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Navigating Economic Statecraft: Unveiling China's Strategic Dance with Southeast Asia

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SYNOPSIS

Considering China's aversion to unilateral economic sanctions, its commitment to multilateralism, and the increasing importance of ASEAN for its economic development, it is premature to assert that China will consistently and frequently weaponise its economic interdependence with Southeast Asia to achieve its strategic objectives.

COMMENTARY

Interest in and concern regarding China's use of economic statecraft – employing economic tools to advance foreign policy objectives – are increasingly prominent. There is a prevailing assumption that China actively seeks to maximise its influence and power through its economic policies.

China has adeptly utilised various economic measures, such as trade suspensions and restrictions on tourism, to signal its intentions. For instance, China has mixed economic rewards and punishments to deter arms sales to Taiwan, protest the deployment of the US THAAD anti-ballistic missile defence system in South Korea, and address criticisms of its human rights record.

Additionally, China's government has been reported to leverage [public sentiment](#) to exert economic pressure on third countries. Recent US sanctions and export controls against China have prompted the latter to retaliate with its own measures, culminating in the enactment of the [Anti-Foreign Sanction Law](#) in June 2021. This law signals a

notable shift in China's foreign policy, highlighting its readiness to employ economic sanctions more readily on the global stage.

As China becomes the [largest trading partner](#) for Southeast Asia, concerns about its potential to use economic leverage for geostrategic objectives are rising. [Scholars and the media](#) often cite the 2012 Scarborough Shoal incident as a prime example of China using sanctions to advance its interests in the South China Sea. China's sanction laws and [nationalistic behaviour](#), such as public boycotts of foreign products, have fuelled anxiety about the potential weaponisation of its economic interdependence with the region.

Historically, economic interdependence has provided states with [leverage](#). However, conventional studies of economic statecraft may not fully capture the complexities of China's interactions with Southeast Asia. The unique dynamics of this region require a nuanced understanding of China's economic strategies with respect to its neighbours.

Characteristics of China's Economic Statecraft in Southeast Asia

Situated on China's periphery and at the very centre of the Indo-Pacific region, Southeast Asia has long been explicitly identified as an important region for China's national security and foreign relations. Historically, Southeast Asia has played a significant role in China's economic development and aligns with China's values of inclusiveness and multilateral cooperation. A stable and positive relationship with Southeast Asia serves a range of Chinese interests.

China's economic development requires a peaceful as well as stable Southeast Asia. Southeast Asia straddles important sea lanes, whose security is critical to China's seaborne trade, including its energy imports. Consequently, Beijing remains focused on strengthening its relationships with Southeast Asian nations, as highlighted by the [major "periphery diplomacy" forum](#) that the Chinese Communist Party (CCP) organised in October 2013.

ASEAN's central role in regional multilateralism and its neutral stance in the Sino-American strategic competition further enhance its geopolitical importance for China. ASEAN's neutral stance in global geopolitics, along with its established norms of regional governance, has effectively mitigated regional conflicts. Strengthening ties with Southeast Asia also helps China counterbalance Western influence in the region. Any move by China to impose sanctions on its neighbours would thus be counterproductive to its overall positive "periphery diplomacy".

To enhance relations with Southeast Asia, China has been pursuing economic engagement. In response to a growing "China threat" narrative in the 1990s, China launched a [charm offensive](#) in the early 2000s. It was among the first to establish free trade agreements with Southeast Asian countries during this period.

A decade later, China adopted a development-themed rhetoric to illustrate its [conducive role](#) in forging mutually beneficial trade, investment, and financial ties through initiatives like the Belt and Road Initiative (BRI), which spans beyond Asia. For such ambitious initiatives to succeed, China requires the support of its Southeast

Asian neighbours to showcase successes in the region to the rest of the world. Therefore, an overly aggressive economic policy towards Southeast Asia could undermine regional backing for the BRI and jeopardise its effectiveness.

To reaffirm its commitment to multilateralism in Southeast Asia, Beijing has engaged robustly with ASEAN-centred frameworks, including the ASEAN Regional Forum, and has also been a key player in the negotiation and finalisation of the ASEAN-led Regional Comprehensive Economic Partnership (RCEP). By committing to such regional free trade agreements, China hopes to show that economic interdependence fosters regional development and stability. Consequently, adopting an overly aggressive economic policy would be counterproductive for China, potentially undermining the very stability and cooperation that these agreements are designed to promote.



