

China – Southeast Asia Relations: China Caps a Year of Gains

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China capped a year of significant gains in relations with its Southeast Asian neighbors with a series of summit-level agreements with ASEAN in November, dealing with trade, investment, infrastructure, and security issues. Responding to increasing ASEAN concerns that China's success in attracting foreign investment, at their expense, will keep their economies depressed, Beijing promised early trade liberalization measures, and agreed with ASEAN on a framework for negotiating the world's largest free trade agreement (FTA). A long road remains, however, and Southeast Asian countries are realizing that a China-ASEAN FTA will require painful structural adjustments on their part. After several years of stalemate, China and ASEAN also agreed on a pledge of restraint in the South China Sea, although its provisions are vaguer than ASEAN wanted. A separate summit of the six Mekong states led to agreement on accelerating transportation and energy programs in the Mekong subregion. China committed to expand agricultural cooperation with ASEAN, to increase cooperation on "nontraditional" security issues, including narcotics and terrorism, and to sign on to ASEAN's regional nuclear weapons free zone.

With world attention centered on Iraq, the Middle East, North Korea, and other hot spots, and much of China's energy going into multilateral diplomacy during the quarter, bilateral relations with Southeast Asia proceeded less eventfully. Border demarcation with Vietnam remains difficult. Taiwan continued to seek ways to expand economic, and where possible political, relations in Southeast Asia during the quarter, but had to backtrack quickly when news broke that President Chen Shui-bian was planning a visit to Yogyakarta in Indonesia in December.

New Agreements Bind ASEAN More Closely to China

The centerpiece of the Phnom Penh summits Nov. 3-4 was the signing of a "Framework Agreement on Comprehensive Economic Cooperation Between the ASEAN Nations and the People's Republic of China," setting concrete goals for establishing a China-ASEAN FTA, and offering specific early benefits that could boost ASEAN agricultural exports to China as soon as next year. The document commits the parties to begin negotiations on an FTA by early 2003, with the goal of completing the agreement by 2004 and

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establishing the FTA for trade in goods for the original six ASEAN countries by 2010 and by 2015 for newer ASEAN members with less developed economies. Tariffs on some agricultural imports and food items will be reduced by January 2004, as an “early harvest” step before other reciprocal tariff reductions take place.

Many ASEAN observers are enthusiastic about the potential benefits of an FTA with China. Officials in Indonesia believe that country could increase its revenues by as much as \$110 million in the first year of “early harvest” cuts. But other observers worry that the flow of cheap Chinese consumer goods into ASEAN markets, already displacing local manufactures, is likely to swell to a flood as tariffs are reduced or eliminated, imposing at least temporary hardship and requiring painful and politically sensitive structural adjustments. China’s own exports of food products are increasing. For instance, *Xinhua* reported in November that for the first time since 1949, China had exported quality wheat to a foreign buyer – Indonesia – and that improvements in Chinese agriculture would make possible rapid increases in grain exports to Southeast Asia, among other markets.

U.S. business analysts conclude that a China-ASEAN FTA will benefit the United States by giving a boost to the ASEAN economies; by forcing economic reforms on the ASEAN states that they might otherwise be slow to make; and by creating new export opportunities for U.S. companies, including companies manufacturing in Southeast Asia for export.

In addition to the Framework Agreement, Chinese Minister of Trade Shi Guangsheng signed a separate document establishing a zero tariff in January 2004 on certain imports from ASEAN’s poorest members, Cambodia, Laos, and Burma.

The Competition: Less to Offer

In comparison with China’s initiatives, ASEAN’s other summit partners in Phnom Penh had less to offer.

