



THE GRIFFITH-TSINGHUA 'HOW CHINA SEES THE WORLD'

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*China, the United States, and Order
Transition in East Asia: An Economic-
Security Nexus Approach*

By LIU Feng and LIU Ruonan



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Project Introduction

How to understand China's rise and its implications for Asia and the world is an imperative task for both scholars and policy makers. China has become the second largest economy next to the United States since 2010. China is also the major trading partner for over 140 countries in the world. As United States-China relations will define the next century, it is essential to build mutual understanding for policy makers. If strategic distrust is a major obstacle in US-China relations, as Kenneth Lieberthal and Jisi Wang have suggested, deepening our understanding of Chinese perceptions and views on international relations will be a crucial task for bridging the perception gap and mitigating the strategic distrust between the two nations.

This project aims to make sense of China's rise in world politics through examining Chinese International Relations (IR) scholars' perceptions and debates on key issues in international relations and Asian security. This project will deepen our understanding of Chinese scholars, especially regarding how they perceive world politics and how they can impact Chinese policy making via internal debates. There are two parts in this project. First, we organize and conduct onsite surveys of IR scholars at the annual conference of the Chinese Community of Political Science and International Studies in Beijing. Second, we examine the internal debates among Chinese scholars over international politics, Asian security, and Chinese foreign policy.

With generous support from the MacArthur Foundation (grant No. 16-1512-150509-IPS), the Griffith Asia Institute is able to successfully collaborate with Tsinghua University's Institute of International Relations to carry out the survey research as well as conduct the research project on the Chinese IR debates through expert conferences and other academic exchanges. This working paper series will feature major Chinese scholars' analyses of internal debates and our survey findings.

We appreciate your comments and suggestions very much.

Kai He and Huiyun Feng (Co-Chief Investigators, Griffith University)

Xuetong Yan (Lead Project Collaborator, Tsinghua University)

China, the United States, and Order Transition in East Asia: An Economy-Security Nexus Approach

Abstract

A dualistic-order thesis has emerged as a widely-used concept to describe East Asia's regional dynamics. According to the thesis, the economic and security spheres of the region have been divorced from each other, whereby China and the United States dominate the economic and security realms respectively. This paper demonstrates the deficiencies of this thesis, based on a comprehensive assessment of the economic and security developments in the region, as well as the strategic choices of small and middle regional powers. In order to form a more accurate and systematic understanding of regional prosperity and stability, this paper develops an economy-security linkage approach by integrating the interactions of regional actors in both the economic and security realms into a unified framework. From this perspective, East Asian regional order is sustained by a delicate coupling of regional economic and security configurations: "hot economics" is accompanied with positive security interactions. Although China and the United States are not the dominant actors in either field, their relatively benign interactions in both realms collectively play a significant role by shaping the strategic environment for regional actors, allowing them to enjoy a large degree of strategic flexibility and increase their security and prosperity.

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This Working Paper Series presents papers in a preliminary form and serves to stimulate debates and discussions among scholars and policy analysts. The views expressed are entirely the authors' own.

China, the United States, and Order Transition in East Asia: An Economy-Security Nexus Approach

LIU Feng and LIU Ruonan

Introduction

East Asia is currently undergoing a classic power transition, placing the region under an exceptional amount of scrutiny.¹ Consequently, international relations scholars from various schools of thought have applied their respective perspectives in an attempt to answer the questions regarding the future of the East Asian region (Acharya 2014; Goh 2014). Defining the current regional order, as well as accurately assessing the effect of China's rise on the region's geopolitical dynamics, remain significant challenges to East Asian studies, and international relations scholarship in general.

Recently, a “dualistic order thesis” has emerged as a popular approach to describe the East Asian regional order. The thesis claims that the economic and security spheres of the region in question have been divorced from each other, whereby the United States and China dominate separate realms — security and economic respectively. This sentiment was recently expressed in Evan A. Feigenbaum and Robert A. Manning's (2012) essay “A Tale of Two Asias” wherein they wrote:

Two Asias, wholly incompatible, have emerged in stark relief. There is “Economic Asia” ... And then there is “Security Asia”, in the one domain, Asian economies have come in recent years to depend increasingly on China — and one another — for trade, investment, and markets. But ... all major Asian states, though their economies are increasingly integrated within Asia, are tacking hard across the Pacific toward the United States for their security.²

Subsequently, other scholars have coined various terms to the same effect, such as “dualistic structure”, “dual leadership”, and “dual hierarchy”.³ The dualistic-order thesis has not only been widely discussed among academics, but also received extensive attention in policy circles across different states in the region. The *Global Trends 2030: Alternative Worlds Report* projects that, “regional trends probably will continue to pull countries in two directions: toward China economically but toward the United States and each other for security” (Baker 2017).

1 Here, “East Asia” refers to the eastern part of Asia, a broader region comprising the two sub-regions of Northeast Asia and Southeast Asia.

2 For the following discussions see Acharya (2013); Feigenbaum and Manning (2013); Alexandroff (2013).

3 Zhou (2014); Zhao (2014); Ikenberry (2015).

To validate the dualistic perspective, many scholars emphasize that the majority of East Asian nations are formal US allies or security partners while also having China as their largest trading partner. At first glance, this seems to be the case. Japan, South Korea, Australia, the Philippines, and Thailand have formal security alliances with the United States, while Singapore and Vietnam are security partners. These alliances and partnerships have received increasing attention from the US over the last decade. Since the “Pivot to Asia” in the Obama administration, and also to some extent under the Trump administration, the US has sought to strengthen security cooperation between its East Asian allies through the garrisoning of US troops, arms sales, joint military exercises, and high-level military-to-military exchanges.⁴ In contrast to seeming US dominance in the security realm, China is the largest trading partner of most Asian economies, including Australia, South Korea, Japan, Cambodia, Indonesia, Malaysia, Myanmar, Singapore, and also ASEAN as a whole.

