



**China-Southeast Asia Relations:**

**Beijing Sets Positive Agenda, Plays down Disputes**

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The remarkable statesmanship of President Xi Jinping and supporting leaders during multilateral meetings and visits to Southeast Asia and the broader Asia-Pacific region in November had a profound impact on Chinese policy toward Southeast Asia. They established or reinforced initiatives that employ ever greater Chinese wealth and economic connections to attract neighbors to China. The Asian Infrastructure Investment Bank (AIIB) and the proposal for a Maritime Silk Road through Southeast Asia as part of a \$40 billion fund promoting infrastructure development and interconnection with neighbors to the south and west add to China's investment and economic development plans integrating the Southeast Asian countries with China's powerful economy. They undergird Chinese diplomacy emphasizing cooperative economic, political, and security relations based on mutual benefit under the rubric of China's "win-win" formula for international cooperation.

Most regional governments joined the AIIB and advanced discussions with Chinese officials on how to promote economic cooperation. President Xi underscored the broad scope of Chinese regional interests by following the G-20 Summit in Australia with state visits to Australia and New Zealand and an unprecedented visit to the Pacific Island states. Xi's policy agenda had the full support of China's other leaders. An extraordinary Chinese Communist Party Central Foreign Affairs Work Conference in late November capped more than a year of top-level deliberations on Chinese foreign policy, including special focus on its policy toward Southeast Asian and other neighboring countries. There, Xi laid out in broad terms his vision of a stronger and more active China in world affairs.

Against this background, attention to China's territorial disputes in the South China Sea declined. Senior leaders showed no change in China's positions, but they were less vocal in affirming them. Lower-level officials responded to perceived challenges and affronts coming from claimants or others like the US. Efforts to stabilize relations with Vietnam moved forward after the riots, violence, and profound crisis caused by deployment of a Chinese oil rig in disputed territory in May. Following recent incidents of Chinese fighters harassing US surveillance aircraft along China's southeastern periphery, China agreed during the Obama-Xi summit on rules of behavior for military aircraft and ships encountering one another.

While the current Chinese activism represents a major boost in Chinese-Southeast Asian relations, the overall implications of the Chinese initiatives remain hard to determine with precision. Large pledges of investment for infrastructure have come and sometimes gone in African and other developing countries. The positive impact of these initiatives on Chinese relations also has been offset by friction over lack of transparency leading to corruption, disputes

regarding environmental and labor standards, resentment over little use of local labor and supplies, and mounting indebtedness of recipients for hard-to-maintain infrastructure. A case in Southeast Asia involving all these issues is China's checkered reputation in Myanmar despite Beijing's longstanding role as its chief economic partner and investor.

Meanwhile, experienced observers of Chinese-Southeast Asian relations are well aware that China has endeavored at various times in the recent past to focus on positive features of mutual development and play down differences over sovereignty, only to find changing circumstances push the latter into the spotlight, making differences overshadow common ground. Indeed, most of the mainly economic Chinese initiatives toward Southeast Asia highlighted this fall represent reaffirmations of the broad-ranging Chinese promises made during senior leaders' trips to the region for bilateral and multilateral meetings in fall 2013[see "[China-Southeast Asia Relations: Beijing Shifts to the Positive, Plays Down Disputes](#)" *Comparative Connections* vol. 15, no. 3 (January 2014)]. Attention to those initiatives quickly fell by the wayside because of subsequent disputes caused by China's declaration of an air defense identification zone in nearby disputed seas, assertive Chinese military deployments in the South China Sea, and the dispatch of the oil rig to Vietnamese-claimed waters.

### **Recent initiatives and China-Southeast Asia relations**

*Asian Infrastructure Investment Bank (AIIB)*. Despite strong reservations and wariness by the United States and Japan, most Southeast Asian nations joined and attended the October opening ceremony of the bank in Beijing. This included prominent South China Sea disputant, the Philippines. Indonesia was not at the opening ceremony but joined the bank in November. The New Zealand prime minister said in November that his country wanted to join the bank and Australian leaders openly debated joining.

