

**CHINA-ASEAN RELATIONS:  
PERSPECTIVES, PROSPECTS AND  
IMPLICATIONS FOR U.S. INTERESTS**

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## FOREWORD

Relations between China and the Association of Southeast Asian Nations (ASEAN) have undergone significant changes over the past 15 years. ASEAN's concerns over Beijing's drive for military modernization and its assertive posture in territorial disputes over the South China Sea of the early 1990s are replaced with growing economic ties and shared geo-political interests for building regional security through multilateral processes. Since the 1997 Asian financial crisis, Beijing has expanded its influence as a major political force in the region and a locomotive for economic recovery and future opportunity. What explains China's successful diplomatic offensive and what implications do closer China-ASEAN ties have for the United States?

In this monograph, Dr. Jing-dong Yuan of the Monterey Institute of International Studies seeks to answer these questions by tracing the evolution of China-ASEAN relations since the early 1990s and examining some of the key factors that have contributed to the positive developments in bilateral ties. Specifically, he describes and analyzes how China and ASEAN have managed the territorial disputes through negotiation and compromises; looks at the expanding economic ties between China and ASEAN member states and examines the politico-strategic, as well as economic rationales for establishing a free trade area; and evaluates the emerging yet still limited defense and security ties between the two. Next, he provides detailed analyses of ASEAN's dual-strategy of engagement and hedging, and looks at China's bilateral relationships with seven ASEAN member states—Indonesia, Malaysia, Myanmar, the

Philippines, Singapore, Thailand, and Vietnam—and examines how each ASEAN state adopts a particular mix of policies due to its unique historical and geo-strategic circumstances and its threat perceptions. Finally, Professor Yuan assesses the implications of the growing China-ASEAN ties for U.S. interests in the region and dispels some of the misperceptions and exaggeration of both Beijing’s intentions and influence. Washington retains much of the influence but does need to develop and adopt creative approaches to both individual member states and ASEAN as a group.

Professor Yuan’s timely analysis of this important issue is informed by his extensive research of the existing literature and personal interviews with officials and scholars in Beijing, Shanghai, and Singapore. Professor Yuan’s most valuable contribution to our understanding of the subject is his extensive use of Chinese sources not readily available to western readers. By synthesizing and presenting the views of Chinese analysts and media, Professor Yuan also provides some insights into Chinese perspectives on ASEAN as a regional player and how Beijing views its relationship with ASEAN in its efforts to promote regional stability for continued economic growth and prosperity. The Strategic Studies Institute is pleased to publish this monograph as a contribution to the emerging debate on China-ASEAN relations and the implications for the United States.



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JING-DONG YUAN is Director of Research for the East Asia Nonproliferation Program at the Center for Nonproliferation Studies and an Associate Professor of International Policy Studies at the Monterey Institute of International Studies. Over the years, Dr. Yuan has provided consulting work for the Canadian government on issues related to Asia-Pacific security and arms control and nonproliferation, participated in the Council on Security Cooperation in Asia-Pacific (CSCAP) working group meetings, and testified before the U.S.-China Economic and Security Review Commission on Chinese nonproliferation policy. He has also appeared as a commentator on the Voice of America (VOA), the BBC, Radio Free Europe, and Radio Free Asia. Dr. Yuan's research focuses on Asia-Pacific security, global and regional arms control and nonproliferation issues, U.S. policy toward Asia, and China's defense and foreign policy. He writes extensively and is the author of over 100 monographs, book chapters, journals articles, and newspaper op-eds. He is the co-author of *China and India: Cooperation or Conflict?* (Boulder and London: Lynne Rienner Publishers, 2003). A graduate of the Xi'an Foreign Language University, People's Republic of China (1982), he received his Ph.D. in political science from Queen's University in 1995 and has had research and teaching appointments at Queen's University, York University, the University of Toronto, and the University of British Columbia, where he was a recipient of the prestigious Izaak Walton Killam Postdoctoral Research Fellowship. He was also a visiting research scholar at the Cooperative Monitoring Center at Sandia National Laboratories before he joined the Center for Nonproliferation Studies in summer 1999.

## SUMMARY

Since the mid-1990s, China and the Association of Southeast Asian Nations (ASEAN) have developed a growing partnership in security cooperation, economic/trade interdependence, and the development and sharing of “Asian values.” Compared to the late 1980s and early 1990s when Beijing had yet to establish or normalize diplomatic relations with key ASEAN member states and when the concerns over the “China threat” both drove Southeast Asia’s armament and military buildup and were the major rationale for initiating a regional security arrangement to keep the United States engaged, the current state of China-ASEAN relationship is truly remarkable. While a China and Southeast Asia living in harmony contributes to regional peace, stability, and prosperity and minimizes the potential for conflicts over unresolved territorial disputes, the future direction of this relationship nevertheless could have major implications for long-term U.S. interests in the region, especially if it evolves into a competitive and even exclusive regional trading bloc and a geo-strategic arrangement under the shadow of a growing and more assertive China.

This monograph describes the evolving China-ASEAN relationship over the past 15 years and examines the key elements of this relationship in the areas of economic/trade interdependence, security dialogue and cooperation, Chinese diplomacy in expanding influence in the region, China-ASEAN efforts in managing the unresolved territorial disputes, and the ASEAN member states’ continuing concerns about and the hedging strategy against an ever growing China. Three underlying themes are interwoven with

the discussions of both chronological developments and major issues in this study. The first describes Beijing's post-Tiananmen diplomatic offensive: a good neighborly policy of establishing and restoring diplomatic ties with key ASEAN member states. It assesses how the changing environments at both the international and regional levels drove Chinese foreign and security policy during the initial post-Cold War period where the disintegration of the former Soviet Union effectively had reduced the utility of the "China Card" and hence its strategic importance in the strategic triangle. A more focused Asia policy of necessity led to greater attention to Southeast Asia.

The second theme relates to how ASEAN, alarmed by Beijing's growing military buildup and the assertive irredentism regarding the territorial disputes in the South China Sea, sought to both keep the United States engaged in the region's security arrangements and socialize a China that remained suspicious of multilateralism and the concepts of cooperative security, dialogue processes, and Track-II initiatives. Through the ASEAN Post-Ministerial Meetings and the establishment of the ASEAN Regional Forum (ARF), the Southeast Asian nations were able to socialize, assure, and obtain assurance from China that the ASEAN Way could be the model for developing regional security institutions. At the same time, from the mid-1990s onward was also the period that saw increasing economic ties between the two and, in the wake of the 1997 Asian financial crisis, China's position as a major market and source of low-cost production became more important to the recovery and sustainability of the Southeast Asian economy.

The third highlights the major developments over the past 5 years where the political, economic, and

strategic elements of China-ASEAN have become even more pronounced in the forms of the China-ASEAN Free Trade Area, the ASEAN +3 process, and China's accession to the ASEAN Treaty of Amity and Cooperation and the signing of the 2002 Declaration on the Conduct of Parties in the South China Sea. It examines the key factors driving these developments and speculates on their long-term impact on the transformation of the region's geo-strategic and geo-economic landscapes and the implications for U.S. interests in the region. In particular, the monograph discusses the ASEAN states' lingering unease over China's growing power and their hedging strategies, including continued and even intensified security ties with the United States.



# CHINA-ASEAN RELATIONS: PERSPECTIVES, PROSPECTS AND IMPLICATIONS FOR U.S. INTERESTS

## INTRODUCTION

Relations between China and the Association of Southeast Asian Nations (ASEAN) and its member states have undergone significant changes over the past 15 years. When Beijing first established official contacts with the original ASEAN-6 in 1991, it barely had restored diplomatic relations with Indonesia, had begun to normalize relations with Vietnam, and just had established diplomatic ties with Singapore. There were strong suspicions, as well as concerns, among ASEAN member states over China's growing power and intentions toward Southeast Asia. History aside, Beijing's assertiveness in its claims to sovereignty over the Spratly Islands in the South China Sea, its ongoing military buildup, and the occasional uses of force in asserting its territorial claims (with South Vietnam in 1974, and with Vietnam in 1988), cast a shadow over the Southeast Asian states at a time of uncertain U.S. commitment and military drawdown in the region (e.g., the closing of the Subic and Clark military bases in the Philippines in 1991). It was no accident that the "China threat" thesis found a receptive audience in the region's capitals. Indeed, ASEAN's internal and external balancing strategy in the early 1990s was very much driven by such grim assessments.

What differences a decade and half have made. Today, China and ASEAN have formed a strategic partnership for peace and prosperity, signed a framework agreement on a China-ASEAN Free Trade

Area (CAFTA), and are cooperating on a range of issues of mutual interest from maritime security to nontraditional security challenges. Washington should welcome a stable relationship between China and Southeast Asia that in general contributes to regional peace, stability, and prosperity, and minimizes the potential for conflicts over disputed territories that could endanger key sea lines of communication (SLOCs). At the same time, it also is important to assess the long-term implications of growing China-ASEAN ties, and if and to what extent the emerging East Asian regionalism and greater regional integration could undermine U.S. interests in the region.

This monograph takes stock of the evolving China-ASEAN relationship over the past 15 years, examines some of the key elements of this relationship, and analyzes the implications for U.S. interests in the region. These include growing China-ASEAN economic/trade interdependence; bilateral and multilateral security dialogue and cooperation and efforts in managing unresolved territorial disputes; Chinese diplomacy in expanding its influence in the region in competition with Japan and, to a lesser extent, the United States; and the ASEAN member states' continuing concerns about and the hedging strategy against China that both offers opportunities and poses security challenges.

The monograph seeks to address the following issues. First, it tests the International Relations theory on rising powers and the challenges to the international system, and the possible reactions from other actors in the forms of either balancing or band-wagging. Second, it looks at the question of whether China would and actually is asserting a form of benign hegemony and sinocization of the region as its influences grow. Given the extensive Chinese communities in the region, what could be the

implications of a Greater China in political, cultural, and economic terms? Finally, whether, how, and to what extent continued expansion and consolidation of China-ASEAN relations reconcile with U.S. regional strategic goals of retaining primacy and sustaining economic ties. Would Washington allow Beijing to develop a Monroe Doctrine of its own in Southeast Asia, or is such an alarmist perspective unfounded? Can a *modus vivendi* be developed between China and the United States so that the deepening China-ASEAN relations would not amount necessarily to an assertion of Beijing's sphere of influence, or that long-term U.S. interests demand that Washington foil any efforts to exclude American presence and participation in this part of the world that is key to major international SLOCs, in addition to being a critical part of U.S. global as well as regional strategy?

