China’s supporters and detractors tend to agree that China has made substantial gains in recent years in advancing Beijing’s influence in relations with Southeast Asian countries and with ASEAN. Nevertheless, the main countercurrent comes from the United States and its allies and regional partners, along with some ASEAN member states at times showing growing opposition to Chinese policies and practices. At bottom, China’s rise remains contested, the balance of influence in Southeast Asia is in flux, and the outlook is uncertain.
Background

Beginning in 2013, China’s rapid island building and infrastructure development in the South China Sea surprised other claimants and concerned powers, including the United States. President Barack Obama’s rebalance policy of greater US engagement was welcomed as it was implemented in the region, but it proved ineffective in the face of China’s expanding territorial hold. The economic centerpiece of the US policy, the Trans-Pacific Partnership trade and investment framework, fell prey to populist anti-globalization backlash and bipartisan attacks on such economic deals from both Democratic and Republican candidates during the 2016 presidential election campaign.

When an international arbitral tribunal constituted under provisions of the UN Convention on the Law of the Sea ruled against China’s wideranging South China Sea claims on July 12, 2016, Beijing worked strenuously and generally successfully to compel official silence on the decision in ASEAN and among its members. The United States, Japan, Australia, and others continued to support the ruling but usually avoided rhetoric and actions that risked strong Chinese countermeasures. Developments since that time feature Chinese officials with increasing public confidence using hard and soft tactics to advance Beijing interests and influence while previously common criticism of China’s approach or support for policies Beijing opposes have become rare, both among Southeast Asian states and within ASEAN.

This year’s gathering of regional security leaders at the Shangri-La Dialogue in June and meetings of ASEAN foreign ministers and their dialogue partners in August, along with commentary marking the second anniversary of the July 2016 decision of the arbitral tribunal, provide evidence useful in assessing China’s gains. One gauge involves the degree of support Beijing receives in its official narrative of China ever more confident as it wields levers of power, both carrots and sticks, to have its way in Southeast Asia. A contrasting gauge involves challenges and competition led by the United States opposing China on a broad range of issues in Southeast Asia and elsewhere.

China’s avowed confidence and ascendance

ASEAN’s inclination to defer to China over South China Sea issues was seen in the results of the ASEAN leaders’ annual summit in Singapore in late April. The leaders avoided mention of differences with China over the South China Sea and China’s militarization of recently built land features was ignored, while they were upbeat regarding progress among the ASEAN states and China over a proposed Code of Conduct in the South China Sea.

A flurry of official Chinese commentary related to the Shangri-La Dialogue in June emphasized what the rising stature of China’s new security concept, which solves problems through consultation rather than setting rules and “imposing” them on other countries, a negative allusion to the rules-based international order supported by the US and its allies. An assessment by CSIS specialists Bonnie Glaser and Greg Poling demonstrated that Beijing in 2018 pressed its advantage against both Vietnam and the Philippines regarding their disputes with China over the South China Sea, while the Economist seemed to sum up the situation with the title “China has militarized the South China Sea and got away with it.”

State Councilor and Foreign Minister Wang Yi told the ASEAN secretary general on June 12 that the South China Sea “has stabilized” and progress on the Code of Conduct will increase, barring troubles caused by countries outside the region. He also foresaw growing synergy between China’s Belt and Road Initiative and ASEAN’s development plans.

Exuding confidence about China’s rise amid flux and uncertainty elsewhere in the world, President Xi Jinping told the Central Conference on Work Relating to Foreign Affairs in Beijing on June 23 that China’s recent robust development was “the best in the modern period,” and “profound” changes among other powers favor China’s growing influence in foreign affairs. In line with his emphasis in the speech on safeguarding China’s sovereignty and security, Xi told visiting Secretary of Defense James Mattis on June 27 that China will not allow the loss of even “one inch” of its claimed territory.

The announcement on Aug. 2 that China and ASEAN countries agreed on a draft text as they negotiate the Code of Conduct in the South China Sea was the highlight of Wang’s meeting with ASEAN counterparts in Singapore. Chinese official media argued that it would be unrealistic to expect a swift conclusion to negotiations as they involve complex and sensitive issues.
Indeed, informative assessments of the draft by Carl Thayer reminded readers that the first discussions involving China and ASEAN over a code of conduct in the South China Sea began over 20 years ago. Benchmarks included China and ASEAN concluding negotiations on the Declaration on the Conduct of the Parties in the South China Sea (DOC) in 2002 which affirmed time for reaching a Code of Conduct on the South China Sea. Very slow progress followed for many years, with more rapid movement over the past year.

