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## The South China Sea Dispute: A Reflection of Southeast Asia's Economic and Strategic Dilemmas (2009-2018)\*

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**Abstract:** The asymmetric distribution of power in the Asian maritime region is favoring China, increasing the apprehension of its neighbors that, faced with their evident vulnerability, fear about Beijing's intentions. In this context, the balance of power maintains the *status quo* and limits China's behavior against other coastal countries. Given the disparity of military and economic power between Southeast Asia and China, this balance can only be achieved with the intervention of an extra-regional power, the United States. The renewed American participation as a guarantor of regional security has created new bonds of strategic dependence for Southeast Asia, which in turn have economies that mainly rely on China. The South China Sea conflict is then posing two dilemmas for the region: China's increasing economic leverage and Washington's reactive and challenging Indo-Pacific policy, which might make a stalemate in the maritime conflict possible.

**Keywords:** ASEAN; asymmetry; economic statecraft; South China Sea; United States

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## *La contienda por el mar de la China Meridional: un reflejo de los dilemas económicos y estratégicos del sudeste asiático (2009-2018)*

**Resumen:** la distribución asimétrica del poder en la región marítima asiática favorece cada vez más a China, lo que aumenta la aprensión de sus vecinos que, ante su evidente vulnerabilidad, temen a las intenciones de Beijing. En este contexto, el equilibrio de poder permite mantener el *status quo* y limitar el comportamiento de China contra otros países costeros. Dada la disparidad del poder militar y económico entre el sudeste asiático y China, este equilibrio solo se puede lograr mediante la intervención de un poder extrarregional: los Estados Unidos. La renovada participación estadounidense como garante de la seguridad regional ha creado nuevos lazos de dependencia estratégica para el sudeste asiático, que a su vez tienen economías que dependen principalmente de China. El conflicto por el mar de la China Meridional plantea dos dilemas para la región: la creciente influencia económica de China y la política reactiva y desafiante de Washington sobre el Indo-Pacífico, lo que posibilitaría aún más un estancamiento en el conflicto marítimo.

Palabras clave: ASEAN; asimetría; política económica; mar de la China Meridional; Estados Unidos

## *A disputa pelo mar da China Meridional: um reflexo dos dilemas econômicos e estratégicos do sudeste asiático (2009-2018)*

**Resumo:** A distribuição assimétrica do poder na região marítima asiática favorece cada vez mais a China, o que aumenta a apreensão de seus vizinhos que, ante sua evidente vulnerabilidade, temem as intenções de Pequim. Nesse contexto, o equilíbrio de poder permite manter o status quo e limitar o comportamento da China contra outros países litorâneos. Tendo em vista a disparidade do poder militar e econômico entre o sudeste asiático e a China, esse equilíbrio somente pode ser atingido com a intervenção de um poder extrarregional: os Estados Unidos. A renovada participação estadunidense como garantia da segurança regional tem criado novos vínculos de dependência estratégica para o sudeste asiático, que, por sua vez, tem economias que dependem principalmente da China. O conflito pelo mar da China Meridional apresenta dois dilemas para a região: a crescente influência econômica da China e a política reativa e desafiante de Washington sobre o Indo-Pacífico, o que possibilitaria ainda mais uma estagnação no conflito marítimo.

**Palavras-chave:** Área de Livre Comércio entre a Associação de Nações do Sudeste Asiático e a China — Asean; assimetria; política econômica; mar da China Meridional; Estados Unidos

## Introduction

In October 2018, China and the Association of Southeast Asian Nations (ASEAN) held the first maritime exercise between them in history (Parameswaran, 2018). This unprecedented event was initially proposed by Beijing in 2015, in a context of increasing tensions in the South China Sea (SCS) conflict, particularly with Vietnam and the Philippines. Most observers understood that Beijing's gesture was aimed at easing tensions with ASEAN members and "also helps promote the image of a cooperative and benevolent China" (Ha, 2019, p. 13), appeasing criticisms over its growing assertiveness in the maritime territory. Nonetheless, China's position on sovereignty over this maritime territory is unwavering, and the discourse and policies have been strengthened in the last years. The conflict is currently at the top of Asia's security agenda and a central concern for most ASEAN countries.

The SCS borders southern China and its waters are home to more than 400 islands, reefs and sandbanks, and numerous archipelagos, including the Spratly Islands and the Paracel Islands. The contending parties are the People's Republic of China (PRC), the Philippines, Vietnam, Malaysia, Brunei, and Taiwan. While the PRC and Vietnam are claimants to the total territory, the other four claim parts of it. The overlapping nature of the demands in terms of the territory is not new. But the behavior of the claimant governments, mainly the more assertive policy implemented by Beijing since the last 2000s, has intensified the conflict. The interests that support the claims are based, in part, on the hydrocarbon reserves that the territory has, as well as other natural resources, such as fish. However, what distinguishes the SCS is its strategic location as a commercial maritime transport route.