### **FROM ENMITY TO AMITY: CHINA'S CHANGING RELATIONSHIP WITH ASEAN**

The history of China and its Southeast Asian neighbors during the Cold War years was one of both amity and animosity. Indonesia (April 1950) and Burma (June 1950) were among the first few countries to recognize the People's Republic of China (PRC). From the early 1950s until the mid-1960s, Beijing enjoyed an especially warm relationship with Jakarta, most prominently displayed in the 1955 Bandung Conference of Asian-African Countries and continued during much of President Sukarno's reign. Beijing also maintained a close relationship with the fellow communist regime in North Vietnam and rendered significant support to its causes against France and the United States from the 1950s to the 1970s, including sizable material and human assistance.<sup>1</sup>

But China's relationships with many Southeast Asia's noncommunist states were decidedly estranged. Concerns over potential threats from communism led some of them to participate in and form alliance-like regional organizations (Southeast Asian Treaty Organization or SEATO, 1954-77; the Five-Power Defense Arrangements or FPDA, 1971-) with external powers—the United States in particular—to protect their interests. There were deep suspicions over China's motives and activities, especially as they related to the large number of overseas Chinese residing in these countries.<sup>2</sup> Beijing's public support of the communist insurgents in the region only reinforced their perceptions and heightened their fears. Not surprisingly, many of them did not establish diplomatic relations with Beijing until the mid-1970s (Thailand, Malaysia, and the Philippines). Others only normalized ties with China in the 1990s (Singapore and Indonesia).<sup>3</sup>

The Sino-U.S. rapprochement in the early 1970s led to the establishment of diplomatic ties between China and a number of ASEAN states. The emerging Chinese-ASEAN cooperation in the late 1970s ironically was prompted largely by their shared concerns over Vietnam's growing assertiveness and its attempt to establish hegemony in Indochina, in particular in the aftermath of its invasion of neighboring Cambodia. Thailand, being on the frontline of the Cambodian conflict, sought to develop security ties with China. China also coordinated with ASEAN in seeking a political settlement of the Cambodian issue and supported the latter's position that the Cambodian coalition government headed by Prince Sihanouk, not the Hanoi-backed Heng Samrin regime, should represent Phnom Penh in the United Nations (UN).<sup>4</sup>

During the 1980s, Chinese policy toward Southeast Asia began to undergo important changes in two critical

areas. Beijing started to place state-to-state relationships in precedence over ideological ties by halting its support to communist insurgence movements in the region. In 1989, it also passed laws on Chinese citizenship requiring overseas Chinese to adopt citizenship of their countries of residence. By taking these two important measures, major irritants effectively were removed from China's bilateral relationships with a number of Southeast Asian countries. Beijing now seemed more than ever eager to court better relationships with its Southern neighbors, and this has paved the way for improvement of political ties.<sup>5</sup>

Beijing's official contact with ASEAN as a group began in July 1991 when Chinese Foreign Minister Qian Qichen was invited to attend the opening ceremony of the 24th ASEAN Foreign Ministers' Meeting. Since then China has attended each ASEAN Foreign Ministers' Meeting consecutively. In 1994, China participated in the ASEAN Regional Forum (ARF) and became a consultative dialogue partner of ASEAN. This status was elevated in 1996, when China became a full dialogue partner with ASEAN. In December 1997, Chinese President Jiang Zemin and ASEAN leaders held their first ever summit in Malaysia and issued a joint statement announcing their decision to establish a partnership of good neighborliness and mutual trust between China and ASEAN oriented toward the 21st century. In October 2003, China and ASEAN signed the "Joint Declaration of the PRC and ASEAN State Leaders – A Strategic Partnership for Peace and Prosperity."<sup>6</sup>

The emerging China-ASEAN ties were influenced by a number of developments at the time. One was Beijing's efforts, in the wake of the Tiananmen incident, in particular in response to the sanctions imposed by the

West, to break the isolation. Southeast Asian countries, given their relative reticence regarding the June 4 Incident, became targets of the Chinese diplomatic good neighborly policy. Beijing and Jakarta restored, and China and Singapore established, diplomatic relations in 1990. Chinese Premier Li Peng visited Indonesia, the Philippines, Malaysia, and Laos as part of that diplomatic endeavor. A second reason was to sustain the cooperation between the two in the wake of the Cambodian settlement, in which China played a constructive role in the resolution of the dispute and had been in close consultation with ASEAN in the 1980s. But most important of all was Beijing's changing perception of its security environment and the relative place of Southeast Asia in its post-Cold War security policy. This resulted in the successful management of the territorial disputes in the South China Sea, Beijing's reassurance to ASEAN of its benign intentions and its acceptance of multilateralism and cooperative security, and China's growing economic ties with ASEAN.<sup>7</sup>

### **Managing Territorial Disputes.**

To ensure a conducive environment for economic development required strengthening relations and/or mending fences with China's neighbors, including the Southeast Asian states.<sup>8</sup> Disputes over the Spratly Islands began to emerge in the 1980s, especially after the signing of the United Nations Convention on the Law of the Sea (UNCLOS) in 1982. The reported rich deposits of maritime resources, including oil and natural gas, led to scrambling for atolls and islets in the South China Sea and disputes among six claimants—Brunei, China, Malaysia, Philippines, Taiwan, and Vietnam.<sup>9</sup> While Beijing sought to improve relations with ASEAN, its

assertiveness in sovereignty claims almost derailed such efforts. This was most evident in China's handling of the territorial disputes in the South China Sea, especially its occasional display of military might. The construction of shelters on the disputed Mischief Reef also was seen by some of the contenders as an act of aggressiveness. In addition to strengthening its claims to the disputed territories, China's South China Sea policy also was a reflection of its growing interest and ambitions in extending its influence, and as a result, greater efforts in developing a navy that could go beyond coastal defense.<sup>10</sup>

Chinese assertiveness in its claims over the Spratly Islands was informed both by its strong sense of sovereignty and territorial integrity, and more pragmatic economic security considerations, including securing a peaceful external environment for economic development and protecting the country's economic interests, including protecting its land, air space, and its territorial waters. The growing attention to maritime interests and the cultivation of a "conception of sea as territory" (*haiyang guotuguan*) reflected both a recognition of the potential of maritime resources for national economic development and a realization that China must enhance its ability to protect its perceived maritime territories. One Chinese analyst suggested:

To make sure that such [maritime] resources are fully tapped and utilized, China needs to ensure the security of its maritime economic activities. A strong naval defense is essential to reducing the threat posed by sea-borne smuggling and piracy to China's tariff incomes, ocean fishery, and marine transportation.<sup>11</sup>

According to Chinese sources, of the more than 3 million square km of territorial waters China claims as its own,

an area of more than 800,000 square km within China's traditional maritime boundaries has been illegally delineated into the domain of other nations, with 410,000 square km taken by the Philippines, 270,000 by Malaysia, 70,000 by Vietnam, 50,000 by Indonesia, and the remainder by Brunei. . . . With rapid economic growth, China will be in greater and greater need of energy. The 3 million square km of national marine territory is where the Chinese nation's descendants pin their hopes.<sup>12</sup>

This had prompted calls for exercising one's own rights under UNCLOS that provides legitimacy for such claims. One Chinese naval officer contended: "From a national viewpoint, the Convention allows each country to utilize the ocean according to its own needs and gain its own individual ocean rights and interests, and it supplies a legal framework."<sup>13</sup> This call for more assertive sovereignty claims was understandably prompted by the fact that other claimant states reportedly already were operating 120 oil wells that could extract between 30 and 50 million tons of crude oil, which was almost one-third of China's annual extraction and surpassed China's South China Sea oil production by 40 times. The loss to China was therefore enormous.<sup>14</sup>

China became a net oil importer in 1993. The need for energy to fuel economic development could create instability as countries in the region compete for energy resources, which in turn could exacerbate the already touchy territorial disputes in the South China Sea. China's ongoing naval development can be seen, apart from the Taiwan scenario, as a direct response to energy shortages and the need to be able to assert claims over territories believed to contain much needed energy reserves.<sup>15</sup> For these reasons, the Chinese Navy had been given the task of broadening the traditional mission of coastal defense to that of force projection into the South China Sea and beyond.<sup>16</sup> Two important factors probably explain



the rising importance of maritime security to China. One is that maritime routes are becoming essential to China's growing international trade; it increasingly depends on the seaborne resources that go through the key chokepoints in Southeast Asia. With about 85 percent of its trade being transported by sea, including an estimated 50 percent of its oil imports transiting the Strait of Malacca, Beijing understandably is keen on developing its force projection capability, if for nothing else than to protect critical sea lanes. The other reason is the potential offshore oil and mineral deposits, which are crucial resources to China's economic development in the coming decades.<sup>17</sup>

China claims complete sovereignty over the entire Spratly Island groups that are partly or in whole also claimed by Brunei, Malaysia, the Philippines, Taiwan, and Vietnam, and over Paracel, a claim that also is contended by Vietnam. In February 1992, China's National People's Congress (NPC), the country's putative legislature, passed the Law of Territorial Waters and Contiguous Zone that claims complete control and asserts that it will resort to the use of force to protect its territories. The controversial law, together with reported Chinese People's Liberation Army (PLA) construction of an airstrip on the Woody Island, struck the ASEAN states as showing assertive Chinese intentions toward the entire South China Sea.<sup>18</sup> An internal document in China argued at the time that, given the country's increasing demands for resources and the decreasing resource bases at home, the importance of the Spratly Island groups in terms of their potential oil and mineral reserves was becoming greater and, indeed, might provide the only survival space for China.<sup>19</sup>

The island groups also sit on important SLOCs and therefore are strategically significant. Chinese control

over the area means that they will be able not only to enhance their power projection capabilities but also to exert tremendous leverage over countries that rely on these SLOCs for their imports of key industrial resources such as oil. In other words, the ability or the perceived ability to disrupt normal transportation can cause great uncertainty and economic fallout. China already had engaged in two military clashes with Vietnam (1974, 1988) and was slowly but steadily increasing its presence in the South China Sea. The Chinese leaders, meanwhile, were trying to assure the neighbors by expressing willingness to discuss joint exploration and development efforts with other claimant states and shelve the sovereignty issue.<sup>20</sup>

However, Beijing continued to assert its exclusive sovereignty over the disputed territories in the South China Sea even as it advocated shelving the question of sovereignty. This was demonstrated by the revelation of its occupation of the Mischief Reef in February 1995, where the PLA built concrete constructs and shelters. There were competing explanations as to China's intention in occupying the reef, and the Chinese themselves explained that the structure built would be used for fishermen regardless of nationalities. Nonetheless the Philippines were alarmed.<sup>21</sup>

The Mischief incident effectively raised ASEAN's concern over China's assertiveness and galvanized the organization into action. Until 1995, ASEAN had taken no public position on the South China Sea disputes. In March 1995, ASEAN for the first time publicly called for all parties to the dispute to adhere to the spirit and letter of the 1992 Manila Declaration on the South China Sea. The issue subsequently was placed on the agenda of the ARF despite Chinese objection.<sup>22</sup> Member states converged on the idea of the code of

conduct, reflecting the principles the group had always adhered to – nonforceful settlement of disputes, norm-building, and confidence-building measures (CBMs). ASEAN itself first adopted principles of behavior among member states and then presented a united front vis-à-vis China. The approach was driven by two considerations. The first was to develop consensus among members, since not all of them lay claims to the disputed territories and as they each had a different relationship with China; secondly, it was hoped that a code of conduct, should it be accepted by Beijing, would constrain China, a stronger power in the disputes, to refrain from the use of force.<sup>23</sup>

However, even as member states were contemplating unified approaches toward the South China Sea disputes, some also sought to strike separate deals/understandings with Beijing. Malaysia, for one, accepted China's preference for bilateral negotiation. What also was significant was Malaysian Prime Minister Mahathir's call for external powers to stay out of the disputes, effectively ruling out possible intervention by the United States, something Manila was keen on securing.<sup>24</sup> Indeed, the Philippines sought U.S. support and signed a Visiting Forces Agreement with Washington in February 1998, 7 years after it had evicted American forces from its naval and air force bases. Meanwhile, the Philippines also engaged in bilateral discussion with China, resulting in a Joint Statement on PRC-RP Consultation on the South China Sea and on Other Areas of Cooperation in August 1995.<sup>25</sup>

On November 4, 2002, ASEAN and China signed the Declaration on the Conduct of Parties in the South China Sea, a major milestone in China-ASEAN relations, concerning how the claimant countries to the

territorial disputes would resolve them. While ASEAN was not able to get Beijing committed to a code of conduct, which would be a more stringent measure, the declaration at least obliged China to pursue a multilateral approach to the issue, a shift from the bilateralism that it had preferred. It also was symbolic in that China had appeared to be accepting ASEAN's preference for norms and regulation of the dispute.<sup>26</sup> Specifically, the Declaration commits the signatory parties:

to exercise self-restraint in the conduct of activities that would complicate or escalate disputes and affect peace and stability including, among others, refraining from action of inhabiting on the presently uninhabited islands, reefs, shoals, cays, and other features and to handle their differences in a constructive manner.

