

China's engagement in Southeast Asia through the ASEAN-China Free Trade Area (ACFTA)

Name: Anh Tran

Student number: S 1241788

Name of supervisor: Dr. J. Wang

Seminar leader: D.P. Kok

Word Count: 13.032 (incl. literature review)

10.337 (excl. literature review)

Contents

1. Introduction.....	3
2. Literature Review.....	5
Regionalism, Multilateralism and Complex Interdependence	6
Regional integration through the ASEAN-China Free Trade Area.....	7
China's assertive behaviour in the South China Sea	9
Is China challenging the regional order?.....	9
3. Chapter I: Economic Regionalism and Multilateralism in Asia: A Conceptual Overview... 11	
Economic regionalism.....	12
Multilateralism.....	14
Interdependency theory	15
4. Chapter II ' Regional integration and the establishment of the ASEAN-China Free Trade Area'	16
East Asian development as a tangled web of economic linkages.....	16
The ASEAN-China Free Trade Area.....	17
5. Chapter III: Strategic Motives behind the ACFTA: China's Foreign Policy Objectives.....	20
China's New Security Concept (NSC).....	20
Regionalism as part of China's security agenda	21
The Chinese approach to economic regionalism	23
6. Chapter IV: 'Chinese diplomacy: overcoming political tensions in the South China Sea' ...	25
The territorial disputes	26
China's engagement with ASEAN on the Spratlys issue.....	27
What are the implications for the ACFTA?	28
7. Chapter V: Concluding remarks: 'China's increasing assertiveness towards the region and the prospects for Asian economic regionalism	29
China's 'new' form of Asian regionalism.....	29
8. Bibliography	33
Primary sources.....	33
Secondary sources.....	33

1. Introduction

As the Asian regional order is increasingly marked by the economic interdependence and cooperation among states, the dynamics within Asia in terms of its power structure and economic climate are altering. This paper discusses two relevant trends which form major driving forces for change in the regional order; the development of the ASEAN Free Trade Area (AFTA) as a form of regional integration, and the increase of China's economic strength and activeness in regional affairs. These trends refer to the growing intensity of economic regionalism, which is shaping the region into a more multilateral order with China at the centre of these developments. The focus of this paper is placed on the topic of China's political and economic engagement in South East Asia through the ASEAN-China Free Trade Area (ACFTA). This free trade agreement was settled in 2010 between the ten ASEAN member states and China. ACFTA now forms the third largest trade area in terms of nominal GDP, following the European Economic Area (EEA) and North American Free Trade Area (NAFTA). The ACFTA strongly enhanced bilateral trade between China and Southeast Asia through a mass reduction of trade tariffs. In addition, ASEAN now forms a significant destination for Chinese investment.

The goal of this research is to study China's core interests in the region in order to provide an understanding of how China is shaping its foreign policy towards the regional order. The core objective behind the ACFTA agreement was asserted to enhance trading opportunities between China and the ASEAN countries by improving market access and national treatment. China forms the core player in this agreement which is moreover argued to provide its countries with more opportunities to take advantage of China's economic growth.¹ The growing interdependency between states and actors within the region may suggest that both parties engage in a cooperative framework for the ultimate benefits out of gaining a wider access to global markets. Closer integration and a more prominent position of China in the region involves implications for both economic decision making and the political structures thereof. The analysis of China's integration efforts through ACFTA therefore will provide an understanding of China's foreign policy objectives, its proactive stance towards multilateral institutions and how this may affect dynamics within the regional order. By viewing recent intra-regional cooperation through ACFTA, this study aims to contribute to the more general discussion of what China's influence may imply for the Asian economic, and political climate. The development of closer integration and cooperation between

¹ "Overview of ASEAN-China (ACFTA)." Internal Enterprise (IE) Singapore – Driving Singapore's External Economy, accessed March 9, 2015

Asian states, with China at the centre of this, would moreover form significant trends that should be considered within the wider scope of global economic governance.

The topic of China's integration with ASEAN through ACFTA will be examined through a research method based on empirical findings and academic debates within the secondary literature on this topic and its research objectives. It will analyse and compare the various perceptions on China's foreign policy and its motives to economically, and politically, engage ASEAN which will be supported by the acquired facts on China's integration policies. Through a study of the ACFTA, this thesis will systemically answer the main question of how China is shaping its foreign policy towards its region and whether this will impact regional dynamics in terms of economic integration and regional governance. The main proposition of this thesis argues that China's foreign policy is aimed at establishing a multilateral order in regional and global economic governance with an ultimate goal of limiting economic reliance on the 'West'. Thus, China's aim is to pursue gradual changes within the economic order which will accommodate the economic interests and preferences of China better as well as that of other emerging and developing countries. The pursuit of a multilateral order corresponds to a need of a secure and stable environment which enables China to develop its own potential and dilute Western influences in the region without significant disruptions. The ACFTA inherently forms an aspect of China's regional policy objectives as it serves to stabilise China's relations with the most significant trade organisation in East Asia and corresponds to China's desire to gain a more prominent role in international institutions and cooperative frameworks. This thesis suggests that economic interdependency forms the primary driving force behind these developments which foster the need for regional stability and closer economic cooperation. ACFTA has shown that China is willing to make significant economic concessions towards Southeast Asia in order to foster its cooperative relations. However, it should be considered that China will make the necessary concessions without damaging its 'core interests' in terms of economic development and access to strategic resources.

This thesis will therefore conduct an analysis of Chinese foreign policy, its objectives and its implications for the regional order by viewing China's active role within regional integration in East Asia through the ACFTA. Five chapters which will systematically discuss the themes that are relevant to this study and will collectively support the central proposition of this thesis. Chapter one will provide a theoretical framework for the study of regional dynamics in East Asia by viewing the relevant concepts of economic regionalism, multilateralism and complex interdependency. These concepts are central to the main proposition of this thesis, as it will discuss the incentive behind regional frameworks and how they evolve to shape the political and economic climate of a region as

well as its power-structures. Subsequently, chapter two and three will apply these concepts to the central topic of China's political and economic engagement in Southeast Asia through the ACFTA and elaborate on the assertion that this cooperative framework forms an inherent part of China's regional foreign policy. Chapter two will first study the primary incentives behind China's proposal of the ACFTA as a way of establishing 'peaceful cooperation' and how a closer economic interdependency fostered the formation of this framework. Chapter three will conduct a deeper analysis of China's wider foreign policy objectives and how previous development strategies and power-structures in the global political economy have led China to pursue regionalism through a multilateral approach. The fourth chapter will bring attention to China's assertiveness in the South China Sea through recent military activities and energy exploration. This chapter forms a significant aspect of China's engagement in the region which will demonstrate the high degree of political tensions among China-ASEAN relations, and that China's 'core interests' in terms of economic resources and territory claims continue to shape foreign policy objectives. Finally, chapter five will draw the relevant findings together and form a conclusion on the main question of how China's assertive foreign policy behaviour will impact the Asian economic regionalism.

2. Literature Review

China's engagement with ASEAN has raised a wide array of perceptions on the prospects of China's regional power position and how its integration with ASEAN may show signals of its broader foreign policy objectives. The selected literature corresponds to the main question of how China shapes its foreign policy and whether this will indicate significant implications for the Asian economic order. Much of the acquired literature therefore centres around the debate of whether China is conforming itself to the regional 'status quo' in order to become a more active participant in the global economy, or whether China is a revisionist power seeking to grow its regional influence in order to craft the rules of economic governance itself. The central argument of this thesis is that China's foreign policy is aimed at pursuing gradual changes within regional and global economic governance towards a multipolar order which dilutes economic reliance on 'Western institutions'. In order to do so, China is approaching its region more actively, through a more prominent role in regional economic integration and cooperative frameworks which moreover serves to provide a stable environment to Chinese growth. Multiple perceptions on the notion of China's rise will be examined, through a thematic division of subtopics that is relevant to the central topic of this thesis, China's engagement in Southeast Asia through the ACFTA.

Regionalism, Multilateralism and Complex Interdependence

The central point of departure in the study of China's involvement in ASEAN is the growing trend of regionalism and inter-state integration in an increasingly interdependent global economy. Solingen provides a theoretical overview of the concepts of economic regionalism, multilateralism and bilateral relations in the context of international relations theory which highly supports the central notion of this thesis. Within the central focus of his work, he supports the argument that the process of globalisation has altered the world into a considerably smaller and more interdependent sphere, therefore unilateralism becomes neither a realistic nor sustainable focus in policy making. He thus argues that the world is moving towards an increasingly multilateral order as this is the most viable manner in which states should interact, as can be observed in the emergence of a variety of manners in which multilateral institution-building has emerged within ASEAN.² Moreover, liberal interdependency theory as explained by Kevin G. Cai, emphasises the role of institutions as non-state actors which are increasingly shaping the dynamics within the global political economy. The central argument that complex interdependence poses is that individual nation-states cannot afford to disrupt economic relations, for which it is dependent of the cooperation of others. Liberal interdependency thus upholds the notion that growing interdependence will eventually make nation-states obsolete.³

Liberal interdependency forms a relevant theoretical basis for the study of economic regionalism, as it takes into account the growing interconnectedness of states and state actors through globalisation. However, liberalism fails to take into account the importance of national interests within state behaviour which often triggers political tensions. Concerning the central topic of this thesis, economic interdependence and national interests, in terms of national security, development or economic preferences, both form significant incentives behind regional economic integration. Eventually, states engage themselves in multilateral frameworks in order to negotiate, to an extent, for the individual gains of international economic cooperation.

