

## China-Southeast Asia Relations: Former Tigers under the Dragon's Spell

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With the United States preoccupied by the war on international terrorism and Southeast Asians concerned above all with economic recovery, China found new space during the quarter for increasing its presence and influence among its southern neighbors. Beijing combined diplomacy with promises of expanded trade in an effort to counter Southeast Asian fears that China's economic acceleration would leave them impoverished – at least by pre-1997 standards – and with few options for regaining rapid growth. The worries remain, but China may be succeeding in pushing them further into the future.

Meanwhile, admiration for China's attentive cultivation of the region, including successful visits by PRC Vice President Hu Jintao to Malaysia and Singapore, is widespread. New Chinese energy investments in Indonesia, and Beijing's invitation to Singapore to play a role in development of China's western regions, furthered the impression of growing interdependence, rather than domination by China.

Relief is also widespread in most ASEAN capitals that the United States and China appear to be mending relations. China's political support for the war on terrorism, and its acceptance of operations near its borders, in Central Asia and the Philippines, that increase U.S. influence, generate comfort in Southeast Asian capitals. Regional observers note the change from a year ago, in the aftermath of the EP-3 reconnaissance plane incident. ASEAN capitals are concerned that firmer, less ambiguous U.S. commitments to Taiwan's security could lead to another, more serious, Taiwan Strait crisis but do not see this happening in the near term.

### **Trade and Investment at the Forefront**

Southeast Asian governments remain concerned about China's increasingly successful competition for foreign investment. Singapore in particular is feeling the pinch of China's competition. Its trade union council reported in June that 42,000 Singaporeans had lost their jobs since January 1997 due to the move of Japanese and other foreign companies out of Singapore to China and other, lower-cost ASEAN countries. On the other hand, Singapore's opportunities in China, where it has the advantage of language, are greater than those of any other ASEAN member.

Singapore has invested heavily in China for years, as part of a deliberate hedging strategy to build interdependence as China's economic and political power grow to match its size. China has been the largest recipient of investment from Singapore since 1997, and Singapore is expanding its role as an "incubator" to help China's industries commercialize products and services for the international market.

Chinese leaders paid several visits to the island republic during the quarter. Vice President Hu Jintao, during his April stopover on the way to Washington (see below), offered Singapore new opportunities to assist in China's development in four areas, including participation in China's "Go West" campaign to develop the economies of its poorest and least stable border region. Hu and Singapore's leaders agreed to set up a high-level joint council to examine further cooperation.

Malaysia is also concerned about China's gains in the global economy at Southeast Asia's expense and is also hard-headed about how to respond. Prime Minister Mahathir Mohamad told the Pacific Basin Economic Council on May 6 that "it is up to Southeast Asians to find ways to benefit from China's new-found wealth ... China is here and we cannot banish it." Philippine President Gloria Macapagal-Arroyo, in Japan for a working visit, stated that China's emergence as a market economy is not a threat and can serve as a catalyst for the growth of Southeast Asian economies. She lauded plans for a free trade area, noting that "large integrated markets, not small fragmented ones, are what attract investors."

In nonmanufacturing sectors, on the other hand, China's growth is increasing demand for Southeast Asian exports. Chinese energy firms continued to buy oil and gas rights in Indonesia during the quarter. PetroChina agreed in April to buy the assets of U.S.-based Devon Energy and gained Indonesian agreement to sell it a stake in the BP Tangguh liquefied natural gas (LNG) facility if Indonesia wins the current competition to supply natural gas to Quangdong province.

### **Progress on an ASEAN-China Free Trade Area**

ASEAN and Chinese officials held the first discussion-cum-negotiating session May 13-16 in Beijing to draw up a blueprint for progress toward their agreed goal of an ASEAN-China Free Trade Area (FTA) in 10 years. It would establish the world's largest trading zone, comprising 1.8 billion people, with an estimated combined GDP of \$2 trillion. Advocates cite studies showing that exports from both ASEAN and China could rise by about 50 percent as a result of the FTA.

