

Comparative Connections

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China-Southeast Asia Relations:

Beijing Shifts to the Positive, Downplays Disputes

**Robert Sutter, George Washington University
Chin-hao Huang, University of Southern California**

Chinese policy and behavior toward Southeast Asian countries shifted with positive initiatives announced in carefully orchestrated moves during meetings in China and visits to the region in September and October. Beijing muted its tough stance on disputes in the South China Sea seen since early 2012 and curbed recent publicity regarding Chinese resolve to advance control in disputed maritime territory. However, there has been little evidence of substantive change in Chinese positions or ambitions. China muffled polemics with the Philippines, but strained Sino-Philippines relations seemed to explain China's initially meager response to calls for assistance in response to the Typhoon *Haiyan* that tore through the Philippines in mid-November. After several days of strongly negative international media commentary, Beijing began to provide more assistance, eventually sending a large hospital ship. Meanwhile, Beijing's establishment of an ADIZ in the East China Sea raised angst about China taking similar action in Southeast Asia. The widely publicized deployment of China's aircraft carrier to the South China Sea in late November for several weeks prompted commentary suspicious of Chinese intentions.

Xi, Li stress the positive in relations with Southeast Asia

President Xi Jinping and Prime Minister Li Keqiang signaled strong Chinese interest in advancing relations and muting differences, notably over the South China Sea. Their speeches, interviews, and other interactions with Southeast Asian counterparts during September and October stressed new agreements of mutual benefit. They were reinforced by fulsome optimistic treatments of Chinese-Southeast Asian relations not seen in Chinese media coverage of the region for many years.

Chinese leaders and commentary during 2012 and up to September 2013 had duly affirmed Chinese interest in constructive relations, but they also had given high priority to publicly emphasizing China's determination to advance control of contested territory and related resources and rights in the South China Sea, despite international criticism. In this vein, strong official attention was devoted to demonstrations of the growing capabilities of military and paramilitary forces in the South China Sea, advances in Chinese exploitation of fishing and oil resource rights, strengthening administrative control around contested islands, and harsh public criticism of regional and other leaders whenever they questioned Chinese practices or contested Chinese claims. China also went to extraordinary lengths to lobby and exert influence to keep South China Sea and other maritime disputes off the agenda of ASEAN meetings and meetings like the East Asian Summit where ASEAN served as convener.

Beginning in September 2013, the Chinese muted emphasis on the divisive disputes and stressed new or strengthened frameworks for advancing economic, diplomatic, and security relations. China also reacted in more measured fashion than before to the raising of South China Sea issues by others during the 2013 ASEAN and East Asian Summit meetings. Xi Jinping also seemed to moderate Chinese reservations over the US-backed Trans-Pacific Partnership (TPP) regional trade agreement when he told APEC economic leaders in Bali that China is open to all trade arrangements so long as they are inclusive. Xi's moderation was echoed by Chinese officials and media. While there was no sign that China was prepared to compromise on South China Sea disputes, the positive Chinese initiatives were broadly welcomed by most Southeast Asian leaders amid reported doubts about US interest in the region following the cancellation of President Barack Obama's visit there in October. The careful orchestration of the Chinese initiatives obviously pre-dated Obama's decision not to attend the Asian meetings and Chinese officials made little reference to his absence.

It later became clear that China's turn in Southeast Asia was part of broader evaluation of China's policies toward the countries and organizations along its periphery. A secret two-day meeting on this subject in late October – the first such meeting known to specialists – was attended by all seven members of the Chinese Communist Party Standing Committee. After the meeting closed, *Xinhua* reported on a speech delivered by Xi Jinping, though the contents and deliberations of the meeting remained unavailable. Subsequent official media noted the problems China faced along its eastern periphery, suggesting that the new tack toward Southeast Asia is designed to ease the problems in that area without compromising Chinese territorial claims.

China's constructive agenda

Chinese leaders managed the roll out of their new agenda for advancing relations with Southeast Asia in distinct stages. Major benchmarks came with presentations by Premier Li and President Xi in regional multilateral forums that were supported by progress the leaders made in strengthening bilateral relations with regional leaders. The overall effect was to keep the media spotlight on China's constructive approach in the region throughout September and October. The substance of the agenda involved familiar themes of closer economic, social, diplomatic, and security ties.

