

**Chinese-Taiwanese-Southeast Asian
Triangular Relations: On Building and Rebuilding
Political and Economic Assertiveness
in South China Sea**

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Abstract

China's extraordinary economic growth and active diplomacy continue to transform greater East Asia with its sphere of influence extending to the other side of the globe through its robust development aid provisions. Taiwan, despite its political isolation with the admission of China into the United Nations as well as due to the "One China" principle managed to grow its economy as one of Asia's tigers – a driver that led Taiwan to establish economic and cultural relations with Southeast Asian states in the absence of formal diplomatic relations. Meanwhile, Southeast Asia has seen robust and continued economic growth in the past few decades. Notwithstanding these economic gains, the present geopolitical sphere in this part of the world is becoming

tenser than ever. China has been increasingly assertive in its actions in the South China Sea for years now, while Taiwan has also done a fair share of mobilisation in the contested islands. Protests from some ASEAN-member states have escalated, as manifested in their foreign policies. Within this trajectory, this paper looks into the underlying aspects of the triangular relations between China, Taiwan, and Southeast Asia.

Keywords: *China-Taiwan-Southeast Asian relations, China-Taiwan-ASEAN trilateral relations, China-Taiwan-ASEAN political economy, sharp power projection, regional hegemony*

1. Introduction

The People's Republic of China (PRC) has come a long way from being touted as a "sleeping giant" to becoming the world's second largest economy (The World Bank, 2018). China's extraordinary economic growth and active diplomacy continue to transform greater East Asia (Flores, 2017), with its sphere of influence extending to the other side of the globe through its active foreign policy and robust development aid provisions. Taiwan, despite its political isolation that began with the admission of China into the United Nations (Ku, 2017) due to the "One China" principle managed to grow its economy such that it has become one of Asia's tigers – a driver that led Taiwan to establish political, economic, military and cultural relations with Southeast Asian countries in the absence of formal diplomatic relations (Yang, 2017). Thus, it is of no wonder that the contemporary political and economic behaviour of these "Two Chinas" in regional and global realms continue to interest scholars of global politics and policymakers. One of the issues that is often observed and studied by scholars and policymakers are China's

various territorial and maritime disputes with neighbouring states, specifically the maritime Southeast Asia (SEA).

Since the end of the Second World War, the ocean has become a source of instability in the international system (Yee, 2011). Despite the existence of the United Nations Convention on the Law of the Sea (UNCLOS) to properly set boundaries and resolve disputes arising from overlapping claims, states still disagree on the basis of the legality of claims¹; thus, the disputes. The South China Sea (SCS) is one of the areas where several countries have overlapping claims, leading scholars call it the “mother of all territorial disputes” (Baviera, 2004). Comprising hundreds of islands, reefs, cays, and banks, the CSC is considered the “maritime heart of Southeast Asia” (Boonpriwan, 2012) and a “key economic lifeline” (Blazevic, 2012) that links East Asia to the rest of the world. SCS is a major transport hub through which the goods to and from Northeast Asia are shipped, and an essential Sea Lane of Communication (SLOC) as the number of ships that passes through this region is double that of the number which passes through the Suez and Panama Canals (*ibid.*), which leads Burgess (2003) to contend that it is “the second busiest international sea lane with more than half of the world’s petroleum-bearing traffic” (Burgess, 2003; Hutchison, 2003; Salil, 2012). While 90 percent of intercontinental world trade is carried out by water, the data show that in 2012 alone, over half of international commercial shipping tonnage and 5.3 trillion USD of trade passed through the SCS (Blazevic, 2012). This makes it probably the most strained shipping lane in the world (Cronin (ed.), 2012: 7).

In particular the energy resources make the lane vitally important for the East Asian economies. Moreover, it is not only known for being a transit route for energy resources, as it is likewise considered as a gold mine of resource deposits – estimated billions of barrels of oil, minerals, hydrocarbons, and natural gas are said to be contained within the SCS

region. Another commodity which the South China Sea offers is an abundant stock of fish. It is one of the richest marine life areas in the world, representing about 10 percent of the world's fish catch (Turcsányi, 2018). However, the strategic importance of the SCS goes beyond the transport routes and the resources it offers. The SCS also constitutes a natural barrier for the ships of the mainland countries before they reach the open oceans. From the perspective of China, the so-called "first island chain" is being formed by the eastern and southern banks of the SCS, preventing the Chinese Navy from reaching the Pacific or Indian Oceans without passing through the vicinity of the littoral states, and hence they are easily tracked (Yoshihara and Holmes, 2011). Moreover, from China's perspective, the SCS is the only easily accessible sea with relatively deep water and is thus suitable for extensive underwater military operations through the use of submarines via the route to Japan, with the rest of it going to South Korea, China, Taiwan, and other economies (Turcsányi, 2018). Also, the demand for liquefied natural gas (LNG) is expected to grow in the coming years. Finally, large quantities of coal from Australia and Indonesia – two of the world's largest coal exporters, pass through the SCS to their markets in China, Japan, India, and elsewhere (U.S. Energy Information Administration, 2013).

Due to this backdrop, the SCS is a site of perennial "escalating military tensions" (Baviera, 2011). The disputes among these states involve territorial sovereignty and jurisdiction over maritime zones; economic exploitation of the areas through the setting of Exclusive Economic Zones (EEZs) and continental shelves; and lastly, the conduct allowed within the EEZ of coastal states (Baviera, 2011; Dutton, 2011) all within the context of ensuring the freedom of navigation and security in this maritime region. As Baviera (2011) has stated, the territorial disputes "are very much intertwined with the maritime boundaries and

jurisdiction conflicts as they determine the basis from which a state's maritime zones are to be projected as stipulated in the UNCLOS.”

