THE UNITED STATES, CHINA AND SOUTH EAST ASIA:

CAN ASEAN FIND A NEW STRATEGIC EQUILIBRIUM?

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ADDRESS TO THE FOREIGN POLICY COMMUNITY OF INDONESIA
JAKARTA, INDONESIA
THURSDAY 8 NOVEMBER 2018

Thank you to Ambassador Dino Patti Djalal and the Foreign Policy Community of Indonesia for your kind invitation to deliver this address in Jakarta today. I've been asked to speak on the important question of how ASEAN navigates its future in a South East Asia increasingly pulled in different directions by the contending security and economic force-fields represented by Washington and Beijing. And in doing so, whether there is a new strategic equilibrium that can be reached in ASEAN's response.

AMERICA'S CHANGING STRATEGIC VIEW OF CHINA

U.S.-China relations have now entered into a new structural phase. Officially, the Americans describe this as a change from 40 years of "strategic engagement" to a new period of "strategic competition". The precise definition of strategic competition, as an operational rather than declaratory strategy, has yet to fully emerge. But we would be foolish not to recognize that there has been a fundamental systemic shift in U.S. sentiment towards China.

Notwithstanding the results of the mid-term elections in the United States, the uncomfortable truth for China is that the Trump Administration's China strategy has, by and large, received bipartisan support from the Democrats. Indeed, friends on Capitol Hill, both Republican and Democrat, reminded me recently that China is probably the only thing on which Republicans and Democrats agree these days.

China is now seen as not just a trade threat, as evidenced by the tariff measures adopted by the Trump Administration to rectify what President Trump describes as the bleeding of American industrial jobs to China. But also a much wider economic threat to the United States as well, as reflected by American reactions to China's declared intention to dominate global high technology markets by 2030 under the aegis of its Made in China 2025 strategy announced back in 2015.

Then of course there are the continuing American concerns over intellectual property theft, forced technology transfer from American to Chinese firms, and what the Americans also generally describe as "unfair" Chinese trade and investment practices. And of course beyond the economy, China is now seen in Washington across most of the foreign, security and intelligence policy establishment as a major, systemic security threat to American national security interests at home, as well as American foreign and security policy interests in the Asia-Pacific region, now reaching into the wider Indo-Pacific as well.

There is also a deep American concern about China's capacity, through its state-sponsored, aggressive high technology strategy to technologically leapfrog the current gap between Chinese and American military capabilities. This builds on well-entrenched American views about China's capabilities and activities in cyber warfare attacks against the United States. As well as the rapid development of Chinese artificial intelligence capabilities and its military applications through various forms of robotic warfare.

These concerns sit on top of more classical American concerns about China's naval expansion and modernization program, its land reclamation and militarization efforts in the South China Sea, and the unfolding of array of Chinese naval bases across the Indian Ocean as far as Djibouti in the Red Sea. The increasing pace and intensity of military and naval exercises between China and the Russian Federation have also galvanized the American national security policy establishment. Just as America and its Western allies have been taken by the intensity of Chinese and Russian political and diplomatic collaboration in the UN Security Council—from the Ukraine, through the Middle East, to North Korea.

In the United States, it's not only the political and bureaucratic establishment that has now formed deeply entrenched views about China representing a new strategic threat to the United States. They have been joined, by and large, by most arms of the American business establishment, who have grown frustrated in their efforts to export to, or invest in China, or to bring their profits out of China. This has been added to by a growing phalanx of American think tanks, academics and NGOs who have long fallen out of love with the possibility that decades of Chinese engagement would result in an increasingly liberal China, both politically and economically.

More fundamentally, the United States has concluded that America welcoming China into the international community of open economies with China's accession to the WTO back in 2002 has been used and abused by China to maximize Chinese state power, rather than conform its economic model to WTO norms through the processes of market liberalization over time. And rather than China becoming a more open economy, or a more liberal political system, the pace and direction of China's domestic market reforms has slowed significantly, just as the Chinese party leadership has now doubled-down in a fresh determination to consolidate the continuing political power of the party through the control mechanisms of its increasingly Leninist state.

