China’s Economic Leverage in Southeast Asia

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Abstract

The popular perception that China stands poised to supplant America as the most important economic partner of key countries in Southeast Asia has led to speculation about a deepening and widening divergence between the security interests and preferences for Southeast Asian countries (for American strategic pre-eminence) versus forced reliance on China as the economic driver of growth. Yet, despite its economic size and assumed importance, Beijing has not been able to alter the strategic alignment of even one significant power in Southeast Asia. In fact, every significant trading power in the region has moved closer to America in strategic and military terms even as their trading relationships continue to deepen with China.

The article seeks to offer some explanation for China’s incapacity to translate its supposed economic clout and importance into strategic leverage at America’s expense. Analysis of the economic relationship between China and key Southeast Asian countries reveals that these economic partners are not as dependent on the Chinese economy as rising trade numbers suggest. Indeed, one should not overestimate the role of China in driving prosperity in the region, or assume that China has emerged as the primary driver of prosperity in the region. In reality, advanced economies and firms from those economies such as America’s remain far more important to major Southeast Asian countries than does the Chinese economy and Chinese firms. Such a situation is likely to persist into the foreseeable future, meaning that America’s economic capacity to seduce Southeast Asian governments and firms will remain robust and possibly even decisive.

Key words: Sino-Southeast Asia relations; regional trade; Asian economic development
INTRODUCTION

In August 2010, China officially surpassed Japan as the largest economy in Asia and the second largest in the world after the United States. Over the past decade, it has emerged as the largest trading partner for Japan, South Korea, India, Vietnam, Indonesia, Malaysia, Australia, and the Association of Southeast Asian Nations if ASEAN is treated as a single entity. It has emerged as an indispensable economic player in the region, a role which offers it an economic importance and standing that the former Soviet Union never enjoyed to the same extent in Asia. Just as the rise of the United States as the preeminent and preferred strategic player in East Asia was underpinned by the emergence of America as the most important trading partner for many of these countries in the 1950s, 60s and 70s, there is increased speculation that China stands poised to supplant America as the most important economic partner of key countries in Southeast Asia if it has not done so already.

This has led to a common wisdom that there is a deepening and widening divergence between the security interests and preferences for Southeast Asian countries (for American strategic pre-eminence) versus forced reliance on China as the economic driver of growth. (Novtony 2010; Reilly 2013) Yet, China’s incapacity to translate its current status as Asia’s greatest trading nation into strategic leverage in that region is puzzling. Despite its economic size and importance, Beijing has not been able to alter the strategic alignment of even one significant power in Southeast Asia. In fact, every significant trading power in the region has moved closer to America in strategic and military terms even as their trading relationships continue to deepen with China.

How then can we explain China’s strategic loneliness vis-à-vis smaller neighbours seemingly dependent on trade with China? The simple and accurate answer is that these economic partners are not
as dependent on the Chinese economy as the raw trade numbers suggest. Indeed, one should not overestimate the role of China in driving prosperity in the region. In reality, advanced economies and firms from those economies remain far more important to major Southeast Asian countries than does the Chinese economy and Chinese firms. Such a situation is likely to persist into the foreseeable future, meaning that America’s economic capacity to seduce Southeast Asian governments and firms will remain robust and possibly even decisive.

HEDGING AND BALANCING AGAINST CHINA IN SOUTHEAST ASIA

If economic trends point to a China that is poised to dominate Southeast Asia economically, the security actions of these smaller states suggest a different direction. In one sense, the security preference by key Southeast Asian states for continued American strategic pre-eminence is easy to understand.

