

Relations between ASEAN and China Two-level Games in Trade and Security

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Abstract

China's role in Southeast Asia is of a multi-dimensional nature and, as in the case of all small and medium powers that are forced to deal with the presence of a great power in their midst, the Southeast Asian nations have to negotiate and mediate China's presence. The resulting conduct of foreign policy, foreign economic policy and security policy towards China is no longer based on the strategic considerations of insulated government elites, but are the result of complex decision-making processes which are also influenced by non-governmental actors. Consequently, foreign policy-makers have to reconcile international and domestic priorities and demands. Loosely based on Robert Putnam's analytical framework of "two-level games", this article looks at two case studies which highlight the interlinked reality of international and national agendas. First, the ASEAN-China Free Trade Area (ACFTA), which was initially and enthusiastically embraced by ASEAN for general political reasons, and second, the conflicts in the South China Sea where the South-east Asian claimants are carefully trying to balance a multilateral approach towards China (via ASEAN) with their specific national interests.

Keywords

ASEAN, China, two-level games, ACFTA, South China Sea, Spratly Islands

Introduction

There can be little doubt about "China's rise" in Southeast Asia, which has already been the focus of a myriad of publications (for examples see Chong / Li 2011; Yeoh 2009; Storey 2011; Percival 2007; Kurlantzick 2007). However, a shortcoming of the existing literature is its bias towards either one of two extreme and polarised positions. At one end of the two sides have made remarkable progress in forging a strategic partnership for peace and prosperity" (Yang / Heng 2011: 126). At the other end, a smaller group proposes that the emergence of an expansionist China is a threat to a stable

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regional order (cf. Grieco 2002; Sokolsky et al. 2001). Most of the studies in this latter category were published in the first half of the last decade and written against a backdrop of growing concerns about the future role of the United States in Southeast Asia: a zero-sum scenario for big power hegemony in which “the Chinese are now eating the Americans’ lunch in the region” (Cox 2008: 310). The key argument is aptly summarized by Thomas Christensen:

China’s diplomatic accommodation of its neighbours [...] can be seen as parts of a strategy to drive the United States out of the region. The danger is that regional actors will bandwagon with and accommodate a rising China, rather than balance against it by drawing closer to the United States (Christensen 2006: 98).

I argue that neither position matches the empirically observable reality: China’s role in Southeast Asia is of a multi-dimensional nature and, as in the case of all small and medium powers that are forced to deal with the presence of a great power in their midst, the Southeast Asian nations have to negotiate and mediate China’s presence. At first glance this does not necessarily appear to be a novel and innovative perspective. For some time, the mainstream literature on China-Southeast Asia relations has argued that, as secondary states in the international system, ASEAN members have to make flexible use of strategic behaviour ranging from “balancing” to “bandwagoning” at the extreme ends of a horizontal scale, but also including hedging and engagement or accommodation at mid-way points.¹ However, this predominately neo-realist perspective neglects the presence of an additional vertical dimension of decision-making, which is driven by the role and interests of domestic constituencies in individual Southeast Asian polities – and, by and large, the same applies to the liberal-institutionalist and social constructivist camps in the debate. In other words, the vast majority of existing studies looks at states as unitary actors. Yet, the conduct of foreign policy, foreign economic policy and security policy towards China is no longer based on the strategic considerations of insulated government elites, but are the result of complex decision-making processes which are also influenced by non-governmental actors. Consequently, foreign policy-makers have to reconcile international and domestic priorities and demands.

Few have hinted at the domestic angle in China-ASEAN relations. Ian Storey does so to some extent when he concludes that each of the 11

¹ See Kuik 2008; Ross 2006; Roy 2005; Ba 2006; Goh 2008. For a good overview of the debate see Baviera 2011.

Southeast Asian states followed a different path in their respective relations with China because of

an eclectic mix of elite perceptions, state ideology, geography, security concerns, economic aspirations and responses to changes in the geographical environment (Storey 2011: 286).

Almost a decade before Storey's book, several country specific chapters in a volume edited by Herbert Yee and Ian Storey (2002) comprised one of the most comprehensive accounts of domestic factors in the shaping of Southeast Asian approaches towards China. A more recent contribution, the thematic issue "China and Southeast Asia: Political and Economic Interactions" of the *Journal of Current Southeast Asian Affairs* (Booth 2011), elaborates on the multi-level nature of China-ASEAN relations without, however, systematically delving into the domestic dimension.

Recent regional developments are difficult to explain without an analysis of the domestic dynamics of decision-making in foreign policy. Why do the ASEAN member states suddenly find it increasingly difficult to speak with one voice in international relations – for example with regard to the disputes in the South China Sea – even though they have successfully managed to coordinate and harmonize their foreign policy outlooks for more than four decades on most occasions?² Or why is the ASEAN-China Free Trade Area (ACFTA) seen in a particularly critical light by those ASEAN countries that seem to benefit the most from the agreement?

Loosely based on Robert Putnam's analytical framework of "two-level games" – that is, the argument that "decision-makers strive to reconcile domestic and international imperatives simultaneously" (Putnam 1988: 460) – this article looks at two case studies which highlight the interlinked reality of international and national agendas.³ First, the ASEAN-China Free Trade Area (ACFTA), which was initially enthusiastically embraced by ASEAN for general political reasons, only for some member states to realise that they had not taken the interests of some domestic key stakeholders sufficiently into

² This is not to suggest that there has always been cohesion in ASEAN foreign policy-making. In fact there are numerous examples that date back to the origins of the association, such as Cambodia policy and the pertinent evaluation of China and the then-Soviet Union as then significant Cold War actors in the region (see, for example, Jones 2012). However, on previous occasions ASEAN member states usually managed to sweep their differences under the carpet and speak with one voice vis-à-vis the outside world.

³ Although Putnam's concept of a two-level game might seem somewhat dated, it is still useful to revisit his original argument. Besides, it is not the purpose of this paper to engage in, and contribute to, discourses on the two-level games for the purpose of advancing international relations theory. The idea is to open a new empirical perspective in the study of China-ASEAN relations which has been largely neglected so far.

consideration; and second, the conflicts in the South China Sea where the Southeast Asian claimants are carefully trying to balance a multilateral approach towards China (via ASEAN) with their specific national interests. The following analysis focusses particularly on developments and foreign policy decisions in the year 2012. This was a crucial year for ASEAN as the effects of ACFTA became fully visible. Equally important, for the first time in ASEAN's history the meeting of the foreign ministers in Phnom Penh in July demonstrated clear rifts among the member states regarding relations with China. Essentially the article tries to explain why and how certain foreign policy decisions were taken in 2012. Consequently, in order not to distort the picture, the analysis is based on empirical evidence which was available in 2012.

Two-level games

Southeast Asia has changed dramatically since ASEAN was formed in 1967. Given the region's vast diversity of political systems and the prevailing authoritarian or semi-authoritarian structures of some domestic orders, Southeast Asia can hardly be described as a stronghold of democracy. The remarkable success in the consolidation of democracy in Indonesia is not necessarily easily replicable in other parts of the region, as is shown by the seemingly never-ending circle of civilian rule interrupted by military coups in Thailand, persistent cronyism in the Philippines, Cambodia's inability to move beyond a "democracy on paper" or restrictions of civil liberties in Malaysia and Singapore. Yet, today *every* nation in Southeast Asia is – to varying degrees – more liberal than it was 10 or 20 years ago. This article is not the place for a deeper discussion of domestic political changes. Suffice to say that there is one common experience that all young democracies or liberalising polities share regardless of the respective cultural background in which they are embedded: international relations and foreign policy making in these countries are influenced by a larger number of actors compared with insulated authoritarian regimes. The greater openness and complexity of foreign policy making is due to electoral competition, a prominent role played by parliaments, greater transparency and, not least, broad access to independent sources of information. In many cases a stronger participation of non-state actors, such as NGOs and other organisations of civil society, in foreign policy making is not only a quasi-inevitable consequence of liberalization but also a development actively supported by governments.

With the notable exception of some more recent work on ASEAN,⁴ the making of foreign policies in Southeast Asia, and indeed the region's international relations, have mostly been seen and analysed as isolated policy areas, unrelated to the structures and dynamics of the countries' political systems. This approach seemed to be acceptable during the periods of autocratic rule, when the foreign policy arena was the domain of small political elites who defined and implemented narrow national interests without taking into account broader societal interests or being subject to institutionalized checks and balances. However, the processes of liberalization in Southeast Asia has not only resulted in changing national political orders but also impacted on foreign policy making and, more specifically, changed the way the respective governments perceive global and regional challenges and react to them.