For these reasons, deep in the American political psyche, there is a sense of profound "betrayal" by China—a view that China rather than becoming increasingly comfortable with the international community of democratic capitalist economies, has instead deceived the United States in the pursuit of a more traditional and indeed atavistic Chinese statecraft. And beyond all the above, there is of course an underlying awakening American consciousness that Chinese aggregate power, measured both economically and militarily, now begins to rival that of the United States, both regionally and globally, therefore presenting a challenge to the American international pre-eminence which it has not had to deal with for more than 100 years.

CHINA’S REACTION

China of course sees these American claims through a radically different lens. China would argue that its principal preoccupations at this stage of its economic development are domestic. China would argue that over the last five years, it has been preoccupied with cleaning up the Chinese Communist Party through the anti-corruption campaign. And as for China “doubling-down” on its Marxist/Leninist roots, China politely draws the international community’s attention to the fact that it has never claimed to be anything other than a Marxist/Leninist state. It has never pretended that it would become a democracy. It says so in its constitution. And that to have concluded otherwise has been a figment of the American imagination.

China also insists that it has also preoccupied with maintaining its national territorial integrity. Hence its positions in Tibet, Xinjiang and its policies towards Taiwan. As well as the reinforcement of its historical claims both in the East China Sea and the South China Sea. And China would also assert that this is nobody else’s business apart from its own.

As for its economy, China points to its record after 40 years of “reform and opening”, and the fact that it has brought 800 million Chinese people out of poverty, which it would legitimately regard as an historically significant achievement. It would also claim that the framing of China’s economic system (what we in the West call an authoritarian capitalist system) is a matter for China itself to determine. And nobody else.

Indeed China claims that it has achieved the right balance between an authoritarian political culture on the one hand, and significant levels of market-based economic reform on the other. It would also argue that rather than being a threat to the global economy, were it not for China’s economic achievements, global growth over the last 20 years would have been significantly stunted, not least economic growth in Asia. China would also argue that its principal preoccupation with its national mission to achieve middle-income status by 2021 and advanced economy status by 2049, represents the legitimate aspirations of any nation-state worth its salt and that it is understandably the single-largest focus of China’s political leadership, rather than any wider regional or global ambition.

As for China’s policy towards its neighbors, China wishes to establish the most benign relationships possible relations which are maximally accommodating to China’s core national interests. That’s why China places particular priority on its 14 land borders and its desire to achieve a positive relationship with each of those states. China’s recent efforts to deescalate tensions with both India and Japan, where it had a significant conflicting territorial claims, should also be seen through this prism.

From the Chinese historical perspective, China has been the recipient of foreign invasions from the Northeast, from Japan, from Manchuria, from Mongolia and elsewhere across its vast northern borders. It would also argue that China has a limited history of foreign territorial expansion, although this record sits a little uncomfortably with the near doubling of China’s own territorial land mass during the Qing dynasty.

As for the China’s continental periphery, it would argue that the Belt and Road Initiative presents a strategic opportunity to enhance infrastructure investment across the vast expanses of Central Asia, South Asia, the Middle East, West Africa, and Eastern Europe. It wishes to transform this continental artery into a major economic growth corridor for the future—both to provide fresh markets for its own domestic financial, construction and energy enterprises, as well as lifting the economic growth prospects of this vast Eurasian region, thereby reducing what it also sees as the threat to its western regions from the threat of militant Islamism in the future.

As for China's Maritime Silk Road, extending across archipelagic South East Asia, through the Indian Ocean and into the Red Sea, China sees this in a similar light. China is also interested in seeing this vast landmass become a new market for its goods and services. It sees this, using China's own phrase as a "win-win" opportunity for the countries of the region, though this has been complicated by recent controversies concerning various projects, most spectacularly in Sri Lanka and the transfer of ownership of a Chinese port development to Chinese hands under a 99-year lease after Sri Lanka was unable to repay its loans to China.

China also sees the BRI as a legitimate expression of its geopolitical interests in creating a wider, benign continental periphery to the Chinese nation state. To achieve this, China wishes to become the indispensable economic partner and power to the vast array of countries that make up this wider region.

On China's maritime periphery, its leadership sees adversaries and threats at every turn. It sees a vast array of U.S. military alliances stretching from South Korea through Japan, the Philippines and Australia. China challenges the political legitimacy of these alliances and asserts that they reflect the resuscitation of outdated Cold War sentiment when the Cold War already ended a quarter of a century ago. China's diplomacy in the wider region is dedicated towards weakening and or removing these alliances altogether, if and when that proves to be political possible. China also sees these alliances as anchoring U.S. strategic power in East Asia and the West Pacific.

