More Guns, Less Butter?

China-U.S. Arms Race Behind Southeast Asia's Economic Boom

Sugiarto Pramono

Abstract: Economic growth and arms race are interesting phenomena in Southeast Asia. Contrary to the view of a majority of scholars that arms race has generally negative impact on economic growth, this article argues that the arms race between China and the United States in the South China Sea helps to create a balance of power, which reinforces regional political stability and further drives economic growth. Thus, in an indirect way, the arms race aids economic growth in Southeast Asia. Elaborating on a discourse that arms race is a natural reality in international politics which must be responded to by a positive approach, this study aims to open a new space for debate and further research and offers a new perspective to understand the phenomenon.

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Southeast Asia has become both a dynamic and unique region against the backdrop of global economic slowdown over the past decade. It is dynamic because on the whole, the GDP per capita in the Association of Southeast Asian Nations (ASEAN) has increased by more than 63 percent. Equally remarkable, Southeast Asia has become the fourth largest recipient of foreign direct investment (FDI) in the world, following the United States, Hong Kong and the Chinese mainland. The region's total trade stands at US\$ 2.3 trillion, accounting for 7.6 percent of the world's total. Furthermore, Southeast Asia's population has grown to be the third largest in the world, after China and India, with an annual growth rate of 11.1 percent since 2007.¹

It is unique, because while the regional economy continues growing, there is an ongoing arms race, mild as it is — in which competing states are stimulating one another to divert increasing proportions of their national income to military buildup, led mainly by the two great powers, China and the United States, in the South China Sea. The contention between the great powers has generated huge impact on some Southeast Asian countries, particularly Singapore, Vietnam, Indonesia and the Philippines (under the Aquino government), which are eager to upgrade their military capacity, although those efforts are not in any way intended to gain parity with China.² The “Freedom of Navigation operations (FONs)” of the U.S. navy include activities by Nimitz-class aircraft carrier USS *Carl Vinson* (CVN 70), Destroyer Squadron (DESRON) 1's Arleigh Burke-class guided-missile destroyer USS *Wayne E. Meyer* (DDG 108), and aircraft from Carrier Air Wing (CVW) 2 after Beijing reiterated its “irrefutable claim” to most of the land features and adjacent waters in the South China Sea,³ reflecting mounting

¹The ASEAN Secretariat, *ASEAN Economic Community Chartbook 2016*, <http://www.aseanstats.org/wp-content/uploads/2016/11/AEC-Chartbook-2016-1.pdf>.

²Felix Heiduk, “An Arms Race in Southeast Asia? Changing Arms Dynamics, Regional Security and the Role of European Arms Exports,” *SWP Research Paper*, No. 10 (August 2017), p. 24.

³“Carrier Strike Group 1 Conducts South China Sea Patrol,” America's Navy, February 18, 2017, http://www.navy.mil/submit/display.asp?story_id=98973.

rivalry between both countries for regional predominance in the South China Sea and Southeast Asia at large.

Theoretically, economic growth and arms race are two opposing variables, a “guns vs. butter” game: when one proceeds, the other will diminish, because “political stability has a robust and significant total effect but an insignificant direct effect on growth,”⁴ and that arms race disturbs stability. A number of political scientists believe that arms race has a negative impact on economic growth. For example, Larrosa argues that “a tight arms race can harm growth.”⁵ Paparas, Richter, and Paparas state that “there is a negative impact of military spending to economic growth.”⁶ Constantin also wrote that “qualitative and quantitative expansion of the arms race has a negative impact on international relations and their stability”⁷ and automatically has destructive impact on the economy. While these scholars argue that arms race exerts negative impact on economic growth, this article tries to construct an opposite view. It posits that the arms race between China and the United States in the South China Sea has created a balance of power in Southeast Asia, which enhances regional political stability; and stability is a key contributor to economic growth. Therefore, the U.S.-China arms race has generated, indirectly, positive influence on economic growth in Southeast Asia.

