

# The Challenges and Opportunities of ASEAN and Taiwan regarding the MSRS of China\*

Taewan Kim

## Abstract

*The Maritime Silk Road Strategy (MSRS) is one of two main pillars of the Belt and Road Initiative of China. The South China Sea, which is surrounded by ASEAN countries, is the key area of the MSRS because it provides a crucial link between the Pacific and Indian Oceans. Therefore, China has to achieve a dominating influence over the Sea in order to successfully perform the MSRS. This strategy provides challenges and opportunities to ASEAN countries and Taiwan. These countries are put in a difficult position due to their territorial disputes with China on the Sea and need for economic investment from Beijing for national economic prosperity.*

*This research scrutinizes what the MSRS exactly is on the South China Sea and its implications to ASEAN and Taiwan using my politico-economic model and China's national goals. Strategic suggestions for ASEAN, Taiwan, and China follow. These countries should increase the opportunities and decrease the challenges that may arise from China's MSRS. In the economic dimension, countries should capitalize on economic opportunities by cooperating productively and effectively with China by using the MSRS. At the same time, they should sustain diversification of their trade partners so as not to depend too much on the Chinese economy. In the political dimension, intensifying intra-regional cooperation and augmenting partnerships with the U.S., Japan, and relevant nations of the Indo-Pacific rim would contribute to discouraging China's political ambition.*

**Key Words:** *Maritime Silk Road Strategy (MSRS), Indo-Pacific Strategy, Politico-economic linkage model, China's national goals, New Southbound Policy (NSP)*

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\* This work was supported by 2019 Taiwan Fellowship.

## I. Introduction

The Belt and Road Initiative (BRI), which was launched in 2013, is China's transcontinental blueprint via land and sea from Asia across Europe, Africa, and even the Americas<sup>1)</sup> by building roads, railways, ports, and industrial parks. It is designed to promote mobility and exchange between China and its partners along a network of land and sea ports and hubs. The Maritime Silk Road Strategy (MSRS), which runs across the South China Sea and the Indian Ocean, is one of two main pillars of the BRI<sup>2)</sup>, with the other being the Silk Road Economic Belt on the Eurasian continent. Taiwan and the ASEAN countries, which are spread around the South China Sea, are instrumental to the success of MSRS. The South China Sea is also a stepping stone to reach Europe and Africa via the Indian Ocean. Thus stable control over the South China Sea is indispensable for China.

Attending the first Belt and Road Forum from May 14<sup>th</sup> and 15<sup>th</sup>, 2017 in Beijing, Singapore's National Development Minister Lawrence Wong mentioned that the BRI can pose both opportunities and challenges to Singapore.<sup>3)</sup> Singapore is a geographic link between the South China Sea and Indian Ocean. Minister Wong's insight of the BRI is true of Taiwan and ASEAN as well.

This paper scrutinizes why Beijing began the BRI and its impact on Taiwan and ASEAN, with its main focus on the MSRS. Using the Politico-economic Linkage Model and the national goals of Beijing that I developed in previous research<sup>4)</sup>, this investigation aims to suggest some advisable policy alternatives for Taiwan, ASEAN, and China.

After briefly providing the Politico-economic Linkage Model and China's national goals, I explain the national visions of China, Taiwan, and ASEAN based on the Politico-economic Linkage Model. The implications of the MSRS for Taiwan and ASEAN are followed by my policy suggestions for the mutual

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1) Pepe Zhang, "Belt and Road in Latin America: A regional game changer?", *Atlantic Council*, 2019, available at <https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/belt-and-road-in-latin-america-a-regional-game-changer/> (search on February 8, 2020).

2) Xi Jinping mentioned they are two wings of China to fly higher and farther in 2014. See Min Ye, *The Belt Road and Beyond: State-Mobilized Globalization in China: 1998-2018*. Cambridge University Press, 2020: p. 3.

3) Chong Koh Ping, "China's Belt and Road project could bring opportunities and challenges to Singapore: Minister Lawrence Wong," *The Strait Times*, May 16, 2017, available at <https://www.straitstimes.com/asia/east-asia/chinas-belt-and-road-project-could-pose-challenges-to-singapore-minister-lawrence-wong> (search on February 2, 2020).

4) See the following two articles for better understanding the theory bases of this paper; Taewan Kim, "Beijing's Dilemma and Preference on the Korean Peninsula: Responses to the 2010 Korean Crises," *International Journal of Korean Unification Studies*, Vol. 22, No. 1, 2013: 109-138. Taewan Kim, "China between the Two Koreas: Dilemma of the Korean Peninsula Policy," *Journal of International Politics* (in Korean), vol. 16, no.2 (2011), pp. 37-73.

prosperity of relevant authorities.

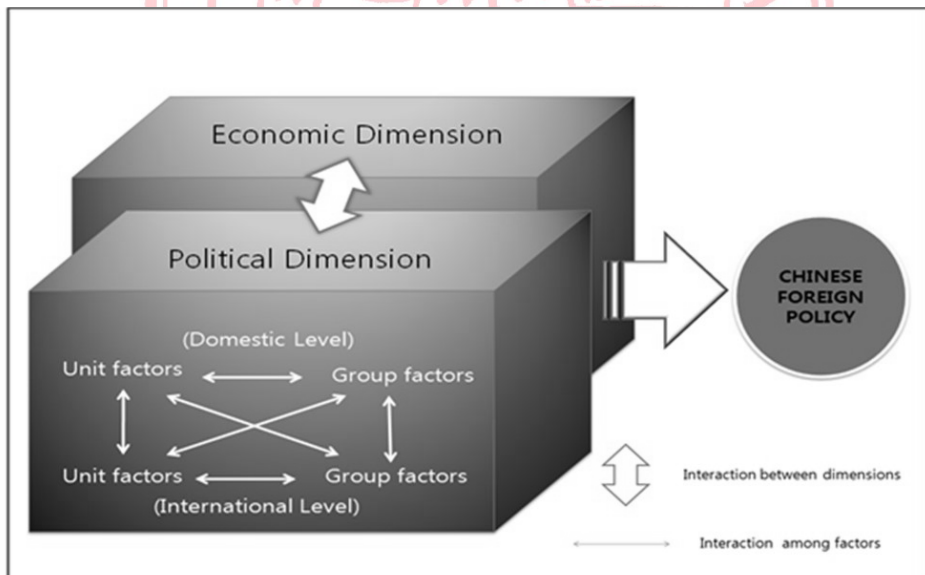
## II. Analytical Framework:

### 1. *Politico-Economic Linkage Model*<sup>5)</sup>

The bottom line of the politico-economic linkage model is that each factor never functions independently. Therefore, emphasizing one factor and ignoring the others leads to the misunderstanding of the targets of analysis. Rather, all factors interact with one another despite their independent importance. The mingled relation of politics and economy fluctuates according to the urgency of the situation. In urgent times, political logic takes precedence over economic logic in the decision-making process.

[Figure 1] demonstrates the process and structural mechanism of how Chinese external policy is produced. This process is divided into two dimensions and two levels: Political and economic dimensions, and domestic and international levels.

<Figure 1> Politico-economic Linkage Model



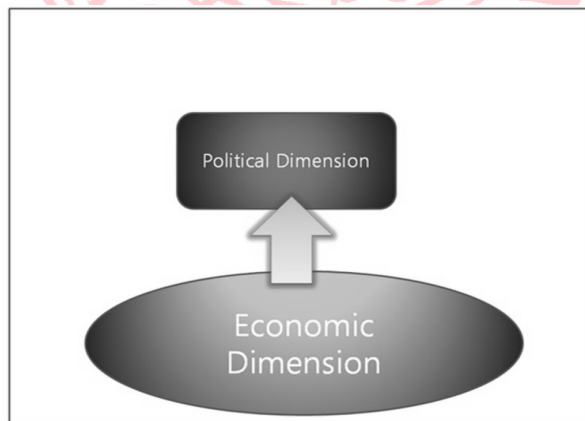
5) This part is an excerpt and revised version of the pages 112-116 of the author's published article: Taewan Kim, "Beijing's Dilemma and Preference on the Korean Peninsula: Responses to the 2010 Korean Crises," *International Journal of Korean Unification Studies*, Vol. 22, No. 1, 2013: pp. 109-138.

