



**China-Southeast Asia Relations:  
Cebu Meetings, UN Veto on Myanmar**

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China advanced relations with Southeast Asia during ASEAN-related meetings in Cebu. China's veto of a U.S.-backed UN Security Council draft resolution on Myanmar and Chinese military advances, including a controversial anti-satellite test, occasioned little apparent negative reaction among Southeast Asian governments.

**Chinese Prime Minister Wen Jiabao at Cebu**

The highlight of this quarter's activities in China-Southeast Asia relations was the series of meetings and events surrounding the visit of Chinese Prime Minister Wen Jiabao to Cebu, Philippines Jan. 13-16. Following the 12<sup>th</sup> ASEAN Summit, Wen participated in the ASEAN Plus China meeting, the East Asia Trilateral Leaders' meeting, the ASEAN Plus Three (China, Japan, and South Korea) meeting, and the second East Asia Summit (EAS) that involved leaders of the ASEAN Plus Three (A+3) along with those from India, Australia, and New Zealand.

Beijing continued to assure Southeast Asian neighbors of its peaceful development at the 10<sup>th</sup> ASEAN Plus China meeting. Wen cited the successful China-ASEAN Commemorative Summit held in Nanning, China in October 2006 as an example of continued positive and collaborative relations between China and ASEAN countries. In addition, he raised five broad proposals aimed at further cooperation, which included: strengthening political mutual trust; raising economic and trade relations to a new level; conducting pragmatic cooperation in the nontraditional security field; actively supporting the development of closer integration within the greater ASEAN region; and promoting social and cultural exchanges and personnel contacts.

More specifically, China continued to push for "win-win" trade agreements with ASEAN. Beijing signed an important accord to open key service sectors that would come into effect in July 2007. Southeast Asian companies would gain broader access to do business in a variety of sectors in China such as banking, transportation, construction, real estate, health, information technology, engineering, and education. Beijing currently restricts foreign-owned entities from operating in these sectors in China. The deal would give Southeast Asian businesses an edge, help ASEAN members cut their looming trade deficits with China, and allay fears of the negative impacts of China's economic boom.

The announcement of the agreement came at an opportune time as many Southeast Asian countries are hoping to provide greater business and consumer services in the lead up to the 2008 Beijing Olympics and the 2010 Shanghai World Exposition. The agreement would lay the foundation for the full implementation of the China-ASEAN free trade zone scheduled for 2015.

On Jan. 14, Chinese Prime Minister Wen met Japanese Prime Minister Abe Shinzo and South Korean President Roh Moo-hyun for the Seventh Trilateral Leaders' meeting. This was the first three-way meeting in two years, and the leaders reportedly engaged in frank, practical, and productive talks. The three sides agreed to further enhance political trust, deepen mutually beneficial cooperation, and strengthen communication and coordination in regional affairs. The general atmosphere of the meeting was cordial, marking an improvement in relations between China and Japan in particular. Beijing announced shortly thereafter that Wen is scheduled to travel to Japan in April.

Following the Trilateral Leaders' meeting, the three leaders were joined by ASEAN members for further discussions Jan. 14. The leaders had in-depth exchanges of views on building the East Asian community through the ASEAN Plus Three mechanism, which has been established over the years to strengthen dialogue and communication, discuss cooperation, as well as to promote peace, stability, and prosperity in the region. The leaders agreed that ASEAN would continue to play a leading role in this important relationship. On China's part, Wen suggested that Beijing would cooperate and address key issues of disaster mitigation, trade, poverty alleviation, and cultural exchanges to help strengthen the "A+3" mechanism.

The East Asia Summit rounded off the four-day gathering in Cebu. The 10 ASEAN members, China, Japan, South Korea, India, Australia, and New Zealand focused largely on emergent nontraditional threats to regional security, including key issues such as natural disasters and diseases. An important energy deal was struck at the end of the summit, with members signing on to a series of goals aimed at providing "reliable, adequate, and affordable" energy supplies to the rapidly growing region.

