

## China-Southeast Asia Relations: Gains for Beijing in an Otherwise Gloomy Quarter

by Lyall Breckon  
Senior Analyst, Center for Naval Analyses

Confronted with rapid and largely uncomfortable shifts in the security environment around China's entire perimeter – the war in Afghanistan, U.S. military forces in Central Asia, new levels of military cooperation between the United States and both Pakistan and India, Moscow's turn toward Washington, and Japan's removal of some restrictions on use of its military forces – Beijing must regard Southeast Asia as the one arena in which it made some gains during the quarter.

China intensified efforts to strengthen economic and political relations with all its Southeast Asian neighbors. With high-level attention, and approaches tailored to the sensitivities of individual countries, it consolidated a close relationship with Myanmar, laid the groundwork for improved cooperation with Indonesia and the Philippines, and set much of the agenda for the ASEAN Plus Three summit in Brunei in November, where it won approval in principle for an ASEAN-China free trade area (FTA). With its customary practice of establishing principles first in bilateral relations, China signed some 23 formal agreements with Southeast Asian governments during the quarter.

Many of the goals of China's forward-leaning regional diplomacy are not inconsistent with U.S. interests, including increased intra-regional trade and investment, stability in energy relationships, and developing industrial infrastructure. Concerns center on whether growing interdependency in such areas binds China in an open, constructive regional system – as the Southeast Asians hope – or provides increased political leverage that Beijing can use to try to dominate its neighbors and weaken the U.S. role in Asia.

### **The Brunei ASEAN Plus Three Summit**

Trade and investment issues were the focus of the ASEAN summit meeting with China, Japan, and the ROK Nov. 5-6, which immediately followed ASEAN's own meeting of heads of government. Most of the ASEAN economies are performing sluggishly or are in recession with trade figures down and slackening consumer demand in the U.S. generating pessimistic forecasts for 2002. ASEAN states see China, with a claimed growth rate of 7 percent, as both a threat and an opportunity.

The threat comes from competition for investment: the formerly high-flying Southeast Asian economies used to win 80 percent of the region's foreign direct investment. Now China is receiving that 80 percent, and many of its neighbors fear they have become non-competitive in the world market.

The opportunity China presents, as seen by some Southeast Asian leaders, is a vast export market and a potential source of new investment in sectors where China and Southeast Asian economies are complementary. The FTA was first raised by Chinese Premier Zhu Rongji a year ago. It promised to remove tariffs for the ASEAN states altogether in the region's fastest growing market.

It is not clear, however, that the ASEAN countries will actually gain from an FTA with China. China's labor costs are lower than those in almost all the Southeast Asian economies, and it will probably be reluctant to export capital that it needs at home to create jobs for its own expanding workforce. Prior to the November summit, Malaysia, Indonesia, and Vietnam all expressed reservations about an FTA with China, fearing that Chinese products would swamp their own industries. Philippine President Gloria Macapagal-Arroyo noted that the ASEAN-China FTA idea would have to be studied carefully. Singapore was the most aggressive in pushing for agreement and was supported by Thailand.

In any event, China's FTA proposal won ASEAN's endorsement in principle Nov. 6 with a proviso that ASEAN's least developed members – Laos, Cambodia, and Myanmar – should receive preferential treatment. ASEAN leaders agreed that officials would study the concept over the next year with the goal of making a final decision at the ASEAN Plus Three summit in Cambodia in late 2002.

At the same time, the summit deferred consideration of a broader South Korean initiative to include Japan and the ROK in an East Asian FTA. China argued against a region-wide FTA on grounds that Japan and the ROK would not agree to lift protective tariffs against agricultural imports from Southeast Asia.

Also at the summit, China expressed willingness to accede to the ASEAN Treaty of Amity and Cooperation and reiterated that it would sign the Southeast Asia Nuclear Weapon Free Zone protocol. Both are symbolically important to ASEAN. (The United States and several other nuclear weapon states still have differences with the nuclear free zone.) Zhu made no promise, however, to meet ASEAN's hope China would sign a Code of Conduct in the South China Sea, limiting his commitment to "dialogue and consultations."

China's goals at the summit, and more generally in its regional diplomacy, could be read in PRC Vice Foreign Minister Wang Yi's assessment of the results: "Southeast Asian countries' increased trust in China and the notable rise of China's influence and position."

## **China and Indonesia: Shared interests**

Chinese leaders clearly sensed an opportunity to broaden relations with Indonesia under Indonesian President Megawati Sukarnoputri. President Jiang set the tone in a meeting with Megawati on the margins of the Shanghai APEC Leaders' Meeting in October by frankly expressing the hope that Megawati would follow the precedent of her father, former President Sukarno, in developing relations with China.

