



**China-Southeast Asia Relations:  
Incremental Progress without Fanfare**

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Preoccupied this quarter with key decisions on appointments, budgets, and government reorganization in the lead-up to the 11<sup>th</sup> National People's Congress while facing serious disruption caused by February snowstorms and instability in Tibet during March, senior Chinese leaders had little time for travel to or substantial interaction with Southeast Asia. Chinese economic relations with the region moved forward, defense relations with Singapore and Indonesia advanced, and China and Vietnam seemed to calm disputes over territorial claims in the South China Sea.

**Diplomacy, economic ties**

The absence of the senior Chinese leaders from Southeast Asian and other world capitals was underlined by reports that President Hu Jintao would be making his first trip abroad, in May to Japan, since the 17<sup>th</sup> Chinese Communist Party Congress in October – an absence from the diplomatic circuit of more than eight months. Other senior Chinese leaders also have been focused on the many key policy decisions and appointments related to the party and government congresses held every five years; they have had less time for foreign policy. Foreign Minister Yang Jiechi traveled to Southeast Asian countries this quarter, visiting Cambodia and Brunei, though his visit to Australia received much more media attention. In late March, Prime Minister Wen Jiaobao attended the Greater Mekong Subregion (GMS) Summit in Laos.

In commentaries at the turn of the year, Chinese officials and official Chinese media duly highlighted progress in relations with Southeast Asia, but there were few exceptional developments noted. Foreign Minister Yang gave only passing reference to relations with ASEAN in a press conference reviewing developments in 2007 that was published by official media Dec. 31, 2007. A commentary in *China Daily* on China's successful diplomacy in Asia in 2007 saw Southeast Asian news overshadowed by developments in relations with Japan, India, and Central Asia, and involvement in the Six-Party Talks on North Korea. A similarly low priority to news about China-Southeast Asia developments was seen in the publication by the Chinese government-owned Hong Kong paper *Wen Wei Po* of a Chinese Foreign Ministry White Paper on Chinese Diplomacy in 2007.

Low-level Chinese media coverage made clear that the administration is satisfied with the existing channels of bilateral and multilateral interchange with Southeast Asia and the

ever-closer economic relationships with the region. Chinese participation in ASEAN-related meetings at an appropriately high level continues, as does progress in advancing the China-ASEAN Free Trade Agreement. Ambitious Chinese-supported plans to integrate neighboring Southeast Asian countries by means of road networks, railways, and other transportation, communication, power generation, and pipeline connections continue to receive high priority from the Chinese administration.

### **China's military diplomacy**

China's military diplomacy in Southeast Asia saw new developments this quarter. A senior-level defense dialogue between China and Singapore was initiated in Beijing in January. Subsequently, Chinese Defense Minister Cao Gangchuan visited Indonesia and sought to elevate the strategic partnership to new heights. Notwithstanding these closer contacts, Southeast Asian countries remain cautious in their engagement with Beijing, especially in light of the lack of transparency in the People's Liberation Army (PLA) and the uncertainties over its intentions. This was reflected in a recent high-level dialogue of military officials and scholars from ASEAN on "Building China-ASEAN Regional and Military Confidence."

At the invitation of the PLA Deputy Chief of General Staff Ma Xiaotian, Singapore's Permanent Secretary of Defense Chian Chie Foo visited Beijing in early January to co-launch the first defense policy dialogue between the two countries. They hailed this new initiative as an important milestone in bilateral military relations and agreed that the dialogue will become more regularized and serve as an important platform for increasing mutual understanding, improving and expanding confidence and trust between the two militaries, and discussing actionable programs for closer partnerships in the security sector. According to the Singaporean press, the two sides reached several conclusions in their first joint defense agreement, which included deepening collaboration on humanitarian relief and search-and-rescue activities, increasing senior level exchanges between the two militaries, and convening seminars, debates, and workshops on regional security.