An article in the *South China Morning Post* commented that the overall atmosphere of this year's meetings and summits in Cebu was generally positive on the surface. In private, however, most ASEAN governments are still wary of China's diplomatic and economic ascendancy. The article further suggested that ASEAN's current priority is to play catch-up as China and India's markets open for greater trade and economic opportunities. At the same time, ASEAN is also actively strengthening its relationship with Japan to ensure greater balance in the region. There is greater understanding within the region that ASEAN must be more proactive in reaching out to all major partners to ensure regional stability and provide an opportunity for economic development for each of the member countries.

## Situation in Myanmar

On Jan. 12, China voted to block a United Nations Security Council resolution which targeted Myanmar. Notwithstanding the Chinese dissent on a procedural vote to include Myanmar on the Security Council agenda in December 2006, the U.S. pushed forward with a resolution that called for political reform, respect for human rights, and an end to the military repression against ethnic minorities in Myanmar. The resolution eventually failed with a 9-3 vote, with Russia and South Africa joining China in the opposition.

Beijing's commitment to protecting the principle of sovereignty and "noninterference" is an important dimension of China's global foreign policy and has been the basis for China's tough opposition to UN resolutions targeting Myanmar. Speaking shortly before the vote, Chinese Ambassador to the UN Wang Guangya stated that China, as an immediate neighbor to Myanmar, attaches no less importance to the situation in Myanmar than other countries. Political stability, economic development, and national reconciliation in Myanmar are important issues for China. The issues addressed in the resolution cannot be resolved with sanctions but should, according to Wang, be resolved incrementally by the authorities in Myanmar through continued dialogue and consultation.

China's decision to defend Myanmar came with little surprise. China has been the major military and economic supporter of the military regime in Myanmar. Beijing has provided the military regime in Myanmar with significant arms, military equipment that included fighter aircraft, naval patrol boats, and anti-aircraft artilleries. China has also contributed to the construction of naval bases in the Bay of Bengal and the Andaman Sea. China's interest includes plans for constructing a gas pipeline across Myanmar from the offshore gas reserves in the Bay of Bengal to Yunnan province and an oil pipeline for crude from the Middle East. Myanmar's strategic location also becomes an important outlet for Chinese exports via the Bay of Bengal and serves as an alternate trading and shipping route to the Malacca Strait.

Beijing's interest-free loans have kept the junta afloat, which prevented Myanmar's economic collapse and caving in to Western pressure for political and economic reforms in 1997. Both sides have also established closer economic ties through the establishment of border trade zones. In December 2006, for example, a Myanmar-China annual border trade exhibition opened at Myanmar's largest border trade zone of Muse. According to the Chinese Customs Department, bilateral trade in the first half of 2006 amounted to \$662 million, a 10.8 percent increase from 2005.

While many observers point to the natural alignment of interests between China and Myanmar, a closer examination points to subtle adjustments in Beijing's evolving approach and points of emerging tensions between the two traditional allies. An extensive assessment on China-Myanmar relations was made by Ian Storey in the Feb. 7 Jamestown Foundation's *China Brief*. According to his analysis, the Burmese are "fiercely nationalistic and often xenophobic, and Rangoon's foreign policy actions since the mid-1990s strongly suggest that the ruling military junta has sought to reduce its

dependence on China.” Within the last decade, Myanmar has gradually reached out to other regional powers including India and Japan.

Beijing has also voiced greater concern over increasing social unrest and the lack of visible progress toward political reform in Myanmar. The article further notes that Chinese leaders have addressed the urgency of the issue to its counterparts in Myanmar on at least two official occasions since 2004. A senior U.S. official also was said to have noted that China had expressed its concern (albeit in private) to Washington with the scope and pace of Myanmar’s pursuit of political and economic reforms.

In light of these developments, Ambassador Wang’s statement at the UN bore a subtle yet important recognition that while the resolution was tabled and blocked, the issue could be revisited in the near future. Wang stated that the “current domestic situation in Myanmar does not constitute a threat to international or regional peace and security,” which presumably implies that should the situation in Myanmar worsen or unravel toward greater chaos and disorder, one that constitutes a threat to regional peace or security, Beijing could consider a stronger response.

Like China, ASEAN members are treading a careful line. They have largely avoided unhelpful, critical rebuke or threats to revoke Myanmar’s membership status. At the recent ASEAN Summit, they issued a mild but stern message to the military regime to “speed up national reconciliation and to free more political prisoners.”

