

China-Southeast Asia Relations: On the Inside Track

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China continued to make effective use of multilateral structures in Southeast Asia during the quarter to consolidate the “insider” role it is assuming in the region, and to foster economic and other forms of interdependence with members of the Association of Southeast Asian Nations (ASEAN). Chinese initiatives are wearing well in most ASEAN capitals, especially proposals designed to protect Asian economic security and promote growth. Figures on China-ASEAN trade during the quarter showed major gains, and China’s non-energy investments in Southeast Asia were on the rise.

On the security front, China called for follow up to last December’s Declaration on Conduct in the South China Sea, and renewed a proposal for joint development of disputed areas there. Beijing suggested linking counterterrorist efforts in Southeast Asia with those of China and Central Asian members of the Shanghai Cooperation Organization. High-level visits during the quarter advanced China’s particularly close cooperation with Malaysia and Thailand. Burma’s military junta, under heavy international pressure to release imprisoned democracy leader Aung San Suu Kyi and institute political reforms, sought China’s blessings for its unresponsiveness, and got them – at least for the public record.

China and ASEAN: Thirteen is a Lucky Number

Ministers of finance of the “ASEAN Plus Three” met in Manila Aug. 7 to review the progress of a range of regional financial initiatives underway, and discuss new measures to promote Asian economic recovery and growth. Ministers reported that bilateral currency swap arrangements under the “Chiang Mai Initiative” to protect Asian countries from speculative attacks, like the one on the Thai baht that led to the Asian economic crisis in 1997, had doubled from six to 12, with four more expected before the end of 2003. Total reserves covered by the swap agreements amount to \$31.5 billion. Ministers also agreed to push harder to develop an Asian bond market, to encourage central banks to invest in Asia, rather than in U.S. government and other extra-regional bonds, and provide a stable source of long-term capital for Asia’s private sector.

* CNA Corporation is a non-profit research and analysis organization. The opinions expressed in this article are those of the author.

Chinese Commerce Minister Lu Fuyuan met separately with his ASEAN counterparts during a second annual ASEAN Plus Three meeting of economic ministers in Phnom Penh Sept. 3, to discuss ways to accelerate progress on the China-ASEAN Free Trade Area. He announced that China-ASEAN trade grew at an annualized rate of 45 percent in the first six months of 2003, despite the severe acute respiratory syndrome (SARS) crisis. The ASEAN Plus Three agreed on coordinated steps to encourage further trade liberalization at the World Trade Organization (WTO) Cancun meeting and other forums.

Following a meeting of senior officials of China and the 10 ASEAN countries in Wuyishan, Fujian province, Aug. 19, ASEAN Secretary General Ong Keng Yong called China's decision to be the first extra-regional power to sign ASEAN's confidence-building Treaty of Amity and Cooperation a "trailblazing" step. Other countries appear to be lining up on that trail: ASEAN sources told reporters Sept. 29 that India would also sign the treaty at the ASEAN Plus Three summit in Bali in October, and that Russia may do so as well.

China's Foreign Minister Li Zhaoxing, in Bali for the fifth Asia-Europe Meeting (ASEM) July 23-24, promised that China's new leadership would build on the "remarkable successes" Beijing had already achieved in expanding cooperation with its neighbors. In a reference to Iraq, Li found a receptive audience for his assertion that "Asia and Europe" favor a leading role for the United Nations in international affairs.

In Manila on Sept. 1, for the fourth congress of the Association of Asian Parliaments for Peace (AAPP) of which he is currently president, Wu Bangguo, chairman of the standing committee of China's National People's Congress, proposed two new security initiatives to his Philippine counterpart, House Speaker Jose de Venecia, Jr.

- On the vexed issue of overlapping claims to the Spratly Islands in the South China Sea, Wu proposed joint oil exploration and development, in the first instance between Chinese and Philippine companies, and later to include the other ASEAN claimants, Malaysia, Vietnam, and Brunei. Joint work could begin as early as November.
- On terrorism, Wu and Venecia told reporters Sept. 1 that the Philippines and China had agreed to form a counterterrorist alliance that will include Russia and four former Soviet republics in Central Asia (members of the Shanghai Cooperation Organization), as well as Indonesia and Malaysia. Wu and Venecia pointed out that terrorist linkages between Central Asia and Southeast Asia require greater interregional cooperation.