Defense Minister Cao Gangchuan visited Jakarta and met with his Indonesian counterpart in late January 2008 to expand bilateral defense ties. China and Indonesia have seen increasing levels of exchanges in the security and military sector of late, especially since President Hu and Indonesian President Susilo Bambang Yudhoyono signed a joint declaration in 2005 proclaiming a "strategic partnership" between the two countries. Since then, arms exports from China to Indonesia have increased considerably – valued at \$4 million in 2006 according to SIPRI arms transfer data. China became an increasingly important arms supplier to its Southeast Asian neighbor when the U.S. placed an arms embargo on Indonesia from 1991 to 2005. More recently, at the January meeting, China and Indonesia agreed to establish a working committee to explore the prospects for closer cooperation in several areas, including training of military personnel and manufacturing defense equipment. Cao's visit paved the way for closer collaboration between the arms industries in both countries. In March 2008, *Jane's Defense Industry* reported that the China North Industry Corporation (NORINCO), a state-affiliated high-technology arms

manufacturer, formalized an agreement with two Indonesian state-owned agencies to “jointly develop rocket launchers and accompanying ammunition for the Indonesian Armed Forces.” The report said NORINCO will work with Indonesia’s Ministry for Research and Technology and the state-run agencies to develop the research and development for the propellants and other new equipment to help modernize and better equip the Indonesian military.

In spite of closer military-to-military exchanges and dialogue between China and key Southeast Asian countries, there is still a perceived wariness by Southeast Asian neighbors about Beijing’s unpredictability and long-term intentions. The PLA’s remarkable modernization, coupled with past records of aggression and provocative, uncompromising positions on sensitive territorial disputes remain a source of concern. Southeast Asian countries continue to seek greater transparency regarding Chinese military capabilities and intentions, notably by calling for more senior-ranking PLA representation at such regional forums as the Shangri-La Forum. These efforts have been met with some success. In March, China hosted a three-day meeting, inviting senior military officials and scholars from Southeast Asia to discuss the prospects for confidence building in the region. The Southeast Asian participants were encouraged to see China’s budding interest to increase such exchanges. According to Indonesian press, Brig. Gen. Marciano Norman, director of strategic environment analysis at the Defense Strategic Directorate General of Indonesia’s Ministry of Defense, underscored the need for China to modernize its military in a transparent manner and hoped that China would not misuse its increased capabilities to threaten other countries or regions. As such, in light of Beijing’s growing activism in its military diplomacy, the debate on whether its behavior will change is still at an early and uncertain stage.

### **Patterns of trade – the debate over Asia’s “decoupling”**

According to Chinese media, China-ASEAN trade will exceed \$200 billion in 2008, up from over \$190 billion in 2007 and \$160 billion in 2006. (Other sources say the trade volume exceeded \$200 billion in 2007). China and ASEAN are now each other’s fourth largest trading partners. In 2007, the leading members of ASEAN trading with China in priority order were Singapore, Malaysia, Thailand, Philippines, and Indonesia. Cumulative ASEAN investment in China was reported at about \$40 billion and cumulative Chinese investment in ASEAN was a bit over \$1 billion.

Commentators in official Chinese media joined international experts and media commentaries in disputing those who maintain that burgeoning Asian trade and investment networks centered on China have created an Asian economic sphere independent of global demand trends. These Asian trade and investment networks centered on China are said by some to have “decoupled” Asia from its dependence on the U.S. and other developed countries. In contrast, the *Straits Times* on Feb. 16 featured a commentary by prominent journalist and scholar Nayan Chanda arguing that the aftershocks from the U.S. stock market slide have put to rest this theory of decoupling. An International Monetary Fund article that month reviewed China’s role in ever more integrated trade with Southeast Asia and other regional trading partners. It concluded that

the U.S. and Europe “remain the main destination of final good exports by emerging Asian economies” and “exposure of Asian economies to inter-regional exports has actually increased over the past 15 years.” Most notably, *China Daily* on Jan. 11 featured an article by a Chinese government researcher who warned that those who see the Asian and Chinese economies decoupling from dependence on the U.S. follow flawed reasoning that “could create a false sense of security.” He mustered data to show “U.S. consumption has and is likely to keep acting as a decisive factor in Chinese exports.”

