



**China-Southeast Asia Relations:
Progress with Limitations**

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The quarter saw much less of the high-level Chinese-Southeast Asian interchange that marked past periods and was notable in the lead-up to the East Asia Summit in December 2005. The visit of Myanmar's prime minister to China in February was the highlight in bilateral exchanges. Beijing hosted a major international donors' conference in January to assist China, Southeast Asia, and other Asian states affected by the avian flu epidemic.

The mid-winter Lunar New Year's or "spring festival" celebrations usually are periods of relative inactivity for Chinese leaders. Senior Chinese leaders also were preoccupied this year with issues related to the new five-year development plan and significant changes in domestic laws and regulations considered at the annual National People's Congress session in March. Chinese leaders had little to say about policy toward Southeast Asia at the Congress, which as usual featured detailed press conferences by the Chinese premier and Chinese foreign minister discussing salient policy issues. This seemed to reflect the absence of significant controversy in Chinese-Southeast Asian relations rather than any diminution of Chinese attention to the region.

Meanwhile, political turmoil in Thailand prompted the Chinese premier to postpone a visit to Bangkok scheduled for April, according to Thai media reports. China responded to the February landslide disaster in the Philippines with a pledge of \$1 million in assistance, but avoided significant comment on President Arroyo's declaration of a state of emergency and related political difficulties.

There was little official reaction in Southeast Asia to Chinese developments with implications for Southeast Asian security. These included the disclosure at the National People's Congress that China's defense budget would increase over 14 percent in 2006, and a concurrent report by the Chinese-controlled media in Hong Kong of a Chinese general and deputy director of the Science and Technology Commission of the People's Liberation Army (PLA) General Armament Department disclosing the Chinese military's determination to build an aircraft carrier fleet. China welcomed Southeast Asian statements criticizing the Taiwan president over his controversial decision in February to end the island's National Unification Council and Guidelines for political unification with China.

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Prime Minister Soe Win's visit

At the invitation of Chinese Premier Wen Jiabao, Myanmar's Prime Minister Soe Win visited China (Feb. 14-18). It was Soe Win's first visit to Beijing since becoming prime minister two years ago. Soe Win's first stop was in Kunming, the capital of the southwestern province of Yunnan, which borders Myanmar. Yunnan shares borders with Myanmar, Laos, and Vietnam and has China's highest rate of drug use and drug-related crime. The border between Myanmar and China has been a major source of illegal drug trade. Closer cooperation between China and Myanmar has yielded positive results in controlling the illegal drug trade in recent years. The UN has praised Myanmar for reducing the land cultivated for opium by 80 percent over the last decade. In an attempt to further enhance cross-border operations, Soe Win sought to learn more from Yunnan's programs in growing alternative crops to opium poppies and promised to step up Myanmar's efforts in cracking down on drug trafficking within its borders.

Soe Win's visit secured several important agreements to boost economic ties. The level of bilateral trade between China and Myanmar has grown in the last few years. Myanmar has created an industrial zone in its northeastern corner that relies on trade with China. Both sides agreed earlier to have the town of Muse linked to Yunnan's Ruili in order to enhance trade across the border. Muse is already a busy trade point with nearly 200 tons of registered goods transacted daily. According to Chinese statistics, Myanmar-China bilateral trade, including the border trade, reached \$1.145 billion in 2004, up 6.3 percent from 2003. China's exports to Myanmar totaled \$938 million, mostly construction materials and heavy-duty machinery, while its imports from Myanmar reached \$207 million. As last quarter's figures are still being computed, Chinese officials predicted that trade volume for 2005 could go as high as \$1.5 billion.

China is Myanmar's traditional ally and one of the top foreign investors and aid donors. During the February visit of Prime Minister Soe Win, Premier Wen announced eight key areas of closer economic cooperation, which included technology, civil aviation, and building a new power plant for Myanmar. China's interests seem to focus particularly on Myanmar's growing geopolitical and strategic importance in Chinese foreign policy. Myanmar has been instrumental in giving the Chinese a new trading route to the Indian Ocean. It is also rich in natural resources such as timber, gems, gas, and oil. A Memorandum of Understanding was signed between the two leaders, giving the Chinese greater access to develop Myanmar's natural gas fields.