ASEAN Sides with Beijing on Currency Revaluation

Responding to bipartisan domestic pressure over China's rising bilateral trade surplus with the United States, which has overtaken that of Japan, the Bush administration launched a concerted effort in August to persuade China to increase the value of the *yuan*, either by raising the dollar peg or by letting the *yuan* float. Japan and the IMF backed the

U.S. pitch, made by Treasury Secretary John Snow in Beijing and at an Asia-Pacific Economic Cooperation (APEC) meeting in Bangkok Sept. 4.

ASEAN governments, especially those whose currencies are also pegged to the dollar, might have seen their interests as aligned with those of the United States – their exports would rise too if China’s became more expensive – but they chose to stay out of the fray. Malaysia, Thailand, and Vietnam indicated publicly they regarded the issue as one for Beijing to decide. They may have judged that increasing economic integration between China and ASEAN gave them a greater interest in a strong and growing Chinese economy than in gaining unilateral advantage for their exports.

Energy Resources

China joined the ASEAN 10 and Japan and the ROK in agreeing in early July to set up an “ASEAN Plus Three governing group” to study ways of ensuring a stable energy supply to meet growing demand. Among other things, it will consider how the 13 nations can cooperate in establishing an oil stockpile. Research programs will be funded by Japan and South Korea. Also on the energy front, China continued its penetration of the Indonesian petroleum sector with an initial \$5 million investment in seismic oil exploration in North Sumatra announced July 15. PT Sinopec, the Chinese company involved, indicated it would participate in production if large reserves are found.

In a related development, according to Singapore-based Channel News Asia, Beijing is hinting that in light of its energy security concerns, China may consider investing heavily in a project to build a canal across the Isthmus of Kra. The canal – if it came about – would offer an alternative to the Straits of Malacca for oil shipments from the Middle East to China (and, of course, other Asian customers). This \$20 billion project, which has arisen several times over the past two centuries but never gotten off the ground, has reportedly been resurrected by the Thaksin Shinawatra government in Bangkok, which has sought China’s involvement.

China’s Successes with ASEAN Generate Competition

China’s growing influence in Southeast Asia continues to help spark competitive interest in other capitals. Indian Prime Minister Atal Behari Vajpayee said in September that his government is considering building a railway route that would link with existing ASEAN rail plans and connect New Delhi with Hanoi (and not incidentally, with the pan-Asian rail system being pushed by China). Foreign Minister Jaswant Singh, addressing a prominent Singapore institute in August, noted that India’s “look east” policy is entering a new phase, with a task force already hard at work to produce a framework agreement for an India-ASEAN free trade area that could be signed at the October ASEAN Plus Three summit in October. Japanese and ASEAN officials agreed Sept. 3 to launch free trade agreement talks in January 2005. Even Russia, which has not been a player in Southeast Asia since terminating its lease on the naval base at Cam Ranh Bay, signed its first agreement with ASEAN in June, and – as noted – is considering adherence to the 1976 ASEAN Treaty of Amity and Cooperation.

China and Malaysia: Taking Relations to a New Level

Malaysian Deputy Prime Minister Abdullah Badawi – who will succeed Prime Minister Mahathir Mohamad in October – led a large delegation to Beijing Sept. 14-18 that included eight Cabinet ministers, chief ministers of four Malaysian states, three deputy ministers, as well as numbers of leading businessmen. Badawi, who met with China’s top leadership including President Hu Jintao and Premier Wen Jiabao, brought the message that Malaysia was confident that China would play a constructive role in Asia, and the new leadership would seek to deepen the bilateral relationship, especially in two-way investment and trade. Hu told Badawi that relations with Malaysia had entered “a new phase of development in all directions,” and thanked him for Malaysia’s active role in promoting China-ASEAN relations.

Badawi told reporters on his return that he and his Chinese counterpart had agreed on the goal of increasing bilateral trade to \$20 billion by 2004, from \$14 billion last year. Vice Premier Huang Ju and Badawi signed several agreements during the visit, on agriculture, outer space cooperation (including micro-satellites), and labor recruitment, among other subjects. The Malaysian leader-to-be invited the Bioway Biotech Co. of Beijing University to locate its operations in Malaysia and help develop that country’s nascent biotechnology sector, in which Malaysia (along with Singapore) is seeking to become a world-class competitor. Badawi said that going to China before he became prime minister had the advantage of meeting China’s leaders and getting to “know their expectations.”

