

# PERSPECTIVE

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## **The Impending Trump Presidency and Southeast Asia**

*Ian Storey and Malcolm Cook<sup>1</sup>*

### **EXECUTIVE SUMMARY**

- Donald Trump's election victory casts doubt on America's commitment to East and Southeast Asia, adding to long-standing concerns about US staying power.
- Likely economic policy changes are expected to have negative implications for Southeast Asian economies.
- China will top President Trump's Asia agenda, and the tenor of Sino-US relations will significantly impact Southeast Asia's economic prospects and security environment.
- A more transactional, or even isolationist approach to Asian security by the United States under Trump may lead some Southeast Asian countries to reinforce strategic cooperation with Japan and Australia, while others may move to accommodate China's security interests.
- On the South China Sea, the Trump camp has sent mixed messages which suggest either a more confrontational posture towards China or less engagement in the dispute. Either scenario could raise tensions.

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<sup>1</sup> Ian Storey and Malcolm Cook are Senior Fellows at ISEAS-Yusof Ishak Institute

## CASTING BACK

Eight years ago, the incoming administration of President Barack Obama faced a Southeast Asian region doubtful about the sustainability of US strategic primacy in Asia. These long-term doubts had been aggravated by the widespread view that the departing two-term Bush administration had undermined America's position in the region. The US diplomatic position had been damaged by its failure to attend ASEAN meetings or acknowledge ASEAN "Centrality", and by the US economic situation following the Global Financial Crisis of 2008-09. The US military position had been eroded by the Afghanistan and Iraq quagmires and budgetary sequestration. The Obama administration's Asia rebalance strategy, with its focus on Southeast Asia, was directly aimed at addressing these concerns.

Over the last eight years, despite the efforts of the Obama administration, Southeast Asian doubts about US staying power in the face of a more powerful and assertive China have deepened. Donald Trump's surprise victory in the 8 November presidential election has immediately added a new source of great uncertainty with many pronouncing the US rebalance to Asia dead, *Pax Americana* over and even the end of the Western liberal order. It is much too early for such epochal judgements. Yet, the Trump victory will have a major impact on the US position in Asia and on US relations with the states of Southeast Asia and with ASEAN. While it is difficult to predict what President Trump's foreign policy will look like, two months out from his inauguration, it is possible to identify likely changes to US policies towards Southeast Asia and the most important sources of uncertainty.

## ECONOMIC POLICY

Changes to US trade, investment and exchange rate policies were at the core of Trump's "America First" campaign. According to candidate Trump, free trade deals and passivity towards trading partners' currency manipulation have and, unless radically altered, will continue to facilitate the hollowing out of US manufacturing and the offshoring of US jobs. The 1993 North American Free Trade Agreement and the Trans-Pacific Partnership (TPP) signed in early 2016 are seen as the two best examples of this self-defeating "America last" approach.

Four factors suggest that parts of this unilateralist revisionist campaign platform will carry over into the Trump administration:

- President Trump's credibility as an anti-establishment populist will heavily depend on his ability to deliver on the economic policy promises that were central to his campaign.
- As noted by Trump himself, Bernie Sanders' unexpected success in the Democratic primaries on a similar economic populist platform reaffirms its popular appeal and the need for both major parties to recognise this in their policy platforms.

- The Republican Party has legislative majorities in the Senate and House of Representatives and will want to show frustrated voters that it can work with the Trump executive.
- Aggressive unilateral economic policies targeting major trading partners have a rich recent history in the United States. The Republican administrations of Ronald Reagan and George H.W. Bush targeted Japan, as did the Democrat administration of Bill Clinton.

Three potential economic policy changes consistent with Trump's economic policy statements as a candidate are of particular concern for Southeast Asia. First, US withdrawal from the TPP is widely expected as is a sceptical approach to the proposed Free Trade Area of the Pacific. Peru, the host of this year's APEC Summit and TPP signatory, has already floated the idea of negotiating a Free Trade Area of the Asia Pacific without America. Clearly, the four Southeast Asian TPP signatories—Brunei, Malaysia, Singapore and Vietnam—will be the most affected if the Trump administration does withdraw. Malaysia would be negatively affected as, unlike Vietnam and Singapore, it does not have a pre-existing bilateral trade deal with the United States.