One primary reason is that hopes of China’s ‘peaceful rise’ are fading. For much of the decade leading up to 2010, Beijing engaged in what was widely known as ‘smile diplomacy’ toward Southeast Asia. This included years of trying to convince Southeast Asian capitals that China’s rise was much more of an opportunity and that the ‘China threat’ thesis was inaccurate and over-blown. To achieve this, Beijing courted key states in Malaysia, Indonesia, Singapore, Thailand, Vietnam and the Philippines, and became extremely active in Association of Southeast Asian Nations (ASEAN) led organisations. (Lee 2007) From the American and regional point of view, there were strong hopes that China would indeed emerge as a ‘responsible stakeholder’ in the pre-existing regional order. (Zoellick 2005)
Yet, from 2010, China became far more assertive in pushing its various claims in the South China Sea. Beijing’s recent actions in this regard are well known and need not be repeated here. The point is that such actions have raised apprehensions in all the key states mentioned above (with the possible exception of Thailand which has kept itself largely apart from these maritime disputes.) In addition to the rapid rises in China’s military spending and resulting gains in its maritime capacities, Southeast Asian capitals have come to the reasonable conclusion that there can be no military balance in Southeast Asia which could keep China in check without a robust American strategic and military presence. As Singapore’s Prime Minister Lee Hsien Loong put it in a recent interview, there are questions as to whether China “is going to be benign and not only play by the rules but leave space for other countries that are not as powerful to prosper.” In this context, America is welcome in the region precisely because it “wants the region to prosper… countries to do well” and importantly is “prepared to help them.” (Weymouth 2013)

In a study of recent security behaviours by East Asian states, one commentator characterises the post-World War Two security environment as exhibiting a ‘layered hierarchical structure’, and that states have generally manoeuvred strategic relations in such a way so as to preserve American strategic pre-eminence rather than counter such pre-eminence. (Goh 2008) In the post-2010 period, this has been generally borne out by key Southeast Asian states.

In one recent survey which is representative of the informed consensus about the recent strategic manoeuvrings of Southeast Asian states, responses to the challenges of China’s rise have taken a number of forms: internal balancing, or building up of national defence capabilities; external balancing, or building up of formal

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1 For a summary of increased Chinese assertiveness in the South China Sea, see (Cronin 2013).
defence alliances of semi-formal security relationships; and soft balancing through the use of tacit, informal, and institution-based offsetting approaches. (Shearer 2012)

For the Philippines which has a pre-existing formal treaty alliance relationship with the U.S., Manila has adopted an external balancing posture by enhancing the military relationship with the U.S. and is even considering inviting American forces back into Subic Bay. Although not a formal treaty ally of America’s, Singapore has done the same by upgrading facilities in its ports in order to host U.S. littoral combat ships.

Malaysia, Singapore, the Philippines, Indonesia and Vietnam have all engaged in various ‘soft balancing’ moves. Malaysia and Singapore have strengthened their security ties with the U.S., and remains poised to further upgrade these even if it will resist committing to a formal treaty. Vietnam is also engaged in soft balancing with the U.S. in its ongoing discussions to host U.S. naval ships even as Hanoi insists that no foreign navies will ever be allowed to use Vietnamese territory as a ‘base’ for operations. Although committing to its long-standing ‘non-aligned’ rhetoric, Indonesia has strengthened ties with the U.S. All these countries are also exploring ‘soft balancing’ options with other strategically like-minded countries such as Japan and India.

Additionally, all these countries have engaged in various degrees of ‘internal balancing’ behaviours. Singapore is committed to ensure that it continues to possess the most capable naval force in Southeast Asia. Malaysia is boosting its maritime and air capabilities. Vietnam is boosting its submarine capabilities while the Philippines is bulking up its patrol fleet capabilities. Indonesia is seeking to acquire a submarine fleet.

Finally, all these countries are seeing to use ASEAN and ASEAN-backed regimes such as the East Asia Summit to impose institutional and collective diplomatic pressure on China in order to raise the non-military costs of Chinese assertiveness and coercion.
in the South China Sea. While the perennially stalled Code of Conduct which seeks to impose binding rules and restrictions on such behaviour confirms that institutional approaches have been met with very limited success, the point remains that key Southeast Asian states are all exploring possible collective means to increase restrictions on Chinese behaviour.

