

## HEDGING STRATEGY AS A RESPONSE TO THE UNITED STATES-CHINA RIVALRY: THE CASE OF SOUTHEAST ASIA

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*Abstract:* The Southeast Asian countries use a hedging strategy to respond accordingly to the risk that the great power rivalry between the United States and China presents in the region. Hedging is focused on the creation of backup options to be used if the situation in the region escalates. These options are created through engagement with the potential threat and deterrence through a form of soft or indirect balancing. The article focuses on the behaviour of regional states, particularly Singapore, as an illustrative case study, to examine evolving hedging practices aimed at creating viable response options in the wake of the increased tensions in the region. The author argues that the second decade of the 21st century brought two developments that increased uncertainty in the region: growing tensions over the South China Sea and the American pivot to Asia initiated by the Obama administration. In response, the Southeast Asian countries were incited to hedge more directly by diversifying their economic partners and upgrading their defence capabilities. However, the US-China rivalry will continue to grow, and it will become more difficult to successfully use hedging strategy.

*Keywords:* hedging; Southeast Asia; Singapore; US-China rivalry; South China Sea.

### INTRODUCTION

The growing United States-China rivalry presents a risk for the Southeast Asian countries, which rely on the balance of power in the region as the condition

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most suited to their interests. Transcending the balancing or bandwagoning dichotomy of the Cold War alignment, regional countries rely primarily on hedging. The concept has various meanings and is used in both broader and narrower understandings. The first includes security, political, and economic aspects, while the second focuses only on the military alignment (Kuik 2016a; Lim and Cooper 2015). However, the common trait of most definitions is that hedging is a risk response strategy aimed not against a particular threat but rather to prevent the threat from manifesting and diversify the available options if the threat ultimately arises.

After the Cold War, the risk presented by China, great power in the immediate geographical proximity, was successfully dealt with through hedging. Regional states engaged China through developing economic connections, diplomatic actions, and incorporation into the regional institutional structure centred around the Association of Southeast Asian Nations (ASEAN) (Acharya 2001; Goh 2005, Storey 2011). Beijing was willing to respond affirmatively, actively participate, and build positive relations with the ASEAN countries (Goh 2005, 10–11). Simultaneously, the continued presence of the United States presented an important counterweight to this process.

However, the second decade of the XXI century brought two developments that increased uncertainty in the region: growing tensions over the South China Sea and the American pivot to Asia conducted by President Barack Obama and his administration. The rising contestation between Beijing and Washington prompted Southeast Asian countries to hedge more directly in the 2010s. As their economic ties with China developed, they actively sought options to diversify their trading partners. The differing stances over the South China Sea incited them to strengthen military cooperation with the US (Kuik 2016a, 511). On the other hand, they were simultaneously upgrading relations with China in the same domain, not wanting to align with one side. Having found themselves between Beijing and Washington, the Southeast Asian countries now have to weigh their options and potential gains. Regarding China, benefits from the Belt and Road Initiative (BRI) are contrasted with the country's growing assertiveness. Regarding the US, the security insurance is contrasted with a history of critiques about human rights, the rule of law, and corruption, as well as the uncertainty of Washington's commitment to the region. In these conditions, hedging remained the preferred and optimal strategy for the regional countries, but it was increasingly harder to implement. The case of Singapore, whose security concerns stemming from its geography, history, and political situation make it a textbook hedger, is illustrative of the ways regional states have evolved their hedging behaviour in this period.

The article poses the question of how the developments stemming from the great power rivalry in the region affect hedging conducted by the Southeast Asian

countries. It traces their hedging efforts, primarily in the security and economic domains, which are aimed at minimising the effects the US-China rivalry has on them. It argues that the US pivot to Asia and the South China Sea disputes incite more direct hedging by regional actors, which manifests in attempts to diversify economic partners and strengthen defence capabilities, mainly through military cooperation with the US. Using the case of Singapore as an example, the article shows how, under these conditions, hedging is made more difficult, as the city-state moves more towards Washington, while at the same time attempting to placate Beijing. The article is divided into three parts, followed by a conclusion. The first part explains the concept of hedging and its distinctions compared to balancing or bandwagoning. It explains the different ways analysts define and use the term, especially in the application of the concept to Southeast Asia. The second part analyses how the states in Southeast Asia hedge in order to respond to the risks they face, particularly in the context of the South China Sea disputes and the American pivot to Asia as the main drivers of rising precariousness in the region. The third part focuses on the behaviour of Singapore as an example of hedging, examining the city-state's strategy as a way of engaging with China while upgrading its relations with the US as a counterweight.

