

## China – Southeast Asia Relations: A lull, and some complaints

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There was a lull in the mutual courtship between China and Southeast Asia during the first quarter of 2004, following a year of intense activity and the declaration of a “strategic partnership” at the Bali summit in October. The pause allowed some old problems to resurface, and drew attention to new ways in which China’s rise is impinging on its southern neighbors. Early tariff reductions under the China-ASEAN free trade negotiations, which China had touted as concessions to benefit the ASEAN countries, drew protests from exporters in Thailand and Vietnam, whose products faced frustrating obstacles in China’s southern provinces. Nongovernmental organizations in lower Mekong countries complained that China’s dam construction had drastically reduced the Mekong River’s flow to Cambodia and Vietnam, spoiling ricefields and fisheries and raising the specter of future conflict over water. China took unusual steps to deal with the flow of drugs and HIV/AIDS from Burma into Yunnan, while avian flu, dengue fever, and other cross-border threats underlined the need for more transparency and cooperative action. Beijing, Hanoi, and Manila tussled verbally over competing claims to the Spratly Islands, demonstrating again the failure of the 2002 China-ASEAN South China Sea declaration to calm the waters. China-Southeast Asia relations remain on track for further development, but Beijing would be well advised to take seriously nongovernmental complaints about the effects of its actions, especially in the case of Mekong development.

### **Trade and investment**

The weight of China’s economic influence is increasingly affecting the economies of the ASEAN countries, and is already creating changes in established trade and investment patterns. Some of the changes are beneficial. A 20 percent drop in U.S. imports from Singapore in January was offset by increases in Singapore’s semiconductor and pharmaceutical exports to China and Europe. “Early harvest” tariff reductions on agricultural products appear to be benefiting Vietnam, which is projected to supply 300-400,000 tons of rice to China this year.

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On the other hand, while new figures for 2003 indicate that two-way trade with China increased sharply for several ASEAN countries, most of this growth resulted from increases in ASEAN imports from China, not exports. Malaysia, Thailand, and Singapore all saw imports from China grow twice as fast as exports to their northern neighbor. China replaced the United States as the second biggest supplier of products to Indonesia (after Japan). These trends suggest that as economic integration proceeds, ASEAN's trade surpluses with China may turn into deficits. Thai farmers are complaining that tariff reductions trumpeted by Beijing as concessions to ASEAN are actually benefiting China more than Thailand. Chinese fruits and vegetables, they report, are swamping northern Thai markets, while Thai growers attempting to enter China's markets face unfair practices, including provincial taxes and trumped-up claims that their produce is tainted. Vietnamese exporters are making similar complaints. The Vietnamese government, more optimistically, predicts that overall the tariff cuts will eventually generate an additional \$500 million in Vietnamese exports of seafood, fruits, and vegetables.

On the investment side, China continued its expansion in Indonesia's energy sector with a decision to buy an additional \$236 million stake in the BP-led Tannguh natural gas project in Papua. China is reportedly considering buying into Thailand's oil sector as well. Investors from Xinjiang announced they would invest an initial \$10 million in fishing facilities in Maluku, Indonesia – undoubtedly a welcome move, as China is often faulted for predatory fishing in the claimed exclusive zones of Southeast Asian countries.

### **An energy land bridge in Thailand?**

Thailand has reportedly decided that rather than building a long-discussed canal across the Isthmus of Kra to facilitate oil shipments to China and other Northeast Asian consumers, it will promote an “energy land bridge,” consisting of a 260-km. trans-Kra pipeline with storage facilities and oil terminals at both ends. Tankers from the Middle East and Persian Gulf would unload at the Andaman Sea end, the oil would be pumped across, and another set of tankers would upload in the Gulf of Thailand and continue their voyages to China, Japan, or the Republic of Korea. Advantages cited include security from pirates and seaborne terrorists, and cost, with an estimated saving of \$2 per barrel. The pipeline and associated infrastructure would cost an estimated \$600-700 million, and take two years to build. China is reported to have indicated an interest in investing in the project, as have several Middle East countries. The pipeline plan could benefit Thailand in other ways, creating jobs in a relatively poor – and sensitive – region, and furthering Prime Minister Thaksin Shinawatra's goal of making Thailand an energy-trading hub. According to some observers, pessimistic security planners in Beijing may also see the pipeline as less vulnerable to military pressure from the U.S. in a future crisis.