None of this is to imply that all of these balancing and other behaviours by Southeast Asian states is only done with an eye to China. Much of the defence spending by Southeast Asian states, particularly Indonesia, is about preserving internal stability and order. There has also long been competition between many of these states and some of the internal balancing behaviours (i.e., improving national defence capabilities) is also about intra-Southeast Asian rivalry. Even so, the point being made here is that any balancing activity vis-à-vis great powers by all these states is to enhance the American presence (and in some cases facilitate joint-operations with the American Seventh Fleet) and balance against China’s military rise and activity in the area. (Amitav 2014) While Southeast Asia cannot decisively alter the balance of power in that particular region given the presence of great powers, these behaviours can ‘complicate’ the strategic and tactical calculations by potentially disruptive great powers such as China. (Lee 2015)

The bottom line is that as China is rising, key Southeast Asian states appear even more determined to preserve the ‘layered hierarchical security order’ in America’s favour. The exceptions appear to be Thailand which is displaying elements of both band wagoning with China and balancing against the latter by continuing to allow American forces access to Thai facilities under the practices of its alliance with America, and countries such as Laos and Cambodia which seem to be vulnerable to Chinese influence and will.
EXPLAINING THE PUZZLE: OVERESTIMATING CHINESE ECONOMIC IMPORTANCE

The belief that China’s economic importance in the region will translate to greater strategic clout seems self-evident. After all, the highest priority for Southeast Asian states is prosperity and economic growth. If China is emerging as an ever stronger economic driving force in underpinning growth and prosperity in the region, then it should follow that Beijing’s growing strategic leverage cannot be far behind.

Yet, the puzzle lies in the fact that even as China seemingly becomes economically more important to the prosperity of Southeast Asian countries, the key countries in that region are showing stronger balancing behaviours against China and in favour of the U.S. While the preference for American strategic pre-eminence is easy to understand, the poor capacity of China to use its economic weight and clout to force or coerce these countries and pull them toward Beijing’s strategic orbit is odd. This is particularly the case since strategic competition between China and America is deepening rather than fading, and the consequent competition for strategic influence in Southeast Asia is also deepening between these two great powers. When one further considers the historical evidence that all large economic powers – which China undoubtedly is – have exerted a strategic pull on smaller economies around them, Beijing’s relative lack of strategic clout is even more puzzling.

(a) The superficial evidence for Chinese dominance over and centrality to Southeast Asia

The argument for Chinese economic centrality in the East Asian region is rarely contested and widely accepted as self-evident. And there is seemingly ample evidence that China is of high and increasing economic importance to the region.
Take Chinese trade with the region which is the most commonly cited set of statistics when it comes to establishing Beijing’s economic clout and importance. For example, trade with Malaysia has grown forty-fold over the past two decades with China surpassing Singapore to become Malaysia’s largest trading partner in 2009. Sino-Vietnam trade has grown almost fifteen-fold since 2000 to over US$44 billion in 2013, making China the largest bilateral trade volume partner for Vietnam. Two-way trade between China and Thailand has grown a more modest but still impressive six-fold over the past decade, and more than five-fold with Indonesia over the same period. The rapidly growing Southeast Asian economies has seen trade with China grow by double-digit percentage figures each year over the last decade, at least superficially suggesting that the economic rise of these countries is more dependent on China than any other country.

