economic crisis and further strengthen the bilateral relations*, Tokyo, June 18. Retrieved from <http://www.mofa.go.jp/region/asia-paci/philippine/joint0906.html>.

²⁹¹ Philippines Statistics Authority. (2015). Foreign Trade Statistics of the Philippines: 2015, Reference Number: 2016-000, 15 July 2015. Retrieved from <https://psa.gov.ph/content/foreign-trade-statistics-philippines-2015>.

²⁹² *Japan Times*. (2017). Abe pledges ¥1 trillion aid package to Philippines for infrastructure development. 12 January. Retrieved from <http://www.japantimes.co.jp/news/2017/01/12/national/politics-diplomacy/abe-meets-duterte-economy-china/#.WJESJtJ97IU>. Jose Ma. Concepcion, the Philippines presidential consultant for entrepreneurship, said Chinese business would have no impact on Japan's interests, and there were plenty of opportunities up for grabs. “If you look at the level of investments, the Japanese are far much more entrenched,” he said. “China also has opportunities. The more countries that help us, the better.”

²⁹³ Philippines Statistics Authority. (2015). Foreign Trade Statistics of the Philippines: 2015, Reference Number: 2016-000, 15 July 2015. Retrieved from <https://psa.gov.ph/content/foreign-trade-statistics-philippines-2015>.



Source: Philippines Statistics Authority, *Foreign Trade Statistics of the Philippines: 2015*
<https://psa.gov.ph/content/foreign-trade-statistics-philippines-2015>.

Within Southeast Asia, trade in goods with ASEAN-member countries amounted to \$26.705 billion or 20.6 percent of the Philippines' entire trade in 2015.²⁹⁴ Singapore was the Philippines' top trading partner amongst ASEAN-member countries.²⁹⁵ The Philippines' trade with the European Union (EU) member countries totalled \$13.874 billion or 10.7 percent share of the total trade in 2015.²⁹⁶

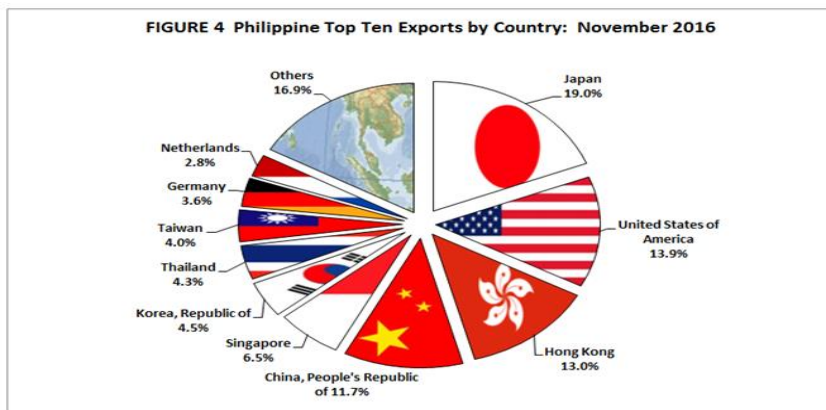
In 2016 Japan remained the top export partner with revenue amounting to \$898.83 million, comprising 19.0 percent share to total exports; the US ranked second, accounting 13.9 percent of total exports, with receipts valued at \$655.46 million in November 2016; Hong Kong with 13.0 percent share to total exports, ranked third with \$615.43 million; China ranked fourth with \$555.04 million or 11.7 percent share of the total exports; and Singapore ranked fifth, representing a 6.5 percent share to total exports, with export earnings worth \$307.01 million.²⁹⁷

²⁹⁴ Philippines Statistics Authority. (2015). *Foreign Trade Statistics of the Philippines: 2015*, Reference Number: 2016-000, 15 July 2015. Retrieved from <https://psa.gov.ph/content/foreign-trade-statistics-philippines-2015>. Exports to ASEAN-member countries were valued at \$8.751 billion while imports were worth \$17.954 billion.

²⁹⁵ Ibid.

²⁹⁶ Ibid.

²⁹⁷ Ibid.



Source: Philippines Statistics Authority, *Merchandise Export Performance: November 2016*, <https://psa.gov.ph/content/merchandise-export-performance-november-2016>

What this section demonstrates is that, according to Kwik's model, although the Philippines has sought to pursue an economic diversification strategy as part of a broader risk contingency strategy, its dependence on China as its second largest economic partner is its Achilles Heel.

Indirect Balancing

The second risk contingency option is indirect balancing. The Philippines has pursued indirect balancing policies to minimize security risks by forging defense partnerships and upgrading the Armed Forces of the Philippines without directly targeting a specific country. The Philippines has sought security cooperation with states with shared or similar goals. This is most visible in its defence relations with the US and, increasingly, growing defence and security ties with Japan.

The Philippines-US defence relationship is one of the pillars of the Southeast Asian regional security architecture. The defence relationship is underpinned by a collective of formal security alliances: the 1947 MBA (now expired); the 1947 MAP; the 1951 MDT; and the 2014 ECDA. However, as noted earlier, the defence relationship is not without tension.

The Corozan Aquino Government voted in 1991 to close US bases in the Philippines after failed negotiations between Washington DC and Manila over the financial remuneration the United States would pay for the rental of its bases in the Philippines. As a consequence of the closure of two major American military facilities - Clark Air Base and Subic Naval Base - in

Southeast Asia, the strategic importance of the alliance to both parties declined.²⁹⁸ The Military Bases Agreement expired and by November 1992 the US had withdrawn all its military personnel from the Philippines, and US-Philippine military relations were subsequently downgraded.²⁹⁹

In 1995 there was a warming in the Philippines-US relationship and a series of agreements were signed over the next four years, namely, the Status of Forces Agreement (SOFA) 1996, Visiting Forces Agreement (VFA) 1999, as well as the International Military Educational Training (IMET) programme, and the resumption of the Foreign Military Financing (FMF) otherwise known as Foreign Military Sales (FMS). This coincided with the adoption of the AFP Modernization Law³⁰⁰ which sought to develop the AFP's defense capability which had suffered since the downgrading of US-Philippines military relations a few years prior.³⁰¹

This re-engagement was due in large part to increasing Chinese activity in the South China Sea. That year, China occupied Mischief Reef, in the Spratly chain, approximately 217 km from the coast of the Philippines' Palawan Island, and within the Philippines Exclusive Economic Zone. De Castro argues that Washington's growing interests in the Spratlys dispute since the mid-1990s has little to do with its treaty obligation to the Philippines under the 1951 MDT but rather that Washington's growing interest in the Spratlys stems from China's expansive territorial claims and growing assertiveness in the South China Sea that could threaten US maritime and strategic interests in the region.³⁰²

The Philippines welcomed this re-engagement and much needed military assistance after four decades of protracted and ongoing sub-national armed conflict and insurgency in the

²⁹⁸ Aileen Baviera. (2014). Implications of the US-Philippines Enhanced Defense Cooperation Agreement. *Asia Pacific Bulletin*. East-West Center, Number 262, May 9. Retrieved from <http://www.eastwestcenter.org/sites/default/files/private/apb262.pdf>.