China has been increasingly assertive in its actions in the South China Sea for years now, building formal structures in most of the disputed islands which has been protested – time and again – by some ASEAN-member states. These countries, in turn, have articulated clearly in their national policies and international engagements their own stance regarding China's claims. In the recent years, Taiwan has also done a fair share of mobilisation in the South China Sea. While China is part of ASEAN plus 3 (Association of Southeast Asian Nations plus China, Japan and Republic of Korea), Taiwan is not. However, in these meetings, economic issues dominate political ones.

This paper analyses how China, Taiwan and the ASEAN-member states are building and rebuilding their political and economic policies and presence given this picture. As such, through process tracing and by utilising the general inductive approach, this paper: (1) Explores how these states reconcile an increasing economic interdependence and removal of borders for trade between them while at the same time, challenge and assert their political sovereignty over their own territories and in the disputed islands; (2) Probes into the interconnectedness of political and economic ties between Southeast Asia and China; (3) Analyses the role and behaviour of Taiwan over the disputed territories and waters in the SCS; (4) Traces the SEA-China historical ties to modern state relationships and explores how the “political” is embedded in the “economic”, and how the “economic” is likewise embedded in the “political” aspects of their relationships; (5) Reviews the PRC's position in the South China Sea, focusing on its motivations and actions, specifically the extent of China's regional power and influence in the SEA region to contextualise its actions and the responses of the SEA states to the said actions; (6) Elucidates how China utilises

its *sharp power* which it gains from – and reflects through – trade, language, and cultural exchanges and SEA perceptions over China; and (7) Ends with a discussion on how the region sees the possibility of a regional hegemon, and how the SEA states see China as a “leader”.

2. Mainland China-Taiwan-Southeast Asian Economic Interdependence

The more than fifty years of rivalry and the drastically growing economic ties between China and Taiwan over the past decade are two important starting points to be examined, where both have sustained rapid economic growth for more than three decades. This growth has become even more symbiotic over the years despite ups and downs in China-Taiwan political relations (Rosen and Wang, 2011); and since Taiwan’s own history is deeply intertwined and often runs in parallel with that of Southeast Asia, one should never exclude Taiwan-Southeast Asian ties in these discussions. Its strategic location off the Asian mainland and astride sea lanes between Northeast and Southeast Asia means that Taiwan has long been part of the networks of migration, commerce, cultural interaction, and conflict traversing in the SEA region. More so, the social exchanges characterised by linkages between Southeast Asia and Taiwan and connections that are evident in business, popular culture, religious practices, family ties, and even the languages spoken in Taiwan and Southeast Asia, the outreach efforts between Taiwan and Southeast Asia, such as Taipei’s New Southbound Policy, are natural extensions of these long-standing relationships, and can serve to further consolidate existing societal and other bonds that reach across the South China Sea. Henceforth, even if official ties are subjected to the usual political constraints, due to either direct pressure from Beijing or preemptive efforts to avoid provoking China, substantive possibilities

for fostering Taiwan's relations with Southeast Asia remain.

From the early 1990s until 2008, a corrosive political dynamic came to dominate political relations between Taiwan and China, dashing the faint hopes in the early 1990s of a political reconciliation after decades of hostility. All this happened in spite of their complementary economic relations.

Back during the Cold War era, China was not influential in Southeast Asia, even though by 1991 it had formalised diplomatic relations with all the countries in the region². However, through the implementation of its Good Neighbour Policy³ in 1990, China began to make changes regarding its regional diplomatic relations. This has led to then Chinese premier Li Peng's visits to Indonesia, Singapore, and Thailand in August 1990, and to Malaysia and the Philippines in December of the same year. This was the first time that a Chinese leader had, within four months, visited five major countries in Southeast Asia. The acceptance of China as full dialogue partner of the Association of Southeast Asian Nations (ASEAN) in July 1996 has laid a sound foundation for the further development of this previously *isolated Asian giant's* diplomatic relations throughout Southeast Asia.

Additionally, 1990 marked the lifting of bans by Taiwan's Ministry of Economic Affairs (MOEA) on indirect investment in China⁴ that soon made the latter the most important host country of the former's outward investment. The trade figures from the Bureau of Foreign Trade, MOEA, Taiwan, from 2001 to 2011 indicated its growing dependence on China in its overall trade while the share of Taiwan in China's external trade is decreasing. Chiang and Gerbier (2013) examined the economic dependency of Taiwan on China and they found out that the percentage of Taiwan's exports to China and Hong Kong in its total exports jumped from 27 percent in 2001 to 40 percent in 2011. Additionally, while Taiwan's exports to China continued to take a great share of its total

exports, its total shares of exports to the US, Europe and Japan have likewise declined significantly, except for the Southeast Asian countries. Additionally, Taiwan's import figures show, although Japan remains to be its largest import source, Japan's share in Taiwan's total imports has been significantly decreasing, from 24 percent in 2001 to 19 percent in 2011 (*ibid.*). Imports from the US, Europe and ASEAN also decreased noticeably over the last decade. Meanwhile, the share of Taiwan's imports from China increased from 7 percent to 16 percent in the same period.

At the regional level, Taiwan's signing of Economic Cooperation Framework Agreement (ECFA) with China implied that it is now following the wave of "China-centred" regionalisation. The conventional "market-driven" and "China-centred" regionalisation would be further supported by the different sorts of Free Trade Agreements (FTA) already implemented between China and other major economies in the region, that include Taiwan, Hong Kong, Macao and ASEAN.

Therefore, some analysts assume that the harm from the loss of China's market for Taiwan would be greater than the loss of source of imports from Taiwan for China. Although many Asian economies have also turned their trade dependence from the US to China in recent years, the difference with Taiwan is that their dependence on China will not damage their political sovereignties. The establishment of institutionalised economic relations seems the unavoidable way to secure Taiwan's benefits in the Cross-Strait economic exchanges. But that institutionalised economic relations will in turn tie the economies between Taiwan and China more deeply. Although the political reconciliation is still a long-term issue, Taiwan's rising economic and trade dependence on China will put the island in a disadvantageous position in the future negotiations.

