

Major Powers' Power Transition and Small States' Cooperation: A Structural-Dynamic Theory and Its Evidence in the Asia-Pacific

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I. Introduction

This paper makes a point that cooperation/integration between small states is associated with the competition between major powers in power transition system. After the Cold War, the structure of international relations in the Asia-Pacific changed enormously. Soviet Union dropped out from the competition of regional dominance. The United States became hegemonic power in the region. However, competition on dominance in the region does not end. Rapid internal economic development has made China another compelling bidder for the regional dominance, even the global dominance in the near future. China's rapid growth of economic power literally boosted its national capability. Promotion of national capability profoundly strengthened China's political influence in the regional affairs. Although the statement that the United States' power is declining is still in question among scholars¹, the rise of China does pose obvious challenge to the United States' hegemonic role in the Asia-Pacific region and presses the United States to think of adjusting its national strategies to the region.

In power transition system, a rising state will seek to reasonable power comparable to its capability in international politics and may take over the dominance when its power exceeds the dominant's one. On the other hand, the dominant state will spare no effort to preserve the status quo. As a result, the comprehensive competition between them in world affairs will be expected and become intense when the rising's power is getting close to the dominant's one. Rising China apparently wants to obtain more power in region affairs, especially about the construction of new regional order in the Asia-Pacific. But, instead of using aggressive approaches to expand its alliance network, China consciously and carefully increases its political influences on peripheral states in the region by employing diverse but subtle diplomatic and economic means, such as supporting regional multilateralism, providing generous economic aids, and opening up its domestic market. These measures are generally welcomed by developing states in the region, e.g. Southeast Asian states, and prevent China from being seen as a threat to the region. Facing to

¹ Steve Chan (2005) argues that China is still long behind the United States by looking at other indicators of national power that incorporate with soft power, e.g. the usage of information technologies, instead of traditional indicators commonly used in international studies, such as CINC (Composite Indicator of National Capability) score in Correlates of War project (see Singer, Bremer & Stuckey 1972) and GDP.

China's subtle expansion of influence, the United States will be to maintain the regional nations' supports to its preferred regional political, economic and security arrangements that underpins its dominance, for example, democracy and liberal market economy. Closer economic relation is part of the United States' strategy to hold political supports from Southeast Asian states.

As a result, the competition between China and the United States in power transition system may create a positive political and economic externality for Southeast Asian states. Private and public political and economic goods given by competing powers for political supports will in favor of economic development in Southeast Asia. However, the provision of these goods is not certain forever and may change along with the change of competition between China and the United States. As a rational actor, Southeast Asians not merely expect 'occasional' rewards but also seek for a sustainable economic development. Economic cooperation and integration is a favorable approach for sustainable economic development in contemporary economy. In the meanwhile, cooperation also help strengthen bargaining power and retain advantageous bargaining position between competing powers when regional political and economic issues in negotiations.

The paper is structured as follows. Firstly, it illustrates the transformation of China's policy toward Southeast Asia. Secondly, it lays out the Asia-Pacific Policy of the United States and its changes. Thirdly, it shows how Southeast Asians response to the structural change of power relation between China and the United States in the region. Fourthly, it shows a generalized theory that is developed from the discussion of foreign policy behaviors in previous sections to understanding how competition between major powers influences small states' cooperation in the power transition system. Then, it empirically exams the hypothesis from the theory and discusses the result. And, a concluding remark is given at the end.

II. Gentle Expansion: China's Strategy toward Southeast Asia

The prediction of the effect of China's rising is divergent among regional experts. Some argued that China's rising is a potential or concrete threat because the increase of national capability brings about inevitable power expanding which will unsettle the current security setting in the Asia-Pacific region (Mearsheimer 2001; Roy 1994; Segal 1996; Sokolsky, Rabasa & Neu 2000); but some held that China is a non-aggressive actor to the regional and globe system (Kang 2003; 2004). The

interpretation of China's policy toward Southeast Asia is also diverse. Percival (2007:2) argues that there are three possible motivations behind China's policy toward Southeast Asia: 1) the policy to Southeast Asia is part of strategy in pursuit of hegemony in the region; or 2) it is a defensive attempt to neutralize the region while China focuses on internal priorities; or 3) it seeks to establish a cooperative structure to include several states outside the region that have traditionally exercise influence within Southeast Asia, and then to prove beneficial for all involved. Haacke (2005a) contends that China's policy is: 1) to prevent other major powers from establishing foreign bases on Southeast Asian countries; 2) to prevent continental Southeast Asian from being a strategic centrality within Southeast Asia that might impair China's security interests and question China's status, such as it supported Lao and Cambodia to be neutral against Vietnam; and 3) to prevent interstate or intrastate conflict in the region in order to avoid external involvement by major powers and to sustain economic growth. These predictions and interpretations show complex motivation behind China's policy to Southeast Asia and reflect the transformation of China's policy.