² Solingen, E. "Multilateralism, Regionalism and Bilateralism: Conceptual Overview from International Relations Theory." in *International Relations in Southeast Asia: Between Bilateralism and Multilateralism*, ed. N. Ganesan and Ramses Amer (Singapore: Institute of Southeast Asian Studies (ISEAS), 2010): 4-5

³ Cai, Kevin G. *The Politics of Economic Regionalism: Explaining Regional Economic Integration in East Asia*. (Hampshire: Palgrave Macmillan, 2010), 16

Regional integration through the ASEAN-China Free Trade Area

The literature on the ACFTA demonstrates how China's proposal of the framework was based on political strategy as much as economic pragmatism. Therefore, the degree of economic interdependency within the region as well as individual concerns for national development both are motivational factors in China's diplomatic initiative towards ASEAN. As was articulated in the ISEAS working paper by Sheng Lijun, the immediate reason for China's proposal to establish ACFTA rests on rational concerns for national security. Hence, China's national interests are better realised by offering concessions and integrating with existing frameworks in order to benefit from a capitalist world.⁴ Sheng Lijun has published a wide selection of relevant literature on a wide range of debated issues in China's foreign policy. This working paper moreover forms the most elaborate reading on China's motivations to propose the establishment of the ACFTA. Most evidently, it articulates rational concerns for China to enable a secure environment to accommodate and foster China's national development and domestic economy by becoming a greater participant in the global system and diminishing notions of China's rise as a 'threat'. Similarly, according to Gregory Chin and Richard Stubbs, "the ACFTA, in regional terms, is a key part of Beijing's regional policy response to the evolving 'China threat' perception, which has shifted from traditional security to economic security concerns."⁵ These arguments confirm that national interests have formed a primary motivation for China's initiation of the ACFTA, however these are more based on national concerns to secure a constructive environment and foster further economic development rather than an interest to shift the power balance in the region.

In contrast, a more realist perception is articulated by Samsul Khan and Lei Yu, who argue that the ACFTA not only reflects China's desire to "improve its neighbourly relations", however the agreement moreover emphasises a geopolitical orientation in China's foreign policy. They argue that the initiation of ACFTA would form a diplomatic initiative for facilitating China's emergence as one of the great powers in the world as well as the emergence of Asia as the most dominant region in the global economic climate.⁶ Moreover, geopolitical ambitions are expressed by Juliana Chen, as she states that China's diplomatic actions revolve around a broader pursuit of achieving a dominant leadership in the region. The central argument that is made asserts that the Asian region, which is

⁴ Sheng Lijun. "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations.": 13

⁵ Chin, G. and Stubbs, R. "China, Regional Institution-building and the China-ASEAN Free Trade Area." *Review of International Political Economy* 18.3 (2011): 292

⁶ Khan, S. and Lei Yu. "Evolving China-ASEAN Relations and CAFTA: Chinese perspectives on China's Initiatives in Relation to ASEAN Plus 1." *European Journal of East Asian Studies* 12 (2013): 82

increasingly marked by economic integration, is in need of a leadership role to establish its success as an economically competitive region at a global level. China, as is argued, centres its diplomatic strategies towards achieving this leadership position.⁷ Both authors discuss relevant tensions in China's regional policy behaviour as they demonstrate that geopolitical incentives form a significant driving force in interstate relations. However, a high level of economic interdependency within the region stresses the importance of economic cooperation and multilateralism in regional governance which weakens the argument of unilateralism as an understanding of China's foreign policy. ACFTA is thus argued to be motivated both by external motives for geopolitical influence and internal economic growth.

Economic prospects for China-ASEAN integration contain a significant degree of importance to China's regional policy which underlines the importance of economic concessions for regional stability. Despite economic gains out of the framework, some argue that significant risks are involved. The relevance of China's involvement for ASEAN rests on the sheer market size of China of which smaller, regional economies have a significant degree of dependency. As Ikumo Isono argues, it should be acknowledged that China forms a significant competitor for FDI, however its large market forms a significant production site in Asia which cannot be ignored. Integrating its economies with China, would offer member states the possibility to overcome the disadvantages of smallness and benefit from a wider range of resources.⁸ Similarly, Ravenhill acknowledges that China's rapid economic growth may impose strong challenges to smaller economies, particularly regional economies that possess a similar trade structure as that of China. However, he concludes that "ASEAN economies are beginning to participate in a significant way in the new trade triangles that have emerged with China's rapid industrialisation."⁹ A more sceptical perspective on integration with China is posed by John Wong and Sarah Chan, as they argue that "the extent of benefits derived from closer integration between China and ASEAN hinges on their evolving 'dynamic' economic relationship, which is both complementary and competitive in nature." Thus, they emphasise the need to foster closer integration and cooperative peace between the two countries in order to maintain mutual benefits.

⁷ Chen, J.W. "Achieving Supreme Excellence: How China is Using Agreements with ASEAN to Overcome Obstacles to Its Leadership in Asian Regional Economic Integration." *Chicago Journal of International Law* 7.2 (2007): 660

⁸ Ikumo Isono, "The home market effect in ASEAN countries," *Economic integration in East Asia*, ed. Masahisa Fujita et al. (Northampton: Edward Elgar Publishing, Inc., 2008): 317.

⁹ Ravenhill, J. "Is China an Economic Threat to Southeast Asia?" *Asian Survey* 46.5 (2006): 674

China's assertive behaviour in the South China Sea

On the literature of China-ASEAN relations, a dominant issue discussed is the increasing assertiveness of China's behaviour in the South China Sea in terms of energy exploration and military activities. Thus, the perceived 'China threat' still remains among Southeast Asian countries which form some of the main members within ASEAN. However, both member countries and China may be obligated to keep political tensions at a minimum as a favourable environment to economic cooperation and growth is needed for each countries' individual development. According to Zhao Hong, China's activities in the South China Sea clearly indicate a move away from its previous foreign policy of blunting the 'China threat' perception in the region, however conflict remains unlikely due to the high level of economic interdependency, especially on the side of the smaller, ASEAN members countries.¹⁰ A slightly different approach on the issue is taken by Michael Yahuda, as he argues that China's insistence of the indisputable nature of its claims in the South China Sea means that "there is no prospect for reconciliation with neighbours in the immediate future and that the most that can be attained are measures for conflict avoidance."¹¹ Thus, the argument posed by Yahuda confirms the need to avoid conflict however he emphasises that China's national interests, in terms of its maritime claims, will remain to be upheld to the disadvantage of Southeast Asian states. Therefore, the dominant issue that political tensions in the South China Sea impose, is the perception that China is pursuing its 'core interests' more aggressively and is not prepared to make concessions to others in doing so. For the prospects of China's economic relationship with ASEAN, Yahuda moreover states the separation of bilateral disputes from multilateral cooperation. China insists that territorial claims should be addressed solely through bilateral means, and tries to exclude these disputes from regional gatherings to prevent it from obstructing economic cooperation.¹²

Is China challenging the regional order?

For the regional in Asia, a proactive regional behaviour of China forms one of the most relevant catalysts for change discussed in the literature on this wider topic. Within this occurrence, the implications of a more dominant and influential China for the regional order remains disputed. David Shambaugh describes the regional sphere as "an increasingly complex mosaic of actors and factors." He then argues that China forms one of the most relevant actors in this context, therefore

¹⁰ Zhao Hong, "The South China Sea Dispute and China-ASEAN Relations." *Asian Affairs* 44.1 (2013): 40

¹¹ Yahuda, M. "China's New Assertiveness in the South China Sea." *Journal of Contemporary China* 22.81 (2013): 446

¹² Yahuda. "China's New Assertiveness.": 456

its influence is being increasingly felt. However, he denounces the argument that China's influence is establishing a regional hegemonic power. For this, he states, it is too early to make such assumptions.¹³ Shambaugh forms a significant author who studies China's rise in the context of 'complex interdependence' theory. He therefore argues that Asian dynamics do not revolve around issues of national security or power balancing, instead they are formed "around the increasingly dense web of economic, technological, and other ties being forged among Asian nations in the era of accelerating globalisation."¹⁴ Others may however disagree with this view, as it is commonly emphasised that national interests and security concerns do form a relevant factor in interstate relations, therefore China's influence is argued to indicate a power shift within the region. Shaun Breslin argues that a shift of power is being felt as China's international interests and influence are growing and have already had a significant impact on the global order. His central argument states that China, without destabilising the existing system, will seek to make gradual changes as its main concern is to democratise the current system in order to increase its own power and that of developing countries.¹⁵ Thus, Breslin emphasises that national interests form a relevant factor for the relationships among states, and that China is clearly articulating a dissatisfaction with the current order. Unlike Shambaugh who stresses the effect of globalisation on interstate relations, Breslin argues that China is effectively pursuing change which is altering the dynamics of international relations.

