The Effectiveness of Minor Powers’ Hedging Strategy: Comparing Singapore and the Philippines

Ryan Yu-Lin Liou**

S. Philip Hsu***

Abstract

Many Southeast Asian countries are known to employ hedging strategies toward an emerging new regional order. We explore hedging and other strategic concepts, and how effective minor powers’ hedging are. Prior research suggests that lesser powers in Southeast Asia will benefit more by hedging, but little empirical evidence has been offered to support this claim. By underestimating the influence of domestic actors and enduring rivalry, the hedging thesis might overestimate the effectiveness of hedging and find no variation among Southeast Asian states. Singapore and the Philippines serve as two cases to examine and compare the effectiveness of minor powers’ hedging. We find that Singapore and the Philippines both have acquired economic and security benefits from China and the United States. However, the Philippines has the South China Sea dispute with China and domestic constraints, so it is less successful than Singapore particularly in advancing security relations with China.

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Introduction

Since the mid-1990s, there has been considerable research exploring China’s rise and how Southeast Asian (SEA) countries respond to the emerging regional order, an order which is now shaped mainly by China and the United States. Nevertheless, debate continues regarding SEA states’ strategies toward China and the United States. In the shadow of China’s growing military and economic power, several SEA countries try to keep relations open with major powers in this region. For example, while Vietnam is China’s “friend,” it has enhanced its relations with the United States in recent years. Regarding current discussion on these lesser powers’ strategic responses, hedging is the most significant topic. Hedging has been considered a strategy to allow a country to maximize its benefits by avoiding overt commitment to big powers and choosing sides among these powers (Acharya 2003; Ciorciari 2010; Goh 2005; Kuik 2008, 2016; Weitsman 2004, 32). On the one hand, Singapore, Malaysia, the Philippines, Thailand, Indonesia, among others, are the widely recognized as hedgers between China and the United States. On the other hand, Cambodia and Laos are the prime examples of not adopting hedging due to their unambiguous alignment with China.

Although hedging is widely recognized as the optimal as well as most popular strategy in Southeast Asia, little is known about: i) what the differences are between the concept of hedging and other strategic concepts; and ii) how effective SEA countries’ hedging strategies are. This paper aims to address these questions. Moreover, much scholarship suggests that SEA countries will benefit more from a hedging strategy, but little empirical evidence has been offered to support this claim. The question of whether hedging help countries maximize returns remains unresolved. This paper thus attempts to examine the relatively underexplored issue, that is, the effectiveness of minor power’s hedging. Prior research mostly overlooks the effects of domestic politics and enduring rivalry with target states, which may account for the variation of hedging’s effectiveness in Southeast Asia. By underestimating the influence of domestic actors and enduring rivalries (e.g., territorial disputes), the hedging thesis might overestimate the effectiveness of hedging and find no variation among hedgers. Additionally, this paper covers some gaps in much of the literature by examining SEA countries’ relations with China and the United States on both the economic and security dimensions.

We make two central claims. First, we contend that overstretching the hedging concept will undermine its analytical rigor and make almost every country a hedger.
We clarify hedging as combining different tools, separating issue areas, and diversifying target states and thus hedging distinguishes itself from the other strategic concepts, i.e., balancing and bandwagoning. Second, we present evidence indicating that Singapore and the Philippines have acquired economic and security benefits from both China and the United States, but there are visible differences in these benefits between the two countries. These minor powers in Southeast Asia have enhanced security ties with the United States and obtained economic benefits from China. However, while many studies claim that a hedger can maximize national interests from the United States and China, we argue that hedging does not necessarily translate into these results because domestic politics and enduring rivalry could constrain the hedging’s effectiveness. Our findings suggest that although the Philippines has reaped benefits from China and the United States, its hedging effectiveness was moderated by its domestic politics and enduring rivalry with China. Therefore, we argue that the Philippines’s hedging is less effective than Singapore’s.

The Debate on SEA Countries’ Responses to the Emerging New Order

There are three main propositions regarding SEA countries’ strategic responses to the emerging new order shaped by China’s rise. The first proposition is the balancing viewpoint, which is primarily based on the balance of power theory. It argues that most SEA countries, especially maritime countries, are balancing or will balance China by taking advantage of security cooperation with the United States, because of the lack of trust in China and the influence of geopolitics (Emmers 2003; Friedberg 2011; Ross 1999, 2006). The second viewpoint on SEA-China relations is bandwagoning. In contrast to the balancing proposition, the bandwagoning perspective is partly derived and revised from the hegemonic stability theory. The bandwagoning viewpoint posits that SEA countries will bandwagon with China and that China will play a leading role in Asia mainly due to historical experiences (Tributary System), a huge power asymmetry, shared culture and ideas, and China’s recent successful policies (Kang 2003a, 2003b, 2007; Womack 2003).