The Chinese government continues to avoid criticizing Myanmar's human rights abuses and lack of democracy. Soe Win's visit was closely watched by other countries in Southeast Asia, as ASEAN has stepped up efforts to persuade Yangon to pursue democratic reforms and engage in constructive dialogues with opposition leader Aung San Suu Kyi. In December 2005, Myanmar responded to ASEAN pressure and stepped back from seeking chairmanship of the regional organization for 2006. But as ASEAN presses Myanmar, it appears that the military government has turned to China for economic aid and international attention, and that China is responding positively.

Chinese Foreign Ministry spokesmen have reiterated that Beijing did not wish to meddle with Myanmar's "internal affairs." China did, however, refrain from vetoing a decision taken up by the UN Security Council to informally discuss the situation in Myanmar last December. During Soe Win's visit, Premier Wen also expressed his concerns to his counterpart and urged the government to "push forward reconciliation in Yangon and realize economic development and social progress." Thus, Beijing seems to favor a more subtle approach on possible political reforms and reconciliation in Myanmar, while it focuses on the more pragmatic issues of mutual concern such as trade, economic ties, and cracking down on the drug trade. A foundation of China's argument is that stable society and sustained economic growth in Myanmar would not only be in China's interest but also would benefit peace and stability in the region.

Assessing economic relations

Commentaries in official Chinese media during January highlighted the positive in developments in China-Southeast Asian economic relations in the previous year. A lengthy assessment in *China Daily* on Jan. 9 evaluated the progress of China-Southeast Asian economic ties in the context of progress toward implementing the China-ASEAN Free Trade Agreement. It stressed the following highpoints:

- 2005 ASEAN-China trade was valued at over \$120 billion.
- ASEAN states had a trade surplus with China in 2005 of over \$16 billion.
- Chinese investment in Southeast Asia "in recent years" has "witnessed an annual average growth rate of 60 percent." In 2006, the Chinese government will provide loans of "up to \$5 billion" on favorable terms to support Chinese enterprises' investment in ASEAN.
- The first expressway linking China and ASEAN (a 179-kilometer expressway between Nanning, the capital of Guangxi Province, and Vietnam) opened at the turn of the year. A large port project in southern China for trade from ASEAN, a major road project linking Yunnan Province with Southeast Asia, as well as three separate Chinese rail links to Laos, Vietnam, and other Southeast Asian destinations are being built.

Chinese media disclosed that July 2005 marked the first phase of the China-ASEAN Free Trade Agreement (FTA) under which tariffs on 7,000 goods were lowered to 20 percent. The China-ASEAN FTA is scheduled to be fully implemented in six years, with tariffs further lowered to 12 percent in 2007, 5 percent in 2009, and 0 percent in 2012. Chinese officials saw the FTA giving an important boost to China-ASEAN trade, with the Chinese director of the ASEAN-China Business Council predicting in January 2006 that trade would reach \$200 billion by 2010.

Separate Chinese commentaries focused on the benefits countries such as Thailand, Malaysia, the Philippines, and Indonesia derived from economic relations with China over the past year. Chinese officials disclosed that Thailand benefited from the Early Harvest Program in the China-ASEAN Free Trade Agreement, running a surplus of \$220 million in trade with China involving fruits and vegetables in 2005. They said that Thailand and China planned to establish soon a China-Thailand Closer Economic Partnership Agreement (CEPA) that was proposed by the Chinese premier to his Thai counterpart during the ASEAN-China meetings in Kuala Lumpur in December. The agreement with Thailand will represent the first CEPA with a sovereign country. It follows similar agreements China has enacted with its two special administrative regions of Hong Kong and Macao, offering them more preferential trade and investment terms. Malaysia also is considering a CEPA with China, according to Chinese media. Meanwhile, Chinese media accounts disclosed that the Philippine trade surplus with China continued to grow, reaching \$4 billion in total trade valued at \$13 billion in 2004, and that Indonesia-China trade grew 40 percent in 2005.