What motivated Beijing to adopt a more moderate approach to the territorial disputes was a growing concern over the Taiwan independence issue, and hence the need to secure ASEAN support for its unification policy; the risk of pushing the small Southeast Asian countries to the United States, resulting in greater ASEAN-U.S. military cooperation that could allow U.S. access to military facilities in the region, hence posing a greater threat to Chinese security interests, especially where the Taiwan contingency was concerned; and China's own lack of power projection capability that could help enforce its claims effectively.<sup>27</sup> These considerations led to changes in managing territorial disputes, moving away from more confrontational and militaristic approaches to ones that emphasize dialogue and promote joint exploration and development, without in any way giving up its claim to sovereignty over the disputed territories in the South China Sea.<sup>28</sup>

The more moderate stance was meant to deflate growing alarm over Chinese aggressiveness, especially in the context of the 1995-96 Chinese missile exercises in the Taiwan Strait, rather than a fundamental change of the conception of sovereignty. Indeed, if anything, western analysts suggest that Beijing may be engaged in a slow-intensity conflict where it steadily strengthens its hold on, and extends its reach to, disputed maritime territories.<sup>29</sup>

Beijing also negotiated separate codes of conduct with Vietnam and the Philippines. Between 1992 and 2000, seven rounds of negotiation took place between China and Vietnam. In December 1999, Beijing and Hanoi signed a Land Border Treaty, which subsequently was ratified by the two countries' parliaments in 2000. On December 25, 2000, China and Vietnam signed the Agreement on the Delimitation of the Territorial Seas, Exclusive Economic Zones, and Continental Shelves in the Gulf of Tonkin and the Agreement on Fishery Cooperation in the Beibu Gulf. Both agreements subsequently were ratified by the two countries' legislatures in 2004.<sup>30</sup>

In March 2005, national oil companies from China, the Philippines, and Vietnam signed a landmark agreement to conduct joint prospecting for oil and gas in the South China Sea. On the one hand, this is considered to be a major breakthrough, especially based on the idea of shelving territorial disputes and seeking joint exploitation and development. However, there also are concerns, from the ASEAN perspective, over China's "divide and rule" tactic that is establishing its dominance effectively in the region and undermining the organization's unity in dealing with the rising power.<sup>31</sup>

Furthermore, the territorial disputes continue to resurface from time to time, with occasional clashes

resulting in casualties and detention, or otherwise property damages. A July 1999 run-in between a Chinese fishing boat and the Philippine Navy ended in the former's sinking. Similar incidents occurred in January 2000, when Philippine naval patrol personnel boarded Chinese fishing boats, touching off protests and warnings from Beijing.<sup>32</sup> Chinese media also point out that Vietnam continues to encroach on Chinese territorial integrity in the South China Sea by setting up telephone networks on atolls and islets currently under Vietnamese occupation. These activities are seen as efforts to establish *fait accompli* to strengthen Hanoi's leverage in future negotiations.<sup>33</sup>

### **Defense and Security Cooperation.**

Over the years, China and ASEAN countries have developed defense and security ties in a number of areas, ranging from high-level visits by military and defense officials to port calls, small-scale joint military exercises, defense equipment transfers, military educational exchange programs, and multilateral dialogues by senior defense and military officers. In December 1999, General Fu Quanyou, Chief of the General Staff of the PLA, visited Thailand to observe ceremonies marking King Bhumibol Adulyadej's 75th birthday anniversary. Between 2002 and 2006, the Chinese defense minister, the PLA chief of general staff, service and military area commanders, and other high-ranking Chinese military leaders made visits to all 10 ASEAN member states; China also received defense ministers and ranking military officers from these countries. Meanwhile, Beijing has established security dialogues with six ASEAN member states—Indonesia, Malaysia, Philippines, Singapore, Thailand,

and Vietnam—as well as ASEAN itself. Of these six, four have territorial disputes with China. China also has sold military equipment to six ASEAN member states (Cambodia, Indonesia, Malaysia, Philippines, Thailand, and Vietnam) over the past 5 years. In April 2006, China and Vietnam conducted joint maritime patrols in the Gulf of Tonkin.<sup>34</sup>

In October 2003, China acceded to the ASEAN Treaty of Amity and Cooperation and issued the China-ASEAN Joint Declaration on Strategic Partnership for Peace and Prosperity. In December 2004, a 5-year (2005-10) Plan of Action was adopted. The Plan focuses heavily on defense and security cooperation between the two, especially in the following areas:

- confidence and trust in defense and military fields;
- dialogue, consultation, and seminars on defense and security issues;
- cooperation on military personnel training;
- joint military exercises; and,
- peacekeeping operations.<sup>35</sup>

China also proposed and received endorsement from ASEAN, an Asian defense cooperation forum.<sup>36</sup> The first ARF Security Policy Conference was held in Beijing on November 4-6, 2004. The Indonesian Vice Minister of Defense chaired the first meeting, which covered a whole panoply of issues including the Korean nuclear crisis and the Six-Party Talks, maritime security, and terrorist threats to the region. The second meeting was held in Vientiane, Laos, on May 19, 2005.<sup>37</sup> China and ASEAN member states, especially those states adjacent to Yunnan Province, also cooperate in the areas of nontraditional security such as drug

trafficking, piracy, and money laundering.<sup>38</sup> Beijing has extended military assistance to Manila, including donations of \$1 million in equipment and \$3 million for setting up a Chinese-language training program for the Philippine armed forces. The PLA also invites the Philippine military personnel to receive educational training in China.<sup>39</sup>

### **China-ASEAN Free Trade Area.**

A major development in China-ASEAN relations since the end of the Cold War is perhaps the growing economic interdependence between the two. Indeed, two-way trade has been growing at a rate of 20 percent for the last decade and reached over U.S. \$100 billion in 2004, a year ahead of a previously set target. It further registered a 23 percent increase in 2005, reaching \$130.4 billion.<sup>40</sup> ASEAN member states have benefited from China's spectacular economic growth as the Asian giant's growing demands also generate economic benefits for the region as a whole. For instance, in 2004, ASEAN had a roughly \$20 billion trade surplus with China, while China's other major trading partners all sustained sizable deficits.<sup>41</sup>

Chinese analysts have divided the evolution of China-ASEAN economic relations into two phases. The first one, from 1991, when Chinese Foreign Minister Qian Qichen was invited to attend the 24th ASEAN Foreign Ministers meeting, to 2001 when Chinese Premier Zhu Rongji proposed a China-ASEAN free trade area, saw the two sides expand and deepen bilateral trade ties. The second phase began in November 2002, with the signing of the China-ASEAN Framework Agreement on Comprehensive Economic Cooperation moving toward regional economic



integration. Over the years, China and ASEAN have institutionalized 48 regular mechanisms to facilitate closer economic cooperation. Prominent among them is the highest political mechanism – ASEAN+1, launched in 1997. In addition, there are five working groups: the China-ASEAN Senior Officials meeting, the China-ASEAN Joint Cooperation Committee, ASEAN-China Joint Committee on Economic and Trade Cooperation, ASEAN-China Joint Committee on Science and Technology (July 1994), and the ASEAN Beijing Committee. The two sides also have identified five key areas for cooperation – agriculture, information and communication technologies, human resource development, the Mekong River Development, and mutual investment.<sup>42</sup>

At the eighth ASEAN summit in Phnom Penh, Cambodia, in November 2002, China and ASEAN signed the Framework Agreement on Comprehensive Economic Cooperation. If and when implemented, it would constitute a common market of 1.7 billion people, with a combined gross domestic product (GDP) of U.S.\$1.5-2 trillion. The two sides sought to establish a free trade area (FTA) within 10 years, first with the original ASEAN-6 by 2010, followed by the entire ASEAN-10 by 2015.<sup>43</sup> The initiative largely came from China, as it recognized ASEAN member states' concerns over China's growing economy and its crowding-out effect on investment flows into Southeast Asia and increasing economic competition. After Premier Zhu proposed the FTA idea, an ASEAN-China Expert Group on Economic Cooperation was established to study Zhu's proposal, as well as the impact of China's World Trade Organization (WTO) entry in 2001. It also is a response to the 1997 Asian financial crisis and hence the need for a more regional approach to

future economic challenges. Cooperation also includes the Mekong River Basin development project that has been supported by the Asian Development Bank and the endorsement by ASEAN of a U.S.\$2.5 billion Trans-Asian railway joining Kunming and Singapore.<sup>44</sup>

While there are many economic reasons for greater integration, some analysts also point to the strategic rationale for developing an FTA, especially from China's perspective. To begin with, such an arrangement could facilitate a more peaceful regional security environment critical to China's continued economic rise. Second, it addresses concerns in the region over China's growing power by more closely integrating itself with ASEAN, hence increasing the costs of conflicts. Chinese analysts suggest that the CAFTA should be viewed from a strategic perspective and as part of its peaceful rise. Geo-economics and greater economic interactions with ASEAN would support these objectives. To preempt Taiwan's strategy to buy its way into Southeast Asia, China should pay greater attention to the development of its southwestern region (Yunnan and Guangxi in particular) to develop and strengthen economic ties with the ASEAN countries.<sup>45</sup>

Third, by taking the lead in forming an FTA, China also hopes to play a more prominent role as the region's center of economic growth. Fourth, by investing more in the region and allowing a certain degree of self-discrimination—as in the form of the so-called "Early Harvest Program," giving ASEAN states preferential treatment on agricultural products in terms of tariff reduction and market access—Beijing seeks to address the perceived "China threat," not in the security area but in the context of economic competition. And finally, by entering a rules-based free trade arrangement, China also wants to demonstrate its acceptance of

multilateralism and respect for norms and rules. ASEAN member states for their own reasons sought to partake in China's dynamic economic growth; at least not to be left behind. An FTA also could energize other external powers to seek similar arrangements, therefore opening up more opportunities in the areas of trade and foreign direct investment (FDI).<sup>46</sup>

While China-ASEAN trade has registered rapid growth over the last decade, both rank fifth as each other's trading partners, after intra-ASEAN, Japan, the United States, and the European Union (EU). Future developments will depend on how both could complement, rather than compete, in labor-intensive manufacturing sectors and increase investment in each other. ASEAN countries recognize the opportunities that a growing China provides, but they also are worried over the long-term impact of a stronger China competing with them for foreign direct investment and replacing them as the manufacturer of labor-intensive consumer products. There remain serious concerns that China may compete and crowd out ASEAN in terms of foreign direct investment, replace ASEAN states as a manufacturing base, and hence cause severe economic downturn in the ASEAN countries less capable of competition and with little room for adjustment.<sup>47</sup>

To address these concerns, China in particular needs to make a greater investment in ASEAN, potentially in the energy and resource-based sectors, to raise two-way trade volumes further, as well as to generate a larger market as is supposed to be provided by the CAFTA. However, investment negotiations between the two still face major hurdles. For instance, during 1995-2004, Chinese investment (\$1 billion) in ASEAN amounted to only 0.4 percent of the total. This compares poorly with EU-15 (\$68.5 billion, 28.3 percent), the