Vietnam was predicted to be the biggest TPP beneficiary in Southeast Asia. It was widely expected to benefit from trade and investment diversion from non-TPP regional countries like Thailand and China due to its greater access to the US clothing and apparel and auto parts markets. There was also an important geopolitical element to Vietnam's participation in the TPP. Hanoi saw it as a way of strengthening bilateral ties with the United States and reducing its economic dependence on China with which it has overlapping territorial and maritime boundary claims in the South China Sea. As such, the death knell of the TPP represents a setback for US-Vietnam relations. The strategic setback for the United States would not be limited to Vietnam. Singapore Prime Minister Lee Hsien Loong, in an October 2016 interview with *Time*, warned that an American withdrawal from the TPP would undermine US credibility across Asia.<sup>2</sup>

Second, if trade deals and currency manipulation were the means identified by Trump and Sanders for the hollowing out of the US economy, the measure of hollowing out identified was the loss of US jobs to competitors. Changes to US tax provisions and other measures to raise the costs of relocating commercial functions outside the United States are therefore likely. Even prior to the political rise of Trump and Sanders, there was growing popular pressure to make it harder for firms to avoid US taxes by shifting profits and functions to countries with much lower corporate tax rates. The Philippines is the world's largest business process outsourcing (BPO) hub with a particular focus on providing services to the US market and US firms, and would be the Southeast Asian economy most affected by any such moves. Singapore, by far the largest recipient of US foreign direct investment in the region, would also be affected.

Third, the most important possible economic policy change for Southeast Asia is also the most unknown and does not involve Southeast Asia directly. If, as threatened during the

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<sup>2</sup> Ian Bremmer, "Singapore's Lee Hsien Loong on the U.S. Election, Free Trade and Why Government Isn't a Startup", *Time*, 26 October 2016.

campaign, a Trump administration labels China a currency manipulator stealing US jobs and adopts punitive policy measures against China, Southeast Asia would be negatively affected. Many of China's manufactured exports to the United States which would be possible targets are the end product of regional production chains that include significant Southeast Asian inputs. Chinese firms themselves have been expanding their own production chains to Southeast Asia, making the region vulnerable if these are targeted. Thailand, Malaysia, Singapore and Vietnam, as the most open economies in the region and the most integrated into these production chains, would be the most affected.

## **FOREIGN AND DEFENCE POLICIES**

As in previous US presidential elections, the 2016 Trump-Clinton contest was dominated by domestic political issues and the personalities of the candidates. America's relations with the rest of the world only intruded into the contentious campaign when they were linked to domestic concerns such as the economy and terrorism.

In terms of foreign policy experience, Democrat Hillary Clinton was clearly the more experienced and knowledgeable of the two candidates. Trump's platform on foreign and defence policy issues was light on details, but had a strong Reaganesque flavour to it. According to his campaign website, the core of the Trump administration's foreign policy will be "Peace through Strength", and in pursuit of that goal the winning candidate has pledged to remove the caps on defence spending so as to rebuild America's military worn-out by protracted conflicts in Afghanistan, Iraq and other parts of the Middle East.<sup>3</sup> Trump has also vowed to "crush and destroy" ISIS and "defeat the ideology of Islamic terrorism". A clearer picture of the Trump doctrine will only emerge once the president-elect's transition team has selected candidates for the secretaries of state and defence, and their subordinates, including those responsible for Asian affairs.

In the course of the campaign, Northeast Asian countries figured much more prominently than Southeast Asian countries, with the latter barely rating a mention. Trump repeatedly accused China of engaging in unfair trade practices, and called on Japan and South Korea to shoulder more of the burden for providing regional security, at one point even suggesting that they acquire nuclear weapons to defend themselves against the threat posed by North Korea (Trump has since denied making this comment). Clearly, once Trump takes office on 20 January 2017, Northeast Asia will be at the top of his Asia agenda, particularly policy towards China. In his congratulatory telephone call to Trump, Chinese President Xi Jinping stressed the critical importance of strengthening cooperation between their two countries. However, if Trump follows through on his campaign pledge to impose punitive tariffs on Chinese imports, thus triggering a trade war between the world's two largest economies, cooperation will be in short supply.

Another potential source of friction in Sino-US relations is Taiwan. One of Trump's most influential policy advisers, Peter Navarro, a professor at the University of California-Irvine, has accused the Obama administration of leaving Taiwan — in his words "both a beacon for democracy and critical to the US defense strategy in Asia"— vulnerable to military

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<sup>3</sup> For Trump's positions on foreign policy and defence see <https://www.donaldjtrump.com/>.

coercion from China.<sup>4</sup> If Trump acts on Navarro's advice, the United States may bolster defence cooperation with Taiwan, including the transfer of submarine technology and other weapons systems that China would vigorously oppose. This would raise cross-straits tensions.

Increased friction between Washington and Beijing over trade, Taiwan and other issues would heighten anxieties in Southeast Asia concerning the future trajectory of US-China relations. While a degree of competition between the two countries allows Southeast Asians to play one country off against the other and solicit aid and investment, a more confrontational relationship will have negative consequences for regional security.