The 2nd Regional Comprehensive Economic Partnership (RCEP) Summit in Singapore, 2018. China has engaged robustly with ASEAN-centred frameworks and has been a key player in the negotiation and finalisation of the ASEAN-led RCEP to reaffirm its commitment to multilateralism in Southeast Asia. *Image from Wikimedia Commons.*

Over the years, China's economic engagement with Southeast Asia has proven effective. ASEAN and its member states have supported China's BRI. As a result, Southeast Asia has emerged as a pivotal trading partner for China. Since 2020, the region has surpassed both the United States and the European Union to become China's [top trading partner](#). This shift in trade dynamics carries substantial implications, especially in the context of the ongoing US-China trade war and the broader efforts by the United States to decouple from China's economy.

Despite a growing tendency to use sanctions to protect its national interests, the Chinese government remains generally opposed to unilateral sanctions. As a developing country that benefits from a multilateral system, China has historically been on the receiving end of unilateral economic sanctions by Western countries. Having experienced those sanctions, China aims to distance itself from what it regards as interventionist practices.

China's approach to sanctions is predominantly defensive, targeting primarily developed countries such as the United States, European countries, Australia, and Japan that threaten China's national interests and security and the legitimacy of the CCP. This defensive stance is illustrated by the enactment of China's first sanctions-specific legislation, the Anti-Foreign Sanctions Law, which reflects China's strategic posture against what it deems as foreign intervention.

China does not see any substantial ideological conflict with Southeast Asian countries that would necessitate punitive economic measures. Southeast Asian countries have not contested the legitimacy of the CCP, and many maintain positive relations with China, in part due to a regional consensus favouring the [non-interference principle](#).

Historically, many Southeast Asian states have consistently supported China's economic reforms and opening-up policies, even in the late 1980s, when Western sanctions were imposed on China for its suppression of the student-led protests in Tian'anmen. Furthermore, Southeast Asian countries like Myanmar and Cambodia are generally averse to such unilateral sanctions, drawing from their own experiences with such sanctions imposed by the West.

Amid the South China disputes, observers have been expecting Beijing to leverage these countries' economic dependence on China. However, it is interesting to observe that despite ongoing tensions with South China Sea claimants like Vietnam and the Philippines, China's bilateral trade with these countries has continued to expand. For instance, Chinese imports from the Philippines [increased](#) from approximately US\$1.8 billion in 2012 to nearly US\$2 billion in 2013, notwithstanding the standoff between China and the Philippines at Scarborough Shoal in 2012.

[Studies](#) have found insufficient evidence linking this dispute to the suspension of China's banana imports from the Philippines in 2012. Similarly, Vietnam's substantial economic reliance on trade with China – China is its top trading partner – has not led to significant punitive economic actions from Beijing.

Prospects

While China's economic engagement continues to bolster the country's ties with Southeast Asia, growing perceptions in the region and beyond suggest that China might exploit economic interdependence to advance its political leverage or secure its interests at the expense of others.

The growing concerns and apprehensions in the region are closely tied to China's escalating militarisation and reclamation efforts in the disputed South China Sea. Increased defence spending, naval modernisation, and [rejection](#) of the 2016 UN arbitral tribunal in favour of the Philippines have fuelled fears that China will increasingly use economic measures to advance its interests.

This [anxiety](#) has cast a shadow over China's economic initiatives, such as the BRI, raising questions about whether these projects are aimed at gaining political leverage through trade, investment, and financial interdependence with Southeast Asian countries. Consequently, several maritime Southeast Asian states have become more cautious about China's development-focused maritime connectivity projects.

Furthermore, China's economic diplomacy with Southeast Asia has faced challenges and is not without complications. Concerns over excessive reliance on Chinese capital for infrastructure development and trade in commodities and machinery have prompted Southeast Asian nations to seek diversification of their economic relationships with countries such as Japan, Australia and South Korea. While the

notion of a "[debt trap](#)" has been exaggerated, these concerns underscore the region's anxiety about overdependence on a single economic power.

As the United States intensifies its economic competition with China, Southeast Asia's significance for China grows even more. The region has emerged as a vital market for China to source materials and resources, mitigating investment risks, and diversifying supply chains. Given China's aversion to unilateral economic sanctions, its commitment to multilateralism, and the growing significance of ASEAN for its economic development, it is premature to conclude that China will consistently and frequently weaponise its interdependence with Southeast Asia to advance its strategic aims.

Nonetheless, China must effectively demonstrate the benefits of economic interdependence with the region. China must also address and mitigate concerns and perceptions related to its economic role in order to maintain and strengthen its ties with Southeast Asia.

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