Figure 1 ASEAN and China conducts first joint table-top maritime exercise in Singapore on Aug. 3. Photo: Nikkei Asian Review

Meanwhile, Chinese security relations with ASEAN advanced as 40 naval officers from ASEAN and China held a table-top exercise in Singapore on Aug. 2–3 to prepare for a larger exercise in October dealing with search and rescue operations and medical evacuation.

Countercurrents

Beijing reacted with measured language to US statements and actions challenging China’s militarization of the South China Sea and taking critical aim at China’s Belt and Road Initiative (BRI) and other economic and political practices seen serving China’s expansion at the expense of others in Southeast Asia and elsewhere. In his address to the Shangri–La Dialogue in June, Secretary Mattis criticized China for deploying antiship missiles, surface-to-air missiles, and electronic jammers on its recently constructed facilities in the disputed Spratly Islands and for landing a bomber aircraft on a previously constructed airfield in the Paracel Islands. China took issue with the US disinviting Beijing to participate in the 2018 Rim of the Pacific (RIMPAC) exercise, which called militarization a contradiction of President Xi Jinping’s 2015 public reassurance in the White House Rose Garden that China would not militarize the land features it was building in the South China Sea.

Beijing focused criticism on the US freedom of navigation operation patrols challenging Chinese territorial claims in the South China Sea, which have been much more frequent in the Trump administration as opposed to the Obama administration; and on the related more active US warship presence and B-52 bomber patrols contesting China’s claims and influence. It charged that the US and not China is militarizing the South China Sea, thereby underlining its emphasis in discussions with ASEAN countries on a Code of Conduct that the South China Sea disputes should be addressed by the countries concerned and not “outside” powers.

Beijing media criticized the emerging US-backed Indo-Pacific strategy involving allies Japan and Australia and close partner India. Regional observers, including officials in China, saw US-led pushback against Chinese expansion in the annual Malabar naval exercises of US, Japanese, and Indian forces in the Pacific Ocean near Guam in June; speeches in the US and in Singapore by Secretary of State Mike Pompeo in late July and early August detailing $113 million in new US economic initiatives and $300 million in security assistance to regional states; the announcement of an Australia–US–Japan trilateral partnership to invest in projects in the Indo-Pacific; and France, Great Britain, and Japan deploying naval forces in the South China Sea.

It was obvious to China and others that the US interest in competing with China in Southeast Asia and the South China Sea was lower than its concern with North Korea and other issues. The Aug. 31 announcement that President Donald Trump would skip the annual Asian leaders meetings this fall and send Vice President Mike Pence instead underlined this priority. Chinese commentaries and remarks by some Southeast Asian leaders advised that the Trump administration’s punitive tariffs and other trade and investment policies complicated US leadership in the region and opened opportunities for China. On the other hand, Wang Yi seemed anxious in meeting with Secretary Pompeo on Aug. 3 to show agreement with the US in the midst of an escalating trade war and strong differences over the South China Sea, China’s Belt and Road Initiative, and other problems. He avowed that he and Pompeo
“reached an agreement on major direction,” adding that Pompeo approved of that direction and hoped that the current friction would not continue.

Unfortunately for those in Beijing and elsewhere seeking an easing of US pushback against China, the 2019 National Defense Authorization Act FY, the most important foreign policy and national security legislation of 2018, passed the Congress and was signed by the president in August replete with provisions making US challenges to China, including several involving countering Chinese expansion in the South China Sea, a matter of law. The legislation showed the depth and breadth of congressional antipathy toward China on economic matters, Chinese espionage and influence operations in the US, and military affairs, reinforcing the Trump administration’s security strategy that views China as the principal danger to US national security. For many Chinese commentators, the outlook was a new Cold War in which intensified competition in Southeast Asia figured prominently.

