

Leveraging U.S. Foreign Assistance in Southeast Asia

Wilson Beaver and Sydney Hudson

KEY TAKEAWAYS

Foreign assistance is a tool of statecraft and should support U.S. national security goals.

Foreign assistance should focus on areas of competition with the People's Republic of China, like Southeast Asia.

Foreign assistance that does not support national security interests and/or produces no measurable effect should be cut.

Southeast Asian countries find themselves in a peculiar and volatile position in the face of the Chinese bid for regional hegemony. These states must balance the conflicting appeals of domestic infrastructural advancement in the form of China's Belt and Road initiative (BRI), frustrations and anxieties toward China's belligerent actions in the South China Sea—and the resulting concerns over their own territorial integrity and sovereignty—and the desire for economic cooperation and security guarantees with the United States and Western partners.

Considering the complex geopolitical situation of Southeast Asia, the United States should not assume that Southeast Asian partners will place themselves firmly in one camp or the other. It should instead be comfortable pursuing cooperation despite their often close ties to the People's Republic of China. In fact, the

This paper, in its entirety, can be found at <https://report.heritage.org/ib5367>

The Heritage Foundation | 214 Massachusetts Avenue, NE | Washington, DC 20002 | (202) 546-4400 | heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

United States should remain engaged in order to present these important countries an alternative to Chinese influence, and it should encourage regional allies such as Australia, India, and Japan to do the same.

Southeast Asia boasts a large and growing proportion of the global economy, growing between 4 percent and 5 percent over the past two years.¹ Amassing nearly \$2 trillion in international exports annually, this region collectively constitutes the fifth-largest economy worldwide.² Collectively, the nations of the Association of Southeast Asian Nations (ASEAN) comprise the United States' fourth-largest goods trading partner, accounting for around \$360 billion, or roughly 9 percent of total United States imports, each year.³ Top ASEAN exports to the United States include electrical and non-electrical machinery, knit and woven apparel, furniture, bedding, rubber, medical instruments, and footwear.⁴ U.S. foreign direct investment in ASEAN surpasses \$320 billion.⁵

In addition to its economic significance, Southeast Asia is of critical geo-strategic importance. The Strait of Malacca is a vital maritime chokepoint for global supply chains, serving as the gateway between the Pacific and Indian Oceans, where nine of 10 of the world's busiest seaports are located.⁶ Around \$3.5 trillion traverses the strait yearly.

Moreover, the Strait of Malacca is essential for U.S. naval operations in the Indo-Pacific. It is in the national security interests of the United States that the strait remains free and open.⁷ Working with partners in Malaysia and Singapore, the U.S. Navy conducts regular exercises, and a rotational U.S. military presence acts as a deterrent for piracy and other maritime trade threats.⁸ As about 60 percent of global gross domestic product passes through the region each year, disruption of trade through Malacca would have dramatic global economic consequences, not only for Asia but also for the United States and its allies.⁹

While economic development is the primary concern for many ASEAN members, mutual national security interests also form a significant basis for security cooperation. The United States has long-standing defense alliances with the Philippines and Thailand and deep defense cooperation with Singapore, in particular.

Lack of Prioritization

The U.S. Agency for International Development (USAID) and the U.S. Department of State do not currently prioritize aid to the Indo-Pacific. Despite some of the good work that is being done, far more foreign assistance is currently provided to other regions of the world. For fiscal year

2022, \$70 billion in financial obligations for foreign assistance was obligated, with the majority (\$41.51 billion) of this funding being managed by USAID.¹⁰ This foreign assistance is broken down into the categories of humanitarian assistance, global health, economic development, peace and security, program support, democracy, human rights, governance, education and social services, and the environment. Out of \$70 billion, only roughly \$2 billion is allocated to East Asia and Oceania and \$3.1 billion for South and Central Asia. In comparison, \$16 billion is allocated for Europe (mostly to support Ukraine), \$11 billion in mostly humanitarian assistance for the Middle East, and \$17.7 billion for sub-Saharan Africa.

U.S. foreign assistance is clearly not currently allocated in terms of supporting national security goals. A more strategically aligned foreign assistance program would focus far more of its efforts on Southeast Asia, a region in which China has taken a strong interest.

