

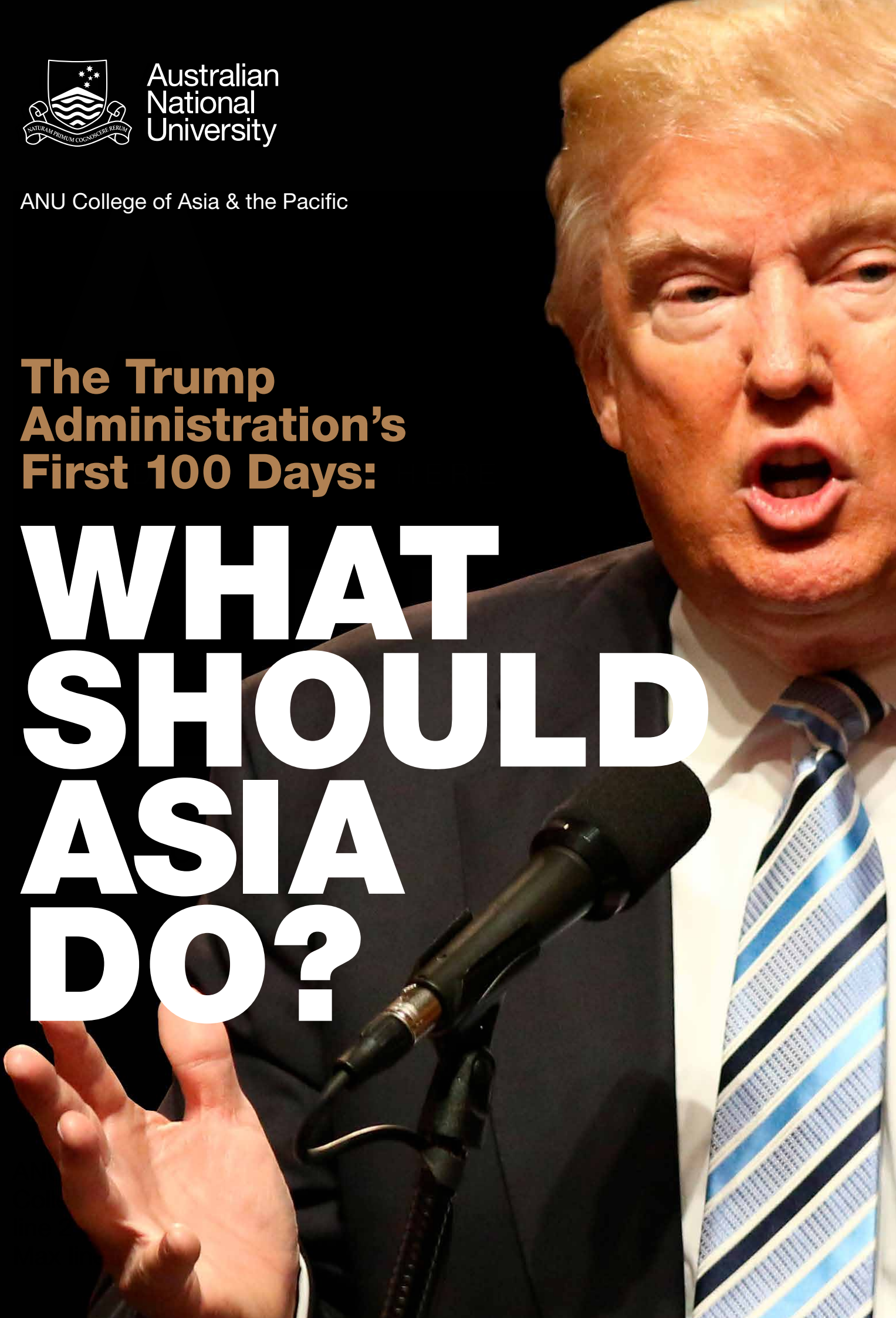


Australian  
National  
University

ANU College of Asia & the Pacific

**The Trump  
Administration's  
First 100 Days:**

# WHAT SHOULD ASIA DO?





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## Introduction

### Trump: What Should Asia Do?



Professor Michael Wesley

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Once again, Trump has broken the mould. The 100-day mark is traditionally used to assess a new administration's progress in advancing its policy agenda. With Trump, that's impossible. In foreign policy at least, it's more appropriate to ask whether at the 100-day mark the Trump administration is any closer to actually having a policy agenda.

In no region is this question more pressing than in the Asia Pacific. The Asia Pacific is home to two-thirds of the world's population, two-thirds of the global economy, and provides two-thirds of all global economic growth. It is the arena for the most serious challenge to America's international role since it emerged as a global power a century ago. It is also the region that hosts six of the world's nine nuclear states, and four of those have the fastest growing stockpiles and the most unpredictable nuclear doctrines.

Few would dispute that for over 70 years, the United States has both stabilised the Asia Pacific's fractious strategic affairs and underpinned its rapid economic development. And so the possibility of a radically different American role in the region instituted by the least conventional President in living memory is of vital interest not only to the residents of the region, but to the world as a whole.

We asked experts from across the ANU College of Asia and the Pacific to watch and assess the impact of Trump on the Asia Pacific during the first hundred days of his Presidency – and how the region, and Australia should respond. It's the sort of exercise that the largest and most

comprehensive collection of expertise on the Asia Pacific on the planet can do with relish – and with a customary policy eye. The result is a fascinating and varied portrait of how the new administration has affected the world's most dynamic region, and how the region is likely to react.

When viewed together, these essays allow us to reflect on three questions that will be crucial for this region and the world over the next four years and perhaps beyond. What have we learned about Trump and his administration? What do the region's reactions to Trump tell us about the regional role of the United States in the future? And what do these responses tell us about the Asia Pacific, and its likely trajectory in the near- and mid-term future?

#### The meaning of Trump

Trump's election threw a whirlpool of uncertainty into global politics. Unlike his opponent, the President-elect had never held public office, been nurtured within a mainstream political party, established a coterie of established policy advisers, or thought and spoken systematically about America's role in the world. One of our essayists, Bates Gill, suggests the idea of a "Predictometer" during the course of the first 100 days as a way of gauging the Administration's progress in outlining a clear policy agenda. In other words, has the Trump Administration become more clear and predictable on major policy or less so since assuming office?

Our Predictometer makes its calculations from three data inputs. The first two are what the President says

he will do; and what his administration actually does – and the congruence between words and deeds. The third is staff – the people appointed by the President to senior positions in the Cabinet, State Department, Pentagon, National Security Council and Intelligence Agencies, and what we know about their professional records and opinions on policy. Weaving these three data sources together is the essence of Washingtonology, the equivalent of Kremlinology.

On day one, the Trump administration started at 25% on the Predictometer, a reading based on the Candidate's pronouncements during the campaign. During Trump's first weeks in office, the Predictometer began to tick upwards, as Executive Order followed Executive Order – pulling out of the Trans-Pacific Partnership, cancelling visas for citizens of six Muslim nations, talking tough on the Border Wall. But then the needle began to waver. The declaratory policy of "branding China a currency manipulator on day one" was unmatched by a corresponding operational policy. Neither was the threat of a 45% tariff on Chinese imports. Some appointments were made at cabinet level, but only the Defense Secretary had anything like an established background of systematic policy thinking. While the State Department haemorrhaged senior staff, weeks and then months went by without any appointments being made to the crucial foreign and security policy agencies. And while the President continued to tweet tough, Vice President Pence and Secretaries Tillerson and Mattis travelled widely to calm nervous

allies and rivals alike. Meanwhile, the President waged war against his own intelligence agencies, and other parts of the system began to push back against the President's Executive Orders.

By our reading, the Predictometer has gone backwards and is currently nudging single figures. The gap between declaratory and operational policy has left friends and rivals alike unsure of what the Administration really thinks about crucial issues – or whether there is anyone doing very much policy thinking at all. No-one knows how much influence key administration figures – Pence, Mattis, Tillerson, McMaster – have over policy or the President's worldview, and so many have started to lobby Trump's son-in-law. There is still a large number of senior positions in the foreign and security agencies that have not been filled, which usually would provide the clarity and reassurance that foreign governments search for in a new Administration. Leaders such as Japanese Prime Minister Abe have left positive meetings with the President unsure of whether what he has told them is what he really thinks. The threat-action gap that has opened up on China, NATO and Japan raises further questions on whether and when the President will be called to account for his lack of action – and if he is, what his volatile temperament will lead him to respond with.

Despite all of his railing against his predecessor's inaction, Trump's record thus far is starting to resemble Obama's, in action if not in words. Obama came to power determined to be conciliatory towards rivals (remember the reset button with Russia?), and largely unsentimental towards allies. Over time, this was highly damaging to America's role in the world as rivals began to treat the Administration with contempt and allies started to doubt the commitment of the United States to a stabilising role in the face of emboldened challengers. Trump could be leading the United States back down this same path. While sending cruise missiles against Syrian regime forces has brought Trump praise, far more difficult challenges remain for the new President.

Trump's Mar-a-Lago Summit with

Chinese President Xi Jinping was attended by high expectations that the "Deal-Maker in Chief" would land some major concessions on the bilateral economic relationship. But few tangible outcomes eventuated, raising the prospect that much of Trump's lack of action may be explained away by claiming, "just wait – the deal's coming!" One might even think that America's cannier rivals may relish the thought of holding out the prospect of a deal that never gets finalised, while quietly securing their own interests all the while. Meanwhile the Predictometer continues to hover at the lower reaches of the dial.

#### America's role in Asia

The overwhelming attention paid to Trump in Asia underlines the United States' ongoing centrality to the region's security and prosperity. Allies and rivals alike have worked overtime to gain access to the Administration's inner circle and the President himself, and even countries that have been largely sanguine about the new President have adopted a low-profile response to Trump's volatile personality.

Trump's seeming refusal to be bound by convention has translated into an unexpected strategic advantage. His December phone call with Taiwan's President Tsai Ing-wen raised understandable questions about how many of the region's diplomatic conventions might actually be called into question, and what impact this might have on the region as a whole. Similarly, Secretary of State Tillerson's suggestion that a blockade might be one response to China's base-building in the South China Sea during his confirmation hearing gave worrying clarity about what a more muscular American response to China might look like. Little wonder that to Chinese commentators the United States has begun to look like a revisionist power, casting Beijing into the role of an internationalist, status quo power.

Since taking office, Trump's record in the region has looked much more conventional. His clear assurances to China and Japan, and holding course on South Korea's THAAD deployment, have taken the heat out of some of the fevered

speculation in the region. But no-one has been completely reassured that these more conventional stances are policy-based and enduring rather than being simply temporary and subject to sudden shifts. Justifiable fears linger over both the knock-on and demonstration effects of such sudden shifts. Asian strategists continue to ponder the outcomes of an inscrutable America, be it a sudden trade war or military confrontation that could bring the region to its knees economically, or the gradual drift to managed trade have the same effect over the long-term.

It is hard to imagine that such uncertainty will not have eventual effects on the United States' regional role. The 2016 Presidential election emphatically established that the liberal internationalism underpinning America's post-war role is vulnerable to rising forces within domestic politics in the United States. In a region already well practiced at hedging against strategic risk, moves are well underway to bolster the region's resilience against a more unpredictable United States. Several parties to the TPP continue to work on contingency planning to see what elements of that deal can be salvaged, while many have increased the tempo of their work on the Regional Comprehensive Economic Partnership (RCEP). A flurry of shuttle diplomacy has accompanied Trump's first 100 days – not just to the United States but within the region also. While several states have issued strong calls for a continued regional leadership role for the United States, few seem to be taking this for granted.

It is also likely that the pervasive uncertainty concerning the United States' regional role will provide the space for China to continue to fill the void of the region's policy entrepreneur. One of the marked trends since the turn of the century has been Beijing's growing sense of self-assurance in proposing new initiatives and institutions for the region. While these have been met with variable reactions from states in the region, there is little doubt that they are steadily dominating the regional agenda. Trump's repudiation of the TPP and uncertainty over his commitment to Obama's

rebalance will only increase the sense that the big thinking about Asia's future is being done in Beijing, not Washington. One of the big questions about the next four years is whether Japan, Australia or ASEAN will step up to contribute to a contest of ideas in the region, or whether they will allow China to set the pace.

One other question remains, and it concerns not so much America's role in Asia but Asia's role in America. More precisely, to what extent will Trump's instincts be tamed as he confronts the reality of how much of his domestic agenda is at stake as a consequence of its commitments in Asia? This certainly appears to be the case with China, where the pragmatists in his inner circle seem to have made strong arguments against following through on his incendiary rhetoric about currency manipulation and sudden tariffs. As several of the economists contributing to this collection have pointed out, on issues such as climate change and energy, domestic and global dynamics have acquired their own momentum, making Trump's impact less likely to have a major impact. At the end of the day, the richness and texture of America's many interests in Asia may make even this most unconventional of Presidents accept a status quo role for the United States in Asia.

### The future of Asia

If the first 100 days are anything to go by, it is highly likely that the Trump Presidency will accelerate several trends driving the evolution of Asia's strategic order. In Asia, rapid economic growth – history's most powerful driver of strategic change – long pre-dates the advent of America's 45th President, and will continue to transform Asia's strategic landscape whomever occupies the White House. But the United States has hitherto played a moderating role on full-blown rivalry and balancing in Asia, thanks to its overwhelming military power and the perceived steadiness of its commitment to regional order. Trump's rise has shaken confidence in America's ability and will to stabilise the region.

Trump provides China the space and legitimacy to double down on its bid for regional leadership. The 45th President

underpins all of Beijing's well-honed messages about why the region needs new leadership: America's commitment is uncertain; its motives are suspect; and its instincts ultimately don't have Asia's interests at heart. Once Xi Jinping has this year's National People's Congress out of the way, expect a hyper-energised diplomatic campaign by China.

China's ability to make hay, of course, depends on how the rest of the region reacts to its leadership bid. Beijing's own credentials are not without problems, largely of its own making. China's assertions of its prerogatives in the East and South China Seas have raised many concerns in the region about what Chinese regional leadership may actually entail. The resoluteness with which Asian countries are engaging in both internal (through arms purchases) and external balancing (through investing in alliances and strategic partnerships) attests to just how unprepared they are to accede to China's bid for uncontested primacy in Asia.

The major question remains whether Asia will evolve a genuinely multipolar order in the decades ahead. There is no question that China is prepared to play the role of an all-round great power; the uncertainty is over whether the other great power candidates are willing to step up. Will Japan continue to shed its pacifist constitution? Can India evolve a strategic personality outside of its narrow, self-interested concerns and then back these with real heft? Will Russia be drawn into an Asia-focused role? Will swing states such as Indonesia, Vietnam, South Korea and Australia be prepared to explore and invest in multipolarity, in the context of doubts over American leadership and worries over the prospects of Chinese leadership? While it's hard to be confident about answering any of these questions, it is likely that few countries in the region will be content to allow their strategic future to be determined by either an undefined Chinese leadership or an uncertain Beijing-Washington entente.

The political prominence that Trump's rise has given to regional economic dynamics will only reinforce the shift from neoliberal principles to geoeconomics in

Asia during the Trump Presidency. The willingness of regional powers to use economic instruments to pursue their rivalry may sublimate some of the more aggressive, military forms of competition, but will ultimately distort economic activity and damage the region's economic development prospects. Some elements of geoeconomic competition may be beneficial, such as possible infrastructure rivalry between Japan and China, while other aspects could be dangerous, particularly for smaller economies likely to become subject to strong investment-led campaigns to lock them into dependence on one powerful economy or another.

The Trump era will also likely accelerate the steady marginalisation of the region's institutions. The record shows that, rather than being able to moderate rising rivalries in Asia, the region's various institutions have become victims of competition and controversy. They will be further weakened as they come to be seen as irrelevant to the issues that are really preoccupying the regional agenda. It is hard to see any enthusiasm for renovating any of the Asia Pacific's regional organisations, and even less for creating new structures. This raises the pressing question of how the region and the world will manage the uneven progression towards multipolarity.

These are just some of the questions posed by Trump's first 100 days to the world's most dynamic region. You may have others. The richness of these essays reinforces just how much is at stake, and how many possible futures may play out over the next four years. You can be guaranteed that ANU's College of Asia and the Pacific will continue to be an unparalleled resource for interpreting the region's big questions and trends.

## Trump, trade, and integration: Could an Asian coalition protect the global economic order?

### Dr Shiro Armstrong

The order that brought prosperity and a significant measure of stability to world affairs for three-quarters of a century after the Second World War is under threat. The US anchor on which order in the Asia Pacific has relied is in doubt. Trump has introduced huge global uncertainty at a time of major changes in the global balance of power and when stability and certainty are at a premium.

The institutional edifice on which the economic certainty and political confidence in the US-led global order has been built – the postwar institutional framework that guaranteed economic openness and the prospect of economic and political security – might be torn down.

There is no region in the world for which this threat is more dangerous than Asia. The foundation of Asia's prosperity, economic integration and political stability is the global liberal economic order. The US military-security alliance framework provides political insurance, but it is the open global economic order that has made partners out of enemies and delivered economic security across the Asia Pacific. Few appreciate what destruction of that economic order would do to the global security outlook. There is no preparation for it.

There is a palpable air of disbelief that Trump could actually follow through on his campaign rhetoric. But it has already begun.

Trump has ensured that the Trans-Pacific Partnership (TPP) economic agreement as we currently know it is dead. It was a campaign promise that

was implemented within the first week of his presidency through an executive order that withdrew the United States from the 12-member Pacific Rim grouping.

Trump campaigned on threats of large punitive tariffs on Chinese and Mexican imports that would most likely trigger a trade war if they are realised. Trump's America First policies are protectionist and a threat to regional and global prosperity.

Early signs point to risk that his inward-looking policies – beyond the withdrawal from the TPP – will be implemented. The administration's trade team of US Trade Representative (USTR) nominee Robert Lighthizer, Secretary of Commerce Wilbur Ross and head of the new National Trade Council Peter Navarro all share Trump's views that China's trade policies are responsible for hollowing out US manufacturing. And the USTR's 2017 Trade Policy Agenda has suggested the United States is happy to use the World Trade Organisation's (WTO) dispute settlement body to pursue cases against other countries but would disregard decisions against the United States. Such an approach would quickly erode the confidence in the one area where the WTO is functioning effectively and would undermine the rules that underpin global trade and commerce.

What are the implications for Australia and the Asia-Pacific region?

Mourning the TPP, hoping for a reversal or waiting it out are all futile ideas. Getting on with the business of keeping markets open and doubling down on the liberal economic order



must now be the priority in Asia. Securing what can be rescued from the TPP is a start.

Many of the 11 TPP members signed on because of the preferential access they would gain to the US market, and proceeding without the hub is not an option for the spokes. The cost-benefit calculation for Vietnam, Malaysia and other countries changes significantly without the United States. Japanese Prime Minister Shinzo Abe has said a "TPP without the United States is meaningless".

Japan will try to avoid a politically less palatable bilateral deal that Trump favours. The United States and Japan account for 80 per cent of the TPP economy so Trump taking Abe down a bilateral path will help deliver most of what TPP had to offer for both countries, economically and politically. But that is a narrow path that does little to secure openness in Asia and in the global system and should not distract from the massive task on both those fronts.

The other TPP members need to harvest the organs from a dead-on-arrival TPP. Nothing is stopping countries from taking what's good about the TPP and implementing it unilaterally.

Opening up markets and undertaking reforms that make markets more contestable internationally without reciprocation by other countries is seen as too difficult a political ask. But without building the coalitions for reform at home, liberalisation is likely to be shallower. The backlash against globalisation shows that opening up



Photo by Brian Sterling

at home, in whatever political system, requires adjustment measures and policy packages that provide community reassurance about change.

Where countries cannot act alone, say in setting new rules and standards in areas like e-commerce on which the TPP made some progress, coalitions of countries can band together in plurilateral deals. Sector-specific plurilateral agreements can be ratified under the WTO and expand with open membership.

Some elements of the TPP could be imported into the East Asian Regional Comprehensive Economic Partnership (RCEP) that is being negotiated by the 10 ASEAN members – Australia, China, Japan, India, New Zealand and South Korea. Not all of the rules and standards in TPP will be able to be transplanted into RCEP as they are advanced economy standards largely imposed by the United States that cannot quickly be achieved by developing economies.

China, India and developing countries in Southeast Asia may aspire to have advanced economy environmental standards, institutions and regulations, but nobody can expect them to be held to those standards immediately or to suddenly leapfrog stages of development. Instead, working with these countries to commit to implementing standards by a defined date and helping them reach those goals through building capacity and economic cooperation is more likely to empower regional reform.

This approach will have a higher likelihood of success in areas such as reform of state-owned enterprises (SOE) that is a deeply domestic issue with implications for international commerce. China is wary of international agreement on SOEs. Encouraging it to define its own path of reform towards an ambitious goal has more chance of success. The onus is now on President Xi and China to demonstrate its reform and leadership credentials following his Davos speech that championed globalisation.

More importantly, RCEP provides the natural platform for mustering the coalition that current circumstances demand in

defence of the liberal economic order. RCEP is now the only game in town for broad trade liberalisation.

It is time for a coalition for openness in Asia. Asia's securing the next phase of liberalisation and reforms would give ballast to the global economic system at a crucial time. The ASEAN-centred RCEP can be the instrument to reach that goal, but success requires an agreement that is credible, ambitious and has teeth.

Japan must extend and deepen the market opening made in the TPP to RCEP countries. China needs to walk the Davos talk. India needs to stop being the India of old and embrace Prime Minister Modi's reform agenda. Delivery will require enormous political will on the part of ASEAN. There is now incentive for leaders to seize the moment in Asian economic diplomacy to save a global economic system in retreat.

