China's Economic Leverage in Southeast Asia

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Abstract

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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 in 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 I

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.[1] 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

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

When it comes to lower income countries such as Vietnam, its relative backward domestic manufacturing base means that

source countries for capital into East Asia are the United States, U

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. c 0 T351-4.4( )184(B49

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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