²⁹⁹ Renato Cruz de Castro. (2009). The US-Philippine Alliance: An Evolving Hedge against an Emerging China Challenge. *Contemporary Southeast Asia* 31(3), December, 399-423, 405.

³⁰⁰ Congress of the Philippines. (1995). An Act Providing for the Modernization of the Armed Forces of the Philippines and for Other Purposes. Republic Act No. 7898. Manila, Philippines, February.

³⁰¹ Remegio M. de Vera. (2004). *Comparative Analysis of the Use of Foreign Military Sales (FMS) and Direct Commercial Sales (DCS) in the Procurement of US Defence Articles By the Philippines Government for the Use of the Armed Forces of the Philippines*, Masters Thesis, Naval Postgraduate School, Monterey, California, June. Retrieved from <http://www.dtic.mil/dtic/tr/fulltext/u2/a424836.pdf>.

³⁰² De Castro, The US-Philippine Alliance: An Evolving Hedge against an Emerging China Challenge, 405.

Southern Philippines³⁰³ and the spectre of Chinese aggression in the South China Sea. Relations were about to be ramped up even further. Following the September 11, 2001, Al Qaeda terrorist attacks on US soil, US-Philippine security relations underwent a dramatic transformation. Southeast Asia was seen by some in the Bush administration as the second front on the 'War on Terror'³⁰⁴ and the Philippines, the US's oldest ally in the region, was an essential partner. This was driven home first when President Arroyo visited the US in November 2001 on the 50th anniversary of the mutual defense treaty and then President George W. Bush stated that "we've [US] got no better friend in that part of the world than the Philippines."³⁰⁵ Then, in 2003, President Bush upgraded the status of the Philippines to that of a "major non-NATO ally".³⁰⁶

This enabled the Philippines to engage in training exercises and solicit military and economic aid.³⁰⁷ Specifically, the Philippines was able to secure vital US military and economic assistance for its counter-terrorism/insurgency campaign against domestic insurgents such as Abu Sayyaf Group, the New People's Army, and the Moro Islamic Liberation Front (MILF).³⁰⁸ In 2002 US Defense Secretary Donald Rumsfeld and Philippine National Defense Secretary Angelo Reyes signed an agreement to establish a Bilateral Defense Policy Board and in 2003 the Philippine Defence Reform Program (PDR) and the AFP's Capability Upgrade Program (CUP) were established.³⁰⁹ US and Philippine forces also resumed large-scale military exercises including the Balikatan Exercises, which were not wholly popular

³⁰³ The four key groups are the Moro National Liberation Front (MNLF), the Moro Islamic Liberation Front (MILF), the Abu Sayyaf, and the New People's Army (NPA). The MILF and Abu Sayyaf are breakaway factions of the MNLF and the NPA is the military wing of the Communist Party of the Philippines (CPP). See Rizel G. Buendia. (2005). The state-Moro armed conflict in the Philippines Unresolved national question or question of governance?. *Asian Journal Of Political Science* 13(1); Zachary Abuza. (2005). The Moro Islamic Liberation Front at 20: State of the Revolution.' *Studies In Conflict & Terrorism* 28(6); Peter Chalk. (2001). Separatism and Southeast Asia: The Islamic Factor in Southern Thailand, Mindanao, and Aceh. *Studies In Conflict & Terrorism* 24(4); Andrew Tan. (2000). Armed Muslim Separatist Rebellion in Southeast Asia: Persistence, Prospects, and Implications,' *Studies In Conflict & Terrorism* 23(4).

³⁰⁴ Catharin E. Dalpino. (2001). *The War on Terror in Southeast Asia*, Brookings Institute, December 19. Retrieved from <https://www.brookings.edu/opinions/the-war-on-terror-in-southeast-asia/>; Zachary Abuza. (2003). Terrorism: The War on Terrorism in Southeast Asia. In *Strategic Asia 2003-2004: Fragility and Crisis*, The National Bureau of Asian Research, September 2003.

³⁰⁵ Remarks Following Discussions With President Gloria Macapagal-Arroyo of the Philippines and an Exchange With Reporters, The American Presidency Project, November 20, 2001. Retrieved from <http://www.presidency.ucsb.edu/ws/?pid=63858>.

³⁰⁶ CNN. (2003). Bush 'upgrades' Philippines. Inside Politics. May 20. Retrieved from <http://edition.cnn.com/2003/ALLPOLITICS/05/19/bush.philippines/>.

³⁰⁷ Sheldon W. Simon. U.S.-Southeast Asia Relations: The War on Terrorism: Collaboration and Hesitation. Retrieved from https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/media/csis/pubs/0201qus_seasia.pdf.

³⁰⁸ De Castro, The US-Philippine Alliance: An Evolving Hedge against an Emerging China Challenge,' 400.