Moving beyond the realist approach adopted by the balancing and the bandwagoning viewpoint, the third position is the hedging perspective. The hedging proposition functions as a bridge between the other two arguments, contending that the dichotomy between balancing and bandwagoning is static, and introducing a more dynamic analytic framework that combines indirect balancing, engagement, and
bandwagoning concepts. The hedging viewpoint recognizes the coercive measures used by many SEA countries in addition to acknowledging the cooperation and positive aspects of SEA-China relations. For instance, Amitav Acharya refutes the bandwagoning viewpoint by giving examples of SEA countries’ military modernization, and by arguing that trade and investment acceleration in Southeast Asia with China are not a product of strategic bandwagoning but of economic pragmatism. He further claims that through regional institutions and continuing dialogues, SEA countries may acquire high-level autonomy and the capacity to socialize China (Acharya 2003, 2014).

Slightly different from Acharya’s argument, Evelyn Goh considers Southeast Asia a less active and symmetrical player. Goh’s findings suggest that the United States is still the dominant power in the region, and thus SEA countries will take advantage of the public good provided by the United States and preserve the current hierarchy led by the United States. Goh holds that SEA countries have deployed the “enmeshment” strategy to increase the target states’ stakes, especially China’s, in regional or international order (Goh 2007, 2013). Overall, the hedging perspective posits that SEA countries have two goals: First, to obtain greatest benefits by engaging with China (e.g., through institutions and economic linkages) as well as through indirect balancing (i.e., by maintaining close ties with the United States). A second consideration is to seek more freedom of action by expanding the strategic options (Fiori and Passeri 2015; Khong 2004; Kim 2016; Kuik 2008; Manning and Przystup 1999; McDougall 2012; Medeiros 2005; Tan 2012) (see Table 1).

<table>
<thead>
<tr>
<th>Analytical Foundations</th>
<th>Balancing</th>
<th>Bandwagoning</th>
<th>Hedging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance of Power Theory</td>
<td>Revised Hegemonic Stability Theory</td>
<td>Balance of Power, Institutionalist, Interdependence</td>
<td></td>
</tr>
<tr>
<td>Assumption of Structure</td>
<td>Anarchy</td>
<td>Hierarchy led by China</td>
<td>Highly Fluid and Uncertain</td>
</tr>
<tr>
<td>Main Arguments/Predictions</td>
<td>SEA countries, especially maritime countries, will balance against China by cooperating with the United States.</td>
<td>Due to power asymmetry, historical and cultural factors, SEA states are willing to live in a stable hierarchical system led by China.</td>
<td>Because many SEA countries engage China with caution, they maintain security ties with the United States and avoid choosing sides. In this way, SEA hedgers can maximize their interests.</td>
</tr>
</tbody>
</table>

Table 1. Debate on SEA Responses to the Emerging New Order
While insightful, these three arguments regarding SEA countries’ strategic response have some limitations. The balancing viewpoint ignores the “positive-sum game” trend after the Cold War and places too much emphasis on coercion; thus, it cannot fully explain the SEA countries’ flexible and diverse responses to China’s rise. The central problem with the bandwagoning argument is that it is easy to take a country’s cooperation with great powers as bandwagoning. However, cooperation in economic and political areas does not mean compromise with China. In addition, policy and strategy are at different levels; thus, some SEA countries’ compliant policies cannot be considered as a bandwagoning strategy. The hedging perspective has captured the fluid dynamics of today’s Asian order by addressing both the cooperative and coercive dimensions and coping with the US’s security role. Additionally, SEA countries’ moderate defense spending and military modernization since 2000 support the hedging perspective. We can also see the Philippines, Singapore, and others are hedging on specifics. Therefore, the hedging perspective is the most convincing argument within the current debate.

However, while various hedging studies suggest that those SEA countries can benefit hugely from hedging strategy, remarkably little empirical research has tested this claim. Further, there is insufficient research on the differences in the SEA countries’ hedging effectiveness. Hence, this paper has two aims. First, to clarify the concept of hedging; and second, to assess the effectiveness of SEA countries’ hedging by focusing on the cases of Singapore and the Philippines.

_Discussion of Lesser Powers’ Strategies_

The literature on smaller country’s strategies toward great powers falls into four types: challenging type, compromising type, cooperative type, and combining type. The challenging type mainly includes balancing (Walt 1987; Waltz 1979) and soft balancing (Nexon 2009, 340–47; Pape 2005; Paul 2005). Their major features are to use coercive policy tools and to challenge the existing order. In contrast, the main feature of the compromising type is to concede to great powers in order to avoid conflicts or to reap greater benefits. This type includes bandwagoning, appeasement, buck-passing, and accommodation (Christensen and Snyder 1990; Kang 2007; Mearsheimer 2001, 157–62; Schweller 1994).

As for cooperative strategies, they primarily entail engagement, binding, and transcending, and their features are employing non-coercive policy tools (e.g.,
multilateral institutions) to overcome the anarchy structure or even shape the great powers’ preferences (Schroeder 1994, 117; Schweller 1999, 13–15; Schweller and Priess 1997, 8–9). Hence, while both are non-coercive, cooperative strategies are more proactive than compromising strategies.