Li Keqiang at China-ASEAN Expo

In his Sept. 3 keynote speech to the 10th China-ASEAN Expo meeting in Nanning China, Li characterized the past 10 years of relations as a “golden decade” and forecast a “diamond decade” for the period ahead. His proposals centered on: (1) an upgrade of the existing China-ASEAN Free Trade Agreement (CAFTA); (2) greater interconnectivity between China and Southeast Asian states through road, rail, water, air, telecommunication, and energy connections. He also stressed the need for more Chinese loans to assist in developing these connections and the standardization of information exchanges, customs clearance procedures, and other means to ease cross border interchange; (3) expansion of the Chiang Mai Initiative and various swap arrangements to shore up troubled currencies in emergencies; (4) enhanced China-Southeast Asian cooperation over such maritime issues as safety, search and rescue, and environmental

management; and (5) China's provision of government scholarships to as many as 15,000 Southeast Asian students in the next three to five years.

The next day, a Chinese minister announced a series of measures to advance Chinese-ASEAN science and technology cooperation. They involved establishing joint China-ASEAN research laboratories, providing Southeast Asian countries with access to data from China's emerging global satellite remote sensing system, establishing a China-ASEAN technology transfer center, and encouraging Southeast Asian scientists to work in Chinese universities or other high technology institutions.

China's low-keyed treatment of the South China Sea disputes during this period included reportage of the sixth Senior Officials meeting and the 9th Joint Working Group on the Implementation of the 2002 Declaration of Conduct (DoC) in mid-September in Suzhou, China. Consultations were held there on a proposed code of conduct (CoC) on the South China Sea within the framework of implementing the DoC. Chinese commentary took aim against countries that were seen to "hype" the urgency of reaching a code of conduct, arguing that China and ASEAN are determined to ignore such "distractions."

Xi Jinping in Indonesia, Malaysia, and Bali (for APEC)

Xi Jinping began his Southeast Asian trip with a visit to Indonesia where he was invited to speak to the Parliament on Oct. 3. He emphasized the creation of a "maritime silk road" to strengthen commercial and other ties between China and countries along the coast of Southeast Asia. Xi built on Li's emphasis regarding infrastructure to connect China and Southeast Asia by saying that China would contribute to a proposed Asian Investment Bank to support the construction of such infrastructure. Xi and Indonesian leaders announced a five-year forecast for growing trade relations. Business deals valued at \$28 billion were signed. Trade was valued at \$66 billion in 2012 and China is Indonesia's second largest trading partner. Investment was valued at \$2 billion, and 850,000 Chinese visited Indonesia in 2012. Chinese and Indonesia leaders characterized the overall relationship as a "comprehensive strategic partnership."

Visiting Malaysia Oct. 3-5, Xi signed another five-year trade forecast and similarly advanced Sino-Malaysian relations to the status of "comprehensive strategic partnership." Trade was valued at \$95.7 billion in 2012 and was projected to top \$160 billion in 2017. Malaysia has been China's largest trading partner in Southeast Asia for several years. In 2012, Malaysia invested \$6.3 billion in China while China invested less than \$1 billion in Malaysia.

At the APEC Leaders Meeting in Bali on Oct. 7, Xi took pains to reassure his colleagues of China's economic vitality while other Chinese commentary warned against the adverse effect of US quantitative easing and other monetary policies that were described as destabilizing and disadvantageous to developing countries. Perhaps looking to China's hosting APEC in 2014, Xi was at pains to stress the centrality of the organization in regional trade liberalization. Meanwhile, a Chinese Foreign Ministry spokeswoman reacted critically to a declaration by the foreign ministers of the US, Japan, and Australia on the sidelines of the APEC meeting opposing coercive or unilateral actions for the purpose of changing the status quo in the East China Sea and destabilizing relations in the South China Sea.

Li Keqiang in Brunei (ASEAN meetings and EAS), Thailand, and Vietnam

At the start of his mid-October trip to Southeast Asia, Li Keqiang gave a lengthy interview where he expanded on his Sept. 3 speech to advance new elements in China-ASEAN relations. This included strengthening security ties and cultural ties, which he had not emphasized in his September speech. While at the China-ASEAN meeting in Brunei on Oct. 9, Li proposed a China-ASEAN treaty on good neighborliness, friendship and cooperation. Supporting Chinese commentary characterized the proposal as a way to reduce regional concerns with China's rise and to legally commit all sides to peaceful coexistence. Some Chinese commentary also portrayed the treaty as a good way to counter the US rebalancing initiatives in the region. Li reacted with measured rhetoric to issues involving the South China Sea raised by a number of countries represented at the East Asian Summit in Brunei on Oct. 10, countering the arguments of Philippine, Japanese and, US leaders who were among those pushing for faster progress on a code of conduct.

In official meetings with Brunei leaders, Li highlighted a joint venture involving companies from each side to engage in oil exploration. He also reaffirmed the preference for dealing with South China Sea disputes through negotiations. In Thailand, Li spoke to the Thai Parliament, witnessed various trade deals, proposed a bank for carrying out transactions in Chinese currency in Thailand, and discussed visa waivers between the two countries. China is the largest source of foreign tourists visiting Thailand. Moving to Vietnam, Li's visit was portrayed positively in Chinese commentary, with little reference to South China Sea frictions. Bilateral trade was slated to grow to \$60 billion in 2015 and \$100 billion in 2017.