The parties have agreed to try to reach a framework FTA agreement in time for the ASEAN Plus Three summit in November. Chinese sources point out that progress should be quick because China's agricultural sector is complementary with that of ASEAN – unlike that of Japan, which subsidizes farm production. China is reportedly promising that it is even prepared to liberalize agricultural imports during the negotiating phase of the FTA and will give special treatment to ASEAN's less developed members.

## **The Competition Heats Up**

Reflecting concern at China's gains, Indian Prime Minister Atal Behari Vajpayee declared April 8, during a visit to Singapore, that Southeast Asia would be a "focal point" for India's strategic policy and economic interest. He joined the free trade area bandwagon by gaining Singaporean's agreement to explore the issue. Faced with expanding Chinese ground transportation links with Southeast Asia, Vajpayee said India was planning with Burma and Thailand to build a road network connecting the three countries. Indonesia's President Megawati Sukarnoputri visited New Delhi in April, gaining \$147 million in Indian funding for railway construction in her country.

Japan's response to China's challenge to its position as the dominant Asian economic power in the region lacks much of China's flexibility. Japanese Prime Minister Koizumi Junichiro made his second trip to Southeast Asia in three months with a visit to Vietnam April 27. Faced with the growing momentum of China's liberalizing trade policies in Asia, Japan – which for decades made economic cooperation the centerpiece of its relations in the area – appeared lumbering and rigid, hampered by its own stagnant economy. Japan has agreed to try to work out a free trade agreement with ASEAN, but representatives of the latter told Japanese officials during the quarter that an FTA would not be possible unless Japan liberalizes agricultural imports. Given the reliance of the ruling Liberal Democratic Party on protected farmers as one of its core constituencies, this presents Koizumi with a painful choice.

## **Hu Jintao's Travels**

Vice President Hu Jintao, expected to succeed President Jiang Zemin later this year, stopped in Malaysia from April 23-25 and in Singapore from April 26-27 en route to his first visit to the U.S. The order of his travels may have been intended to signal that Beijing's priorities put Asia first and was seen as such by some Southeast Asian observers.

Hu's messages were deftly crafted to play to the special concerns of each capital. In Malaysia, Hu told his hosts that the PRC opposes big nations bullying the small: "China views all countries as equals, irrespective of their size." He expressed solidarity with Malaysia on the Israeli-Palestinian conflict and played directly to Prime Minister Mahathir by pointing out in public remarks that the ASEAN Plus Three forum is the realization of Mahathir's proposal in the early 1990s for an East Asia Economic Group (EAEG). Hu did not point out, but his listeners were well aware, that the East Asian Economic Group would have excluded the United States. Mahathir picked up the compliment, commenting after Hu's visit that "we call it the ASEAN Plus Three, but we are kidding ourselves. ASEAN Plus Three is, in fact, EAEG." With two-way trade between the two nations at \$9.4 billion in 2001 – a 17 percent increase over the previous year – Malaysia has become China's number one trading partner among the ASEAN countries.

In Singapore, Hu told Senior Minister Lee Kuan Yew that Singaporeans “are wise and industrious, and their achievements are admirable.” As noted above, Hu and Singapore’s leaders agreed to enhance cooperation in key areas of economic development. Hu also addressed international terrorism, a special concern for Singapore in light of arrests of 13 of its citizens last December for plotting to attack U.S. and Singaporean targets. He told Lee that the Chinese government “always opposes and denounces all forms of terrorism” and called for comprehensive countermeasures.

### **Proliferating Multilateralism**

China, once suspicious and reserved about multinational fora in which others could gang up against it, now confidently promotes such gatherings. Beijing sponsored or fostered three Asia-only multilateral initiatives during the quarter. The objectives of all three were only vaguely defined, suggesting that China sees them primarily as a way of asserting and demonstrating regional leadership, rather than achieving concrete results.