- Japanese Prime Minister Koizumi Junichiro signed a joint declaration with ASEAN on comprehensive economic partnership, including “a possible free trade area” within 10 years. Ambitious macro goals for expanding trade were set, although there were no details as to how they would be achieved. Agricultural issues were not mentioned in the ASEAN-Japan joint declaration, in contrast to China’s promises in this important area for ASEAN.
- South Korea discussed but failed to reach agreement on an FTA document of its own with ASEAN at the Phnom Penh summit, even though the grouping has become one of the ROK’s top five trade partners.
- India and ASEAN signed a joint statement in which they undertook to set up a task force to draft an economic cooperation agreement, and India agreed to consider preferential tariff treatment for the poorer ASEAN members.

Despite its reference to “a dynamic surge of ASEAN-India cooperation,” however, the statement tended to highlight how little, comparatively, India has to offer at present in response to ASEAN’s major concerns.

Declaration on the Conduct of Parties in the South China Sea

A second China-ASEAN agreement emerging from the Phnom Penh summit, on restraint and confidence building in the South China Sea, is a positive step in terms of atmospherics. Depending on how it is carried out, it could help reduce the chance that territorial disputes in the Spratly Islands could trigger armed conflict. It is, however, a watered-down, nonbinding compromise that falls short of the “Code of Conduct” that the concerned ASEAN members have sought for the past several years. The declaration reaffirms freedom of navigation and overflight, and commits the parties to resolve disputes peacefully, and to exercise self-restraint. At Vietnam’s urging, an ASEAN draft code had called for specific inclusion of the Paracel Islands, but China, which has occupied all the Paracels since 1974, rejected a reference to them, and the declaration defines no specific zone for its provisions. There is no commitment in the declaration that the parties will not build new structures on islets and reefs, as ASEAN wanted. The agreement to “refrain from action of inhabiting presently uninhabited islands, reefs,” etc. goes some way toward this goal, however.

Efforts by China to use the declaration to limit military exercises and other activities in the area of the Spratlys failed, but ASEAN did agree to a provision on voluntary prior notification of “joint/combined” military exercises in the South China Sea. Despite its voluntary nature, this provision – which implicitly includes exercises with non-ASEAN partners – comes close to the kind of naval confidence-building measure that some outside powers, including the United States, have opposed in the past. And even this mild reference to exercises and other military activities could give China a foothold to argue for more restrictive provisions in a future Code of Conduct.

Joint Declaration on Cooperation in Nontraditional Security Issues

A third China-ASEAN agreement pledged to strengthen cooperation on counter-narcotics, human trafficking, piracy at sea, counterterrorism, arms trafficking, economic crimes, and cyber-crime. Narcotics appeared to be the priority focus of this declaration, based on the ravages caused by heroin-based drugs and methamphetamines in southern China and the bordering ASEAN region. No specific new measures were proposed, apart from setting up ad hoc working groups “in relevant fields,” but the declaration offers an additional avenue for encouraging regional cooperation in counterterrorism.

Mekong River Development: Big Plans, but White Water May Lie Ahead

Taking the opportunity offered by their presence in Phnom Penh, heads of government of the Greater Mekong Subregion (GMS) countries – China, Burma, Thailand, Laos, Cambodia, and Vietnam – held a summit the day before the ASEAN Phnom Penh sessions. This separate summit, marking the 10th anniversary of an Asian Development

Bank initiative to encourage cooperative development along the Mekong, is likely to boost efforts already underway to exploit the great river for trade. GMS summit participants signed a memorandum of understanding on cross-border transport and travel, and agreed to establish a regional electric power grid, building on the extensive hydroelectric projects in place or planned by riverine states.

Rapid development of Mekong energy, transportation, and other projects, however, often at China's initiative or with Chinese funding, is generating mounting popular protests downstream, especially in Thailand. Thai opponents of headlong Mekong development insist that the eight dams built or planned by China in Yunnan province will "kill" the river by destroying its natural wonders, damaging riverine fisheries on which local populations depend, and increasing the likelihood of devastating floods during years of heavy rains. Communities in northern Thailand have sought an end to Chinese-aided efforts to open the river to deeper-draft ships by dynamiting rapids and dredging new channels.