*21<sup>st</sup> Century Maritime Silk Road*. Xi Jinping made this proposal the centerpiece of his speech to the Indonesian Parliament over a year ago in October 2013. He strongly re-emphasized the proposal in his speech at the APEC Economic Leaders Meeting in November 2014, along with a concurrent Silk Road Economic Belt initiative focused on Central Asia and countries to China's west. Together, both efforts involve Chinese pledges to invest \$40 billion focused on infrastructure over an unspecified period of time. What exactly will be done with these funds and when and how they will be offered are not yet clear. On these matters, official Chinese media in December 2014 cited experts with the view that discussions in China and with foreign governments in 2014 were focused on the "structure and framework" of the Chinese effort; 2015 reportedly will see more efforts to "iron out the details" to achieve "grand connectivity" between China and its neighbors to the south and west.

Premier Li Keqiang underlined the construction projects and equipment sales China seeks in advancing such win-win cooperation with its neighbors. In December, Li said that "countries in the region have a huge market demand and China, for its part, has rich experience in infrastructure construction, has a strong equipment manufacturing capability and could provide cost-effective products." Commentary in official Chinese media emphasized China's companies' strong interest "in being involved in construction of ports, roads and railways," and in transfer of China's "immense labor intensive industries" to Southeast Asia and other neighboring areas.

*Free Trade Area of the Asia-Pacific (FTAAP).* President Xi and supporting Chinese commentary made advancing consideration of this very broad free trade area the highlight of the Chinese-hosted APEC meeting. Though originally a US initiative, China's current advocacy received a cool response from the US. Foreign media saw the FTAAP running counter to strong US efforts to conclude the Trans-Pacific Partnership (TPP), which has more rigorous and higher standards for economic interchange beneficial to the United States. One of China's calculations in pushing FTAAP probably is that Southeast Asian participants in the TPP will not be deterred from joining the FTAAP by US wariness. Indeed, these Southeast Asian countries are already involved in discussions on the Regional Cooperation Economic Partnership (RECP), widely seen as a rival free trade agreement to the TPP; RECP excludes the US and enables trading and other standards that are less rigorous than those of the TPP.

*China-ASEAN Treaty on Good Neighborliness, Friendship and Cooperation.* Premier Li Keqiang emphasized this Chinese initiative in his discussions at the Chinese-ASEAN Summit in Brunei in October 2013. Supporting Chinese commentary at the time saw the treaty as a way to reduce regional concerns with China's rise and to legally commit all sides to peaceful coexistence. Some Chinese commentary also saw the treaty as a way to counter the Obama government's rebalancing initiatives in the region. In the lead-up to Li's discussions with ASEAN leaders at this year's summit in Myanmar in November, official Chinese media averred that the treaty would be signed at the meeting. In the event, it was not signed. Nevertheless, Li reiterated strong interest in such a treaty which he characterized as an opportunity to promote "permanent peace" in East Asia.

*Upgrade China-ASEAN Free Trade Agreement (CAFTA).* Premier Li focused on this effort in his keynote speech at the China-ASEAN Expo in September 2013. He argued with a flourish that China-ASEAN ties would advance from the rapid progress of the past "golden decade" to reach new advances in the coming "diamond decade." Li also underlined China's interest in upgrading CAFTA during discussions at the China-ASEAN Summit in Myanmar in November. Chinese official media commentary said the first round of talks on upgrading CAFTA came in September 2014 and that China and ASEAN have set a target for completion in 2015.

*Chinese economic assistance to ASEAN.* At the November China-ASEAN Summit, Premier Li enumerated China's economic assistance to ASEAN. It was unclear how these specific amounts of assistance related to China's broad claim of \$20 billion of infrastructure-related assistance in developing the 21<sup>st</sup> Century Maritime Silk Road. Li said China "is willing to offer ASEAN countries \$10 billion in concessional loans to boost practical cooperation in various fields," but did not specify a time period for the loans. He said that in 2015 China will offer less developed ASEAN states \$489 million of "assistance without charge" and that China "will start fundraising" for the second phase of the China-ASEAN Investment Cooperation Fund "totaling \$3 billion." He advised that the China Development Bank will set up a special loan of \$10 billion for infrastructure development with ASEAN countries.

