



**China-Southeast Asia Relations:
Trade Agreement Registers China's Prominence**

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The China-ASEAN Free Trade Agreement (CAFTA), inaugurated on Jan. 1, marked the highlight of a quarter featuring otherwise slow Chinese-Southeast Asian interaction during the winter months. Premier Wen Jiabao did mention the trade accord in his report to the National People's Congress in March, but official Chinese media accounts of interviews and commentary by Foreign Minister Yang Jiechi this quarter did not mention ASEAN or Southeast Asia in inventories of Chinese foreign policy priorities in 2010. In a visit receiving low-keyed and delayed treatment in official Chinese media, State Counselor Dai Bingguo, China's senior foreign policy expert, traveled to ASEAN headquarters in Jakarta to give a speech in late January that highlighted the positive aspects of Chinese-ASEAN relations as well as important elements in China's policy in Asia. Included in foreign assessments of China's rising prominence in Southeast Asia was a hearing by a US congressional commission in February featuring views of two US administration officials and eight experts offering mixed conclusions. Chinese statements this quarter expressing strong differences with the US thus far have not shown much impact on Chinese relations with Southeast Asia.

China-ASEAN free trade agreement

Chinese media duly publicized the positive aspects and also noted some of the negatives associated with the China-ASEAN Free Trade Agreement (CAFTA). They reported that China first proposed the idea of an FTA in 2000 and planning began in 2002. China granted duty-free status to 500 agricultural products from ASEAN countries in 2004 and both sides began implementing "comprehensive duty reductions." An agreement was reached in 2007 to open markets for trade in services, and in 2009 an agreement was reached on investment.

Beginning Jan. 1, 2010, 90 percent of the products traded between China and six ASEAN members – Brunei, Philippines, Indonesia, Malaysia, Thailand, and Singapore – are duty free. Such duty-free trade for the other four ASEAN members – Vietnam, Laos, Cambodia, and Myanmar – will take effect in 2015.

CAFTA represents the world's third largest free-trade zone in terms of trade volume, and the largest in terms of population. It affects over 1.9 billion people and the regional Gross Domestic Product (GDP) is nearly \$2 trillion. It is set to significantly boost the China-ASEAN trade volume, which has grown strongly in the past decade, though the volume declined 13.2 percent in 2009 on account of the international recession. Chinese officials have stressed that Chinese and ASEAN industries "complement each other," with a Commerce Department official telling

China Daily in late December that “China imports resource-related products,” and exports manufactured goods ranging from steel to garments.

An official in the Chinese Communist Party’s Central Party School wrote recently that the momentum of CAFTA should reinforce movement toward an Asia-wide trade community. The official stated that even though the US being “the largest export market for many Asian economies was not favorable for a regional integration regime in Asia,” the global economic crisis “has shattered the US dominance on world economy.” The Asian economies should use this “unprecedented opportunity” to shake off “economic neocolonialism” and “unfair treatment toward Asian countries in the current world economic system” by advancing beyond CAFTA to a region-wide economic community.

Chinese officials and media also noted problems associated with CAFTA. Commerce Ministry officials endeavored to reassure Indonesian and some other Southeast Asian manufacturers who have voiced public opposition to the impact of Chinese manufactured imports on their businesses. Chinese media cited foreign commentary for the view that CAFTA will spark “fiercer competition in selected industries,” the market share of Southeast Asian manufacturing enterprises “will probably be eroded by powerful Chinese competitors,” and greater unemployment may result.

Dai Bingguo at ASEAN headquarters

State Councilor Dai’s trip to and speech at the ASEAN Secretariat in Jakarta on Jan. 22 represented the highest-level Chinese visit to the office. It came as part of a brief trip to Brunei and Jakarta, with a stopover in Singapore. Among others, Dai met with the ASEAN leadership, paid a courtesy call on Indonesian President Susilo Bambang Yudhoyono, and used the stopover in Singapore to call on Lee Kwan Yew.

