

CHINA-ASEAN: FROM INTERDEPENDENCE TO POLITICAL INFLUENCE?

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Abstrak

Paper ini mencoba mendiskusikan bagaimana Cina menggunakan kekuatan ekonomi-nya untuk mencapai kepentingannya di Asia Tenggara. Dengan berpijak pada konstruk teoretik interdependence sebagai kerangka analisis, paper ini berargumen bahwa dalam tingkat tertentu, kemampuan Cina untuk mengubah economic power-nya menjadi political influence terbatas. Hal ini dikarenakan dalam hubungan yang saling interdependen, kekuatan ekonomi dan political influence terkait secara dinamis (tidak statis) sehingga economic power (variable independent) tidak secara otomatis dapat menciptakan political influence (variable dependent). Dalam kondisi interdependen, power menjadi lebih situation-specific dimana bargaining situation dan marginal utility dari nilai-nilai yang diperebutkan memainkan peran signifikan dalam menentukan outcome (dalam bentuk perubahan perilaku negara yang selaras dengan kepentingan Cina).

Introduction

This essay discusses how China's economic power can be used to advance its political interests in Southeast Asia. Specifically, it will assess China-ASEAN relations in some economic issues (especially the case of ASEAN-China Free Trade Area) and relate them to the political outcomes China gained from this relation. This topic is important because recently the rise of China as an Asian economic giant has raised much speculation over the future of the regional order in Asia. Most of them speculate whether this economic giant can some days later be a hegemonic power that can dictate the new rules of the game for the region in favour of its interests. Whatever their arguments about this are, to be sure, this debate will create serious policy implications on the part of regional actors. To understand the problem well, first of all we need to be sure whether or not China's economic power can be really transformed into political influence. We need to know under what conditions this economic power can be powerful as a policy tool and whether China has attempted to create these conditions. We also need to know what challenges it may face in pursuing this policy. Our understanding of these problems will enable us to better grasp the debate and predict what would happen under current conditions.

So far, there are at least two competing arguments on the likely future of Asia in relation to China. Some argue that the increasing prosperous and wealthy China will most likely to be a new regional hegemony that can shape the new rules of the game in the region in parallel with its interests.¹

¹ The potential challenge by rising China is suggested by several authors; see for example Deny Roy, "Hegemon on the Horizon? China's Threat to East Asian Security", *International Security*, 19:1 (Summer 1994), pp. 149-168; and Amitav Acharya, "Seeking Security In the Dragon's Shadow: China and Southeast Asia in the Emerging Asian Order", *Working Paper*, No. 44 (Singapore: Institute of Defence and Strategic Studies, 2003).

Historical facts show that the economic power correlates positively with political power. States with strong economic power frequently play major role in international political stage. The history of the US rise to global political scene is the example of how economic power can be political power.²

On the other hand, there are also many scholars who are doubtful of China's ability to dominate Asia.³ To them, China's economic power is still limited and far below that of the US and its allies such as Japan and the

European Union. Some data support this view.⁴ The prospect for China's hegemonic position in the region is increasingly complicated by the more convoluted and unpredictable configurations of power in the region like position of Japan and active participation of Australia and India in it. In brief, these scholars think that there are so many obstacles getting in China's way to achieving its ambitions to be hegemonic in Asia.

Whether or not economic power can be powerful in achieving some political goals actually depends on the nature of relationships between China and ASEAN. Theoretically, political influence can be effective under interdependent relations. Therefore, in this paper, the concept of economic interdependence will be deployed. This concept will guide me to examine the relationships between economic power, operationalised into economic resources like market size, economic growth and capital; and the attainment of China's political interest in the region like elimination of 'China threat' image, the acceptance of the 'One-China Policy' and the maintenance of stable and conducive regional environment for its economic development.⁵ My examination of these variables based on this concept leads me to argue that growing economic interdependence between China and ASEAN *to some extent* can increase China's capacity to use its economic power to advance its political and strategic interests in ASEAN.

