

PASCN Discussion Paper No. 99-17

**China's Relations with Southeast Asia:  
Political-Security and Economic Interests**

*Aileen S.P. Baviera*



The *PASCN Discussion Paper Series* constitutes studies that are preliminary and subject to further revisions and review. They are being circulated in a limited number of copies only for purposes of soliciting comments and suggestions for further refinements.

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## **CHINA'S RELATIONS WITH SOUTHEAST ASIA: POLITICAL-SECURITY AND ECONOMIC INTERESTS\***

### **Abstract**

China has always looked at Southeast Asia as an integral part of its security environment. It values ASEAN for the role it may play in the realization of China's desired vision of a multipolar order. Southeast Asian countries, on the other hand, appear prepared to accept China's legitimate interests in the region but fear that China's ambitions to become an Asia-Pacific military power could be at the expense of its smaller and weaker neighbors. Moreover, tensions over bilateral issues are expected to periodically emerge as part of the normal state of relations. Meanwhile, Sino-Southeast Asian economic relations are currently important, but not vital from each side's perspective. Neither China nor ASEAN has a unified economic policy towards the other. Economic relations towards ASEAN, from China's perspective, depend on bilateral economic complementarities as well as common political and strategic interests, rather than expectation of purely economic gain.

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\* This study is part of the research project "China and Its Implication to the Asia-Pacific, funded in whole by the Philippine APEC Study Center Network (PASCN). The study is originally titled "The Political Economy of China's Relations with Southeast Asia".

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# CHINA'S RELATIONS WITH SOUTHEAST ASIA: POLITICAL- SECURITY AND ECONOMIC INTERESTS<sup>1</sup>

Aileen S.P. Baviera<sup>2</sup>

## INTRODUCTION

This study is part of a team project looking at the significance of China's rise as an Asia Pacific economic power for the Philippines and Southeast Asia. Specifically, this paper examines the strategic context of contemporary China-ASEAN relations, by understanding the fundamental political-security interests on both sides that influence relations and which may impact on economic relations. It hopes to:

- (1) identify China's strategic interests in its relations with Southeast Asia and vice-versa;
- (2) explore the role and importance of political-security factors in the overall relations from China's perspective;
- (3) look at the ways in which political-security considerations may have influenced Chinese economic policy towards Southeast Asia, especially in the 1980-1990s; and
- (4) identify opportunities and challenges and submit recommendations on how Southeast Asia, including the Philippines, may successfully respond to the growing influence of China.

From a preliminary review of literature, one could see that most of the work that has been done on Sino-Southeast Asian relations has focused on either the political-security dimension or on the economic dimension alone. Very few references attempt to treat both aspects evenly; even fewer manage to explain how each impacts on the other or to point out if there are any patterns of correlations or causalities between them.<sup>3</sup>

Among the works that do take a more inter-disciplinary approach to China-Southeast Asia relations, Paul Chan's 1987 article entitled "Policies, mechanisms and institutions affecting ASEAN-China economic relations"<sup>4</sup> contrasts the ASEAN and Chinese approaches in economic relations with each other. Chan notes the absence of a collective ASEAN posture in economic relations with China, and insinuates that governments in ASEAN up until the 1980s may have deliberately kept the matter a low priority and

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<sup>1</sup> This study is part of the research project "China and Its Implication to the Asia-Pacific", funded in whole by Philippine APEC Study Center Network. This study is originally titled "The Political Economy of China's Relations to Southeast Asia".

<sup>2</sup> The author is Associate Professor at the Asian Center, University of the Philippines, and Executive Director of the non-profit Philippine-China Development Resource Center. Research assistance for this paper was provided by Desiree V. San Pablo and Mary Grace P. Mirandilla.

<sup>3</sup> As a matter of fact, this may be said not only of Sino-Southeast Asian relations, but of the study of international relations in general. The disciplinary divide between political scientists and economists has been pronounced, with few scholars able to satisfactorily explain why, for instance, at the political-security realm relations between states can sometimes seem so testy, even while economic interdependence grows. This dichotomy of politics and economics in the study of foreign relations is reflected by a dichotomy in the crafting and implementation of foreign policy in the real world by defense and security specialists on the one hand, and economic diplomacy specialists on the other hand. The situation sometimes leads to different sets of policy-makers working at cross purposes, to the detriment of national interest and, it may well be, of international peace and stability.

