



**China-Southeast Asia Relations:  
Ferment over the South China Sea**

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The highlight of China's relations with Southeast Asia this quarter was continued maneuvering by China and Southeast Asian claimants over disputed territory and related economic claims in the South China Sea. Last quarter's widely publicized face-off between the U.S. surveyor ship *USNS Impeccable* and harassing Chinese vessels was followed by incidents and commentary this quarter that underlined China's view of an important U.S. role in challenging Chinese maritime claims in Southeast Asia. Chinese official statements and commentary and the actions by Chinese defense and security forces underlined a firm Chinese position in support of territorial and resource rights disputed by some Southeast neighbors and the U.S. Meanwhile, the pace of Chinese diplomacy picked up with economic support to Southeast Asian neighbors weathering the decline in trade and investment during the ongoing global economic recession along with visits and interaction with senior Southeast Asian leaders.

**South China Sea issues**

Building on expressions of concern last quarter over perceived foreign intrusions into Chinese claimed territory and resources in the South China Sea, Chinese officials and commentary were forthright this quarter in warning against further intrusions. The visit of Southeast Asian military delegates to China to engage in workshops focused on boosting cooperation in peacekeeping and humanitarian relief featured commentary by a senior Chinese military officer to the visiting delegates on March 30 warning that the economic crisis and other pressures have increased the chance that territorial disputes could lead to confrontation. He urged stepped-up dialogue among the claimants to keep the disputes from spinning out of control.

Chinese official media commentary in May detailed a long list of complaints about foreign intrusions that month. They included a Malaysian official landing on two reefs in the China-claimed Spratly Islands and claiming them as Malaysia's, the continued activity of the U.S. "spy vessel" *USNS Impeccable* that "intruded into China's exclusive economic zone without permission," the signing by the Philippine president of a bill laying claim to parts of the Chinese-claimed Spratly Islands, and Vietnam's submission of an individual proposal and a joint proposal with Malaysia to the UN Convention on the Law of the Sea (UNCLOS) that challenged Chinese territorial claims and rights.

While continuing to emphasize the need to manage and resolve the disputes through dialogue, official Chinese commentary also underlined other steps taken by China in response to the challenges posed by foreign actions. The provincial authorities of Guangdong Province and the

Guangxi Zhuang Autonomous Region in March began sending ships to disputed South China Sea regions to curb illegal fishing. On April 15, the Maritime Safety Administration of China announced that a fleet made up of vessels from Guangdong, Shanghai, and Hainan Provinces would conduct joint patrols in the South China Sea with China's largest maritime vessel *Haixun 31*. Chinese maritime experts were cited in official media calling for "intensive, routine patrol missions" in order to protect Chinese interests in the South China Sea. The needed additional ships could be retired navy vessels or new ships that would form the core fleet of a Chinese "coast guard" similar to that of the United States, according to the experts.

Meanwhile, China's mission at the United Nations, China's Foreign Ministry spokesperson, and other officials publicly opposed proposals by Vietnam and Malaysia to the UNCLOS. On May 5, the Chinese Foreign Ministry announced the establishment of the Department of Boundary and Ocean Affairs, strengthening the ability of the Chinese government to manage complicated land and maritime border disputes through diplomatic channels.

### *U.S. role*

Apart from Chinese media complaining about the continued activity of the U.S. surveyor ship *Impeccable* in the South China Sea, Chinese fishing vessels harassed a U.S. surveyor ship *USNS Victorious* on May 1 in the Yellow Sea. The Chinese vessels stopped the harassment after a Chinese military ship responded to the U.S. ship's calls for assistance. The Chinese Foreign Ministry spokesperson said in a statement that the U.S. ship had contravened international and Chinese laws by entering China's Exclusive Economic Zone in the Yellow Sea without prior permission from China.

*China Daily* reported on May 15 that the U.S. Chief of Naval Operations Adm. Gary Roughead held talks on the U.S.-China naval incidents and disputed access to territorial seas with his Chinese counterpart during celebrations marking the 60<sup>th</sup> anniversary of the PLA Navy in Qingdao, a port city in China's Shandong Province. Showing that Chinese officials remain suspicious of the U.S. role in China's disputes with Southeast Asian countries, the article featured the observations of an American affairs specialist in a Chinese government-sponsored foreign policy research organization. He advised that "The U.S. has always wanted to maintain its influence in Asia through military means. It has conducted military activities around the Taiwan Straits and the East China Sea, and now wants to expand to the South China Sea." According to *China Daily*, the specialist added that "the U.S. is keen to see Southeast Asian countries in territorial disputes with China so it can retain its influence in those countries and contain China's rise."

