

**Zeitschrift:** Asiatische Studien : Zeitschrift der Schweizerischen Asiengesellschaft = Études asiatiques : revue de la Société Suisse-Asie

**Herausgeber:** Schweizerische Asiengesellschaft

**Band:** 73 (2019)

**Heft:** 1

**Artikel:** Chinese geopolitics in Southeast Asia : a new pattern of economic power within ASEAN?

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**DOI:** <https://doi.org/10.5169/seals-823081>

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# Chinese Geopolitics in Southeast Asia: A New Pattern of Economic Power within ASEAN?

<https://doi.org/10.1515/asia-2017-0049>

**Abstract:** Southeast Asia is of highest geostrategic interest for China as a rising Great Power as well as for the U.S. and its ally Japan. Since the “Pivot to East Asia” of the Obama administration in Washington in 2011 observers are discussing a “New Great Game” in the region. But has China already established a “backyard” by its economic activities in Southeast Asia and in particular in ASEAN countries? What is the spatial pattern of China’s activities? As an analysis of FDI stocks as well as trade related data show ASEAN countries can be divided into several groups. (1) China’s small neighbour Laos dominated by Chinese FDI. (2) Countries like Cambodia and Myanmar partly dominated by Chinese FDI. (3) Countries with different trade ties to China but mostly strong military or diplomatic ties to the U.S. like Singapore, the Philippines, Vietnam, Thailand, Malaysia, Indonesia, and (4) the independent Brunei Darussalam. Therefore, Southeast Asia and in particular ASEAN cannot be called a Chinese “backyard” yet. But if U.S. president Trump withdraws the U.S. attention from the region China could be able to achieve a hegemonic position in the region soon.

**Keywords:** ASEAN, China, geopolitics, FDI, trade relations

## 1 Introduction

Southeast Asia is located at the crossover between South Asia and East Asia. Traditionally, it is considered by the U.S., China, India, and Japan as their respective sphere of influence. Currently, a new pattern of power is emerging in this region because of the rise of China. Maritime territorial claims of China in the South China Sea are well known. But this is only one of several developments in the region caused by the economic and political rise of this country. For a few years, ties between China and its southern neighbours have been

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getting closer and closer, both economically and politically. As early as in 2010, the ASEAN-China Free Trade Area (ACFTA) came in force. And as part of the ‘*Go-out*’ strategy under the 12th Five-Year-Plan (2011–2015), President Xi Jinping in 2013 proposed to make efforts with countries in Southeast Asia to create a new “*maritime silk road*” as part of the “*One Belt, One Road*” project, nowadays better known as China’s “Belt and Road Initiative” (BRI). This twenty-first Century Maritime Silk Road is focussing on ASEAN countries reaching India, Sri Lanka and East Africa via the Strait of Malacca.<sup>1</sup> Two years later, China established the Asian Infrastructure Investment Bank (AIIB) focussing on the improvement of infrastructure as well as other productive sectors in Asia. All these Chinese activities in Southeast Asia can be interpreted as resources-driven, emphasising China’s possibility to increase in imports of raw materials and, in particular, of energy.<sup>2</sup> On the other hand, both the maritime silk road and the AIIB are obviously aimed to tie China’s economy closer to those of its neighbours in Southeast Asia. As Mazza (2015) pointed out: “China here aims not only to accrue economic benefits, but to expand its economic penetration of Southeast Asia, with associated increases in influence and power.”<sup>3</sup>

Early in 2011, the Obama administration declared an U.S. “Pivot to East Asia”, changing its regional focus from the Middle East to East Asia. The main purpose was to re-balance power in this region because of the fast development of China.<sup>4</sup> It seems that in Southeast Asia a new “Great Game” between the People’s Republic of China and the U.S. involving several other smaller “players” like Japan, India or Thailand has just started. Therefore, the main research questions of this paper are: Has China already established a “backyard”, a sphere of influence, by its economic activities in ASEAN? In other words, was China even able to push the U.S. out of Southeast Asia as Friedberg (2012) has asked? Or do we have to talk about “two hierarchies” in the region following Ikenberry (2015) who postulated a security hierarchy in Southeast Asia dominated by the United States and an economic hierarchy dominated by China. In both cases, what is the spatial pattern of China’s activities in ASEAN? The main hypotheses of this paper are that China has not succeeded to establish a backyard in Southeast Asia yet and that the theory of dual hierarchy does not fully explain the current pattern of Chinese and the US influence in Southeast Asia respectively. Rather this pattern is much more diverse.

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1 Garcia-Herrero et al. 2015: 10.

2 Truong 2015: 126.

3 Mazza 2015.

4 Evans 2013.

We will choose a geopolitical approach to analyse the behaviour of the Chinese government and its competitors in ASEAN countries, focussing on backyard theory as well as on Ikenberry's (2015) two hierarchies. This framework allows for analysing mainly economic, but also military activities of the Chinese government and its competitors. Thus, in a first step the geopolitical actors in the region will be identified and their main interests in ASEAN specified. As can be shown easily, the main actors are the world powers U.S. and China. Besides, also regional powers like India or Japan are playing relevant roles. In a second step, we will present an empirical analysis of the economic dependence of ASEAN countries on China, focussing on Foreign Direct Investments (FDI) in the region and trade relations. By this way, we will depict a spatial pattern of the rise of China's mainly economic power in ASEAN. Finally, this pattern and its development will be explained in more detail from a geopolitical point of view, also showing trends for the future. In this final section we will draw a distinction between countries (partly) dominated by Chinese FDI and independent countries with different trade ties to China.

## 2 Geopolitics in Southeast Asia

### 2.1 Geopolitics and geopolitical competitors: A theoretical framework

Geopolitics studies the effects of human and physical geography on international politics and especially on international relations.<sup>5</sup> In this, it focuses on political power investigating diplomatic history in relation to geographic space, especially water ways, trade routes, access to natural resources etc. Therefore, beside politics and international relations, it also takes into account economic and social factors.<sup>6</sup> The idea of geopolitics harkens back to the end of the nineteenth century. This "classical geopolitics" – mainly influenced by Friedrich Ratzel (1897/1974) – focusses on the spatial growth of states from a point of view of Social Darwinism. At that time, the distinction of land and sea power was introduced. Already Mahan (1890) explained how sea powers like the U.S. or Japan try to control sea lines in order to maintain or improve their "maritime power", while Mackinder (1904/1967) analysed the trend from sea powers to land powers concerning the decline of the British Empire. Later,

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<sup>5</sup> Devetak et al. 2012: 492.

<sup>6</sup> Heydarian 2016: 157.

Spykman's (1942) idea of the importance of the so-called "Rimland" (Europe and Southeast Asia) in contrast to "Heartland" (Eurasia) and "balance of power" influenced the politics of the rising US. With the Cold War, new geopolitical approaches like "containment", "domino theory" or "balance of power linkages" were introduced.<sup>7</sup> A lot of these terms can be applied to the current situation in Southeast Asia, too. See Parry (2014) on sea power, for instance. In contrast, "critical geopolitics" as new approach evolved in the 1970s. Its main goal was to unveil ideology and invisible assumptions of the traditional geopolitics to show the mechanisms of power.<sup>8</sup> Nowadays, geopolitics is supplemented by the term "geoeconomics". As Luttwak (1990) has pointed out early, the importance of military power was giving way to economic power after the end of Cold War. Following Keohane/Nye (1977) "asymmetrical interdependence" in economic relations can be a source of power while they define economic power as "control over resources, or the potential to affect outcomes".<sup>9</sup> This asymmetry also evolved between China and ASEAN member countries during the last decade.<sup>10</sup>

ASEAN is a diverse region with immense social, cultural and economic differences. States vary from small in terms of population but rich in GDP (e. g. Brunei Darussalam) to quite poor but very large like the hugest Muslim country of the world, Indonesia.<sup>11</sup> Therefore, ASEAN is a non-consolidated group of disparate states, although in the past fifty years they were quite successful in establishing economic links among themselves.<sup>12</sup> As a consequence, ASEAN itself cannot be regarded as a geopolitical player in the "Great Game" for Southeast Asia. Accordingly, particularly China and the U.S. are the main geopolitical players in the region. Southeast Asia is located close to China, a rising political and economic power, which accelerated military modernisation. At the same time, the region traditionally has strong ties to the U.S. But the financial and economic crisis in 2008 undermined the foundations of U.S. economic and military power and provided a unique strategic opportunity for China in Southeast Asia.<sup>13</sup> While the U.S. as a global super power can't maintain sole leadership of the region, China's economic rise has shifted the political balance. But the U.S. is not waiting to be degraded to some sub-primacy in Southeast Asia as an outcome of what some authors have called Chinese "domination by stealth".<sup>14</sup> Other observers see

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7 O'Sullivan 1982.

8 See e. g. Ó Tuathail 1996.

9 Keohane/Nye 1977: 10.

10 Oh 2017: 1.

11 World Bank 2016.

12 Wood 2015: 112.

13 Heydarian 2016: 166.

14 Majid 2012: 27.

this as a transition of power in Southeast Asia. The basic “power transition theory” predicts even conflicts when the rising power’s aggregate power becomes close to that of the predominant power.<sup>15</sup> But it is questionable if China at the moment can be seen as a rising power able to challenge the U.S. either worldwide or in Southeast Asia.

For Great Powers like China or the U.S. the main geopolitical goal in Southeast Asia may be expected to be the establishment or maintenance of a backyard in this region, respectively. In allusion to the competition between Russia and the British Empire for Central Asia in the nineteenth century, we can call this a new “Great Game”. The principles of a “backyard” or “primacy of power” have been formulated by scientists of the U.S. think tank, the Rand Corporation, already decades ago. According to Ronfeld (1983), a primacy of one power can be described as a situation based on four principles: First, a region must be secure for the power’s “presence, power, and passage”; second, “hostile foreign powers must be prevented from acquiring military bases and facilities there”; third, “foreign balance-of-power struggles must be excluded and prevented from destabilising the region”; and fourth, only a few military resources “have to be dedicated to protecting interests and assets there”.<sup>16</sup> Several authors have already applied this approach in one way or another to Central Asia,<sup>17</sup> but also to China’s policy towards Southeast Asia.<sup>18</sup>

Although China is not a challenging new super power, a shift of power in Southeast Asia has to be acknowledged. As Ikenberry (2015) pointed out:

The United States remains the leading hegemonic power in Asia, but hegemonic leadership is eroding and fragmenting in various ways. A power transition is under way in the region. China is a rising state that will increasingly have capacities for hegemonic leadership<sup>19</sup>

This shift of power will lead to a “grand geopolitical adjustment process”.<sup>20</sup> Therefore, he sees East Asia characterised by the development of a dual hierarchy of a U.S. dominated security system and a Chinese dominated trade system.

But political, military and economic relations in Southeast Asia are more complicated. First, economic ties are not only trade ties but also relations of FDI and developmental aid. As McGowan/Smith (1978) in their basic work on dependency theory of underdevelopment have pointed out “economic power

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**15** Shambaugh 2016: 146.

**16** Ronfeld 1983: 5.

**17** See e. g. Kleveman 2004, Cooley 2012, or Wrobel 2014.

**18** See e. g. Glosny 2007.

**19** Ikenberry 2015: 8.

**20** Ikenberry 2015: 8.

dependency” can be measured by several variables, mainly (1) percentages of aid from the major donor, (2) percentages of exports going to the most important trading partner, and (3) percentages of FDI coming from the major investing country. While “dependency theorists” tried to explain neo-colonialist exploitation of the developing countries by developed ones in an ideological way, their criteria still lend themselves for an analysis of economic dependency also today.<sup>21</sup> Therefore, I follow Das (2017) or Oh (2017) in choosing the two most important factors, FDI and trade ties, for the explanation of economic dependency in a modified way. I preferably use data from international organizations like UNCTAD (2016, 2017) or the World Bank (2016), but also from ASEAN (2015, 2016a, 2016b, 2016c, 2017), the Chinese Ministry of Commerce (MOFCOM 2016) and the CIA (2016) to get a complete set of data for 2015. Unfortunately, the third important economic dimension – developmental aid and loans – can’t be taken into consideration because China does not publish detailed data of its foreign aid programmes.<sup>22</sup> Since the concrete definition of dependency is fuzzy, I define my own percentages as indicators of dependency when focussing mainly on relative disparities in the region.