The Boao Forum for Asia (BFA), which convened April 11-14 in the coastal resort on Hainan Island from which it got its name, was presented by China as the “first annual session” of an Asian version of the Davos World Economic Forum. China reported that some 2,000 officials, “academic celebrities,” and business executives from 48 Asian countries or territories participated. The BFA’s goal, Chinese leaders said, was to provide a high-level dialogue platform for Asian countries to review the economic and social challenges they are facing and to promote economic cooperation in Asia, while opening up further to the other parts of the world. In addition to Premier Zhu Rongji, Prime Ministers Koizumi of Japan, Prime Minister Thaksin Shinawatra of Thailand, and Prime Minister Lee Han-dong of the Republic of Korea, and Deputy Prime Minister Nguyen Manh Cam of Vietnam took part and were joined by representatives of the United Nations and international trade and financial institutions.

Prime Minister Thaksin took a prominent role at Boao and, in an initiative apparently synchronized with his Chinese hosts, proposed that the first Asian Cooperation Dialogue (ACD) of foreign ministers be held in June in Thailand as a “track one,” i.e., official, counterpart to the BFA. Thaksin had conceived the ACD prior to becoming prime minister and gained endorsement for it at ASEAN’s Hanoi ministerial meeting last year. Its purpose, even vaguer than most of ASEAN’s current talk shops, was described as providing a noninstitutionalized arrangement for exchanges, to supplement and complement existing regional cooperative frameworks. With the push from Boao, and some evidently hasty senior-level recruiting efforts, the ACD was held at Thailand’s seaside resort of Cha-am June 18-19. Foreign ministers present, in addition to Surakiart Sathirathai of Thailand and Tang Jiaxuan of China, included those from Bahrain, Bangladesh, Cambodia, Japan, South Korea, Laos, Malaysia, the Philippines, Singapore, and Vietnam. Brunei, India, Indonesia, Pakistan, and Qatar were represented by other ministers.

The results of the conference, at least as reflected in the chairman’s statement, appeared to center on endorsing further dialogues and agreeing to hold another ACD in Chiang

Mai next year. There was some positive comment from Southeast Asian observers, among other things for providing an opportunity to include India, Pakistan, and several Persian Gulf states. Other critics were scathing, criticizing the ACD's lack of a defined mandate or coherent geographic scope, and its redundancy given the plethora of existing Asian fora covering the same ground.

Following the BFA, China hosted a third annual meeting of the Association of Asian Parliaments for Peace April 16-19. (The first two meetings were in Dacca and Phnom Penh.) Parliamentarians from 10 countries, mostly central Asian, participated, but Malaysia and Vietnam also took part.

### **China and Vietnam: A Complex Minuet**

China's relations with Vietnam continued to go smoothly, with occasional flashes of asperity. Russia's final withdrawal in early May from Cam Ranh Bay, leased in 1979 by the Soviet Union as a naval base, provided another opportunity for Vietnam's Foreign Ministry to ease any Chinese concerns that the United States might move back in by reiterating that Hanoi "would not cooperate with any other country to use Cam Ranh Bay for military purposes." Vietnamese leaders and media were at pains during the quarter to defend Hanoi's concessions to China in border agreements reached three years ago. Dissidents abroad, however, continued to condemn the agreements as having "triggered suspicion and discontent within a population that fears that the territory has been sold off for cheap."

Regarding maritime territorial disputes with China, however, Hanoi showed no give. Bolstering Vietnam's claim to the Spratly (Truong Sa) Islands in the South China Sea, Vietnamese media reported May 4 that special steps had been taken to permit "residents" and soldiers living in the islands to cast their ballots in National Assembly elections a week early. It is not clear how many Vietnamese voters, if any, are present in the Spratlys apart from military personnel in the garrisons that Vietnam established in the 1970s. On June 10, the Vietnamese Foreign Ministry protested China's declaration of a live-fire military exercise in portions of the Tonkin Gulf claimed by Vietnam as its exclusive economic zone and continental shelf. It described the declaration as a violation of the Law of the Sea Convention. China rejected the protest as "completely unreasonable."