*Investment and assistance to Greater Mekong Subregion (GMS).* Premier Li participated in the late-December GMS Summit held in Bangkok, where he emphasized China's important economic role in the other GMS countries (Cambodia, Laos, Myanmar, Thailand, and Vietnam).

Highlighting the need for infrastructure, Li noted China's 21<sup>st</sup> Century Maritime Silk Road initiative and said that an agreement he reached with the Thai government during his visit called for building the first modern standard gauge railway on the Indochina Peninsula that "will be entirely with Chinese technology and equipment" and will be supported by unspecified Chinese funding. He highlighted China's role in developing highways and river transportation in the GMS. He went on to stress China's desire to use its excess capacity in manufacturing steel, iron, cement, and other building materials to foster Chinese investment in the GMS countries. He said the GMS countries will benefit from the China Development Bank's \$10 billion for ASEAN, China's \$489 million pledge of aid to less developed ASEAN countries (both noted above), and from China's \$1 billion support for GMS projects.

*Australia, New Zealand, and Pacific Islands.* President Xi underscored China's efforts to use its economic power to advance relations in Southeast Asia by employing the same general emphasis on growing economic cooperation while spending 10 days in Oceania, starting with his participation in the G-20 Summit on Nov. 15-16 in Brisbane. Afterward, Xi spent several days each in Australia, New Zealand and Fiji, where he met Pacific Island leaders with official relations with China. The focus of discussion in all stops was greater economic interaction with China. The highlight was the conclusion of the China-Australia Free Trade Agreement.

### **South China Sea differences**

As disputes in the South China Sea have intensified in recent years along with Chinese truculence over the disputes, Beijing is no longer able to keep South China Sea issues off the agenda of the annual East Asia Summit and other regional meetings. Premier Li used measured language in defending China's positions at the EAS meeting in Myanmar on Nov. 13. Admonished by Prime Minister Abe and President Obama to show restraint and advance the slow-moving talks on reaching a code of conduct on disputes in the South China Sea, Li advised that China remained resolute in safeguarding territorial sovereignty. However, he also averred that the territorial differences will not affect general stability in the South China Sea so long as China and Southeast Asia nations treat each other with sincerity and seek common ground. Concurrent Chinese media commentary reaffirmed Beijing's position favoring a "dual-track" approach that includes disputes being addressed by countries directly concerned through friendly negotiations in a peaceful way, and peace and stability in the South China Sea being jointly maintained by China and ASEAN countries without foreign interference.

Subsequently, differences over official comments and formal pronouncements by claimants and the US regarding the disputes prompted sharp rebukes by China's Foreign Ministry spokesperson to perceived challenges to China's rights and claims. On Nov. 24, the spokesperson rebuffed a US military spokesperson's call on China and other governments to cease expanding the size of and the facilities on disputed South China Sea Islands. The US official was reacting to a widely publicized media report disclosing remarkable expansion through dredging of the Chinese-held Fiery Cross Reef (Chinese: Yongshu Island) in the disputed Spratly Islands. The report said China's intention is to build an air strip to allow military flights and power projection.

On Dec. 5, the US State Department released a detailed report questioning the legal basis of China's expansive claims to the South China Sea and especially China's use of a nine-dash line

on historical maps to justify its claim. The report was widely seen as providing support of the Philippine's position in filing a case earlier this year with the UN Permanent Court of Arbitration disputing Chinese claims in the South China Sea. On Dec. 7, the Chinese Foreign Ministry issued a position paper detailing its arguments for why the UN arbitral tribunal lacks jurisdiction in the Philippine-initiated case. On Dec. 9, the ministry spokesperson condemned the State Department's Dec. 5 report.

On Dec. 11, Vietnam's Foreign Ministry spokesman rejected China's South China Sea claims in its Dec. 7 position paper and said that Hanoi has asked the UN Permanent Court of Arbitration to take Vietnam's legal interests and rights into consideration when evaluating the evidence in the Philippines case against China. In its statement, Vietnam countered China in acknowledging that the Permanent Court of Arbitration has jurisdiction over the issues raised in the Philippine case and in rejecting China's nine-dash line as having no legal basis. The next day, China's Foreign Ministry spokesperson rebuffed the Vietnamese statement and reaffirmed that China will neither accept nor participate in the South China Sea arbitration initiated by the Philippines.