Dai’s speech represented one of the most thorough recent expositions of Chinese policy toward ASEAN and Asia as a whole. It received curious treatment in Chinese media, with *China Daily* and other outlets publicizing the speech in early February, two weeks after it was delivered. The highlights of the speech included inventories of improving China-ASEAN relations, with recognition of problems ahead. Dai also registered explicit assurance to the US and recognition of continued wariness in Asia concerning China’s rise.

Dai recognized the progress in China-ASEAN relations by noting that:

- 766 flights between major cities in China and ASEAN occur every week
- In January-October 2009, 4 million people from ASEAN visited China and 3.7 million Chinese visited ASEAN
- 6,000 Chinese language volunteers are teaching 50,000 Southeast Asian students in classes sponsored by, among others, 35 Confucius Institutes.

On CAFTA, Dai stressed mutual benefits while also noting differences. He advised that “all parties” need to make “adjustments” that will eventually “enhance competitiveness” and improve

development. He pledged that China will work “relentlessly” to assure goals of mutual benefit and common development.

On what has been a somewhat slow Chinese process in establishing official relations with the ASEAN Secretariat and appointing a formal ambassador to ASEAN, Dai said that China “will give positive consideration to the establishment of a permanent body to ASEAN,” and as a “first step” it will set up an “ASEAN Affairs Office” in the Chinese Embassy in Indonesia in 2010.

On broader Chinese relations with Asia, Dai made several points. He was frank about China not challenging the US in Asia, saying, “The United States is an important partner for East Asian countries as well as for China. We value our relationship with the United States and we have neither the intention nor the ability to push it out. We are willing to see the United States play a constructive role in promoting stability and development in Asia.”

On Asian wariness of a rising China, he said, “If some people still do not quite believe our intention and want to wait and see what China really wants, they may do so. But just keep in mind that if they wait for too long, they may very well miss the opportunity of cooperation with China, which would be totally unworthy.”

Dai was cautious about building Asian multilateral cooperation, making the argument for taking “gradual steps,” doing “easy tasks” first, and taking account of “each other’s comfort level.” As publicized in Chinese media, his speech did not mention regional proposals by the prime ministers of Japan and Australia, though Dai showed China’s priority for an Asia-only grouping when he said, “We should remain open to other regional cooperation mechanisms while deepening 10+3 cooperation.”

China-Vietnam disputes

Relations between China and Vietnam saw renewed tensions this quarter. In February 2010, the *New York Times* reported that Vietnam intends to use its chairmanship role in ASEAN this year to “internationalize” the issue of the disputed areas around the Paracel Islands in the South China Sea. According to the report, Vietnam is actively working behind the scenes to lead concerned countries on this issue into a joint negotiation forum, thus forcing China to participate and negotiate on the future terms of the disputed islands in a multilateral setting. The Vietnamese effort is a clear response to an announcement by Beijing earlier this year that China will soon develop a more robust tourism industry on the disputed islands. Hanoi has expressed concerns about the Chinese proposal, saying that it would “further complicate the situation.” China tends to take a hardline approach on sovereignty issues. On the Paracel Islands, China has indicated that it will stick to its principles and would prefer to negotiate and resolve any disputes over the territorial claims on a bilateral basis. A subsequent report in the *China Daily* opined that Hanoi’s efforts will be unsuccessful, in part because other countries in the region will be unable to adopt a common, unified position or consensus vis-à-vis China on this issue. Other Chinese experts contend that Vietnam’s efforts to bring other countries into the dispute to increase its overall bargaining power are “doomed to fail.”

US, Japan, Taiwan initiatives

Chinese media duly noted Secretary of State Hillary Clinton's repeated reference to China in her speech on the Obama administration's Asia-Pacific policy at the East-West Center in Hawaii in January. They cited Chinese experts welcoming a more active US role at a time of rising Chinese salience in the region. Regarding the subjects of Chinese and US aircraft carriers which are of considerable interest and importance in Southeast Asia, Robert Willard, the commander of US Pacific Command, forecast to a congressional committee in January that China would have an operational aircraft carrier for training purposes in 2012, and that China "has developed an anti-ship ballistic missile ... designed specifically to target aircraft carriers."