China-Philippines relations

Frictions between China and the Philippines were evident in early September as details emerged over President Benigno Aquino's aborted visit to the China-ASEAN Expo in Nanning, China. Philippine officials reported that since their country was this year's "country of honor" at the Expo, it was customary for the head of state to attend the Expo. Accordingly, President Aquino announced on Aug. 28 that he would make a 12-hour visit to the Expo on Sept. 3, but Philippines officials announced the next day that the visit was cancelled at Beijing's request. Subsequently, the Chinese Foreign Ministry told the media that Aquino had not been invited. On Sept. 2, Philippines officials said that China had demanded that the Philippines withdraw its arbitration case before a UN tribunal challenging China's South China Sea claims as a precondition for Aquino's visit to China. Manila refused.

Things got worse in November when China's initial donation of \$100,000 in financial assistance to the Philippines after Typhoon Haiyan met with scathing critiques in international media, questioning China's readiness for international leadership and responsibility. Against that background, though without reference to the foreign critiques, Beijing on Nov. 14 said it would donate \$1.6 million in relief supplies, and on Nov. 17 said it was ready to send rescue and medical teams; teams departed Nov. 20. Official media explained the belated uptick in assistance with the observation in a report Nov. 21 by an official who said "Originally the Chinese government had no idea that it would be such a catastrophe." That day, the modern hospital ship

Peace Ark left China for the Philippines, arriving in the disaster area Nov. 23; it began relief efforts that received full coverage in Chinese media as reflecting the friendship between the Chinese and Filipino people.

Air defense zone; *Liaoning* deployment

In early December, China's ambassador in Manila added to regional angst about China possibly establishing an air defense identification zone over the South China Sea similar to its zone over the East China Sea. She responded to local media querying about a possible zone in the South China Sea by saying that it was "within China's right as to where and when to set up a new air identification zone." The media queries followed the announcement by the Chinese defense spokesman in explaining the new zone on Nov. 23 that "China will establish other air defense zones at the right time after necessary preparations are completed." Australia joined the US, Japan, and South Korea in strongly protesting the Chinese move. The Australian government summoned the Chinese ambassador to complain. In response, China's Foreign Ministry spokesman publicly criticized Australia's action. Subsequently, the Foreign Ministry called in the Australian embassy representative to complain about public remarks by Australian Foreign Minister Julie Bishop on the issue. Among commentary viewing the deployment of the aircraft carrier *Liaoning* and its extended stay for exercises in the South China Sea with suspicion was an assessment in the *RSIS Commentaries* published by Singapore's Nanyang Technological University describing the deployment as a show of force emblematic of the "gun boat diplomacy" of Asia's past.

Pacific Islands Forum

During the second China-Pacific Islands Countries Economic and Cooperation Forum held on Nov. 8 in Guangzhou, Vice Premier Wang Yang announced a \$1 billion increase in low-interest Chinese loans to be provided over the next four years to eight Pacific Island nations having official relations with China. Also announced were elimination of Chinese tariffs on most Pacific Island exports to China and 2,000 scholarships for the training of technicians in China. Chinese media reviewed advances in relations with the countries since the first economic and cooperation forum that took place in Fiji in 2006. That meeting also saw a substantial commitment of concessional finance to Pacific Island countries valued at \$492 billion and promises of trade benefits and technical training. At present, 150 Chinese companies have invested about \$1 billion dollars in the countries. The value of Chinese projects in the countries is \$5.12 billion and 3,600 government officials and technicians have received training in China.

Chinese support is widely welcomed among the Pacific Island governments, but as in the case of other large-scale Chinese financing of infrastructure elsewhere among poor states with limited governance capacities, analysts see a variety of shortcomings. Australian analyst Matthew Dornan and colleagues posted in the *East Asian Forum* an assessment outlining the growing negative implications of the Chinese loans. The loans come mainly from the Export-Import Bank of China and tend to be used in ways that reflect the wishes of Pacific Island rulers. They are sometimes used for palaces and other vanity projects providing little support for economic development, and they do not consider ongoing costs related to operation and maintenance, resulting in rapid deterioration of some recently constructed infrastructure. Tonga has used

Chinese loans for infrastructure to expand the Royal Palace; it now finds that Chinese Ex-Im Bank loans account for 64 percent of its external debt, which is 39 percent of its GDP. Options for dealing with such growing debt burdens resulting from Chinese practices include Chinese debt relief, provisions for the costs of operation and maintenance, and more caution in governing how the Chinese financing will be spent – options that China has not adopted up to this point. Given the growing debt burdens and other constraints posed by the limited capacity of the Pacific Island governments to manage and use the \$1 billion in promised Chinese financing, the authors averred that much of the promised monies may not be lent.

