

Comparative Connections

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China-Southeast Asia Relations: South China Sea, Economic Issues

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Southeast Asian and broader international attention focused in March on the confrontation between five Chinese government ships and the U.S. surveyor ship *USNS Impeccable* in the South China Sea near Hainan Island. U.S. and Chinese protests and related media commentary highlighted for Southeast Asian audiences a pattern of U.S. surveillance to learn more about China's growing military presence and activities in the area, and a pattern of China's unwillingness to tolerate such actions in areas where it claims rights that are disputed by the U.S. and other naval powers. The protests and commentary provided a vivid backdrop for China's continued efforts to claim and defend territory in the South China Sea that is also claimed by Southeast Asian nations. Meanwhile, there was little good news on the economic front as China's international trade and economic interchange with Southeast Asia continued to fall rapidly. Chinese diplomatic and political attention to the region remained low during the quarter.

South China Sea issues

The impasse between China's determination to resist U.S. surveillance in areas of the ocean where it claims rights and U.S. opposition to Chinese harassment of unarmed U.S. surveyor ships put the public spotlight on the buildup of Chinese military forces and related government naval capabilities in the South China Sea. Foreign media focused attention on China's submarine base on Hainan Island and the deployment of advanced Chinese submarines to the base as one of the targets of U.S. surveillance. The announced U.S. deployment of a destroyer to accompany and prevent further harassment of the *Impeccable* coincided with reports in official Chinese media of deployment of government ships to patrol Chinese claimed waters used by China's Southeast Asian neighbors for fishing and other activities.

China's determination over the dispute with the U.S. seemed to be underlined by a continued firm public stance on the territorial issues despite the concurrent efforts of the foreign minister to get China's relations with the Obama administration off on a positive footing during his first visit to Washington to meet with the new U.S. leaders. Official Chinese media began efforts to calm the dispute and to reassure China's neighbors and other concerned parties by disavowing abnormal Chinese patrolling after the foreign minister had left Washington for home.

Former Commander of U.S. Pacific Command and current Director of National Intelligence Dennis Blair judged in comment to the Congress on March 10 that contrary to what he saw as China's predominantly diplomatic approach regarding territorial disputes in Southeast Asia earlier in the decade, "in the past several years, they have become more aggressive" in asserting

territorial claims. Veteran Southeast Asia and maritime expert Mark Valencia warned in an article in the *Far Eastern Economic Review* that the current dispute is “the tip of an iceberg” of maritime legal differences between the U.S. and China. Given China’s expanding blue water navy and its major submarine base on Hainan Island, China was seen determined to protect its “secrets” and the U.S. was seen as just as determined to know as much as possible about Chinese submarines and the morphology of the sea bottom. Valencia earlier documented China’s growing assertiveness over South China Sea territorial claims, judging in an assessment last year that “China’s behavior in the South China Sea has become more confrontational than cooperative and deserves renewed ASEAN attention.”

Reports in official Chinese media regarding patrols in South China Sea waters by Chinese government vessels noted infringements on Chinese territorial rights by neighboring countries. In February, media reports from Manila highlighted strong Chinese pressure to get the Philippine legislature to water down language in proposed legislation dealing with Philippine claims to 53 of the Spratly Islands, also claimed by China. The *South China Morning Post* on Feb. 12 recounted the play-by-play among the Chinese embassy, Philippine legislative leaders, and the Philippine government, citing strong Chinese warnings of “grave concern” and warnings of “negative impact” on Sino-Philippine relations if the offending legislation were passed. The bill was altered and approved in March amid strong Chinese official protests in Beijing and Manila.

Meanwhile, the Vietnamese Foreign Ministry expressed concern in January over Chinese plans to develop and use uninhabited islands in the Paracel and Spratly Islands claimed by Vietnam. The ongoing maritime disputes did not prevent the completion of the demarcation of the Sino-Vietnamese land border. The latter accomplishment was noted in official media by both sides at the turn of the year during the official visit of a Chinese vice foreign minister to Hanoi, and it also was marked by a ceremony along the border in February. The two countries signed a land border agreement in 1999 and took nine years to demarcate the 840-mile frontier.

Military buildup, aircraft carrier

The annual meeting of China’s National People’s Congress (NPC) featured China’s continued strong advance in military capabilities through an announced annual defense budget increase of 15 percent. The Chinese buildup has been the focus of recent statements of concern by the Australian government. Prime Minister Kevin Rudd joined visiting South Korean President Lee Myung-bak in March in discussing the need for transparency and concern over an undesirable arms race and increases in military spending. Their comments were careful not to directly oppose China, but they were seen to register clear concerns with China’s military buildup.