Lastly, enmeshment and hedging can be categorized as combining because both strategies employ cooperative instruments and coercive instruments simultaneously (Ciorciari 2009, 167–69; Goh 2007, 120–27; Khong 2004, 172–92). Although these two strategies maintain coercion to cope with target countries, they are different from balancing and soft balancing because they do not intend to challenge the existing order. Because these four types of strategies have common ground, we simplify our discussion into three major strategies: balancing, bandwagoning, and hedging in the later context.

**Clarifying the Concept of Hedging**

Borrowed from the field of finance, hedging is employed to lessen risks and avoid fluctuations via multiple tools. However, the concept of hedging has been significantly extended in international relations in recent scholarship, and it seems that hedging can explain every country’s foreign strategy. In the development stage of hedging’s analytical framework, scholars have gradually integrated different concepts. For example, Cheng-Chwee Kuik analyzes SEA countries’ hedging by integrating indirect-balancing, dominance-denial, economic-pragmatism, binding-engagement, and limited-bandwagoning. He further contends that these “counteracting” policy tools help smaller powers reduce risks and increase returns (Kuik 2008, 2013, 2016). Similarly, Le Hong Hiep examines Vietnam’s strategy toward China by dividing hedging into four elements—hard balancing, soft balancing, economic pragmatism, and direct engagement. Every element also entails multiple policies (Le 2013).

We draw attention to two mediating factors. First, by stretching the scope, the concept of hedging in most literature is so broad that analytical rigor is undermined. By integrating almost every relevant strategic element into hedging, such an analysis becomes “unfalsifiable.” For example, in Kuik’s lines of reasoning, Malaysia is a hedger even though it adopts limited bandwagoning, engagement, and indirect balancing (Kuik 2016). If this is the case, however, then Laos and Cambodia would also be treated as hedgers. This definition does not distinguish hedgers from non-hedgers.

Second, existing studies consider hedging a mixed strategy of balancing and
bandwagoning. However, the coexistence of cooperation and discord in international politics is a normal phenomenon. The “counteracting” policies or cooperation cum conflict do not equate to a hedging strategy. We argue that researchers should avoid vague definitions of hedging. The combination of policy tools does not necessarily represent the use of hedging. The requirement of hedging is being able to pass on risks to others. For example, many SEA countries pass most of their security risks and burdens to the United States because the latter provides public goods (e.g., freedom of navigation) and takes on primary responsibilities to keep China in check. Thus, these minor powers in Southeast Asia can hedge on specifics and avoid primary balancing burden and war risks. We contend that hedging has three elements. As well as the combination of policy instruments, there are two other essential components in hedging: the separation of issue areas and the diversification of targets/partners. We will illustrate this below.

To address the issues caused by the over-extension of hedging, Lim and Cooper offer a critical and solid analysis of the hedging concept by redefining hedging as sending an ambiguous alignment signal to great powers and then they examine four cases: Japan, Australia, Vietnam, and Singapore. By narrowing the hedging scope to the security domain, however, their findings unsurprisingly show that the United States is the SEA states’ top strategic choice. Yet they go too far in excluding the economic importance in order to maintain focus on traditional security (Lim and Cooper 2015). By neglecting the economic factors, however, the hedging concept lacks analytical value in spite of shrinking the scope. The main reason is that economic consideration is crucial for SEA countries, whose economic performances are the foundations of regime stability (Chan 2013). The Asian financial crisis in 1997 provides a clear example of economic factor. Therefore, the economic dimension must be included so that the hedging framework remains meaningful and useful. This paper will examine hedging from both security and economic perspectives. We also do not agree with Lim and Cooper that non-US treaty ally and minor/no security dispute are the necessary components of hedging states. Like Thailand and the Philippines, while being the US allies, they still can employ hedging. In the next section, we aim to clarify hedging by identifying hedging’s implications.

Combination of Policy Tools and Separation of Issue Areas

Most recent scholarship considers hedging to be either an amalgamation of
coercive and cooperative measures or a combination of balancing and bandwagoning. However, combination does not capture all aspects of hedging. A country that simply combines different tools cannot be defined as a hedger because, by that loose definition, almost every country would be a hedger. We argue that there is another essential element in hedging: the separation of issue-areas. A hedger will attempt to align with other countries on different issues by taking advantage of the latter’s niches. Thus, numerous SEA hedgers choose to cooperate with China in the economic realm but prefer to treat the United States as their security protector. The issue areas of interaction between SEA and other major countries include traditional security, non-traditional security, trade, investment, finance, aid, and so on. As for the policy tools of SEA countries, they range from coercive to cooperative options, including military modernization; low-intensity coercion (e.g., military exercise with the third party); limited security collaboration (e.g., Confidence-Building Measures [CBMs]); financial cooperation; and warm trade and investment linkage. Due to the growing nature of the non-zero-sum game in Asia, issue areas become more diverse, thus accommodating multiple actors.