A new U.S.-China naval incident was reported in official Chinese media on June 15. The incident involved the collision of a Chinese submarine with an underwater sonar array towed by the destroyer *USS John McCain* during a U.S.-sponsored military exercise with the navies of six Southeast Asian nations off the coast of the Philippines. The incident was reported by Western media to have occurred on June 11. The Chinese media cited Chinese officials agreeing with the U.S. in treating the incident as an accident, though *China Daily* on June 15 cited a major general from China's Academy of Military Science as expressing the view that "the existence of U.S.

ships in the South China Sea is cause for potential incidents” and that the “best way to avoid such collisions is for the Pentagon to stop its unfriendly moves toward China in this region.”

### *Taiwan's role*

In contrast to their sometimes sharply critical commentary on U.S. and Southeast Asian policies and practices in disputed areas of the South China Sea, Chinese officials and commentary have not focused on moves by Taiwan's government to protect its interests in the South China Sea. On June 7, Taiwan media reported President Ma Ying-jeou vowed to gradually set up a maritime affairs ministry in order to formulate and enforce Taiwan's maritime policies. Taiwan's Coast Guard on June 14 said it was increasing patrols from its base in the Spratly Islands on account of increased foreign fishing in regions claimed by Taiwan. Taiwan's Foreign Ministry reaffirmed its claims to the islands in the South China Sea which mirror the claims of China.

### **Economic relations**

Official Chinese media showed that Chinese trade with Southeast Asia continued to suffer as a result of the global economic recession. *China Daily* on June 12 reviewed trade data for May to show that Chinese trade with ASEAN had fallen by 25.9 percent from the level in May 2008. This figure was consistent with the overall decline in China's trade, though somewhat more than the declines registered in Chinese trade with its other major trading partners, the European Union, the U.S., and Japan. China continued to run an overall surplus in foreign trade.

*China Daily* on June 9 highlighted China's positive record in continuing to attract foreign direct investment (FDI) despite the sharp drop in FDI into Southeast Asian and other developing countries. It noted that FDI into China amounted to \$111.17 billion in 2008, an increase of 27.65 percent over the previous year, despite the global drop of FDI at the rate of 21 percent for the year. Looking at declines in FDI into China in the first four months of 2009, the report noted that they were much less than projected global declines in FDI. The *China Daily* went on to highlight a UN report that said “China will still be the best choice for overseas investment in the long run.”

Based on China's comparatively advantageous economic position and many years of Chinese economic interaction with ASEAN countries, Foreign Minister Yang Jiechi announced a series of Chinese economic initiatives toward ASEAN in April. The package, which apparently was to have been unveiled at the aborted ASEAN meetings in Thailand, was announced on April 12 during a meeting between Yang and ASEAN ambassadors in Beijing. According to official Chinese media, the foreign minister said that China planned to establish a China-ASEAN investment cooperation fund with a value totaling \$10 billion. China also planned over the next three to five years to offer credits valued at \$15 billion to ASEAN countries, which would include \$1.7 billion in loans with preferential terms. Other planned Chinese assistance included \$39.7 million of special aid to Cambodia, Laos, and Myanmar; \$5 million for the China-ASEAN Cooperation Fund; and \$900,000 for an ASEAN Plus 3 cooperation fund. Also promised were 300,000 tons of rice for the emergency East Asia rice reserve and 2,000 scholarships for students from developing countries over the next five years.

Yang also called on the ASEAN states to work with China to sign an ASEAN-China investment agreement that was to have been signed on the sidelines of the aborted meetings in Thailand. He duly reaffirmed China's support for ASEAN playing a leading role in promoting East Asian regional cooperation.

### *Chiang Mai Initiative (CMI)*

A flurry of positive Chinese commentary greeted the agreement on May 3 of the ASEAN Plus 3 finance ministers on the main components of a proposed \$120 billion regional reserve, which Chinese official media called "a de-facto Asian monetary fund." Some other expert commentary was more subdued and conditional in assessing how well the various swap arrangements under CMI will work in shoring up regional currencies under stress.

The Chinese media accounts duly noted that China and Japan had equal commitments of \$38.4 billion to the fund. *Asahi Shimbun* reported on May 5 that the agreement on equal contributions represented a compromise proposed by ASEAN nations in order to end a behind-the-scene "tug of war" between China and Japan as to which country would offer more funding for the fund. Chinese media noted that all parties in the fund pledged to implement it by the end of 2009. The goals of the fund are to "address short-term liquidity difficulties in the region and to supplement existing international financial arrangements." The Chinese commentary advised that the fund will particularly help smaller Asian economies and will lay a foundation for steps toward greater Asian financial cooperation, including a future unified Asian currency.