In addition to push-back against Chinese expansion from the US and other powers outside Southeast Asia, Singapore took aim at overt and covert Chinese influence operations in the country. A highlight was Ambassador-at-Large Bilahari Kausikan’s commentary in the *Straits Times* on July 1 providing a primer to the Singapore public on how China tries behind-the-scenes manipulation of opinion in its favor and often not in ways favored by the Singapore government. The Chinese ambassador published a rebuke of Kausikan’s charges.

**Bilateral relations**

**Malaysia**

A challenge to China’s ambitions in Southeast Asia came with newly elected Malaysian Prime Minister Mahathir Mohamad’s decision to halt the $20 billion East Coast Rail Link China was building in Malaysia and two energy pipelines worth $2.3 billion being constructed there by Chinese firms. The new Malaysian government said Malaysia could not afford these projects and criticized the alleged corrupt practices of the previous government, whose prime minister is under arrest, for responsibility for such overreach.

Prime Minister Mahathir visited China for five days in August and met President Xi and Prime Minister Li Keqiang. Chinese reports of the meetings were positive and did not mention the halted Chinese projects. Mahathir and his Chinese hosts emphasized the longstanding cooperative Sino-Malaysian relationship. Routine Chinese commentary on the visit played down the importance of the halted projects while highlighting new economic cooperation agreements signed during Mahathir’s visit. Mahathir told the media that Chinese leaders “understand our problem” of too much debt. He highlighted that Malaysia would pay a “quite substantial” amount for ending the railway project and added that Malaysia could revive the projects if they become viable in the future. As he left China, there was no announced understanding or agreement on how the halted projects would be handled by the two countries.

**The Philippines: Duterte on the defensive over tilt toward China**

Anniversaries of the July 12, 2016 decision of the arbitral panel against China’s South China Sea claims in a case brought by the former Philippines government and of President Rodrigo Duterte’s inauguration of June 30, 2016 prompted demonstrations against and substantial media criticism of Duterte. He was seen as misguided and inept in pursuing close relations with China at the expense of the Philippines’ victory in the arbitral decision. A widely reported public opinion survey in late June showed that 87 percent said it was important that the Philippines regain control of islands occupied by China in what the Philippines calls “the West Philippines Sea.” *Bloomberg* reported in July that almost two years after China pledged $24 billion in investments in the Philippines, barely any projects had materialized, prompting deepening concern that Duterte has undermined the country’s sovereignty with little to show in return. It reported that of 27 deals signed during Duterte’s October 2016 visit to China, the Philippines completed only one loan agreement with China worth $73 million to fund an irrigation project. Commentary in reaction stressed various causes for the delays in China’s following through with promised assistance. The impact of this mix of views on optics in the Philippines regarding Duterte’s turn toward China remain uncertain.

The president’s Cabinet members came to his defense, however. Foreign Affairs Secretary Alan Peter Cayetano in late May depicted Duterte as resolute in defending Philippines sovereignty
against China. He claimed the president had drawn “red lines” in the South China Sea that if crossed by China would result in war with the Philippines. They included China engaging in island building in Scarborough Shoal, attempting to remove the grounded Philippine warship on Second Thomas Shoal, or harassing Filipino soldiers resupplying outposts in the South China Sea.

Defense Secretary Delfin Lorenzana told the media in July that as a result of Duterte’s interchange with President Xi, Philippine fishermen have returned to Scarborough Shoal, Philippine troops on island outposts are supplied without interference, and an agreement was made that both parties cannot occupy new features in the disputed South China Sea. He added that tourism and trade flourish and there is the possibility of joint development of gas and oil resources in the area. Meanwhile the Philippines renovation of an airfield runway for military aircraft on one of its outposts in the South China was brought to the attention of the Chinese Defense Department spokesperson at a news conference in late May, who offered a reminder that the two countries should “work in the same direction to jointly maintain peace and stability.”

In August, the announcement by the Philippines Armed Forces chief of staff that Chinese security forces routinely harass Philippines patrol missions in the Spratly Islands was followed by strong statements from Duterte warning against possible armed conflict with China. The Chinese Foreign Ministry spokesperson responded that Beijing was justified in taking “necessary steps to respond to foreign aircraft and ships that deliberately get close to or make incursions into the air and waters near China’s relevant islands.” Duterte averred on Aug. 21 that “one day” he would assert Philippine rights against China under the terms of the July 2016 arbitral panel decision.