In 1969, the contributors to James N. Rosenau's pathbreaking edited volume *Linkage Politics*, on the convergence of national and international systems, investigated in great analytical and empirical detail the reciprocal relationship between external and internal variables in policymaking. This attempt at a "systematic conceptual exploration of the flow of influence across the [...] boundaries of national and international systems" (Rosenau 1969: 3) can still be considered the benchmark for crossing the international-domestic divide. Rosenau introduced a matrix that featured no less than 144 areas in which national/international linkages can be formed (*ibid.*: 49). However, with the notable exception of Ole Holsti and John Sullivan's (1969) chapter on France and China, the volume was more concerned with the impact of international inputs on domestic policy outputs than the influence of actors and structures on a given state's foreign relations.

One of the most influential post-1970s contributions to foreign policy analysis has been the metaphor of the two-level game as introduced by Robert Putnam (1988) and developed further by many others since (especially Evans et al. 1993). The two-level game framework is the "central analytical device [...] to span the domestic international divide" (Caporaso 1997: 567). It follows the idea that

state-society relations – the relationship of states to the domestic and transnational social context in which they are embedded – have a fundamental impact on state behaviour in world politics (Moravcsik 1997: 513).

The two-level game links the national and international context of decision-making. At the national level, domestic constituencies pressure the government to adopt policies they favour. At the same time governmental actors

⁴ See for example Rüländ 2009, 2014; Weatherbee 2013; and Roberts et al. 2015.

seek power by building coalitions among these constituencies. At the international level, governmental actors seek to satisfy domestic pressures while limiting the harmful impact on foreign relations. Thus, political leaders must simultaneously play both the international game and the domestic game. The requirement that decision-makers satisfy both domestic constituencies and international actors is what produces constraints on foreign policy behaviour. In sum, while the two-level game emphasizes negotiating behaviour, it also serves as a metaphor for understanding the impact of domestic influences on the broad spectrum of foreign policy decisions (Trumbore / Boyer 2000: 680).

The last point is crucial. Putnam's original framework focuses on negotiations. In this model the negotiator is a quasi-rational decision-maker who agrees to, or rejects, draft treaties on the basis of the presumed number and size of "win sets" at home; that is, the level of support such an agreement would enjoy among domestic actors. However, two-level games are hardly ever finally and conclusively decided at the negotiating table. The decision-making process does not stop with the signing of an agreement. It is often only after an international commitment has been made that governments realise that the specific treaty faces domestic opposition which can either result in the non-ratification of the agreement or initiatives to renegotiate. The 2002 ASEAN Agreement on Transboundary Haze Pollution, on paper one of the most progressive regional environmental treaties in the world, is a case in point. Although clearly beneficial to Indonesia – the agreement facilitates cooperation and coordination in managing the impact of land and forest fires, which particularly affect Sumatra on a regular basis – for more than a decade, the Indonesian House of Representatives refused to ratify the agreement, claiming that it would undermine national interests.

It is therefore useful to expand the application of two-level games as an analytical framework beyond the negotiation phase to understand the general dynamics of decision-making in foreign policy. The example of the ASEAN-China Free Trade Area provides a decisive empirical case.

The ASEAN-China Free Trade Area (ACFTA)

Throughout the 1990s, trade between China and ASEAN grew at an annual rate of 16 per cent and in 2000 the trade volume stood at USD 29.6 billion (Xiao 2009: 309). Over the following decade trade increased almost tenfold and reached USD 292.8 billion in 2010, according to official Chinese

statistics.⁵ The largest annual increase (37.5 per cent) during this period was achieved in the final year of the decade and has been attributed to ACFTA, which officially came into full effect on 1 January 2010 – at which point China and ASEAN-6 (Brunei, Malaysia, Indonesia, Singapore, Thailand and the Philippines) had reduced tariffs to zero on 90 per cent of traded goods (China Customs 2011). The four newer members, Cambodia, Laos, Myanmar and Vietnam (CLMV countries), negotiated a delayed and gradual entry into ACFTA. The Free Trade Area has a combined GDP of USD 6.6 trillion and comprises 1.9 billion people (ASEAN Secretariat 2010).

Chinese Premier Zhu Rongji first proposed a trade agreement at the ASEAN+China meeting in November 2000 in response to the Asian economic crisis and regional concerns about the impact of China's then-imminent WTO membership. Yet, this proposal

[...] also arose out of an acute sensitivity toward the need to maintain relations with as many states as possible in order to constrain American power under a global system defined by the struggle between “one superpower, many great powers” (Hughes 2005: 125).

From a neo-realist perspective the general political value of the project was immediately obvious: ACFTA would further contribute to the enhancement of Beijing's position as a preeminent regional power, not only in relation to the United States, but also at the expense of Japan. Tokyo reacted with alarm to the plan and subsequently entered into talks on a Japan-ASEAN Free Trade Area within the framework of the Japan-ASEAN Comprehensive Economic Partnership. Within ASEAN, China is perceived as an engine of growth, a distinction that previously belonged to Japan. Seen from this perspective, ACFTA – which had already been gradually implemented under the Early Harvest Programme (EHP) since 2003 – has strengthened China's status as a benevolent regional leader. China's proposal of a “strategic partnership” with ASEAN, unveiled at the ASEAN foreign ministers' meeting in Phnom Penh in June 2003, has to be seen in the same context.

Staying within the neo-realist framework, it can be argued that ASEAN enthusiastically supported the free trade initiative not only for economic reasons but also because it offered a golden opportunity to jump on the China bandwagon with general political-security intentions in mind. Studies on ACFTA regularly stress the “longer-term strategic objectives of this trade agreement” (Chandra / Lontoh 2011: 2), which might even off-set potential negative economic impacts. As summarized by Leebeer Leebouapa et al. (2012), critics of ACFTA from a Southeast Asian perspective

⁵ The figures are lower according to WTO data presented in Figure 5.

highlight the risk of a surge in imports of cheap and low value-added manufacturing products from China, which could adversely affect the domestic industries in the less developed ASEAN states – especially those still relying on low value-added and labour-intensive industries. At the same time, small and medium-sized enterprises (SMEs) in the most advanced ASEAN economies, domestic industries in emerging economies such as Indonesia and the Philippines, and the labour-intensive economies of the CLMV countries might experience severe displacement effects, at least in the short term.

Is there any possibility that ASEAN governments were lured into the FTA deal by an increasingly assertive China, blinded by the strategic long-term advantages that the agreement might offer and deaf to the concerns of domestic industries? Did the ASEAN negotiators neglect the domestic side of the two-level game? Growing criticism of ACFTA, especially in Indonesia, the Philippines and Vietnam, and often coupled with demands for a renegotiation of the terms, seems to suggest that the ASEAN side did not fully appreciate, or even deliberately ignored, the complex dynamics of the agreement. However, answers to the above questions are not straightforward.

Figure 1 shows that ASEAN's trade with China has increased significantly since ACFTA came into force. While ASEAN has a trade deficit with China, this deficit has not widened under ACFTA and is in fact lower than in 2007 and 2008. According to reports and statements by several PRC-based organisations such as the China Association of International Trade, China Council for the Promotion of International Trade and the China-ASEAN Business Council, the value of trade between China and ASEAN is expected to exceed the official goal of USD 500 billion by 2015. According to these predictions, in the same year, ASEAN will become China's top trading partner and overtake both the US and the EU as the PRC's current largest import and export markets. This projected growth is based on the assumption of a sharp increase of China's imports from Southeast Asia, suggesting that ASEAN will run a trade surplus in its relations with China in the near future (Bao 2012).

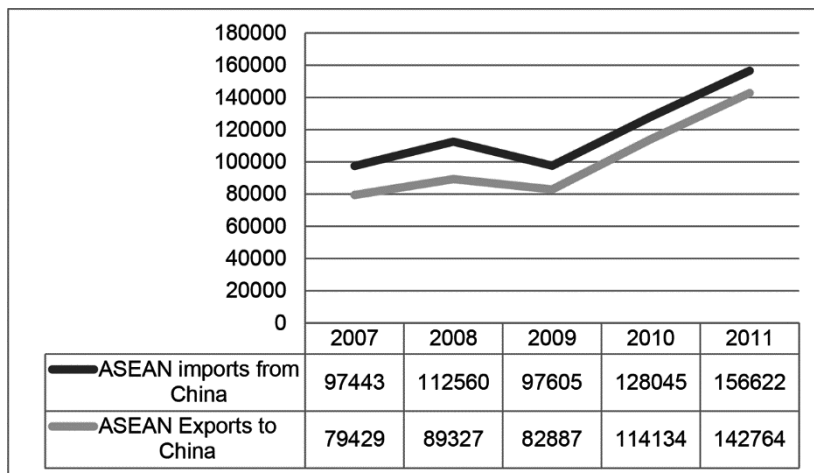
Figures 2 and 3 demonstrate that both ASEAN's import and export relations with China are mainly driven by manufactured goods. While this finding in itself does not provide any deeper analytical insight into the structure of, and growth prospective for, ASEAN-China trade, it nevertheless points to a striking difference in trade relations as compared with many other trading partners of China. For example, Australia mainly exports iron ores and concentrates to China, Chile predominantly copper and Argentina agricultural products. At the same time, all three economies rely on imported manufactured goods from China. ASEAN's export base is more

diversified and therefore less sensitive to fluctuations in commodity prices, but not completely immune to them. Where dependency still exists governments have partly tried to reduce them. For instance, Indonesia is China's top bauxite supplier with exports accounting for 80 per cent of China's bauxite consumption. In May 2012, Jakarta introduced a 20 per cent export tax on 65 unrefined mineral types, paving the way for a full export ban on unrefined bauxite exports expected in 2014. The restriction aims at boosting domestic value by encouraging mining companies to process ores before exports (Yap 2012).