### **Muted response to Chinese military developments**

Southeast Asian governments and media generally kept a low profile in response to some highly publicized Chinese military developments that prompted comment and criticism from U.S., Japanese, Australian, Indian, and other world officials and media. Official Chinese commentary, notably an article by Chinese Premier Wen carried by *Xinhua* on Feb. 26, continued to reaffirm China’s avowed commitment to live in peace with its neighbors as it follows a policy of “peace, development, and cooperation.” The Chinese premier rarely airs his views in an article under his name in official Chinese media. The premier’s message in February reinforced the similar benign foreign policy message to China’s neighbors contained in his March 5 report on government work to the annual session of China’s National People’s Congress.

However, several Chinese actions and commentary on military matters prompted substantial international criticism and debate that clouded China’s message and raised implications that seemed to complicate China’s stated emphasis on a peaceful approach to Asian and world affairs. Heading the list was China’s belated admission in January that it destroyed one of its own satellites by hitting it with a Chinese ballistic missile. Chinese officials disclosed during the National People’s Congress in March that China’s military budget would increase 17.8 percent in the coming year, the biggest increase in five years amid regular double-digit annual increases for over a decade. Earlier, on Dec. 28 official Chinese media widely publicized Hu Jintao’s emphasis on building a strong Chinese navy during his remarks at a Communist Party meeting the previous day. In

January, a Chinese defense spokesman said that China has the ability to build an aircraft carrier, and Chinese officials in Washington privately affirmed China's plans to build these ships. On Dec. 29, China released its bi-annual defense white paper that tried to mesh China's growing military preparations to deal with wide-ranging international challenges with China's commitment to seek international harmony and cooperation.

U.S. and Japanese officials, notably Vice President Dick Cheney during stops in Asia during February, were in the lead in criticizing the anti-satellite test and other Chinese defense moves. Australian and Indian officials reacted negatively to the anti-satellite test. The U.S. director of national intelligence, the U.S. defense secretary, and the chairman of the Joint Chiefs of Staff provided carefully measured comments on the implications of China's steady military buildup for the stability of Asia. By contrast, Southeast Asian officials generally kept to themselves any reservations they may have had about China's actions or U.S. and other international reactions. China, meanwhile, moved forward with growing military contacts with Southeast Asia governments, inviting ASEAN members at the Cebu summit in January to participate in a joint military exercise to be hosted by China in July that would deal with peacekeeping training and disaster zone management and reconstruction.

### **Trade, investment, and aid**

In the report on government work to the National People's Congress on March 5, Premier Wen pledged continued development of trade and investment ties with Southeast Asia and the rest of the world. The Chinese government will seek to "upgrade" processing trade, which characterizes China-Southeast Asian trade, seeking higher "added value" from Chinese exports. China will strive to raise the "quality" of foreign investment coming to China from Southeast Asia and elsewhere, and will endeavor to "guide multinational companies," which are heavily involved in China-Southeast Asia trade and investment, to move "high-end" manufacturing and research and development to China. The Chinese government also will "guide and regulate" Chinese investment going abroad, seeking to avoid "blind investment and vicious competition" among enterprises.

The specter of massive increases in Chinese investment going abroad received a major boost with the disclosure by the Chinese finance minister on March 9 that China will create an agency to invest an undisclosed amount of its immense reserves of foreign currency, which total over \$1 trillion. With little firm information provided by the Chinese government, media reports speculated on the possible size and focus of such a fund, including increased Chinese investment abroad. On Feb. 20, *The Wall Street Journal* published an assessment that predicted that the amount of China's outward direct investment will overtake the amount of foreign direct investment (FDI) that China receives by 2010. According to the article, in 2006, China received about \$70 billion in FDI. It said that as Chinese investment abroad increases rapidly, China by 2010 will become the fifth largest foreign investing nation behind the U.S., Britain, Germany, and Japan. It noted that the majority of Chinese investment abroad, 60 percent, goes to Asia, with the remainder to the rest of the world

Official Chinese media also reported an up tick in Chinese investment abroad but offered a more modest assessment of China's international role. *China Daily* on Feb. 7 cited Chinese officials and Commerce Department data to show that outbound investment of Chinese firms amounted to \$16.1 billion in 2006, a big increase over \$12.26 billion invested in 2005 and much smaller figures for earlier years. It said that China was the world's 13<sup>th</sup> largest investor in 2006, up from 17<sup>th</sup> place in 2005. The article said that China received \$64.5 billion in FDI in 2006. Speaking at a press conference after the National People's Congress on March 16, Premier Wen underlined a modest view of China's investment abroad. He cited the \$16 billion figure for 2006 to note that "compared with developed countries, this amount is nearly negligible."

