

China and Southeast Asia Relations:

SARS and a New Security Initiative from China

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The quarter began on a negative note with escalating concern about the spread among ASEAN countries of severe acute respiratory syndrome, or SARS, a new viral disease that originated in China and carried a death rate of up to 15 percent, and was transmitted by means that were not well understood. It threatened to create panic and devastate regional economies just as most were emerging from the economic crisis that began in 1997. ASEAN played a key role in persuading China to take more effective action to halt the spread of SARS, and can take satisfaction that its often-maligned “way” of diplomacy, low key and nonconfrontational, was well suited to this particular crisis.

At the annual ASEAN ministerial meetings in Phnom Penh in June, China proposed the establishment of a new Security Policy Conference, comprised of senior military as well as civilian officials from the 23 ASEAN Regional Forum (ARF) countries. The objective would be to draft a new security pact to promote peace and stability in the region. Also at the ASEAN meetings, China won points by becoming the first major power to agree to sign ASEAN’s 1976 Treaty of Amity and Cooperation. Further steps were recorded in the march toward a China-ASEAN Free Trade Area as Thailand became the first country to gain concrete benefits from “early harvest” tariff reductions. A nascent Asian Monetary Fund emerged, including China and the original ASEAN five countries, among other members. China conspicuously stayed out of the growing consensus that pressure must be increased on Burma to institute democratic reforms. High-level visits between Hanoi and Beijing produced no new developments.

SARS

Asia’s SARS epidemic could have been a severe setback to Beijing’s campaign to be seen as Southeast Asia’s most reliable, responsible partner. China’s delays in facing up to the disease, and its refusal to promptly cooperate with international health authorities in February and March, clearly accelerated the spread of SARS to its southern neighbors. From the initial appearance of the disease in the ASEAN region in February through early May, ASEAN countries were fixated on the possibility that the epidemic would send their economies into prolonged recession. Despite their anger, however, ASEAN

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governments used quiet persuasion rather than open criticism to steer Beijing toward the multilateral cooperation necessary to deal with the disease. As it turned out, the damper put on trade and tourism by SARS was serious. By the end of the quarter, however, it appeared that the disease had been contained, and that Southeast Asia's economies were likely to recover more quickly than had been predicted.

Among ASEAN nations, Singapore and Vietnam were hardest hit, receiving infections from the first international SARS carriers in the now infamous Metropole Hotel in Hong Kong in early March. Both countries were able to impose drastic measures to contain the virus. Singapore's Health Ministry found an old law authorizing mandatory quarantines, with criminal penalties for violation, and served thousands of quarantine orders in suspected transmission centers. Vietnam moved quickly to impose controls on its border with China and, like Singapore, quarantined anyone with suspected exposure, including more than 2,000 students returning from China in May. Malaysia, Thailand, and Indonesia, with only a few cases, took less draconian measures.

Pundits predicted that SARS would wreak havoc on Southeast Asia's economies. All suffered sharp drops in tourism, a key sector for the region's economies, and saw serious declines in trade sectors that depend on international movement. Travel by overseas workers, important for the Philippines, Thailand, and Indonesia, was temporarily halted. The Asian Development Bank calculated in early May that if the SARS epidemic lasted six months, the cost in reduced GDP would be 2.3 percent for Singapore, and close to a point and a half each for Malaysia, Thailand, and Indonesia. More apocalyptic forecasts estimated that the Asian region could lose up to \$50 billion from SARS.

At the end of April – the psychological SARS low point in the region – the 10 ASEAN governments, led by Singapore and Thailand, got China to a health ministers' meeting April 26 in Bangkok, followed by a heads of government meeting there April 28, to establish a set of measures that each government would pledge to take to stop the spread of the disease. It was Chinese Premier Wen Jiabao's first international meeting since taking office. He handled it in a way that evidently reassured China's neighbors, indirectly expressing regret for China's earlier dilatory approach to SARS by telling a Bangkok press conference that "we have already learned our lesson." The April 29 summit declaration announced six agreed measures to combat SARS, five of which centered on prompt international reporting and full cooperation in sharing information on the disease – areas in which China's initial performance had had devastating results for other countries.