### **Mekong development – greater cooperation with Japan**

Chinese and foreign media highlighted continued progress in Chinese dams and development projects in the Mekong River and other neighboring regions in Southeast Asia that have met with considerable international controversy, notably because of their perceived adverse environmental impacts. Against this background, Chinese officials commented in official Chinese media in January on Japan’s reported efforts to become more active in the region in order to counter China’s rising influence. The officials called for China and Japan to reach agreement on working together regarding Mekong development. They judged that neither China nor Japan benefits from rivalry, and that the two countries should build on the recently improved atmosphere in Sino-Japanese relations to develop initiatives they proposed on advancing the economies, infrastructure, and environmental quality of the area.

### **South China Sea disputes**

The visit to China of Vietnamese Deputy Prime Minister and Foreign Minister Pham Gia Khiem in January seemed to calm the unusual public discord between Vietnam and China over disputed territorial claims in the South China Sea that emerged in late 2007 [*Comparative Connections* 9:4 January 2008]. Pham led the Vietnamese delegation for the second annual meeting of the China-Vietnam Steering Committee on Cooperation. He held talks with Chinese State Councilor Tang Jiaxuan and Foreign Minister Yang Jiechi. According to official Chinese media, the two sides “agreed to properly handle the problems in bilateral ties, such as the South China Sea dispute, to ensure the steady and healthy development of bilateral ties.”

The visit followed repeated demonstrations in Vietnam during November and December 2007 and early January 2008 against Chinese claims to South China Sea islands also claimed by Vietnam. There also was a reported violent clash in January 2008 between Chinese and Vietnamese fishermen in international waters in the Gulf of Tonkin that drew a protest from China.

Meanwhile, a March 12 *Xinhua* dispatch offering a rare assessment of Chinese concerns regarding relations with the Philippines suggested that all was not well in China-Philippine relations. It highlighted a statement from the Chinese embassy in Manila expressing concern over efforts of “some Philippine opposition lawmakers” to undermine existing Chinese-Philippine-Vietnamese cooperative arrangements on using resources in the South China Sea. It also noted the embassy’s concern over numerous hearings in the

Philippine Senate regarding alleged corrupt dealings of the government of President Gloria Macapagal Arroyo with a Chinese telecommunication company.

The disputes in the South China Sea received varied international attention. The Washington DC think tank, the Henry Stimson Center, issued an assessment of Chinese-Vietnamese tensions that duly noted overall improvements in Sino-Vietnamese relations while underscoring repeated clashes and major differences over the South China Sea. Various bilateral and multilateral accords involving Vietnam and China over the South China Sea have helped to manage tensions between the two sides, but have provided no final solutions. The *International Herald Tribune* reported on Feb. 28 that Beijing has warned international companies that if they pursued offshore projects with Vietnam in disputed waters of the South China Sea, they would be excluded from Chinese markets.

The U.S. Department of Defense's annual report on the Chinese military was released in March and gave prominent attention to frictions between China and Vietnam and disputed Chinese territorial claims in the South China Sea. It highlighted "China's Critical Sea Lanes" passing through the disputed region as a possible driver in Chinese defense modernization, though it concluded that the extent to which concerns over secure access to resources passing through the region "is not known." The DOD assessment of China's view of its critical sea lanes seemed to be supported by Chinese government researcher Zhang Xuegang writing in the Jamestown Foundation's *China Brief* on Jan. 31. Repeating his arguments reported earlier [*Comparative Connections* 9:2 July 2007], Zhang stressed China's reliance on Southeast Asian transportation routes involving the South China Sea and the danger posed by an unnamed "other major power" (presumably the U.S.) possibly attempting to block China's transportation "lifelines."