### **HEDGING AS A STRATEGY IN INTERNATIONAL RELATIONS**

In an anarchical international system, the primary objective of a state is to secure its survival. The differences in the aggregate power capabilities of states are the main point of differentiation among them. However, Stephen Walt (1987, 21) points out that states do not react to the power capabilities of others but to “the foreign power that poses the greatest threat” (hereafter threatening power). The level of threat a state recognises in another is determined by several factors: aggregate power, proximity, offensive capability, and offensive intentions (Walt 1985, 9). When responding to an existential threat, states choose to adhere to the logic of balancing or bandwagoning. Balancing supposes that the state decides to respond to the threat by opposing it. It can opt to build its own military capacity, increasing its ability to defend itself against the threatening state. Alternatively, or concurrently, it can build alliances in order to secure the power of other states, with whom it shares security interests, to call upon for assistance if the need arises.

The first option is referred to as internal balancing, while the second is designated as external balancing (Waltz 1979, 118). These are the traditional forms of the so-called hard balancing. However, a state can also choose to engage the threatening power in a less conflicting manner by utilising soft balancing. Soft balancing includes, but is not restricted to, strengthening economic ties with rival

powers, enhancing military cooperation with them but stopping short of a formal alliance, and frustrating threatening powers' aims through diplomatic and political actions (Pape 2005, 10; Paul 2005, 58). Whatever form it takes, balancing behaviour is based on the notion that in order to successfully tackle a threat, a proper response is to position itself against it. A state chooses to align with the weaker power in order for them to jointly dissuade the more powerful one. Opposing the threat through balancing gives two benefits. The first is that it builds up security and power to resist the threat directly. The second benefit is that it raises the costs for the threatening power in the event of a conflict, thereby increasing deterrence capacity.

Bandwagoning is based on the opposite logic. A state aligns itself with the threatening power and not the power opposing the threat. Thus, it joins the stronger side against the weaker in order to increase its own security. In this way, a state hopes to divert attention from itself and ensure its survival through cooperation with the threatening power and contribution to its goals. This motive makes bandwagoning a form of appeasement (Walt 1987, 21). However, as Randall Schweller (1994, 74) explains, a state may also decide to bandwagon for profit. According to him, “the presence of a significant external threat, while required for effective balancing, is unnecessary for states to bandwagon”. States may decide willingly to align with the stronger side in order to share in the spoils of victory. The potential rewards for joining are reason enough for a state to select its allies. They may also choose to do so as a result of a domino effect because they believe it represents the wave of the future or to prevent punishment for failing to join and support the winning side (Schweller 1994, 93–98). Still, whether a state chooses to align with or against the stronger power, entering into an alliance brings its own set of dilemmas and risks, of which the main ones are abandonment and entrapment. The first is the possibility of being deserted by an ally that fails to live up to explicit promises or expectations of support, realigns with the opponent, or breaks the alliance. The second means “being dragged into a conflict over an ally’s interests that one does not share, or shares only partially” (Snyder 1984, 466–467).

However, the alignment and foreign policy strategies in the post-Cold War world overcame this binary distinction. The end of bipolarity has opened the space for many different approaches that states can use to position themselves in the international arena according to their perceived national interests. While the options to balance or bandwagon were not the only ones during the Cold War, they were prevalent. The structure of the international system incited states to either align against the most powerful state they perceive as a threat in order to limit its influence and ambitions, or to side with it, whether to protect themselves or to profit from such a partnership. Even then, the geographical, historical, political, and security specifics of particular regions created the space

for some states to try alternative strategies. Still, the end of bipolarity and the end of the overwhelming impact the Cold War between the United States and the USSR had on alignment strategies allowed these regional factors to become much more influential in the process of their formation.

### **Hedging in Southeast Asia**

The regional factors that shaped strategy choice in Southeast Asia were such that they encouraged the rise of the hedging strategy, though traces of its mild form could be found in the region as early as the 1970s (Kuik 2016a, 506). However, hedging is a concept that lacks a precise definition and is used by different authors in various ways. Jürgen Haacke (2019, 377–379) identifies four distinct conceptualizations of the term. The first approach sees hedging as a response to the perceived risk in the light of specific strategic and economic vulnerabilities. The second conceptualization uses hedging as an alignment choice that small and middle powers use in order to navigate relations with major powers, while the third presents hedging as a way to deal with risks stemming from alignment choices regarding major powers. Finally, the fourth conceptualization defines hedging as a mixed policy approach. Another question is how to measure and identify if hedging is taking place. Van Jackson (2014, 333) proposes a set of indicators that include “military strengthening (defence spending and qualitative improvements) without a declared adversary, increasing participation in voluntary (as opposed to rules-based) bilateral and multilateral cooperation, the absence of firm balancing or bandwagoning, and the simultaneous/equidistant improvement in relations with the two greatest regional powers”.