During 1949-1970s, China's policy toward Southeast Asia was formulated in the context of China-USSR-US triangular relations. The guideline of foreign policy in the period of the Mao leadership was the Five Principles of Peaceful Co-existence: respect for territorial integrity and sovereignty, non-interference in domestic affairs, equality and mutual benefit, non-aggression, and peaceful co-existence. This guideline is more to do with political end. For instance, China normalized its relations with Malaysia, Thailand, and the Philippines in 1970s under the background that China alignment with US and took over the UN seat. The end of Mao's leadership and the start of economic reform in 1978 led China's foreign policy into new phase. The end of foreign policy is to serve the domestic economic reform. Creating a stable periphery and increasing deeper economic exchange with regional countries, therefore, are underlying thought of foreign policy making in Chinese government. After the Cold War, China develops two grand strategic conducts to deal with its external relations: Policy of Good Neighborliness (PGN) and New Security Concept (NSC). The former proposes to provide unqualified support for political system no matter democratic or authoritarian; to engage in the interests of regional stability; to promote closer economic cooperation; and to increase cultural and political exchanges. The latter refers to mutual trust, mutual benefit, equality and cooperation. The formation

of foreign policy conducts show that maintaining and promoting national economic development is still underlying motivation of China foreign policy. China starts to deal with its relations with regional nations through more comprehensive way in order to reduce distrust and anxiety on security issues and to expand its network, such as participating in a broad range of regional and sub-regional organizations and deepening bilateral relations with regional nations politically and economically (Cheng 1999; Haacke 2005b; Shambaugh 2005).

Although China's relations with Southeast Asia began to improve from the early 1980s, right after economic reform, the Tiananmen incident in 1989 was a critical turning point. The sanctions imposed by the Western nations and the collapse of the Soviet Union and East European communist regimes forced Chinese government to rethink and adjust its foreign policy. One of new initiatives was a more Asia-oriented foreign policy where Southeast Asia is a major focus. (Zhao 1995:8-15) In 1990s, China extensively improved its relations with Southeast Asian nations. China normalized relations with Brunei, Indonesia, Singapore, and Vietnam bilaterally and started its formal relations with ASEAN in 1991 when Chinese Foreign Minister Qian Qichen was invited to attend the Twenty fourth ASEAN Foreign Minister Conference. In 1997, China attended the first ASEAN-China summit in Kuala Lumpur. After the summit, the two sides issued the Joint Declaration of the People's Republic of China and ASEAN Summit, establishing guidelines for their relationship and common policies of good-neighborly partnership of mutual trust oriented to the 21st century. In the following annual ASEAN-China summits, both sides reiterated the importance of political and economic cooperation and gradually extended the range of cooperation fields. For instance, in 2002, China signed the Declaration on the Conduct of Parties in the South China Sea with the involved Southeast Asian nations and decided with ASEAN to establish the China-ASEAN free trade zone by 2010. In 2003, the Joint Declaration on Strategic Partnership for Peace and Prosperity with ASEAN was signed to coordinate foreign and security policies, and China acceded to ASEAN's Treaty of Amity and Cooperation, ahead of any other superpower. In 2005, energy, transport, culture, public health and tourism were selected as five new priority areas of cooperation.²

The consensuses and agreements in joint statements after the yearly

² For details of the content of joint statements of ASEAN-China Summits, see ASEAN Secretariat website < <http://www.aseansec.org/4979.htm> >

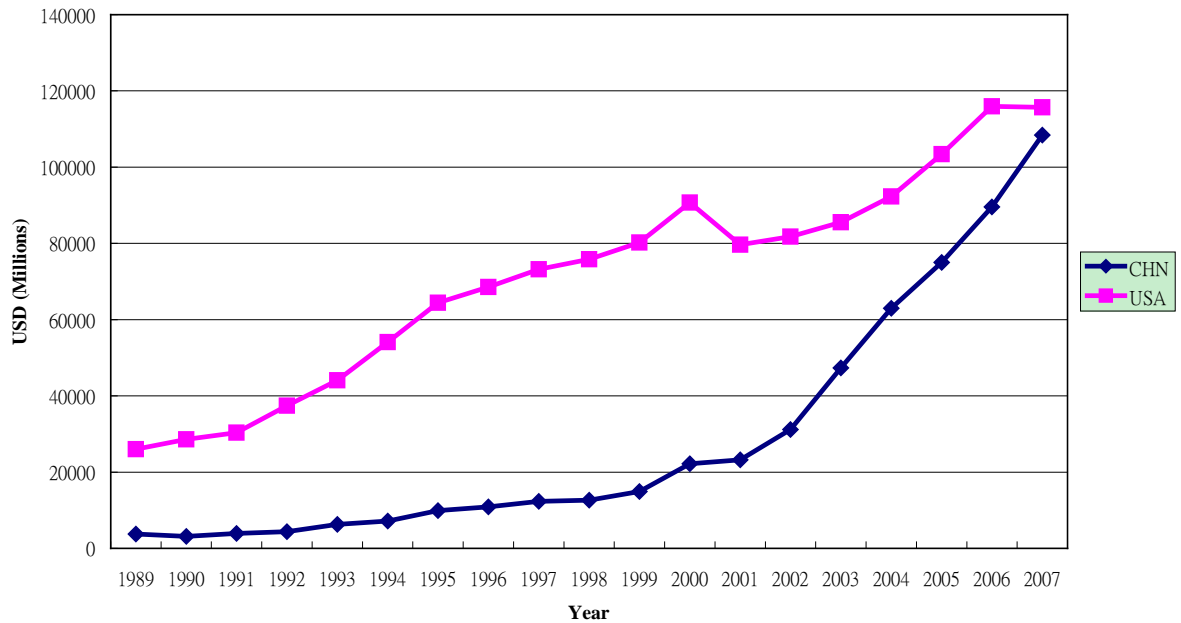
ASEAN-China summits show increases in deepness and broadness of cooperation between both sides. China has been seriously trying to keep to ‘be good to neighbors, be friend with neighbors’ (yu lin wei shan, yi lin wei ban) and ‘friendly neighbor, peaceful neighbor, and rich neighbor’(mulin, anlin, fulin). The increasing high level visiting based on joint declarations between China and individual Southeast Asian nations also shows that China is significantly concerned of eliminating these nation’s distrust with China politically (Glosny 2007). Other than these comprehensive political reconciliations between China and ASEAN nations, China’s foreign aid (economic aid in particular) to Southeast Asia has been accelerated from 1980s. In recent years, China has agilely use foreign aids as diplomatic means to intensify its relations with Southeast Asian nations, including financial aids to the nations affected by 1997 financial crisis, the SARS epidemic in 2003, bird flu and Asian tsunami in 2004. Besides providing economic aid by way of mutually beneficial cooperation, in 2002 China announced its Asia Debt Reduction Plan, which will reduce or cancel part or all debts for Vietnam, Laos, Cambodia, and Myanmar (Zhang 2007). In 2005, China decided to provide another 5 billion dollars of preferential loans to support projects invested by Chinese companies in ASEAN members, following nearly 3 billion dollars of economic assistance and concessional credit to ASEAN Member Countries in the past 5 years³ .