Premier Zhu followed up with a state visit to Indonesia Nov. 7-11. Interests of both parties were served during Zhu's visit. Megawati's government received uncritical endorsement of its efforts to grapple with its grave internal difficulties, including separatist movements in Aceh and Irian Jaya, widespread religious and ethnic strife, and economic stagnation. On a practical level, Indonesia was looking for export opportunities and investment from China. For its part, China doubtless wanted to boost its influence in ASEAN through increased cooperation with the association's once and future leading member. China also sought to further the normalization process begun in 1990 by gaining permission to open banking facilities in Jakarta. Faced with growing energy needs as its economy expands, China is looking for sources of natural gas within the region, while Indonesia is developing large gas fields and is looking for customers.

China and Indonesia signed six agreements on a range of issues during Zhu's visit. One, covering a Chinese grant for economic and technical assistance, demonstrated Beijing's ability to foster its image as an aid donor with relatively small amounts of money – in this case \$5.7 million. Agreement was also reached on reopening the Bank of China office that was closed in 1967, on encouraging tourist travel from China to Indonesia, and on double taxation and cooperation in agriculture. The tone of the visit was markedly more cordial than contacts with China under Suharto. In public appearances Megawati made a point of dropping the customary, but somewhat derogatory, Indonesian language term for China, in favor of a straight transliteration of the Mandarin Chinese name. In addition to his official meetings, Zhu met with leading ethnic Chinese businessmen and community leaders and presided with Megawati at the founding of a China-ASEAN Board of Commerce in Jakarta.

Following Zhu's visit, in December Megawati sent a team to Beijing headed by her husband, Taufik Keimas, to lobby, among other things, for Indonesia's bid to sell Guangdong Province 3 millions tons of liquefied natural gas (LNG) per year from BP's Tangguh field in Papua Province (formerly Irian Jaya).

## **China and the Philippines: Progress on Economic Issues, None on Island Claims**

Philippine President Gloria Macapagal-Arroyo's state visit to China Oct. 28-30 was aimed at expanding Philippine exports to China, encouraging investment from China in Philippine enterprises, and gaining China's cooperation in fighting transnational crime, in particular narcotics trafficking. She also pushed for China's agreement to sign a multilateral Code of Conduct for the South China Sea – or at minimum, to make a firmer

commitment from Beijing not to use force or expand its military presence in the Spratly Islands that both countries claim.

Total trade between the two countries reached \$3.1 billion in 2000, up 37 percent from the preceding year, but headed sharply downward in 2001. China wants increased access to infrastructure projects in the Philippines, arguing that it is able to build quality facilities, e.g., railroads, at low cost. The Philippines seeks to increase exports to China, mainly in agricultural, marine products, minerals, and service sectors. Both sides expressed the hope that cross-investment between the two countries would increase. Macapagal-Arroyo and PRC President Jiang Zemin witnessed the signing of three bilateral agreements to counter terrorism and organized crime, including an extradition treaty and an agreement on intelligence exchange. Twelve business deals were signed between Philippine entrepreneurs and representatives of Chinese enterprises during the visit.

There was no progress on territorial issues in the South China Sea, however. The day before Macapagal-Arroyo departed Manila, the Philippine Air Force announced it had discovered four Chinese Navy vessels at Mischief Reef, the most sensitive territorial issue for Manila. Chinese leaders avoided any commitment to sign a multilateral Code of Conduct, agreeing only that sovereignty issues should be settled “under international standards and regional consensus.” China offered, and Macapagal-Arroyo agreed, to seek joint development projects in the disputed area, such as marine preservation and environmental protection. Bilateral joint development is a potential trap for the ASEAN claimants, however. A Philippine-China project that excluded other claimants, most importantly Vietnam – whose claims cover most of the islands that Beijing and Manila also claim – would create divisions within ASEAN that could only benefit China.

### **China and Myanmar: Old Friends Refurbish Ties**

Visiting Myanmar Dec. 12-15, President Jiang Zemin met a warm welcome from a government with many friends. No relationship is firmer than that of Myanmar and China, although Jiang’s visit was probably made in part to bolster this pre-eminence. Myanmar has had some recent success in diversifying its international contacts, in particular with India, which believes China wants to gain military access through Myanmar to the Indian Ocean area. Yangon has reportedly expressed dissatisfaction with the quality of the military equipment provided by China and is seeking new hardware from Russia and other suppliers. Sources say Russia is also helping establish a nuclear power plant in central Myanmar.