Figures 4 to 7 depict the vastly different effects of ACFTA and the preceding Early Harvest Programme (EHP) on four major ASEAN economies: Malaysia, Indonesia, the Philippines and Vietnam. In all four cases and in line with the general ASEAN trend, the trade volume has increased markedly between 2003, the beginning of the EHP, and 2011. However, while the Philippines, Malaysia and Indonesia have been particularly successful in increasing their exports to China and – in the case of the latter two – turning their respective trade deficits into surpluses, Vietnam's trade deficit has grown during the same period.

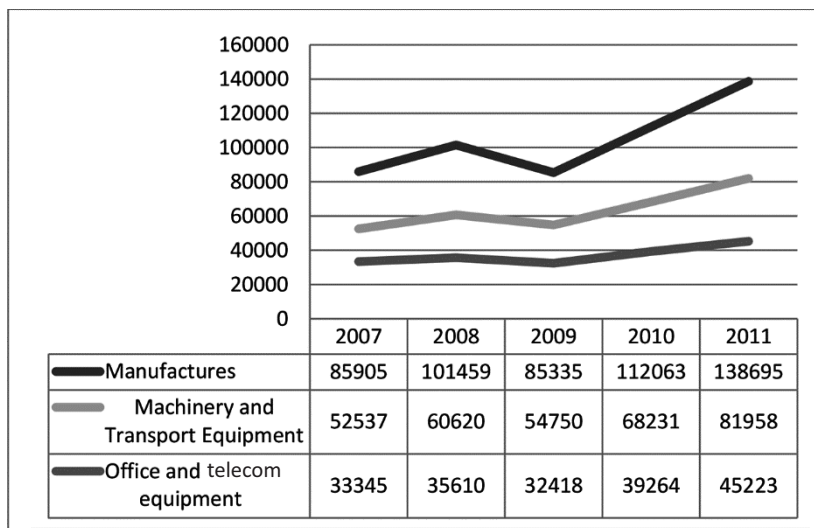
Even a cursory glance at this data puts into perspective the official rhetoric that – in the words of then-ASEAN Secretary General Surin Pitsuwan, for example – the ASEAN-China Free Trade Agreement was “working wonderfully” (cited in Xinhua 2012b). Assessments and statistics on the overall ASEAN-China trade volume do not carry much weight with the member states, which generally show little interest in the effects of ACFTA on ASEAN as a group and are mainly – and quite understandably, given that ASEAN is not a supranational, but an inter-governmental organisation – interested in the FTA's effects on their respective bilateral economic relations with China. This is where domestic actors enter the scene. Given particularly Malaysia's, but also Indonesia's, apparent gains from the agreement, one would expect both governments to have a generally positive view of ACFTA. This is the case for Malaysia, but not Indonesia. Under Prime Minister Najib Razak, the Malaysian government has not once deviated from its approach of presenting relations with China, which became Malaysia largest trading partner in 2011, as entirely trouble-free and beneficial for the country's development towards industrialized nation status. Some small and medium enterprises have registered their grievances and reported a lack of reciprocity, namely the need to meet high export standards to enter the Chinese market, while the same would not apply to Chinese exports to Malaysia (Abidin / Aziz 2012). Overall, however, the effects of the free trade agreement have not triggered much public debate in Malaysia.

FIGURE 1: ASEAN's trade with China, 2007–2011 (USD at current prices; in millions)



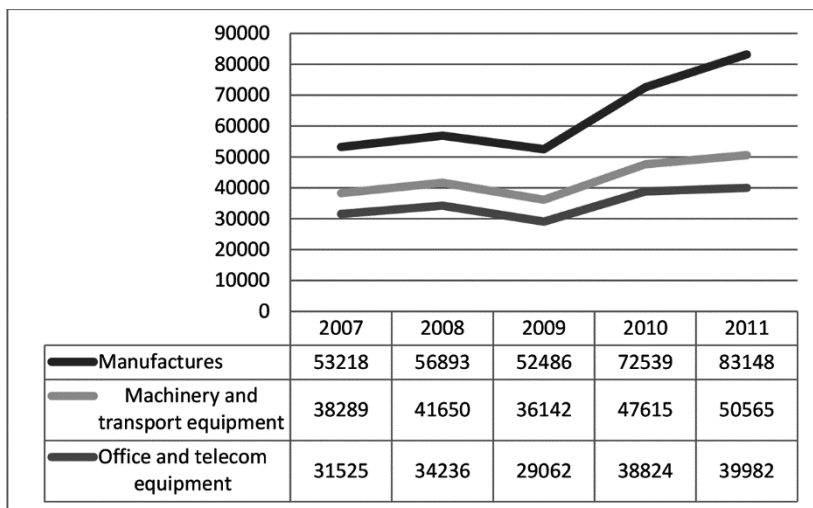
Source: data compiled from WTO Statistics Database

FIGURE 2: ASEAN's imports from China 2007–2011 (USD at current prices; in millions)



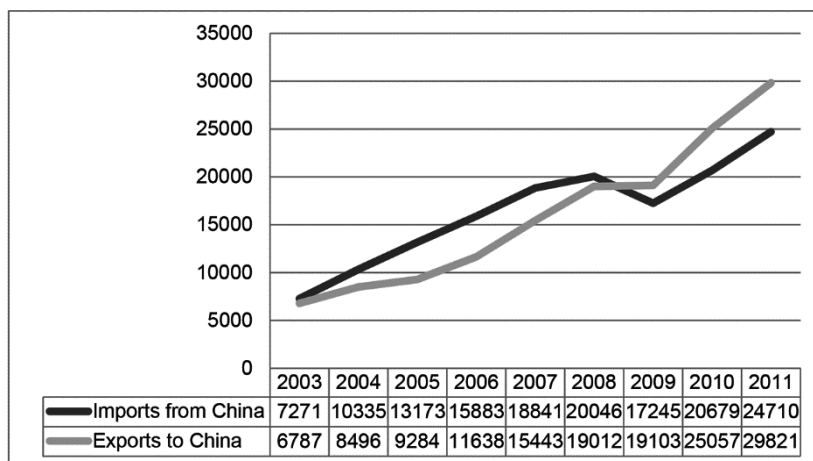
Source: data compiled from WTO Statistics Database

FIGURE 3: ASEAN’s exports to China, 2007–2011 (USD at current prices; in millions)



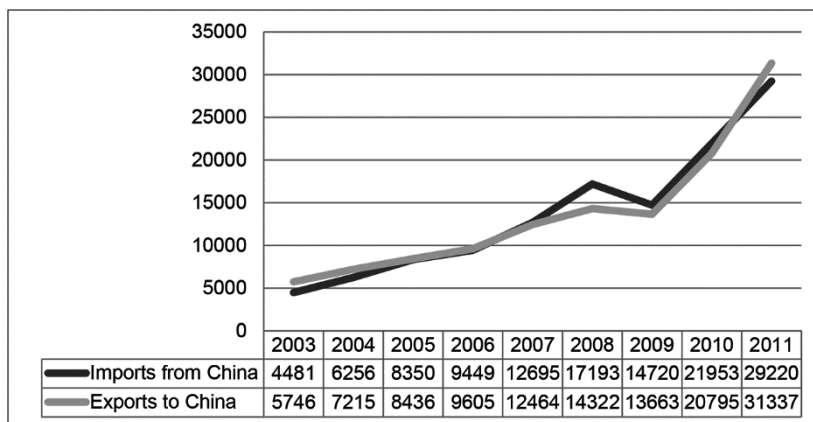
Source: data compiled from WTO Statistics Database