Foreign Assistance as Statecraft. The focus overall should shift to developmental financing, especially through the U.S. International Development Finance Corporation (DFC). The DFC is the primary development tool the United States has to compete with China's Belt and Road Initiative and seeks to leverage American capital to out-invest China. Worldwide, China has dramatically scaled back its state lending due to its own internal problems and growing debt repayment problems from previous bad loans, leaving an opportunity for the next administration to step in, leveraging DFC in a big way in regions of competition with China.

China's state lending is scaling back worldwide, but this may ultimately result in a more targeted approach where China spends less in regions of secondary importance and focuses its efforts on its near abroad. China has certainly been increasing its engagement with Southeast Asia in recent years in a variety of ways. To give just two examples, the Chinese navy has established its second overseas base at Cambodia's Ream Naval Base, and China recently completed a nearly \$6 billion railroad infrastructure loan project in Laos.¹¹

Chinese engagement seems to be having an effect. In a recent opinion poll of people living in ASEAN nations, when asked whom Southeast Asia should align with if forced to choose, a slim majority selected China over the United States. In 2023, 61 percent of respondents had chosen the United States, compared with 39 percent choosing China.¹² Opinions toward the United States most sharply declined in Cambodia, Indonesia, Laos, and Malaysia.

A different question invited respondents to rank their top three international crisis concerns. Almost half cited the war in Gaza as a top concern, exceeding the 40 percent listing tensions in the South China Sea.

In Muslim-majority countries Brunei, Indonesia, and Malaysia, the Gaza war was the top concern for 79 percent. Unsurprisingly, these countries also saw steep declines in support for the United States.

The recent decline in ASEAN backing for the United States does not stem exclusively from ideological differences or anger at foreign military engagements but from also the vast Chinese reach into the region. Chinese influence through investment and trade remains the “most influential economic power” in Southeast Asia according to 60 percent of respondents, with the United States trailing at a meager 14 percent.

Yet, according to this poll, the United States retains public support in several key ASEAN states, including the Philippines, Singapore, Vietnam, and, somewhat more surprisingly, Myanmar. The U.S. presence in the Philippines has strengthened with the expansion of the Enhanced Defense Cooperation Arrangement to include access to four new military facilities.¹³ The visit by President Biden to Hanoi in 2023 elevated the U.S.–Vietnam relationship to a “comprehensive strategic partnership,” with pledges to invest in innovative semiconductor supply chains and expand bilateral joint research initiatives.¹⁴

Several Southeast Asian states still lean toward the United States out of concern over China’s bellicose tactics against their fishermen and military personnel. China’s navy and coast guard have employed axes, tear gas, knives, and water cannons against Philippine and Vietnamese ships in recent months.¹⁵ Several of these confrontations have resulted in significant property damage and even personal injury.¹⁶ China employs coercive tactics to varying degrees against others in the Indo–Pacific, including India, Japan, and Taiwan.

China’s economic largesse does not always endear locals to Beijing. Cheap Chinese imports can have a negative effect on local businesses, and governments sometimes respond by imposing protectionist measures against Chinese imports.¹⁷ ASEAN member states must balance trade agreements with China with the protection of their own local business interests. The textile industry in Indonesia is struggling due to Chinese imports, as is the ceramics industry in Thailand.¹⁸ One northern province’s number of ceramics factories has dropped from 328 to just 89 over the past two years.¹⁹ Chinese e-commerce platforms such as Temu, paired with illegally imported products and legal loopholes for foreign investment, allow China to undercut local products and dominate markets throughout the region. Citing tariffs that the United States has imposed on China, in October 2024, Indonesia’s trade minister proposed tariffs on a wide range of goods as a means to protect Indonesian businesses from cheap Chinese imports.²⁰

Humanitarian Assistance. Humanitarian assistance provides one potent means of diplomacy that has been used to great effect in Southeast Asia. Consider a Pew Research study on Indonesian public opinion in the early 2000s.²¹ Muslim-majority Indonesia’s approval rating toward the United States had dropped drastically to a mere 15 percent in 2003 following the U.S. invasion of Iraq. However, in 2005, following the United States’ substantial disaster relief provided to Indonesia and others in the wake of the 2004 tsunami, support for America more than doubled to 38 percent. Indonesians in tsunami-ravaged areas saw an up-close example of America as a force for good as U.S. servicemembers delivered lifesaving humanitarian relief.