Yves-Heng Lim moreover discusses the dissatisfaction of China with the Asian 'status quo' through the study of power transition theory, which already indicates how Lim argues that China's influence results in a shift of power. His view forms a more radical, realist interpretation of how China's foreign policy pursuits centre on a struggle for power by diminishing the influence of Washington. The study of Lim derives further from the topic of this thesis, as his main focus is placed on a competition for power between China and the United States within Asia. However, Lim offers an important view in the current debates of how China's foreign policy can be interpreted through concepts of power.¹⁶

Contrary to the previous views, in Jian Zhang's study of China's more assertive foreign policy, he argues that China has not derived from its previous policy of denouncing the China threat

¹³ Shambaugh, D. "China Engages Asia: Reshaping the regional order." *International Security* 29.3 (2004): 66

¹⁴ Shambaugh. "China Engages Asia.": 97

¹⁵ Breslin, S. "China and the global order: signaling threat or friendship?" *International Affairs* 89.3 (2013): 633

¹⁶ Yves-Heng Lim. "How (dis)satisfied is China? A power transition theory perspective." *Journal of Contemporary China* 24.92 (2015): 294-296

and establishing positive relations. He states that China's current foreign policy is moving towards a 'Peaceful Rise 2.0'. However, this foreign policy would have a greater focus of China's national interests as a driving force for Chinese diplomacy. Jian Zhang therefore concludes that China's international behaviour in its developments of trade projects forms a method to accommodate both China's interests as well as regional development.¹⁷ The article by Jian Zhang forms a recent study of China's foreign policy, which may question the reliability of the source, however forms a relevant perception that underlines the main objectives of this thesis.

The literature offers a rich array of perceptions on the question that is central to this thesis. In response to this question of how China's proactive role in regional economic integration forms implications for the regional order, it has been demonstrated that high levels of economic interdependence and national strategy both form central objectives in China's approach towards the region. Within the collective literature, it can be observed that some authors have conducted a deeper analysis of the wider topic of China's foreign policy in contrast to others and therefore will gain a larger significance in the course of this thesis. These authors have implied a more multifaceted view of China's approach to the region which suggests that the region is becoming more complex in terms of economic interdependency which fosters cooperation and agreements on the basis of mutual interests however invokes tensions through the interactions of political actors with different economic preferences. China's foreign policy is thus shaped by a wide range of objectives which serve to accommodate both China's domestic economic development as well as greater goals of pursuing changes within the regional order.

3. Chapter I: Economic Regionalism and Multilateralism in Asia: A Conceptual Overview

Concepts of economic regionalism and multilateralism are commonly used to describe the evolving dynamics within the Asian region, for which it can be argued that these concepts contain the most dominant trends which are inherently linked to the Asian political economy. Moreover, they are linked to issues of security and governance as they determine how a region in terms of its economic climate and power-structures, is shaped. This section forms a basic theoretical framework for the central scope of this thesis, revolving around China's role as a central actor within a developing web of economic linkages which make up the East Asian economy through FTAs and cooperative institutions. Thus, an understanding of the concepts of economic regionalism and multilateralism a basic foundation for the understanding of China's foreign policy objectives and the influence that

¹⁷ Jian Zhang, "China's new foreign policy under Xi Jinping: towards 'Peaceful Rise 2.0'?" *Global Change, Peace & Security: formerly pacifica Review: Peace, Security & Global Change* (2015): 14-15

China's policy behaviour will have for regional dynamics. As a foundation for the developments discussed in this thesis, economic regionalism is regarded as an inevitable response to the globalisation of national markets, therefore states and non-state actors have increasingly cooperated with one another in the global economy which is marked by a growing interdependency. This chapter will analyse the political and economic incentives behind regional integration and why states engage in multilateral frameworks therefore corresponding to the central question of how China shapes its foreign policy, concerning its engagement in economic regionalism, and the implications that it will have for the regional order. This section will distinguish between the two concepts of economic regionalism and multilateralism. These concepts are interconnected however entail different processes within the broader context of regional integration. Economic regionalism will embody all economic agreements with a minimal purpose of interstate cooperation through limitations of barriers to trade. Political engagement within such agreements may lead to the expansion of such agreements and a larger involvement of political actors in other political and security sectors.¹⁸ Within this context, multilateralism entails the cooperation of different states and actors on a negotiation platform, working collectively on a given issue. Finally, economic interdependency emphasises the importance of both terms, as the closer involvement of different states and non-state actors indicates how the occurrences of regional integration and multilateral cooperation increasingly represent the shifting dynamics within regional governance and power-structures.

Economic regionalism

The development of regional economic agreements and overarching cooperative frameworks differs according to the political and economic environment within the region. A number of factors have been defined by Bruce Russett that include the relevant criteria which give countries incentives to engage in the establishment of an international region: shared social and cultural norms; similar political conceptions and outward-oriented policy behaviour; political interdependence through a network of intergovernmental political institutions; economic interdependence through intra-regional trade; and geographical proximity.¹⁹ These factors indicate how a similarity in political notions of governance and foreign policy, or shared linkages within a regional system can foster incentives for regionalism. The concepts of functionalism and spillover which have been coined as a response to the initial development of regional integration networks in Europe, form relevant

¹⁸ Cai. *Politics of Economic Regionalism*. 7

¹⁹ Russet, B. in Cai. *Politics of Economic Regionalism*, 3

concepts to the development of regionalism. Although initially based on European forms of integration, these concepts moreover discuss relevant developments which can be applied to the less institutionalised form of regionalism in Asia. Functionalism, as was first coined by David Mitrany, describes the emergence of increasingly complex economic and social dynamics due to the growing level of interdependence, which generate problems occurring past the borders of individual nation-states. The formation of regional organisations therefore pursues forms of functional cooperation to deal with these issues at a multi-national level, which simultaneously generates a ‘spillover’ effect as cooperation in one sector generates an increasing interdependence and need for cooperation in an ever-growing network of sectors. Therefore, pragmatic, economic cooperation eventually results into the involvement of political sectors. Cai thus argues that the spillover effect within the process of economic regionalism ultimately involves a negotiation framework of political actors which seek to maximise their advantages. The increasing developments of regional integration and a growing interdependence would then moreover be affected by the policies of major powers which opt to engage in integration efforts in order to gain a stronger international position.²⁰

On the other hand, for developing economies, regional integration becomes a manner to overcome the disadvantage of having a small-scale economy and the dependency on the ‘West’ by pooling markets and resources with other developing countries.²¹ According to customs union theory, which describes the essential purpose of the formation of free trade agreements, trade creation occurs when tariffs on intra-union trade are removed as it shifts the focus from domestic production to the lower-cost productions from another member-country; trade diversion occurs when tariff preferences are directed to certain member states, which shifts the demand from lower-cost producing states to higher-cost producing member states. Therefore, the establishment of a trade union or free trade area agreement would result into mutual benefits when trade creation prevails and a detrimental effect in the case of a larger trade diversion effect. The strongest incentives for the creation of customs unions are to accelerate economic growth, especially in the case of developing economies. Through the effect of economies-of-scale, the reduction of barriers to trade can moreover bring mutual benefits to its member countries by improving efficiency in production. Hence, a regional trade area allows the formation of a mass consumer market.²²