The most dramatic development this quarter involving China and the South China Sea was the visit of Taiwan President Chen Shui-bian on Feb. 2 to Taiping Island, the largest island in the Spratly archipelago that has been occupied by Republic of China forces for decades. The visit provided some positive publicity for the beleaguered Taiwan leader at home, and it arguably strengthened Taiwan's efforts to secure access to resources in the region and to gain some voice in international dialogues dealing with competing claims to the region. Vietnam and the Philippines complained about the Taiwan leader's visit and China reiterated its claims to the disputed islands.

### **Olympic boycott over Burma (Myanmar)**

The Chinese Foreign Ministry spokesperson responded to a question on Feb. 26 regarding calls by Burmese democracy activists for a boycott of the Beijing Olympics because of continued Chinese support for the Burmese military junta. The spokesperson's response emphasized China's "friendship and goodwill" that is conducive to "Burma's peace and democracy process" and "the realization of peace and reconciliation in Burma." It reiterated China's stance that the Olympics "should not be politicized, much less boycotted, for so-called political reasons."

Meanwhile, *Xinhua* on Feb. 18 reported Vice Foreign Minister Wang Yi told UN special envoy Ibrahim Gambari in Beijing that China supports Gambari's mediation efforts in Myanmar; welcomes Myanmar's seven-step road map and timetable leading to peace, development and a "disciplined, flourishing democratic nation;" and opposes international pressure and sanctions. Privately, Bush administration officials said that they see China playing a positive role in dealing with international efforts to achieve reconciliation and improved conditions in Burma.

### **Assessing China's rise**

The debate continued this quarter among foreign specialists about the importance of China's rising prominence in Southeast Asia and its implications for the United States. The Congressional Research Service (CRS) added to its array of recent reports on how China is advancing rapidly in the region while the U.S. is seen to be in decline. According to a new CRS report, *China's "Soft Power" in Southeast Asia*, China's economic importance and adroit diplomacy mean "Beijing has largely allayed Southeast Asian concerns that China poses a military or economic threat." In contrast, the report depicts declining U.S. prominence as the U.S. government shows "waning or limited attention" to Southeast Asia. China's large importance as a trading partner with and a recipient of foreign investment from Southeast Asian countries is said by the CRS experts to be complemented by China's role as "a major source of foreign aid" to Southeast Asia. The report gives a lot of attention to evaluating the very murky data on Chinese foreign aid and comes up with a conclusion supporting China's role as a leading aid giver.

In contrast, other U.S. and international analyses see the situation in more balanced terms as far as China rising at U.S. expense is concerned. A Mansfield Center Background Paper assessed the great power (U.S., China, Japan, and India) relationships in Southeast Asia as working very well for U.S. interests. Evelyn Goh's latest assessment "Great Powers and Hierarchical Order in Southeast Asia," *International Security* 32:3 (winter 2007/2008), disputes those arguing that a China-centered order is emerging in Southeast Asia. She depicts "a hierarchic regional order that retains the United States' dominant superpower position while incorporating China in a regional great power position just below that of the United States." Meanwhile Renato Cruz De Castro writing in the Taiwan journal *Issues and Studies* (43:4 (December 2007)) evaluates at length the successes in China's "soft-power statecraft" in the Philippines. Nevertheless, he shows that Manila "continues to foster closer political/security ties with the United States and Japan to balance China's growing political and economic clout in Southeast Asia."

### **Looking Ahead**

Good weather in Beijing, scheduled meetings with ASEAN leaders, and pent-up diplomatic requirements appear likely to cause Chinese leaders to devote more attention than seen recently to maintain and develop improved relations with Southeast Asian nations and their leaders. However, the top Chinese leaders also are likely to remain preoccupied with internal problems like the crisis in Tibet, and they seem inclined to devote top priority to insure that the Beijing Olympic Games in August are carried out in

ways that benefit the Chinese administration. In this context, Chinese leaders' attention to relations with Southeast Asia may not increase very much.