United States (\$42.3 billion, 17.5 percent), and Japan (\$32 billion, 13.3 percent). It even is lower significantly than Taiwan's investment in the region (\$8.9 billion, 3.6 percent).<sup>48</sup> At the same time, China has replaced Southeast Asia as the destination of FDI. Beijing also needs to manage potentially contentious issues such as the Mekong River project that has economic, ecological, and environmental impacts on downstream Southeast Asian countries.<sup>49</sup>

The CAFTA has generated much interest in other extra-regional powers that seek FTAs with ASEAN. The United States proposed the Enterprise for ASEAN Initiative (EAI) that would enable member states to establish FTAs along the line of the U.S.-Singapore FTA. Japan also issued the "Joint Declaration of the Leaders of ASEAN and Japan on the Comprehensive Economic Partnership" on November 5, 2002, in Phnom Penh. At the 2003 ASEAN+1 summit held in Tokyo, Japanese Prime Minister Junichiro Koizumi pledged \$3 billion in new aid.<sup>50</sup> With CAFTA, ASEAN+1, and other regional forums, including the East Asia Summit in December 2005, there is what some would call the trend toward regionalism with shared markets, growing economic interdependence, and even shared ideas on what a regional security architecture should look like.<sup>51</sup>

China-ASEAN relations have evolved from enmity and suspicion to amity and greater cooperation on a broad range of issues. Having established a strategic partnership for peace and prosperity, the two sides are working toward building a stable, long-term relationship for the future. In addition to the state-to-state security and economic ties since reform started in the late 1970s, the Chinese Communist Party (CCP) has sought to establish and expand ties with political parties in Southeast Asia. Today, the CCP has official relations

with 39 political parties in the region, and the rationale and objectives are to promote mutual understanding, learning, economic success, and governance, regardless of ideologies. This is a far cry from the 1960s and 1970s when the CCP supported indigenous communist parties as part of a strategy to fan revolution in the region to topple ruling governments.<sup>52</sup>

Beijing's efforts to assure its neighbors through the so-called new diplomacy have paid off in winning confidence from its Southeast Asian neighbors, if not completely erasing disputes between them. The 1997 Asian financial crisis was a turning point. Chinese responses to the crisis, including its pledges of \$1 billion to help Thailand and not to devalue the Renminbi, won good will in ASEAN. Beijing also emerged more confident of its own potential leadership role in the region, although it remains deferential to ASEAN.<sup>53</sup> China began to publish a defense white paper in 1998. Now published every 2 years, the document also has moved from mere exposition of general principles to some elementary explanations of defense budgets, modernization programs, and doctrinal issues. While still far from ideal, at least some modest steps have been made to enhance transparency. China also put forward the "New Security Concept" (NSC) at the ARF Inter-Sessional Support Group (ISG) on Confidence-Building Measures that it co-hosted with the Philippines in Beijing, March 1997. The NSC emphasizes cooperative security, confidence-building, peaceful resolution of disputes, and multilateral dialogue.<sup>54</sup> In November 2004, China hosted the first ARF Security Policy Conference in Beijing. Within a decade, growing interdependence and skillful Chinese diplomacy have sustained a steady improvement and rising comfort level between China and ASEAN, allowing Beijing to exercise greater influence in the region.<sup>55</sup>

China and ASEAN also are expanding areas of cooperation, in particular in the nontraditional security areas, including securing SLOCs, antiterrorism, and antipiracy; ecological issues related to the Greater Mekong River project and other environmental issues; responses to the severe acute respiratory syndrome (SARS) outbreak, for instance, the first China-ASEAN summit on SARS; transnational organized crimes; and money laundering.<sup>56</sup> Chinese Premier Wen Jiabao has proposed *mulin, anlin, fulin* to ASEAN [“friendly neighbors—peaceful coexistence, regional stability, and harmony”; “secure neighbors—regional peace and stability through dialogue, negotiation to resolve disputes,” and “rich neighbors”—develop, deepen regional and subregional economic cooperation, and promote regional integration].<sup>57</sup>

## **ASEAN COUNTRIES' ENGAGEMENT AND HEDGING STRATEGIES**

Southeast Asia always has had to deal with the issue of living adjacent to a great power. Historically, there was the tributary system, and continental Southeast Asia (Vietnam in particular) lived under the constant shadow of the Chinese empires.<sup>58</sup> While relations between China and ASEAN have become much more amicable, ASEAN countries continue to harbor a mixed reaction toward the rise of China, viewing this as both a challenge and opportunities.<sup>59</sup> Hence ASEAN countries have adopted the dual-strategies of engagement and hedging to protect their interests in the face of a rising China.<sup>60</sup> The former is intended to explore opportunities by integrating China into regional political, security, and economic arrangements, recognizing that a policy of isolating and alienating China is unsustainable.

ASEAN's engagement strategy toward China since the mid-1990s has been driven largely by this consideration. The latter strategy emphasizes external balancing where ASEAN states seek to develop and strengthen relations with extra-regional powers such as the United States, Japan, India, and the EU, among others.

### **ASEAN Engages China.**

The ASEAN nations have always viewed China with both suspicion and some cautious optimism. Their threat perceptions are influenced by history, geography, and cultural factors. In the former sense, being small states vis-à-vis China, they have always harbored a suspicion of their giant northern neighbor for two reasons. One is historical precedent, in particular Beijing's past support of the insurgent movements in their countries; the other is uncertainty about how China will use its power in regional affairs. China's preponderance and its growing weight in the post-Cold War era create additional concerns. Territorial disputes in the South China Sea and China's military modernization programs, together with perceived U.S. drawdown of forces have further heightened the sense of insecurity.<sup>61</sup> But ASEAN countries also recognize that, given their limited capabilities, they need to live with China, and one way of ensuring that China will act responsibly is to encourage greater integration between China and the region, thus increasing the stakes. Indeed, ASEAN has been pragmatic enough to recognize the importance of engagement rather than confrontation and hence adopted a strategy that aims at integrating China gradually into a regional web of economic interdependence, political dialogue,

and security dialogue processes. They also reject the strategy of containment as the best way to deal with a rising China.<sup>62</sup>

ASEAN's active engagement of China played a critical role in removing suspicions and encouraged Beijing to full participation in the regional multilateral security arrangement. Specifically, three outstanding issues of particular concern to the Southeast Asian states were to be addressed: potential economic competition coming from China, territorial disputes, and lack of transparency in China's defense spending. Beijing began to address these concerns, winning ASEAN's confidence in the process.<sup>63</sup>

There is no question that the ARF has performed a critical role in exposing and socializing China to the ideas of cooperative security, multilateralism, consultation and dialogue, consensus-building, and noncoercive ways of settling disputes. Beijing's early concerns fell in four areas: that the regional forum would be dominated by the United States or otherwise could provide the justification for Washington to intervene in the region's affairs; concern over the internationalization of territorial disputes; concern that the Taiwan issue might be brought on the table, hence interfering China's internal affairs; and concern that China would be pressured to display greater military transparency. ASEAN has been instrumental in engaging China and sensitizing Beijing to the values of the so-called ASEAN Way. This process has served to change China's perceptions of its interests and its policy choice preferences, leading to more moderate behavior as contrasted to its earlier assertive posture.<sup>64</sup>

Over time, through participation in various ASEAN-led multilateral dialogues, China has moved from its early suspicion and resistance to gradual acceptance



and embrace of the idea of cooperative security and multilateralism. However, China's interpretation of multilateralism is a rather limited one, in that it is considered to be a supplement, rather than a replacement of the traditional bilateral approach. It also has resisted the more formal institutionalization of the ARF, as desired by the western countries. Beijing's comfort level clearly has increased with the understanding that ASEAN will remain in the driver's seat, and the forum will not touch on issues of vital importance to China.<sup>65</sup>

Indeed, while ASEAN could be credited with socializing China to the concept of multilateralism, one must acknowledge that the multilateralism Beijing embraces remains conditional, selective, and largely a way to counter U.S. power politics. State sovereignty is still the core of Chinese foreign policy and on fundamental issues such as territorial disputes and Taiwan, China's positions continue to be more realpolitik than receptive of multilateralism. What China pursues remains a notion of multipolarity, in which it will be recognized as an important actor. For ASEAN, this remains an issue to be reckoned with, but for the time being at least, Beijing is trying to reassure its southeastern neighbors.<sup>66</sup>

The 1997 financial crisis significantly weakened ASEAN's position. However, continued uncertainty in Sino-U.S. relations and their perceived competition for influence and primacy in Asia have given ASEAN some leverage, in so far as China's diplomacy is concerned. This has enabled the organization to remain in the driver's seat in regional security arrangements such as the ARF. At the same time, ASEAN also is reluctant to join U.S.-led military alliances due to ethnic sensitivity, as Southeast Asia is home to a large Islamic population.

At a time when Beijing's relations with Tokyo also are experiencing difficulties, the value for Beijing of a better relationship with ASEAN has increased steadily. Beginning in the second half of the 1990s, the two sides moved to develop a number of institutionalized mechanisms to deepen bilateral relations, including the ASEAN+1, among others.<sup>67</sup> In 2003, China and ASEAN signed the Joint Declaration on Strategic Partnership for Peace and Prosperity.

### **The Hedging Strategy.**

International Relations theories long have debated the policy options of states facing an emerging power or hegemon. They invariably would either choose to balance (internally and/or externally) against the dominant power or bandwagon with that power. The latter is divided further into bandwagoning because of fear or bandwagoning for profits. In recent discussions, a new concept of hedging has emerged as yet another policy option for states facing uncertain international security environments.<sup>68</sup> Denny Roy has further characterized the ASEAN strategy of hedging as "low-intensity balancing" that both seeks U.S. support and works with China. They encourage the United States to maintain a military presence in the region and provide support and base access but decline to form formal military alliances with Washington.<sup>69</sup>

In Southeast Asia, hedging has been a particularly useful strategy for the region's small powers to maneuver among major powers to secure their interests. According to Robert Ross, the continental ASEAN and maritime ASEAN member states would have different attitudes toward China.<sup>70</sup> The new ASEAN, which consists of Vietnam, Laos, Cambodia, and Myanmar,

for instance, has special relationships with China due to history, geographical proximity, as well as unsettled issues.<sup>71</sup> Wherever possible, ASEAN member states try not to be forced to choose sides, but opt for developing and maintaining good working relationships with as many major powers as possible.<sup>72</sup> They all recognize the inevitability of China's rise and see in it both opportunities and challenges. In a certain way, ASEAN states realize that they cannot by themselves form an effective alliance to check China's rise; but neither do they want to ally themselves with external powers such as the United States for fear of provoking China. In addition to engagement with China, they therefore also seek to persuade the United States to stay engaged in the region to balance China's rise and to develop a network involving all major regional powers so they have stakes in regional order.<sup>73</sup>

As pointed out above, since the end of the Cold War, ASEAN has pursued a dual-strategy of retaining U.S. security involvement in the region, including a military presence, and engaging China in diplomatic-political terms and expanding economic ties. While all member states recognize the importance of continued U.S. security involvement in the region, they also are concerned with Washington's penchant for unilateral use of force, in particular after the September 11, 2001 (9/11), terrorist attacks on the United States. Regarding China, ASEAN members have tried to refrain from identifying China as a threat; rather they talk about challenges and concerns, and their chosen strategy remains that of engagement rather than isolation, let alone containment. However, ASEAN also has reservations and appears uncertain about what a rising China will mean for them. If one could argue that ideology, overseas Chinese living in Southeast

Asia, economic competition, and territorial disputes are the four key elements that could affect China-ASEAN relations, then it is clear that the first two, by and large, have been addressed, with the latter two constituting the remaining major challenges. But even here, the implications may be different for ASEAN member states; the more developed may see less of economic competition in a rising China but more opportunities; countries that have territorial disputes with China may view Beijing's policies and activities more suspiciously. This may explain why ASEAN member states have adopted different approaches, and applied the hedging strategies with varying degrees, in their handling of China. For instance, some look for closer U.S. ties, while others seek greater engagement with China; still others, living in China's shadow, are making the best of their situations.<sup>74</sup>

Although China has developed extensive ties with ASEAN on political and economic fronts, Beijing also has maintained close relationships with specific member states, which remain essential in China's regional diplomacy, especially where territorial disputes are concerned. At the same time, it should also be understood that ASEAN itself has yet to develop its own identity apart from agreements on general principles and processes. Each member state has unique historical experiences dealing with China, with varying threat perceptions regarding China's rise, and has adopted different strategies in its respective China policy.<sup>75</sup> ASEAN countries' threat perceptions of China vary depending on history, geography, and the extent and nature of unresolved disputes.

