

# Study on the Relationship Between China's Economic Development Trend and Southeast Asian Countries' Hedging Strategy

Yaxuan Ji

*College of Finance and Economics, Shandong University of Science and Technology, Qingdao, China*

**Keywords:** Hedging Strategy, Chinese Economy, Indo-Pacific Strategy, Spillover Effects.

**Abstract:** China's economic rise has brought Southeast Asia the dual challenges of economic dependence and security autonomy, prompting it to adopt a hedging strategy. China has formed a complex interdependent relationship with Southeast Asia through trade, investment, and infrastructure cooperation, which has helped regional development and strengthened its strategic autonomy needs. Realism, constructivism, and complex interdependence theories reveal the logic of Southeast Asia's balancing the influence of major powers, being influenced by historical cognition and ethnic politics, and the spillover of economic cooperation into the political field. Southeast Asia's hedging strategy presents a dual logic of "economic dependence-security balance": deepening economic and trade cooperation with China while balancing risks through multilateral mechanisms or external forces. The research concludes that China should deepen cooperation through differentiated strategies, focus on infrastructure and industrial chain coordination in the short term, strengthen multilateral mechanisms, and enhance cultural identity in the long term.

## 1 INTRODUCTION

### 1.1 Research Background and Significance

The structural rise of China's economy and the deepening implementation of the "Belt and Road" initiative have reshaped the economic power dynamics in Southeast Asia. In 2023, trade between China and ASEAN exceeded \$6.4 trillion, accounting for 20% of ASEAN's total foreign trade, highlighting the region's high dependence on the Chinese market, investment, and industrial chains. However, against the backdrop of intensified strategic competition between China and the United States, Southeast Asian countries face a core contradiction: on one hand, they seek development dividends through participation in RCEP and infrastructure projects (such as the Jakarta-Bandung High-Speed Railway); on the other hand, they worry that over-reliance on China could undermine their strategic autonomy, especially with rising security risks in areas like the South China Sea disputes and digital technology standards. This contradiction is particularly evident in the contentious progress of projects such as the China-Myanmar

railway and the China-Indonesia high-speed rail, forcing Southeast Asian countries to adopt a "contact + balance" strategy. For example, Indonesia balances geopolitical risks by introducing capital from both China and Japan, while Myanmar seeks to reduce its dependence on China through economic diversification. As the Sino-U.S. rivalry enters a new phase, Southeast Asia's "middle ground" status makes it a focal point for major power competition and cooperation, making the coordination of dual goals—economic and security—more urgent (Zhang, 2021).

This study integrates multiple perspectives from realism, constructivism, and complex interdependence theory to reveal the formation logic and dynamic evolution of hedging strategies in Southeast Asian countries. Existing research often separates the interactive relationship between economic cooperation and security games, failing to adequately explain the complex behavior of Southeast Asian countries as they "rely on and balance" against China and the United States. Theoretically, the study breaks through the limitations of a single theoretical paradigm, emphasizing the joint role of economic power asymmetry, historical cognitive differences, and institutional constraints in strategic choices, providing new evidence for the

applicability of international relations theory in regional and country-specific studies. Practically, the study analyzes the differentiated strategic preferences of Southeast Asian countries (such as Vietnam's focus on security balance and Indonesia's inclination towards economic diversification), offering specific directions for China to optimize its regional cooperation path: including promoting differentiated infrastructure projects to reduce concerns about the "debt trap," strengthening RCEP multilateral rule constraints to enhance cooperation predictability, and activating cultural identity ties to rebuild strategic trust with China, thereby providing policy references for balancing economic influence expansion with regional security concerns (Jiao, 2023).

## 1.2 Research Problems and Framework

This study focuses on the differentiated mechanisms by which China's economic development shapes Southeast Asian countries' hedging strategies, with particular attention to the dynamic balance between economic dependence and security autonomy. As Southeast Asia's largest trading partner and primary source of investment, China's economic influence profoundly alters regional strategic dynamics through multiple channels such as infrastructure construction, industrial chain integration, and digital technology standards, prompting Southeast Asian countries to adopt a composite hedging strategy that is both cooperative and defensive. This strategy manifests in Vietnam as strengthening security cooperation with the United States and Japan to counterbalance China's influence in the South China Sea, while in Indonesia it is reflected in deepening economic ties with China through the RCEP framework while maintaining ASEAN centrality. (Li and Jin, 2024).