Sustaining low-keyed Chinese media comment critical of Japanese Prime Minister's Hatoyama Yukio's proposal for an East Asian Community, a Jan. 19 *China Daily* report reviewed the progress in high-level Chinese-Japanese contacts and other areas, and then noted that the "10+6 model" proposed by Japan "will significantly slow down the process of East Asian integration ... China firmly believes that only the '10+3' model is truly feasible." The report said that Japan's proposal to include India, Australia, and New Zealand could only be considered "after an East Asian Community is firmly established" on the basis of the "10+3" model favored by China and involving ASEAN along with China, Japan, and South Korea.

Taiwan President Ma Ying-jeou used his New Year's message to feature the argument that Taiwan needs an economic cooperation framework agreement with China in order not to be left out of the rapidly developing trend of regional economic integration seen notably with the start of the China-ASEAN Free Trade Agreement.

Assessing China's rise

Foreign assessments this quarter dealing with China's rising prominence in Southeast Asian and broader Asian affairs generally avoided the frequent past practice of exaggerating China's power and influence while denigrating the importance of the US, other international actors, and the regional countries themselves. Writing in the academic journal *Pacific Affairs*, South Korean expert Jae Ho Chung featured a wide variety of Asian reactions to China's rising influence. He depicted some Southeast Asian governments, notably Myanmar, Cambodia, and Laos, as going along with China's rising influence without many apparent reservations. He saw a few regional governments, notably Japan and Australia, adopting military force buildups or other measures in order to "balance" against perceived adverse consequences of China's rise. More common in Southeast Asia were governments engaged in contingency plans to secure their interests and independence of action in the changing regional dynamics as a result of China's ascendance. They cooperate with China on the one hand and take measures on the other to insure that they are not dominated by China. Thailand, Singapore, and the Philippines were characterized as among the most active in this regard, while Malaysia, Indonesia, and Vietnam were seen as less active "hedgers."

Writing in the journal *Contemporary Southeast Asia*, Renato Cruz De Castro illustrated the trend of regional wariness and contingency plans regarding China's growing influence. He showed that closer Philippine-US military cooperation developed over the past decade not only has

solidified the US-Philippine alliance to the point that the US will remain the Philippine's sole strategic ally for the foreseeable future, but also has "transformed the alliance into a hedge against the challenge of growing Chinese power in East Asia."

A hearing focused on assessing China's influence in Southeast Asia and its implications for the US was held by the US-China Economic and Security Review Commission in February. It featured comprehensive treatment including statements by representatives of the US State and Defense Departments and eight expert witnesses. The US administration witnesses endeavored to place China's rising influence in the context of a regional environment very much influenced by the US and other powers as well as by the Southeast Asian governments themselves. They welcomed China's greater engagement and showed US willingness and abilities to deal with challenges and contingencies posed by China's rise. Thus, China's trade with the ASEAN states has been growing for over a decade, but still is only 11 percent of regional trade. It is slightly ahead of US trade and behind Japan's trade levels. Growing Chinese trade has produced local economic dislocations and tensions with some Southeast Asian countries. Investments by China are a small fraction of the investments in Southeast made by Japan or the US. Chinese aid and commercial financing were increasing and prompted American concern because China appears to undermine US-backed efforts to use assistance to promote better governance. Chinese defense ties were seen as "relatively modest ... China is long from becoming the security partner of choice to the region as a whole."

The US government was depicted as actively engaged with countries in the region bilaterally and multilaterally, standing against any use of force to resolve disputed claims in the South China Sea. Witnesses criticized perceived Chinese efforts to intimidate US oil companies working with China's Southeast Asian neighbors over disputed territorial and resource claims, or to advance claims to navigation rights at odds with "customary international law, as reflected in the UN Convention on the Law of the Sea." The US government witnesses advised that "as China becomes more present, regional awareness of the importance of a vibrant US stabilizing presence remains strong, and has in some areas increased." These trends actually favor closer ties to the US as Southeast Asian nations desire an active and engaged US presence in the region to serve as a counterbalance to China. Southeast Asian nations were portrayed as "highly valuing US engagement because it comes from a country that is not directly on any of its borders, has no territorial claims, and has a long history of having and supporting mutual interest."