Setting the tone, Jiang observed at the outset of his visit that China-Myanmar friendship “is a beautiful flower, carefully nurtured” by generations of leaders on both sides. In his meeting with Tan Shwe, chairman of the State Peace and Development Council, Jiang said the two countries have a deep brotherly relationship. In an oblique reference to the junta’s suppression of Nobel Prize winner Aung San Suu Kyi and her party, Jiang told the leader of Myanmar’s military government that “the world is colorful and every country is entitled to choose a development path suited to its own conditions.”

Seven agreements were signed during the visit. The most important dealt with border control. China has been increasingly concerned about the flow of narcotics from Myanmar into its southern region, as cross-border trade from Yunnan has burgeoned since Beijing encouraged it a decade ago. Other agreements covered border control, economic and technical cooperation, plant and animal quarantine, fisheries, and oil and gas exploration. Jiang promised to encourage greater Chinese investment in Myanmar, which now totals only about \$30 million, and reportedly offered a total package of aid and investment of \$100 million. As in other Southeast Asian countries, China argued for more extensive use of Chinese firms in building local infrastructure. Details were not made clear about China's assistance in developing modern road connections from Yunnan through Myanmar to the coast, but reports of this project are credible in light of China's interest in creating a new route for its exports.

### **China and Vietnam: Party Secretary Visit Makes No Progress on Spratlys/Paracels**

Nong Duc Manh, general secretary of the Communist Party of Vietnam, was in Beijing Nov. 30-Dec. 4 on his first visit since taking over the party leadership. Jiang commended Manh's execution of earlier agreements to develop bilateral relations. Their joint statement was short on concrete actions but reported that the two countries had signed agreements on soft loans and economic cooperation. China will provide \$40.5 million for a copper mining project and \$3.6 million in other grant aid. Both sides promised not to use force in the South China Sea and – pending settlement of their overlapping island claims – to cooperate in weather forecasting, response to natural disasters, and environmental protection in the sea (issues similar to those agreed to with President Macapagal-Arroyo in October).

At the eighth round of China-Vietnam border talks in Hanoi Nov. 14-15, the parties agreed on delineation of disputed areas of the land border, where differences have already been reconciled in principle, and discussed differences over their maritime borders. The first tablet on the land border, between Mong Cai and Dongxing, was ceremonially emplaced Dec. 27, and the two governments declared that they would complete planting 1,600 markers within three years. An experts' meeting on the much more difficult problem of sea boundaries was held in Beijing Dec. 17-18, but no progress was reported. China and Vietnam have signed an agreement on demarcation of the border in the Tonkin (Beibu) Gulf, but the thorniest issues are further out in the South China Sea, including the contested Spratly and Paracel Island groups.

In a move preceding the latest round of border talks, obviously intended to bolster its claims in the Spratlys, Hanoi announced Oct. 2 that it had discovered 18<sup>th</sup> century temples and tombs in the Spratlys and Paracels that prove that the islands belong to Vietnam. A Spratlys/Paracel historic site on an island off Quang Ngai province will be constructed to preserve "relics and heritages" from the generations of Vietnamese who – according to Hanoi – owned, developed, and controlled the two archipelagos for centuries.

## **Policy Implications**

From the standpoint of U.S. regional policy, China's forward leaning diplomacy among the ASEAN countries bears watching. It is not necessarily, or in every case, negative for the United States. Economic interdependence is a corollary of globalization and cuts both ways. If China becomes more dependent on energy supplies from Southeast Asia, its interest in regional stability increases. On the other hand, if Indonesia is locked into long-term supply relationships with China, it could become vulnerable to pressure from Beijing.

On issues important to the U.S., including military transit and access through Southeast Asia, China may try to use this pressure to curtail cooperation. It would meet resistance from governments that rely on a capable U.S. forward presence to ensure that no power, including China, makes Southeast Asia its fiefdom. This resistance will be strengthened if the United States takes the long view and maintains robust relations with all its ASEAN friends, including those that are less immediately relevant to the war on global terrorism.

## **Chronology of China-Southeast Asia Relations October-December 2001**

**Oct. 13-16, 2001:** Vietnamese Deputy Prime Minister Nguyen Cong Tan and a delegation including officials and entrepreneurs visit China's Hainan Province. Vietnam is now Hainan's fifth largest trading partner.

**Oct. 17, 2001:** *Xinhua* reports that Vietnam Airlines will open new routes from Beijing to Saigon and from Kunming to Hanoi in response to growing tourist traffic between the two countries.

