

Introduction

China's asymmetrical relationships with its economically small and weak neighbors constitute an increasingly important yet underexplored research topic. Gross domestic product of the small neighbors bordering China is between 2.0 percent of China's, at best, and 0.1 percent, at the lowest. This volume examines the political implications of the economic asymmetry between China and the small neighbors, part of wider changes in international relations brought about by the rise of China. It also looks into the small neighbors' use of the strategy of hedging-on and hedging-against vis-à-vis China, a strategy that depends on the availability of policy instruments such as multilateral institutions and bilateral partnerships with extraregional powers. The political economy of China's relations with its neighbors is important for understanding China's future, and thus this study may enrich discussions of China's rise in world politics more broadly. The small states under examination in this volume are North Korea and Mongolia in Northeast Asia; Uzbekistan in Central Asia; and Myanmar, Cambodia, and Vietnam in Southeast Asia.

My motivation for undertaking this analysis is my dissatisfaction with the current trend among scholars who tend to focus on the worsening China-US relationship alone. Realists, in particular, have concentrated on analyzing this rivalry through the lens of grand theories, such as competition for hegemony, power transition, balance of power, and bipolarity. And they hold that in order to avoid future US-China conflict, the world should be divided and managed as it was during the Cold War era, or that the United States should adjust to the changes the rise of China entails.

However, a grand theoretical analysis of China-US relations and any corresponding proposals must be preceded by a microanalysis of China's advances toward its neighbors in Asia. Analysis of the political economy

of China's relations with its neighbors is a guide to understanding the trajectory of China's expanding influence, and it may also assist us in a nuanced analysis of the intensifying China-US competition. Geopolitically, China is a continental power; its borders are two-thirds continental and one-third maritime. The maintenance of stability on both sides of its borders—and within its neighboring countries—is a matter of national interest for Beijing. For instance, the Beijing authorities believe that the security of the Chinese heartland depends to a great extent on the stability of Xinjiang, Tibet, Hong Kong, Kyrgyzstan, and Tajikistan, as well as control of the Taiwan Strait. This is the *geopolitics of fear*, to use Tim Marshall's term, which China has to cope with.¹

China borders four subregions of Asia: Northeast Asia, Central Asia, South Asia, and Southeast Asia. For China, control of its borders is no less important than the management of its relations with the United States and the continued expansion of its relations with the countries of Europe. China has made efforts not only to enhance the level of its economic engagement on all continents, including Asia, Europe, Latin America, and Africa, but also to expand its proactive and assertive maritime policy in the East and South China Seas, the Andaman Sea, the Bay of Bengal, the Arabian Sea, and, more broadly, the Indian Ocean. All these efforts on the part of China will be consequential only if Beijing handles its borders with the above-mentioned subregions of Asia well. If it does this, China will be able to project its power among its neighbors and have an impact on regional and world politics. This is the context in which China conducts its external relations, including its competition with the United States.

China is trying to take advantage of the increasingly interdependent global market, rather than seeking to replace it, in both bilateral and multilateral contexts. However, just as other great powers did in the past, China prefers to engage in bilateral relationships, particularly when it interacts with small states and when it deals with differing interests. For example, China works closely with the Association of Southeast Asian Nations (ASEAN) as a unified entity on the free trade issue, which suits the individual ASEAN members well. But when it is seeking to advance its Belt and Road Initiative (BRI), Beijing approaches ASEAN member states individually. Likewise, in dealing with sensitive and contentious issues such as the South China Sea disputes, Beijing tries to drive a wedge between the ASEAN members. China is powerful enough to penetrate the small states' weaknesses. Indeed, its bilateral dealings with these states allow China to establish special relationships based on agreements and rules

that are never made public, either within the small states or in the outside world. Leaders of the small states are normally free from internal checks and monitoring mechanisms and thus become easy targets of bribery.