On the positive side, China reacted calmly to the grounding of a Philippine Navy frigate on a shoal in the South China Sea on Aug. 29. The Foreign Ministry spokesperson said on Aug. 31 that China and the Philippines were in communication and Chinese Coast Guard vessels were “at the scene” as Philippine ships worked to retrieve the frigate. Earlier in the month, the Philippines foreign minister said that President Xi is expected to visit the Philippines later in the year and the two governments were working to fix a date for the trip.

Vietnam: continuing tensions in China relations

Vietnam reportedly remains the most active ASEAN member seeking to get ASEAN to take positions on the South China Sea in line with Vietnam’s claims and opposed by China. In June, the CSIS Asia Maritime Transparency Initiative reported that Vietnam continued modest expansion of its outposts in the Spratly Islands. In early July, Vietnamese media disclosed that the Hanoi government made a complaint to Facebook over a map it used depicting disputed South China Sea islands claimed by Vietnam as Chinese territory. In response, Facebook changed the map with the islands no longer marked as Chinese territory. In late July, the Chinese Foreign Ministry spokesperson said that the Chinese government had pressed Vietnam to “correct the mistake” of allowing Taiwan firms in the country to fly the Taiwan flag to distinguish them from mainland companies that were targeted by anti-China protesters. In the widespread anti-China riots that followed China’s placing an oil rig in Vietnam-claimed waters in 2014, many Taiwan businesses were erroneously attacked and damaged by Vietnamese protestors seeking to damage China’s businesses in the country.

The most serious anti-China protests in Vietnam since 2014 came in mid-June, caused by a proposed Vietnamese law on special economic zones that provides a legal basis for three special economic zones (SEZs) allowing foreign investors to lease land for up to 99 years. The demonstrators feared the law would open the way to Chinese investors’ domination of SEZs and control Vietnamese land. Under public pressure, the Vietnamese government decided to delay a vote on the draft law until the next session of the National Assembly in October. It was reported that 100 protestors were arrested and dozens of police were injured.

In contrast and emphasizing the positive, Xi Jinping was upbeat in greeting a top Vietnamese Communist Party leader visiting China in August. He said that the past decade has seen “great progress” in China-Vietnam relations, “the good momentum” has been consolidated, and China was ready to work with Vietnam in talks on “major issues of overall strategic important” in the process of moving relations forward “on the right track.”
Australia: signs of improved China relations

China continues measured criticism of Canberra’s strong support for US-backed initiatives to compete with China, contest Beijing’s claims and actions in the South China Sea, and strengthen relations with Southeast Asia as part of the Trump administration’s developing Indo-Pacific strategy. And it has reacted negatively to the Australian debate over the past year on covert Chinese influence operations in the country, leading to major legislation to protect against adverse foreign penetration. The decline in relations affected trade in Australian commodities, academic exchanges, tourism, and other areas, prompting Beijing to rebuff ministerial visits from Australia.

Chinese officials and media commentary put the onus on Australia to improve the relationship. Meeting with Australian Foreign Minister Julie Bishop on the sidelines of the G20 foreign minister meeting in Argentina on May 28, Foreign Minister Wang Yi urged Canberra to take a proactive approach to improve the relationship. Official Chinese media reporting on the meeting viewed the visit of the Australian trade minister to Shanghai earlier that month as an effort to mend ties with China. It said that Bishop told Wang that Australia “is willing to show goodwill, rationally manage bilateral disputes, avoid misjudgments and continue to promote bilateral ties.”

The so-called “reset” in the Australian government’s approach to China reached a highpoint in a conciliatory speech by Prime Minister Malcolm Turnbull on Aug. 7 to an academic audience including the Chinese ambassador and a large delegation from China. Chinese official media positively noted the speech. Ruan Zongze from the Foreign Ministry-affiliated China Institute of International Studies publicly commended the speech, urging a “course correction” in Australia’s China policy. Concurrent Chinese reports said that trade in Australian wines, which fell markedly during the past year, rebounded. And on Aug. 1 the Australian defense minister said China would join 26 other countries in military exercises hosted by Australia later in the month.