With the zeal of the newly converted, on June 3, China's vice health minister took the opportunity of a Beijing SARS symposium to call on Asian governments to enhance the sharing of information about the disease. ASEAN health ministers declared the region SARS free June 12. On June 24, the World Health Organization declared that Beijing had conquered SARS.

Behind the relief at the end of the quarter, however, concern lurked that SARS could return, and that the likely original source of the new disease – China’s many rural, poorly controlled markets for exotic wild meats – could foster new viral animal-human leaps, possibly harder to bring under control.

China’s New Initiatives

The agenda at the annual ASEAN Regional Forum (ARF) meeting in Phnom Penh on June 18 was dominated by terrorism, North Korea’s nuclear challenge, and mounting disgust with the ruling junta in Burma, Beijing’s close ally. China nonetheless succeeded in gaining significant attention for its own priorities by aligning itself with concerns in Southeast Asian capitals about the U.S. military campaign in Iraq, and about statements from Washington suggesting a new policy of unilateral military preemption with little regard for dissent in foreign capitals.

Following up earlier promises to consider acceding to ASEAN’s 1976 Treaty of Amity and Cooperation (TAC), Chinese Foreign Minister Li Zhaoxing pledged to seek legislative approval to sign the treaty formally at the October ASEAN-China summit meeting. The TAC is a generalized set of commitments to respect the independence, sovereignty, and territorial integrity of the parties, not to interfere in their internal affairs, to settle disputes peacefully, and to renounce the threat or use of force. ASEAN members opened the treaty to outside accession five years ago. To date, only Papua New Guinea has done so. China’s pledge helped induce India and Russia to join as well.

Potentially more significant, China’s foreign minister formally proposed that the ARF establish a new “Security Policy Conference,” whose participants would be primarily military personnel, to draft a new concept or pact among ASEAN nations and their ARF partners on promoting peace, stability, and prosperity in Southeast Asia. Chinese sources indicated that the proposal was part of China’s “New Security Concept,” aimed at giving equal attention to the security concerns of each country, and guaranteeing security for all through united action, rather than seeking “absolute security for oneself and threaten[ing] other parties’ security.”

ARF members welcomed China’s proposal, reported the chairman’s statement, and agreed that a concept paper would be circulated “in due course.”

An “Iron Wall” of Economic Security?

China’s campaign for integration of the Southeast Asian economies with its own, which Chinese media referred to as a joint effort to build an “iron wall” of economic security, gained ground during the quarter. The World Bank enthusiastically endorsed China’s central role in East Asian economic integration in a research report released June 6, urging countries in the region to continue to adapt to China’s emergence as a major world and regional trader.

Concrete progress toward the goal of an ASEAN-China free trade agreement (FTA) was recorded with Thailand, in a bilateral agreement to eliminate tariffs on some 200 varieties of fruits and vegetables beginning Oct. 1. Emphasizing the Thai-Chinese breakthrough as a model for the region, on June 14, Thai Deputy Prime Minister Somkid Jatusripitak said that Thailand would form a link between China and ASEAN on free trade issues. The Philippines also agreed on May 8, with some reservations, to sign an “early harvest” agreement with China for 82 items, including agricultural products, although Manila wants industrial exports to be included in the “early harvest” as well.

China’s FTA negotiations with ASEAN keep the pressure on other economic powers to negotiate free trade agreements with Southeast Asian countries. At the same time, Beijing’s willingness to open its agricultural market highlights the difficulties for other countries of going down the same path. Talks between Thailand and Japan are essentially stalled over the issue of agricultural tariffs. A representative of the ruling Liberal Democratic Party (LDP) in Tokyo with agricultural interests told the press in April that “an FTA with Thailand is out of the question.” Japan and ASEAN agreed in their ministerial talks in June to draft an action plan and a special charter for future relations, but the announcement was devoid of specifics. India is talking with Thailand about a bilateral FTA deal, with Thailand pressing for a July agreement.