However, this article takes issue with the dualistic-order thesis, revealing its inability to withstand logical scrutiny and its failure to capture the political realities of East Asia. By drawing a line between regional economy and security — two essential domains of strategic interaction — the dualistic perspective exaggerates both the dominance of the US in one realm and China’s overwhelming influence in the other realm. To come to a better understanding of East Asian regional order, we need an alternative analytical framework that can integrate economic Asia and security Asia, and bridge the gap between them.

The structure of this paper is organized as follows. Section Two focuses on East Asian economic integration and interdependence, assessing the influence of major economies in the region. Section Three illustrates that East Asia’s small and middle powers tend to maintain balance between the United States and China — i.e. hedging is the dominant strategic response in the context of the current power shift. Section Four proposes an analytical framework that integrates security and economics, to provide a better understanding of East Asia’s regional stability. It concludes with reflections and predictions on the future course of Sino-US relations and the transition of East Asian order more broadly.

Economic Asia: Competing for Influence

East Asia is the world’s most economically dynamic region. Since the 2008 economic crisis, economic growth has slowed right across the globe, yet East Asia has been able to buck this

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trend and maintain high growth rates. Undoubtedly, the continual fast-paced development of China’s economy has acted as an engine and stabilizer for vigorous growth in the region. However, we live in

an open economic system that makes it difficult to accurately ascertain China’s impact on

⁴ To the present, the Trump administration has continued traditional US Asian policy, mainly reliant on its military presence and alliance system in the region.

East Asia's growth and economy more broadly. Besides, US, Japan, and various economic bodies inside the EU place much importance on economic engagement in the region, and are heavily involved in its economic workings via trade, aid and investment etc. Furthermore, the recently abandoned TPP promoted under the Obama administration, aimed at giving the US a guiding position in the region's economic cooperation and integration, demonstrates the United States' inclinations to further involve itself in Asia's economy. In light of this, it is currently more accurate to describe East Asia as the site of competing influences for various economic bodies; it is not exclusively dominated by China. Of course, China possesses substantial economic pull in the region, however simply concluding that China dominates East Asian economies from superficial observations ignores the evidence revealed by deep analysis — such as systematic analyses of trade, investment, aid, and the division of labor within East Asia — which reveals the region's complex interdependence. The intricacies of East Asia's economy will therefore be dissected below.

Measuring power is a crucial but difficult task in international politics. Power is constituted by both subjective and objective elements. Obviously, the subjective elements, some coined as soft power, are hard to measure.⁵ Since researchers have access to solid economic indicators, as well as accumulated data and statistics, measuring economic power is ostensibly straightforward. However, properly utilizing data to comprehensively

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ascertain a state's economic strength is in fact quite difficult. Multiple indicators exist to measure the economic influence of a country, including economic size, trade volume, currency flows, the magnitude of foreign direct investment (FDI), and so forth. Although no unified function is available to integrate these indicators, it is vital to do so. When analyzing the economic structure of East Asia, reasonable conclusions cannot be drawn by solely relying on one or two fields of macroeconomic data; deep analysis must include multiple economic indicators — such as those listed above — and should also employ a thorough understanding of economic sub-fields in order to reach more accurate conclusions.

The 21st century has been marked by China gradually becoming the largest trading partner of over 100 countries globally, and almost all its neighboring states. However, when focusing on trade, it is apparent that the gap between China and other actors — particularly Japan — is not very large. Taking ASEAN as an example, during the early stages of this century, Japan was consistently its largest trading partner; but this trend only lasted until 2007 when China usurped Japan's position as ASEAN's largest exporting nation and took the leading role as trading partner in 2009.

From 2013 to 2015, Sino-ASEAN trade volume rested at approximately \$ 350 billion⁶, accounting for 15% of the organization's total trade. Trade with the European Union (EU)

⁵ For a comprehensive review on power analysis in international relations see Baldwin (2016).

⁶ All monetary values cited are in US dollars.

and Japan was closer to 11% at \$ 240 billion, while that of the United States hovered around 9% at \$ 210 billion (see Table 1), revealing that ASEAN has a diverse portfolio of trade partners and is not dominated by China. Trade between China and individual ASEAN member states shows a similar trend, casting further doubts over whether China enjoys any true advantage in the region. According to ASEAN's 2015 foreign trade data, China was the largest trading partner of Cambodia, Malaysia, Myanmar, Vietnam, and Singapore. Other nations such as the Philippines, Thailand, Indonesia, and Brunei had Japan as their largest trading partner, demonstrating a relative parity in economic influence between China and Japan in Southeast Asia. In fact, from 2010 to 2015 this parity was especially clear, as both countries maintained positions as the largest trading partners of four ASEAN member nations each.⁷

When comparing import-export data, there is hardly any significant difference in export volume from ASEAN to other economies such as the United States, the EU, Japan and China — these export values tend to average between \$ 100–150 billion, illustrating how ASEAN highly depends on all four markets to a similar degree. China mainly outpaces

China lacks a true advantage in comparison to other actors when considering investment in East Asia.

other nations' trade with ASEAN in terms of exports to member nations, which are not significant for ASEAN's industrializing

members. In light of China's current large-scale economic adjustments, its industrial sector is gradually transitioning towards tertiary industry with an accompanying decrease in ASEAN's imports from China, which will lessen the ASEAN region's dependence on these types of Chinese imports.