China and Thailand: Security Cooperation Grows

Thai Deputy Prime Minister Chavalit Yongchayudh led a senior military delegation to China including the defense minister, national security advisor, and all three service chiefs Sept. 1-5. Chavalit told the press the consultations centered on security, terrorism, narcotics, and “the situation in Myanmar” (see below). He was received by President Hu, Premier Wen, and Central Military Commission Vice Chairman Cao Gangchuan, among others. Hu told him Thailand “is China’s important cooperative partner in Southeast Asia,” and noted that the two countries are “related by blood” – a frequent theme in Chinese discussion of relations with Thailand.

China offered the Thais \$600 million in loans for weapons and spare parts. Thai Defense Minister Thammarak Issarangkura na Ayudhaya said on return to Bangkok that “since some weapons being sold by other countries are too expensive, we may have to turn to Chinese weapons.”

China and Burma: Unwavering Public Support

Whether or not the shift of top-level responsibilities by the ruling Burmese junta Aug. 26 – in which Prime Minister Gen. Than Shwe resigned, and was replaced by Intelligence Chief Gen. Khin Nyunt – represents potentially pragmatic change or simply “smoke and mirrors,” China appears to have been consulted, or at least closely informed, by Burma’s military leadership during the process.

Burma's second-ranking leader, Deputy Senior Gen. Maung Aye, visited Beijing with a 32-member delegation just prior to the announcement of the leadership change. It was the regime's most senior pilgrimage to China since its armed attack on democracy leader Aung San Suu Kyi and her entourage in Upper Burma on May 30. Maung Aye may have been seeking Beijing's help in overcoming the effects of reinforced U.S., European, and Japanese economic sanctions in response to the May 30 attack and the continued detention of Ms. Suu Kyi. He may also have been consulting China's leaders on the "roadmap" for political reform that the regime subsequently floated, ostensibly to move the country toward democracy. Whatever the case, President Hu told Maung Aye that China wished to continue close, brotherly relations with Burma.

At the Asia-Europe foreign ministers' meeting in Bali in July, China was able, along with several ASEAN members, to water down a declaration on the Burmese junta's detention of Ms. Suu Kyi, calling for her release instead of censuring Burma's leaders, as the Europeans had hoped to do.

Behind the unruffled façade, however, there were faint signs that China may be losing patience with Burma's rulers. As ASEAN leaders take an openly more confrontational stance toward Rangoon, and the United Nations demands Ms. Suu Kyi's release, China stands out more visibly as the holdout on political reform in that country. In the public record available to this writer, Hu evidently left it to State Councilor (and former Foreign Minister) Tang Jiaxuan to state directly China's opposition to foreign interference or sanctions against the junta. The president himself, according to *Xinhua*, told Maung Aye that "China hopes Myanmar will remain stable," and expressed belief that Burma's government "will make the situation in the country develop in a positive and constructive direction" – words that might be interpreted as admonitions. A *Xinhua* commentary on Sept. 16 presented a relatively objective account of the suppression of democracy in that country since 1988, concluding that the junta's new roadmap would not be easy to implement.

China and the Philippines: Manila Gets Aid but Worries about Trade

NPC Chairman Wu Bangguo's participation in the Manila AAPP congress entailed an official bilateral visit as well. Wu's meetings with President Gloria Macapagal-Arroyo and other Philippine leaders were followed by a joint communiqué highlighting several Chinese steps to assist the Philippines. These include a \$400 million preferential loan for a rail project linking central Luzon to the southeastern tip of the island. This rail line could significantly improve Philippines agricultural exports, whose poor competitive performance is due in part to high farm-to-port transportation costs. The communiqué also noted a \$100 million loan to be used for rice production using a high-yield variety developed in China.

