

China-Southeast Asia Relations: Smoothing the Wrinkles

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If 2003 was the year during which Beijing laid the foundation for a new relationship with the nations of Southeast Asia, 2004 may emerge as a period of fine tuning and adjustment. During the second quarter, as during the first, Beijing focused on the details of agreements already in place rather than offering bold new initiatives. China's quest to achieve increased respectability and influence in Southeast Asia by following a two-pronged strategy that focuses on ASEAN for dealing with the region as a whole while dealing with nation-specific issues on a bilateral basis was readily apparent throughout the quarter. In some ways, the balance may have shifted slightly toward the bilateral arena.

The South China Sea and various areas along the Mekong River drew Chinese and regional attention, as did ever-present issues of trade and finance. However, these do not appear to have slowed the pace of Beijing's political progress through the region, much less obstructed it. China's relations with ASEAN remain positive, although Beijing must be disappointed with the lack of progress in such areas as the ASEAN Free Trade Area (AFTA), security discussions, and the effort to establish multilateral mechanisms for securing unhindered passage through the Strait of Malacca.

Close to Home

During the quarter, Chinese diplomacy clearly paid special attention to the less developed members of ASEAN that share borders with China: Cambodia, Laos, and Burma. In addition to assessing the progress of agreements with these nations signed in March, the Chinese demonstrated concern about Beijing's image as a major power interacting with smaller nations and focused on the perceived strategic imperative to cement good relations with immediate neighbors.

Those concerns and the need to establish a framework for managing the frictions produced by China's dam and new port construction activities on the Mekong River obliged China and Cambodia to affirm their close ties. They also discussed the scope and the content of their future bilateral relations with an eye toward anticipating and preempting the kinds of issues noted above. Similar high-level discussions were held between Chinese and Lao officials in Shanghai during April.

Relations with the government of Burma, already the beneficiary of Beijing's considerable economic and political support, continued to develop with an emphasis on professional and cultural exchanges. There was also progress on the plan to liberalize trade in agricultural products. Beijing and Rangoon agreed to begin to adopt and implement some of the provisions of the China-Singapore-Thailand Early Harvest Programme Acceleration Agreement that will eventually eliminate tariffs on all fruits and vegetables. Finally, the Chinese and their relatively well-off Thai neighbors likewise intensified their efforts to implement the provisions of the Acceleration Agreement and searched for new areas and means of cooperating on economic and infrastructure development. Thailand further cemented its already strong relations with China by continuing its highly vocal support for Chinese interests in the Taiwan Strait.

China's relations with Vietnam remained complicated. The quarter began with yet another acrimonious exchange over Hanoi's plan to schedule and stage a "tourist cruise" through the area of the South China Sea over which both nations claim sovereignty. In response, Beijing staged yet another naval exercise. However, and probably reflecting the decision by both sides not to allow the territorial dispute to prevent progress on important economic issues, the respective legislatures of the two nations approved the Beibu Gulf Demarcation Agreement defining the maritime border between China and Vietnam. This event assumes added significance as an indicator of the tenor of China-SRV relations when it is recalled that the agreement had been signed and awaiting ratification by the two sides since December, 2000.

Given Chinese and Vietnamese sensitivities and resentments produced by centuries of friction, relations between the two sides are not likely to become totally free of stress. Still, both nations appear committed to working out a *modus vivendi* that will permit progress despite the residual difficulties. Issues of this sort likely formed a major portion of the agenda of the May meeting between Chinese President Hu Jintao, Premier Wen Jiabao, and Vietnam's Prime Minister Phan Van Khai. It is also likely that the preceding summitry made it possible for the two nations to make considerable progress in joint efforts to work with the UN to control cross-border human smuggling and narcotics traffic, an issue that had been the source of some embarrassment and not a little rancor.

Meanwhile, in Kuala Lumpur..

A major event of the quarter was the visit of the new prime minister of Malaysia, Abdullah Ahmad Badawi, to Beijing, ostensibly to celebrate the 30th anniversary of the establishment of diplomatic ties between China and Malaysia. Actually, the visit provided an opportunity for the Malaysian prime minister to reacquaint himself with the Chinese leadership and to take their measure. The Chinese had great interest in meeting and assessing Badawi as well.