Disclosures of some of the limitations in Chinese economic relations with Southeast Asia came from non-Chinese reporting or from closer reading of Chinese material. A report of a three-year investigation of Southeast Asian developments by the Stanley Foundation that was published at the end of 2005 concluded that Southeast Asians' motivations for increased trade with China often are "defensive," as "they view it as an opportunity to recoup some of the trade and investment the region has lost" to China. This loss of trade and investment was seen to have been exacerbated by the end of textile quotas for WTO members in 2005. The study went on to forecast "significant economic dislocation" in Southeast Asia as a result of closer economic integration with China, citing "early experience" showing that "Chinese goods may overwhelm indigenous Southeast Asian markets," prompting some analysts to forecast that Southeast Asia "could lose as much as \$400 billion to China over the next 15 years."

Limited Chinese investment

A key reason for such gloomy assessments is the marked decline in foreign direct investment (FDI) to Southeast Asia as China continues to receive the lion's share of FDI going to the developing Asian countries. China received \$64 billion of FDI in 2004 and \$60 billion in 2005. Though Chinese commentaries point to large percentage increases in Chinese investment in Southeast Asia and planned loans to encourage Chinese foreign investment in the area, a close reading of Chinese statements and official commentary shows that the actual amounts of such investments are small and do not come close to offsetting the investment that leaves Southeast Asia for China. Thus, a Jan. 16 *China Daily* report disclosed that while Philippine entrepreneurs in 2004 invested almost \$700 million in China, Chinese investment in the Philippines was miniscule, with the total Chinese investment through 2003 amounting to less than \$20 million. Such figures are generally consistent with trends in global investment involving China, according to official Chinese figures. The Chinese figures belie frequent non-Chinese media accounts that often grossly exaggerate the amount of Chinese investment going abroad. Thus, Chinese officials disclosed in official Chinese media on Jan. 24 that while China in 2005

received \$60 billion in FDI, “China’s outward direct investment totaled \$6.9 billion in 2005”; in 2004, China received \$64 billion in FDI and China invested \$3.6 billion abroad.

Limited Chinese aid

For a variety of reasons, China does not provide figures giving a clear and comprehensive depiction of China’s foreign assistance. Chinese officials and official commentary do frequently highlight the importance of Chinese foreign assistance in facilitating good economic relations and offsetting difficulties Southeast Asian states may have in adjusting to economic globalization and particularly China’s economic growth and competitiveness. Official Chinese media disclosed Jan. 7 that over the past year, China gave grants of \$33 million and loaned a larger sum to support infrastructure projects in Indonesia.

Other commentaries emphasize that China plays a particularly important role in providing assistance to the poor and authoritarian Southeast Asian governments near China: Myanmar, Laos, and Cambodia. Nonetheless, a closer look at Chinese aid to Laos, published in February by *China Development Brief*, found that while Chinese aid has built prominent projects, the actual amount of Chinese aid going to the aid-dependent country was relatively small (about \$200 million from 1988 to 2004). Using Lao government data for 2001-2002, the study showed that Laos received \$198 million from donor countries and \$130 million from the Asian Development Bank and the World Bank. Japan was the largest individual donor at \$100 million while China provided \$20 million during that period.

Avian flu, tsunami relief

Limitations in China’s aid to Southeast Asia seemed on display during the China-hosted international donors’ conference on avian flu in Beijing, Jan. 17-18, to provide assistance specifically to China and other “high-risk” Asian countries including many of China’s Southeast Asian neighbors, notably Cambodia, Indonesia, Laos, and Vietnam. The meeting was sponsored by China, the EU, and the World Bank, and followed a Jan. 12-13 conference in Tokyo hosted by Japan and the World Health Organization where experts from 22 nations discussed prevention and responses to the epidemic. The Tokyo meeting was attended by specialists from Taiwan, but Taiwan delegates were excluded from the Beijing meeting.

Official Chinese media seemed very pleased with the results of the Beijing donors’ meeting, which saw pledges of almost \$2 billion to assist China and other affected countries. The World Bank and the Asian Development Bank each pledged about \$500 million, the U.S. pledged over \$300 million, and Japan over \$150 million. China presumably will gain a proportional share of this international support, helping to pay for the extensive prevention measures undertaken. Though hosting the meeting, the Chinese government made little effort to play a leading role as an international donor. It pledged

\$10 million at the conference, and thereby appeared to assure that the Beijing meeting will provide significant net material aid for China.