**Oct. 19-22, 2001:** President Jiang Zemin meets with Singapore Prime Minister Goh Chok Tong, Malaysian Prime Minister Mahathir Mohamad, and Indonesian President Megawati Sukarnoputri in Shanghai on the sidelines of the APEC Leaders' Meeting.

**Oct. 20, 2001:** Abu Sayyaf guerrillas release Chinese national Zhang Zhongyi, who was kidnapped with three compatriots Aug. 12.

**Oct. 25, 2001:** A delegation of the Lao People's Revolutionary Party led by Bouasone Bouphavanh, member of the Political Bureau of the Central Committee and director of the party's General Office, meets with Zeng Qinghong, alternate member of the Political Bureau of the Communist Party of China (CPC) Central Committee.

**Nov. 2-3, 2001:** Vietnam hosts a seminar on relations with China, marking the 10<sup>th</sup> anniversary of the normalization of Vietnam-China relations.

**Nov. 6, 2001:** Cambodian Prime Minister Hun Sen meets with Chinese Premier Zhu Rongji in Beijing.

**Nov. 12, 2001:** Chen Jinhua, vice chairman of the National Committee of the Chinese People's Political Consultative Conference and president of the China Economic and Social Council, begins a visit to Indonesia.

**Nov. 15, 2001:** Chinese Vice Premier Qian Qichen tells a delegation led by Sukamdani Sahid Gitosardjono, general chairman of the Association of the Indonesia-China Economic Social and Cultural Cooperation, that China attaches great importance to developing bilateral relations with Indonesia.

**Nov. 16-18, 2001:** A Chinese delegation led by Vice Foreign Minister Wang Ye visits Vientiane and reaches agreements with the Lao Foreign Ministry on enhancing cooperation between the two ministries in preparation for a forthcoming visit to China by Lao Prime Minister Bounnhang Vorachit.

**Nov. 20, 2001:** At a meeting with Chinese Economic and Trade Commission Deputy Chairman Zhang Zhigang, Vietnamese Prime Minister Phan Van Khai says trade between the two countries will reach \$3 billion in 2001 and calls for more Chinese investment.

**Nov. 20, 2001:** China's Defense Minister Chi Haotian meets with Chea Sar Ren, deputy commander of the Cambodian armed forces. The Cambodian commander tells Chi that the PLA serves as a model for the Cambodian armed forces.

**Nov. 22, 2001:** *Xinhua* reports that China broke up a "cross-border terrorist gang" belonging to the Myanmar Democratic Allied Army, operating in both northern Myanmar and Yunnan Province of China. Six persons were sentenced to jail terms.

**Nov. 29, 2001:** Wei Jianxing, a member of the Standing Committee of the Political Bureau of the CPC Central Committee, making the rounds in Southeast Asia, meets with Jose Ma A. Rufino, the national executive director of the ruling Lakas-National Union of Christian Democrats-United Muslim Democrats party. He calls for expanded party-to-party exchanges as a means of strengthening China-Philippines relations.

**Dec. 1, 2001:** The Asian Development Bank (ADB) in Manila announces a new 10-year strategy for increasing cooperation among the six Mekong riparian states, adopted by China's Yunnan Province and Myanmar, Cambodia, Laos, Thailand, and Vietnam. The ADB said the new Mekong strategy would involve 10 flagship projects requiring \$900 billion in investment.

**Dec. 3, 2001:** King Norodom Sihanouk of Cambodia, with Queen Monineath, arrives in Beijing for "a routine checkup and recuperation."

**Dec. 4, 2001:** China delivers a high-resolution satellite ground station to Myanmar's Ministry of Transport for use in improving its meteorological services. China has

provided weather forecasting equipment to Myanmar's Department of Meteorology and Hydrology in the past.

**Dec. 6, 2001:** The Central Bank of Thailand and the People's Bank of China sign a currency swap agreement that would provide a credit of up to \$2 billion, if necessary to help Thailand out of a foreign exchange payments crisis. It is the first such agreement under the "Chiang Mai initiative" of 1998, proposed by China and approved by the 10 ASEAN states.

**Dec. 13-14, 2001:** CPC Standing Committee member Wei Jianxing visits Phnom Penh and meets with PM Hun Sen. Wei also meets with Norodom Ranariddh, president of the Cambodian National Assembly and chairman of the FUNCINPEC (Sihanoukist) party.

**Dec. 18, 2001:** Xiong Guangkai, deputy chief of the PLA General Staff, meets in Beijing with a delegation led by Nguyen Khac Nghien, commander of Vietnam's first military region.

**Dec. 24, 2001:** China signs an Agreement on Economic and Technical Cooperation with Cambodia providing for an interest-free loan of \$9.67 million over five years, starting Jan. 1, 2002.