## Malaysia.

Malaysia established diplomatic relations with China in 1974. However, for a long time before and since normalization, Kuala Lumpur harbored serious misgivings about Chinese threats in the form of Beijing's support of (or refusal to sever ties with) the Communist Party of Malaysia (CPM) and the insurgence movement. Indeed, during the early years of the Mahathir administration, Malaysian officials often warned against Beijing's "dangerous ambitions . . . in the region" and the growing military threat to Malaysia's interests.<sup>76</sup>

However, with the end of the Cold War and the initial uncertainty over long-term U.S. commitment to the region, Malaysia began to adopt a policy of engagement with China to mitigate any negative impact. Abdullah Badawi, then Malaysian Foreign Minister in the 1990s, made this observation on the importance of engaging China:

Close relations and cooperation between Malaysia and China would alleviate any attempt by China to resort to military action because that would also be detrimental to China. . . . If there is no cooperation, there is a possibility China may resort to military action (against Malaysia) or cause a conflict here because it will not lose anything. We want to create a choice (for China).<sup>77</sup>

In fact, the end of the Cold War has opened up opportunities for improving Sino-Malaysian relations. Malaysia made a dramatic turn in its stance on China, shifting from the earlier suspicions and warning to a more accommodative, if not apologetic, tone of praising mutual confidence and trust and dispelling rhetoric about the so-called China threat. Indeed,

Prime Minister Mahathir had become the most vocal defender of China, from security issues to human rights. Beijing and Kuala Lumpur have found mutual interests in defending the principles of sovereignty, noninterference in domestic affairs, aversion to Western/U.S. dominance in international affairs, and hence the need to develop a fairer and more equitable international political and economic order.<sup>78</sup> Bilateral relations have been strengthened through regular visits by top leaders and high-ranking officials and such bilateral initiatives as the Malaysia-China Friendship Society, the Bilateral Meeting between Foreign Officials of Malaysia and China, and the Beijing Dialogue on Malaysia and China Partnership aimed at further strengthening mutual understanding and mutual benefits.<sup>79</sup>

The area that has seen the most dramatic development of ties is bilateral trade, which grew from \$910 million in 1988 to over \$18 billion in 2003, and \$18.7 billion in 2004, making Malaysia one of ASEAN's largest trading partners with China, rivaling Singapore.<sup>80</sup> During the first 9 months in 2005, bilateral trade was at \$16.2 billion. Malaysian Prime Minister Abdullah Badawi told the visiting Chinese Premier Wen Jiabao in December 2005 after the first East Asian Summit that bilateral trade could reach \$50 billion by 2010.<sup>81</sup>

Even in areas such as territorial disputes, as both China and Malaysia lay claims to the Spratly Islands in the South China Sea, Kuala Lumpur tends to view Chinese assertiveness as more targeted at Vietnam and less at Malaysia. This being the case, Malaysia on occasion has adopted a rather non-ASEAN stance on the issue of territorial disputes and even opposed the Philippine suggestion of adopting an ASEAN stance

against China. Indeed, at both Track I and Track II forums, Malaysian officials and representatives reportedly have foiled attempts to make the South China Sea issue a multilateral one and instead preferred bilateral discussion and resolutions. Malaysian Foreign Minister Syed Hamid Albar once even rejected a Philippine request to discuss the issue at the ASEAN Regional Forum.<sup>82</sup> It also was Malaysia that effectively proposed the adoption of a political declaration rather than a more constraining code of conduct with regard to the South China Sea territorial disputes, hence winning Chinese acceptance and subsequently paving the way for Beijing to also accede to the ASEAN Treaty of Amity and Cooperation at the Phnom Penh Summit in November 2002, the first major power to do so.<sup>83</sup>

However, Kuala Lumpur hedges its China policy with its continued pursuit of ties with Washington, despite the occasional public rhetoric expressing differences of opinion. Indeed, Malaysian-U.S. military cooperation forms an important component of bilateral relations, even though Kuala Lumpur declined a U.S.-Japan proposal for the joint patrol of the Strait of Malacca. During his recent visit to Japan, Malaysian Prime Minister Abdullah Badawi tried to allay concerns that efforts at developing closer regional integration such the East Asia Summit held in December 2005 are aimed at excluding U.S. participation. Badawi acknowledged U.S. interests and engagement in the region through multiple channels.<sup>84</sup> At the same time, Malaysia, while initially cool toward a 2004 Chinese proposal for a joint undertaking to maintain security in the Strait of Malacca, did later welcome Beijing's role in this regard in a joint communiqué issued after the China-Malaysia summit in December 2005.<sup>85</sup> Kuala Lumpur and Beijing also signed a memorandum of understanding on maritime cooperation in August 2006.

## **Vietnam.**

China and Vietnam have had a checkered relationship over the last 5 decades. Between the 1950s and 1970s, Beijing was a strong supporter of Hanoi's anti-French and anti-American causes, both providing significant amounts of materials (RMB ¥20 billion) and sending over 320,000 PLA air defense and engineering corps troops to the North. For years, Beijing and Hanoi touted the so-called Sino-Vietnamese relationship sealed in blood, camaraderie plus brotherhood. Ho Chi Minh himself visited China no less than 30 times between 1949 and 1969, the year when he died. Beginning in the late 1970s, relations began to sour, in large part driven by the two erstwhile allies' different perspectives on how Indochina should be run. China considered Vietnam's assertiveness as part of the Soviet Union's southern strategy as well as Hanoi's own aspiration for regional hegemony. A spat between the two was soon followed by Vietnam's expelling of hundreds of thousands of Chinese residents and Vietnam's 1978 invasion of Cambodia to unseat the Khmer Rouge regime in a direct challenge to Chinese interests. In early 1979, China launched an all-out military attack against Vietnam to teach the former client state "a lesson." The military clashes dragged on for years, causing tremendous damage to both sides. It was not until the early 1990s that the two countries normalized relations. The September 1990 Chengdu meeting, where top Chinese and Vietnamese leaders reached agreement on rapprochement, paved the way for bilateral normalization. The 1991 Paris settlement of the Cambodian issue further removed an obstacle to the normalization process.<sup>86</sup>

Bilateral ties have improved over the last decade. In recent years, the two countries have exchanged



high-level visits between top party and state leaders. Bilateral trade also flourished, growing from U.S.\$32 million in 1991, to \$3.6 billion in 2002, and continued to grow, registering a record of \$8.2 billion in 2005.<sup>87</sup> To facilitate border trade, the two sides also made great efforts in demining the areas. However, territorial disputes continue to cloud over the relationship. In 1988, the two countries clashed over the Spratlys, resulting in over 70 Vietnamese killed.<sup>88</sup> Beginning in 1992, the two countries engaged in extensive discussions and negotiation over land and maritime boundaries. On December 30, 1999, a land border treaty was signed. On December 25, 2000, the two sides signed the Agreement on the Delimitation of the Territorial Seas, Exclusive Economic Zones and Continental Shelves in the Beibu Gulf (hereinafter referred to as the Boundary Agreement), and the Agreement on Fishery Cooperation in the Beibu Gulf (hereinafter referred to as the Fishery Agreement).<sup>89</sup> Although a protocol to the agreement of fishery cooperation was signed in December 2000, failure to define boundaries in the so-called Common Fishery Zone clearly has led to occasional clashes between the two, resulting in casualties. A shooting incident took place in January 2005, leading to the death of eight Vietnamese fishermen.<sup>90</sup>

Hanoi has sought to use its membership in ASEAN to strengthen its bargaining position vis-à-vis China. While to some extent, it has been able to apply multilateral pressure in dealing with China, it has not been able to rely completely on ASEAN and expect that ASEAN would always come to its assistance, since there are overlapping claims in territorial disputes even among member states and as ASEAN's own positions on the issue have undergone changes over the years.<sup>91</sup> This reality has compelled Hanoi to try to

balance its relationships with both the United States and China. U.S.-Vietnam military ties have grown in the last few years. But Hanoi's strategic calculation remains anchored on how to balance between the two major powers without becoming overly dependent on either. If Vietnam has learned anything at all in its experiences in dealing with major powers, including France, the Soviet Union, the United States, and China today, that lesson is if it ever gets embroiled in a major-power conflict as a junior, the assistance it expects rarely comes through.<sup>92</sup> Chinese analysts suggest that Vietnam will continue to deepen ties with Washington as the United States remains the source of economic assistance, investment, and markets. For instance, American companies such as Nike are setting up manufacturing in Vietnam. On the other hand, as a close neighbor, China also is important to Vietnam, not least because Chinese experiences in reform and opening up, while maintaining a socialist system, provide valuable lessons for Hanoi as it embarks on its own reform path.<sup>93</sup>

### **Singapore.**

Singapore practices a classic hedging strategy. The city-state both seeks greater opportunities in China and remains the strongest U.S. quasi-ally in the region, offering to host the American naval logistics command center (WESTPAC LOGCOM) and providing naval facilities (the Changi Naval Base) for the U.S. Navy. On the one hand, Singapore has developed extensive contacts and expanded ties with China on security, economic, and political issues. On the other, Singapore also is modernizing its military forces, and has systematically built up its security relationship with the

United States. Indeed, Singapore has demonstrated a marked preference for a continued U.S. presence in the region to provide security guarantees.<sup>94</sup> In a speech in Washington, Prime Minister Goh Chok Tong stated:

The U.S. involvement has had a profound impact on the history of East Asia's development. America maintained an "open-door" to China, twice transformed Japan, and spilt blood to hold the line against aggression and communism. The U.S. constructed the post-World War II international order that allowed East Asia to flourish. American victory in the Cold War and its technology driving the new economy are continued influences. In the strategic sense, therefore, the U.S. is very much a part of East Asia. It has been, and still is, a positive force for stability and prosperity.<sup>95</sup>

Singapore has maintained a rather stable relationship with China since the establishment of diplomatic relations between the two in October 1990.<sup>96</sup> Ever conscious of its own ethnic make-up and always careful of not being seen as too China-leaning, Singapore nonetheless has assisted China in industrial development, governance, and development of an efficient bureaucracy. It also has sought to act as a go-between in cross-Strait relations. Senior statesman Lee Kuan Yew has shuttled between Beijing and Taipei to facilitate cross-Strait contacts between Mainland China and Taiwan, sometimes offering Singapore as the neutral ground for dialogue. For instance, the first ever semi-official meeting between Beijing and Taipei was held in Singapore in 1993. However, Singapore's self-assigned role has been under increasing stress in recent years, not so much because Beijing does not appreciate the effort but more out of concern that Taipei, and in particular the Chen Shui-bian administration, will take advantage of any semblance of official

contacts between Taiwan and the Southeast Asian governments to boost its independence drives. Indeed, Singapore's relationship with China took a dive when Prime Minister Lee Hsien Loong visited Taiwan before assuming his current position. Beijing was so upset that it strongly rebuffed Lee until the latter reaffirmed the "One China" policy.<sup>97</sup>

The two countries have developed and maintained a robust bilateral relationship, especially in the economic arena. Singapore's Prime Minister, Lee Hsien Loong, during his October 2005 visit to China, described the rise of China as the "single biggest event of our age."<sup>98</sup> The two countries enjoy booming trade, reaching \$33.15 billion in 2005, a 25.78 percent jump over the previous year. Investment, including that in the banking and service sector, also is growing.<sup>99</sup> At the same time, defense officials of the two countries also are seeking to foster closer military ties, although discussions so far have remained largely in principle and rhetorical in nature.<sup>100</sup> Specific programs and activities such as functional-level exchanges, port calls, and joint military search and rescue operations, have yet to be developed. And there remains the Taiwan issue.