The domestic level has two factors: unit and group factors. Unit factors refer to individual decision-makers who are subjects of behavior in the groups. Each decision-maker does not behave independently. Decision-makers interact with one another within the groups, such as the Chinese Communist Party (CCP), governmental branches, and any informal *guanxi*<sup>6)</sup> systems. Groups and individual decision-makers are also interdependent.

The international level views sovereign states as unit factors, and international organizations and structures as group factors. A sovereign state is a main unit of behaviors in the international community. It behaves independently and sometimes forms groups, such as international organizations, in and with which they play roles in the international arena. Besides interacting with each other, these unit and group factors independently interact with counterparts of the domestic level while simultaneously influencing domestic factors as an international system. This interacting mechanism occurs in political and economic dimensions, and both dimensions interact and mutually influence each other.

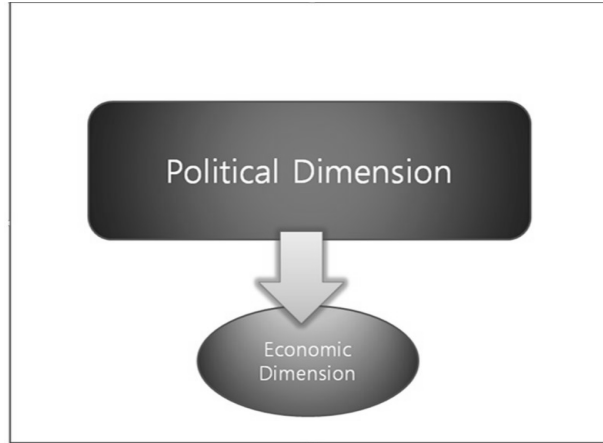
[Figure 2] and [Figure 3] illustrates the hierarchical influence of decision-makers: long-term normal and short-term critical situations. The political and economic dimensions mutually influence, but they do not exert an equal amount of action. The political dimension is dependent on the economic dimension in a normal situation. However, in moments of national emergency, the relations between the two dimensions are reversed. Most notably, the will and choice of decision makers who are influenced by their personal perspective or world view become crucial.

<Figure 2> Causation of Political and Economic Dimensions under Long-term Normal Situation



6) In Chinese, *guanxi* literally means relationship.

<Figure 3> Causation of Political and Economic Dimensions under Short-term Critical Situation



Why do the priorities between the economy and politics differ in situations of national urgency? This is because of the characteristic variance of economy and politics. The economy follows interests and efficiency while politics tends to manage them. According to David Easton's definition of politics, the authoritative allocation of value, the economy pursues values while politics are concerned with how values should be distributed in society. In most cases in society, the economy impacts political decisions more than the other way around. However, accommodating for the economy is a time consuming process; this is why in urgent times, the political dimension leads the economic dimension and countries forego economic agendas for the sake of political agendas.

Meanwhile, China has a planned economy; that is to say the CCP leadership designs its specific strategy of economic development. China adopts the capitalist market economy. At the same time, however, China wishes to modify this market type into a Chinese style. The result of this is a more state intervened and managed capitalism than those of other countries. This means that political logic likely takes greater priority than the economic opinion in China.

## 2. National Goals of China<sup>7)</sup>

The Bo Xilai scandal<sup>8)</sup> shows that the Beijing leadership seriously limits

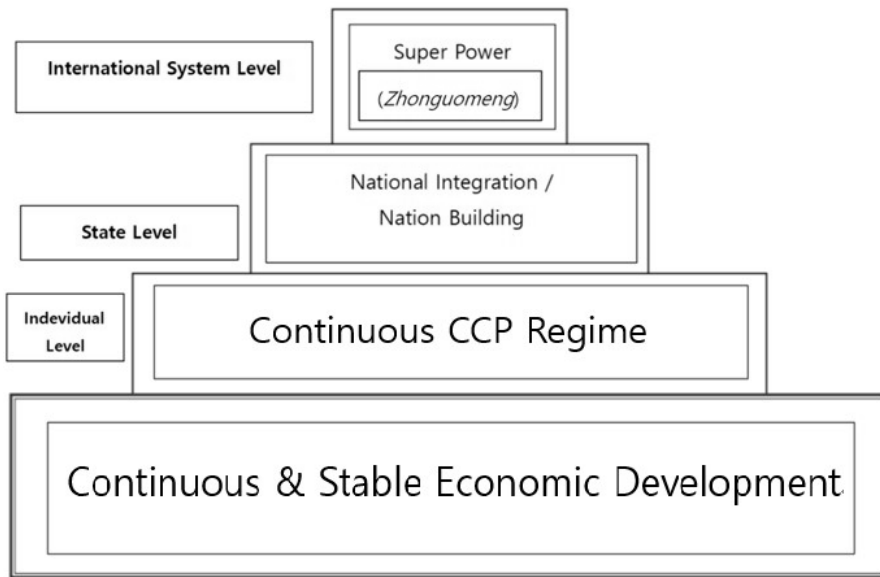
7) This part is an excerpt and revised version of author's previously published article; Taewan Kim, "Political Economy of Asia: A case of China in 2019 Hong Kong Incident," *Taiwanese Journal of WTO Studies* XXXII, 2020: pp. 1-24.

8) For the Bo Xilai scandal, see the website, <<http://www.bbc.co.uk/news/world-asia-china->



diverse opinions as well as different styles of behavior in domestic politics. The inalienable goals of the inner circle of the CCP can be analyzed by three levels.<sup>9)</sup>

<Figure 4> China's National Goals



[Figure 4] shows the three levels' national goals set up on the foundation of continuous and stable economic development. The successful economy is crucial to achieve the national goals. First, at the individual level, Chinese leadership's proximate goal is to continue the CCP's hold on power. This tends to be the superior goal to the others because supreme political power holders tend not to loosen their hold on power.

Second, national integrity is the crucial goal at the state level. Modern China, the People's Republic of China, differs from common states on the globe; rather than a state, it is a world.<sup>10)</sup> Traditionally, it is called *Tianxia* which literally

17673505> (accessed August 21, 2014).

9) Regarding three major Chinese national goals, see the following article and Table-3 in it. Taewan Kim, "China between the Two Koreas: Dilemma of the Korean Peninsula Policy (in Korean)," *Journal of International Politics*, vol. 16, no.2 (2011), pp. 37-73. [Figure 4] is a modified version of Tabel-3 and Figure-2 from the article.

10) Many agree that China is a world or civilization like Europe. One of leading American Asianists, Lucian W. Pye frequently describe China as a civilization rather than a nation. See Lucian W. Pye, "International Relations in Asia: Culture, Nation, And State," available at <https://www2.gwu.edu/~sigur/assets/docs/scap/SCAP1-Pye.pdf> (access on April 1, 2020);

means 'under heaven'; that is to say, the whole civilized world under heaven or sky. During several millennia, political subjects on the Chinese continent have tried to make one country of *Tianxia*, in which diverse peoples and cultures co-exist. Still, national integration is an area of great concern for the Beijing government. The CCP leadership believes that Western pluralistic democracy is not suitable for China because it erodes national integrity by encouraging individuality among the diverse ethnic minorities.

Finally, at the international level, the innate and ultimate goal is to be a global superpower, although China never officially pursues hegemony.<sup>11)</sup> To achieve these three national goals, Beijing's policy preference is focused on economic development. Many see that China's dream (*Zhongguomeng*) is to replace the US as a hegemon by 2050.

China's successful and continuous economic growth has provided the CCP regime the legitimacy of continuing domestic rule for national integrity and the desire to be a global power. Therefore, rapid economic growth is not a deniable option for the Beijing leadership; through economic success they desire to prove the capability of the CCP regime and to justify its authoritarian rule.

However, it is not possible for a country to continuously maintain a high economic growth rate. China needs to prepare for an impending low growth rate era. According to Ruchir Sharma,<sup>12)</sup> for instance, a national economic growth of around six percent is enviable to most other countries, but might cause serious instability in domestic politics for China. Maintaining CCP's political rule and national integration requires a high growth rate of economic development in China unless some other positive factors set off the failure of rapid growth. Therefore, domestic factors, such as preparing for a low economic growth era and maintaining stable politics, may be major challenges but should be considered by Beijing leadership under Xi Jinping.

