



**China-Southeast Asia Relations:  
Economic Concerns Begin to Hit Home**

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Asian commentators who asserted that China and its neighbors could ride out the economic crisis in U.S. and Western financial markets appeared in retreat during the quarter as the impact of the financial turmoil and recession in America and Europe began to have a major effect on China and the region's trade, manufacturing, currency values, and broader economic stability. The hope that China could sustain stable growth independent of the U.S. and Europe and thereby provide an engine of growth for export-oriented Southeast Asian countries was dented by Chinese trade figures that nosedived in November, especially Chinese imports, which fell by 18 percent. The financial crisis also dominated the discussion at the ASEM summit in October. Meanwhile, China continued to pursue infrastructure development projects with its neighbors to the south, resolved the land boundary dispute with Vietnam, and signed a free trade agreement with Singapore. Talk of a planned Chinese aircraft carrier caused some controversy, but on the whole assessments of China's rise were notably more balanced than in the past.

**International financial crisis**

Like its Asian neighbors, China was cautious in taking the lead in international financial arrangements and commitments that could involve significant risks for the Chinese economy in what increasingly appeared to be a period of prolonged adverse international economic conditions. It eschewed calls from Southeast Asian leaders at the biennial summit of the Asia-Europe Meeting (ASEM) in Beijing in October for China to undertake currency reforms and ease conversion restrictions aimed at pooling Asian reserves in order to create a common fund to protect the region's currencies and buy stocks and bonds. A possible exception to caution over economic commitments came at a China-Japan-South Korea summit in Japan in December. China promised, along with Japan, significant currency support for the beleaguered South Korean Won in a Chinese swap arrangement offer valued at \$26 billion.

On the whole, China stuck to the position that its top priority was to sustain growth at home. On the one hand, this presumably will have some continued benefit for Southeast Asian exporters, who welcomed the Chinese administration's large stimulus package announced in November. On the other hand, trade figures and other data suggest it will not forestall the major negative impact of declining demand from U.S. and other Western consumers for the final products of the export-driven processing trade that makes up over half of Chinese-Southeast Asian trade. Meanwhile, despite its \$40 billion trade surplus in November and large cumulative trade and current account surpluses for the year, China took steps to devalue its currency relative to the U.S. dollar and other currencies and to stimulate export growth through tax changes and other measures. These

steps presumably will help Chinese export manufacturers, but they seem to work to the disadvantage of China's trade competitors in Southeast Asia and elsewhere.

### **China and the ASEM summit**

China hosted the seventh Asia and Europe Meeting (ASEM) summit, a gathering of 45 heads of state and government from the two continents, on Oct. 24-25. Chinese scholars and commentators see this as another important gathering of foreign dignitaries in Beijing since the summer Olympics in August and an opportunity to build and expand China's international profile. Under China's chairmanship, the summit agenda addressed several important areas promoting exchanges and collaboration between Asian and European member states, including counterterrorism, reducing tensions and supporting the Six-Party Talks on the Korean Peninsula, and supporting the United Nations as well as ASEAN's efforts to facilitate the post-*Nargis* humanitarian relief and reconstruction efforts in Myanmar/Burma. Participants also agreed to follow up on the Bali conference on climate change held last December and pledged to work collaboratively in preparation for the next major climate change conference in Copenhagen.

With the financial crisis unraveling, the focus of the summit discussions was placed on ways to address and minimize the negative impacts of the global economic downturn on national economies. An editorial in Hong Kong's *Wen Wei Po* indicated that while the Chinese leadership understood the importance of the financial crisis, it was cautious in its approach and avoided making any bold, unilateral steps and commitments. The leaders of China, Japan, and South Korea, along with their counterparts from the 10 ASEAN member states, held an informal breakfast meeting during the summit. Collectively, they agreed to look into the prospects for establishing a foreign exchange reserve fund capitalized up to \$80 billion by the first half of 2009. This, in the Asian leaders' view, would help calm the markets and maintain monetary stability in the region. The article further indicated that China would continue to play its part to minimize regional and global inflation by maintaining its export market and foreign imports.

### **Singapore-China free trade agreement**

The Chinese and Singapore prime ministers took time from the ASEM summit to sign a free trade agreement on Oct. 23. It was China's first such arrangement with an Asian country. Effective in January 2009, the agreement eliminates tariffs on 85 percent of Singapore's exports to China, rising to 95 percent by 2010. All tariffs on Chinese exports to Singapore will be eliminated in 2009.