Trump's election victory has aroused fears across Asia that the United States may abdicate its regional leadership role, a role that many states have long regarded as indispensable to the maintenance of regional peace and stability. Given America's vast political, economic and strategic interests in Asia, such fears are almost certainly exaggerated. Nevertheless, the new administration may adopt a less altruistic and a more transactional approach to Asia, one that is in keeping with Trump's pledge to put "America First". An America that is more "hands off" when it comes to Asian security could lead to greater Chinese assertiveness. This would push some countries in Southeast Asia to strengthen strategic cooperation with other potential security providers especially Japan and Australia — and perhaps even India — while others might dovetail their security policies to align more closely with China's interests and preferences. Arguably both trends were already underway before Trump's victory, and may accelerate over the next few years.

Trump is a self-proclaimed pragmatist, and his administration may well place less value on promoting democracy and human rights around the world. This change in emphasis would be welcomed by some of the more authoritarian members of ASEAN—Cambodian Prime Minister Hun Sen enthusiastically applauded Trump's victory—and could help turn the page on US-Thai relations which have deteriorated significantly since the army ousted a democratically elected government in May 2014, and help put US-Philippine relations back on track after the partial derailment that has taken place since President Rodrigo Duterte took office in June 2016. Conversely, America's relations with Indonesia and Malaysia will be negatively affected if the Trump administration steps up its bombing campaign in Syria (inevitably resulting in more civilian casualties), moves its embassy in Israel to Jerusalem, and, in keeping with Trump's campaign rhetoric, imposes restrictions on Muslim immigrants and visitors to the United States.

The US "pivot" or "rebalance" to Asia is dead, at least in the Obama administration's guise. The Trump administration will discard the TPP, and is unlikely to pay as much attention to ASEAN as its predecessor did. Trump's attitude towards multilateralism is likely to be transactional, meaning that he will not attend regional summit meetings unless there are concrete outcomes that advance America's—mainly economic—interests. Like Russian President Vladimir Putin, Trump may attend APEC Summits but is more likely to send Vice President Mike Pence or his secretary of state to the East Asia Summit. Reduced US attention to ASEAN will undermine the organization's aspirations for Centrality in the regional security architecture.

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<sup>4</sup> Peter Navarro, "America Can't Dump Taiwan", *The National Interest*, 19 July 2016.

The military component of the rebalance will prove more durable. America's military presence in Asia was already very substantial even before the rebalance was announced, and is unlikely to be reduced under Trump. Indeed, some of Trump's key policy advisers have criticized the Obama pivot for lacking military heft—especially naval power—which, they argue, emboldened Chinese aggression in the South and East China Seas.<sup>5</sup> Trump has promised to reverse this situation by increasing the size of the US Navy from 274 to 350 warships. In the short-term, however, this plan will have little impact on the security situation in Asia's maritime domains as a naval acquisition programme of this magnitude—assuming Congress agrees to fund it—will take at least a decade to implement. In the meantime, the US Navy could transfer more assets to East and Southeast Asia, but this would leave it overstretched in other parts of the world. America's defence cooperation with Southeast Asian countries is likely to remain unchanged.

How events will play out in the South China Sea in 2017 remains unclear. Trump and his advisers have sent out mixed messages that suggest either a US pushback against Chinese assertiveness in the South China Sea or US disengagement from the dispute. The first scenario would lead to greater tensions between Washington and Beijing, the latter increased tensions between China and the Southeast Asian claimants. Tensions would also spike if China tried to test US resolve—and Washington's commitment to its friends and allies—in the South or East China Sea in the first few months of the Trump administration.

## CONCLUSION

At the time of writing, president-elect Trump has yet to articulate the main parameters of his administration's foreign and defence policies or appoint his principal officials. Accordingly, predicting the direction of America's foreign relations over the next few years is extremely difficult. Nevertheless, based on Trump's campaign rhetoric, and the ideas of those advising him, one can anticipate some of the uncertainties and problems that Trump's victory has created for Southeast Asia. Foremost among these include America's commitment to free trade, regional leadership and multilateralism, and future relations with China. Notwithstanding these concerns, it should be kept in mind that America's structural power is immense and its economic and strategic interests in Asia are deep. The uncertainty and fears unleashed in Southeast Asia by Donald Trump's election victory should therefore be moderated by this enduring condition.

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<sup>5</sup> Alexander Gray and Peter Navarro, "Donald Trump's Peace Through Strength Vision for the Asia-Pacific", *Foreign Policy*, 7 November 2016.

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