In addition, increasing trade import from ASEAN shows that China has been making closer economic relations with ASEAN nations after the Cold War. The Figure 1 displays that China’s total import from ASEAN is 3,766 millions USD in 1989, about one-seventh of USA’s import at the same time, but almost equal to USA’s import from ASEAN in 2007⁴. On the one hand, this also implies that China eagerly reduce ASEAN nations’ anxiety of economic competition by showing that the growth of China is in favor of improving ASEAN economic power. On the other hand, it also reveals that China is deepening its network with neighboring small states.

³ See ‘Chairman’s Statement of the Ninth ASEAN-China Summit, Kuala Lumpur, 12 December 2005. < <http://www.aseansec.org/18048.htm> >

⁴ Data source for Figure 1 is IMF Direction of Trade Statistics.

Figure 1 : U.S. and China's Import From ASEAN Nations



All in all, China employs the non-aggressive approach, or “charm offensive” way, to make friendships with neighboring states along with the China’s economic reform and its growth of comprehensive national capability. China’s current strategic goals in Southeast Asia are to maintain a stable environment on its periphery, to assure others that China is not a threat, to encourage economic ties that contribute to China’s economic modernization and thus regime stability. A peaceful and prosperous Southeast Asia could better guarantee continued overseas and regional investment, a sustained flow of natural resources required for China’s own economic growth and political stability, and a smoother operation of crucial sea lanes in the Strait of Malacca and the South China Sea. The foreign policy instruments that Beijing has employed to secure its goals are consistent with most of Southeast Asia, but the priorities assigned to these different strategic goals much depending on China’s interests in different parts of the region.

III. Between Bilateralism and Multilateralism: Changing Face of the US Policy in the Asia-Pacific

From nineteenth, through twentieth to twenty first century, the long-standing foundation beneath the United States’ involvement in Asia is that no single nation could be permitted to dominate Asia; at least, each major power in the world has equal accession to it. During the Cold War, the United States enshrined the principle of

bilateralism in dealing with regional affairs in the Asia-Pacific and formed the hub-and-spoke alliance system⁵ as the front against the spread of communism to maintain its interests of the region. This hub-and-spoke system has been the bedrock of regional stability in which other non-formal security partners also are incorporated since the end of Vietnam War (Acharya & Tan 2006:45-8; Bert 2003:25-6; Shambaugh 2005:95).

The end of the Cold War did bring on the ambiguity and debates in the U.S. foreign policy toward the region, which created anxiety in Southeast Asia. Although the United States cut the number troops in East Asia to 100,000, but its military commitment to the region remained. The reduced troops presence was compensated by 'regional access, mutual training, arrangements, periodic ship visits, intelligence exchanges, and professional military educational programs' (Bert 2003:25-8). The United States did not massively withdraw from the region after the Cold War as some Southeast Asian claimed and feared. Southeast Asia is still strategically important to the United States. The United States has three major concerns in the region. First, the control of sea lanes and maritime chokepoints, such as the Straits of Malacca, Sunda Islands, Lombok, and South China Sea which connect the Indian and Pacific Oceans has permanent interest in the United States' regional strategies. A placid maritime Southeast Asia assures that energy resource from Middle East and the freedom of international trade and passages will not be shut off. Second, the United States continues to have its long-standing economic concerns of open markets and equal commercial access in the region. In 2003-2004, the ASEAN region continued to be the destination more U.S. exports than China, and the U.S. foreign direct investment in ASEAN is seven times more than in China. The United States' third permanent concerns on the region are promotion of democracy and human rights, anti-terrorism, and some non-traditional security issues, such as international health cooperation (Percival 2007:128-9).