²⁰ Cai. *Politics of Economic Regionalism*. 7

²¹ Cai. *Politics of Economic Regionalism*. 10

²² Cai. *Politics of Economic Regionalism*. 9

Multilateralism

In broad terms, regionalism describes the process of closer cooperation among states through economic incentives of achieving mutual benefits to trade and investment within a collective framework. However, as the 'spillover' effect suggests, economic cooperation eventually leads to the involvement of political sectors which may result into a negotiation platform of different political actors seeking to maximise their benefits. Multilateralism more strongly describes the process of negotiation and the formation of collective agreement between these different political actors within an established framework. With the growing interdependence between individual states, Asia and its sub regions are moreover being reshaped by an increasing amount of institutions and agreements that generate multilevel cooperation and negotiation between states and non-state actors. In this context, multilateralism forms a relevant concept which describes inter-state relations under an institutionalised setting. More specifically, John Ruggie defines multilateralism as an "institutional form which coordinates relations among three or more states on the basis of 'generalised' principles of conduct", meaning that all members within this framework should adhere to certain rules of conduct with disregard to an individual party's interests in order to act out of the collective interest of all member involved.²³ Thus, multilateralism describes the institutional frameworks of negotiation which evolved from the increasing need for states to cooperate in the regional or global economy. Expansionism of the ASEAN framework into more multilateral institutions have appeared in the variety of agreements since the 1990s, including the ASEAN Free Trade Area, the ASEAN Regional Forum (ARF), the ASEAN Plus Three Forum (ARF), and the East Asian Community Summit meeting. The various set of institutions within ASEAN moreover were meant to operate in accordance with core principles of consensus and non-interference.²⁴ The definition of multilateralism however questions whether the actual processes within the multilateral institutions, especially in the context of ASEAN, ultimately bring the essential institutional form of multilateralism in effect. As the theories of economic regionalism suggest, cooperation between states based on economic incentives ultimately spills over into the political sector as regional frameworks moreover connect political actors which seek advantage in these cooperative frameworks. The core principle of non-interference would suggest that individual ASEAN member-states may maintain individual autonomy and act without intervention from other states, or overarching institutions in domestic matters. Hence, the 'ASEAN Way' of institutionalism through the principle of non-interference is understood as a constructivist approach towards multilateral

²³ Ruggie, J. in Solingen, E. "Multilateralism, Regionalism, and Bilateralism.",5

²⁴ Solingen, E. "Multilateralism, Regionalism, and Bilateralism.", 4-5

institutionalism.

Interdependency theory

As this paper argues, the growing interdependency between states and economies forms the principal factor which triggers the emergence of cooperative frameworks. Therefore, the concepts of regionalism and multilateralism have an increasingly large importance as states are becoming more interconnected. Not only does this indicate the importance for states to cooperate, but it stresses the importance of effective negotiation platforms. Similarly, liberal interdependency theory, or complex interdependence theory emphasises the role of non-state actors, international organisations and institutions, in shaping the global political and economic order. It argues that trade relations and the free movement of markets ultimately fosters peaceful relations among nations, as cooperative frameworks offer mutual benefits. Thus, it follows the neoliberalist notion of maintaining a constrained political influence, as economic development would continue to grow efficiently as long as democratic characteristics are upheld.²⁵ However, as was argued by the concepts of economic regionalism, cooperation on economic levels ultimately involves the political sector as well. Thus, as states seek to work constructively they moreover form political actors which seek to maintain their individual autonomy on a multilateral level, and negotiate on the basis of national interests alongside the collective interests of all member states. National interests, in this context, are inherently linked to security matters which is argued to form a central aspect in state's outward-oriented policy behaviour. Mark Beeson emphasises the element of security in foreign policy behaviour by stating that the protection of sovereign territory is foremost foundational. Therefore, the basic rationale for interstate cooperation would be based on the need to form alliances in order to maintain a balance of power as states would seek to avoid possible 'threats' and vulnerability. However it is argued that this basic rationale is undermined by current trends which are shaping profound changes in the international system, which are primarily led by increasing levels of economic interdependence. Hence, states would be increasingly less tended to engage into conflict as there would be too much at stake in terms of economics and trade. Thus, as economic interdependence alters dynamics within the international economy, it alters the manners in which states interact and the primary objectives in state's foreign policies.²⁶

In conclusion, as the dependency of states from one another grows, interstate relations intensify on

²⁵ Cai. *Politics of Economic Regionalism*. 15-16

²⁶ Beeson, M. "Invasion by invitation: the role of alliances in the Asia-Pacific." *Australian Journal of International Affairs* 69.3 (2015): 306-7

the levels of economics, politics and security towards an environment which is marked by regional integration, multilateral institutions and other cooperative frameworks. These developments form an influential factor in countries' primary objectives and the manner in which foreign policies are shaped. As China forms a dominant actor in the centre of these developments being the largest economy in Asia, its regional policies form a dominant force for other regional states and actors to come to terms with. The role of China within the ASEAN framework therefore forms an important driving force for the interaction between China and the Southeast Asian member states. It can be said that regional economies would logically form a cooperative alliance with China as the level of interdependency would argue that ASEAN member states would otherwise risk suffer economic losses from excluding China out of its multilateral structure. In terms of regional security, a perceived China threat would trigger countries to balance against the rising influence of China. However, economically, this would be an infeasible option. Therefore, it can most likely be said for Asia, that a conflict would be unlikely to occur for these reasons. Instead, stimulating a constructive involvement of China by accommodating its influence in regional institutions would form a most suitable option to acquire a mutual benefit for all actors in the region.²⁷ China's more assertive regional policy making therefore would form a logical development as part of the increasing role of alliances and regional institution-building. In the development of economic frameworks that benefit the entire region and all members involved, the Chinese economy should be included in these developments. The political aspects of these developments should however be acknowledged, as all states involve their national interests in these frameworks as well, for which Chinese interests in the region have a profound impact on intra-regional dynamics.

4. Chapter II ' Regional integration and the establishment of the ASEAN-China Free Trade Area'

East Asian development as a tangled web of economic linkages

East Asia, with all its sub regions, has become one of the most interconnected regions in the world. A defining characteristic of intra-regional trade in Asia is the entanglement of free trade agreements which make up its economic network. According to the theoretical framework on economic regionalism, the Asian regional order and the economic integration of states within ASEAN in the ASEAN Free trade Area (AFTA) or the inclusion of China in ACFTA, are most likely connected by factors of economic interdependence and geographical proximity. Therefore, economic regionalism

²⁷ Beeson, M. "Invasion by invitation.": 317

in Asia is argued to have a low intensity of regional integration.²⁸ This demonstrates the high degree of difference in political values and policy behaviour and how economic reliance of interstate trade instead, is the main driving force for interstate cooperation. Unlike the EU nations, which have formed a single market under a monetary union, economic integration in East Asia remains at a level of cooperative agreements. However, this type of network trade, which is describes as a “tangled web” has particularly formed more dynamic regional economic growth and has allowed for Asian developing countries to grow in its share of the global market, for which China is argued to have formed its main driving force.²⁹ This emphasises how the ACFTA indicates an initiative through which China enhances the dynamics of intraregional trade and economic development with China itself as the leading force. By viewing the origins and dynamics of the ACFTA agreement, this chapter demonstrates China’s efforts through a strong degree of economic concessions in order to gain a more prominent role in the regional trade network and obtain the trust of its Southeast Asian neighbours.

The ASEAN-China Free Trade Area

In the objective of fostering trade between the two interdependent parties, China proposed to establish a Free Trade Agreement with its neighbours in the Association of Southeast Asian Nations (ASEAN). An initial framework agreement between the two parties was signed on November 4, 2002 in Phnom Penh, Cambodia. The goal was to establish a free trade are among 11 nations, including China and the 10 ASEAN member states, by 2010. The ASEAN-China Free Trade Area (ACFTA) indeed came into effect on January 1st, 2010. The establishment of the ACFTA became one which was highly discussed, as it formed the third largest Free Trade Area in the world by value in trade flows, and moreover demonstrated a strong commitment of China to become a dominant player in regional economic integration.

The prosperous effects of the agreement have been stated to have increased two-way trade between China and ASEAN by six times as much as when negotiations started in 2002, whereas prior to the establishment of the ACFTA, flows of trade and FDI had been observed to be relatively low.³⁰ The ACFTA eliminated tariffs on 90 percent of all imported goods. This agreement has been

²⁸ Russet, B. in Cai. *Politics of Economic Regionalism*, 3

²⁹ “Economic Integration: The Flying Factory.” *The Economist*, accessed May 06, 2015, <http://www.economist.com/news/special-report/21631799-asia-has-built-web-economic-interdependence-which-china-would-be-ill-advised>

³⁰ Chin, G. and Stubbs, R. “China, Regional Institution-building and the China-ASEAN Free Trade Area”: 277

taken into effect by China and the six original members of ASEAN, Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand, and it was asserted that this agreement would follow for the four remaining countries. Moreover, the average tariff rate on Chinese goods sold in ASEAN countries was said to be decreased from 12.8 to 0.6 percent and the average tariff rate on ASEAN goods sold in China was lowered from 9.8 to 0.1 percent when the FTA came into effect.³¹ Reports and briefings on the agreement commonly state the importance for ASEAN member countries to foster ties with China as the ACFTA allows smaller ASEAN countries to pool resources and combine markets. The reduction of barriers to trade therefore would bring mutual benefits to all parties involved, and allow the ASEAN economies to overcome the disadvantages of smallness by integrating its markets with China. The developing regional character as a web of economic linkages, the process of fostering closer economic integration amongst its principal actors would form a relevant and even necessary step to foster further economic growth, national and regional development. However, a relevant argument posed by Wong and Chan asserts that the Chinese-ASEAN economic relationship is characterised by a fundamentally competitive nature as well as broad similarities in trade structures as both parties are export oriented and FDI-recipients, therefore naturally these parties may have a larger tendency to compete rather than complement one another. This argument therefore stresses the need for intensified cooperation and a stronger build of mutual trust in order to create a comparative advantage for both parties. Moreover it is suggested that intertwining the China-ASEAN economies through closer integration will create a positive atmosphere to ensure peace and stability, thus it argues that economic interdependency will eventually foster political stability as a result of overcoming economic difficulties.³² The topic which forms a large discussion on China-ASEAN relations which this paper will also address, however is created by the ongoing tensions posed by maritime activities and sovereignty claims in the South China Sea which form significant political tensions which, up until now, have remained unresolved. It can be argued that this discussion moreover relates to a perceived 'China threat' which China has continuously attempted to moderate through its regional foreign policy.