FIGURE 4: Malaysia’s trade with China



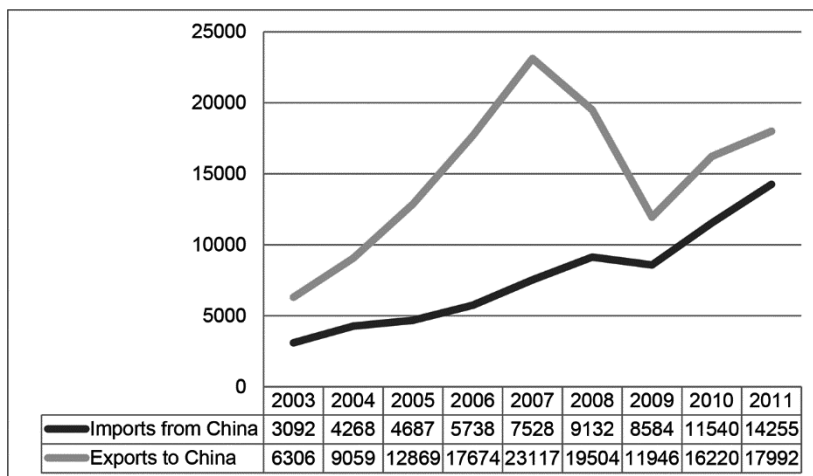
Source: data extracted from OECD Stats, Bilateral Trade Database

FIGURE 5: Indonesia's trade with China 2003–2011 (USD at current prices; in millions)



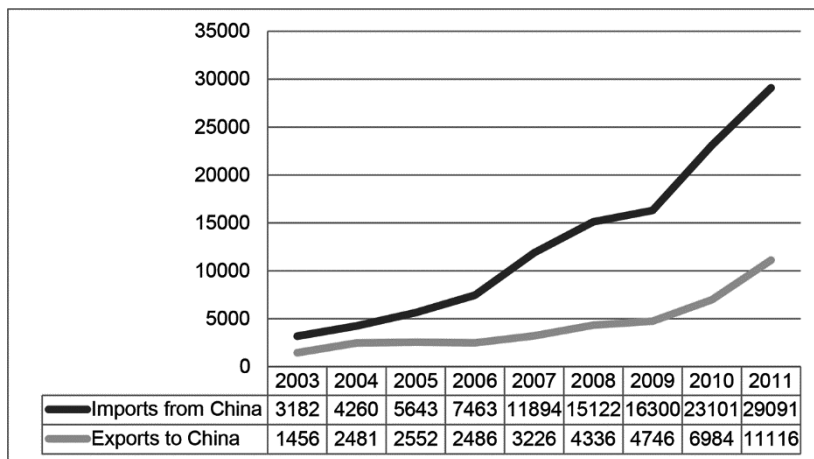
Source: data extracted from OECD Stats, Bilateral Trade Database

FIGURE 6: Philippines trade with China 2003–2011 (USD at current prices; in millions)



Source: data extracted from OECD Stats, Bilateral Trade Database

FIGURE 7: Vietnam’s trade with China 2003–2011 (USD at current prices; in millions)



Source: data extracted from OECD Stats, Bilateral Trade Database

This is due to a combination of three factors. First, it is hard to ignore that, on balance, ACFTA has indeed been beneficial to Malaysia. The agreement has not changed the structure of bilateral trade relations, and just ten products⁶ continue to make up more than 60 per cent of Malaysian exports to China, where demand for almost all of these goods has grown substantially over the past few years. Malaysia also successfully negotiated the inclusion of 701 products in the sensitive and highly sensitive list, for which tariffs will be gradually reduced, but not eliminated. Strategically important key industries, such as iron and steel and automotive, largely remain protected. Yet, together with Singapore and Thailand, Malaysia is one of the most open ASEAN economies and, consequently, these three member states have been at the forefront of negotiating regional and bilateral free trade agreements (see Chandra / Lontoh 2011). However, no FTA deal ever produces only winners. Hence, the second observation is equally important. Any private sector criticism of ACFTA has not been widely reported in the Malaysian mass media which operates in a controlled environment characterized by restrictive laws on press freedom and

⁶ In the following groups: electrical and electronic machinery, vegetable products (mainly palm oil), petroleum products and rubber products.

restricting media ownership to those close to the ruling Barisan Nasional (BN) party. Third, the government's foreign policy and foreign economic policy agendas generally do not generate strong interest among non-state actors, who are more concerned and pre-occupied with domestic developments. Together these three factors have created a favourable situation for the government that allows it to concentrate on strategic priorities in its relations with China without having to engage in two-level games.

This is not the case in Indonesia. The closer the implementation of ACFTA came, the more concerned the Indonesian government got about growing domestic criticism and opposition, which reflected a perception that ACFTA was essentially a neo-colonial tool entirely serving China's interests. Opinion pieces in leading media outlets stressed the uncompetitive nature of Indonesia's agricultural products and manufactured goods vis-à-vis China and painted a gloomy picture of the expected adverse effects of ACFTA for the future of Indonesia's economic development and capabilities. Justified or not, these fears "appear to reflect widely held beliefs in Indonesian business, media and political circles" (Booth 2011: 154). Confronted with the situation of a post-negotiation two-level game, the Indonesian government formally lodged a letter on 14 January 2010 – a fortnight after the official start of ACFTA – asking the ASEAN member states to defer the implementation of the agreement until 2011. This move, however, proved unsuccessful (*ibid.*: 153). The strong public pressure on the government, including mass demonstrations in several major cities in early 2010, to reconsider its position towards China also forced Jakarta to postpone new free trade and economic partnership negotiations with other states (Chandra / Lontoh 2011: 6–7).

Since 2010, the Indonesian Chamber of Commerce and Industry (Kamar Dagang dan Industri Indonesia or KADIN) has repeatedly voiced strong concerns over the difficulties faced by local industries in coping with the massive flood of Chinese imports. Other influential private sector groups, such as the Indonesian Textile Association (Asosiasi Pertekstilan Indonesia), also claimed that textile imports from China controlled up to 50 per cent of the local market in West Sumatra (Chandra / Lontoh: 5). A 2010 study of the Indonesian Survey Institute (LSI) based on approximately 1,000 face-to-face interviews revealed that – rather unsurprisingly – 55.1 per cent of the respondents feared the potential flooding of Indonesia by cheap Chinese imports, which would damage the country's economy in the long term.

In April 2011, KADIN called again for a renegotiation of ACFTA to give time for the Indonesian economy to develop its downstream industries (The Jakarta Post 2011a). At around the same time, a survey by the Indo-

nesian Ministry of Industry, which involved 4,236 traders and 12,151 buyers of both Indonesian and Chinese products, showed that ACFTA had resulted in declining sales of local products in the domestic market, with textiles, furniture, metal, machinery and electronics producers suffering the most. The study established that most traders preferred to sell Chinese products than the domestically made ones, since they found that by selling the former, they increased their profits by around 20 per cent (Fadillah 2011).

In August 2012, Indonesian plastic manufacturers complained about a new finance ministry regulation which widened the coverage of plastic products exempted from import duty of 15 per cent under ACFTA, saying that the measure would seriously harm the downstream industry (Yulisman 2012b). A deeper look, however, reveals that, at least in the plastics industry, the main problem is not a lack of competitiveness, but the heavy dependence of local manufacturers on imported raw materials, including from China, as demand surpasses local production. In a similar vein, Indonesian electronic manufacturers lack supporting industries, and thus rely heavily on imported components, mainly from China, but also from other ASEAN countries such as Malaysia, Vietnam and Thailand. An editorial in *The Jakarta Post* neatly summarized the challenge:

[L]ocal manufacturing companies are [...] becoming more dependent on imported capital and intermediary goods from China to expand their businesses (Yulisman 2012a).

In recent years, Indonesia has also increased its imports of Chinese machinery to build infrastructure, such as power plants.

The apparent flooding of the Indonesian market with cheap Chinese products exercises the public imagination but, according to Indonesian economist Faisal Basri, consumer products such as shoes and toys comprise only 7.4 per cent of China's total exports to Indonesia, while raw materials account for 70 per cent (cited in *The Jakarta Post* 2011a).