<sup>4</sup> Chia Siow-Yue and Cheng Bifan, eds., ASEAN-China Economic Relations: In the Context of Pacific Economic Development and Cooperation (Singapore: Institute of Southeast Asian Studies, 1992).

discouraged private sector contacts. In general, ASEAN was observed to have used economic diplomacy vis-à-vis China only for the enhancement of their "overall economic security and long-term economic growth" rather than aiming them at geopolitical objectives. In contrast, Chan says that "[L]ike other major powers, China's foreign economic and trade policy are instruments for increasing national power as much as they are an extension of the latter." Understanding Chinese behavior, he says, requires knowing the importance of their domestic context and the Chinese long-term vision of their position in the international arena. ASEAN, on the other hand, has no such long-term perception of its strategic role in history.

Frances Lai agrees that relations have to be understood from the domestic contexts as well as from the regional and global angle. One domestic factor is the handling of the ethnic Chinese issue. Pushpa Thambipillai says one should not overlook the relationship between the internal attitude of a particular state towards its ethnic Chinese citizens and its perceptions of China. The cases in point were Thailand and the Philippines, two ASEAN countries that then had the most well-integrated ethnic Chinese communities and the least problematic ties with Beijing. As for regional factors, the common interest of China and ASEAN in opposing Vietnam's 1979 occupation of Kampuchea led to stronger political cooperation and healthy economic ties in the 1980s, despite the hostility of the 1960s.<sup>5</sup>

John Wong<sup>6</sup> described China-ASEAN ties from 1949 to the 1970s as dominated by ideological and political elements, due to China's revolutionary proselytizing and ASEAN perceptions of a China threat. He emphasized the need for a political economy approach in studying relations. This was because economic relations between a market economy and China's socialist economy at the time was most susceptible to political intervention, and the State in China was heavily involved in foreign operations of the socialist economy.

From the Chinese perspective, as written by Cheng Bifan and Zhang Nansheng in their article "Institutional Factors in China-ASEAN Economic Relations"<sup>7</sup>, it was the dominant political and economic influence of the United States over ASEAN through the 1950s and 1960s that prevented better Sino-ASEAN economic relations. Relations, however, improved by the early 1970s, and by 1985, Malaysia's Prime Minister Mahathir Mohamad declared during a visit to Beijing that "while politics dominated the first decade of Sino-Malaysian relations, economics should dominate the next decade."<sup>8</sup>

In contrast, Jusuf Wanandi of Indonesia says "China will always be seen as posing a threat to Southeast Asia, in view of her size and past experiences in which China considered Southeast Asia as within her sphere of influence."<sup>9</sup> He describes ASEAN as having an instinctive reluctance to see rapid increases in the scale of China's economic influence in the region. Indeed, ASEAN was initially apprehensive of China's economic modernization efforts. Richard Grant notes ASEAN concerns that a strong and prosperous China would dominate the region economically and wield extraordinary political and military influence.<sup>10</sup>

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<sup>5</sup> Ibid.

<sup>6</sup> Chia Siow-Yue and Cheng Bifan, eds., ASEAN-China Economic Relations: Developments in ASEAN and China (Singapore: Institute of Southeast Asian Studies, 1989).

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Conference paper. ASEAN-China Dialogue organized by the ASEAN Institutes of Strategic and International Studies.

<sup>10</sup> Grant, Richard L. "China's Domestic and Foreign Policies: An Overview," in China and Southeast Asia: Into the 21st Century. (Washington, D.C.: Center for Strategic and International Studies, 1993).

Since these papers were prepared, China has become even stronger economically, even more influential politically, and quite open about her ambitions for greater military power. ASEAN, on the other hand, has grown in numbers, greatly improved its collective economic standing (especially prior to the July financial melt-down), and considerably enhanced its international status as one of the prime movers of regional confidence-building and economic cooperation through the ASEAN Regional Forum and the Asia Pacific Economic Cooperation Forum or APEC.