Some authors see hedging as a wider strategy transcending only the military options and argue that “alignment choice is not just about alliance choice” (Kuik 2016a, 501). Evelyn Goh (2005, 2) envisions hedging as “a set of strategies aimed at avoiding (or planning for contingencies in) a situation in which states cannot decide upon more straightforward alternatives such as balancing, bandwagoning, or neutrality”. Their response is to try to maintain an equal distance from the major powers for as long as possible, avoiding having to choose a definite side. In Southeast Asia, this is manifested in attempts by the ASEAN countries to hedge between the US and China. As for specific triangular hedging between two major powers, the main goal of the hedging countries is to signal ambiguity (Goh 2016). This is accomplished through the soft balancing of China through cooperation with the US in the security sphere, while at the same time engaging China with economic and political means. Moreover, they attempt to enmesh a number of regional great powers to become invested in the stability of the region and balance one another, thus providing security for the smaller and middle states. Thus, some indirect and light versions of balancing are a part of the hedging

strategy. As Denny Roy (2005, 306) puts it, “hedging is a general strategy that may or may not include balancing”.

For Cheng-Chwee Kuik, hedging covers a vast area between two full alignment poles, full-scale balancing, and full-scale bandwagoning, respectively. It can take place in the military, political, and economic arenas, and is primarily characterised by concurrently implementing opposing and counteracting measures. One set of measures is the “returns-maximising options” (economic pragmatism, binding engagement, and limited bandwagoning) aimed at gaining economic, political, and security benefits from cooperation with a major power. The other side of the coin is the “risk-contingency options” (economic diversification, dominance denial, and indirect balancing) developed at the same time vis-à-vis the same power as a form of a backup aimed to minimise economic, political, and security risks (Kuik 2016a, 504-505).

Others opt for a narrower definition of hedging. Darren J. Lim and Zack Cooper eliminate the economic and political dimensions of hedging. They focus on military alignment and the ambiguity of signals towards great powers as the central aspects of hedging. They define it as a “class of behaviours which signal ambiguity regarding great power alignment, therefore requiring the state to make a trade-off between the fundamental (but conflicting) interests of autonomy and alignment” (Lim and Cooper 2015, 703). The consequence is the uncertainty about which side in a potential conflict between the great powers a hedging state would take. This refusal to clearly align with one side has advantages as the state avoids the potential abandonment, entrapment, or targeting by an opposing great power, but also rejects protection offered by the ally (Lim and Cooper 2015, 705–706). Haacke builds on this concept. He also focuses on the military sphere and uses three indicators to identify hedging behaviour. The first is the statements, national security strategies, and white papers that countries and leaders produce. The second is the “state’s military capabilities enhancement (MCE) measures with respect to force development and force employment”, while the third, drawing from the work of Lim and Cooper, is the ambiguous signals regarding security alignment (Haacke 2019, 394–395).

In this article, hedging is understood as a middle way between balancing and bandwagoning, a strategy that is focused on the creation of backup options for response to a risk, through engagement with the potential threat in military, economic, and political areas on the one hand, and deterrence through a form of soft or indirect balancing on the other. One of the defining features of hedging is that it presents a state’s response not to an existing threat but to a potential one, a risk (Ciorciari and Haacke 2019, 369). This characteristic is a basic trait that distinguishes hedging from balancing and bandwagoning. So, hedging is used when a state perceives another state or a situation as a potential threat in the future and opts to respond in a way that will minimise the possibility of the

threat to emerge and materialise while simultaneously building its capabilities to respond accordingly if that scenario manifests. Hedging is not the same as insurance, since insurance activates only when the primary option fails, but it could be said that one part of hedging is insurance building. However, creating insurance through soft or indirect balancing is, at the same time, supposed to prevent the need for the insurance to be used at all. The other aspect on which the prevention of the transformation of a risk into a threat is based is the engagement through diplomacy, institutional binding, and the establishment of economic connections.

Although applied to other regions and not constrained only to Southeast Asia, hedging is often associated with and used to analyse the relations in this region. Van Jackson identifies three distinct interpretations which are used to explain why hedging is a strategy often used by Asian countries. The first relates to the power transition theory. As is usually the case when the rising and dominant great powers collide, the rise of China and the decline of American primacy brings unpredictability and instability. Asian countries are rather dependent on the US-China relationship. The uncertainty of its direction and the resulting power balance makes hedging attractive since the potential structural changes make balancing or bandwagoning too risky (Jackson 2014, 338). The second is based on the effects of rising multipolarity, which brings changing power relations and shifting alliances. The required information and assurances for a firm alignment with one power over another are lacking. This makes hedging a viable option for a state in order to increase its own security while avoiding potential abandonment or entrapment by its allies or capitulation in the face of a formidable threat (Jackson 2014, 339). The third explanation frames the issue of Asian security as a complex network in which its structures are understood as relations and links amongst nodes. It is characterised by high sensitivity, or how much one state is affected by another, constant fluidity of the structure, which is not static, and heterarchy in the form of multiple hierarchies governing security relations, economic relations, and cultural relations (Jackson 2014, 340–342). The complexity of these relations between the Asian states promotes hedging as foreign policy behaviour. Furthermore, this interpretation, Jackson argues, allows us to understand why hedging is not only currently happening in the region but will endure over time (Jackson 2014, 351). The next part will describe how hedging is used as a strategy in Southeast Asia.