In another move toward regional integration, China and 10 other Asia-Pacific countries, including five ASEAN members, agreed on June 2 to establish an Asian Bond Fund worth more than \$1 billion. The initial purpose is to promote regional bond markets that will channel Asian foreign exchange reserves back into the region, but it could also be used to bail out economies in crisis. The initiative was tailored to meet earlier U.S. objections that such an “Asian Monetary Fund” would be an alternative to the IMF – and thus weaken the international community’s ability to exert leverage to achieve structural reforms in failing economies.

Another sign of China’s growing economic clout in the ASEAN region is the increasing use of the *renminbi* as a form of hard currency in trade and tourism, even though it is not fully convertible. In May, a Morgan Stanley director predicted that China’s currency would be one of the world’s four major currencies in 10 to 15 years.

Energy, a Continuing Priority

In its new investments in the ASEAN region, China continues to give highest priority to the energy sector. China National Offshore Oil Corporation, the country’s dominant offshore oil and gas producer, reported in May that its production had increased by 23 percent in the first quarter of 2003, attributable largely to output from fields it bought in Indonesia last year. PetroChina announced on April 24 that it would join Malaysia’s Petronas to buy an additional stake in Amerada Hess oil and gas rights in East Java. Chinese investors also began talks during the quarter to develop power plants in South Sumatra and in Sulawesi, Indonesia.

China Holds Out on Burma

Perhaps anticipating pressure at the ASEAN meetings in June to take a harder line following the May 30 violent attack on a motorcade of Nobel Laureate Aung San Suu Kyi and her followers, and Ms. Suu Kyi's arrest and detention, China quickly moved to declare there would be no change in its support for the military regime there. A PRC Foreign Ministry spokesperson told the press on June 10 that China is a friendly neighbor, "believes that the Burmese people have the capability of properly handling their own affairs," and would not be interfering in a matter that is between the Burmese government and the opposition parties. Later the same month, Beijing extravagantly hailed Rangoon's successes in fighting narcotics production and trafficking. China thus appears prepared to be increasingly isolated on the Burma issue, bucking the growing regional trend. Presumably both principle (noninterference in internal affairs, which has a potential Taiwan angle), and practicality (rivalry with India and commercial and intelligence access) lie behind China's unwavering support for Rangoon.

Vietnam: High-level Visits, but Minor Irritations Flare

China and Vietnam exchanged high-level visits during the quarter, as Communist Party General Secretary Nong Duc Manh was in Beijing April 7-11, and Foreign Minister Li Zhaoxing was in Hanoi June 13-16. In Manh's meeting with President Hu Jintao, the two parties agreed yet again to speed up the so far glacial pace of border demarcation under their 1999 Land Border Agreement. (On the Lao Cai-Yunnan sector of the border, where 88 markers are due to be placed by 2005, only four have been set since 1999.) Hu promised to waive some \$50 million of Vietnam's debt to China, and to provide a grant to help build a Vietnam-China Cultural and Friendship Center in Hanoi. The two leaders agreed to seek an increase of two-way trade to \$5 billion by 2005 (from \$3.3 billion in 2002).

In Hanoi, during June 12-14, Foreign Minister Li, according to press accounts, went over much the same ground – border demarcation and strengthening trade. Commercial differences between China and Vietnam were not papered over during the quarter, however. Hanoi announced during Li's visit there had been a dramatic drop in agricultural exports to China since January. There were no indications, however, that Beijing was offering Vietnam the bilateral "early harvest" tariff cuts in this sector that it had agreed with Thailand and the Philippines. In April, the Vietnamese Trade Ministry outlined for the media several major problems facing Vietnamese exporters to China, including unpredictable and unclear import policies and lack of transparency in payments. Vietnamese media also reported during the quarter that China ranked only 17th among international investors in Vietnamese enterprises.