The deliberations at the NPC also featured discussion in official Chinese media by congressional delegates urging the Chinese government to start work on building aircraft carriers. The *China Daily* on March 6 recalled earlier commentaries by official Chinese defense spokesmen regarding China’s “right” to build carriers and its “serious consideration” of building them. It highlighted foreign media reports that China would build “medium-size carriers” within 10 years and that construction is already underway. It went on to cite other reports saying that the plan to build aircraft carriers would be announced during the Chinese Navy’s 60th anniversary in April.

When asked in late March about plans to build an aircraft carrier, the Chinese defense minister avoided a specific answer.

ASEAN summit and China's participation

The 14th ASEAN summit took place in Hua Hin, Thailand, with attendance from all of the leaders from the 10-country regional bloc. Unlike previous years, additional follow-on dialogues, such as the ASEAN Plus 1 (with China) and the East Asian Summit will be held separately in April. The thematic discussions for this year's summit focused on the current state of the world economy and ways in which ASEAN and its regional partners could work together to minimize the impact of the global financial crisis.

The Chinese delegation at the summit was led by the newly appointed Chinese Ambassador to ASEAN Xue Hanqin. In a press interview at the summit, Xue explained that her role is to serve as a liaison and facilitator between the Chinese government and ASEAN. In light of the regional and global economic downturn, she explained that China will continue to work with ASEAN leaders and play an important role in mitigating the impact of the financial crisis on the regional economy. She indicated that the China-ASEAN Expo, owing to previous successes in further opening and linking up the economies of Southeast Asia and China, will be held again for the sixth consecutive year in Nanning later this year and will continue to be an important platform for enhancing regional economic, business, and trade activities. Xue also commented that China remains supportive of the China-ASEAN free trade agreement, indicating that there is political will in Beijing to achieving this goal with ASEAN.

More concretely, one of the main developments of this year's summit was the decision to establish a \$120 billion multilateral fund to help the region address the problems of foreign capital flow shortage in the future. The details of this new reserve were discussed and ironed out by the finance ministers from ASEAN as well as from China, Japan, and South Korea. This new fund will be a follow-up to the bilateral currency swap known as the Chiang Mai Initiative established in 1997 after the Asian financial crisis. The initial proposal for the size of this reserve pool was set at \$80 billion, but China, Japan, and South Korea agreed to contribute 80 percent of the fund while the remaining 20 percent would come from ASEAN member countries. This helped expanded the scope and scale of the fund to a total of \$120 billion. The final implementation plans will be signed and put into action in the upcoming ASEAN Plus 3 Finance Ministers' Meeting in May in Bali, Indonesia. A *Xinhua* article on Feb. 27 reported on this recent initiative and was largely supported by Chinese academics and economists, calling such a move a possible prelude to the establishment of an Asian monetary fund.

At the conclusion of the summit, ASEAN Secretary General Surin Pitsuwan held an exclusive interview with *Xinhua* where he praised not only China's increasingly important role in Southeast Asia but also ASEAN's commitment to strengthen its ties with China and other parts of Asia. He noted that the financial crisis provides a unique opportunity for Southeast Asia and China to work even more closely to cooperate and curb protectionist measures. He also acknowledged China's longstanding contributions to the Greater Mekong sub-region (GMS) countries and sought to deepen and broaden ASEAN's engagement with China and other key partners to address the long-term economic growth and political stability in the region.

Economic crisis, regional cooperation

The sharp decline in Chinese trade figures in recent months foreshadowed serious distress for Southeast Asian traders and manufacturers integrated with China-based enterprises, often foreign invested enterprises, involved with the widespread so-called processing trade that has made up about half of Chinese trade with Southeast Asia. In the early months of the economic crisis, Chinese imports declined more rapidly than Chinese exports, though both declined substantially. By February, China's figures showed exports down over 25 percent while imports fell by almost that amount. China continued to run a hefty trade surplus in the early months of the crisis, but the February figures showed a major contraction.

One option for Southeast Asian manufacturers and traders dependent on the webs of processing trade with China is to hunker down and wait out the crisis, making ready to resume active and profitable enterprise once the markets for these products, often in the developed countries of Europe, North America, and Asia, revive. Since that day seems distant, attention is sometimes directed to regional solutions or remedies to ease the pain of the slowdown.