No single Asian country, China included, can secure the open region that all need for development in the face of a hostile global economic environment. The alternative to success is continuing entrapment in poverty for some, stagnant middle incomes for others and a breakdown of the economic order that is holding the region together politically.

Now is not the time for any deal in Asia that turns its back on the United States or the global system. RCEP should be seen as a realistic base in face of great odds for engaging with North America when Washington is ready, in a broader Free Trade Area of Asia and the Pacific.

Many worry that the demise of the TPP means that China will write the rules of international commerce and define regional and global standards. China can do no such thing through RCEP without Australia, Japan and the other 13 members acquiescing. The hurdles are higher for it to do so through the Asian Infrastructure Investment Bank. And China's Belt and Road Initiative will not reach Europe or get anywhere else very far without win-win cooperation for the partners involved. If China is providing international public goods, the rest of Asia should embrace them.

President Trump may see the world as a zero-sum game where one party has to lose for America to gain, but the rest of the world – and assuredly Asia – should not, and Asia's response to the demise of the TPP can also be a positive sum game for the United States.

## India: How the elephant got its Trump



Dr Anthony Bergin, Dr David Brewster and Professor Rory Medcalf

Any simple narrative that the Trump Presidency is bad for Asia, and that Asians universally think so, faces an awkwardly large stumbling block: India. The fact is, India's strategic elite takes a pragmatic view of Donald Trump and of their country's strategic partnership with the United States. In terms of a rising India's interests, what they see is not all bad.

India overwhelmingly sees its security problems as relating to terrorism, Pakistan and China, and looks to the United States to strengthen its hand in managing them. Indians see, under Trump, a United States fixated on great power politics, on jihadist terrorism and on transactional international relations. They see none of the righteous US-led multilateralism of which India has fallen foul in the past on nuclear non-proliferation or climate change. Certainly, there are potential downsides to watch for, such as a possible mishandling of US-China relations or Indians being unduly affected by US restrictions on skilled migration. But on balance, Modi's India seems to calculate it can do quite well out of Trump's America.

For all the abhorrence with which liberal democrats the world over might greet the Trump ascendancy, in India it is a recognisable and tolerable phenomenon. Both Donald Trump and Indian Prime Minister Narendra Modi are 'strongman' figures from outside their respective national political traditions. Trump's story – complete with dynastic privilege, real estate wealth, questionable business practices, dubious associates,

lurid showbiz and spectacular entry into politics – would not be out of place in, say, Mumbai.

Moreover, those who pay little attention to the spectacle of the world's largest democracy would perhaps not realise that in some ways Trump's 2016 election success was anticipated by that of Narendra Modi in 2014. Modi's campaign mixed cutting-edge manipulation of social media messaging with huge public rallies that crudely mobilised mass disenchantment. Indeed, Modi's winning message was an illuminating half-way marker for the shifting mood in American electoral politics: it combined the hope of Obama with the anger of Trump.

Much now will depend on the personal chemistry between Modi and Trump. Modi's diplomacy seems to rest heavily on personal rapport and top-down direction to officials to make big things happen. Witness his warmth and ambition in working with Japanese Prime Minister Shinzo Abe, with whom India is genuinely recasting a major-power relationship, or, in 2014, with Australia's then PM Tony Abbott (with whom he abruptly set a 12-month deadline for a bilateral free trade agreement; we are still waiting). Modi prefers hugs to handshakes; that may work with Trump.

A detour slightly further back in history also helps explain why Indians – or at least their strategic policy elites – seem largely all right with Trump. India has been on the receiving end of United States power more than once, not least through Washington's long military support for Pakistan, which India sees as the world's

greatest source of terrorism. That has led Delhi to take an unsentimental view of the United States as a power that is hugely important, but also one that needs to be approached with a clear understanding of one's own national interests.

New Delhi is steadily increasing its military capabilities and strategic influence, but also clearly understands that there'll be no substitute for United States military power for a long time. Even as New Delhi understands the importance of a strong United States presence in the region, Indians seem relatively unfazed by Trump and what he may mean for the United States-India relationship.

India realises that it needs to work productively with the United States in balancing interests against China. And India's leadership is also keenly aware of how much the United States needs India as part of a broader set of balancing arrangements. India and the United States are pressing ahead with greater defence cooperation, which so far seems largely to involve the United States making special deals to transfer defence technology to India. Trump may have fewer qualms than his predecessors in bolstering a friendly India with such key capabilities as missile defences.

It could be argued that, ever since Washington tilted towards India from the start of their civil nuclear deal negotiations in 2005, the logic of American policy was transactional – only, over a very long timeframe. Informed India-watchers were well aware that it could be many years, perhaps a generation, before America and its allies would reap the full benefit of

an India that was confident and capable enough to seriously complicate China's calculations in the Indo-Pacific.

New Delhi does not seem particularly unhappy with Trump's overtures towards Moscow: India has had a time-tested relationship with Russia. The notion of a closer US-Russia relationship to make life uncomfortable for China would be no great surprise to Indian policymakers, previous generations of whom took comfort in close India-Soviet relations at times of India-China hostility and India-US mistrust.

Nor is Trump's apparently unconstrained support for Israel a cause of concern in India. Nervousness about dealing openly with Israel, for fear of alienating India's large Muslim minority or many fellow non-aligned countries, is for Modi's India a thing of the past. Modi's government and India's security forces tend to admire Israel's single-minded focus on the national interest and its effectiveness in counter-terrorism and national resilience. Israel has sold India considerable amounts of military equipment. There has been serious cooperation between the military industries and the intelligence services of the two states. Modi is expected to visit Israel later this year.

Indians also feel less moral outrage than others at Trump's border protection stance. Although India has absorbed and accommodated vast numbers of migrants and refugees throughout much of its modern history, notably from Bangladesh, India has also at times run out of patience on border issues, and its border guards have sometimes applied a shoot-to-kill policy. In any case, India is no stranger to building fences and fortifications to seal its frontiers.

Trump's crudely unrelenting stance on terrorism and Islam goes down well with much of the population of a country that has waged a decades-long struggle with many terrorist entities. President Trump has made it clear that a central focus of his tenure will be, in his own words, to "eradicate radical Islamic terrorism from the face of the earth." Although India is home to some 170 million Muslims, the overwhelming majority of whom

support Indian sovereignty and communal harmony, the country is also a target of frequent cross-border terrorist attacks from Pakistani soil.

It is likely that Indian policymakers can see some of their own preferences in Trump's idea of an America that is entirely self-interested, less involved in nation-building or the spread of democratic values yet more willing to strike back against threats. Modi's India is already moving away from Indian traditions of strategic restraint, with special forces raids against insurgents in Myanmar and terrorists across the Pakistan side of the Line of Control in Kashmir.

Trump's apparent tough-on-China stance plays well with many Indians who have come to regard China as India's biggest long-term threat. Indian strategists have become concerned that the United States hasn't been doing enough to stand up to China's expanding military footprint in the Indian Ocean and Asia. They saw President Obama's prevarication on Chinese island-building in the South China Sea as giving China the green light for assertiveness elsewhere in the region, including on India's disputed border with China. Both countries are also concerned that China's Belt and Road initiative and the associated China Pakistan Economic Corridor are not only about infrastructure, but about expanding China's security footprint and influence. Certainly, some in India's defence and foreign policy community will quietly welcome the fact that a more unpredictable America will deprive China of some of the strategic initiative it has seized in recent years – as long as this uncertainty does not spill into outright crisis.

Of course, it will not all be plain sailing. A fundamental problem for India would arise if Trump moved away from the long-term transactionalism of Bush and Obama, and demanded India overtly take sides in a near-term confrontation with China or Iran. Or India's equanimity might fall away for other reasons: cutting back US work visas to Indian IT specialists could harm economic ties and political trust. Ramping up United States support for Pakistan, or doing a deal with China,

could also upset the equation.

Even so, for others in the region, such as Australia, there are some intriguing lessons from India's approach. That includes not being too sentimental about the relationship and assessing how best to leverage advantages. Canberra will need to play its cards smartly during the Trump administration to maximise Australia's position, alongside India's, in an Indo-Pacific region that has potential to become more multipolar.

This includes diversifying our regional security relationships, strengthening ties with other 'middle players': fellow US allies and partners. Indeed, Australia, India and Japan (an Asian power that has responded to the Trump factor with particularly strategic diplomacy) can form the core of new arrangements of regional mutual self-help. These could serve as partial insurance against both Chinese assertiveness and the unpredictability of Trump's America.

## Trump and development: aid, migration and the Beijing Consensus



Robin Davies and Professor Stephen Howes

Martin Gillens in his 2012 book, *Affluence and Influence*, examines the link between public opinion and policy in the United States, and finds that public policy more closely reflects the opinions of the rich than the poor. He writes that if policy “more equally reflected the preferences of all Americans ... in the economic domain we would expect a more progressive tax system, stricter corporate regulation, and a higher minimum wage; foreign policy would reflect a more protectionist trade regime and less foreign aid; policies on “religious” or “moral” issues such as abortion and gay rights would be more conservative.” Although Gillens doesn’t mention migration, he could have also added that if policy more equally reflected the preferences of all Americans, surveys show that there would also be less migration.

Trump’s economic and social policies do not in general seem to reflect those of the traditionally disempowered low-income voters, but his foreign and migration policies do. He promises protectionism, less aid and less migration. This essay reflects on the impact of Trump’s foreign and migration policies on global and Asian development prospects. Since trade is covered elsewhere, the focus is on foreign aid, migration and, briefly, models of development.

### Aid cuts

The United States has been a global leader in development assistance ever since the Marshall Plan. Measured as a proportion of national income, United States aid has never ranked very highly. However, in dollar terms, the United States is typically well

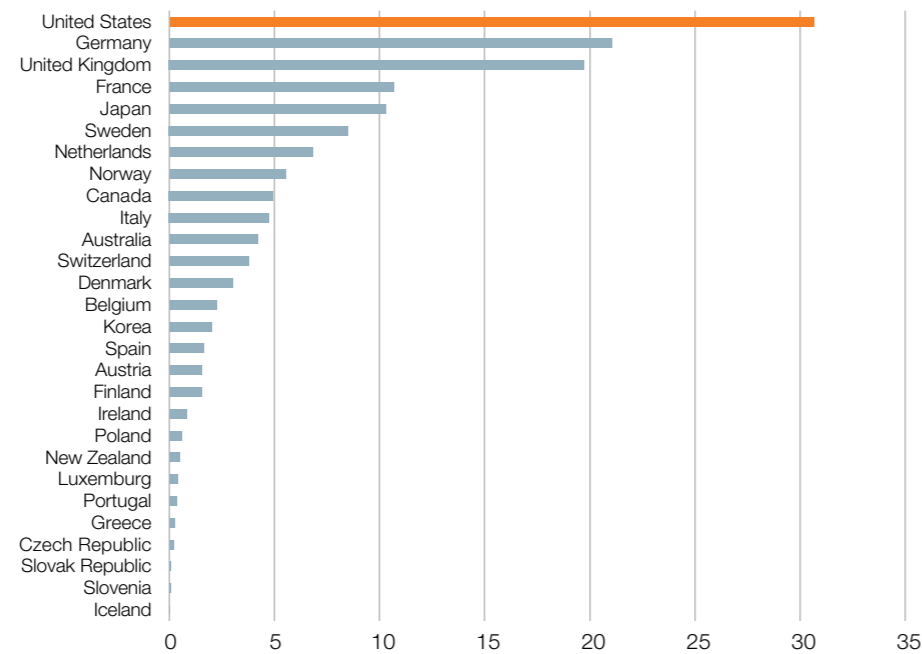
out in front. In 2015, United States aid was about one-third higher than that from any other source, at \$31 billion (Figure 1).

Trump’s 2018 budget proposal would put an end to United States global leadership on aid. He has signalled an intention to reduce United States aid by approximately one-third, or \$11 billion, in a single year. If enacted, this cut would put United States aid volume on a par with that of Germany and the United Kingdom, countries one-sixth its economic weight. It would reduce United States aid to about 15 per cent of

the global total, a low that has only been seen before in the late 90s, during the ‘end of history’ period in which the United States cut aid following the end of the Cold War (Figure 2).

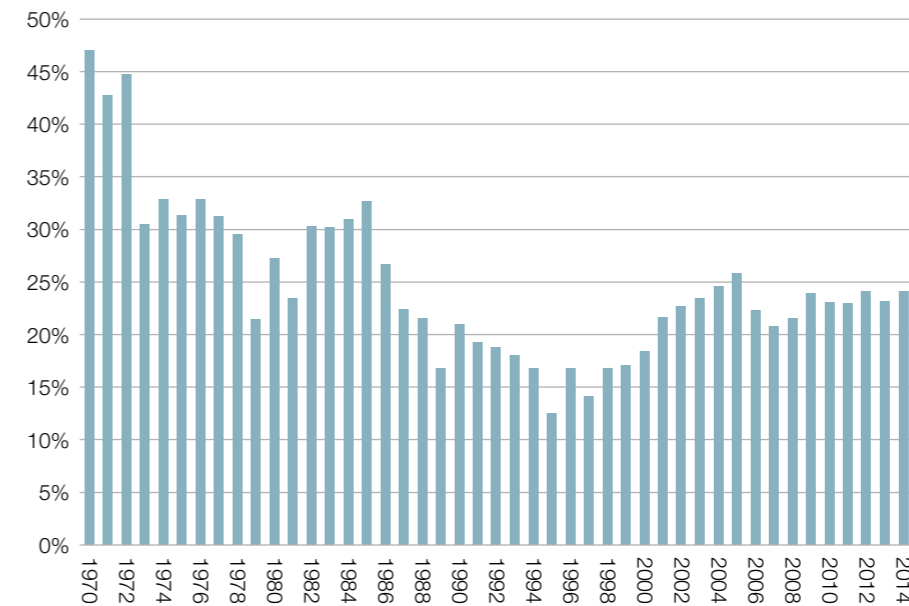
Of course, budgets are determined by the Congress not by the President and the United States Senate Majority Leader has already spoken out against aid cuts. However, given how aid has been singled out by Trump, the need to find savings to support an increase in defence spending, and the negative view of aid among his

Figure 1. Aid from OECD countries, 2015 (2014 US\$ billion)



Source for Figures 1-4: OECD aid (ODA or Official Development Assistance) statistics. Flows shown here are outflows from OECD donor governments to developing countries and multilateral organisations, which meet the OECD’s eligibility criteria for aid, including a concessionality criterion.

Figure 2. United States share of total OECD aid (%)

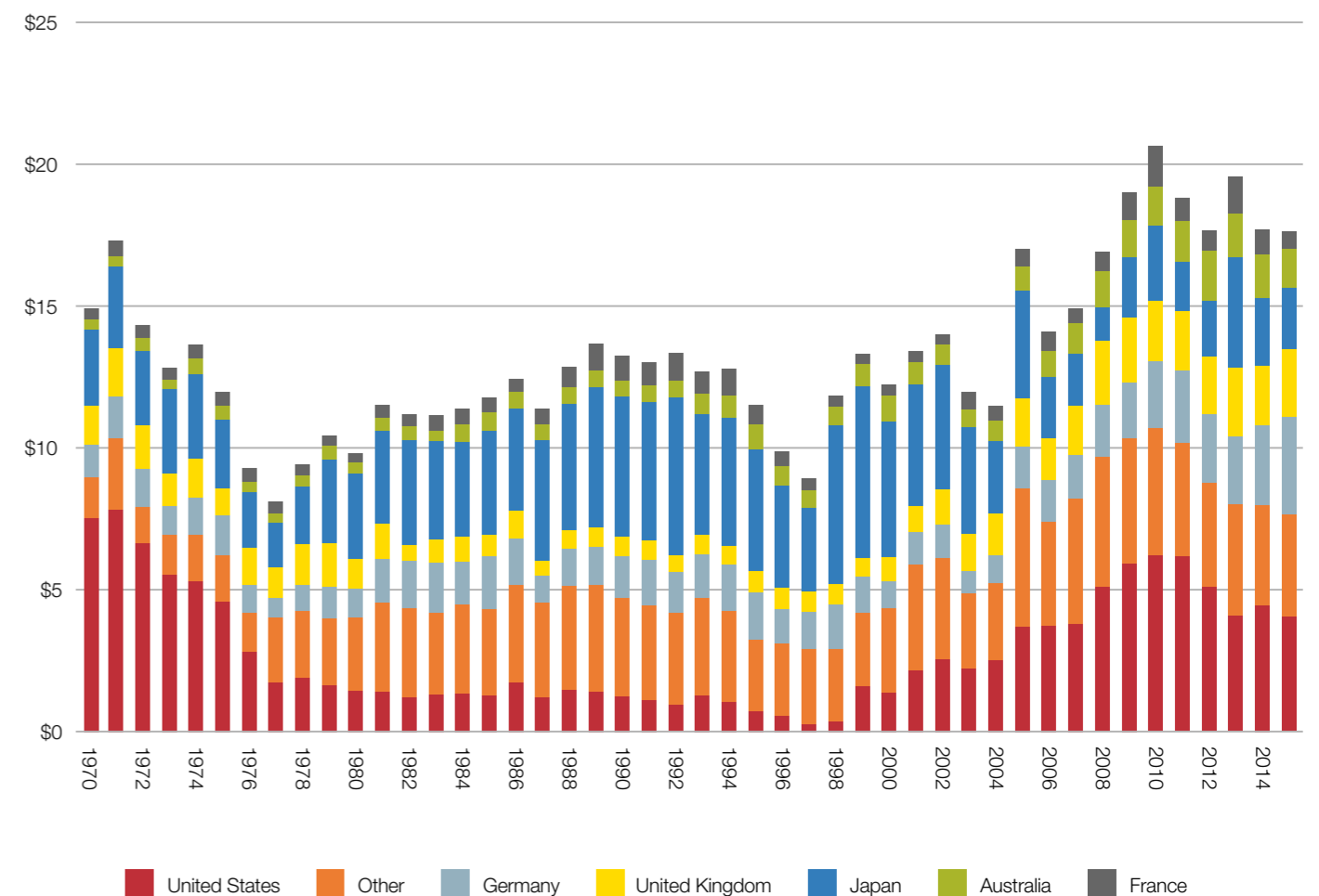


voter base, it is hard to believe the United States aid budget will not be diminished greatly, even if perhaps over several years. Some other donor countries might follow suit with proportional aid cuts, though this is perhaps unlikely unless we see the election of more nationalist governments in Europe. However, some smaller copycat cuts are likely in at least a few countries, and other countries will certainly be reluctant to make compensating increases in their own aid budgets.

### Aid cuts and Asia

Aid to Asia from all sources, bilateral and multilateral, has been on an upward trajectory since the late 1990s, in line with aid generally. It now stands at about \$25 billion per annum, of which about \$18 billion comes in the form of bilateral aid from OECD donor countries. United States aid

Figure 3. Bilateral aid to Asia from OECD sources (2014 US\$ billion)



to Asia dried up in the mid-1990s, but has since re-emerged, and the United States has provided the largest share of bilateral aid to Asia since 2005, as it did in an earlier era. (Figure 3)

However, the countries within Asia that are now receiving most of the United States aid are quite different to those of earlier decades. Afghanistan and Pakistan, which were earlier relatively minor recipients of aid, were the main beneficiaries of the scale up since 2000 and accounted for around 60 per cent of the US 4 billion in aid to the region in 2015. The next biggest allocation was to its traditional aid partner, the Philippines, followed by Bangladesh, Nepal, Indonesia and Myanmar. The United States has at times provided substantial amounts of food aid to North Korea, but not in recent years. Aid to previously important recipients, such as Indonesia, which peaked at \$1 billion in 1971 (in 2014 prices), is now very limited (Figure 4).

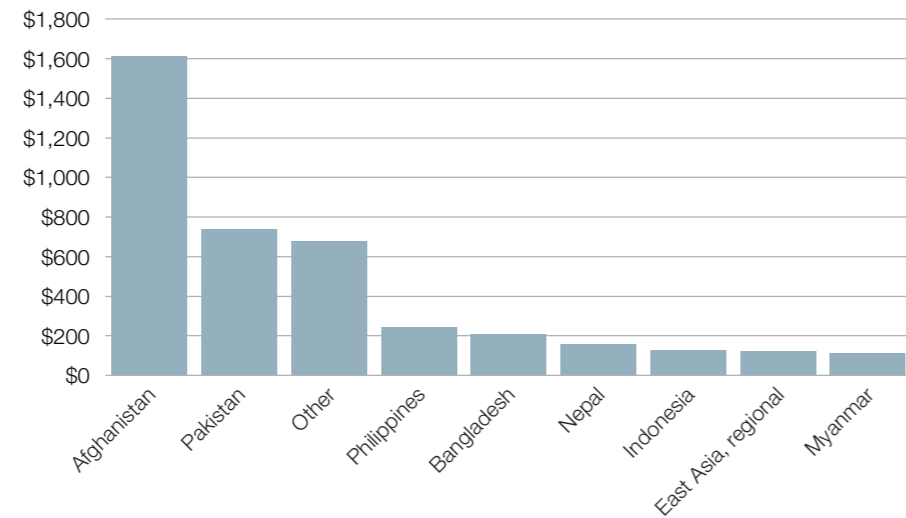
In general, the Trump administration's stated intent to focus aid on countries of strategic importance will likely cause Asia to bear a disproportionate share of the aid cuts. Middle Eastern countries – Egypt, Jordan and Lebanon, and perhaps Iraq as well – are all likely to figure above Asian countries in any strategic calculus.

United States aid to Afghanistan, though still important, was running at around \$3.2 billion per annum in the 2009-11 period, and had already fallen by 50 per cent to \$1.6 billion in 2015. It is hard to guess how far Afghanistan might be considered to be of 'strategic importance' by the Trump administration, but it seems unlikely that it will fall squarely into this category. Reductions in United States aid to Afghanistan and Pakistan (around \$800 million per annum) will harm both countries and increase poverty, but it is unlikely that it will change either countries' problematic development trajectories.