Table 1 Trade between ASEAN and Major Economic Partners, 2013–2015 (\$ Billion)

	2013		2014		2015	
China	3,510	13.96%	3,670	14.51%	3,460	15.23%
EU	2,460	9.80%	2,480	9.82%	2,280	10.03%
Japan	2,410	9.59%	2,290	9.05%	2,380	10.49%
US	2,070	8.24%	2,120	8.40%	2,120	9.35%

Source: ASEAN Database, available at <https://data.aseanstats.org/>.

Trade occupies a significant portion of China's comprehensive economic power; in fact, much of China's ability to influence East Asian affairs originates from its advantageous trade position (Salidjanova and Koch-Weser 2015). However, even taking this into account, it is still hard to affirm whether there is a large disparity in economic influence between China and other economic actors, particularly Japan, in Asia.

Furthermore, China lacks a true advantage in comparison to other actors when considering investment in East Asia. Referring once again to the ASEAN database, in the years 2010,

⁷ Southeast Asia is a major focus of competition between China and Japan. See Singh, Teo and Ho (2017).

2011, 2014 and 2015 the EU was in fact the largest source of FDI in ASEAN; excluding the year 2012 — an uncharacteristically low year, the EU's FDI in ASEAN averaged over \$ 20 billion per year. Trailing the EU are Japan and the United States. From 2010 to 2015, Japan's annual FDI in ASEAN was approximately \$ 15 billion; in 2013 this number climbed to a high of \$ 24.8 billion, making Japan then the largest source of FDI in ASEAN that year. In the same period, the United States' annual FDI in ASEAN was approximately \$ 13 billion, and in 2012 it was ASEAN's biggest source of FDI reaching nearly \$ 20 billion. By contrast, China was typically the fourth largest investor in ASEAN, but the discrepancy in investment volume between China and the three aforementioned economies is rather large. From 2010–2015 China's FDI in ASEAN averaged \$ 6.7 billion; but this FDI ranged from as low as \$ 3.5 billion in 2010 to as high as \$ 8.3 billion in 2015 (see Table 2). It is therefore readily apparent that in terms of investment, China certainly does not dominate ASEAN; it is in fact the EU and Japan that are the most influential actors in this field. However, it should be noted that Chinese FDI in ASEAN is increasing in both absolute and relative terms, and thus may surpass that of other actors in the future.

Looking at investment in a different light, China's economic influence over East Asia cannot be compared to that of Japan, the United States, or the EU anyway, as they have different investment interests. Over a six-year period, China's investment in ASEAN was concentrated in the finance and insurance industries, reaching nearly \$ 10 billion, with real estate being a close second at \$ 9 billion. The largest target industries for the EU were wholesale and retail, after which came automobile and motorcycle repair, with investments reaching approximately \$ 33 billion and \$ 30 billion respectively. Japan's investment was concentrated in the manufacturing industry around \$ 46 billion, while finance and insurance investments reached up to \$ 34 billion. Finally, the United States' investment breakdown also heavily favors certain industries — mainly flowing to finance and insurance, totaling \$ 34 billion. To a lesser extent, the United States also focuses investment in manufacturing.

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Table 2 Primary Investors in ASEAN, 2010–2015 (\$ Billion)

	2010	2011	2012	2013	2014	2015
China	3.49	7.16	8.07	6.43	6.99	8.26
EU	21.15	24.19	1.67	24.51	24.99	20.13
Japan	12.99	8.28	14.85	24.75	15.71	17.56
US	13.68	9.04	19.84	7.16	14.75	13.65

Source: ASEAN Database, available at <https://data.aseanstats.org/>.

To sum up, China, for its part, focuses its investment in tertiary industries, while Japan, the United States, and the EU focus on secondary and tertiary industries. Excluding Singapore and Brunei, the economies of ASEAN member states primarily depend upon

secondary industries. Therefore, at least to some degree, Japan's investments are more relevant to many ASEAN members, particularly as these states undergo industrialization.

Apart from trade and investment, the scope of a particular currency's use can be used to measure a state's economic power. From a monetary perspective, the internationalization of Chinese currency is only increasing in pace. According to data from the People's Bank of China Report (2016), in 2015 cross-border transactions using renminbi amounted to 12.10 trillion yuan, representing a year-on-year increase of 21.7%. However, three Asian economies – Hong Kong, Singapore, and Taiwan – occupy the top three spots with the respective percentages of 52.9%, 10.7%, and 6.7% in terms of transaction volume. This clearly shows that the renminbi has yet to see its widespread use in the international market, and still has much ground to make up on other regional currencies. Statistics from the Society of Worldwide Interbank Financial Telecommunication (SWIFT) reveal that, in December 2016, the renminbi was the sixth most used currency for international transactions, yet it merely accounted for 1.68% of overall transactions. The US dollar, euro,

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and Japanese yen were all used far more frequently than the renminbi. Within Asia, the US dollar is used for 42.09% of all transactions, with the euro at 31.30%, and the yen at 3.40%.⁸ The use of a nation's currency outside of its own borders is another important dimension in which economic power and influence can be measured. From this perspective, it is possible to say that China's influence over East Asia is still not on par with the influence from the United States, Japan, or Europe. As John D. Ciorciari observes,

[D]espite China's surging capabilities, high profile in international economic diplomacy, and leadership in nascent institutions such as the Contingency Reserve Arrangement and Asian Infrastructure Bank, Beijing's demonstrable monetary policy influence lags well behind. The United States still enjoys strong primacy in this domain, even in parts of Asia where China's expanding economic activity is most readily apparent (Ciorciari 2016: 235–236).