As with the Cambodians, the Chinese seemed eager to construct a framework for relations that would both anticipate potential problems and provide a means for dealing with them. During the visit, Chinese Premier Wen Jiabao met with his counterpart and made a number of proposals for broadening and deepening China-Malaysia relations.

These emphasized the complementarities of bilateral interests in terms of economic development, the need to maintain a stable external environment, the potential for joint efforts to maintain the integrity of sea lines of communication through the Strait of Malacca, and, given Beijing's own problems with Islamist extremists, a shared interest in dealing with terrorism. The Malaysians remained cool to proposals for cooperation in the Strait of Malacca owing to their concerns about sovereignty, but they did keep the door open by describing their efforts to integrate and coordinate the efforts of various components of the Malaysian government concerned with sea lane security and their plans for the creation of a new Malaysian Coast Guard.

From the perspective of Malaysia, China's greatest significance inheres in potential as the driver of regional economic growth and, therefore, as a potential challenger of Malaysian economic interests. Although Malaysia remains suspicious about Chinese intentions in the longer run, it understands that it must adjust to the reality of growing Chinese economic power and, that such an adjustment requires expanded political relations.

It was therefore difficult for Prime Minister Badawi to discourage Chinese involvement in safeguarding the security of the Strait of Malacca. It is also difficult for the Malaysians to downplay the significance for China of perceived Islamist extremist groups. In this sense, the major result of the Badawi visit was to acknowledge the importance of bilateral relations with China to Malaysia and to define acceptable parameters within which the relationship should grow and develop. From Beijing's perspective, the challenge was to confirm for the Malaysians that Chinese economic development works to their advantage too and that Beijing's gain is not necessarily Kuala Lumpur's loss. Whether the two nations were successful in their attempt to establish a mutually satisfactory framework for extending the scope and pace of their bilateral ties remains to be seen.

...and Singapore

With respect to Singapore, Chinese diplomacy has apparently been successful in disarming the concept of China as a military threat, at least temporarily. No less an authority than Senior Minister Lee Kwan Yew signaled the changed perception of Singapore's "China problem" by declaring the dynamics of the relationship to be centered on China as Singapore's "main challenger" in economic competition. For awhile at least, Singaporean concerns about Chinese military intentions have publicly been put on hold, although Singapore will continue quietly to recognize and cultivate the U.S. military presence as a counterweight to Beijing's emerging military capabilities.

In fact, Lee simply confirmed what politically relevant Singaporeans had been saying for nearly two years. Nonetheless the senior minister's ukase is likely to clear the way for an economic relationship that is even more vibrant than that at the present time. This is particularly likely given the acknowledgement of the government of Singapore that the long and embarrassingly unprofitable Xuzhou Industrial park, built with largely Singaporean investment as a gesture of confidence in Beijing's economic reforms, has at last turned the corner and entered the black.

The groundwork for Lee Kwan Yew's statement had probably been laid earlier during discussions in Beijing in mid-May between Singapore's Deputy Prime Minister Lee Hsien Long and President Hu Jintao and Deputy Premier Wu Yi. Although the meeting with Hu was largely ceremonial, Wu and Lee convened the first meeting of the China-Singapore Joint Council for Bilateral Cooperation and tabled a number of proposals for expanded bilateral cooperation. Later, in May at a separate venue, the two sides formally agreed to cooperate on a series of measures intended to enhance environmental protection and sustainable development. Later events included Singapore's accession to the China-Thailand Early Harvest Programme Acceleration Agreement which, as noted above, is intended to eventually end tariffs on all fruits and vegetables and nearly 500 additional agricultural products. The present positive cycle was completed when China's Council for the Promotion of International Trade opened its regional office in Singapore. This action is intended to ease the problems of trade between Chinese and other companies in the region.

Dancing with ASEAN

Consolidating close relations with ASEAN continues to pose a challenge for Chinese diplomacy. Statements by Chinese leaders through the first and early second quarters assuring the region about Beijing's long-term intentions under the rubric of "Peaceful Rise" seemed to resonate positively within the region. However, President Hu Jintao's substitution of the term "Peaceful Development" for the term peaceful rise at the April Bo'ao Forum on Hainan Island suggested to Southeast Asian analysts that the Chinese leadership had doubts about the appositeness of the concept.