This study will examine relations between China and Southeast Asia at two levels. First will be the regional context. The focus here shall be China's evolving attitude towards ASEAN as a collective organization. Chinese attitudes towards ASEAN have changed especially in response to regional strategic developments such as the end of the Cold War, the emergence of the United States as the world's sole superpower, increasing regionalism and multilateralism in the Asia Pacific, Taiwan's aggressive diplomacy in Southeast Asia, and ASEAN's own expansion in influence. The China-ASEAN relations described here refer mainly to relations conducted at the multilateral level, especially as they existed before ASEAN began expanding in 1995 to eventually include Vietnam, Laos, Cambodia and Myanmar.

The second approach will be at the bilateral level, where we look not only at the patterns of China's trade and investment with selected countries, but also at some significant domestic and international political events affecting the strategic context of bilateral relations. The countries to be studied are Indonesia, Thailand, Malaysia and Singapore, all founding members of the Association.<sup>11</sup>

## **CHINA-ASEAN POLITICAL-SECURITY RELATIONS**

China has always looked at Southeast Asia as an integral part of its security environment. However, in its overall Asia policy, the role of and importance attached to Southeast Asia has varied over time and through changes in China's strategic circumstances.

At present, compared to Northeast Asia, where the Korean Peninsula conflict threatens to explode into a situation that might bring China into loggerheads with US and Japan, or compared to South Asia where China's long-standing rivalry with India had drawn it into strategic partnership with Pakistan, Southeast Asia presents to China a relatively docile and stable environment

This was not always so. At the peak of the Cold War, when American containment policy against Chinese communism in the 1950s and 1960s found sympathy among states of Southeast Asia then fighting internal communist insurgencies, relations between China and the latter were hostile but for Beijing's short-lived alliance with Sukarno. Relations were strained due to China's support for communist guerillas in Malaya, Thailand, Indonesia and the Philippines. In Indonesia and Malaysia, these underground parties were predominantly composed of ethnic Chinese, aggravating

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<sup>11</sup> So far, most studies on China-ASEAN relations, especially on economic aspects, deal with China's pattern of relations with the so-called ASEAN-Five, the four already mentioned as well as the Philippines who were the original founding members. Future studies on the subject should also look at China's relations with new ASEAN members Vietnam, Myanmar and Cambodia as important in themselves and as having an effect on China's relations with Southeast Asia. Vietnam, among all of Southeast Asia, may be considered China's traditional foe. It alone has fought wars against China both on land as well as in the maritime arena. Myanmar, on the other hand, appears to have an increasing strategic dependence on China, causing concern among some of its neighbors. As for Cambodia, China considered it vital to her own security against Vietnam in the 1970s and 1980s, but now appears content that Hanoi has relinquished much of its influence and control over Phnom Penh.

already long-standing socio-cultural tensions between Chinese minorities and the Malay majorities and magnifying the ethnic relations issue as a problem in Sino-ASEAN relations.

The founding of ASEAN in 1968 was treated antagonistically by China. ASEAN was described in the official magazine *Peking Review* as "an out and out counter-revolutionary alliance rigged up to oppose China, communism and the people, another instrument fashioned by US imperialism, and Soviet revisionism for pursuing neo-colonialist ends in Southeast Asia."<sup>12</sup>

During the Sino-Soviet conflict in the 1970s, Southeast Asia - particularly Indochina - became an arena for strategic competition between the two communist giants. Pro-Soviet Vietnam's hostile actions against China were seen as directed towards aiding Soviet encirclement of China, which China countered by developing alliances with Pol Pot's Cambodia and Thailand, both fearful of Vietnam's hegemonic goals in Indochina. Vietnamese occupation of Cambodia in 1979 brought China and ASEAN closer together in a campaign supported by US and Japan to put an end to Vietnam's control of Indochina. The ASEAN-China collaboration in effecting the withdrawal of Vietnamese troops from Cambodia, that lasted from the late 1970s to early 1990s, was a very successful case of political cooperation.