On this score, China feels threatened by the forward deployment of U.S. military forces across the wider region, from South Korea and Japan in the North to Singapore and Darwin in the South, together with America's own forward deployments in Guam. China believes it is threatened by the forward-leaning posture of U.S naval and air forces across its immediate maritime periphery, most particularly through the regularity and intensity of surveillance flights by U.S. reconnaissance aircraft along its eastern coast. And central to China's concerns on its maritime periphery is what it perceives to be continued American strategic efforts to frustrate what China sees as its legitimate political aspirations to bring about political reunification with Taiwan.

A central organizing principle for China's own military, naval and air expansion modernization is to make it increasingly difficult for the United States to come to Taiwan's military assistance in the event of a security crisis across the Taiwan straits. In other words, China seeks to alter the balance of forces across the Taiwan Straits in such a manner as would cause the United States to think twice about deploying American military assets in support of Taiwan in any future military contingency. Indeed China sees this is a necessary objective if China is to secure political reunification with what it continues to regard as its renegade province —ideally without ever firing a shot. It's for these reasons that China would argue that the continued expansion of its military capabilities are necessary in order to confront the American threat not just to China's interests in relation to Taiwan, but also to defend the territorial integrity of the Chinese mainland in any wider Taiwan contingency.

Furthermore, on its maritime periphery, China continues to deploy significant naval, military and air assets in support of its territorial claims in the East and South China Seas. This is unlikely to reduce over time. China believes it achieved considerable success on these questions during the life of the Obama Administration. And having reclaimed, and then militarized, a number of islands in the South China Sea, China will now prosecute to the maximum a diplomacy, both through bilateral and multilateral negotiations with the affected ASEAN states, to bring about incremental recognition of China's territorial claims over time.

China will therefore continue to seek to confront any American or allied challenge to assert its freedom of navigation rights through the South China Sea. In terms of future military contingencies, the South China Sea remains the most volatile of all military contingencies that China faces with the United States into the future. It is where Chinese and American vessels and aircraft rub up against each other. In the East China Sea, the friction point is between China and Japan. Across the Taiwan Straits it's between China and Taiwan. Whereas in the South China Sea, it is with America directly. That's why this remains the most dangerous theatre of all—not only in terms of the growing statistical probability of military incidents, but also in terms of the potential for subsequent political and military escalation into crisis, conflict or even a limited conventional war.

Finally, China would argue that in terms of the institutions of the global order, whether it's the United Nations, the Bretton Woods Institutions, or the G20, the time has come for China to exercise a greater voice - not only the direction of these institutions in the future, but also in terms of their staffing, design and operational behavior. This has been reflected in a number of recent authoritative statements by the Chinese leadership.

Of course beyond these traditional institutions of the current American-led global rules-based order, China has also sought to create new institutions of its own. These have included both the BRI, but also the AIIB, and the New Development Bank. Other such institutions are likely to follow. Because of the Trump Administration's general disinterest in the institutions of the global multilateral order, it is important to note that China's new activist policies across these institutions of global governance have been encountered much less direct response from the United States than other instruments of China's growing international power. Other members the international community, however, have experienced first-hand the growing dynamics of this move towards a more activist Chinese multilateral.

China would argue that given its relative economic size as of 2018, and its prospective size over the decade that lies ahead, that it is only fair and reasonable that China begins to exercise greater direct influence over the institutions of global governance. The core question that this presents the international community, however, is more complex than this simple proposition. A greater voice for China within the framework, institutions, habits and norms of the *existing* global architecture is one thing. But China beginning to change the architecture itself, and to create *new* institutions outside that architecture, particularly institutions which exhibit different behavioral characteristics, has generated considerable debate around Asia and the around the world.

These nonetheless represent the core dimensions of China's world view under Xi Jinping. It is also the ideational framework through which China would respond to the claims now being made against it by the United States as the US begins to adjust its strategic course in response to China's continued rise.