Second, beside China and the U.S. second level players in the “Great Game” in Southeast Asia have to be acknowledged: first of all, Japan is an important source of FDI in the region with ambitious plans for infrastructure investment, too. Additionally, the Japanese government has signed so-called strategic partnership agreements on maritime security with Vietnam, Malaysia, Indonesia, and the Philippines.<sup>23</sup> Also India has implemented a so-called “Look East” policy in the early 1990s. Drivers were economic needs, as well as political expediency after the end of the Cold War. In particular, India has increased its competition with China for Myanmar’s significant oil and gas reserves.<sup>24</sup> Furthermore, India is expanding strategically from the Indian Ocean into the South China Sea because it wants to become an Asian power, not just an Indian Ocean actor, also balancing China in the Far East.<sup>25</sup> Finally, the governments of Thailand and Vietnam also acted as local hegemony powers in Indochina in the past.<sup>26</sup> Nowadays, they are important trade partners for several other Southeast Asian countries. Overall, there are two main groups of players in the game: on the one hand China wants to establish a backyard or at least an economic

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<sup>21</sup> For a discussion see e. g. Huang/Słomczyński 2003/2004.

<sup>22</sup> Saunders 2016: 371.

<sup>23</sup> Mazza 2015.

<sup>24</sup> Naidu 2013: 64–67.

<sup>25</sup> Zhao 2014: 16.

<sup>26</sup> Guan 2012: 38.

dominance in the region. On the other hand, its main competitors, Japan, India and particularly the U.S. want to balance China's rise and political ambitions.

## 2.2 China's strategic interests in Southeast Asia

Early at the beginning of the fifteenth century the Chinese Yongle emperor sent navigator Zheng He on a naval expedition to Southeast Asia, India and East Africa. Nevertheless, China remained a land power for centuries. At the same time, Southeast Asia's economies are traditionally dominated by Chinese because of emigration. Most of the ancestors of current Overseas Chinese in Southeast Asia were immigrating from Guangdong and Fujian provinces in South China into the neighbouring countries in the South between the sixteenth and nineteenth century. Therefore, Southeast Asia has strong traditional cultural as well as economic relations with China. Nowadays, important minorities exist in Thailand (14 %) and Malaysia (23.4 %). Less important are the Chinese minorities in Indonesia, Myanmar, the Philippines and Vietnam.<sup>27</sup>

While the Chinese constitute politically vulnerable minorities in the latter countries, they are nonetheless economically powerful and dominate local economies or – perhaps – the region as whole. Most of them are descendants of poor peasant families coming to Southeast Asia from Southeast China – with the strong motivation typical for voluntary migrants and with the willingness to invest in education. As a result, they control relatively large modern companies which now dominate much of Southeast Asia's economy. Therefore, the host peoples in several non-Chinese societies in Southeast Asia nowadays often see the Overseas Chinese as a “fifth column” of China's plans. This is why anti-Chinese sentiments especially in the Malay world are rather strong.<sup>28</sup> Southeast Asia thus is traditionally a Chinese “backyard” in economic terms, but certainly not one of the People's Republic of China and its communist party government. Yet, the attitude of the People's Republic to the Overseas Chinese in Southeast Asia has changed dramatically. Nowadays, they consider the Chinese diaspora as a support on their way to restore China's status as a super power which it had for several centuries before western countries overtook it in the nineteenth century.<sup>29</sup>

After centuries of neglect, the People's Republic of China in the early 1990s established a new strategy of foreign policy. It pursued the “good neighbour

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<sup>27</sup> CIA 2016.

<sup>28</sup> K.S. 2003: 11–20.

<sup>29</sup> Tan 2015: 8.

policy” aiming to turn Southeast Asia into a showcase for a “peaceful rise” strategy.<sup>30</sup> Since then, China became a new active player in the local “Great Game” with the U.S., the last remaining super power in the region. China also is investing considerably in becoming a “sea power” like the U.S.<sup>31</sup> Therefore, some writers have already described the immediate neighbours of China, strategically located along its southern border as “Chinese backyard”.<sup>32</sup>

Because China is a communist party state, the Chinese Communist Party (CCP) can be seen as one main player in the new “Great Game” in Southeast Asia. The CCP has some interest to secure energy supply and markets for Chinese firms in Southeast Asia to foster the economic rise of the country. The main goal seems to be the rise of China to a world power. Only then, the ruling elite, consisting of communist party officials, CEOs of state owned enterprises (SOEs) and entrepreneurs can maintain power in China and increase their wealth.<sup>33</sup> Of course, the CCP cannot be seen as a monolithic block. For instance, officials from the Yunnan province have taken a leading role in orienting economic policy towards the neighbouring countries. But it goes without saying that their activities are consistent with national strategic and economic objectives.<sup>34</sup> On the other hand, we have to assume that SOEs are receiving coordination and support from the central government.

For the political elite in China, energy security is vital for the further development. While China became the worldwide largest energy producer in 2007, it also became the largest energy consumer of the world in 2010. Therefore, energy is of highest importance for Chinese growth. But more than 80 % of China’s crude oil imports come from the Middle East or Africa through the Strait of Malacca, making China depending on the regional powers as well as on the U.S., the main sea power in Southeast Asia.<sup>35</sup> Reducing this dependency must be considered as one of the main geopolitical goals of the People’s Republic of China. Therefore, especially Myanmar, situated in mainland Southeast Asia is of highest importance for China because the country allows China to circumvent the Strait of Malacca via its oil and gas pipelines. Also, China’s efforts to establish a transport corridor via Pakistan through the Chinese-operated Gwadar port and the Karakorum highway, as well as its proposal to finance the Kra Isthmus canal project through Thailand and Malaysia have to be understood from this

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**30** Zhao 2014: 1.

**31** Zhao 2015a: 171.

**32** Guan 2012: 38.

**33** Zhao 2015a: 94.

**34** Lee 2013a: 9.

**35** Wrobel 2014: 24–26.

geopolitical point of view.<sup>36</sup> This also allows for understanding the strategic interest of China in the Spratley Islands and the Paracelsus Islands in the South China Sea.<sup>37</sup> Control over both archipelagos would simultaneously improve China's energy security in two ways: on the one hand, large oil and gas reserves are expected in the region, and on the other hand, free shipping routes for Chinese tankers from the Strait of Malacca to the Chinese mainland would be secured. In this way, rising demand for energy resources gives rise to a kind of “energy protectionism” or “resource nationalism” in Southeast Asia.<sup>38</sup>

But Southeast Asia and ASEAN countries in particular are also of interest for China as markets for its products as well as for its outward foreign direct investments (OFDI). Thanks to China's “Go-Out” strategy, the People's Republic supports several countries in the region with infrastructure projects. For instance, the countries of the Greater Mekong sub-region (Myanmar, Laos, Thailand, Cambodia and Vietnam) are important to China for developing its southwestern provinces such as Yunnan. In particular, transportation connections, investment and trade with the neighbours in Southeast Asia can create a strong boost for economic development in this region.<sup>39</sup> Also, the “Maritime Silk Road of the twenty-first Century”, the ASEAN-related part of the BRI, has to be understood as a central issue in China's new diplomacy focusing on infrastructure projects. Its intention is to strengthen the Chinese relations with its overseas neighbouring countries through investments in infrastructure. These projects will be spearheaded by the new AIIB. The bank will focus on upgrading port infrastructure, as well as building new infrastructure in the region to satisfy the increasing demand caused by the evolving maritime trade cooperation. This aims at expanding overseas markets for Chinese enterprises and developing new bases for those Chinese sectors with surplus outputs like the iron and steel, and cement industries.<sup>40</sup>

All in all, China has become the centre of economic activity in East Asia, not by accident, but by design of the CCP. The Chinese government calls this the “economic interconnectivity”. While the region can benefit from these developments – especially from the Chinese infrastructure investments in the frame of the BRI – observers, as well as ASEAN politicians, also see an increasing asymmetry and imbalance.<sup>41</sup> These imbalances provoke activities of China's geopolitical competitors in the region.

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**36** Phi 2015: 52.

**37** See e. g. Kaplan 2012: 188–228.

**38** Zhao 2015b: 2.

**39** Truong 2015: 188–189.

**40** Zhao 2015c: 2–5.

**41** Shambaugh 2016: 142.

### 2.3 The competitors' strategic interests in Southeast Asia

In history, Southeast Asia was under the control of Western colonial powers, in particular the British, French and Dutch. But also for the last remaining superpower of the world, the U.S., Southeast Asia was and is highest strategic interest. As the Heritage Foundation points out:

In the subsequent more than 200 years, the United States has worked under the strategic assumption that it was inimical to American interests to allow any single nation to dominate Asia. Asia constituted too important a market and was too great a source of key resources for the United States to be denied access<sup>42</sup>

In particular, Mao Tse-Tung's revolutionary communism brought an American presence in the region that endures till nowadays. During this time, the U.S. conducted two military interventions: first in Korea, and then later in Vietnam.<sup>43</sup> For the U.S. the loss of China popularised the idea that gains of communism in Indochina would trigger a domino effect in the region.<sup>44</sup> In view of the raising China, the U.S. administration in Washington today tries to maintain the U.S. supremacy in the world. Therefore, the Obama administration declared the U.S. "Pivot to East Asia" in 2011. By the change of the regional focus from the Middle East to Southeast Asia the balance of power between China and the U.S. should be maintained obviously containing China's rise in the world.

Moreover, Asia for the U.S. is also an important impetus of global economy including the world's busiest international sea-lanes and some of the most vital ports in the world.<sup>45</sup> Therefore, the U.S. seeks to preserve a "geographically distributed, operationally resilient, and politically sustainable regional force posture" within the U.S. Pacific Command area of responsibility that can effectively discourage any potential antagonist.<sup>46</sup> The U.S. key allies are Japan and the Republic of Korea in Northeast Asia and the Philippines, Thailand, and Australia in the Southeast. Also, the world's largest democracy, India, can be considered as an ally. These strategical alliances are complemented within ASEAN by very close security relationships with Singapore and developing relationships with other countries like Vietnam, Malaysia, and Indonesia.<sup>47</sup>

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<sup>42</sup> Wood 2015: 111.

<sup>43</sup> Cox 2012: 9.

<sup>44</sup> Guan 2012: 37.

<sup>45</sup> Wood 2015: 121.

<sup>46</sup> U.S. Department of State 2012.

<sup>47</sup> Wood 2015: 112.