In earlier 1990s, the United States still avoided managing its relations with Southeast Asian nations in multilateral context because it thought it is able to bilaterally maintain the cooperation network. In fact, the United States and Southeast Asian nations seldom share similar views on the utility of multilateral institutions in the region. The United States' approach to multilateral organizations in East Asia is

⁵ The members of this bilateral alliance system are Australia, Japan, South Korea, the Philippines, and Thailand.

instrumental while Southeast Asians view multilateral organizations as “reflecting aspirations”. Moreover, the Washington is generally dismissive of “talk shops” while Southeast Asian governments see these “talk shops” as means to build understanding and confidence. Americans look for an immediate product. Many Southeast Asians are focused on the iterative process, which may or may not lead to a discernible product (Percival 2007:137). However, the United States did perceive that international environment in the Asia-Pacific is changing. Along with the U.S. presence which underpins regional stability, a regional community through multilateral institutionalization is being formed in the Southeast Asia and spilling over the Asia-Pacific, particularly after the Cold War. It is becoming as another foundation of regional stability (Acharya 2003a; Alagappa 2003). Southeast Asian countries have been successfully promoting ASEAN type of regional multilateral norms in the Asia-Pacific step by step through the ASEAN Regional Forum (ARF). Washington initiated Asia-Pacific Economic Cooperation (APEC), which has been doubted and boycotted by the local nations then because of the motivation behind the initiative, to cope with a more autonomous regional development and regarded APEC as a complement to the existing bilateral approach. Nevertheless, the multilateralism driven by the local nations slowly but gradually has its effects on the regional affairs. In addition, China’s involvement and support also substantially advanced the development of regional multilateral institutions. This splendid development has been changing the United States’ attitude, from skepticism to support, to the regional multilateralism advocated and enriched by regional small states (Acharya 2001:179-85; Goh 2004).

To response to the post-Cold War development of international relations in the Asia-Pacific and the post-9/11 global situation, the United States has now designed its new version of partnership with ASEAN to answer its excessive bilateralism in the region. Terrorism is one of the most pressing security issues for the United States in Southeast Asia while traditional security issues still will be major concern in the future with regard to the development of China’s policy. The United States has sought to strengthen its relationships with old allies, such as the Philippines, Thailand, and Singapore, and to restore military tie with Indonesia, although it is not clear that these nations are available and easy to cooperate as before. In addition to intensifying bilateral relationships with friends and allies, the United States also accelerates its military exercise programs with the armed forces of some Southeast Asian nations.

Moreover, the United States is increasing military contacts and other ties with non-alliance partner in the region like Vietnam, which joined international military education and training program conducted by the United States (Percival 2007:130-4).

In addition, from 1989 to 2007, the United States has started to reinforce its economic relationships with ASEAN nations through signing Trade and Investment Framework Agreement (TIFA) respectively with Philippines (1989), Indonesia (1996), Thailand and Brunei (2002), Malaysia (2004), Cambodia (2006), Vietnam (2007); Free Trade Agreement (FTA) with Singapore (2004); Bilateral Trade Agreement with Laos. Moreover, the United States also concluded regional TIFA with ASEAN in 2006 in order to further enhance their economic relationship and promote ASEAN regional economic integration upon already strong trade and investment ties. To response to China's growing economic influence Washington launched two initiatives in 2002, the Enterprise for ASEAN Initiative (EAI) and the ASEAN Cooperation Plan (ACP). The EAI targets the creation of a network of bilateral FTAs among ASEAN members who are members of the WTO and have a pre-existing (TIFA) in place.⁶ The ACP is a bundling of projects to strengthen the ASEAN Secretariat, to build up regional cooperation on transnational issues, including terrorism, human trafficking, and to foster ASEAN economic integration.⁷ In 2004, the ASEAN-US Technical Assistance and Training Facility was established again to strengthen the ASEAN Secretariat's role in regional economic integration, transnational issues, and regional security; enhance economic integration and cooperation; and improve regional responses to transnational issues.⁸

Diplomatically, by 2005 the Bush administration, which has initially been dismissive of regional multilateral organizations, was prepared to attempt to complement its bilateral approach with an American version of the "Strategic Partnership" agreements that was signed between ASEAN and China. It is entitled an "Enhanced Partnership", which was announced when the President Bush met with Southeast Asian leaders at the 2005 APEC meeting. The partnership agreement included several concrete issues, such as bird flu, which can be addressed through a work plan with ASEAN. Washington's gesture should in some way reassure its

⁶ For detail of these trade agreements and the Enterprise for ASEAN Initiative, see Office of the United States Trade Representative. < <http://www.ustr.gov/> >

⁷ For detail, see the link < <http://www.iie.org/programs/asean/cooperation.htm> >

⁸ For detail of , see the ASEAN-United States Enhanced Partnership < <http://www.asean-us-partnership.org/index.htm> >

affirmation of ASEAN relevance. At 2006 APEC meeting in Hanoi, the United States was prepared to respond to Southeast Asian priorities. This displays that officials in Washington began to recognize the utility of being seen to play the game in the region if the United States were not to cede a number of diplomatic networks to China. The calculation appears to be that further engagement with ASEAN is simply a cost the United States has to pay (Percival 2007:137-8).

The United States' policy in Southeast Asia often falls between East Asian policy, with emphasis on China and Japan, and bilateral relations with individual Southeast Asian nations. It seems that the United States has had some difficulty in engaging with multilateral regional institutions, such as ASEAN, and in addressing transnational issues in the region in the early post-Cold War period. Nonetheless, we may see that Washington's primary interest in Southeast Asia now is more economic and commercial than military, and further involves in regional multilateral institution. As Bert (2003) suggests that it is in the US interest to encourage the trend that economic might replace military strength as the primary currency of national power and prestige, trade talk will also replace territorial conflict, military ambition and ethnic demagoguery. Security will be enhanced by economic prosperity. It is long-term interests of the US to see the development of strong, autonomous regional institutions in Southeast Asia.