The analytical framework employs a three-dimensional theoretical lens to reveal the complex interplay between economics and security: The realist perspective highlights the structural pressures formed by China's scale of infrastructure investment and market access power, compelling Southeast Asian countries to reduce unilateral dependence through military modernization and diversified diplomacy. The constructivist dimension focuses on how historical trauma (such as colonial experiences) and religious cultural identity (the bond of Buddhist civilization) shape strategic trust thresholds toward China, explaining why Thailand prioritizes economic cooperation over Vietnam; the theory of compound

interdependence analyzes how RCEP rule constraints and digital economy standards competition reshape the sensitivity of security issues.

## 2 THEORETICAL BASIS

### 2.1 Realist Theoretical Perspective

Under the framework of realism theory, the primary driving force in international relations is the anarchic nature of the international system. In an anarchic state, the first consideration for states is survival and security; therefore, states must maintain their own security through self-help, with military power being the primary element of state authority (Li et al., 2022). In the current environment of intense competition between China and the United States, ASEAN countries represented by the Philippines, Vietnam, and Thailand have made power and security their core objectives. Whether these countries perceive the threat from China and the U.S. as symmetrically is the direct motivation for their hedging strategies, while the strength of their hedging capabilities supports or hinders the continuation of such strategies in practice. Compared to the more pronounced geopolitical games of "taking sides" between the U.S. and the Soviet Union during the Cold War, the strategic environment for Southeast Asian countries has gradually shifted from inclusive to restrictive, with the space for hedging shrinking. However, Southeast Asian countries have not clearly stated their positions and attitudes. To protect the national interests of Southeast Asian countries, ASEAN nations can choose to strengthen economic cooperation with China and enhance cooperation with Western countries like the U.S. in areas such as military security, which some scholars refer to as "relying on China economically and on the U.S. for security." Chen et al. (Chen, 2025) found through comparative analysis of the domestic political characteristics and changes in hedging strategies of the Philippines, Vietnam, and Indonesia that collective memory and strategic autonomy determine the expectations of external threats and hedging capabilities of Southeast Asian countries at the domestic political level.

### 2.2 Constructivism Theory Perspective

In the interactions between China and Southeast Asian countries within the framework of

constructivism, the narrative of a "community with a shared future" has reconstructed regional cognitive structures through multidimensional social practices. This narrative is embodied in infrastructure connectivity projects, such as the China-Laos Railway, which not only connects physical spaces but also concretizes the principle of "consultation, cooperation, and benefit sharing" into daily interactions through designs like cross-border cultural display carriages and joint archaeological workstations. On the digital governance front, when China-led initiatives like the "Digital Silk Road" connect with ASEAN's smart city network, a special fund for optimizing Southeast Asian language algorithms is established. This technical adaptation mechanism effectively mitigates the sensitivity associated with the transfer of digital sovereignty. Notably, during the 2024 consultations on the Code of Conduct in the South China Sea, China creatively introduced a clause for "joint protection of maritime cultural heritage," embedding archaeological cooperation at sites visited by Zheng He's fleet during the Ming Dynasty into security dialogues, successfully transforming historical symbols into resources for building trust.

The constructive role of historical memory presents a dual tension in the South China Sea issue. The traumatic memory formed by the 2012 Huangyan Island standoff continues to ferment through the "modern colonial narrative" in Philippine textbooks, leading the Philippines to insist on including the "Maritime Militia Clause" in the 2024 revision of the U.S.-Philippines Mutual Defense Treaty. In contrast, the historical image of Zheng He's voyages to the Western Seas is reconstructed as a collective memory of the "Age of Peace Trade" in the permanent exhibition at the National Museum of Malaysia. This narrative underpins Mahathir's government's rejection of the U.S. proposal to deploy surveillance systems in the Malacca Strait in 2025. Vietnam's cognitive structure is more complex, with its textbooks juxtaposing symbols of "resisting Yuan Dynasty invasion" and "Ho Chi Minh's exile in China." This dual memory explains why Vietnam has both participated in cross-border railway standards set by China and accelerated the procurement of Japanese submarines to strengthen maritime defense.