Chinese recent foreign policy has shown its unwavering will to extend its supremacy in the area, not only in discursive terms but through a firm set of policies and concrete actions. Since he acceded to power, Xi Jinping has implemented a more confident, visible, and proactive international policy, showing China's will to pursue its national interest utilizing its growing power (Casarini, 2018; Zhang, 2015). In the case of the territorial claims, Xi (2015)

has stated that "the South China Sea islands have been China's territory since ancient times," reinforcing the idea of historic rights over the totality of the archipelagos within the "nine-dash line."

China's renewed assertiveness towards the maritime territory, combined with its growing economic and military power, has fueled Washington's interest in the region. Hillary Clinton's speech at the 17<sup>th</sup> ARF in July 2010, showing US interest in freedom of navigation and security in the SCS, was followed by Obama's administration rebalance to Asia policy in 2011, mostly as a sign to ASEAN states that the US would be a guarantor of their security and to assert its leadership in Asia to counterbalance a more powerful Chinese influence (Cruz de Castro, 2013).

For Southeast Asia (SEA), the maritime conflict has several implications. On the strategic dimension, the intensification of threats to regional security, along with the increasing Chinese presence in the maritime area, is driving the coastal states to strengthen their defensive capabilities. Therefore, the main logic behind the strategic dimension is the balance of power. There are multiple mechanisms to avoid an escalation of open confrontation at sea—that mainly ASEAN is trying to encourage—but the asymmetric distribution of power in the regional sphere favors the PRC. In this context, given the disparity of military and economic power between SEA countries and the PRC, the needed balance can only be achieved with the intervention of an extra-regional power. Currently, the United States is fulfilling that role (Scott, 2012; Yahuda, 2013).

There are also economic implications emanating from the territorial controversy. Since China is the major economic partner for all SEA countries, any military policies that could affect Chinese interests must be thoroughly weighed in this light. In other words, although SEA states feel increasingly threatened by the PRC's behavior and rhetoric regarding the SCS, they cannot afford to challenge its position since this could jeopardize their economic benefits. In the same vein, Beijing has pioneered several initiatives to enhance regional confidence and shown goodwill and cooperation towards the region, particularly in the economic realm (Nie, 2016).

Therefore, the increasing tensions in the scs highlight the relevance of this double dilemma for SEA countries. On the one hand, the economic dimension will become increasingly pressing over ASEAN states, given China's growing economic power and presence in most countries, which entails the most frequent use of economic statecraft. On the other, the region is facing a more robust and strategic approach by Trump's administration through the implementation of the Free and Open Indo-Pacific (FOIP) concept (Storey & Cook, 2018). Unlike his predecessor, Trump's policy on Asia Pacific puts China at the center of competition, posing a second dilemma for SEA states that do not wish to confront Beijing.

In this article, we analyze how the scs dispute is reflecting this double logic for SEA, through the concepts of dependency and economic statecraft, from an international political economy perspective. We take 2009 as the starting year for the study since it was when China officially submitted the nine-line dash map, which caused deeper apprehension among its smaller neighbors as well as a more active Chinese policy towards the territory.

To tackle this central question, we adopt a qualitative methodological approach through the analysis of official documents and trade and investment statistics. In the first section, we provide an overview of the conflict and the role of the United States and China in it. Then we concentrate on the analysis of SEA countries' involvement in the dispute and combine it with the level of economic dependence on China, which might be used as a tool to condition their behavior and decisions. As final thoughts, we point out that China's increasing economic leverage in SEA and Washington's reactive and contesting Indo-Pacific policy might create a higher possibility of a stalemate in the scs.

## **Dependency and asymmetry: Conditions for economic statecraft**

The scs conflict has attracted increasing attention of world scholars, particularly since the escalation of tensions started to be more apparent

around 2010. Focusing on different aspects and actors involved, a prolific number of works have addressed the topic.

Scholars tackling the issue from a SEA position analyze mainly ASEAN's role in the dispute. From an institutional perspective, Emmers (2018) underlines how the institution "has sought to preserve its neutrality/impartiality on the sovereignty dispute and establish a conflict management mechanism that includes all ten ASEAN members and China" (p. 363). From a constructivist perspective, authors as Acharya and Tan (2006) point out that the regional organization had a central role in "engendering a cooperative security environment," as opposed to the balancing role that realists acknowledge to the United States in East Asia security, including the scs. In the same vein, Ba stresses the importance of ASEAN in encouraging multilateralism "in an effort to mitigate Chinese influence" (Ba, 2003, p. 646).

Conversely, from a realist perspective, many contributions have been made to the debate on the ASEAN's role in the conflict, underlying the centrality of national security interests and the need for a balancer—the United States—to keep a stable environment and limit Chinese intentions and actions. In this line, Southgate and Khoo (2016) suggest that "autonomy, sovereignty, and state survival are reflected in the pursuit of interest convergence between ASEAN states and external great powers" (p. 228), thus adopting a state-centric approach. The authors argue that it was the convergence of national security interests—specifically from the Philippines, Vietnam, and the United States—that set the basis for a stronger ASEAN's stance to limit Chinese actions in the scs.