The manner in which China has pursued to foster cooperation with ASEAN shows a strong commitment to make concessions in the interest of gaining its members' trust. In its pursuit of 'South-South cooperation, China's initial proposition of the ACFTA and the negotiation of this matter took place in a multilateral setting. Such a regional approach was stressed to enhance the

³¹ "Backgrounder: ASEAN-China Free Trade Area." Global Times, accessed March 22, 2015, <http://www.globaltimes.cn/content/816206.shtml>

³² Wong and Chan. "China-ASEAN Free Trade Agreement.": 524-26

negotiating power of the smaller, Southeast Asian countries as a group. Chinese trade officials asserted that guidance for the negotiation approach was formed by Premier Zhu Rongji's practical, result-oriented manner of discussing the FTA.³³ In the observation of China's efforts to foster positive relations with its Southeast Asian neighbours, the Asian financial crisis of 1997 is viewed as an important catalyst for closer economic cooperation between the two parties. For this, Chinese scholars have emphasised China's monetary assistance, as well as its refusal to depreciate its currency which allowed to stabilise the financial situation in Southeast Asia. It was for these efforts offered by China that suggested an altering perception of China as a threat towards a more trustworthy regional partner. It was moreover suggested that the then Chinese Premier, Zhu Rongji, initiated a proposal to establish a free trade area with ASEAN as response to the growing prospects of establishing a peaceful partnership.³⁴ During the Eighth Summit of the Association of Southeast Asian Nations in Phnom Penh in 2002, Premier Zhu Rongji exclaimed its commitment to lower barriers to trade in the favour of ASEAN member states. He stressed that China does not seek a "special status" in the region through a dominating power position but rather seek to foster the prosperity and development of the East Asian Region as a whole, with a special focus on the Southeast Asian region. Zhu Rongji emphasised that China moreover forms a developing nation itself which seeks to improve its own economic development, its products and its governance. "There is a tendency to exaggerate China's competitiveness" it was asserted.³⁵ The propositions made by China in establishing the ACFTA, as well as ASEAN's incentives to do so, mark out the economic need for ASEAN member states to enhance cooperation and benefit from larger trade. For China, however, the benefits are less evident and more focussed on making concessions rather than economic gains which point more towards an effort to stabilise the regional environment. Fostering mutual trust and peaceful relations with its Southeast Asian neighbours would ensure that China's development will encounter less impediments from these states.³⁶ Therefore, China's proposal of the ACFTA may be based on economic pragmatism however is inherently political as it indicates a clear strategic approach of China in its regional foreign policy.

³³ Chin and Stubbs. "China, regional institution-building.": 287

³⁴ Khan and Lei Yu. "Evolving China-ASEAN Relations and CAFTA.": 94-95

³⁵ "The ASEAN-China Free Trade Area." *Government of the People's Republic of China* (first published in Foreign sec. Blas F. Ople's column Horizons in The Manila Bulletin, November 6, 2002), <http://www.coi.gov.cn/scs/asean/free-trade-area.htm>

³⁶ Chin and Stubbs. "China, regional institution-building.": 292

5. Chapter III: Strategic Motives behind the ACFTA: China's Foreign Policy Objectives

As the previously discussed objectives of China's initiation of the ACFTA suggest, China's involvement in ASEAN are based on strategic motives which reflect economic as well as political objectives of China's regional foreign policy. Sheng Lijun, a scholar and researcher of China's foreign policy, has offered relevant research papers on the China-ASEAN economic relationship and security matters within the region, including a study of the strategic objectives of the ACFTA. According to Sheng Lijun, the immediate reason for China's initiation of ACFTA relates to the dynamics of economic competition within the region. China's entry in the WTO in January 2002 would enhance economic competition with ASEAN. These developments would not arise in a significant economic difficulty for China, however would encourage the perception of China as a 'threat' to the region as the Chinese economy would naturally invoke economic difficulties for the economies of ASEAN. Moreover, the largest challenge to China is argued to be formed by the involvement of international actors in the region, most importantly the United States, who would strongly encourage the perception of China as an economic, political and military threat to its smaller, neighbouring states. Thus, the immediate reason for the ACFTA would be to serve as a gesture of offering economic concessions through a trade agreement which will benefit ASEAN economies and increase the incentive for its member states to regard China as a confidant rather than a threat.³⁷ This indicates that China's engagement in ASEAN involves issues of security and geopolitical incentives in addition to economic pragmatism. A deeper analysis of China's foreign policy behaviour will indicate how its developing position in the international system and the involvement of external powers, particularly that of the United States, has shaped certain outcomes. Most importantly, these developments support the central notion that China pursues a gradual change of the Asian regional order through Asian regionalism and institution-building with an ultimate goal of replacing 'Western-led institutions' with a multilateral approach to regional economic governance. Thus, economic regionalism, through the emergence of various agreements and institutions within a multilateral framework, is central to China's regional policy.

China's New Security Concept (NSC)

Strategically, it is asserted that the ACFTA forms a part of China's New Security Concept which guides its main foreign policy. The NSC was first articulated in the inaugural meeting of the Shanghai Cooperation organisation in 1996 by former president Jiang Zemin. It advocates

³⁷ Sheng Lijun. "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations" *ISEAS Working Paper: International Politics & Security Issues Series No. 1* (2003): 6

multilateralism, and in relation to the influence of greater international powers, a multi-polar world which weakens U.S. unilateralism in global as well as regional affairs. The NSC emphasises the Five Principles of Peaceful Coexistence, which entails the establishment of mutually beneficial economic contract and dialogue promoting trust and the peaceful settlement of disputes.³⁸ In the Chinese White Paper on Peaceful Development published in 2011, China states that the central aim of its pursuit of peaceful development is to modernise and increase its own economic strength, for which it will create favourable external conditions by adhering to the 'Five principles of Peaceful Coexistence'.³⁹ It was stated that the NSC formed a Chinese initiative to shift the focus from domestic security to common, regional security, as it was also asserted that the NSC formed a starting point of China's increasing confidence and more assertive behaviour to become a dominant global player.⁴⁰

Regionalism as part of China's security agenda

For a number of scholars, the issue of security forms the central argument behind China's regional foreign policies. China's pursuit of regional integration is thus driven by a security agenda of diluting the dominant influence of the US and its allies in order to prevent the emergence of a coalition which will counteract Chinese development. Khan and Yu argue that Jiang Zemin's approach was formed by China's response to the 'war on terror' declared during the Bush Administration. In order to withstand U.S. unilateralism and military hostility, China would have to develop its military, economic and technological capacity in order to compete with the U.S. A peaceful environment among the region formed a necessary component to China's development. Thus, this approach was articulated in Deng Xiaoping's dictum of 'hiding one's capability and biding one's time'. A regional policy towards ASEAN formed an interconnected component of China's economic diplomacy.⁴¹ The ACFTA, and other efforts of China to promote regional integration, would therefore form a method to dilute U.S. strategic unilateralism in East Asia.