Subsequent events and press statements revealed the existence of a debate within the Chinese Communist Party and the Chinese government about the appropriateness of the term. Some felt that it might mislead outsiders into thinking that Beijing was foreclosing its option to use military force in the Taiwan Strait and/or in other circumstances that might arise. While it was always clear to Southeast Asian observers that the debate in China involved the fine points of terminology rather than a choice between adopting peaceful as opposed to nonpeaceful policies, the discussion served as yet another reminder of the need for caution as Southeast Asian leaders craft both ASEAN and bilateral China policies. Despite remarkable Chinese progress in disarming the concerns of regional leaders, Beijing still has some distance to travel before securing its objectives.

Nonetheless, the journey continued, albeit at a somewhat slower pace than during the last year. For example, Beijing clearly appears to have scored significant gains in its campaign to consolidate and expand the role and impact of the ASEAN Plus Three process. In April, the ASEAN Plus Three health ministers met in Malaysia to discuss further the initiatives on SARS, controlling the spread of AIDS, and cooperating to control narcotics trafficking that were tabled at discussions during the first quarter and the previous year. This process is likely to continue, adding yet another dimension to the scope of China-ASEAN interaction.

Similarly, in May the labor ministers of China, Japan, and the Republic of Korea met with their ASEAN counterparts at the end of the 18th ASEAN Labor Ministers Meeting held in Brunei Darussalam. China used the session to establish increased solidarity with its Southeast Asian counterparts by emphasizing the differences between the respective positions of Asian developing nations and Western developed nations on matters related to labor rights, working conditions, and labor discipline. Beijing's effort was undoubtedly aided by the fact that these issues have been a consistent source of friction between Asian and Western nations for many years.

May also saw the convening of the seventh meeting of the ASEAN Plus Three finance ministers in the Republic of Korea. In contradistinction to labor issues, the finance meeting proved to be more of a challenge for Beijing owing to the fact that its economic and commercial interests diverge from those of Seoul, Tokyo, and the nations of ASEAN in a number of important respects. Beijing appears to have been forced into something of a defensive crouch owing to widespread regional concerns about the potential (under) valuation of the *renminbi*, fears of the inevitable negative consequences that would emerge if the present rapid pace of China's economic expansion, which many believe to be out of control, were to slow or come to an end, and, of course, the ever-present worries about Chinese competition throughout the region. The nations of ASEAN have correctly concluded that across-the-board competition with China is doomed to failure and that it is better to develop niche markets in areas of comparative advantage. The problem, from the Southeast Asian point of view, arises from the difficulties involved in assessing the likelihood that Chinese technological progress might eventually neutralize or destroy ASEAN comparative advantages and niches.

Beijing sought to allay concerns by citing the various measures it has taken to control and slow the pace of economic expansion. These include curbs on borrowing and reducing commodity prices by proscribing investment in so-called saturated areas such as manufacturing capacity, and simply assuring its neighbors of its positive intentions. However, in this area above all, the devil will be in the details. Finance and trade issues may well prove to be the greatest challenge to the continued development of the ASEAN Plus Three process.

As the quarter entered its final month, the ASEAN Plus Three energy ministers met in Manila for the announced purpose of forging an energy partnership. All of the parties present were united in their recognition of the seriousness of the problem but little emerged in the way of concrete proposals. A subtext for the meeting was the general concern that China's ever-growing economic machine is placing major stress on the supplies of energy available to the nations of the region, each of which have their own concerns.

All in all, during the second quarter, Beijing made positive gains through the ASEAN Plus Three process. Despite the obvious difficulties involved with finance and energy, the process continued and was strengthened. That is very much in accord with the well-known ASEAN concern for process as well as result. That said, if finance (economic) and energy trends continue to move along their present trajectories, results are bound to

become an issue for all concerned. That eventuality, if it comes to pass, is likely to be the acid test for ASEAN, China, Japan, and the Republic of Korea.