From a state-based perspective of SEA claimants, academic analysis has mostly focused on Vietnam and the Philippines. They are the ones with more compelling interests in the dispute, or vanguard states within ASEAN (Southgate & Khoo, 2016). Regarding the former, most works focus on the country's responses to China's increasing presence in the maritime territory from a strategic and political view (Hiep, 2015; Lye & Ha, 2018). From the Philippines' perspective, Cruz de Castro (2015) made relevant contributions to the analysis of the

bilateral relations with the PRC in the SCS conflict, bringing together two approaches —power politics and liberal institutionalism— to explain Chinese and Philippines foreign policies towards the Scarborough Shoal standoff.

Although the number and variety of approaches have grown unprecedentedly since the beginning of the 2000s, there still is a lack of analysis that combines the economic and developmental perspective in works dealing with SEA policies regarding the SCS. Consequently, our argument adopts a political economy approach, particularly from a state-centered perspective. We start from the conception that the power distribution embedded in asymmetrical economic interdependent relations is central because it is usually taken as an advantage by powerful states. In other words, as Gilpin (2001) underlines, “economic ties among states almost always involve power relations,” through the construction of dependencies that are politically exploited by the stronger side. Building on Hirschman’s argument that economic interdependence entails political dependence, Gilpin also points out that states have incentives “to increase the dependence of other states upon them through such policies as foreign aid and trade concessions” (Gilpin, 2001, p. 82).

In the case of foreign policy, the concept of “economic statecraft” also refers to the intrinsic relations between the economic and political spheres of international relations.<sup>1</sup> The asymmetrical nature of most economic relations, in which a State is more dependent on the other, sets the preconditions for the implementation of economic statecraft. This means that the less dependent state uses

economic tools —in the form of incentives or punishments— to influence the weaker state’s behavior in order to achieve political or strategic objectives (Blanchard & Ripsman, 2013; McDowell, 2019). Wigell and Landivar (2019) add to this idea that economic incentives —such as trade agreements, loans, and investment in infrastructure, among others— are beneficial for the targeted countries in the short term, but they can come at the expense of political concessions over the long term. In other words, even incentives can be used coercively because once accepted they can be withdrawn as a punishment to the receiving state at any time. As Hill (2016) underlines, economic statecraft “is a question of making some use of what is happening anyway, through trade, investment or development aid” (p. 154).

SEA has always been a strategic region in China’s foreign and domestic policy goals and strategies. The region is regarded as indispensable for its stable economic growth, and consequently, Beijing has forged close economic, institutional, and aid tie-ups with SEA countries (Yoshimatsu, 2017). SEA states also regard China as a key, and today probably the most important, player in the regional arena.

Many authors also sustain the links between the economic means and the political and security objectives as one of Beijing’s strategy for the region. Incentives and punishments are being implemented to influence and/or condition the behavior of the weaker regional nations involved. In this sense, Li (2017) points out that Beijing has traditionally and positively use economic statecraft to gain international confidence, improve bilateral relations with developing countries, and raise its international status. Yet, as Chinese power increased and its economic presence became overwhelming, it resorted to economic statecraft as a foreign policy tool. As Reilly argues, this unprecedented wealth has led to more frequent, assertive, and diverse use of economic statecraft (Reilly, 2013). There is a clear consensus among academics that Chinese economic statecraft became more active under Xi’s leadership and started to unveil a variety of strategies intended to achieve political goals through economic means. A clear example of this trend is that the Belt and Road Initiative (BRI) —formerly

1 The term, according to Blanchard and Ripsman (2013), “refers to an attempt by a sender state to influence a target state either to do something it would not ordinarily do or to forgo an action that it would otherwise engage in, by the manipulation of the market in a manner that provides economic benefits to states that comply and/or imposes economic penalties on those who fail to comply. It may involve the direct manipulation of normal bilateral or multilateral economic relations, or it may be used indirectly, through threats and promises to intervene in the economic relationship. The two dominant strategies of economic statecraft are economic sanctions (a coercive strategy) and economic incentives (a persuasive strategy)” (p. 5).

known as One Belt One Road (OBOR)— already considered President Xi's signature foreign policy project (Yang & Liang, 2019).

In this scenario, with a more assertive regional power in the neighborhood, and the renewed interest of the United States to show a continued commitment to the region's security and stability—to cope with China's growing presence—, SEA states find themselves then into a double dilemma. While China's growth and economic expansion have generated increasing benefits to the SEA economies, they have also become unprecedentedly dependent on and vulnerable to Chinese economic policies. The BRI is also illustrative of this trend, being both an opportunity and a threat by reinforcing asymmetry and dependency links (Dittmer, 2018; Ha, 2019). This economic statecraft might can certainly be used to pursue political goals, taking advantage of the asymmetric distribution of capabilities and dependency conditions that define bilateral relations.