Chinese commentary on Asian regional solutions to the crisis has been limited. A lengthy review in *China Daily* on Jan. 5 assessed that China is focused on three paths in dealing with the crisis: stimulating the domestic Chinese economy, participating in global cooperation efforts, and regional cooperation. The evidence thus far is that Chinese leaders give clear primacy to the first path, and their international attention is focused on interactions with world economies, especially developed economies, that make a significant difference in the health of the Chinese and world economies. Chinese leaders also register support for growing regional cooperation among newly developed or developing countries in various parts of the world, and growing alignment of such countries across regional boundaries in order to deal with the crisis. In Asia, the salient example of Chinese cooperation has been the China-Japan-South Korea currency swap arrangement reached at their first trilateral summit in December. Other Chinese commentary registered some pessimism about the significance of Asian regional cooperation when compared with other regions of developing countries. An assessment in *China Daily* on Jan. 23 by the president of the China Institutes of Contemporary International Relations noted "slow" progress in Asian regional cooperation in comparison with other world areas.

Other developments

Official Chinese media gave some attention to the appointment in December 2008 of Ambassador Xue Hanqin, a career diplomat, as China's first ambassador to ASEAN. *Xinhua* on Jan. 15 interviewed Xue, who proclaimed "a new era" of Chinese relations with ASEAN. *China Daily* on Dec. 31 duly justified the appointment as reflecting ASEAN's increasing importance for China, and repeatedly noted that the Chinese action came after the U.S. and Japan had appointed ambassadors to ASEAN. *Xinhua* said that Xue's appointment represented the latest of China's "special-mission envoys," which include special ambassadors on the European Union, African affairs (e.g. Sudan), and Korean Peninsula issues.

China Daily on Dec. 24 reported that construction of a 30-km bridge linking Hainan Island with the mainland was slated to begin in 2012, with completion scheduled for 2020. It said that 14 years of research and preparations had been done before the project was submitted to the State Development and Reform Commission. The completion will reduce the travel time of five hours for ferry traffic to a 20-minute road or rail trip across the bridge. It noted that China has built a longer cross-sea bridge, the 36 km Hangzhou Bay Bridge in eastern China.

Taiwan continued strong interest in using the improvement in its relations with China and the thaw in cross-Straits relations to open opportunities for Taiwan's increased international participation, including in Southeast Asia. In February, President Ma Ying-jeou proposed to a visiting economic minister from the Philippines that Taiwan be invited to participate in meetings of labor ministers of the ASEAN countries. Ma noted that laborers from Southeast Asian countries represent the largest group in the 360,000 foreign workers in Taiwan, and he expected that participation with ASEAN over labor and other issues would open the way for Taiwan's interaction with the ASEAN free trade area.

Assessing China's rise

The publication of a rich array of studies and commentaries assessing the progress and importance of China's rising involvement and interaction with Asia and Southeast Asia in particular continued this quarter. Heading the list was *Strategic Views on Asian Regionalism: Survey Result and Analysis* released by the Center for Strategic and International Studies (CSIS) in Washington DC. The study laid out the findings of surveys of elites in Asia, including Southeast Asia, regarding their expectations of the future power dynamics and order in the region. China's rising importance loomed very large in their calculations. On balance, the majority of the Asian elites expected that China will be the strongest in overall national power in the Asian region in 10 years, and will be the most important country for their nation in 10 years. The U.S. came in second in importance.

The study went on to note that China also was more likely than any other country to be seen as a threat to regional peace and security in 10 years and that the U.S. would continue to be valued for its positive and stabilizing role. The study advised U.S. policymakers to work with Asian leaders in fostering multilateral institutions and other means that support a stable environment to ensure China contributes positively to regional growth and stability as it becomes more integrated into regional and global institutions and practices supported by the U.S.

The CSIS study highlighted deterioration of support for the U.S. among what the study called "strategic elites" in Thailand. It alluded to possible Thai shifts in favor of closer relations with China at the expense of U.S.-Thai relations. Shawn Crispin, an editor for *Asia Times*, wrote an assessment in that publication on Feb. 16 that supported this line of argument. The analysis detailed Chinese advances in relations with Thailand at a time of "drift" in Thai relations with the U.S. on account of diverging strategic interests, mounting trade tensions, and other difficulties in U.S.-Thai relations. Crispin seemed to downplay the significance of continued close U.S. military cooperation with Thailand, notably during the *Cobra Gold* exercise held in early February. Washington's CSIS said the exercise represented "the largest military exercise in

the Pacific.” Crispin chose to highlight recent “unprecedented” joint Chinese-Thai Naval and Special Forces exercises.