In the wake of the 2004 tsunami disasters, the United States was the primary source of humanitarian aid in the region. While China donated only around \$2.16 million to its neighbors in relief efforts, the U.S. government spent \$841 million in emergency aid and long-term recovery projects.²² Further, private American citizens, corporations, and foundations collectively donated \$3.16 billion in disaster relief.²³ Within days of the disaster striking, the United States, along with a coalition of humanitarian organizations, enacted Operation Unified Assistance. The U.S. military provided nearly immediate assistance that saved hundreds of thousands of lives.²⁴ This decisive, generous response from the U.S. military, American humanitarian organizations and their global partners, and private citizens and organizations inspired goodwill toward the West among many affected by the tragedy in the Indo–Pacific.

While individual Americans and private U.S. organizations act out of a desire to help others, humanitarian initiatives funded by the federal government should ultimately serve a function within an American grand strategy. As evidenced by the 2004 tsunami crisis, humanitarianism can effectively shift international perceptions and craft stronger relationships where they may be wavering. There is bipartisan agreement within the U.S. government to focus on the Indo–Pacific. Therefore, U.S. government humanitarian initiatives should reflect this priority and focus on the Indo–Pacific as well.

USAID is the United States’ largest humanitarian agency for relief and development. At the forefront of its mission is the advancement of “U.S. national security and economic prosperity.”²⁵ The President’s budget request for fiscal year 2025 requests \$2.1 billion for investment in the Indo–Pacific region and an additional \$400 million for the Countering the People’s Republic of China (PRC) Influence Fund (split between USAID and the State Department). Given the amounts allocated to other areas such as climate action (\$3 billion) and Middle East relief efforts (\$7.6 billion),

there does not seem to be a concerted effort to prioritize the Indo–Pacific at USAID. Resources are always finite, and budgets throughout the federal government should reflect the most important national security and economic interests of the American people.

Shifting humanitarian focus to Southeast Asia could center around a variety of key crises that the region faces. ASEAN nations are highly susceptible to a myriad of natural disasters, including typhoons, earthquakes, volcano eruptions, monsoons, and flooding.²⁶ Southeast Asia is also a hotbed of human trafficking.²⁷ Researchers estimate that around two-thirds of global human trafficking victims originate from the region, ultimately facing forced labor, sexual exploitation, or coerced marriage.²⁸

Recommendations

- **Align funding choices for foreign assistance with U.S. national security objectives.** Countering China, especially in Southeast Asia, should be the primary goal of USAID in terms of both strategy and funding choices. The amount of funding being spent on foreign assistance in the Indo–Pacific should be increased at the expense of funding in other regions.
- **Spend foreign assistance dollars wisely.** U.S. taxpayers are right to be suspicious of foreign assistance programs, and waste or misdirected funds at USAID undermine trust in the U.S. government’s ability to wisely spend the public’s money on national security goals. Reforms from the first Trump Administration were effective moves and should be continued, especially by streamlining bureaucracy at USAID and eliminating money spent on overhead for nongovernmental organizations acting as middlemen. Instead, direct engagement with local organizations should be the objective.²⁹
- **Focus on developmental assistance through DFC.** As China scales back developmental assistance through BRI, there may be an opening for the U.S. to engage in win-win developmental projects throughout the developing world. At the same time, the U.S. should ensure that it does not lose out in regions of primary focus in the Indo–Pacific, like Southeast Asia, where China may refocus its efforts.
- **Continue to leverage humanitarian aid as a tool of statecraft in Southeast Asia.** Humanitarian aid by the U.S. military and others

in Southeast Asia has demonstrated repeatedly to local populations and governments that the United States is a more reliable partner than China.

Conclusion

As great power competition with China flares, the United States should not take relations with Southeast Asia for granted. In several key Southeast Asian states such as Malaysia and Indonesia, public support for America is waning, with unpopular foreign policy decisions in the Middle East and the flood of Chinese investment causing many to prefer China over the United States. However, Chinese aggression and coercion against many of these same nations, such as the Philippines and Vietnam, undercuts China's soft-power offensive in the region and turns public opinion against Beijing.