Official Chinese media used the occasion to inventory the achievements in China-Singapore relations. Bilateral trade was valued at \$47 billion in 2007 and cumulative Singapore investment in China was worth \$33 billion. Singapore donations channeled through Chinese ministries to the Chinese earthquake relief in 2008 were the third largest in the world, following the United Arab Emirates and Saudi Arabia. Big increases in mutual tourism saw 828,000 Singaporean visits to China and more than a million Chinese visits to Singapore in 2006. China has 32,000 students studying in Singapore and 1,500 Singaporeans study in China. There are 200 cultural exchange programs between the countries each year and 2008 marked the Inaugural China-Singapore Defense Policy Dialogue and an agreement for defense exchanges and security cooperation.

## **Vietnam-China Summit**

China and Vietnam outlined new steps to resolve their long-running territorial disputes in the South China Sea during Vietnam Prime Minister Nguyen Tan Dung's Oct. 20-25 visit to China and participation in the ASEM. It was Nguyen's first official visit to China as prime minister. He held talks with his counterpart, Prime Minister Wen Jiabao, and with President Hu Jintao. A joint statement at the end of the talks pledged to strengthen the "comprehensive strategic partnership of cooperation" between the two countries. It went on to promise to find a "basic and lasting" solution to conflicting claims in the South China Sea, which have been the subject of overt disputes and differences over the past year, notably over competing oil exploration and fishing activities (see *Comparative Connections*, Vol. 10, No. 3). Although no detail was offered on how such a resolution might be reached, the two reaffirmed a joint commitment to observe the spirit of the UN Convention on the Law of the Sea and the 2002 Declaration on the Code of Conduct on the South China Sea, under which China and Southeast Asian countries promised to promote local peace and stability after a long series of shootings and other incidents.

Writing in Jamestown Foundation's *China Brief* on Nov. 7, veteran Southeast Asia commentator Michael Richardson saw signs of progress as a result of the meetings in Beijing. Recent Chinese efforts to stop its fishing fleets from fishing near contested territorial waters and big declines in oil and gas prices have reduced the incentive for China and Vietnam to compete for resources in the disputed regions of the South China Sea. Richardson noted that the joint statement pledged consultation to promote joint petroleum exploration and reported that a cooperation pact between Chinese and Vietnamese oil companies was signed during Prime Minister Nguyen's visit.

Richardson also was upbeat about other developments noted during the visit. Chinese and Vietnamese companies will be encouraged to form joint ventures and engage in large-scale projects on infrastructure construction, chemicals, transportation, electricity supply, and home building. The aim of these collaborations along with new road, rail, and shipping connections is to bind the neighboring areas of China and Vietnam closer together. The two pledged to complete demarcation of their land borders by the end of 2008, which was confirmed by both sides on Dec. 31 just hours before the deadline. They also agreed to start joint surveys in disputed waters beyond the mouth of the Beibu Bay (Gulf of Tonkin).

## **China-Myanmar pipelines, China-Laos rail connections**

Official Chinese media and other sources reported in November that construction of long-awaited oil and gas pipelines linking Myanmar and China's Yunnan Province is expected to start in 2009. According to Japan's *Nikkei* newspaper, the project will include a \$1.5 billion oil pipeline and a \$1.04 billion gas pipeline. *China Daily* said that the project will provide "an alternative route for China's crude imports from the Middle East and Africa and ease the country's worries of its overdependence on energy transportation through the Strait of Malacca."

China's Ministry of Railways announced in October a plan with Yunnan Province to invest \$2.98 billion to build the Yuxi-Mohan portion of the proposed China-Laos-Thailand international railway. This portion extends from Yuxi, China, just outside the major southern

Chinese city of Kunming, to Mohan, on the China-Laos border. Negotiations between Thailand and Laos over the southern portion of this railway hinge on plans to build a rail bridge over the Mekong River at the Thai town of Nong Khai. Meanwhile, *Xinhua* reported on Nov. 21 that Laos is planning a 2,500 km national railway project through Laos, connecting the China-Laos border with Thailand, Cambodia, and Vietnam. The new rail lines reportedly will cost \$13 billion and are needed to accommodate industrial mining projects in Laos.