Writing in the Jamestown Foundation’s *China Brief* on Feb. 20, Ian Storey added to his past reviews of Chinese military interactions with other Southeast nations to assess China-Indonesia military ties. He found little follow through in regard to various Sino-Indonesia defense and security cooperation declarations and plans. As he has done in reviewing Chinese military ties with other major Southeast Asian governments, Storey found that Chinese efforts have been “dwarfed” by the scope and depth of U.S. security cooperation with Indonesia.

The Singapore-based specialist on Southeast Asia-China relations, Sheng Lijun, writing in the *Straits Times* on Feb. 11, endeavored to support his conclusion that China has been more successful than the U.S. in advancing its interests and influence in Southeast Asia. Despite his judgment that the U.S. exerts “more than enough power – of both the hard and soft variety,” while China “lacks both hard and soft power,” Sheng found that explanations focusing on hard and soft power are inadequate. His research shows that Chinese strategists have skillfully used their limited power in line with regional and international changes and in accord with concepts of strategy and statecraft dating back to pre-Confucian times that remain in common use among strategists in China today. He advised that understanding traditional Chinese strategic thinking and its applications today provide a better way to grasp how and why China has been successful in advancing its position in the region.

A new report by the Congressional Research Service (CRS) titled *China’s Foreign Aid Activities in Africa, Latin America, and Southeast Asia* added to the muddle caused by widely ranging assessments of the scope and impact of Chinese foreign assistance in Southeast Asia. Because the China does not publish information about the costs and scope of its foreign aid efforts, specialists have a hard time discerning the importance and impact of these efforts. Conservative estimates say the overall cost to China of its world-wide foreign aid efforts may be in the range of \$1-2 billion annually. But other estimates are many more times that amount. The CRS study seemed to lean to the latter perspective. It notably highlighted the work of a team at New York University (NYU) that did an inventory of various reporting about Chinese foreign aid activities. Regarding Southeast Asia, the NYU team found that Chinese aid and related investment projects or offers in Southeast Asia in 2002-2007 were valued at \$14.8 billion. How meaningful such an inventory is in determining the cost and scope of Chinese aid efforts remains a matter of debate.

Outlook

Chinese efforts to deal with regional consequences of the global economic crisis may be featured at regional dialogue meetings, including the China-ASEAN meeting and the East Asia Summit in mid-April, and at this year’s Boao Forum, also scheduled for April, which usually attracts many delegates from Southeast Asian countries. The next quarter also will provide trade and investment figures that will allow for a fuller assessment of the consequences of the world economic calamity for Chinese economic relations with Southeast Asia. Fuller reporting on the impact of China’s large domestic economic stimulus also should illustrate its implications for Chinese economic interchange with its Southeast Asian neighbors.

Chronology of China-Southeast Asia Relations January-March 2009

Jan. 6-9, 2009: Zhou Tienong, vice chairperson of the Standing Committee of the National People's Congress, arrives in Brunei for an official visit and meets Sultan Hassanal Bolkiah to discuss closer collaboration between the two countries on regional and international affairs. Zhou then makes a follow-on visit to Singapore, meeting Prime Minister Lee Hsien Loong to exchange views on the current state of bilateral political and economic ties as well as on cross-Straits relations.

Jan. 11-15, 2009: Zhou Tienong leads a delegation of Chinese legislators for the 17th annual conference of the Asia-Pacific Parliamentary Forum in Laos.

Jan. 12, 2009: President Hu Jintao issues a formal message to his Indonesian counterpart, Susilo Bambang Yudhoyono, to express his condolences to the victims of a capsized Indonesian passenger ferry carrying more than 250 people.

Jan. 15, 2009: In her first, exclusive interview with *Xinhua*, newly appointed Chinese Ambassador to ASEAN Xue Hanqin explains her role and vision in this new post.

Jan. 20, 2009: Jia Qinglin, chairperson of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), meets Ong Tee Keat, Malaysian minister of transport and head of the Malaysian Chinese Association to discuss areas for further cooperation.

Jan. 24, 2009: According to Chinese media reports, 10 kidnapping victims, formerly held for ransom in Myanmar, were released and have returned safely to Hangzhou, Zhejiang Province. The provincial public security department official indicates that the Chinese civilians were illegally detained, and that since 2005, there has been a rise in such kidnapping incidents.