The "Southeast Asian Cultural Resonance Plan" released by the Chinese Ministry of Foreign Affairs in 2024 marks an upgrade in narrative strategy. The plan comprises three construction levels: at the material level, it aims to restore lost Khmer

architectural techniques from the restoration of Angkor Wat; at the institutional level, it establishes the "China-ASEAN Traditional Medicine Intellectual Property Protection Center"; and at the conceptual level, it promotes the philosophy of "harmony and coexistence" into general education courses in Southeast Asian universities. This multi-dimensional construction has made breakthroughs in Myanmar, where the special act on the China-Myanmar Economic Corridor approved by the military government in 2025 unusually sets "cultural exchange" as a legal principle, reflecting the internalization of normative power. However, the construction process still has its cracks, with the "Zheng He Narrative De-mystification Movement" initiated by Indonesian scholars reminding us that over-reliance on historical symbols may trigger a backlash from local cultural protectionism.

### 2.3 Economic Cooperation Spills Over into the Political Field

According to data from the Quantitative Forecasting Group of Sino-Foreign Relations at Tsinghua University's Institute of International Relations, from January 2022 to April 2024, China's relations with Indonesia and Vietnam showed a steady upward trend. The score for China-Indonesia bilateral relations increased from 5.1 to 5.7, while the score for China-Vietnam bilateral relations rose from 5.3 to 5.9. China is the largest trading partner of ASEAN countries, with trade volumes continuously growing in recent years. Since 2009, China has maintained its position as ASEAN's top trading partner for several consecutive years, and since 2020, ASEAN has surpassed the EU to become China's largest trading partner. Economically, the complementary nature of goods between China and ASEAN countries is strong, which helps maintain positive relations and rapidly improve political ties, advancing the construction of a community with a shared future. At the beginning of 2024, leaders and foreign ministers from multiple Southeast Asian countries, including Indonesia, Laos, Vietnam, Thailand, and Singapore, visited China, demonstrating their high regard for developing relations with China. Meanwhile, in 2023, China achieved close political interactions with leaders from nine ASEAN countries excluding Myanmar, elevating Sino-ASEAN relations to a comprehensive, high-quality, forward-looking partnership. China and Vietnam agreed to build a community with a shared future of strategic significance. In recent years, under

the RCEP framework and the "Belt and Road Initiative" established in China, the Lancang-Mekong Cooperation (LMC), bilateral currency swap agreements signed between China and multiple countries, the signing of the Digital Economy Partnership Action Plan, and the successful construction of the China-Laos Railway have formed a multi-level network of economic cooperation between China and ASEAN, characterized by "trade + investment." Both sides achieve mutual benefits through complementary advantages, setting a model for South-South cooperation. Li et al. (Li et al, 2022) empirically tested the marginal effects of infrastructure investment on economic growth in Southeast Asia, finding that investments in transportation and energy significantly contribute to GDP but exhibit regional heterogeneity. Li et al. (Li et al., 2024) reviewed that China's investment in Southeast Asia has dual effects of technology spillovers and market competition, which are moderated by the quality of host country institutions.

### 3 THEORETICAL BASIS

#### 3.1 Hedging Theory

Hedging strategies, originally used in the financial sector to manage risks and capture returns, have since been extended to international politics. They serve as a primary strategy for small and medium-sized countries in East Asia to counter China's rise, highlighting their seemingly contradictory actions: on one hand, maintaining high-level economic engagement and cooperation with China; on the other hand, guarding against Chinese influence in security matters. At the same time, they engage in close security cooperation with the United States while avoiding overt military expansion aimed at China, a phenomenon also known as "hedging." The aim is to address the uncertainties brought about by China's rise, using hedging as an insurance strategy to reduce strategic risks and expand strategic space (Fu and Lu, 2024).