All in all, it has a slowly but obvious transformation in Washington's policy-making concerning to the Southeast Asia. This change of policy attitude comes along with the eminent growth of China's overarching influence in the Southeast Asia and the reaction from these Southeast Asian nations.

IV. Southeast Asian States' Responses

In the face of the change of power distribution in the Asia-Pacific, the underlying strategies used by ASEAN states are: implementing a conditional engagement to China, holding the presence of the United States in the region, and broadening and deepening Southeast Asian integration. Acharya (2003b:206) points out the goals which ASEAN nations attempt to realize to manage post-Cold War situation: 'deny any power to dominate the region; maintain the region's rapid economic growth to sustain regime legitimacy and contain demands for political change; peacefully manage the region's territorial disputes; prevent an arm race in the region; keep US strategically engaged in the region; ensure greater integration among the 10 countries

of Southeast Asia; give Southeast Asia greater bargaining power in international institutions, including a major voice for ASEAN in emerging regional economic, political and security institutions.’

Southeast Asians have complex views on its biggest neighbor, China. One is relatively benign perspective. They anticipated that at the moment China’s leaders fully concern with economic reform and domestic stability rather than with external military expansion. China’s dependence on foreign trade, markets and investments would constrain its ability to assume a threatening military posture towards neighbors or seek regional hegemony and China’s leadership seek legitimacy through economic performance. The adverse anticipation on China’s policies and actions is that the expansion of military power of China in the region is inevitable after the ripe of economic development. The South China Sea and Southeast Asia will be a natural sphere for China to exercise its hegemony. China-ASEAN political relations had been close during the 1980s because of China’s need for ASEAN’s diplomatic backing against Vietnam and Russia. The end of the Cold War and the settlement of the Cambodia conflict, however, remove an important basis for generally benign China-ASEAN political relationships. In fact, no Southeast Asian country has sought sub-regional hegemony in the aftermath of the Cambodia Conflict and none of them has pushed for establishment of new military bases by external powers, although some have offered to provide the US with improved accession (Haacke 2005b). Economic interdependence and the similarity of the soft authoritarian type of governments are not adequate to overcome deeply ingrained suspicions in some ASEAN nations about China’s strategic role on the post-Cold War era (Acharya 2003b:203-6). Southeast Asian leaders generally welcome China’s diplomatic and political advances, along with economic and security opportunities, as they seek benefit for their government amid changing regional circumstances including a rising China. Southeast Asian nations’ security fears about China are tempered by recognition of opportunities for economic gain and mutual political cooperation. However, when Chinese power and Sino-Southeast Asian relations have continued to grow, these Southeast Asian leaders have demonstrated continuing hesitancy to move under China’s sway and seeking to avoid subordinating to China’s dominance with preserving and strengthening relations with the United States, and developing closer ties with other regional and world powers (Sutter 2008).

Although it is agreed among Southeast Asian nations that the United States’

military presence is a stabilizing force in the region, Southeast Asians worry that the US ability to provide a security umbrella in the region may no longer be taken for granted (Acharya 2003b:209). In order to address the uncertainty from changing regional order and realize the goals mentioned previously, these Southeast Asian nations adopt hedging strategy between China and the United States (Goh 2005). They intend to acquire economic benefits from China but security from the United States. Hedging strategy allow these nations to have intended goods from both sides under the major power's game of balance of power. On the other hand, Southeast Asian nations are accelerating ASEAN-wide regional integration by means of expanding ASEAN coverage of membership and strengthening ASEAN's duties on promoting regional integration economically, politically, and socially.

V. Generalized theoretical implication of the Case

According to the above discussion in terms of foreign policy behaviors, we may find that China's bid for the change of regional dominance and the United States' defending the status quo of regional order and leadership foster an environment that motivates Southeast Asian nations to proceed to further integration. Both China and the United States are actively and benignly strengthening their relations with Southeast Asian nations by comprehensive economic and political means in order to achieve its own prospective order in the region. Theoretically speaking, the change of power distribution make competing major powers release greater resources to preserve or change the status quo in power transition system. Second-ranking or small states may expect to receive more benign postures and concessions from competing major powers in some issues. The promotion of domestic economy enables rising power to obtain greater resource to the provision of private and/or public goods. For example, growing domestic market of rising power is attractive for developing states that are pursuing economic development, especially those who also adopt export-led economic policy, because a growing market may ensure the increase in export that is significant for economic growth. Rising power can take advantage of its domestic market to expand its allying network. On the other hand, the dominant power will also give small states goods comparable to the ones given by the rising power. It is expectable that small states that are allying target of the rising power will continually receive economic and political benefits from both competing major powers. However, the competition between major powers in power transition may end at some point in

the future. The uncertainty about the outcome of the competition causes the small states' apprehension about the direction of the possible change of the status quo and how the rising power's management of regional order will be if the rising power is expected to take over the dominance in the future. This uncertainty may also induce or intensify antagonism among small states due to different positions in international system. The antagonism can cost resources needed for economic development. Moreover, the current dominant power will gradually become incomparable to the rising power in the long term as its national capability is relatively declining so that the provision of private and/or public goods, such as security and economic good, will decrease. The end of competition may imply the end of the greater gain of private and/or public goods from both competing side.