China strongly supported the agreement and will strive to make it work. China's more aggressive pursuit of claims in the South China Sea, which has caused some blowback, and thorny issues with the United States, makes amicable relations with Taiwan even more important. Though Chinese leaders view ECFA as a stepping stone to political agreements with Taiwan and see it as a means to pursuing its policy of reunification, it is still a distant goal. For now, it is hard to connect the two in a meaningful way. Copper (2010) argued that it seems accurate to say that, currently China does not want to make Taiwan part of China. He believed that owning Taiwan, today, would not be advantageous to China in some important respects: (1) Economic relations are nearly as good as they can be; (2) Taiwan would be troublesome if incorporated by China as many people would flee ahead before it happens and ruling Taiwan might prove difficult; and (3) Sino-American relations would be irretrievably damaged. What is clear at present is that China wants to prevent a declaration of independence.

3. The Role of Taiwan in Southeast Asia and Its Behaviour in SCS

In recent years, as China's economic ascent facilitates growing military capabilities and assertiveness on the South China Sea (SCS), there have been some alarming views that China's great power potential, combined with its latent expansionist ambitions and increasingly assertive foreign policy stance, could be a threat to regional and global security as it might trigger major power realignments in the East. The maritime and territorial disputes in this highly contested region have become one of the biggest potential flashpoints for Beijing's rapid military modernisation along with Washington's "pivot" or "rebalancing" to Asia⁵.

The fight over the overlapping exclusive economic zones in the SCS carries with it a complex chronology of events steeped in the turmoil of Southeast Asian history. Being an important international sea lane, China is bolstering its military equipment installed on islands and reefs within the South China Sea region, and has even installed surface-to-air and anti-ship missiles on some reefs and shoals. Moreover, the Chinese People's Liberation Army (PLA) is slowly, but surely building a tactical military advantage in the region, which will have inevitable consequences for East and Southeast Asian regions' stability.

The dispute involves not only several bilateral conflicts (China vs. Vietnam in 1974 and 1988; China vs. the Philippines in 1995) but also a possible conflict between two groupings: the ASEAN states (Brunei, the Philippines, Malaysia, Vietnam) versus the non-ASEAN countries (China and Taiwan). There is a continuous debate in Taiwan over what should be the official position on the Spratlys, that is, whether Taipei should join the People's Republic of China (PRC) in refuting other claimants. Taiwan's diplomatic isolation and its inadequate power projection further complicate Taipei's South China Sea policy dilemma.

Southeast Asian states likewise have important interests at stake in developments within Taiwan Strait. Though only about 30 small islands are above the water at high tide along Spratlys⁶, claimants in this island group have already established structures on more than 40 islets and reefs (Chang, 1990: 20).

It is important to note, however, that Taiwan was the earliest nation to establish a foothold in the South China Sea. For this reason, Taiwan's geopolitical status in the region is likely to become even more vital and, as it is located within the so-called "first island chain", Chang (2018) argued that its strategic value will undoubtedly be elevated as well. Presently, it holds possession of an important territory – Pratas Islands (*Dongsha* Islands) – as well as the largest natural island within the

Spratly Islands (*Nansha* Islands), the Itu Aba Island (*Tai ping* Island). Henceforth, it has been viewed that Taiwan has an opportunity to also make use of its advantageous position to fight for increased representation and a louder voice on the international stage.

Though ASEAN-member states recognise the “*One China*” principle, the potential impact of conflicts in the Taiwan Strait on the political and economic development of the region remains a major concern for them. They certainly want to avoid taking a strategic stand should military conflicts occur within Taiwan Strait. What remains to be the rational choice for Southeast Asian states is to maintain substantial informal relations with Taiwan, and keep persuading the United States to continuously engage in the Asia-Pacific region.

When the Permanent Court of Arbitration, in The Hague, ruled in July 2016 in favour of the Philippines against China’s claims, China responded by saying it would not abide by the ruling⁷. The office of Taiwan’s president likewise rejected the verdict in terms similar to Beijing. If there is anything China and Taiwan can agree on, it is that the contested scattered islands in the South China Sea are Chinese territory (Linther, 2018). The People’s Republic of China (PRC) inherited its claims from the Republic of China (ROC) after the Chinese civil war. Thus, the ROC’s interpretation of its claims is relevant to the PRC’s claims.

Contrary to the conventional wisdom, the Democratic Progressive Party (DPP) administration chose to emphasise this main Chinese legacy when the PCA ruling came. In addition to rejecting the ruling and highlighting the ROC’s territorial claim over the South China Sea, including the eleven-dash line⁸, Taipei even sent a naval frigate to the site. Those moves are similar to or even more assertive than Beijing’s. Taiwan’s strong responses to the ruling of the Permanent Court of Arbitration (PCA) on South China Sea may not be wise from a foreign

policy standpoint, but the reaction highlights the undeniable linkage across the Taiwan Strait, a potential breakthrough in the cross-strait relations (Wu, 2016).

This decision of the Tsai administration is a form of political populism. Public opinion in Taiwan usually demands governmental action to defend territories. The Taiwanese mainly accepted their Chinese legacies, especially when it comes to accessible territories. As the PRC has generally replaced the ROC in the international community, Taiwan is unable to take legal moves due to a lack of international recognition. Therefore, making a “show” of sending vessels to disputed areas is a tool for political leaders to comfort people.

Taiwan, in the past years, has taken small but significant steps toward clarifying that its claims are from land and in accord with UNCLOS and international law. It adopted a more conciliatory position by advocating that the East China Sea Peace Initiative, which calls on parties to shelve disputes and promote joint exploration and development in the East China Sea, be applied in the South China Sea (Kuok, 2015). A subtle shift in position is likewise evident in the Policy Guidelines set by the Tsai government after the arbitration. It contains “Four Principles and Five Actions” to guide Taiwan’s South China Sea policy⁹. Taipei stipulates that it would increase the quotas for international scientists to conduct scientific research on Taiwan-occupied Itu Aba, or Taiping island, in the Spratlys. Taipei would cooperate with different organisations to make Itu Aba a centre of humanitarian assistance.