Due to the large number of developing or weak economies in ASEAN, foreign aid is rather important to its member states. Since the end of World War II, Japan has been an aid-giver to Southeast Asian nations and has given regional official development assistance (ODA). According to the Organization for Economic Cooperation and Development (OECD), with the exception of Brunei and Singapore, Japan provided ASEAN members a total of \$ 24.77 billion in ODA in 2013. During the years 2014 and 2015, that number sunk to only \$ 8.07 billion and \$ 5.07 billion respectively; the years 2001–2011 saw \$ 108.21 billion in total. Considering the fact that the United States has many allies and security partners in Southeast Asia, in addition to the "Rebalance to Asia" policy, the North American country

⁸ SWIFT. Follow the Internationalisation of China's Currency. Available at <https://www.swift.com/our-solutions/compliance-and-shared-services/business-intelligence/renminbi/rmb-tracker>

has maintained a steady pipeline of aid to Southeast Asia with a sum of \$ 45.07 billion from the year 2001 to 2011. Moreover, during the period 2012–2015, the US provided a total of \$ 26.33 billion in aid to ASEAN.⁹ China, on the other hand, mainly gives aid to Africa and underdeveloped Asian nations. According to an official white paper, detailing China's foreign aid from The State Council Information Office, from 2010 to 2012 — of all aid given — 52% was to Africa and 32% to Asia.¹⁰ Furthermore, the RAND Corporation did a related study on China's foreign aid and revealed that, in the period 2001–2011, Chinese aid to East Asia totaled \$ 50 billion less than the United States (Wolf, Wang and Warner 2013). It is thus clear that, at least from the perspective of foreign aid, Japan has the largest economic influence over ASEAN.

Looking at the global division of labor, China remains a mid-to-low link in the transnational production chain. This is due to the fact that China has been a long-time provider of a wide variety of primary goods to ASEAN, while the United States, Japan, and the EU mostly provide finished goods. According to statistics from a Japanese think tank — RIETI — the period of 2010–2015 shows that China's market share in ASEAN's primary market remained stable at around 20%, yet its market share of final consumption averaged only 5% annually, half that of Japan and only a fourth of the United States' and the EU's market share (see Tables 3 and 4). This makes it plausible to conclude that, currently, ASEAN is more dependent on the American, Japanese, and European markets.

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Table 3 Economic Actors' Market Share of ASEAN's Primary Market

	2010	2011	2012	2013	2014	2015
China	22.22%	24.86%	23.70%	25.65%	21.36%	19.26%
EU	6.99%	7.34%	5.52%	5.06%	5.40%	6.26%
Japan	14.72%	14.42%	16.14%	13.97%	12.98%	12.66%
US	5.33%	5.03%	4.29%	3.98%	4.06%	4.47%

Source: RIETI-TID 2015, available at <http://www.rieti-tid.com/>.

Table 4 Major Economies' Market Share of Final Goods Market

	2010	2011	2012	2013	2014	2015
China	3.10%	3.65%	4.37%	4.94%	5.37%	5.96%
EU	19.93%	19.65%	19.43%	19.72%	19.67%	19.19%
Japan	10.30%	11.03%	11.51%	10.75%	10.22%	9.72%
US	24.59%	22.99%	23.03%	23.25%	23.49%	24.68%

Source: RIETI-TID 2015, <http://www.rieti-tid.com/>

9 OECD Statistics, available at <http://stats.oecd.org/>.

10 Information Office of the State Council. 2014. *China's Foreign Aid, 2014*. July. Available at <http://www.scio.gov.cn/zfbps/ndhf/2014/Document/1375014/1375014.htm>.

Comprehensive analysis reveals that Sino-Southeast Asian trade has been on a constant rise. However, as the aforementioned data shows, this does not mean that there is a clear difference between China and the other primary economic actors in terms of regional economic influence. China's regional investment falls far behind that of Japan and the EU, and importantly there remains a considerable gap between China and the US.

Overall, East Asia's economic wellbeing is not entirely dependent on China. From a strictly trade perspective, China, Japan, and — to a limited extent — the United States are the leading trade states in East Asia. In terms of investment, the largest percentage of capital

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brought into this region comes from the United States, EU, and Japan. The power of the Japanese and American ultimate

consumer markets is still extremely potent. Furthermore, compared to the amount of Japanese aid to the developing countries of ASEAN, China's aid is much lower, which gives Japan — to a certain extent — greater influence over the sub-region. In addition, ASEAN's final goods market is still reliant on the United States, Japan, and EU, whereas China mainly provides primary goods.

Recently, attention has been given to the failure of the TPP due to the United States' withdrawal. Observers are once again debating whether China can now be the leader of regional economic cooperation in the absence of the United States.¹¹ What is undeniable is that China still has a tremendous amount of economic potential to be fulfilled. However, when one looks at the domestic structure of China's economy and the division of labor in regional trade, it is clear that the country is not yet in a position to dominate regional economic cooperation. The aforementioned statistics add further weight to this conclusion.