As a rational actor, small states will like to maximize positive benefits offered by competing major powers and minimize the impact of the possible change of the status quo and possible antagonism ensuing from the change. Cooperation/integration meets this end. Economically, it can reduce transaction costs of economic activities so that efficiently transfer economic benefits offered from competing major powers into the force boosting economic development. Furthermore, it can increase economic bargaining power against the party out of the integration zone. On the other hand, increasing level of linkage between economies can increase the cost of conflict involvement, and thus reduce the likelihood of conflict (Russett & Oneal 2001). Positive security externality produced by integration reduces the possible cost of pacifying antagonism, which indirectly reduce small states' reliance on security goods provided by major powers. The reduction of security reliance enables small states to acquire relatively greater bargaining power in negotiations with major powers on the development of regional security in the future. In other words, cooperation/integration can effectively help promote economic development, and meanwhile it help address economic and security uncertainty resulted from the competition between major powers.

In sum, the structural change of domestic economics of a rising power causes the change of its power relative to the current dominant power. The change of relative power induces the competition on the dominance. Small states, therefore, may gain more political and economic goods offered from both major powers in competition on allying network, while the competition also brings small states the uncertainty about the future arrangement of regional order. To minimize the uncertainty and to

maximize the effect of the usage of political and economic benefits, small states are motivated to advance cooperation/integration between themselves. However, any theory needs empirical support to its validity. I, then, postulate a hypothesis upon the theory for the empirical analysis: *when the major powers' competition on small states increases, the level of cooperation/integration between these small states will increase.*

VI. Research Design

This section begins the task of operationalization in order to systematically test the hypothesis derived from the generalized theory above. Because interstate cooperation is a dyadic process, the unit of analysis is dyad-year. The data is a cross-sectional time-series dataset including all Southeast Asian states from 1978 to 2001. Although the end of the Cold War exerted great influence on international relations in the region, there are two reasons for choosing 1978, instead of 1989, as a starting time of analysis. First, China's comprehensive national capability in terms of GDP distinctly increased from 1978 when its economic reform was undertaken. As aforementioned, China gradually adjusted its foreign policy to peripheral states on the way of economic reform. The nature of China's post-Cold War foreign policy generally followed the conduct of foreign policy made in late 1970s. Therefore, the variation of relative power and the track of competition between China and the United States can be observed in a more complete perspective. Second, the end of Vietnam War in 1976 announced a new competition on how the post-Vietnam War regional order should be began among major powers. Southeast Asian states began to receive the new wave of major powers' competition on themselves, and in the meantime they, especially ASEAN states, decided a new run of interstate cooperation to cope with emerging regional order in the post-Vietnam War period. Thus, the year, 1978, is proper starting time point for the analysis if it wants to see how the change of relative power affects the foreign behavior of China and the United States and how small states reacted to it. Because the dependent variable of interest in the theory is interstate cooperation/integration measured in trade, I use the gravity model of trade as the baseline model in the analysis to identify effects of economic and political determinants.⁹ I estimate effects of independent variables on the explained variable

⁹ The Gravity Model has been widely and successfully used to model bilateral trade. The model also

using OLS regression with Huber/White robust standard error and adjusting for clustering in dyads. Standard errors are robust not only to the possibility of heteroscedasticity caused by the units but also to serial correlation in general within each dyad. Because of the gravity model, all continuous variables are transformed in natural logarithm form but dichotomous variables are kept in original coding (1 and 0).¹⁰ In addition, all independent variables are lagged one year behind the dependent variable to control for simultaneous bias.

A. Dependent Variable

The explained variable in the theory is cooperation/integration between Southeast Asian states. In the contemporary era, trade is a main economic communication between states. Nonetheless, trade per se is not merely commercial exchange. It also represents density of communicating on a broad range of matters. The rise and fall of trade flows between states demonstrates the status of bilateral relation. Although stable or/and increasing bilateral trade indicates benign relation, it does not necessarily mean that a more interstate cooperation/integration is being undertaken because the volume of trade will naturally increase when the size of a state's economy grows up. However, if the share of bilateral trade in the total trade of two states specifically increases, it may indicate that the two states are intentionally promoting certain policy to strengthen a closer bilateral relation. Therefore, the variable, *Integration*, is generated to capture the sign of bilateral cooperation/integration, which is the ratio of the bilateral trade to the sum of the total trade of two states, i.e. $(\text{trade}_{i,j} / (\text{total trade}_i + \text{total trade}_j))$. An increase in *Integration* means that cooperation/integration of a dyad progress further. The data for bilateral trade is taken from the updated Expanded Trade and GDP Data Version 4.1 by Gleditsch (2002).

B. Independent Variables

has been applied in political science, for example, Keshk et al.(2004), Hegre (2000), Gowa & Mansfield (1993), and Pollins (1989a).

¹⁰ I transform zero values into $(1/e^{21})$ to avoid missing values in continuous variables, see Gartzke & Li (2003:563) and Kim & Rousseau (2005:530). I used the original coding for dichotomous variables since this is consistent with the logarithmic form of the equation. It is equivalent to replacing the original zeros with a one while replacing the original values of one with the value $(1/e^{21})$ and then it takes natural logarithms of the whole series.