## **SOUTHEAST ASIA BETWEEN THE UNITED STATES AND CHINA**

The end of the Cold War brought a change in power distribution amongst the great powers and sent the world into the era of the unipolar dominance of

the United States. For the Southeast Asian states, this marked the start of increased regionalism and interdependence between them. The key channel for this process was the ASEAN, an organisation founded in 1967. But the end of the Cold War enabled states formerly on opposite sides of the great power rivalry to cooperate freely, despite the ideological differences at the foundation of their respective political systems. The founding members of Indonesia, Malaysia, Singapore, Philippines, and Thailand were joined by Brunei in 1984, paving the way for further expansion in the 1990s. Thus, Vietnam became a member in 1995, Laos and Myanmar in 1997, and Cambodia in 1999 (Association of Southeast Asian Nations n.d.). The members operate on the basis of the norms of “non-use of force and pacific settlement of disputes, regional autonomy and self-reliance, non-interference in internal affairs and rejection of an ASEAN military pact and the preference for bilateral defence cooperation” (Acharya 2001, 47–48). Their cooperation and approach to regional problem solving is based on the ambiguous concept of the ASEAN way, usually understood as “decision-making process that features a high degree of consultation and consensus” (Acharya 2001, 64).

During this period, the ASEAN countries had to navigate the unipolar international system.<sup>2</sup> While the great power competition was on the decline, the rising threat of terrorism significantly shaped their security concerns. In this region, the threat of radical Islam emerged predominantly in the 21st century, although the sporadic incidents, including terrorist attacks, did exist before (Proroković 2018, 127). This had a positive influence on the continued American presence. Additionally, the steady rise of China, whose geographical proximity means it affects the economic, political, and security landscape of the region in various ways, was also perceived as a potential risk. For its part, China was willing to try to dissuade these concerns through its initiatives and actions, starting with its pledge not to devalue its currency during the 1997 Asian financial crisis, which was an important element of aid for the struggling countries.

China also responded positively to attempts by the ASEAN countries to bind it through incorporation into the regional multilateral platforms. For example, since 1997, China, together with Japan and South Korea, has been part of the regional forum ASEAN + 3. It signed the Declaration on the Conduct of Parties in the South China Sea (DOC) with the ASEAN states in 2002 and acceded to the Treaty of Amity and Cooperation (TAC) in 2003 (Kuik 2016a, 510). China was also willing to enter into a joint exploration deal in disputed areas in the South China Sea from 2005 to 2008 with the Philippines and Vietnam (Murphy 2017,

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<sup>2</sup> For the detailed analyses of Southeast Asian states during the unipolar dominance of the US see: Goh 2007/2008, He 2008 and Storey 2011. For their role in global fight against terrorism led by the US, see: Simon 2006.

180). China participates in a number of regional initiatives that include other powers too. Thus, in order to check Beijing's rising influence, the Southeast Asian countries successfully included India, Australia, and New Zealand (in addition to the ASEAN + 3 countries) into the East Asian Summit, an annual regional forum held since 2005. Furthermore, China is a part of the ASEAN Regional Forum (ARF), focused on security issues, whose members also include the European Union, the United States, and Japan, among others (Goh 2005, 31).

Economic cooperation was also thriving. The trade between the ASEAN countries and China increased from \$8.36 billion in 1991 to \$280 billion in 2011 (Invest in ASEAN n.d.; *China International Import Expo* 2021). The ASEAN-China free trade zone (ACFTA), based on the Framework Agreement on Comprehensive Economic Cooperation signed between the eleven countries in 2002, enabled the reduction of tariffs on 90% of imports between China, Indonesia, Malaysia, Singapore, Brunei, the Philippines, Singapore, and Thailand by 2010, while Myanmar, Laos, Vietnam, and Cambodia joined the regime in 2015 (Medina 2021). The regional countries attempted to engage China and not treat it as a threat. As Malaysian Prime Minister Mahathir Mohamad put it in his interview for *Asiaweek* in 1997: "Why should we fear China? If you identify a country as your future enemy, it becomes your present enemy" (cited in Kuik 2008, 175). These improving economic and political relations with China were counterbalanced by the continued US presence in the region, which was supported by most Southeast Asian states.

Summarily, the regional countries were subtly using the hedging strategy in this period, benefiting from increased economic cooperation with China and, at the same time, building their backup options through political engagement and reliance on the US presence. However, the second decade of the 21st century brought two interconnected developments that increased the overall level of uncertainty in the region and incited some countries to move towards more direct hedging.

### **The rising great power rivalry and the regional response**

The changes at the systemic level caused by the rising challenges to American unipolar domination were manifested openly in the 2010s. The growing rivalry between two great powers, the United States and China, was visible in Southeast Asia in two ways. The first was growing tensions over the South China Sea territorial disputes. The South China Sea's geostrategic significance stems from its status as an important route for maritime trade, large reserves of natural oil and gas, and its immense biodiversity (Ladevac and Jović-Lazić 2014, 47). China, Malaysia, Indonesia, the Philippines, Taiwan, Brunei, and Vietnam all claim some of the disputed, mainly uninhabited islands in this sea and the surrounding waters.