(b) Understanding the drivers of booming trade and economic interaction between China and Southeast Asia

While these official numbers can be taken on face value, the assessment and analysis of their significance is not as straightforward as those asserting Chinese economic dominance might believe. In thinking about trade, most intuitively think immediately about ‘ordinary trade’: where ‘Made in China’ means that sourcing raw materials and parts, design, and assembly of a product is largely done wholly within that country. Yet, the reality is more complex. Booming trade numbers are representative of an explosion in ‘processing’ trade: where parts of products are imported into an economy, assembled or altered, and then exported to another economy to further the production process. Opportunistic and highly responsive export-manufacturers view the ASEAN+3 economies (ASEAN countries plus China, Japan and South Korea) as a vast production zone with little discrimination as to where they locate production
processes beyond commercial motivations of capital and labour cost and reliability. The iconic illustration is Apple’s iPhone which although labelled ‘Made in China’ is in fact produced in multiple countries with Chinese workers adding very little additional value to the final product despite the labelling. (Batson 2010)

When it comes to processing trade throughout East Asia, one can take the Sino-Malaysia trading relationship as representative. More than 70 percent of Malaysian exports to China are manufactured goods and parts with the ‘electric and electronic’ (E&E) sub-sector constituting almost half of all such exports in 2013. Other prominent sub-sectors include parts for machinery and appliances. In terms of Chinese imports into Malaysia, more than 95 percent are manufactured goods and parts, also dominated by the E&E sub-sector as well as machinery and appliance parts. When one examines this trade structure in asking why the two countries are importing and exporting the same categories of products to each other, it becomes clear that parts are brought in and out to be assembled, or else altered or tailored for specific end products, and then shipped back again to China or elsewhere in the ASEAN+3 zone for further ‘processing’. (Lee 2014a)

The nature and structure of Chinese trade with the middle-income ASEAN+3 economies are similar. Thailand brings out this point well. Machinery equipment and parts, electronic equipment and parts, and chemicals and polymers used for further manufacture make up around half of all Thai exports to China. These same sub-categories make up around half of all Chinese exports to Thailand. (Lee 2013b) The only difference is where countries lie in terms of adding value to the production process. When it comes to less developed and lower skilled economies such as Vietnam and Cambodia, these countries tend to supply lower-value added materials to mid-level processing trade countries such as China, Thailand and Malaysia. The highest value-added processes tend to take place in the advanced economies of Japan, South Korea, Taiwan and Singapore.
When it comes to lower income countries such as Vietnam, its relative backward domestic manufacturing base means that Vietnamese manufacturing firms have become dependent on Chinese intermediary products such as machinery and parts, computer and electronic components (including for cell phones,) chemicals, and iron and steel products and materials. Even though bilateral trade volumes are booming, this is contributing to a growing trade deficit with China that has ballooned from US$11.12 billion in 2008 to US$23.7 billion in 2013 on two-way trade volume of about US$43 billion in 2013. (Lee 2014b) It is a similar story for Sino-Indonesia trade with cheap Chinese manufacturing parts and components flooding the Indonesian market, contributing to consistent trade deficits over the past decade. (Lee 2013a) All this is reflective of the trend in Chinese regional trade in intermediate goods which has increased as a share of exports from around 45-50 percent at the beginning of this century to 55-65 percent currently.

To emphasise the dominance of these interactions, various studies from organisations such as the World Bank and Organization for Economic Cooperation and Development suggest that around two-thirds to three-quarters of China’s trade with ASEAN+3 countries is ‘processing trade’. (OECD-WTO 2012; OECD 2015; WTO/IDE-JETRO 2012) Note that processing trade also artificially inflates the volume of two-way trade between processing countries due to multiple counting in trade volumes as parts enter into one country and is then processed and returned to that original country, and so forth. China is now a major hub of processing trade meaning that its trade numbers with the majority of ASEAN+3 economies have expanded rapidly. But in emphasizing the point that the ASEAN+3 zone has become a vast production hub for global products for export, the increase in China’s trade with the major ASEAN+3 countries has risen at approximately the same levels as trade between ASEAN countries themselves. (Ravenhill 2010) This is to reiterate the point that China is only one part, albeit a major one, of a vast manufacturing network in East Asia.
(c) Explaining China’s poor capacity to exercise strategic leverage

Looking at the structure and nature of trade between countries is not simply of academic importance. But the significance of it in understanding China’s lack of strategic leverage is not immediately obvious. The argument being advanced is that the dominance of ‘processing trade’ between China and the other ASEAN+3 economies is critical to explaining why leverage imputed to Beijing resulting from its booming trade numbers with regional partners is somewhat overrated for a number of reasons.