When Minister of the Interior Yeh Jiunn-rong paid a visit to Itu Aba in August 2016, he declared that Taipei would install more scientific devices on the island to monitor the impact of climate change in the South China Sea. Also, in August 2016, Taiwan adopted the New Southbound Policy¹⁰ in order to identify a new direction and a new

driving force for a new stage of Taiwan's economic development, redefine its important role in Asia's development, and create future value. At the same time, through this policy, the Tsai administration hopes to start up wide-ranging negotiation and dialogue with the nations of ASEAN and South Asia as well as New Zealand and Australia, with an eye to establishing close cooperation and together achieving regional development and prosperity.

President Tsai Ing-wen has since consistently vocal about the southbound initiative in many of her high-level engagements¹¹ in keeping her commitments to forging stronger economic and people-to-people ties with the island's neighbours in the South and Southeast Asia, Australia, and New Zealand thereafter. Though under an increasing pressure to present progress on her southbound pivot, these strong commitments were manifested by the significant growth of trade, tourism, and educational linkages between Taiwan and these countries, and the ASEAN as President Tsai highlighted.

These investments and position shift by Taipei clearly sent a credible message to other South China Sea claimants that even if Taiwan is not able to be a formal party to UNCLOS, it is willing to provide public goods in the South China Sea and cooperate with other claimants to peacefully manage the disputes through marine conservation programs, humanitarian assistance, and joint development with which, arguably, Taipei has come to regard the South China Sea as a shared resource, at least to a certain extent.

4. Southeast Asia's Political Relations and Economic Ties with China

Abb and Strüver (2015) points out that SEA is deeply interconnected with China economically even before the era of colonisation. The region's interactions with China are also already deeply-institutionalised.

Tai and Soong (2014) traces this relationship to being tributary in nature. Early trade networks were formed through establishing vassal states. Even the creation of several Chinese chambers of commerce in SEA states was an effort to develop political alliances under the branding of trade expansion overseas (*ibid.*). However, the economic aspects of this relationship were more marked and lasting than the political aspects that characterised the surface.

While the establishment of the People's Republic of China (PRC) in 1949 and the ensuing formation of the Association of Southeast Asian Nations (ASEAN) in 1967 led the two entities to two opposing ideological poles as the latter was established "partly motivated by anti-Communist sentiment" (*ibid.*: 23). The trade relationships then began to be blemished by political stances, despite Zhou Enlai's promulgation of China's "Five Principles of Peaceful Coexistence" as its guide in doing diplomatic relations with SEA states. The thawing of relations between the United States and China in 1972 with the visit of President Richard Nixon to China paved the way for the establishment of diplomatic relations between China and Southeast Asian states.

On the political realm, the Cold War brought back reluctance on the part of SEA states regarding China's intentions, given the worries on the "China threat" (*ibid.*: 23). However, despite this, trade between China and the individual SEA states remained strong and stable, partly due to China's "Open Door Policy" and the subsequent "Good Neighbour Policy" in the 1990s which entailed its leaders to have frequent visits to SEA states to rekindle and bolster relationships, as well as increase the volume of bilateral trade between China and individual SEA states. Hence, from US\$200 million in trade by the end of the 1990s, the amount now reaches more than US\$100 billion, with China being ASEAN's highest trading volume partner in the Asia-Pacific (*ibid.*: 26).

What cemented China's presence in SEA was its actions during the Asian Financial Crisis of 1997 where its strong economic and trade position allowed it to not depreciate its currency (Ba, 2014; Singh, 2015), thereby being the beacon of stability in the region. Aside from this, China also extended financial support to SEA states to weather the crisis – most notably in infrastructure, trade, and economy (Tai and Soong, 2014; Shekhar, 2012). This enabled China's re-establishment of ties with SEA states, and its status known as a “good, stable, and wealthy neighbour” (Ba, 2003: 646). Moreover, China's acquiescence to the Bangkok Agreement in 2001 opened the doors for it to have close economic partnerships with SEA.

Moving forward, China continued its efforts to reduce tensions through state visits initiated by its presidents, which thwarted fears of “China threat” and transformed it into “peaceful rise”. This shift in the way PRC engages in the world is important for academics and policymakers to assess and anticipate its effect on the global balance of power. China's use of “*soft power*”¹² began circulating in the US headlines as early as 2004, where papers such as the *Chicago Tribune* wrote that China “counterbalances US power” (Schmidt, 2008).

Tai and Soong (2014) posits that at the beginning of the 20th century, China was in a position to establish “economic and trade rules for East Asia” (p. 24). In fact, the last decade saw China replacing Japan in leading East Asian economic development. The “China threat” during the Cold War was replaced with “China opportunity” (*ibid.*: 24), due to China's proactive role in establishing friendly relationships with SEA states through three main strategies: (1) the formation of the China-ASEAN free trade area; (2) increased border trade; and (3) expansion of trade networks through Chinese businesses, Chinese immigrants who are now based in SEA states, as well as Chinese tourists. The year 2006

marked the first time that Chinese tourists in SEA registered the highest number of tourists from a single country. The development of trade networks also includes the increase in the number of Confucius Institutes to promote the learning and teaching of the Chinese language, which becomes a method of exporting China's cultural values into ASEAN.

Tai and Soong (2014) asserts that the fact that China was able to implement profit-sharing measures with SEA states through the FTA makes it a provider of public goods. These measures are in the form of the "economic cooperation framework agreement, the early harvest program, the goods trade agreement, and the service trade agreement" (p. 29), among others. These provisions resulted in SEA states' increased willingness to cooperate with China, as well as their acceptance of the emerging power.