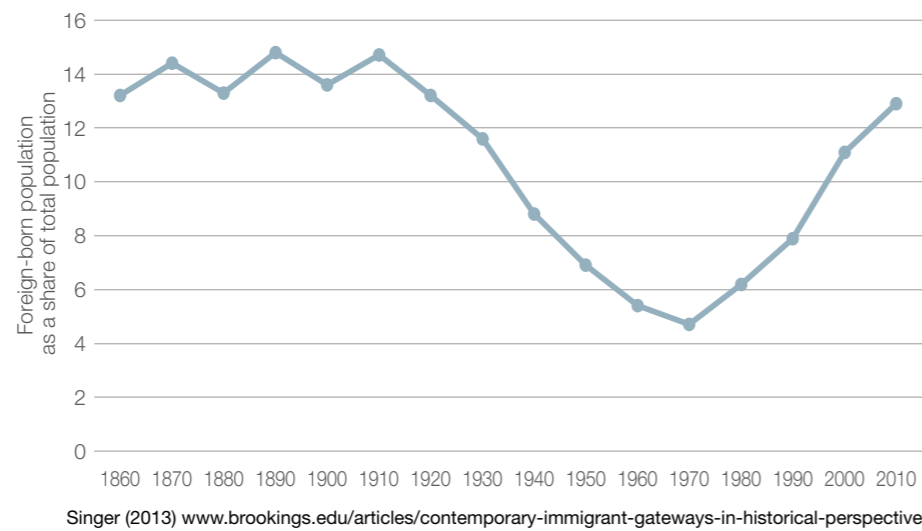
#### Aid cuts and multilateralism

Trump's announced cuts include substantial reductions in funding for international organisations. Funding for the multilateral development banks would be reduced by 10 per cent per annum. While cuts in funding for other organisations have not been specified, various leaks indicate

**Figure 4. Recipient of United States aid to Asia in 2015 (2014 US\$ million)**



**Figure 5. Foreign-born share of the United States population**



they could be in the order of 40 per cent or more for many organisations, with some contributions cut in their entirety. International climate change spending would be cancelled, as Trump pledged in his 100-day plan. Only global health programs would be maintained at current levels.

The United Nations will be particularly hard hit. The United States provides 20-30 per cent of UN funding, depending on whether that funding is measured by compulsory or voluntary contributions (with more actually provided under the latter category). The United States is usually the first- or second-largest contributor to any

international organisation. As most of this funding is voluntary, it is easily withdrawn. United States cuts have the potential to cripple major UN organisations like the World Health Organization and the UN Refugee Agency.

United States cuts to multilateral agencies will not only result in fewer or smaller humanitarian and development programs, but also make global cooperation more difficult. Aid is one of the few lubricants available to further global deals. The prime example is that of climate change.

Trump's budget proposal indicates that the United States will not provide further funding to the Korea-based UN Green

Climate Fund, to which the previous administration pledged \$3 billion but paid only \$1 billion. Developed countries' willingness to put up funds for financing adaptation and mitigation in developing countries has been critical in getting developing countries to the climate change negotiating table ever since the initial breakthrough came in Copenhagen in 2009 when, led by the United States, developed countries pledged to mobilise \$100 billion per annum in climate financing by 2020. The decision not to honour the United States climate change funding pledge, and the controversy around burden sharing that will result, will impede, if not block, further progress on the implementation of the 2015 Paris Agreement on climate change.

The World Bank is another example. The organisation is currently seeking a capital increase, but the US has the power to derail this and likely will, judging from Trump's initial budget proposal. This will handicap the bank in any competition with its emerging rival, the Asian Infrastructure Investment Bank.

The 'global gag plus' rule introduced by Trump, which prevents the United States

aid program from funding any organisation which performs or promotes abortion, deserves special mention. Given that the United States is currently the world's largest bilateral donor in family planning, this will have widespread and negative impacts on reproductive health. Returning to Gillens's point, it is also an example of how it can sometimes be easier to signal a change in social priorities through foreign policy rather than domestic policy.

#### Migration policy

In recent decades, the United States' immigration roots have been reasserted. As Figure 5 shows, the share of the population born overseas has increased again to 13 per cent, a share not seen since 1910.

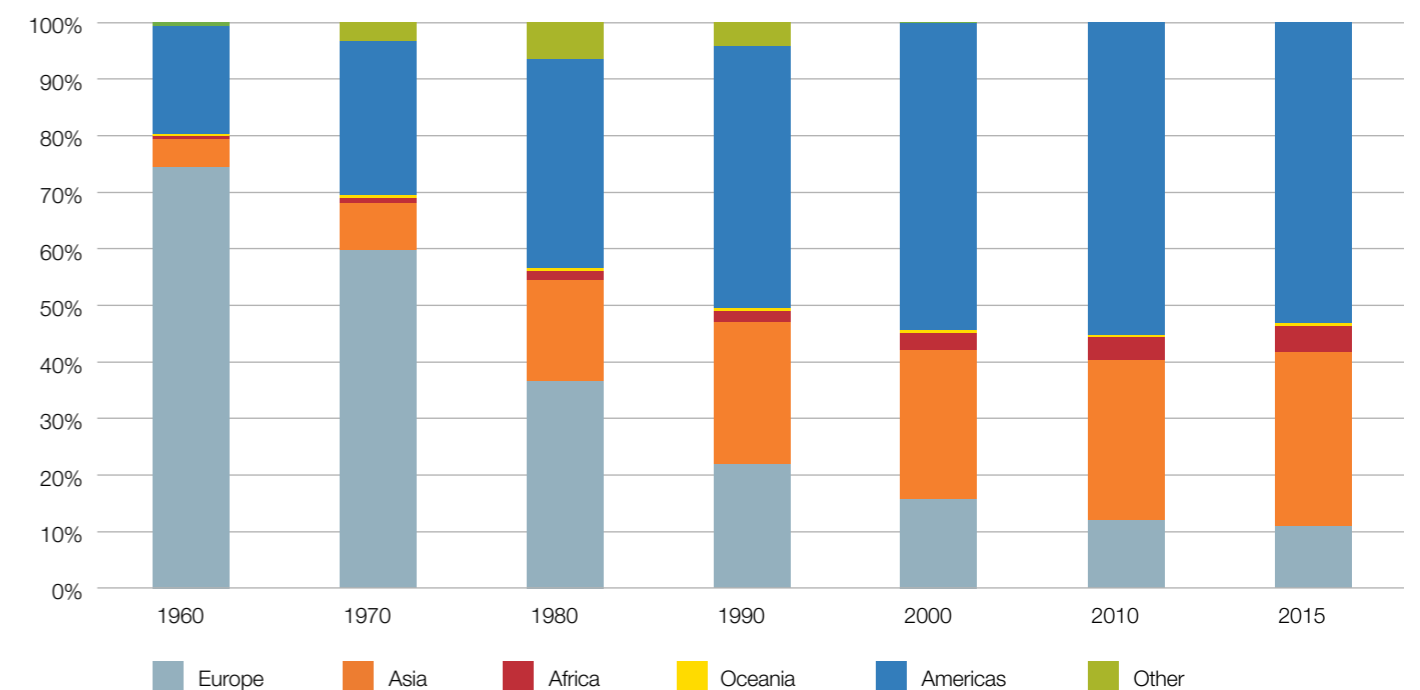
Asian countries represent an ever-increasing proportion of the overall flow of all immigrants, now second only to the Americas (Figure 6).

Surveys show that immigration is unpopular with the working class, and Trump campaigned on an anti-immigration policy under the slogan 'Put American Workers First'. He has signalled a preference for tilting migration in favour

of skilled workers, using a 'merit-based' system of the kind found in Australia and Canada, and this might benefit Asia. However, actions to date suggest a clampdown on skilled as well as unskilled migration. The United States Citizenship and Immigration Service recently introduced a six-month halt starting in April for premium processing of the H1B temporary skilled visa. This visa is used primarily by large IT contractors and Silicon Valley companies to sponsor workers, mainly from India. This will remove the option to have a visa processed within 15 days, meaning approximately 15,000 visas will incur an additional three- to six-month wait for processing.

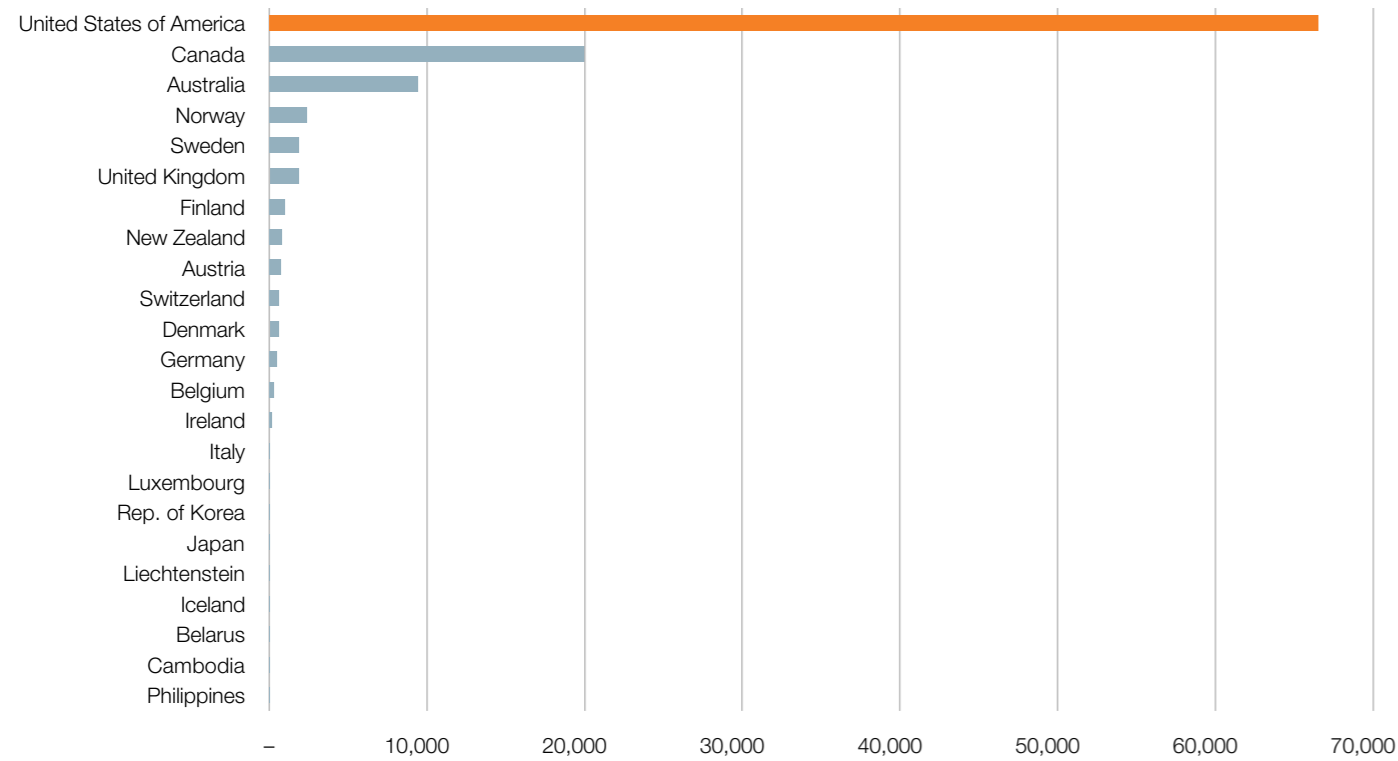
The United States runs the largest refugee resettlement program in the world. Indeed, its dominance of resettlement, at least among developed countries, makes its dominance of aid pale by comparison (Figure 7). In 2015, 118,000 refugees were resettled through the official UN-sponsored system. Of these, the United States took 66,500. Even if one compares countries with respect to total refugee acceptance numbers, which cover both resettlement and recognition of asylum seekers under

**Figure 6. United States immigrant population by region of birth**

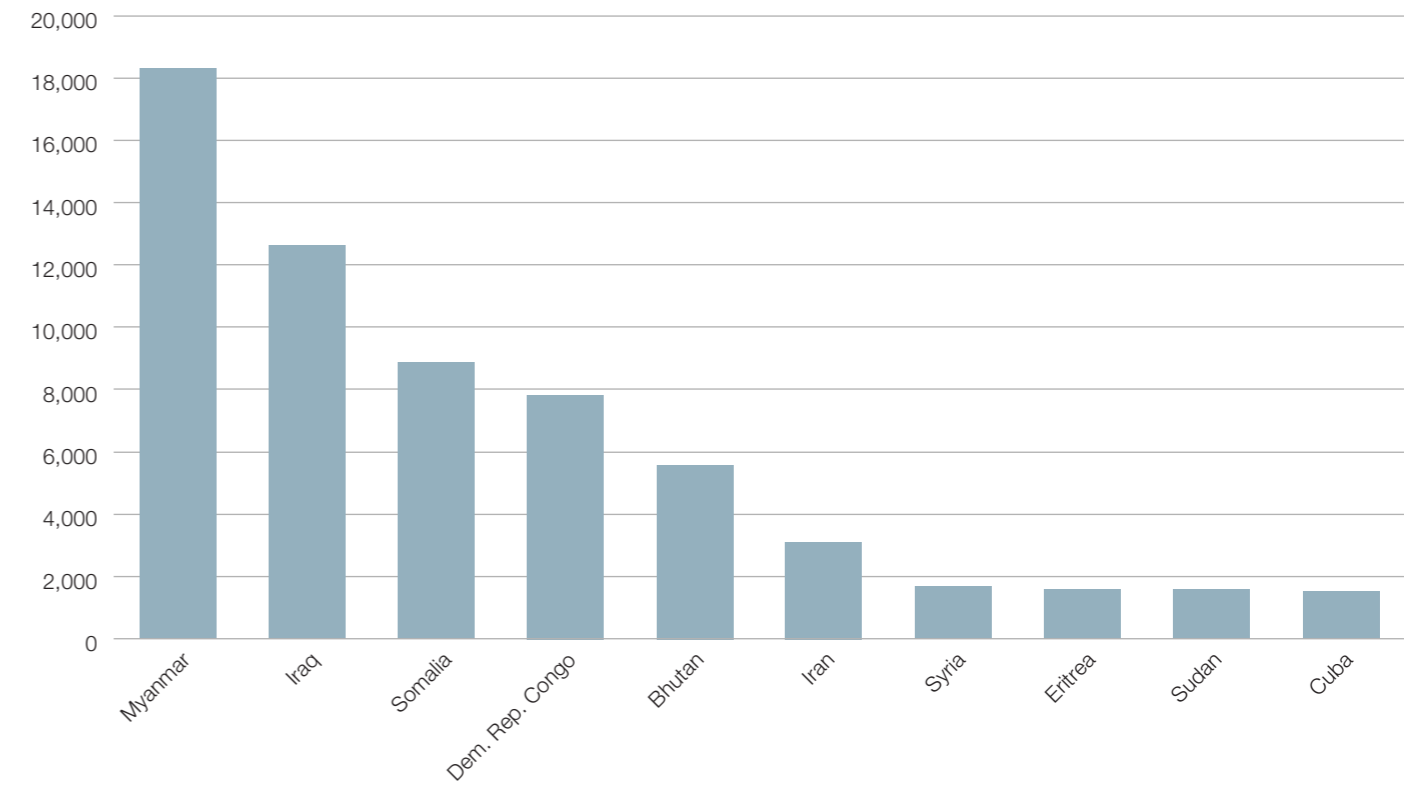




**Figure 7. Resettlement arrivals of refugees, 2015**

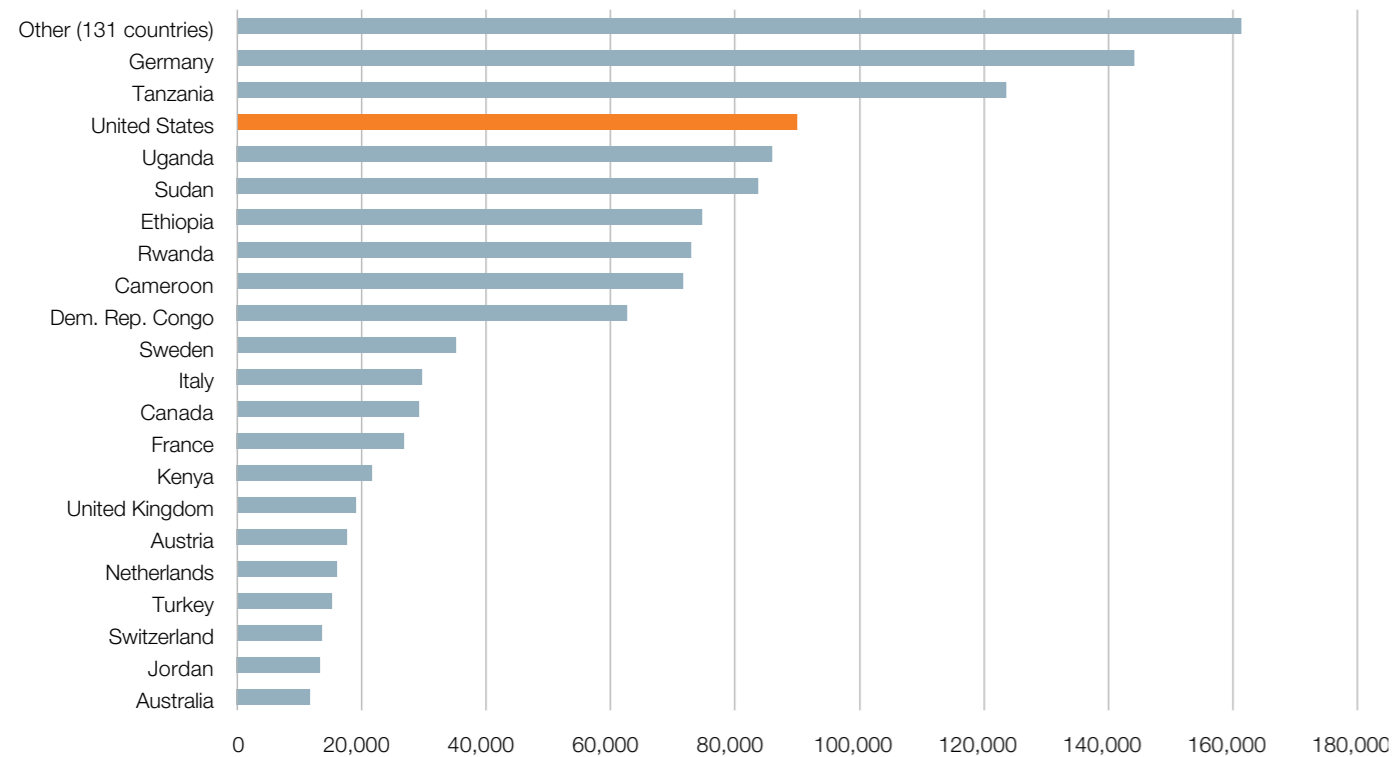


**Figure 9. Main refugee nationalities by country of origin, United States, 2015**



United States Office of Refugee Resettlement

**Figure 8. Refugee recognition and resettlement, 2015**



Source for Figures 7 and 8: UNHCR

local determination processes, the United States ranks fourth in the world (Figure 8). In 2015, a total of 1.1 million people were resettled or recognised as refugees in situ, and of these the United States accepted 90,000.

Trump's migration Executive Order suspends the the United States resettlement program for 120 days, bans refugees from Syria, and also reduces the size of the intake to 50,000. Even if the revised version of the order is ultimately ruled unconstitutional by the Supreme Court, it is unlikely there will be any legal impediment to slashing the intake of refugees. Critical United States funding for the Asian operations of the UN Refugee Agency and the International Organisation for Migration, for example in the Pakistan-Afghanistan border regions and in Indonesia, is now also at very high risk.

One-third of the refugees the United States accepts are from Asia, mainly from

Burma but also Bhutan (Figure 9). Some of the Middle Eastern refugees whom the United States accepts come to the States via Asia. For example, there are about 14,000 refugees and asylum seekers in Indonesia, mostly Muslim, and mainly from Afghanistan, Myanmar (Rohingyas) and Somalia. The United States has reportedly been the single largest resettlement destination for refugees hosted by Indonesia, accepting about 800 refugees in 2016.

Overall, the projected decline in migration will be bad for the residents of developing countries, especially bearing in mind that the benefits of migration are greatest to the unskilled and those fleeing persecution.

**Development models**

The Washington Consensus, a fairly mild articulation of pro-market economic policy from the 1980s, has long since failed to hold widespread popular or intellectual

support. The author of the Washington Consensus, John Williamson, has recently summarised what he sees to be the key components of the Beijing Consensus, namely incremental reform, innovation, export-led growth, state capitalism and authoritarianism.

With China's rapid economic progress, the Beijing Consensus is in the ascendency. Trump's presidency is likely to accelerate this trend. First, his election and the deep divides in American society that it has revealed seem to cast further doubt on the pro-market policies and democratic values traditionally championed by the United States. Second, Trump's mercantilism and his professed admiration of authoritarian leaders seem to validate key aspects of the Beijing Consensus. It is early days, but the greatest developmental impact of the Trump presidency may be to cement the Beijing Consensus as the pre-eminent global development model.

## Can Japan's golden golf diplomacy win over Donald Trump?



Dr H. D. P. (David) Envall

When Japanese Prime Minister Shinzo Abe visited then US President-elect Donald Trump in November 2016, he presented Trump with a Honmas Beres S-05 golf driver embellished with gold and intended, apparently, 'for players seeking a higher trajectory and slice correction.' The clubs were well received (even if, as it turned out, they were made in China). So when the two leaders met again in February 2017, they played golf together and spent five hours discussing United States-Japan relations.