**Diversification of Target States**

Additionally, hedgers intend to diversify their target states to expand strategic space. The selection of targets is based on the targets’ strengths and characteristics. Most SEA countries’ primary targets are the United States and China, while other countries, such as Japan, the EU, and India, are considered secondarily important. For SEA economies, China can be their economic engine by promoting trade and investment. While China’s economic role has become more central in Southeast Asia, the United States maintains the indispensable security role in the region (Cha 2010, 2017; Chan 2013, 161–81; Sutter 2010, 53–54). On the other hand, some SEA mainland countries (i.e., Cambodia, Laos, and Myanmar) principally look to China for their security and economic resources. As for Thailand, its trade dependence on China has grown as its dependence on the United States has gradually waned. Moreover, although Thailand remains as a military ally of the United States, it has started to increase security exchanges with China. In a similar vein, while Vietnam has close ties with China, it has significantly improved relations with the United States in recent years. As for SEA maritime countries, such as Japan, Taiwan, the Philippines, Singapore, Malaysia, and Indonesia, they still see the United States as playing a vital security role,
while their economies depend more on China.

By building on the existing hedging literature, this article advances a more rigorous definition of hedging as combining different tools, separating issue areas, and diversifying target states. Thus, hedging distinguishes itself from other strategic concepts, i.e., balancing and bandwagoning.

**Case Selection**

Although the literature employs hedging concept on SEA countries, this paper focuses on only Singapore and the Philippines. These two countries are selected as the two “least likely” cases. As Table 2 and Table 3 indicate, they both are the closest strategic partners of the United States among the SEA maritime countries. It is believed that if two countries are in different political-military camps, it is less likely to have close trade linkage between them due to the negative security externality concern. That is, political-security alignment will influence economic ties (Gowa 1994). Among the SEA countries, Singapore and the Philippines are clearly under the US security umbrella. Consequently, if Singapore and the Philippines can on the one hand, maintain close relationship with the United States and even enhance this linkage, and on the other hand successfully benefit from China and hedge between China and the United States, we could argue that hedging thesis is more persuasive.

**Table 2. The Sum of China’s/ the US Arms Imports, 2002-2014**

<table>
<thead>
<tr>
<th>Country</th>
<th>China</th>
<th>US</th>
<th>Millions of US Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>0</td>
<td>5028</td>
<td>(58.21%)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>&lt;0.5</td>
<td>114</td>
<td>(2.86%)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>191</td>
<td>325</td>
<td>(7.11%)</td>
</tr>
<tr>
<td>Brunei</td>
<td>0</td>
<td>73</td>
<td>(15.24%)</td>
</tr>
<tr>
<td>the Philippines</td>
<td>0</td>
<td>236</td>
<td>(71.95%)</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>96</td>
<td>472</td>
<td>(26.38%)</td>
</tr>
<tr>
<td>Myanmar</td>
<td>1097</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Laos</td>
<td>37</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Cambodia</td>
<td>114</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

*Notes: The numbers in parentheses represent the dependence of arms transfers on the target countries.*

<table>
<thead>
<tr>
<th>Country</th>
<th>Defense Agreement</th>
<th>Military Deployment</th>
<th>Other Commitments</th>
<th>Treaty Ally</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines</td>
<td>1951 Mutual Defense Treaty; 1998 Visiting Forces Agreement; 2002 Mutual Logistics Support Agreement; 2014 Enhanced Defense Cooperation Agreement (EDCA)*</td>
<td>Deploy forces to PH’s bases on a rotational basis; Joint Special Operations Task Force-Philippines; P-8 Poseidon Patrol Aircraft</td>
<td>MNNA; sales on coastguard cutter and frigates; assist in modernizing PH’s army; assist to enhance PH’s maritime domain awareness conduct patrol in South China Sea; IMET; intelligence sharing</td>
<td>Yes</td>
</tr>
<tr>
<td>Singapore</td>
<td>2005 Strategic Framework Agreement for a Closer Cooperation Partnership in Defense and Security</td>
<td>Forward Operating Sites (FOS); Four Littoral Combat Ships*; P-8 Poseidon Patrol Aircraft**</td>
<td>PSI; MNNA***; help to upgrade equipment; military training and intelligence sharing</td>
<td>Not formal, yet quasi-ally</td>
</tr>
<tr>
<td>Thailand</td>
<td>1954 Manila Pact; 1962 Rusk-Thanat Communiqué; 2012 Joint Vision Statement for the Thai-U.S. Defense Alliance</td>
<td>N.A.</td>
<td>MNNA; IMET; intelligence sharing</td>
<td>Yes</td>
</tr>
<tr>
<td>Malaysia</td>
<td>N.A.</td>
<td>N.A.</td>
<td>Assist in advancing Malaysian maritime domain awareness (e.g., offer coastal surveillance radar system to Malaysia); IMET</td>
<td>No</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2005 Framework Arrangement on Cooperative Activities in the Field of Defense</td>
<td>N.A.</td>
<td>IMET</td>
<td>No</td>
</tr>
<tr>
<td>Brunei</td>
<td>N.A.</td>
<td>N.A.</td>
<td>PSI</td>
<td>No</td>
</tr>
<tr>
<td>Vietnam</td>
<td>N.A.</td>
<td>N.A.</td>
<td>Shore up Vietnam’s maritime security capacity; transferred 5 patrol vessels and partially lift arms embargo; provided FMF for Vietnam since 2009; IMET; PSI</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Defense Agreement</td>
<td>Military Deployment</td>
<td>Other Commitments</td>
<td>Treaty Ally</td>
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<tr>
<td>------------------</td>
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</tr>
<tr>
<td>Myanmar</td>
<td>N.A.</td>
<td>N.A.</td>
<td>IMET****</td>
<td>No</td>
</tr>
<tr>
<td>Laos</td>
<td>N.A.</td>
<td>N.A.</td>
<td>IMET</td>
<td>No</td>
</tr>
<tr>
<td>Cambodia</td>
<td>N.A.</td>
<td>N.A.</td>
<td>Assistance on military equipment; vehicle maintenance and logistical management training; IMET</td>
<td>No</td>
</tr>
</tbody>
</table>