The period from 2007 to 2010 saw the growing assertiveness of all involved parties (Fravel 2014, 4). Due to Chinese power and its continued rise as the US' main challenger, Beijing's aspirations in the South China Sea elicited Washington to react. Thus, Secretary of State Hillary Clinton proclaimed at the 2010 ARF meeting that the US has a "national interest in the freedom of navigation" and opposes "the use of force by any claimant" in the South China Sea (Feng and He 2018, 3). The American stance and involvement increased the relevance of the dispute and provoked China to act more boldly, which led to further incidents between China and other claimant countries, such as with the Philippines in 2012 over the Scarborough Shoal and with Vietnam in 2014 over the deployment of a Chinese oil rig within the Vietnamese exclusive economic zone (EEZ). The arbitration case filed by the Philippines under Annex VII to the United Nations Convention on the Law of the Sea (UNCLOS) against China in 2013 and the corresponding ruling in favour of the Philippines in 2016 led to further division on the issue (Heydarian 2017, 227–228). On the other hand, continued work by the ASEAN and China started in 2002 to develop a Regional Code of Conduct on the South China Sea has not yet been successful (Strating 2019, 111).

The second development is the US "rebalance" or "pivot" to Asia, promoted by the Obama administration. As part of this great policy initiative, which was in part enabled by the gradual withdrawal from Iraq and Afghanistan, the US took several important steps and made several promises. It joined the East Asian Summit in 2011. The Secretary of State Hillary Clinton (2011) pledged to strengthen the US's formal alliances in the Asia-Pacific region, which include treaties with Australia, South Korea, Japan, Thailand, and the Philippines. Accordingly, the new troop deployments to Australia, the new naval deployments to Singapore, and new areas for military cooperation with the Philippines were announced. Obama's National Security Advisor, Tom Donilon (2011), insisted that "reductions in defence spending will not come at the expense of Asia Pacific". Finally, Washington put in significant effort to promote and make progress in negotiations on the Trans-Pacific Strategic Economic Partnership (TPP) free trade agreement, which at the time included Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam, and the United States (Manyin et al. 2012, 22). Beijing viewed American policies within the pivot to Asia as a preventive measure against the possibility of Asian countries gathering around China (Korolev 2019, 432).

These two developments rose in part as a response to each other, and taken together, increased the uncertainty and tensions in Southeast Asia significantly, fusing even more during the Trump administration. President Trump kept the focus on Asia, but with a preference for bilateral relations with partners and a more direct confrontation with China, particularly on the South China Sea issue. Thus, between May 2017 and August 2020, the US Navy conducted 24 Freedom

of Navigation Operations (FONOPs) in the disputed Paracel and Spratly Islands – six times more than during the Obama administration, which fueled the tensions further (Storey and Cook 2019, 5). The continuously rising competitiveness between Washington and Beijing induced the regional states to hedge more directly in the 2010s by diversifying their economic partners and upgrading defence capabilities, which enhanced their abilities to respond adequately to the risks stemming from the great power rivalry.

For the Southeast Asian states, profits from economic cooperation with China are considerable. All ASEAN countries are members of the Asian Infrastructure Investment Bank (AIIB). Trade between the ASEAN members and China reached \$685.28 billion in 2020. In that year, the ASEAN became China's largest trading partner, while China maintained its status as the ASEAN's largest trading partner for the 12th consecutive year (*China International Import Expo* 2021). China's foreign direct investments (FDI) in the region are also on the rise, from an annual average of \$6.9 billion in 2011–2015 to \$11.5 billion in 2016–2020. In 2019, out of the top ten beneficiaries of China's outward foreign direct investment (OFDI) within the BRI, seven are the ASEAN countries. The ASEAN accounted for more than 60% of the OFDI stock in the BRI route (The ASEAN Secretariat 2021). For China, investments within the BRI framework in Southeast Asia are additionally important in their attempts to improve energy security through diversification in order to reduce dependence on the Malacca Strait route (Strating 2019, 102–104).

Still, the regional countries do not neglect the fact that “China's geo-economics is at the service of its geopolitics” (Šekarić 2020, 369). However, their hopes to diversify economic relations through increased trade with the US within the framework of the TPP failed when President Donald Trump decided to withdraw from the agreement in January of 2017. Nevertheless, the economic ties some of the regional countries have with the US are developing. For example, America is Vietnam's largest export market and one of its leading sources of FDI (Thuy and Tuan 2018, 112).