Abe has therefore received strong marks for his Trump diplomacy, with subsequent opinion polling suggesting that 70 per cent of Japanese were satisfied with the results of the Trump-Abe meeting. For Abe, such statecraft recreates the successful golf diplomacy pursued by his grandfather, Nobusuke Kishi, as Japanese Prime Minister. Kishi golfed with US President Dwight D. Eisenhower during alliance negotiations in the 1950s. So does Abe's golden golf gift represent a new diplomatic triumph for Japan? In answering this, it is important to ask two further questions. How do Trump's foreign policies affect Japan's interests? And what can Abe do through diplomacy to address these effects?

### Trump's challenge to Japanese interests

On the first question, it is clear that Trump's policies challenge Japan in both security and economic terms. Security-wise, Trump's presidency strikes at the heart of the strategic reorienting of Japan undertaken by Abe. Shinto Abe's policy

changes have been focused on increasing Japan's capacity to deter regional threats, whether posed by North Korea's nuclear program or China's growing assertiveness over the disputed Senkaku Islands (territory claimed by Japan but contested by China). Increased defence spending and a greater emphasis on 'grey zone' capabilities for the Self-Defense Forces have been important to this program. Japan has also sought to deepen its diplomatic engagement around the region, especially through building strategic partnerships with countries such as Australia and India.

Yet at the heart of Japan's more 'proactive contribution to peace' has been a strengthening of the US-Japan alliance and a strong backing of the US "pivot" or "rebalance" strategy towards Asia developed under the Obama administration. Abe's reinterpretation of the Japanese Constitution to allow for collective self-defence (that is, to come to the aid of an ally) should be viewed in this light. In some ways therefore, Japan under Abe has been more 'pro-pivot' than the United States.

However, President Trump, both during and since last year's election campaign, has raised major questions about America's Asian strategy that throw into serious doubt Japan's rationale for deepening its relationship with the United States. By arguing on the campaign trail that Japan free rides on the US and should consider developing its own nuclear weapons capability rather than relying on America's nuclear guarantee, Trump has reawakened fears

of abandonment in Tokyo. Such fears are compounded by Trump's transactionalism – his belief in being able to 'do diplomatic deals' – which raises the concern that Japan's security interests will be sidelined in the wake of a grand Sino-American strategic bargain.

Conversely, by appearing to countenance unilateral American intervention in the region's territorial disputes such as over the South China Sea, the Trump administration has also managed to revive the prospect that Tokyo might become dragged into a wider Sino-American conflict. Just as the Japanese government has loosened the domestic restrictions on the country's capacity to act internationally, it is now confronted by a United States president who eulogises the role of force in international affairs. Either way, America's reliability as an ally – notwithstanding a recent return to alliance orthodoxy in the form of Secretary of Defense James Mattis's confirmation that the Senkaku Islands are covered by the United States-Japan Security Treaty – is now in question.

Trump's pronouncements so far on economics and trade are even more problematic for Abe, since they risk undermining Abe's agenda both internationally and domestically. Concern in Japan about Trump's economic agenda relates not only to the demise of the TPP but also to Trump's wider attitude towards global trade, including America's likely future approach to the World Trade Organization, the North American Free Trade Agreement, trade relations with

China and other potential policies such as border adjustment taxes.

Internationally, the TPP was viewed in Tokyo as a key part of the United States rebalance to the Asia-Pacific because it helped link the United States to the region across multiple dimensions rather than just security. For Japan, the TPP was expected both to strengthen economic relations on a bilateral basis with the United States as well as support greater Japanese engagement with the wider region, particularly Southeast Asia.

Domestically, the TPP represented a key instrument through which Abe would reinvigorate the Japanese economy. In particular, it would help deliver structural reform, the so-called 'third arrow' of Abe's reform agenda known as 'Abenomics.' Abe's goal is to effect structural reforms to make uncompetitive sectors of the Japanese economy, such as agriculture, more dynamic. Now that this form of "external pressure" (*gaiatsu*) for such reform is gone, however, Abe may find such reforms that much harder to implement.

### What golden golf diplomacy can achieve

Abe's Trump diplomacy has been a shrewd mixture of flattery and pragmatism. Along with presenting golden clubs, Abe has sidestepped references to immigration or human rights issues. His aim instead has been to avoid any major confrontation on trade or financial issues such as exchange rates or monetary policy.

This tactic appears to have been reasonably successful. In addition to gaining the commitment of the Trump administration to Japanese security – which was aided by North Korea's missile tests during the February Trump-Abe summit – Japan has so far kept any discord over trade to a minimum. Abe has instead promoted a new United States-Japan economic dialogue to be led by Japanese Minister of Finance Taro Aso and United States Vice-President Mike Pence. This success perhaps explains why domestic criticism of Abe's diplomacy has been muted. The strongest criticism of Abe's approach has

come from former foreign minister, now opposition politician, Seiji Maehara, who characterised Abe as "a chicken meekly obeying a beast".

Yet such early success conceals Abe's weak hand and the broader limitations of such diplomacy, however skilful. Adroit diplomacy cannot block the deeper structural realignments set off by Trump. It cannot, for instance, address the rising doubts about the prospects for America's ongoing primacy in the Asia-Pacific. It cannot undo the damage Trump has done to America's reputation as a reliable ally. Nor can it stem the power shift towards China, now a product not merely of China's rise but also of erratic United States policy.

### Japan's deeper challenges

Trump therefore exposes the deeper strategic challenges facing Japan. More than most states in Asia, its strategic circumstances involving territorial disputes as well as regional rivalry are acute. Further, Japan cannot easily pivot from a US-based strategy: not only is its own influence in Asia based heavily on a robust US commitment to regional security, but it lacks any realistic substitute for American power.

Ideally, Japan would wish to roll back the worst foreign policy excesses of the Trump administration. But more realistically, it may seek merely to limit the damage that may be done to the regional order over the next four years. Japan is not unique in this respect; similar thinking can be found around the region. In Australia, for example, Foreign Minister Julie Bishop points to the fact that many states in the region find themselves in a "strategic holding pattern". In the end however, if adopting a wait-and-see strategy represents optimal policy, Abe's gift of golden clubs could in time be seen as less triumph of diplomacy than diplomacy in hope.

## Distracted pragmatism: Indonesian responses to Trump



### Associate Professor Greg Fealy

When Donald Trump was installed as United States' president in January 2017, many observers, myself included, predicted a hostile reaction in Indonesia. To judge from Indonesian leaders' responses to Trump's many controversial statements during the 2016 election campaign, a backlash from both the government and civil society appeared inevitable once the new president sought to carry out his promises to electors.

Instead, Indonesian criticism of the new administration has been surprisingly muted. President Joko Widodo (Jokowi) and his ministers have been guarded in their responses to Trump's pronouncements and policies, and so have community groups, including Islamic organisations, which have been most expected to protest vociferously. The reasons for this subdued reaction have much to do with domestic political preoccupations and perceived economic self-interest.

#### Campaign backlash

Recent history suggests that Donald Trump would be the type of United States politician most likely to arouse hostility within Indonesia. The presidencies of George Bush Senior and George W. Bush were unpopular in Indonesia because they waged war within Muslim countries. George W. Bush was especially disliked by Indonesian Islamic groups for his 'Global War on Terrorism' as well as the bombing of Afghanistan and invasion of Iraq, both of which drew large protests on the streets of major cities. When he visited the country in 2006, he received

a frosty reception from Islamic leaders and was much criticised by politicians and the media. More generally, Bush's perceived unilateralism and notions of the United States as a dominant moral force in the world irritated many of Indonesia's elite who hold deep suspicions of superpowers and their intentions towards smaller, developing nations.

Trump's campaign statements during 2016 were widely reported in Indonesia and drew a strongly negative response. His criticisms of Islam and promises to ban Muslims immigration to the United States were given particular attention, as also were his undertakings to "wipe out Islamic State within 30 days of taking office", which carried the prospect of expanded military action in predominantly Muslim nations, such as Syria and Iraq.

Numerous senior political figures voiced their disapproval. TB Hasanuddin, a senior MP from the governing coalition warned: "If (Trump) continues his racist position, it will bring danger to American assets. Donald Trump's arrogance could be harmful for US citizens around the world." Deputy Speaker of parliament, Fadli Zon declared he would seek restrictions on United States trade and investment in Indonesia if Trump became president. Others called for his businesses to be banned from Indonesia if Muslims were barred from entering the United States. An online petition to President Widodo garnered more 45,000 signatures calling for the closing of Trump's enterprises in Indonesia. One signatory told Reuters, "Donald Trump

doesn't want Muslims of the world to enter the United States...so we should do the same to him. Condemn, refuse and boycott every Donald Trump business and his affiliations...We should prove that we have power." Even the diplomatically-savvy Coordinating Minister for Maritime Affairs, ex-general Luhut Panjaitan told CNN, "How come he won't allow Muslim people to enter America while he has money in Indonesia, investment in Indonesia?" Luhut suggested that Indonesia would look elsewhere for trading partners if Trump blocked Indonesians from entering the United States.

Aside from religious matters, strategic and economic issues had also drawn criticism of Trump. Commentators worried about the impact on the region and Indonesia of his talk of reduced United States military involvement in Asia, of confronting China, of scrapping multi-lateral trade arrangements and pursuing protectionist policies. Businesspeople expressed concern about losing access to the lucrative United States market.

So, there was every reason to expect a souring of relations between Indonesia and the United States once the Trump administration came to power.

#### With inauguration comes circumspection

Almost from the outset of the Trump presidency, Indonesian responses were, for the most part, restrained. Political leaders who had spoken of banning Trump businesses in Indonesia or boycotting United States products fell silent and those who had strongly

objected his policies now softened in their criticisms.

Perhaps the biggest surprise has been the mild response to Trump's banning of Muslim immigration from seven Muslim-majority nations. President Jokowi brushed the matter aside saying simply: "We [Indonesians] are not affected. Why fret?" His Foreign Minister, Retno Marsudi, went a little further, expressing "deep regret" at the ban, opining that "it would make it harder to fight radicalisation". Foreign Ministry spokesman, Arrmanatha Nasir, elaborated, "Even though this policy is within the United States' authority, Indonesia deeply regrets it because we believe it would affect the global fight against terrorism and the refugees management negatively."

Islamic groups were also subdued. Most Islamic leaders expressed their disappointment at Trump's attitudes and policies but did not mobilise their followers in protest and continued to meet United States diplomats and officials. Typical was the response of Dr Said Agil Siradj, the chairman of Indonesia's largest Islamic organisation, Nahdlatul Ulama, who described Trump's ban as "Harming the United States itself, [because] the United States will then be isolated". He went on to say, pragmatically, that "For Indonesia, Donald Trump's policies would not have influence." Even the Islamist media, such as *Republika*, *ar-Rahmah* and *Voice of al-Islam* gave relatively little space to reporting on Trump's statements and did so with less invective than would normally be directed at a Western leader who targets Muslims.

Perhaps the most critical response came from economists who were worried about the impact of Trump's protectionist policies on Indonesia. The United States is Indonesia's fourth largest trading partner, with non-oil and gas exports of US\$15.68bn in 2016. Influential former Finance Minister, Dr Chatib Basri, expressed a common view among economists that continuing access to open trade markets was crucial to Indonesia achieving its planned 5%+ economic growth in coming years. He feared Trump's isolationist tendencies threatened Indonesia's growth

trajectory. Other commentators told the financial media that Trump might deny Indonesia the opportunity for dramatic industrialisation and economic expansion that 'Asian tigers', such as China, Taiwan, South Korea and Singapore had gone through from the 1970s, based on free trade. Indonesia may already be suffering ill effects from Trump's policies as its stock exchange was the only emerging market in Southeast Asia to experience net outflows so far in 2017.

These fears deepened following the administration's decision to cite Indonesia in two 'trade imbalance' cases. In late March, the United States National Biodiesel Board accused Indonesia of dumping cheap imports of biodiesel onto the United States market and filed with the United States International Trade Commission as well as the Commerce Department for the imposition of anti-dumping and countervailing duties. Then, on 1 April, President Trump signed an executive order instructing relevant government departments and agencies to combat 'violations to United States trade and customs laws' by 16 countries, one of which was Indonesia. Indonesia was 15th on the list, with a trade surplus of US\$13 billion with the United States. Indonesian ministers adopted a wait-and-see attitude to the government's response, but the actions will increase apprehensions of the possible reduction in United States trade under Trump.

#### Inward-looking pragmatism

Indonesia's moderate reaction to Trump's policies is a product of its contemporary political dynamics, which are both domestically focused and also economically orientated. Jokowi is the least internationally aware president in Indonesian history, and he views diplomacy as mainly serving his economic growth policies. Though he, on occasions, pays lip service to issues of solidarity with other Muslim and developing nations in Asia and Africa, he is reluctant to expend political and diplomatic capital on them. Thus, Trump's attempted Muslim immigration ban drew his insouciant, "We're not affected" remark, rather than support of

the principle of non-discrimination.

Much of Indonesia's political elite believes that their country is well-placed to avoid being targeted by Trump. To begin with, Indonesia seems marginal to the new president's thinking. His only reference to it on the hustings was to introduce two visiting Indonesian parliamentarians to the journalists, asking them if they thought he would win – to which they dutifully answered, "yes"!

In addition, Trump's companies have, in the past 18 months, begun operations in Indonesia, which Jokowi's government appears to hope might shield it from United States protectionism or retaliation. Trump Hotel's announced in late 2015 that it would enter a partnership with the magnate, Hary Tanoesoedibjo, to manage two luxury hotel and resort complexes in Indonesia. Also, Trump's advisor on regulatory issues, Carl C. Icahn, is one of the largest shareholders in the Freeport mine in Papua, the world's largest copper and gold mine.

It is also true that for much of the past year, Indonesia has been transfixed, to an unusual degree, by its own domestic politics. The gubernatorial election in Jakarta has brought to surface polarising issues of race and religion to national politics, as its Christian Chinese governor seeks re-election over Muslim 'native' rivals. Many Islamist groups have mobilised emphatically against the incumbent, distracting them from their normal concerns about perceived Western anti-Islamic actions. As Trump has brought minority race and religion into his own campaigning, these same two factors in Indonesia may paradoxically serve to lessen the backlash to his policies.

But Indonesia's mild reaction to Trump is likely to change if the United States administration begins pursuing policies that directly and heavily impact on its citizens and interests.

## America's adversary? China in American policy debates and how it affects the Trumpian approach to Asia



### Professor Bates Gill

Regardless of who was elected the US president in 2016, Sino-American relations were already headed into difficulties. The overall relationship had begun to sour in the latter years of the Obama administration. Chinese activities in the South China Sea, cyberattacks on American firms and government agencies, and continuing crackdown on dissent are just a few items on a growing list of US concerns about the direction of China's rise. Even United States businesses – long the staunchest advocates for constructive and deepening relations with China – have become increasingly jaundiced about their struggles to succeed in the China market. Much of the American public, and especially those who have seen their manufacturing jobs lost in the past decade or two, readily see competition with China as the source of United States economic malaise.

Hence, it was an easy choice for candidate Donald Trump to take up China bashing as a core element of his stump speeches and debate appearances. In today's America, there is almost no political downside to talking tough on China.

In some ways, Trump was not all that different from his predecessors in American presidential election politics. China is a frequent and easy target. Candidate Reagan attacked the incumbent Jimmy Carter for cutting off Taiwan to establish diplomatic relations with China. In 1992, candidate Bill Clinton criticised his opponent for “coddling dictators from Baghdad to Beijing” and railed against the “butchers of Beijing”. In

the run-up to his presidency, George W. Bush argued that China was not a partner but rather a “strategic competitor”.

But candidate and president-elect Trump took things to a new level. He repeatedly said China is America's “enemy” and is “raping our country” through unfair economic practices. He promised that on his first day as president he would put in motion a range of punitive measures by declaring China a currency manipulator. He also pledged to slap a 45 percent tariff on all Chinese imports.

As president-elect, he broke with decades of diplomatic protocol by taking a congratulatory telephone call from Taiwan President Tsai Ing-wen and later questioning the value of the “one-China policy”, a long-standing diplomatic understanding at the heart of stable US-China relations. Just prior to taking office, he tweeted: “China has been taking out massive amounts of money & wealth from the United States in totally one-sided trade, but won't help with North Korea. Nice!” This all adds up to make him arguably the most openly anti-China candidate and president-elect since the Nixon opening to China in the early 1970s.

All the more strange then to watch his approach to China in his first 100 days as president. Across the board we have seen flip-flops, reversals and accommodation to Chinese positions. He has not declared China a currency manipulator, the 45 percent tariff on Chinese imports never materialised, and in his first telephone call with China's leader Xi Jinping, Trump committed to honouring the one-China

policy. No words or deeds have come up to challenge Chinese claims in the South China Sea or call out Beijing's poor human rights record. Instead, his Secretary of State, Rex Tillerson, while on his first official visit to Beijing, dutifully repeated the stock Chinese phraseology to envision United States-China ties, saying he sought relations “based on the principle of no conflict, no confrontation, mutual respect, and win-win cooperation”.

And perhaps most remarkably, President Trump hosted his Chinese counterpart, Xi Jinping, for a 24-hour visit to his Mar-a-Lago club in early April. The only other world leader to enjoy such treatment was the Shinzo Abe, who, as Japanese prime minister, leads one of America's closest allies. The summit was long on ceremony and short on substance, but helped put the US-China relationship on a more positive footing—for now at least.

What is going on here? Where will it all lead for US-China relations? For some, the Trump approach to China appears to be all give and no take, even bordering on accommodation. Others are waiting for the other shoe to drop in the form of Chinese concessions cleverly negotiated and extracted by the dealmaker-in-chief. But as with so many aspects of the Trump presidency, it is very difficult to know whether his approach thus far towards China is carefully calculated or simply the result of little to no thinking at all.

It is difficult to avoid thinking the latter is indeed the case. To begin, we know

that the United States president has very little experienced staffing to support a coherent China strategy. The most experience he could turn to is at the State Department. But the State Department has been consistently marginalised from policy deliberations, is facing further marginalisation and demoralisation as its budget is slashed and, in any event, has few senior level China and Asia hands still in the building.

But even if there is a 'there, there', and the president aims to capitalise on his friendly treatment of China and its leader, it is not clear this approach is going to work for US-China relations or for a broader Asia strategy. For example, it appears the White House has nearly completed its North Korea strategy review and it looks like it will be more of the same: tighter sanctions and expecting China to 'do more'. But we have been here before and we know the Chinese are not likely to threaten measures that may risk North Korea's survival. And, if it is true as reported during Tillerson's visit to China in March, that the White House is considering some tough financial penalties for Chinese companies and banks which continue to do business with North Korea, that will not win any friends in Beijing.

If anything, China will want Washington to 'do more' – reduce military activities on the Korean peninsula, withdraw the newly deployed THAAD anti-missile system, and open up negotiations with Pyongyang, none of which President Trump is likely to do.

The president will also need to be mindful of US allies and friends in the region – such as Japan, South Korea, and Taiwan. They will be anxious that any US-China dealing might be done over their heads and to their disadvantage. Their strong supporters in Washington, especially on Capitol Hill, will be very vocal in discouraging the president from reaching any understandings that would undercut loyal allies. Those considerations will limit what the president can do in giving Beijing what it wants most – to be treated as an equal, have its “core interests” respected and moderate the United States and allied presence around China's periphery.

But even if the two sides can demonstrate a preference for cooperation and stability, there is still a lot of volatility and unpredictability baked into the relationship. The two leaders are both committed to making their countries “great again” and would see the other as a possible challenge to that goal. Xi Jinping is looking to consolidate his power base and ensure he is given a strong mandate to rule for another five years, at the 19th Chinese Communist Party Congress in late 2017. It seems unlikely that Xi Jinping would take any rash steps between now and then. But President Trump will be dealing with a more confident and risk-taking leadership in Beijing come 2018.

As for the US side, it still lacks a coherent strategy document or major policy statement about Asia policy. Some of the troubling statements that have emerged thus far do not inspire much confidence. The president's preoccupation with self-image means he could overreact to events in the region that make him look bad. On top of that, major political distractions, many of the administration's own making, have sapped the White House of the time and energy needed to focus on future relations with China, North Korea, US allies, and America's role in the dynamic Asia-Pacific region.

If we add all that up, we cannot discount the possibility of disarray and devolution into more serious confrontation if there is a crisis. The situation on the Korean peninsula is especially ripe for miscalculation and rapidly escalatory responses between North Korea and the United States and their respective supporters. In the South China Sea, Beijing has nearly completed the installation of radars, runways, hardened bunkers, anti-aircraft missiles and other facilities to support a significant military presence. When the Trump administration chooses to challenge Chinese claims in the waterway through freedom of navigation operations – which the administration will surely do – the possibility for a heated confrontation or worse remains high.

In many respects, we are left with assuming President Trump will follow his instincts if relations with China go badly. Those instincts will be to take a tougher and tougher stance to show who is boss. As he learnt during the campaign, Trump would find a substantial amount of political support in the United States to take a tougher stand against China. Given all his other problems at home, appealing to American nationalism might look like an attractive next move.

## A new era of geoeconomics in the Asia-Pacific Region: Will Xi trump Trump?



Dr Jane Golley

In December 2016, shortly after his election victory, US President Donald Trump created the National Trade Council (NTC) to advise him on trade negotiations, assess US capabilities in manufacturing and the defence industrial base, and find unemployed American workers new jobs in the manufacturing sector. The NTC will be headed by Peter Navarro, a long-standing critic of China's 'unfair trading practices', which he has estimated to account for 41 per cent of China's competitive advantage over the United States, remarkably close to the 45 per cent tariff threatened by Trump during his election campaign.