China began to appreciate the strategic value of Southeast Asia, most especially of a unified ASEAN, as a potential ally in the emerging balance of power in Asia. Among China's greatest concerns in the post-Cold War period is the new role being played by the United States as the world's sole superpower. Not only is it the world's largest economy, it is also a state possessing state-of-the-art military technology which in China's calculus may be in the future be directed against it. The way to counter the preponderance of US power, China appeared to argue, was to create and strengthen a multipolar world order.

China sees ASEAN as potentially evolving into one "pole" in its vision of a multipolar world order. ASEAN's fundamental objective of keeping Southeast Asia a peaceful and neutral region free from dominance by any regional or outside power is something which China says it shares.<sup>13</sup> But following Vietnam's withdrawal from Cambodia, the possibility loomed that Southeast Asia's deep-rooted suspicions of China would re-surface and lead the former into hostile alliances with other powers against China. After all, China and several Southeast Asian countries were locked in conflict over territorial sovereignty and maritime jurisdiction disputes.

On the other hand, from Southeast Asia's perspective, there is fear that growing nationalism in China might cause it to try to dominate its smaller neighbors. The worst manifestation of nationalism thus far is China's ambitions to become an Asia-Pacific military power. China has, among other actions, been expanding naval activities in the South China Sea. This appears to be done both in pursuit of its sovereignty claim over islands and waters of the entire area, and also presumably to develop capacity to counter US-Japan military strategy against China.

Under these circumstances of uncertain security ties, both China and ASEAN opted to speed up and intensify the nature of political and security cooperation between them.

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<sup>12</sup> Derek McDougall, *The International Politics of the New Asia Pacific* (Singapore: Institute of Southeast Asian Studies, 1997), p. 221.

<sup>13</sup> Hao Yufan and Huan Guofang, eds., *The Chinese View of the World* (New York: Pantheon Books, 1989), p. 221.

Chinese Premier Li Peng in a visit to Bangkok in 1989 proposed four principles for Sino-ASEAN relations. These were: (1) peaceful coexistence despite differences in social and political systems, (2) anti-hegemonism, i.e. China will not seek to be a hegemonist power nor will it interfere in the domestic affairs of ASEAN countries, (3) further development of economic relations and (4) continuing support of regional cooperation and initiatives from ASEAN.<sup>14</sup>

Since then, there have been several significant milestones in China-ASEAN relations.

In 1991, China was invited by ASEAN to become a "consultative partner" of the Association. In 1994, it became a member of the ASEAN Regional Forum, which is an ASEAN-initiated regional security dialogue mechanism, the only one involving all the major powers of the Asia-Pacific.

In 1995, China and ASEAN established a separate political consultative forum at vice-foreign minister's level to discuss political-security issues affecting the region and their relations. This annual meeting has progressed quickly in terms of the depth and candidness of the discussions, placing on its agenda such sensitive issues as the South China Sea disputes.

In 1996, China became a full dialogue partner of ASEAN, a status earlier reserved for ASEAN's closest non-communist allies such as the United States, Japan, the European Union, Canada and Australia. Then in 1997, the China-ASEAN Joint Cooperation Committee (AJCC) was set up. The AJCC coordinates all cooperation between China and ASEAN at the working group level. It is run by a Joint Management Committee, co-chaired by the ASEAN Secretary General and the Chinese ambassador in Jakarta.<sup>15</sup> An ASEAN-China Cooperation Fund was established under this committee.<sup>16</sup>

The first ASEAN-China Informal summit was held in Kuala Lumpur in 1997, where Jiang Zemin said that the goal of China and ASEAN must be to "become permanent good neighbors, good partners and good friends."

Today, there are several important regional issues that require political-security cooperation between China and ASEAN.

#### Perceptions of a "China Threat"<sup>17</sup>

By virtue of its proximity and size, not to mention its growing economic power, political influence and military reach, China may naturally be deemed a threat or at least a potential threat by smaller and weaker states living in its shadow.

Among the ASEAN states, there are differences in the degree with which they perceive China to be a threat, and perhaps even some differences in the approaches they are inclined to take in order to neutralize any such threat as may be perceived. Among the founding states, Indonesia and Malaysia have historically been most

<sup>14</sup> Ibid.