To secure the U.S. primacy in the Asia – Pacific, including Southeast Asia and ASEAN, the Obama administration has identified six lines of action: “Strengthening bilateral security alliances; deepening U.S. relationships with emerging powers; engaging with regional multilateral institutions; expanding trade and investment; forging a broad-based military presence; advancing democracy and human right”, which forms what was called the “Pivot” towards East Asia.<sup>48</sup> Also in economic terms, the U.S. tried to counter balance the rise of China: In February 2016 twelve states signed the Trans Pacific Partnership (TPP) agreement, among others Brunei Darussalam, Malaysia, Singapore and Vietnam in Southeast Asia, with the U.S., explicitly excluding China. The TPP contained measures to lower both non-tariff and tariff barriers to trade between the participating countries.<sup>49</sup> But the agreement was left by the U.S. under the Trump administration already a few days after president Trump’s inauguration. From a geopolitical point of view this strengthened the economic position of China in the region while weakening the U.S. that remains as a “leading security provider in the region”.<sup>50</sup>

Because the tensions between China and some of its southern neighbours were rising in the last years, especially in the South China Sea, the U.S. is treated as a welcome guest at the high table of international politics in East Asia.<sup>51</sup> In the South China Sea, the U.S. position on the territorial disputes was neutral for a long time.<sup>52</sup> But nowadays, the U.S. has emphasised its interest in “ensuring freedom of navigation as well as in the peaceful settlement of China’s disputes with its southern neighbour states”.<sup>53</sup> Thereby, the traditional balancing of power by military forces of the U.S. and Japan is replaced partly by “soft-balancing”, in particular, by internationalisation and legalisation to preserve their interests in the South China Sea.<sup>54</sup>

The main ally of the U.S. in Southeast Asian issues is Japan. After WWII and especially in the 1970s Japan managed to secure its access to the natural resources of the region. Main geopolitical instruments were official development aid programmes and FDI activities. In this way, ASEAN countries became Japan’s main energy resource providers.<sup>55</sup> Also nowadays, there are several positive outcomes for Shinzo Abe and his successors setting priority in Southeast Asia: First, the positive economic development in ASEAN, in

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48 Haacke 2012: 55.

49 Office 2016.

50 Ikenberry 2015: 8.

51 Cox 2012: 15.

52 Zhao 2015a: 171.

53 Majid 2012: 21.

54 Ordaniel 2015: 95.

55 Zhao 2015a: 90.

particular its growing middle class, opens up attractive markets for the Japanese export industries, while low labour costs and improved infrastructure are attracting additional Japanese FDI. Secondly, overseas development assistance and OFDI are seen as a possibility to limit the current Chinese economic pervasion of Southeast Asia. And third, Japanese efforts to improve the authority of Southeast Asian navies in the region should help to establish a smoother balance of maritime power in the South China Sea.<sup>56</sup> In particular, free navigation in the South China Sea as well as through the Strait of Malacca is of highest importance for Japan because also Japan's oil supply and a lot of its products have to cross them. Therefore, Japan fears a possible domination of this important trade route and choke points by China.<sup>57</sup> Additionally, Japan remains as a main foreign investor in several Southeast Asian countries as well as an important customer of natural resources, first of all energy, from the region. For Japan, there also exists a linkage of the South China Sea dispute to its own East Asia Sea dispute with China because Beijing's strategy and actions towards the claimant states in the South China Sea may have implications for the Japanese-Chinese dispute in the East China Sea, too.<sup>58</sup> But Japan is not an independent player in the new "Great Game". As an ally of the U.S., Japan is expected to support the stance of Washington in matters of security.

For many ASEAN countries India is also a potential compensating power against the fast-emerging China. So, beside strong relations to Myanmar India improved relations in particular to Singapore, Malaysia and Thailand. With the latter countries India signed so-called "Economic Cooperation Agreements". These resulted in India becoming a Sectoral Dialogue Partner with ASEAN in 1992 and a full Dialogue Partner in 1995. An ASEAN Regional Forum Membership was offered to the country in 1996. Additionally, India and ASEAN are summit partners since 2002. As a consequence, India-ASEAN trade as well as the flow of FDI are on the rise. Due to defence cooperation, New Delhi has realised a lot of activities like security dialogues, joint exercises, training, and visits on high levels. In particular, the cooperation of the navies of India and Singapore has strengthened. Additionally, India has established a Far Eastern Naval Command on the Andaman and Nicobar islands. In this way, India is able to participate in the control over the Strait of Malacca. Additionally, driven by common interests, India and the U.S. have started to cooperate more intensely in managing security of the region.<sup>59</sup> As a result, India has played a key role in the

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<sup>56</sup> Mazza 2015.

<sup>57</sup> Ordaniel 2015: 100.

<sup>58</sup> Zhao 2014: 14.

<sup>59</sup> Naidu 2013: 64–67.

emerging balance of power in Southeast Asia during the last years. In sum, however, it is the main goal of all other geopolitical players in the region to curtail the hegemonic rise of China as a great power in Southeast Asia and as a new maritime power in the South China Sea in particular.

## 3 Economic relations between China and Southeast Asia

### 3.1 China as Foreign direct investor

As Feldstein (2000)<sup>60</sup> notes, there are a lot of gains to host countries from FDI: First, FDI allows transferring technology into less developed countries. Secondly, receiving countries of FDI often gain employee training as a by-product of the new businesses' operation. This contributes to the development of a local human capital. And third, the profits generated by the FDI help to rise corporate tax revenues in the host country. But perhaps there are disadvantages as well. FDI is not only a transfer of ownership from domestic residents to foreign investors but also a mechanism that enables the latter to exercise management and thus control over enterprises of the host country – and in an extreme case over whole countries.

While China was a recipient of FDI in the past, China's OFDI flows and stocks nowadays are becoming more and more relevant. Between 2005 and 2015 the FDI inflows into ASEAN from China and South Korea showed the highest annual growth rates, at 33.4% and 30.3% respectively.<sup>61</sup> But FDI flows from China are not overwhelming within ASEAN. Instead, intra-ASEAN, Japanese, EU-28, and U.S. FDI flows between 2013 and 2016 were dominating the region, as Table 1 shows. China was only able to overtake South Korea as the fifth largest investor in ASEAN by 2015. Whether China's economic growth and expansion of investment ties to ASEAN indeed leads to a shift in economic relationships as postulated by Ikenberry (2015)<sup>62</sup> needs to be scrutinised. FDI flows reflect only a short term picture. Long term dependencies have to be measured by FDI stocks. In contrast to FDI flows, FDI stocks mirror the cumulated influence of an investing country in a host society. Because in ASEAN four major foreign

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<sup>60</sup> Feldstein 2000: 2.

<sup>61</sup> Das 2017: 4.

<sup>62</sup> Ikenberry 2015: 10.

**Table 1:** FDI inflows to ASEAN 2013–2016 by main investor countries (mill. USD).

	2013	2014	2015	2016
Intra-ASEAN	18,209	21,556	21,340	23,948
China	6,354	6,185	6,412	9,211
EU-28	19,656	37,861	20,834	30,465
India	2,108	1,216	962	1,049
Japan	24,359	12,982	14,738	13,989
Rep. of Korea	4,253	4,690	5,704	5,890
USA	11,180	13,578	23,379	11,657

Source of data: ASEAN (2017): 4.

investors are relevant (U.S., Japan, EU, China and Hong Kong) a majority of more than 30 % of FDI stocks in a country shall be defined as dependency, while a percentage between 20 and 30 may be considered as less dependent.

Furthermore, Table 2 shows that FDI are on the rise in all ASEAN countries in the last years. Between 2008 and 2015, FDI stocks in the region are rising enormously. For instance, in Brunei Darussalam, Singapore or Thailand they have doubled. In a few countries they multiplied three times or more, e. g. in Cambodia, Indonesia, Laos, and the Philippines. In 2015, the FDI stocks of the top three foreign investors in ASEAN countries were the EU (16.7%), Japan (14.5%), and the U.S. (11.3%), while China accounted only for 6.8%, South Korea even for no more than 4.7%. At the same time 18.4 % of all FDI in ASEAN countries came from other ASEAN countries.<sup>63</sup> While remaining on a low level, China is becoming an outbound investor in Southeast Asia at huge speed. Its OFDI to ASEAN countries rose from USD 3,953 million in 2008 to USD 62,715 million in 2015.<sup>64</sup> Therefore, the FDI portfolio for the region as a whole is still very diverse. At the moment, there is no single dominant source economy in ASEAN,<sup>65</sup> but the pattern of Chinese activities is obvious. A few countries in Southeast Asia could be dominated by China in terms of FDI. Following the data of the Ministry of Commerce of the People's Republic of China (MOFCOM) Chinese OFDI vary from 1.20 % of overall FDI in the Philippines to 85.55 % in Laos.<sup>66</sup> But this is only a part of the whole picture.

Of course, FDI data are not always complete and correct. First, IMF, UNCTAD and MOFCOM data sometimes do not really match each other because of different accounting practices as well as delayed collection of data. For instance, FDI

<sup>63</sup> ASEAN 2016b.

<sup>64</sup> MOFCOM [Ministry of Commerce of the People's Republic of China] 2016: 149.

<sup>65</sup> Cook/Nair 2015: 2.

<sup>66</sup> See Table 2.

**Table 2:** Chinese foreign direct investment stocks in Southeast Asia, 2008 and 2015 (US Dollars at current prices in millions).

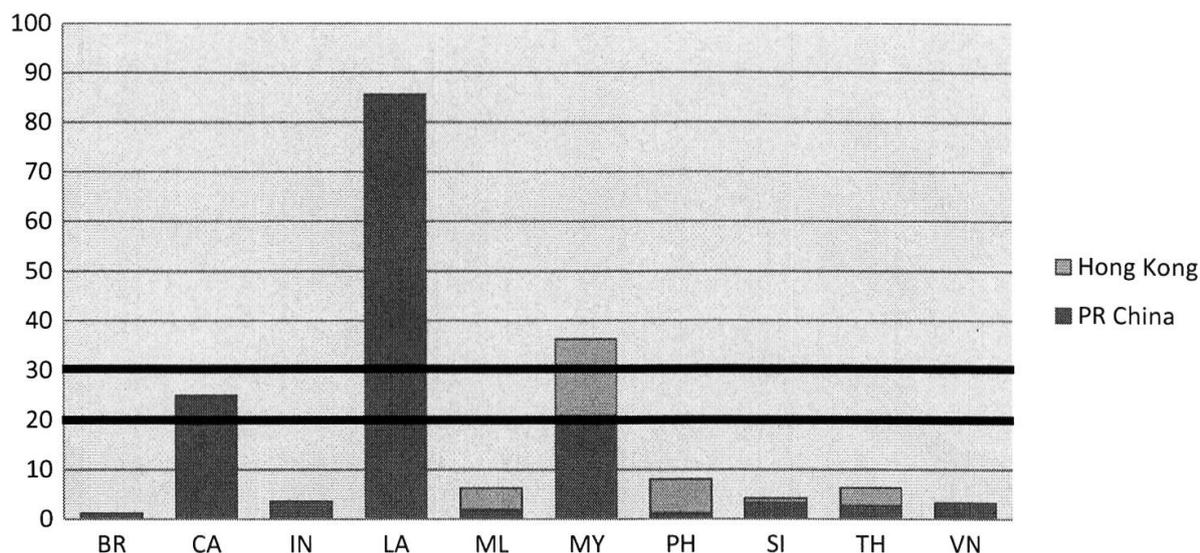
	Chinese		Chinese OFDI		Overall FDI		Chinese OFDI		Chinese OFDI		Hong Kong's		Hong Kong's OFDI	
	Overall FDI Stocks 2008	OFDI Stocks 2008	Stocks in% of FDI Stocks 2008	Stocks 2008	Stocks 2015	Stocks 2015	Stocks in% of FDI Stocks 2015	Stocks 2015	Stocks in% of FDI Stocks 2015	Stocks 2015	Stocks 2015	Stocks in% of FDI Stocks 2015	Stocks 2014/15	Stocks in% of FDI Stocks 2014/15
BR	3,141.39	6.51	0.21%	6,060.85	73.52	1.21%	n/s	n/s	1.21%	n/s	n/s	n/s	–	–
CA	3,891.66	390.66	10.04%	14,738.58	3,675.86	24.94%	n/s	n/s	24.94%	n/s	n/s	n/s	–	–
IN	72,228.00	543.33	0.75%	224,843.40	8,125.14	3.61%	n/s	n/s	3.61%	n/s	n/s	n/s	–	–
LA	1,419.45	305.19	21.50%	> 5,659.45*	4,841.71	< 85.55%	n/s	n/s	< 85.55%	n/s	n/s	n/s	–	–
ML	73,601.33	361.20	0.49%	117,643.77	2,231.37	1.90%	5,115	5,115	1.90%	5,115	5,115	4.35%	4.35%	4.35%
MY	7,810.30	499.71	6.40%	20,475.94	4,258.73	20.80%	n/s	n/s	20.80%	n/s	n/s	15.50%**	15.50%**	15.50%**
PH	21,746.00	86.73	0.40%	59,302.59	711.05	1.20%	4,032	4,032	1.20%	4,032	4,032	6.80%	6.80%	6.80%
SI	458,863.95	3,334.77	0.73%	978,410.78	31,984.91	3.27%	9,504	9,504	3.27%	9,504	9,504	0.97%	0.97%	0.97%
TH	94,529.29	437.16	0.46%	175,441.59	3,440.12	1.96%	6,362	6,362	1.96%	6,362	6,362	3.63%	3.63%	3.63%
VN	41,404.30	521.73	1.26%	102,791.30	3,373.56	3.28%	n/s	n/s	3.28%	n/s	n/s	–	–	–

\*UNCTAD (2017) gives an estimated FDI stock of USD 4,850.21 million, but mirror data from ASEAN (2016c), Bank of Thailand (2017), MOFCOM (2016), and Department of Statistics – Singapore (2017) allow a better calculation.