While that threat hasn't materialised (and is highly unlikely to), Trump has already delivered on another election promise by withdrawing the United States from the TPP, an ambitious trade liberalisation initiative among 12 economies in the Asia Pacific, proposed by his predecessor Barack Obama. Although the details of US trade policy remain decidedly murky 100 days into Trump's presidency, the TPP withdrawal, along with Navarro's appointment and the NTC-led 'Buy America Hire America' program, suggest that it will contain an array of protectionist elements, with many of them targeting China.

Meanwhile, in mid-January, Chinese President Xi Jinping delivered a keynote speech at the World Economic Forum in Davos, Switzerland. In a staunch defence of globalisation, Xi pledged China's ongoing commitment to free trade and "open, transparent and win-win regional free trade agreements" while adamantly

(and poetically) rejecting the "pursuit of protectionism" which he likened to "locking oneself in a dark room. While wind and rain may be kept outside, that dark room will also block light and air. No one will emerge as a winner in a trade war".

Xi also celebrated his Belt and Road Initiative (BRI) in Davos (a recent official renaming of what was formerly known as the One-Belt-One-Road Initiative, or OBOR), noting the 'warm responses and support' of over 100 countries and international organisations in the three years since it began. With more than \$50 billion of investment already made by Chinese companies across the Belt and Road's expansive map, and with much more to come, Xi emphasised its role in creating jobs and spurring economic development beyond China's own borders.

Following Xi's speech, newspapers across the world reported him as the new 'champion' of free trade and the international economic order, a role traditionally accorded to presidents of the United States. With the current US president now appearing to reject that role, is it possible that China's president will assume it instead? If only.

### Geoeconomics 101: China 1, United States 0

In their 2016 book, *War by Other Means: Geoeconomics and Statecraft*, Robert Blackwill and Jennifer Harris, Senior Fellows at the United States Council on Foreign Relations, define geoeconomics as "the use of economic instruments to

promote and defend national interests and to produce geopolitical results; and the effects of another nation's economic actions on a country's geopolitical goals" (p.20).

With two chapters dedicated to the geoeconomic strategies being pursued by China, Blackwill and Harris contend that "The global geoeconomic playing field is now sharply tilting against the United States, and unless this is corrected, the price in blood and treasure for the United States will only grow" (p. 2).

Former US President Obama understood this well. His American 'pivot' or 'rebalance' towards the Asia-Pacific region, and the TPP in particular, was an explicit attempt to ensure that "countries like China [would not] write the rules of the global economy. We should write those rules." Underlining the geopolitical significance of the trade agreement, US Secretary of Defense Ashton Carter declared that "in terms of our rebalance in the broadest sense, passing TPP is as important to me as another aircraft carrier."

Blackwill and Harris were also emphatic that the TPP was the "overriding geoeconomic component of the Asia pivot" (p. 229). With the TPP now off the agenda, they will be lamenting that United States geoeconomic policy in the Asia-Pacific region is weaker than ever before.

China's geoeconomic strategy, on the other hand, is gaining momentum, primarily under the banner of BRI. There is plenty in the Initiative that makes good economic sense: trade-enabling infrastructure, tariff reductions, simplified

Routes of the China-proposed Belt and Road Initiative



customs procedures and 'enhanced economic policy coordination' between China and its BRI partners. Yet this does not preclude it from being inherently strategic. This is evident in the words of Huo Jianguo, Director of the Chinese Academy of International Trade and Economic Cooperation (a subsidiary of the Ministry of Commerce) who described the initiative as "a grand strategic design" to counter the TPP, which he viewed as a deliberate ploy by the United States to control the rules of international trade in ways that "undoubtedly challenge and threaten China". Viewed in this light, the 'BRI-TPP' battle seems to have concluded, with a geoeconomic victory for China.

### What this means for the rest of us

Unfortunately, this victory does not amount to a victory for the international economic order that has served so many of our region's economies so well in the past. Instead, three key features of BRI seem to be fundamentally incompatible

with that order. The first feature is that it builds on China's approach to its (internal) regional development strategies in the past, in which a heavy-handed, multi faceted and multi layered state is used to direct investment, primarily into infrastructure, to support economic growth in state-favoured regions. The second is a reliance on state-owned enterprises (SOEs) to actively implement state plans, reflected in their dominance in China's direct investment overseas. And the third is the explicit role of Chinese development finance as a "servant of China's national strategic interests", as described by Chen Yuan, the founding Chairman of the China Development Bank, directly under the State Council and now the world's largest development finance institution.

Leaders of countries in the Asia-Pacific region, as elsewhere in the world, are justifiably uncomfortable about these features of what is essentially a 'grand transnational development strategy' of a 'rising great power'. This strategy is

befitting for a Communist Party leadership that seeks to uphold 'Socialism with Chinese characteristics'. That does not make it an exemplar for the rest of the world to follow. But then, at this juncture, neither does the United States' trade strategy.

In this new era of geoeconomics, some countries have started to take matters into their own hands. In 2015, Japan, quick to interpret the BRI as being inherently geopolitical, announced its own \$110 billion infrastructure fund, which will target 'East-West' economic integration between Southeast Asia and the global economy as a deliberate counter to China's 'North-South' infrastructure projects which seek to integrate Southeast Asia with the Chinese economy.

Since 2014, Indian Prime Minister Modi has transformed the 'Look East' policy – a key feature of the country's integration into the global economy since 1991 – into an 'Act East' policy, which aims to "strengthen strategic and economic

ties with Southeast Asian countries that would possibly act as a counterweight to the influence of China in the region". Geoeconomic competitions such as these will help the region to 'rebalance' away from the excessive reliance on China that many countries fear.

In Australia, Prime Minister Turnbull was quick to defy Trump in declaring not only that the TPP could proceed without the United States, but also that there was potential for China to join. While this particular outcome seems unlikely, any attempts to engage China in regional trade agreements – such as the Regional Comprehensive Economic Partnership (RCEP), a multilateral agreement by 16 nations including Australia, China, India and Japan – should be lauded.

There is also plenty that Xi Jinping can do to live up to his Davos words. There is ample opportunity for China to improve its openness and transparency in implementing the vast array of BRI projects across the region, and to make its SOEs compete on a more level playing field than they have in the past. Ensuring that the Asian Infrastructure Investment Bank, and other Chinese state-backed financial institutions, maintain the highest possible standards of 'regionally-inclusive' governance, will also contribute to making the BRI a successful cornerstone of China's evolving geoeconomic strategy, with widespread benefits for the region as well.

This will not be sufficient, however. Far more worrying in China's geoeconomic toolkit are the various techniques it uses to punish countries that act against its foreign policy interests. South Korea is the latest recipient of such punishments, which have also been deployed against Japan, the Philippines and Taiwan. Following South Korea's decision to deploy the US-supplied THAAD missile defence system in March, China's state media actively encouraged the boycotting of South Korean goods, culture and tourism, inflicting high costs on the South Korean economy. This kind of behaviour will not win China friends in the region. Nor will it enable Xi Jinping to be the free-trade champion the region needs him to be.

And finally, there is Donald Trump. After predicting that his meeting with Xi Jinping on 6-7 April would prove "very difficult", Trump has since celebrated their "very very great relationship", while touting a 100-day plan for the two countries to boost American exports and reduce their bilateral trade imbalances. On 16 April, he backtracked on yet another election promise, in what may have been his first 'geoeconomic' tweet: "Why would I call China a currency manipulator when they are working with us on the North Korean problem. We'll see what happens!" Far from clever geoeconomics, but at least a currency war now appears to be off the agenda.

Yet there is still ample reason to believe that the United States under Trump will be more protectionist than in the past, and that China will be the number one target. If so, a number of low-cost countries in the Asia-Pacific region could see a surge in their own manufacturing sectors – a far more likely prospect than this happening in the United States itself. Overall however, the regional impact of a protectionist trade policy emanating from the world's wealthiest economy would be catastrophic, and most obviously for China. Proactive diplomacy to dissuade the United States from pursuing such a policy should be made a regional priority above all else – aside from preventing a nuclear war with North Korea.

## Trump and energy: Implications for global and Asia-Pacific markets



### Associate Professor Llewelyn Hughes

Energy policy under a Trump administration and Republican-controlled Congress should have a considerable degree of drive and ambition. Rex Tillerson was quickly confirmed as Secretary of State, along with Ryan Zinke as Secretary of the Interior (DoI) and Scott Pruitt at the Environmental Protection Agency (EPA). Secretary Zinke and Administrator Pruitt favour increasing US production of fossil fuels, and loosening the environmental regulations governing energy production.

Together, these appointments suggest an ambition to markedly increase US production of oil and gas in federal lands and the outer continental shelf, two areas over which the federal government has substantial control, and to boost coal production.

Yet appearances can be deceiving. With Tillerson at its head, ExxonMobil played a clever hand in dealing with contracts with Rosneft, signing a Strategic Cooperation Agreement in 2011. The agreement expanded to include a \$15 billion liquefied natural gas (LNG) project on Sakhalin Island in the Far East, targeting Asia-Pacific markets. Yet the effect of the Trump administration policies on Asia-Pacific energy markets is likely to be more of the same, rather than a sharp break from the past.

#### Trump's 'America First Energy Plan'

The Trump administration's energy plan remains a work in progress. Yet the rhetoric is familiar. The 'America First Energy Plan' emphasises 'energy independence', long a leitmotif of both Republican and Democratic administrations.

What 'energy independence' means, however, is open to interpretation. The Obama administration also emphasised the importance of increasing the domestic production of sources of energy, for example. In doing so it focused its attention on wind and solar photovoltaics, as well as improving energy productivity. Energy independence, for presidential candidate Barack Obama, thus meant reducing oil imports by increasing automotive fuel efficiency standards and developing biofuels, in addition to supporting renewable energy.

The previous Bush administration also touted 'energy independence' but promoted an all-of-the-above energy policy, including support for domestic fossil fuel production, along with a range of subsidies for advanced manufacturing in automotives, tax credits for renewable energy and other initiatives.

The Trump administration's use of the term, in contrast, links it to increased production of fossil fuels. In its 'America First' energy plan, the administration states it is "committed to energy policies that lower costs for hardworking Americans and maximise the use of American resources, freeing us from dependence on foreign oil".

The 'Presidential Executive Order on Promoting Energy Independence and Economic Growth' signed by President Trump on 28 March 2017 adds more detail to the pre-election promises. It states that "The heads of agencies shall review all existing regulations, orders, guidance documents, policies, and any other similar agency actions (collectively, agency actions) that potentially burden the development or use of domestically

produced energy resources, with particular attention to oil, natural gas, coal, and nuclear energy resources". It includes a number of other measures designed to roll back executive orders by the Obama administration targeting climate change-related energy measures.

The Trump agenda is thus distinguished from the previous administration primarily by its hostility to climate change-related energy measures. It also promises to have some effect on domestic environment-related energy policies and on international climate change cooperation, as discussed elsewhere in this report. Its effect on the Asia Pacific, on the other hand, should be muted. The reasons are threefold.

#### Overly optimistic assessment of potential?

A central claim of the Trump administration is that their proposed changes would enable firms to newly access up to US\$50 trillion of oil and gas reserves it states are available in lands owned by the federal government, and elsewhere. If there were indeed such an enormous amount of energy sources ready to be exploited, this could have a significant effect on global commodity prices. Yet it is unclear how this number was calculated, including what the relevant time period is in which this vast amount of value would be unlocked. It is also unclear how many natural resources will ultimately prove recoverable from federal lands and the outer continental shelf given technology, water and other constraints, oil and natural gas prices, and the likely public controversy associated with producing large amounts of unconventional oil and

gas across these areas. Driving more production of natural gas would also only serve to lower prices, which would reduce the incentive to invest in further production.

This is also the case with coal. The executive order issued by President Trump targets the Clean Coal Plan of the Obama administration. Yet at its root the challenge coal faces in power generation in the United States comes from the enormous growth in natural gas production, rather than any regulatory change on behalf of the federal government. Given the age of the United States coal fleet, long construction times and the expectation that plants will continue to operate over decades, the coal-friendliness of the current administration is unlikely to be enough to overcome investment risks relative to natural gas-fired power, or indeed renewable energy such as wind and solar photovoltaics.

### **Influential policies already passed**

A second reason Trump's energy policies will have less effect on the Asia Pacific than expected is that major legal and regulatory constraints on the flows of US oil and gas production were removed under the Obama administration. There is much the new administration can potentially do to reduce environmental regulations governing oil, gas and coal production. The burden of any such changes will mainly fall on US citizens, however.

Beyond this, the reversal of the long-standing ban on oil exports – petroleum product exports have been permitted – has real potential to influence oil markets in the Asia Pacific, Europe and elsewhere. More generally, the rise in United States production implies a fall in the price-setting power of Saudi Arabia and the Organization of Petroleum Exporting Countries (OPEC), one that is particularly difficult for the latter to resolve because United States oil is produced by thousands of companies, rather than state-owned oil companies that are prevalent in many oil producing countries.

The change in oil export settings was already implemented by the Obama administration, however, with refiners in both Europe and the Asia Pacific reported as accepting cargoes. There is thus little for the Trump administration to do here,

beyond what was implemented under the previous presidency.

The same holds for trade in natural gas. Markets for natural gas have historically been far more regionalised than oil because of the need to condense it to liquid form before transportation by ship. This has also meant prices have been only weakly integrated between regional markets, with consumers in the Asia Pacific recently paying significantly higher prices than in the United States.

The rise of natural gas production in the United States presents an opportunity to link the US and Asia-Pacific gas markets more closely. Key here is the regulatory process managed by the Federal Energy Regulatory Commission (FERC), enabling the infrastructure to be built that will enable natural gas cargoes to be exported. Certainly, an export-focused energy policy enabling greater natural gas exports would have made sense to the mercantilist impulses of the new administration. Yet here once again, the licensing of LNG export terminals began in earnest prior to the current administration. The long lead times required to complete construction of liquefaction facilities make it unlikely that a more rapid process would cause a steep change in the volume of gas flowing into Asia-Pacific markets.

### **Institutional constraints on President**

The third factor that reduces the large effect of Trump's energy policies on the Asia Pacific is the limited power of the presidency itself. The United States' political institutions incorporate a sharp separation of the executive and legislative branches, and party discipline is imperfectly imposed on congressional members, as already seen with the failed attempt to pass changes to healthcare legislation. It is also the Congress, rather than the president, that controls the budgetary process. There certainly appears to be some agreement among the Republican congressional delegation over climate change policies, and this may lead to the rescinding of budgetary support for renewable energy. As with the Obama administration's Clean Coal Plan, however, legal challenges will ensure the implementation of changes

proposed by the Trump administration will be incremental rather than revolutionary.

For the Asia Pacific, one effect of this change is likely to be reducing the competitiveness of US firms in the markets for new energy technologies focused on climate change. Prodded by United States automakers, the Trump administration, has already ordered a review of the corporate fuel efficiency standards established by the Obama administration for example, and the review is widely expected to seek to reduce their stringency. Yet this will not reduce the increasing competitiveness of electric vehicle technologies, and presents a business opportunity to Japanese and European auto manufacturers in this key new technology.

### **The unknown unknown of energy security**

The unknown unknown in asking how the Trump administration's energy policies will affect Asia-Pacific energy markets lies in its approach to foreign policy. Here the administration's approach to Iran matters. The integration of oil markets globally means oil supply interruptions are experienced as price phenomena, rather than losses of physical supply. A tightening of economic sanctions against Iran that reduces the access of Iranian oil to global markets could thus exert short-term upwards pressure on oil prices, and by extension natural gas prices in the Asia Pacific because of the link between oil and gas prices in many Asia-Pacific natural gas contracts. The new administration has also signalled that it will adopt a less conciliatory position towards North Korea, and geopolitical risk will push energy prices higher, other things being equal. Regardless of rhetoric, however, over-optimism, the fact that many big policy challenges have already been overcome and institutional features of the US presidential system mean incrementalism is most likely to be the hallmark of the Trump administration's implications for Asia-Pacific energy markets.

## **Climate change: Trump swaps global leadership for obstruction**



### **Professor Frank Jotzo**

Candidate Trump promised to "cancel" the Paris Agreement, promote coal, oil and gas, and has started the process to dismantle carbon emission regulations since taking office. Taking stock of progress and prospects on climate policy after the Trump administration's first 100 days suggests that Trump will set back the United States transition to cleaner energy and the effects will be felt internationally. But his tenure is unlikely to derail the global climate change effort and the shift to cleaner technologies that is already underway, and it strengthens China's opportunities to lead the global clean energy agenda.

### **Paris Agreement – perhaps staying with it after all**

The Trump administration could submit a notice of intent to withdraw from the Paris Agreement on climate change, and the United States would then exit the agreement after a four-year waiting period. The United States also looks set to renege on its commitments to provide funding for climate change action in poor countries and to ramp up spending on clean energy.

It would reduce the Paris Agreement's standing and could encourage other nations to follow suit. But the Agreement is and will remain in force, and the national pledges to reign in emissions that all countries have made remain unaffected. And it provides a clear opportunity for China to lead the global climate change effort.

Pulling out would diminish America's influence over what other nations do in the climate change arena. Trump wants deals, and American energy industries want the administration to exercise maximum leverage

internationally. Secretary of State Tillerson in his confirmation hearing acknowledged the importance of having a seat at the international climate negotiations. The United States could stay in the Paris Agreement but ignore its pledges and play a spoiler role or try to use it to promote its interests in fossil fuel industries.

So it comes as no great surprise that the Trump administration is reported to be considering to remain in the Paris Agreement, demanding that the international community to support efforts to make fossil fuel technologies cleaner. This could be a bigger help to America's coal, oil and gas industries than the United States exiting the international climate change negotiations. But it would make it harder for the world to achieve strong climate action, which requires a large scale shift to carbon-free technologies.

### **Falling emissions, China's lead and the race for clean energy leadership**

Climate change policy is no longer in the realm of environmental policy and marginal economic change. With clean technologies becoming competitive with the established hydrocarbon-based energy system, climate policy means large-scale industrial change. With that comes opportunity in new industries on a scale that could be similar to the information technology revolution.

In 2014, the United States and China made a joint declaration that paved the way for the Paris Agreement. It framed climate change action both in terms of an environmental necessity and an economic opportunity that requires action by all countries. With Trump's election, China can take undisputed leadership of the global low-emissions

transformation agenda. China pushes towards a cleaner energy and industrial system and is already the world's largest manufacturer of renewable energy equipment.

A global clean energy transition now has better prospects than anticipated just five years ago, because of technological progress and changes in economic structure. Coal, the most emissions intensive fuel, is on a declining trajectory. Global coal demand fell in 2016. The United States saw a particularly large drop of 11 per cent in coal use, due to substitution to gas and renewable power. Global carbon dioxide emissions from energy use have been flat now for three years. Emissions are steadily declining in the United States, and are now at the level they were in 1992, though with an 80 per cent larger economy.

Oil use continues to grow globally, but its longer term future is in doubt on account of climate change concerns coupled with technological progress. A shift to electric vehicles, partly driven by US car companies, could cut out much of the world's oil demand in decades to come. And while natural gas is less intensive in carbon emissions than the other fossil fuels, it too has little long term future in a world that takes strong action on climate change.

The energy industries of the future are renewables and nuclear power, coupled with electric transport, smart electricity grids, new forms of energy storage and advanced energy saving technologies.

China sees a major opportunity in this change. China has become by far the largest producer of wind turbines and solar panels, industries that are growing very rapidly and will continue to grow for a long time. The



Photo by Asian Development Bank

large majority of annual global investment in electricity supply is now in renewable power. Renewable energy technology has matured technologically and is becoming cost competitive with fossil fuel based energy.

China is positioning to take a lead role not just in manufacturing but also in developing clean energy technologies, and thereby capturing profits from innovation. Climate policy could indeed benefit China, not just environmentally but economically.

The change is not only driven by climate change concerns but also by efforts to reduce urban air pollution, which is causing enormous health damages in particular in the megacities of the developing and industrialising world.

#### Dismantling carbon regulations

Trump has a clear agenda of dismantling environmental regulations including ones aimed at reducing greenhouse gas emissions, and his administration has started that process. He has appointed an opponent of environmental regulation and climate change action as head of the Environmental Protection Agency (EPA) and slashed its budget.

At the end of March, Trump started the process to abolish the Clean Power Plan, Obama's signature climate change policy. The Clean Power Plan mandates limits on carbon dioxide emissions from the United States' power plant fleet, to be implemented by the states. The regulations would accelerate the shift that is underway from coal fired power stations and towards gas and renewable power. Without the Clean Power Plan or an alternative, the United States are unlikely to achieve its pledged target of a 26 to 28 percent reduction in national emissions by 2025 compared to 2005.

Trump ordered a "review" of the Clean Power Plan, starting the process to replace it with weaker or ineffective regulations. The Trump administration cannot simply remove the Clean Power Plan without replacement, because earlier decisions upheld by the Supreme Court mandate the EPA to regulate carbon dioxide emissions. The process is cumbersome but it is expected that Trump will be able to neuter Obama's carbon regulations.

Trump's executive order also requires the EPA to review all environmental regulations and safety standards for their effects on jobs. The presumed next step is for many

environmental regulations to be rescinded, as Trump pledged during his campaign. Trump has also made strong statements of support for the incumbent oil, gas and coal industries, and recently approved the controversial Keystone XL oil pipeline.

The framing of the White House communications around the regulatory changes is squarely in terms of jobs, not in terms of opposition to environmental regulation on ideological grounds. Trump was flanked by coal miners when he signed the executive order, in a clear signal of support for his core constituencies working in traditional industries in the relatively less well-off states.