Relationships between a great power and small states—in this case between China and its small neighbors—are best explained by two concepts: one is the *linkage between asymmetry and vulnerability to coercion*, and the other is *hedging*. The stark difference in material power between a great power and a small state gives rise to an asymmetrical relationship. Asymmetry here is a nuanced and operationalized concept, which I borrow from Albert O. Hirschman's idea of an unequal structure of trade relations and Brantly Womack's theorization of asymmetrical international relations.² As I show in the following chapters, asymmetry occurs in a broader context than that proposed by Hirschman—that is, in bilateral aid and investment as well as trade—and asymmetry makes the small, weak states vulnerable to the great power's coercive acts. Asymmetry leads to increasing economic reliance on the great power, which in turn makes the small states more vulnerable to the great power's intrusion into their politics. This vulnerability eventually threatens the weak states' independence and sovereignty. It is important to note that the linkage between asymmetry and vulnerability to coercion takes shape when the asymmetrical relations are embedded and embodied in the domestic politics of the small states. That is, asymmetry is converted into vulnerability, which leads to coercion or co-optation as the economic advance of the great power influences the external policy of the small state. In this regard, the asymmetry-vulnerability linkage in this volume is more operationalized than Womack's application of asymmetry to international relations in general.

Three indicators will help measure the linkage between asymmetry and vulnerability to coercion: first, trade concentration, which Hirschman and his associates have focused on; second, nontransparency, chiefly meaning corruption; and third, the prevalence of bilateralism over multilateralism in aid and investment, which enables economic exchanges to remain exceptional and secretive. Generally speaking, a small state is highly likely to be vulnerable to the great power's coercive approaches if all three factors are present. Counterintuitively, economic interdependence between a great power and a small state, even though they are starkly different in size, will *not* be an asymmetric-coercive relationship *if* their relations are not excessively skewed in terms of trade, the policy-making process of the small state is transparent, and they interact mostly within a multilateral context. There are also triangular relationships. Trade concentration and

bilateral aid not only weaken the small state's bargaining power but also allow the great power to encroach into the nontransparent domestic politics of its weaker partner. Collusion and co-optation, if not direct coercion, are means by which the great power meddles in the small state's domestic politics and eventually undermines its independence and sovereignty. By shedding light on these factors, the concept of asymmetry here links the unequal economic relationship to coercion in the political arena.

Indeed, China's small neighbors are particularly vulnerable because of their markets' excessive reliance on China, the lack of transparency in their domestic politics, and China's bilateral approach to aid and investment. Trade imbalance and market concentration tend to exacerbate already asymmetrical relationships. For the small states, Chinese investments and bilateral aid are very attractive. But Chinese aid and investment with no strings attached have the potential to corrupt the small states' elites and thus shape their national policies in a way that allows the Chinese to exert yet more influence. The corrupt domestic politics of the small states become a conduit for Chinese penetration. It is, however, notable that asymmetric relations, in general, and China's relations with its neighbors, in particular, do not necessarily result in the great power dominating or occupying a small state. The cost of occupying or dominating would be too great for China, so instead it seeks to encroach on their economies, thereby expanding its political influence. In addition, China seems to be seeking hierarchical relationships with its small neighbors. Beijing is unlikely to succeed in this as the small states adopt all available means to avoid becoming dependent on China in politics.

Hedging is another important concept that characterizes the survival strategy of the small states in their relations with China. I define hedging as a strategy of choosing a middle way between the two extremes of fluidity and immobility, or between the two opposites of commitment and decoupling. Hedging is motivated by the small states' need to reduce the risks involved in taking a clear position in their relations with China, while realizing that engagement brings with it certain benefits. Hedging is a calculated, deliberate strategy that intentionally signals ambiguity. The use of hedging per se does not automatically presuppose that a small state is two-timing or ambivalent about two great powers. Hedging between the two great powers is simply one of the many aspects of the strategy.

Hedging by a small state consists of *hedging-on* and *hedging-against* a great power. In hedging-on, the small state displays its interest in engaging with the great power for expected economic and security benefits. Since

hedging-on alone is normally risky, the small state will at the same time practice hedging-against to mitigate the risks involved in engagement. Some examples of hedging-against include establishing partnerships with extraregional great and middle powers and active participation in multilateral institutions. What T. V. Paul calls soft balancing may be categorized as a kind of hedging-against.³

Certainly, China's small neighbors consider economic development to be essential to their security, but at the same time, they do not want to endanger their survival for the sake of economic benefits. That is why they tend to adopt a risk-averse, dual-core strategy of hedging toward China. With this in mind, all of the six states I deal with in this volume are trying in various ways to establish cooperative relationships with extraregional powers such as the United States, Russia, India, Japan, and South Korea, and they also participate in multilateral institutions such as ASEAN, the ASEAN Regional Forum, the Asia-Pacific Economic Cooperation (APEC), the World Trade Organization (WTO), the Regional Comprehensive Economic Partnership (RCEP), the Shanghai Cooperation Organization (SCO), and the Organization for Security and Cooperation in Europe (OSCE). The type of hedging differs from country to country. The less vulnerable states—Vietnam, for example—are more likely to employ hedging-against in their relations with China than are the extremely vulnerable states. They have established diverse partnerships with extraregional states, joined multilateral institutions, and become further integrated into the global economy. Exceedingly vulnerable states such as Cambodia and North Korea have fewer resources for hedging-against and are therefore seriously at risk from Chinese coercion.