In fact, the China-Singapore tussle over the Taiwan issue may not be over. Singapore's military continues to undertake training in Taiwan (Operation STARLIGHT) and retains extensive military ties with Taipei. China has offered Singapore its Hainan Island as the training ground for Singapore, but the latter has declined, given the sensitivity the city state always has over its ethnic makeup and how too cozy a relationship with the mainland could stir apprehension in its Southeast Asian neighbors. Recent reports suggest that the Singaporean and Taiwanese militaries were involved in joint military exercises.<sup>101</sup>

## Myanmar.

China and Myanmar have had a long history of a relatively close relationship since the two countries established diplomatic relations in June 1950. The two countries soon resolved their boundary issue and jointly endorsed the five principles of peaceful coexistence. The late Chinese Premier Zhou Enlai maintained close personal ties with Burma's leaders (Zhou visited Burma nine times).<sup>102</sup> Beijing's current close ties with Rangoon began in the early 1990s as the military junta was shunned by the international community in the wake of its ruthless suppression of the country's democratic movement. Beijing provided up to U.S.\$1.4 billion in conventional weapons to the State Law and Order Restoration Council (SLORC). The package included ground-based radars, anti-aircraft guns, small arms, 24 F-6 and F-7 fighter aircraft, 100 T-69 II main battle tanks, 100 T-63 light tanks, 150 T-85 armored personnel carriers, 144 air-to-air missiles, and four patrol boats.<sup>103</sup> In addition, China also reportedly was helping Burma build a naval base on Hainggyi Island as well as setting up intelligence gathering posts on the Coco Islands. Presumably China may be expected to have access to these naval facilities and thus will have projected power capabilities into the Indian Sea.<sup>104</sup> China also sees the importance of Myanmar as providing greater access to the Indian Ocean and through to the oil rich Middle East. While China's intentions might be to revitalize the wartime Burma Road and hence facilitate the country's southwestern region's (Develop the West) economic interactions with South Asian countries,<sup>105</sup> its influence is bound to increase as China extends its reach through the newly developed road networks to South and Central Asia.<sup>106</sup> New Delhi regards this as Beijing's

intrusion into its traditional sphere of influence. Indeed, there are suggestions that the reason for India to cozy up relations with Vietnam and ASEAN, and even with Myanmar, was to counter Beijing's growing influence in the region.<sup>107</sup>

The China-Myanmar relationship goes beyond arms sales and military assistance. From ASEAN's perspective, Beijing's policy of noninterference in Myanmar's internal affairs is frustrating efforts to pressure Rangoon for change, which was the rationale in 1997 for accepting Myanmar into the organization. At the 2005 ASEAN Summit in Vientiane, Laos, Li Zhaoxing, the Chinese Foreign Minister, cut short his attendance to visit Myanmar instead, after the country received the strongest rebuke by the organization, a major sign of departure from its traditional noninterference position.<sup>108</sup> From Beijing's perspective, noninterference as a principle aside, the Chinese government values stability in Myanmar over democratic processes, which could result in a period of uncertainty in that country and, worse still, large-scale unrest that could harm Chinese interests.<sup>109</sup>

While Beijing maintains an amicable relationship with Rangoon, Myanmar's junta also has been seeking to broaden its external relationship so as not to rely solely on China.<sup>110</sup> Indeed, over the last few years, India has been making great efforts in courting Myanmar after years of policies of isolating the military regime. Some analysts suggest that China and India are now competing for influence over Myanmar, even though Beijing may retain the lead in a wide range of areas. In October 2004, pro-Beijing Prime Minister Khin Nyunt was fired, followed by Myanmar's top leader General Than Shwe's visit to India. There was much media speculation that Beijing was losing ground. However, analysts point out that may not be the case, as China's

influence remains deeply entrenched, as are the middle kingdom's strategic interests in the region.<sup>111</sup> During a 2004 visit to Myanmar, Chinese Vice Premier Wu Yi pledged expanding bilateral trade from the current level of \$1 billion to \$1.5 billion in 2005. There have been proposals to build a pipeline running through Myanmar to connect Kunming, therefore providing China's southwestern region a more direct access to Middle Eastern oil.<sup>112</sup>

### **Philippines.**

The Philippines is confronted directly with the territorial dispute with China. After the Mischief Reef incident, Manila sought support from ASEAN, which expressed its concern and urged Beijing to abide by the 1992 ASEAN Declaration on the South China Sea.<sup>113</sup> The two countries subsequently signed a code of conduct to ease tension and seek maritime cooperation. While Manila continues to complain of Chinese violation of the code, by and large the two countries have kept their dispute under control.<sup>114</sup>

The Philippines signed a Visiting Forces Agreement with the United States in 1999 and requested that Washington provide military assistance. The Arroyo government also has been quite forthcoming in supporting the U.S. global war on terrorism, with the Bush administration expressing its appreciation by identifying the Philippines as a major non-NATO ally. Military assistance increased from \$1.9 million in 2001 to over \$400 million in 2004. Manila also has allowed U.S. Special Forces troops to be sent to advise the Philippine military in its fight against the Abu Sayyaf group.<sup>115</sup>

When Chinese NPC Chairman Wu Bangguo visited

the Philippines in September 2003, he proposed that the two countries jointly explore for oil in the South China Sea. Beijing and Manila have strengthened their economic ties over the last few years, with bilateral trade reaching \$13.3 billion in 2004, up further to \$17.5 billion in 2005. Bilateral trade may well reach \$20 billion in the next few years. During Chinese President Hu Jintao's visit to Manila in April 2005, the two governments signed 14 trade and investment agreements and targeted annual bilateral trade of \$30 billion by 2010. Other bilateral economic cooperation included agreement on a \$400 million railway project.<sup>116</sup>

### **Indonesia.**

As the largest member state and an initial leader of ASEAN, Indonesia has had a complex relationship with China. In the 1950s, Jakarta and Beijing forged close ties in promoting Asian-African emergence and solidarity, via the famous Bandung Conference of 1955, at which the Five Principles of Peaceful Coexistence were promulgated. However, bilateral relations entered a period of stagnation and hostility after the failed 1965 coup and the subsequent purge and prosecution of members of the Indonesian Communist Party and large-scale prosecution of the ethnic Chinese. Over 500,000 Chinese reportedly were killed. The two countries severed diplomatic relations, and it was not until 1990 that diplomatic ties were restored when Indonesian Foreign Minister Ali Alatas and his Chinese counterpart, Qian Qichen, signed a Memorandum of Understanding on the Resumption of Diplomatic Relations between Indonesia and China.

Growth in bilateral trade represents the most



significant achievement since Jakarta and Beijing mended fences in 1990. China now ranks as the fifth largest trading partner of Indonesia, which in turn ranks as China's 17th. In 2005, bilateral trade totaled \$16.7 billion. The two countries are seeking to forge closer economic relations and increase bilateral trade to \$20 billion in the next few years. In 2002, a Memorandum of Understanding (MOU) was signed that set up the Indonesia-China Energy Forum. The Chinese national oil company has invested in Indonesia's energy sector, while the latter won a contract to supply liquid natural gas to China's Fujian Province. In April 2005, China and Indonesia signed an agreement of "strategic partnership" when Chinese President Hu Jintao visited Jakarta after observing the 50th anniversary of the Bandung Conference. During Hu's visit, the Chinese side pledged \$300 million in preferential loans, promised to facilitate a \$10 billion investment in Indonesia's private sectors, and expanded cooperation in joint efforts to combat smuggling and maritime piracy.<sup>117</sup>

While bilateral relations are stable and have continued to grow in recent years, problems remain. One is the Taiwan issue. The other relates to Jakarta's concern over Beijing's long-term intentions in the region. Yet a third is the potential conflict over exclusive economic rights in the South China Sea, where overlapping claims over areas with identified natural gas deposits could lead to conflict. Indonesia has maintained close economic ties with Taiwan, even after Jakarta and Beijing officially restored diplomatic ties. In 2000, bilateral trade amounted to \$4.7 billion. Taiwan's President Lee Teng-hui made a historical visit to Indonesia in 1994, even though the visit was termed private. Many high-ranking Indonesian officials,

including cabinet members, continue to visit Taiwan. Indeed, Taipei has targeted Indonesia in its southward policy and “golf diplomacy,” or “tourist diplomacy,” which clearly irritates Beijing.<sup>118</sup>

Analysts suggest that, despite improvement in bilateral relations, elite perceptions in Indonesia remain suspicious of China’s long-term intentions. Jakarta also remains vigilant for signs of potential Chinese encroachment on what it considers as its oil and natural gas fields near the Natuna Islands.<sup>119</sup> Indonesia continues to look to the United States for future military assistance, including the lifting of the arms embargo currently in place. The Bush administration has partially lifted the sanctions by allowing the provision of spare parts for Indonesian military transport planes in the post-tsunami relief operations. In addition, Washington has restored the International Military Education Training (IMET) program for Indonesia.<sup>120</sup>

## **Thailand.**

Of all the ASEAN member states, Thailand maintains the most cordial relationship with China, matched perhaps with only that between China and Malaysia. Bangkok recognized Beijing in 1975, and in the 1980s formed a close alignment with China in their common objectives of seeking to oust Vietnam’s occupation of Cambodia. China began to provide arms to Thailand, including 500 T-69 tanks, some 1,160 T-531 armored personnel carriers (APCs), and *Jianghu*-class frigates. Beijing also made “friendship”-priced offers to Bangkok for the transfer of anti-aircraft missiles, diesel-electric *Romeo*-class submarines, and F-7 fighter jets. In 1989-90, it transferred 200 T-69 main battle tanks (MBTs) to Thailand and in 1991, began delivery

of the four 1,800-ton *Jianghu*-class frigates ordered by the Royal Thai Navy.<sup>121</sup> Chinese arms sales to Thailand during this period represented an important aspect of this special relationship. Unlike some of the other ASEAN member states, Thailand does not have any territorial disputes with China, and most of the ethnic Chinese in the country are well-integrated into Thai society.