Balance of Power: U.S.-China Arms Race in the South China Sea

Throughout history, undeveloped information technology has many times caused a “prisoner’s dilemma” among rivaling nations. The defensive

⁴Ranmali Abeyasinghe, “Democracy, Political Stability, and Developing Country Growth: Theory and Evidence,” Honors Projects 17 (2004), p. 28, https://digitalcommons.iwu.edu/econ_honproj/17.

⁵Juan M. C. Larrosa, “Arms Build-up and Arms Race in Optimal Economic Growth,” *International Journal of Economic Theory*, Vol. 12, No. 2 (2016), p. 1.

⁶Demitrios Paparas, Christian Richter, and Alexandros Paparas, “Military Spending and Economic Growth in Greece and the Arms Race between Greece and Turkey,” *Journal of Economics Library*, Vol. 3, No. 1 (2016), p. 54.

⁷Constantin et al., *Study on the Economic and Social Consequences of the Arms Race and Military Expenditures* (New York: United Nation Publication, 1989), p. 65.

moves of one nation are regarded as offensive and invite equal retaliation from the other, and the escalation of strategic distrust and military buildup finally leads them into major conflicts. As Colin S. Gray describes, “an arms race takes place if two or more hostile parties quickly increase or improve their weaponry and orientate their respective defence policies on the past, present or anticipated military and political behavior of their opponent.”⁸ To be more specific, when country A increases its military power, either for defensive or offensive purposes, it may possibly be understood by a rival country B as a threat. Then country B may think that the most rational response is to strengthen its own security status as a counterbalance — both through internal balance (by enhancing its military capacity accordingly) and, if it is confined by limitation of resources or other factors, through external balancing (by seeking alliance with a third party).⁹

With rapidly developing information technology today, however, the “prisoner’s dilemma” is slowly losing its relevance. Arms race does not easily lead competing nations into war any more. Rather, it would likely turn into a balance of power, “in which power is distributed among several nations with approximate equality,”¹⁰ mainly because the convenience and promptness of communication between countries involved allow them to manage positions and actions into a situation where “no single actor becomes so powerful so as to challenge the sovereignty and independence of other states.”¹¹ In the case of the U.S.-China arms race in the South China Sea, the intensity of communication and high economic interdependence between both great powers have

Close communication
and economic
interdependence
prevent tensions
between rivaling
states from escalating
into acute conflicts.

⁸Colin S. Gray, “The Arms Race Phenomenon,” *World Politics*, Vol. 24, No. 1 (1971), pp. 39–79.

⁹Richard W. Mansbach and Kristen L. R., *Introduction to Global Politics* (Translated to Bahasa by Amat Asnawi), (Bandung: Nusamedia, 2002), p. 337.

¹⁰Hans J. Morgenthau, *Politics among Nations: The Struggle for Power and Peace*, Brief Edition (Beijing: Peking University Press, 2004), p. 183.

¹¹Ralf Emmers, *Cooperative Security and the Balance of Power in ASEAN and the ARF* (London and New York: Routledge, 2003), p. 154.

prevented the arms race from turning into major military conflicts, but created a sort of balance of power instead, which can be seen from two indicators.

One is growing contention between China and the United States in the South China Sea. For one, there has been increasing strategic distrust between them due to their different political traditions, value systems, and cultures, insufficient understanding of each other's policy-making processes, and the perceived narrowing power gap.¹² For another, the lasting competition between them in economic, technological, military and other fields has led both sides to regard the other as a rival. The latest U.S. national security strategy report explicitly labels China as a "rival;"¹³ similarly, Chinese Major General Zhu Chenghu also stated in an article that China and the United States are partners in some areas and rivals in others.¹⁴ As a result, when China accelerated its naval buildup and began land reclamation activities in the South China Sea, the United States started to deploy more naval vessels to the region and increased its security engagement with regional allies and partners. Furthermore, as observed by Alexander Neill, head of the Asia Security Programme at the Royal United Services Institute, a new high-tech arms race between China and the United States is apparently on the rise.¹⁵

The other indicator is the impact of U.S.-China strategic competition on Southeast Asian countries, most important of which is their growing fear of an arms race between the two great powers in the South China Sea. As James Johnson pointed out, "International relations (IR) scholars of various stripes generally agree that the security dilemma is an inescapable condition in world politics."¹⁶ Thus, the sense of fear has promoted many

¹²Kenneth Lieberthal and Wang Jisi, *Addressing U.S.-China Strategic Distrust* (John L. Thornton China Center Monograph Series, Number 4, March 2012), pp. 35–36.