### **Bilateral relations**

*Malaysia.* President Hu Jintao and Premier Wen Jiabao hosted Malaysian Prime Minister Najib Tun Razak who visited China in early June. The visit was Najib's first to a non-ASEAN state since he assumed office in April and marked the anniversary of the establishment of Malaysia-China diplomatic relations by Najib's father 35 years earlier. Chinese officials and media commentary duly noted disputes regarding Malaysian claims in the South China Sea and admonished all parties to handle these differences "properly" and "protect peace and stability in the South China Sea." Chinese media noted approvingly Najib's avowal that Malaysia "never viewed China as a threat but as an important partner." The agreements reached during the visit built on the active Chinese relations with Malaysia which saw trade in 2008 reach a value of \$39 billion and placed Malaysia among the top 20 nations investing in China.

*Myanmar/Burma.* The highlight this quarter was the visit of Myanmar State Peace and Development Council Vice-Chairman Maung Aye to Beijing in June. The delegation of Myanmar's reported No. 2 leader included representatives of Myanmar economic, commercial, and energy ministries as well as defense and foreign affairs leaders. Meeting the delegation on June 16, Premier Wen Jiabao promised to expand friendship and cooperation. He went on to advise that "China hopes that Myanmar will steadily advance its domestic democratic process, achieve national reconciliation, safeguard state stability, and promote economic growth."

Foreign media speculated that the senior leader's visit was related to several issues including the trial of opposition leader Aung San Suu Kyi and the likely critical foreign reaction to further

punishing the opposition leader, the rise of tensions among ethnic groups along Myanmar's border with China, and closer Myanmar relations with North Korea. The Beijing visit also coincided with reports that the construction of planned oil and gas pipelines linking Myanmar and China and bypassing the Strait of Malacca and the South China Sea will begin in September.

*Vietnam.* Hanoi has not been as accommodating of China as was the visiting Malaysian prime minister or some other disputants in the South China Sea. Ostensibly cordial high-level Sino-Vietnamese contacts continue; the Chinese defense minister met a visiting Vietnamese vice defense minister in Beijing on April 8 amid pledges of improving relations. Nevertheless, the war of words and sometimes public protests in Sino-Vietnamese relations continue as well.

Vietnamese media reported in April the appointment of an administrative chief to the Parcel Islands, which are claimed by Vietnam but occupied militarily by China since 1974. Vietnam's submission to UNCLOS on the continental shelf was rejected by the Chinese Foreign Ministry on May 10. China also rejected a joint Vietnam-Malaysia submission to UNCLOS while Vietnam disputed China's justification for the rejections. In early June, Vietnam called on China to stop preventing Vietnamese fishermen from using waters claimed by Vietnam and China in the South China Sea. China imposed a fishing ban on May 16 in order to prevent overfishing and it sent eight patrol ships to monitor the large affected area. The Chinese Foreign Ministry rejected Vietnam's request to overturn the ban and affirmed strongly China's claim to a large economic zone surrounding the disputed Parcel and Spratly Islands in the South China Sea.

Writing in the *Straits Times* on May 26, Ian Storey noted salient economic problems in Sino-Vietnamese relations. Vietnam has been running a large trade deficit with China. The article also highlighted widespread criticism in Vietnam of a controversial Chinese mining project that notably prompted public rebuke from 97 year-old Gen. Vo Nguyen Giap. It went on to review the build-up of Vietnamese air and naval forces with the assistance of Russia, noting a report that Vietnam has purchased Russian *Kilo*-class submarines to complement advanced Russian jet fighters and naval surface combatants already supplied by Russia.

*East Timor.* China was the first country to establish diplomatic relations with the Democratic Republic of Timor-Leste, commonly known as East Timor, in 2002. Reviews of China's relations with East Timor were published in the latter part of March in the Jamestown Foundation's *China Brief* and in *Irasec's Discussion Papers* No. 4 May 2009. The former review showed that China's aid, trade, and other involvement in the country was modest in comparison with that of Australia, Japan, Portugal, and Indonesia. It focused on the recent public backlash to Chinese ways of doing business in a non-transparent way regarding the sale of two patrol craft to the East Timor military and the sale of two 20-year-old, highly polluting power plants to the country. The longer discussion paper was written by Loro Horta, the Chinese-educated son of East Timor's current President Ramos Horta. It supported the view that China's role in the country was more modest than that of other powers, but it judged that on the whole China had been successful in advancing influence with a relatively modest commitment of resources.