Shambaugh refers to the 'Tiananmen Incident' of 1989 as a turning point for China-ASEAN relations. The reaction of Southeast Asian states was in contrast to much of the international community that condemned the acts of the Chinese military. The incident marked a possibility for

³⁸ Sheng Lijun. "China-ASEAN Free Trade Area.": 7

³⁹ "Government White Paper : What China Aims to Achieve by Pursuing Peaceful Development." *Information Office of the State Council of the People's Republic of China* (2011)

⁴⁰ Kumar, A. "New Security Concept of Asia: An Analysis.": 4

⁴¹ Khan, S. and Lei Yu. "Evolving China-ASEAN relations and CAFTA.": 92

China to face international isolation, however ASEANs refusal to follow the international community left a positive impression on Chinese leaders.⁴² Scholars that have emphasised security in Chinese policy inherently refer to the concept of ‘power balancing’ which aims to reduce the possibility of a containment policy against China and perhaps the emergence of a conflict. Therefore, China needs to take the necessary measures to reduce the perceptions of China as an international or regional ‘threat’ which is done through diplomatic initiatives as well as intensified economic ties. Through the creation of a regional dependency among China and its neighbours, China would maintain its alliances and reduce the possibility of countries siding with the US in times of conflict. This regional dependency moreover has indicated that Southeast Asian states may increasingly be ‘bandwagoning’ with China, meaning that they are increasing their ties with China to benefit from its greater economy therefore automatically thinning out US influence in Asia.⁴³ However, Roy argues that Southeast Asian states are merely ‘bandwagoning’ with China to maintain trade and good relations with China as it is the largest economy in the region, while simultaneously maintaining a ‘balancing’ behaviour.⁴⁴

Several factors may however undermine the traditional rationality behind a ‘balance of power’ approach, as economic security, instead of military security gains more importance in the current economic and political climate. For this, it can be argued that natural factors of globalisation and the integration of markets causes economies and political actors to be increasingly dependent of one another. As Beeson argues, the current global economic climate causes for unilateralism to be an infeasible approach to be followed by individual states, for which the major occurrence is the growing interconnectedness of states and non-state actors across the world. It therefore suggests the declining incidence for interstate tensions to escalate into military conflict, because there is too much at stake.⁴⁵ Instead of challenging the current regional order directly, it is argued that China's interests are better served by integrating into the status quo as China's interests are better served when it cooperates with the existing norms and frameworks. Current accounts of China's involvement in international organisations suggest that China has not formed a significant obstructing role in to the international system as it is, but instead insists that it sees itself as a

⁴² Shambaugh, D. “China Engages Asia.”: 67-8

⁴³ Breslin, S. “Comparative theory, China, and the future of East Asian regionalism(s).” *Review of International Studies* 36 (2010): 719-20

⁴⁴ Roy, D. “Balancing or Bandwagoning?”: 319

⁴⁵ Beeson, M. “Invasion by Invitation.”: 306

beneficiary and a participant.⁴⁶ Instead of the 1989 Tiananmen Incident, Breslin argues that from a political economic perspective, the 1997 Asian Financial Crisis forms the most significant turning point for China-ASEAN relations and shaping dynamic within the regional order. The collapse of currencies across the region led to a competition among states to export goods to US and Europe which suddenly became cheaper, therefore increasing the chances for social and political instability to arise. Hence, the crisis invoked a realisation of the risks of participating in the global economy which increased economic competition among states and made China's economic ownership closely linked to the regional economy as a whole. Approaching regionalism thus formed a response to these developments, as new methods were needed to ensure economic security through cooperation and collaboration.⁴⁷

The Chinese approach to economic regionalism

A new discussion has arisen out of the incentives within China's foreign policy to approach the region, that is, the manner in which China pursues regionalism towards a possible way of shaping the regional order. One view asserts that China has no clear agenda when it comes to regionalism, as the political economic policies of Chinese leaders are not yet accustomed to the process of institutionalisation and multi-level cooperation. Instead, the recent efforts of China to pursue more regional cooperation are mainly driven by economic interests, or trade relations, rather than governance and policy-making.⁴⁸ Hence, it has moreover been argued that China's pursuit of regionalism is based on an accelerated approach of conducting the 'easy' manner of regionalism through low integration and liberalisation first and then gradually move towards a deeper form of integration which suits China's definition of 'open regionalism' which does not include outside influences from the US or the EU.⁴⁹ The latter argument refers to the manner in which China, as well as other Asian states have articulated a dissatisfaction with the current manner in which the regional economy is shaped.

Many scholars have pointed out how China's behaviour, through its growing military activity and its activeness in regional institutions has indicated its dissatisfaction with the current regional order. For some, the presence of the US forms the main trigger for China's discontent with

⁴⁶ Sheng Lijun. "China-ASEAN Free Trade Area.": 12-13

⁴⁷ Breslin, S. "Comparative theory": 720-21

⁴⁸ Wang Yuzhu. "China, Economic Regionalism, and East Asian Integration." *Japanese Journal of Political Science* 12.2 (2011): 210

⁴⁹ Wang Jiang Yu. "China and East Asian Regionalism." *European Law Journal* 17.5 (2011): 611

the current status quo of the region and that China's behaviour indicates an ambition to 'lead' economic regionalism in order to craft the economic rules of the regional economy.⁵⁰ The rationale for China's leadership objectives would be supported by the goals of diluting US influence through seeking alliances with neighbouring countries, as well as the aim to craft the economic rules of the region in order to avoid having to follow economic rules that are promulgated by other, external influences in the region. The manner in which China would achieve this position, is through diplomatic initiatives of creating agreements with ASEAN.⁵¹ Other arguments assert that the current situation does not indicate enough factors which point towards a regional hegemonic pursuit of China. Instead, other factors of change, emphasising the growing connectedness of regional actors and the growing dependence of larger economies in the region, suggest that China's growing influence and increasing activeness in pursuits for change form inherent parts of these developments.⁵²

Sheng Lijun describes how the 1997 Asian financial crisis demonstrated a disappointing response from the international community and its international financial institutions in aiding the regional economies. Intervention from the IMF in the Asian crisis situation turned out to be unsatisfactory in delivering immediate and effective aid. It has been noted that APEC moreover failed to bring effective assistance, as in the Vancouver APEC meeting in 1997, the emphasis was placed on accelerating the process of liberalisation instead of addressing the ongoing Asian crisis. Therefore, the ACFTA is moreover viewed as a step towards regional integration which serves to protect the region against economic shocks as an effect of the processes of globalisation. Hence, it is argued that Chinese scholars view regional integration as a necessary measure to maintain individual economies viable. Without regional cooperation, the region would be politically divided and governed by external influences which focus more on competing to satisfy external markets rather than the development of the Asian regional economy.⁵³ Similarly, Breslin states how policy responses of international financial institutions such as the IMF were largely perceived as representing Western preferences and interests, which were particularly guided by US ideals and notions of economic governance. He argues that Asian economic development had been characterised by governmental direction and forceful state intervention to direct the market. Hence,

⁵⁰ Yves-Heng Lim. "How (Dis)Satisfied is China?": 296-97

⁵¹ Chen, J.W. "Achieving Supreme Excellence.": 655-56

⁵² Shambaugh, D. "China engages Asia.": 66

⁵³ Sheng Lijun. "China-ASEAN Free Trade Area.": 8

the 'state model' or 'interventionist model' of development may grow to become a powerful alternative to the neoliberal of free movement of markets with as limited intervention from the state on economic activity as possible. The response of the IMF to the Asian crisis was thus seen as a manner in which the 'West' could impose rules of economic governance as was deemed by the West as a proper way of conducting forms of capitalism. It is moreover emphasised how actions by the IMF reflected a US strategy of defending its interests and projecting its power through major financial institutions. Thus, the formation of regional economic integration and institutions as alternatives to the US dominated international financial institutions, would form increasingly attractive alternatives within the region.⁵⁴

In conclusion, the motives for China's approach towards regional integration may still be guided by a pursuit of national security, and diluting US dominance over the region. This paper argues that the objectives of China's regional policy have more recently become focussed on economic, and common regional security rather than traditional security based on military concerns. Through the perception of China, US unilateralism may still form the largest threat to the regional order in the context of political economy. The degree of economic interdependency between regional actors causes regional integration to be a necessary measure to maintain the viability of regional economies. For China, the largest concern is to shape the regional order through cooperative relationships, and a more multilateral order in the region, in order to create a constructive environment which accommodates Chinese, and other developing economies' interests.

6. Chapter IV: 'Chinese diplomacy: overcoming political tensions in the South China Sea'

China's attempts to gradually change the existing structures of regional economic governance has indicated a more proactive role of China in reshaping these political structures through a leading role in economic regionalism. Thus, scholars of China's rise are stating that China is showing a more 'assertive' foreign policy and more actively pursuing a larger influence in the global system. A larger influence of China moreover indicates a more active pursuit of Chinese interests. This 'assertiveness' perceived in its energy exploration and military activities along with assertive territorial claims over the Spratly islands in the South China Sea, indicate signals that China is not prepared to make concessions towards others when it comes to defending what it deems its 'core interests'.⁵⁵ China's pursuit of multi-polarity, to a great extent, focusses on accommodating China's

⁵⁴ Breslin, S. "Comparative theory.": 721-22

⁵⁵ Breslin, S. "China and the global order: signalling threat or friendship?" *International Affairs* 89.3 (2012): 616

growth and preferences to regional governance. Therefore, it should be considered that China is a political actor that will continue to negotiate on the basis of national interests, in terms of economic developments, access to strategic resources and political values that may contrast to the views of other states. China's maritime activities have created significant tensions between China and major ASEAN member states due to a contestation over territorial claims in the South China Sea. It should therefore be questioned whether these tensions will obstruct the development of cooperative relations. This chapter bring attention to the issue of territorial claims, as it most importantly emphasis the limits to multilateralism as a governing form due to political contestation between the states involved. The 'spillover' of regional cooperation into political sectors suggests that states should moreover seek convergence over political issues and regional security.