Australia’s China policy reset is contending with a new set of problems in the South Pacific. Heightened concern in Australia over the negative strategic implications of Chinese-supported development of a new wharf in Vanuatu and a proposed undersea cable installed by the Chinese company Huawei (viewed as a security danger by the Australian government) for the Solomon Islands prompted Canberra to install the cable, to increase aid by 18 percent in this year’s budget, and to increase diplomatic attention to the region. Foreign Minister Bishop and Labor Party shadow minister Penny Wong visited three Pacific Island states in June. Bishop told the media that China’s construction of roads, ports, airports, and other infrastructure in the region had triggered concern that Pacific Island nations may be saddled with unsustainable debts. She said that Australia, long the largest aid provider in the Pacific Islands, wanted to remain “the main partner of choice.”

The durability of the Australian reset with China was in question as a result of a contentious power struggle within the ruling coalition in August that overthrew the government of Prime Minister Turnbull and prompted the resignation of Foreign Minister Bishop. A decision of the Australian government on Aug. 23 to ban Chinese companies Huawei and ZTE from providing technology for Australia’s 5G network because of security concerns prompted the Foreign Ministry’s spokesperson’s “serious concern,” marking a new hurdle to restoring better Sino-Australian ties.

Myanmar: more uncertainty ahead

Relations between China and Myanmar were marked by greater uncertainty over the summer months as a result of the ongoing border conflict, a review of key economic bilateral deals, and the latest UN report on the Rohingya crisis.

In early May, following fresh conflict between Myanmar armed forces and the armed militia of the Kachin Independence Army and the Ta’ang National Liberation Army in Muse, northern Myanmar, the Chinese embassy in Myanmar intervened and called for all sides to exercise restraint and an immediate ceasefire. In its strongest statement to date, China indicated its firm opposition to any attempt to undermine peace and stability along the China-Myanmar border and any act deliberately obstructing the Myanmar peace process.
In June and July, there were at least four senior-level meetings between the Chinese and Myanmar government that were held in either Beijing or Nay Pyi Taw. This included in early June Myanmar’s State Councillor Aung San Suu Kyi’s discussion with Chinese Defense Minister Wei Fenghe on bilateral strategic and security relations. Subsequently, Chinese Foreign Minister Wang Yi also met senior Myanmar officials to discuss Myanmar’s peace dialogue process and national reconciliation efforts. In July, senior officials discussed cooperation on law enforcement along the border and increasing security ties and communication. Chinese Politburo members also traveled to Nay Pyi Taw to meet Suu Kyi in early July to strengthen party-to-party ties and the peace process in Myanmar. Ensuring border security and stability has been at the forefront of bilateral security discussions, especially as the Chinese government presses its counterparts in Myanmar to increase restraint and to prevent humanitarian crises along the two countries’ borders.

The Financial Times reported that the Myanmar government is reviewing a number of large-scale infrastructure projects tied to the Chinese government, including a $9 billion port project in Kyaukpyu, located in Myanmar’s western Rakhine state and home to hundreds of thousands of displaced Rohingya. Myanmar officials reviewing the deal fear the high costs associated with the project, and that a default on its debt could cede control of the port to China. The port is a critical gateway for China to engage in a direct trading route to the Indian Ocean, bypassing the Malacca Strait. It would also decrease Beijing’s strategic vulnerabilities as it diversifies its transport and energy supply routes, a key consideration of the BRI in Myanmar.

According to the report, sources within Suu Kyi’s government have indicated that Myanmar is seeking to pare down costs since the risk of defaulting on the debt would turn the project into a “Chinese-owned port.” Similar concerns have manifested elsewhere in the region. For instance, the Sri Lankan government ceded control over its strategic port at Hambantota to the Chinese government in 2017 on a 99-year lease after defaulting on its debts. More recently, Malaysia has raised similar concerns over the sustainability and cost-effectiveness of large-scale projects backed by the Chinese government. The Myanmar government has been attempting to wean itself from China’s excessive economic influence. It suspended the $1.5 billion Myitsone dam project in northern Myanmar in 2011, citing the project’s environmental and social impact.

But, the latest UN human rights report on the state of the Rohingya in Myanmar could change Myanmar’s calculus in assessing relations with China, especially when international condemnation has put a negative spotlight on Myanmar. The report condemned and held Myanmar’s military leaders responsible for genocidal acts and crimes against humanity in the crisis.