Before addressing the argument further, I will proceed to the debate about interdependence and economic power and how it can fit in the analysis on China-ASEAN relations.

Economic Power and Interdependence

Debate on whether or not interdependence matters in power relations was rife in the field of international relations during the 1970s and 1980s. In general, there are two perspectives on the significant effects of this phenomenon on world politics. On the one hand, those scholars clustered under 'neoliberal institutionalism' argue that interdependence does matter in shaping state's cooperative behaviour because it complicates states calculation of relative gains⁶ as a result of increasingly complex incentive structure. Interdependence, according to these scholars eventually leads state to think more about absolute rather than relative gains. On the other hand, realist scholars are a bit pessimistic in viewing the effect of interdependence on states' behaviour and world politics. As Waltz argues, interdependence is no more than 'rhetoric' used by the US to disguise the inequality of power showing as if all states are mutually dependent and have

2 See Fareed Zakaria, *From Wealth to Power: the Unusual Origin of America's World Role* (New Jersey: Princeton University Press, 1998)

3 See, for example, Sheng Lijun, "China in Southeast Asia: the Limits of Power", *Japan Focus*, August 4, 2006. see <http://japanfocus.org/products/topdf/2184>

4 Measured in 2006 current dollar price GDP, the US' GDP is US\$ 13, 194.700 billion, Japan's is US\$ 4,366.459 billion, EU (Euro area) is US\$ 10, 588.750 billion and China's is US\$ 2, 644.642 billion. This measure is even more formidable when the US, Japan and EU are united. Their economic size will amount to US\$ 28, 149.909 billion. This is indeed a static measure only, in that it only measures the comparison of their GDP as an indicator of their economic size excluding the flow of money (either in investment or trade flow). See <http://www.imf.org/external/data.htm#data> If economic power is measured dynamically that is, in terms of economic interaction between these economies with Asian states, the numbers for the US and its allies still dwarf those for China. For informative analysis about these calculations, see Sheng Lijun, "China in Southeast Asia: the Limit of Power"

5 There are many scholars who identify these interests. I cite them from Cheng-Chwee Kuik, "Multilateralism in China's ASEAN policy", *SALS Working Paper Series WP/05/03* (Washington: Paul Nitze School of Advanced International Studies, The Johns Hopkins University, 2003), p. 2.

6 See Keohane, "Neoliberal Institutionalism: A Perspective on World Politics", in *International Institutions and State Power* (Boulder: Westview Press, 1989), pp. 1-20.

interlinked interests.⁷ To him, interdependence only exists when there is a division of labour or a specialisation of functions. However, because units perform similar functions, they could not offer what others want, thus interdependence is low among them.⁸

Nevertheless, most observers agree that interdependence can lead to either mutual vulnerability or mutual sensitivity. 'Mutual vulnerability' exists if the breakdown of relationships is too costly for the parties involved. Meanwhile, 'mutual sensitivity' refers to the condition where the parties' interests are not so deeply embedded, though there is still mutual influence, so that the value of the relationships is not so high among parties. This can occur because the parties concerned have alternative ways of obtaining what they want apart from their extant relations.⁹ Increasing interdependence indicated by the former condition, nonetheless, can lead to paradoxical consequences. On the one hand, it expands the capacity of each actor to exercise their power over others. On the other hand, it also increases the cost of using that power because the vulnerability of the actor concerned to the possible reactions by the target actor also rises.¹⁰

That the situation where 'mutual dependency of states interests' exists in international relations is something that seems increasingly undeniable regardless of the degree of those interdependencies.¹¹ The problem now is whether or not this situation can facilitate power relations in favour of whom. There are also two views about this. First, power is most likely gained in asymmetric interdependence, where those who control desired resources are relatively independent; and when they can exert their power easily on those who are more dependent. This is very logical and many analysts accept it.¹² This does not mean that symmetric interdependence does not facilitate power relations. Yet, in asymmetric relations, power manipulation by the least dependent is higher than the others. Susan Strange's explanation about economic power seems to support this view. To her, states able to control access to factors of production, credit and market and other areas affecting economic transactions are in position to exercise their economic power.¹³ With the resources they have, they can also set framework for stability and other rules of the game enabling them to pursue their interests.¹⁴