*Thailand.* Chinese Premier Wen Jiabao met Thai Prime Minister Abhisit Vejjajiva in Beijing on June 24. The Thai leader was on a four-day visit to China, his first visit to the country since he assumed office in December 2008. The two leaders sought to promote closer relations,

particularly trade, tourism, and investment, which have declined markedly during the ongoing global economic recession.

### **Shangri-La Dialogue**

Lt. Gen. Ma Xiaotian, deputy chief of the general staff of the PLA, represented the Chinese delegation at the 8<sup>th</sup> Asia Security Summit held in Singapore at the end of May. Participation in the summit included defense ministers and senior officials from 27 countries discussing emerging security challenges in the Asia-Pacific region.

Ma's remarks focused on promoting multilateral dialogue and security cooperation that is open, inclusive, and conducted on the basis of equal consultation. He emphasized that China, as a major regional power, is committed to maintaining peace and stability in the Asia-Pacific region. Citing the increasing number of military exchanges, border settlements, and cooperation on nontraditional security challenges between China and other countries in the region, Ma indicated that China is willing to make its "due contribution in the process" of enhancing regional peace and work toward pragmatic security collaboration. Ma also announced that China will host the Non-Traditional Cooperation Forum on Disaster Relief of the Armed Forces of ASEAN, China, Japan, and South Korea later in June and organize the China-Singapore Joint Security Exercise as well.

### **Australia's Defense White Paper**

Official Chinese media responded in a low-keyed fashion to the 140-page defense report released on May 2. According to a *China Daily* dispatch on May 6, the Australian report called for a \$72 billion expansion of the Australian military over the next 20 years partly in response to the military build-ups of China and India. *China Daily* cited Chinese experts and Australian dissidents critical of the Australian government for joining leaders in the U.S. and Japan in warning against the threat from China. Speaking to Australian media, some Chinese experts were outspoken in warning against the dangerous "China threat theory." Other Chinese specialists worried that the result of the Australian prime minister, heretofore friendly toward China, "turning his face against China" in this report might prompt more in Japan, some in Southeast Asia, and even some in South Korea to shift against the rise of Chinese military power.

### **Outlook**

Looking ahead, the next quarter will feature a series of high-level foreign and security policy-related meetings between Chinese and regional counterparts at the 42<sup>nd</sup> ASEAN Ministerial Meeting (AMM), Post-Ministerial Conferences (PMC), ASEAN Plus 3 Foreign Ministers Meeting, and the 16<sup>th</sup> ASEAN Regional Forum (ARF) in Phuket, Thailand in July. There will be strong expectations from the region for China to support a joint statement on North Korea. Whether China will continue its assertive position on the disputed territory and related economic claims in the South China Sea will warrant a fuller reporting in the next quarter.

## **Chronology of China-Southeast Asia Relations April-June 2009**

**April 2, 2009:** Guo Boxiong, vice chairperson of the Central Military Commission, meets Teo Chee Han, Singaporean deputy prime minister and minister of defense, in Beijing. They agree to raise the level of military-related exchanges and visits, personnel and military training, and increased cooperation in defense consultation.

**April 2, 2009:** Lt. Gen. Ma Xiaotian, deputy chief of general staff of the People's Liberation Army (PLA), meets senior defense scholars and representatives from ASEAN member countries attending the China-ASEAN Dialogue 2009 to discuss deepening regional defense cooperation.

**April 8, 2009:** Chinese Defense Minister Liang Guanglie receives Nguyen Van Duoc, vice defense minister from Vietnam, to discuss bilateral military ties and future prospects for strengthening military exchanges.

**April 8, 2009:** Hu Zhengyue, assistant foreign minister, expresses concern over the demonstrations and protests in Thailand and expresses confidence that the Thai government will ensure safety for visiting leaders during the ASEAN Plus 3 meetings.

**April 10, 2009:** Gao Hucheng, China's vice commerce minister, announces that ASEAN is likely to replace Japan as China's third largest trading partner in the near future.

**April 12, 2009:** Chinese Foreign Minister Yang Jiechi announces a multi-billion dollar aid and credit extension package to ASEAN countries during a meeting with the 10 foreign envoys from ASEAN member countries posted in Beijing.

**April 16, 2009:** According to Chinese press statements, the Maritime Safety Bureau announces that it has sent at least six patrol vessels to the South China Sea in recent weeks and that such patrols are legal and within China's exclusive economic zone.

**April 20, 2009:** Chen Bingde, chief of the general staff of the PLA, meets Tin Aye, member of Myanmar's State Peace and Development Council. Both sides agree to forge close communication and cooperation to help maintain regional stability.