Major Power Competition (China v.s. the United States) is the explanatory variable of interest in the theory. In the theory, relative power is the structural source of competition between the dominant and the rising in power transition system but is not behavior per se. As aforementioned, the rising power and the dominant are competing on allying network and use private good as an incentive or a reward to maintain, improve, or develop relationships with small states in order to acquire political support from the latter. For Southeast Asians, foreign market for trade export is important to national economic development. Major power can use its massive domestic market as a private good to strengthen political and economic links with those small states. In this regard, trade import can be a proper proxy to capture major power's foreign behavior to a small state. Increasing trade import demonstrates a major power's increasing intention to improving or developing a closer link with a small state. When two major powers intentionally improve its relationship with a small state at the same time, it can be seen as a competition. To measure the level of competition between major powers on a small state, I use the ratio of the smaller trade import to the larger one, which bounds the value of the ratio between 0 and 1. Thus, perfect competition scores 1 and no competition scores 0. Because the analysis is at the dyadic level, there will be two ratio values for a dyad in a given year. I sum up two ratio values to present the total strength of competition between major powers on a specific dyad in a given year. Therefore, *Competition* is the sum of the ratio value of trade import (China's import and the United States' import) for each state of a Southeast Asian dyad in a given year. Higher value of *Competition* means greater major power competition on a Southeast Asian dyad. According to the theory, it is expected that *Competition* is positively associated with the dependent variable. Gleditsch's (2002) trade data is used to construct this variable.

Militarized Interstate Dispute (MID) may disrupt the current communication and discourage the prospective communications between states in terms of trade (Keshk et al. 2004; Li & Sacko 2002; Pollins 1989a; 1989b). Because the reduction of interstate trade due to conflict may affect the outcome of the dependent variable that is also measured in trade. Therefore, it is needed to control for the effect of MID. *Dispute* is a dichotomous variable that is coded as 1 when a dyad was involved in a MID in year t (i.e. a dispute was either initiated or ongoing) and otherwise it is coded as 0. I use the recently revised and extended dataset of MIDs in the Correlates of War project (Ghosn, Palmer & Bremer 2004).

ASEAN is a regional intergovernmental organization designed to facilitate collective cooperation for regional security and economic development in Southeast Asia. Although ASEAN achieved little in the first decade (1967-1976), ASEAN devoted to organization-wide free trade with several economic cooperation schemes since 1977, such as the Agreement of Preferential Trading Arrangements (PTA) in 1977 and the Common Effective Preferential Tariff (CEPT) Scheme for ASEAN Free Trade Area (AFTA) in 1992. All of these efforts may increase trade between members of these economic agreements and could further motivate interstate cooperation/integration. On the other hand, it has been argued that the establishment of formal political-military alliance may make allies more likely to trade with each other for strategic reasons (Gowa 1994; Gowa & Mansfield 1993). Although there was no formal alliance between Southeast Asian states from 1978 to 2000 according to the Formal Alliance dataset (v3.03) in the Correlates of War project (Gibler & Sarkees 2004), ASEAN itself can be seen as a political alliance between members. Therefore, the effect on trade of formal alliance is partially controlled in the model. *JntASEAN* is coded as 1 when both states in a dyad are members of ASEAN in a given year; otherwise it is coded as 0.

Democracy can lead a state to a more open trade policy. Pairs of democracies are more likely to agree upon lower trade barriers than pairs comprised of different political systems, i.e. a democracy and an autocracy. As a result, democracies will trade more with each other than they do with states in different regime type (Bliss & Russett 1998; Mansfield, Milner & Rosendorff 2000; Milner & Kubota 2005; Morrow, Siverson & Tabares 1998). Therefore, it may infer that democratic states are more likely to advance economic cooperation/integration which may bring more welfare for their peoples. To measure the level of joint democracy in a dyad, I follow the operationalization developed by Oneal and Russett (1999), $JntDem = (\text{the score of country A} + 10) * (\text{the score of country B} + 10)$. I use the standard index which combines autocracy and democracy scores to create a scale from -10 (autocracy) to +10 (democracy). The updated and corrected data from the Polity IV provide the indicator for regime type (Marshall, Jaggers & Gurr 2007).

Non-Communist Group, the End of Cold War, and Asian Financial Crisis may also exert influence on Southeast Asians' political and economic cooperation. It is often argued that the Cold War tension in Southeast Asia reached its highest point during the Vietnam War, but the tension decreased after 1975 (Alagappa 2003). The relief of

the tension reinvigorated interstate cooperation within the non-communist group to cope with the new regional situation and made those members in the non-communist group able to pay more attention in economic development after the end of Vietnam War. In fact, the members of non-communist group are also ASEAN members. However, the tension still held between communist states and non-communist states or between communist states, for example, Vietnam's invasion to Cambodia in 1978, a board war between Thailand and Laos in 1986, and conflicts between Vietnam and Thailand during 1978-1988. Economic communication was also little between communist states and non-communist states or between communist states. Therefore, it is proper to expect to observe more cooperation between non-communist states during 1978-1988. After Cold War, the relationship between Southeast Asian states was gradually normalized because the sheer tension in the region generally relaxed. So, it is reasonable to expect a greater region-wide cooperation after Cold War. In addition, 1997 Asian Financial Crisis which started from Thailand is another event that severely affected economic activities in Southeast Asia. The consequence of the crisis was that all Southeast Asian states suffered from different level of a loss of demand and confidence, which can disrupt ongoing cooperation and impede planned cooperation in the future. Therefore, I control for the effect of these historical consequences. *CW89* and *FC97* are dummy variables. The former is coded as 1 since 1989 and the latter since 1997. *NonCom_CW* is the dichotomous variable that is coded as 1 when the two states in a dyad are non-communist states during 1978-1988; otherwise it is coded as 0.