\*\*Data for 2012 according to Lee (2013c), 9.

Brunei Darussalam [BR], Cambodia [CA], Hong Kong [HK], Indonesia [IN], Laos [LA], Macao [MC], Malaysia [ML], Myanmar [MY], Philippines [PH], Singapore [SJ], Taiwan [TW], Thailand [TH], Timor-Leste [TL], Vietnam [VN]  
Sources: ASEAN (2016c), Department of Statistics – Singapore (2017), IMF (2017), MOFCOM (2016), UNCTAD (2016), UNCTAD (2017), own calculations.

estimates for Laos by UNCTAD combined with MOFCOM data yield an overwhelming 99.82% of Chinese OFDI stocks,<sup>67</sup> which in view of obvious Thai, Singaporean and South Korean OFDI of considerable relevance seems unrealistic. Obtaining accurate data on FDI – in particular in LDCs – therefore is notoriously difficult while Chinese sources can be expected as generally more accurate.<sup>68</sup> Therefore, the real data can differ in detail from the estimates presented here. Second, as Garcia-Herrero et al. (2015) are pointing out, Chinese OFDI statistics from MOFCOM have to be adjusted by two major potential sources of interception, namely offshoring and round-tripping. In particular, Hong Kong is of utmost importance because FDI from Hong Kong can also be considered as coming from China, at least to a relevant degree. In contrast, Singapore is channelling FDI mainly from developed countries like the EU and the U.S.<sup>69</sup> Therefore, OFDI from Hong Kong also have to be taken into consideration here. See Table 2 or Figure 1.



**Figure 1:** Chinese and Hong Kong's OFDI Stocks in percent of FDI Stocks (2015).

Source: Own calculations.

On the whole, three levels of dependence from China by FDI can be observed. First, Laos is strongly depending on FDI from China with about 85% of FDI stocks in 2015. According to Salidjanova/Koch-Weser (2015) Chinese FDI stocks in 2012 amounted already to 77%.<sup>70</sup> On a second level, Cambodia and Myanmar

<sup>67</sup> UNCTAD 2016: 201.

<sup>68</sup> Oh/Andrews-Speed 2015: 8.

<sup>69</sup> Das 2017: 4.

<sup>70</sup> Salidjanova/Koch-Weser 2015: 36–38.

accounted for Chinese OFDI with 24.94 % and 20.80 % respectively. FDI stocks from Hong Kong in Myanmar are estimated by 15.50 % for 2012 e. g.<sup>71</sup> making Myanmar also dependent from China in terms of FDI. In all other countries of the ASEAN the Chinese share in overall FDI stocks is clearly less than 5 %.

What makes OFDI from China more problematic than those from other countries is the strong ties of investors with the Chinese state and communist party. China invests first and foremost in resource supply and infrastructure provided by SOEs. Additionally, the country deploys diplomacy initiatives, subsidies and developmental aid to support its SOEs. From a geopolitical perspective, this renders its FDI strategic, if not “mercantilist”.<sup>72</sup> By means of OFDI Chinese policy-makers promote the expansion of Chinese markets, the supply of industrial raw materials and resources, particularly energy resources like oil and gas for the industrial development of the domestic market, and the acquisition of much-needed technological assets and managerial know-how.<sup>73</sup>

### 3.2 China as trade partner

Growing trade relations can be interpreted in terms of an integration of regions and countries. On the one hand, such an integration process fosters peace and cooperation, while, on the other hand, it can also be a threat to the weaker partners because of a growing dependence from one large trade partner. As Hirschman (1969 [1945]) has already pointed out, trade can be used as a political tool when smaller states find themselves in a dependent trade relation with a larger state.<sup>74</sup> As a result of the Asian financial crisis in 1997 several regional initiatives linking China and Southeast Asian states have been fostered, e. g. ASEAN + 3. The free trade agreement between ASEAN and China, ACFTA, is the most important case in point. The plan for its establishment has been first suggested by China in 2001. Then, between 2005 and 2010, the six ASEAN founding members and China agreed to cut down to zero the tariffs for several products. On 1 January 2010 the ACFTA was then formally established and in 2015 the zero-tariff implementation was expanded to the less developed ASEAN members.<sup>75</sup> For China, Southeast Asia is important not only as a market for its own commodities, but, in particular, as a supplier of natural resources like

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71 Lee 2013c: 9.

72 Zhao 2015a: 79.

73 Das 2014: 6.

74 Hirschman 1969 [1945]: 18–26.

75 Truong 2015: 124.

Liquide Natural Gas (LNG). ASEAN countries produce about 40 % of the whole world's supply of LNG.<sup>76</sup>

But is China able to dominate the trade of the whole region or at least several countries and to use this power for political purposes? As Fuchs/Klann (2013) show, appointments of political leaders of Chinese trading partners with the Dalai Lama worsened the relationship to the People's Republic during Hu Jintao's presidency, resulting in a decrease of trade. Likewise, China in early 2017 penalised South Korea for the installation of the U.S. missile-defence system THAAD by restraining South Korea's Lotte Marts in China.<sup>77</sup> However, as Wang (2015) points out, China itself also relies on the products exported by its trade partners in Southeast Asia and on their demand for its own products. But while he found that the South China Sea dispute between China and the Philippines "deteriorated the bilateral trade",<sup>78</sup> he also states that "China is not a trade power yet".<sup>79</sup> As Wang is a Beijing-based Chinese scholar, this may illustrate the difference in perspective between China and other countries when it comes to China's economic power in Southeast Asia.

However, while the U.S. used to be the leading trade partner of most of the countries in the region, the People's Republic of China has gradually become the biggest and most crucial trade partner of almost all ASEAN economies.<sup>80</sup> In 2015, about 76 % of ASEAN trade was with countries outside the bloc. While China with 14.5 % was the largest individual trading partner of ASEAN, the EU-28 accounted for 9.8 %, Japan for 9.1 %, and the U.S. for 8.4 %. While South Korea with 5.2 % is also an important trade partner, India lags behind with only 2.7 %.<sup>81</sup>

But the definition of trade dependency rests on two conditions: First, any trade fallout must hit one country more than the other. Because of China's extremely large market this may apply for all Southeast Asian countries. However, the second condition is trade imbalance, i. e. the weaker country has to depend on its main trade partner without a valuable alternative. As Table 3 shows, in 2015 China was among the first three trade partners of all ASEAN countries, with the only exemption of Brunei Darussalam. To complete the picture, trade data have to be adjusted by including trade via Hong Kong as well. In order to simplify our analysis, we can define dependency in analogy to

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76 Zhao 2015a: 92.

77 Das 2017: 2.

78 Wang 2015: 109.

79 Wang 2015: 110.

80 Ikenberry 2015: 11.

81 ASEAN 2016a: 15.

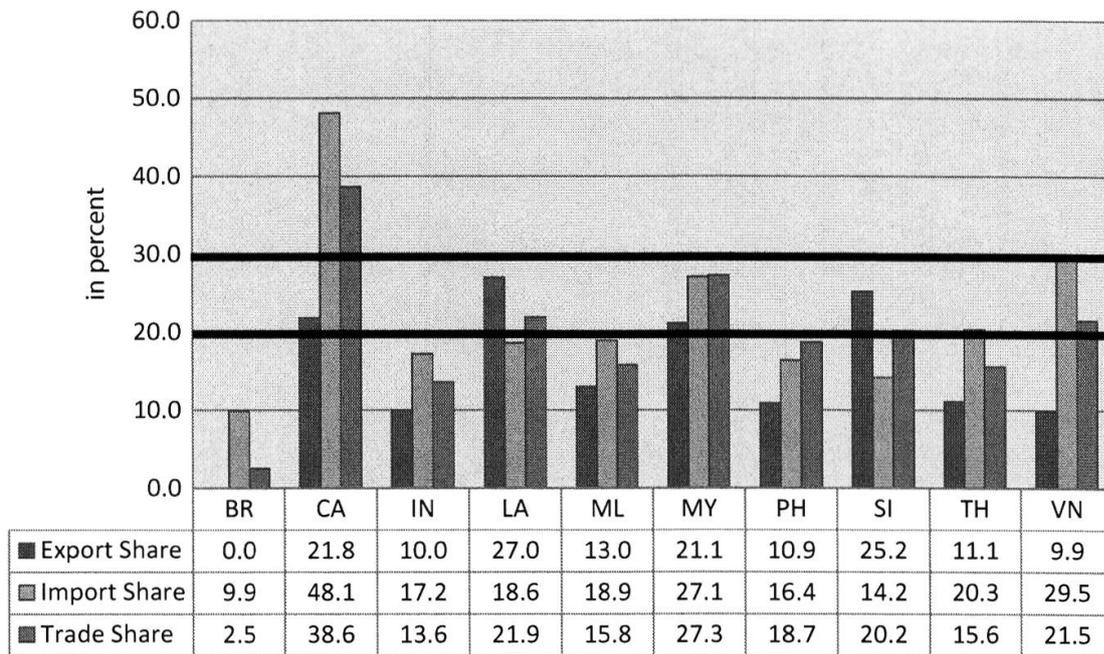
Table 3: Top trade partners and trade volume in 2014/15.