*not yet in force, but the Philippines’ highest court has approved this deal on January 13, 2016.
**in plan
***US designated, but Singapore declined.
****since 2015


Variables

Dependent Variables

The dependent variable in this paper is the effectiveness of hedging strategy. We aim to assess and compare the hedging effectiveness of the Philippines as well as of Singapore. For SEA countries, the implications and niches of the United States and China are different. While the United States is their security protector, China is their economic driver, as shown in Table 4.

Table 4. SEA Countries’ Hedging Objectives

<table>
<thead>
<tr>
<th>Toward US</th>
<th>Toward China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security: a. enhancing strategic ties to avoid being abandoned</td>
<td>Security: a. socializing China to reduce the risk of revisionist China</td>
</tr>
<tr>
<td></td>
<td>b. promoting autonomy to avoid being entrapped</td>
</tr>
<tr>
<td>Economy: US’s provision of trade surplus, investment, and crucial skills, etc.</td>
<td>Economy: China’s provision of export market, supply chain, soft loans and grants, etc.</td>
</tr>
</tbody>
</table>

Therefore, we evaluate the effectiveness of Singapore’s and the Philippines’s hedging strategy from two aspects: economy and security. On the one hand, we analyze the two countries’ trade, investment, and economic arrangements with the US and China. On the other hand, in terms of security, we examine the security relationships
between the two countries and the US as well as China.

In economic realm, the primary indicator on testing SEA hedgers’ efficacy is acquiring economic benefits from China. In addition, SEA hedgers’ secondary objective in the economic realm is to maintain economic interests from the United States. In security area, SEA hedgers’ primary objective is to strengthen security ties with the United States. SEA hedgers’ secondary objective in the security realm is to advance security relations with China via hedging (see Table 5).

<table>
<thead>
<tr>
<th>Table 5. The Indicators of Hedging’s Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dimensions</strong></td>
</tr>
<tr>
<td><strong>Economy</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Security</strong></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

*Independent Variables*

The independent variables include hedging strategy, domestic politics, and enduring rivalry with target states. Based on the existing literature, we expect that a hedger will reap economic and security benefits from China as well as from the United States. We also expect that the more influential the domestic politics in the hedger, the more difficult it is for the hedger to gain these benefits. Additionally, we expect that if a hedger has enduring rivalries with target states, it is less likely to obtain benefits via hedging strategy.

*Assessment of the Effectiveness of Hedging*

*Acquiring Economic Benefits from China and Maintaining Economic Interests from the United States*

From Table 6 and Table 7, we can see the trend indicates both Singapore and the Philippines are increasingly dependent on China’s market and less reliant on the US market. From 1995 to 2014, Singapore’s export dependence on China grew steadily from 2.3% to 12.6%, at an increase of nearly 6 times. On the other hand, Singapore’s
reliance on the United States declined from 18.3% to 5.9%. Like many SEA states, Singapore’s export dependence on China has surpassed their dependence on the United States. As for the Philippines, the share of exports to China in its world exports climbed from 1.2% to 13.0% from 1995 to 2014, whereas meanwhile its share of exports to the United States dropped from 35.8% to 14.1%. These numbers suggest that Singapore and the Philippines have increasingly shifted their major trade focuses from the United States to China.

In terms of foreign direct investment (FDI), the United States remains a key provider to Singapore and the Philippines, and Thailand in 2012. On the other hand, China plays a much less important role than the United States in these two hedgers’ FDI sources (see Table 8).