However, despite its commonsensical tone, this argument has been challenged by some analysts. And, this generates the second view to the debate about power relation. Wagner argues that asymmetric interdependence does not necessarily give relatively independent parties greater power over the dependent ones. This is because power is frequently situation-specific. Bargaining situation and marginal utility of the value negotiated between two interdependent parties are more influential on the bargaining outcome.¹⁵ Moreover, the rising cost of using power as identified by Young can also restrict the ability of the least dependent parties to exert their leverage on the more dependent ones.¹⁶

7 See, Kenneth Waltz, "The Myth of National Interdependence", in *Globalism Versus Realism: International Relations' Third Debate* (Boulder: Westview Press, 1982), p. 91

8 Ibid, pp. 82-83. His analysis on the phenomenon of interdependence is attributed to his observation on the characters of the structure. He defines international structure based on three features: anarchy as the ordering principle, functional differentiation and distribution of capability. On functional differentiation, he clearly states that units perform *similar* functions but are *different* in their ability to perform those functions. See Kenneth Waltz, *Theory of International Politics* (New York: Random House, 1979), chapter 5.

9 Richard Rosecrance "Interdependence" *The Oxford Companion to the Politics of the World*, 2e. Joel Krieger, ed. Oxford University Press Inc. 2001. *Oxford Reference Online*. Oxford University Press. Australian National University. 11 May 2008 <<http://www.oxfordreference.com/views/ENTRY.html?subview=Main&entry=t121.e0353>>. See also debate about 'vulnerability' and 'sensitivity' in David Baldwin, "Interdependence and Power: A Conceptual Analysis", *International Organization*, Vol. 34, No. 4 (Autumn 1980), pp. 489-491.

10 Oran Young, "Interdependencies in World Politics", in *Globalism versus Realism: International Relations' Third Debate* (Boulder, Colorado: Westview Press, 1982), p. 73.

11 Richard Rosecrance, "Interdependence".

12 This view is best represented by Albert Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1945). This view is commonly accepted by many observers including Keohane and Nye. See Robert O. Keohane and Joseph Nye, "Power and Interdependence Revisited", *International Organization*, Vol. 41, No. 4 (Autumn 1987), pp. 725-753.

13 Susan Strange, "What Is Economic Power and Who Has It?" *International Journal*, Vol. 30, No. 2 (Spring 1975), pp. 222-224.

14 Ibid.

15 R. Harrison Wagner, "Economic Interdependence, Bargaining Power, and Political Influence", *International Organization*, Vol. 42, No. 3 (Summer 1988), pp. 461-483.

16 Oran Young, "Interdependencies in World Politics", p. 73

The above two views suggest three factors that can facilitate power relations under interdependent situation. First, there is asymmetric interdependence where one party is relatively independent and control the resources needed by others. Second, the marginal utility of dependent parties on the resources controlled by relatively independent parties is high. Third, the bargaining situation does not enable the dependent parties to have alternative way to get resources except from the independent and controlling parties. How can these three factors explain China-ASEAN economic and power relations? This section will elaborate this issue.

China-ASEAN Economic Relations and Political Influence

Most of analysts agree that China has been attempting to increase its interdependence with ASEAN countries. Although China is trying to develop its relations with ASEAN countries in all aspects, economic relations rather than politico-security relations are still its focus. This is because economic relations can give it more competitive advantage due to its huge economic resources being needed by the ASEAN countries to boost their development. With its stable high growth at 9-10 percent annually¹⁷ and immense market with annual imports at an average US\$500 billion since 2001 in addition to about 10 million employment opportunity for other countries in the region, it can offer market benefits to the countries in need of economic resources to stimulate their economies after the Asian financial crisis in 1997-1998.¹⁸ Moreover, by emphasising economic relations, the concession exchanges in its relations with ASEAN only involve market benefits which are not too costly compared with the national sovereignty or territorial integrity it could risk in political security relations.¹⁹