CHINA’S CHALLENGES

It would be wrong, however, to assume that all this represents plain sailing from China’s perspective. Indeed, when China views both its domestic and international environment from the perspective of its politburo, it sees difficulties, threats and challenges in most places that it looks. China, for example, confronts a softening economy at home. It also, in light of President Trump’s new China strategy, and Vice President’s Pence’s recent call to arms against China, faces a growing range of challenges abroad as well. There is a danger that we tend to regard China as an unstoppable economic juggernaut, driven by the ever-onward march of an all-seeing, all-knowing political monolith. The reality is more complex than that.

China faces a range of major domestic economic challenges. These include the slowing of the market reform agenda first announced in 2013. As a result, the Chinese private sector, the principal generator of China’s recent economic and employment growth, has felt increasingly squeezed out by Chinese SOEs. Furthermore, China’s recent deleveraging campaign—to reduce the macro-economic and macro-financial threat represented by its 280% debt to GDP ratio—has also constrained the activities of China’s otherwise buoyant private sector. The anti-corruption campaign, which has now run for five years, has caused both Chinese private enterprises, and the official class responsible for regulating them, to adopt a much more cautious approach to the approval of new projects. Furthermore, there has been a hardening of the role of the party in the overall regulation of China’s private sector. And all this was before the impact of Donald Trump’s trade war against China.

The cumulative effect of all these variables has been a significant downward spiral in Chinese business and investor confidence in the course of 2018. That is why, for example, we have seen increasingly urgent calls in recent weeks, both by President Xi Jinping himself, and his Vice Premier responsible for the economy, Liu He, for a resuscitation of private sector activity in the Chinese economy. The extent to which Chinese private entrepreneurs respond to these calls remains to be seen. But the calls themselves reflect a degree of central political anxiety about the real state of the Chinese domestic economy as private sector activity begins to significantly slow.

This brings into stark relief the likely future trajectory of the U.S.-China trade war. As noted above, this has already been one of the contributing factors to a dampening of Chinese domestic business confidence. Remember the mathematics tends to speak for itself: the United States is a $20 trillion economy which sells $130 billion of goods and services to China each year. By contrast, China is a $12 trillion economy which sells $500 billion of goods and services to the United States each year. A trade war, if it extends across all exports, and is not levied at a marginal rate but at a full 25% tariff rate, will harm China more than the United States. At least in the near term.

In the longer-term, of course, a 25% tariff across all Chinese exports to the United States would however have a significant inflationary effect on the American economy, directly affecting President Trump’s own blue collar constituency, who depend on affordable Chinese imported consumer goods to maintain their own standard of living. It is doubtful, therefore, that President Trump will want to see the further deterioration in the trade war through 2019 and 2020 for fear of what the wash-through impact would be on U.S. consumer prices, inflation, and the further tightening of U.S. monetary policy.

For these reasons, barring the interference of other external political factors, including the impact of the U.S. mid-term elections, as well as any further weakening of the Trump presidency as a result of the Mueller investigations on Russia, there should be a reasonable convergence of mutual American and Chinese interests to bring about a negotiated settlement to the immediate trade war when the two leaders meet at the G20 Summit in Buenos Aires later this month.

As for the other outstanding tensions in the U.S.-China economic relationship, concerning intellectual property, forced technology transfer, and Chinese state industry policy promoting Chinese high technology dominance in the future, it is more difficult to see how a comprehensive deal could readily be struck. A more likely outcome for Buenos Aires, therefore, would be for a short-term deal on significantly reducing the trade deficit in exchange for America removing the punitive tariffs it has already imposed; combined with a time-limited process, perhaps across 6-12 months, dealing with some but not all of the structural reforms the US is demanding for the broader trade and investment relationship.

However, it is difficult to see how such an outcome would necessarily produce any fundamental respite to the general deterioration in the U.S.-China relationship at a strategic level that I referred to at the outset of my remarks. Both Chinese and American strategic thinkers are increasingly as one in their conclusion that we are now facing a deep structural shift in the overall terms of the bilateral relationship for the long-term future, and that this structural shift is driven by a deep cleavage in the two countries' fundamental political, economic and national security interests and values.

If this broad macro-strategic trend indeed proves to be the case, it also has fundamental implications for the rest of us who seek to carve out our national futures in dealing with these two giant economies and militaries that weigh so heavily on the strategic environment of our wider region.