China's relations with ASEAN as a whole during the quarter present a similarly mixed picture. Reporting on May 21 indicated that Beijing and ASEAN were about to come to agreement on the China-ASEAN Free Trade Agreement. However, on June 23, ASEAN Secretary General Ong Keng Yong admitted that China and ASEAN were likely to miss the first deadline on their joint negotiations over trade liberalization issues. Ong attributed the delay to difficulties within ASEAN: the six more developed members could not agree on the list of goods to be scheduled for liberalization. Additional reporting claimed that Indonesia and the Philippines were the sources of difficulty. Clearly the ASEAN requirement for consensus was a factor provoking the delay in that the six were unable to come to a common position. But, given the obvious economic and political value of an agreement to both sides, it is probably only a matter of time before they achieve success. Indeed, Secretary General Ong said as much when he described ASEAN ties with China as "... rosy, positive, and wonderful"

Ironically, the announcement of the breakdown of negotiations came just days after the conclusion of a China-ASEAN Foreign Ministers Meeting in Qingdao. The foreign ministers reportedly agreed to build upon the gains of the last year or so and broaden and deepen ties in a variety of areas, including security cooperation, new health initiatives aimed at SARS and AIDS, and maintaining the security of sea lines of communication. The AFTA was to be the keystone of the new effort and the broader relationship.

Building Confidence

Perhaps as a sweetener and a confidence builder for the future, Beijing seized the occasion of the meeting to announce its intention to sign the Protocol to the Treaty of the Southeast Asia Nuclear Weapon-Free Zone (SEANWFZ). ASEAN had long sought such agreement from China. Moreover, it is likely that the decision, which actually costs Beijing very little and simultaneously enables it to compare itself favorably to the U.S., will be seen in Southeast Asia as confirmation of China's new, more assertively cooperative position on containing the spread of nuclear and other weapons of mass destruction. In fact, joining the Protocol, along with China's role in the six-party talks on the Korean Peninsula, its new regulations on the export of dual-use technologies, its membership in the Nuclear Suppliers Group, and its continuing interest in joining the Missile Technology Control Regime (MTCR), will enable Beijing to leverage its position as a responsible nuclear power. In light of concerns about a nuclear India and its at times troubled relations with China, this will also do much to alleviate ASEAN concerns about the spread of nuclear weapons into Southeast Asia.

However, Beijing's gains in the area of nuclear proliferation were offset at least in part by the cool reception accorded to a number of other Chinese proposals in the security sector. For example, a June 25 proposal at a China-ASEAN forum in Singapore for cooperation in providing maritime security ran into considerable if muted skepticism among the ASEAN audience. Mindful as it is of Malaysian concerns about sovereignty, the

organization is reluctant to open what might become a Pandora's Box that could affect Singapore and Indonesia as well. It is worth noting that similar proposals by the United States Pacific Command have been greeted with identical skepticism. It would appear that while the concerned nations of ASEAN clearly recognize the potential problems with their sea lines of communication, they are also suspicious of the motives of external powers who wish to operate there.

Finally, in another display of the ASEAN approach to security that may prove to have significant consequences for Beijing's efforts to integrate itself into the regional security dynamic, the closing days of June brought a proposal by the Senior Ministers of ASEAN to convene a first summit with Russia next year in Kuala Lumpur. The meeting also approved a proposal to create an ASEAN Security Community (ASC).

Depending on how they are implemented, these two proposals are bound to complicate Beijing's effort to nurture its security ties with ASEAN. The first proposal is a manifestation of the ASEAN conviction that regional security is best achieved if there is a stable balance of power involving a number of external powers. ASEAN is glad for the U.S. presence, but it also has welcomed China and, in an economic sense, Japan. And now it would seem that the region's leaders hope to invite Russia in as well.

Similarly, if ASEAN is able to overcome the strongly held conviction that members should refrain from involvement within one another's internal affairs and if it is possible to overcome the technical problems involved, the ASC could lead to an improvement in the capabilities of the ASEAN nations to provide for their own security. This would reduce the incentive to seek external assistance with such challenges as maritime security.

More significantly, it could also alter the security dynamic of the sub-region as its constituent states gradually increase their ability to arbitrate and adjudicate issues of national security on their own. Deficiencies in Russian military power notwithstanding, if Beijing had to deal with yet another external power in the sub-region, and if ASEAN itself were to evolve into a more solidly integrated security actor, Beijing would be forced to recalibrate its strategies still further. The events of the second quarter suggest that such a challenge might be on the horizon.

China-Southeast Asia Chronology April-June 2004¹

April 1, 2004: Thai Deputy PM Chavalit Yongchaiyudh reiterates Thailand's support for "one China" policy.