First, there is a widespread assumption that China is becoming the largest consumer of products manufactured in Asia, suggesting that the Chinese consumer is the dominant driver of prosperity in the export-orientated economies in the maritime rim of East Asia. While enhanced intra-region production networks enormously increase manufacturing and cost efficiencies for firms, end consumers are all important for manufacturers because it is the end consumer that ultimately creates markets for manufacturers by driving consumption. Indeed, the large proportion of products produced in East Asia is destined for the vast and still dominant advanced economy consumption markets in the United States and the European Union. One should remember that the domestic consumption markets of the U.S. and the E.U. are each over US$12 trillion and remain largely accessible to foreign firms, compared to the Japanese domestic consumption market of about US$5 trillion and the highly protected Chinese domestic consumption market of about US$3 trillion.

The importance of the advanced economy consumer to the prosperity of Asian economies is evident in figures showing that while ASEAN-China trade had grown in high double digit rates per annum for the previous ten years, trade between China and ASEAN immediately contracted by 7.8 percent with the onset of the 2008 global financial crisis which plunged the Western markets into re-
cession. When it came to specific countries, Sino-Malaysian trade actually declined 1.7 percent in 2009 from the previous year, having grown at a remarkable 21.7 percent per annum (compounded) in the 10 years before according to Malaysian Ministry of International Trade and Industry figures. It was even worse in terms of the decline of Chinese two-way trade with other neighbours in the same period. Figures for 2008-2009 show that Chinese two-way trade with Singapore, Japan and Thailand declined 15.7 percent, 21.5 percent and 9.8 percent respectively according to Thailand’s Ministry of Commerce and Com-trade figures.

If we take Malaysia as a case study, Sino-Malaysian trade only recovered to ‘normal’ boom-time levels when the economies of the U.S. and also the E.U. emerged out of recession. For example, from 2008-2009, Chinese imports to the U.S. declined by about US$41 billion or 12.2 percent – triggering significant declines in trading levels between the ASEAN+3 economies. From 2009-2010 and 2010-2011, Chinese imports to the U.S. increased by about US$69 billion or 23.3 percent, and US$35 billion or 9.6 percent respectively. Over the same time period, two-way Sino-Malaysian trade increased by 14.5 percent (2009-2010), and 13.7 percent (2010-2011). Similarly, Malaysian trade with other ASEAN countries increased 21 percent (2009-2010) and 8.3 percent (2010-2011), having dramatically declined 15.4 percent from 2008-2009. These trends mirror the trading experiences of countries such as Japan, Thailand, Vietnam and Singapore over the same period. (Lee 2013a; Lee 2013b; Lee 2014a; Lee 2014b)

All of this is compelling evidence that Western industrialised economies (rather than consumer markets in China) have a greater role in driving trade between the ASEAN+3 countries. In other words, the Western consumer remains the dominant driver of trade in the ASEAN+3 economic region. (Paprzycki et al 2010) China’s GDP still grew 8.7 percent in 2009, yet the dominant variable when it came to trade between ASEAN+3 countries was still the strug-
gling economies of the U.S. and E.U. This is consistent with the fact that the raft of free trade agreements in the ASEAN+3 zone (such as the China-ASEAN FTA) have significantly lowered or eliminated tariffs primarily for processing trade sectors. But regulatory and other protection measures remain in place preventing Asian countries from significantly accessing China’s domestic consumption and services markets. (European Commission 2014; Scissors 2012; Sally 2010; Wong 2012)

Second, the majority of ASEAN+3 economies including China are still primarily importers of innovation, largely through hosting advanced economy firms or joint ventures with these advanced economy firms. Technology-transfer, entrepreneurialism and managerial know-how is largely acquired through the presence of advanced economy firms setting up manufacturing plants and processes in low- and middle-income countries. This was the experience of Japan, South Korea, Taiwan and Singapore in the 1960s, 70s and 80s, Malaysia and Thailand in the 1970s and 80s, and China from the 1990s onwards.

