

China – Southeast Asia Relations: Focus is Elsewhere, but Bonds Continue to Grow

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The quarter saw a relative lull in China's intense Southeast Asian diplomacy. This was understandable in light of Beijing's preoccupation with crises in Iraq and North Korea, and the formal transfer of power in March to a new generation of Chinese leaders. It signaled no decline in China's keen interest in expanding ties with its southern neighbors. Leaders of the two Southeast Asian countries closest to Beijing, Thailand and Burma, visited China before the leadership transition for talks with Hu Jintao and members of his team as well as Jiang Zemin, Zhu Rongji, and other leaders relinquishing senior party and state positions. Chinese commentary directed toward Southeast Asia strongly backed the anti-Iraq war stance of most ASEAN nations. China's observer at the Kuala Lumpur Nonaligned Movement (NAM) summit in February called for opposition to "unipolarity" and unilateralism, i.e., U.S. leadership, in international affairs. Trade and investment, and the benefits to be gained by China's neighbors from China's growing economic power, continued to be major themes in China's dialogue throughout the region, encountering broad agreement and occasional flashes of dissent and concern.

Reaction to the War in Iraq and Terrorism in Southeast Asia

China's state media gave prominent play to negative Southeast Asian reactions to U.S. diplomacy on, and preparations for, war in Iraq, but little mention of support for the United States from the Philippines and Singapore. Chinese media comment argued that the war would lead to an oil price shock, require the return of the million and a half Philippine workers in the Middle East – with a huge loss in foreign exchange remittances – and increase terrorism in the region, themes that resonate in other Southeast Asian capitals as well as Manila. Vice Foreign Minister Wang Guangya, representing Beijing at the February 20-25 Kuala Lumpur summit of the NAM, demanded the "democratization" of international relations, a dominant role for the United Nations, and an end to unilateralism and threats of the use of force – all codewords for reducing U.S.

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influence. (If his audience sensed any irony arising from China's own unilateral refusal to renounce force in dealing with Taiwan, it went unreported.)

Beijing immediately condemned the March 4 terrorist bombing in Davao, in the southern Philippines, that killed 21 persons, and continued otherwise to take a generally supportive stance on the campaign against international terrorism.

Priority on Trade and Investment

Attempting to rebut fears that the rapid growth of Chinese consumer exports to Southeast Asia, as well as China's success in winning new foreign investment, would severely damage ASEAN economies, China released figures during the quarter that showed large increases in its imports from Southeast Asia in 2002 over 2001. According to Ministry of Foreign Trade data, ASEAN exports to China rose 34 percent, while imports from China increased 28 percent. China remains a net importer of capital from Southeast Asia, however. According to Chinese sources, for example, total PRC investment in Thailand stood at \$223 million by 2001, whereas direct Thai investment in China was more than \$2 billion, nine times as much. Singapore investors continue to favor China – among other sectors they are moving heavily into a booming residential housing market spurred by rising levels of home ownership there.

Change in this pattern may eventually come from China's efforts to diversify its sources of oil and natural gas beyond the Middle East, which now supplies 40 percent of its energy imports. Chinese officials say they will concentrate new energy investment in the developing world, and in particular in Southeast Asia. The Chinese business press reported in early March that the Industrial and Commercial Bank of China (ICBC), China's leading lender, is considering buying into Indonesian banks as a means of financing gas and oil production in that country by Chinese companies.

China hosted another meeting with ASEAN officials Feb. 25 in Guilin to seek further agreement on details of its proposed China-ASEAN Free Trade Agreement (FTA). Most ASEAN responses continue to be favorable, although the Philippines announced March 6 that it would not join the FTA's proposed "early harvest" of lower tariffs on farm products. Philippine farmers are reportedly already under growing pressure from smuggled agricultural goods from China.

Thailand and China: "Relatives and Brothers"

Demonstrating the strength of his support for expanding relations with China, Thai Prime Minister Thaksin Shinawatra visited Beijing Feb. 18-20 to congratulate the new leaders even before the formal transition. Thaksin reportedly startled his hosts by breaking with protocol and referring openly to Hu Jintao's elevation to the presidency before it occurred, prompting some chuckles from the Chinese side but surely doing no harm to future relations with a Hu-led government. Thaksin and his party were greeted warmly as "relatives and brothers" by Chinese leaders. Outgoing Chinese President Jiang Zemin told Thaksin there were no outstanding issues between the two countries, "only

friendship and cooperation.” Thaksin pledged in return that Thailand would forever remain China’s most sincere friend.

The Chinese sought and received Thaksin’s agreement that war in Iraq should be avoided through further multilateral diplomacy, but – at least for the record – did not press him to curtail Thailand’s extensive but low-key support for U.S. military presence in the region and beyond.

Some Thai media comment criticized Thaksin for his “passionate” courtship of China to the exclusion of other Asian relationships still critical for Thailand’s economy, notably Japan, still the largest source of foreign investment in Thailand. Thai press comment also pointed out that there are downsides to China’s growing regional power. These include China’s development plans for the upper Mekong River, which some Thai see as threatening downstream interests ranging from environmental damage and destruction of fisheries to potentially critical alteration of water flows that could lead to massive shortages in the future.