A group of conservative elders has advocated for a federal carbon tax or 'carbon dividend', with revenue to be distributed to the American people, and border tax adjustments to shield American industries from carbon-intensive imports. Such a scheme, or any type of 'carbon flavored tax reform', could fit with Trump's primary stated objective of strengthening United States industries and creating jobs. The idea is that Democrats could support a legislative change to fully abolish carbon regulations in return for a carbon tax. But the prospects seem very slim now that Trump has embarked on the process to rescind Obama's clean power plan through the regulatory route.

#### The states, the neighbours and the G20

Several US states have been taking their own climate change action and will continue to do so. Chief among them is California, where a state-wide emissions trading scheme has been in operation since 2013, alongside many other policies that cut energy use and shift energy supply to renewables. California's goal is to cut the state's carbon emissions by 40 percent below 1990 levels by 2030. Northeastern states have had a cap-and-trade scheme for the power sector in place for seven years.

State-based policies are likely to continue. California's government has made it clear that Trump's stance will not affect California's climate change program, which was developed irrespective of federal policy in the first place.

Canada also provides a stark contrast to the Trump administration's approach. The Province of British Columbia has had a

carbon tax since 2008, Quebec has a cap-and-trade scheme linked to California's, and Alberta recently put a carbon levy in place. Overlaying these, the national government is planning a national floor price on carbon. Trump will surely not be influenced by what the Northern neighbours do. But neither does Canada seem inclined to take cues from the new US administration.

Globally, climate change policy does not take the central role that it occupied in the lead-up to the 2015 Paris climate summit. But many countries are working on the implementation of their pledges for emissions reductions by 2030 that underpin the Paris Agreement.

Most importantly, China is accelerating its shift away from coal and towards zero-carbon energy sources. China's coal use is falling, and its overall carbon emissions are plateauing, despite continued strong economic growth. It is quite possible that China will outperform its Paris pledge to peak its carbon emissions by 2030. President Xi has made it clear that China remains committed to the clean energy agenda, which is manifestly in China's own economic and strategic interest.

The situation in many large developing countries is mixed. Governments may not have a strong appetite for environmental policies, but clean energy technologies by now often present a more attractive overall package. In India for example, electrification proceeds not only by expansion of coal power but also through new solar power plants.

Europe, the world's traditional champion of climate change action, is preoccupied with Brexit and its internal cohesion more generally, and a shift in power relations in its region. But still it pursues an ambitious climate change policy, and Germany drives the agenda on energy transition towards low-carbon systems. As president of the G20, Germany is pushing to make clean energy a high profile element of this year's G20 process.

The Trump administration is likely to find itself internationally isolated on climate change policy, while locking US industrial systems into last century's technologies and delaying an economic transition that is underway globally. It is not a scenario that is built to last – and if it does last, it is unlikely to work out to America's long term advantage.



## What Trump means for the global economy

### Professor Warwick J. McKibbin

The proposed changes to economic policies under the Trump administration are wide ranging. If implemented, they are likely to have large and long-lasting impacts on the United States and global economies with a significant impact on the Asian region. As discussed below, these policies will affect the Asian region through trade flows and capital flows, through global interest rates and in the longer term on whether the global economy remains open for trade or descends into a protectionist recession.

Although still very uncertain, the best indicator of the Trump administration agenda can be gleaned from Candidate Trump's "Contract with America". The processes to implement that agenda have already commenced.

The main challenge with forecasting the impacts of a Trump administration is that, despite it having a clear agenda (promises made in the campaign are clearly intended to be kept), in practice whether many of the policies will be implemented will depend critically on the support of Republicans in Congress. In trade policy, the president does have substantial discretion, but anything that requires funding approval will need congressional support.

In evaluating what might or might not be implemented, there is great complexity because President Trump appears to be right wing on social, environmental and immigration policy and left wing on trade and economic policy. He does not neatly fit into a divided set of fundamental beliefs that inhabit Congress. Therefore, every significant policy shift will need to be

negotiated through a divided Congress. It is problematic to assume that a Republican-dominated House and Senate will guarantee the Trump administration policies will be adopted.

In discussing each area of potential policy change, it is useful to consider each policy separately although many of them overlap in the important consideration of how they are funded.

#### Fiscal policy

A key economic issue relates to fiscal policy, both tax policy for corporations and households as well as expenditures including defence, infrastructure, government agencies and the big areas of Medicaid and social security. Both the size of the spending and tax changes and the impact on the overall fiscal deficit will matter for the US economy and for the spillover through trade and capital markets to the rest of the world. Candidate Trump promised not to touch the large entitlement programs of Medicaid and Social Security, which takes a large part of the necessary spending reform off the table. His attempt to reform the Affordable Health Care Act of President Obama has so far been a failure. This divisive policy reform was probably not the best place to expend significant political capital in the first 100 days.

A significant increase in infrastructure spending (\$1 Trillion over 10 years) is proposed to be financed by tax breaks to the private sector. In practice the infrastructure that is needed in the United States is likely not to be the type of projects that would be funded if the

private sector was given an incentive to bring them on stream. It is likely, if the infrastructure spending goes ahead, it would need to be financed by higher debt. The same applies to the \$50 billion to be spent on building a wall between the United States and Mexico. Greater spending on the military has support in Congress, but the current proposal to pay for it by massive cuts in the budgets of government agencies such as the Environmental Protection Agency and the State Department is unlikely to get through Congress. Therefore, more government debt is the most likely way to fund a military expansion.

Tax reform is even more problematic. Candidate Trump promised to cut tax on individuals from seven tax brackets to three. He also promised cutting the company tax rate from 35 per cent to 15 per cent. More recently, there has been support given to the plan proposed by the Republicans in Congress to not only lower the overall tax on business but to change from a tax based on the income of companies to a Cash Flow Tax with Border Adjustments known as DBCFT. This DBCFT works in a similar way to a value-added tax with additional deductions for payroll taxes. Imports would no longer be tax deductible as an input and profits from exports would not be taxed. While this has academic support, and is attractive for many reasons, the process of moving the US economy from the current system to the new system would be very disruptive. Some companies such as Walmart would face heavy increases in tax burden (indeed



the business model would need to change dramatically) while other companies that export would receive large reductions in their tax burden. This policy would also make it very attractive for US firms to relocate to the United States as the advantage of earning income offshore would no longer be relevant. Both the border tax adjustments and the relocation of US capital back into the US economy would likely lead to a large appreciation of the US dollar.

The tax reform is unlikely to be revenue neutral. The large reduction in the tax burden on companies and individuals would need to be financed by a large rise in government debt as cuts to spending programs could not support such a shift. Supporters of this major tax reform argue that the revenue from tax cuts would be self-financing because of a stronger economy. As this was not the experience of the Reagan tax cuts in 1981 or the Bush tax cuts of 2001 and 2003, it is unlikely to be self-financing.

Each of these fiscal policies would tend to raise the US budget deficit and therefore increase future US government debt significantly. A combination of higher government spending, lower taxes and overall higher spending in the United States economy would cause an appreciation of the US dollar. Countries in Asia that export to the United States will benefit, but countries with large internal or external debt burdens will be hurt by higher borrowing costs.

#### Monetary policy

What will also matter will be the reaction of the US Federal Reserve and how monetary policy responds to the changes in fiscal policy. At a time when the United States economy is near full employment and the Federal Reserve is already in a tightening cycle, the switch towards tight monetary policy and loose fiscal policy will look very much like the period from 1979 to 1985, which was a period of large capital flows into the US economy attracted by strong growth, rising real interest rates and a strong dollar. This change in global interest rates would further hurt economies with significant amounts of private, public or foreign debt.

#### Trade policy

Another key area of economic policy is trade policy. The Trump administration has strong views on proposed trade agreements such as the TPP and existing trade agreements such as NAFTA but also the entire conceptual framework of a rules-based global trading system with the World Trade Organization at its core. A trade war at this stage of the political cycle is unlikely. There is substantial evidence that a world of rising tariffs and rising protection would cause a global recession and hurt the US economy. Our modelling results suggest that, while the United States would be hurt, Australia would incur even larger losses and trade-exposed countries in Asia even larger losses. We estimate that the fall in GDP in China would be double the fall in GDP in the United States if all countries raised tariffs on all goods equally.

#### Regulation and energy and climate policy

Another area where policies will have economic impacts is in the goal to reduce regulation and in particular to free up land and ease regulations on oil and gas exploration. While it is debatable how much the supply of energy can change under a more liberal policy, this policy would likely reduce the prices of gas and oil, delivering a further positive stimulus to the US economy as did the fracking boom from 2009. The problem for the Trump administration is that it would probably drive even more substitution in electricity generation out of coal-fired generation into gas-fired generation. The loss of coal jobs from 2009 to 2016 was mostly not due to President Obama's climate policy but was largely market driven by the low price of gas. Thus, the promise to bring back coal is not consistent with the Trump administration policy on oil and gas. Thus if coal is to survive as promised during the election campaign, a substantial redirection of coal production into export markets would be necessary. This would have important implications for countries like Australia, Japan and China directly

in terms of the economic implications, but also indirectly through the impact on existing climate policies aimed to achieve the Paris Agreement climate targets.

#### Immigration policy

Another major area of policy reform with significant economic impacts is the Trump administration's policies on immigration. Pew Research estimates that in 2014, almost 5 per cent of the local US labour force was illegal workers. More interestingly, illegal immigrants made up 26 per cent of the workforce in farming and 15 per cent of the workforce in construction. Removing all of these illegal workers would increase the costs of these key sectors and reduce the potential rate of economic growth in the United States by a significant amount. This would be a major negative supply shock at a time when demand in the economy was being expanded by spending increases and tax cuts. This would add further pressure on inflation and interest rates.

It is unlikely that the agenda of President Trump will make it through a divided Congress. If it did, the implications are most likely a very large stimulus to the United States economy with strong equity markets, rising interest rates and a sharply rising US dollar exchange rate. The problem for the Trump administration is that by expanding the budget deficit and borrowing to pay for the many economic transformations being proposed, the financing will largely come from foreigners. This large capital inflow would be a key driver of the strong US dollar. The key implication is that US export-intensive industries would be under even more competitive pressures than they currently face from technical change. The Trump heartland would on balance be hurt by the Trump administration's economic policies.

The unfortunate implications for Asia and Australia in particular is that rising trade deficits in the United States would be seen by some in the administration as proof of an anti-competitive world and while a trade war today is unlikely, the pressures for a trade war would accelerate in coming years. This would be the worst of all possible outcomes for the Asia-Pacific region.

## Trump and Japanese-Korean relations: managing the train wreck



### Professor Tessa Morris-Suzuki

On 8 March China's Foreign Minister Wang Yi, speaking at a press conference in Beijing, described the situation on the Korean Peninsula as being "like two accelerating trains coming towards each other with neither side willing to give way" and warned of the dangers of a massive collision. Wang is right, but his simile can be expanded. Several trains are heading at dangerous speed towards the junction that is East Asia. It will require both a clear bird's eye view of the situation and some skilled hands on the points levers to ensure they pass one another by without disaster.

The advent of the Trump presidency is only one reason for escalating levels of instability in the region. A major problem lies in the fact that this untested and unsettling US regime has come to power at a time when other forces were already shaking the foundations of a precariously balanced regional system. From a historical perspective, shifting power balances between China and Japan have repeatedly created moments of heightened tension in East Asia, and the Korean Peninsula has always found itself uncomfortably placed at the centre of these tensions. This pattern was evident in the final decades of the nineteenth century and in the decade immediately after the end of the Asia-Pacific War. The same pattern is being played out again in the second decade of the twenty-first century, as the rise of China stirs old antagonisms in Japan, and as the region struggles to deal with the intractable problems of the world's one remaining Cold War divide: the division of the Korean Peninsula.

Over the past decade, fears of

increasing Chinese economic and military might have evoked nationalist reactions in Japan, with collateral damage to Japan-South Korea relations. Meanwhile, Japan's relationship with North Korea has remained on ice, frozen by the legacy of the North Korean abduction of Japanese citizens in the 1980s, and by political fall out from more recent North Korean nuclear and missile tests. What impact is the Trump presidency having on these relationships?

### Japan, South Korea and the history issue

Ever since the advent of Japan's Abe regime in 2012, the United States has played a crucial role in keeping a lid on possible Japan-South Korea tensions, particularly over vexed historical issues, of which the most important is the 'comfort women' issue. A significant part of Prime Minister Abe's support base, and perhaps Abe himself, would like to rescind the 1993 Kōno Statement: the Japanese government's first and most significant statement of apology on the 'comfort women'. But such a step would provoke outrage in South Korea and China (and beyond).

In April 2014, the Abe government initiated a review of the processes leading up to the issuing of the Kōno Statement, resulting in a report that significantly undermined Japanese public confidence in, and respect for, the statement. Officially though, the Japanese government promised that it would "uphold" (or more precisely "inherit" – *keishō suru*) Kōno's commitments.

Its approach to the issue was clearly constrained by fears of inflaming South Korean opinion, but it was also powerfully influenced by the United States. American diplomatic pressures are widely believed to have helped produce the December 2015 verbal agreement between Japan and South Korea on the 'comfort women' issue, though the effectiveness of this agreement itself remains controversial.

It is hard to imagine Donald Trump trying to rein in the Japanese government's historical revisionist tendencies on the 'comfort women' issue, or on any other topic. Meanwhile, right-wing groups within Japan are energetically lobbying the Abe government to take a harder stance on these issues, while also developing a remarkably extensive overseas lobbying campaign, with or without the support of elements within the Japanese government. One particularly bizarre aspect of this campaign became visible in December 2016 when a group calling itself the "Australia-Japan Community Network" lodged a complaint under Clause 18C of the Australian Racial Discrimination Act against Ashfield Uniting Church in Sydney for erecting a 'comfort woman' statue on its grounds.

In the early months of 2016, political debate within Japan has focused on scandals surrounding a nationalistic preschool, Moritomo Gakuen, whose activities have been linked by the media to the prime minister and his wife. But if Abe can avoid significant damage to his position from this affair, and can build on his widely reported friendly relationship



Photo by Uri Tours

with Trump, some of the restraints that have so far held back his more radical right tendencies on the history issue may be removed. With South Korea likely to shift towards the centre-left in the forthcoming presidential election, the chances of ongoing Japan-South Korea tensions seem high, at the very time when the two countries most urgently need to cooperate to address the challenges of dealing with North Korea.

### Japan and North Korea

The uncertainties surrounding US intentions in East Asia are, of course, greatly outweighed by the uncertainties surrounding North Korea. The global media tend to dismiss missile tests and bellicose rhetoric by the North Korean regime as mere signs of craziness, or as symptoms of Kim Jong-un's growing power and aggressiveness. But there is another way of reading them: that is, that they are signs of growing anxiety and insecurity on the part of the North Korean regime.

The lesson of history is that dictatorships generally become most vulnerable to internal challenge, not when social conditions are at their most grim, but when conditions begin to improve. All the evidence suggests the North Korean economy has been doing relatively well for the past few years. Pyongyang's consumer economy has been growing, and its citizens are gradually becoming more connected to the outside world. By the same token, wealth gaps between the capital and the rest of the country are growing.

A popular uprising against the North Korean regime is virtually impossible to imagine, but it is not impossible that ongoing purges might ultimately drive some small group within the elite to decide to "do before they are done to". The very public media spectacle of the assassination of Kim Jong-nam, generally believed to have been orchestrated in Pyongyang, might be read as a dramatic message of warning to politically outspoken external dissidents, and read in that light, it looks like the act of a very anxious regime. Political change in North Korea is something that many of the

region's governments have long hoped for, but it needs to be remembered that there is nothing more dangerous than a nervous dictator. An internal power shift within North Korea would also create an enormously delicate political and diplomatic conundrum that the rest of the region would need to be well prepared to deal with.

Until now, in dealing with the unpredictable acts of the Kim Jong-un regime, the region has relied on the capacity of other regimes to remain calm and avoid overreacting to provocation. The greatest concern is whether a Trump administration, with a depleted infrastructure of State Department professionals, will be able to continue to keep cool and avoid reactions that ramp up regional tensions.

### The Japanese Constitution and the region

All of this has very important ramifications for another issue even more fundamental to Japan's role in the region than the history issue: possible revision of the Japanese constitution to allow a much greater role for the military. Revision of Japan's postwar constitution has been a long-standing aim of the political right, and of Prime Minister Abe himself. The Japanese government currently has the majority it needs in parliament to push for constitutional change, though it would still need to win a referendum on the issue. Successive American administrations over the past two decades have expressed support for greater military 'burden sharing' by Japan, but have also recognised the possibly destabilising implications of a fully fledged constitutional revision. A major barrier to revision has been Japanese public opinion, which remains attached to the postwar constitution and wary of change, but the current massive media reporting in Japan of the North Korea missile threat may be shifting the public mood. Trump himself is on record as calling, during his election campaign, for Japan to take responsibility for its own military security, and even to acquire nuclear arms. If the Japanese government were to push ahead on constitutional change, the long-

term consequences – domestic, regional and even global – would be profound.

Rising tensions to our north should be a matter of huge concern to people in Australia. Media rhetoric, particularly since the advent of Trump, abounds with references to 'military options' in the region, but there is no sane military option. An actual war in Northeast Asia would be a catastrophe on a scale that none of us has seen in our generation. In that context, it is important that Australia's decision makers should, metaphorically speaking, be standing ready to apply their hands judiciously to the points levers as needed, rather than riding towards collision on someone else's train.

## @RealDonaldTrump, meet DU30



### Dr Steven Rood

On 3 March 2017, the US Department of State released its 2016 Human Rights Report, which unsurprisingly critiqued the large number of deaths involved in the current 'war on drugs' unleashed by Philippine President Rodrigo Roa Duterte. What is perhaps surprising is that, unlike his reaction to previous criticisms of the war on drugs or proposals to reinstate the death penalty, this report drew no profane invective from President Duterte.

In contrast, on 19 March he addressed the European Union (helpfully, "I'll speak in English"):

Why are you trying to impose on us? Why don't you mind your own business? Why do you have to f\*\*k with us?"

This after the European Parliament expressed its concern over the drug war, the proposal to reinstate the death penalty and the arrest of Senator Leila Delima, a long-time critic of Duterte (going back to allegations about a Davao death squad when he was mayor of that city).

Perhaps the reason why Duterte did not respond is because the new Trump administration has not actively been confronting him with views on human rights in the Philippines. Secretary of State Rex Tillerson broke with tradition and did not attend the launch of the State Department's own report. During his January confirmation hearing before the United States Senate, Tillerson declined to condemn deaths in Duterte's war on drugs, saying he'd need further "facts from the ground" before commenting.

In fact, President Duterte has reported that during his 2 December phone conversation with President-elect Donald

Trump, the American leader endorsed his approach: "You're doing it right; keep it up!" As part of his business relations with the Philippines, Trump has stated "I've always loved the Philippines."

That the two men have similar transgressive (Pippa Norris's word) styles has been often noted, though whether they would get along should they find themselves in the same room is open to speculation. Certainly though, President Duterte has used the occasion of Trump's accession to office to take a tone quite different from his statement in July that he was breaking all relations with the United States. However, Duterte has approached this in his own way – which may be quite compatible with how Donald Trump approaches things. For instance, the Philippines does not have an ambassador to the United States and there is currently no prospective nominee. Instead, Trump's business partner in the Philippines, Jose E B Antonio, was named as a 'special envoy' to enhance business and economic ties. Interestingly enough, the appointment was made on 28 October, before Trump was elected.

As we look at Philippine-American relations under Duterte after the election of President Trump, we can see how far Duterte has walked back from his statement made in a speech in October in China, "I announce my separation from the United States both in the military... not social but economic also." Perhaps this was meant to be taken seriously but not literally, as within days he clarified he was advocating a "separation of foreign policy" rather than "a severance of ties."

By March he was saying:

"President Trump and I are okay and I can assure him also of our friendship and cooperation. We have no problem there... under the Trump administration, I will give all, whatever it is, short of military alliances."

On the subject of military alliances, the Philippines has long been a treaty ally of the United States. However, Duterte has said "It's passé now but it's there" and in October proclaimed that beginning in 2017, there would be no more military exercises with the United States. When Secretary of Defense Lorenzana was asked about this during his confirmation hearing, he said, "the President has been issuing statements without consulting the Cabinet." Lorenzana was given the opportunity to present the advantages of the military exercises, and on that basis the decision was made that a smaller number of exercises will go forward – often focusing more on humanitarian assistance and disaster response. More generally, the Enhanced Defense Cooperation Agreement between the Philippines and the United States will continue to be implemented instead of being forgotten as stated off-handedly by President Duterte last October.

So, after Donald Trump became President of the United States, relations between the United States and the Philippines seem to be on a much more even keel than anybody could have predicted last October. Duterte seems to be of the 'strong man' flavour that Trump likes, and Trump certainly seems the kind of person with whom Duterte can do business.

There are three areas where deals might be struck: maritime disputes in the West Philippine/South China Sea, economic mercantilism by the United States and immigration to the United States.

In the West Philippine/South China Sea, Duterte has famously not utilised the ruling of the Permanent Court of Arbitration that was issued at the beginning of his term. He scoffs at the notion of directly challenging Chinese claims in the area – and has in fact blamed the United States for the situation. Harking back to the 2012 standoff at Scarborough Shoal, he wonders why the United States did not exert force when the Chinese did not withdraw its coastguard vessels at the same time the Philippines did (in a US-brokered agreement). He is well aware that the United States takes no position on sovereignty over features in the sea, and doesn't expect the United States to be of assistance in asserting Philippine interests in the area.