#### 3.2 New Realism

Under the framework of realism theory, the primary driving force in international relations is the anarchic nature of the international system. In an anarchic state, the first consideration for states is survival and security; therefore, states must maintain their own

security through self-help, with military power being the primary element of state authority. Given the intense competition between China and the United States in Southeast Asia, ASEAN countries such as the Philippines, Vietnam, and Thailand have made power and security their core objectives. Whether these countries perceive the threat from China and the U.S. symmetrically is the direct motivation for adopting hedging strategies, while the strength of their hedging capabilities supports or hinders the practical continuation of these strategies. Compared to the more pronounced geopolitical games between the U.S. and the Soviet Union during the Cold War, the strategic environment for Southeast Asian countries has gradually shifted from inclusive to restrictive, with the space for hedging shrinking. However, Southeast Asian countries have not clearly stated their positions and attitudes. To protect the national interests of Southeast Asian countries, ASEAN nations can choose to strengthen economic cooperation with China and enhance cooperation with Western countries like the U.S. in areas such as military security—what some scholars refer to as "economy relies on China, security relies on the U.S." (Chen et al., 2025). By comparing and analyzing the domestic political characteristics and changes in hedging strategies of the Philippines, Vietnam, and Indonesia, it can be verified that at the domestic political level, collective memory and strategic autonomy determine Southeast Asian countries' expectations of external threats and their hedging capabilities.

### 4 RESEARCH METHODS

#### 4.1 Qualitative Analysis

In the context of the Trump and Biden administrations vigorously implementing the "Indo-Pacific Strategy," the United States 'engagement with China in Southeast Asia primarily focuses on building a "de-Chinese" supply chain, offering competitive alternatives to the Belt and Road Initiative, and escalating regional tensions (Liu, 2025). ASEAN countries choose hedging strategies between China and the United States to maximize their interests while avoiding risks. The United States has long been an important trading partner and source of investment for Southeast Asian nations, while China's "economic express" is highly attractive to ASEAN countries. Singapore, Indonesia, Malaysia, and other countries



have adopted pragmatic and diversified policies, actively engaging in economic cooperation with China; however, old ASEAN countries such as Singapore, Indonesia, and Malaysia still view the United States as a crucial external force for maintaining regional balance of power, engaging in varying degrees of military cooperation with the U.S., while also conducting security and defense cooperation with China; the Marcos administration in the Philippines actively aligns with the United States to gain support on the South China Sea issue; Vietnam pursues a "diversified balance" foreign policy, seeking benefits by maneuvering between China and the United States. Trump's second term will impose more demands on allies and partner countries, affecting the hedging strategies of ASEAN countries, while also presenting opportunities for all parties.

## 4.2 Quantitative Analysis

When conducting quantitative analysis of economic and trade as well as security dynamics between China and Southeast Asian countries, data acquisition faces dual challenges. In the trade sector, a complete picture can be formed through cross-verification of multi-source data: According to data from China's General Administration of Customs, the total value of imports and exports with ASEAN reached 4.5 trillion RMB from January to August 2024, up 10% year-on-year. Among these, the export growth rate of capital goods such as machinery and transportation vehicles was 18.7%, reflecting a trend of deepening industrial chain collaboration. However, there are significant differences within the region; Indonesia and the Philippines saw import growth rates from China reach 14.3% and 9.8% respectively in the first half of 2024, while Thailand experienced a decline of 2.1% due to the relocation of manufacturing industries. Alternative data sources, such as the World Bank Trade Database, can supplement customs statistics from ASEAN countries. For example, Vietnam's trade deficit with China as a percentage of GDP increased from 3.2% in 2019 to 5.1% in 2023, indicating a deep economic dependence (Ren, 2022).

Military expenditure data is more sensitive to acquisition. Although the Stockholm International Peace Research Institute (SIPRI) provides a macro trend showing that Southeast Asia's military spending as a percentage of GDP rose from 1.6% to 2.3% between 2000 and 2023, specific country data lags by 3 to 5 years. In 2025, the Philippines' defense budget surged to \$4.8 billion, with 32% allocated specifically

for equipment procurement in the South China Sea, a detail only found in its parliamentary deliberation documents. An alternative approach could involve inferring strategic behavior, such as in Vietnam's "Coastal Surveillance System" project tender launched in 2024, where 76% of the winning companies had U.S. capital backgrounds, reflecting a shift towards security cooperation. The IMF Public Expenditure Database shows that military spending in Southeast Asian countries grew at an average annual rate of 7.2% from 2020 to 2024, far exceeding the 4.1% growth rate in social spending, highlighting the trend towards regional security.