Such small actual donations from China are consistent with the continued emphasis of Chinese officials as seen in year-end wrap-ups by official Chinese media that China “remains a developing country,” has “tens of millions of poverty-stricken people,” and will “suffer from a low per-capita GDP for a very long time.” As a result, “the Chinese government can only provide assistance within its capability,” according to Chinese officials. Against the background, *China Daily* on Jan. 19 reported that China’s actual contribution “in cash and kind” to the 2004 tsunami disaster was worth \$22 million. This small amount contrasted with many reports and estimates last year of much larger Chinese donations to the tsunami disaster as China endeavored to keep up with the widespread international support valued at several billions of dollars, provided by Japan and the U.S., including pledges of several hundreds of millions of dollars each from such middle powers as Germany, Australia, and even Norway.

The U.S. and regional policy implications

Secretary of State Condoleezza Rice’s visit to Southeast Asia and Australia in March prompted a new cycle of commentary seen in recent years in prominent media in the U.S. and Asia highlighting signs that China’s rising interaction and influence in Southeast Asia has come at the expense of and has significantly undermined U.S. leadership in Asia. Official Chinese commentary, by contrast, has continued to adhere carefully to an emphasis on “peace and development” in Chinese foreign policy that was set forth most recently in a December 2005 white paper released by Beijing that generally eschewed Chinese competition or confrontation with the U.S.

A scholarly assessment of China’s rise and U.S. leadership in Southeast Asia by a specialist at the U.S. Center for Naval Analysis (CNA) that was featured at an Asia Society forum in December 2005 seemed to reinforce the diffident public Chinese approach toward U.S. interests and leadership in Southeast Asia. It showed that key U.S. interests and leadership, focused heavily on sea lines of communication and the maritime nations of Southeast Asia, have not been adversely affected by China’s greater interaction with the region. Chinese influence historically has been focused on countries adjoining and near China’s land border, and the recent Chinese activism continues this trend. The assessment found little evidence that countries in Southeast Asia of importance to U.S. interests were drifting into a Sino-centric economic or political order detrimental to U.S. interests as has been predicted by some U.S. and Asian media.

The greater Chinese involvement in Southeast Asia was seen by the CNA specialist as coming at the expense of other powers, notably Japan, which had been the leading Asian power in the region in the 1980s and 1990s. Sino-Japanese competition has intensified as a result, and was evident notably in the Sino-Japanese tug of war regarding the role of China and participation of other regional powers in the East Asia Summit in Kuala Lumpur in December 2005 (See “Emphasizing the Positive; Continued Wariness,” *Comparative Connections*, Vol. 7, No. 4, January 2006).

The assessment confirmed that the biggest loser as a result of China's recent rise in Southeast Asia is Taiwan. Taipei used to exert considerable political influence in the region, in line with its importance as an investor and trading partner. Taiwan leaders in the 1990s traveled often to key Southeast Asian cities to meet high officials, and even prominent Southeast Asian leaders close to China, such as when Malaysia's prime minister traveled to Taiwan for talks during the 1997 Asian financial crisis. In recent years, however, Chinese diplomacy backed by China's economic and international influence has compelled Southeast Asian leaders to call a halt to such meetings. Moreover, the Southeast Asian governments have lined up publicly on China's side regarding recent China-Taiwan disputes. Thus, when Taiwan's president in February announced the ending of the island's unification council and guidelines for any political unification with China, even Singapore, the Southeast Asian government with the closest ties to Taiwan, condemned the move.

Chronology of China-Southeast Asia Relations January–March 2006*

Jan. 7, 2006: The first expressway uniting China and ASEAN opens to traffic. The expressway is 180 km long, starting from Nanning, Guangxi, and leading to the Friendship Pass at the Sino-Vietnamese border.

Jan. 9, 2006: *China Business Weekly*, published by *China Daily*, is published in Thailand in an arrangement with *The Nation* newspaper.