## **Chronology of China-Southeast Asia Relations January-March 2008**

**Jan. 7-8, 2008:** Ma Xiaotian, deputy chief of general staff of the People's Liberation Army (PLA), meets Chiang Chie Foo, Singapore's Permanent Secretary of Defense, for the first China-Singapore defense dialogue in Beijing to discuss developments between the two militaries. They sign an agreement on search and rescue and humanitarian cooperation and agree to hold regular military and security-related seminars.

**Jan. 9, 2008:** Vietnamese officials dispatch riot police forces to contain rallies held close to Chinese diplomatic missions in Hanoi and Ho Chi Minh City. Similar anti-Chinese protests were held last December over the disputed Spratly and Paracel Islands.

**Jan. 10, 2008:** Wang Jiarui, chairperson of the International Department of the Central Committee of the Chinese Communist Party, meets Jose De Venecia, speaker of the Philippine House of Representatives in Beijing. The two exchange views on promoting closer relations between the two countries' main political parties. De Venecia also meets Wu Bangguo, chairperson of the Standing Committee of the National People's Congress.

**Jan. 14, 2008:** He Luli, vice chairperson of the Standing Committee of the NPC, concludes her five-day official visit to Myanmar, where she meets senior officials at the State Peace and Development Council to discuss bilateral political, economic, and cultural ties.

**Jan. 14-17, 2008:** Cao Gangchuan, vice chairperson of the Central Military Commission and defense minister, visits Brunei, Indonesia, and Saudi Arabia. In Brunei, Cao pays a courtesy call to Sultan Haji Hassanal Bolkiah and discusses current relations between the two armed forces. In Indonesia, Cao meets his Indonesian counterpart, Juwono Sudarsono. The two ministers agree to set up a working committee to explore prospects for expanding bilateral military ties, including cooperation in manufacturing defense equipment and training of military personnel.

**Jan. 21, 2008:** U Myint Maung, special envoy of the Myanmar prime minister, visits Beijing and briefs State Councilor Tang Jiaxuan on the latest political situation in Myanmar, including plans for national reconciliation. Tang conveys Beijing's concern with political stability and economic development in Myanmar and calls for greater consultation between all concerned parties within Myanmar.

**Jan. 23, 2008:** The second round of the China-Vietnam Steering Committee on Cooperation is convened in Beijing by Tang Jiaxuan and Pham Gia Khiem, Vietnamese deputy prime minister, in Beijing. The two sides agree to better handle the South China

Sea disputes, maintain frequent senior-level exchanges, cooperate on cross-border crime, and promote cultural ties, among other things.

**Jan. 31, 2008:** Wen Jiabao, Chinese premier, sends an official note of congratulations to Samak Sundaravej, newly elected Thai prime minister, and seeks to deepen the strategic partnership between China and Thailand.

**Feb. 1-3, 2008:** Yang Jiechi, Chinese foreign minister, visits Cambodia for an official three-day visit to mark the 50<sup>th</sup> anniversary of Sino-Cambodian diplomatic relations. Yang meets King Norodom Sihamoni and Hun Sen, Cambodian prime minister. The two sides agree to establish 2008 as the “Sino-Cambodian Friendship Year,” to elevate bilateral cooperation on the Mekong River regional economic development, to increase consultation in such multilateral fora as the UN, ASEAN, and the East Asia Summit (EAS), and to broaden people-to-people exchanges.

**Feb. 2, 2008:** Yang Jiechi visits Brunei and meets Sultan Haji Hassanal Bolkiah. The sultan notes that Brunei attaches great importance to its stable relations with China, regarding it as one of the most important bilateral ties. They agree to strengthen cooperation on energy security, agriculture, tourism, and infrastructure development.