In the security realm, the rising tensions in the region have impactful consequences. The Philippines, the only formal American ally in the region besides Thailand, stepped up their balancing efforts beyond what could be considered to be a part of the hedging strategy. The administration of President Benigno Aquino III signed the Enhanced Defence Cooperation Agreement (EDCA) with Washington in 2014. The agreement focuses on cooperation “in capacity- and capability-building in external defence, particularly with respect to the maritime domain”, a significant fact in the context of the South China Sea dispute (Batongbacal 2018, 92). It also allows the US forces access to Philippine bases from which they were evicted in 1992 after the Cold War ended. The next Philippine President, Rodrigo Duterte, initially tried to position the country closer

to China and has unofficially frozen the application of the agreement in practice and planned to cancel the Visiting Forces Agreement (VFA) signed with the US in 1998. However, by the end of his term, he made moves to implement the EDCA, renewed the VFA with the US, and agreed to resume their bilateral strategic dialogue (Grossman 2021).

Nevertheless, most countries did not go as far as the Philippines. They primarily perceive China not as an existing threat but as a source of a potential one, a risk which they try to address through the improvement of their defence capabilities, in part through reliance on Washington and the simultaneous development of security cooperation with Beijing. For example, Malaysia upgraded its status in the US-initiated Cobra Gold military exercise from observer to participant in 2010 and took part in the exercise in this capacity for the first time in 2011 (Kuik 2016b, 163). On the other hand, in 2015, Malaysia and China conducted their first joint field exercise, Aman-Youyi 2015 (Peace and Friendship 2015), which was the largest bilateral combined exercise between China and an ASEAN country at the time (Bing 2021, 7). The country elevated its relations with Beijing to a Comprehensive Strategic Partnership in 2013 and signed a Comprehensive Partnership agreement with Washington in 2014 (Parameswaran 2018, 62–63).

Vietnam's strategy is also very calibrated not to antagonise China directly. The visit of Vietnamese President Truong Tan Sang to the US in July 2013, which led to the establishment of a comprehensive partnership between the two countries, was preceded by his visit to Beijing in June of the same year. Similarly, the historic visit of General Secretary of the Vietnamese Communist Party Nguyen Phu Trong to the US in 2015 was counterweighted by his visit to China three months prior and Xi Jinping's visit to Hanoi later that year (Kang 2017, 133–136; Petty 2015). Still, Vietnam-US military relations are improving, manifested in the lifting of the American arms sales embargo in 2016 and the 2018 visit of the aircraft carrier USS Carl Vinson to Da Nang, marking the largest presence of US troops in the country since the end of the Vietnam War (Capie 2020, 254). Vietnam's hedging is increasingly stepping up its balancing component, primarily because of the South China Sea dispute.

But the best example of a hedging strategy in Southeast Asia is the behaviour of Singapore. The city-state response to the risk China presents is a combination of political and economic engagement with the power, while simultaneously improving its relations with the US, primarily in the military sphere. This is textbook hedging behaviour. It will be further analysed below.

## SINGAPORE – THE ULTIMATE HEDGER

After the end of colonial rule by the British and a brief period as a part of a federation with Malaysia, Singapore found itself independent in 1965. Its security concerns were and remain considerable, and the country has always had a distinct sense of vulnerability stemming from its size, geographical location, two large predominantly Muslim neighbouring countries of Malaysia and Indonesia, and lack of natural resources. Accordingly, Singapore invests considerably in its defence force and has an active military reserve force of around 950,000 (Marston and Liow 2018, 47). It consistently spends around 3% of its GDP on defence (SIPRI n.d.). The city-state's ruling People's Action Party (PAP) was always staunchly anti-communist and, fearing Chinese support for the communist revolutions across the region, supported American intervention in Vietnam. The reliance on the US presence in the region as a provider of security and an essential factor that contributes to the regional balance of power has not vanished ever since. When the Philippines decided to close American bases on their soil on the estimation that that kind of protection was no longer needed with the end of the Cold War, Singapore signed a Memorandum of understanding with the US in 1990 and invited Americans to use their facilities (Leifer 2000, 104–105). Furthermore, in 1998, they allowed the US access to the Changi Naval Base. The base, whose construction was financed in its entirety by Singapore, is able to accommodate an aircraft carrier despite the fact that Singapore does not have one. In 2005, the two countries signed a Strategic Framework Agreement for a Closer Cooperation Partnership in Defence and Security (SFA), which was the first of its kind Washington signed with a non-ally since the Cold War. The SFA included a Defence Cooperation Agreement (DCA) within it (Kuok 2016, 5–6).

On the other hand, Singapore's relations with China are complex. Although without formal diplomatic relations during the Cold War, they were significant trading partners even during that period. Singapore voted in favour of the one-China principle in the UN in 1971. The two leaders, Lee Kuan Yew and Deng Xiaoping, exchanged visits in 1976 and 1978 (Marston and Liow 2018, 40). In October of 1990, Singapore established diplomatic relations with China. It was the last of the ASEAN countries to do so. This is a consequence of a decision by Singapore's leadership based on the strong intention to remain seen as independent and not influenced by China. Singapore is the only country in the world with a majority Chinese population, excluding Taiwan, whose sovereignty is not universally recognised (Leifer 2000, 120). However, Singapore has its own distinct cultural identity. Although Chinese constitute around 76% of Singapore's citizens, and the largest minority are Malaysians with 15%, the *lingua franca* of the city-state is English. In interactions both with China and other ASEAN countries,

Singapore's leaders and diplomats have always gone to great lengths to instil this understanding of their independence and uniqueness in others.