Given the extensive domestic dimension of the two-level game, it is hardly surprising that the Indonesian government did not give up on its attempts to review the terms of free trade with China; however, they have remained unsuccessful. Beijing has steadfastly maintained that ACFTA could not be renegotiated with Indonesia as it was not a bilateral agreement. Simultaneously, senior Chinese government officials have reassured their Indonesian counterparts of the PRC's assistance in mitigating any negative effects of the FTA, including encouraging Chinese commercial banks to provide more loans to vulnerable Indonesian industries (Yulisman 2011). Knowing that such statements do not necessarily appease the Indonesian private sector and media, and can easily add grist to the mill of those who

believe that China is tightening its hegemonic grip on Indonesia, Beijing has not failed to remind Jakarta of the broader context of ACFTA: China has “a large interest in continuing to forge bilateral ties with Indonesia for regional security and world peace”.⁷

In Vietnam such arguments only convince the conservative or anti-imperialist faction within the political party-state elite. For this group, China is Vietnam’s most important strategic ally and model for development. For the competing faction of the integrationists or reformers, which is roughly equal in size, China is rather a source of threat and obstacle than one of support and hope (Dosch / Vuving 2008). This cleavage is most visible in security affairs in general and with regards to the South China Sea disputes in particular, but has also began to express itself in diverging interpretations of the benefits and challenges of Vietnam’s close economic relations with China, which became Vietnam’s largest trading partner in 2005. The substantial growth of bilateral trade is mainly driven by Chinese exports to Vietnam. No other major ASEAN economy has to deal with such a rapidly widening trade imbalance, which stood at USD 14.89 billion for January–November 2012⁸ – not even taking into the account the black-market border trade between the two countries at places like Mong Cai or Lang Son.

The main reason for Vietnam’s trade deficit with China is the unbalanced trade pattern between the two countries. “Close proximity, technological progress and undervaluation of the [Chineses currency] RMB by the Chinese government have made Chinese commodities very attractive in Vietnam. [...] Due to the underdevelopment of supporting industries, Vietnamese enterprises import production materials from China and then contribute only assembly labour before export to the EU or USA (UNIDO / Ministry of Planning and Investment Viet Nam 2012: 82).

Although Vietnam will only join ACFTA fully in 2015, the impact is already visible. For example, a report by the Ministry of Planning and Investment of July 2012 elaborates on the difficulties faced by the Vietnamese automobile industry due to growing competition from its Chinese counterparts and structural disadvantages compared to other ASEAN economies.

With complete production infrastructure and strong support industries, together with attractive policies, some ASEAN countries have become giant “workshops” for the world’s leading automobile brands. That disfavours Vietnam’s auto industry, particularly from 2018 when the import

⁷ Ma Jisheng, a deputy director general in the Chinese Foreign Ministry, cited in *The Jakarta Post* (The Jakarta Post 2011b).

⁸ General Statistics Office of Vietnam.

tariff of complete-built automobiles from ASEAN countries to Vietnam is reduced to zero percent (cited in Xinhua 2012c).

Private sector organisations such as the HCM City Enterprises Association and the HCM City Plastics and Rubber Manufacturers Association have called on the government to introduce more technical barriers to trade to protect domestically manufactured goods from foreign competition (Vietnam News Agency 2012).

It is difficult to assess the exact level of discontent with ACFTA, but a two-level game, in which the government needs to balance domestic economic interests and its foreign relations with its giant neighbour, undoubtedly exists. On the one hand, under the framework of the “strategic partnership”, inaugurated in 2008 and further upgraded to “a strategic cooperative partnership” in the following year, China and Vietnam have developed a network of party, state, defence and multilateral mechanisms to manage their bilateral relations – largely unaffected by the ongoing and periodically escalating territorial disputes in the South China Sea (Thayer 2011). On the other hand, “‘Containing China’ is a crowd-pleasing goal in some quarters” (The Economist 2012), fuelled not only by the fierce competition for sovereignty in the contested maritime area, but also by the perception of China’s growing economic hegemony. The latter has been aggravated through the highly controversial bauxite mining project in the Central Highlands for which the first two processing plants, that is, aluminium factories, were contracted to the Chinese mining company Chalco.

The government’s dilemma is exacerbated by unfavourable macro-economic developments – particularly high inflation (which peaked at 23 per cent year-on-year in August 2011) and a debt-ridden banking sector (the ratio of non-performing loans in the banking system is estimated to be around 15 per cent, the highest bad debt ratio of any Southeast Asian country) – that have characterized the Vietnamese economy since the global crisis of 2007–08, but especially since 2010, and signalled the end of the boom years. In his 2013 New Year’s message to the nation, Prime Minister Nguyen Tan Dung admitted to “shortcomings in the government’s management” and “economic structural weaknesses” (Voice of Vietnam 2013). While the government does not seem to have developed a clear and comprehensive strategy to mitigate any negative effects of ACFTA, precisely addressing the intensifying dependency on Chinese imports – through, for example, a further diversification of the export industry – offers the best potential to score domestic points in its complex relations with China. So far, however, the government has avoided a large-scale spill-over of any ACFTA criticism into the pool of general anti-China sentiments. In this

sense, ACFTA and the South China Sea disputes have remained separate issues.

This situation differs markedly from the Philippines where, in public opinion, economic relations with China and the perception of a security threat originating from Beijing are seen as two sides of the same coin. China is currently the third-largest trading partner of the Philippines and, driven by ACFTA, bilateral trade has grown fast in the past few years. The bilateral trade value reached a record high of USD 32.25 billion in 2011, an increase of 16.2 per cent from 2010. In the first four months of 2012 it grew an unprecedented 17.8 per cent year-on-year, whereas China experienced an overall poor foreign trade performance (Habito 2012). Given the significance of bilateral trade, there is a certain temptation to play the economic card in the territorial dispute over Scarborough Shoal (referred to as Huangyan Island by China and Panatag Shoal by the Philippines) in the South China Sea. During a period of provocations and diplomatic standstill in 2012, the Chinese customs authorities used the pretext of tighter quarantine inspections to block Philippine banana exports from entering the market. Agriculture accounts for about 20 per cent of the Philippine economy and employs one-third of the population. Bananas are the country's second-largest agricultural export.

Given that nearly half of all Philippines' banana exports are now shipped to China, the effects of China's actions quickly reverberated among Philippine fruit exporters. Beijing carefully calculated its sanctions to exert domestic political pressure on the Philippine government. [...] Beijing hoped to pressure Manila to resolve the maritime dispute quickly (Reilly 2012: 129–130).

While both the Chinese and Philippine media reported on possible counter-moves by Manila, Philippine government officials rejected any suggestions of links between China's *de facto* economic sanctions and the territorial dispute and were keen to avoid any escalation of the issue. Time and again, the government in Manila stressed the importance of strong business relations between the two countries as a cornerstone of economic development, thus trying to limit the impact of the South China Sea conflict as an international variable in the two-level games on ACFTA. Yet, the maritime dispute in itself constitutes one the most visible two-level games in the region.

The South China Sea disputes

The South China Sea (SCS)⁹ plays an important part in regional security considerations and is the focus of territorial disputes that are among the most contentious and volatile in the Asia-Pacific theatre. At the heart of these disputes lie the Spratly Islands – a collection of coral reefs, atolls, islets, islands and sand bars scattered over a sea zone of some 410,000 square kilometres. This area is claimed, in whole or in part, by China, Taiwan, Vietnam, Malaysia, Brunei, and the Philippines. Although the total land mass of the islands does not exceed ten square kilometres, the Spratly Islands' geostrategic and economic significance is invaluable. Linking the Pacific and Indian Oceans, the SCS sees passage of nearly 50 per cent of global merchant marine traffic and 80 per cent of crude oil transports en route to Japan, South Korea and Taiwan. Securing sovereignty over the Spratly Islands equates to direct control of some of the most important communication sea-lanes. Furthermore, the islands are set amid some of the world's most productive fishing grounds and may prove rich in undersea oil and gas resources.

Following the oil crisis in the early 1970s, discovery of crude oil in the Spratly Islands soon transformed the area into a zone of increasingly fierce competition among its claimants. When German merchants first mapped and surveyed the Spratly Islands in the early twentieth century, they found no signs of human habitation. Today, military forces from Vietnam, China, Taiwan, Malaysia and the Philippines occupy about 45 of the islands. Brunei has claimed an Exclusive Economic Zone (EEZ) in the south-eastern part of the region without maintaining a military presence. In recent years, the Chinese navy has intensified its patrols throughout the area and has shown an increasing readiness and willingness to confront other nations for control within the contested island chains. Carlyle Thayer has described China's current approach as "aggressive assertion of sovereignty over the South China Sea" (2011: 573).

The dispute first gained prominence in 1978, when the Philippines set out its EEZ, which formally included the island Kalayaan in the Spratlys. However, the controversy itself remained relatively dormant until 1988, when China and Vietnam clashed at Johnson Reef and several Vietnamese boats were sunk, killing over 70 sailors. Since then hostilities in the South China Sea have regularly erupted, most prominently between China and the Philippines. The Philippines considers China's occupation of Mischief Reef in 1995 and its repeated incursions into Scarborough Shoal since 1997 as

⁹ The following outline of the dispute is based on Dosch 2011.