<sup>15</sup> In their 1997 meeting, the committee agreed to promote personnel exchange, hold a workshop on economic and trade cooperation, and conduct other informal exchanges.

<sup>16</sup> Renato E. Reside, Jr., "ASEAN and China: Economic Cooperation or Economic Competition?" in Institute of Security and International Studies, The Sixth China-ASEAN Dialogue (Bangkok, Thailand: n.p., May 1988), p. 3.

<sup>17</sup> This section draws from an earlier paper entitled "China as a Rising Power" presented by the author in December 1997 at a Philippine APEC Study Centers Network conference, Quezon City.

suspicious of China, while Thailand has been the closest to Beijing in terms of convergence of strategic interests. Next to Thailand, Singapore and the Philippines in the past appear to have been least concerned with the prospect of China's flexing of muscles. In the case of the Philippines, however, this was true only until the Chinese occupation of Mischief Reef in its claimed area of the Spratlys in 1995, which raised great alarm in Manila.

The ASEAN consensus on the need to bring China into the security-oriented ASEAN Regional Forum, however, appears to indicate their common concern over China's future security role in the region, as well as agreement on the need to engage, rather than contain, China. There is a lot that needs to be done to reduce lingering -- even growing -- suspicions of China. The call by other countries for China to increase its military transparency and undertake measures to build trust and confidence must be addressed. In this respect, the reciprocal visits of naval vessels between China and ASEAN are a good development. China sent its naval fleets to visit Thailand, Malaysia and the Philippines in 1997, while receiving visits from Thai and Singaporean ships. In 1995, it also sent ships to attend the 50<sup>th</sup> anniversary of Indonesian independence.<sup>18</sup> The growth of military diplomacy appears to be a strong indication of China's desire to place political relations with ASEAN at the forefront of its regional diplomacy.

Increasing ASEAN-China economic interdependence is also seen by both sides as a means of enhancing mutual trust and enlarging each side's stake in the stability and prosperity of the other. In this context, trade and investment linkages, as well as increased two-way flows in goods, capital and peoples have also contributed to improving political-security relations.

#### The South China Sea problem

The South China Sea disputes refer to conflicting territorial and maritime jurisdiction claims by China, Taiwan, Vietnam, the Philippines, Malaysia and Brunei over rocks, islands, reefs, waters and resources of this ocean that connects China with Southeast Asia. At stake is not only sovereignty, but access to living resources (fisheries and aquatic plants and animals) and non-living resources (oil and other hydrocarbon deposits) in the ocean's water column and seabed. Moreover, whoever has control of the South China Sea obtains considerable strategic influence over the Straits of Malacca and other crucial navigational chokepoints upon which the freedom of trade and military movements depend.

In addition to this, the United Nations Convention on the Law of the Sea, which entered into force in 1994, gives coastal states certain rights and jurisdictions over extended maritime zones based on their sovereignty over land. This includes a maximum 200-nautical miles of exclusive economic zone. It is believed that UNCLOS has unintentionally driven up competition among Southeast Asia and China for control of islands and waters in the South China Sea.<sup>19</sup>

In Singapore on 13 August 1990, Premier Li Peng announced that "China is ready to join efforts with Southeast Asian countries to develop the Spratly islands, while putting aside for the time being the question of sovereignty."<sup>20</sup> The problem is that

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<sup>18</sup> Mohamed Jawhar bin Hassan, "ASEAN and China in the Asia Pacific Region: Common Challenges and Search for Cooperation," in Institute of Security and International Studies, The Sixth China-ASEAN Dialogue (Bangkok, Thailand: n.p., May 1988), p.3.

<sup>19</sup> Aileen Baviera, "Much Ado about Something: The Stakes are High in the Kalayaan Islands," UP Observer, March-April 1999. University of the Philippines.

<sup>20</sup> McDougall, 1997.

China's interpretation of such a policy seems to imply that other countries would have to recognize Chinese sovereignty before joint development could take place.

There have been instances of armed exchanges among various claimants in the Spratlys area, most seriously between China and Vietnam in 1988. Near provocation and tensions flare-up every now and then, involving not just close encounters of military personnel but incidents arising from intrusions into exclusion zones and near occupied areas, as well as apprehensions of fishermen for illegal entry or illegal fishing practices.