GDPa, GDPb, POPa, POPb, Distance, and Integration(lagged) are standard variables of the gravity model of trade. *GDPa* and *GDPb* are measures of national incomes of the two states in a dyad respectively, which are expected to positively associated with the dyadic trade. *Popa* and *Popb* are the populations of the two states in a dyad respectively. Population is an indicator of domestic market size. The larger the population, the greater the domestic demand and the more goods the economy is likely to produce without relying on export markets. They are inversely associated with the dyadic trade. *Distance* is measured with the great circle distance between the capitals of the two states in a dyad. Distance will increase transportation costs and is expected to reduce the dyadic trade. *Integration_lag* is the lagged dependant variable that is included to control for path dependence and history in trade patterns.

Gleditsch's (2002) GDP and population data is used.

Hence, the model is

$$\ln(\text{Integration}) = \ln(\text{Competition}) + \text{JntASEAN} + \text{Disputes} + \ln(\text{JntDem}) + \\ \text{NonCom_CW} + \text{FC97} + \text{CW89} + \ln(\text{GDPA}) + \ln(\text{GDPB}) + \ln(\text{Popa}) + \ln(\text{Popb}) + \\ \ln(\text{Distance}) + \ln(\text{Integration_lag}) + \text{error term}$$

VII. Results

Table 1 presents results for the model estimated. *Competition* is positive and statistically significant, showing the support to the prediction of the theory that the competition between China and the US on Southeast Asian states' allying motivates these Southeast Asian states toward closer cooperation/integration. The outcome of *JntASEAN* is negative and not statistically significant, reflecting that collective agreements on political and economic schemes did not produce salient force to regional cooperation/integration. There might be two reasons give rise to the insignificant *JntASEAN*. One is that bilateral approach outweighed multilateral one in political and economic communications in Southeast Asia. The other is that the coverage of time in the analysis is not long enough to observe the effect of these collective agreements. The implementation of these agreements is more complicated and time-consuming so that it is difficult to observe the outcome of these agreements in a short time. *JntDem* and *Dispute* are not statistically significant, showing that both variables are irrelevant to Southeast Asian cooperation/integration. The result of *FC97* shows that Asian Financial Crisis did not make strong negative impact on the pace of interstate cooperation in the region. *CW89* is insignificant too but its sign is contradicted to the expectation. The outcome of *NonCom_CW* is as expected, showing that the end of Vietnam War facilitated those non-communist states to develop closer relationships and left more room to these state to focus on economic development during the period of Cold War. The results of all gravity model variables except Distance are as predicted. All in all, the competition on allies between major powers in the scenario of power transition is a crucial source to stimulate small states' cooperation.

Table 1: Effect of China vs. U.S. Competition on Southeast Asian Cooperation/Integration (1978-2000)

VARIABLES	Integration
Competition (U.S. vs. China)	1.209e-01* (0.061)
JntASEAN	-2.915e-01 (0.247)
JntDem	2.942e-02 (0.114)
Dispute	1.037e-02 (0.262)
NonCom_CW	8.022e-01*** (0.277)
FC97	-2.185e-01 (0.130)
CW89	-3.277e-01 (0.374)
GDPa	6.566e-01*** (0.176)
GDPb	6.762e-01*** (0.226)
Popa	-2.698e-01* (0.142)
Popb	-3.737e-01** (0.140)
Distance	-2.506e-01 (0.201)
Integration(lagged)	7.478e-01*** (0.061)
Constant	-2.209e+01*** (5.922)
Observations	756
R-squared	0.772
Robust standard errors in parentheses	
*** p<0.01, ** p<0.05, * p<0.1	

VIII. Conclusion

China's rise has been seen as the most important factor that affects the trajectory of regional development in the Asia-Pacific. The promotion of China's national capability brings the region a great opportunity to enhance regional prosperity, but at the same time it also brings uncertainty to small states. In the course of economic reform started from 1978, China adopted benevolent foreign policy in order to create benign environment for economic development. Continuing high economic growth greatly strengthened China's comprehensive national power. Increase in national power gives rise to the motivation to expand influences in world affairs. Instead of aggressive expansionist policy, China adopted a "charm offensive" strategy to expand

its sphere of influence. It is a cooperation-pronged strategy using sophisticated economic and political means in order to prevent the image of threat to the periphery states in the region. The principle of peaceful rising literally contributes to successful expansion of China's influence and allying networks. Prompt, ambitious but relatively quiet expansion of China's influence in regional affairs compelled the United States to adjust its foreign policy toward the Asia-Pacific. Besides existing bilateral approach, the United States increasingly engages in and supports the development of regional multilateralism that has been actively advanced by small states in the region, especially ASEAN states. The adjustment of traditional foreign policy shows that the United States starts a comprehensive competition with China on the sphere of influence in the Asia-Pacific. At the same time, it also observed that small states in the region, Southeast Asian states here, actively promote cooperation/integration to response to this regional development in terms of major power competition. The observation of these policy behaviors of China, the United States, and Southeast Asian states constitutes the structural-dynamic theory of small state cooperation behavior in power transition system. The argument of the theory is hypothesized and tested. The result of statistical analysis shows a support to the theory when controlling for several relevant variables in the model. Therefore, it may conclude that the effect of major power competition should not be ignored when someone wants to understand cooperation/integration between small states and the development of international relations in the Asia-Pacific.

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