In fact, "*Xinchangtai* (new normal)," which Xi mentioned in a speech at the 2014 APEC CEO Summit in Beijing, suggest that China's economic growth may already have slowed.<sup>13)</sup> In addition, the unexpected COVID-19 pandemic in 2020 continues to result in a disastrous global economic decline.<sup>14)</sup> China cannot avoid the consequences of being at the epicenter of the COVID-19.

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Tim Marshall, *Prisoners of Geography: Ten Maps that Explain Everything about the World*. New York, NY: Scribner, (2015).

11) The 24-letter Strategy of Deng Xiaoping says, "China never claim leadership (*Jiebudangtou*)".

12) See Ruchir Sharma, *Breakout Nations: In Pursuit of the Next Economic Miracles* (New York, NY: W.W. Norton, 2012).

13) Xinhua, "Xi's 'new normal' theory," *China.org*, November 10, 2014; [http://www.china.org.cn/world/2014-11/10/content\\_34012582.htm](http://www.china.org.cn/world/2014-11/10/content_34012582.htm) (access on April 1, 2020).

14) WTO, "Trade set to plunge as COVID-10 pandemic upends global economy," [https://www.wto.org/english/news\\_e/pres20\\_e/pr855\\_e.htm](https://www.wto.org/english/news_e/pres20_e/pr855_e.htm) (access on April 27, 2020).

### III. Vision of China: Maritime Silk Road Strategy

#### 1. Economic Dimension

In the economic dimension, Beijing considers its domestic and international factors together. In a recent decade, China faces economic obstacles due to its lethargic growing rate, economic structure, and domestic market.

##### 1) Lethargic Growing Speed

[Figure 5] illustrates how the Chinese economic growth rate has dramatically declined since the 2008 global financial crisis. The Chinese government reported a growth of six percent in 2019, which is its lowest growing rate in the past 29 years.<sup>15)</sup>

In fact, many see that Chinese authorities' economic data are not credible. Chinese Prime Minister, Li Keqiang, once confessed that Chinese local governments' economic data is not reliable.<sup>16)</sup> Recently, many researchers say the Chinese economic growth rate has been exaggerated; China's economic size might be much smaller than what official reports of Beijing authorities have claimed.<sup>17)</sup> [Figure 6] shows the difference between the official and private reports about China's economic growth rate.

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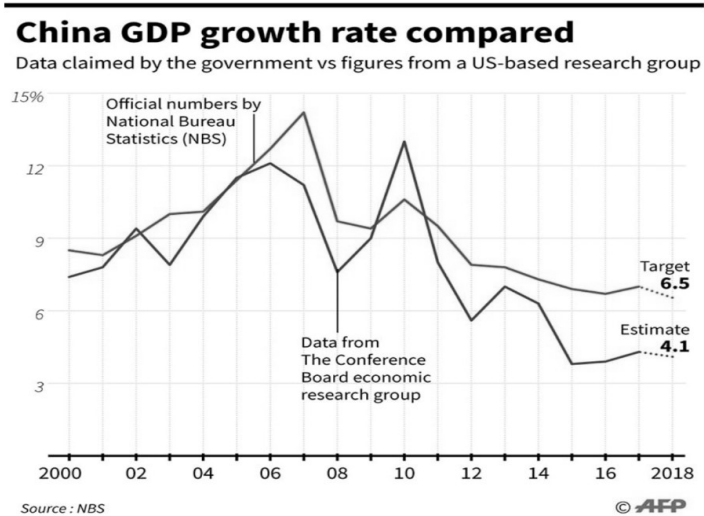
15) Orange Wang, "China GDP growth last year was 6.1 per cent, slowest rate for 29 years," South China Morning Post, January 17, 2020, available at <https://www.scmp.com/economy/china-economy/article/3046476/china-gdp-growth-last-year-was-61-cent-slowest-rate-29-years> (access on April 1, 2020).

16) Reuters, "China's GDP is 'man-made, unreliable: top leader,'" available at <https://www.reuters.com/article/us-china-economy-wikileaks/chinas-gdp-is-man-made-unreliable-top-leader-idUSTRE6B527D20101206> (April 1, 2020).

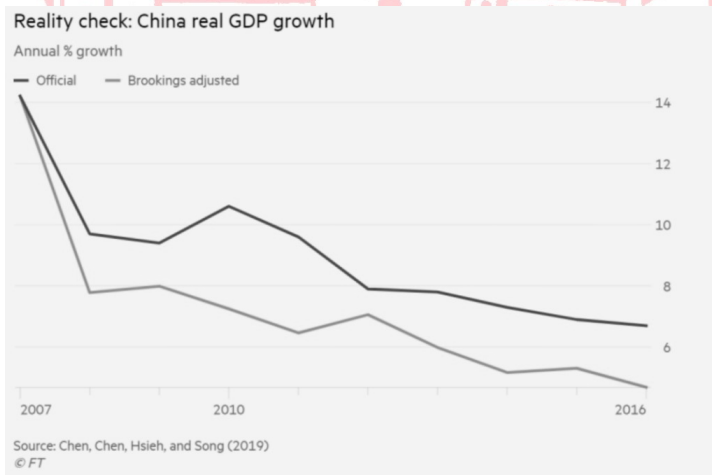
17) Wei Chen, Xilu Chen, Chang-Tai Hsieh, and Zheng (Michael) Song, "A forensic examination of China's national accounts," *Brookings Institution*, March 7, 2019.



<Figure 5> Trend of China’s Economic Growth<sup>18)</sup>



<Figure 6> Different data from Official and Private sources<sup>19)</sup>



18) AFP, “China’s economic growth data may mask vulnerability to external shocks: think tank,” *DAWN*. January 16, 2019, available at <https://www.dawn.com/news/1457893> (access on April 1, 2020).

19) Gabriel Wildau, “China’s economy is 12% smaller than official data say, study finds,” *Financial Times*. March 7, 2019, available at <https://www.ft.com/content/961b4b32-3fce-11e9-b896-fe36ec32aece> (access on April 1, 2020).

## 2) Economic Structure

China's economic structure is fragile in the mainstream economist's view due to the country's decreasing private sectors and increasing public (national) sectors. This phenomenon is called *guojinmintui* in Chinese. That is to say, state-owned businesses develop while private enterprises decline in the Xi Jinping era. Huge debts from state-owned companies debt may result in a disastrous economic decline.

The CCP's increasing influence over local and foreign companies encourages foreign companies to leave China. The Chinese government attempts to control local and foreign firms by applying Chinese company laws which had been dormant for a decade since 2005.<sup>20)</sup> In accordance to Article 19 of the law, all companies in China must establish CCP party cells within the company. In response, Google refused the intervention of the Chinese government and left China in 2010, which resulted in cyber-attacks on human-rights activists in China.<sup>21)</sup> Foreign direct investment has declined because of 'Chinese reforms' enacted as recent as January 1, 2020. Despite being called 'reforms,' however, these regulations refer to increased intervention in private companies in China and are still out of sync with global standards of intervention in private companies. [Figure 7] demonstrates how Beijing authorities influence domestic and foreign private companies in China.

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20) Chauncey Jung, "Foreign Companies Should Give up Their China Fantasy: China is now attempting to force foreign companies to accept its own ideology," available at <https://thediplomat.com/2018/08/foreign-companies-should-give-up-their-china-fantasy/> (access on May 1, 2019). MERICS, "The CCP's growing influence in foreign companies," available at <https://www.merics.org/en/polsys/law-digest/CCP-influence-in-foreign-companies> (access March 1, 2020).

21) Kaveh Waddell, "Why Google Quit China—and Why It's Heading Back," *The Atlantic*. January 19, 2016, available at <https://www.theatlantic.com/technology/archive/2016/01/why-google-quit-china-and-why-its-heading-back/424482/> (access on August 15, 2019).