Christopher Walker and Jessica Ludwig of the National Endowment for Democracy, in 2017, coined the term "*sharp power*"¹³ to describe these Chinese political and economic activities. However, others continue to identify them as a form of *soft power*. Some experts argue China's *sharp power* is nothing more than an element of *hard power*. While it is true that *sharp power* shares some characteristics with both *hard* and *soft* power, it is uniquely different because its targets are more likely not having the ability to consciously participate in the decision-making process. Beijing employs a diverse tool kit that includes thousands of people-to-people exchanges, wide-ranging business and cultural activities, education programs and the development of media enterprises and information initiatives with a global reach (Walker and Ludwig, 2017). Moreover, because many are unable to identify a number of Beijing's activities, and believe them as elements of soft power, their intent and effect are often underestimated.

Beijing has become increasingly assertive and controlling in its efforts to outmanoeuvre rivals and critics since the 2008 financial crisis

and Xi Jinping's ascent to power¹⁴ by means of offering the following landmark examples of public goods:

• ***China-ASEAN Free Trade Agreement (FTA)***

The framework for China-ASEAN FTA was signed in 2002 (Schmidt, 2008). This initiative was led by China under its “Good Neighbour Policy”, with informal talks between China and ASEAN leaders prior to its establishment as early as 1997 (Tai and Soong, 2014). It came to fruition finally in January 2010, when the agreement entered into force.

The FTA saw the increase in bilateral trade volume between China and ASEAN, which, when translated to individual countries, volume of trade is directly proportional with their respective economic scales. Hence, SEA states with relatively higher GDPs as compared to other SEA states “had greater potential for import demand” (*ibid.*: 28).

With reduced – and subsequently, eliminated – tariffs between China and ASEAN, the volume of trade between the entities is seen to increase exponentially. Schmidt (2008) claims that the two-way trade between China and ASEAN is growing faster than that of Japan and ASEAN. ASEAN-China trade amounted to US\$39.5 billion and US\$41.6 billion in 2000 and 2001, respectively. Tongzon (2005), as cited in Schmidt (2008), writes that China is the 6th biggest trading partner of ASEAN – and with the ASEAN-China FTA, will highly likely to be the first.

• ***Belt and Road Initiative***

SEA sees itself benefitting from China's “Belt and Road Initiative” (BRI, previously known as One-Belt-One-Road initiative), which is increasingly seen as a public good. This development which commenced in 2013 entails building roads and ports connecting China to the rest of the world – both in Southeast Asia and in Europe.

In terms of positioning of individual SEA countries with regard to economic ties with China, those countries sharing borders with China are the ones who have very little trade with the emerging power. Tai and Soong (2014) attributes this to being “technologically-backward” of these countries, thereby limiting them from exploiting the geographic proximity and trade potential between them and China. To this, China developed strategies to increase trade within its borders, such as the Western China Development Program aimed at expanding the economic capacities of Western China, as well as the Greater Mekong Subregional Cooperation Program targeting the development of the Mekong River Basin in China’s southwestern border. Likewise, the Kunming-Bangkok expressway which passes via Laos and links China and Thailand is also funded by China. It was completed in 2008.

• ***Development banks and funds***

Another public good that China offers is the Asian Infrastructure Investment Bank (AIIB), an investment lending platform for infrastructural construction in SEA, as well as the China Development Bank (CDB) and the Silk Road Fund. These are China’s counterparts to the World Bank and the Asian Development Bank, whom China sees as unable to capitalise and maximise on the unmet demand in infrastructure development – it saw the resources offered by the two multilateral platforms as “grossly deficient” (Zhang, Li and Cheong, 2017: 130). Aside from these, China also forged bank alliances with SEA state-owned banks, which then facilitates building a plethora of infrastructure projects simultaneously due to its interest-free and concessional loans and grants. Schmidt (2008) states that this trend that China treads – FDIs combined with overseas development aid (ODAs) – is similar to Japan’s, Taiwan’s, and South Korea’s pattern.

5. China's Regional Power and Policy Influence over SCS: Persuasion, Inducement, and Argumentation

From the discussion in the preceding section, it is clear that China's economy is increasingly tied with the rest of the world, especially with SEA states, and any effect – be it adverse or beneficial – to China's economy redounds to SEA economies as well. These economies are now interwoven in an intricate web such that one small movement in one part has repercussions on the rest of the parts.

For thirty years (1982-2012), China's GDP is at 7 percent per annum on average (Zhang, Li, and Cheong, 2017), most of it built on trade. This unprecedented, continued high economic growth has enabled it to pursue strategic interests not only in the contiguous region, but also in areas as far as Africa, the Americas, and Australia. In fact, in 2009-2010, China outperformed Germany as the world's largest exporter (Zhang, Li and Cheong, 2017; Ba, 2014).

However, the year 2012 saw a general deceleration in China's economic growth rate, which the Chinese leadership recognised and acknowledged as the "new normal" (Zhang, Li, and Cheong, 2017: 126). This phenomenon where China's economic growth is driven by technological innovation and rests on slower economic development, as opposed to one driven by cheap labour and characterised by consistent double-digit growth rate, is spilling-over on a global scale.

Despite this slowdown, China still maintains a stable economic growth rate. This wherewithal allows China to provide several public goods, thereby making it indispensable and essential in discussions about shaping and reshaping the current world order. In continuing to do so, China has also faced worries and resistance from several SEA states, especially on the matter of territorial and maritime disputes. Shekhar (2012) aptly puts it in this way: that while China is ASEAN's

largest trading partner, it is also the only great power that has territorial and maritime disputes with some SEA states (p. 228).

5.1. China's Motivations in SCS

Schmidt (2008) asserts that China's interest in the region is underpinned by the following: (1) increase in ODA and trade; (2) increase in inward and outward FDI; (3) China's need for natural resources such as oil, gas, and energy; and (4) China's defence and diplomatic priorities.