### **Other Views on Spratly Islands Issue**

Despite the failure so far to find a Code of Conduct for territorial differences in the South China Sea that both China and the ASEAN claimants can agree on, concerns in ASEAN capitals – apart from Hanoi – about conflict there do not appear great. China's new gas and oil investments in the region – and the prospect that China is likely soon to sign a massive, long-term natural gas contract with either Indonesia or Australia, in either case requiring secure shipping through the South China Sea – may suggest that Beijing can obtain greater energy stability by contracting with regional governments than by trying to grab the dubious hydrocarbon reserves that may lie under the Spratly Islands.

## **U.S. Interests**

Whether China is “racing to replace” the United States economically in Southeast Asia, as a recent headline put it, as a matter of deliberate policy or is assuming the role in Asia that its sheer size would inevitably give it in a global economy, there is little that could be done to stop the process. The comments of senior ASEAN leaders indicate they are aware of the need to do a better job of integrating their own economies, to be able to hold their own collectively in the face of China’s challenge. U.S. investment and imports will be vital for ASEAN economies for many years to come. But China’s market and investment seem certain to take on greater importance for ASEAN governments than they have had in the past.

Some Southeast Asian observers warn that increasing economic interdependence will force ASEAN to follow China’s priorities and agenda on noneconomic issues. The promise of an ASEAN-China FTA, for instance, could put disputed territorial claims with China on hold, since ASEAN capitals will be reluctant to press issues that could threaten access to China’s vast market.

Whether this will translate into political and military dominance in Southeast Asia, to the detriment of U.S. interests, however, is dependent to a large extent on Washington’s actions and policies and the attention it pays to Southeast Asia’s own objectives. ASEAN governments’ interest in retaining a robust U.S. presence, including military capabilities, and a level of political involvement making the U.S. a partner and player in regional issues is more likely to increase than diminish as China’s influence grows. “Asia-for-the-Asians” multilateral fora will not supplant structures like the ASEAN dialogue and the ASEAN Regional Forum that link the ASEAN states to the United States. Public statements by U.S. administration officials during the quarter suggesting more equanimity than alarm about China’s deepening economic role in Asia, and acceptance that a strong China involved in the regional order can contribute to stability, seem about right.

## **Chronology of China-Southeast Asia Relations**

**April - June 2002**

**April 3, 2002:** Li Ruihuan, chairman of the National Committee of the Chinese People’s Political Consultative Conference, tells a Philippine-China Council for the Promotion of Peaceful Reunification delegation that all Chinese people worldwide have a historical responsibility to realize the peaceful reunification of both sides of the Taiwan Strait and thanks Philippine citizens of Chinese origin for their contribution.

**April 8, 2002:** Vietnam’s Deputy Prime Minister Pham Gia Khiem, visiting Beijing, asks China to expand its assistance to Vietnam’s nuclear programs in agriculture, industry, and medicine.

**April 9, 2002:** Thailand's largest commercial bank announces it is expanding its operations in China to take advantage of the expected liberalization of financial services as a result of China's WTO membership. Bangkok Bank projects that its Chinese operations may contribute 30 percent of its total overseas income within several years.

**April 14, 2002:** Vietnamese Deputy Prime Minister Nguyen Manh Cam tours Hainan and Guangdong provinces of China after attending the Boao Forum for Asia.

**April 14-22, 2002:** Chairman of Vietnam's National Assembly Nguyen Van An visits China at the invitation of Li Peng, chairman of the National People's Congress. He tells Vice Premier Li Lanqing that Vietnam will push bilateral friendship to a new high.

**April 15, 2002:** PetroChina, China's largest oil company, announces it will pay \$216 million for the oil and gas operations in Indonesia of Devon Energy Corporation.

**April 18, 2002:** Chinese Defense Minister Chi Haotian meets with Philippine Secretary of Defense Angelo Reyes, who tells him the government of President Gloria Macapagal-Arroyo will strictly abide by the "one China" policy.

**April 24, 2002:** Two Singapore Navy ships visit Kaohsiung in Taiwan after exercises with Taiwan's Navy.

**May 10, 2002:** Finance Ministers of the ASEAN Plus Three – China, Japan, and the ROK – hold their fifth meeting in Shanghai.