But, in the strategic realm, SEA claimants lack the military capability to respond or react to Chinese actions in the territory by themselves. Therefore, they have sought to strengthen their defense capabilities through external partnerships. In varying degrees, all ASEAN states support the United States' strategic engagement in the region (Ba, 2016) as a guarantor of stability and security, mainly in the maritime area. But US renewed engagement in the region has raised concerns in Beijing, which interprets the American rebalance strategy as intrusive and threatening to its national interests. Then, SEA states—particularly but not exclusively through ASEAN—are constantly hedging their foreign policy actions and decisions to keep the US partly engaged in the security arena, but not to the extent of altering their economic relations with Beijing—and the benefits that come with them—. The SCS then becomes the main scenario where these dilemmas materialize.

## The international ruling and the American rebalance

Although the situation in the SCS went through moments of higher and lower tensions, 2009 marked a new period of instability. Vietnam

and Malaysia submitted jointly to the Commission on the Limits of the Continental Shelf of the United Nations (CLCS) information on the limits of their continental shelf beyond 200 nautical miles in respect of the southern part of the SCS. Shortly after, Beijing protested the submission through *note verbales* to the CLCS, underlining that “China has indisputable sovereignty over the islands in the South China Sea and the adjacent waters, and enjoys sovereign rights and jurisdiction over the relevant waters as well as the seabed and subsoil thereof” (Permanent Mission of the People's Republic of China to the UN, 2009). The famous nine-dash line map was attached to this document and provoked counter-protests from Vietnam (Permanent Mission of the Republic of Vietnam to the UN, 2009).

The map created greater uncertainty and confusion in the countries that share the territorial claim and fueled different speculations due to the lack of will or inability of the Chinese government to define which claims were included in it (Fravel, 2011). This ambiguity has not yet been clarified since Chinese officials have not specified whether the claims include every feature, the establishment of an Exclusive Economic Zone (EEZ) around the islands, and all the resources in the seabed within the nine-dash line (Li, 2016). Furthermore, Beijing has done little in the strategic dimension to ease the anxieties. Instead, some of its actions have increased concerns: the harassment of the Philippine chartered energy survey ship near Reed Bank in 2011; the cable-cutting incidents with Vietnam in 2012; and the blockade in 2010 by two Chinese vessels of the Philippine Navy in an attempt to prevent the arrest of the Chinese fishermen that were illegally collecting corals and other resources near Scarborough Shoal (Miks, 2012), which led to a ten-week standoff (Baviera, 2016). The most recent and world-known skirmish was the one resulting from the Chinese deployment in May 2014 of its newest and most advanced deep-sea oil rig—the Haiyang Shiyu 981—to waters in the Paracel Islands, also claimed by Vietnam (Lye & Ha, 2018).

Chinese military and political determination and the change of orientation in the Filipino government under President Benigno Aquino paved the

way for the decision to file the case against the nine-dash line and Chinese acts in the Philippine's EEZ at the International Tribunal for the Law of the Sea (ITLOS) (Baviera, 2016). This was the first formal attempt by a claimant country to internationalize the dispute by seeking a resolution from an international legal body. In July 2016, the Permanent Court of Arbitration published the tribunal's arbitration award, ruling in favor of the Philippines and against China. According to Parra Pérez' (2017) analysis, the ruling indicated there was no legal basis for the Chinese claim on historical rights over the territory because there was no evidence that China had historically exercised exclusive control over the waters or its resources. Beijing categorically rejected the ruling, considered illegal and illegitimate since the country did not recognize the Court's jurisdiction over the case (People's Daily, 2016).

Chinese enhanced capabilities, self-perception of power, and the pursuit to consolidate a global-power status have increased the country's self-confidence regarding international relations. Also, Xi's political orientation features a more purposeful and assertive pursuit of China's national interests, reflecting an adjustment in the original 'peaceful development' strategy without abandoning it. As Zhang (2015) argues, the PRC still seeks and needs to maintain a peaceful external environment. So, besides the rejection of the ruling, and the continued assertive policy in the SCS, China will refrain from confrontation in the territory to maintain good relations with SEA countries because an aggressive policy could push ASEAN closer to the United States (Li, 2016). This could be the case of Vietnam, which as a result of increasing Chinese pressures in the maritime territory, has strengthened its defense ties and partnerships with other foreign powers such as the United States, Australia, Japan, and India, moving away from its traditional 'no alliance' foreign policy (Hiep, 2015).