Majority of China's overseas investments are marked by resource-based extraction activities such as the ones in Australia, Indonesia and Thailand. Chinese state-owned enterprises (SOEs) and several private companies are "investing heavily in mining, natural gas, and logging" (Schmidt, 2008: 28) in the region. Aside from this, Chinese companies also settled to ASEAN and established new production platforms. Besides from Myanmar's natural resources to Indonesia's natural gas, China has also invested in several infrastructure projects in the Philippines, Laos, Thailand, Cambodia, and Singapore.

As China is the world's second-largest oil consumer, and since 1993, a net-importer of crude oil (Schmidt, 2008) of which 80 percent of those imports pass through the Malacca Strait, it is vital and imperative for China to secure passage of its imports. To this, Schmidt (2008) sees that China desires to secure supplies and resources in the form of oil, gas and other natural resources by land and sea. Its actions in the South China Sea, along with its infrastructure agreements with ASEAN countries reflect this desire. The infrastructure it funds and builds, from the roads, ports and dams, to the railroads and airfields in ASEAN countries all support this overall strategy (*ibid.*).

5.2. China's Strategies in SCS

China invests heavily in ODA in SEA, while consolidating control over the contested islands in the South China Sea. One of the most notable ways that it employs to consolidate control is modernising its military and building structures in the contested islands in the SCS.

Today, China has the largest military in the world. After 20 years of stagnation¹⁵, China has pursued a comprehensive military modernisation programme since the late 1990s which aimed to improve its armed forces' capacity to fight and win short-duration and high-intensity regional military conflict (U.S. Office of the Secretary of Defense, 2013), and address a wide range of PRC objectives including advancing territorial claims. This modernisation has greatly increased its capabilities relative to its neighbours. While the US still spends more on defence than any other country (43 percent of global military spending)¹⁶, China's spending continues to increase. Accounting for 6.2 percent of global military spending, China increased its budget by 17.8 percent in 2007, and 17.6 percent in 2008¹⁷, the latter being the eleventh successive time the PRC approved a double-digit increase in defence spending (Herrington, 2011; Fenby, 2012) and the time when China was hailed for the first time as the world's second highest military spender.

In this modernisation, China aims to reach critical military benchmarks by 2020, which include, among others, the attainment of the capability to fight and win potential regional conflicts and the defence of territorial claims in the South China Sea and East China Sea. As such, its main thrust of modernisation and expansion is at the sea following Hu Jintao's call for the navy to "make extended preparations for military combat" (Fenby, 2012; U.S. Office of the Secretary of Defense, 2013). Through modernising its military, China believes that it can deter actions by outside powers that could damage Chinese interests or defend itself

against such actions should deterrence fail (U.S. Office of the Secretary of Defense, 2013).

5.3. Stance of SEA States on the China's Actions

Shekhar (2012) argues that SEA states have divergent opinions on China's actions, as reflected in their foreign policy stances and responses. While Thailand and Malaysia have strong economic relations with China, the Philippines and Vietnam hardened their stances against China amidst the South China Sea disputes. The increasing apprehension of these latter states is exacerbated by China's statements, such as the statement by then-Foreign Minister Yang Jiechi that "China is a big country and other countries are small" (Abb and Strüver, 2015: 35). Meanwhile, Zhang, Li and Cheong (2017) states that that Vietnam has already agreed to do bilateral negotiations with China.

ASEAN as a regional bloc remains to be divided on how the "dispute is to be settled" (*ibid.*: 131), as its member countries do not all have claims in the disputed territories and have not experienced clashes with China (Abb and Strüver, 2015). Abb and Strüver (2015) propose that as a group, ASEAN takes a middle position, gravitating towards contestation and accommodation of China's policies, depending on the current – and changing - domestic and international circumstances.

Shekhar (2012) notes that ASEAN efforts at regional integration is threatened by instability and insecurity, of which one of the major causes is China's actions in the South China Sea. While ASEAN wishes to engage China in multilateral forums with the hopes of precluding it from engaging bilaterally with each ASEAN member state, China uses the same avenue to "extend its regional influence" (Schmidt, 2008: 40) through engaging SEA states bilaterally. China's preference for bilateral agreements is observable as early as 1999, when it has successfully concluded agreements with each ASEAN country. Multilateral forums

have become China's avenue to engage with each of the ASEAN member states individually, with the aim of concluding more bilateral agreements.

6. China's Exercise of Sharp Power: Political, Economic and Regional Security Implications

Chinese influence is attracting increasing attention from around the world. There is a general consensus that PRC is boosting its attempts to make friends and influence people, particularly its neighbour. From the elucidation of how China utilises its *sharp power*, this section focuses on how SEA perceives China. Essential to this is a discussion on China's relationship with Cambodia, Laos, Myanmar and Vietnam (CLMV), as well as how China's *sharp power* poses several implications for the sustainability of regional trade.

6.1. China's Relationship with CLMV

Ba (2014) notes that while China has more volume of trade with the original ASEAN-5 countries, it is more active in Cambodia, Laos, Myanmar and Vietnam (CLMV) in terms of infrastructure development and investments in capacity building and human resource development. The CLMV is also where most loans and grants are accorded.

Myanmar and Cambodia are seen as very close to China in terms of economic, political and military agreements. Several military agreements are signed which is marked by China providing arms to the two countries, as well as funding for training and procurement of equipment. While China sees its actions as a "win-win situation for all" (Schmidt, 2008: 28), some trade agreements have produced fears of "economic dependence and political domination" (*ibid.*), especially on the part of Myanmar, Cambodia and Thailand.

6.2. Regional Trade Implications

At present, the international division of labour is still leaning towards the newly emerging economies, with services and manufacturing comprising most of the movement from the west to the east.

The decline of SEA exports in the Western markets due to increasing protectionism has led SEA to look inward, especially to China, for trading (Shekhar, 2012). As to the volume of goods traded, the surplus of goods from China poses a threat to the competitiveness of SEA's domestic products. Schmidt (2008) argues that China has a "comparative wage advantage" (p. 29) because it has the "lowest labour unit cost" in East and Southeast Asia.