Chronology of China-Southeast Asia Relations September – December 2013

Sept. 3, 2013: Philippines accuses China of constructing concrete structures within its territory in the Scarborough Shoal (Philippines: Panatag Shoal; Chinese: Huangyan Island).

Sept. 3-6, 2013: Tenth China-ASEAN Expo convenes in Nanning, China. The annual event features exhibitions from companies in the region to promote business, trade, and economic activities between China and ASEAN member states.

Sept. 14-15, 2013: China and ASEAN hold Sixth Senior Officials Meeting on Implementation of the Declaration on the Conduct of Parties in the South China Sea and discuss establishment of a formal code of conduct.

Sept. 26-30, 2013: Lao President Choummaly Sayasone visits China and meets President Xi Jinping. They agree to expand bilateral trade, infrastructure development, educational and cultural exchanges, and defense cooperation.

Sept. 26, 2013: China and Vietnam agree to conduct joint research on marine life near the Gulf of Tonkin. The agreement is part of the outcome of the fourth round of bilateral negotiations on maritime cooperation in the South China Sea.

Oct. 2-6 2013: President Xi Jinping visits Indonesia and Malaysia and takes part in the 21st APEC Economic Leaders Meeting in Bali. With his Indonesian and Malaysian counterparts, Xi agrees to advance the status of both sets of bilateral relations to a “comprehensive strategic partnership,” with emphasis on advancing trade, business, and economic relations.

Oct. 9-15, 2013: Chinese Premier Li Keqiang visits Brunei to attend the 16th China-ASEAN Summit, the ASEAN Plus Three Summit, and the 8th East Asia Summit. He also visits to Thailand and Vietnam.

Oct. 16, 2013: Fan Changlong, vice chair of China’s Central Military Commission, meets senior military officials from Myanmar. They agree to ensure security and stability along the Sino-Myanmar border.

Oct. 16-19, 2013: ASEAN Secretary General Le Luong Minh visits China and meets Foreign Minister Wang Yi.

Oct. 20, 2013: China National Petroleum Company announces the China-Myanmar gas pipeline is complete and in full operation. The pipeline will carry nearly 12 billion cubic meters of natural gas to southwest China.

Oct. 22, 2013: Tenth China-Singapore Joint Council for Bilateral Cooperation convenes in Singapore and agrees to increase cooperation in the financial sector, promote cultural and people-to-people exchanges, and expand bilateral trade and investment. The two sides also agree to launch direct foreign exchange trade between their currencies in the interbank market and to expand the channel for the flow of Renminbi capital between China and Singapore.

Oct. 29-30, 2013: Malaysian Defense Minister Hishammuddin Hussein visits China and meets Defense Minister Chang Wanquan. They vow to increase military ties.

Nov. 5-11, 2013: Chinese and Indonesian airborne troops carry out a joint counterterrorism exercise, *Sharp Knife Airborne 2013*, in Bandung, Indonesia. The exercise involves around 200 paratroopers and includes live-fire exercises, air landing, hand-to-hand combat, shooting, obstacle-crossing, and search and rescue operations.

Nov. 17, 2013: China and Myanmar's opposition party, the National League for Democracy (NLD), expand ties with the visit of a senior NLD delegation to Beijing, Shanghai, and Yunnan. The visit is the fourth official NLD visit to China to deepen party-to-party relations.

Nov. 26-Dec. 31, 2013: Chinese aircraft carrier *Liaoning* accompanied by several escort ships conducts sea trials in the South China Sea.

Nov. 23, 2013: China's naval hospital ship, *Peace Ark*, arrives in the Philippines to provide medical aid and relief to victims affected by the typhoon in the country.

Dec. 1, 2013: Chinese Ambassador to the Philippines Ma Keqing comments that Beijing has the right to decide "when and where to set up the new air identification zone," sparking regional concerns that China may set up a similar zone over the South China Sea, as it had done in the East China Sea.

Dec. 8-21, 2013: Chinese and Thai Special Forces carry out a joint counterterrorism training exercise. The exercise, code named *Strike 2013*, is the fourth time the two armed forces have carried out such joint training aimed to increase bilateral defense and security ties.

Dec. 10-11, 2013: Senior officials from China, Cambodia, Laos, Myanmar, Thailand and Vietnam attend the 19th Greater Mekong Subregion Ministerial Conference and agree on the Regional Investment Framework to help spur business, trade, and economic ties, increase infrastructural development, and greater regional connectivity via transportation linkages.