³⁰⁹ Ibid.,406.

across the Philippino political landscape and showed another political misstep by President Arroyo.³¹⁰

The Philippines' alliance with the US on war on terror became, by extension, indirect hedging of China. Renato de Castro argues that the Philippines and the US gradually transformed the alliance from a product of the Cold War to a hedge against the geostrategic challenges posed by China's rising power.³¹¹ Moreover, Baviera contends that it has only been since 2008—amidst China's rising military ambitions and capability, the escalation of tensions between China and some ASEAN countries and Japan over conflicting territorial and maritime jurisdiction claims, and growing US-China competition for influence across Asia—that the convergence of strategic interests between Manila and Washington has been revived.³¹²

This transformation involved deepening the two countries' military relations through organizational planning, professional training, the implementation of new defence initiatives such as the Security Engagement Board (SEB) and Cooperative Security Locations (CSLs), and the development of interoperability for a long-term mobilization strategy in a potential US-China military/diplomatic face-off.³¹³ Castro suggested that should engagement fail, and should China adopt a more assertive posture that undermined the regional status quo, the US and the Philippines would have in place a cohesive and strengthened security relationship to constrain this emerging power's behaviour.³¹⁴

In 2014, heralding the growing importance of the alliance to both parties, the Philippines-United States Enhanced Defence Cooperation Agreement (EDCA) was signed.³¹⁵ The Agreement is not new but an update on the 1951 Mutual Defense Treaty and an implementing agreement of the 1999 Visiting Forces Agreement (VFA).³¹⁶ The central purpose of the agreement is to bolster the US-Philippine alliance, serve as the cornerstone of

³¹⁰ George Baylon Radics. (2004). Terrorism in Southeast Asia: Balikatan Exercises in the Philippines and the US 'War against Terrorism. *Stanford Journal of East Asian Affairs* 4(2), Summer, 115-127.

³¹¹ De Castro, The US-Philippine Alliance: An Evolving Hedge against an Emerging China Challenge, 400.

³¹² Baviera, Implications of the US-Philippines Enhanced Defense Cooperation Agreement.

³¹³ De Castro, The US-Philippine Alliance: An Evolving Hedge against an Emerging China Challenge, 400.

³¹⁴ Ibid.

³¹⁵ Agreement Between The Government of the Republic of the Philippines and the Government of the United States of America on Enhanced Defense Cooperation, 28 April 2014. Retrieved from <http://www.gov.ph/downloads/2014/04apr/20140428-EDCA.pdf>.

³¹⁶ Ibid. In 2016, the Philippines Supreme Court voted on the agreement was constitutional.

the US strategic rebalance and enable the forward deployment of US forces to the Philippines and, by extension, Southeast Asia.

The agreement allows for the enhanced rotational presence of US forces into the Philippines for extended stays which would increase training opportunities and contribute to increased interoperability and a greater ability to jointly respond to humanitarian crises (such as Typhoon Yolanda).³¹⁷ The agreement also allows for the joint development of agreed locations to support the shared goal of promoting the long-term modernization of the Armed Forces of the Philippines (AFP), and will help the AFP maintain and develop additional maritime security, maritime domain awareness, and humanitarian assistance and disaster relief capabilities.³¹⁸

At the time of signing, then President Obama acknowledged the strategic location of the Philippines and stated that his government has an “ironclad commitment” to the defense of the Philippines in the event of external attack.³¹⁹ That assurance did not, however, extend to the South China Sea. Here, Obama was nonspecific - expressing support for the Philippine approach of seeking arbitration under UNCLOS and reiterating the longstanding US position that “international law must be upheld, the freedom of navigation must be preserved and commerce must not be impeded.”³²⁰ He was, however, explicit in saying that the new agreement and the US rebalance as a whole were not aimed at containing China stating “our goal is not to counter China, our goal is not to contain China. Our goal is to make sure that international rules and norms are respected, and that includes the area of maritime disputes.”³²¹

The future of US-Philippine military ties under Duterte would appear to be less clear. It was no coincidence that, during a visit to Beijing, Duterte stated that the Philippines would be separating from long-standing ally, the US, both militarily and economically.³²² This

³¹⁷ Signing of Enhanced Defense Cooperation Agreement, U.S. Embassy in the Philippines, April 28, 2014. Retrieved from <https://ph.usembassy.gov/signing-enhanced-defense-cooperation-agreement/>.

³¹⁸ Ibid. Notably, the ECDA “affirms the understanding that the United States will not establish a permanent military presence or base in the territory of the Philippines.”

³¹⁹ Ian J. Storey & Cheng Yi-Lin (Eds). (2016). *The South China Sea Dispute: Navigating Diplomatic and Strategic Tensions*, Iseas-Yusof Ishak Institute, Singapore, 173.

³²⁰ Ibid.

³²¹ Ibid.

³²² *Al Jazeera*. (2016). Philippines' Duterte in China announces split with US. October 21. Retrieved from <http://www.aljazeera.com/news/2016/10/philippines-duterte-china-announces-split-161020131226993.html>.

signalled a potential end to the EDCA. Two days later, Duterte clarified his comments stating that he was advocating a “separation of foreign policy” rather than “a severance of ties.”³²³ Duterte has further indicated a gradual downgrade of military relations with Washington in favour of closer economic and military ties with China and Russia.³²⁴ This has included suggestions that Manila is moving towards terminating major joint military exercises with Washington, namely the Cooperation Afloat Readiness and Training Exercise (Carat) and the joint U.S.-Philippine Amphibious Landing Exercise (PHIBLEX).³²⁵ However, despite the rhetoric, there have been no significant policy changes in the defence relationship.

Manila is caught between a rock and a hard place. Frustration that Philippine governments since the 1980s have failed to persuade the United States to include Manila’s territorial claims in the South China Sea in the scope of their mutual defense obligations,³²⁶ has inadvertently contributed to Manila’s indirect balancing of China. Baviera suggests that Duterte’s stance towards the US reflects mistrust in Washington DC’s sincerity and reliability as an ally, notably that Washington had deliberately not been helpful in preventing China’s construction of artificial islands within Philippine-claimed waters.³²⁷ Duterte did, however, acknowledge the importance of the US in maintaining the balance of power in Asia and the Philippines’ reliance on the US because of its limitations in militarily confronting China.³²⁸ Analysts suggest that Duterte’s approach to the US may echo the way US-Malaysia security cooperation proceeded under Prime Minister Mahathir Mohamad, with collaboration going on under the radar even as he railed against Washington on bilateral and regional issues.³²⁹

Despite this, defence relations have, perhaps not surprisingly, remained relatively untarnished by Duterte’s flip-flopping and perhaps that was the point. As noted earlier, in January 2017 the Philippines Defence Secretary Delfin Lorenzana announced that the EDCA was going

³²³ CNN. (2016). Philippines not really severing ties with US, Duterte says. October 22. Retrieved from <http://edition.cnn.com/2016/10/21/asia/duterte-china-philippines-us/>; CNN, (2016). White House: 'Filipino Mike Pence' tries to walk back Duterte's break with US. October 22. Retrieved from <http://edition.cnn.com/2016/10/20/politics/rodrigo-duterte-us-interests-philippines/index.html>.