Jan. 9, 2006: Vietnam's northern province Cao Bang approves an investment of \$215.2 million to develop its infrastructure and industries in 2006-2010 to tap trade potential with Guangxi.

Jan. 11, 2006: According to the Information Office of China's Ministry of Commerce, China and ASEAN have further developed cooperation in trade, investment, and economic development in 2005.

Jan. 13, 2006: Chinese Ambassador to Myanmar Guan Mu encourages Chinese youth volunteers visiting Myanmar to serve their best to enhance friendly relations and raise Myanmar's agrotech and sports level.

Jan. 16, 2006: Chinese Defense Minister Cao Gangchuan tells media that the People's Liberation Army is looking to increase mil-mil ties with Thailand.

Jan. 17, 2006: Jia Qinglin, chairman of the National Committee of the Chinese People's Political Consultative Conference, meets former Thai Prime Minister Chavalit Yongchaiyudh.

* Compiled by Claire Bai, 2005 Vasey Fellow, Pacific Forum CSIS.

Jan. 17, 2006: A trade zone in Myanmar's border town of Muse linking China's Ruili in Yunnan Province will open before February. In a press briefing, a Myanmar official in Muse states that the border trade zone, known as the Muse 105 Mile Zone, will increase between the two countries.

Jan. 18, 2006: The China-ASEAN Association holds the third session of its first executive council in Beijing. Gu Xiulian, chairwoman of the China-ASEAN Association and vice chairwoman of the Standing Committee of the National People's Congress, says China expects to enhance ties with ASEAN.

Jan. 18, 2006: Yi Xiaozhun, vice minister of Commerce, announces that trade between China and ASEAN rose to \$130.4 billion in 2005, up 23.1 percent on a year-on-year basis.

Jan. 18, 2006: Top-level party, state, government, and legislative leaders of Vietnam and China exchange greeting messages on the 56th anniversary of the establishment of diplomatic ties between the two countries.

Jan. 22, 2006: Local customs statistics show that Shenzhen has become the largest importer of goods from ASEAN in China since the country and ASEAN began building a Free Trade Zone a year ago. Shenzhen imported \$176 million worth of ASEAN goods in the past year under the Sino-ASEAN preferential tariff agreement, constituting 13 percent of the country's total import of ASEAN goods.

Jan. 23, 2006: China sends over \$1.5 million worth of free military equipment to the Philippine military. The aid is to upgrade the military's civil construction capability and to help the fight against "communist rebels."

Jan. 27, 2006: Environmentalists report that illegal logging of Myanmar's forests on the part of China resumed following a four-month hiatus brought on in part by a critical report published by the NGO Global Witness.

Jan. 27, 2006: *Vietnam News* reports that the Trade Ministry says that Vietnam expects exports to China to post an annual growth rate of 13-14 percent in the next five years.

Jan. 30, 2006: The Department of Foreign Affairs of the Philippines says that the Philippine Embassy in Beijing will launch a book, entitled *Philippines-China Agreements (1975-2005): Bridges towards the Golden Age of Partnership*, on official agreements signed between the Philippines and China since 1975, when the two countries established diplomatic relations.

Feb. 2, 2006: Cambodian PM Hun Sen remarks that a powerful China offers more opportunities to the region and international cooperation, during his meeting with China's new ambassador to Cambodia, Zhang Jinfeng.

Feb. 8, 2006: China's Ministry of Commerce website reports that China customs statistics show that bilateral trade between China and Vietnam recorded a 21.6 percent increase to \$8.2 billion in 2005.

Feb. 9, 2006: Chinese government provides 60 million RMB (\$7.5 million) to build 700 houses for tsunami survivors in Indonesia's Aceh province under a friendship village program.

Feb. 9-10, 2006: China-ASEAN joint working group holds second meeting on implementing the Declaration on the Conduct of Parties in South China Sea at Sanya, Hainan.

Feb. 10, 2006: Li Jinjun, Chinese ambassador to the Philippines, and Alberto Romulo, Philippine foreign secretary, exchange bilateral extradition treaty documents. The extradition treaty will help existing bilateral cooperation on law enforcement and judicial matters, particularly drug trafficking and transnational crimes.