China's attempt to intensify its relations with ASEAN is especially evident in the *Framework Agreement on Comprehensive Economic Co-operation* signed in November 2002. This framework devises the creation of an ASEAN-China Free Trade Area (ACFTA) within 10 years. In this agreement, most tariff reductions between China and ASEAN-6 (Indonesia, Malaysia, Singapore, Philippines, Thailand and Brunai Darussalam) will have been completed by 2010. While remaining ASEAN countries (Cambodia, Laos, Burma and Vietnam) have to phase these tariffs out until 2015.²⁰ To vindicate China's commitment to this cooperation, it also agreed to 'Early Harvest Package' in which China will grant a 3-year duty free entry for ASEAN goods into its markets before these ASEAN countries give it full free-tariff access to their markets. This concession provides early benefits for ASEAN countries and is expected to strengthen ASEAN confidence on China.²¹

Indeed, trade relations between China and ASEAN have increased moderately at approximately 19% annually since 1995.²² Its imports from ASEAN have risen from \$12.4 billion in 1997 to \$89.5 billion in 2006. Meanwhile, its exports to the region also grew from \$12.7 billion to \$71.2 billion during the same period. Total ASEAN-China trade in 2006 reached \$160.9 billion, slightly less than that of ASEAN-US (\$168.5 billion). Though China registered a \$178 billion surplus with the world in 2006, it had \$18.2 billion deficit with ASEAN.²³ With the commencement of ACFTA, it is estimated that China's exports to ASEAN rise by 55.1% while its imports from ASEAN soar by 48%. Even though there will be competition in such sectors as textiles and apparel, electrical appliances and

17 Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries, 2005* as cited by Yunhua Liu and Beoy Kui Ng, "Facing the Challenge of Rising Chinese Economy: ASEAN's Response", *Review of Development Economics* (June 2006), p. 23-36.

18 Sheng Lijun, "China in Southeast Asia: the Limit of Power"

19 Cheng-Chwee Kuik, "Multilateralism in China's ASEAN Policy", p. 12.

20 Thomas Lum, Wayne M. Morrison, and Bruce Vaughn, "China's 'Soft Power' in Southeast Asia", *CRS Report for Congress* (Washington, D.C.: Congressional Research Service, Library of Congress, 2008), p. 14.

21 Elizabeth Economy, "China's Rise in Southeast Asia: Implications for the United States", *Journal of Contemporary China*, Vol. 14, No. 44 (August 2005), p. 414.

22 Bian Shen, "New Opportunity for China-ASEAN Trade", *Beijing Review* (1 May 2003), p. 18.

23 Thomas Lum, et al., "China's 'Soft Power' in Southeast Asia", p. 10.

machinery, and other manufactures, overall the economies of the two parties will gain from this FTA.²⁴ With a common market of 1.7 billion people, its combined GDP will reach \$1.5-2 trillion.²⁵

Besides growing trade relations, attempt to increase ASEAN' dependence on China is also done through its foreign aid to countries in the region. Data cited by Thomas Lum et al. demonstrate that since 1988 China has been pouring up to \$7 billion economic assistance to Burma.²⁶ It also offered \$91.5 million aid to Cambodia through the Consultative Group (CG) for Cambodia, a consortium of foreign aid directed by the World Bank. Additionally, for the 2007-2009 periods, it also pledged \$236 million in unspecified aid to the country.²⁷

In Laos and Vietnam, China's foreign aid also play significant role for development of the countries. For example, in 2006 alone, China is reported to offer \$45 million aid to Laos.²⁸ Similarly, in Vietnam China also gave nearly \$200 million in grants and loans. However, it was stopped in 2006 because of the government's formal invitation to Taiwan to attend APEC Summit in Hanoi.²⁹