Security Asia: Hedging as a Dominant Strategy

When it comes to the security domain, it is widely accepted that the US maintains a dominant role in East Asian security through its military presence and “hub-and-spoke” alliance system (Ikenberry 2004). However, it is in fact misleading to argue that regional security and stability primarily rely on the United States.

Since the 1990s, international relations scholars have constantly debated East Asian states' responses to the rise of China. Balance-of-power theory expects these states to undertake a balancing strategy. However, Steve Chan (2010) observes that balancing has never been the predominant choice among regional states. It is commonly acknowledged that in terms of security policies, small and middle powers do not wish to pick sides, nor do they simply want to rely on the United States to resist or defend against China. As Bonnie S. Glaser (2012: 23) points out, many regional states “seek at all costs to avoid having to choose between the United States and China”. Some alternative terms have been coined to

¹¹ For this sort of comments see Rowley (2016); Riley (2017); Kleiner (2017).

describe East Asian states' reactions such as engagement, accommodation, and hedging. According to Alastair Iain Johnston and Robert S. Ross (1999: xiv), engagement, defined as "the use of non-coercive methods to ameliorate the non-status-quo elements of a rising major power's behavior", is a preferable policy. Evelyn Goh (2007/2008, 2008) introduced the concept of "omni-enmeshment", arguing that Southeast Asian countries tend to use institutional and normative frameworks to integrate and restrain China. David Kang (2007: 4) believes that East Asian states have adopted a policy of accommodation towards China. Recently, hedging has emerged as a widely accepted alternative strategy, which moves beyond the traditional balancing/bandwagoning dichotomy and incorporates other similar terms such as engagement and accommodation.¹² If hedging is the predominant choice of secondary states across the region, then it is incorrect to argue that the United States is the dominant supplier of East Asian security.

First, hedging is not only a choice among those states outside the US alliance system, but has also been actively pursued by close US allies for the majority of time since the 1990s. Among allies of the United States, Thailand has maintained close security interactions and military cooperation with China in the form of high-level exchanges, joint military exercises, and arms sales. Australia and South Korea are also active hedgers, reluctant to damage their relationship with China when strengthening military cooperation with the US. In the Philippines, after coming to power in April 2016, the Duterte administration suddenly altered the country's China policy, changing the previous administration's confrontational strategy towards China on the South China Sea dispute, and also trying to reduce its overdependence on the security umbrella overseen by the US. Currently, Japan seems to be the only regional actor firmly pursuing a balancing strategy against China.¹³

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On potentially sensitive security issues, even security partners and US allies may adopt certain behaviors that do not align with the US's interests as a means to avoid picking sides. In 2012, NASA requested the use of Thailand's U-tapao naval airbase for climate research, but the Yingluck administration procrastinated on dealing with the request due to fear that it could be used to spy on China. Other examples can be found during the War on Terror — a security policy not explicitly targeted at China that aroused concern in the country nonetheless, as it involved moves to strengthen US security relationships with regional allies. In order to alleviate China's misgivings, Australia took measures to ensure it did not excessively strengthen the US-Australia security alliance simply to avoid jeopardizing its relationship with China (Malik 2006/2007: 588).

Second, it is important to note that for most East Asian states, security threats encompass

12 On hedging behavior of various regional states see Kuik (2008); Tessman (2012); Zhao and Qi (2016). For a different viewpoint on hedging, see Lim and Cooper (2015).

13 For Japan's balancing strategy see Hughes (2016).

more than just China. When considering the goals of East Asian nations' security strategies, it is clear that they do not completely center on responding to a potential China security threat — a significant portion is dedicated to alleviating their excessive reliance on China. In addition, these states desire to have greater socialization and interconnectedness with the international community, as well as the ability to negotiate with China from a position of strength. Regional powers are therefore wary to not treat China as their only potential security threat — even though China is indeed the main target of hedging for some states, such as Singapore and Vietnam. For these states, China's rise could cause excessive reliance in addition to the traditional security threat; however, that does not necessarily apply to other regional powers, where China is not the only security threat. Factors such as the instability of regional order, the United States' strategic shift, and major powers' penchant for using human rights as an excuse for interventionism are all considerations for regional powers when deciding their hedging strategy. Malaysia and Indonesia, for

a number of states attempt to diversify their security ties with other major powers in the region and beyond. In this sense, Southeast Asian states only rely on the United States for security support to a limited extent.

example, both pay close attention to US Freedom of Navigation (FON) operations in the South China Sea, but this does not mean that they are amenable to the

United States, Japan, or any other nation cruising through the Malacca Straits. They also oppose any meddling or interference from the United States in the domestic affairs of other countries — as shown in their reserved attitudes towards the United States' anti-terrorism policies in the Middle East and Southeast Asia.

Third, a number of states attempt to diversify their security ties with other major powers in the region and beyond. In this sense, Southeast Asian states only rely on the United States for security support to a limited extent. Many of these countries are US allies or formal security partners, but they clearly realize the variation and inconsistency of US security interests in the region (Connelly 2017). For this reason, a number of Southeast Asian states purchase military equipment and technologies from Russia, France, Ukraine and so on. Even though countries from Southeast Asia realize that the United States and China are the two most important great powers, they still place a high level of importance on their strategic relationships with Japan, India, and Russia. Singapore's former ambassador to the United States, Tommy Koh, once mentioned to the George W. Bush administration that, "the new elected president should realize that Southeast Asian states have many partners outside the United States" (cited in Bolt 2011: 290).