Both governments agreed in their joint communiqué that the China-ASEAN Free Trade Area under negotiation would benefit all parties. Alone among the ASEANs, however, the Philippines remains concerned that lowering agricultural tariffs, the first step offered by China under the FTA, would damage their farm sector by opening the way for a flood

of cheap Chinese food products. “Gray market” food imports from China into northern Luzon are already undercutting Philippine farmers. The problems are systemic, and go beyond high transportation costs. China’s agricultural aid is smart and well directed – and timely, in light of the failure of the Cancun WTO talks over the issue of farm subsidies in developed countries – but will not alleviate deeply rooted structural problems on the Philippine side.

Outlook

Many of the themes in China’s relations with Southeast Asia this quarter will be showcased at the ASEAN summit meetings with China, Japan, and the Republic of Korea (“Ten Plus Three”) in Bali, Indonesia Oct. 7-8. Indian Prime Minister Vajpayee will be present in Bali as well, for a second ASEAN-India Summit. Regional observers are already characterizing these periodic meetings as an emerging East Asian Community, similar in concept to the East Asian Economic Group proposed 10 years ago by Malaysian Prime Minister Mahathir. Asian bond funds, currency bail-out arrangements, and multiple free trade areas could signal a shift toward greater regional autonomy and independence from international institutions. Japan, still Asia’s largest economy by far, appears unable to take the lead in setting Asia’s economic course for the future, leaving the initiative and the agenda largely to China – as long as its economy doesn’t stumble from failure of the banking system or other systemic problems.

The economic consequences of a more autonomous East Asian Community, to the extent they strengthen stability and reduce the likelihood of conflict, could be benign for the United States. The political agenda of such a Community, however, without U.S. participation or other external leavening, in the context of rising hostility to the U.S. especially in Muslim parts of the world since the occupation of Iraq, would offer a new front for harsh criticism of U.S. actions and policies. More effective and sustained efforts, going beyond public affairs programs, would be needed to demonstrate to Southeast Asian governments and people that U.S. interests go beyond rooting out terrorist networks.

Chronology of China-Southeast Asia Relations July-September 2003

July 2, 2003: China donates \$45,000 to Cambodia for protective equipment to prevent transmission of SARS.

July 3, 2003: China, together with Burma, Laos, and Thailand, sends a narcotics inspection team to investigate trafficking across the Mekong from Simao in Yunnan to Chiang Khong in Thailand, pursuant to a quadrilateral plan agreed on at a joint meeting in Chiang Mai last year.

July 3, 2003: Philippine Interior Minister Jose Lina says he will visit Beijing the following week to try to stem the flood of methamphetamine precursors into the Philippines, noting that most come from China.

July 14, 2003: King Norodom Sihanouk, of Cambodia, with Queen Monineath, returns to Phnom Penh after visiting China for medical treatment. Before departing Beijing Sihanouk meets with President Hu Jintao, who pledges that China will continue to work with Cambodia to promote friendship and cooperation.

July 23-24, 2003: China's Foreign Minister Li Zhaoxing attends fifth Asia-Europe Meeting in Bali, Indonesia.

July 24, 2003: Ministers responsible for narcotics control from Burma, China, India, Laos, and Thailand meet in Chiang Rai, Thailand, to discuss crop substitution, information exchange, and improving control of precursor chemicals.

July 25, 2003: Chinese FM Li Zhaoxing tells Singapore's leaders during a visit that China's new administration will continue to be its "good neighboring partner." According to *Xinhua*, Senior Minister Lee Kuan Yew, Prime Minister Goh Chok Tong, and others describe bilateral relations with China as "kindred relations," and tell Li they hope that younger generations in the two countries will further promote these relations.

Aug. 7, 2003: ASEAN Plus Three finance ministers meet in Manila.

Aug. 9, 2003: Tourism ministers from the 10 ASEAN countries as well as Japan and the ROK meet in Beijing to seek ways of reviving intra-Asian tourism in the wake of the SARS epidemic. ASEAN Deputy Secretary General Tran Duc Minh notes that tourism accounts for 10-15 percent of ASEAN GDP, and that China will be the biggest source of tourists in coming years. The ministers discuss mutual visa exemptions and reducing fees.

Aug. 19, 2003: Senior Foreign Ministry officials of China and the 10 ASEAN countries meet in Wuyishan, Fujian province.