### **Controversy over proposed Chinese aircraft carrier**

Official Chinese media came to the defense of Ministry of Defense Foreign Affairs Office Director Maj. Gen. Qian Lihua, who told the *Financial Times* in November that the world should not be surprised if China builds an aircraft carrier. *China Daily* on Nov. 19 cited Chinese military experts to support Qian's "forthright statement," by recounting China's growing international security tasks that require an aircraft carrier. Western and Asian media reaction to Qian's remarks was generally low keyed and mixed. Singapore's *Straits Times* on Nov. 21 presented a balanced view of criticism and understanding of China's overall naval buildup, including the construction of an aircraft carrier, which it called "the capstone of naval development." The article notably cited senior U.S. Navy commanders who were portrayed as differing regarding the danger posed by China's buildup and the aircraft carrier. On December 23, *Xinhua* reported a comment by the Chinese Defense Ministry spokesman, who said in response to a question that China would seriously consider "relevant issues" in deciding on and building an aircraft carrier. Meanwhile, *Jane's Defense Weekly* reported in October that China is planning to purchase 14 Russian *Su-33* aircraft to train navy pilots for its aircraft carrier program. It said up to 50 of the planes will be purchased later for operational duty.

### **Taiwan's regional relations**

Against the background of Taiwan's moderation and progress in advancing cross-Strait relations, Vice President Vincent Siew on Oct. 11 told an international seminar in Taipei that Taiwan wishes to become a dialogue partner with ASEAN. Reaffirming the recent positions of the Taiwan administration, Siew said that "We are willing to hold talks with China on how the two sides can jointly participate in economic cooperation in Southeast Asia." He noted that Taiwan has close trade and investment ties with Southeast Asian countries and that Taiwan will continue efforts to establish bilateral and multilateral ties with ASEAN and its members. Meanwhile, Taiwan media publicized recent public statements of officials from Singapore, New Zealand, and Australia commending Taiwan for its efforts to alleviate cross-Strait tension and for avoiding competition with China for recognition among the small Pacific Island nations by using the controversial favor-buying measures described as "checkbook diplomacy."

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

The string of published assessments of China's rising influence in Southeast Asia continued this quarter, along with a recent trend to eschew the previously common one-sided and overly positive assessments of Chinese influence and power and overly pessimistic and negative assessments of U.S. influence. What has emerged is an effort at deeper and broader analysis that

more carefully assesses China's strengths and weaknesses along with those of the U.S. and other powers in the region.

The Stanley Foundation's latest report *New Power Dynamics in Southeast Asia* goes beyond past warnings of U.S. losing influence in Southeast Asia as China rises to prominence to provide important nuance and balance. As in the past, the latest report notes that power relationships in the region are increasingly defined in terms of economics and that "this contributes to the impression" often voiced by the foundation in the past "that China, with its spectacular growth, is eclipsing the United States." However, the report immediately adds an important caveat that "The reality suggests a more complicated definition of economic influence." In this regard, it shows the U.S. and Japan playing essential roles in the Southeast Asian economic development and China conflicting with Southeast Asian economic interests in important ways.

A major CSIS study on China's influence in developing countries, *China's Use of Soft Power in Developing Regions*, found that China's substantial advances in Southeast Asia since the 1990s have been among continental countries, which are considered to be of less concern to the U.S. Meanwhile, in maritime Southeast Asia, the focus of U.S. interest, there is little prospect of a Chinese sphere of influence at the expense of the U.S. or other powers. Underlining the strength of the U.S. position in ASEAN, the Singapore ambassador to the U.S. told the study group that trade, investment, and overall interdependence make clear that ASEAN's and Asia's economic success is tied to the United States. Investments by the U.S. in ASEAN and the importance of the U.S. market mean that "no other country, not even China, India, Japan, and South Korea combined, has the capacity to replace the United States."

Writing in *Strategic Asia 2008-2009*, Evelyn Goh bluntly disagreed with assessments that "power in Southeast Asia is shifting away from the United States and toward China." She pointed out that Southeast Asian states prefer a strong U.S. presence and see it as particularly stabilizing as they deal with uncertainties posed by China's rise. She warned that even though Southeast Asia has achieved "encouraging results" by enmeshing China in multilateral arrangements since the 1990s, tougher challenges lie ahead in implementing trade and other agreements. She pointed to negative socio-environmental impacts of Chinese development of the Mekong River region as a broad source of regional concern and an important reason why Southeast Asian governments place importance on the U.S. strategic role in the region. Writing elsewhere in the volume, Elizabeth Economy advised that China's reluctance to limit development schemes concerning the Mekong River that are adverse to downstream countries is prompting rising international concerns about this set of implications from China's rise.