³²⁴ Richard Javad Heydarian. (2017). Can Shinzo Abe Keep Rodrigo Duterte Away from China? *The National Interest*, January 20. Retrieved from <http://nationalinterest.org/blog/the-buzz/can-shinzo-abe-keep-rodrigo-duterte-away-china-19137>.

³²⁵ Ibid.

³²⁶ Baviera, Implications of the US-Philippines Enhanced Defense Cooperation Agreement, 204.

³²⁷ Ibid.

³²⁸ Ibid.

³²⁹ Prashanth Parameswaran. (2016). Where Are US-Philippine Defense Relations Under Duterte? *The Diplomat*, November 24. Retrieved from <http://thediplomat.com/2016/11/where-are-us-philippine-defense-relations-under-duterte/>.

ahead.³³⁰ At the same time, however, Lorenzana announced that the Philippines had, as part of a \$US14 million arms donation from China, requested fast boats, two drones, sniper rifles, and a bomb disposal robot, pegged for use in operations against the Abu Sayyaf in the Southern Philippines.³³¹

How significant growing defence ties are with China is yet to be seen. As yet, the assistance is in the form of defence equipment which suggests that the Philippines is seeking to maintain its far more substantive and expansive military relationship with the US under the EDCA but benefit from the more traditional military aid that Beijing is offering. Duterte stated in 2016 that the Philippines would be “open” to holding military exercises focussing on maritime security and counter terrorism with China and Russia however this has yet to eventuate.³³²

Recognising the gap between Duterte rhetoric and formal policy remains crucial to understanding the fine line that the Philippines is negotiating between upholding its sovereignty in the West Philippines Sea and protecting its economic relationship with China. Manila’s growing concerns over Chinese continued militarisation of Mischief Reef³³³ and encroachment on Scarborough Shoal - which is 230 kilometres from Luzon and which would effectively give China control of the South China Sea³³⁴ as the shoal is at the northeast exit of the South China Sea - will shape the Philippines efforts to achieve indirect balancing through a stable of security cooperation agreements with like-minded security partners.

In keeping with Manila’s indirect balancing strategy, the Philippines has forged closer security relations with Japan, capitalising, as mentioned earlier in this chapter, on Japan’s ambitions for greater influence and reach into Southeast Asia. In 2011 the Philippines and

³³⁰ Manuel Mogato. (2017). Philippines says US military to upgrade bases, defence deal intact. *Sydney Morning Herald*, January 27. Retrieved from <http://www.smh.com.au/world/philippines-says-us-military-to-upgrade-bases-defence-deal-intact-20170127-gtzvxl.html>.

³³¹ Ibid.

³³² *Al Jazeera*. (2016). Duterte: Philippines open to China, Russia 'war games'. October 18. Retrieved from <http://www.aljazeera.com/news/2016/10/duterte-philippines-open-china-russia-war-games-161017173207768.html>; *news.com.au* (2017). Russia offers to conduct joint military exercises with the Philippines in the South China Sea. January 6. Retrieved from <http://www.news.com.au/world/asia/russia-offers-to-conduct-joint-military-exercises-with-the-philippines-in-the-south-china-sea/news-story/a13dedc86d701082b57814cc49c2a39c>.

³³³ *The Straits Times*. (2017). Philippines defence minister says China arms on islands worrying. January 17. Retrieved from <http://www.straitstimes.com/asia/se-asia/philippines-defence-minister-says-china-arms-on-islands-worrying>.

³³⁴ *The Australian*. (2017). China likely to build more islands: Philippines Defence Minister. February 8. Retrieved from <http://www.theaustralian.com.au/news/world/china-likely-to-build-more-islands-philippines-defence-minister/news-story/6e67ea3a54c59e8a27cc6a2a6c2f39ec>.

Japan strategic partnership agreement acknowledged a common strategic interest in protecting the sea lines of communication of the two maritime countries and this was also identified as a foundation of the enhanced relationship.³³⁵

In 2015 the two militaries held inaugural joint naval exercises in the South China Sea. A year later, the Philippines and Japan signed a defense agreement. Japan committed to provide ten patrol boats to enable the PCG to safe guard the Philippines' maritime territory, and the Philippines endorsed Prime Minister Abe's move to reinterpret the 1947 Japanese Constitution allowing Japan's Self Defence Force (SDF) to assist allies like the US and possibly, the Philippines, in case of an armed confrontation with China in the South China Sea. In 2016, Duterte further sought Japan's assistance in the modernization of the AFP which to date has resulted a multi-role response vessel delivered to the Philippine Coast Guard to help in patrolling the West Philippine Sea and Japan's commitment to deliver a further ten coast guard ships valued at \$188.52 million.³³⁶

In early 2017, the Philippines and Japan agreed to further enhance maritime and security cooperation with Prime Minister Abe stating that China's military build up in disputed waters of the South China Sea influences regional peace and stability, and is a global concern.³³⁷ In response Duterte stated: "We will continue to forge ahead with our efforts to advance the rule of law in order to secure the waters in our region... As maritime nations, the Philippines and Japan have a shared interest in keeping our waters safe and secure from threats of any kind."³³⁸ The benefit of closer relations is a shared vested interest in securing their respective maritime domains in the face of heightened Chinese aggression – the Philippines in the context of the South China Sea and Japan in the face of Chinese claims to the Japanese-controlled Senkaku (Diaoyu) Islands in the East China Sea. As stated earlier, Japan is also seeking to build and consolidate its influence in Southeast Asia to counter Chinese influence

³³⁵ Julio Amador III. (2013). The Philippines' Search for Strategic Partners. *The Diplomat*, July 23. Retrieved from <http://thediplomat.com/2013/07/the-philippines-search-for-strategic-partners/>.