Outlook

China's proposal to codify its security relations with ASEAN in a new document is significant, given the weight Beijing has traditionally given to written agreements. It may intend the move as a parallel security step to the free trade agreement that promises

to integrate the region's economies. In the near term, a "security policy conference" of military officers from the 23 ARF countries is something of a gamble for Beijing, given that the United States has well established, enduring military-to-military relations with most of the ARF states, including five formal allies. Several U.S. defense treaty partners, especially Australia and Japan, can be expected to resist any efforts to put language into a new security pact that suggests that bilateral treaties should be replaced by a region-wide collective security organization.

On the other hand, China is likely playing this initiative long. The themes of China's "new security concept" of the mid-1990s, echoing generalized principles, such as non-interference and renunciation of the threat or use of force that go back to the heyday of the nonaligned movement, will be difficult for a number of Southeast Asian governments (and publics) to oppose. Among other things, the principles resemble articles in ASEAN's own Treaty of Amity and Cooperation.

To the extent that such principles are viewed as constraints on China's potential to exert crude leverage, they would be valued in mainland Southeast Asia and in relation to territorial disputes in the South China Sea. However, looking to future contingencies in the region that could call for a military response, such principles could be considered by the United States and other allies as dangerous limits on freedom of action. A prolonged debate on principles could polarize ASEAN and the ARF.

Chronology of China-Southeast Asia Relations April-June 2003

April 4, 2003: China announces that the Lao government has given a 30-year concession to a Chinese company for copper mining in Phongsaly province. China's initial investment will be \$950,000.

April 7, 2003: Xu Rongkai, governor of Yunnan province, meets with Laotian Deputy Prime Minister Asang Laoly. Xu notes that "some cooperation programs between Yunnan and Laos are faring well," and promises to encourage more investment in Laos.

April 7-11, 2003: Vietnamese Communist Party General Secretary Nong Duc Manh visits Beijing.

April 8, 2003: A Malaysian company signs an agreement with the Shanghai municipal government to invest an initial \$400 million to set up a computer chip factory, with additional funds in later phases.

April 8, 2003: A Chinese police official in Yunnan announces the destruction of a major drug factory in Burma's Shan state by police units of the two countries. Chinese media reported another joint police operation destroyed a drug factory "deep in a forest in Myanmar" April 28.

April 10, 2003: Vietnam holds a ceremony on Grand Spratly Island, led by Deputy National Assembly Chairman Nguyen Phuc Thanh, to commemorate the “28th anniversary of the liberation of the Spratly archipelago.” Hanoi’s forces seized a large part of the archipelago April 29, 1975, one day before Saigon fell. At about the same time, Lt. Gen. Phung Quang Thanh, chief of the general staff of the Vietnam People’s Army, visited several Spratly islands to observe military units stationed there.

April 24, 2003: PetroChina announces it will join Malaysia’s Petronas to buy additional stake in Amerada Hess oil and gas rights in East Java.

April 25, 2003: China and Indonesia sign an agreement under which China will donate 1,000 motorcycles to the Indonesian police. *Xinhua* reports the value of the donation at \$1 million.

April 26, 2003: ASEAN health ministers’ meeting in Bangkok, Thailand.

May 2, 2003: Indian media report that the Indian security establishment is unnerved by China’s construction of an airport in Burma across the border from Nagaland in India’s sensitive northeastern region.

May 3, 2002: Thai PM Thaksin says he will ask China to take action against narcotics factories that have moved from Thai border territory into China, in response to Thailand’s crack down on drugs.

May 8, 2003: The Philippines agrees to form link between China and ASEAN on free trade issues, but with some reservations.

May 9, 2003: Bank of China officially opens a branch in Jakarta, for the first time since the BOC suspended operations in Indonesia in 1964.

May 13, 2003: Twenty-four Chinese peacekeepers, members of the PRC’s civil police force, return from a one-year assignment to the UN peacekeeping operation in East Timor.