¹³The White House, *National Security Strategy of the United States* (Washington, D.C.: White House, December 2017).

¹⁴"The U.S. and China: Partners, Rivals or Adversaries?," NCAFP, March 28, 2016, <https://www.ncafp.org/u-s-china-partners-rivals-adversaries/>.

¹⁵"Viewpoint: A New Sino-US High-tech Arms Race?," BBC News, January 11, 2011, <http://www.bbc.com/news/world-asia-pacific-12154991>.

¹⁶James Johnson, "The Shadow of a U.S.-China Arms Race," Institute of Asia and Pacific Studies, <https://iapsdialogue.org/2017/08/01/the-shadow-of-a-u-s-china-arms-race/>.

Southeast Asian countries to increase their military spending accordingly (see Table 1), exacerbating the arms race in the region.

According to the Stockholm International Peace Research Institute (SIPRI), China's military expenditure more than tripled between 2007 and 2016, while that of the United States largely remained the same through the years. Among the ten ASEAN members, Singapore and Indonesia record the largest military expenditure, while Cambodia, Indonesia and Vietnam rank highest in growth of military spending; the Philippines, Singapore and Thailand have also expanded their military budget significantly.

There are definitely different reasons for each of these ASEAN states enhancing military buildup over the past decade. For example, enduring border disputes with neighboring countries and mounting pressure from separatist or terrorist forces are both important factors for growing military expenditure of the Philippines, Thailand, Myanmar and Indonesia. Nevertheless, China's rapidly rising military power — especially its accelerated naval buildup and land reclamation in the South China Sea — is undoubtedly a major factor behind the growing military expenditure of Vietnam and the Philippines (under the Aquino government), the two most involved disputants in the South China Sea issue, and Singapore, which has positioned itself as a most active contributor to regional security. Certainly, the increasing military spending of Southeast Asian states is not meant to be a counterweight to China; as former Philippine President Benigno Aquino professed, entering into an arms race with China would be “idiotic.”¹⁷ Nevertheless, when a Southeast Asian state starts to increase its military budget, its neighbors tend to follow suit, for all of them are quite vulnerable to major military conflicts either among themselves or between great powers like China and the United States.

With continuing shift of the U.S. strategic focus onto the Asia-Pacific region, especially the South China Sea, and accelerating military buildup of China and many Southeast Asian states, the U.S.-China strategic competition has not led to major military conflicts between

Despite their military competition, China and the U.S. have created a balance of power in the South China Sea.

¹⁷Nikko Dizon, “Aquino Takes Up Cudgels for Roxas,” *Philippine Daily Inquirer*, April 1 2016, <http://newsinfo.inquirer.net/777276/aquino-takes-up-cudgels-for-roxas>.

Table 1. Military Expenditure by the U.S., China and Southeast Asian Countries (2007–2016), in Current US\$ million.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
U.S.A.	556961	621131	668567	698180	711338	684780	639704	609914	596010	611186
China	68012	86362	105644	115712	137967	157390	179880	200772	214093	215176
Brunei	323	362	350	391	415	411	412	528	424	403
Cambodia	79.0	82.6	137	168	192	217	243	278	381.3	370
Indonesia	3349	3232	3304	4663	5838	6531	8384	6929	7639	8183
Laos	14.8	16.3	14.0	15.4	19.0	20.3	22.7	N/A	N/A	N/A
Malaysia	3971	4412	3965	3854	4692	4507	4916	4919	4532	4169
Myanmar	N/A	N/A	N/A	N/A	N/A	2969	2367	2373	2552	N/A
Philippines	2014	2271	2116	2438	2701	2899	3377	3103	3336	3899
Singapore	6519	7454	7538	8109	8922	9172	9346	9597	9394	9959
Thailand	3523	4466	4800	4962	5513	5492	5901	5730	5733	5880
Vietnam	1784	2138	2401	2672	2687	3361	3727	4256	4563	5017