April 2, 2003: Liang Guanglie, chief of the General Staff of the Chinese People's Liberation Army (PLA), meets commander of the Philippine Air Force Nestor R. Santillan in Beijing.

¹ Compiled by Ronald A. Rodriguez, Vasey Fellow, and Tamara Renee Shie, Visiting Fellow, Pacific Forum CSIS.

April 2, 2004: China's Defense Minister Cao Gangchuan visits Thailand.

April 5, 2004: Le Cong Phung, special envoy of Vietnam's prime minister, meets with China State Councillor Tang Jiaxuan in China; says Vietnam would like to enhance consultation and cooperation with China.

April 12, 2004: China conducts PLA Navy Drill in the South China Sea.

April 19, 2004: Vietnam pushes through with controversial eight-day tourist trip to the disputed Spratly Islands despite warnings from China.

April 20, 2004: Chinese Premier Wen Jiabao holds talks with PM Hun Sen of Cambodia; outlines China's four suggestions on the future direction of China-Cambodia relations.

April 21, 2004: State Councilor Tang meets with PM Hun Sen of Cambodia; expresses appreciation for Cambodia's adherence to "one China" policy.

April 22, 2004: Yang Chonghui, senior advisor to the government of Yunnan province, says bilateral trade between Myanmar and China will reach \$1.5 billion by 2005.

April 22, 2004: China's VP Zeng Qinghong meets Singaporean Senior Minister Lee Kuan Yew.

April 23, 2004: ASEAN Plus Three Health Ministers meeting held in Penang, Malaysia.

April 24-26, 2004: Third Bo'ao Forum for Asia annual conference in Hainan, China.

April 26, 2004: Thai FM Surakiart Sathirathai holds a phone conversation with FM Li Zhaoxing; the two sides exchange views on enhancing cooperation.

April 27, 2004: Chinese FM Li meets with Lao Deputy PM and FM Somsavat Lengsavad, and Vietnamese FM Nguyen Dy Nien at 60th Session of ESCAP in Shanghai.

May 1, 2004: Singapore PM Goh Chok Tong stresses cooperation with China and India for common development.

May 12, 2004: China's Administration of Customs says China imported from ASEAN 1.06 billion yuan (about \$128 million) worth of products enjoying zero tariff in the first quarter of 2004.

May 14, 2004: ASEAN Plus Three Labor Ministers meet in Bandar Seri Begawan, Brunei Darussalam in conjunction with the 18th ASEAN Labor Ministers Meeting.

May 14, 2004: President Hu Jintao meets Singaporean Deputy PM Lee Hsien Loong in China.

May 14, 2004: Vice Premier Wu Yi holds talks with Singaporean Deputy PM Lee Hsien Loong for the first meeting of Joint Council for Bilateral Cooperation; puts forward concrete proposals on how to advance bilateral cooperation.

May 15, 2004: Finance Ministers of ASEAN, China, Japan, and the Republic of Korea (ASEAN Plus Three) convene seventh meeting in Jeju, Republic of Korea.

May 15, 2004: Singapore's Deputy PM Lee Hsien Loong announces that Singapore and China will start negotiations on a bilateral free trade agreement (FTA) in November 2004.

May 17, 2004: Seventh meeting of China-Singapore Joint Steering Council in Suzhou.

May 20, 2004: *Thai News Agency* reports that Thailand's trade surplus with China reached \$1.26 billion in the first quarter of this year.

May 20, 2004: Premier Wen holds talks with Vietnamese Premier Phan Van Khai.

May 21, 2004: The China-ASEAN Free Trade Area (FTA) Negotiation Committee says China-ASEAN FTA talks will conclude ahead of schedule.

May 21, 2004: Chinese President Hu tells visiting Vietnamese PM Phan Van Khai that the two countries should increase mutual trust and sincere cooperation.

May 21, 2004: China and ASEAN reach basic consensus on FTA.

May 27-31, 2004: Malaysian PM Abdullah Ahmad Badawi leads high profile diplomatic and economic delegation to China to celebrate 30th anniversary of bilateral ties.

May 28, 2004: Premier Wen holds talks with Malaysian counterpart Abdullah Ahmad Badawi; makes five proposals for expanding and deepening China-Malaysia relations.

May 29, 2004: Chinese President Hu meets with Malaysian PM in China.