May 16, 2003: Vietnam’s FM rejects a two-month ban on fishing in the South China Sea, announced by Beijing in mid-May, and warns that any action by another country affecting the Spratly or Paracel Island archipelagoes or Vietnam’s exclusive economic zones or continental shelf would violate Vietnam’s sovereignty. The statement called for negotiations to solve disputes in the island regions, and urged China to exercise restraint.

May 16, 2003: China joins 10 other countries as observers of *Cobra Gold*, a joint military exercise in Thailand held each year with the U.S. (and in recent years, Singapore). This is the largest annual U.S. military exercise in Asia, although the U.S. force contribution this year is about half the size of 2002. The focus is peacekeeping and antiterrorism training.

May 16, 2003: Thailand-based Chia Tai Group donates \$1.2 million to China's Ministry of Civil Affairs to support the fight against SARS.

May 20, 2003: China's president, premier, and foreign minister all send messages of congratulation to East Timorese President Xanana Gusmao on the first anniversary of the Democratic Republic of East Timor.

May 26, 2003: Manila media report that Philippine Defense Secretary Angelo Reyes ordered the Philippine Air Force to keep a close watch on the South China Sea in light of reports that other countries claiming the Spratly Island group have built new fortifications there.

May 30, 2003: Violent attack on a motorcade of Nobel Laureate Aung San Suu Kyi and her followers; Suu Kyi's is arrested and detained.

June 2, 2003: Meeting in Lausanne, Switzerland, on the margins of the Evian G-8 summit, Prime Minister Mahathir of Malaysia and Chinese President Hu agree that the United Nations plays an irreplaceable role in safeguarding world peace and stability, and that all countries should "properly deal with international issues within the framework" of the UN.

June 2, 2003: China and 10 other Asia-Pacific countries, including five ASEAN members, agreed to establish an Asian Bond Fund worth more than \$1 billion.

June 3, 2003: China's vice health minister calls on Asian governments to enhance the sharing of information about SARS at Beijing SARS symposium.

June 6, 2003: The World Bank releases research report endorsing China's central role in East Asian economic integration and urges countries in the region to continue to adapt to China's emergence as a major world and regional trader.

June 10, 2003: A PRC Foreign Ministry spokesperson announces China will not interfere in a matter that is between the Burmese government and the opposition parties.

June 12-13, 2003: Laotian Community Party leader Khamtay Siphandone visits Beijing, meets with President Hu and Premier Wen Jiabao. Wen promises that China will play a more active role in Lao economic development, and that China has decided to reduce or forgive certain loans, and to contribute the equivalent of \$6 million in new aid.

June 13-26, 2003: Chinese FM Li Zhaoxing visits Hanoi.

June 14, 2003: Thai Deputy PM Somkid Jatusripitak announces Thailand will form link between China and ASEAN on free trade issues.

June 15, 2003: China's FM, Li Zhaoxing, meets with Cambodian Prime Minister Hun Sen in Phnom Penh. According to *Xinhua*, the Cambodian leader thanked Li for China's development assistance to Cambodia.

June 17, 2003: ASEAN Plus Three and separate Plus Three (ROK, PRC, Japan) meetings in Phnom Penh.

June 18, 2003: Chinese FM attends ASEAN Regional Forum meets in Phnom Penh; ARF calls on North Korea to rejoin the NPT and urges early release of Aung San Suu Kyi.

June 18, 2003: Cai Wu, deputy head of the International Department of the Chinese Communist Party, leads a delegation attending the general assembly of the United Malays National Organization, leader of the coalition that governs Malaysia. The party leader will also visit Indonesia and East Timor.

June 18, 2003: Senior health officials of China and Thailand, meeting in Beijing, agree to enhance cooperation in SARS control, food safety, and traditional Chinese medicines, among other fields.

June 23, 2003: A Chinese Communist Party delegation meets in Jakarta with the Indonesian Democratic Party of Struggle (PDI-P), Indonesia's largest political party, headed by President Megawati Sukarnoputri.

June 24, 2003: WHO declares Beijing has conquered SARS.