### **Ripples on the Mekong . . .**

Some negative consequences from China's growing regional presence are emerging more clearly in areas besides trade. Chinese media announced during the quarter that dredging activities on the upper Mekong River, which originates in China (as the Lancang River) and flows through Laos, Thailand, Cambodia, and Vietnam, had increased shipping

between Yunnan and Southeast Asia by nearly 60 percent. Year-round navigation is possible, and larger ships are able to transit these new passages, cutting transportation costs and increasing trade. Downstream countries are increasingly concerned, however, at the effects of China's activities on water resources and fisheries. Scientists at the Mekong River Commission (MRC) conclude that food security and water availability will soon be threatened, with a potential to trigger conflicts among riparian nations. Cambodia is suffering from low fishing yields, and water levels are so low in the Mekong Delta of Vietnam that saltwater intrusion is damaging rice fields. A Thai environmental group reported that the level of water in the Mekong had dropped dramatically after China's first dam (of eight planned) was opened in 1996.

### **. . . But transnational problems affect China, too**

As China impinges increasingly on Southeast Asia, problems flow in the other direction as well. Southeast Asian nations are sources or channels for viruses, narcotics, manmade disasters, and other afflictions of growing concern to China.

Comments by Chinese officials during the quarter painted an alarming picture of "immense harm" from drugs flowing from Burma and Laos into Yunnan. A senior security official reported that narcotics addiction had become a "serious political issue." Another said China had become "the largest victim of heroin from the Golden Triangle" (of Burma, Laos, and northern Thailand). Chinese authorities have identified drug use as the primary channel for HIV/AIDS, spreading especially in Yunnan as transportation links and travel in both directions increase. Yunnan Province officials have taken unusual steps, for China, to counter HIV infection, by promoting condom use and providing disposable needles to heroin addicts. Joint police work and raids by Chinese police with their Burmese and other Southeast Asian counterparts continue, and officials report the seizure of ever larger amounts of heroin and methamphetamines, but the number of addicts appears to grow in tandem. Corruption is doubtless one factor. Allegations surfaced in the *Bangkok Post* in March that some Chinese officials (as well as elements of the military junta in Rangoon) are supporting the Wa State Army in northern Burma, a notorious source of both heroin and manufactured drugs.

Other trans-border problems arising for China during the quarter included avian flu, causing Beijing to close all border trading ports in Yunnan and cut off poultry imports from Vietnam, Cambodia, and Thailand. China and several Southeast Asian governments were criticized for covering up the outbreak for weeks or months. Dengue fever, apparently transmitted by hitchhiking mosquitoes from Indonesia, caused China to order strict inspections and quarantine of passengers, aircraft, and vessels from that country. Even a massive forest fire threatened to cross into Yunnan from Burma.

### **The Spratly Islands: no end to the jockeying**

The ASEAN-China joint declaration on conduct in the South China Sea, signed in November 2002, frayed a bit more during the quarter, as China, the Philippines, and Vietnam all made moves to assert their claims to the Spratly Island group. The

declaration's key undertaking, to "exercise self-restraint in the conduct of activities that would complicate or escalate disputes," was stretched, if not torn, by actions that included:

- A Vietnamese Communist Party conference Feb. 7 in Ha Tinh province (which Hanoi claims administers the Spratlys) on unilateral Vietnamese development programs for the islands;
- A Philippine-Chinese announcement Feb. 9 that the two countries had agreed in principle to joint exploitation of the islands' resources;
- Philippine military comments in February suggesting that combined military exercises with U.S. forces on Palawan Island, the closest Philippine territory to the Spratlys, would include a conventional threat scenario (although Philippine President Gloria Macapagal-Arroyo later said the exercises were unrelated to sovereignty claims);
- Reported comments in March by the commander of the Chinese navy's South China Sea fleet that China's construction program on the Spratlys should be speeded up;
- A Vietnamese announcement March 24 that it would conduct the first organized tourist visit to the Spratlys in April, under Defense Ministry auspices; and,
- Sharp counter reactions from Manila and Beijing. A spokesman for the latter said the next day that China had "lodged a solemn representation" asserting its "indisputable sovereignty" over the whole island group. Hanoi responded that indisputable sovereignty was its own, and invited foreign correspondents to join its tour.