Finally, as shown in Table 9, both Singapore and the Philippines have successfully made several economic arrangements with China and the United States. Singapore concluded China-Singapore Free Trade Agreement (CSFTA), US-Singapore Free Trade Agreement (USSTFA), and Bilateral Investment Treaty (BIT) between Singapore and the US. The Philippines, on the other hand, has fewer economic deals with the great powers than Singapore. It singed BIT and Trade and Investment Framework Agreement (TIFA) with the US, and joined the US Generalized System of Preferences (GSP). Additionally, both Singapore and the Philippines joined China-ASEAN Free Trade Agreement (CAFTA) and Chiang Mai Initiative Multilateralization (CMIM), and they are the founding members of the Asian Infrastructure Investment Bank (AIIB) led by China, and the negotiation partners of the Regional Comprehensive Economic Partnership (RCEP). Singapore also inked the Trans-Pacific Partnership (TPP) (AIIB n.d.; Chalongphob Sussangkarn 2010; International Enterprise Singapore n.d.; UNCTAD n.d.; USTR n.d.).

The developments above show that Singapore and the Philippines have been incorporated more deeply with China and the United States, and have acquired more economic benefits from trade, investment, and important economic deals. This trend also indicates that despite having enduring rivalry with China, the Philippines can obtain economic returns from the China via hedging strategy.

Moreover, the combination of high levels of trade flow, FDI stocks, the integration

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1 RCEP is under negotiation and expected to be finished in 2016; TPP signed on February 3, 2016.
of production networks, and economic arrangements between Singapore and the Philippines with China and the United States may also lead to some positive political-security effects on bilateral relations (Chan 2013; Gartzke, Li, and Boehmer 2001; Mansfield and Pevehouse 2000; Maoz 2009; Pang 2007). As long as China maintains policies of reassurance rather than taking a revisionist route, and the United States maintains a pivot-to-Asia policy, Singapore and the Philippines would continue to take advantage of the thriving Chinese economy and a stronger US commitment.

Table 6. Share of Exports to China (%)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore the Philippines</td>
<td>2.33</td>
<td>3.42</td>
<td>8.61</td>
<td>10.36</td>
<td>12.55</td>
</tr>
<tr>
<td>the Philippines</td>
<td>1.20</td>
<td>1.74</td>
<td>9.89</td>
<td>11.09</td>
<td>12.98</td>
</tr>
</tbody>
</table>

Source: Calculated from International Monetary Fund (IMF), *Direction of Trade Statistics* CD-ROM, December 2015.

Table 7. Share of Exports to the US (%)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore the Philippines</td>
<td>18.25</td>
<td>17.31</td>
<td>10.41</td>
<td>6.53</td>
<td>5.91</td>
</tr>
<tr>
<td>the Philippines</td>
<td>35.77</td>
<td>29.85</td>
<td>18.02</td>
<td>14.72</td>
<td>14.13</td>
</tr>
</tbody>
</table>

Source: Calculated from IMF, *Direction of Trade Statistics*.

Table 8. 2012 FDI Stock from China/the United States

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore the Philippines</td>
<td>11,646 (7)</td>
<td>87,834 (2)</td>
</tr>
<tr>
<td>the Philippines</td>
<td>301 (6)</td>
<td>7,646 (1)</td>
</tr>
</tbody>
</table>

Note: The number in parentheses denotes rank among SEA countries; China’s data do not include Hong Kong and Macau.


Table 9. Important Economic Arrangements with China/the US

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore the Philippines</td>
<td>CAFTA; CSFTA; BIT; CMIM; AIIB</td>
<td>USSFTA; (TPP)</td>
</tr>
<tr>
<td>the Philippines</td>
<td>CAFTA; BIT; CMIM; AIIB</td>
<td>TIFA; GSP</td>
</tr>
</tbody>
</table>

Note: All included signed agreements and agreements in force.
**Strengthening Security Ties with the US**

Both Singapore and the Philippines have embraced the US security commitment, public goods (e.g., conducting freedom of navigation operations and maintaining stability in the region), defense cooperation (e.g., military exercises, military training, and intelligence sharing), arms transfers, military deployment, and other assistances (e.g., US Foreign Military Financing).

While the relationship between the Philippines and China has been worsened due to the dispute in South China Sea, the relationship between the Philippines and the US has been enhanced. The US has provided the Philippines with three Hamilton-Class Coast Guard Cutters through its Excess Defense Articles (EDA) in order to improve the maritime combat capacity of the Philippines. For example, the US has transferred BRP Gregorio del Pilar and BRP Ramon Alcaraz as well as twelve used F-16 aircrafts to the Philippines. Moreover, Robert Willard, the then Commander of US Pacific Command, said that the US would like to expand the presence in Southeast Asia and proposed to deploy more reconnaissance planes and Littoral Combat Ships (LaGrone 2013; Yap 2011).

In terms of the military modernization, the US has offered the Philippine Coast Guard training and telecommunication equipment, strengthened its maritime domain awareness, and enhanced intelligence sharing and interoperability between the US forces and the Philippines forces. In addition, the US also helped the Philippines establish National Coast Watch Center. All the efforts are conducive to Philippine maritime safety and deterrence capability against China in the South China Sea (Agence France-Presse 2011; De Castro 2011, 249; Manila Bulletin 2013; Philippine Daily Inquirer 2012; Simon 2012). In 2014, the US and the Philippines even inked a milestone agreement: Enhanced Defense Cooperation Agreement (EDCA), further expanding US military presence in the Philippines, such as rotational deployments in Philippine bases (Thayer 2014; U.S. Embassy in the Philippines 2014).