The eight nongovernment specialists came from differing backgrounds, with some representing institutions with reputations for more conservative or more liberal orientations. Their testimony covered the full range of Chinese economic, political, and security engagement with Southeast Asian countries bilaterally and in multilateral institutions. The testimony was generally in line with the administration witnesses' depiction of China's rise and the regional responses to China's role. The Chinese efforts had succeeded in reducing past regional concerns about China as a direct threat to the well-being of Southeast Asia, but prevailing wariness continued. China's prominence as a trading partner was duly emphasized, as was the importance of the CAFTA, though it was noted that CAFTA's importance remained to be seen in a situation where "89 percent of ASEAN's trade is not with China." China's security role in the region was seen as being much less significant than its economic and political role. Special attention was devoted to

assessing the substantial and often negative impact of Chinese development and dam building along rivers that originate in China and flow through Southeast Asia.

The nongovernment witnesses were forthright in offering a long list of recommendations on how the US government could become more active and effective in fostering US interests in Southeast Asia. These involved following up with initiatives for greater engagement with Southeast Asian governments diplomatically in bilateral and multilateral mechanisms, fostering trade and investment, targeting US assistance more effectively, and standing firm against the use of force or intimidation in the South China Sea while building on the variety of US security mechanisms and connections in the region. Many of these proposals involved US constructive interchange and engagement with China over common ground and differences. It was averred that the US would be wise to continue promoting the theme that regional dynamics in Southeast Asia should not be portrayed as “the US vs. China,” as regional governments appear loath to choose between these two important partners.

Outlook

The spring quarter usually is marked by more activity in leadership visits and interchange between China and Southeast Asia than occurs during the winter months. The upcoming ASEAN summit in Hanoi, as well as Chinese Premier Wen Jiabao’s official visit to Indonesia in April, will show how China responds and reacts to managing regional concerns on the CAFTA as well as on other regional issues. Whether the assertiveness seen in Chinese statements in recent months regarding differences with the US over Taiwan and other issues will spill over and impact Southeast Asia may be evident in these interchanges. An alternative would be for Chinese leaders and commentators to reaffirm the past Chinese emphasis on reassurance of its neighbors and the US as seen in the authoritative speech by State Councilor Dai Bingguo at ASEAN headquarters, something that has not been otherwise highlighted in recent months.

Chronology of China-Southeast Asia Relations January – March 2010

Jan. 1, 2010: China and the Association of Southeast Asian Nations (ASEAN) kick off the regional free trade area, effectively lowering average tariffs for goods from ASEAN countries to 0.1 percent while six Southeast Asian countries will lower average tariffs on Chinese goods to 0.6 percent.

Jan. 6, 2010: Chinese Defense Minister Liang Guanglie meets Singapore’s Chief of Army Neo Kian Hong in Beijing. They pledge to expand military-to-military ties and areas for bilateral defense cooperation.

Jan. 11, 2010: Chairperson of the Standing Committee of the National People’s Congress Wu Bangguo meets the head of Thailand’s National Assembly, Chai Chidchob, to discuss prospects for parliamentary exchanges.

Jan. 14, 2010: Chinese officials meet representatives from Myanmar's Military Affairs Security unit (formerly known as Military Intelligence) to discuss ways to curb arms smuggling and counter-insurgency activities along the Sino-Myanmar border.

Jan. 15, 2010: The Singapore-China Association for the Advancement of Science and Technology (SCAAST) is established to promote science and technology exchanges and collaboration between the two countries. The group will focus on bio-technology.

Jan. 18, 2010: Chinese President Hu Jintao and Premier Wen Jiabao exchange congratulatory messages with their Vietnamese counterparts to mark the 60th anniversary of diplomatic ties. The two sides pledge to build a more comprehensive, strategic, and cooperative partnership and seek greater collaboration to resolve remaining border issues. The anniversary will also involve a series of activities under the banner of the China-Vietnam Friendship Year 2010.