China and Russia have scuttled previous UN Security Council efforts to condemn and punish Myanmar for the crisis. Following the release of the report, China again urged caution in the Security Council and called for more time and diplomacy for the Myanmar government to resolve the humanitarian conflict, rather than referring Myanmar’s military leaders to the International Criminal Court. China has attempted to broker talks between Bangladesh and Myanmar to resolve the crisis but has made limited headway. While China may have less at stake in the Rohingya crisis, it is keen to minimize external involvement in the crisis, with concerns that a precedent may be set for international intervention in other border conflicts, including the unrest along the China-Myanmar border.

It remains to be seen the extent to which China-Myanmar ties may change, but developments in this reporting period suggest both sides have concerns and interests that may require pragmatic adjustments as bilateral ties evolve.

Outlook

Broad China-US rivalry on trade, espionage, influence operations, and strategic competition seems likely to continue to complicate China’s rising influence in Southeast Asia. Meanwhile, President Trump’s avowed unpredictability, disruptive use of punitive tariffs, and episodic commitment to advancing US interests in the region add to an uncertain outlook regarding the impact of strategic competition on China and its influence on and relationship with Southeast Asia.
CHRONOLOGY OF CHINA-SOUTHEAST ASIA RELATIONS

MAY – AUGUST 2018

May 5, 2018: Philippine news media report Manila’s concerns over China’s installation of antiship and surface-to-air defense systems in the Spratly Islands. Officials in Manila indicate they are monitoring and verifying the situation and confident the missiles are not directed against the Philippines.

May 7, 2018: Chinese Premier Li Keqiang meets Indonesian President Joko Widodo in Bogor, Indonesia. They discuss bilateral relations as the two countries mark the fifth anniversary of the establishment of a comprehensive strategic partnership. Areas of cooperation include areas of complementarity between China’s Belt and Road Initiative and Indonesia’s Global Maritime Fulcrum concept to strengthen bilateral and regional economic ties.

May 9, 2018: China’s Ministry of Foreign Affairs issues a statement congratulating Malaysia’s Prime Minister-elect Mahathir Mohamad, indicating that the Malaysian leader made many “important contributions” in the development of relations and that it hopes to consolidate and further enhance the bilateral comprehensive strategic partnership with Malaysia.

May 30-31, 2018: Yi Xianliang, director general of the Department of Boundary and Ocean Affairs of the Chinese Ministry of Foreign Affairs, leads a delegation to Manila to discuss the South China Sea. Both sides agree to manage maritime disputes through continued and sustained dialogue and diplomatic negotiation.

June 18, 2018: Chinese State Councelor and Defense Minister Wei Fenghe visits Phnom Penh and meets Prime Minister Hun Sen. The discussion focus on key areas of pragmatic cooperation in the military, defense, and security sectors.

June 30, 2018: Chinese Vice Premier Han Zheng meets Singapore’s Deputy Prime Minister Teo Chee Hean in Beijing to discuss deepening bilateral business, trade, and economic ties within the regional Belt and Road Initiative framework.

July 11, 2018: China Railway No. 8 Engineering Group, a state-owned enterprise responsible for the construction of the China-Laos railway, marks a milestone in completing two cross-Mekong bridges in Laos. The railway is expected to be fully operational in December 2021.


Aug. 2, 2018: Chinese and ASEAN foreign ministers agree to a draft code of conduct for the disputed South China Sea. Singapore’s Foreign Minister Vivian Balakrishnan chairs the meeting and indicates that the draft is a collective first step in aligning regional priorities and preferences in reducing conflict in the maritime dispute and to ensuring greater stability in the region.

Aug. 1–4, 2018: Regional leaders and foreign ministers meet in Singapore for the ASEAN Plus One (China), ASEAN Plus Three (China, Japan, and Korea), East Asia Summit, and the ASEAN Regional Forum.

Aug. 17–21, 2018: Malaysian PM Mohamad visits Beijing and meets senior leadership, including President Xi and Premier Li. Mahathir reiterates his position that a number of large scale infrastructure projects with China will be canceled or subject to further review as they are not financially sustainable.