*Pacific Currents*, a major study of the RAND Corporation examining the reaction to the rise of China on the part of U.S. allies and security partners in East Asia and the Pacific found that China's growing involvement and influence has not changed the U.S. position as the "strategic partner of choice" for these nations. The countries concerned are Japan, South Korea, Australia, Thailand, the Philippines, and Singapore. Indeed, these nations' interest in an engaged U.S. has grown in important ways as they have dealt with the implications of rising Chinese prominence.

## Outlook

Year-end trade and investment figures will provide a clearer picture of the impact of the global economic crisis on China and its partners in Southeast Asia. Relations with Southeast Asia probably will remain secondary as China focuses on economic developments at home and abroad and their implications for continuing stability in Chinese Communist Party rule. China-Southeast Asia leaders' contacts may be few. Chinese leaders are likely to stay close to home to monitor domestic events and head off sources of instability. Southeast Asian leaders generally steer clear of Beijing during the cold winter months, which also include China's spring festival holidays when senior Chinese leaders usually are unavailable to meet foreign guests.

### **Chronology of China-Southeast Asia Relations September-December 2008**

**Oct. 1, 2008:** Chen Bingde, chief of the general staff of the PLA, meets senior military representatives from the Brunei Armed Forces, the Laotian People's Army, and the Royal Thai Armed Forces to exchange views on future prospects for military cooperation.

**Oct. 9, 2008:** Minister of Public Security Meng Jianzhu agrees with his Vietnamese counterpart Le Hong Anh that China and Vietnam should strengthen cooperation on public security, law enforcement, and personnel exchanges to tackle such cross-border crimes as abduction, trafficking in women and children, and smuggling of illicit drugs.

**Oct. 13, 2008:** Defense Minister Liang Guanglie and his Singaporean counterpart Teo Chee Hean meet to discuss the role of both militaries in maintaining regional stability and security.

**Oct. 16, 2008:** China and the Association of Southeast Asian Nations (ASEAN) sign a memorandum of understanding to establish more media cooperation.

**Oct. 21, 2008:** Wang Qishan, vice premier of the State Council, meets senior representatives from Cambodia, Myanmar, Vietnam, and Laos at the fifth China-ASEAN Expo and China-ASEAN Business and Investment Summit.

**Oct. 23, 2008:** China and Singapore sign a free trade agreement (FTA) that would reduce tariffs and increase economic, business, and trade activities between the two countries. Both sides will also pursue joint collaboration in custom procedures, quality inspection and quarantine.

**Oct. 24, 2008:** Mao Xiaotian, deputy chief of general staff of the PLA, meets his Vietnamese counterpart Nguyen Van Duoc in Beijing. They agree that the exchange of high-level visits and pragmatic cooperation between the two militaries are improving overall bilateral ties.

**Oct. 25, 2008:** Chinese and Vietnamese leaders sign a joint statement reaffirming that the two countries will complete the demarcation of their land border before the end of this year. They also agree on a joint survey in Beibu Bay and that they "gradually advance the negotiations on demarcation of these maritime zones and will jointly exploit the zones."

**Oct. 24-25, 2008:** China hosts the 7th Asia-Europe Meeting (ASEM) Summit in Beijing.

**Oct. 27, 2008:** Gen. Zhang Li, vice chief of staff of the PLA, visits Myanmar and meets Gen. Than Shwe, chairman of the Myanmar State Peace and Development Council. They hold discussions on increasing the level of cooperation between the two armed forces.

**Oct. 29, 2008:** Zhou Yongkang, member of the Standing Committee of the CPC Central Committee Political Bureau and secretary of the Central Commission on Politics and Law, visits Vietnam and meets Prime Minister Nguyen Tan Dung in Hanoi. They agree to deepen and broaden bilateral political, economic, and military cooperation.

**Nov. 4, 2008:** Minister of Public Security Meng Jianzhu meets Cambodian Deputy Prime Minister and Minister of Interior Sar Kheng to discuss the prospects for curbing transnational crimes and illegal immigration and strengthening bilateral cooperation in combating illicit drug smuggling, repatriating criminal suspects, and law enforcement training.

**Nov. 4-9, 2008:** Zhou Yongkang visits Indonesia and meets Vice President Yusuf Kalla. They agree to improve bilateral cooperation and to increase the number of high-level exchanges. Following his visit to Indonesia, Zhou visits Brunei to meet the Foreign and Trade Minister Prince Mohamed Bolkiah.