The territorial disputes

China and Vietnam hold contradictory claims within the entire area of the South China Sea including its islands, while the Philippines, Malaysia, Indonesia and Brunei each have overlapping claims to significant areas. These contradicting claims only became a significant issue in the 1970s when important sources of oil and gas were discovered in this area. Intense conflict arose in the United Nations Convention on Law of the Sea, which came into effect in 1994. It posed to set a deadline for the submission of territorial claims, which stimulated a rise of conflicting claims on South China Sea territory. Claims of China's move away from a peaceful foreign policy arose due to the more recent conflicts that occurred individually with Vietnam and the Philippines.⁵⁶ Yahuda emphasises how it is important to recognise that Chinese claims to sovereignty over territories and maritime areas have been long existent. What aggravates the situation and imposes new conflict, is the greater strength of China to actively assert its claims at the expense of weaker neighbouring countries. China's new assertiveness has arisen from internal developments within the region. From a balance of power perspective, the political dynamics have shifted more in favour of China by the decreasing amount of influence of the US. Through its growing economic and military power, China now has means to pursue its interests within the region more actively. These are no longer guided by security concerns of diluting the possibility of US military intervention, however have become more focussed on maintaining China's sources of energy and raw materials in the region in order to fuel its domestic economy.⁵⁷

Therefore, the main issue which evolved out of these disputes is how China's actions

⁵⁶ Zhao Hong. "The South China Sea Dispute.": 28-31

⁵⁷ Yahuda, M. "China's New Assertiveness.": 446-450

demonstrate a more aggressive, assertive pursuit of its national interests, therefore encouraging the interpretation of China's foreign policy as one that is unitary focussed, and when it comes to core interests, China is not prepared to make concessions to others and will do what it takes at the expense of the smaller, ASEAN member states. Moreover, it supports the notion among scholars that China's long term interests are centred among a hegemonic pursuit, and that China is using its more powerful position in the region to achieve more national goals.⁵⁸ The political response of the Southeast Asian claimants are argued to be result in a hedging strategy of involving US influence, in order to balance China's dominance over the conflict and to maintain the regional security order. Roy argues how states as Vietnam, Malaysia and Indonesia are becoming more distrustful of China's diplomatic actions which therefore arises concern of whether China upholds long-term hegemonic aspirations within the region. China's active assertions and maritime activities concerning the Spratly island disputes demonstrate a harsh contrast to the “good neighbourhood policy” that China commonly asserts to uphold in its inaugural speeches concerning regional relations. It is therefore that these states would deem it necessary to maintain a low form of balancing while simultaneously avoiding to antagonise China.⁵⁹ These tensions question whether China's engagement of the region is truly in the interest of China, at the expense of smaller states within the region. For regional cooperation, it can be argued that political issues cannot be isolated from the economic incentives of maintaining relations as all sectors are interconnected within the establishment of such a framework. It should therefore be questioned whether such tensions, and a significant degree of hostility within the China-ASEAN relationship will obstruct further integration. More importantly for the understanding of Chinese regional policy, it should be questioned how China will proportion its national interests in relation to its pursuit of closer integration and a more multilateral regional order.

China's engagement with ASEAN on the Spratlys issue

An important observation in the negotiations between China and ASEAN over the disputes, demonstrates how China has traditionally attempted to resolve disputes bilaterally rather than under a multilateral framework in order to prevent the tensions from obstructing economic cooperation between the parties involved. It is thus in China's interest to isolate the matters from multilateral agreements such as the ACFTA. Yahuda moreover asserts that China has insisted to address territorial disputes solely through bilateral means, attempting to exclude it from multilateral

⁵⁸ Breslin, S. “China and the global order”: 616

⁵⁹ Roy, D. “Balancing or Bandwagoning?”: 315

framework settings.⁶⁰ Sheng Lijun notes how territorial disputes not only included China, but existed between ASEAN member states as well. Due to the different opinions and approaches of the matters, the most appropriate regional framework to settle these disputes could only be established through a broad political framework such as the 'Declaration on the Conduct of Parties in the South China Sea'. This effectively left the disputes to be settled mainly on the basis of bilateral negotiations. Therefore, China would adopt a strategy of combining multilateral and bilateral relations in its engagement in ASEAN. For China, a moderate grouping under a formal agreement with ASEAN would serve its interests best as it would decrease the possibility of a radical move against China on the Spratlys issue. Without a multilateral grouping, it is moreover argued that security concerns will arise stronger, and an individual Southeast Asian country is more likely to involve external influences from the US into the situation.⁶¹ Therefore, it would form a significant consideration in initiating the ACFTA, to take into account the size and the multitude of members involved in the framework. Due to the desire and perhaps the need for ASEAN countries to cooperate with China more closely in order to benefit from the size of its economy, a common interest is established to restrain matters revolving around the island dispute to benefit regional economies, and to engage and negotiate peacefully in the interest of economic matters.

What are the implications for the ACFTA?

Both China and the ASEAN claimants have to take into account the degree of economic activity that may be jeopardised by a confrontation over matters concerning the Spratlys. The necessity of including China in regional frameworks does not indicate that significant concerns and issues are resolved, or that a political alliance is forged among the members. The interdependency of the economies of both China and ASEAN result in collective constraints on tensions in the South China Sea and prevent it from actual military conflict to arise. Zhao Hong suggests that the expansion of economic ties and the development of collective interests may serve as a foundation for partial settlement or at the least, constraints of territorial disputes.⁶² However, the increasing assertiveness in China's claims and the economic and military power that it has to hold these claims against smaller ASEAN member states remains a significant area of tension. According to Yahuda, China's insistence that its claims over territories in the South China Sea are indisputable, suggests that any

⁶⁰ Yahuda, M. "China's New Assertiveness": 456

⁶¹ Sheng Lijun. "China-ASEAN Free Trade Area.": 14-16

⁶² Zhao Hong. "The South China Sea Dispute.": 41

form of reconciliation over these disputes remains unlikely in the near future.⁶³ For China, the most viable manner to deal with these tensions while upholding its claims, is to constrain the issue through means of conflict avoidance and isolate it from regional decision-making as much as possible, but as political relations form a significant factor of influence in regional integration, tensions in the South China Sea may continue to obstruct the effectiveness of cooperative “friendly” relations among China and the ASEAN states.

7. Chapter V: Concluding remarks: ‘China's increasing assertiveness towards the region and the prospects for Asian economic regionalism’

In Jian Zhang's analysis of Chinese foreign policy, the leadership of Xi Jinping is emphasised as a turning point for China's more active behaviour in the international and regional field. This form of diplomacy, which China has been taken up in recent years, still adheres to notions of China's peaceful rise and aims to maintain a peaceful environment which is constructive to China's development and further growth. However, he argues that Chinese diplomacy will become increasingly driven by national interests and less focussed on making concessions towards other actors in the region. Through external projects such as the ACFTA, the Asian Infrastructure Investment Bank (AIIB), or other trade initiatives, China has increasingly attempted to create a stable environment which promotes regional development as well as China's national interests. However, continued tensions in the South China Sea and China's relationship with the US are viewed as signals that China's pursuit of its own interests are conflicting with the pursuit of maintaining stability in the regional environment.⁶⁴

China's 'new' form of Asian regionalism

The dominant view therefore asserts that China is clearly interested in reshaping the regional order. Its activism on the global and regional stage promotes a more multilateral order, in which economic decision-making is no longer dominated by 'Western' preferences. The ACFTA has therefore been regarded as a step towards creating an institutional framework for Asian regionalism, in which ASEAN forms the main platform for multilateral agreements. The ACFTA would moreover form an alternative form of regionalism which China prefers over other proposals for regional integration such as the East Asian Community, initiated by Australia and Japan.⁶⁵ China distinguishes itself, and

⁶³ Yahuda, M. “China's New Assertiveness.”: 446

⁶⁴ Jian Zhang. “China's new foreign policy”: 2-15

⁶⁵ Khan and Lei Yu. “Evolving China-ASEAN relations and ACFTA.”: 99

its ideal form of regionalism, as one that is more focussed on multilateralism and moderate negotiation styles which would give ASEAN countries a stronger position on the negotiation platform.⁶⁶ These initiatives would thus suggest that China still adheres to the objectives of maintaining stable, cooperative agreements with its neighbours according to the matters proclaimed by Jiang Zemin through its New Security Concept, and in the interest of South-South cooperation.^{67,68} Closer cooperation and economic integration with ASEAN continues to convince other states and actors that China's growth and development should not be construed as a threat.