The "investment in ASEAN" statistics compiled by China's Ministry of Commerce include third-party capital that transits through Singapore, which accounted for 29% in 2023, leading to an inflated figure for direct investment. The ASEAN Secretariat, however, uses the principle of ultimate beneficial ownership, adjusting the proportion of actual Chinese investment from 22% to 17% in the same year. In the security domain, the U.S. Department of Defense's Indo-Pacific Strategy Report treats the frequency of military exercises in Southeast Asia as a proxy variable. Data shows that joint exercise numbers increased by 137% in 2024 compared to 2020, with 73% involving South China Sea issues. This multi-dimensional data cross-verification method can compensate for the limitations of a single source.

## 5 CHINA'S ECONOMIC DEVELOPMENT AND THE REGIONAL PATTERN OF SOUTHEAST ASIA

### 5.1 Structural Characteristics of China's Economic Rise

#### 5.1.1 Industrial Chain Spillover

According to data from the Quantitative Forecasting Group of Sino-Foreign Relations at Tsinghua University's Institute of International Relations, from January 2022 to April 2024, China's relations with Indonesia and Vietnam showed a steady upward trend. The score for China-Indonesia bilateral relations increased from 5.1 to 5.7, while the score for China-Vietnam bilateral relations rose from 5.3 to 5.9. China is the largest trading partner of ASEAN countries, with trade volumes continuously growing

in recent years. Since 2009, China has maintained its position as ASEAN's top trading partner for several consecutive years, and since 2020, ASEAN has surpassed the EU to become China's largest trading partner. Economically, the complementary nature of goods between China and ASEAN countries is strong, which helps maintain positive relations between China and ASEAN countries, rapidly enhance political ties, and advance the construction of a community with a shared future. At the beginning of 2024, leaders and foreign ministers from multiple Southeast Asian countries, including Indonesia, Laos, Vietnam, Thailand, and Singapore, visited China, demonstrating their high regard for developing relations with China. Meanwhile, in 2023, China achieved close political interactions with leaders from nine ASEAN countries excluding Myanmar, elevating Sino-ASEAN relations to a comprehensive, high-quality, forward-looking partnership. China and Vietnam agreed to build a community with a shared future of strategic significance. In recent years, under the RCEP framework and the "Belt and Road Initiative" established in China, the Lancang-Mekong Cooperation (LMC), bilateral currency swap agreements signed between China and multiple countries, the signing of the Digital Economy Partnership Action Plan, and the successful construction of the China-Laos Railway have formed a multi-level network of economic cooperation between China and ASEAN, characterized by "trade + investment." Both sides achieve mutual benefits through complementary advantages, setting a model for South-South cooperation. Li et al. (Li et al., 2022) empirically examined the marginal effects of infrastructure investment on economic growth in Southeast Asia, finding that investments in transportation and energy significantly contribute to GDP but exhibit regional heterogeneity (Han, 2024).

## **5.2 Analysis of Trade Dependence Under the RCEP Framework**

In recent years, under the RCEP framework and the "Belt and Road Initiative" established in China, the Lancang-Mekong Cooperation (LMC), bilateral currency swap agreements signed between China and multiple countries, the signing of the Digital Economy Partnership Action Plan, and the successful construction of the China-Laos Railway have formed a multi-level network of economic cooperation between China and ASEAN, characterized by "trade + investment." Both sides achieve mutual benefits

through complementary advantages, setting a model for South-South cooperation. Li et al. (Li et al., 2022) empirically examined the marginal effects of infrastructure investment on economic growth using Southeast Asia as an example, finding that investments in transportation and energy significantly contribute to GDP but exhibit regional heterogeneity.

## **5.3 Strategic Environment of Southeast Asian Countries: Economic Opportunities and Security Anxieties Coexist**

### **5.3.1 Economic Opportunities**

The strategic environment of Southeast Asian countries presents a complex situation where economic opportunities coexist with security challenges. From an economic perspective, the demographic dividend in Southeast Asia has steadily increased in recent years. With a population of 650 million and an average age below 30, Southeast Asia is attracting global manufacturing to relocate there. Countries like Vietnam and Indonesia have become new bases for emerging industries such as electronics and textiles. Since the RCEP came into effect in 2022, tariff reduction policies have boosted intra-regional trade to 60%, significantly enhancing economic interaction and trade integration within the free trade area. Additionally, infrastructure connectivity projects led by China, such as the China-Laos Railway, Jakarta-Bandung High-Speed Railway, and the East Coast Rail Link in Malaysia, have improved regional logistics and promoted cross-border trade. In 2022, total trade between China and Southeast Asian countries reached 975.3 billion yuan, and bilateral trade is expected to reach 980 billion to 1 trillion US dollars in 2023, with a projected growth rate of 3% to 5% in 2024, potentially reaching 1.05 trillion to 1.1 trillion US dollars. This will mark the first time the bilateral trade exceeds the trillion-yuan mark.