Under most circumstances, regional states offset their impression of bandwagoning with the United States by having frequent and positive diplomatic interactions with China. In other words, regional actors are not willing to sacrifice one relationship with a great power to expand their security relationship with another. In fact, when susceptible to any risks that may affect the US-China security balance, most Southeast Asian states choose to balance between the two. For example, during the first decade of the 2000s, the Philippines had to choose which nation it would tilt towards and away from. The United

States did not put pressure on the Philippines as the country considered whether to maintain or form a closer security partnership with China. Following 9/11, Thailand, the Philippines and Indonesia were able to support the United States’ anti-terrorism actions without jeopardizing the development of their security relationships with China.

Similarly, China did not interfere with Cambodia or Laos’ increased security interactions with the United States, while the US pursued a low-key, step-by-step engagement strategy with mainland Southeast Asia. Due to the stability of US-China relations, Southeast Asian states enjoy much strategic room and flexibility, that allows them to run parallel regional strategies with both the United States and China. To the largest degree possible, these states try to use their strategic room to maximize their autonomy, increase their security and enlarge their prosperity.

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The Economy-Security Linkage and East Asian (In)Stability

The problem with the dualistic-order thesis is that it draws a sharp division between economics and security, two closely interrelated strategic domains for all three involved parties – China, the United States, and secondary powers in the region. Traditional approaches also suffer from similar problems. Balance-of-power theories and power-preponderance (or hegemonic/hierarchical) theories primarily focus on interactions in the security realm, while theories of regionalism only concentrate on economic cooperation and integration. However, a unified framework integrating these two domains is very essential for a comprehensive understanding of regional prosperity and stability.

		Economy	
		Integration	Estrangement
Security	Reassurance	<i>Positive coupling</i> (Highly stable) Sino-US relations (1995–2010)	<i>Economic Decoupling</i> (Relatively unstable) Sino-US relations (1970s–1980s)
	Rivalry	<i>Security Decoupling</i> (Relatively unstable) Sino-US relations (2010–2016)	<i>Negative coupling</i> (Highly unstable) Sino-US relations (1949–1972)

Figure 1 Variations of Economy-Security Linkage in East Asia

An economy-security linkage approach can fill this gap by providing a systematic perspective on the formation, maintenance, and transformation of regional order.¹⁴ As shown in Figure 1, the economy-security linkage is comprised of four models, each differentiated by different combinations of great-power interactions in the two domains:

¹⁴ The concept of “economy-security linkage”, or “economy-security nexus”, is not new in IR literature, but no established framework has been developed. For some previous discussions, see Feigenbaum (1999); Goldstein and Mansfield (2012); Yoshimatsu (2014).

(1) the positive-coupling model, in which cooperative behavior dominates in both economic and security realms; (2) the security-decoupling model, where the two parities engage in intensive economic cooperation while competing intensely in the security domain; (3) the economic-decoupling model, characterized by competitive economic interactions accompanied by warm security ties; (4) the negative-coupling model, wherein confrontational behavior prevails in both realms.

From an economy-security linkage perspective, regional actors move on two distinct but interrelated lanes: an economic lane and a security lane. If they are moving in the same direction in both lanes, then regional stability can be sustained. Instead, if they are moving in the opposite directions, there is the chance that stability could be upset. Therefore, East Asian regional order is sustained by a delicate coupling of regional economic and security configurations: hot economics is accompanied by positive security interactions, though conflicts and disputes break out intermittently. Although China and the United States are not the dominant actors in either field, they collectively play a significant role by shaping the strategic environment for all actors in the region.

Since the 1990s, the East Asia region has been relatively peaceful and stable — stability which can be attributed to positive interactions between the United States and China in both security and economic fields. Within this period, the characteristics of China's foreign policy were defined by integration in the economic realm and self-restraint in the security realm. Chinese leadership realized that accomplishing the goal of national rejuvenation could only be done through economic development and opening up. For this reason, the Chinese government promoted market reforms and deepened economic cooperation with the outside world, especially the developed world, in the beginning of the 1990s. During

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the process of actively integrating into the existing international order, China implicitly acknowledged US leadership in the region. China increased its economic cooperation

with the United States, while also exploiting the convenience of the international market to raise its economic power. The asymmetrical economic relationship between the two great powers has led to an interdependence that has brought China's economy into the international market.

China's economic development has had far-reaching effects on both East Asia and the global economy following the "opening up and reform policies". During the latter half of this same decade, an economic crisis forced the East Asian economies into a recession. However, China's high rate of growth continued and transformed it into one of the main drivers of economic development in the region — creating interdependence in East Asia, promoting economic cooperation between regional states and maintaining its stability. From this perspective, due to China's economic integration in the regional and global order, US-China national interests fell further into alignment in providing regional economic

public goods. China's development brought great opportunities to the region, in which it was possible to improve East Asian states' relations with China, as well as increase regional bilateral and multilateral cooperation.

It is clear that economic integration alone does not guarantee China's role as the lynchpin of regional stability — in the most impactful regional security issues, China has practiced a “self-restraint” or reassurance policy towards both the United States and its neighbors.¹⁵ The end of the Cold War also did not see a decrease in China's security dilemmas, on the contrary, China's territorial and maritime sovereignty disputes with some neighbors have only deepened and become more complicated. In light of the fact that political stability is the foundation of economic development, China has continued to maintain a policy of self-restraint in the face of security challenges. With neighbors with whom it has maritime sovereignty disputes, particularly those who are members of the US security alliance system, China has decided to “shelve disputes” and attempt to agree on mutually constraining guidelines.