While there have been talks held at the bilateral level among pairs of claimant States, particularly China-Vietnam, China-Malaysia, China-Philippines and Vietnam-Philippines, none of the talks appear to have gained ground on resolving sovereignty issues. Neither is there published evidence that the parties have engaged in truly substantive dialogue that directly addresses the sensitive issues of resource use; this, despite paying lip service to the desirability of joint development.<sup>21</sup>

There appears to be a fear of negotiating with China on the part of the ASEAN claimants, because of China's presumed leverage which may include a superior navy, political clout in the international community, or even economic instruments. ASEAN is instead exploring the possibility of multilateral negotiations with China for a regional code of conduct that would define norms of behavior for claimant states in the South China Sea.

Moreover, since 1990 the Indonesian Foreign Ministry has been conducting an annual meeting of claimants and other littoral states on "Managing Potential Conflicts in the South China Sea." The workshop series has identified possible non-sensitive areas for cooperation that the littoral states may pursue as a way of building mutual confidence, such as marine scientific research or cooperation against pollution of the seas. To date, however, the participating governments are unable to arrive at any consensus in favor of actual implementation of the cooperation proposals.

#### Cooperation in building a new regional security order for East Asia

The Hong Kong Wen Wei Po interpreted Li Peng's 1997 diplomatic offensive in Singapore and Malaysia as "an important step on the part of China to promote a new multipolar international political and economic order" and as "an important act in a series of diplomatic plays by China ..."<sup>22</sup>

During his visit, Li Peng had stressed the need to cooperate with ASEAN towards "good neighborly and friendly relations geared to the 21<sup>st</sup> century." He proposed the following as the basis for relations between the two sides: that the two sides respect each other and treat each other as equals; that they strengthen their dialogue and intensify consultations; that they seek common development based on mutual benefit; that they support each other and expand cooperation to safeguard and enhance the shared rights and interests of developing countries; and that -- bearing in mind the larger picture -- they seek common ground while putting aside differences.

Li Peng also underscored that there was an accelerating trend toward multi-polarization, again indicating China's support for a stronger ASEAN that could help

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<sup>21</sup> Aileen Baviera and Jay Batongbacal, "When will conditions be ripe: Prospects for Joint development in the South China Sea," paper presented at the 13<sup>th</sup> Asia Pacific Roundtable, 30 May-2 June 1999, Kuala Lumpur.

<sup>22</sup> Han Hua, "Visiting Malaysia and Singapore Again is of Extraordinary Significance – Previewing Li Peng's Visit to Malaysia and Singapore," Hong Kong Wen Wei Po, August 1997, p. A3.

balance the influence of other major powers in the region and in the world. It is generally believed in China that an expanded ASEAN will strongly abide by the principle of a balance of powers in the region, rather than turn into a military alliance directed against China.

Li Peng likewise stressed that economic factors had gained importance and were even underpinning the development of inter-state relations.<sup>23</sup> The message was that ASEAN and China should pay greater attention to the huge potentials for economic cooperation between them, rather than focus on political differences and gaps in security perceptions. Our next section explores if there is indeed a direction emphasizing and maximizing economic relations.

## **TRENDS IN CHINA-SOUTHEAST ASIA ECONOMIC RELATIONS**

Sino-Southeast Asian economic relations are far from impressive. It has been argued that the fundamentally competitive rather than complementary structures of the economies of the two sides have prevented significant growth in trade and investments from taking place, with the possible exception of China-Singapore ties.

The economies of the two sides differ markedly in at least three respects: size, economic system and economic development strategy. It has been noted that the ASEAN economies have a higher dependence on trade than does China, with China's trade/GDP ratio at 37% in 1991. This compares with 47% for Indonesia and the Philippines and 148% for Malaysia, although it is not clear how this itself can be an obstacle to trade between the two sides.<sup>24</sup>

Other scholars have pointed out, however, that as both sides experience high rates of growth they have also become more differentiated in terms of comparative advantages and at the same time, more interdependent with the global market. For example, the expanded ASEAN just before the July 1997 financial crash was projected to have about two-thirds of Japan's economic strength, with its gross national product of \$1.6 trillion. This was deemed to have opened up future opportunities for mutually beneficial exchanges with China's own huge economy.