Source: SIPRI Military Expenditure Database: 1988–2016, <https://www.sipri.org/sites/default/files/Milex-constant-2015-USD.pdf>.

both great powers but has increasingly brought about a balance of power. The main reasons are, as mentioned previously, growing economic interdependence and enhanced communication between China and the United States; their tacit consensus on preventing major crises or acute conflicts from happening also plays a crucial part. Against this background, regional countries are more accustomed to China's rise, and the arms race between China and the United States in the South China Sea has generated, albeit indirectly, a new situation of stability in the region.

Creation of Regional Stability in Southeast Asia

The balance of power between China and the United States diminishes the likelihood of either side resorting to arms in times of disputes or even conflicts, for both sides are cautious of a "tit-for-tat" scenario that may finally lead to war, which is clearly detrimental to both. This is why a balance of power can promote political stability in the region. As stated by Hans Morgenthau, "balance" is a synonym for "equilibrium,"¹⁸ and "all such equilibrium ... maintain[s] the stability of the system without destroying the multiplicity of the elements composing it."¹⁹ In other words, balance of power creates stability almost spontaneously. In a similar vein, Kenneth Waltz wrote in his famous *Theory of International Politics* that "Some [scholars] believe that a balance of power is the best guarantee of the security of states and the peace of the world."²⁰

Balance of power ensures that no single actor becomes too powerful to be able to challenge the sovereignty and independence of other states,²¹ thus creating stability. This paper adopts the definition of "stability" by Karl Deutsch and J. David Singer, which refers to "the probability that the system retains all of its essential characteristics; that no single nation becomes dominant; that most of its members continue to survive; and that

¹⁸Morgenthau, *Politics among Nations*, p. 183.

¹⁹*Ibid.*, p. 185.

²⁰Kenneth K. Waltz, *Theory of International Politics* (Berkeley: Addison-Wesley Publishing Company, 1979), p. 117.

²¹Emmers, *Cooperative Security and the Balance of Power in ASEAN and the ARF*, p. 154.

large-scale war does not occur.”²² Based on such definition, regional stability is prevalent when: (1) no single nation becomes dominant;²³ (2) most of its members continue to survive; and (3) large-scale war does not occur. This section attempts to examine the three indicators in Southeast Asia.

First of all, there is no single nation becoming dominant in the region. Although Indonesia has the largest population, geographical expansion and pool of natural resources among the 10 ASEAN members, it is by no means a dominant nation, not least in its military power. In fact, as indicated in Table 1, Singapore ranks first in military expenditure — apparently, it does not keep such a high military budget to seek regional dominance, but to safeguard its interest as an international port country. Besides, in terms of the proportion of annual military spending in the total Gross Domestic Product (GDP), the numbers for Myanmar, Vietnam, and Singapore between 2012 and 2016 are all higher than that for Indonesia (over 2 percent for Vietnam, over 3 percent for Singapore, and over 4 percent for Myanmar, versus the less than 1 percent for Indonesia). That means that Indonesia is neither a dominant nor an aggressive nation in the region.

China-U.S. power balance helps foster stability in Southeast Asia.

How about such great powers as China and the United States that are seen as external powers by ASEAN members? The answer is “no.” Indeed, for a time after the end of the Cold War, the United States remained a dominant power in Southeast Asia, and its dominant status played a key role in main-

taining regional stability. In addition, the principles of non-aggression and non-intervention into others’ internal affairs have been by and large observed by the United States and among ASEAN members. Therefore, despite the many potential conflicts among Southeast Asian countries, there has never been an open war in the region over the past three decades. Now,

²²Karl W. Deutsch and J. David Singer, “Multipolar Power Systems and International Stability,” *World Politics*, Vol. 16, No. 3 (April 1964), p. 390.