However, there may be possibilities for change over Scarborough Shoal – both the United States and the Philippines have characterised any Chinese building activities there as a 'red line'. Defense Secretary Lorenzana related in March that last June there were preparatory signs of activity, but that the United States warned the Chinese off and the activities stopped. In another sign of Duterte administration engagement with the United States military, Secretary Lorenzana along with Finance Secretary Dominguez and Justice Secretary Aguirre flew with United States Ambassador Sung Kim to the aircraft carrier USS Carl Vinson to observe as it carried out operations in the West Philippine/South China Sea.

Supreme Court Justice Antonio Carpio, who is an expert on the history and issues involving the West Philippines South China Sea, has suggested the Philippines ask the United States to declare that Scarborough Shoal is part of Philippine territory for purposes of the United States–Philippines Mutual Defense Treaty (as it does for Japan with respect to the Senkaku islands), since the shoal has been part of Philippine territory even during the American colonial period.

He cites correspondence between the Philippines and the United States going back to 1938 – when the Philippines was an American commonwealth – regarding ownership of the shoal.

Given the aggressive tone Trump has on occasion taken with respect to China, this might prove tempting. Still, President Duterte is also worried about being drawn into a dispute between the United States and China and has specifically ruled out joint patrols. At the same time, Chinese aid to the Philippines has begun to flow in response to Duterte's overtures. In the end, it seems unlikely that Duterte would take this initiative.

On the other two issues, the initiative is with the United States.

While the Philippines is not as exposed to international trade as some other Asian nations, it still remains the case that protectionism in the United States could be worrisome, especially with respect to one of the most vibrant sectors of the economy, outsourcing. Outsourcing brought in US\$23 billion in 2016 – and 70 per cent of the locators are American. The economics are clear – employees in the Philippines cost companies US\$19,300 per year as compared to US\$91,000 in the United States. President Trump mostly talks about trade in goods, but outsourcing companies in the Philippines are worried that his plan to bring jobs back to America won't end at just manufacturing but will extend to services. Trump has in the past talked about a 'five-part tax policy' to include a 15 per cent tax for outsourcing jobs (though no details were provided). Given the powers of the American President with respect to trade issues, there does not seem to be much that the Philippines can do – though the outsourcing companies are hiring lobbyists in Washington.

It is with respect to immigration issues – or from the Philippine viewpoint, Overseas Filipino Workers – that the intersection of the views of Donald Trump and President Duterte might produce the most surprising results. As is well known, the remittances flowing into the Philippines exceed even outsourcing revenues at US\$26.9 billion and comprise 9.8 per cent of GDP. One-third of this is from the

United States. There are an estimated 3.4 million Filipinos in the United States – unfortunately, some 300,000 to 500,000 of them are undocumented. All Filipinos know about TNT (tago nang tago – always hiding) in the United States. The tough immigration enforcement stance of the Trump administration bids fair to have an impact on remittances. On this issue, President Duterte is consistent in his tough attitude towards law enforcement – he has said he will not lift a finger to help those caught up in deportation round-ups.

This tough stance about Filipinos violating laws in other countries is of a piece with Duterte's assurances to Indonesian President Jokowi that in the case of Mary Jane Veloso, sentenced to death for drug dealing, "Follow your own laws, I will not interfere." However, this uncompromising stance is unlike previous Philippine government efforts – which are legislatively mandated in the Foreign Service Act, to promote the welfare and interest of Filipinos overseas. A famous incident in 1995, when Singapore executed Flor Contemplacion for murder, caused ructions in diplomatic relations (including when then-Mayor Duterte burned a Singaporean flag). Harsh treatment of Filipinos overseas is well publicised in the Philippine press, and there is considerable empathy because a very large proportion of families have relatives overseas. In this instance, Duterte's law-and-order instinct to agree with President Trump could spell political trouble for him in the Philippines.

In short, the election of Trump has helped changed the atmospherics of relations with the Duterte administration in the Philippines, but tough issues remain for the future.

## Trump, 'post-truth' and regional rivalries



### Associate Professor Matthew Sussex

A central concern surrounding Donald Trump's ascension to the United States presidency has been that Asia's rivalries could be exacerbated by his penchant for bombast, provocation, and even outright lies. Certainly, his casual acquaintance with the truth is a defining feature of Trump's first 100 days in office, manifesting in both the President's own pronouncements as well as those of his key advisers. It was equally apparent in wrangling over the size of the Inauguration Day crowd, Kellyanne Conway's references to 'alternative facts', or Trump's contentious Executive Order promulgating a 'Muslim ban'.

Trump's apparent disregard for accepted reality is vexing for foreign and security policy analysts seeking to explain the core components of his strategic vision. Above all, they look for clarity, accuracy and coherence when assessing any case for changes to past practice.

More important, though, is the fact that the post-truth era is unlikely to alter significantly while Trump remains president. In fact, he needs it to keep his base united, relying on counter-establishment narratives to draw together those feeling betrayed by globalisation's false promise with what remains of the core Republican Right.

If this is the case, then domestic pull factors will likely remain stronger than international ones for Trump. In turn, that raises the likelihood he will preference local politics over international affairs – with potentially chaotic effects for alliances, rules, and the security policy postures of key players in the Asian centre of geostrategic gravity. Without a restrained US balancing role a variety of troubling

scenarios emerge. When one considers that Trump has promised to dismantle the liberal order, the prospects for regional rivalry increase.

Past American practice has been to combine military-security arrangements with (more or less) accepted principles around open trade regionalism, and institutions of regional governance that perform 'co-binding' functions to deepen surety and assurance. This system has been highly successful. The United States-Japan Mutual Security Treaty has moderated potentially deeper Sino-Japanese tensions. In turn, Tokyo's careful integration in the regional economic order has helped ameliorate historical memories of Japanese expansionism. Although frequently derided as sclerotic, the Six Party process has contributed to stability by spreading the responsibility for managing the Democratic People's Republic of Korea's nuclear ambitions. The Taiwan Relations Act reinforces the status quo via strategic ambiguity, establishing clear 'red-lines' for Beijing and Taipei over sovereignty and independence. Even the war on terror, which many worried would cause divergent expectations about the purposes of US alliances in Asia, curtailed Chinese efforts to alter regional dynamics through 'smart power'. And the flagging liberal trading order would have been boosted had Barack Obama's TPP initiative survived his departure from the White House.

However, we should be careful not to fall into the trap of making grandiose forecasts based on Trump's unpredictability. Some 100 days is hardly long enough for any United States administration to formulate

and begin implementing a coherent regional security strategy. Trump's own team has also been exceptionally slow in nominating individuals to key posts. This has resulted in a dearth of capacity on addressing questions of foreign and security policy.

In the absence of deeds, one must rely on Trump's words, which in themselves do not inspire much confidence. But to over-analyse the views of a populist political maverick in a vacuum of ideas commits the same error Trump himself is accused of: making assumption before fact. Hence, it is unproductive to ascribe Trump's behaviour to a coherent philosophy, underpinned (for instance) by Jacksonian traditions of disengagement, just as it is unhelpful to assume Trump is wedded to every opinion he tweets.

With this in mind, two specific rivalries in Asia stand out as having significant potential to be affected by Trump's foreign and security policy agenda: Sino-Japanese relations, and Sino-Russian relations. One of them – China and Japan – is likely to produce negative effects for regional order if it is exacerbated. The other – between China and Russia – might paradoxically prove to enhance regional order should tensions between the two deepen.

The expectation that United States allies would be expected to do more, pay more, and expect less from a Trump administration resonated deeply in Japan. Coupled to Trump's disengagement rhetoric and his muscular stance on China, the fear in Tokyo was that Japan would be compelled to undergo rapid normalisation, rather than the careful, slow and iterative process that had previously been the



Photo by Gage Skidmore

hallmark of Japanese security policy. The implications of such a policy departure are significant in terms of Japan's relationship with Beijing, which had relied on a stable trading environment backed up by US security guarantees.

It was no surprise, then, that Japanese Prime Minister Shinzo Abe made contact with Trump as President-elect a priority, and visited him less than a month after he had assumed the presidency. And, given the access to Trump denied to other regional leaders, Abe was able to act as a proxy for the preferences of others, reinforcing the message that US disengagement would have dramatic knock-on effects for regional order.

But in addition to skilful diplomacy in Washington, Abe has also looked to deepen Japan's other relationships as a hedge against future US unpredictability. Australia has been a major target of Japan's charm offensive. Japanese disappointment over Canberra's choice of the French Shortfin Barracuda submarine over the Japanese Soryu-class vessel has been offset by the need to reach out to key partners in the US 'hub and spokes' regional security network. It is similarly unsurprising that Japan has been championing a more federated security structure involving US allies, but not necessarily relying upon Washington. This would prompt deeper Australia-Japan defence interoperability, as well as intelligence sharing with selected partners under a '5 Eyes-Plus' arrangement.

Tokyo has looked beyond traditional partners in its search for reassurance against strategic surprises from the Trump administration. The oft-mooted quadrilateral security dialogue with the United States, Australia, Japan and India is back on the table, in spite of Chinese protestations about containment and encirclement. Abe has even courted Russia, championing a joint economic development zone in the disputed Kuril Islands/Northern Territories. There is even speculation that Japan might review its participation in sanctions against Moscow should that cooperation bear fruit.

The main concern, though, is that all these efforts are highly contingent on what Trump chooses to do with his Asia policy. Should he launch a trade war with China, Japan will be caught between a major trading partner

and a main security guarantor. Likewise, an increased US military presence in the South China Sea raises the chances of miscalculation or accident, which could potentially draw Japan in. So too could a decision by Trump to act on his claim that, if regional partners are unable to 'fix' the DPRK issue, the United States will do it for them. And if the obverse results, via a regional United States military drawdown or retreat to an offshore balancing role, Japanese security with respect to China will be diminished and Beijing emboldened in equal measure.

The case for a Trump agenda deepening Sino-Russian rivalry is more complex. Beijing and Moscow have been deepening ties for over two decades, beginning with the Shanghai Treaty of 1996. And although the relationship has been characterised as only skin-deep, markedly enhanced cooperation has recently resulted. This has been evident in joint naval exercises in the Mediterranean and South China Seas; sustained Chinese investment in the Russian energy sector and large deals involving Russian oil and gas; increased coordination in the UN Security Council; tentative steps at joint responses to the United States' THADD deployments in the ROK; and even early cyber security cooperation.

Yet Moscow remains acutely aware of the dangers of entrapment in its relationship with Beijing. Much of this is self-inflicted: Western sanctions over Russia's annexation of Crimea and its ongoing role aiding rebels in the Donbas region of Ukraine have required Chinese capital to develop its energy infrastructure. That investment is critical to underpin Russia's own ambitious 'pivot' to Asia, based on establishing itself as a major regional energy supplier.

But Russian elites are anxious to avoid becoming a raw materials appendage to China, or a large territorial buffer zone that facilitates the Belt and Road Initiative transit corridor to the West, leaving Russia with few options to manoeuvre. As a result, pressure points in the relationship have been emerging. They include Russian desires to pursue oil and gas cooperation with China's old adversary Vietnam, its enthusiastic desire for enhanced Russo-

ASEAN trade cooperation, and its energetic promotion of Putin's Eurasian Union as a partial economic counterweight to Chinese regional architecture.

One of the most consistent aspects of Trump's agenda has been a fundamental realignment of the United States-Russian relationship. At least in part, this is strategically defensible. On the one hand, it serves US interests to prevent competitive Sino-US path dependencies drawing Russia in as a Chinese ally. On the other, it complements Trump's desire for a more assertive stance against Beijing by co-opting Moscow into acting as an irritant to Chinese security policy preferences in the region. This would ultimately assist Vladimir Putin's desire to see Russia play a pivotal role in 21st century geopolitics, under his vision of a 'Euro-Pacific' great power.

The chief difficulty here is that Trump has overplayed the Russia card. His administration is plagued by scandals linking his advisers – if not himself – to possible collusion with a hostile foreign power over the outcome of the presidential election. In Russia too, there is a sense of buyer's remorse. The Kremlin has realised that, even if he can avoid a constitutional crisis, Trump may not be sufficiently competent to pull off the adroit diplomacy necessary to switch US-Russia relations from mutual mistrust to friendship and cooperation.

The fate of regional rivalries is therefore fundamentally tied to the Trump administration's plans for managing regional (not to mention global) order. Current indications are confusing. Few clear policy priorities have emerged, nor consistency in the way they might be implemented. Hence, when assessing the likely trajectories of Trump's regional agenda, it is arguably more useful to go back to first principles, and consider more closely the regional pressures driving cooperation and competition in Asia, as well as the broader structural forces on the United States as the international system transforms from unipolarity to some form of multipolar order. Doing so is prudent for two reasons. First, it avoids the problem of trying to study events that have not yet happened. Second, it is a useful corrective to more alarmist views about Trump's intentions.

## Implications of Trump's policies for ASEAN



### Dr Brendan Taylor

The Association of Southeast Asian Nations (ASEAN) is the dog that thus far hasn't barked during the Trump presidency. Trump has shown little affection towards other multilateral organisations and processes. He has described the United Nations as "just a club for people to get together, talk and have a good time" and is seeking to slash United States funding to UN programs by more than 50 per cent. Trump has called on members of the North Atlantic Treaty Organisation (NATO) to assume a greater share of the burden for defending Europe, threatening that Washington will "moderate its commitment" to the alliance if they do not. He has also described NATO as "obsolete". Trump made good on his campaign pledge of withdrawing from the TPP, essentially sounding its death knell in the process. And yet in the case of ASEAN he has said little if anything.

American inattention towards ASEAN is not new. Washington's focus upon Southeast Asia has waxed and waned. The George W. Bush administration, for instance, designated this sub-region as a 'second front' in the so-called 'Global War on Terror.' Yet this administration was seen to be disengaged from ASEAN processes, as epitomised by Secretary of State Condoleezza Rice missing two meetings of the ASEAN Regional Forum (ARF) in 2005 and 2007 respectively. The Obama administration explicitly sought to rectify this perception, with Rice's immediate successor Hillary Clinton pledging to attend annual ARF meetings. America also joined the ASEAN-led East

Asia Summit (EAS) under Obama's watch.

Southeast Asia was given particular emphasis in Obama's signature Asia initiative, the so-called 'pivot' or rebalancing strategy. Yet Obama himself reinforced earlier concerns by failing to attend the 2013 meeting of the EAS. By the end of his second term in office, serious questions were being raised regarding the substance (or lack thereof) of the rebalance, especially in relation to the South China Sea. As William Tow has recently observed, "During President Obama's second term in office (2013-2016), his highly touted rebalancing or pivot strategy towards Asia announced in 2011 has fallen into unexpected disarray. This has especially been the case in Southeast Asia."

Whether Trump attends the November 2017 gathering of the East Asia Summit is seen by some commentators as a litmus test for his approach and commitment towards ASEAN. There are very real concerns that he won't, with serious implications for the future of this forum. Interestingly, however, much less attention has been given to the possibility that Trump does attend and publicly denigrates the forum. It is certainly not inconceivable that we could see the following (at this point hypothetical) tweet displayed on Trump's twitter account later this year: Joined my LAST East Asia Summit today. Silly shirts and VERY BAD karaoke. All talk, no action. Another Obama Administration disaster. Sad!

Whether Trump misses or makes the 2017 EAS, these concerns come at a time of acute fragility for ASEAN. The

organisation has fractured repeatedly in recent years, especially in relation to mounting tensions around the South China Sea disputes. Signs of ASEAN unity faltering started to appear in July 2012 when, for the first time in the organisation's 45-year history, it failed to issue a joint statement at the conclusion of its annual summit in Phnom Penh, Cambodia. At issue were disagreements over whether reference should be made in the statement to a South China Sea standoff involving Chinese and Filipino vessels that began in April of that year. Episodes exposing ASEAN disunity have recurred during the period since. In the closing communique from the ASEAN Summit of April 2015, for instance, no mention was made of China in the context of the South China Sea disputes, reportedly due to tensions between Manila and the Malaysian chair of the meeting over how ASEAN should be engaging Beijing in relation to this issue. Similarly, tensions were again on display at a so-called special ASEAN-China foreign ministers meeting that was held in the Chinese city of Yuxi, in June 2016. On this occasion, while no joint ASEAN-China statement was issued at the end of the meeting, a document purporting to represent an ASEAN consensus was released and subsequently retracted for 'urgent amendments' only a matter of hours later. This retraction was reportedly due to Cambodian and Laotian discomfort with the statement's content.

These very public displays of ASEAN disunity have led to speculation that a more fractured organisation will not be

able to continue to occupy its largely self-appointed driver's seat position at the centre of the region's institutional architecture. Concerns are also mounting that China will step in to fill this void, especially if ASEAN's unravelling occurs against the backdrop of American disinterest or disengagement. Beijing certainly has form here. While Washington was seen to be distracted by events in the Middle East during the George W. Bush years, commentators were concerned that China was quietly carving out a sphere of influence in Southeast Asia. Likewise, Obama's absence from the October 2013 EAS is widely seen to have afforded his Chinese counterpart, Xi Jinping, the opportunity to further advance Beijing's influence within the Southeast Asian sub-region.

Perhaps the greatest challenge the Trump administration will pose to ASEAN, however, is through the impact that its policies will have upon Asia's broader strategic order. While it is often assumed that multilateral institutions such as ASEAN play an important role in shaping strategic order, a case can be made that they are ultimately as much, if not more, a reflection of the order itself. On this count, analysts have been predicting for some time now that the incumbent American-led order will gradually give way to some form of multipolarity, in line with shifts in economic weight occurring in the region. Trump's 'America first' approach is likely to hasten that shift towards multipolarity. On the campaign trail, Trump promised to 'make America great again'. What he didn't say, but what his more inward-looking approach also implies, is that this is likely to result in the United States transitioning from being a superpower with global interests towards the adoption of a more traditional great power posture. In other words, Trump will also "make America a great power again", speeding the transition toward a multipolar Asian (and possibly even global) strategic order.

As an organisation that has traditionally prided itself on an ability to manage its relations with multiple major powers, ASEAN may well fare rather well in such an order. As Evelyn Goh has observed, Southeast Asian states have long

feared the emergence of an unstable multipolarity in Asia. Their response has been to 'hedge' against this possibility by including each of that order's potential poles in the region's strategic affairs. In other words, by not excluding any of the region's major powers, they have avoided choosing between them. At the same time, however, while such an approach was viable during a time of nascent strategic competition, it could conceivably be tested severely in an era of intensifying major power rivalry. Indeed, ASEAN's repeated inability to agree over the South China Sea in recent times could be a sign of things to come.

There are both opportunities and risks here for Canberra. A fragmenting ASEAN that ultimately splinters under the weight of major power influence brings that very influence much closer to Australia. In recent decades, Southeast Asia has served as a buffer to Australia's north, shielding the Lucky Country from the region's major power machinations. Any serious breakdown in ASEAN unity thus risks Australia becoming more exposed to these.

However, American inattention towards ASEAN also opens up the spectre of Australia undertaking its own Southeast Asia 'pivot' as a hedge against the possibility of United States disinterest and the worst case scenario of Washington's withdrawal. Indeed, there are some indications that such a pivot is already underway. In the words of one of Australia's leading scholars of Southeast Asia, Anthony Milner, "the way in which we are at present deepening relations with Singapore and Indonesia, together with our prudent handling of the difficult political situation in Malaysia, suggests Australia might at last be putting together the elements of a Plan B designed for a possible post-American era – an era in which the United States may be powerful but will no longer be dominant."

## Australia's reactions to Trump



### Professor Michael Wesley

The Trump administration emerged on an Australia-United States relationship that had experienced two decades of growing intimacy and integration. Since 1996, diverse centrifugal forces had carried the bilateral relationship forwards: the growth of China's challenge to the status quo in the Pacific; the "unipolar moment" and Australia's determination to cleave closer to the sole superpower; close collaboration in the War on Terror and invasion of Iraq; and the extension of Asia's balancing and rivalry from the Pacific into the Indian Ocean. And so the much-publicised tense phone conversation between President Trump and Prime Minister Malcolm Turnbull over the Obama era asylum seeker swap deal between Australia and the United States sent a shock wave through Australian politics, politicising the relationship in ways not seen since the end of the Vietnam War and beginning of the Iraq War.

Uncertainty over what Trump 'means' for regional security has meant that the 45th President has functioned as something of a Rorschach test in the Australian strategic policy debate. Discussion of what Trump means for Australia has all but dominated Australia's media since the November 2016 election, but for the most part, the stance commentators took on Trump has been mostly determined by where they sat in the strategic debate prior to his election. For the majority of commentators, Trump represents an acceleration in what they believe are the underlying dynamics in the bilateral relationship; and

the new administration has imparted a particular urgency to their prescriptions for the future of the Australian-American partnership.

The responses in Australia to Trump have focused largely around three questions, and the implications that answers to each of these questions have for Australia's strategic policies. The first question is what Trump means for the United States' role as a global and regional actor for the next four years and perhaps beyond. On this question, the debate ranges from the alarmist to the reassuring. Those commentators most alarmed by Trump argue that his nationalist policies will in effect dismantle America's role as the leader of the postwar neoliberal world order. In particular, these commentators fret about the corrosive impact of Trump's America-first policies on a range of multilateral institutions, from trade to environment to arms control. The implication is that for the world's largest economy and pre-eminent military power to turn its back on the guiding liberal internationalist philosophy of every administration since that of FDR could trigger similar reactions among other significant economies and powers, leading to a wholesale retreat from the neoliberal world order that has underpinned seven decades of global stability and prosperity.

Others have rendered more sanguine interpretations of what Trump means for America's global and regional roles. Some have pointed out that the global reaction to Trump underlines just how important the United States remains to global order.