Relations continued to grow with the end of the Cold War and after the Cambodian settlement. This is particularly the case in bilateral trade, which grew from \$24.6 million when the two countries established diplomatic ties in 1975 to \$15 billion in 2004, with China now becoming the third largest trading partner of Thailand after Japan and the United States. Bilateral trade reached close to \$22 billion in 2005, 5 years ahead of the originally set target.<sup>122</sup> China contributed \$1 billion to the International Monetary Fund (IMF) for rescue efforts during the 1997 financial crisis and extends the Early Harvest Program to Thailand in the China-Thailand Free Trade Agreement, where Thai agricultural produce is given preferential tariff treatment.<sup>123</sup>

The two countries also have formed strong political ties, signing a Joint Statement on a Plan of Action for the 21st century in February 1999. Thai Prime Minister Thaksin Shinawatra visited China eight times between 2001 and 2005. All top Chinese leaders, including President Hu Jintao, also have made visits to Thailand. Bangkok adheres firmly to the One China principle and has carefully handled issues sensitive to Beijing. For instance, the Thai government has denied entry into the country by the Dalai Lama and has expelled members of the Falungong. Thailand has managed its relationship with China skillfully despite its alliance with the United States.

In sum, due to historical and geo-strategic reasons, the seven ASEAN member states listed above have adopted various approaches in their dealing with China. While none has chosen confrontation with China, some, such as Indonesia, the Philippines, and Vietnam, obviously have the greatest concerns over China's growing military and economic power since all three have had conflicts with China in the past and continue to have territorial disputes. But they have sought to face these challenges through a combination of alignments with external powers and bilateral negotiations with Beijing to arrive at mutually acceptable codes of conduct to restrain China's use of force, while at the same time pushing for expanded ties in the economic field.

At the other end of the spectrum are countries such as Thailand and Myanmar, both of which maintain cordial relationships with China, although for different reasons. Bangkok's ties with Beijing have been long-standing, and the absence of territorial disputes and the better integration of Chinese in Thailand have helped the two countries to focus on areas of mutual interest and gain—bilateral trade and investment. While small agricultural businesses in Thailand do face competition from China, the current Early Harvest Program at least provides some time—albeit rather short—for the Thai agricultural sector to make the adjustment. Beijing's comfort level with Bangkok allows it to be rather tolerant of Thailand's close military ties with the United States, including frequent joint military exercises. Myanmar, on the other hand, has developed a close relationship with China over the past decade out of necessity as the military regime in Rangoon seeks to hold on to power and maintain domestic order. In the face of international condemnation and isolation, Beijing's

assistance and moral support provide the necessary breathing space for the government. However, that does not mean that Rangoon is not concerned over its overwhelming dependence on China's good will and pocket book, nor is it blind to the growing Chinese influence in the country, especially in the Northeastern areas bordering Yunnan Province. For that reason, Myanmar's authority also has turned to other external powers to reduce its dependence on China. This explains Rangoon's turn to New Delhi and the purge of the pro-China faction in the government.

Singapore and Malaysia stand in between the cordial and suspicious in their relationships with China. Territorial disputes do not constitute a major schism in bilateral relations. Both have played an active role in promoting engagement with China, although Singapore maintains extensive security ties with the United States. Malaysia, on the other hand, has found an ideological bedfellow in China in that both share such Asian values as sovereignty, noninterference in internal affairs, and moreover, a vision of greater East Asian community wherein Asian powers play a dominant role.

### **CHINA EYES ASEAN: A RISING POWER CENTER?**

Beijing did not take too seriously ASEAN's growing role initially. Instead, it anticipated a greater role for the UN Security Council and a multipolar world when the Cold War ended. Within the Asian context, China saw the United States, Russia, Japan, and itself as the critical players, but not ASEAN, as it was deemed largely a subregional grouping with an inward-looking orientation. That began to change in the mid-1990s as

Beijing both recognized and indeed appreciated the role that ASEAN could play. This became even more apparent with the expansion of the original ASEAN-6 to the Greater ASEAN of Ten by the decade's end.

Chinese analysts have characterized ASEAN's evolving regional role as evolving in four phases.<sup>124</sup> In the first phase, which began in the late 1970s largely in response to Vietnam's invasion of Cambodia (and hence a direct threat to Thailand's security), the organization's major efforts were expended on seeking a peaceful solution of the Cambodian issue by engaging extra-regional powers. The Paris Agreement, to which ASEAN made a significant contribution, gave the organization a high profile in the international diplomatic arena and provided it with greater interest and the confidence to participate in and influence Southeast Asian affairs.

The second phase began in the early 1990s and focused mostly on ASEAN's effort to engage major powers in the development of a regional security dialogue that aimed at both socializing China to the benefit of multilateralism and cooperative security and keeping the other major powers engaged in the region's security to prevent the emergence of a power vacuum and hence invitation for competition. Through the Post-Ministerial Meetings, dialogues, and the establishment of the ARF, the group succeeded in bringing all major powers under the framework of a security dialogue that was subject to the ASEAN Way of gradualism, consensus-building, and nonuse of force in dispute settlement.

The third phase was characterized by ASEAN's continuing pursuit of multichannel, multilevel security dialogues that involved the Asia-Europe meeting (ASEM), ASEAN+1 and 3, and the organization's own

plan toward greater integration, including the ASEAN FTA. The current phase involves ASEAN's efforts to move beyond Southeast Asia to launch a region-wide political forum that would include all major East Asian powers. Initially the brain-child of Malaysian Prime Minister Mahathir, the East Asia Summit was formally held in Kuala Lumpur in December 2005, but with the participation of Australia, India, and New Zealand, in addition to the originally conceived participating countries.

Over the years, ASEAN has debated, explored, and developed various strategies of dealing with major powers. These strategies have been applied during different periods, depending on specific security circumstances of the time. Essentially, three approaches have been especially emphasized. One is the Non-Aligned Movement (NAM) approach promoted by Indonesia. This would be an effort to exclude major power interference in ASEAN's internal affairs. At the same time, it would sustain Jakarta's position within the organization. The second approach is favored by Malaysia, which advocates neutrality in two ways. One is noninterference and nonaggression in interstate relations to avoid being involved in great power conflicts; the other is to secure major powers' pledges not to intervene in Southeast Asian affairs, hence allowing the region to maintain autonomy and neutrality. The third is balancing, promoted by Singapore, between great powers. Singapore recognizes that major powers all have important interests in the region, therefore it is unrealistic to exclude their involvement. But efforts can be made to prevent one particular power from dominating the entire region.<sup>125</sup>

The ASEAN Way of informality and noninterference in domestic affairs has served as the guiding principle

in its approach to regional affairs. While this approach has served the organization well and provided a comfort level for member states to interact with each other without having to accept binding decisions, it is now facing increasing challenges. The tendency to hold meetings, talk, and sign documents but to be slow in implementation has begun to constrain ASEAN's ability to address real issues.<sup>126</sup>

Beijing increasingly has viewed ASEAN as an important power center in Asia. This is largely due to ASEAN's skillful diplomacy of balancing all the major powers, hence enhancing its own leverage. This is possible because major powers essentially have balanced out one another, with no one able to dominate. Finally, ASEAN itself since 1997 has sought to consolidate and achieve economic integration (ASEAN Economic Community) by 2015, with security and social community to follow. It hosted the first East Asia Summit in December 2005, and has over the years developed various ASEAN+1/3 meetings, with the ASEM playing a facilitating role in promoting regionalism.<sup>127</sup>

At the same time, it should also be noted that ASEAN still harbors some suspicions toward China and likely will continue to resort to strategies of hedging or balancing through expanded ties with other external powers. In recent years, ASEAN member states have expanded their military cooperation greatly with the United States. Japan has been very active in regaining its influence in Southeast Asia and has offered a large economic aid package to the region. India also is actively engaging with ASEAN on greater economic, political, and military contacts.<sup>128</sup> Finally, the East Asia Summit, originally billed as an exclusive regional event, had its inaugural meeting attended by Australia, India, and



New Zealand, in addition to the ASEAN+3 countries. While a realpolitik assessment of these developments would alarm Beijing, as extra-regional forces would dilute China's own influence, Chinese officials and analysts seem not to be bothered by ASEAN's efforts to knit complex and overlapping arrangements and relationships with itself as the coordinating core. Indeed, a major Chinese report on ASEAN recommended that Beijing respect ASEAN's position, including some member states' growing military ties with the United States; acknowledge and respect that the United States has legitimate interests in the region; and actually encourage better ASEAN-U.S. cooperation, especially in the context of fighting terrorism. In that context, U.S. deployment of military forces, dispatching of special force advisors, and specific arrangements for base access should not be viewed as targeted at China.<sup>129</sup>

Nonetheless, Chinese analysts are monitoring these developments closely. The post-9/11 U.S. policy adjustment toward Southeast Asia could have a significant impact on issues of territorial disputes in the South China Sea, SLOCs, the cohesion of ASEAN as a group, and could cause domestic turmoil in some member states. Since 9/11, the United States has strengthened its military presence in the region and resumed and intensified joint military exercises with a number of ASEAN member states, ostensibly aimed at fighting global terrorism. Meanwhile, the U.S. position on territorial disputes in the South China Sea has shifted from neutrality and nonintervention to "positive" mediation, with greater emphasis on freedom of navigation, including escorts. What is most significant is a U.S. proposal for joint patrol of the Malacca Strait with the "Regional Maritime Security Initiative." While the proposal has been turned down by the three Strait

countries – Malaysia, Singapore, and Indonesia – there has since been more cooperation between the United States and the regional militaries. For China, stable and uninterrupted supplies of oil through the Malacca Strait is critical to its economic security, and control by foreign powers could seriously undermine Chinese security interests.<sup>130</sup>

Another issue of potential concern is Taiwan's activities in ASEAN countries. For various reasons, most of them economic, ASEAN has maintained rather close ties with Taipei. In fact, Taiwan has nine times the investment in the region than does China, and Taiwan was most active in the early to mid-1990s in pushing for more official contacts through "vacation diplomacy" and "golf diplomacy," among other tactics. Lee Hsien Loong's visit to Taiwan in the summer of 2004 – billed as "private" – just before he became Singapore's prime minister triggered strong reactions from China, including cancellation of previously scheduled bilateral meetings and visits by Singaporean ministers. Managing such incidents requires delicate diplomacy as much as it demands a resolute stance on an issue for which China has no room for negotiation.<sup>131</sup>

## **IMPLICATIONS FOR U.S. INTERESTS**

Southeast Asia has emerged as an area of increasing strategic interest to the United States. It straddles critical SLOCs, and the United States has an interest in maintaining freedom of navigation; it has one of the world's major seaports and transit points that create opportunities for terrorist groups to transport weapons of mass destruction (WMD) materials or sneak bombs to U.S. ports. In recent years, the region also has been the focal point of potentially deadly

diseases such as Avian Flu and Pandemic Influenza. It contains a large Muslim population, and the region's secular governments for years have had to deal with ethnic and religious extremist and terrorist groups. And it also is a vast market, as well as production base, for U.S. multinationals. Perceived growing Chinese influences have refocused Washington's attention.<sup>132</sup>

The U.S. strategy for Asia remains that of maintaining its primacy and preventing the rise of a regional power that would challenge the U.S. position.<sup>133</sup> And that power is unquestionably China. Specifically, the United States is highly aware of the consequences of Chinese domination of Southeast Asia. China's naval ambitions, its territorial disputes with a number of Southeast Asian states, its threatened and actual use of force to prevent Taiwan independence, and its growing interest in guarding against piracy on the high seas mean that Beijing increasingly will seek to project its power, and hence could threaten SLOCs and therefore gravely affect U.S. interests in the region.<sup>134</sup>

Since the 1997 Asian financial crisis, ASEAN's own ability to mediate the Sino-U.S. relationship has continued to depend on the nature of that relationship. Indeed, in a way, conflict and rivalry have provided the opportunity for the regional organization to continue to play the hedging strategy. This has allowed the smaller states of Southeast Asia to retain their autonomy, while at the same time exploring the opportunities provided by this geo-strategic structure. In general, Southeast Asians have sought to hedge against a potential Chinese threat in the future by aligning themselves with the United States in various security and military arrangements short of formal alliances, but continue to develop stable political and economic ties with China through engagement, exchanges, and exploration of

economic opportunities. This way, they retain their strategic value to both great powers without either becoming subservient to one or having to choose between the two.<sup>135</sup>

Washington is seeking to reinsert itself in Southeast Asia's geo-politics and to regain lost ground. Secretary of State Condoleezza Rice made her first visit to Indonesia as America's top diplomat in March 2006, where she sought to expand a "strategic partnership" with the important Southeast Asian country in an effort to regain U.S. influence in the region in response to China's perceived inroads of the last few years.<sup>136</sup> Indeed, since 9/11, U.S. policy has seemed to be less focused on winning political support in the region, but too much focused on the military dimension of its global war on terrorism. Washington's occasional display of indifference to the region also helps diminish its influence; one example is the absence of Secretary Rice at the annual ARF foreign ministers' meeting in July 2005.<sup>137</sup> At other times, American leaders' moralizing irks Southeast Asian politicians, losing them as friends, if not creating enemies.