China also provides aid to relatively developed ASEAN countries like Indonesia, Thailand and the Philippines. In 2005 for example, Indonesia received preferential loans worth \$300 million following the declaration of 'strategic partnership' by the presidents of the two countries. Thailand was also helped with \$49 million after it had been embargoed following the September 2006 military coup. Its generosity is extended as well to the Philippines with more than \$300 million aid and loans dispensed in 2003.³⁰

Can these economic resources be translated into political influence, thus facilitating the achievement of China's strategic interests? So far, China has only two of the three requirements for effective power under interdependent relations between China and ASEAN. First, China has and controls huge economic resources like big markets, purchasing power and enormous capital needed by ASEAN. Second, marginal utility of ASEAN countries over these resources is high because they are badly needed for their economic development.³¹ However, the third factor seems to complicate the matter. The strategic configuration apparently still enables some ASEAN countries to get economic resources from other sources like Japan or India. This is evident in the announcement of ASEAN-Japan Joint Declaration on Comprehensive Economic Partnership and an agreement to establish FTA between ASEAN and India in the same month when China-ASEAN signed the FTA agreement.³² The problem is exacerbated further by the competitive nature of ASEAN-China economic relations in some sectors that can potentially hamper convergence of interests between the two parties, thus limiting the

24 See "Forging Closer ASEAN-China Economic Relations in the Twenty-First Century", *ASEAN-China Expert Group Report on Economic Cooperation*, (October 2001), p. 152.

25 See Jing-Dong Yuan, "China-ASEAN Relations: Perspectives, Prospects and Implications for US interests", *Research Report* (Carlisle, PA: Strategic Studies Institute, October 2006), p. 17.

26 Indeed, China has been the largest source of economic assistance to Burma since then. Of \$7 billion disbursed, \$2 billion are in the form of weaponry to support the ruling junta. The remaining \$5 billion are loan and infrastructure investment. Thomas Lum et al., "China's 'Soft Power' in Southeast Asia", p. 6.

27 Ibid.

28 According to one report cited by Thomas Lum et al., in 2001-2002, China was the second biggest aid donor to Laos. Since the late 1990s, China has funnelled funds to this country in various forms ranging from critical grants to foreign direct investment. See *ibid*.

29 Ibid, p. 7.

30 Ibid, p. 8.

31 The ASEAN's need for these resources from China increased particularly after the Asian Financial Crisis. ASEAN countries considered that during the crisis, it has lost many resources especially capital they need to recover. Though they got financial help from the IMF, the US and Japan, the value of this help was negated by the conditionality imposed on these countries. Besides, less sympathetic attitude showed especially by the US also disappointed them. See Joseph Yu-shek Cheng, "The ASEAN-China Free Trade Area: Genesis and Implications", *Australian Journal of International Affairs*, Vol. 58, No. 2 (June 2004), p. 274

32 Ibid.

33 According to some experts, the lack of complementarity in the products of the two parties will impede the capacity of each party to absorb the products of other. With similar products scrambling for the same markets, it is highly possible that China's gains would come at the expense of ASEAN's. Indeed, this has aroused protests by some domestic producers outcompeted by China leading some ASEAN leaders to agree to deepen their integration to avoid being dominated by China. These suggest that interdependent relations between China and ASEAN will not automatically lead to China's untrammelled ability to control ASEAN. See John Wong and Sarah Chan, "China-ASEAN Free Trade Agreement: Shaping Future Economic Relations", *Asian Survey*, Vol. 43, No. 3 (May/June 2003), p. 508; and Hugh De Santis, "The Dragon and the Tigers: China and Asian Regionalism", *World Policy Journal* (Summer 2005), pp. 27-28

efficacy of economic resources as political instrument for achieving China's strategic goals.³³

Nevertheless, the force of FTA, in the long run, may dwarf those difficulties. An analysis predicts the China-ASEAN FTA can generate 'investment creation effect' and 'regional division of labour based on trans-border production network facilitating trade in components and their ultimate assembly'. This production network is created because MNCs' investments in China for component assembly,³⁴ for example, can accelerate complementary investments in manufacturing elsewhere in the region.³⁵ Therefore, although competition may damage the economies of its ASEAN partners in the short run, there will be adjustments in production based on comparative advantage owned by each country.