Schmidt (2008) claims that China's want of FDI and export structure is similar to that of ASEAN countries – that the products are labour-intensive and technologically complex, with destinations to EU, US and Japan. Wong and Chan (2003), as cited in Schmidt (2008), traced that Chinese firms are even driving away local firms for market shares. The example of TCL driving away Sony and Samsung in Vietnam and gaining 15 percent market share within three years of entering the Vietnamese market is a tangible illustration.

6.3. "New Voices" on BRI: China's Neighbours Say "No!"

China's flagship Belt and Road Initiative (BRI) is dealing with ever-greater resistance, slowing a momentum that once seemed unstoppable – Sharma (2018) even argues that the BRI is stalled. This is clearly evident from the "new voices" coming from Southeast Asia and the rest of China's neighbours – Malaysia halted Chinese projects worth US\$22 billion; Pakistan, Nepal and Myanmar have cancelled or sidelined three major hydroelectricity projects worth nearly US\$20 billion planned by

Chinese companies. These declarations come as a serious jolt to BRI and its image.

China is not used to recipients of its largesse challenging the terms on which it is offered. However, Malaysia's 93-year-old new prime minister Dr Mahathir was plain-speaking and deft, showing to China that his country is now "*the Malaysia that can say no*". He said that Malaysia is cancelling the US\$20 billion East Coast Rail Link, a massive Belt-and-Road project, as well as two oil pipelines in the state of Sabah. His message, in essence, was: very sorry – lovely projects, but since coming to office we've discovered we can't afford them. Implicit was another point: we can't afford them because we now know how inflated the costs are, and how skewed the deals are in China's favour – or plain fishy (*The Economist*, 2018).

Pakistan's new prime minister Imran Khan¹⁸ in cancelling the US\$14 billion Diamer-Bhasha Dam project, cited tough financing terms imposed by China as the reason. Pakistan is by far the biggest debtor to China. Also, Nepal's deputy prime minister¹⁹ recently announced a decision to scrap a US\$2.5 billion contract for a hydroelectricity project, accusing the Chinese company of financial irregularities. In the case of Myanmar, which halted a US\$3.6 billion Chinese-backed dam three years ago, it declared that it no longer is interested in big hydro-electric power projects.

These "*new voices*" from China's neighbours could mean a serious loss of image for BRI (*The Economist*, 2018), which involves plans to build infrastructure across the globe, including in developed countries like the United States and those in Europe.

Though China has the tendency to launch tirades against countries that confront it (*ibid.*), in this case the response from Beijing has been muted. That may be partly because Malaysia is an influential country in SEA, a region that China wants to draw closer into its orbit, and China

does not want to make enemies among Belt-and-Road countries. Moreover, officials in Beijing see Pakistan as a counterweight to India, China's geostrategic rival. China needs Pakistan's help in keeping Islamist extremism at bay, and regards its neighbour as a vital route to the Arabian Sea.

6.4. China's Bid for Regional Hegemony?

Ba (2014) states that in International Relations theory, the term "leadership" is always associated with the term "hegemonic" or "major power", and always goes with the supposition that these "major powers" gain following because of their capacity to provide public goods and distribute benefits, and/or the followers being out of fear of missing out or "retribution" (*ibid.*: 144) from the major power. However, what is not always captured in the literature and theories is the "acceptability" and "recognition" dimension of "leadership": that is, how the would-be followers view or perceive the would-be leader. Hence, Ba (2014) asserts that aside from material power and what the emerging power can provide, acceptance of would-be followers also matters in assessing the potential of an emerging power. This acceptance or perception is constantly changing, and is a "socially-negotiated one" (*ibid.*: 146).

Vu (2017) notes that China's rise since 1997 was towards being a regional leader. Ushering in a "China century", China was instrumental in the maintenance of a stable regional order following the Asian Financial Crisis. However, the reaction and acceptance of Southeast Asian countries were varied. Vu (2017), from his research with data spanning from 1997 to 2013, found out that there were cases where China was successful in steering an initiative, such as the creation of the China-ASEAN Free Trade Agreement signed in 2002. Nevertheless, mirroring this are cases where China was not successful in leading an endeavour, such as the East Asia Summit of 2005 where China would

have wanted the Summit to be based only on ASEAN Plus Three countries and not to include other countries outside it. China actively “lobbied for the exclusion of not only the United States but also India, Australia, and New Zealand” (Singh, 2015: 90). However, this was rejected by the majority. Ultimately, the Summit included emerging powers outside the East Asian Region such as India, as well as great powers outside it like the United States.

China is seen time and again as declaring that it does not intend to replace the United States as a regional power (Tai and Soong, 2014). It sends its leaders to SEA states regularly to abate fears and worries about China’s actions. However, its expressed lobbying on the exclusion of several powers from the East Asia Summit is the opposite of that. Manifestations of the success of the emerging power’s leadership projects is the establishment of a political-military alliance in both the multilateral and bilateral levels. What is noteworthy in these alliances is that the organisation or the alliance itself only has the emerging power and the lesser states – it excludes other “powers” (Vu, 2017).

On the side of ASEAN, Vu (2017) points out that SEA considers China as a regional leader but only in some cases. Regional dynamics is still at play, especially with ASEAN member states who prefer to engage multilaterally, as opposed to China that prefers bilateral negotiations. In addition, the lower power capabilities of SEA relative to China’s lead the bloc to “bandwagon” instead of “balance”, which is seen in how ASEAN values consensus in decision-making (Abb and Strüver, 2015).