²³It is important to add that stability can also occur under hegemony. As a scholar correctly points out, “According to the theory of hegemonic stability, the role played by a hegemonic power is very important in creating stability.” See Noor Mat Yazid, “The Theory of Hegemonic Stability, Hegemonic Power and International Political Economic Stability,” *Global Journal of Political Science and Administration*, Vol. 3, No. 6 (December 2015), p. 67.

as the rise of China and its growing presence in the South China Sea become a counterweight to the U.S. dominance, a new situation of stability is taking shape in the region, from a U.S.-dominated one to one built on the power balance between China and the United States, which is expected to be more sustainable and less subject to the caprice of one single dominant power.

Secondly, all Southeast Asian countries continue to survive, if not thrive. Despite the domestic political upheaval in nearly all ASEAN countries at certain periods of time in contemporary history, no significant crisis has been triggered at the regional level, in large part because of the principle of non-intervention that has prevented Southeast Asian countries from exploiting other countries' internal turmoil for their own short-term benefits. In the meantime, thanks to the rapid development of globalization and effective economic policies of many national governments, Southeast Asia has enjoyed nearly three decades of economic process — though with ups and downs due to the fluctuating international market, as evidenced by the 1997/1998 Asian Financial Crisis. That, in turn, is conducive to the maintenance of regional stability. It should be noted that even at that time, China's rising economic power played a crucial role in stabilizing the regional financial market while the United States and the West at large basically stood aside doing little to help. From this perspective, a balance of power between China and the United States not just militarily, but in the economic sense as well, is helpful to the long-term stability of the region.

Thirdly, no large-scale war occurred or is likely to occur in the foreseeable future. As discussed above, there exist many potential conflicts in Southeast Asia — not only such territorial disputes as between Thailand and Cambodia as well as between Vietnam and Cambodia, but also the conflicting territorial and maritime claims to the South China Sea by China and several ASEAN countries. Western media tend to depict the South China Sea disputes as China standing on one side and all Southeast Asian nations standing on the other. But the fact is that Indonesia, Malaysia and Singapore have been engaged in trilateral conflicts over border demarcation in the Malacca Strait for many decades. Disputes among them also include fire fog in Riau, Singapore's claim on Batu Putih Island (Pedra Branca) in the Johor Strait, Singapore's protest over the naming of the Indonesian Vessel (KRI) Usman Harun, and Malaysia's enduring accusation of Singapore as a U.S. agent in Southeast Asia.

On the bilateral level, Indonesia and Malaysia compete over the ownership of the Sipadan and Ligitan Islands, have border disputes in Sulawesi Sea Waters and the Kalimantan Island (Ambalat Block), and argue about the situation of Indonesia workers in Malaysia; the Philippines has claims to the territory of the Sabah Sultanate in East Malaysia; Brunei and Malaysia have had disagreements over unmarked territorial boundaries on the mainland of Sarawak, East Malaysia, and the boundaries of their Exclusive Economic Zones (EEZs); Cambodia and Thailand have occasional skirmishes over the ownership of the Hindu temple of Preah Vihear; China, in particular, engaged with Vietnam (1974, 1988, 1992, 1994) and the Philippines (1995, 1996, 1997, 1999) in military standoffs and even brief clashes over territorial or maritime disputes in the South China Sea. Nevertheless, none of those conflicts escalated into a major war.

In short, the relatively stable situation in Southeast Asia is, to a large extent, a result of the U.S. hegemony during the decade following the end of the Cold War, and the growing balance of power between the United States and China in the region in the 21st century. While taking actions in political, military or economic arenas, both great powers tend to take the other's potential reaction into consideration, and thus exercise substantive self-restraint and seek timely communication with each other in case of potential conflicts, which ensures the basic stability of Southeast Asia.

Economic Growth as a Result of Stability

Economics refers to human activities in production, distribution, and consumption of goods and services, and stability is one of the key factors to whether these activities can run smoothly. With a total population of over 634 million in 2016,²⁴ Southeast Asia has grown to be a rapidly emerging economy and an enticing market for the world.