Taiwan: Still Seeking to Go South

Spurred by China's ASEAN summit successes, Taiwan was at pains during the quarter to reiterate its "Go South" policy of expanding economic relations with ASEAN countries and pushing, where potential openings appear, for at least the appearance of political relations as well. Taiwan officials announced that the government had deliberately decided to increase the proportion of its overseas investment going to Southeast Asia to avoid overdependence on its extensive investment on the mainland. How far this declaratory policy is likely to go may be questionable, however, given that private investment flows will tend to go where the prospects are most profitable.

Following the Phnom Penh China-ASEAN summit, Taiwan reportedly offered to establish its own free trade area with ASEAN. Economic Minister Lin Yi-fu led trade and investment missions to Malaysia, Thailand, and the Philippines during the quarter, meeting with counterpart Cabinet-level officials. In other high-level visits to the region, Minister for Overseas Chinese Affairs Chang Fu-mei visited Manila Nov. 27-30, inaugurating a trade exhibition and asking Philippine citizens of Chinese descent to encourage democratization on the mainland in order to help achieve a peaceful cross-strait settlement. Chairwoman Chen Chu of Taiwan's Cabinet-level Council for Labor Affairs was invited by Thailand to visit Bangkok for the signing of a new agreement on Thai workers in Taiwan, ending a spat that began earlier this year when Bangkok revoked a visa for Chen under Chinese pressure, prompting Taiwan to halt the hiring of new Thai workers in retaliation.

In at least one case, however, Taiwan apparently overreached and had to pull back. Press reports from Indonesia Dec. 14, citing a provincial official, announced that Taiwan President Chen Shui-bian would visit Yogyakarta, in central Java, with a large business delegation the following week. Beijing immediately threatened that for Chen to enter Indonesia "in any capacity" would not be in Indonesia's interest. Chen's chief of staff

told Taiwan's press agency Dec. 15 that Chen had in fact cancelled overseas travel plans after "some uncertainties" came up.

Vietnam: Border Issues still Sensitive

Hanoi continued to pursue cooperative relations with Beijing during the quarter. There were no reports of further steps to demarcate the land border with China, however, possibly due in part to the reported domestic unpopularity of the 1999 land border agreement. China announced it was removing or destroying remaining minefields along its side of the border to make way for crossing points and boundary markers, a task it said would take three years. The Guangxi regional government announced it was building a thousand kilometer "tourist belt" to encourage the growing cross-border tourism. Informal cross-border trade is expanding as well, although not always with stabilizing consequences. Hundreds of smugglers and local villagers on the Vietnamese side reportedly attacked border guards who were attempting to control illegal goods in late September, requiring police reinforcements to quell the protests.

Vietnam and China held talks on their disputed maritime borders Nov. 12-14, in an effort to gain momentum on this difficult issue from the Nov. 4 China-ASEAN Declaration on the South China Sea. Good intentions, but no concrete progress, were reported from the session.

China and Cambodia

The ASEAN summit meetings in Phnom Penh gave Beijing an opportunity to highlight its unstinting support for Cambodia, and for Hun Sen's government. Premier Zhu Rongji met with King Norodom Sihanouk in Beijing Oct. 8, prior to the summit, and praised Cambodia's stability, and pledged even deeper cooperation with Cambodia in future. Zhu announced in Phnom Penh that China had decided to write off all Cambodian debts to China that had matured, and would provide 100 million renminbi in additional loans and grants.

Implications for the United States

China's growing economic power, based on its sustained high growth rate, its ability to attract most of Asia's new foreign direct investment, and its capacity to produce and export most manufactured goods for less than other Asian countries, is allowing it to set Southeast Asia's economic agenda. The United States is not absent from the equation, however.

China's cooperation with the United States on counterterrorism, its potential role in helping defuse North Korea's latest nuclear weapons challenge, the resumption of U.S.-China military relations, and the increased attention Washington is paying to Southeast Asia all contribute to ASEAN's confidence in dealing with China. Some in Beijing appear to acknowledge this. An October 2002 study of current and future China-ASEAN relations by a well-connected Beijing think tank concludes that as those relations deepen,

China should respect U.S. interests in Southeast Asia and support ASEAN-U.S. cooperation in areas like counterterrorism. If views like this are reflected in China's ongoing dialogue with Southeast Asia, they could signal a promising shift in Beijing's regional policies toward a more confident stance and a broader perspective.