As a result of the internationalization of the conflict, the growing feeling of insecurity of smaller SEA states, and the renewed American interest in East Asia, starting with Obama's Rebalance to Asia strategy announced in 2010, the SCS has received increasing attention and presence of

external powers, especially the United States. At the ARF meeting in Hanoi in 2010, Secretary Clinton stated that:

The United States, like every nation, has a national interest in freedom of navigation, open access to Asia's maritime commons, and respect for international law in the South China Sea. We share these interests not only with ASEAN members or ASEAN Regional Forum participants, but with other maritime nations and the broader international community. (Clinton, 2010)

Underlying the main interest of freedom of navigation, the United States has increasingly engaged in security and military initiatives with individual countries and has also backed ASEAN's position. Although some analysts observe that the US policy has just been a "symbolic challenge" to China's drawn limits in the contested territory (Dittmer, 2018), most views highlight American rapprochement to the region as strategic for strengthening SEA states defense capabilities *vis-à-vis* Beijing (Gill, *et al.*). The US' growing presence, through economic, military, and diplomatic tools, has caused apprehension in and responses from the Chinese government, which perceives these moves as intents to constrain and thwart its own political goals in East Asia. But, as Gill *et al.* (2016) suggest, "it also appears that Chinese officials believe that its growing material power capabilities will in due course convince and persuade its neighbors that there is more to gain from working and aligning with Chinese interests than from deterring and challenging them."

## **China's regional policy: Economic statecraft by diverse means**

As presented previously, economic measures can have multiple purposes and be used as incentives or punishments. Economic statecraft, as we will show in this section, is not only about sanctions but also about creating the conditions to generate a level of dependence that can potentially be exploited by the more powerful to influence the weaker state's behavior.

China's policy towards its neighbors, particularly the SEA region, went through a drastic transformation during the 1990s and the first years of 2000s. The Asian financial crisis resulted in a catalyst for further rapprochement between the two sides, and along with China's commitment to the financial and economic stability of the region, Beijing started to devise a policy for the region to show itself as a responsible and pacific power. This policy was later known as "peaceful rise/development," originally developed by Zheng Bijian in 2003. The need for a stable and peaceful environment as a necessary condition for Chinese national development is at the core of "peaceful development" and became a top priority for successive governments.

The region became the main objective of this "charm offensive." In words of the Chinese political elite: "The Chinese Government is committed to building good-neighborly relationships and partnerships with China's neighbors. We will take concrete steps to promote good-neighborliness, friendship and regional cooperation and bring our ties with the surrounding countries to a new high" (Wen, 2003). This premise is still at the basis of China's regional policy, as recently stated by President Xi Jinping (Reuters, 2015).

Considering the broad idea that economic tools are used to pursue political goals can be regarded as economic statecraft, Lim (2017) argues that the "charm offensive," was a type of economic statecraft. "China's initial decision to increase its level of economic intertwining with Southeast Asia was in itself a form of economic statecraft, as part of its charm offensive" (Lim, 2017, p. 139).

This rhetoric of "peaceful development" was mainly intended to build confidence within the region and assure that a stable and peaceful environment was intrinsically related to China's national interests. To dissipate the "China threat" idea in the region, Chinese officials went beyond rhetoric implementing a wide range of policies to improve bilateral and multilateral relations economically and diplomatically.

China's engagement with the broader region became more apparent after the launch of the OBOR in 2013, which later became the BRI. It is a comprehensive plan, primarily oriented to reshape

the country's environment in order to favor China's continued strong growth. But it is also considered a political grand strategy to consolidate China's presence —both economic and political— in regions considered crucial for securing energy supplies, markets for its growing export, sources of raw materials, and new destinations for surplus Chinese capital. China's need for support for its global initiatives in the context of a dispute with the United States is favoring a more pacific and committed approach to SEA, which constitutes a core region within the BRI (Poh, 2017).

But the increasing assertiveness of Beijing regarding the scs, particularly since the country submitted the nine-dash line map in 2009, started to exhibit warning signs across SEA. The Chinese approach to the scs issue, given the extent and the officialization of the territorial claim, the historical justifications and the actions in the sea —patrolling, building infrastructure in the disputed territory, among others— represents a contradiction in its peaceful development and charm offensive diplomacy towards SEA (Ba, 2016).

Beijing's view of the scs has shifted over the decades, as well as the policies implemented and the intensity of the rhetoric. Two central pillars of the Chinese approach to the issue are bilateralism and the refusal to internationalize the dispute. In the first case, ASEAN's efforts to socialize with and engage its giant neighbor with the regional security dialogue, particularly the ARF, have been partly a success. The PRC has committed itself with ASEAN by signing the Declaration on the Conduct of the Parties in 2002, and after years of negotiation of the Code of Conduct, Xi has recently stated that they "will work with other ASEAN [countries] towards the conclusion of COC consultations based on consensus within three years and contribute our share to peace stability and welfare in this region" (Geducos, 2018). This shift means that the government understands that multilateral institutions are an effective "soft power" tool to reduce the "China threat" perception and, at the same time, protect its national interest (Li, 2009). Another feature of Beijing's policy for the scs has been the delay strategy (Fravel, 2008). By this, the government has sought to maintain the *status quo* in the



dispute, refraining from direct action, maintaining territorial claims through public statements, and participating in negotiations, but rejecting any commitment or concession.