The importance of foreign owned or foreign invested firms to export manufacturing in Asia remain to this day. In China, it is estimated that such foreign owned firms are behind at least 60 percent of all export-manufacturing in the country, (Yu et al 2012; Xing 2011a) with foreign-invested firms behind 80 percent of all Chinese exports. (Xing 2011b) In Malaysia, and according to 2011 figures, foreign owned firms were behind 60 percent of all manufacturing in the country, and 80 percent of all export-orientated manufacturing in Malaysia. (Xing 2011b) In Vietnam, over 63 percent of export manufacturing is done by wholly owned foreign firms. When one includes joint-venture firms with foreign entities, the export manufacturing share by foreign-invested firms is likely to be close to 90 percent. (Lee 2014b) In Thailand, foreign owned firms are behind more than half of the country’s export manufacturing. (Lee 2013b)

In this context, and far from being an economic opportunity,
China has ‘eaten the lunch’ of every other non-advanced regional economy since the 1990s. Its virtual duty-free regime for attracting processing imports in order to increase its market-share in ‘processing’ trade vis-à-vis other medium- and low-income ASEAN economies – in combination with the country’s excellent infrastructure and shipping port facilities - has been an enormous success. In 1993, processing imports entering China was valued at US$36.4 billion, rising to US$417 billion by 2010. (Xing 2011c) The top four sources of Chinese processing imports are Taiwan, Japan, South Korea and the U.S – all advanced economies using foreign-invested joint ventures or Chinese based firms to add further value and assemble medium- and high-tech products. The top nine most important destinations for Chinese processing exports – accounting for about 71 percent of all processed Chinese exports - are all advanced, consumer economies: U.S., Japan, South Korea, Germany, Netherlands, Singapore, U.K., Taiwan and France. (Xing 2011c) This has largely come at the expense of other developing economies in East Asia.

The bottom line is that South Korean company Samsung’s US$1.5 billion plant in the Vietnamese province of Bac Ninh which generated US$21.5 billion in export revenues in 2013 is more critical to Vietnam’s future economic prospects than any Chinese firm or brand. The same can be said for American giants General Electric and Hewlett Packard when it comes to the health of the Malaysian economy, and export sector in particular. The prospect that Burma can take its place amongst the rapidly growing regional economies depend more on Western firms such as Caterpillar, Citibank, Kraft Foods, Ford, Bell Helicopter, Hewlett-Packard, Arrow Technologies, Master card and PepsiCo – who are already investing billions in Burma or have applied for licences to do so - than they do on Chinese counterparts.

In fact, and reflecting the importance of advanced economy rather than Chinese firms to regional development, the top ten
Source countries for capital into East Asia are the United States, United Kingdom, Germany, Switzerland, France, Netherlands, Sweden, Norway, Japan and South Korea. Only in the very backward economies of Myanmar and Cambodia is Chinese capital dominant over that from advanced economies, bearing in mind that both are conspicuously attempting to lower their economic reliance on China.

One should also note that booming trade numbers with China conceals the reality that all countries in the region, especially China and ASEAN countries are actually competing with each other to host advanced manufacturing firms in their economies; and in doing so climb up the value-added production chain in terms of the companies that have operations in their country. As China is moving up the value-added chain for manufacturing processes even as it holds its position for low-end manufacturing processes and basic assembly of products, (Felipe et al 2010a, Felipe et al 2010b) China will remain a competitor for less developed countries such as Vietnam and Indonesia, but become a greater competitor for middle-income countries such as Thailand and Malaysia.