IMPLICATIONS FOR ASEAN

So where does all this leave the countries of the South East Asia? The difficulty for ASEAN is that South East Asia has now become the "New Great Game" for strategic influence between the world's two major great powers. It looms as the principal terrain in which the political, economic and diplomatic battle is being fought for the next quarter century for strategic dominance. South East Asia lies in the swing position, both geographically and politically, between China on the north-east of the Asian landmass, and India in the south west. For ASEAN, this means, unfortunately, that you are now destined to indeed live in interesting times - as China seeks a more benign southern flank more willing to accommodate Chinese strategic interests, and as America seeks to preserve the sea-lanes of archipelagic South Asia for freedom of international navigation, as well as its own independent freedom of strategic manoeuvre.

I have been a life-long supporter, and enthusiastically so, of the achievements of ASEAN. ASEAN has transformed a region which half a century ago was deeply divided on strategic and ideological grounds, into one which has achieved a remarkable degree of political, economic and strategic unity. Furthermore, this has been accommodated across South East Asia despite the disparate domestic political systems represented by ASEAN's ten member states. ASEAN, therefore, largely through its own efforts, has turned a region of deep strategic instability into a region of long-term strategic stability, which has in turn facilitated decades of growing economic prosperity

The grave danger which ASEAN faces, of course, is that the increasingly binary nature of the U.S.-China relationship in East Asia and the West Pacific begins to divide ASEAN into pro-American and pro-Chinese camps. This is not in ASEAN's interests. Nor is it, in my view, in the wider region's strategic interests. Nor its economic interests. A divided region breeds instability. Whereas a reasonable equilibrium between the region on the one hand and its dealings with the great powers on the other, provides ASEAN and its member states with maximum freedom of policy choice, rather than being captured or constrained by the overwhelming interests of one external power or another.

The practical question, therefore, which arises, is what can be done? This of course is a matter for the ASEANs themselves. There's already been much deep strategic thinking being done on this question, both here in Jakarta and elsewhere across South East Asia. Dealing with large external powers is not new to South East Asia's history. We've seen it in ancient times. We've seen it during the Cold War. And of course now we see it with both the United States and China.

ASEAN's consistent strategic response to external challenges in the past has been anchored in two core principles: first, safeguarding its internal unity, and second the consistent assertion of its doctrine of ASEAN centrality. These have shaped not only the conduct of the intra-regional affairs of South East Asia itself, but also ASEAN's engagement with wider East Asia as well. We've seen this reflected with the institutional evolution of the various ASEAN-Plus arrangements, the ASEAN Regional Forum, and of course the East Asia Summit.

I argue the time has come for ASEAN, consistent with these dual traditions of internal consensus and external centrality, to become considerably bolder in its aspirations than in the past. Indeed, there is a danger that ASEAN has become too consensual, too passive and too inert for its own good. The truth is standing still is to go backwards. In fact, the future vitality of ASEAN itself depends on its ability to actively navigate its institutional future amidst a rapidly changing external strategic environment. Unless ASEAN sets the terms for its own engagement with the wider region, those terms will be increasingly set for it by the great powers.

First, ASEAN must maximize its efforts to develop and maintain common positions in dealing with the external powers. In China's case, that includes the South China Sea in general, and the negotiation of the Code of Conduct in particular. In America's case it may mean ASEAN's posture on future basing options for particular elements of the US fleet within the South East Asian region. Whatever the nature of the challenge, on major matters of regional policy concern, ASEAN must make greater recourse to the "ten minus X" formula if consensus is routinely denied by a small minority of states, or even just one smaller country. The politics of the "lowest common denominator", when taken to the extreme, can render the entire institution dysfunctional.

Second, ASEAN now needs to look boldly out to the rest of the wider region, rather than focus exclusively on the formidable challenges that lie within. In doing so, ASEAN needs increasingly to look both east and west—to both the Pacific and the Indian Ocean. Indeed, the time has come for ASEAN to evolve its own strategic concept of an Indo-Pacific future. Of course, this has been part of ASEAN's traditional thinking as well. But rapidly changing strategic realities require that this work now be intensified. ASEAN’s geographical location suggests that this should be the case anyway. Half the member states of ASEAN face the Indian Ocean. Just as more than half also face the Pacific. ASEAN also sits astride the sea transportation corridor between Northeast Asia, South Asia, the Middle East, Africa and Europe. Then of course there is the question of India itself, a member state of the East Asia Summit (EAS), which for some time now has prosecuted a policy of “looking east” or “acting east.” And whether we like it or not, both China and the United States have deep interests in their futures of both oceans as well. So unless ASEAN evolves its own strategic concept of the future shape of a wider Indo-Pacific region, then ASEAN will simply be left with contending strategic conceptions of their wider region from both the United States and China.