There is no suggestion in all this that armed conflict is likely to break out. It does suggest that more work needs to be done to achieve a more binding, and more restrictive, code of conduct – a goal that is made more difficult by the disunity and unilateral moves of the ASEAN claimants.

### **China-Philippines relations**

Reports surfaced in February that China might host peace talks between the Philippine government and Communist New People's Army insurgents, remnants of the 35-year armed campaign that goes back to a period when China was supporting and supplying Communist insurgencies in most Southeast Asian countries. President Arroyo's spokesman said she would welcome such a Chinese role. An incident in a rural region of the Philippines in January neatly caught some of the irony in China's new role as a status quo power in Asia: an attack by Communist rebels on a road project being carried out by a Chinese firm in Negros Oriental in January caused the firm's manager to suspend construction activity until the safety of his personnel and equipment could be guaranteed.

Chinese and Philippine officials on March 19 celebrated the first anniversary of a Philippine-Chinese Center for Agricultural Technology intended to introduce Chinese hybrid rice strains in the Philippines to improve yields. China thus assumes a role played by the United States a generation ago, when the International Rice Research Institute was set up in Los Banos with funding from the Ford and Rockefeller foundations, and played a key role in the “green revolution” in a number of Asian countries in the 1960s.

### **New cooperation agreements with ASEAN governments**

China’s Vice Premier Wu Li, visiting the capitals of the three least-developed Southeast Asian nations – Vientiane, Phnom Penh, and Rangoon – in March, presided over the signing of a total of 41 separate agreements on trade, development assistance, loans, export guarantees, and other forms of cooperation. Wu brought with her some 40 Chinese entrepreneurs. Her visit was clearly intended as a concrete step toward fulfilling China’s commitment, under last year’s framework agreement on free trade negotiations, to help bridge the gap between ASEAN’s richest and poorest nations. China’s news agency *Xinhua* reported that in Burma, Wu Li spoke warmly of the brotherly bilateral relations between the two countries, and reiterated that Burma’s affairs should be managed by Burma, but expressed the hope as well to SPDC Chairman Than Shwe that the government could “push the situation developing towards a more positive direction.”

### **China-Vietnam: plodding along on border issues**

Vietnam and China held a series of talks during the quarter to renew efforts to resolve outstanding border issues, but achieved little. Statements following vice foreign minister-level talks Jan. 9 suggested that frustration at the slow pace of land border demarcation is increasing. The two sides could only report that they agreed on speeding up the pace of placing markers on the border. On the more difficult sea borders, which involve the Spratly Islands, they merely “focused on discussing affairs concerning the issue.” In February, Vietnamese and Chinese diplomats initialed a protocol aimed at implementing a four-year-old fishing agreement covering the Gulf of Tonkin, but the agreement remains unratified. In March, specialists held talks on maritime issues in a “friendly and frank atmosphere,” diplomatic language to describe a meeting whose chief result is to agree to hold more meetings. Domestic unhappiness in Vietnam over territorial concessions made to China was reportedly still one reason for the lack of progress.

### **Implications**

It is not surprising that there should be a lull in high-level contacts after a banner year of remarkable developments in China-Southeast Asian relations, or that disagreements going back decades (or even centuries) should still be on the agenda, or that dislocations caused by China’s rise should cause some questioning among China’s smaller neighbors. The tone of the public dialogue between the two sides is still cordial, and ASEAN leaders are still expressing confidence that China will offer their countries more opportunities than problems. With the Malaysian elections in March, and elections or leadership changes in prospect soon in several other ASEAN nations, Beijing may have decided that

a low posture best suits its interests for a time. But China would be well advised to take seriously the alarm voiced by ordinary citizens in Southeast Asia regarding the negative consequences of China's growth for its close neighbors. In particular, disregard for the ecological effects of over-development of the Lancang and upper Mekong rivers could have disastrous results for downstream farmers and fisheries, and lead to destabilizing conflicts over water resources.

## **Chronology of China-Southeast Asia Relations January-March 2004**

**Jan. 10, 2004:** Thai PM Thaksin Shinawatra tells a meeting of senior Thai officials that Thailand's foreign relations will be overhauled to put more stress on China and India, which "should be the most important countries for Thailand's diplomacy."