**Feb. 11, 2008:** Qin Guangrong, vice governor of China's southwestern province of Yunnan, announces that the provincial government is on schedule to complete four main international railways by 2009, linking Yunnan to Myanmar, Thailand, and Vietnam. The project will improve regional trade and transport efficiency.

**Feb. 19, 2008:** Ibrahim Gambari, UN envoy for Myanmar, is in Beijing to meet senior Chinese officials, where he expresses concern that the Myanmar government is delaying approval for his visit to Myanmar in late April. At the conclusion of his consultations in Beijing, however, Gambari mentions that he has received “encouragement” from Beijing that Myanmar “may move up” the date of his visit.

**Feb. 19, 2008:** Luo Haocai, vice chairperson of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), visits Jakarta. Luo meets Agung Laksono, speaker of the Indonesian Parliament, to discuss the Beijing Olympics and cooperation in investment and trade.

**Feb. 21, 2008:** The Guangxi Zhuang Autonomous Region unveils the “Guangxi Beibu Bay Economic Zone Development Plan,” which will create a new regional logistics base, as well as a trade processing and manufacturing center between southern China and neighboring ASEAN countries, including Laos, Vietnam, and Thailand.

**Feb. 26, 2008:** Liu Jianchao, Chinese Foreign Ministry spokesperson, clarifies China's position toward Myanmar at a public press conference. Liu explains that China pursues a “good-neighborly and friendly” policy, and that it will continue to call for “peace and reconciliation” in Myanmar.



**Feb. 27, 2008:** The Cambodian Investment Board (CIB) announces that China, Thailand, and South Korea are the top three foreign investing countries in Cambodia in 2007. The CIB approved a total of \$51 million of registered capital and over \$461 million of fixed assets for Chinese investors last year.

**March 1, 2008:** The China-ASEAN Business Council announces that China and ASEAN have become each other's fourth largest trading partner. Total two-way trade stood at \$202.5 billion in 2007, a 26 percent increase from the previous year.

**March 3-5, 2008:** The Chinese Ministry of Foreign Affairs hosts the 9<sup>th</sup> China-ASEAN Joint Cooperation Committee in Chongqing. Senior officials from the ASEAN secretariat and member states as well as representatives from 11 governmental ministries in China attend.

**March 5, 2008:** Malaysia's Public Bank announces the launch of the PB China-ASEAN Equity Fund (PBCAEF), which will invest in Chinese stocks listed in China, Hong Kong, the U.S., and other approved markets to capitalize on rapid economic growth in China and Southeast Asian countries.

**March 12-15, 2008:** The Chinese Academy of Military Science holds senior level gathering of military officials and scholars from Southeast Asia to discuss current trends in military modernization, regional security issues, and confidence-building measures.

**March 21, 2008:** Qin Guangrong, governor of Yunnan province, presides over the opening ceremony of the new trans-national highway linking Kunming city in southwest Yunnan to Bangkok, cutting total travel time by half to approximately 20 hours. *Xinhua News* reports that nearly \$400 billion worth of cargo will be transported each year via this new linkage between China, the Greater Mekong area, and Southeast Asia.

**March 26, 2008:** Wu Hongbo, Chinese Assistant Foreign Minister, visits Brunei to attend the 14<sup>th</sup> China-ASEAN Senior Officials' Consultation. The meeting seeks to implement the consensus reached at the 2007 summit held between both sides and strengthen their strategic partnership. Additionally, the meeting provides a platform to further exchange views on jointly implementing follow-up actions to the Declaration on the Conduct of Parties in the South China Sea.

**March 29-31, 2008:** Chinese Premier Wen Jiabao pays a working visit to Laos and takes part in the Greater Mekong Subregion (GMS) Summit in Vientiane. Wen meets Lao President Choummaly Saygnasone to discuss closer cooperation in the economic sector.