³³⁶ Christina Mendez. (2017). Duterte, Abe want rule of law in seas. *The Philippine Star*. January 13. Retrieved from <http://www.philstar.com/headlines/2017/01/13/1662266/duterte-abe-want-rule-law-seas>; Richard Javad Heydarian. (2017). Can Shinzo Abe Keep Rodrigo Duterte Away from China? *The National Interest*. January 20. Retrieved from <http://nationalinterest.org/blog/the-buzz/can-shinzo-abe-keep-rodrigo-duterte-away-china-19137>.

³³⁷ *The Philippines Star*. (2017). China: Japan's Abe sows discord, raises regional tension. January 17. Retrieved from <http://www.philstar.com/headlines/2017/01/17/1663543/china-japans-abe-sows-discord-raises-regional-tension>.

³³⁸ *The Philippines Star*. (2017). Duterte, Abe want rule of law in seas. January 13. Retrieved from <http://www.philstar.com:8080/headlines/2017/01/13/1662266/duterte-abe-want-rule-law-seas>.

and closer relations with the Philippines also seeks to bridge the gap left by Duterte's cooling of relations with the US.

Dominance Denial

The third risk contingency option is dominance denial. The Philippines has sought to engage in dominance denial in order to minimise geopolitical risks presented by China by using non-military means to cultivate a balance of influence among the powers. The Philippines has traditionally long-standing diplomatic and economic ties with the US however there remain concerns over Washington DC's commitment to upholding the Philippines sovereign claims in the South China Sea. In order to diversify its economic and diplomatic relations, the Philippines has cultivated closer ties with Japan across the economic sphere to the point where Japan is the Philippines top provider of development aid, leading trading partner, leading foreign investor, and a major ally in maritime security.³³⁹ Public perceptions of Japan in the Philippines are also high. In 2015 Japan received the most favourable rating (at 81 per cent) of all Asian countries among the Filipino public, far ahead of South Korea (68 per cent), China (54 per cent) and India (48 per cent).³⁴⁰ As Richard Heydarian notes though, there is some controversy in the relationship relating to Japanese imperial aggression during World War II and the perceived "historical revisionism" of the Abe administration which is pursuing a more proactive foreign and defence policy in Asia that potentially could be at odds with the Philippines desire to use peaceful means to resolve issues.³⁴¹ Despite concerns about reparations for Filipina 'comfort women', the Philippines has not pursued the issue, its priorities lying in upgrading bilateral security and economic cooperation with Tokyo.³⁴²

Strengthening relations with Japan has been a key objective of the Duterte administration and echoes efforts of previous administrations to balance Chinese influence. Duterte visited Japan in October 2017 and stated his support for Japanese territorial rights in the East China Sea

³³⁹ Richard Javad Heydarian. (2016). Turning over a new leaf in Japan–Philippines relations. *East Asia Forum*, March 5. Retrieved from <http://www.eastasiaforum.org/2016/03/05/turning-over-a-new-leaf-in-japan-philippines-relations/>.

³⁴⁰ Pew Research Centre. (2015). *How Asia-Pacific Publics See Each Other and Their National Leaders*, September 2. Retrieved from <http://www.pewglobal.org/2015/09/02/how-asia-pacific-publics-see-each-other-and-their-national-leaders/asia-heat-map/>.

³⁴¹ Heydarian. (2016). Turning over a new leaf in Japan–Philippines relations.

³⁴² Ibid.

and secured agreement for Japan's assistance in combating drug addiction in the Philippines. As noted earlier, Prime Minister Abe was the first head of state to visit the Philippines following Duterte's election to office. The Japan-Philippines Summit Meeting in January 2017 covered a range of cooperation agreements from maritime security through to trade and infrastructure development including a joint committee on economic collaboration to help with Manila's infrastructure development.

Such an effort by Tokyo is also apparently aimed at thwarting China's growing influence on the Philippines. Abe hopes the Philippines remains committed to an alliance with the United States in maintaining regional peace and stability, countering the growing assertiveness of China at sea, Japanese officials said.³⁴³ Abe also promised Japan's full support to the Philippines in chairing a series of meetings involving the 10-member Association of Southeast Asian Nations in 2017.

³⁴³ *Japan Times*. (2017). Abe pledges ¥1 trillion aid package to Philippines for infrastructure development. 12 January. Retrieved from <http://www.japantimes.co.jp/news/2017/01/12/national/politics-diplomacy/abe-meets-duterte-economy-china/#.WJESJtJ97IU>; *Bangkok Post*. (2017). Japan to aid Manila 'war on drugs'. 13 January. Retrieved from <http://www.bangkokpost.com/news/world/1179049/japan-to-aid-manila-war-on-drugs>.

4.2 Returns Maximising Options

Economic Pragmatism

The first of the returns maximising options is economic pragmatism. The Philippines has sought to maximise economic returns from China whilst engaging in a combined risk contingency strategy of risk diversification, indirect balancing, and dominance denial. Economic relations between the Philippines and China have grown significantly since Duterte came to power in 2016 although trade has consistently increased between the two countries. Sino-Philippine commerce has become one of the fastest-growing bilateral trade relations in Southeast Asia. China was the Philippines' second largest trading partner in 2015 with total trade worth \$17.646 billion or 13.6 percent of the total trade.³⁴⁴ This clearly demonstrates the degree of economic dependence the Philippines has on China. Export receipts from China stood at \$6.175 billion while payment for imports was valued at \$11.471 billion, resulting to a \$5.296 billion trade deficit.³⁴⁵

Since Duterte's 'pivot' to Beijing, the Philippines has secured Chinese pledges of US\$15 billion of investment to the Philippines. In 2017 Manila and Beijing agreed to cooperate on thirty projects worth US\$3.7 billion focusing on poverty reduction. Duterte is also proposing to diversify the narrowly based Philippine economy with an ambitious infrastructure development programme that will carry heavy Chinese involvement.³⁴⁶ A spin off the diplomatic détente has been an estimated 49% increase in Chinese tourists visiting the Philippines since 2016.³⁴⁷

Interestingly, and unlike some of its ASEAN partners, the Philippines has been enjoying a trade surplus with China, and this is attributed to the fact that China imports 85 per cent of its semiconductors from the Philippines. Beijing invested \$8.75 billion in the Sino-Philippine

³⁴⁴ Philippines Statistics Authority. (2015). Foreign Trade Statistics of the Philippines: 2015, Reference Number: 2016-000, 15 July 2015.