Jan. 20, 2010: Representatives from China, Cambodia, Laos, Myanmar, Thailand, and Vietnam meet in Bagan, Myanmar for the Seventh Senior Officials meeting for the Coordinated Mekong Ministerial Initiative Against Trafficking (COMMIT). They are joined by other ASEAN member states and representatives from the United Nations to discuss plans and priorities to counter human trafficking activities in the region and strengthen joint law enforcement activities.

Jan. 22, 2010: Chinese State Councilor Dai Bingguo meets Indonesian Coordinating Minister for Political, Law and Security Affairs Djoko Suyanto in Jakarta for the second round of the China-Indonesia strategic dialogue. He also meets ASEAN Secretary General Surin Pitsuwan at the ASEAN Secretariat.

Feb. 5, 2010: A *New York Times* article discusses Vietnam's push to "internationalize" the Paracel Islands in the South China Sea by seeking to enlist other countries to convince China to negotiate the future settlements over the disputed islands in a multilateral setting.

Feb. 16, 2010: ASEAN Secretary General Surin Pitsuwan reviews and discusses the benefits and potential difficulties for member states taking part in the CAFTA. While acknowledging the agreement will require adjustments for certain countries, on the whole, he sees opportunities for growth for ASEAN member economies.

Feb. 24, 2010: The National People's Congress approves a 51-item agreement that was signed by Chinese Foreign Minister Yang Jiechi and Philippine counterpart Alberto Romulo in October 2009 to strengthen bilateral cooperation in consular affairs and promote the strategic relations.

Feb. 25, 2010: China and Cambodia sign a treaty to provide a legal basis for officials to cooperate on consular affairs as well as to combat illegal immigration and transnational crimes.

Feb. 27, 2010: *Zhongguo Xinwen She* news agency reports that Chinese RADM Yin Zhuo sees the rapid buildup of ASEAN member states' submarine fleets along China's coastal borders as a challenge to China and a source of increasing tensions in the South China Sea.

March 4, 2010: Head of the Communist Party Central Committee International Department Wang Jiarui leads a delegation to Nay Pyi Taw and meets Myanmar Prime Minister Thein Sein. They reaffirm the friendly traditional ties between China and Myanmar and discuss prospects for enhanced cooperation in the energy sector and bilateral trade.

March 8, 2010: Vietnam announces that it remains committed to implementing the terms of the land border boundary agreement signed with China in 2008 to maintain peace and stability along the two countries' borders and to more effectively tackle such trans-border crimes as human trafficking, drug trade and arms smuggling.

March 10, 2010: Chinese peacekeeping experts and officials take part in the ASEAN Regional Forum (ARF) Peacekeeping Experts' Meeting in Bangkok to discuss the evolving complexity of peace operations and the increasingly important role regional organizations contribute toward such operations.

March 11, 2010: The Chinese Embassy in Thailand convenes a public press conference to rebuke recent claims that the Chinese mega-hydropower projects in Southwest China are affecting the water volume in the Mekong River.

March 18, 2010: Chinese Vice Premier Hui Liangyu visits Phnom Penh and meets his Cambodian counterpart to discuss bilateral relations. The two sides agree to improve and expand high-level exchanges and to deepen business, trade, and economic cooperation.

March 21, 2010: Vice Premier Hui arrives in Vientiane to meet senior Laotian officials. They discuss prospects for increasing bilateral cooperation, especially in trade and investment.

March 23, 2010: Chinese Defense Minister Liang Guanglie meets the commanding general of Thailand's National Defense Studies Institute. They agree to work to help elevate bilateral strategic cooperation and deepen joint training activities.

March 24, 2010: The \$120 billion Chiang Mai Initiative Multilateralization Agreement on currency swaps among China, Japan, South Korea and ASEAN member states comes into effect.

March 29, 2010: ASEAN Secretary General Surin Pitsuwan visits Beijing and meets senior officials including Prime Minister Wen Jiabao, Foreign Minister Yang Jiechi, and Commerce Minister Chen Deming.

March 29-31, 2010: China hosts a meeting with representatives from ASEAN countries on defense and security issues in Beijing. Sponsored by the Academy of Military Sciences and the People's Liberation Army, the dialogue seeks to deepen mutual trust and focuses on regional defense matters.