	Top Export Partners			Top Import Partners			Trade Volume	
	top partners and trade in...			top partners and trade in ...			(Exports + Imports) top partners and trade in %	
	partner	USD mil.	%	partner	USD mil.	%	partner	%
BR**	Japan	3,911	37.2%	Malaysia	741	20.6%	Japan	> 27.7%
	Korea, Rep.	1,152	11.0%	Singapore	736	20.5%	Korea, Rep.	10.4%
	India	957	9.1%	China	358	9.9%	...	...
CA**	Hong Kong	2,327	21.8%	Korea, Rep.	313	8.7%	China	> 2.5%
	U.S.	2,000	18.7%	China	7,457	39.3%	China	> 25.1%
	Singapore	1,747	16.4%	Thailand	2,021	10.7%	Hong Kong	13.5%
				Vietnam	1,693	8.9%	U.S.	> 6.7%
IN**	Japan	23,127	13.1%	Hong Kong	1,671	8.8%		
	China	17,606	10.0%	China	30,624	17.2%	China	13.6%
	Singapore	16,752	9.5%	Singapore	25,186	14.1%	Singapore	11.8%
LA*	Thailand	~ 946	30.4%	Japan	17,008	9.6%	Japan	11.3%
	China	~ 841	27.0%	Thailand	~ 2,991	60.9%	Thailand	49.0%
	Vietnam	~ 548	7.3%	China	~ 914	18.6%	China	21.9%
ML*	Singapore	27,843	13.9%	Vietnam	~ 359	7.3%	Vietnam	11.3%
	China	26,063	13.0%	China	33,243	18.9%	China	15.8%
	Japan	18,947	9.5%	Singapore	21,096	12.0%	Singapore	13.0%
MY***	Thailand	3,177	41.7%	U.S.	14,227	8.1%	U.S.	8.8%
	Hong Kong	1,612	21.1%	China	1,128	27.1%	Thailand	31.0%
	India	958	12.6%	Singapore	1,123	27.0%	Hong Kong	13.7%
PH*	Japan	12,381	21.1%	Thailand	473	11.4%	China	13.6%
	U.S.	8,811	15.0%	China	11,478	16.4%	Japan	14.9%
	China	6,393	10.9%	U.S.	7,629	10.9%	China	13.9%
SI*	China	47,724	13.8%	Japan	6,761	9.6%	U.S.	12.8%
	Hong Kong	39,679	11.4%				Hong Kong	> 4.8%
	Malaysia	37,781	10.9%	China	42,125	14.2%	China	14.0%
TH*	U.S.	23,717	11.3%	U.S.	33,335	11.2%	Malaysia	11.0%
	China	23,311	11.1%	Malaysia	33,073	11.1%	U.S.	8.8%
	Japan	19,763	9.4%				...	...
							Hong Kong	6.2%
VN**	U.S.	28,650	19.1%	China	40,919	20.3%	China	15.6%
	China	14,928	9.9%	Japan	31,135	15.4%	Japan	12.3%
	Japan	14,675	9.8%	U.S.	13,923	6.9%	U.S.	9.1%
	U.S.			China	43,648	29.5%	China	19.7%
	China			Korea, Rep.	21,728	14.7%	Korea, Rep.	9.7%
	Japan			Japan	12,857	8.7%	U.S.	> 9.6%
						...	...	
						Hong Kong	> 1.8%	

Source: CIA (2016), The Republic of China Yearbook 2015 (2015), 130–132, World Bank (2016), and own calculations. [\* data for 2015, \*\* data for 2014, \*\*\* data for 2010].

FDI: A percentage of 30 % and more of China and Hong Kong in the share of a country’s trade volume indicates dependency. Shares between 20 and 30 % of trade volume we shall consider as indicators of minor dependency.

Some authors like Das (2017)<sup>82</sup> define trade dependency as more than 15 % of trade (export or import) volume, neglecting that this implies trade dependency from several trade partners at the same time. On this assumption, China would already be dominating the region by its trade ties. But this does not reflect the real situation. This paper in contrast distinguishes all three levels of dependency (see Figure 2): First, Cambodia stands out by a very high percentage of trade relations with China. But this applies mainly to imports while China is less important for the country’s exports. According to the above-mentioned definition of trade dependency, Cambodia is the only ASEAN member which is really depending on China. Singapore, Laos, Myanmar and Vietnam also show relatively strong trade ties (between 20 and 30 %) with China and Hong Kong. But while Singapore and Laos are quite large exporters to China, Myanmar and Vietnam rely on imports from that country. At the same time, Laos and Myanmar moreover are depending on Thailand as their largest trade partner. According to our definition of trade dependency, all remaining countries do not



**Figure 2:** China (and Hong Kong) as Trade Partner, shares in percent of 2015. Source: Own calculations.

<sup>82</sup> Das 2017: 9.

depend on China as a trade partner. For Brunei Darussalam and the Philippines, Japan is the main trade partner.

### 3.3 Pattern of Chinese economic activities

FDI data and data on trade relations can be brought together to show a pattern of the Chinese economic influence in Southeast Asia. They are considered the most important economic ties between countries establishing dependencies or maintaining independencies. The important link between economics and politics is that Chinese OFDI in Southeast Asia are mostly effectuated by SOEs which have to follow the CCP's instructions and that trade can also be cut by the central administration of the People's Republic. As has already been shown above, it is well known that China uses economic coercion to achieve political objectives. Combining FDI and trade data, four groups of countries in ASEAN can be identified:

1. China's small neighbour Laos is heavily dominated by Chinese FDI. This country may be seen as part of a Chinese backyard already.
2. Countries like Cambodia and Myanmar are partly dominated by Chinese FDI with trade ties to China on different levels.
3. Countries with small Chinese FDIs and different trade ties to China but mostly strong military or diplomatic ties to the U.S. are Singapore, the Philippines, Vietnam, Thailand, Malaysia, Indonesia.
4. Brunei Darussalam has insignificant trade ties with China and a low level of Chinese FDI.

Of course, our analysis has neglected a third economic dimension: China's economic aid and loans. It is expected that China's annual expenditures in this domain is about USD 3 billion only. This is the range of Denmark, Australia or the Netherlands. But much more money flows in the form of trade credits, training programmes and infrastructure construction.<sup>83</sup> Unfortunately, the Chinese government does not publish data sets on this issue. This renders impossible more detailed analyses of this aspect. Data on China's loans to ASEAN countries are only known in part. For example, in 2014, the Chinese prime minister promised USD 20 billion to support connectivity between China and Southeast Asia. This included a USD 10 billion special loan set up by the China Development Bank for regional infrastructure development.<sup>84</sup> The Chinese Eximbank also supports several projects which

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<sup>83</sup> Shambaugh 2016: 163.

<sup>84</sup> Xinhua 2014.

are in line with China's new diplomatic strategies, especially including the BRI. In ASEAN it provided financing for projects like the Kamchay hydropower dam in Cambodia, the Bac Giang-Lang Son highway and Vin Than coal power plant in Vietnam. Additionally, multiple dams and transmission systems in Laos as well as several small projects in Myanmar and Thailand were financed by Eximbank.<sup>85</sup> But at all, the Chinese net official development assistance (ODA) accounted for less than USD 5 billion per annum in 2014.<sup>86</sup> This was four times less than U.S. ODA worldwide, while both countries spent about one third of the ODA to Asia.<sup>87</sup> This shows the relative importance of Chinese financial activities but does not allow to describe a concrete regional pattern within ASEAN.

As a main result, Figure 3 shows currently Southeast Asia cannot be called a Chinese "backyard", at least not on the basis of economic data like OFDI and trade ties. Only Laos is heavily relying on China as a foreign investor. Also Cambodia and Myanmar depend on China in economic terms, although to a lesser degree. At the moment, all other countries in ASEAN remain largely independent from China economically. But is this pattern changing?

## 4 Geopolitical explanations and trends

### 4.1 Countries (partly) dominated by FDI

**Laos:** This is one of ASEAN's smallest and poorest countries. However, between 2003 and 2013, its growth averaged 7.6%, a rate only topped by its neighbour Cambodia. With 61% of its only 6.8 million inhabitants in the working age Laos is an attractive destination for labour-intensive manufacturing. Also, tourism and export has become a main driver of growth. But the trade volume of Laos is quite small and its trading partners are its immediate neighbours: Thailand, China and Vietnam.<sup>88</sup> While Thailand accounts for nearly half of Laos's trade volume, China holds the second place with about 22%.<sup>89</sup> Cooperation with China therefore is important for Laos because the country serves as a stronghold against Thai domination.<sup>90</sup>

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<sup>85</sup> Inclusive Development International 2016: 58.

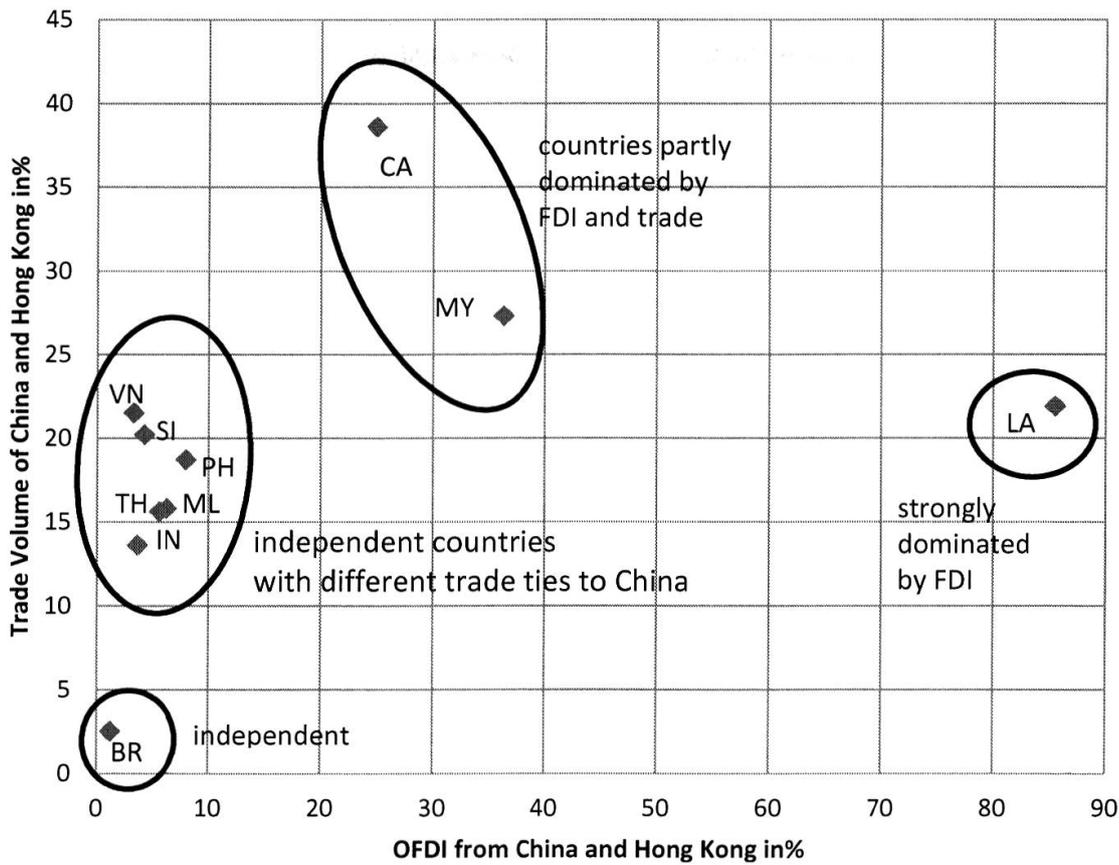
<sup>86</sup> Kitano 2016: 21.

<sup>87</sup> Snell 2015: 17–20.

<sup>88</sup> Salidjanova/Koch-Weser 2015: 36.

<sup>89</sup> See Table 3.

<sup>90</sup> Guan 2012: 38.



**Figure 3:** Chinese and Hong Kong’s OFDI and Trade Volume (in percent).  
 Source: Own calculations.

China has also been actively competing with Vietnam for Lao allegiance, and in 2010 exceeded Thailand as the largest foreign investor.<sup>91</sup> Like this, Laos in terms of FDI indeed became something like a Chinese backyard. In 2003, Chinese OFDI accounted for about 1.5% of total FDI in Laos, only.<sup>92</sup> But already in 2012, Chinese OFDI stocks are reckoned with USD 1,928 million or 58.8% of all FDI stocks in the country. Thailand followed with USD 1,009 million.<sup>93</sup> This FDI dependency according to my calculations rose to about 85% in 2015.<sup>94</sup> In 2016, China accounted for 66% of FDI flows.<sup>95</sup> However, the main investors in Laos are Chinese SOEs as well as large private enterprises. While the former invest mostly in agriculture, mines, hydropower plants, and industries, the latter have

<sup>91</sup> Guan 2012: 39.