³⁴⁵ Ibid.

³⁴⁶ *The Straits Times*. (2017). Duterte plans to diversify economy with heavy China aid. February 1. Retrieved from <http://www.straitstimes.com/asia/se-asia/duterte-plans-to-diversify-economy-with-heavy-china-aid>.

³⁴⁷ *Business World Online*. (2017). Surge in Chinese tourism to the Philippines. March 3, Retrieved from <http://www.bworldonline.com/content.php?section=Economy&title=surge-in-chinese-tourism-to-the-philippines&id=141590>.

Centre for Agricultural Technology in the province of Nueva Ecija, the country's main rice growing area. China also financed the Philippine-Fuhua Sterling Agricultural Technology Development Corporation. In 2005 Beijing pledged \$450 million for the rehabilitation of the North Luzon Railway network. A further \$500 million in soft loans for the construction of a dam, an elevated highway and a provincial airport, has purportedly made Beijing the biggest provider of concessionary loans to the Philippines, overtaking Tokyo.

Duterte has made it clear that the Philippines' economic development is reliant on China's largesse. This, of course, places the Philippines in a greater position of vulnerability. The advantages of maximising economic returns from China only serves to highlights the Philippines trade dependency on China.

Binding Engagement

The second of the returns maximising options is binding engagement. The Philippines has, until the Duterte Administration at least, sought to engage China bilaterally and multilaterally, through ASEAN, primarily, as a means of balancing China's behaviour, particularly in regards to the South China Sea. In mid-1995 China and the Philippines signed a non-binding code of conduct in which they agreed to resolve the dispute peacefully and promote confidence-building measures. From 1996-2000 China agreed to multilateral discussions on the South China Sea dispute with ASEAN and showed increasing receptiveness to abide by regional norms of behaviour.³⁴⁸

In a dramatic departure from its predecessor's hawkish foreign policy on China, the Duterte administration has effectively sidelined the Philippines' landmark arbitration case against China in the South China Sea, advocated for joint development schemes in disputed South China Sea waters, and described Beijing as a friend and partner.³⁴⁹ This effectively blindsided Washington DC. Moreover, Duterte's announcement that the Philippines would engage bilaterally with China in regards to the South China Sea tensions was a complete

³⁴⁸ Castro, 408; Aileen Baviera. (2005). The South China Sea Disputes after the 2002 Declaration: Beyond Confidence Building. In Saw Swee-Hock, Sheng Lijun, & Chin Kin Wah. (Eds.). *ASEAN-China Relations: Realities and Prospects*. Singapore: Institute of Southeast Asian Studies, 2005, 346; Jurgen Haacke. (2003). *ASEAN's Diplomatic and Security Culture: Origins, Development and Prospects*. London and New York: Routledge, 122–129.

³⁴⁹ Heydarian, Can Shinzo Abe Keep Rodrigo Duterte Away from China?

reversal of policy but one welcomed by Beijing whose preference has long been to approach the issue bilaterally rather than through the multilateral ASEAN forum.

Despite the Philippines assuming the chairmanship of the Association of Southeast Asian Nations (ASEAN) in 2017, Duterte has signalled minimum interest in mobilizing regional pressure against China's maritime assertiveness, even though other ASEAN members, like Vietnam and Singapore, would be happy if the organization stepped up the pressure on Beijing.³⁵⁰ There are considerable concerns about the impact stronger ties with Beijing will have on the Philippines as Chair of ASEAN given the divisive role China has played in the past – notably China's influence over Cambodia prior to the 2012 and 2016 ASEAN meetings and Cambodia's subsequent blocking of any reference to the PCA in the leaders' statement.

The Duterte Administrations efforts to utilise a binding engagement strategy towards China have been successful in terms of increasing the levels of diplomatic and economic interaction between the two countries. This contrasts with the previous Aquino Administration's policy which verged on hostile at times.

Limited Bandwagoning

The third returns maximising option is limited bandwagoning. The Philippines has rejected a position of limited bandwagoning as evidenced by Manila's position on Beijing's territorial claims in the South China Sea. The territorial dispute between China and the Philippines centres around the ownership of about fifty small islands and reefs in the Spratly group in the South China Sea.³⁵¹ The Spratly archipelago comprises more than 230 rock formations of varying sizes, the sovereignty of which is disputed by six parties - China, Taiwan, Vietnam, Malaysia, the Philippines, and Brunei.³⁵² Three of the disputants (China, Taiwan and Vietnam) claim the entire chain, two (Malaysia and the Philippines) claim only certain parts of the group, whilst Brunei disputes a small part of the territorial waters.³⁵³ The fifty islands

³⁵⁰ Ibid.

³⁵¹ Ian J. Storey, *Creeping assertiveness: China, the Philippines and the South China Sea dispute*, 95-118.

³⁵² Ibid.

³⁵³ Ibid.

claimed by the Philippines are located 230 nautical miles west of Palawan Island, and are known to Filipinos as the Kalayaans.³⁵⁴ Sovereignty over the islands is important to the disputants not because of their intrinsic value, but because of the maritime resources which ownership would provide -- such as valuable fishing grounds and, as yet, unproven quantities of hydrocarbons (oil and gas).³⁵⁵

In its strongest rejection of China's claims in the South China Sea, the Philippines filed a landmark case against China at The Hague in 2013, specifically initiating proceedings under Article 287 and Annex VII of the United Nations Convention on the Law of the Sea (UNCLOS).³⁵⁶ The Philippines 'Notification and Statement of Claims' stipulates that

The Republic of the Philippines brings this arbitration against the People's Republic of China to challenge China's claims to areas of the South China Sea and the underlying seabed as far as 870 nautical miles from the nearest Chinese coast, to which China has no entitlement under the 1982 United Nations Convention on the Law of the Sea ("UNCLOS" or the "Convention"), and which, under the Convention, constitute the Philippines' exclusive economic zone and continental shelf.³⁵⁷

The Philippines further stated that it sought an Award that: (1) declares that the Parties' respective rights and obligations in regards to the waters, seabed and maritime features of the South China Sea are governed by UNCLOS, and that China's claims based on its "nine dash line" are inconsistent with the Convention and therefore invalid; (2) determines whether, under Article 121 of UNCLOS, certain of the maritime features claimed by both China and the Philippines are islands, low tide elevations or submerged banks, and whether they are capable of generating entitlement to maritime zones greater than 12 M; and (3) enables the Philippines to exercise and enjoy the rights within and beyond its exclusive economic zone and continental shelf that are established in the Convention.³⁵⁸

³⁵⁴ Ibid.