Meanwhile, international media said growing Chinese military and civilian capabilities support efforts to expand control of the disputed South China Sea islands. In October, the Chinese Navy chief visited Woody Island (China: Yongxing; Vietnam: Phu Lam) in the Paracel Islands; the island is the main Chinese base of operations and administration in the South China Sea. Reports on the visit revealed that the airstrip on the island had been substantially lengthened and now is capable of hosting fighter jets and other aircraft to project power into the South China Sea. Other reports that month disclosed that China is developing floating docks to support its ongoing land reclamation efforts in the South China Sea. November reports from the Chinese air show at Zhuhai highlighted the *TA-600*, the world's largest seaplane that was seen as being designed for support and supply in far-reaching Chinese outposts in the South China Sea. In December, media disclosed that China is building a new class of 12,000-ton coast guard vessels, making them the largest coast guard patrol vessels in the world.

### **China-Vietnam dialogues**

Despite periodic public disputes over South China Sea claims, shuttle diplomacy between China and Vietnam intensified in the last few months with senior level bilateral visits and discussions convened in Hanoi and Beijing to help defuse recent tensions. In October, Fan Changlong, vice chair of China's Central Military Commission, met visiting Vietnamese Defense Minister Phung Quang Thanh; the two military chiefs agreed to "properly address and control their disputes," and to gradually resume military ties and jointly manage the maritime dispute. Within less than two weeks of that meeting, Chinese State Councilor Yang Jiechi visited Hanoi to meet President Truong Tan Sang to discuss ways to strengthen bilateral relations, including through the China-Vietnam Steering Committee on Cooperation and other high-level exchanges and visits. The two sides also agreed to deepen economic cooperation. In mid-May, following China's abrupt deployment of an oil rig in the disputed Paracel Islands, a series of riots targeting Chinese investments in southern and central Vietnam left five Chinese nationals dead, around 20 factories burned down, and some 1,100 companies affected. Notwithstanding the protests, China is Vietnam's seventh largest investor. Chinese investment reached \$2.3 billion last year, up from \$345 million in 2012. Investment and trade are projected to grow for 2014-2015.

Yang's visit was seen as a prelude to gradual warming of bilateral ties and dialogue, setting the stage for a meeting between President Xi and President Truong in Beijing in November on the sidelines of the APEC Leader's Meeting. During the meeting, the two leaders agreed to continue to hold talks over the outstanding maritime issues. Meanwhile, the Vietnamese statement disputing China's South China Sea claims was seen by foreign specialists as reflecting a balanced approach toward both China and the Philippines in the ongoing maritime dispute. In an interview with the *South China Morning Post*, Carlyle Thayer noted that Vietnam's move opened the door for it to explain its interests and was thus "a cheap way of getting into the back door without joining the Philippines' case." The *South China Morning Post* further noted that "there is reportedly no consensus in the Vietnamese Politburo on this subject. This is probably as far as the Politburo is prepared to go."

Ending the year on a positive note, Chinese Communist Party Politburo Standing Committee Member Yu Zhengsheng visited Vietnam Dec. 25-27, meeting top party and government leaders. Both sides stressed managing differences, seeking to settle maritime disputes "in a candid and friendly spirit," and developing cooperation in economic and other areas.

### **China-Philippines relations**

China's relations with the Philippines also registered modest improvement despite the South China Sea disputes. President Xi and President Benigno Aquino shook hands and talked for 10 minutes at the APEC meeting in Beijing in November. Chinese official media said the "short conversation" was a "good sign" for the relationship. Xi was reported saying that he expected the Philippine president to adopt a constructive approach to the disputes. He hoped the Philippines would meet China "half way" on the differences, thereby paving the way for the healthy development of the relationship.