The conventional wisdom is that ever since the 1997 Asian financial crisis, Beijing has made significant gains in a region that only years before had harbored strong suspicion of Chinese intentions and ambitions, which had been amply displayed in the construction on the Mischief Reef in the South China Sea and the PLA missile exercises adjacent to Taiwan. The "China threat" was then a popular selling point and had a more receptive audience. But Beijing's leadership since has modified its tactics dramatically, if not the essence of its policy objectives; has put forward a New Security Concept that appeals to and is compatible with the ASEAN Way of working on security issues;

and has become an active participant in the region's only multilateral security arrangement—the ARF—something that it had shunned in the early 1990s, considering it a thinly veiled attempt by the region's states to gang up against China.<sup>138</sup>

Not only has China embraced multilateralism—with ASEAN characteristics, of course—but Beijing actively now has promoted its virtues as a preferred alternative for a regional security architecture to what it considers the Cold War relics, i.e., the hub-and-spokes type of U.S.-led bilateral military alliances. Beijing also has moderated its approaches to territorial disputes significantly by signing a Declaration of Conduct in the South China Sea that commits it—in principle at least—to peaceful solutions of the issue. It also has acceded to the ASEAN Treaty of Amity and Cooperation, the first major power to do so, effectively accepting the organization's principles of respect for sovereignty, noninterference in domestic affairs, and the code of consensus in reaching decisions.<sup>139</sup>

However, the most important gains that China has struck over the past decade are the increasing economic ties between it and its Southeast Asian neighbors. Bilateral trade has been growing at 20 percent per year over the last decade, with China-ASEAN two-way trade reaching \$130.4 billion in 2005. There also is growing economic interdependence and major initiatives such as the Greater Mekong Subregion (GMS) that further promote economic cooperation. Even greater economic integration is projected with the signing of the China-ASEAN FTA targeted at 2010-15. Analysts predict that by then China could well surpass the United States as the organization's largest trading partner. What also is significant is China's growing interest in developing energy cooperation with such ASEAN member states

as Indonesia to secure oil and natural gas. Chinese companies have acquired stakes in oil and natural gas fields, and in 2004 Indonesian exports to China increased by 232 percent over the previous year.<sup>140</sup>

These are all significant achievements that greatly extend China's reach and influence in the region. While not directly engaged in a contest with the United States, China does have different interests in the region's development in terms of security architecture, economic interdependence and integration, and the political systems. Beijing promotes ARF and multilateral security dialogues as alternatives to what it considers as the Cold War relics – military alliances.<sup>141</sup> China puts a high premium on sovereignty and noninterference in domestic affairs while the United States seeks to promote democracy and challenge the legitimacy and hold on power of authoritarian and repressive regimes such as the military junta in Myanmar.<sup>142</sup>

These differences aside, Beijing and Washington do not harbor open animosity, and U.S. influences are palpable. Indeed, the suggestion that China has made large gains in Southeast Asia and is wielding significant influence may be as misleading as it is exaggerated. Measured in trade, investment, and diplomacy, Beijing's perceived inroads into Southeast Asia are less than what is usually portrayed by the media. China's growing trade with the region largely is accounted for by intra-firm activities of the world's largest multinational corporations. Chinese companies have yet to penetrate Southeast Asian markets. Nor is China's investment in the region significant. As was noted earlier, it compares poorly with that by the EU, Japan, the United States, and even Taiwan. Chinese success in diplomacy has been achieved through moderation of its own stance rather than by imposing its will on ASEAN, hence the questionable influence.<sup>143</sup>

China's growing political, economic, and security ties with ASEAN are the results of a combination of factors. Beijing's post-Tiananmen diplomacy has focused its attention on Asia, including Southeast Asia, as it seeks to promote a stable regional security environment for its economic development. It also has reflected a change in its approaches to regional issues from confrontation and assertiveness to moderation and restraint in tactics without giving in on principles on issues it still holds dear – Taiwan, sovereignty, and maritime territorial integrity for economic security reasons. ASEAN's own efforts at engaging China in ways that assured Beijing provide another impetus for the fostering of bilateral relationships, especially in the security area once Taiwan and maritime territorial disputes are taken off the agenda. The 1997 financial crisis in Asia has found ASEAN member states increasingly turning to China, partly as a result of their rejection by the United States and West-dominated international financial institutions. While many ASEAN states realize the long-term challenges of facing and retaining the ability to compete with China in manufacturing and attracting foreign investment, they also want to explore the opportunities that an expanding Chinese economy offers.

But ASEAN remains wary of China's growing power and uncertain about Beijing's future intentions. History, territorial disputes, and the ethnic Chinese issue continue to be important considerations for the foreign policies of some member states. They adopt the strategy of hedging as an insurance policy but choose not to alienate and alarm China by formally forming alliances with the United States. At the same time, Beijing's influence remains limited, as is its capability to affect regional developments. The 2004 tsunami and

the recent earthquake in Indonesia have displayed U.S. capacities in both the amounts of disaster relief it is able to provide and the speed with which it can deliver it.

If anything, the United States remains the major market and the source of investment and technology transfers for both China and ASEAN. Indeed, in all economic indicators, the United States remains unsurpassed, while China and ASEAN, respectively, rank fifth as each other's major trading partners. Even in the politico-diplomatic arena, Washington's lost ground may be more apparent than real. Indeed, American influence remains strong and deep-rooted, as are its institutional arrangements with the region in terms of alliances, base access, and visiting forces agreements. The post-9/11 security environment has provided the opportunity for the United States and a number of ASEAN member states to work out specific military cooperation arrangements that facilitate American military operations in the region in both supporting the global war on terrorism and positioning itself for future contingencies.<sup>144</sup> Such ties are as much historical as the deliberate hedging strategies that ASEAN member states have adopted in securing their own vital interests in a region that is drawing growing attention from major powers, both because of its strategic location in the path of vital SLOCs and due to its rising importance in the global war on terrorism and WMD nonproliferation.<sup>145</sup>

But Washington does need to be more proactive and go beyond rhetoric in truly recognizing ASEAN's critical place in American foreign policy. Specifically, it needs to change its current approach. First, it should treat ASEAN as an important multilateral organization and deemphasize its distinctly bilateral approach. This requires a positive attitude toward multilateralism



and greater patience in accepting the ASEAN Way of gradualism, consensus, and nonconfrontational ways of settling disputes. The multilateral approach is applicable in equally developing and expanding U.S.-ASEAN economic ties.<sup>146</sup>

Second, Washington should avoid a China-prism in its ASEAN policy. This is not, and should not be, framed as a zero-sum game in which Beijing's gains must be seen as Washington's loss. China itself certainly does not have the grand strategy of developing its own Monroe Doctrine in Southeast Asia. It is therefore particularly unhelpful, and indeed could be highly counterproductive, to present ASEAN member states a choice that they find most difficult to make. Most of all, it can be quite an embarrassment for Southeast Asian countries when American officials publicly chastise China on their turf.

Third, America needs to learn to apply nonmilitary, nonconfrontational means to address the challenges that the region is facing: fragile democracy, need for good governance and accountability, uneven distribution of wealth and poverty, and other social problems that could provide fertile grounds for ethnic and religious intolerance and terrorist activities. Indeed, U.S. responses to the tsunami disaster last year have won wide-spread good will in the region. On the other hand, too much emphasis on preemption, a penchant for unilateralism, and threats of force only heighten concerns among Southeast Asian states and could fan anti-American sentiments. ASEAN states' shifting stances on the U.S. global war on terrorism are a good example.<sup>147</sup> Most ASEAN member states, with the exception of Singapore and the Philippines, publicly oppose unilateralism and unipolarity, a clear reference to the United States. Perhaps a good way to start is to

take a page from Beijing's book of charm diplomacy. And this should be something easy to achieve and at relatively low costs. Washington should make better use of what it is supposed to do best: soft power.

## CONCLUSION

China-ASEAN relations have undergone significant changes over the past 15 years. Moving away from enmity and suspicion, bilateral ties have grown and strengthened in political, economic, and security areas. While ASEAN may still be apprehensive about China's growing power and how it will use that power in the future relationship that ranges from the economic to the territorial, at least for the time being, China is recognized in the region as an economic opportunity, a political heavy weight, but not necessarily a military bully, even as Beijing continues to modernize its armed forces.

But ASEAN states, given their place in the international pecking order and their strong sense of protecting national sovereignty and independence and recognizing the geo-strategic realities, have resorted to various stratagems of power balancing and hedging, as well as engagement of major powers. The United States remains a key power that is welcomed to continue playing a stabilizing and reassuring role in the region, but that may not be taken for granted, especially given the large Muslim communities and ASEAN's political sensitivity to external interference in internal affairs, coercion and/or use of force, and unilateralism and blatant display of arrogance and domineering.

The United States retains strong political influence, economic clout, and military prowess in the region. Southeast Asia remains a key battleground for the global war on terrorism and U.S. efforts to prevent

WMD proliferation. While China may have gained influence in Southeast Asia over the last decade, it may not be at America's expense. On a number of fronts, closer China-ASEAN relations actually could advance American interests in the region. China's agreement to be bound by restraint on the territorial issue lowers the risk of military conflicts and hence major disruption of key SLOCs vital to the economic security of both the United States and its important allies in the region, such as Japan, which depend on secure and stable supplies of raw materials and energy resources. Multilateralism and cooperative security also have led to gradual improvement in Chinese military transparency which, in turn, can address anxieties in the region's capitals, as well as in Washington and Tokyo, about the scope and intensity of the PRC's defense modernization programs.

What may constitute the biggest threat to long-term U.S. interests lies in the economic field as China replaces America as ASEAN's number one trading partner and as the CAFTA fully launches in the coming years and expands to the East Asian region to form the largest trading bloc in the world. But even here, the United States still holds some important cards—technology, market, and investment. But Washington's approach must be strategic, comprehensive, and proactive rather than piecemeal, passive, and reactive. It is important to maintain solid bilateral relationships with its key allies and friends in the region, but the United States should also begin to recognize the value of the growing role and importance of ASEAN and treat the regional grouping as such.

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