The interest of building South-South cooperation would serve to actively promote China's ideals of multi-polarity, not just in the region but moreover on a global scale. The initiatives of Chinese officials to engage with other developing states have shown the attempts of China to establish common interests in developing changes to the existing structures of global governance. Breslin argues how China's interests in the search for resources and commercial, economic objectives maintains a significant aspect of China's engagement with other actors.⁶⁹ Ultimately, China's negotiation of an expanded multi-polar region through cooperative relations, will favour China's interests in reducing the influence of US or 'Western' forms of economic governance and creating a more favourable environment to achieve its own interests. The 'interventionist', 'developmental state' or even a 'China' model for development has been argued to form an alternative to accommodate the economic interests of China and the regional economies. This 'China' model would continue to follow the pattern which was perceived to have initially encouraged economic growth in Asia. As a critical scholar of China's diplomatic policies, Fukuyama's evaluation of the possible emergence of an alternative model asserts that this pattern consists of a centralised, authoritarian form of economic governance which is export oriented and engages in active policies to promote industrialisation and growth. The benefits of such a model are most evidently argued to promote market efficiency more effectively, acknowledging that a neo-liberal emphasis on promoting liberalisation of markets contains flaws that are yet to be solved.⁷⁰ These aspects formed moreover formed a central focus in the discussions resulting from the 1997 Asian financial crisis, and the dissatisfaction from Asian states of the measures proposed by the

⁶⁶ Sheng Lijun. "China-ASEAN Free Trade Area."

⁶⁷ Sheng Lijun. "China-ASEAN Free Trade Area.": 7

⁶⁸ Chin and Stubbs. "China, regional institution-building.": 287

⁶⁹ Breslin, S. "China and the Global Order.": 626-27

⁷⁰ Fukuyama, F. and Zhang WeiWei. "The China Model." *New Perspectives Quarterly* 31.1 (2014): 61-65

international community in providing aid for the situation. Breslin points out two approaches to understand China's role in Asian regionalism. From a political economy perspective, a collective desire has emerged to allow economic relations to grow while simultaneously provide a form of regulation at a regional level in order to prevent crisis situations. Through free trade agreements, economic exchanges and regulatory frameworks are both provided which moreover aim to provide a resistance to 'Western' intervention of economic governance which are regarded to be unsuitable to the Asian economic climate. Second, Chinese approaches to economic regionalism contains a strategic agenda of diluting US unilateralism in the region and enlarging its own influence by engaging Southeast Asia.⁷¹

In response to the question of how China shapes its foreign policy and the impact that a greater influence of China will have on regional dynamics in terms of economic integration and regional governance, the dominant view has asserted that Chinese diplomacy has become more assertive in establishing a more prominent position in international frameworks and pursuing change. In broad terms, these findings support the notion that China's growth is challenging the current regional order in Asia. However, the approach that China takes does not indicate that China's power is evolving into a hegemonic leadership of the region. Instead, its leading role in the formation of regional agreements and institutions suggests that China aims to create a more constructive relationship with its regional states and achieve a larger degree of multilateralism in regional economic governance which benefits China as well as other states. The most relevant changes that China is trying to make, is to democratise the current system towards a more multipolar order. Through the expansion of South-South cooperation and aims to exclude 'Western' influence of economic governance to a significant degree, it is in China's interest to increase its own power and that of other developing countries. U.S. unilateralism thus continues to form the main obstruction to development through the perception of China. By pursuing multi-polarity, China is enabled to develop its influence over regional affairs and its economic preferences more effectively. This moreover indicates that through the perception of China, the region should be reshaped in a manner which accommodates Chinese interests and that China will therefore make the necessary concessions without sacrificing what it identifies as its 'core interests' and that states will continue to merely find common ground on achieving mutual economic benefits. In conclusion, China's assertiveness in its region indicates significant dynamics of change in the regional order in terms of economic governance. China will continue to advocate a growth of Asian regionalism and more alternatives to existing 'Western' institutions. Complex interdependency suggests that China's

⁷¹ Breslin, S. "Comparative theory.": 727-28

economic preferences will continue to be a significant force for change due to the importance of China's economic activity in the regional and global sphere. It moreover stresses that the need for states to cooperate for economic gains, suggests that conflict will remain unlikely and enforce regional stability.

8. Bibliography

Primary sources

- Amer, S. "The South China Sea: Challenge for ASEAN." *The Institute for Security and Development Policy – Policy Brief No. 150* (2014): 1-2
- "Backgrounder: ASEAN-China Free Trade Area." Global Times, accessed March 22, 2015, <http://www.globaltimes.cn/content/816206.shtml>
- "Government White Paper : What China Aims to Achieve by Pursuing Peaceful Development." *Information Office of the State Council of the People's Republic of China* (2011)
- Chakraborty, D. and Kumar, A. "ASEAN and China: New Dimensions in Economic Engagement." *China Report 48.3* (2012): 327–349
- "Overview of ASEAN-China (ACFTA)." Internal Enterprise (IE) Singapore – Driving Singapore's External Economy, accessed March 9, 2015, http://www.fta.gov.sg/fta_acfta.asp?hl=
- Sheng Lijun. "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations." *ISEAS Working Paper: International Politics & Security Issues Series no. 1* (2003): 1-24
- Kingah, S. et al. "ASEAN turns 45" *UNU-CRIS Policy Brief No. 2* (2012): 1-12
- Kumar, A. "New Security Concept of China: An Analysis." *Institute of Peace and Conflict Studies Special Report 125* (2012): 1-12

Secondary sources

- Beeson, M. "Invasion by invitation: the role of alliances in the Asia-Pacific." *Australian Journal of International Affairs 69.3* (2015): 305-320
- Breslin, S. "China and the global order: signalling threat or friendship?" *International Affairs 89.3* (2012): 615-634
- Breslin, S. "Comparative theory, China, and the future of East Asian regionalism(s)." *Review of International Studies 36* (2010): 709-729
- Cai, K.G. *The Politics of Economic Regionalism: Explaining Regional Economic Integration in East Asia*. (Hampshire: Palgrave Macmillan, 2010)
- Chen, Juliana W. "Achieving supreme excellence: how China is using agreements with ASEAN to overcome obstacles to its leadership in Asian regional economic integration." *Chicago*

- Journal of International Law* 7.2 (2007): 655-674
- Chin, G. and Stubbs, R. "China, Regional Institution-building and the China-ASEAN Free Trade Area," *Review of International Political Economy* 18.3 (2011): 278-279
- Chiung-Chiu Huang and Chih-yu Shih, *Harmonious Intervention: China's Quest for Relational Security*. (Farnham: Ashgate Publishing Ltd, 2014)
- Fukuyama, F. and Zhang Weiwei. "The China Model." *New Perspectives Quarterly* 31.1 (2014): 60-83
- Ganesan, N. and Amer, R. *International Relations in Southeast Asia: Between Bilateralism and Multilateralism*. (Singapore: ISEAS Publishing, 2010)
- Ikumo Isono, "The home market effect in ASEAN countries," in *Economic integration in East Asia*, ed. Masahisa Fujita et al. (Northampton: Edward Elgar Publishing, Inc., 2008): 316-340
- Jian Zhang. "China's new foreign policy under Xi Jinping: towards 'Peaceful Rise 2.0'?" *Global Change, Peace & Security: formerly Pacifica Review: Peace, Security & Global Change* (2015): 1-15
- Khan, S. and Lei Yu. "Evolving China-ASEAN Relations and CAFTA: Chinese Perspectives on China's Initiatives in Relation to ASEAN plus 1." *European Journal of East Asian Studies* 12 (2013): 81-107
- Lim Tai Wei. *Economic Integration and Regionalism in Asia*. (London: World Scientific Publishing Co. Pte. Ltd., 2011)
- Ravenhill, J. "East Asian Regionalism: Much Ado About Nothing?" *Review of International Studies* 35 (2009): 215-235
- Roy, D. "Southeast Asia and China: Balancing or Bandwagoning?" *Contemporary Southeast Asia* 27.2 (2005): 305-322
- Shambaugh, D. "China engages Asia: reshaping the regional order." *International Security* 29.3 (2005): 64-99
- Wang Jiang Yu. "China and East Asian Regionalism." *European Law Journal* 17.5 (2011): 611-629
- Wang Yuzhu. "China, Economic Regionalism, and East Asian Integration." *Journal of Political Science* 12.2 (2011): 195-212
- Wong, J. and Chan, S. "China-ASEAN Free Trade Agreement: Shaping Future Economic Relations." *Asian Survey* 43.3 (2003): 507-526

Yahuda, M. "China's New Assertiveness in the South China Sea." *Journal of Contemporary China* 22.81 (2013): 446-459

Yang Jiang. "China's pursuit of free trade agreements: Is China exceptional?" *Review of International Political Economy* 17.2 (2010): 238-261

Yves-Heng Lim. "How (dis)satisfied is China? A power transition theory perspective." *Journal of Contemporary China* 24.92 (2015): 280-297

Zhao Hong. "The South China Sea Dispute and China-ASEAN relations." *Asian Affairs* 44.1 (2013): 27-43