Third, this raises the question of what the content of such an ASEAN strategic concept of the Indo-Pacific might be. Ten years ago, I launched the concept of an Asia-Pacific Community, representing the evolution over time of the EAS, with all the member states sitting around one table evolving over time the habits, culture and practices of security policy and economic collaboration across the wider region.

Last year, as President of the Asia Society Policy Institute, I chaired an international commission which sought to develop this concept further, made up of former foreign ministers Marty Natalegawa of Indonesia, Kim Sung-hwan of South Korea, Yoriko Kawaguchi of Japan and Igor Ivanov of Russia; former national security advisers Shivshankar Menon of India and Tom Donilon of the United States; and Wang Jisi, a member of the foreign policy advisory group of the Chinese foreign ministry. This was done in a paper entitled “Preserving the Long Peace in Asia: The Institutional Building Blocks of Long-Term Regional Security”.

I believe the ideas alive in that commission report could be adapted to ASEAN’s own internal deliberations, and perhaps Indonesia’s as well, on ASEAN’s vision for the future of the Indo-Pacific region. The proposals contained in the commission’s report are practical, focused on building different forms of security policy collaboration over time, from counter disaster management, through military transparency, through to other forms of confidence and security-building measures as well. Such a concept is not designed to replace the existing hard security arrangements within the region, but instead to reduce the brittleness of those arrangements and to create, over time, a greater sense of common security across the wider region. Such a concept, I believe, meshes with ASEAN’s intrinsic DNA.

Most critically, it also builds on an already-existing ASEAN institution, the EAS, which was established under the Kuala Lumpur Declaration and which thirteen years ago already agreed a mandate for a pan-regional institution that embraces both security *and* economic cooperation: in other words, nothing needs to be add to the existing mandate of the EAS. Furthermore, the commission’s report delivers recommendations for a long term Asia Pacific Community, or even an Indo-Pacific Community, which also builds on the Bali Principles enunciated by EAS leaders in 2011. And it wraps in the institutional role of the ASEAN Defence Ministers Meeting-Plus, which already brings together the eighteen defense ministers annually from across the region.

Importantly, however, it takes the EAS to the next phase of its institutional development. Unless this is done, there is a danger that the EAS, now thirteen years after its inauguration, will wither away through lack of a substantive institutional function, other than meeting from time to time.

ASEAN can no longer afford to rely exclusively on its pan-regional convening power. It must also begin to elaborate its vision for the wider region beyond South East Asia if it is to credibly sustain its long-standing doctrine of ASEAN centrality. Just as it must now build more robust institutions of pan-regional security, economic and political collaboration for the future. And to do so now within the wider strategic remit of the Indo-Pacific region as well.

CONCLUSION

All this, however, is contingent on countries like Indonesia playing an even greater role in the future development of ASEAN's institutional machinery. It is also contingent on countries like Australia working constructively with Indonesia on the future institutional architecture of the wider region. Such constructive relationships can be impeded by irresponsible policy positions being adopted by Australia, itself a G20 country with a responsibility therefore to have considered positions on the full range of global policy issues. This includes not only the issues of our own region. But also those of other regions, including the Middle East.

As a responsible middle power globally, and a significant power within our own region, we must always prosecute a principled foreign policy. Successive Australian governments have done this over many decades. Our foreign policy settings must always be anchored in our enduring national values and our enduring national interests. This applies not just only to the policy we adopt on the major challenges facing our own region. But also on the major challenges facing the wider international community. We have recently served as a non-permanent member of the UN Security Council. Furthermore, Australia has also recently been elected to the UN Human Rights Council.