Increasing potential for greater economic interdependence suggests an increasing convergence of interests among countries concerned, thus amplifying chance for mutual influence by the parties. Some preliminary evidence indicates that these economic ties to some extent have been successfully used by China for achieving its strategic interests. For example, it cancelled a major Singapore trade show in Shanghai in 2004 after Singapore PM resisted apologising for his private visit to Taiwan subsequently forcing him to declare Singapore's neutrality and affirm its 'one-China policy'.³⁶ China also handed Indonesia a 20-year, \$8.4 billion LNG contract for Indonesia's cancellation of proposed visit by Taiwan's president in December 2002.³⁷ These intimate that at least in the mind of China's leaders, economic interdependence is transmutable to political influence.

Closer economic engagement between China and ASEAN has also been able to erase the image of 'China threat' in Southeast Asia. A survey in Bangkok for example, shows that 76% people regard China as Thailand's closest friend. Growing investments in strategic sectors in several ASEAN countries up to 40% annually also suggest that China is no longer considered as threat. Rather, it is a benign power.³⁸ Its decline to devalue its currency during the Asian financial crisis, likewise increasingly strengthen its image as responsible great power in the region.³⁹ Moreover, the acceptance of ASEAN countries to China's demand in order not to involve external powers in their disputes with China over Spratly can further indicate the countries' willingness to maintain conducive relations with China.⁴⁰ All these suggest that to certain extent, economic interdependence can facilitate political influence by the dominant party (China) over others relatively dependent on it.

Conclusion

Departing from the debate about interdependence and its effectiveness as power instrument, this paper argue that increasing economic interdependence between China and ASEAN can enable it to exercise its power over its ASEAN neighbours. Some facts enumerated here support this argument. Nevertheless, the ability of China to influence the ASEAN countries is not unlimited. From the three conditions for effective power influence under interdependence, only two that China clearly has namely, economic resources and large marginal utility of ASEAN countries to the economic resources. The last condition is not met because strategic configuration and competition between China and ASEAN in some products can enable ASEAN countries to get the same valuable resources as what

34 John Ravenhill, "Is China An Economic Threat to Southeast Asia?" *Asian Survey*, Vol. 46, Iss.5 (Sept/Oct 2006), pp. 664-669.

35 After all, cost of production and market potential are the main considerations for investments by MNCs. By building production network in the region, they can minimise the transportation cost, accelerate the production process and quicken the delivery of products to the markets. Therefore, the potential for this regional division of labour is very big.

36 Dana R. Dillon and John J. Tkacik, Jr., "China and ASEAN: Endangered American Primacy in Southeast Asia", *Backgrounder*, No. 1886 (Washington, D.C.: The Heritage Foundation, 19 October 2005), p. 4. available at www.heritage.org/research/asiaandthepacific/bg1886.cfm

37 See Brian Andrews et al., "Chinese Economic Growth and Political Influence: Examining PRC Relations with Australia, Indonesia, Malaysia and Singapore", *Research Report* (New Jersey: Woodrow Wilson School of Public and International Affairs, January 2007), p. 15.

38 Philip P. Pan, "China's Improving Image Challenges US in Asia", *Washington Post*, Saturday, 15 November 2003, p. A01.

39 See David Shambaugh, "China Engages Asia: Reshaping the Regional Order", *International Security*, Vol. 29, No. 3 (Winter 2004/2005), p. 68.

40 Cheng-Chwee Kuik, "Multilateralism in China's ASEAN Policy", p. 14.

China offers from other countries. Consequently, this can affect the bargaining setting and their marginal utility towards China's offer. If ASEAN can get more market from India, for example, the value of China's market to some extent can diminish. Therefore, this last condition is said to impair China's power over the region.

However, if we look carefully, the long run tendency stimulated by FTA can negate the consequence of the interdependence impediments. FTA will gradually intensify economic relations through production networks and production specialisation in the region so that potential for power relations still exist between the China and ASEAN.



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