This delay strategy favors the PRC, particularly by buying time for further enhancing its military capabilities and enlarging the gap with smaller claimants. Hence, from a pessimistic point of view, power asymmetries are self-perpetuating, and the *status quo* ends up benefitting the more powerful. China's policies on ASEAN and individual states in the SCS dispute seem to be following this trend, even though Beijing has engaged in different multilateral security initiatives. Not surprisingly, SEA weaker states remain concerned about the PRC's intentions in the region and the prospects of its growing military and economic capabilities. But at the same time, they understand that they have no choice but to adjust to Beijing's policies and initiatives as the best possible way to contribute to the maintaining a peaceful environment, favoring China's domestic goals and their strategic and economic security.

## SEA: Between economic and security concerns

SEA economies and development paths have become closely tied to trade and financial relations with China. Given this economic dependence, they cannot afford to alter their bilateral relation with Beijing, even when facing strategic insecurities deriving from the maritime dispute. Though Chinese actions in the SCS may be considered a threat to national strategic interests, they do not overshadow the centrality of development and economic goals that are also at the core of underdeveloped countries' national interest and foreign policy priorities. As Beeson and Li (2011, p. 37) indicate, there is an inescapable material reality for all states and economies of East Asia, and they "must adjust to China's rise in ways that do not jeopardize their own economic well-being."

Besides the common nature of these concerns, the countries in the region have adopted different approaches in their relations with China according to their level of economic dependence but also

on the political and strategic interests involved. In this respect, Cambodia and Laos, which have no claims in the SCS and have deep economic and diplomatic ties with China—a major source of foreign investment and trade partner—are more inclined to endorse Beijing's interests in the region (Emmers, 2018). At the other end of the continuum, Vietnam, whose claims largely overlap with the Chinese nine-dash line, is showing a more confronting response towards Beijing's policies, particularly in the SCS. However, due to power asymmetry and economic dependence, it has not gone beyond tough rhetoric criticizing China (Li-ang, 2017), although Hanoi has shifted towards a closer relationship with the United States in the face of Beijing's bullying actions in the contested sea. Vietnam, like all other SEA countries, is avoiding open conflict with China, even though their territorial interests might be at stake.

We hereafter introduce common SEA concerns about their economic overdependence on China and the shared interest in diversifying external economic and political ties as a safer path towards development and strategic stability in the region. In doing so, we focus on two countries that are the key players in the SCS conflict: Vietnam and the Philippines.

Economic ties between China and SEA have increased and intensified in terms of trade and investment since the late 1990s. The Asian financial crisis represented a unique opportunity for Beijing to financially support the region that was going through an unprecedented economic turmoil, and to demonstrate ASEAN countries how different its attitude was towards the crisis in comparison with the United States and Japan, their main economic partners (Khan & Yu, 2013). Chinese economic policies—not depreciating the value of its currency and providing urgent assistance worth \$4.5 billion to the worst-hit countries, with no strings attached—helped to ease the pressure on SEA economies and influenced ASEAN's perception of their giant neighbor in the stability and future development of the region. Furthermore, the economic gains that secured political benefits for regimes across the region became a crucial driver behind the improvement of relations with Beijing (Cho & Park, 2013).

From then on, bilateral trade boosted, underpinned by Chinese sustained economic growth and industrial development, which reshaped the regional political economy, re-orientating almost all the SEA economies towards a regional production network centered on final assembly in, and overseas export from, China (Gill *et al.*, 2016). Merchandise trade was further facilitated by the ASEAN China Free Trade Agreement (ACFTA) in effect since 2010. Emerging as the world's largest Free Trade Agreement with a population of 1.9 billion and GDP of nearly 8 trillion dollars (Khan & Yu, 2013), ACFTA pushed bilateral trade from 113.5 billion dollars in 2005 to 439 billion dollars in 2017. ASEAN's economic dependence on China is clear when observing the trade numbers: in 2017 China concentrated 14.1 percent of ASEAN's exports and 20 percent of its imports, consolidating as the region's main trading partner. The share of China's participation in ASEAN's foreign trade has continuously grown in the last decade; in 2010 ASEAN's trade with China represented 11.7 percent of its total trade, while in 2017 this figure went up to 17.1 percent. Notwithstanding that China has been an engine for the economies throughout the region, stimulating exports of goods and services, the trade balance is increasingly negative for ASEAN. Although the lowest figure was hit in 2016, the trade deficit for ASEAN was worth 68 billion dollars in 2017 and some estimates for 2018 indicate this trend will rise to over 80 billion dollars (ASEAN Stats, 2018; International Trade Center [ITC], 2019).