The question remains, however, whether the growing integration of Southeast Asian economies with that of China will give Beijing a dominant role in political and security affairs in the region. Strong bilateral ties with the United States can strengthen ASEAN members who are inclined to preserve ASEAN's autonomy, as could a deeper and more sustained U.S. involvement with ASEAN as an organization. China's goal may or may not be political domination of the region, but for the United States to cede leadership in multilateralism in Southeast Asia to Beijing would make such an outcome more likely.

Chronology of China-Southeast Asia Relations October-December 2002

Oct. 1, 2002: The central banks of China and Malaysia sign a currency swap agreement, under which China will loan Malaysia up to \$1.5 billion in a payment crisis as part of the "Chiang Mai Initiative," agreed in the early stages of the Asian economic crisis, intended to create a network of currency swap agreements among Asian nations.

Oct. 4, 2002: The Philippines releases 122 Chinese fishermen detained six months earlier for poaching in Manila's claimed exclusive economic zone (EEZ) near Palawan. The fishermen had pled guilty and agreed to pay fines. Another 38 fishermen await trial.

Oct. 4, 2002: Hanoi National University opens a center for Chinese studies, to organize research and conferences on Vietnam-China cooperation, and train students in the Chinese language. China has offered a \$2.4 million grant to Vietnam to send students to China for study in a variety of fields.

Oct. 11, 2002: Laos signs on to a Thai-Chinese project for a 700 km. road network that will link Thailand with Kunming, in southern China, expected to open within five years. The Asian Development Bank and the Chinese government are helping finance the Lao portion of the route.

Oct. 14, 2002: The Chinese Foreign Ministry strongly condemns the Oct. 12 terrorist bombings in Bali, Indonesia. China offers \$100,000 in aid for the victims, including two Chinese nationals who were slightly wounded.

Oct. 15, 2002: Thai Princess Maha Chakri Sirindhorn, making her 15th visit to China, meets with Standing Committee Chairman Li Peng. Li notes that China and Thailand are "good neighbors, good friends, and good relatives," and says that the royal family of Thailand has played an irreplaceable role in advancing bilateral relations.

Oct. 15, 2002: Wei Jianxing, a member of the Chinese Communist Party (CCP) Politburo Standing Committee, meets in Beijing with Jose Maria Dos Reis, deputy

secretary general of the Independent East Timor Revolutionary Front (Fretilin). Dos Reis tells Wei that his party's choice of China for its first overseas visit since independence signals the party's commitment to developing bilateral and party-to-party relations.

Oct. 15-22, 2002: Lt. Gen. Le Van Dung, director of the General Political Department of the Vietnam People's Army, holds talk with Senior Lt. Gen. Yu Yongbo, his People's Liberation Army (PLA) counterpart. They agree to increase the frequency of exchanges and to enhance cooperation between their two departments.

Oct. 23, 2002: Gen. Endriartono Sutarto, commander of the Indonesia National Military (TNI), welcomes a proposal by China's ambassador to Indonesia to set up an exchange program between the PLA and the TNI.

Oct. 24, 2002: Zeng Qinghong, a senior CCP official, meeting with a visiting Singaporean People's Action Party (PAP) delegation, tells his guests that the CCP has benefited from the opportunity to learn from the PAP's experience in party and national government.

Oct. 26, 2002: A Yunnan province economic official, meeting with ASEAN counterparts in Kunming, reportedly proposes that Yunnan should become a demonstration zone for the future ASEAN-China FTA, with Kunming as a financial and information center covering south China and all of ASEAN.

Oct. 29, 2002: China, Thailand, Laos, and Burma agree to increase joint patrols against narcotics trafficking along the upper Mekong River, beginning with a joint survey of drug smuggling routes.