**Nov. 5, 2008:** The Chinese ship *Zhenghe* arrives at Sihanoukville Port to begin its official nine-day visit. This marks the first time a Chinese military ship has docked in Cambodia.

**Nov. 15, 2008:** At the 5<sup>th</sup> meeting of the China-ASEAN Prosecutors General Conference, the Chinese delegation agrees to create a legal mechanism to combat regional trans-border crimes. The multilateral and bilateral legal agreements will facilitate investigation, apprehension, prosecution, and extradition of criminals, exchange of witnesses, sharing of evidence, seizure and forfeiture of the proceeds of crime.

**Nov. 19, 2008:** According to a report by *AFP*, China has revived plans to build an oil and gas line across Myanmar to reduce its dependence on the Strait of Malacca for energy transportation. Construction of the pipeline is expected to begin in the first half of 2009. Investment in the pipeline project is reported at \$2.5 billion, with China National Petroleum Corp (CNPC) holding a 50.9-percent stake and managing the project. The remaining shares will be held by Myanmar Oil and Gas Enterprise.

**Nov. 19, 2008:** Central Bank Gov. Zhou Xiaochuan meets his Vietnamese counterpart Nguyen Van Giau in Beijing to discuss the current global financial crisis and how developing countries could take joint action to mitigate its impacts.

**Nov. 22, 2008:** China announces its interest in participating in the third ASEAN Defense Ministers' Meeting (ADMM) in Thailand in March 2009. China, India, and Japan have all submitted formal requests to be new members of the ADMM.

**Nov. 27, 2008:** The Chinese Foreign Ministry expresses concern over the anti-government protest in Bangkok. Qin Gang, the ministry spokesperson, says it would like to see national stability, social harmony, and economic growth restored in Thailand as soon as possible.

**Nov. 29, 2008:** Chen Bingde, chief of the general staff of the PLA, meets Shwe Mann, member of Myanmar's State Peace and Development Council in Beijing. They discuss ways the two armed forces can work together more closely. Liang Guanglie, state councilor and minister of national defense, meets Mann on Dec. 1.

**Nov. 30, 2008:** The first Chinese flight chartered by the government to bring back Chinese tourists stranded at Bangkok's international airport arrives in Shanghai. The government estimates that nearly 3,000 Chinese tourists are affected by the closure of the airport owing to the anti-government protests in Bangkok.

**Dec. 1, 2008:** Jia Qinglin, chairman of the National Committee of the Chinese People's Consultative Conference, arrives in Vientiane for an official visit to Laos. He later visits Jordan, Turkey, and Cambodia.

**Dec. 2-5, 2008:** Foreign Minister Yang Jiechi makes an official visit to Nepal and Myanmar at the invitation of his counterparts in both countries. Yang reiterates that China will continue to support the reconciliation process in Myanmar as well as the continued dialogue involving ASEAN, the UN, and the leadership in Myanmar.

**Dec. 3, 2008:** A delegation of the National People's Congress (NPC) led by Standing Committee member Chen Zhili leaves for South Korea, Vietnam, Laos, and Cambodia to meet with the national congresses of each of these countries.

**Dec. 3, 2008:** *AFP* reports that China will provide Cambodia with more than \$200 million in loans and grants to rebuild Cambodia's infrastructure. The deal was reportedly signed during Jia Qinglin's visit to Cambodia. Jia also reportedly announced a grant of \$7.26 million offered as a no-interest loan.

**Dec. 16, 2008:** The Chinese Foreign Ministry sends an official message of congratulations to Thailand's newly elected Prime Minister Abhisit Vejjajiva.

**Dec. 16, 2008:** The Asia-Pacific Space Cooperation Organization (APSCO), which is headquartered in Beijing, formally begins its operations. The organization is composed of seven member states including Bangladesh, China, Iran, Mongolia, Pakistan, Peru, and Thailand. The organization seeks to enhance multilateral cooperation on space science and technology.

**Dec. 20-30, 2008:** Chinese Vice Premier Li Keqiang pays official visits to Indonesia, Egypt, and Kuwait. While in Indonesia, Li meets his counterpart Vice President Yusuf Kalla to discuss prospects for strengthening the strategic partnership.

**Dec. 31, 2008:** China and Vietnam announce the completion of their land border demarcation project just hours before the midnight deadline.