Apart from the large population providing strong market potential, political stability in Southeast Asia has also served as a major contributor to regional economic growth over the past few decades. Naturally, political stability in a region generates certainties and expectations for economic actors so that they are willing to keep investing in the region and thus boost

²⁴The ASEAN Secretariat, "Social Progress," <http://www.aseanstats.org/publication/asean-social-progress-in-50-years/?portfolioCats=64>.

market growth. As the value chains expand and inter-connectivity grows among different sectors, lasting economic growth also contributes to stability of the region. That is the basic reason for the “golden age of Southeast Asia.”

Evidently, economic growth and political stability are deeply interconnected.²⁵ As Abeyasinghe wrote, “political stability is a significant positive determinant of growth.”²⁶ Muhammad Younis also found that “[p]olitical stability is playing an important role in determining economic growth in Asian economies.”²⁷ Similarly, Ari Aisen and Francisco

Regional stability contributed much to the long-lasting economic boom in Southeast Asia.

José Veiga observe that “higher degrees of political instability are associated with lower growth rates of GDP per capita.”²⁸ In the context of Southeast Asia, because the balance of power between China and the United States enhances regional stability, and the ASEAN has been playing a central role in regional economic integration, at least until recently, the whole region has by and large become a war-free zone, which attracts growing investment and creates increasing business opportunities for the region and the whole world.

As Figure 1 indicates, since the end of the Cold War, except for the short period from 1997 to 1999 (during the Asian Financial Crisis), Southeast Asia’s economic growth rate has always surpassed that of the world average. According to the *ASEAN Economic Community Chartbook 2016*, the ASEAN’s GDP per capita in nominal value increased by 63.2 percent from US\$2,369 in 2007 to US\$3,867 in 2015, and its GDP per capita (purchasing power parity, PPP) increased by 56.1 percent from US\$7,052 in 2007 to

²⁵ Alberto Alesina, Sule Özler, Nouriel Roubini and Phillip Swagel, “Political Instability and Economic Growth,” *Journal of Economic Growth*, Vol. 1, No. 2, (June 1996), pp. 189–211.

²⁶ Ranmali Abeyasinghe, “Democracy, Political Stability, and Developing Country Growth: Theory and Evidence,” p. 8.

²⁷ Muhammad Younis *et al.*, “Political Stability and Economic Growth in Asia,” *American Journal of Applied Sciences*, Vol. 5, No. 3 (March 2008), p. 208.

²⁸ Ari Aisen and Francisco José Veiga, “How Does Political Instability Affect Economic Growth?,” *European Journal of Political Economy*, IMF Working Paper, No. 12 (January 2011), p. 1.

Fig. 1. GDP Growth of Southeast Asian Economies.

US\$11,009 in 2015.²⁹ Furthermore, the ASEAN has nearly doubled its share in the world GDP from 3.3 percent in 1967 to 6.3 percent in 2016, to become the sixth largest economy in the world and the third largest among Asian countries, following China and Japan.³⁰ The ASEAN's total trade stood in 2015 at US\$2.3 trillion, accounting for 7.6 percent of the world's total and placed fourth only after China (13.8 percent), the United States (13.6 percent) and Germany (8.0 percent).³¹ More importantly, the poverty rate in the region has dropped from 47 percent in 1990 to 14 percent in 2015.³² FDI in the ASEAN has also grown nearly three times from less than US\$42.5 billion in 2005 to US\$120 billion in 2015,³³ making it the fourth largest

²⁹The ASEAN Secretariat, *ASEAN Economic Community Chartbook* 2016.

³⁰The ASEAN Secretariat, "Economic Progress," <http://www.aseanstats.org/publication/asean-economic-progress-in-50-years/?portfolioCats=64>.

³¹The ASEAN Secretariat, *ASEAN Economic Community Chartbook* 2016.

³²The ASEAN Secretariat, "Economic Progress."