A more forward-leaning administration in Washington signifies a more emphatic American leadership role rather than an abdication of leadership, they argue. In a similar vein, others have argued that far from heralding the beginnings of American isolationism, Trump represents a reassertion of American global and regional leadership that went missing during the Obama years. In particular, Trump's stated intention of building back American military power, and particularly its naval power, will bring about a "real" rebalance that will face down the Chinese challenge in the Pacific in a way that Obama's version patently failed to do.

Unsurprisingly, the policy recommendations that flow from these different positions are strongly polarised. For those who think Trump heralds a revisionist America, the prescription is to counteract the effects of American foreign policy on the multilateral global order. These commentators argue Australia must remain true to its liberal internationalist principles, and become much more entrepreneurial and activist in promoting these international order principles in coalition with like-minded countries. This approach appears to have been followed by the Australian Government at times, with senior ministers and officials declaring publicly Australia's commitment to free trade and investment, climate change action and the global liberal order.

But for those who see Trump as heralding a return to a more muscular American international role, the prescription is to cleave closer to the new

administration. Although Canberra was spared from the list of allies called out by Trump during the election campaign for allegedly scrimping on their own alliance commitments, the new transactional sentiment emerging from Washington has not been lost on the Australian commentariat. Many saw the outpouring of support for the alliance following the Trump-Turnbull phone call as a sign of the underlying strength of the relationship. One expert even suggested Trump would have honoured the asylum seeker deal for no other ally than Australia. Elements of the government's policies have responded to these analyses, with the Foreign and Defence Ministers energetically building their rapport with the new Vice-President, Secretary of Defense and Secretary of State.

The second question concerns what Trump means for regional stability. Some commentators suggest that the combination of increased military spending, uncompromising rhetoric and the new president's easily-baited personality have alarmingly increased the prospects for conflict in the Pacific. Fundamental to this view is that China's growing military might and commitment to asserting its 'core interests' in the South China Sea will mean that any American attempt to face it down will be profoundly escalatory. The opposite view holds that Trump is a deal maker whose commitment to American jobs will mean that he will deal much more pragmatically with China. One suggestion is that Trump will be willing to trade America's security commitments to its apparently ungrateful allies in Northeast Asia for an economic relationship with China that sees a reduction of the United States' trade deficit with China.

The more alarmist view leads to prescriptions for greater distance between the two allies: either a critical distance that sees Australia needing to play a tempering role on the bombast of the new administration or a ditching of the alliance to build closer partnerships with Asian powers, including China. Australian fears of being dragged into a conflict not of its making or in its interests have escalated during Trump's first 100

days. But so have fears of abandonment, with some commentators questioning Trump's dependability in coming to Australia's assistance if it is threatened. Interestingly, concerns over Trump's dependability yield diametrically opposed prescriptions: either to reduce Australia's strategic reliance on the alliance through building regional partnerships or doubling down on integration into alliance structures to make alliance obligations even less optional.

The third question is what Trump means for the alliance. For those who see Trump's election as symbolising a decisive shift away from American liberalism, the alliance no longer possesses its hitherto unshakeable foundation in common values. Other alliance sceptics argue that Trump's muscular revisionism has converted what was an alliance in support of the status quo into a partnership in which the largest member has become a disrupter to stability and prosperity. Those more sanguine about Trump's impact on the alliance urge patience, investing confidence in the myriad strands that comprise the alliance to provide it with the ballast it needs to survive executive-level ructions. Rather than disinvest in the alliance, these commentators urge Canberra towards a pragmatic transactionalism. Australian diplomacy should quietly seek to strengthen the alliance's fundamentals, and use Australia's variety of points of access to help educate the nong in the White House about America's real interests and role in the Pacific.

Few of the analyses or prescriptions that have emerged since November are entirely new; their familiarity is evidence of profound debates about the alliance that have occurred in Australia since before the Vietnam War. What Trump has done is invest these debates with an urgency and vehemence not seen since the invasion of Iraq. A major new element to the debate centres on the implication of Trump for America's long-term character and direction. Some see Trump as a harbinger of long-term structural change in the character of the United States, from a growing, confident, outward-looking liberal superpower to a declining,

paranoid nationalist great power. Many disagree, arguing that Trump is an anomaly who polled over three million votes fewer than his opponent, and faces bitter opposition even from within his own party.

Depending on which of these interpretations one holds, the policy prescriptions for Australia are stark. Trump the anomaly counsels a patient approach: hunker down, pragmatically avoid blow ups, and wait for a grown-up to return to the White House in four years. Trump the harbinger calls for a very different response. An America that is increasingly at odds with the world it built and led between 1946 and 2016, aggressive and unpredictable to allies and rivals alike, will only implicate its smaller ally in more dangerous situations. Better to attenuate or cut the links now.

Now that's a choice that can't be squibbed. It all hangs on Australia's ability to read its closest ally.

## The Trump administration and nuclear stability

### Dr Benjamin Zala

Many aspects of the 45th President of the United States path to high office are unusual. One of the most overlooked of these is that before he took office, Donald Trump had already made an impact upon questions of nuclear stability. His comments during the campaign included hinting at a major U-turn in the US non-proliferation policy by encouraging allies like Japan and South Korea to build their own nuclear arsenals, and raising questions over the reliability of Washington's extended deterrence guarantees. His campaign team even had to publicly deny reports by an MSNBC reporter that Trump had repeatedly asked a foreign policy adviser why the United States could not use its nuclear weapons. Fundamental questions about extended deterrence, nuclear proliferation and nuclear use usually attract such high levels of bipartisanship in Washington that they rarely attract much meaningful discussion in a presidential campaign.

In its first 100 days in office, the Trump administration has already made important first moves in relation to modernising the United States' nuclear arsenal and continuing the development of advanced conventional weapons that make nuclear-armed rivals like China and Russia very nervous. While much of the focus early on is likely to be on the new administration's transactional approach to negotiating or renegotiating 'nuclear deals' (whether this is a new deal with Russia or renegotiating the existing deal with Iran), the harsh realities of Washington's declining global power and influence mean that such an approach

is unlikely to be sustained for long. The two most important factors in President Trump's impact on nuclear stability in the Asia Pacific are instead likely to be his approach to the broader United States-Sino relationship and his reactions to a deepening crisis on the Korean Peninsula. Interestingly, it may turn out to be that managing the US-Sino relationship is where Australia can make some small difference.

#### A new nuclear posture review

In terms of the United States' own arsenal, the important decisions will be made within the context of a new Nuclear Posture Review (NPR). This will be the fourth NPR, and unlike those of the previous two administrations, it is a voluntary process that was not mandated by Congress. The NPR will be dominated by important choices around upgrading the existing US nuclear arsenal; this would have been the case whether Clinton or Trump had won the election. This means that energies are more likely to be spent on issues of capability, cost and deployment than on the bigger picture political questions tackled by the Obama administration in its 2010 NPR about the role of nuclear weapons in the wider US defence posture. The review, run out of the Pentagon, is likely to focus on the relative arguments for and against the proposed long-range, stand-off cruise missile (the only aspect of modernising the 'triad' of land, air and sea-based nuclear weapons that Defense Secretary James Mattis seemed equivocal on during his Senate confirmation). It will also

involve ensuring maximum congressional support for the large sums of money required for big ticket items such as replacing ageing land-based ballistic missiles and a new fleet of nuclear-armed submarines.

The President has also instructed Mattis to initiate a new Ballistic Missile Defense (BMD) Review. In many ways, this may turn out to be the more important of the two processes in terms of the impact on long-term nuclear stability. In recent years (particularly under the Obama administration), the United States has increased the role of advanced or 'strategic' conventional weapons in the overall US defence posture – this includes BMD, precision 'prompt-strike' missiles, as well as more nascent technologies such as offensive cyber capabilities and anti-submarine underwater drones. Such technologies can either individually, or more importantly when combined, increase the vulnerability of an adversary's nuclear arsenal and undermine relationships based on deterrence and mutual vulnerability. If early indications are accurate, many around the president are likely to lobby for further BMD funding, which will do nothing to alleviate Russian and Chinese concerns.

#### Good deals, bad deals and the real world

Beyond these policy reviews, the administration has a stated preference for negotiating new and better deals to address nuclear concerns. This is based on an assumption that Obama administration officials simply did not try



hard enough to get a 'good deal' for the United States in the two major nuclear deals it negotiated – the New START Treaty with Russia and the 'P5+1' deal with Iran. The latter is the subject of an unspecified review without firm deadlines or outcomes.

Yet the inconvenient truth that President Trump will soon have to face up to is that the realities faced by the previous administration did not suddenly change on January 20th. The difficulty of finding a way of limiting Iran's nuclear program as much as possible while at the same time giving the Iranians a way of saving face remains. The challenge of negotiating verifiable reductions in Russia's strategic nuclear arsenal at a time in which retaining a large nuclear stockpile is one of the few ways that Moscow can back-up its claims to a renewed great power status has not magically disappeared. For this reason, the focus on a deal-making approach is likely to be relatively short-lived, and maintaining stability among nuclear-armed or nuclear latent powers will need to rely on other foundations. In the Asia-Pacific region, this will require maintaining strategic, long-term stability with China and the careful management and de-escalation of crises involving North Korea.

#### Strategic stability and crisis diplomacy in the Asia Pacific

The single most important issue in determining the nature of a stable, deterrence-based nuclear relationship between the United States and China is the degree to which the United States accepts the notion of mutual vulnerability with China. The further development of American BMD, and particularly the degree to which Washington shares BMD technology with key allies in Asia, looms large. The central figure to watch on this issue is Mattis who is ultimately in charge of the NPR and BMD Review. He is also the only senior administration figure who has actually spent significant time thinking about nuclear weapons and their potential use in any in-depth way. All indications thus far point to Mattis playing a crucially important role in tempering the President's position on key issues. In

many ways there are parallels with Colin Powell's role as Secretary of State during George W. Bush's first term.

The linked but more immediate challenge for the administration is to manage the crisis on the Korean Peninsula before it spirals out of control. As the issue moves closer to a major military crisis that (at least in theory) could escalate all the way to the nuclear level in a worst case scenario, H.R. McMaster as National Security Advisor, Rex Tillerson as Secretary of State and Mike Pence as Vice-President are all playing more important advisory roles alongside Mattis. All are essentially unknown quantities in terms of their thinking on nuclear weapons. McMaster has had little to say on nuclear issues but is on record as thinking of Russia, China, North Korea and Iran as "revisionist powers". Tillerson's first trip to South Korea as Secretary of State, including his statement at a press conference that "the policy of strategic patience has ended", set the tone for the Trump Administration's approach. Tillerson's most important move was to begin by rejecting direct negotiations with North Korea until they give up nuclear weapons. Exactly what would be left to discuss at that time remains a mystery.

In the absence of negotiations, the options are few and carry significant risks. The first is to step up the pressure already exerted by economic sanctions. United States sanctions are already extensive and have made little difference to North Korea's nuclear and missile programs. Ramping these up further will involve secondary measures against companies such as those in China that are not complying with the existing sanctions. A second option is to redeploy United States tactical nuclear weapons in South Korea, a clear sign of crisis escalation. A third is to engage in a pre-emptive counter-force strike against North Korean facilities (more likely to involve advanced conventional weapons, including forms of cyber sabotage). None of these would be easy and the latter option would need to happen quite soon, given North Korea's determination to deploy both submarine-launched ballistic

missiles and long-range missiles capable of reaching the United States.

#### Options for Canberra

For Australia then, the task is to try and gently persuade the administration of the long-term benefits in addressing Chinese concerns over the vulnerability of its nuclear arsenal and the short-term benefits of de-escalating of the crisis with North Korea. While the first point is probably going to be a harder sell in Washington (especially to an administration keenly focused on renegotiating the terms of its relationship with China in its own favour), it is here that Canberra may be able to exert some leverage, even if in a small way. The North Korean issue is of less direct concern to Australia and Canberra's voice is, understandably, likely to be drowned out by Seoul and Tokyo. It is however worth noting that the two issues are somewhat linked in that addressing China's long-term concerns about stability could be a stepping stone to a strong Chinese role in negotiating a denuclearised Korean Peninsula.

On US-Sino relations, Canberra may be able to make more headway given our important trading relationship with Beijing and military relationship with Washington. The main actor in Washington in determining the nature of United States-Sino nuclear stability will be the Pentagon, arguably the agency where Australia has the most sway. Canberra's challenge then is to use the opportunity of the NPR and particularly the BMD Review to encourage a conversation in Washington about the long-term risks of the United States continuing to effectively ignore China's concerns over the increasing role of US advanced conventional forces in undermining the nuclear deterrence relationship between the two. This will be an exceedingly difficult task, particularly given the enthusiasm for BMD within the Pentagon. But it is a task Australia is uniquely placed to play as a sympathetic military ally who has a role in the US BMD system (via Pine Gap) but, unlike Japan and South Korea, is not reliant on US BMD capabilities for its own security.



## Strategic resoluteness: The Chinese approach to the Trump administration



### Dr Feng Zhang

What is China's policy toward the United States in the age of Donald J. Trump? How is Beijing dealing with the new and unpredictable American president? The challenge of Sino-America relations at the beginning of the Trump administration is not Chinese revisionism in contesting US supremacy, but US revisionism in disrupting long-standing tenets of the relationship. Chinese policy since Trump's electoral victory in November 2016 has been to understand the man, the policy substance of his rhetoric, and his advisers and officials who will be most influential in policy making. Beijing has no intention of unsettling the bilateral relationship. In fact, it has been trying a patient approach of strategic resoluteness to dissuade the Trump administration from policy disruptions and steer the relationship on a stable and cooperative path.

Ever since the end of the Cold War, relational stability has been a persistent goal of China's United States policy. Under President Xi Jinping, China has elevated this policy to a new conceptual level, by attempting to establish what it referred to as 'a new model of major country relationship.' From 2012 to 2013, that proposal generated some positive responses from the Obama administration, until it was undermined by China's own assertiveness in maritime Asia. With the mercurial, unconventional and somewhat enigmatic Trump, the Chinese leadership has quietly dropped the label of 'a new model of major country relationship' in publicly describing its United States policy goals. But it is still using the three main components of such a relationship – no conflict and no confrontation, mutual respect, and win-win

cooperation – as the basis for Sino-US relations during the Trump administration.

China clearly has no intention of shaking up the Sino-US relationship with the Trump administration. Stability still trumps everything else. Beijing hopes that, somehow, it can stabilise this vital relationship even as the United States' side grows increasingly alarmed by the challenge to American leadership posed by the rise of Chinese power. In fact, Chinese elites initially greeted Trump's surprising electoral victory against the Democratic Party nominee Hillary Clinton with a degree of relief and optimism. Clinton was not liked in Beijing, in no small part due to her central role in launching the Obama administration's Asia rebalance strategy that many Chinese elites view as targeting China. They believe a Trump administration would at least alter, if not completely discard, the rebalance strategy. Chinese officials also fret about the ideological hectoring typical of Democratic foreign policy that inevitably results in some clashes between American and Chinese political and foreign policy principles. In contrast, the China policy of Republican administrations from Nixon to Reagan to Bush (both senior and junior) seems to have convinced Beijing that the Republicans are more capable of pragmatism and flexibility. Moreover, Trump is a businessman, and a real estate developer at that. Having practised geoeconomics for well over two decades, the Chinese leadership always has some confidence in dealing with businessmen. Thus, for almost two months, many Chinese elites were expecting Sino-United States relations to make a turn for the better.

Trump's 2 December phone call with

Taiwanese leader Tsai Ing-wen, breaking nearly three decades of diplomatic protocol, and his more threatening remark nine days later that America would not necessarily be bound by the 'one China' policy, dramatised a new, grim reality of Sino-US relations. Almost immediately, pessimism descended on Chinese policy discussions, and the uncertainties of Trump's policy, which had previously been thought capable of producing Republican-style pragmatism, were now viewed in a negative, disruptive and highly challenging light. Writing after the Trump-Tsai phone call, Peking University scholar Wang Dong warned that China should not have "illusions" about Trump but should rather prepare for short-term shocks in the relationship. Cui Liru, a former president of the influential Chinese Institutes of Contemporary International Relations in Beijing, wrote after Trump's inauguration that the new American president's nationalism and transactionalism are posing a severe test to the longstanding principle, upheld by both countries since Nixon's opening to China in 1972, of maintaining the overall stability of Sino-US relations despite all the differences and disputes. He suggested China should maintain its 'resoluteness' (dingli) at a time of great uncertainty.

In fact, this seems to have become the main feature of China's approach to Trump. President Xi's remarks, delivered at an important National Security Commission meeting in February 2017, offer the best summary of this approach: "Whatever the changes in international situations, we must maintain strategic resoluteness, strategic confidence, and strategic patience." This approach is apparent in Chinese policies

towards four main issues where Trump's revisionism is most acute: Taiwan, trade, the South China Sea and North Korea.

Taiwan has always been a foundational issue in Sino-US relations. Yet for two months after the Trump-Tsai phone call, apart from solemn declarations from the Ministry of Foreign Affairs about the fundamental importance and non-negotiable quality of the 'one China' principle in Sino-US relations, Beijing made no assertive response. Then, on 9 February quiet diplomacy, possibly involving a Chinese concession too, extracted a pledge from Trump to honour the 'one China' principle during a telephone conversation with Xi.

During his presidential campaign, Trump threatened to impose a 45 per cent tariff on Chinese exports to the United States, complaining that China manipulated the value of its currency. Again, China has taken no drastic action on this front. State media threatened damaging retaliations against American exports such as Boeing airplanes and soybeans should the threat eventuate. Officials in the foreign and commerce ministries are trying to find practical ways to alleviate American concerns while protecting Chinese interests, such as bringing the long negotiation over a bilateral investment treaty to a mutually agreeable conclusion. Meanwhile, Beijing has quickly turned itself into a leading advocate of globalisation and free trade to counter American trade protectionism. China recognises the Trump administration's internal divisions about trade policy, and is waiting to see how those divisions will affect policy.

The Trump administration's rhetoric about the South China Sea is equally unsettling to the Chinese. During his Senate confirmation hearing, Secretary of State Rex Tillerson asserted that, "We're going to have to send China a clear signal that, first, the island-building stops and, second, your access to those islands also is not going to be allowed." Chinese commentators excoriated these remarks as reckless and dangerous, warning that any US naval blockade of Chinese access to the islands would mean war. But the government has remained rather calm, partly because policymakers have yet to assess the substance of these remarks and partly because they believe China has gained the strategic initiative in the

South China Sea and can therefore afford a wait-and-see attitude. Beijing is also aware the United States has steadily increased its military presence in the region since the end of the Obama period. For its part, the People's Liberation Army has been quietly building military facilities on the islands. Sino-United States strategic competition in the South China Sea is well under way.

In each of these three areas – Taiwan, trade and the South China Sea – China has been trying to maintain the status quo favourable to itself. Over North Korea, however, it has been compelled by escalating tensions to produce new thinking. And yet Beijing is still urging the United States and North Korea to 'flash the red light and apply the brakes' to avoid a head-on clash. Foreign Minister Wang Yi has proposed a new policy of 'double pause' – that is, North Korea pauses its nuclear weapons and missile development programs, and the United States and South Korea pause large-scale military exercises – to create conditions for returning to the negotiating table. This is still a status quo policy. In addition, China is extremely opposed to the deployment of the United States' THAAD missile defence system in South Korea. In retaliation for that deployment, it has reduced economic ties with South Korea and punished the Lotte Group – a South Korean company with a major commercial presence in China – for granting land to the deployment. Both the 'double pause' proposal and its economic punishment of South Korea have, however, been rejected by the United States as ineffective or inappropriate. It is in North Korea policy that China confronts the biggest early challenge in dealing with the Trump administration.

It is still early days to assess Chinese policy towards the Trump administration. Like many other countries, China has been puzzled by the unpredictability and uncertainty of American foreign policy under Trump. The remarks of Trump and his officials about Taiwan, trade, North Korea and the South China Sea have rattled many Chinese elites, giving the impression that this administration may be uniquely hawkish towards China. But the government as a whole has approached the Trump administration with pragmatism. Some elites actually welcome part of Trump's revisionism, especially his

rethinking and potential adjustment of America's international goals, seeing this as a necessary correction of America's overly competitive grand strategy.

It is likely that President Xi's principle of strategic resoluteness, confidence and patience will continue to guide China's US policy, producing a good degree of stability and predictability. It is also possible that, guided by pragmatists such as Secretary of State Tillerson, strategists such as Secretary of Defense James Mattis and National Security Advisor H. R. McMaster, and influential moderates such as his son-in-law Jared Kushner, Trump's policy will eventually stabilise and achieve some *modus vivendi* with China. Despite all the differences over North Korea, Tillerson's first trip to China in late March emphasised cooperation rather than confrontation. Notably, Tillerson used the Chinese language to describe the United States-China relationship as having been "guided by an understanding of non-conflict, non-confrontation, mutual respect and win-win cooperation" – precisely the three components of Xi's new model of major country relationship for Sino-US relations. Perhaps this was just intended to give China 'face' in the first high-level contact between the Xi leadership and the Trump administration. Nevertheless, it is an encouraging sign, and certainly an important step towards the first Trump-Xi summit at Trump's Mar-a-Lago resort in Florida, scheduled for April 2017.

But it is also possible that Trump, influenced by his ideological chief strategist Stephen K. Bannon and nationalistic economic advisor Peter Navarro, will follow through on his inflammatory threats, eliciting equally assertive countermeasures from China and plunging the relationship into major instability. Any provocative moves by either side in any of four areas where Trump has threatened revisionism – Taiwan, trade, South China Sea and North Korea – will be enough to trigger unsettling disputes and even crises with regional and global ramifications. Given that China is acting like a status quo power in the beginning of the Trump administration, how the Trump administration will act, and how revisionist it will eventually become, will largely determine the evolution of this relationship in the months to come.

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