America should bolster cooperation with the region, strategically wielding all tenets of statecraft. The United States should reevaluate its humanitarian assistance and economic engagement strategies and priorities, channeling its efforts toward the greatest threat to national security—China—by strengthening ties with Southeast Asia.

Wilson Beaver is the Policy Advisor for Defense Budgeting in the Douglas and Sarah Allison Center for National Security at The Heritage Foundation. **Sydney Hudson** is a member of the Young Leaders Program at The Heritage Foundation.

Endnotes

1. Hannah Denson, "The Parts Within the Whole: Understanding Southeast Asia's Economies," Lowy Institute, March 1, 2024, <https://www.lowyinstitute.org/the-interpreter/parts-within-whole-understanding-southeast-asia-s-economies>. (accessed October 26, 2024).
2. Observatory of Economic Complexity, "ASEAN," https://oec.world/en/profile/international_organization/association-of-southeast-asian-nations (accessed October 25, 2024).
3. Office of the United States Trade Representative, "ASEAN," <https://ustr.gov/countries-regions/southeast-asia-pacific/association-southeast-asian-nations-asean> (accessed October 25, 2024), and Macrotrends, "U.S. Imports 1970–2024," <https://www.macrotrends.net/global-metrics/countries/USA/united-states/imports> (accessed October 25, 2024).
4. Ayman Falak Medina, "An Overview of US Trade and Investment in ASEAN," *ASEAN Briefing*, July 7, 2023, <https://www.aseanbriefing.com/news/an-overview-of-us-trade-and-investment-in-asean/> (accessed October 26, 2024).
5. Office of the United States Trade Representative, "U.S.-ASEAN-10 Trade and Investment Facts," <https://ustr.gov/issue-areas/trade-organizations/association-southeast-asian-nations-asean/us-asean-10-trade-and> (accessed October 25, 2024).
6. Thomas Dent, "The Strait of Malacca's Global Supply Chain Implications," Institute for Supply Management, November 21, 2023, <https://www.ismworld.org/supply-management-news-and-reports/news-publications/inside-supply-management-magazine/blog/2023/2023-11/the-strait-of-malaccas-global-supply-chain-implications/> (accessed October 20, 2024), and Kaewkamol Pitakdumrongkit, "Goeconomic Crossroads: The Strait of Malacca's Impact on Regional Trade," National Bureau of Asian Research, October 5, 2023, <https://www.nbr.org/publication/geoeconomic-crossroads-the-strait-of-malaccas-impact-on-regional-trade/> (accessed October 19, 2024).
7. Mohammad Issa, "Malaysia, U.S. Commence Bilateral Exercise MTA Malaysia," Commander, U.S. 7th Fleet, November 23, 2021, <https://www.c7f.navy.mil/Media/News/Display/Article/2851691/malaysia-us-commence-bilateral-exercise-mta-malaysia/> (accessed October 17, 2024).
8. Adam Greco, "The Strait of Malacca: From Sultanates to Singapore," Center for International Maritime Security, February 17, 2022, <https://cimsec.org/the-strait-of-malacca-from-sultanates-to-singapore/> (accessed October 19, 2024).
9. Ibid.
10. U.S. Agency for International Development, "Foreign Assistance," September 26, 2024, <https://www.foreignassistance.gov/> (accessed October 7, 2024).
11. Greco, "The Strait of Malacca," and Geoff de Freitas, "BRI Success Stories: The Laos-China Railway Remains Clearly Well on Track," HKTDC Research, December 22, 2023, <https://research.hktdc.com/en/article/MTUINTUzNTAwOQ> (accessed October 11, 2024).
12. Lynn Kuok, "America Is Losing Southeast Asia: Why U.S. Allies in the Region Are Turning Toward China," *Foreign Affairs*, September 3, 2024, <https://www.foreignaffairs.com/united-states/america-losing-southeast-asia> (accessed September 28, 2024).
13. News release, "Philippines, U.S. Announce Locations of Four New EDCA Sites," U.S. Department of Defense, April 3, 2023, <https://www.defense.gov/News/Releases/Release/Article/3349257/philippines-us-announce-locations-of-four-new-edca-sites/> (accessed October 1, 2024).
14. The White House, "President Joseph R. Biden and General Secretary Nguyen Phu Trong Announce the U.S.-Vietnam Comprehensive Strategic Partnership," September 10, 2023, <https://www.whitehouse.gov/briefing-room/statements-releases/2023/09/10/fact-sheet-president-joseph-r-biden-and-general-secretary-nguyen-phu-trong-announce-the-u-s-vietnam-comprehensive-strategic-partnership/> (accessed October 3, 2024).
15. Jim Gomez, "Chinese and Philippine Forces Again Avoid a Clash in a Fiercely Disputed Shoal Under a Rare Deal," Associated Press, November 15, 2024, <https://apnews.com/article/china-philippines-second-thomas-shoal-a8c895de0c90bd6f5045320034f562aa> (accessed October 10, 2024).
16. Agnes Chang, Camille Elemia, and Muiy Xiao, "China's Risky Power Play in the South China Sea," *New York Times*, September 15, 2024, <https://www.nytimes.com/interactive/2024/09/15/world/asia/south-china-sea-philippines.html> (accessed October 10, 2024).
17. Aidan Jones, Amy Sood, and Joseph Sipalan, "As Cheap Chinese Imports Flood Southeast Asia, Industries Struggle to Stay Afloat," *South China Morning Post*, September 7, 2024, <https://www.scmp.com/week-asia/economics/article/3277522/southeast-asias-struggle-stay-afloat-amid-flood-cheap-chinese-imports> (accessed October 11, 2024).
18. Leonard AL Cahyoputra, "Textile Industry Crisis: Factory Closures and Nearly 14,000 Layoffs Due to Imported Goods," *Jakarta Globe*, June 13, 2024, <https://jakartaglobe.id/business/textile-industry-crisis-factory-closures-and-nearly-14000-layoffs-due-to-imported-goods> (accessed September 28, 2024).
19. *Bangkok Post*, "Ceramic Industry Faces Threat from Chinese Knock-Offs," August 13, 2024, <https://www.bangkokpost.com/business/general/2846391/ceramic-industry-faces-threat-from-chinese-knock-offs> (accessed October 3, 2024).
20. Aisyah Llewellyn, "Indonesia Eyes Hefty Tariffs on China as Businesses Decry Cheap Imports," *Al Jazeera*, October 11, 2024, <https://www.aljazeera.com/economy/2024/10/11/indonesia-eyes-hefty-tariffs-on-china-as-businesses-decry-cheap-imports> (accessed October 4, 2024).
21. Richard Wike, "Does Humanitarian Aid Improve America's Image?," Pew Research Center, March 6, 2012, <https://www.pewresearch.org/global/2012/03/06/does-humanitarian-aid-improve-americas-image/> (accessed October 4, 2024).
22. ReliefWeb, "China to Increase Aid to Tsunami-Hit Countries," December 30, 2004, <https://reliefweb.int/report/indonesia/china-increase-aid-tsunami-hit-countries> (accessed October 5, 2024).