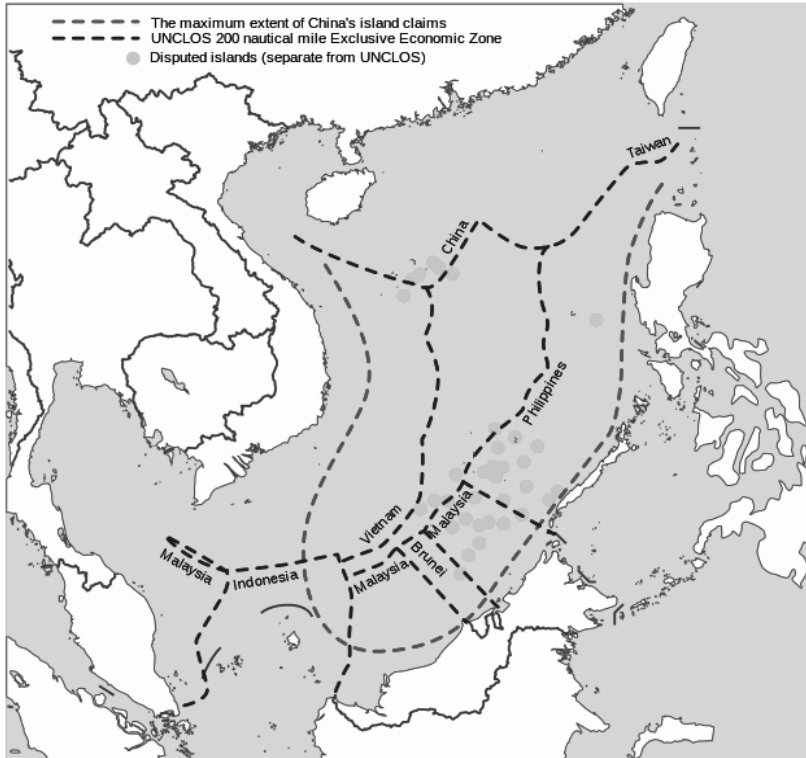
direct assaults on Philippine territory. In the first half of 2012, Chinese paramilitary ships confronted Philippine vessels in a two-month standoff over a disputed shoal. In June 2012, the Philippines withdrew its presence due to the approaching typhoon season and China has effectively controlled the disputed area since then.

The essential problem is simple: the claimants disagree about the territorial division of the SCS among them. While China has repeatedly stated that it owns sovereignty and jurisdiction over the islands and adjacent waters, other nations involved in the dispute contradict this claim, basing their responses on historical or legal arguments. The most important provision in this regard is the 1982 United Nations Convention on the Law of the Sea (UNCLOS). It created several guidelines concerning the status of islands, the continental shelf, enclosed seas, territorial limits and EEZs. However, while UNCLOS strengthens the position of the ASEAN claimants, it does not favour China's position. At the core of the sovereignty dispute lays the so-called "nine-dash line" (since it is defined by nine dashes on Chinese maps). This U-shaped line indicates China's claims to over 80 per cent of the SCS (see Figure 8). In May 2009, China issued an official note concerning the nine-dash line, formally bringing the nine-dash line map to global attention. Shen Hongfang summarizes recent Chinese discourses on the dispute and cites the allegedly popular view among "almost all of Chinese senior military officials" that "China is legally entitled to take military actions to repel the invaders" and that it might be necessary to "teach some countries a lesson" (2011: 592–594). There seems to be no doubt in Chinese official and public opinion about the illegal nature of other states' presence in the SCS.

It is interesting that a comprehensive volume on Chinese Foreign Policy, published in 2005, only mentions the South China Sea disputes in passing. However, it provides some valuable insights into the way that foreign policy makers cling to the idea of China as a victim in international relations:

Given its firm belief that China is a peace-loving nation and a victim, the Chinese government – in situations of conflict and through the mechanisms of cognitive balance – invariably sees the other side as the aggressor. Once the situation is defined as foreign aggression against China, the Chinese government often feels compelled to take resolute action. One can see that pattern in numerous cases, from the Korean War to the Sino-Vietnamese war, and from the multiple Taiwan Strait crises to the disputes in the South China Sea (Wang 2005: 94).

FIGURE 8: Overlapping territorial claims in the South China Sea



Source: https://commons.wikimedia.org/wiki/File:South_China_Sea_vector.svg

Official diplomacy is markedly more tamed. In April 2011, Chinese President Hu Jintao called on other Asian nations to forge better cooperation regarding security matters involving territorial claims over the Spratly Islands to avoid disagreements (Presidential Communications Operations Office 2011). The idea of a cooperative approach to resolving the territorial dispute is not new and has been floating about for some two decades. ASEAN has been at the forefront of diplomatic initiatives to approach the dispute from a multilateral angle. The ASEAN-China Declaration on the Conduct of Parties in the South China Sea (DoC) of 2002 is often praised as

a first step toward a peaceful settlement.¹⁰ On paper, the DoC commits the signatories to resolve their territorial and jurisdictional disputes by peaceful means and in accordance with universally recognised principles of international law, including UNCLOS. Though not binding, and dependent upon the goodwill of signatory states, government officials and scholarly observers alike hope that the agreement will nevertheless oblige the Southeast Asian claimants and China to avoid any activity that would damage or complicate their relations. In an optimistic scenario, the declaration constructively contributes to the avoidance of armed clashes among the parties over their conflicting claims on the sovereignty of the Spratly Islands and paves the way for a negotiated multilateral solution. This, at least, is the official view that ASEAN has repeatedly and continuously promoted in the group's joint communiqués, issued at the end of the annual meetings of the ASEAN foreign ministers (the ASEAN Ministerial Meetings or AMM). In the past two decades all AMM communiqués included – in some cases detailed – references to the situation in the SCS to underline the point that ASEAN was speaking with one voice on this issue, even though only four members are parties to the disputes. For example, the joint communiqué of 2011 devoted an entire section and five articles to the SCS. In addition to stressing “the importance of maintaining peace and stability in the South China Sea, the continued exercise of self-restraint by all parties concerned, and the promotion of confidence-building measures in this area”, the document made strong, though general, references to international law, including the 1982 UNCLOS (ASEAN 2011). While the communiqué of 2011 employed a general and familiar non-offensive pro-peace rhetoric and did not explicitly name any territorial claims or disputes areas, some foreign ministers planned to slightly change the tone of the 2012 statement.

As reported by Thayer (2012), a working party comprising the four foreign ministers Marty Natalegawa (Indonesia), Anifah Aman (Malaysia), Albert del Rosario (Philippines) and Pham Binh Minh (Vietnam) was responsible for drafting the joint communiqué for the 45th AMM in July 2012 in Phnom Penh. Paragraph 16 of the 132-paragraph draft turned out to be the most controversial in the deliberation of all ASEAN foreign ministers at the meeting in Cambodia:

¹⁰ The DoC is based on the earlier ASEAN Declaration on the South China Sea of 1992. In 2009 the ASEAN Political-Security Community Blueprint committed the group to “work towards the adoption of a regional Code of Conduct (CoC) in the South China Sea”. In September 2012, Indonesia circulated a draft CoC – which is intended as a mechanism to implement the DoC – to ASEAN's foreign ministers. However, so far any initiatives to negotiate a CoC have been restricted to intra-ASEAN dialogues, while China has not yet made any formal commitment to participate in any such deliberations.

In this context, we discussed in-depth recent developments in the South China Sea, including the situation in the affected Shoal / disputed area, exclusive economic zones and continental shelves of coastal states, particularly those contrary to the provisions of the 1982 UNCLOS. In this connection, we call upon all parties to respect the universally recognized principles of international law including the 1982 UNCLOS. Further [we call] upon all the parties to resolve the disputes in accordance with universally recognized principles of international law (cited in Thayer 2012: 12).

Differences over the presentation of the SCS issue in the final document eventually resulted in ASEAN's failure to issue a joint communiqué at all – for the first time in the group's 45-year history. The reasons become apparent in the leaked minutes of the AMM and related documents, which have been analysed in detail by Thayer (2012). A mapping of the respective positions at the meeting shows that there was no unified position on the SCS among the member states and reveals the myth of ASEAN's ability to speak with one voice on the conflict. As Figure 9 summarises, the positions ranged from Cambodia's preference for excluding any reference to the SCS disputes, to the Philippines' and Vietnam's demands to explicitly name the issues at stake. The other members positioned themselves either closer to the Cambodian or the Philippine/Vietnamese position, but all indicated their willingness to compromise. At one point during the deliberations, a compromise seemed within reach when the Indonesian Foreign Minister Marty Natalegawa suggested they omit references to the Shoal and EEZs in the draft and only use the term "disputed area". However, this wording proved unacceptable to both Pham Binh Minh (Vietnam) and Albert del Rosario (Philippines) who insisted that the EEZs and Scarborough Shoal, respectively, had to be explicitly mentioned as they could not be subsumed under disputed areas. Del Rosario stated, "There are many disputed areas in the South China Sea, but not in the Scarborough Shoal". Pham Bin Minh clarified,

the EEZ is not a disputed area, certainly not. Some countries [try] to turn an undisputed area into a disputed area. That's for sure [an EEZ is not a disputed area] in accordance with international law (Thayer 2012: 13).