To what degree these developments and trends will change the continued asymmetry in investment between China and Southeast Asia remains to be seen. While the bulk of Chinese investment abroad reportedly goes to Asia, much of that goes to Hong Kong. According to Hong Kong government figures, China is the largest investor in the territory, providing \$9.3 billion in 2005. The pattern of large Southeast Asian investment in China and small Chinese investment in Southeast Asia continues for now. *China Daily* on Jan. 18 reviewed China-Malaysia economic ties, highlighting Malaysia as China's second largest trading partner in Southeast Asia, after Singapore. It pointed out that in the previous five years, the amount that China had invested in Malaysia represented only 5 percent of the \$3.5 billion Malaysian enterprises had invested in China.

Meanwhile, increased Chinese wealth and massive foreign exchange reserves focused new and sometimes critical attention on Chinese foreign assistance abroad, including Southeast Asia. Chinese assistance to Myanmar, Laos, and Cambodia has long been seen by environmental groups as accompanied by logging, river dredging, and hydroelectric dams seen as damaging to the regional environment. *The New York Times* Feb. 15 published an assessment by prominent foreign policy commentator Moises Naim that highlighted China's assistance to Indonesia as emblematic of the kind of "rogue aid" that undercuts efforts by international financial institutions to use aid to promote good governance and environmentally sustainable development. In the case of Indonesia, China competed successfully to provide support for Indonesia's electrical power grid, but did so by building several plants that use "a highly polluting, coal-based Chinese technology."

### **Assessing China's rising influence in Southeast Asia**

Following the Cebu meetings in January, a researcher from the Chinese Institute of Contemporary International Relations offered a positive assessment of China's leading role in Southeast Asia in an article in *China Daily* Jan. 15. The author acknowledged ASEAN's "special role" in East Asian cooperation and went on to highlight China's relations with ASEAN as "the most successful" among Asian partners. China-ASEAN cooperation was said to be setting the pace on East Asian cooperation and supporting the China-preferred ASEAN Plus Three as the premier regional grouping, as opposed to the larger East Asia Summit which the author said "is obviously still finding its way and therefore is the secondary channel" for regional cooperation.

Japanese government officials speaking on background at a meeting of 40 U.S.-Japanese specialists on China and Southeast Asia in Washington, D.C. Feb. 26 showed serious and explicit concern with China's rising influence in Southeast Asia. Though there were differences among the Japanese experts, Japan's emphasis was said to involve supporting ASEAN unity and the leading role of Indonesia as a hedge against Chinese influence; strong Japanese support for the U.S. military presence in the region including expanding U.S. military interaction in Southeast Asia; closer Japanese security cooperation with Australia; greater Japanese support for India's involvement in Southeast Asia; and promoting closer economic and other regional integration based on the broad membership seen in the Asian Leadership Summit.

U.S. officials and experts at the meeting were generally supportive of the Japanese approaches, though they tended to see China's rise in Southeast Asia in less disturbing terms than their Japanese counterparts. The two sides differed on the high U.S. priority given to APEC, with Japanese saying they will "go along" with APEC but noting that unlike the East Asia Summit, APEC does not include India, a key focus of Japanese interest at present. Also, the United States has not joined the Asian Leadership Summit, which Japan strongly supports. Meanwhile, two prominent officials who resigned from the Bush administration after many years of service reflected carefully balanced and nuanced views of the significance of China's rise for U.S. influence in Southeast Asia. Robert Zoellick told *The Straits Times* Feb. 10 that "China's expanding role and influence in Asia need not be a point of tension with the United States" and that U.S. interests would be best secured with the U.S. playing "a more active role in the region with a multifaceted agenda." Michael Green wrote in *The Washington Post* Feb. 13 that the U.S. is far from losing Asia's leadership to China as Washington chalks up "quiet victories" in Southeast Asia and other parts of Asia and remains the region's indispensable security guarantor and trading partner.