**May 13, 2002:** Chinese Minister of Foreign Trade Shi Guangsheng visits Vietnam.

**May 14-28, 2002:** Chinese officers join observers from 17 other nations at the annual U.S.-Thai-Singapore "Cobra Gold" military exercises.

**May 15, 2002:** A Special Working Group on a Singapore-Kunming rail link meets in Rangoon, announces that a feasibility study had examined six routes, and recommends one that would transit Cambodia, Vietnam, and Laos, with an additional sector that would integrate Burma into the network.

**May 17, 2002:** Chinese Foreign Minister Tang Jiaxuan, en route to East Timor's independence celebration, meets with Indonesian Foreign Minister Hassan Wirayuda in Jakarta.

**May 21, 2002:** With 900,000 registered drug addicts – mostly on heroin – and an addict population up to eight times that number, China opens a three-day meeting in Beijing with representatives of Burma, Cambodia, China, Laos, Thailand, Vietnam, and UN representatives, and calls for stronger measures to fight narcotics production and trafficking.

**May 22, 2002:** Following a meeting in Bali, Chinese Deputy Foreign Minister Wang Yi announces that China is ready to cooperate with ASEAN countries to make the South China Sea secure.

**May 22, 2002:** *People's Daily* reports that the Philippines “has again been playing new tricks” in the South China Sea, by planning to extend its continental shelf from 200 nautical miles to 350 nautical miles and intensifying the “fierce and crude” arrest and detention of Chinese fishermen and boats.

**May 23, 2002:** Two ships of the Chinese PLA Navy call at Changi naval base in Singapore on the Chinese Navy's first round the world voyage. *People's Daily* reports that the ships, a missile destroyer and a supply ship, later conduct antipiracy exercises in the Straits of Malacca.

**June 3, 2002:** Fifteen Chinese “youth volunteers,” the first such peace corps-like contingent sent to any country by China, arrive in Lang Son province of Vietnam to help Vietnamese doctors provide medical care during June.

**June 4, 2002:** A delegation led by chief of the Communist Party of Vietnam Internal Affairs department Truong Vinh Trong holds talks in Beijing on legal reform, countering corruption, and party building.

**June 6-7, 2002:** China holds the first China-ASEAN Seminar on Trade, Investment, and Development Cooperation in Kunming, with more than 400 participants from 10 ASEAN countries and China.

**June 8, 2002:** Senior officials open a session of the Great Mekong Subregion Cooperation Meeting in Kunming, initiated by the Asian Development Bank and China, Laos, Burma, Thailand, Cambodia, and Vietnam in 1992

**June 17, 2002:** Commander of the Philippine Air Force Benjamin Defensor meets with Qiao Qingchen, commander of the PLA Air Force.

**June 19, 2002:** Li Peng meets with a delegation from the Thai Parliament.

**June 20, 2002:** China announces that of the nearly 300,000 refugees it has accepted since the late 1970s, most have come from Vietnam. (China invaded Vietnam in 1979, and the Vietnamese government subsequently expelled large numbers of its Sino-Vietnamese citizens to China and other countries.) Beijing quoted a spokesperson for the UN High Commissioner for Refugees as saying that the Vietnamese are well integrated in Chinese society. The occasion was World Refugee Day, and the announcement may have been intended to deflect criticism for China's treatment of North Koreans fleeing into China.

**June 21, 2002:** A visiting military delegation led by the commander of the Royal Brunei Armed Forces Jaafar Aziz meets senior Chinese military leaders including Zhang Wannian, vice chairman of the Central Military Commission. Fu Quanyou, chief of staff



of the PLA, reportedly tells Jaffar that China is willing to develop military ties with the RBAF.

**June 22, 2002:** The first visit by Philippine Navy ships to the PRC begins with the arrival of two vessels in Shanghai for a five-day visit.

**June 25, 2002:** Defense Minister Chi meets with the Supreme Commander of the Royal Thai Armed Forces Narong Yuthavong in Beijing.