³⁵⁵ Ibid.

³⁵⁶ Department of Foreign Affairs of the Republic of the Philippines,. (2013). Notification and Statement of Claims. Manila, 22 January. Retrieved from <https://assets.documentcloud.org/documents/2165477/phl-prc-notification-and-statement-of-claim-on.pdf>.

³⁵⁷ Ibid.

³⁵⁸ Ibid., 2-3.

China cites a 1948 map published by China's Ministry of Interior on which the 'nine-dash line' appears as evidence of its territorial claims over the South China Sea.³⁵⁹ In 2009, China sent two Notes Verbales to the UN Secretary-General in response to Malaysia and Viet Nam's Joint Submission of the preceding day to the Commission on the Limits of the Continental Shelf (the "CLCS").³⁶⁰ In its notes, China stated that

China has indisputable sovereignty over the islands in the South China Sea and the adjacent waters, and enjoys sovereign rights and jurisdiction over the relevant waters as well as the seabed and subsoil thereof. The above position is consistently held by the Chinese Government, and is widely known by the international community.³⁶¹

In 2016 The Hague ruled in favour of the Philippines concluding that China had no legal basis for its historical claims in the South China Sea and that none of the sea features claimed by China were capable of generating an exclusive economic zone. This in turn found China to have breached Philippines sovereignty.

The consistency of the Philippines policy towards China over the South China Sea has been challenged during the Duterte Administration. Closer ties between Manila and Beijing and conflicting messaging have contributed to considerable policy uncertainty. This became particularly evident in October 2016, during a state visit to Beijing, when Duterte announced a split with the Philippines's long-standing ally, the United States, and agreed to bilateral talks with China on the South China Sea dispute, downplaying The Hague tribunal's finding in favour of the Philippines case.³⁶²

It is unlikely, however, that Duterte would abandon the Philippines position on the South China Sea as it would be domestically unpopular. A 2016 Pulse Asia Survey found that eight

³⁵⁹ Keyuan Zou. (1999). The Chinese Traditional Maritime Boundary Line in the South China Sea and Its Legal Consequences for the Resolution of the Dispute over the Spratly Islands. *International Journal of Marine and Coastal Law* 14(27), 27-55.

³⁶⁰ Retrieved from <https://pca-cpa.org/wp-content/uploads/sites/175/2016/07/PH-CN-20160712-Award.pdf>, 72.

³⁶¹ Note Verbale from the Permanent Mission of the People's Republic of China to the United Nations to the Secretary-General of the United Nations, No. CML/17/2009 (7 May 2009) (Annex 191); Note Verbale from the Permanent Mission of the People's Republic of China to the United Nations to the Secretary-General of the United Nations, No. CML/18/2009 (7 May 2009) (Annex 192).

³⁶² *Time*. (2016). How Philippine President Rodrigo Duterte Is Shaking Up the South China Sea. Oct 27. Retrieved from <http://time.com/4547711/philippines-rodrigo-duterte-south-china-sea/>.

out of ten – or 84 per cent - of Filipino respondents believed that the Philippines government should assert its claims in the West Philippines Sea.³⁶³

Conclusion

According to the criteria in Kuik's model, the Philippines can be said to have pursued a broad and mixed approach towards China which reflects a bundle of strategies combining the contingency options of risk diversification, indirect balancing and dominance denial and the returns maximising options of economic pragmatism, binding engagement and limited bandwagoning. The Philippines has pursued a pragmatic policy of economic diversification through trade and investment with Japan, the US, South Korea and Singapore. However, it is critical to note that despite economic diversification policies, China ranks second amongst the Philippines' top five major trading partners. The Philippines is dependent on China as a significant export market and has pursued a policy of economic pragmatism towards China in order to secure the economic development of the country. This suggests that Manila's challenge to Beijing's claims in the South China Sea comes with considerable economic risk. This ability to balance the two is perhaps due to the Philippines' consistent strategy of pursuing peaceful diplomatic means to address regional disputes.³⁶⁴

The Philippines has also pursued strategies of indirect balancing and dominance denial. In both cases, the Philippines has cultivated defence, economic and diplomatic relations with a powerful benefactor, Japan, who has a shared interest in countering Chinese influence in the Philippines and the wider Southeast Asian region. Arguably, and despite Duterte's rhetoric, the security alliance with the US remains resolute. This is unlikely to change.

Manila's crisis management approach towards Beijing can be attributed to binding engagement policy both through bilateral and multilateral channels – specifically ASEAN. Although it would appear that Duterte intends to adopt a primarily bilateral approach to South China Sea crisis management with Beijing, this may not be the most strategic of choices in the face of growing Chinese assertiveness. Lastly, the Philippines have rejected limited bandwagoning in the face of Chinese claims over the South China Sea and this policy, despite

³⁶³ *Inquirer Net*. (2017). 8 in 10 Filipinos want PH to assert rights in South China Sea—Pulse Asia. January 27. Retrieved from <http://globalnation.inquirer.net/152106/8-10-filipinos-want-ph-assert-rights-south-china-sea-pulse-asia>.

³⁶⁴ Baviera, Implications of the US-Philippines Enhanced Defense Cooperation Agreement.

a softening of Manila's stance by Duterte, is unlikely to change because it would be politically unpalatable.

It can therefore be concluded that of the risk contingency options, the Philippines partially adopted economic diversification but remains heavily reliant on China as a trading partner; it has fully adopted the strategies of indirect balancing and dominance denial. Of the returns maximising options, the Philippines has fully adopted the economic pragmatism strategy; partially adopted binding engagement and rejected limited bandwagoning.

Conclusion

One of the prescient questions within international relations today concerns the rise of China and what strategies states should deploy in response. This is particularly pertinent in the Asia Pacific neighbourhood. Southeast Asian states especially face a perennial challenge: how to balance economic and security interests between China and the US.