In 2005, Singapore and the US signed Strategic Framework Agreement for a Closer Cooperation Partnership in Defense and Security (SFA). This agreement is significant for advancing Singapore-US security relations. Through SFA, these two countries have fostered cooperation on anti-terrorism, nonproliferation, joint exercise and training, intelligence sharing, and defense technology. Moreover, the US has deployed four Littoral Combat Ships in Singaporean waters, including USS Freedom,
USS Independence, USS Fort Worth, and USS Coronado. Singapore has become the fulcrum of US’s forward deployment in Asia-Pacific (Bitzinger 2011; Huxley 2013). Additionally, Singapore and the US have conducted a wealth of joint military exercises, Southeast Asia Cooperation against Terrorism (SEACAT), Cobra Gold, Exercise Commando Sling, Cooperation Afloat Readiness and Training (CARAT), and Rim of the Pacific (RIMPAC) (see Table 9).

Advancing Security Relations with China

The bright side of Singapore’s and the Philippines’s relations with China is that they have improved security relations with China via a series of CBMs, including annual security consultation, regular joint exercises, or other military exchanges (see Table 10 and Table 11). Meanwhile, these hedging acts do not harm the US-Singapore relations and the US-Philippines relations. In addition, both China and the United States signed ASEAN Treaty of Amity and Cooperation (TAC).

However, there are still some limitations in Singapore’s and the Philippines’s relations with China and the United States. These limits are mainly due to asymmetrical capability, the feature of ASEAN soft institutionalism\(^2\), and domestic politics. Even though a wealth of official statements and initiatives has been issued by China, they often lack substance. Moreover, the Philippines does not bind China via institutions and norms as much as the hedging perspective predicts. The South China Sea issue is a hard test. Although China signed the Declaration on the Conduct of Parties in the South China Sea (DOC) in 2002, a political document without legal binding, DOC neither establishes verification and punishment mechanisms, nor copes with thorny issues, such as resources development and conflict resolution (Storey 2011, 144–50). Additionally, because China is afraid of SEA countries forming a united front and having greater bargaining power, it prefers bilateralism rather than a binding multilateral approach to addressing the South China Sea issue. Thus, the Code of Conduct in the South China Sea (COC) delays progress. Hedging has not greatly improved the Philippines-China relations as hedging perspective widely predicts.

Furthermore, despite ASEAN being the key driver and agenda-setter in the regional institutional building as many scholars argue (Jones 2010; Kim 2012; Stubbs 2014), the soft institutionalism practiced by SEA states may make ASEAN Regional

\(^2\) For ASEAN soft institutionalism, see Amitav Acharya (2002); Khong and Nesadurai (2007).
Forum (ARF), ASEAN Defense Ministers Meeting-Plus 8 (ADMM+8), and other
ASEAN-driven mechanisms fail to reach a consensus, bind great powers, and manage
conflict in the foreseeable future (Goh 2011, 373–401; Jones and Jenne 2016; Jones and
Smith 2007, 144–69). Meanwhile, in responding to US rebalancing and active
involvement in the South China Sea in recent years, China has become more assertive
in continuing to develop anti-access/area-denial (A2/D2), and even claiming the South
China Sea issue belongs to China’s “core interest” as well as to the core interests of
Tibet and Taiwan (Krepinevich 2009, 22–23; Storey 2011, 78–96; Wong 2011).

Tensions have grown between China and the Philippines in the South China Sea
in recent years. While close economic linkages are sometimes conducive to obtaining
benefits and reducing conflict, they also might lead to asymmetries in dependence and
thus become an important source of influence for big power (Keohane and Nye 2001,
9–16, 196–97). For instance, although the Philippines has enjoyed economic gains from
China in recent years, it simultaneously has born the costs due to asymmetrical
interdependence with China. After the Scarborough Shoal confrontation in 2012, China
took advantage of the Philippines’ high vulnerability, and punished the latter by
resorting to economic sanctions on the major Filipino import to China: bananas (Cuneta
and Hookway 2012). From 2011 to 2014, the Philippines’ ratio of China’s total banana
imports dropped from 91% to 68%.

These examples suggest a slender chance of China being compromised with the Philippines in the South China Sea.