Singapore's Nanyang Technological University experts Lim Kheng Swe and Li Mingjiang cited in a report in December another indirect sign of Chinese moderation toward the Philippines: Beijing's much more discreet reaction to the Philippines arrest and conviction in 2014 of Chinese fishermen for poaching in an area of the South China Sea claimed by both countries when compared to China's tough posture in a similar dispute in 2010. The latter case involved the arrest and movement to trial of a Chinese fishing boat captain accused of repeatedly ramming Japanese Coast Guard patrol boat in disputed waters near the Senkaku/Diaoyu Islands. That incident prompted repeated high-level demarches, a cut off of high-level exchanges with Japan, and curbing rare-earth exports to Japanese businesses. In contrast, the 2014 incident saw Chinese diplomats complain about the arrests and call for the release of the fishermen but did not involve strident and high-level complaints or other pressure tactics.

### **China-Myanmar relations**

On the sidelines of the ASEAN-China Summit and the East Asia Summit in Myanmar in November, Chinese Premier Li Keqiang met Myanmar's leaders to further strengthen bilateral ties with a special focus on expanding business, trade, and economic ties. Chinese data indicate that bilateral trade surpassed \$10 billion in 2013, a 10-fold increase over the past decade. Trade

grew by 185 percent to nearly \$18 billion in the last three quarters of 2014. China is Myanmar's largest trading partner, and Myanmar has also become an investment destination of increasing importance for Chinese companies, given its close proximity and abundant natural resources. Myanmar is also part of new Chinese-backed economic corridors – the “Silk Road Economic Belt” and the “21<sup>st</sup> Century Maritime Silk Road.”

As economic relations expand, Chinese leaders have been encouraging their nationals and companies in Myanmar to address the increasing backlash against Chinese investors. There remain, however, concerns and controversies surrounding recent Chinese infrastructure projects, the latest of which includes a large \$7.6 billion-dam project that is being planned on the Salween River in the Kunhing township of Myanmar's Shan State. The dam's location is projected to drown the surrounding agricultural land and forests. In addition to environmental concerns, much of the land involved is controlled by the Shan State armed ethnic groups, further complicating a tenuous ceasefire between the armed groups and the Myanmar government. There is some uncertainty whether the dam will proceed as planned since agreement on the project was struck between the Chinese government and Myanmar's previous military junta. In recent months, where Chinese economic investments and activities in Myanmar have provoked protests in the country, mostly because the economic deals have led to negative environmental impact, Myanmar officials have responded to public pressure by forcing some Chinese companies to shut down their operations. Most notably, in 2011, the government decided to suspend the Chinese-run \$3.6 billion Myitsone Dam project.

## **Outlook**

The promised increase in Chinese investment in infrastructure represents the leading edge of expanding Chinese economic influence in Southeast Asia. Following the money will prompt attention to China's overall position as an investor in ASEAN countries. According to the ASEAN website, China (apart from Hong Kong) provided 6.5 percent of foreign investment in ASEAN during 2011-2013; Hong Kong provided 4.1 percent. The European Union invested more than twice as much as China (including Hong Kong), and Japan invested 50 percent more than China (with Hong Kong). The United States provided 7.2 percent of investment in ASEAN during these years.

Meanwhile, there is considerable uncertainty over whether China's comparatively moderate approach on South China Sea disputes over the past few months will advance in 2015 or lapse into acrimony as happened following a similar period of moderation in the fall of 2013. China's dredging and land reclamation in the Spratly Islands and continued strengthening of its civilian and military maritime capabilities provide ever stronger means to coerce neighbors to follow Chinese territorial demands that enjoy the strong backing of Chinese elites and public opinion.

## **Chronology of China-Southeast Asia Relations September – December 2014**

**Sept. 9, 2014:** Vietnam accuses Chinese sailors of attacking a group of Vietnamese fishermen near the Paracel Islands.

**Sept. 15, 2014:** The 11<sup>th</sup> Annual China-ASEAN Expo convenes in Nanning with Chinese Vice Premier Zhang Gaoli meeting regional leaders in attendance at the annual trade, business, and investment forum.

**Sept. 22, 2014:** Fan Changlong, vice chair of China's Central Military Commission (CMC), meets visiting Indonesian Defense Minister Purnomo Yusgiantoro to discuss bilateral military ties. They agree to increase the number of senior-level exchanges and to closer coordination on multilateral security issues in the region.

**Oct. 8, 2014:** Chinese State Councilor Yang Jiechi arrives in Kuala Lumpur and meets Prime Minister Najib Razak. They agree to deepen cooperation in law enforcement, regional security and counterterrorism, and to continue consultation on the South China Sea.