May 30, 2004: China boycotts 18th Asia Pacific Roundtable in Kuala Lumpur because of presence of Taiwan scholar.

May 30, 2004: Malaysian PM Badawi proposes an East Asia Summit; says Malaysia and China should cooperate in setting the agenda for a new era of regional cooperation not only in security matters but also in socio-economic areas.

June 3, 2004: Singapore accedes to "China-Thailand Early Harvest Programme Acceleration Agreement" at the sidelines of APEC Ministers Responsible for Trade meeting in Pucon, Chile. The Agreement will eliminate tariffs on all fruits and vegetables.

June 4, 2004: Beijing boycotts Shangri-la security conference in Singapore because of presence of Taiwanese think-tank delegate.

June 4, 2004: China announces the opening of 14 additional border ports between Yunnan province and neighboring Laos, Myanmar, Thailand, Vietnam, and Cambodia by 2010 to facilitate increasing economic trade between Southeast Asia and China.

June 7, 2004: Third Annual ASEAN-China Business Council Meeting and 16th ASEAN-Chamber of Commerce and Industry Conference & 61st Council Meeting held in Myanmar.

June 9, 2004: ASEAN energy ministers and their counterparts from China, Japan, and South Korea vow in Manila to forge closer energy partnership to face the challenges in the energy sector in Asia amid highly volatile world oil prices.

June 10, 2004: China's Council for the Promotion of International Trade (CCPIT) opens regional office in Singapore to promote greater cooperation between China and regional companies.

June 15, 2004: Vietnam's General Assembly ratifies agreement with China defining maritime borders in the Gulf of Tonkin.

June 15, 2004: Myanmar and China begin early trade liberalization activities under the Early Harvest Plan (EHP), an advanced program of the ASEAN-China FTA that covers 596 agricultural products.

June 18, 2004: The Indonesian government says its exports to China could double in three years following the gradual implementation of a FTA.

June 20, 2004: In a televised interview, Singapore Senior Minister Lee Kwan Yew calls China Singapore's "main challenger" for economic competition.

June 21, 2004: China-ASEAN Foreign Ministers' Meeting in Qingdao agrees to deepen cooperation, and to push for realization of the China-ASEAN Free Trade Agreement; China also signals it will sign the Protocol to the Treaty of the Southeast Asia Nuclear Weapon-Free Zone (SEANFZ).

June 21, 2004: Premier Wen meets with Thai PM Thaksin Shinawatra on the sidelines of the Third Foreign Ministers' Meeting of Asia Cooperation Dialogue; expresses thanks for Bangkok's understanding and support for China on Taiwan, Tibet, and human rights.

June 23, 2004: UN special envoy to Myanmar Razali Ismail says he will seek China's assistance to break the political stalemate in the country when he visits as part of a Malaysian delegation.

June 23, 2004: ASEAN Secretary General Ong Keng Yong says ASEAN and China are likely to miss the first deadline on the ASEAN-China FTA negotiations.

June 23-25, 2004: Vietnam's FM Nguyen Dy Nien pays an official visit to China.

June 24, 2004: Senior Col. Wang Zhongchun, deputy director in Beijing's National Defense University, proposes that China and ASEAN join forces to safeguard maritime security in the region.

June 24, 2004: ASEAN and China will likely miss a 30 June deadline to decide on liberalizing the trade of goods and products, an essential first step in ongoing free trade negotiations. Currently, the agreement is being stalled by ASEAN member countries who are having problems defining the categorization of goods and products. Once completed, the ASEAN- China trade bloc could encompass nearly two billion people and an estimated two trillion dollars of combined GDP by 2010.

June 25, 2004: The 10th Standing Committee of the National People's Congress (NPC) approves the Beibu Gulf demarcation agreement between China and Vietnam.

June 28, 2004: Yunnan province announces annual scholarships to students from Vietnam, Cambodia, Laos, Myanmar, and Thailand to strengthen cooperation with neighboring countries.

June 28, 2004: Sheng Huaren, vice chairman and secretary general of the Standing Committee of the National People's Congress, meets in Beijing with a delegation from the Vietnamese National Assembly Office led by Chairman Bui Ngoc Thanh.

June 30, 2004: China's FM Li attends inauguration ceremony of Philippine President Gloria Macapagal-Arroyo.