During the last three decades, Singapore has repeatedly stressed its commitment not to choose sides between Washington and Beijing. Singapore's economic ties with China are strengthening continuously. China has been its largest trading partner since 2013, and Singapore is the largest source of foreign direct investments in China. The value of their trade rose rapidly, from S\$2.9 billion in 1990 to S\$75 billion in 2010 (Foong 2016, 212). Two countries signed a free trade agreement in 2009 and upgraded it in 2018. In 2020, the value of their trade reached 136.2 billion Singapore dollars (\$101.5 billion) (Idrus 2021). The city-state joined the Asian Infrastructure Investment Bank in 2015, and in August of the same year began a three-year term as the ASEAN's "Country Coordinator for China-ASEAN relations" (Marston and Liow 2018, 42). Singapore welcomed the Belt and Road Initiative. As part of the China-Singapore Chongqing Connectivity Initiative, the New International Land-Sea Trade Corridor is an important part of the BRI (*Xinhuanet* 2020). Simultaneously, Singapore tries to leverage its increasing links with China through cooperation with the US. The basis for their economic relationship is the Free Trade Agreement, signed in 2003. American companies are the main source of FDI in the city-state. Singapore was approving of the US pivot to Asia and was particularly deeply invested in the Trans-Pacific Partnership, which was its main economic pillar. As a strong proponent of free trade, Singapore did not have a problem with the proposed TPP rules (Foong 2016, 219). Consequently, the decision by President Donald Trump to withdraw from this agreement at the beginning of 2017 was a big disappointment for the city-state's leaders.

Consistent with the hedging strategy, the growing ties with China, primarily in the economic domain, were followed by moves aimed at sustaining the balance in relations with great powers. Thus, Singapore worked on its fallback options in case relations with China worsened, particularly in the wake of the growing tensions in the South China Sea and the American pivot to Asia. This was most evident in the developing ties with Washington in the security sphere. Singapore agreed to host up to four littoral ships on a rotational basis starting from 2012. On the basis of the Enhanced Defence Cooperation Agreement (EDCA) signed in 2015, the same year saw the deployment of U.S. Navy P-8 Poseidon aircraft to Singapore. New joint military exercises were introduced in addition to the longstanding ones, such as the Pacific Griffin in the waters off Guam in 2017 (Haacke 2019, 408). In September 2019, Prime Minister Lee Hsien Loong and US President Donald Trump signed an agreement extending the US access to Singaporean air and naval bases until 2035 (Capie 2020, 252). However, for Singapore, it is important to distinguish between *basing* and *bases*. So, while it allows the US access to its facilities for resupply and repair, the city-

state does not permit the establishment of foreign military bases on its soil (Marston and Liow 2018, 49). Singapore was approved by the US government to purchase F-35B fighter jets in 2020, the first Southeast Asian country to do so (Yi and Zhang 2020).

Still, Singapore is careful not to let this cooperation with the US be perceived as a hard balancing against China. It has worked on developing military links with Beijing as well. The two countries reached a Four Point Consensus in 2014, which serves as a basis for the development of security cooperation. In 2019, they upgraded the Agreement on Defence Exchanges and Security Cooperation signed in 2008. The new aspects of cooperation include a commitment to regularise and scale-up bilateral exercises, the Visiting Forces Agreement for troops participating in bilateral exercises, mutual logistics support, and a bilateral hotline (*South China Morning Post* 2019). The two sides have conducted joint army exercises titled Exercise Cooperation since 2009, with the last being held in 2019, and in 2015 they conducted Navy Exercise Maritime Cooperation (Wei 2019).

This complex hedging strategy based on the risk of more adversarial relations with Beijing in the wake of its growing assertiveness and the rising level of US-China competitiveness in the region proved to be founded on realistic propositions. Although Singapore is not a claimant in the South China Sea disputes, it is deeply reliant on the freedom of navigation and respect for the international maritime law, including the United Nations Convention on the Law of the Sea (UNCLOS) for its trade and security. Following the arbitral tribunal ruling in favour of the Philippines against China in 2016, Singapore called on “all parties to fully respect legal and diplomatic processes, exercise self-restraint and avoid conducting any activities that may raise tensions in the region” (Capie 2020, 246). When Hong Kong authorities seized nine Singaporean Terrex armoured vehicles travelling from exercises in Taiwan, many in Singapore saw it as a Chinese punishment for their stance on the South China Sea issue. The incident was resolved successfully and the vehicles were returned (Marston and Liow 2018, 43–44). However, it showed the potential for a rapid decline in relations and the punitive measures China can implement if a country finds itself opposed to its interests. This is the predicament of all small powers *vis-a-vis* great ones, a fact Singapore’s leaders are acutely aware of. They have always shaped Singapore’s foreign policy in accordance with the words of Lee Kuan Yew: “In a world where the big fish eat small fish and the small fish eat shrimps, Singapore must become a poisonous shrimp” (cited in *AsiaGlobal Online* 2020).