**Oct. 16-18, 2014:** Vietnam's Defense Minister Gen. Phung Quang Thanh leads a delegation of 12 senior military officers to Beijing at the invitation of Chinese Defense Minister Gen. Chang Wanquan "to strengthen friendly relations and comprehensive cooperation between the two armed forces and discuss measures to promote bilateral defense relations...."

**Oct. 18, 2014:** Fan Changlong, vice chair of China's CMC, meets visiting Defense Minister Phung Quang Thanh. They agree to better manage and "properly address" the ongoing maritime disputes in order to help advance bilateral military-to-military ties.

**Oct. 24, 2014:** China announces the establishment of the Asian Infrastructure Investment Bank (AIIB) with an initial fund of \$50 billion. A total of 21 countries sign a memorandum of understanding endorsing the launch of AIIB, including India and nine ASEAN countries. Indonesia subsequently became a member on Nov. 27.

**Oct. 27, 2014:** Chinese State Councilor Yang Jiechi arrives in Hanoi and meets President Truong Tan Sang to discuss ways to manage differences in the maritime disputes and to increase and strengthen overall bilateral exchanges.

**Nov. 2-9, 2014:** China and Singapore hold a joint military training exercise. The eight-day exercise, *Cooperation 2014*, includes an infantry live-fire combat operation.

**Nov. 10-11, 2014:** Asia-Pacific Economic Cooperation (APEC) Economic Leaders Meeting is held in Beijing. The key highlight of the meeting is a proposal broached by President Xi Jinping to create a Free Trade Area of the Asia-Pacific (FTAAP).

**Nov. 12, 2014:** Chinese Premier Li Keqiang arrives in Nay Pyi Taw to attend the annual Association of Southeast Asian Nations (ASEAN) Leaders Meeting and the East Asia Summit. Li supports a proposed new treaty of "friendship and cooperation" with ASEAN and offers to host an informal regional meeting of defense ministers in 2015.



**Nov. 15-16, 2014:** President Xi attends the G-20 Summit in Brisbane and discusses energy security, strengthening the international financial system, and combating such nontraditional, transnational threats as the Ebola epidemic, among other global security and economic issues.

**Nov. 18, 2014:** China, Laos, Myanmar, and Thailand carry out the 28<sup>th</sup> round of joint patrols on the Mekong River. The four-day patrol seeks to improve coordination among law enforcement agencies to combat human smuggling, hijacking, and illicit drugs and narcotics in the Golden Triangle region.

**Dec. 3, 2014:** Chinese and Indonesian law enforcement agencies announce the joint arrest of a major transnational criminal ring responsible for the illicit smuggling of drugs and narcotics across Indonesia, Hong Kong, and several Chinese cities.

**Dec. 7, 2014:** Chinese Ministry of Foreign Affairs releases a position paper in response to the Philippine's decision in January to file a case with the UN Permanent Court of Arbitration disputing Chinese claims in the South China Sea. The Chinese government maintains its objection to the ongoing arbitral proceedings.

**Dec. 11, 2014:** Vietnam submits an official statement to the UN Permanent Court of Arbitration as part of its dispute with China in the South China Sea. The statement asks the international court to give "due regard" to Hanoi's legal rights as the court reviews a separate, impending case filed by the Philippines and rejects China's "nine-dash line" demarcation of the South China Sea.

**Dec. 19-20, 2014:** The fifth Greater Mekong Subregion (GMS) Economic Cooperation Summit is held in Bangkok. Premier Li Keqiang announces that China will offer \$1 billion to support greater infrastructure development and linkages in the region, a \$500 million grant program to address poverty alleviation, and \$10 billion in special loans to improve regional business, trade, and economic growth.

**Dec. 22-26, 2014:** China and Malaysia hold a military exercise, *Peace and Friendship 2014*, which includes a joint table-top exercise, combined joint search and rescue, and humanitarian assistance and disaster relief activities.

**Dec. 25-27, 2014:** Chinese Communist Party Politburo Standing Committee Member Yu Zhengsheng visits Hanoi for talks with Vietnam's top party and government leaders.