<Figure 7> The CCP's Influence on Foreign Companies<sup>22)</sup>



### 3) Domestic Market

The domestic market is not big enough to consume all the products the country produces; thus China has to maintain an export driven development policy.

The BRI is one of the grand schemes of the Chinese government to bolster the lethargic domestic economy and the country's exports. The huge loans given for constructing infrastructure in neighboring countries allows the government to use up surplus funds that otherwise may not have been used for good investments.

ASEAN is an emerging economic market. It is currently the hottest region in the economy and leads global economic development. Furthermore, its location is geographically crucial for global economy and security. Approximately two thirds of global crude oil and one third of global trade flows through the region, the South China Sea and the Indian Ocean. ASEAN reaches over two major aquatic regions.

22) MERICS, "The CCP's growing influence in foreign companies," available at <https://www.merics.org/en/polsys/law-digest/CCP-influence-in-foreign-companies> (access March 1, 2020).

## 2. Political Dimension

### 1) Chinese Marshall Plan

Some experts, like Simon Shen, view China's BRI as China's Marshall Plan.<sup>23)</sup> Washington poured out huge capital and material resources during the recovering era of Europe after World War II so as to get friendly allies in Western Europe to stand against Moscow's emerging influence over Eastern Europe. Beijing also desires to have friendly neighboring states. The DPRK (Democratic People's Republic of Korea; North Korea) is the only official ally among the fifteen nations which share their borders with China; most of the others are not friendly. China can have more politically friendly neighboring countries if the BRI is successful.

In contrast to China, the U.S. has many allies in every region and no hostile border-sharing countries. Although persistent anti-American sentiments are in every corner of the globe, most people still love American culture and values such as human rights, democracy, liberty, and so on. The U.S. is also crucial for global economic and political order, which Washington has provided since World War II. This soft power is the source of American leadership and costs much less to influence and maintain global order than coercive hard power.

Desiring to become a global power replacing American leadership, Beijing has been seeking to make its own values that can be shared with the international community. Beijing has invested heavily to set up foundations for soft power for a long time. One such foundation is Confucianism. On January 11, 2011, Beijing erected a statue of Confucius at the Tiananmen square, but removed it without any explanation a few months later.<sup>24)</sup> This indicates that the CCP's inner circle is debating whether Confucianism can be a source of Chinese soft power providing a common good that contributes to the international community. In fact, China has supported the establishment of Confucius Academies worldwide to spread Chinese ideas and values.

Another way China has been building soft power and making friendly neighbors is through economic support of nations in need. Simon Shen points out that the BRI has Marshall Plan-like goals: first, the BRI encourages the export of China's excess capacity, resources, and labor. Second, the BRI encourages the export of Chinese currency by providing monetary loans for infrastructure construction. Third, the BRI allows China to counter the US just as the US's Marshall Plan allowed the US to counter the former Soviet Union. Finally and most importantly, the BRI helps China seek friendly neighboring countries that

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23) See Simon Shen, "How China's 'Belt and Road' Compares to the Marshall Plan," *The Diplomat*. February 6, 2016. Also see Feng Da Hsuan and Liang Hai Ming, *Belt and Road Initiative: Chinese Version of "Marshall Plan"?* (Singapore: World Scientific Publishing, 2019).

24) South China Morning Post, "Is Confucianism the answer?" available at <https://www.scmp.com/article/973977/confucianism-answer> (access on May 1, 2020).

will support her in future Sino-American conflicts that are likely to occur.

In fact, Xi Jinping made efforts to get more pro-Chinese countries at the second BRI Forum in Beijing on April 25 through 27, 2019. Xi specified that good governance and transparency would be the key principles of the BRI Forum in projects, and promised more investment in green projects. In fact, some nations that were skeptical of the BRI resumed projects that were initially delayed. For instance, Malaysian Prime Minister Mahathir decided to continue a high-speed railway network construction, which he previously had canceled.<sup>25)</sup>

## 2) China's SLOC

Like other countries such as Japan and Korea, China's trade and international logistics depend on the Sea Lines of Communication (SLOC). The SLOC is a vital route for energy supply of China, Japan and Korea. China's SLOC runs across the Indian Ocean and South China Sea.<sup>26)</sup> Thus, securing the SLOC is crucial to achieving China's aforementioned national goals.

The stable order over the SLOC has been secured by U.S. leadership since World War II. Claiming the South China Sea is as Chinese inner sea like a Pohai bay in northern China, Beijing desires to replace the role of Washington for securing its own SLOC as the strategic conflicts between the two giants in global arena have deepened. The MSRS has been used as a means to reshape the regional structure in the South China Sea and Indian Ocean for China. However, China faces a deadly obstacle: the Indo-Pacific strategy of the U.S. supported by Japan's Free and Open Indo-Pacific strategy (FOIP)<sup>27)</sup>.

As [Figure 8] shows, China's main oil shipping lanes are across the Indian Ocean and South China Sea. Both the nation's economic stability and the security of the political regime of Beijing depend on stability within those waters.

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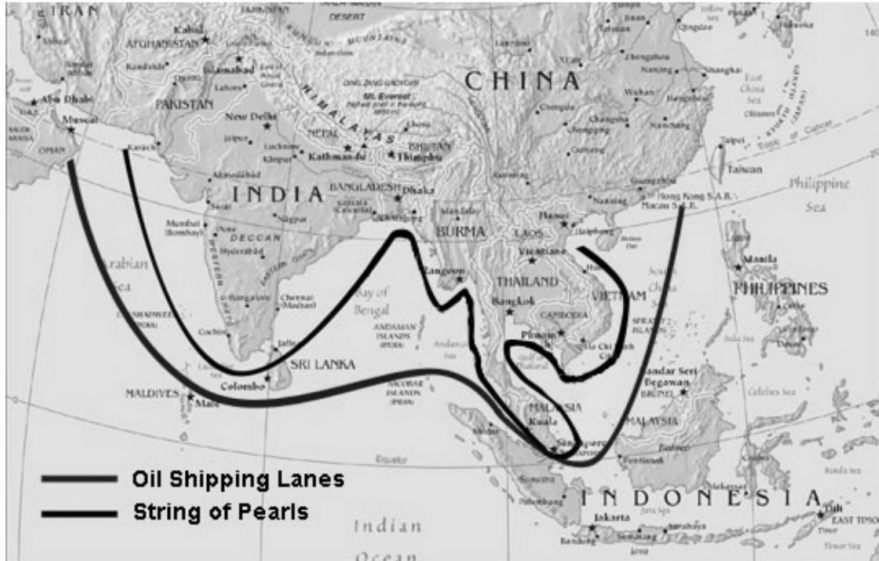
25) The Jakarta Post, "China's Marshall Plan.," <https://www.thejakartapost.com/academia/2019/05/02/chinas-marshall-plan.html> (access on April 1, 2020).

26) Sumedh Anil Lokhande, "China's One Belt One Road Initiative and the Gulf Pearl chain," *China Daily*, June 5, 2017, available at [https://www.chinadaily.com.cn/opinion/2017beltandroad/2017-06/05/content\\_29618549.htm](https://www.chinadaily.com.cn/opinion/2017beltandroad/2017-06/05/content_29618549.htm) (access on April 1, 2020).

27) Yuichi Hosoya, "FOIP 2.0: The Evolution of Japan's Free and Open Indo-Pacific Strategy," *Asia-Pacific Review*. Volume 26, 2019: 18-28.



<Figure 8> Maritime Silk Road of China<sup>28)</sup>



The SLOC on the South China Sea and Indian Ocean has been secured by U.S. leadership and international norms, which are regarded as Western style in the Chinese view. The U.S. has been the de facto police in the oceans. Most coastal states obey the US-Western-centered international maritime norms. In order to monitor and protect the SLOC, international regulations, customs and norms are required: the United Nations Convention on the Law of the Sea (UNCLOS) has been in place since 1994. The UNCLOS is a supra-national regime, but still respects state-sovereignty. Most coastal states including China ratified the UNCLOS. In accordance to Article 57 of the UNCLOS, coastal states can claim the 200 nautical miles (about 370km) around their land as their Exclusive Economic Zone (EEZ)<sup>29)</sup>; consequently, the South China Sea became a conflict ground for the relevant coastal states because the Sea is not big enough for every state to have their own EEZ of 200 nautical miles.