Oct. 29, 2002: China's Defense Minister Chi Haotian tells visiting senior Cambodian army commanders that the bilateral friendship forged by King Norodom Sihanouk and three generations of Chinese leaders is a model for state-to-state relations, and expresses gratitude for Cambodia's support for China's policies on Taiwan, Tibet, and the Falungong sect banned in China.

Oct. 30, 2002: Chinese media report that Beijing, pleased with the success of its first Peace Corps-like program that sent five volunteers to work in Laos, will expand the program to more than 10 additional nations, including Burma. The program also envisages foreign volunteers coming to work in northwestern China.

Nov. 1, 2002: Officials in Xishuangbanna region in Yunnan province announce the expansion of port services and transportation routes into Laos and Thailand. (Coincidentally, on Nov. 2, Vietnamese officials announce that Lao Cai, adjacent to Yunnan province, will become a "border gate" for trade with China, with a new international trade center, an industrial center for export goods, and preferential tax and regulatory measures for new trade entities.)

Nov. 4, 2002: Chinese business analysts report that China's currency, the renminbi, is increasingly accepted as hard currency in neighboring countries including Vietnam, Malaysia, and Singapore, and is used to settle accounts in much of China's southern border trade. China has, however, indicated no plans to make the renminbi fully convertible.

Nov. 4-5, 2002: ASEAN Plus Three and ASEAN-China summits held in Phnom Penh.

Nov. 5, 2002: In response to the ASEAN-China Declaration on Conduct in the South China Sea, Taiwan's Foreign Ministry declares Republic of China sovereignty over the Spratly, Paracel, and Pratas islands and the Macclesfield Bank, and protests Taiwan's exclusion from the declaration. (The basis for Taiwan's current claim to South China Sea islands is not clear, since the ROC government in Taiwan no longer claims to be the government of all of China.)

Nov. 8, 2002: The Communist Party of Vietnam sends a congratulatory message to the Chinese Communist Party on the opening of its 16th National Congress, noting (without evident irony) that "the Vietnamese people and the Chinese people have been bound by time-honored traditional friendship and solidarity ... by generations after generations."

Nov. 15, 2002: Chinese state corporations sign an agreement with the Philippine National Railways to finance and carry out the rehabilitation of 400 km. of railroads in northern Luzon, adding to earlier Chinese railway construction commitments.

Nov. 21, 2002: Vietnamese cyber-dissident Le Chi Quang is sentenced to four years in prison for disseminating antigovernment views, including criticism of Vietnam's 1999 land border agreement with China.

Nov. 27, 2002: Singapore Prime Minister Goh Chok Tong states that relations among the major powers in Asia are stable, and he does not foresee serious problems between China and the U.S. in the next 5 to 10 years. Goh asserts that China's growth will have a positive impact on Singapore and the region at large, if the Southeast Asian countries respond the right way.

Dec. 5, 2002: Meeting with Thura Shwe Mann, Burmese army chief of staff, in Beijing, Vice Chairman of China's Central Military Commission Cao Gangchuan and PLA Chief of General Staff Liang Guanglie pledge that cooperation between the two nations' armies will increase.

Dec. 6, 2002: China joins Thailand, Vietnam, India, and Pakistan in establishing an information exchange system in rice trade, centered in Thailand, to enable the five countries, responsible together for 70 percent of the world's rice exports, to maintain market stability and protect farm incomes by setting prices jointly.

Dec. 16, 2002: Jose Ramos Horta, foreign minister of East Timor, calls on Chinese Foreign Minister Tang Jiaxuan during his visit to Beijing. Tang recalls that China was

the first nation to establish diplomatic relations with East Timor after independence, and states that a solid political foundation has been set. Horta says East Timor attaches great importance to its relations with China, pledges to continue its “one China” policy, and hopes for cooperation in infrastructure construction, health care, natural oil and gas exploration, and in agriculture.