<sup>92</sup> Salidjanova/Koch-Weser 2015: 36–38.

<sup>93</sup> Cook/Nair 2015: 9–11.

<sup>94</sup> See Table 2.

<sup>95</sup> ASEAN 2017: 34.

chosen the casino sector. As a result, the north of Laos has been converted into extensive rubber plantations as well as huge gambling enclaves which get gains by a kind of extra-territoriality. For instance, in northern Laos, two important SEZs are located close to the Chinese border. The “Golden Boten City” and the “Golden Triangle SEZ” consist of casinos, hotels and other tourism facilities. Ironically, this is reminiscent of the concessions which were imposed on China by the western colonial powers in the nineteenth century. But on the other hand, Chinese capital is also an unexpected opportunity to modernise the country. At the same time, this also illustrates the overlapping of legal activities like development of tourism and illegal practices like prostitution, gambling or drug money-laundering. Both help Laos to reduce poverty. Additionally, the ruling Lao Communist Party may consider economic cooperation with China as an alternative to the anti-opium aid programmes of the United Nations which are connected with hopes of a democratic opening.<sup>96</sup>

China has also offered additional support to Laos. In 2013, China provided the country USD 49 million grant aid and a USD 32.6 million in interest-free loans.<sup>97</sup> In this way, China has become Laos’s primary supplier of economic assistance, financing a huge number of energy-related infrastructure, agricultural and other development projects.<sup>98</sup> Additionally, in 2016 Chinese Norinco and Sinomach invested USD 2,750 billion into Electricité du Laos.<sup>99</sup> Also, several railway connections are either planned or already under construction. Because both countries are ruled by communist parties, political relations between them are strong. China must be seen as a counterweight to the neighbours Thailand and Vietnam which dominated the country in the past.

**Cambodia and Myanmar:** These two countries belong to the group of low-income economies in Southeast Asia.<sup>100</sup> But Cambodian economy averaged 8% growth per year from 2003 through 2012, one of the highest rates within ASEAN. Main drivers of growth here were tourism to Angkor and the garment industry. Textile industry-related products constitute around 70% of Cambodia’s exports. Additionally, the government depends on foreign aid donors for more than half of its annual fiscal budget.<sup>101</sup>

As a consequence, trade is very imbalanced. While Hong Kong and the U.S. are the main export destinations, China primarily due to textile shipments is

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96 Tan 2015: 12–17.

97 Salidjanova/Koch-Weser 2015: 36–38.

98 Zhao 2015a: 98.

99 AEI 2016.

100 World Bank 2016.

101 Salidjanova/Koch-Weser 2015: 34.

dominating the imports with nearly 40%. Hong Kong accounts for additional 8.8%.<sup>102</sup> Therefore, Cambodia is suffering from a continuously growing trade deficit with China. Because of its underdeveloped infrastructure, low capacity technologies and a modest pool of talents and funds Cambodia's attraction of FDI is poor.<sup>103</sup> Accordingly, Chinese OFDI stocks in Cambodia amount to some 25%.<sup>104</sup> In the last years, Chinese companies were the largest manufacturing investors, responsible for about 46% of FDI into this sector, in particular garment industry. Additionally, investments in agriculture activities in Cambodia are dominated by Vietnam while Malaysia is a significant investor in finance.<sup>105</sup> But Chinese OFDI flows remain on a high level. In 2015 and 2016 Chinese and Hong Kong's OFDI to Cambodia together accounted for 40 respective 33%. In comparison, the FDI flows from Japan and the EU were rather small with only 9% and 8% in 2016 respectively.<sup>106</sup>

Already during the Vietnam War the Cambodian government under Sihanouk turned to China which had endorsed the country's policy of "strict neutrality". After a disruption by the takeover of U.S. backed General Lon Nol due to the victory of Khmer Rouge in 1975, the country until the Vietnamese occupation in 1979 moved into the orbit of its Chinese donors. After regaining independence in 1989, China resumed ties with the restored kingdom. Nowadays, China serves Cambodia's interest as a bulwark against Vietnamese or Thai hegemony.<sup>107</sup> Therefore, Cambodia is also cooperating with China in military issues nowadays. For instance, in 2003 both countries signed a memorandum of defence cooperation stipulating China's support in developing a Cambodian military airfield and in building barracks as well as officer's quarters. In return, China backs Cambodia with several loans and developmental aid.<sup>108</sup> As a result, China today is not only one of Cambodia's top foreign investors but also the country's main aid donor.<sup>109</sup> Therefore, Cambodia leans towards China also politically, e. g. in the South China Sea dispute.<sup>110</sup>

Similarly to Laos and Cambodia, the size of FDI stocks and the annual inflow in Myanmar are also very small.<sup>111</sup> Nevertheless, Myanmar is at least

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**102** See Table 3.

**103** Jalilian 2013: 125–126.

**104** See Table 2.

**105** ASEAN 2015: 11.

**106** ASEAN 2017: 31.

**107** Guan 2012: 37–38.

**108** Salidjanova/Koch-Weser 2015: 34–36.

**109** Zhao 2015a: 98.

**110** Zhao 2014: 13.

**111** Cook/Nair 2015: 4.

partly depending on Chinese FDI, too. Already during the political isolation under the military regime opportunities for China's policymakers have been opened up in Myanmar. China supported the "rogue regime" by giving it international recognition as well as financial support through FDIs and developmental aid. Conversely, Myanmar had to allow China to secure oil and gas exploration contracts, building deep sea ports and pipelines.<sup>112</sup> In contrast, the democratisation of Myanmar has been an important goal of U.S. policy under all recent administrations. Under president Obama, dialogue became a significant complement to sanctions.<sup>113</sup> As a low-income country, Myanmar is characterised by a lack of industrial development. Additionally, trade is not so important for Myanmar's economy. The trade-to-GDP ratio accounts for less than 50%. The country runs a huge trade deficit and relies on two regional trading partners, Thailand and China.<sup>114</sup> While Thailand is Myanmar's largest export partner with a share of about 42%, China is the leading import partner with more than 27%. Thailand, China and Hong Kong together account for more than 58% of Myanmar's trade volume.<sup>115</sup> Also Chinese OFDI to Myanmar have been rising for several years. From 2004 to 2012, the amount of Chinese OFDI in Myanmar increased from USD 4.1 million to USD 749 million.<sup>116</sup> In particular, Chinese SOEs have invested intensively in large-scale infrastructure projects. The cornerstone of the Chinese FDIs is a common pipeline project with the main purpose to transport oil and gas from the Middle East and Africa from the Indian Ocean directly to China by circumventing the Strait of Malacca. It was put into operation in 2013.<sup>117</sup> But the project has encouraged a number of obstacles like tensions between Chinese and Burmese workers or resistance from local communities which feel insufficiently reimbursed for their land. Additionally, in 2011 the construction of a Chinese backed hydropower dam as well as a joint copper-mine project had to be halted because of opposition by local Burmese.<sup>118</sup>

The loosening and reduction of Western sanctions since the elections in Myanmar 2010 induced a greater diversity in FDI, i. e. China – the main player since 2005 – is only one among several foreign stakeholders in the country. As a consequence, Myanmar is not reliant on countries like China and Russia for strategical support anymore.<sup>119</sup> According to data of IMF and MOFCOM, the

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**112** Wong/Cheng 2015: 277.

**113** Haacke 2012: 53–54.

**114** Salidjanova/Koch-Weser 2015: 31.

**115** See Table 3.

**116** Zhao 2015a: 101.

**117** Zhao 2015a: 87.

**118** Salidjanova/Koch-Weser 2015: 33.

**119** Oh/Andrews-Speed 2015: 7.

stock of Chinese OFDI in Myanmar thus accounted for only 20.80 % in 2015. But if one adds the roughly 15.50 % FDI from Hong Kong, Myanmar is still dominated by Chinese FDI today,<sup>120</sup> although dependency is decreasing. In 2015 and 2016 Chinese and Hong Kong's OFDI to Myanmar accounted for only 8 % and 12 % respectively, while intra-ASEAN FDI flows with 73 % respective 56 % were overwhelming.<sup>121</sup> Therefore, Myanmar due to its stronger position is now able to claim re-negotiation of conditions that were agreed on under less favourable circumstances.<sup>122</sup>

It is obvious that Myanmar has to balance the economic power of its neighbours Thailand and China. But Myanmar is also of strategical interest for India which finances several infrastructure projects in the country.<sup>123</sup> The particular strategic importance of Myanmar lies in its ability to open access to the Indian Ocean both for China and India's Northeast. In this context, Beijing apparently hopes to achieve its longer-term objective to develop a naval presence in this world region.<sup>124</sup> In view of these circumstances, it is not surprising that in the past Myanmar leant towards China also politically, e. g. in the South China Sea dispute.<sup>125</sup> Yet, Myanmar's development into a democracy has not only brought along a shift in geopolitical positions, but also in the balance of power.

## 4.2 Independent countries with different trade ties

**Singapore:** Since Sir Stamford Raffles incorporated Singapore into the orbit of the British East India Company in 1819, the city has been a society of multi-cultural immigrants. Singaporeans have mainly Chinese (74 %), Malay (13 %) and Indian (9 %) ethnic background. But from the beginning of independence in the 1960s, the predominantly Chinese leadership of Singapore introduced policies to establish a Singaporean identity. To foster multiculturalism and to create an internationally competitive labour force, the government has chosen English as the primary language in the education system. But despite the Hokkien background of most of Singaporean Chinese it also started a "Speak Mandarin" campaign in 1979. Therefore, Singapore's language selection is telling of the country's pragmatism and balancing of Chinese and English speaking markets.<sup>126</sup>

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120 See Table 2.

121 ASEAN 2017: 37.

122 Oh/Andrews-Speed 2015: 45.

123 Zhao 2015b: 17.

124 Haacke 2012: 57.

125 Zhao 2014: 13.

126 Vidra 2012: 68.

Singapore heavily relies on commerce with a trade-to-GDP ratio of about 300%. At the same time, it is one of the largest trading centres in the world. Additionally, the city is an important transit site for energy shipments from Africa or the Middle East to Northeast Asia.<sup>127</sup> Nevertheless, Singapore's financial sector is of highest importance for the development of the country.<sup>128</sup> Singapore optimises its economic opportunities by growing market ties with China on the one hand and by robust diplomatic, military and economic relations to the U.S. on the other. In this way, the country can balance its cultural, spatial and economic links to China all by keeping its independence.<sup>129</sup> With regard to Chinese FDI the city-state is an outlier in ASEAN. But unlike other ASEAN states, Singapore is also a substantial investor in China. For instance, between 2003 and 2013 cumulative Singapore's FDI in China accounted for USD 44 billion or 41% of ASEAN OFDI in China. Additionally, Singapore was one of the first countries to sign a bilateral FTA with China in 2008. Therefore, China today is the country's largest import and export partner, accounting for 14.0% of Singapore's trade volume.<sup>130</sup> The city state is also collaborating with China on several infrastructure projects.<sup>131</sup> But Singapore's status as one of the world's leading financial centres is preventing the country from being over-reliant from any financial partner. Chinese OFDI stocks in Singapore accounted for more than USD 31 billion in 2015. This represents only 3.27% of all OFDI stocks.<sup>132</sup> Singapore thus is certainly not over-reliant on China.<sup>133</sup>

On the other hand, military ties to the U.S. are stronger than to China. Although Singapore is not an official ally of the U.S., it is an important partner for the U.S. in security issues in Southeast Asia. In 2005, the defence relationship between both countries was formalised with the Strategic Framework Agreement (SFA), which expanded the focus of cooperation in several areas like counterterrorism. The agreement also allows the U.S. access to several Singaporean military facilities.<sup>134</sup> Singapore signed also a FTA with the U.S. in 2004. However, Singaporeans don't want to become a satellite, be it China or any other great power.<sup>135</sup> All in all, one can say that Singapore is very successful in balancing the Great Powers to keep its independence.