Philippines: South China Sea Issues Still Contentious

Differences arising from overlapping territorial claims in the South China Sea continued to trouble the Philippines-China relationship. Manila still holds 22 Chinese fishermen arrested last year for fishing off Palawan in waters claimed by the Philippines. Philippine Navy reports claim that Chinese boats comprise the majority of the many hundreds of fishing vessels sighted each year in areas claimed by Manila. In January, Philippine intelligence reports surfaced revealing new Chinese markers on Philippine-claimed islets. The reports predate the adoption of a “Declaration on Conduct of Parties in the SCS” between China and the 10 ASEAN countries last November, however. Philippine sources believe that China has not built new structures in the contested area since that declaration, but report that there have been substantial improvements in existing military posts.

Vietnam: Border Affairs Again Dominate Relations

The troubled process of demarcating the land border between China and Vietnam made some progress during the quarter, as China announced in January that it had completed a four-month program to clear land mines in 1 million sq. kilometers of territory on its side of the Quangxi Zhuang Autonomous Region. The two countries placed additional boundary markers in that sector.

China’s news agency reported with satisfaction that the extensive, and largely unregulated, land border trade between the two countries had shifted from food and general merchandise to higher-end consumer goods. To expand this trade, 170 Chinese businesses have set up shop at one of the major crossing points, with help from the Yunnan provincial government. Vietnam announced plans to increase exports to China by 15 percent in 2003, largely in primary commodities and food, but noted with a hint of

asperity that China's "ever-changing trade regulations," lack of banking facilities for small enterprises, and corruption posed obstacles to this objective.

No progress was reported in resolving differences over the China-Vietnam maritime border, but China reported March 5 that Hainan Island would significantly reduce its fishing fleet under an agreement on fishery cooperation in the Tonkin Gulf/Beibu Bay. The province will remove 570 fishing boats from service, and transfer 12,800 fishermen to employment in non-fishing sectors of the island's economy.

China and Burma

Senior Gen. Than Shwe, chairman of Burma's ruling State Peace and Development Council (SPDC), visited China Jan. 6-11 with a large entourage that included SPDC Secretary 1 Gen. Khin Nyunt and seven Cabinet ministers. Hu Jintao pledged to maintain and strengthen close relations with Burma. China announced a \$200 million preferential loan for development assistance during Than Shwe's visit, and signed agreements with Burma on economic and technology cooperation, public health, and sports. Jiang Zemin told the Burmese visitors that every nation has the right to choose its own path without any outside interference, suggesting that Than Shwe's Chinese hosts made no effort to persuade Burma to take steps to meet Western human rights concerns.

Than Shwe's visit was followed immediately by Chinese Vice Premier Li Lanqing's trip to Rangoon. Li brought proposals for further assistance to Burma and partial relief of earlier maturing Chinese loans to Burma.

Reporting by Chinese and Burmese media on these visits did not mention antinarcotics cooperation. Given China's alarm at the flood of narcotics into southern China in recent years, including methamphetamines and opium-based drugs, Chinese leaders may have pressed Burma's junta leaders privately to work harder at curtailing the trade.

Taiwan and Southeast Asia: Overreaching and Another Embarrassment

A proposed trip to Thailand by a group of Taiwan lawmakers led by Legislative Yuan Vice President P. K. Chiang foundered Jan. 18, one day before the delegation was scheduled to depart, when Bangkok refused to issue visas to the party on grounds that China's Vice Premier Li Lanqing would be arriving at nearly the same time. A Taiwan Foreign Ministry spokesman said the incident reflected "Bangkok's servility to Beijing," and senior Democratic Progressive Party (DPP) leaders urged that Taiwan again halt acceptance of new guest workers from Thailand, as it did last year over a similar visa issue. The Thai government said Chiang could come another time. Chiang did proceed with planned visits to Malaysia and the Philippines, asserting that Taiwan legislators needed to visit countries in which Taiwan businesses are heavily invested in order to "get first-hand information about their problems and difficulties."

Philippine Secretary of Labor and Employment Patricia Santo Thomas met with President Chen Shui-bian in Taipei March 20 to renew an agreement on Philippine

workers in Taiwan. Numbers of Philippine workers have declined from a high of 120,000 in 1996 to about 69,000 today. In another foray under Taiwan's "go south" campaign, Economics Minister Lin Yi-fu led a delegation to Vietnam in late January to discuss expanding investment in that country.

Chronology of China-Southeast Asia Relations January-March 2003

Jan. 6-11, 2003: Senior Gen. Than Shwe, chairman of Burma's ruling State Peace and Development Council, visits China with SPDC Secretary 1 Gen. Khin Nyunt and seven Cabinet ministers. China announces a \$200 million preferential loan for development assistance.

Jan. 18, 2003: The 19-member Taiwan delegation led by Vice Speaker Chiang Pin-kung is cancelled one day before leaving to Thailand, after failing to receive visas.