³³"ASEAN Foreign Direct Investment Infographic," *ASEANstats*, 2017, <http://www.aseanstats.org/publication/asean-fdi-infographic/?portfolioCats=17>.

recipient of FDI in the world following the United States (21.6 percent), Hong Kong (9.9 percent) and the Chinese mainland (7.7 percent).³⁴

Economic interdependence among regional countries has also grown deeper. There is much empirical evidence indicating the ever-closer economic ties between China and the ASEAN.³⁵ The “reorganization of regional production networks has emerged, in which the intra-regional cooperation and integration has been strengthened.”³⁶ Such economic interdependence and the integration of regional value chains have both enhanced regional stability in return. Thus, there appears a virtuous cycle in Southeast Asia where the growing military expenditure of regional countries helps create a balance of power among them, leading to more sustainable stability and thus boosting regional economic growth, which, in turn, continues to strengthen regional stability. The traditional dilemma between guns and butter seems to have lost its relevance in Southeast Asia over the past few decades.

Conclusion

This article attempts to construct a new hybrid of theories through combining the balance of power in realist tradition and economic growth in development theory. The fact that increase in military expenditure on one side and economic growth on the other in Southeast Asia can be understood as a unique case: although an arms race generally results in slowdown of the economy, in Southeast Asia, it encourages economic growth.

The arms race between China and the United States in the South China Sea, which has to a large extent triggered a wave of

Arms race can be managed in an interdependent world with positive approaches.

³⁴The ASEAN Secretariat, *ASEAN Economic Community Chartbook* 2016.

³⁵Arunnan Balasubramaniam, Puah Chin-Hong, and Shazali Abu Mansor, “Economic Interdependence: Evidence from China and ASEAN-5 Countries,” *Modern Economy*, No. 3 (2012), p. 125, <http://dx.doi.org/10.4236/me.2012.31017>.

³⁶Yang Chun, “Relocating Labour-intensive Manufacturing Firms from China to Southeast Asia: A Preliminary Investigation,” *Journal of Global South*, Vol. 3, No. 3 (October 2016), p. 11.

increasing military expenditure among almost all Southeast Asian countries, serves as a salient example. While the United States keeps close military relations with Singapore, the Philippines and Thailand, China has enjoyed close political and security ties with Cambodia, Laos, and Myanmar. Close relations with either of the two great powers add bargaining chips to those smaller countries when negotiating with their neighbors. For example, Cambodia and Laos have greater confidence when they are in disputes with Thailand and Vietnam, respectively. Likewise, Singapore, the smallest country in Southeast Asia as it is, maintains strong confidence in the face of Malaysia and Indonesia. This situation creates a balance of power in the region, so that potential and actual conflicts can hardly escalate into a major war. Lasting peace and stability make the region ever more attractive for investment from the world.

The major finding of this research is that the arms race between China and the United States in the South China Sea has become a process of regional power balance, which strengthens political stability and makes the region a dynamic engine of economic growth. China's rapid rise, in particular its growing presence in the South China Sea, has shifted the source of stability in Southeast Asia from the U.S. hegemony in the decade following the end of the Cold War to a balance of power between China and the United States, which has enhanced regional economic growth because there is much competition among nations that participate — directly or indirectly — in the power-balancing process. In contrast, economic growth based on U.S. hegemonic stability is relatively stagnant.

A few more points need to be noted at the end of the article: first, arms race is a common phenomenon in international politics, thus it must be addressed through a positive approach of trust, communication and economic exchange. Many countries tend to choose a negative response to arms race by hindering the flow of investment, tourism and other economic activities from or into their competitors. That would only create new problems such as economic downturns and growing hostility. Instead, they need to seek every means to expand their communication and exchange. Next, increasing interdependence among countries creates a situation where it is difficult, if not impossible at all, to take war as a policy, for the cost is too high. Thus, competing countries should take efforts to promote their interdependence in such sectors as economy, education, culture, technology and information, so as to foster more common interests and

strengthen their need for each other. Finally, advanced communication technologies today can greatly help with the management of an arms race. As timely communication between key decision-makers minimizes the possibility of misjudgment and miscalculation, even when a conflicting situation does occur, it may well be managed by concerned parties and possibly turned into a new opportunity for enhancing their communication and cooperation.