Claiming ownership of the South China Sea, China has been constructing artificial islands near the Paracel (Xisha in Chinese; Hoang Sa in Vietnamese) and

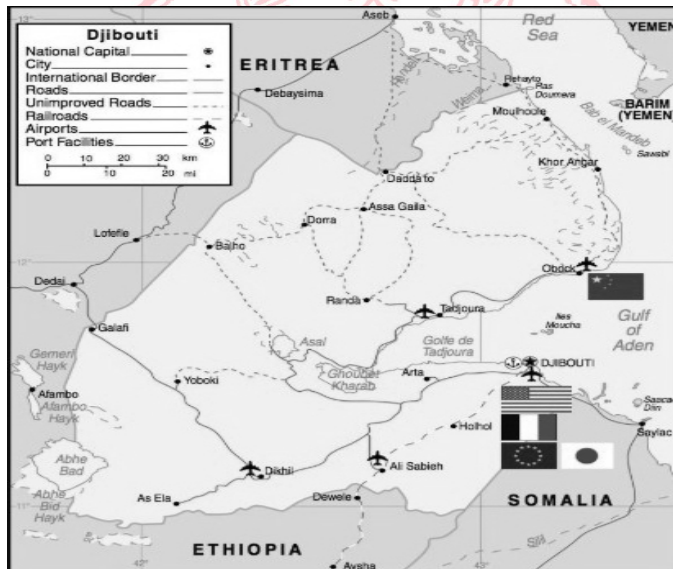
28) Chris Devonshire-Ellis, "China's String of Pearls Strategy, available at <https://www.china-briefing.com/news/china%E2%80%99s-string-of-pearls-strategy/> (search on March 1, 2020).

29) The UNCLOS Article 57 stipulate, "The exclusive economic zone shall not extend beyond 200 nautical miles from the baselines from which the breadth of the territorial sea is measured." Available at [https://www.un.org/Depts/los/convention\\_agreements/texts/unclos/part5.htm](https://www.un.org/Depts/los/convention_agreements/texts/unclos/part5.htm) (search on March 1, 2020).

Spratly (Nansha in Chinese; Kepulauan in Malay; Kapuluang ng Kalayaan in Tagalog Filipino; Quan dao Truong Sa in Vietnamese) Islands.<sup>30</sup>) This a practical means to secure its own SLOC in the Chinese view.

In addition, Beijing invests in Sri Lanka's ports in the Indian Ocean, and Pakistan's ports in the Arabian Sea; for the first time, China even opened its own overseas naval base in Djibouti on August 1, 2017.<sup>31</sup>) This caused concern for ASEAN (especially Vietnam and the Philippines) and India. There was also concern from the U.S., France, and Japan because these countries have their own military bases in Djibouti. See [Figure 9] for the locations of major countries' military bases in Djibouti.

<Figure 9> Naval Bases in Djibouti<sup>32</sup>)



Transportation Network

- 30) China conducted the landing and takes-off drill of the nuclear-capable bomber, H-6K, on May 18, 2018. Vietnam condemned the Chinese drill on the artificial island in the disputed South China Sea, Paracel Islands. See Taylor McDonald, "Hanoi condemns Chinese bombers," *ASEAN Economist*, May 21, 2018, available at <http://aseaneconomist.com/hanoi-condemns-chinese-bombers/> (accessed on June 1, 2018).
- 31) Reuters, "China formally opens first overseas military base in Djibouti," available at <https://www.reuters.com/article/us-china-djibouti/china-formally-opens-first-overseas-military-base-in-djibouti-idUSKBN1AH3E3> (accessed on May 1, 2018).
- 32) The map is available at <https://www.globalsecurity.org/jhtml/jframe.html#https://www.globalsecurity.org/military/world/djibouti/images/map-djibouti-bases-1.jpg> (accessed on March 1, 2018).

Despite the fury of ASEAN maritime rivals, China continues to build the artificial islands and militarize them. Beijing might delay their effort of militarization in the region for some reasons<sup>33)</sup>, but will not stop the efforts altogether unless it has given up on securing its own SLOC in the South China Sea. China's continuous building up of its own naval capability pushes coastal states such as Vietnam and the Philippines closer to the U.S., supporting the Indo-Pacific Strategy rather than Beijing's MSRS.

In short, in the political dimension, China's aggressive activities in the South China Sea ultimately hurt China's 'peaceful rising' image. In addition, its image as a benign partner for the development of ASEAN may recede. Despite frayed relationships with the ASEAN countries and a potentially disastrous military clash with the US navy, there is no doubt that these risks are costs that China is willing to pay in order to establish effective control over the SLOC because securing SLOC is vital to any country in terms of national security.

### ***3. The U.S. Indo-Pacific Strategy***

The U.S. Indo-Pacific strategy is bound to clash with China's MSRS. President Trump clearly expressed the importance of a free and open Indo-Pacific rim at the 25<sup>th</sup> APEC Summit in November, 2017.<sup>34)</sup> The U.S. Department of Defense issued a report called, "The Asia-Pacific Maritime Security Strategy: Achieving U.S. National Security Objectives in a Changing Environment."<sup>35)</sup> This points out the importance of the linkage of the Indian Ocean, the South China Sea, and the Pacific Ocean; it also displays the importance of freedom of navigation and the consolidation of international norms on those Seas.

Washington developed its Indo-Pacific Strategy to deter China's growing influence over the waters adjacent to the Eurasian continent. The U.S. Forces operate seven unified regional combatant commands, Africa Command (USAFRCOM), Central Command (USCENTCOM), European Command (USEUCOM), Indo-Pacific Command (USINDOPACOM), Northern Command (USNORTHCOM), Southern Command (USSOUTHCOM), and Space Command (USSPACECOM). Pacific Command was renamed into Indo-Pacific Command on

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33) For instance, contemporary global pandemic of the COVID-19 and China's domestic factors in politics and economy.

34) White House, "Remarks by President Trump at APEC CEO Summit," available at <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-apec-ceo-summit-da-nang-vietnam/> (accessed on May 1, 2018).

Yoichi Funabashi, "Toward a free and open Indo-Pacific," available at <https://www.japantimes.co.jp/opinion/2018/05/10/commentary/japan-commentary/toward-free-open-indo-pacific/#.Wyamn6czZdg> (accessed on May 1, 2018).

35) [https://www.defense.gov/Portals/1/Documents/pubs/NDAA%20A-P\\_Maritime\\_Security\\_Strategy-08142015-1300-FINALFORMAT.PDF](https://www.defense.gov/Portals/1/Documents/pubs/NDAA%20A-P_Maritime_Security_Strategy-08142015-1300-FINALFORMAT.PDF) (accessed on May 5, 2018).

May 30, 2018, due to the increasing importance of the Pacific and Indian Oceans and their connectivity to deter China's growing influence over the waters.<sup>36)</sup>

In Indo-Pacific Strategy Report of June 1, 2019, the U.S. Defense Ministry referred to China as a "revisionist power" challenging American leadership. In addition, it urged the U.S. to consolidate alliances and cooperation with the ASEAN countries and Taiwan to protest against "common threats".<sup>37)</sup>

In a similar vein to the Indo-Pacific strategy report, the U.S. Congress enacted a National Defense Authorization Act (NDAA/ 2020 Fiscal Year) that requests the cooperation of countries on the Indo-Pacific rim to check China. For instance, the NDAA stipulations boost US-Taiwan cyber-security cooperation that bans the purchasing and usage of Chinese-made surveillance cameras.<sup>38)</sup>

On November 4, 2019, the State Department issued *A Free and Open INDO-PACIFIC: Advancing a Shared Vision*.<sup>39)</sup> This focuses on economic and security cooperation between countries in the Indian Ocean and the South China Sea for the freedom and prosperity of the region. Unlike the Defense Department which points out China as a revisionist power Russia as a revitalized malign actor, and the DPRK as a rogue state, this State Department vision does not clearly specify China, Russia, and the DPRK as threats; however, the State version declares as follows:

*"Today, Indo-Pacific nations face unprecedented challenges to their sovereignty, prosperity, and peace. Most consequential challenge to the U.S. and partner interest is the growing competition between free and repressive vision of the future international order. Authoritarian revisionist powers seek to advance their parochial interests at others' expense."*<sup>40)</sup>

36) Ryan Browne, "US rebrands Pacific Command amid tensions with China," CNN. May 31, 2018, available at <https://edition.cnn.com/2018/05/30/politics/us-rebrands-pacific-command/index.html> (access on April 1, 2020).