That Chinese leaders remain far from confident about China's approach to Southeast Asia and other aspects of Chinese foreign relations was vividly brought to light in an assessment by Bonnie Glaser in the March 8 Jamestown Foundation's *China Brief*. She recounted interviews with Chinese officials expressing serious concerns about many negative reactions abroad to features of China's greater international prominence including the dumping of Chinese products; sharp trade competition and poor treatment of foreign workers by Chinese businesses; pollution, deforestation, and other environmentally damaging results associated with Chinese development efforts; and rude and uncouth behavior of Chinese tourists and business people abroad. Experienced Chinese foreign policy officials and experts also were said to be determined not to get swept up with publicity about China's prominence as they continued to follow Deng Xiaoping's maxims on avoiding excessive involvement in international affairs and exaggerating China's strength abroad, while focusing on many tasks at home.

In brief assessments in the *International Herald Tribune*, *Yaleglobal Online*, and a publication of the Institute of Southeast Asian Studies, where he works, China-Southeast specialist Sheng Lijun this quarter emphasized that China's advances in Southeast Asia owed as much to Southeast Asian governments seeking to integrate China into the region

as to China's own actions. He parsed the double counting, large entrepot trade, and heavy involvement of foreign owned enterprises in the processing trade that dominates China-ASEAN trade ties. Sheng highlighted China's very weak investment involvement in Southeast Asia, especially when compared with that of the U.S., Japan, or the European Union. Unlike the U.S., China has little of the web of business, religious, educational, and other networks of connection and communication developed over many decades. Maoist China's record prompted fear in Southeast Asia. The recent Chinese efforts to foster a positive image and broad relationships in Southeast Asia necessarily depend on Chinese government actions without much input from nongovernmental forces. Sheng averred that China's influence remains thwarted by "deeply rooted" distrust in Southeast Asia, with regional governments actively "hedging their bets" in developing ties with the U.S. – "perceived as the least distrusted of all major powers" – Japan, India, and others.

## **Outlook**

Southeast Asian officials and elites likely would welcome major increases in Chinese foreign investment and aid forecast by foreign observers. They will watch closely how Beijing handles the investment of its massive foreign exchange reserves. ASEAN and its member governments have registered little public concern with notable advances in Chinese military power, though the Chinese buildup may affect the pace and scope of their hedging endeavors as China continues to rise in prominence and influence.

## **Chronology of China-Southeast Asia Relations January-March 2007**

**Jan. 8, 2007:** Two vessels carrying the first supply of refined oil arrive in China's Yunnan Province via the Mekong River. China signed an agreement with Laos, Myanmar, and Thailand in March 2006, opening up a new shipping route to meet its growing demand for oil and natural gas and to decrease over-reliance on the Strait of Malacca.

**Jan. 10, 2007:** Chen Jianguo, secretary of the Chinese Communist Party (CCP) Ningxia Hui Autonomous Regional Committee, leads a delegation to neighboring Laos, Vietnam, and Cambodia for a goodwill visit.

**Jan. 10-15, 2007:** Leaders of ASEAN member countries and dialogue partners gather in Cebu, Philippines for the 12<sup>th</sup> ASEAN Summit and the second annual East Asia Summit. Chinese Premier Wen Jiabao pledges to strengthen China-ASEAN relations through an array of agreements on energy security, public health, and trade issues.

**Jan. 12, 2007:** The Asian Development Bank loses to China in bidding on an important financing deal to repair an aqueduct that supplies 98 percent of Manila's water needs. Manila decides to take a \$70 million loan from the Chinese Export-Import Bank instead of the ADB offer.



**Jan. 13, 2007:** Chinese Foreign Minister Li Zhaoxing defends the decision to veto a UN Security Council resolution targeting Myanmar's human rights practices and lack of political reforms. ASEAN members issue a mild rebuke of Myanmar, calling on Myanmar's leadership to speed up national reconciliation and to release political prisoners.

**Jan. 15, 2007:** Chinese and Vietnamese government officials agree to establish Hekou-Lao Cai as the border gate for "one-stop" clearance in order to simplify customs and export-import procedures. According to Chinese officials, two-way trade between Vietnam and China will reach \$15 billion in 2010 following rapid development of bilateral investment and trade cooperation.