The attempts to find a compromise went on for several hours but did not produce a result. When the blame game started, Cambodia found itself in the spotlight, as the chair's resolute rejection of language referring to Scarborough Shoal and the EEZs was seen as the main reason for the meeting's failure. At the same time, the non-negotiable positions of Vietnam and especially of the Philippines equally contributed to this outcome.

Overall, it is hardly surprising that the claimant states – particularly the Philippines and Vietnam, which have been most fiercely involved in

bilateral maritime conflict situations with China – voiced the strongest support for the inclusion of a detailed ASEAN position on the SCS to strengthen their leverage vis-à-vis Beijing. China was the big elephant in the room and the contributions to the discussions at the AMM left no doubt that the non-claimant states were unwilling to risk any damage to their relations with China over a joint ASEAN position that Beijing would have most certainly interpreted as offensive. In no case was this more obvious than with regard to Cambodia. Together with Myanmar and Laos, Cambodia is heavily dependent on Chinese investment and aid. Between 2007 and 2013 China was the largest of 39 providers of Official Development Assistance (ODA) in Cambodia. Chinese ODA, which was mostly in support of major infrastructure projects and agricultural development, amounted to USD 906 million or 19.4 per cent of the total ODA (USD 4,681 million) during this period.¹¹ As for foreign direct investment (FDI), between 2006 and 2012, Chinese companies invested some USD 8.2 billion in Cambodia, more than double the amount from second-place South Korean sources and almost nine times the total FDI provided by US companies (Wong 2012). Heng Pheakdey provides evidence for a direct link between Chinese aid for Cambodia and the SCS issue:

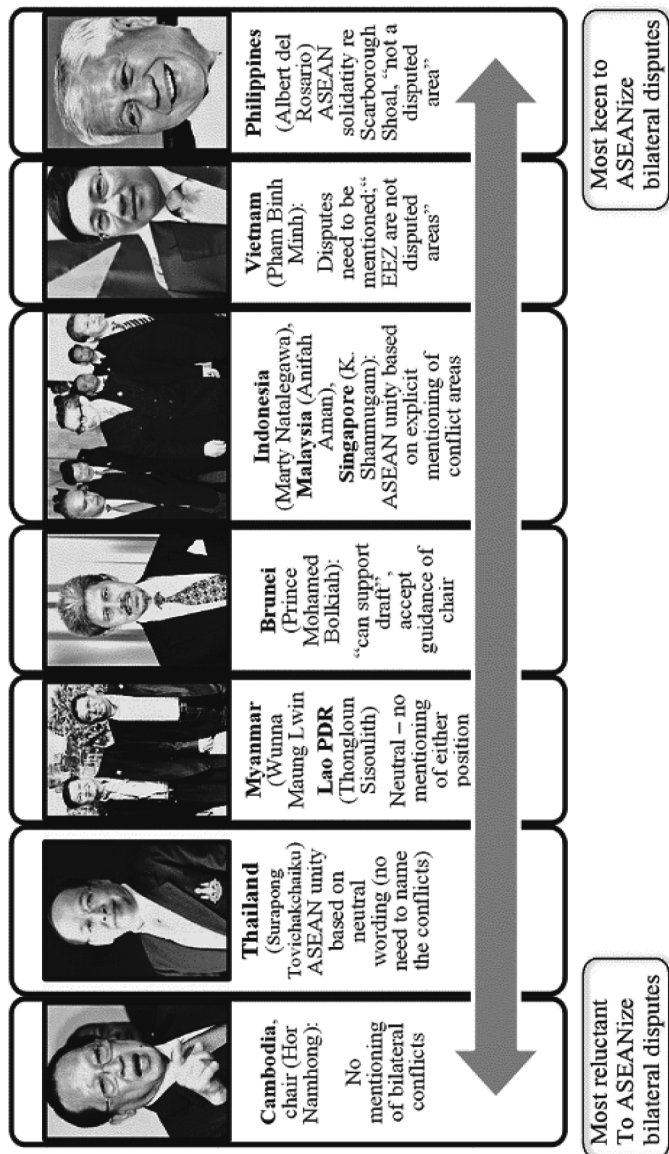
In April 2012, President Hu Jintao promised millions of dollars of aid and loans during his visit to Cambodia right before the ASEAN summit that was chaired by Cambodia. In return, he requested that the South China Sea dispute not to be discussed during the meeting (Heng 2012: 72).

Even before Cambodia assumed the chair of ASEAN for 2012, a senior government official told this author¹² that Cambodia would be determined to keep the SCS disputes off the official cooperation agenda to the extent possible. Being not involved in the disputes, it would not be in Cambodia's national and foreign policy interest to promote this issue for the sake of ASEAN solidarity and at the possible expense of Phnom Penh's fruitful bilateral relations with Beijing. The official also suggested that it was time for the smaller ASEAN countries to pursue their own interests and goals rather than feeling obliged to simply follow the agenda of the larger and more powerful member states – a clear hint at Cambodia's reluctance to

¹¹ Data extracted from the official governmental ODA database (Cambodian Rehabilitation and Development Board, Council for the Development of Cambodia), <http://cdc-crdb.gov.kh/>. Amounts for 2010–2012 are actual disbursed funds, while amounts for 2013 are committed funds. Among the 38 other donors are 13 UN agencies, international financial institutions (World Bank, IMF, ADB), the EU (both the European Commission and several member countries) and other bilateral donors such as Japan, the US and Australia.

¹² Interview in Phnom Penh, October 2011.

FIGURE 9: Basic positions of the ASEAN foreign ministers on the SCS at the 45th AMM (based on the minutes of the AMM 2012 and related documents as presented by Thayer 2012)



associate itself with Vietnam's strategy towards China, which includes elements of provocation in a seemingly never-ending circle of confrontation and counter-confrontation between Beijing and Hanoi. In June 2011, Vietnam conducted live-fire military exercises in the South China Sea, as it accused the Chinese Government of raising tensions in the region. In June 2012, Vietnam's National Assembly approved controversial legislation that was due to come into force in 2013: in effect, the new law declared sovereignty over parts of the Spratly and Paracel Islands, among them areas to which China has a territorial claim. Although hardly enforceable, the law also requires that all foreign naval ships entering these areas must notify Vietnamese authorities. Almost immediately Beijing launched a counter-move and raised the status of the contested islands to a Chinese prefecture under Hainan province. To this end, a new administrative centre named Sansha City on the Paracel's Woody Island ("Yongxing Island" in Chinese) was created to administer the Paracels, Spratlys and the Macclesfield Bank (International Crisis Group 2012: 5). A physical city is yet to be built.

In sum, the necessity of balancing of bilateral and multilateral strategies and approaches towards China creates complexity in ASEAN's relations with China. However, only the consideration of the domestic dimension of decision-making in individual member states provides full answers as to why some ASEAN states are in a better position and more willing to promote a unified, coordinated ASEAN position vis-à-vis China than others. Again, it seems rational foreign policy behaviour that the claimant states are keenest on making the conflicts in the South China Sea the central agenda item of ASEAN meeting – or, in other words, to *ASEANize* their respective bilateral disputes. Yet the Philippines and Vietnam are to a lesser extent able to compromise than Malaysia and Brunei due to the different domestic dynamics of their respective two-level games. In the Philippines the SCS has emerged as one of the highest-ranking foreign policy priorities, and a matter of deep public concern, which has expressed itself in regular anti-China protests. Since 2007, similar rallies have also taken place in Vietnam in spite of the fact that public demonstrations are extremely rare and usually not tolerated in that country. Failure to show and increase leverage towards China can, in combination with other dynamics, potentially reduce the legitimacy of these governments among domestic constituencies. While this applies more to the Philippines than to Vietnam, the latter's state-party apparatus is not immune to such developments, particularly since other factors, including the economic slowdown and spiralling corruption, have already tarnished the image of the Vietnamese Communist Party's (VCP) management capacities.