**April 24, 2009:** China and Singapore sign a memorandum of understanding on education cooperation. The MOU spells out new collaborative programs and educational exchanges between Chinese and Singaporean scholars and academics in the university sector.

**April 27-30, 2009:** Lt. Gen. Yang Zhiqi, assistant chief of general staff of the PLA, leaves Beijing for an official visit to Thailand, Laos, and Cambodia. The delegation includes senior officials from the Beijing Military Command and the Jinan Military Command.

**April 28, 2009:** The Chinese Foreign Ministry issues a statement of protest of Vietnam's recent decision to appoint an official to represent the disputed Paracel Island.

**April 30, 2009:** Jia Qinglin, chairperson of the National Committee of the Chinese People's Political Consultative Conference, meets Nguyen Thien Nhan, deputy prime minister of Vietnam. Jia assesses that bilateral relations have improved significantly since 2008 and hopes that the two countries will further cooperation in education, culture, science, and technology.

**May 3, 2009:** Finance ministers of ASEAN, China, Japan, and South Korea meet in Bali, Indonesia and reach an agreement on the substantive contents of the regional reserve pool that will be implemented before the end of 2009. The agreement provides agreements on individual country's contribution, borrowing accessibility, and a region-wide surveillance mechanism.

**May 6, 2009:** Chinese Vice Premier Hui Liangyu meets Somsavat Lengsavad, Laotian deputy prime minister, in Beijing. They discuss expanding trade, business, and economic activities.

**May 11, 2009:** Chinese Vice President Xi Jinping receives Ha Thi Khiet, member of the Secretariat and chief of the Commission for Mass Organization of the Communist Party of Vietnam Central Committee. They review the current relations and hope to strengthen their cooperative partnership next year, the 60<sup>th</sup> anniversary of China-Vietnam diplomatic ties.

**May 13, 2009:** China's State Oceanic Administration and the Indonesian Ministry of Marine Affairs and Fisheries establish a bilateral marine science cooperative program that allows for the two countries to conduct joint research focusing on the impact of climate change to oceans.

**May 16, 2009:** According to the *People's Daily Online*, Beijing has recently established the Department of Boundary and Ocean Affairs, a new department under the Foreign Ministry, to manage maritime and territorial disputes. It will manage land and sea boundary demarcation and administration, form policies, and conduct negotiations for joint development in disputed areas.

**May 18, 2009:** Chinese Defense Minister Liang Guanglie meets Songkitti Chakkabat, supreme commander of the Thai military, in Beijing. They discuss consolidating bilateral relations and ways to promote military ties between the two armed forces.

**May 26, 2009:** Foreign Minister Yang Jiechi arrives in Hanoi to attend the 9<sup>th</sup> Foreign Ministers' Meeting of the Asia-Europe Meeting (ASEM).

**May 31, 2009:** Lt. Gen. Ma Xiaotian, deputy chief of the general staff of the PLA, attends and takes part in the 8<sup>th</sup> annual Shangri-La Dialogue.

**June 1, 2009:** Vice President Xi Jinping meets Keo Puth Rasmey, chair of the Cambodian Funcinpec Party, and says that China is ready to build party-to-party relations.

**June 4, 2009:** President Hu Jintao meets Malaysian Prime Minister Najib Tun Razak. They agree to strengthen bilateral relations and call for more cooperation on political, economic, cultural, and education issues.

**June 10, 2009:** Foreign Minister Yang Jiechi meets his Thai counterpart Kasit Piromya.



**June 11, 2009:** China hosts the first “ASEAN Plus 3 Non-Traditional Security Forum” in Shijiazhuang.

**June 12, 2009:** According to Indonesian news reports, Beijing and Jakarta reaffirm their commitment to intensify bilateral military cooperation, especially through transfer of technology.

**June 18-26, 2009:** China and Singapore hold *Cooperation 2009*, a joint anti-terrorism seminar and training exercise, in Guilin, Guangxi Zhuang Autonomous Region. The exercise includes simulations of terrorist attacks using radioactive contaminants, biological and chemical weapons.

**June 19, 2009:** China Petroleum and Natural Gas Group Company confirms the company recently signed the “Memorandum of Understanding on the Development, Operation, and Management of the Sino-Burmese Crude Oil Pipeline Project.”

**June 24, 2009:** Chinese Premier Wen Jiabao meets Thai Prime Minister Abhisit Vejjajiva in Beijing. They seek to promote closer relations between China and Thailand and call for closer trade and tourism ties.

**June 24-26, 2009:** China hosts the 15<sup>th</sup> China-ASEAN Senior Officials Consultation. The consultation will focus on China-ASEAN relations and regional security and economic issues.