Investments in SEA countries are a second indicator that, in parallel to trade, has also shown an unprecedented increase in the last decade. According to official numbers, Chinese FDI in ASEAN represented 3 percent of total investments in the region in 2010; this share almost tripled by 2017, accounting for 8.3 percent. The main destinations were Singapore, Indonesia, and Malaysia that accounted for 70 percent of the total Chinese FDI in the region. Laos and Vietnam were also important receptors of investments. For the former, Chinese FDI represented over 90 percent of total investment inflows in the country in 2017, which has generated an overwhelming dependence on Beijing's

financial resources.<sup>2</sup> Chinese investments have also raised concerns in recipient countries about the socio-economic consequences —low wages, incentives to illegal immigration, exploitation of local workers, among others— and negative environmental conditions usually related to these projects (Das, 2018; Gong, 2017).

Most Chinese investments in ASEAN are concentrated on infrastructure and are a means to increase trade among the ACFTA participants.<sup>3</sup> They are also related to China's BRI and the Master Plan on ASEAN Connectivity 2025 (MPAC), and both parties have encouraged cooperation in that field as stated in the Declaration of ASEAN-China Strategic Partnership Vision 2030, in which they pledge to “strengthen the strategic partnership with mutually-beneficial cooperation [...] through capacity building and resource mobilization, synergizing common priorities in the Master Plan on ASEAN Connectivity (MPAC) 2025 and China's Belt and Road Initiative (BRI)...” On this occasion, ASEAN and China also declared they would intensify efforts to meet “the joint target of US\$1 trillion in trade volume and US\$150 billion in investment by 2020” (ASEAN, 2018).

As shown by these indicators, SEA has become more dependent on the Chinese market and resources than on any other power within or outside East Asia. These elements have generated different readings across the region. First, most countries conceive that their economic relationship with China is an imperative rather than a choice, a perception that will tend to deepen as economic ties continue to grow. Second, aware of the possible consequences of overdependence, ASEAN states have responded by deepening diversification with other economic powers and stimulating their economic engagement with the region (Gill *et al.*, 2016). In this sense, diversification of partners is considered a strategic tool in the “hedging” policy of ASEAN, trying to maintain both China and the US committed to the region's well-being and development. Finally, SEA countries, given the

2 Prepared by the author with data from ASEAN Stats (2018).

3 For a detailed table showing the Chinese implemented and approved infrastructure projects in ASEAN, see Das (2018).

asymmetry in their economic and power condition in relation to China, try to keep the economic dimension separated from the security or strategic one. This is the case of states facing security challenges with Beijing, like the ones in the scs.

Vietnam and the Philippines are outstanding cases in this respect. Both maintain active claims in the scs, as we have previously detailed, and have engaged in different skirmishes and legal confrontations with Beijing over the last three decades. In the case of Vietnam, the bilateral relation went through an unprecedented improvement after the normalization of diplomatic relations in 1991. China represented a unique opportunity given the commonalities in economic and political socialist models that created a better environment for business expansion. During the next decade, bilateral relations developed steadily through trade —China became Vietnam’s larger trading partner in 2004— and high-rank diplomatic visits. In 2009 the “strategic partnership” was upgraded to “comprehensive strategic cooperative partnership,” enhancing bilateral ties (Hiep, 2015). In terms of trade, Vietnam has a strong link to the Chinese market: in 2017, Vietnamese imports from China concentrated 27 percent of the total, while exports to this market accounted for 16 percent (ASEAN Stats, 2018). In both flows Chinese participation has grown steadily since 2010 to the present, showing a trend that will hardly change in a foreseeable future. Notwithstanding, some authors underline that Hanoi, considering the dangers of overdependence, has implemented a diversification strategy by establishing “15 strategic partnerships and 10 comprehensive partnerships with major countries that are considered critical to Vietnam’s security and development” (Hai, 2017, p. 12).

Vietnam’s approach to China’s challenging actions in the scs has been consistent with a hedging strategy. The asymmetric nature of their power and capabilities makes it imperative for Vietnam to maintain a foreign policy that, while pursuing its national interests —maintain its sovereignty, territorial integrity, and political autonomy— avoids challenging Chinese ones. As Hiep (2013) suggests, Hanoi implemented a calibrated policy that was further challenged by increased

economic dependence and a more assertive Chinese behavior regarding maritime claims. Given this asymmetric scenario, Vietnam has adopted a defensive strategic approach, rather than a defying one towards Beijing in the scs dispute, understanding that an open challenge could hamper economic benefits that are crucial for its economic development and political stability. At the same time, the government has actively sought to diversify security by establishing defense and strategic dialogues with regional and extra-regional powers —with us and Japan in 2010, South Korea and the UK in 2018—, signing MOUs on Defense Cooperation,<sup>4</sup> and securing financial assistance for enhancing military capacities, particularly from the us (Hiep, 2015).

The Philippines, unlike Vietnam, is not a close partner of China. In terms of economic ties, Manila is less dependent on the Chinese market than most countries in SEA. In 2017, total trade only reached 26 billion dollars, which represented only 6 percent of China-ASEAN trade. For the Philippines, China is the fourth export destination after Japan, the us, and Hong Kong but it emerges as the first import market, accounting for 17.8 percent of Philippines imports in 2017. The trade balance is negative for the SEA country; in 2017 the amount reached 10 billion dollars.<sup>5</sup> Regarding investments, the Philippines are the smallest recipient of Chinese FDI in all ASEAN countries (ASEAN Stats, 2018).