Jan. 22, 2003: Vietnamese media report that Lt. Gen. Kui Quansheng from China's Chengdu military zone visited Vietnam's northern military zones as a guest of the Vietnam People's Army to boost friendship and mutual understanding.

Jan. 23, 2003: Chairman of the National People's Congress Li Peng tells visiting Philippine House Speaker Jose Venecia that China will work with the Philippines as Manila hosts the fourth annual meeting of Asian Parliaments for Peace later this year. Venecia lauds Philippine-China cooperation, and awards Li the Philippine Congress Medal of Achievement.

Jan. 24-25, 2003: Chinese Vice Premier Li Lanqing meets H.R.H. King Bhumibol Adulyadej and senior members of the Thai government, during a visit to Bangkok. Li thanks PM Thaksin for his country's "one China" policy, and urges him to maintain vigilance against attempts by Taiwan to impose "one China, one Taiwan" on the international community.

Jan. 26, 2003: Speaking in Indonesia, Singaporean Minister for Trade and Industry George Yeo acknowledges that China is a fierce competitor with ASEAN in some sectors, but avers that "as always in history," China's growth and prosperity will benefit Southeast Asia. He expresses confidence that ASEAN's long history in advanced manufacturing will remain competitive as trade barriers are lowered.

Jan. 30, 2003: China says it is "gravely concerned" after rioting Cambodians, angered by a report that a Thai movie star had claimed that Angkor Wat belonged to Thailand, burned the Thai Embassy in Phnom Penh Jan. 29. Vice Foreign Minister Wang Yi meets with ambassadors of the two countries in an effort to resolve the issue.

Feb. 5, 2003: An Indonesian Navy ship sinks a Chinese boat reportedly fishing illegally in Indonesian waters off the coast of Papua. One crewman was killed, and 24 others arrested.

Feb. 18-19 2003: Thai PM Thaksin visits Beijing to congratulate the new leaders before the formal transition, meets Hu Jintao and PRC President Jiang Zemin.

Feb. 18, 2003: A Chinese court hands down stiff sentences to 10 Indonesians for piracy. They had seized a Thai tanker in Malaysian waters and brought it to China, where they planned to sell the vessel and its cargo. Chinese authorities returned the ship and the proceeds of sale of the diesel fuel to the owners.

Feb. 22, 2003: Chinese Communist Party Standing Committee Member Huang Ju meets in Beijing with the Secretary General of Thailand's ruling Thais Love Thais party, Suriya Juangrungrangkit. Huang tells his guest that "China and Thailand are one big family," and that China's Communist Party wants to expand relations with major political parties in Thailand.

Feb. 24, 2003: Chinese Vice FM Wang Guangya represents Beijing at the 13th Summit of the Nonaligned Movement (NAM) in Kuala Lumpur and states the importance of promoting democracy in international relations and the role of the UN.

Feb. 24, 2003: China's Huadien Engineering Company signs an agreement with two Indonesian firms to build up to 30 power plants on Java, to meet the island's growing power requirements. Indonesia has been seeking foreign investment in the power sector to avert blackouts over the next few years. The Chinese firm plans to concentrate on hydroelectric plants, but may build plants using other technologies including coal- and gas-fired and geothermal facilities.

Feb. 25, 2003: China hosts a high-level symposium with ASEAN officials in Guilin to further discuss details of the proposed China-ASEAN Free Trade Agreement (FTA).

Feb. 26, 2003: Philippine Ambassador Josue Villa says in Beijing that his country wants more investment from China. He notes that the Philippines achieved a positive trade balance with China for the first time in 2002, with bilateral trade reaching \$5.2 billion. Chinese companies are welcome to invest in infrastructure, agriculture, and the information industry.

Feb. 27, 2003: Malaysian PM Mahathir, interviewed by China's *Renmin Ribao*, notes in response to the "China threat theory" propagated in the West that although China's military strength will increase, this does not imply that China will use that force on other countries. He and Foreign Minister Syed Albar point out that ASEAN trade and investment will benefit from the enormous potential of the China market.

March 1, 2003: A relic of the Sakyamuni Buddha from China, loaned to Thailand by the PRC in December to mark the 75th birthday of King Bhumibol Adulyadej, departs for home. Some 70,000 people reportedly visited the relic each weekday, and 120,000 per day on weekends.

March 5, 2003: China announces Hainan Island will significantly reduce its fishing fleet under a China-Vietnam fishery cooperation agreement in the Tonkin Gulf/Beibu Bay.

March 6, 2003: China strongly condemns the terrorist bombing in Davao, Philippines.

March 20, 2003: Philippine Secretary of Labor Patricia Santo Thomas meets with President Chen Shui-bian in Taipei to renew an agreement on Philippine workers in Taiwan.

March 27, 2003: Vietnam reports that China has invested \$2 million in agricultural projects in that country. China is a major importer of Vietnamese farm products. Total imports from Vietnam stood at \$1.5 billion in 2002, including seafood, rubber, tea, and vegetables.