The aim of this thesis was to determine if Indonesia and the Philippines are hedging China and if so, what strategies have they adopted. Hedging is an increasingly popular lens through which to interpret the strategic foreign policy choices made by second tier states in Asia. To determine this, this study selected the hedging model developed by Kuik.

Kuik's model is the most comprehensive and nuanced of the available definitions and criteria of hedging. Kuik model which analyses two over-arching hedging strategies: (1) the risk contingency options of risk diversification, indirect balancing and dominance denial; and (2) the returns maximising options of economic pragmatism, binding engagement and limited bandwagoning. As this thesis shows, Kuik's model effectively demonstrates that hedging is a *broad* strategic orientation which consists of a bundle of policies – or micro options – incorporating security, economics, and diplomacy and not a single policy or strategy.³⁶⁵

In this study, Kuik's model has served the basis for analysing how Indonesia and the Philippines are responding and aligning with rising China and whether their behaviour can be considered hedging. This thesis has found that both Indonesia and the Philippines are hedging China however they are doing so to varying degrees.

Both countries have sought to adopt risk diversification policies however in each case China has remained a leading economic partner suggesting that Indonesia and the Philippines have unsuccessfully pursued risk diversification strategies. Indonesia responded to the 1997 Asian Financial Crisis by developing strategies to buffer its economy which included pursuing a policy of economic diversification by strengthening its economic partnerships with Asian powerhouses Japan and Singapore particularly. This has continued under Jokowi's economic

³⁶⁵ Kuik, *How Do Weaker States Hedge*, 502-504.

nationalism push and the drive for large infrastructure projects under the National Strategic Program. The Philippines has similarly pursued a policy of economic diversification through trade and investment with Japan, the US, South Korea and Singapore. However, like Indonesia, China is a highly significant economic partner, ranking second amongst the Philippines' top five major trading partners.

This study has determined that both Indonesia and the Philippines have adopted the risk contingency option of indirect balancing. Indonesia has increased its security cooperation and defence diplomacy with new security partners notably Japan. Indonesia has also increased its security cooperation with the US however it is worth noting that the relationship is best described as one of mixed indifference even ambivalence on the side of Indonesia. The Philippines has also pursued strategies of indirect balancing by cultivating security cooperation with a powerful benefactor, Japan, who has a shared interest in countering Chinese influence in the Philippines and the wider Southeast Asian region. Moreover, despite Duterte's rhetoric, the security alliance with the US remains resolute and is unlikely to change in the short-term although uncertainty. It is interesting to note that, especially in light of uncertainty regarding the direction of US policy in the Asia Pacific, neither Indonesia nor the Philippines are the bulwarks of US foreign policy in the region that they were once purported to be.

Of the third risk contingency option, it can be concluded that both Indonesia and the Philippines have adopted dominance denial strategies towards China. This is not surprising given the pursuit of indirect balancing policies. Both Indonesia and the Philippines have pursued economic and diplomatic relations with countering influences within the region, most particularly in both cases the US and Japan.

In light of the risk diversification findings, it is of no surprise that both Indonesia and the Philippines were found to have pursued the returns maximising policy of economic pragmatism. China is Indonesia's third largest investor and likely to grow as long as Chinese growth does not slow (which in itself supports the need for economic diversification). Jokowi has successfully sought to tap into Beijing's One Belt, One Road aspirations and, in doing so, obtain the investment critical to supporting Jokowi's large infrastructure development, the National Strategic Program. The Philippines is dependent on China as a significant export

market and has pursued a policy of economic pragmatism towards China in order to secure the economic development of the country. This suggests that Manila's challenge to Beijing's claims in the South China Sea comes with considerable economic risk. This ability to balance the two is perhaps due to the Philippines' consistent strategy of pursuing peaceful diplomatic means to address regional disputes.³⁶⁶

The findings reveal that it is in regards to the returns maximising options of binding engagement and limited bandwagoning strategies that the case studies begin to diverge. Indonesia has partially adopted a binding engagement strategy as evidenced by its response to crisis management in the South China Sea. Indonesia has presented itself as an honest broker, or mediator, and attempted to bring China to the diplomatic table at the 2012 ASEAN Summit as well as seeking consensus on the Code of Conduct. As a non-claimant to the South China Sea dispute, Indonesia has sought to bind China through multilateralism however it is arguably a partial policy as Indonesia has not demonstrated consistency or commitment to this approach and it is increasingly apparent that Jokowi lacks interest in ASEAN.

By contrast, the Philippines' have partially adopted a binding engagement strategy as a crisis management approach towards Beijing which can be attributed to binding engagement policy both through bilateral and multilateral channels – specifically ASEAN. The Philippines policy to break from the ASEAN-led approach and pursue unilateral legal action was also an attempt to bind China albeit within international fora. Although it would appear that Duterte intends to adopt a primarily bilateral approach to South China Sea crisis management with Beijing, this may not be the most strategic of choices in the face of growing Chinese assertiveness.

Of the second returns maximising options, this study found that Indonesia has partially adopted a policy of limited bandwagoning. As a state with direct strategic interests in safeguarding its territorial waters in the Natuna Sea, Indonesia has sought to balance its economic interests with China whilst upholding its territorial integrity. As a consequence, Indonesia has adopted a combined approach described as a 'delicate equilibrium.' This is essentially a hedging strategy that consists of both binding engagement and limited

³⁶⁶ Baviera, Implications of the US-Philippines Enhanced Defense Cooperation Agreement.

bandwagoning strategies. The Philippines, on the other hand, has outright rejected limited bandwagoning in the face of Chinese claims over the South China Sea and this policy, despite a softening of Manila's stance by Duterte, is unlikely to change because it would be politically unpalatable.

The application of Kuik's model to the foreign policy strategies and behaviours of Indonesia and the Philippines has been a useful approach to determine whether these two cases are hedging China and to what degree. This thesis has sought to answer these questions. In both cases, this study has concluded that Indonesia and the Philippines have adopted hedging strategies comprised of micro options which are not static but fluid and dynamic. In light of the growing uncertainty surrounding the Trump Administration's policy towards the Asia Pacific, understanding the drivers and behaviour of key Southeast Asian states and the degrees to which they are rejecting or accepting power is going to be critical.

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