Finally, the higher importance of economic interactions with advanced economies to the prosperity, resilience and innovation in key Southeast Asia economies is reflected in the patterns of foreign direct investment (FDI) into Southeast Asia – not surprising since the majority of FDI entering into FDI is for the purpose of establishing export-manufacturing plans and services in that host country.

In Thailand, active FDI from China amounted to US$1.23 billion according to 2011 figures. In comparison, active FDI from Japan, Singapore, the U.S., Netherlands, France, Germany and Malaysia amounted to US$46.86 billion, US$24.11 billion, US$13.4 billion, US$9.3 billion, US$3.23 billion, US$3.23 billion and US$3.21 billion respectively according to Bank of Thailand figures. In Malaysia, China has never been one of the top five sources of FDI. In 2012, the top five comprised Singapore, Japan, the U.S., Hong Kong and
the Netherlands according to Malaysian Investment Development Authority and Bank Negara Malaysia figures. In Vietnam, Chinese FDI was the only the thirteenth most important source and constituted just 4.7 percent of total active FDI according to Vietnam’s Foreign Investment Agency figures. In Indonesia, active Chinese FDI as a proportion of all FDI was a mere 1.2 percent in 2011. This was dwarfed by Singapore (42.8 percent) and Japan (27 percent). It was also below that originating from the United Kingdom (5.2 percent) and South Korea (3.2 percent) according to Central Bank of Indonesia figures. Evidently, the popular perception that Southeast Asia is becoming reliant on Chinese capital is not accurate.

CONCLUSION

If China’s capacity to use economics to exercise strategic and political leverage is somewhat overestimated the capacity of America to do so, its chief strategic and political rival, as well as other advanced economies such as Japan and South Korea is underappreciated.

The lack of realisation that this might be the case is particularly pronounced in American foreign policy circles according to this author’s interactions in Washington. Despite its well-documented political and fiscal problems, America remains in a powerful position to shape the economic order of Asia due to the unmatched spending power of its consumers and importance of its firms in the ongoing economic development of Southeast Asia. As a guardian and promoter of the ‘liberal order’, Washington’s economic objectives in Asia ought not to be primarily to promote the narrow commercial interests of American firms but to shape the rules-of-the-road, something which initiatives such as the Trans Pacific Partnership is designed to do. In exchange for continued access to American mar-
kets, capital and innovation, Washington (and other advanced economy capitals) is still well placed to insist that adherence to liberal order principles such as intellectual property protection, observance of contract law and even-handed processes of dispute resolution, and protections for investors, shareholders, and consumers of foreign-owned and invested companies in the region be paramount.

In doing so, America and its security partners should realise that China is nevertheless in a position to play the occasional role of ‘spoiler’, and more likely, as a free-rider within such an order even if it is not entirely committed to it. China is also sufficient important as an economic partner such that Southeast Asian states have no appetite for unnecessarily provoking China and drawing out Beijing’s ire.

Even so, wariness of China is not the same as being dominated by it even if the prospect of Chinese economic dominance engenders caution in Southeast Asian capitals. To be sure, the uncertainty of America’s staying power and strategic and military terms in several decades time also weigh heavily on the minds of Southeast Asian leaders. But in the foreseeable future, and assuming Washington’s continued strategic engagement and resolve to maintain its pre-eminence in the region, China lacks the economic clout and leverage to forcibly replace America and its key partners as a shaper of any future regional economic, and subsequent strategic order.

Asia is becoming more ‘contested’ as is often pointed out. To understand what that might mean and where the region is heading, it is important to construct an accurate economic narrative. China’s rise may well be the most significant geo-strategic and geo-economic phenomenon over the past three decades, and may well remain so for the next three. But Chinese economic dominance in the strategically vital region of Southeast Asia has neither occurred nor is likely to occur in the foreseeable future.
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