**Jan. 18, 2007:** The Kunming Intermediate People's Court tries Han Yongwan, ringleader of one of the region's largest drug syndicates. Police authorities from China, Myanmar, Laos and Thailand have been monitoring Han's drug-trafficking network since 2004 and he was arrested the following year by Laotian police before being repatriated to China.

**Jan. 23, 2007:** Li Tiejing, vice chairperson of the Chinese National People's Congress, visits Myanmar and meets Myanmar State Peace and Development Council Chairperson Than Shwe. They discuss strengthening longstanding political and economic ties.

**Feb. 5, 2007:** Liang Guanglie, chief of General Staff of the People's Liberation Army, meets Thura Shwe Mann, member of the ruling Myanmar State Peace and Development Council and Myanmar military's chief of staff, in Beijing. They exchange views on relations between the two armed forces and discuss strengthening bilateral military ties.

**Feb. 14, 2007:** Cambodian Prime Minister Hun Sen lauds China for its "unconditional aid" to Cambodia. His announcement comes shortly after international donors criticized Cambodia for its failure to tackle corruption. According to Chinese sources, in the last two years, Beijing's aid has amounted to \$800 million and focused largely on infrastructure development in Cambodia.

**Feb. 17, 2007:** Chinese State Councilor Tang Jiaxuan visits former Cambodian King Norodom Sihanouk. Both sides affirm the longstanding friendly relations and seek to promote greater people-to-people contact as China and Cambodia celebrate the 50<sup>th</sup> anniversary of the establishment of full bilateral diplomatic ties in 2008.

**Feb. 25, 2007:** On the second leg of his three-country visit to Southeast Asia, Chinese State Councilor Tang visits Myanmar and meets Myanmar leader Than Shwe. They discuss achievements in bilateral collaboration on issues such as border administration and drug control. Than Shwe explains that domestic stability and economic reform are priorities for his government and seeks continued support from China to further strengthen bilateral economic and trade relations.

**Feb. 27, 2007:** Tang arrives in Bangkok for a three-day working visit. He meets Thai Prime Minister Surayud Chulanont. Both sides reaffirm the comprehensive and cooperative relationship between the two countries and the need for continued collaboration on issues of mutual concern to deepen bilateral trust.

**March 12, 2007:** Jia Qinglin, chairperson of the Chinese People's Political Consultative Conference (CPPCC), meets Ho Duc Viet, leading member of the Political Bureau of the Communist Party of Vietnam (CPV). Jia mentions that following Chinese President Hu Jintao's visit to Vietnam in November 2006, frequent senior-level visits between the two countries have helped to strengthen bilateral economic ties and solve border disputes.

**March 13, 2007:** China joins Cambodia, Laos, Myanmar, Thailand, and Vietnam to test responsiveness for possible bird flu pandemic. Officials representing a variety of agencies, from tourism to defense, practiced responding to a mock outbreak of the disease. The exercise would help regional coordination of early detection of suspected cases and rapid dissemination of information to the general public.

**March 20, 2007:** Chinese Defense Minister Cao Gangchuan holds talks with visiting Laotian Deputy Prime Minister and Defense Minister Douangchai Phichit on bilateral military ties, regional and international security situation and other issues of common concern. China expresses interest in deepening military-to-military ties and closer cooperation on technical assistance.

**March 21, 2007:** Wen Haiying, vice provincial leader of Anhui, leads a delegation to Cambodia and meets Cambodian Prime Minister Hun Sen to discuss investment and trade opportunities between Anhui Province and Cambodia's agricultural sector.

**March 23, 2007:** Chinese military ships, which included two destroyers, arrive in a seaport in Jakarta, Indonesia for the first time in 12 years. The Chinese ships recently completed antiterror drills with the U.S. Navy in Pakistan in early March.

**March 26, 2007:** At the invitation of Chinese FM Li, Vietnamese Deputy PM and FM Pham Gia Khiem arrives in Beijing for a six-day official visit. They praise recent senior-level exchanges for contributing to closer political and economic ties. Total trade volume between the two countries reached nearly \$10 billion in 2006, up 21.4 percent from 2005, and according to Vietnamese sources, there are currently over 400 Chinese investment projects in Vietnam with a total registration fund of more than \$1 billion.