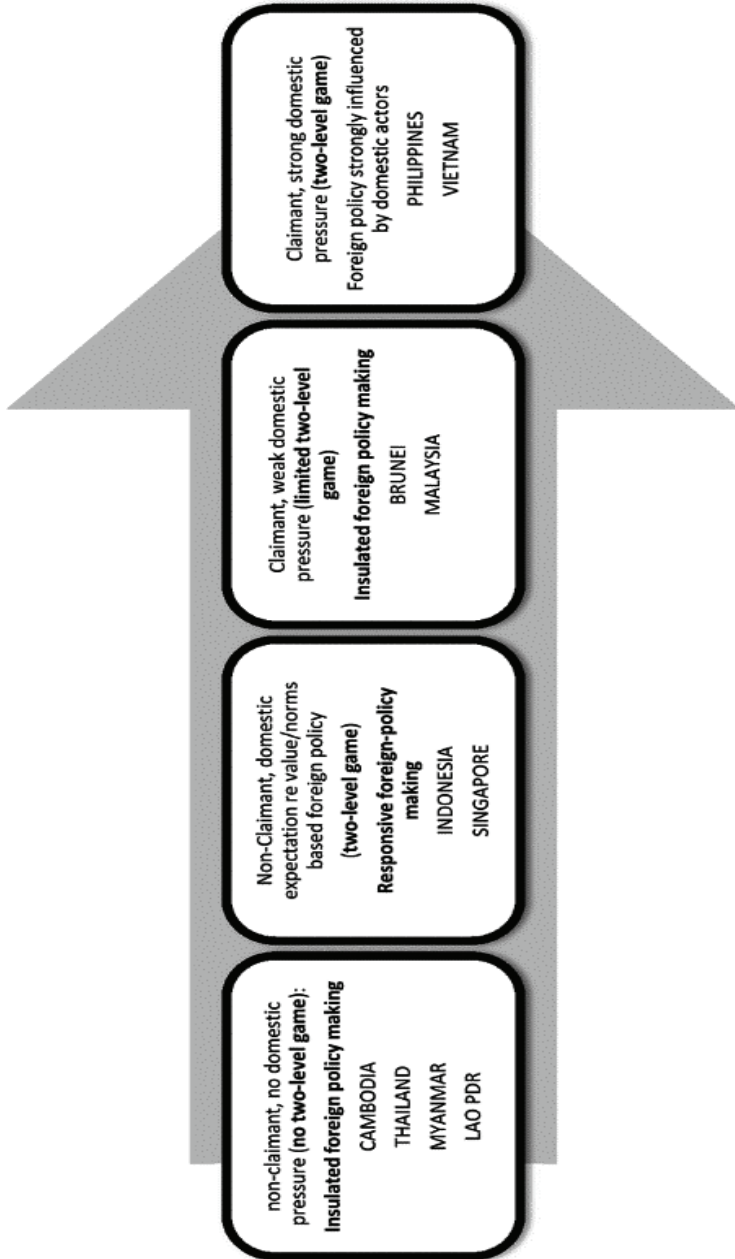
By contrast – and very similar to the case of ACFTA – demonstrations or other forms of “citizens’ voice” on the SCS have been absent in Brunei and Malaysia due to the respective governments’ ability to manage and control foreign policy discourses. While the Malaysian mainstream media has regularly reported on the SCS disputes in general and other claimants’ conflicts with China, the leading government-influenced newspapers like the *New Straits Times* have not run major stories on the Malaysian claim in recent years. Articles usually just report the diplomatically phrased general government statements, which avoid any mentioning of Chinese assertiveness. Since foreign-policy making in Malaysia and Brunei is not subject to deep scrutiny by non-state actors and, thus, takes place within an insulated setting, the respective governments are more flexible in negotiating a common, compromise ASEAN position than Manila and Hanoi. Hence, weak domestic pressure in the case of Malaysia and Brunei results in a limited or even non-existing two-level game on the SCS, while strong domestic pressure leads to an elaborated two-level game in the Philippines and Vietnam. Likewise, non-claimant states are affected by different types of two-level games, which set the framework for these governments’ negotiating positions. Cambodia, Thailand, Myanmar and Laos do not have any national interests in the situation in the SCS and, combined with the lack of the involvement of domestic actors in the shaping of policy preferences regarding the disputes at stake, governments find it comparatively easy to weigh up alternative options and can, as has happened in this case, give their economic interests in relations with China precedence over their solidarity with other ASEAN members. The structural setting of foreign policy-making of the non-claimants Indonesia and Singapore differs to the extent that, first, both are deeply concerned about any developments that might restrict the freedom of navigation in the SCS and, second, influential domestic actor groups expect their respective governments to follow a normative foreign policy to promote the strengthening of a rules-based international system. Figure 10 clusters the ASEAN members into four groups according to the nature of the two-level game.

Conclusions

Analyses of relations between Southeast Asia and China are customarily and at least implicitly driven by the question: “Can ASEAN manoeuvre the giant?” Given China’s quasi-hegemonic position in the region, which has been fostered through rapidly intensifying and expanding economic, political and security links with individual Southeast Asian nations and

ASEAN as an organisation, such a focus is obvious and straightforward from both a neo-realist and a liberal-institutionalist angle. What are ASEAN's options to build up leverage vis-à-vis Beijing in the presence of China's seemingly unmatched power position? Most studies agree that ASEAN's best option is a collective approach regardless of whether China is perceived as a threat (as in the case of the South China Sea disputes) or an opportunity (particularly with regard to the ASEAN China Free Trade Area/ACFTA). Neo-realists believe that the pooling of power is Southeast Asia's most promising strategy for, at least, a soft-balancing of China. Institutionalists see the pacifying effects of multilateral order-management shining through ACFTA and dialogue forums such as ASEAN+3 and the East Asian Summit. Social constructivists, in a nutshell, claim to have found first evidence for the convergence of foreign policy identities in China and ASEAN. The three mainstream IR approaches are united by an interest in explaining *how* ASEAN manoeuvres the giant. In doing so, they usually treat ASEAN as a unitary actor and, if they look at member states, they normally solely consider the output level of foreign policy making; that is, the manifestation of a national interest in a given situation. The input level of decision-making, or the way that different actor groups within countries shape the foreign policy agenda, is often neglected. This is where Putnam's concept of two-level games comes into play. Only the study of the interplay between international and domestic dynamics in foreign policy making allows for comprehensive explanations of ASEAN's behaviour and actions towards China. At the same time, the two-level perspective reveals ASEAN's purported unity and ability to speak with one voice on China as a myth. If ASEAN manages to promote a joint position it is in instances where member states are able to agree on a rhetorically weak, non-offensive diplomatic consensus. As such this has to be considered an important achievement given the diverse membership structure. However, the case studies on ACFTA and the SCS disputes have shown that member states – regardless of their respective political systems – can never ignore domestic interests, which they regularly rank higher than the preservation of ASEAN solidarity at all costs. The approach of ACFTA members towards China is no longer driven by enthusiastic free trade rhetoric as it was a decade ago, when the project was launched, and neither is it characterised by a unified ASEAN position. Instead, the degree of domestic pressure sets the stage for the governments' conduct of foreign economic relations with China. Such patterns are even more visible in the case of the SCS disputes, which divide ASEAN members not primarily along a claimant/ non-claimant cleavage, but based on the specific nature of their two-level games. The two case studies also demonstrate that two-level games are not only relevant for the analysis

FIGURE 10: Clusters of two-level games in the SCS in ASEAN (compiled by author)



of negotiating behaviour (as with regard to the SCS conflict), but continue to provide a useful analytical tool for the explanation of government behaviour after international agreements have been signed (the case of ACFTA). Overall, it seems that while clinging to the multilateralist rhetoric to the greatest extent possible, ASEAN members have long accepted that they can ultimately only deal with China on a bilateral basis. The SCS provides the most illustrative example.

To conclude with an outlook: as a conflict over resources and geo-strategic influence, the dispute over the Spratly Islands is essentially a zero-sum game that does not provide much room for a multi-party compromise, that is, a multilateral treaty. At the same time, none of the parties is interested in military confrontation, as any such action could easily escalate and result in a major disruption of international trade and commerce and draw other powers into such a conflict. The most likely scenario is a continuation of the status quo: the parties to the dispute implicitly accept the existence of conflicting claims and, to satisfy domestic audiences without provoking escalation, occasionally present their respective cases in justification of these claims in a low level and non-threatening manner. While hiding behind the diplomatic façade of ASEAN, the Southeast Asian claimants de facto recognise Chinese leadership and Beijing's quasi-hegemonic position in the South China Sea in return for a "shadow of opportunity": bilateral deals that allow them to participate in resource exploration and get a share in the heated race for energy supplies.

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