In handling US-China security issues, China has striven to increase trust while decreasing hostility.

In handling US-China security issues, China has striven to increase trust while decreasing hostility. From the Cold War until now, US-China relations have suffered a number of crises that could have easily boiled over into armed conflict including the Yinhe Incident, the 1996 Taiwan Strait Crisis, the United States bombing of the Chinese Belgrade embassy, and the Hainan Island incident, and so forth (He 2016). In general, China has maintained a low-profile and self-restrained posture during these crises to ensure that tensions do not spiral out of control. Even though a self-restraint security policy is passive, it has — to a large extent — defended China's core national interests.¹⁶ Nonetheless, this policy has contributed to regional stability and provided the basis for China's economic development and global integration.

As an important actor with large regional influence, the United States' policy towards China has also benefited regional stability. The US-China policy can be summarized as a mix of economic engagement and preventative defense in the security realm. Following China's foreign policy adjustments after the Cold War, the United States government has increasingly welcomed China's active integration into the international community. China's rise is an inevitable fact and no outside force can prevent China's engagement in global affairs. In this sense, isolating or containing China is not only against the United States' interests, but is also not accepted domestically.

During the mid-1990s, the Clinton Administration undertook an engagement policy towards China — this strategy entailed encouraging China to become a part of the

¹⁵ A portion of the literature records China's reassurance behavior. See Sun (2009); Tan (2009); Glosny (2012).

¹⁶ “Keeping a low profile (*tao guagn yang hui*)” is a widely used term to describe the passive security strategy pursued since 1980s. See Xuotong (2014); Chen and Wang (2011).

international system in exchange for its cooperation on important global issues, as well as deepening its participation within US-led institutions (Johnston and Evans 1999; Shambaugh 2005). As part of the promotion of China's involvement in the global economic system, the US was at the time on the verge of strengthening US-led cooperative initiatives within East Asia; meanwhile, it was also expected that China would not deny the United States' role as an important economic actor within the region. This economic cooperation enabled the US to obtain a cheap labor force and broad access to China's market, which marked the establishment of the golden age of the 1990s.

While engaged with China economically, the United States also promoted a China policy beneficial to the maintenance of East Asian stability. In general, the US did not pursue a containment policy characterized by political hostility and military encirclement. Instead, the US adopted a similar engagement posture in the security domain (Shambaugh 1996). Even though significant disputes regarding national unity and maritime rights exist between the US and China, there are still many areas for potential cooperation between both parties. Following 9/11, the United States and China reached a common understanding on "anti-terror" efforts, which consequently enabled the United States to decrease its

Therefore, from a unified economic and security perspective, since the Cold War China and the United States have maintained cooperative relations, and constrained levels of competition in both realms.

hostility towards China on both the Taiwan and North Korea nuclear issues. It cannot be denied that the US has intended to guard against a revisionist China, but as

long as both governments properly manage relations and adopt appropriate policies, bilateral relations will not escalate into conflict, nor will regional stability be lost. Sometimes, these two major powers also cooperate to manage disputes involving US allies or security partners and China.

Therefore, from a unified economic and security perspective, since the end of the Cold War China and the United States have maintained cooperative relations, and constrained levels of competition in both realms. Within the economic sphere, the United States' engagement policy largely coincided with China's need to integrate into the global economic system. China's integration also further provided the US with significant economic benefits, thereby creating common interests between the US and China, which legitimized the United States' global leadership. In the security realm, the United States maintains a low-hostility, highly controllable, low-risk, defense posture aimed at restraining China in any large security issue.

Furthermore, 20 years of positive interactions have allowed tolerable levels of competition between the US and China, despite friction still being present in the economic and security realms. US-China competition extends to the strategic space of other East Asian nations, and due to the fact that — at present — there are no clear opposing camps, smaller powers in East Asia naturally do not feel much pressure to pick sides. This gives them the latitude to exploit both the US and China for security assurances and economic gains. These

smaller regional powers have the space needed to hedge should they choose to, implying both a flexible and highly stable regional order.

To properly understand regional stability and its future direction, it is not enough to simply describe the consequences of different economic-security linkage models: the factors affecting the choice of engagement strategy by China and the United States also need to be explored. For example, why were China and the US able to maintain good relations across both the economic and security realms from the 1990s until 2010? Balance of capabilities played a key role. When China's relative capabilities were comparatively weak, the United States was not concerned about China becoming a challenger and adopted an engagement strategy in an attempt to change the country. It brought China into the US-led system, bringing

Of course, power is the most important variable in this process, but it is not the only one. Another intervening variable that needs to be taken into account is the balance of confidence between the two states.

massive economic gains for the United States in the process. Conversely, by showing restraint in the security domain, China hoped to increase its national capabilities, effectively relying on the US for its development. With the passage of time, it was inevitable that an increase in China's capabilities would evolve into a motivation to alter the status quo, as an increasingly stronger China would not be willing to continue on the path set for it by the US.