Although China has demonstrated restraint since 2002, it is only willing to have
functional cooperation with SEA countries to buy time (Fravel 2011; Storey 1999).
China’s assertiveness in the South China Sea make the argument that China has been
enmeshed or socialized through a hedging strategy seem too optimistic and need to be
examined further. Additionally, SEA countries have been divided by the United States
and China, especially since the United States pivoted to Asia and South China Sea
tensions escalated (Ross 2013, 31–35). For example, due to different attitudes toward
great powers among the ASEAN members and the lack of internal unity, ASEAN was
unable to issue a joint communiqué in the ASEAN Foreign Ministers Meeting for the
first time since its establishment in 2012, and failed again to reach consensus in the

3 Calculated from the ITC Trade Map Database, http://www.trademap.org/.
Overall, the South China Sea issue indeed affected the Philippines-China relations, thereby making the Philippines’s hedging less effective in advancing security relations with China than Singapore’s. For example, Singapore and China inked “All-Round Cooperative Partnership Progressing with the Times in 2015,” suggesting their close relations. The Philippines and China, in contrast, have remained “Strategic and Cooperative Relationship for Peace and Development” since 2005. This contrast shows that the enduring rivalry with the target state has negative influence on the effectiveness of hedging, particularly on advancing security relations with China.

**Table 10. The Military Exercise with China/the United States, 2002-2015**

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>the Philippines</strong></td>
<td>N.A.*</td>
<td>Balikatan; PHIBLEX; CARAT (1996); RIMPAC (2014)</td>
</tr>
</tbody>
</table>


**Table 11. Confidence-Building Measures with China**

<table>
<thead>
<tr>
<th></th>
<th>Annual Security Consultation</th>
<th>Strategic/Cooperative Partners</th>
<th>Other Measures</th>
<th>via ASEAN</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>the Philippines</strong></td>
<td>Yes (2005)</td>
<td>Strategic and Cooperative Relationship for Peace and Development (2005)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note: The numbers in parentheses denote inaugural year.

**Hedging Strategy and Domestic Politics**

Although hedgers have opportunities to gain more benefits from the great powers,
there are abundant cases showing the influence of domestic politics on hedging effectiveness. The domestic politics factor in Singapore is not as salient as in the Philippines. The Philippines has protectionist inclinations and highly divided domestic groups, thus constraining its government’ hedging capabilities. Some of the economic cooperation deals between the Philippines and China or the United States are stalled or blocked by domestic players (Naya and Plummer 2005, 294; Solingen 2008, 25; Tongzon 2005). For instance, despite the Philippines expressed high interests in joining TPP, the domestic factors, including the degree of liberalization, local regulations, and interest groups, limit their ambitions to adopt dual tracks: TPP and RCEP, which are integral for hedgers to reap both benefits from the great powers. In contrast, Singapore is more maneuverable because of its lack of significant influence of domestic politics.

Also, some studies indicate that nationalism had impacts on Philippine foreign policies. For instance, in 2004, the Philippines and China signed Joint Marine Seismic Undertaking (JMSU), agreeing to have joint exploration on natural gas and oil in the South China Sea. However, because of strong opposition in the Philippines, Philippine government was forced to cease this cooperation deal (Baviera 2012; Emmers 2010, 75–80, 132; Tan 2010, 42–43). These examples indicate that domestic factors have the potentials for impeding hedging effects, such as delaying the cooperation process between the Philippines and China.

**Conclusion and Discussion**

Overall, we found that Singapore and the Philippines have enhanced security ties with the United States and acquired economic benefits from China. However, while prior literature claims that a hedger can maximize national interests from the United States and China, we found that some factors may constrain the efficacy of hedging. Hedging’s effectiveness diminished in the Philippines because of its domestic politics and enduring rivalry, i.e., territorial dispute with China in the South China Sea. Singapore’s hedging strategy, on the other hand, is more effective because of its lack of salient effect of domestic politics and enduring rivalry with any great power. In other words, while both Singapore and the Philippines employ hedging, the enduring rivalry with China and domestic politics in the Philippines make its effectiveness different from Singapore.

Our analysis extends existing literature on hedging and on SEA countries’ relations
with China and the United States. First, we offer contributions to the research on the hedging concept, which has not been clearly defined nor thoroughly explored in terms of its the differences from other well-developed strategic concepts. We clarify hedging as a strategy combining different tools (e.g., military modernization cum warm trade exchanges), separating issue-areas (e.g., traditional security, non-traditional security, trade, and investment), and diversifying target states (e.g., the United States and China).

Second, we argue that specific areas show different results. In the economic realm, minor powers in SEA can reap benefits from China and the United States. Moreover, as the case of the Philippines indicates, even though having the enduring rivalry with China, the Philippines still can reap economic returns from China via hedging. On the other hand, in the military-security area, due to the South China Sea issue and domestic constraints, the Philippines gained fewer benefits than in the economic realm. Therefore, this paper suggests that future examinations of strategic ties between SEA hedgers and major powers need to consider the separation of issue areas and the influence of domestic politics and structural factors (e.g., enduring rivalry with great powers).

This research addresses only a few aspects of the larger set of issues related to hedging and SEA’s relations with China and the Unites States. Some important questions that merit further examination include the factors that account for minor powers’ preference for hedging and their openness to change. Will hedging stop because the relations between the United States and China worsen? Why, when and how does hedging cease? These are questions worth future research.
References


Commander of U.S. Pacific Fleet. 2014. “RIMPAC Concludes with Enhanced