I offer three reasons for selecting the six small states under discussion in this volume: North Korea, Mongolia, Uzbekistan, Myanmar, Cambodia, and Vietnam. First, all of them have, since the 1990s, undergone postsocialist transition, albeit in different ways, and the China factor is increasingly important in their transitional path. Myanmar and North Korea are not, despite initial appearances, exceptions in this respect. When the military was in power in Myanmar between 1962 and 1988, they established the Burma Socialist Programme Party (BSPP) and declared the “Burmese Way to Socialism.” Their form of socialism at that time was a combination of Buddhism and Marxism. The BSPP, although not a Leninist party, headed a one-party state with an autarkic economy under which all industrial sectors were nationalized and all professionals became government servants. The new military government post-1988

led a market transition similar to that experienced by other postsocialist states. And North Korea, despite officially maintaining a socialist system, is gradually undergoing an informal marketization process. Owing to geographic proximity, China's rise has affected the transition to a market economy in all its small neighbors and increased the risk from China to varying degrees. For example, China's economic advance in Cambodia, in terms of both aid and investments, has made that country's economy even more dependent on foreign resources, a situation that is far from what was expected when Phnom Penh began its postconflict transition in the early 1990s. My second reason for choosing these countries is that all six, despite their weakness and vulnerability, are of sufficient strategic value for China and the United States to compete with each other for influence over them, and additionally, for Russia, Japan, and India to have a stake in them too. Well aware of their own strategic value, the small states are reaching out to the extraregional great and middle powers, adopting a hedging strategy instead of either seeking to balance China or bandwagoning with it. My final reason for choosing these cases is based on China's belief that interaction with these neighbors is more practical and rational than focusing on East Asia where the military, economic, and political influence of the United States remains strong, as we can see in South Korea, Japan, and Taiwan.⁴ The six states under discussion here are located in the three subregions of Asia—Southeast Asia, Central Asia, and Northeast Asia—which China sees as alternative theaters for furthering its economic and security interests. These subregions provide a strong China with more geoeconomic and geopolitical opportunities than it can find in East Asia.

In chapter 1, core elements of the relationships between China and its small neighbors—the revival of Chinese *tianxia*, complex asymmetry, bilateralism versus multilateralism, and hedging-on and hedging-against—are discussed. What makes us view China's behavior as assertive is not only its superiority in terms of all economic indexes but also its way of projecting its power domestically and externally, as observed in the revival of the concept of *tianxia*, which translates to "all under heaven," and the promotion of the China Dream. China's diplomacy, directed at its small neighbors, is multifaceted, including the establishment of multilateral institutions and the creation of diverse forms of partnership under the principle of noninterference. For the small neighbors, China's BRI is the predominant vehicle of asymmetrical connectivity and interdependence on the economic front. In response, these states are hedging-*on* China

to obtain expected benefits from Chinese aid and investments and at the same time hedging-*against* China by using diverse instruments to offset the political risks involved in this engagement. Depending on their degree of vulnerability to China and the instruments of hedging they have in hand, their hedging strategies take different forms (see the 2×2 matrix in figure 1.1). The hedging of the six states takes one of four patterns: typical hedging by Myanmar and Uzbekistan, multidimensional hedging by Mongolia, mixed hedging by Vietnam, and alignment by Cambodia and North Korea. A microanalysis of these interactions between China and its small neighbors can enhance our understanding of changes in international relations as a whole.

Chapter 2 presents a linkage between asymmetry and vulnerability to coercion as a means to explain the relationship between a great power and individual small states. It reconceptualizes Albert O. Hirschman's theory of asymmetrical dependency. This involves, first, explaining how a small state becomes vulnerable to coercion or co-optation by a great power. Second, it involves demonstrating and measuring a small state's vulnerability in terms of the three factors: trade concentration, lack of transparency, and reliance on bilateral aid. It is found that the combined effect of these three factors makes Cambodia and North Korea the most vulnerable of the six countries under investigation and Vietnam the least vulnerable.