23. *Philanthropy News Digest*, “Americans Donated More Than \$3 Billion to Tsunami Relief Efforts, Study Finds,” December 26, 2006, <https://philanthropynewsdigest.org/news/americans-donated-more-than-3-billion-to-tsunami-relief-efforts-study-finds> (accessed October 5, 2024).
24. Otto Kreisher, “Operation Unified Assistance,” *Air and Space Forces Magazine*, April 1, 2005, <https://www.airandspaceforces.com/article/0405tsunami/> (accessed October 5, 2024).
25. U.S. Agency for International Development, “USAID,” <https://www.usaid.gov/> (accessed October 28, 2024).
26. TrapBag, “Natural Disasters in Asia: Types and Prevention,” 2024, <https://trapbag.com/blog/natural-disasters-in-asia/> (accessed October 10, 2024).
27. Mely Caballero-Anthony, “A Hidden Scourge,” International Monetary Fund, September 2018, <https://www.imf.org/en/Publications/fandd/issues/2018/09/human-trafficking-in-southeast-asia-caballero> (accessed October 10, 2024).
28. *Ibid.*
29. James Roberts and Max Primorac, “USAID 2017–2021: The Journey to Self-Reliance,” Heritage Foundation *Special Report* No. 249, November 18, 2021, <https://www.heritage.org/sites/default/files/2021-11/SR249.pdf>.