Political and diplomatic relations between both countries have not been close and started to deteriorate after the Mischief Reef incident in 1995. One of the main conditions affecting Manila-Beijing relations has been the long-standing defense alliance the insular country has with the United States since the beginning of the Cold War. Although American military presence lessened after 1992,

4 In September 2011, the United States and Vietnam signed a “Memorandum of Understanding (MoU) to Promote Bilateral Defense Cooperation,” clearly enumerating five areas for close cooperation: maritime security, maritime search and rescue, United Nations peacekeeping actions, humanitarian aid and defense education, and research exchanges.

5 Prepared by the author with data from International Trade Center (2019).

with the rejection from the Philippines Senate to renew the lease for us bases in the archipelago, the strategic alliance remains vital for both countries and constitutes a pillar of East Asian security. A new impetus for strengthening defense cooperation came after the Scarborough Shoal incident in 2012. Besides the fruitless intervention of the us to facilitate the negotiation towards a simultaneous pullout from the island, Manila drew nearer Washington after realizing it had lost a territory that had traditionally been treated as an integral part of the country. In 2014, Washington and Manila signed the Enhanced Defense Cooperation Agreement (EDCA)<sup>6</sup> driven by Philippines concerns over maritime security and Chinese assertive behavior.

The Philippines' approach towards the scs dispute has been very sensitive to domestic conditions, particularly the government's orientation. While during Arroyo's presidency the tone of the claims lowered, seeking a closer relationship with Beijing, Aquino's administration resumed the claims in a bitter tone against Chinese actions, reinforcing nationalist sentiments within the country. A clear example of this radical change was the efforts of Aquino's government to internationalize the conflict. Since 2016, under the government of Rodrigo Duterte, further changes were introduced. The new presidency sought to enhance bilateral relations with China —distancing itself from Aquino's balancing policy— as a strategy to gain economic benefits that Duterte considered more vital for the country than the territorial claims. As a result, the Philippines drew closer to Beijing and downplayed its sovereignty claims, even considering the joint exploitation of natural resources in the contested sea (Cruz de Castro, 2016). Economic pragmatism, linked to the development needs of this insular country, has been the main driver of Duterte's policy on China and the scs.

6 The agreement entails “a ten-year deal that allows a strengthened U.S. military presence in the Philippines, with increased rotation of U.S. military personnel and assistance devoted to humanitarian and maritime operations. The deal grants U.S. troops broad access to bases at the invitation of the Philippine government and will allow for the construction of new and improved facilities” (Albert, 2016).

As shown in this section, all SEA states, both claimants and non-claimants in the scs, have incentives to maintain a peaceful and close relation with Beijing, given mainly by economic variables. Besides the increasing assertiveness of its behavior, China has expanded and deepened interdependent ties throughout the region. For the smallest SEA economies, these interdependent relations translate into a higher level of vulnerability *vis-à-vis* their powerful neighbor that, if it wishes, could use these asymmetries in its favor. Eventually, economic statecraft will become more frequent as China's might over SEA becomes more patent. In other words, the economic benefits today will be exploited in the future, particularly to seek political goals related to the central Chinese interests, such as the territorial ones. As of today, some SEA countries are certainly more vulnerable to China's economic tools (actions, measures) than others.

## Conclusion

Economic statecraft, as initially conceptualize by Baldwin (1985), entails the possibility of using positive and negative economic mechanisms to pursue political goals. China, as a rising state in East Asia, has usually preferred incentives over sanctions or threats to pursue its geopolitical ends when dealing with its neighbors. But this behavior has started to show some adjustments as Beijing perceived the consolidation of its own regional and global power status, along with a more proactive, visible, and internationalized foreign policy led by Xi Jinping's impetus. The scs conflict is the most salient reflection of this reorientation.

The maritime territory has become the main arena for China's assertiveness in the region. These actions present themselves as a radical contrast with the ongoing sweeping initiatives of “soft diplomacy” the country is displaying throughout East Asia. In this scenario, all countries are facing difficult choices and seeking to maintain all powers involved in the economic and strategic regional security, mostly directed towards the two big ones: China and the us. In this respect, the scs dispute is highlighting this SEA dichotomy or double dependency. As China continues to increase its power

and reduce the economic and military gap with the US, SEA will probably become more concerned about maintaining a friendly and cooperative tie with Beijing.

With the consolidation of a more active Indo-Pacific policy from the White House and the clear assertion that there is a competition with China, it is also probable that ASEAN will find it more difficult to move closer to the United States without sending a counterproductive message to Beijing. As a result, the regional states will find themselves snared by an unusually complex interlinkage of issues —economic and military— that will likely result in a stalemate in the territorial conflict. This outcome, given the military and economic asymmetries between the contesting parties, will most certainly benefit the PRC as the strongest player in the scs dispute.

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