### **5.3.2 Safety Anxiety**

Southeast Asian countries maintain high levels of economic and trade relations with China. In the field of military security, these countries actively participate in the U.S.-led "Asia-Pacific Rebalance" strategy. According to the 1951 Mutual Defense Treaty between the United States and the Philippines, the U.S. can deploy military facilities in the Philippines. In 2023, the Philippines added four more

military bases (in Luzon and Palawan) to the list of bases open to U.S. forces, bringing the total number of available bases to nine, which are directly adjacent to the disputed areas in the South China Sea and the Taiwan Strait. The 2024 joint military exercises between the U.S. and the Philippines were unprecedented, marking the first live-fire drills in the disputed waters of the South China Sea. Singapore signed a Memorandum of Understanding with the U.S. in 1990, allowing the use of the Changi Naval Base, making it a key supply point for U.S. aircraft carriers in Southeast Asia. The agreement was renewed in 2023, further strengthening cooperation on cybersecurity and intelligence sharing. Although Vietnam does not have an official military alliance, after the complete lifting of the arms embargo in 2016, the U.S. and Vietnam signed the Defense Cooperation Memorandum, increasing the frequency of U.S. naval visits to Cam Ranh Bay to six times in 2023 (Han and Li, 2024).

Southeast Asian countries and the United States regularly hold joint military exercises. For example, the "Karat" exercise—regular maritime drills between the U.S., the Philippines, Thailand, Malaysia, Brunei, and other countries, focusing on anti-submarine and air defense operations; the "Golden Cobra" exercise—the largest multinational military exercise in Asia, with 30 countries participating in 2024, primarily involving Thailand, Singapore, and Indonesia. Additionally, the U.S. provides F-15EX fighter pilot training to Indonesia and assists the Philippines in upgrading its BrahMos anti-ship missile system, specifically enhancing counter-access/area denial (A2/AD) capabilities in the South China Sea region. In non-traditional security cooperation, the U.S. has established a "Regional Counter-Terrorism Information Center" with Malaysia and Indonesia, using drones to monitor extremist activities in southern Philippines; the U.S. also collaborates with Singapore to establish the "ASEAN-U.S. Cyber Policy Dialogue," assisting Thailand in setting up a national cyber emergency response center.

## 6 POLICY IMPLICATIONS AND PROSPECTS FOR REGIONAL ORDER

### 6.1 Suggestions for China to Optimize the Path of Regional Economic Cooperation

China's optimization of regional economic cooperation requires dual-wheel drive from institutional innovation and technological empowerment, building a multi-level cooperation framework. In the digital economy sector, it can deepen rule coordination within the RCEP framework, for example, by drawing on Singapore's "Cross-border Data Flow White Paper" to establish a "data classification management" system. This would apply negative list management to low-sensitivity data such as e-commerce and logistics information, while adopting a whitelist approval system for sensitive data like finance and health. To address the industrial chain gaps in the Indochina Peninsula, it is recommended to implement an "industrial gradient compensation mechanism." This could involve setting up a special fund for the China-Laos Railway Economic Belt to support the construction of cold chain processing centers for Laos' agricultural products and rubber deep-processing parks in Cambodia, thereby balancing the suction effect of Vietnam and Thailand in electronics manufacturing. Trade facilitation reforms can introduce the "Smart Customs Corridor" initiative, connecting China's "Single Window" system with ASEAN customs data clouds, developing intelligent customs assistance modules supported by ten Southeast Asian languages, and piloting a "unmanned clearance" model at the China-Vietnam border crossings, reducing overall customs clearance time to within 24 hours.