Vu (2017) states that China’s position within the SEA is improving; however, having a China-led region is still far from reality. There is as yet no organisation in the region where China has the monopoly of involvement with the SEA states – it has always been with other powers, such as Japan, India, and/or the United States. China is also not yet accorded veto powers in institutions of which it is a member. Despite

this, given the dynamic nature of global politics today, the era of a Southeast Asian region marked by Chinese leadership may come sooner rather than later since it is undeniable that China, because of its nuclear capability, permanent status in the United Nations Security Council (UNSC), large-size armed forces, and the PLA, has a special place in Asian security and strategic order (Flores, 2017).

7. Conclusions

In employing process tracing, this paper established the link between economic and political wherewithal and its translation into “*sharp power*” characterised by “assertiveness”, with the South China Sea theatre as the case in point and the triangular relations between China, Taiwan, and Southeast Asia as the subjects. In doing so, this paper demonstrated how the subjects share intertwined, interconnected and interdependent political, economic, trade and cultural histories, and how these histories traverse and transcend into the current geopolitical space – specifically, that of the rival claims in the South China Sea. Through this elucidation, it is clear that the proactive and reactive stances, as well as responses, are in constant flux – always undergoing construction and reconstruction, depending on the respective circumstances of these states in the domestic and international sphere.

Zeroing in on specific cases and instances, this paper also traced and dissected how these stances and responses root from projections of power. It is interesting to note that sharp power projection is already deeply entrenched and interwoven into the political, economic and social realities of China, Taiwan, and Southeast Asia. Conversely – and ultimately – these realities feed into, and continue to shape and reshape, the states’ foreign policies. What happens next in this amphitheatre is a compelling and intriguing development to see.

Notes

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1. China, Taiwan, Vietnam, Malaysia, the Philippines and Brunei all have claims in the South China Sea founded on a variety of historical, territorial and legal issues.

2. By the mid-1970s, most of Southeast Asia had switched formal diplomatic recognition to China. In August 1990, Indonesia was the first major country in the region to do so, followed by Singapore in October 1990 and Negara Brunei Darussalam in October 1991. Vietnam suspended its relations with China in the late 1970s, but in October 1991 it too restored formal relations.
3. Four of the seven elements of the Good Neighbour Policy have to do with Southeast Asia. See S.D. Muni, *China's strategic engagement with the new ASEAN*, IDSS Monograph No. 2 (Singapore: Institute of Defense and Strategic Studies, 2002), p. 16.
4. In the 1990s, Taiwan government allowed only the indirect investment to China. The indirect investment channels included (1) a branch of a Taiwan company established in a third country; (2) another company located in a third country; (3) a company in a territory outside mainland China; (4) indirect remittance of their investment from a third country to China (Lin, 1997, p. 29).
5. Washington has repeatedly asserted that the goal of its pivot, designed to shift some 60 percent of American overseas-based forces to the Asia-Pacific by 2020, is not aimed at containing China. Nonetheless, the policy has triggered "Chinese anxiety about U.S. containment" (Glaser, 2012).
6. The Spratlys region consists of 230 islands, reefs, cays, and banks.
7. "Beijing rejects tribunal's ruling in South China Sea case", *The Guardian*, 12th July 2016. Retrieved from: <<https://www.theguardian.com/world/2016/jul/12/philippines-wins-south-china-sea-case-against-china>>.
8. In 1947, Republic of China internally circulated an atlas, drawing an eleven-dash line to indicate the geographical scope of its authority over South China Sea. Two dashes were removed from the eleven-dash line in 1953, when the territorial title for the Bach Long Vi island (Gulf of Tonkin) was transferred from China to Vietnam. The first two lines lay within the Beibu Gulf or Gulf of Tonkin, bordered by Vietnam and China. When the

nine-dash line emerged in the 1950s, the two states were politically close, with each having a three-mile territorial sea. Also see the eleven dash-line map of South China Sea claim at: <http://isdpa.se/publication/understanding-chinas-position-south-china-sea-disputes/eleven-dash-line-map-of-south-china-sea-claim/>.

9. “South China Sea issue”, Ministry of Foreign Affairs, Republic of China (Taiwan). Retrieved from: <https://www.mofa.gov.tw/en/theme.aspx?n=E5A0D5E2432C234D&s=83376F561B7165E6&sms=BCDE19B435833080>.
10. “The guidelines for ‘New Southbound Policy’”, Taipei Economic and Cultural Office in Brunei Darussalam. Retrieved from: https://www.roc-taiwan.org/bn_en/post/644.html.
11. One of President Tsai’s high-level engagements was during the Asian Dialogue for Innovation and Progress that gathered a few high-level current and former government officials, scholars, entrepreneurs, and NGO leaders from target countries for the New Southbound Policy, as well as from the United States, Japan, and South Korea, to discuss economic and social connectivity issues in the region.
12. Joseph Nye defines “*soft power*” as “the ability of great powers to obtain cooperation and alliance of other states within the world international order” (Aljunied, 2011: 655) through persuasion, cultural exchanges, and common values, among others.
13. “*Sharp power*” was coined by Christopher Walker and Jessica Ludwig (2017) of the National Endowment for Democracy (NED). The term refers to the information warfare being waged by today’s authoritarian powers, particularly China and Russia. See: C. Walker and J. Ludwig (2017, November 16). The meaning of sharp power. *Foreign Affairs*. <https://www.foreignaffairs.com/articles/china/2017-11-16/meaning-sharp-power> (date accessed: 5th November 2018).

14. See: R. Koreh (2015, January 31). The Chinese smart power strategy. *Harvard Political Review*. <<http://harvardpolitics.com/world/chinese-smart-power-strategy/>>.
15. For further information, see Lee (2011).
16. For further information, see Fenby (2012).
17. Stockholm International Peace Research Institute (SIPRI) estimates China's military expenditure to have been US\$84.9 billion during this year.
18. See: S. Dasgupta (2017, December 4). Pakistan, Nepal, Myanmar back away from Chinese projects. *VOA News*. <<https://www.voanews.com/a/three-countries-withdraw-from-chinese-projects/4148094.html>> (date accessed: 5th November 2018).
19. *Ibid.*

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The Elephant and the Dragon