Of course, power is the most important variable in this process, but it is not the only one. Another intervening variable that needs to be taken into account is the balance of confidence between the two states. As capabilities have changed, on one hand the United States' confidence that it can control China's rise has dropped, while on the other hand, China is increasingly confident in implementing an assertive strategy. In reality, despite the fall in the US's relative capabilities, the degree and speed by which its confidence in its capabilities has eroded has outpaced the actual drop in its capabilities. In comparison, China's confidence in its ability to change the status quo and mold a more favorable regional environment for itself is on the increase, even though there still exists a large power disparity between the two countries.

Conclusion

Without a doubt, East Asia's stability depends on whether the United States and China can maintain "tolerable" levels of competition. Unfortunately, international politics does not move in accordance with goodwill and benign intentions. In an anarchic international system, changes in the balance-of-power encourage states to adjust their foreign policy, which consequently affects the course of interstate interactions.

Following the 2008 financial crisis, the United States not only suffered heavy economic losses, but the liberal economic order it has constantly championed was also called into

question. In contrast, China's economic growth and military modernization has come under heavy scrutiny from the United States. After 2010, the number of China's maritime sovereignty disputes with regional neighbors gradually climbed, with US regional allies often involved. China's burgeoning strength means that it needs to play a larger role in East Asia and adopt a proactive foreign policy; but under current trends, the power transition in East Asia is likely to bring more uncertainty to the region.

From the integrated perspective of economics and security, should turmoil come to East Asia, it will likely take two forms. The first scenario sees China establishing its own sphere of influence in both the economic and security realms. Even though China's integration into the world economic system has brought it unprecedented development and opportunities, the system's inherent flaws and governance shortcomings have only added to China's misgivings. Looking at domestic factors, China's economy has reached a critical juncture where urgent adjustments must be made. China's industrial oversupply, its vulnerabilities and dependencies, along with other factors have prompted China to increase its influence over the regional and global economy.

Turning once again to China's integration into the existing liberal economic system, although China enjoys some liberal ideals — such as having a “comparative advantage” and “mutual interdependence” — China is heavily motivated to take a leading role in the region by promoting state-driven initiatives. Post 2010, China's desire to provide regional public goods has increased substantially; a clear example is the large amount of capital pumped

Should China choose to delink from the liberal economic system, replacing it with a Sinocentric regional economic system, a showdown between the US and China could result over regional economic leadership and further destabilize East Asia.

into global markets, in which China may be trying to change extant systems and more actively participate in global governance. The Asian Infrastructure Investment Bank (AIIB) embodies China's ambition to

become a regional economic leader; however — to some degree — the bank is also a reflection of China's dissatisfaction with the current international economic system.

Should China choose to delink from the liberal economic system, replacing it with a Sinocentric regional economic system, a showdown between the US and China could result over regional economic leadership and further destabilize East Asia. Despite maintaining an attitude of self-restraint since the 1990s, China may not continue to swallow its dissatisfaction stemming from its disadvantageous position. Following the Obama administration's “rebalance to Asia”, China's security environment has clearly worsened. Under an increasingly unfavorable security environment, a debate has emerged about which direction China's foreign policy should take. The debate is gradually being influenced by a realist security perspective, therefore moving away from the traditional policy of self-restraint and reassurance (Yan 2014). Furthermore, the speed of China's military modernization may increase China's confidence about its ability to resolve security

issues. Supposing that China establishes security mechanisms that fit its own interests in East Asia, the entire regional order is in store for a reshuffling.

The second possible scenario is that the United States completely revamps its economic and security policies towards China. Within the economic realm, this would mean suppressing China's economic growth and its malicious competition. On the other hand, in the security realm it would entail a return to Cold War era containment. In fact, during the latter half of the Obama administration, China and the United States repeatedly clashed in both realms. Changes in economic development and the rise of innovative capabilities have made China and the United States big economic competitors. Moreover, China has shown willingness to establish regional institutions, challenging the economic legitimacy of the United States — and possibly even showing potential ability to deconstruct the United States' post-war liberal system within East Asia.

Globalization is currently coming under heavy scrutiny, especially from the United States. Under the Trump administration the US has called for a rejuvenation of its manufacturing sector, which may involve stifling China's economic interests in order to preserve the United States' economic dominance — perhaps even to the point of starting a trade war. The “rebalance towards Asia”

When China and the United States engage in inclusive competition in both economic and security realms, the strategic flexibility of small and middle powers in the region is ample and hedging strategies are more likely to be the predominant choice.

has already revealed US desire to preserve its traditional position of power within East Asia; this combined with China's military modernization, has only acted to increase the United States' strategic misgivings about China.

It is clear that these two extremes of US-China regional competition are entirely antagonistic — from a simple cause-and-effect perspective, one can easily see China's attempts to deconstruct the free-market system leading to economic reprisals from the United States. Similarly, China's attempts to weaken existing US-led security systems and institutions will certainly incite an antagonistic reaction from the United States. On the other hand, US hostility in either the security or economic realms will prompt an equivalent response from China, meaning the two nations will struggle to maintain good relations and, in turn, will reduce the amount of strategic space and economic benefits smaller powers within East Asia have enjoyed so far.

Anyway, both scenarios envision an East Asia divided into two spheres of influence. When China and the United States engage in inclusive competition in both economic and security realms, the strategic flexibility of small and middle powers in the region is ample and hedging strategies are more likely to be the predominant choice. If the current course of intense Sino-US competition continues or exacerbates, East Asia states will increasingly feel pressured to align with either the United States or China and, therefore, will be less able to exploit the strategic space created by a benign major power relationship, which may ultimately fuel regional instability.

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