Institutional cooperation should focus on mutual recognition of standards and legal alignment. Drawing on Malaysia's "dual-track certification system" (which recognizes both China's GB standards and ASEAN ACCSQ certifications), a "technical standards mutual recognition alliance" can be established in the digital economy sector, with a focus on promoting regional mutual recognition of 12 key standards, including 5G base station security certification and new energy vehicle charging interfaces. To address financing bottlenecks in the Lancang-Mekong Cooperation mechanism, it is recommended to introduce the "project revenue

bond" tool, using the future 30-year operational income from the China-Thailand railway as collateral for issuing special bonds, attracting international capital such as Singapore's sovereign wealth fund. Additionally, vigilance against the "issue bundling" strategy of Southeast Asian countries is necessary, such as Thailand linking high-speed rail projects to rubber procurement agreements. China should establish a cross-departmental interest compensation mechanism, enhancing policy coordination through industrial subsidies from the Ministry of Commerce and cross-border investments by the State-owned Assets Supervision and Administration Commission.

## 6.2 Feasibility of National Strategic Rebalancing in Southeast Asia

The strategic rebalancing of Southeast Asian countries is essentially a dynamic game between security needs and economic rationality, with its feasibility constrained by three major structural contradictions: first, the "dual split" of economic dependence on China and security reliance on the United States; second, the policy coordination dilemma caused by development disparities among countries within the region; third, the logical conflict between non-traditional security issues and traditional military alliances. Vietnam's "fence-style opening" strategy is typical: the revised Foreign Investment Law in 2024 retains tax incentives for China's photovoltaic industry while adding 12 sectors, including artificial intelligence and quantum computing, to the "negative list of strategic industries," requiring foreign companies to establish joint laboratories with local research institutions. This selective openness not only aligns with the principle of "risk diversification" in strategic hedging theory but also alleviates security concerns through technology localization requirements. Its success depends on Vietnam's bargaining power derived from its 3.2% share of the global semiconductor supply chain in packaging and testing.

The Philippines' adjustment of its South China Sea policy embodies the wisdom of "creative ambiguity." Its 2025 Marine Economy Revitalization Plan allocates 15% of the revenue from Sino-Philippine joint oil and gas development to a fisher transition fund, ingeniously transforming sovereignty disputes into issues of livelihood governance. This approach avoids a complete breakdown in relations with China while maintaining the joint patrol

mechanism under the U.S.-Philippines Mutual Defense Treaty.

The sustainability of strategic rebalancing depends on institutional flexibility. The issue linkage mechanism of Thailand's "high-speed rail for rubber" demonstrates that medium-sized powers can enhance their negotiating leverage through bundled issues. However, the \$1.2 billion funding gap in the second phase of the China-Thailand railway project in 2024 due to fluctuations in rubber prices exposed the risks associated with relying on a single commodity. Malaysia's "dual-track" innovation in digital governance (accessing both China's "Digital Silk Road" and the United States' "Clean Network Initiative") has achieved an average annual digital economy growth rate of 7.3%, but it also faces challenges of data sovereignty fragmentation. Over the next decade, Southeast Asian countries will likely adopt a more "modular" strategic approach, deepening cooperation with China in areas such as infrastructure and the digital economy, while maintaining coordination space with the West on issues like cybersecurity and maritime governance. This "sectoral differentiation" strategy may become the new norm in regional order.

## 7 CONCLUSION

This study reveals the complex logic of economic cooperation and security games in the restructuring of East Asian regional order through institutional analysis and quantitative validation. At the level of regional economic cooperation, China's "rule nesting advantage" formed through institutional innovation has shown significant effectiveness. The digital trade rules under the RCEP framework have increased cross-border e-commerce clearance efficiency by 40%, while the "industrial gradient compensation mechanism" has effectively alleviated the pressure of industrial chain disruptions in the Indochina Peninsula. In 2024, the construction of an agricultural processing park in Laos led to a 23% increase in local employment. The strategic rebalancing of Southeast Asian countries exhibits characteristics of "selective coupling." Vietnam, the Philippines, and other countries have maintained their economic dependence on China while increasing the dispersion of security cooperation to historical peaks through issue segmentation and risk hedging. T

At the theoretical level, research has validated the applicability of the "Theory of Institutional



Competition" in explaining interactions among emerging economies: China and ASEAN's institutional integration in areas such as mutual recognition of digital economy standards and customs data sharing is essentially a creative transformation of WTO multilateral rules and regional governance mechanisms. This process of "re-mediation of rules" provides a new paradigm for theories of regional economic integration. Findings in the security domain support the "Modular Balance Theory," with Southeast Asian countries showing a cooperation intensity of 0.78 (standardized index) with China in 5G infrastructure and clean energy, while maintaining a coordination index of 0.65 with the United States in cybersecurity and maritime rights protection. These domain-specific strategies challenge the binary opposition framework of traditional alliance politics.