37) The Department of Defense, *Indo-Pacific Strategy Report: Preparedness, Partnerships, and Promoting a Networked Region*. June 1, 2019, available at <https://media.defense.gov/2019/Jul/01/2002152311/-1/-1/1/DEPARTMENT-OF-DEFENSE-INDO-PACIFIC-STRATEGY-REPORT-2019.PDF> (access on April, 2020). In the context of the report, the "common threats" probably refer to China, Russia, and North Korea.

38) National Defense Authorization Act for Fiscal Year 2020. See the whole volume of NDAA, <https://www.congress.gov/bill/116th-congress/senate-bill/1790/text> (Access on April 1, 2020); Lin Chia-nan, "Ministry thanks US Senate for Taiwan-friendly defense bill," *Taipei Times*. December 19, 2019, available at <https://www.taipetimes.com/News/front/archives/2019/12/19/2003727800> (access April 1, 2020).

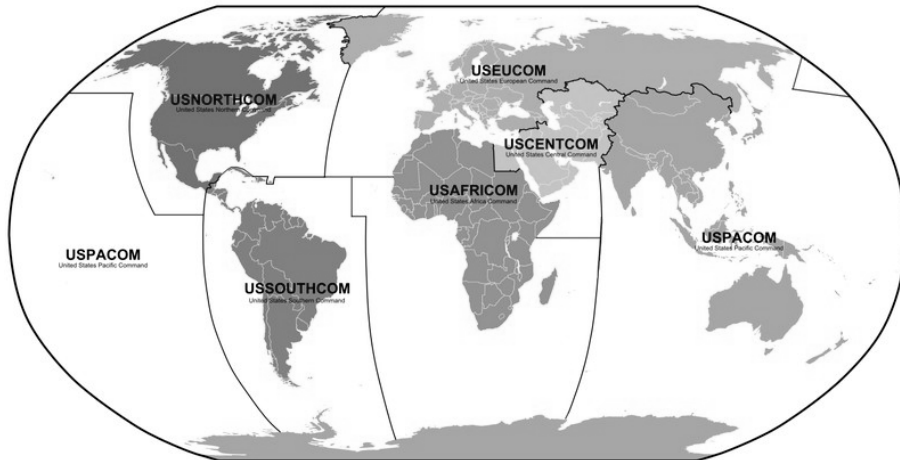
39) <https://www.state.gov/wp-content/uploads/2019/11/Free-and-Open-Indo-Pacific-4Nov2019.pdf> (March 1, 2020).

40) The U.S. Department of State, *A Free and Open INDO-PASPIC: Advancing a Shared Vision*. (2019): 5, available at <https://www.state.gov/wp-content/uploads/2019/11/Free-and-Open-Indo-Pacific-4Nov2019.pdf> (access on March 1, 2020).



Though the State Department's statement is expressed in a more roundabout and gentle manner than that of the Defense Department's, both American authorities recognize China as a serious challenger to order in the Indo-Pacific region. [Figure 10] demonstrates the division of each unified combatant commands of the U.S. Forces.

<Figure 10> U.S. Regional Unified Combatant Commands<sup>41)</sup>



#### IV. Vision of the ASEAN Economic Community (AEC)

The Association of Southeast Asian Nations (ASEAN) was first established on August 8, 1967 in Bangkok by Indonesia, Malaysia, Philippines, Singapore, and Thailand in an effort to unite the region under joint endeavors to accelerate economic and cultural development and promote regional peace between the nations.<sup>42)</sup> Since its founding, Brunei in 1984, Vietnam in 1995, and the three countries Laos, Myanmar, and Cambodia in 1997 have also joined the association, increasing the total of member countries to ten.

##### 1. Economic Dimension

ASEAN officially launched the ASEAN Economic Community (AEC) in

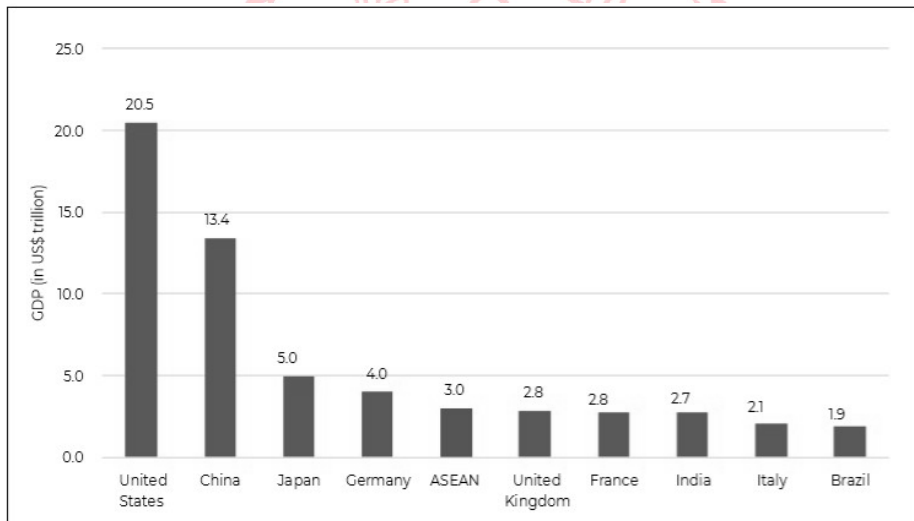
41) The map is available at [https://commons.wikimedia.org/wiki/File:Unified\\_Combatant\\_Commands\\_map.png](https://commons.wikimedia.org/wiki/File:Unified_Combatant_Commands_map.png) (access on April 1, 2020).

42) <https://asean.org/> (access on April 1, 2020).



December 31, 2015.<sup>43)</sup> In 2018, with a combined population of 649.1 million and total GDP of 3.0 trillion US dollars, AEC is ranked as the fifth largest economy in the world after the United States (\$20.5 trillion), China (\$13.4 trillion), Japan (\$5.0 trillion), and Germany (\$4.0 trillion).<sup>44)</sup> In addition, the total value of trade was 3.6 trillion dollars in 2019. After accounting for intra-AEC trade, which constitutes roughly 23.0% of total trade within the region, AEC's largest external trading partner is China, accounting for 17.2% of total AEC trade in 2018.<sup>45)</sup> [Figure 11] illustrates the ten largest economies in world. [Figure 12] and [Figure 13] demonstrate the shares different countries have in ASEAN exports and imports, respectively.

<Figure 11> Top 10 Largest Global Economies (US\$ trillion) in 2018<sup>46)</sup>



Source: ASEAN Secretariat, ASEANstats database

43) <https://asean.org/asean-economic-community/> (access on March 1, 2020). Aileen Baviera and Larry Maramis (eds.), "Building ASEAN Community: Political-Security and Socio-cultural Reflections," available at

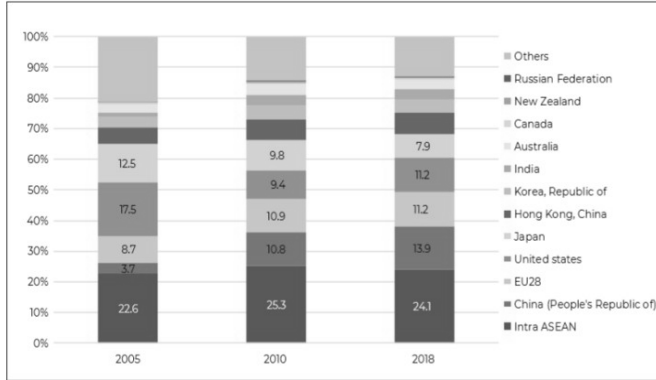
file:///C:/Users/Taewan%20David%20Kim/Documents/%E5%9C%A8%E5%8F%B0%E6%B9%BE-2019%E5%A4%8F/Taiwan%20Fellowship%20paper/Reference/ASEAN\_at\_50\_Vol\_4\_Full\_Report---ASEAN%20Community.pdf (search on April 1, 2020).