China also proved able to divide the usually cohesive ASEAN members regarding the issue of the South China Sea. At the 2012 ASEAN Ministerial Meeting, Cambodia, a country with close ties to Beijing, blocked any reference to the South China Sea in the ministerial communique. This marked the first time in the group’s history that it had failed to issue a consensus statement. In

2016, China reached a consensus with Laos, Cambodia, Myanmar, and Brunei that the South China Sea disputes are between China and claimant countries and not the ASEAN as a whole (Capie 2020, 249–250). This move was characterised by Singapore’s Ambassador-at-large Ong Keng Yong as Chinese meddling in the internal affairs of the ASEAN (Chan 2016). Given Singapore’s reliance on the ASEAN as a way to exercise influence disproportionately large compared to its size, these kinds of divisions within the organisation are concerning for the city-state.

Since the further rise of China is inevitable, Singapore will continue trying to navigate it in a way most useful for the interests of the city-state. It has much to gain by cooperation with Beijing within the BRI. On the other hand, the South China Sea dispute is a challenge to its main security and trade interests, which Singapore will try to address primarily through the ASEAN and further development of security ties with the US. The decline in the US-China relations will continue, and Singapore’s main goal will be to keep the privilege of not having to pick sides, although it does move more towards Washington. The fears Prime Minister Lee expressed in 2017 when he said, “If America-China relations become very difficult, our position becomes tougher, because then we will be coerced to choose between being friends with America and friends with China”, may very well become reality (*Reuters* 2017).

## CONCLUSION

In Southeast Asia, hedging, a strategy focused on the creation of backup options for response to a risk, through both engagement with the potential threat and deterrence through a form of soft or indirect balancing, is used by regional countries to navigate the uncertainties of the great power rivalry and the rise of China, particularly in the second decade of the 21st century, the period when tensions in the region spiked due to the growing importance of the South China Sea disputes and the American pivot to Asia.

Some of the ASEAN countries, such as Malaysia, Vietnam, and especially Singapore, attempt to prevent these risks from growing into open threats by cooperating with China in the security domain, diplomatic engagement, and developing economic ties while simultaneously working on their relations with the US in an attempt to create fallback options. With the US-China rivalry expected to grow further and their interests to increasingly diverge, hedging will become harder to pull off for the regional countries.

Still, their interest is the balance of power in the region. They can benefit greatly from trade with China and the BRI, but also need Washington to check Beijing’s ambitions as China asserts its position as a great power interested in

exercising global influence. But they cannot fully rely on Washington. The Scarborough Shoal incident in 2012, when China kept control of these islands even after negotiations with the Philippines mediated by the US, shows the limits of American influence. Furthermore, the countries cannot take the US commitment to the region as a permanent arrangement, since global developments could incite Washington to embark on a pivot to another part of the world. On the other hand, China, due to its geographical location, is there to stay.

These considerations shape the strategies of the Southeast Asian countries. They will continue to hedge in an attempt to avoid the need to align with one of the sides. The ASEAN and unity within the organisation will be a big part of the continuous hedging. Finally, although the economic ties with China will strengthen further, regional countries will move closer to Washington if security concerns in the South China Sea threaten to escalate.

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## **СТРАТЕГИЈА ХЕЏИНГА КАО ОДГОВОР НА РИВАЛИТЕТ СЈЕДИЊЕНИХ АМЕРИЧКИХ ДРЖАВА И КИНЕ: СЛУЧАЈ ЈУГОИСТОЧНЕ АЗИЈЕ**

*Апстракт:* Државе Југоисточне Азије користе стратегију хеџинга, која ставља фокус на развој резервних опција кроз интеракцију са потенцијалном претњом и одвраћање кроз облике меког или индиректног уравнотежавања, како би адекватно одговориле на ризик који представља ривалство великих сила САД и Кине у региону. Рад се фокусира на понашање регионалних држава, посебно Сингапура као класичног примера, како би испитао развијајуће праксе хеџинга усмерене на стварање валидних одговора у контексту растућих тензија у региону. Аутор заступа став да је друга деценија XXI века донела два развоја који су повећали несигурност у региону: растуће тензије око Јужног Кинеског мора и амерички заокрет ка Азији који је иницирала Обамина администрација. Као одговор, државе Југоисточне Азије су биле подстакнуте да директније користе хеџинг кроз диверзификацију својих економских партнера и унапређење својих одбрамбених капацитета. Међутим, ривалство САД и Кине ће наставити да расте и биће теже успешно користити стратегију хеџинга.

*Кључне речи:* хеџинг; Југоисточна Азија; Сингапур; ривалство САД и Кине; Јужно Кинеско море.

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