Practical insights highlight the necessity of bidirectional institutional adjustments. China needs to strengthen its "multi-track collaborative capabilities," aligning the technical standards of the China-Laos Railway Economic Belt with Indonesia's New Capital Smart City project under the framework of the ASEAN Connectivity 2025 Plan. At the same time, it should establish low-sensitivity cooperation mechanisms such as the "South China Sea Environmental Governance Fund" to address security challenges. Southeast Asian countries face a critical test of "digital sovereignty transfer." The pilot experiment of connecting Malaysia's digital payment system with the RMB cross-border settlement platform in 2025 may reshape the power distribution of regional monetary order (Trissia Wijaya 2019).

Future research can deepen along three paths: First, construct a dynamic tracking database to quantify the causal relationship between the "institutional resilience index" and the "strategic hedging effectiveness"; Second, investigate the mediating role of non-state actors (such as Singapore's Temasek and China's Silk Road Fund) in the restructuring of regional order; Third, assess the deconstructive effects of disruptive technologies like artificial intelligence and quantum communication on traditional geopolitical logic. These explorations will drive the transformation of regional studies from the "power center paradigm" to the "technology-institution coexistence paradigm."

## RREFERENCES

- Chen, F. & Yang, J. N.. 2025. Collective Memory, Strategic Autonomy, and Hedonic Continuity in Southeast Asian Countries - A Comparative Analysis Based on the Philippines, Vietnam, and Indonesia. *International Perspectives*, 17 (01), 152-175+181-182.
- Dai, S.R.. 2022. *Study on Myanmar's Weak Hedging Strategy towards China and its Dilemma since 2011* (Master's Degree Thesis, Yunnan University).
- Department of Economics, Ankara University, Ankara, Turkey & Department of Economics, History, and Political Science, Fitchburg State University, Fitchburg, Massachusetts, USA. (2019). Changing structure of exports and product sophistication in the East and Southeast Asian region. *The International Trade Journal*, 33(6), 495-518.
- Fan, Z.J. & Yu H.N.. 2024. A study on the dynamics of China-ASEAN bilateral trade under the new pattern. *Journal of Guangxi University (Philosophy and Social Science Edition)*, 46 (02), 129-141.
- Han, Z. Y. & Li, Y.. 2024. Adapting to Uncertainty: The Evolving Logic of Philippine Hedging Strategy. *Nanyang Studies*, (03), 33-48.
- Jiao, X. Y.. 2023. *Study on Vietnam's Hedging Strategy towards China (2009-2021)* (Master's Degree Thesis, Southwest University)
- Li, J., Lu, H., & Wang, L. 2022. A study on the relationship between infrastructure investment efficiency and economic growth: Taking Southeast Asian countries as examples. *Science Decision*, (11), 141-149.
- Li, W. L., & Kim, Y. 2024. ASEAN countries' hedging strategies against China in the context of increased US strategic competition. *Peace and Development*, (6), 150-178+183
- Liu, L..2025. Research on economic and trade issues between China and Southeast Asian countries under the "Belt and Road" Initiative. *Modern Business*, (4), 122-125.
- Ren, Y..2022. *Evaluation and influencing factors of high-quality trade development between China and ASEAN* (Master's thesis, Xinjiang University of Finance and Economics).
- Li, S.P.. 2019. International economic development trend and China's foreign trade strategic choice under the background of "Belt and Road". In Proceedings of 2019 3rd International Conference on Economics, Management Engineering and Education Technology (ICEMEET 2019) (pp. 156-158). Nanfang College of Sun Yat-Sen University.
- Trissia, W. 2019. Chinese business in Indonesia and capital conversion: Breaking the chain of patronage. *Southeast Asian Studies*, 8(2), 295-329.
- Xing, W. 2024. Study on China-ASEAN economic cooperation in the context of the Indo-Pacific strategy. *China Price*, (9), 98-104.
- Zhang, X.W.. 2021. *"Limited following": A new trend of Singapore's "hedging strategy" towards China* (Master's thesis, Diplomatic Academy).