Feb. 14-18, 2006: Myanmar PM Soe Win visits China to discuss bilateral economic agreements. Soe visits Beijing, Shanxi, and Guangdong.

Feb. 15, 2006: China is to strengthen its support for anti-drug operations in Laos following Laotian PM Bounnhang Vorachith's declaration that Laos will end its 200-year old poppy cultivating history.

Feb. 16, 2006: Cambodian PM Hun Sen, Vietnam Foreign Ministry Spokesman Le Dung, and Indonesian Foreign Ministry spokesman reiterate their countries' stand on the one China policy when asked to comment on remarks by Taiwan leader Chen Shui-bian for the abolishment of the National Unification Council and the National Unification Guidelines.

Feb. 20, 2006: Law enforcement from China, Laos, Myanmar, and Thailand jointly raid a transnational drug ring, arresting 70 people involved in the ring and seizing 762.8kg of heroin, and foreign currencies (yuan, Hong Kong dollars, and Thai baht).

Feb. 23, 2006: Thai and Chinese military delegations exchange views during three days of meetings in China. Both sides pledge to increase military exchanges and work towards advancing closer mil-mil relations. Thai delegation consists of 69 members from the country's Defense College.

Feb. 28, 2006: Wang Zhaoguo, vice chairman of the Standing Committee of China's National People's Congress (NPC), says that the NPC is willing to strengthen communications with the Thai National Assembly, as well as exchanges and cooperation between subcommittees of the two parliaments, when meeting with First Deputy Speaker of the Senate of the Thai National Assembly, Nipon Wisityuthasart.

Feb. 28, 2006: *Vietnam News Agency* reports that a 110-kV transmission line, linking Vietnam's Tuyen Quang province with China's Yunnan province, is launched to help Vietnam import more electricity from China.

March 4, 2006: Spokesman for the National People's Congress reveals prior to the opening of the annual session that China's 2006 defense budget will be 283.8 billion yuan, an increase of 14.7 percent over last year's budget.

March 6, 2006: *Thai News Agency* says that Thailand's caretaker Deputy Prime Minister Somkid Jatusripitak and Chinese government officials have agreed to expand bilateral trade to reach \$50 billion annually by 2010.

March 9, 2006: Malaysian Deputy Prime Minister Najib Tun Razak says that Asian countries should look at China's development in a more positive perspective, at the opening ceremony of the "Malaysia and East Asia" seminar in Kuala Lumpur.

March 9, 2006: Gen. Wang Zhiyuan, deputy director of the Science and Technology Commission of the PLA General Armament Department discloses to Hong Kong *Wen Wei Po* newspaper, "The Chinese army will conduct research and build aircraft carriers on its own, and develop its carrier fleet." Related research and a development program are under way.

March 15-16, 2006: The seventh meeting of the China-ASEAN Joint Cooperation Committee is held in Nanning. Participants agree that their bilateral strategic partnership oriented to peace and prosperity has continued to advance.

March 15, 2006: A six-person delegation of Chinese journalists arrives in Myanmar for a goodwill visit.

March 15, 2006: China's Ministry of Commerce announces that trade between China and ASEAN showed year-on-year growth of 28.2 percent in the first two months of 2006.

March 16, 2006: Chinese Assistant Foreign Minister Cui Tiankai says at the 7th Meeting of China-ASEAN Joint Cooperation Committee that the China-ASEAN Commemorative Summit will be held in Nanning in October.

March 20-24, 2006: Jia Qinglin, chairman of CPPCC and member of the Standing Committee of the Political Bureau, visits Vietnam, meets Nong Duc Manh, general secretary of the Central Committee of the Communist Party of Vietnam, and makes five proposals on reinforcing and developing China-Vietnam relations.

March 20, 2006: Hanoi approves agreement between Vietnam and China on building a bridge over the Red River to facilitate transport of passengers and goods.

March 21, 2006: The Indonesian House of Representatives agrees to enact the Treaty on Mutual Legal Assistance in Criminal Matters between Indonesia and China.