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127 Salidjanova/Koch-Weser 2015: 14.

128 Lee 2014b.

129 Vidra 2012: 67.

130 See Table 3.

131 Salidjanova/Koch-Weser 2015: 15.

132 See Table 2.

133 Lee 2014b: 14.

134 Wood 2015: 117.

135 Vidra 2012: 72.

**The Philippines and Vietnam:** Due to their common struggle against China's efforts to expand its sphere of influence in the South China Sea, the Philippines and Vietnam appear to be "natural allies".<sup>136</sup> This sea has been an important shipping lane for several centuries. Additionally, its rich fish resources have provided livelihood for the surrounding countries. However, the discovery of huge oil and gas reserves since World War II is provoking new geopolitical conflicts.<sup>137</sup> The countries in Southeast Asia have focussed on economic development and cooperation also with China, and those among them who are refuting China's claims in the South China Sea attempt to avoid any escalation of this dispute into an open conflict. Therefore, as early as in 2002 ASEAN countries and China signed a "Declaration on the Conduct of Parties in the South China Sea". But after more than 10 years no detailed code of conduct for maritime activities in the disputed area has been agreed upon. In recent years, China's policy was characterised by increasing military activities and deliberate provocations of its southern neighbours. This may result from the CCP facing pressure from rising nationalism in its own country, as Zhao (2014) points out.<sup>138</sup> The U.S. "Pivot" of 2011 has resulted in a more assertive attitude of some claimant states – in particular the Philippines and Vietnam.<sup>139</sup> Both countries approve of U.S. activities in East Asia.<sup>140</sup>

The Philippines are economically less important for China than politically. Chinese FDI is on a small level (1.2%) and Japan remains the Philippines's largest trade partner, followed by China and the U.S.<sup>141</sup> But Chinese-Philippine economic and trade relations are suffering from the South China Sea disputes.<sup>142</sup> Maritime territorial disputes are a key source of bilateral tensions.<sup>143</sup> In contrast to other ASEAN countries, the Philippines have not been very active in signing FTAs either with China or with other countries.<sup>144</sup> In addition, the colonial past of the Philippines has strengthened the ties with the U.S., not least due to a felt cultural affinity. For instance, most Filipinos are fluent in English. Economically, U.S. influence in the Philippines is supported by the presence of the Washington-based World Bank and the Asian Development Bank. Besides Japan, the U.S. is the largest shareholder of the latter.<sup>145</sup> Eventually, the Philippines have the oldest

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136 Hiep 2015: 2.

137 Zhao 2015a: 170.

138 Zhao 2014: 4.

139 Majid 2012: 30.

140 Mazza 2016.

141 See Tables 2 and 3.

142 Wang 2015: 87.

143 Salidjanova/Koch-Weser 2015: 25.

144 Zhao 2015a: 183.

145 Yujuico 2012: 61.

U.S. defence relationship in East Asia. The country was wrested from the Spanish crown as a result of the Spanish-American War in 1898. In 1946, the archipelago was granted independence. Until the end of the Cold War, the largest U.S. military bases in the Pacific Ocean were located in the Philippines. In 1991, a successor to the “Military Bases Agreement” was rejected by the Philippine government compelling American withdrawal from its territory. But in spite of the closing of the U.S. bases, U.S.-Philippine military relations remained extensive to the present day. In 2014, the U.S. and the Philippines announced a new “Enhanced Defence Cooperation Agreement” (EDCA) allowing an expanded U.S. presence in the Philippines. Especially, the growing tensions in the South China Sea have led to a sustained perception in the Philippines that the country is in need of support by and closer cooperation with the U.S.<sup>146</sup>

On the other hand, Filipino business elites are predominantly of Chinese pedigree. It is all the more remarkable that China has been unable to translate this historical influence into more substantial economic and political relations. As opinion polls show, the Filipinos are more likely to distrust than to trust China, a tendency which reflects the territorial disputes in the South China Sea.<sup>147</sup> Nonetheless, the political situation may change in the near future, and the truest ally of the U.S. in East Asia may swing to the “Chinese side”, since president Rodrigo Duterte is leaning towards China. For instance, the Philippines accepted USD 24 billion developmental aid from China in 2016.<sup>148</sup>

The second country with substantial maritime sea disputes with China is Vietnam. The Chinese OFDI stock here accounted for less than 3.3% in 2015. But the country’s trade with China is very imbalanced. While the U.S. remain Vietnam’s main export partner (19.1%) followed by China (9.9%), imports from China with 29.5% are overwhelming.<sup>149</sup> Both countries have Socialist Market Economies and they share deep rooted historical and cultural relations. On the other hand, Vietnam wants to avoid the impression that the country is becoming reliant on the Chinese economy. The diplomatic relationship has suffered – like in the case of the Philippines – from China’s aggressive behaviour in the South China Sea as well as from memories of the 1979 Chinese-Vietnamese War.<sup>150</sup> Thus, in May 2014, when China placed its giant oil rig “Haiyang Shiyou

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146 Wood 2015: 115–116.

147 Yujuico 2012: 62.

148 Hein 2016.

149 See Table 3.

150 Salidjanova/Koch-Weser 2015: 28–30.

981” in what Vietnam considers its Exclusive Economic Zone, this provoked a diplomatic crisis until China withdrew its oil rig.<sup>151</sup> It thus seems that Vietnam has the most problematic relations with China and in spite of its history tends to consider the U.S. as a countervailing force against Beijing.<sup>152</sup> Thus, in 2011 the two countries concluded their first military agreement since the Vietnam War and military cooperation is gradually deepening.<sup>153</sup> But Vietnam, which traditionally considers China as a security threat, has endorsed a policy of “Three No’s Principles”: “no military alliance, no foreign base on Vietnam’s soil, and no relationship with one country against a third country”.<sup>154</sup> Vietnam thus will most probably never become an U.S. ally like the Philippines, particularly, because of the country’s war experience, but also due to fears of U.S. “plots of peaceful evolution” to democracy. At the same time, the country has to look for an ally outside ASEAN, and the U.S. might be an option for Vietnam.<sup>155</sup> At large, both countries are supported in their territorial claims by the U.S. and Japan which want to prevent the rise of China’s maritime power in the region.

**Indonesia and Malaysia:** In the Muslim states of Southeast Asia, Malaysia and Indonesia, where Chinese minorities are economically successful, anti-Chinese sentiments are strong. This was officially institutionalised with the “Benteng” (fortress) policy in Indonesia in the early 1950s and the New Economic Policy (NEP) in Malaysia from 1971 with the declared intention of achieving economic parity between the politically dominant Malays and the economically omnipresent Chinese.<sup>156</sup> Therefore, both states are cautious in building up closer relations to China without balancing them.

Indonesia is the country with the largest population and economy in ASEAN. However, the country remains relatively poor. With 43%, its trade-to-GDP ratio is one of the lowest in ASEAN.<sup>157</sup> During the Cold War the Chinese-Indonesian relations were characterised as a “pathological Sinophobia” because of the distrust in Indonesia’s own ethnic Chinese citizens but also because of the fear from communist China.<sup>158</sup> It was a clear strategic calculation by Suharto not to normalise Indonesia’s relations with China. Since the 1990s, the relations between both nations have improved drastically. But Indonesia keeps a distance to China in terms of economic diplomacy. The country has signed no FTA with

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151 Nguyen 2015: 9.

152 Guan 2012: 40.

153 Zhao 2014: 19–20.

154 Hiep 2015: 2–4.

155 Nguyen 2015: 24.

156 K.S. 2003: 20.

157 Salidjanova/Koch-Weser 2015: 18.

158 Lee 2013b: 3–6.

China, but with its wealthier neighbours Japan and South Korea.<sup>159</sup> On the other hand, Chinese FDI in Indonesia was rising to a stock of USD 8.125 billion in 2015.<sup>160</sup> Additionally, China became an important lender to Indonesia. The country is also one of China's top energy and raw material suppliers, such as LNG, coal, nickel, bauxite, and iron core. In particular, Indonesia's LNG production is the third largest in the world, after Qatar and Malaysia. Also for other raw materials China is highly dependent from Indonesia.<sup>161</sup> Simultaneously, Japan remains Indonesia's largest export partner. But with 13.6 %, China is the largest trade partner, while Chinese FDI at the same time is on a low level.<sup>162</sup>

For most Indonesian elites, ASEAN constitutes the main area of interest in Indonesia's foreign relations. Stability, security, and prosperity of Southeast Asia are Indonesia's core strategic goals. This was already set out in the political principle of "bebas aktif" (free and active) in 1948 which demanded that Indonesia does not take sides in any rivalry between great powers. To balance China's influence, Indonesia is forging a closer relationship to the U.S. under a Comprehensive Partnership Agreement.<sup>163</sup> Indonesia perceives itself as the leader of the region.<sup>164</sup> But Indonesia's president Widodo's goal to revive the country's position as a maritime power at the axis of Indian and Pacific Ocean provides China great opportunities for future cooperation, in particular in the framework of China's "Maritime Silk Road" approach. Therefore, there are indications that Indonesia under president Widodo is approaching China.<sup>165</sup> On the other hand, Indonesia came into conflict with China because of the maritime disputes in the South China Sea in 2016. The main apple of discord are fishery rights in the waters surrounding the Indonesian island of Natuna.<sup>166</sup> While the country remains economically weak domestically, it is large and powerful enough to resist strategic demands of foreign powers.

Quite similar is Malaysia's geopolitical position. The country's strategic geographic location in Southeast Asia has eased its trade relations between the East and the West through the Strait of Malacca – already since the time of the Malacca Sultanate in the fourteenth and fifteenth centuries. In contrast to Indonesia, the Malaysian economy performed well in the last years. As a result, Malaysia as the only ASEAN member state except Singapore and Brunei has

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159 Salidjanova/Koch-Weser 2015: 18–19.

160 See Table 2.

161 Zhao 2015b: 10–15.

162 See Tables 1, 2 and 3.

163 Sukma 2012: 42–45.

164 Zhao 2015a: 183.

165 Zhao 2015c: 18–22.

166 Weatherbee 2016: 2.

achieved the upper-middle-income status.<sup>167</sup> With a trade-to-GDP ratio of over 150 %, international trade has a relevant share in Malaysia's success.<sup>168</sup> Especially, export of LNG is of utmost importance.<sup>169</sup> But Malaysia's trade structure is not dominated by any single partner. Indeed, China is the country's second large export partner and largest import partner, but Singapore is on a similar level, followed by Japan and the U.S.<sup>170</sup> Therefore, Malaysian trade is balanced among trade partners. For years, Malaysia was an ASEAN member state that invested more in the People's Republic of China than China invested in Malaysia. Even today, Chinese FDI stock in the country with 1.90 % is even smaller than in Indonesia.<sup>171</sup>

But in Malaysia China is considered a promising and trustful partner.<sup>172</sup> Quite similar to Indonesia, Malaysia is calling for a "neutralisation" of Southeast Asia. Therefore, the country proposed a "Zone of Peace, Freedom and Neutrality" (ZOPFAN). This initiative requires that no major powers have significant political or military presence in the region. This is somewhat different from Singapore's approach, which accepts the presence of both the U.S. and China considering them as stabilising powers balancing each other. However, Malaysia has not been averse to joint military exercises with the U.S. Additionally, it also offers the U.S. military access to its airfields and ports. While Malaysia at the same time is also claiming a number of reefs in the South China Sea, the country and China have agreed on peacefully continuing negotiations over all territorial disputes.<sup>173</sup> This strategy may be the result of the ethnical division of the Malaysian population: While some Islamist groups in the dominant United Malays National Organisation (UMNO) party are reluctant to appear too close to the U.S., many of the pro-business ethnic Chinese community are forging strong business relations to China.<sup>174</sup> Therefore, Malaysia has invested much care in promoting its image as a neutral broker in Southeast Asia. In sum, both countries – Indonesia and Malaysia – are cautious about the U.S. involvement in the South China Sea dispute.<sup>175</sup>

**Thailand:** The Kingdom of Siam – as Thailand was known in the nineteenth century – maintained its sovereignty also during the whole period of European

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167 World Bank 2016.