44) *ASEAN Key Figures 2019*, Jakarta, Indonesia: The ASEAN Secretariat (2019), available at [https://www.aseanstats.org/wp-content/uploads/2020/02/ASEAN\\_Key\\_Figures\\_2019\\_Rev1.pdf](https://www.aseanstats.org/wp-content/uploads/2020/02/ASEAN_Key_Figures_2019_Rev1.pdf) (access on April 1, 2020), p. 1.

45) *Ibid.* pp. 35-36.

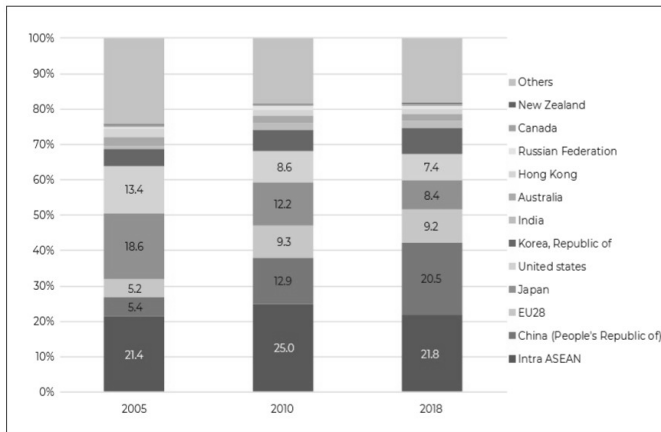
46) *Ibid.* p. 29.

<Figure 12> Shares of Exports Values of ASEAN (2005-2018)<sup>47)</sup>



Source: ASEAN Secretariat, ASEANstats database

<Figure 13> Shares of Imports Values of ASEAN (2005-2018)<sup>48)</sup>



Source: ASEAN Secretariat, ASEANstats database

China’s investment in individual ASEAN countries is significant; China was the top investor in both the Philippines and Malaysia, contributing to 28.3%<sup>49)</sup> and 22.5%<sup>50)</sup> of all foreign investment in the countries, respectively. China placed fifth

47) *Ibid.* page 37.

48) *Loc. cit.*

49) Philippine Statistics Authority, <https://psa.gov.ph/foreign-investments-press-releases/tables> (access on April 1, 2020).

50) <https://santandertrade.com/en/portal/establish-overseas/malaysia/foreign-investment> (access on April 1, 2020).

h<sup>51)</sup> in Vietnam's foreign investments in 2019 with roughly 2.45 billion dollars. Although this may not seem as significant as its presence in the Philippines and Malaysia, this was a drastic increase from the country's previous years of investments of \$1.22 billion, \$1.41 billion, and \$1.26 billion in 2018, 2017 and 2016.<sup>52)</sup> In Indonesia, China was the second largest source of foreign investment in 2019, making up roughly 17% of the county's total foreign investments.<sup>53)</sup>

As a growing economy, ASEAN needs a diverse global market for imports and exports; China is the largest market of many countries in ASEAN, and at the very least is a dramatically growing trading partner. In addition, most of ASEAN is lethargic in economic infrastructure that can improve economic development. As long as the countries drive policies for rapid economic growth, they cannot refuse the attraction of huge Chinese investments for building the infrastructure they need. Therefore, although there are some nations that have territorial conflicts with China such as Vietnam, the Philippines, and Malaysia, most of the ASEAN members still want to maintain and deepen their economic relations with China. Smartly utilizing Chinese capital through the MSRS will be a great chance to enhance ASEAN nations' economy.

## **2. Political Dimension**

In tension with China's economic influence on ASEAN members are their concerns over China regarding other aspects of international relations. One notable concern is continuous disputes over the maritime territories on the South China Sea between individual ASEAN members and China.

To strengthen its physical power and influence over the South China Sea, China has been constructing military facilities and outposts on its artificial islands, which are located in disputed waters with Malaysia, the Philippines, Vietnam, and Taiwan. Beijing's construction of artificial islands for military infrastructure could strengthen Chinese power in the South China Sea; consequently, that may erode the national security of each country that is engaging in territorial disputes with China. Despite close economic ties with China, those nations are deeply concerned by China's military build-up in the disputed regions in the South China Sea. [Figure 14] demonstrates a satellite image of *Subi* Reef on the Spratly islands in the South China Sea. The two pictures contrast the reef before and after China constructed artificial facilities for military purposes.

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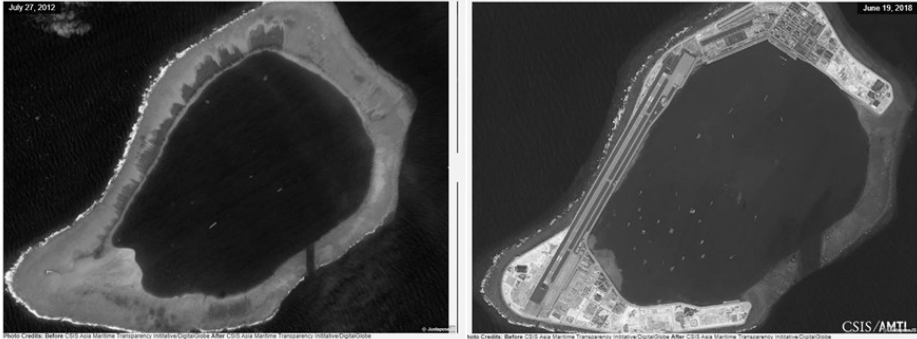
51) <https://www.vir.com.vn/rok-tops-foreign-investors-in-vietnam-in-2019-72760.html> (access on April 1, 2020).

52) Minh Son, Hung le, "Chinese investment in Vietnam surges," available at <https://e.vnexpress.net/news/business/economy/chinese-investment-in-vietnam-surges-4021060.html> (access on April 1, 2020).

53) National Single Window for Investment, available at [https://nswi.bkpm.go.id/data\\_statistik](https://nswi.bkpm.go.id/data_statistik) (access on April 1, 2020).

<Figure 14> Before-and-after images of artificial constructing on Subi Reef on the  
Spratly islands<sup>54)</sup>

\*taken in in 2012 and in 2018, respectively



Two episodes illustrate reasonable concerns over China's growing influence in the South China Sea. Since his inauguration in June 2016, the Philippines' President Rodrigo Duterte has adopted a leaning-China-policy in the midst of Sino-American strategic competition.<sup>55)</sup> Nevertheless, the Philippines government warned China, blaming them for inhumane behavior in a vessel collision in April 2020. A Chinese coast guard vessel and a Vietnamese fishing boat had collided on the South China Sea.<sup>56)</sup> Hanoi said that the Chinese vessel hit the Vietnamese boat, which was sunk, and arrested eight fishermen. In the midst of the situation, Chinese coast guards detained two Vietnamese boats that attempted to rescue the eight fishermen.<sup>57)</sup> Manila stood by Hanoi in criticizing Beijing's behavior in the April vessel collision.

In June 2019, the Philippines had experienced a similar incident in the disputed waters. A Chinese vessel hit and sank a Philippine fishing boat and fled the scene

54) CFR, *China's Maritime Disputes*, available at

<https://www.cfr.org/interactives/chinas-maritime-disputes#!/> (access on April 1, 2020).

55) Richard Heydarian, "Duterte's foreign policy: Leaning toward China, altering regional order," *INQUIRER.NET*, July 15, 2018, available at

<https://opinion.inquirer.net/114621/dutertes-foreign-policy-leaning-toward-china-altering-regional-order> (access on April, 2020).

56) Chris Humphrey and Bac Pham, "Philippines express 'deep concern' after Chin-Vietnam incident in South China Sea," *SCMP*, April 8, 2020, available at <https://www.scmp.com/print/week-asia/politics/article/3079039/philippines-expresses-concern-after-china-vietnam-incident-south> (access to April 27, 2020).