**Jan. 11, 2004:** Malaysia's new deputy PM, Datuk Seri Najib Tun Razak, announces that he will push for closer and deeper relations with China, following in the footsteps of his late father, Tun Abdul Razak, who was PM in 1974 when Malaysian-Chinese relations were established.

**Jan. 20, 2004:** Chinese media report that China and Malaysia have agreed on modalities for bringing new Chinese guest workers into the country starting in April. If true, the report is a sign that the politics of Malaysian demography have eased considerably, and Kuala Lumpur no longer fears a political backlash from Malays against Chinese workers.

**Feb. 17, 2004:** Vietnamese Communist Party General Secretary Nong Duc Manh and Chinese Politburo member Xia Guoqiang take part in a seminar on "Building the Ruling Party-Experience of Vietnam and China." Several other party-to-party exchanges between China and Vietnam occur during the quarter.

**Feb. 19, 2004:** Xiong Guangkai, deputy chief of the PLA general staff, observes to the visiting director of joint intelligence for Singapore, Brig. Gen. Tay Lim Heng, that the armies of the two nations carry out wide-ranging cooperation and pledges that China's armed forces are willing to work constantly with Singapore to promote friendly military relations.

**Feb. 24, 2004:** Indonesia's Coordinating Minister for Political, Social, and Security Affairs, Bambang Yudhoyono, meets in Beijing with State Councilor Zhou Yongkang, who tells him China will strengthen cooperation in combating terrorism, cross-border crime, and drug trafficking. Yudhoyono also meets PLA Deputy Chief of the General Staff Xiong Guangkai.

**Feb. 27, 2004:** Thai Princess Maha Chakri Sirindhorn meets in Beijing with Wu Bangguo, chairman of China's National People's Congress, and receives the title of "friendship ambassador."

**March 2-3, 2004:** More than 1,000 overseas Chinese attend a conference in Bangkok, sponsored by the Thai-Chinese Chamber of Commerce, to oppose Taiwan President Chen Shui-bian government's moves toward Taiwan independence. The conference issues a "Bangkok Declaration" upholding the "one China" principle.

**March 3, 2004:** Thai media report that Deputy PM Suwit Khunkitti has ordered an investigation into the Thai Forestry Department's approval of a shipment of 100 tigers from Thailand to China. China's ambassador defends the shipment, dismissing rumors that the tigers were delivered for culinary or commercial purposes.

**March 5, 2004:** PLA Deputy Chief of General Staff Sen. Lieut. Gen. Qian Shugen pays a working visit to Vietnam. He tells Deputy PM Nguyen Tan Dung and his military hosts that China hopes to develop closer army-to-army relations with Vietnam, and holds talks on military education and training exchanges between the two armed forces.

**March 9, 2004:** Manila media report that the Manila and Beijing have agreed to expand the cargo capacity of their national airlines by a factor of 15 over the next four years, as well as doubling the passenger capacity. China grants Philippine Airlines "fifth freedom" rights to pick up passengers in China and fly to selected destinations in other countries.

**March 11, 2004:** Singapore's FM S. Jayakumar tells Parliament that China has a major regional role to play, and urges China and the U.S. to make efforts for better relations.

**March 14, 2004:** Thai Minister of Commerce Watana Muangsook leads a business delegation to Nanning, in China's Guangxi Zhuang autonomous region, and announces steps to increase Thai exports, including a China-ASEAN Expo in November.

**March 19, 2004:** China announces that a mining company in Yunnan has gained Lao approval to mine potassium chloride in Vientiane, for fertilizer production. China faces a shortage of the mineral and plans to build a joint venture plant with Laos to produce 50,000 tons annually.

**March 20, 2004:** The China International Forestry Group Corporation announces the donation of timber transport vehicles to the Burmese forestry department, to expand the timber trade between the two countries.

**March 23, 2004:** Winai Phattiyakul, secretary general of the Thai National Security Council, tells China's Minister of Public Security Zhou Yongkang that the Thai NSC hopes to develop relations with the Chinese Public Security Ministry.

**March 31, 2004:** Chinese Defense Minister Cao Gangchuan visits Bangkok, telling his Thai counterpart that China wants to maintain close relations between the two militaries.