168 Salidjanova/Koch-Weser 2015: 20.

169 Zhao 2015b: 10.

170 See Table 3.

171 See Table 2.

172 Zhao 2015a: 184.

173 Saravanamuttu 2012: 47–50; Lee 2013b: 8.

174 Lee 2013b: 5.

175 Lee 2014a: 5.

colonialization in Southeast Asia. After World War II the royal regime felt threatened by communism and feared regional instability. Therefore, Thailand as early as in 1954 joined the Philippines as a founding member of the now defunct U.S. led South East Asian Treaty Organisation (SEATO). Additionally, Thailand was also founding member of ASEAN.<sup>176</sup> Thailand thus is one of the first U.S. allies in Southeast Asia. The country's central location in mainland Southeast Asia has made it an important cornerstone of U.S. alliances in East Asia, especially during the Vietnam War. As a result, U.S. and Thai forces conduct regular common exercises until now. But U.S.-Thai relations became estranged in recent years due to domestic unrest and several military coups in Thailand.<sup>177</sup>

Today, Thailand is the second largest economy in ASEAN. In terms of FDI, the country is entirely independent from China which accounts for less than 2%.<sup>178</sup> Obviously, the sectors open to FDI are not corresponding to China's strategic interests.<sup>179</sup> Like Malaysia, the country is very open to trade with a trade-to-GDP ratio of about 140%. What makes Thailand unique is its export of services, especially tourism.<sup>180</sup> Thailand's trade is very balanced. In 2015, the U.S. were the main export partner of Thailand (11.3%), followed by China (11.1%) and Japan (9.4%). These three countries are also the leading partners from which Thailand imported goods.<sup>181</sup> But the trade with China is rising enormously. During the decade of China's entrance into WTO in 2001 and 2011, it rose with growth rates of 26.7% per annum.<sup>182</sup> Like this, Thailand has also been shifting towards the People's Republic of China, especially in economic terms. But domestic producers have suffered from cheap Chinese manufactured imports, especially in the agricultural sector.<sup>183</sup>

While Chinese-Thai relations have never been estranged, the deepening of the current bilateral relationship is mainly fuelled by the Overseas Chinese in Thailand, who have not only become well-integrated economically but who are in fact dominating the economic sphere. Military relations also have deepened in the last years, as China has trained more Thai middle-ranking officers in China. Additionally, both countries have undertaken joint military exercises since 2003.<sup>184</sup> Since 2007, Thai and Chinese military forces realised several joint

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176 Lee 2013a: 3–4.

177 Wood 2015: 116.

178 See Table 2.

179 Lee 2013a: 26.

180 Salidjanova/Koch-Weser 2015: 23.

181 See Table 3.

182 Lee 2013a: 15.

183 Jalilian 2013: 25.

184 Pongsudhirak 2012: 77.

counterterrorism exercises. Since 2010, both marines also have conducted common exercises.<sup>185</sup> All in all, Thailand never viewed China as a source of strategic instability. Rather, it sees China as a valued and reliable political, economic and military partner. In view of this, the U.S. pivot to East Asia has been considered detrimental to Sino-Thai relations.<sup>186</sup>

In contrast, U.S.-Thai relations worsened, in particular after the military coup in 2014. The U.S. withheld several millions of USD in military and security aid to Thailand. Additionally, U.S.-Thai bilateral naval exercises were cancelled. But while the U.S. demanded democratic elections in Thailand, China remained silent in this respect. But China still has not replaced the U.S. as Thailand's most important cooperation partner. Plans to build a high-speed rail link with Kunming via the Laotian capital Vientiane by 2021 already collapsed in 2014.<sup>187</sup> Currently, China tries to convince Thailand – and Malaysia as well – to realise the Kra Isthmus canal project. Once completed, the canal will significantly reduce transportation time and costs between the Indian and the Pacific Ocean. Additionally, China will become less dependent on the Strait of Malacca.<sup>188</sup> However, to date the project is still far away from realisation.

While Thailand thus officially remains a political ally of the U.S., economic and military relations to China are on the rise. Therefore, many commentators believe that Thailand is slowly but steadily drifting towards China.<sup>189</sup> After the coup of 2014, this process has accelerated. Thailand's military government is strengthening military cooperation with China, first by the expansion of joint exercises, and second by a decision to purchase three submarines from China.<sup>190</sup> But as we have shown, both Thailand's trade and FDI inflow are balanced at the moment. Therefore, the country still has significant alternatives to China. As a result of this, the country is neutral in the South China Sea dispute.<sup>191</sup> After all, it thus can be considered a small middle power in Southeast Asia.

**Brunei Darussalam:** This country has the loosest ties to China within ASEAN. In 1984 it became independent from the UK. Independence followed after a civil war which prevented it from joining Malaysia. 15% of the population are Chinese speaking. Because of its wealth in oil and gas, the country is one of the richest in ASEAN. For the same reason, it is of strategic importance to China

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185 Wood 2015: 116.

186 Storey 2015: 2.

187 Storey 2015: 6–18.

188 Phi 2015: 55.

189 Lee 2013a: 1.

190 Storey 2015: 23.

191 Zhao 2014: 14.

because its oil and gas do not have to pass the Strait of Malacca, the bottleneck of Chinese energy imports. Thus, Brunei became a significant provider of energy resources to China within the last years. Since 2000, China is Brunei's eighth largest purchaser of crude oil.<sup>192</sup> However, by 2014 Japan was Brunei's largest export partner with a share of 37.2%, followed by South Korea with 11.0% and India with 9.1%.<sup>193</sup> While Chinese FDI in Brunei have increased from USD 6.51 million in 2008 to USD 73.52 million in 2015, the Chinese OFDI stock accounts for 1.21% only.<sup>194</sup> While maritime disputes on the Louisa Reef present a challenge to the bilateral relationship, the sultanate has not occupied any of the claimed maritime territories. Downplaying the issue, it focuses on multilateral mechanisms for dispute resolution.<sup>195</sup> All in all, the country seems absolutely independent from China.

## 5 Conclusion

Is Southeast Asia a “backyard” of the People's Republic of China? Obviously, not. Or at least: not yet. The region is not secure for Chinese presence, power, and passage. China neither is in a position to prevent the U.S., the main hostile foreign power in the region, from acquiring military bases and facilities in Southeast Asia. At the same time, there is a struggle for a new balance-of-power in the region. But China is forced to dedicate a lot of military resources to protecting its interests and assets. This entails that the dual hierarchy as postulated by Ikenberry (2015) can only be observed in part. Both main powers – China and the U.S. and its allies – have different levels of economic and military cooperation within ASEAN members. But while China is not dominating the entire region economically, military dominance of the U.S. neither remains stable throughout the whole of South East Asia. All in all, the pattern of Chinese, but also U.S. and Japanese economic and military activities appears quite diverse.

But it is obvious that China has taken efforts to dominate ASEAN economically. The Chinese government especially supports SOEs in investing in several countries of South East Asia. As a result, additionally to Laos, which is under Chinese control by OFDI, Cambodia and Myanmar have also been brought under

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192 Zhao 2015a: 85.

193 See Table 3.

194 See Table 2.

195 Salidjanova/Koch-Weser 2015: 12–14.

partial Chinese control by OFDI. But as states with traditionally good relations to the People's Republic, these countries never belonged to the sphere of influence of the U.S. – the main antagonist of China in South East Asia. These countries thus offered niches for Chinese investments and products. From a trade perspective, only Cambodia is really dependent from imports from China and Hong Kong which make up for 50 % of its trade. Beside Laos and Myanmar, a minor degree of trade dependency of 20 to 30 % can only be observed for Singapore and Vietnam.

In contrast, the U.S. by its military presence is able to ensure independence from China of several states in South East Asia, mainly in the maritime region. While the Philippines are a long-time ally of the U.S., Singapore and Thailand try to keep a balance between both competitors. At the same time, the Philippines, but also the communist party ruled Vietnam, compete with China for territorial claims in the South China Sea. Both are supported by the U.S., which insist on free navigation rights in the region. However, the new president of the Philippines, Duterte, shifts the country gradually towards the Chinese side. Singapore – with its Chinese speaking majority – is strong and independent because it has become an important financial hub not only for the region but on a global scale. Thailand which is controlled economically by its Chinese minority is also able to dominate Laos in terms of trade. But it is also influential in Myanmar where it is strongly competing with the People's Republic of China. However, since the military coup in 2014 and the following worsening of the U.S.-Thai relations it can be identified as a “swing-state”. In contrast, all three Muslim countries of the region, Malaysia, Indonesia and Brunei Darussalam are absolutely independent from China both relative to trade and investment. This is especially true for Brunei which as an oil exporting country can maintain its independence from China. On this account, Ikenberry's thesis of two hierarchies seems far too simple for explaining the political reality in present-day South East Asia.

Obviously, the above described pattern of China's economic influence and its military cooperation is also reflected in the attitudes of the various ASEAN members in the South China Sea dispute. While Cambodia, Laos, and Myanmar – countries that are economically dependent on China – are leaning toward China, both Vietnam and the Philippines support the U.S. position. Thailand and Singapore are neutral, but the Muslim states of Malaysia and Indonesia are cautious about U.S. involvement.<sup>196</sup> This is a mirror of the economic pattern of dependencies and shows the political importance of economic ties in geopolitics.

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196 Zhao 2014: 13–14.

Finally, China faces a dilemma: If it acts too aggressively, it runs the danger of pushing the small ASEAN countries into the arms of the U.S. But if it concedes, other Asian nations will become stronger and bolder in their cooperation with the U.S. in order to hamper Chinese ambitions in time.<sup>197</sup> So far, U.S. presence in South East Asia from a Chinese point of view can be considered an effort to encircle and contain China. Despite the fast speed of China's OFDIs in the region and its rising importance as a trade partner, the U.S. will stay a balancing military power in the region, and the same is true for Japan in terms of economic influence. At the same time, the Trump administration in Washington may fundamentally change the U.S. strategy towards East Asia. Trump focuses more on internal U.S. affairs than on foreign policy because he considers the U.S. suffering from globalisation. Therefore, his policy is also more protectionist. Consequently, the U.S. left the Trans-Pacific Partnership (TPP) agreement already in January 2017, leaving behind a large economic diplomacy vacuum in the region.<sup>198</sup> The geopolitical situation in South East Asia thus will become more complex in the future. We therefore agree with Ikenberry (2015) that there is no simple transition from American hegemony to Chinese hegemony in ASEAN.<sup>199</sup> In contrast, for the ASEAN countries the current U.S.-Chinese competition for supremacy brings along an opportunity to balance their own independence, although they may fear that the withdrawal of the U.S. from the regional "Great Game" will lead to the rise of China as the sole hegemonic power in the region.

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**197** Nguyen 2015: 30.

**198** Das 2017: 5.

**199** Ikenberry 2015: 32.

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