Aug. 18, 2003: Vice Chairman of China's Central Military Commission Guo Boxiong tells visiting Burmese army commander Gen. Maung Aye that China views military-to-military relations as a major component part of the bilateral relationship between the two countries, and will work for more "friendly cooperation" in this area.

Aug. 21, 2003: Chinese Communist Party officials, participating in an economic management seminar in Hanoi, propose a number of institutional, economic, and regulatory reforms "in the new era" to their Vietnamese counterparts based on decisions of the 16th Congress of the Chinese party's Central Committee.

Aug. 22, 2003: 30 Burmese police officials begin anti-narcotics training in Yunnan, the second such course for Burmese police.

Aug. 27, 2003: China and Thailand agree on terms under which China will participate in construction of a large high-tech industrial zone in Chiang Rai province. China will provide 60 percent of the total of \$125 million investment needed for the project.

Aug. 28, 2003: China's vice minister of commerce tells a China-Malaysia trade seminar that Chinese companies should invest more in Malaysia and open processing factories in that country, as well as expanding exports. Malaysia is China's largest trading partner among the ASEAN countries, and seventh largest overall.

Sept. 1, 2003: National People's Congress Chairman Wu Bangguo, president of the Association of Asian Parliaments for Peace (AAPP), opens the fourth General Assembly of that body in Manila. Wu calls on delegations of the 35 member countries to create a new global political and economic order to replace the "unfair and unjust" system that prevails today, and to push for democracy in international relations.

Sept. 1-5, 2003: Thai Deputy Prime Minister Chavalit Yongchayudh leads a senior military delegation to China that includes Thailand's defense minister, national security advisor, and all three service chiefs.

Sept. 2, 2003: Director of Royal Railways Cambodia announces start of construction on last segment of rail link from Poipet on the Thai border to Phnom Penh, tying Cambodia's railways into a planned line from Singapore to Kunming in South China.

Sept. 3, 2003: ASEAN Plus Three economic ministers meet in Phnom Penh

Sept. 14, 2003: Chinese media announce that 40 young persons from Vietnam, Laos, Cambodia, Thailand, and Burma began studies at the Guangxi Zhuang International Youth Exchange Institute. The course is designed to "strengthen cooperation and deepen friendship between Chinese young people and their peers" in ASEAN.

Sept. 14-18, 2003: Malaysian Deputy Prime Minister Abdullah Badawi visits Beijing.

Sept. 15, 2003: Xinjiang Construction and Engineering Co. signs a memorandum of understanding with the Malaysian firm Jasatera Berhad to co-develop a mixed commercial area in Pahang State, with a combined investment of \$105 million.

Sept. 15, 2003: A senior Chinese delegation of defense technology officials meets with Indonesian Defense Department Secretary General Air Marshal Suprihadi to discuss the sale of military equipment and future cooperation in research and production of military systems. Indonesia is seeking alternatives to the U.S. military purchases in light of the current U.S. ban on sales to its armed forces and what it sees as the unreliability of U.S. supply arrangements that are subject to interruption on political grounds.

Sept. 17-19, 2003: Ministers from the six Greater Mekong Subregion (GMS) member countries – Burma, China, Cambodia, Laos, Thailand, and Vietnam – meet in Dali, Yunnan Province, to review 11 "key initiatives" centered on infrastructure and trade.

China has emphasized agricultural development and trade promotion in its aid programs under the GMS.

Sept. 19, 2003: Burma's Ministry of Industry-2 signs a contract with China's XJ Group Corporation of Henan Province to build a \$112 million diesel engine plant at Toungoo capable of producing 700 engines per year suitable for use in ships and generating facilities.

Sept. 22, 2003: Amnesty International expresses serious concern for the deteriorating health of Le Chi Quang, a Vietnamese journalist sentenced to four years in prison for criticism of Vietnam's 2002 land border agreement with China on the internet.

Sept. 23, 2003: China charges that Vietnamese gunboats fired on two of its fishing vessels in "traditional Chinese waters" in the Gulf of Tonkin, violating agreements on sovereignty and fishing activities in the Gulf. China demands an explanation, recalling that similar incidents have happened in the past, requiring Beijing "to repeatedly express its dissatisfaction to Vietnam." Hanoi denies having fired on the boats, but says it has one boat and its crew in custody in Haiphong.