Therefore, what Australia has to say on critical international policy questions is not only important as an articulation of how we see our own view. Our views are also, to the surprise of many in Australian domestic politics, taken seriously in the wider world as well. That also includes questions concerning the future of the Middle East and the Middle East peace process. The Middle East peace process has long dealt with the so-called "final status" issues arising from the two-state solution, anchored in the underlying principle of a permanent Israeli state and permanent Palestinian state both lying in secure international boundaries. The final status questions yet to be finally agreed concern the adoption of 1967 boundaries plus appropriate land swaps between both sides; the future of the right of the return of Palestinian refugees; the future of Jerusalem as the capital of Palestinian and Israeli states; as well as the future custodianship of the holy sites.

The Trump Administration's decision to effectively abandon the two-state solution and to unilaterally move the US Embassy from Tel Aviv to Jerusalem does fundamental violence to the Middle East peace process. This may be the preferred position of Netanyahu's far right-wing government in Israel. But it does not necessarily represent the broader position of the Israeli parliament and people. There is a grave danger that the further alienation of the Palestinian people from a long-term homeland of their own in a permanent Palestinian state will result in further radicalization, and over time the launching of a third intifada. That is why successive Australian Governments have long supported the two-state solution. And why we have supported the Australian Embassy in Tel Aviv and refused to embrace pressure from Prime Minister Netanyahu to move our embassy to Jerusalem.

It is regrettable that Prime Minister Morrison has chosen to depart from the long-standing Australian bipartisan consensus. It appears that he has done so to appease the interests of elements of the far-right Israeli lobby in Australia for domestic political purposes. This is not the responsible course of action of a respected global middle power as seen through the councils of the world. Indeed it is sacrificing Australia's international political credibility for petty local partisan advantage. As a former Prime Minister and Foreign Minister of Australia, I would call on Prime Minister Morrison to abandon this foolhardy position. There should be no "process" for him to reach the decision that all his predecessors have reached over many decades, including Prime Minister Howard. It's time to put this unfortunate saga behind us.

The future of our immediate region will be determined more acutely by the future posture of China and the United States towards South East Asia as well. China's strategy towards the region is relatively clear: namely to become the ASEAN states' indispensable economic partner through the combined deployment of trade, foreign direct investment, the long-term role of its capital markets and direct economic aid, and through them to enhance China's political and foreign policy leverage across the region over time.

By contrast, US strategy towards ASEAN today is far less clear. The Pentagon's policy of strategic engagement in South East Asia, and with most of the militaries of the region, stands out as the exception. The State Department, by contrast, is reeling from budget cuts and the resulting diminution of its diplomatic footprint. And USAID is being cut to pieces. Most crucially, there is no American alternative to China's Belt and Road Initiative and the roll out of major infrastructure initiates across the region. This represents a fundamental gap in US strategy for which there is nothing in the policy pipeline. In fact, the only alternatives offered to the developing countries of South East Asia on infrastructure investment are the investment vehicles offered by Japan and to some extent India, although these do not approach the sheer scale of the BRI.

If and when the US returns more fully to the regional table, there is also a danger that regional adjustments and accommodations to Chinese realities will have already taken place. The region will not be "snap-frozen" in time for several more years while the United States, through its domestic political processes, refines its future global role. In some respects, the cold hard reality is that the caravan continues to move on. How precisely the US re-engages South East Asia in two or six years' time remains an open question. Whereas in the meantime, regional powers are likely to continue to hedge against

None of the challenges I have described in this subject for ASEAN are easy. They are all difficult. But most of the systemic challenges international relations are by definition difficult. Particularly when we are at a time of fundamental geo-strategic disruption, driven in large part by the changing structural relationship between these two giants of the twenty-first century: China and the United States.

I nonetheless believe there is a way in which ASEAN can help navigate the common peace and common prosperity of our wider region, and doing so within the principles and practice of the existing global rules-based order. But this will not be achieved by ASEAN standing still. In fact being static is likely to prove to be the most debilitating position for ASEAN to adopt for the future. Because then you become increasingly the "price-taker" of the terms of regional engagement set by others outside the immediate region. Rather than setting your own strategic course and shaping the conditions through which other powers engage you.

Through Indonesia's own efforts as ASEAN's largest power and its only member of the G20, and through your active membership of ASEAN, Indonesia can indeed provide a positive contribution to the Indo-Pacific region of the future.

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