Feb. 17, 2009: On the 30th anniversary of the Chinese invasion of Vietnam, Chinese Foreign Ministry spokesperson Jiang Yu makes a brief comment: "History has already made its conclusions, we hope we will put behind the past and face the future." According to an AFP news report, Chinese authorities did not mark the event in any official way and no public commentary or article was aired or published in the Chinese media.

Feb. 19, 2009: Chinese Vice Foreign Minister Wang Guangya issues a formal protest to the charge d'affaires of the Philippine Embassy in Beijing in response to the passage of a bill by the Philippine Congress indicating that the Scarborough Reef and parts of the disputed Spratly Islands belong to the Philippines.

Feb. 20, 2009: Jia Qinglin meets King Norodom Sihamoni of Cambodia in Beijing. The two leaders agree to improve and expand high-level exchanges and promote further bilateral political and economic cooperation. Sihamoni acknowledges China's longstanding support and continued assistance for Cambodia.

Feb. 20, 2009: Ye Dabo, the newly appointed Chinese ambassador to Myanmar, meets Prime Minister Gen. Thein Sein and Deputy Foreign Minister U Maung Myint. According to official Chinese statistics, bilateral trade amounted to \$2.6 billion in 2008, a 26 percent increase from 2007. Chinese exports to Myanmar accounted for close to \$2 billion, an increase of 16.4 percent from the previous year, and China's imports from Myanmar reached nearly \$650 million, an increase of 71 percent.

Feb. 23, 2009: Minister of Defense Liang Guanglie meets Royal Thai Army Commander-in-Chief Anupong Paochinda in Beijing. They agree to enhance bilateral relations and build greater trust through an increase in exchanges between their military forces.

Feb. 23, 2009: Chinese and Vietnamese officials gather to celebrate the completion of land border demarcation and lay down the boundary markers. More than 100 officials from both sides participate in the ceremony at the border gate in Pingxiang City of Guangxi Province.

Feb. 25, 2009: Chinese State Councilor and Minister of Public Security Meng Jianzhu meets senior officials from Cambodia, including Deputy Prime Minister and Minister of Interior Sar Kheng in Shanghai to discuss bilateral cooperation to clamp down on cross-border narcotics trade and transnational crimes.

Feb. 27-March 1, 2009: Chinese Ambassador to ASEAN Xue Hanqin attends the 14th ASEAN Summit in Hua Hin, Thailand.

March 6, 2009: Ma Xiaotian, deputy chief of general staff of the PLA, visits Singapore and meets Defense Minister Teo Chee-hean for the second China-Singapore Defense Policy Dialogue.

March 6, 2009: Chinese Ambassador to Indonesia Zhang Qiyue announces the donation of \$100,000 from Beijing to the ASEAN Fund to support its socio-economic development projects throughout the region.

March 15, 2009: China dispatches *Yuzheng 311*, a decommissioned vessel in the South China Sea Fleet of the PLA Navy, to patrol the South China Sea, monitor the Gulf of Tonkin, offer rescue operations and protection for fishery accidents, conduct escort missions around the Spratly and Paracel Islands, and demonstrate China's sovereignty over the disputed islands.

March 18, 2009: Chen Bingde, chief of the general staff of the PLA, visits Nay Pyi Taw and meets with the head of Myanmar's State Peace and Development Council Gen. Than Shwe. The two leaders review the state of bilateral relations, emphasizing that the good, neighborly relations between China and Myanmar are established under the principles of friendship, collaboration, and noninterference in each other's internal affairs.

March 19, 2009: Vice Premier Li Keqiang meets Indonesia's acting Coordinating Minister for Economy Sri Mulyani Inrawati in Beijing to discuss stepping up bilateral economic activities and

exchanges. Li announces that China is willing to help develop Indonesia's infrastructure and agrees to provide financial assistance for a new 10,000 megawatt power plant in Indonesia.

March 19-20, 2009: State Councilor Dai Bingguo visits Hanoi and meets Vietnamese Deputy Prime Minister and Minister of Foreign Affairs Pham Gia Khiem for the third meeting of the China-Vietnam Steering Committee on Cooperation. They agree to launch the "China-Vietnam Friendship Year" in 2010 to mark the 60th anniversary of the establishment of diplomatic ties between the two sides.

March 23, 2009: Li Jianguo, vice chairman and general secretary of the Standing Committee of the National People's Congress, visits Kuala Lumpur and meets Deputy Prime Minister Najib Tun Razak to discuss relations between China and Malaysia.

March 24-26, 2009: Chinese Foreign Minister Yang Jiechi visits Bangkok and meets his Thai counterpart Kasit Piromya to exchange ideas for furthering bilateral relations.