57) DPA, "Chinese ship, Vietnamese fishing boat collide in South China Sea," *SCMP*, April 3, 2020, available at <https://www.scmp.com/news/asia/southeast-asia/article/3078286/chinese-ship-hits-and-sinks-vietnamese-fishing-boat-south> (access on April 1, 2020).

without rescuing twenty two fishermen; the crews were rescued by a Vietnamese boat. Manila criticized Beijing and made an appeal to the UN authorities, arguing that twenty two fishermen would have drowned if the Vietnamese boat had not rescued them.<sup>58)</sup>

In sum, despite cooperative economic ties with China, ASEAN also has political concern over China's growing political and military power and influence over the South China Sea, and this influence may harm individual countries' national territorial sovereignty. □

## V. Vison of Taiwan: New Southbound Policy

### 1. Economic Dimension

Taiwan reached a population of 23.6 million people in December 2019<sup>59)</sup> and had a GDP of approximately 605 billion US dollars in 2019.<sup>60)</sup> China is Taiwan's largest trading partner, receiving 27.9% of Taiwan's exports.<sup>61)</sup> In stark contrast, investment from China into Taiwan's economy amounted to only 231 million and 97 million dollars in 2018 and 2019, according to Taiwan's Investment Commission, Ministry of Economic Affairs.<sup>62)</sup> This accounts for only 2.02% of all foreign investment in Taiwan for 2018 and 0.87% in 2019. This relatively small portion of investment from China is partly because of the Taiwan government's intentional efforts to keep Taiwan's capital from having a deep dependence on mainland China. Despite intimate economic ties with China, Taiwan has always made efforts not to be too dependent on China in terms of both politics and capital.

Taiwan's new Southbound Policy (NSP) has been driven by the Tsai Ing-wen government since 2016.<sup>63)</sup> The NSP mainly enhances cooperation between Taiwan and eighteen target nations in ASEAN, South Asia, Australia and New Zealand. The cooperation and exchanges between Taiwan and the eighteen partner countries are not only economic, but also include trade, technology, agriculture, medicine,

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58) *Bangkok Post*, "Philippines turns to UN after boat collision in South China Sea," June 16, 2019, available at <https://www.bangkokpost.com/world/1696200/philippines-turns-to-un-after-boat-collision-in-south-china-sea> (access on April 1, 2020).

59) CEIC, <https://www.ceicdata.com/en/indicator/taiwan/population> (access on April 1, 2020).

60) Trading Economics, <https://tradingeconomics.com/taiwan/gdp> (access on April 1, 2020).

61) Daniel Workman, "Taiwan's Top Trading Partners," available at <http://www.worldstopexports.com/taiwans-top-import-partners/> (access on April 1, 2020).

62) MOEAIC, [https://www.moeaic.gov.tw/business\\_category.view?seq=0&lang=en](https://www.moeaic.gov.tw/business_category.view?seq=0&lang=en) (access on April 1, 2020).

63) Bonnie S. Glaser and Scott Kennedy, "The New Southbound Policy: Deepening Taiwan's Regional Integration," available at <https://www.csis.org/analysis/new-southbound-policy> (access on March 1, 2020).



education, and tourism.

The NSP developed similarly named policies under such previous presidents as Lee Teng-hui and Chen Shui-bian, diversifying Taiwan's outbound investment away from China and into ASEAN. However, President Tsai's NSP is more comprehensive and strategic than its predecessors and more effectively aims to integrate Taiwan into the Southern regions such as ASEAN and South Asia.

## ***2. Political Dimension***

In January 2, 2019, Tsai Ing-wen specified that Taiwan opposes the historically defined "one China" as "one country, two systems," which Xi Jinping mentioned in the 40th anniversary of the so-called "Message to Compatriots in Taiwan." However, she stated that she was open to negotiations with China.<sup>64</sup>

Taiwan's Ministry of Foreign Affairs also opened the new Indo-Pacific section under the Department of East Asian and Pacific Affairs. This is designed to encourage more cooperative ties with the Indo-Pacific Strategy of the U.S. and Japan. The Indo-Pacific Strategy aims to secure the Free and Open Indo-Pacific (FOIP). The FOIP contains most target countries of the NSP in ASEAN, South Asia, and Australia and New Zealand. Successful achievement of the Indo-Pacific Strategy is beneficial to Taiwan. Taiwan can deepen its cooperative relations with the partner nations of the NSP under the FOIP. That may lead Taiwan into becoming more independent and autonomous from China both economically and politically.

In a nutshell, despite continuous cooperative economic ties with China, Taiwan is concerned for its political independence from mainland China. One smart way of enhancing political autonomy from China and simultaneously pursuing economic prosperity is by diversifying its trade partners by deepening relations with the U.S. through the FOIP, an approach that Taiwan shares with many other Indo-Pacific countries.

## **VI. Conclusion**

There is one crucial element to highlight regarding the aforementioned Politico-economic Linkage Model. In the economic dimension, countries (decision-makers) tend to cooperate in order to enlarge their absolute gains; however, they easily compete and conflict with one another in the political dimension concerning relative gains. Therefore, China, Taiwan, and ASEANs all comfortably cooperate in the economic arena, seeking absolute economic benefits

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64) Office of the President Republic of China, <https://english.president.gov.tw/News/5621> (access on April 1, 2020).

unless their political benefits are endangered.

China's MSRS is initiated to boost construction of infrastructure for better economic development, which contributes to the absolute economic achievements of regional countries. This posits great opportunities for the individual rim states of the South China Sea. However, this also provides unavoidable challenges because most of the coastal nations of the Sea are also engaging in territorial disputes with China over the waters. Territorial conflicts essentially stimulate matters regarding national sovereignty; thus no nation will yield territorial rights without war. Few territorial disputes are settled with compromise. Consequently, cooperation among nations in the Sea remains fragile without intentional effort.

Beijing pursues economic and political goals simultaneously. While economic goals can be shared with the ASEAN countries and Taiwan, its politically strategic goals in the international level can never be agreed upon by neighboring states. China may achieve its national goals in-state and on individual levels if neighboring countries cooperate with China and happily accept the MSRS of China. Therefore, Beijing should support the construction of infrastructure in neighboring states without any political intentions. In the short term, it would be a wise strategy for Beijing to put aside the strategic goal of replacing Washington's role in the region. By securing continued trust from ASEAN states and Taiwan, China may have a chance to be a leader of neighboring states in the long term. Beijing should especially recall one of six phrases in Deng Xiaoping's famous "24-characters strategy, which means never claim leadership (*Juebudangtou*)."

As for the ASEAN nations and Taiwan, it is advisable for the countries to increase the opportunities and decrease the challenges to be had from China's MSRS. In the economic dimension, countries should capitalize on economic opportunities by cooperating productively and effectively with China by using the MSRS. At the same time, they should diversify their trade partners so as not to depend too much on the Chinese economy. In the political dimension, intensifying intra-regional cooperation and augmenting partnerships with the U.S., Japan, and relevant nations of the Indo-Pacific rim will discourage China's political ambition.

Such initiatives will have a willing partner at least in the United States. In fact, the U.S. government issued documents and acts, such as *A Free and Open INDO-PACIFIC: Advancing a Shared Vision* issued by State Department in 2019, *NDAA 2020 Fiscal Year* passed by Congress in 2019, and *Indo-Pacific Strategy Report* by Defense Department in 2019, all encourage the U.S. authorities to cooperate with regional nations such as Taiwan, ASEAN, India, Australia, and so on. Washington itself seeks ASEAN countries and Taiwan as partners for countering China's challenge.

In sum, by going along with the FOIP proposal that is shared with most nations in the region, ASEAN and Taiwan should cooperate with intra-regional nations. In addition, they should continue economic ties with China so as to get China to

cooperate economically for its own domestic economic achievement, which is the foundation of China's national goals at the individual and state levels. Cooperation with China within the framework of the FOIP would discourage China's strategic ambition and encourage continuous friendly economic cooperation on the basis of the principle, "respect of national sovereignty."

[Received: May 10, 2020; Revised: May 19, 2020; Accepted: June 22, 2020]



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