Chapters 3 through 8 consist of analyses of China's asymmetrical bilateral relationships with each of the small states. In chapter 3, it is demonstrated that Vietnam's policy responding to China's economic advances is best characterized as one of "mixed hedging"—hedging-on in its engagement with China and the use of diverse instruments of hedging-against, including a modest element of hard balancing. Despite its involvement in the ongoing South China Sea dispute, Vietnam neither joined the Philippines in bringing a case to the Permanent Court of Arbitration (PCA) in 2013, nor did it appeal to the PCA independently afterward. In this chapter, the reasons for this reluctance are traced back to Vietnam's post-Cold War perception of the world: a duality consisting of cooperation and struggle. This perception has shaped Hanoi's concern for security and its economic policy of diversification, as well as its efforts to protect its sovereignty and independence. Despite Vietnam's disputes with China, the disunity within ASEAN, and Washington's ambiguous commitment make Hanoi unwilling to fully rely on either of these sources of support. Vietnam has cautiously developed diverse instruments for hedging-against China—building up its military, approaching Russia

and India, expanding its ties with the United States, and continuing to participate in multilateral institutions such as ASEAN, APEC, the WTO, RCEP, and the Comprehensive Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Chapter 4 shows that Cambodia has been forced align with China and that its adherence to neutrality remains nominal at best. Cambodia has been a top beneficiary of international aid for decades and is now an attractive target for Chinese aid and investment. It is extremely vulnerable to Beijing's economic advances and the resulting political influence. This vulnerability is most visible in Phnom Penh's support for Beijing's assertive stance on the South China Sea issue. Since 2012, Cambodia has become a deal breaker within ASEAN when it comes to the maritime disputes. China, in response, has increased its economic and military aid to Cambodia, and this has exacerbated the country's weakness, particularly in view of the opacity of its domestic politics in relation to aid and investment projects. The consequence is a growing risk of Chinese encroachment on Cambodia's sovereignty and independence, despite Phnom Penh's continued insistence on its neutral status. Cambodia is a member of multilateral institutions such as ASEAN, the WTO, and RCEP, and Phnom Penh can use these as a buffer against the increasing political influence of China, if only to a limited extent.

Myanmar, the subject of chapter 5, is a typical example of a state that is hedging-on vis-à-vis the economic benefits that China can offer but lacks effective means to ward off growing Chinese influence. In the past decade, Myanmar has undergone dramatic changes. The military, which had long played a caretaker role in upholding the country's sovereignty, handed over power peacefully to the National League for Democracy (NLD) under Aung San Suu Kyi after the latter's landslide victory in the 2015 election. But the NLD government's efforts to end ethnic conflict in Myanmar's borderlands encountered fresh challenges from the newly emergent Arakan Army and the growing strength of the United Wa State Army. China has played a double game offering to mediate cease-fire agreements between the government and the ethnic armed organizations (EAOs), while at the same time turning a blind eye to local Chinese support for the EAOs. China's double game has compounded Beijing's influence on Myanmar's internal affairs, and the military's return to power in 2021 boosted the Chinese influence. The success or failure of Myanmar's hedging-against China depends on whether it can achieve a smooth transition back to democracy, because democracy will enable Myanmar to

take advantage of its membership in multilateral institutions and obtain support from regional and extraregional powers such as the European Union, the United States, Japan, South Korea, Singapore, and Thailand.

The case of Uzbekistan is the subject of chapter 6. Unlike the other five cases where China is the main factor in the states' external relations, Uzbekistan's China policy has been formulated in the context of the great game between Russia, the United States, and China. It has pursued a *balanced* policy between the three great powers in order to protect its sovereignty and independence. Alongside this policy, President Shavkat Mirziyoyev's call for regional cooperation in Central Asia and his role as a mediator in the stabilization of Afghanistan were unprecedentedly proactive diplomatic initiatives, which have been paired with a reform process at home. In its relations with China, Tashkent aims to explore much-needed economic opportunities (hedging-on) while avoiding any political risks that may arise from dependence on the Chinese by expanding its economic cooperation with Russia and maintaining strategic cooperation with the United States (hedging-against). Uzbekistan welcomes Chinese participation in its infrastructure development and related financing, and it has also enhanced its cooperation with Beijing in fighting "terrorism," as China is concerned about links between radical Islamic movements in the region and Uyghur activism in Xinjiang. One downside of Beijing's financing is that the money is often diverted from its intended objectives. Uzbekistan's vulnerability is rampant corruption, with officials involved in illicit activities related to China's predatory advance.

In chapter 7, I demonstrate the ways in which Mongolia, geographically vulnerable on account of being surrounded by China and Russia, has developed a "multidimensional hedging strategy" to protect its sovereignty and independence. The backdrop to this strategy is the memory of the Cold War era, when Ulaanbaatar's security was threatened by both its geopolitical limitations and fear of entanglement in a Sino-Soviet conflict that could have led to nuclear war. Mongolia's multidimensional hedging strategy consists of three elements: maintaining a neutral stance between Russia and China, obtaining security assurances from the five permanent members of the UN Security Council, and strengthening its relationships with extraregional powers under its "third neighbor" policy. Mongolia's hedging strategy has given it a thick and multilayered buffer against external sources of insecurity, and it has thereby succeeded in reducing the external military threat. However, Ulaanbaatar has had to cope with the growing risks involved in excessive economic dependence on China.

China seems to have succeeded in penetrating Mongolia's domestic politics, thereby exacerbating Mongolia's vulnerability to China's coercive practices. Nontransparency and inconsistency are apparently intertwined with corruption at the elite level, which in turn contributes to the shaping and reshaping of important decisions related to development projects.

In chapter 8, I show that because of its isolation from the international community, North Korea has become one of the most vulnerable states to Chinese influence. Since the end of the Cold War, Pyongyang has sought to overcome its existential insecurity through the development of nuclear weapons. On account of its defiance on this count, China has, reluctantly, joined other members of the UN Security Council in imposing extremely tough sanctions on North Korea. The sanctions not only limit North Korea's imports of dual-use materials but also constrain its exports of minerals such as coal and iron ore, thus depriving Pyongyang of a source of foreign currency. There is a duality in North Korea's policy toward China which is a combination of resentment and alignment. With no progress being made in the US-North Korea negotiations and consequently the continuation of sanctions, North Korea's diplomatic and economic reliance on China has increased. China is using this situation strategically as its rivalry with the United States intensifies and it tries to influence the dynamics on the Korean peninsula as a whole. The most troubling problem for North Korea is that there are no available policy options other than strategic alignment with China. The analysis in this chapter refutes the argument that China has little influence on North Korea.

In the Conclusion, I present some lessons that can be drawn from the analysis in this volume. First, the analysis of China's relations with its neighbors from the perspective of political economy widens the scope of international relations scholarship as it informs us of China's real intentions and demonstrates how China acts within its spheres of influence. Second, the analysis shows that bipolarity is not a likely outcome of the rise of China. Even considering the asymmetrical nature of China's relationships with its neighbors, world politics now has a new configuration in which bilateral partnerships are supplemented by multilateral institutions. Hedging, using such supplementary means, is an available strategy for small states dealing with great power politics, as hard balancing or bandwagoning may drag them into the confrontation between China and the United States. Third, China seems to be trying to establish a hierarchy in its bilateral relations with its small neighbors, in lieu of an alliance or a collective security mechanism. But China is likely to fail in this

endeavor. The small states, haunted by memories of their colonial history or Cold War occupation, prioritize the preservation of their sovereignty and independence, which they adamantly refuse to bargain away. As an indication of their resistance to a China-centered hierarchy, for example, none of the six states discussed in this volume has permitted the stationing of foreign troops on its territory. Fourth, the China factor has had a certain impact on the dynamics of postsocialist transition in China's small neighbors. Depending on its degree of vulnerability and the availability of instruments for hedging, each small state has taken its own path to transition. For example, highly aid-dependent Cambodia has become reliant on Chinese aid and investment as sources of Western money have dwindled. Consequently, it has not been able to escape aid dependency in the process of postconflict transition. Conversely, Vietnam presents an exemplary model of gradual transition to a market economy, similar to that of China. The collective leadership of the Communist Party of Vietnam has allowed frank internal discussions about important transition-related issues such as the normalization of relations with the United States and engagement in the world economy. Fifth, in terms of policy implications, multilateralism seems to be a realistic policy for China. If China does adopt a policy of multilateralism, it will be widely welcomed by the small states that are its neighbors. Multilateralism provides transnational norms and rules as well as promoting rules-based arrangements, standardized practices, and enhanced transparency, thereby eliminating uncertainties and risks such as bad loans.