The record moreover shows that from 1980 to 1996, there was indeed respectable growth in trade and economic relations between China and ASEAN as a whole. This stemmed mainly from the growth and expansion of their respective economies, spurring increased imports and increased outward investments as the case may be.

However, the degree of integration and interdependence between the two sides (China and the ASEAN-5) did not significantly increase. Their mutual trade remained a low percentage of each side's total trade. The same was true for investments, ironically for the reason that their respective trade and investment relations with other partners also increased significantly.

Moreover, not all of the ASEAN-5 enjoyed growth in economic ties with China. The most progressive economies of Singapore and the then emerging Asian dragons achieved a great boost, while laggards such as the Philippines trailed far behind.

<sup>23</sup> Edsel T. Custodio, "Laying the Foundations for a Philippine Strategy on Multilateral Issues in Philippine-China Economic Cooperation," in Carlos P. Romulo Foundation, Towards the 21st Century: The Philippines and China in the Asia Pacific (Makati, Philippines: n.p., January 1988), p.19.

<sup>24</sup> Zhang Zhaoyong and Ow Chin Hock, "Trade Interdependence and Direct Foreign Investment Between ASEAN and China," World Development, January 1996, pp. 156.

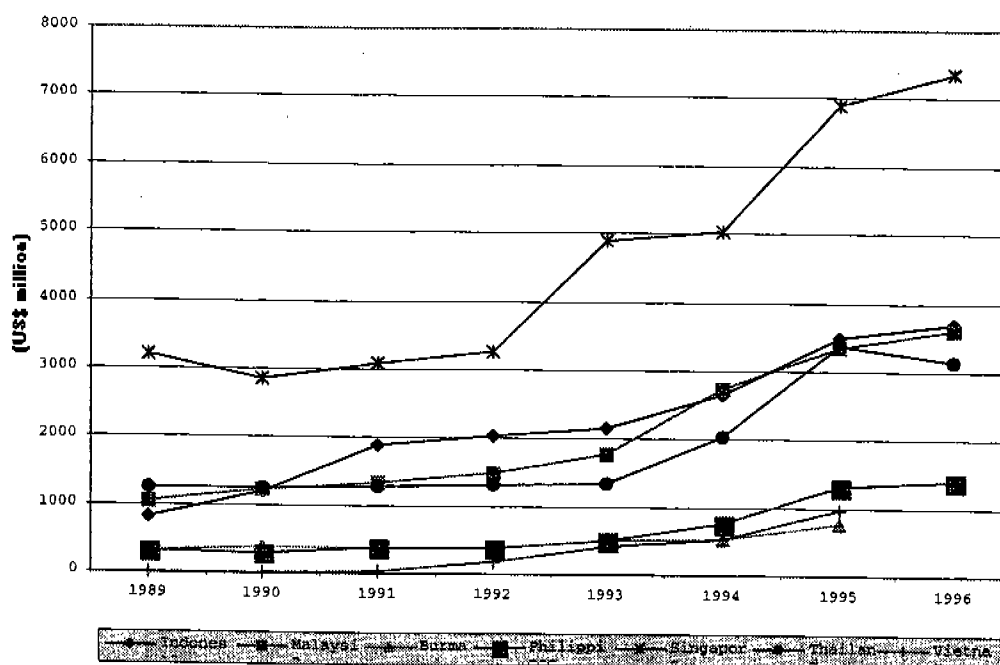
## Trade Patterns

Trade volumes increased significantly from 1980 to the present, particularly for Singapore and Indonesia, and much of it was due to increases in China's imports from ASEAN rather than the other way around.

In terms of percentage of total trade of either China or the ASEAN 5, these volumes are very small if compared to the conceivable trade potential, given the (pre-financial crisis) robustness of their economies and their advantages of proximity and even ethnic Chinese linkages. The share of mutual trade in total trade volumes of each side as of 1993 was only 5-6% in China's case and 2-3% for the ASEAN countries.<sup>25</sup>

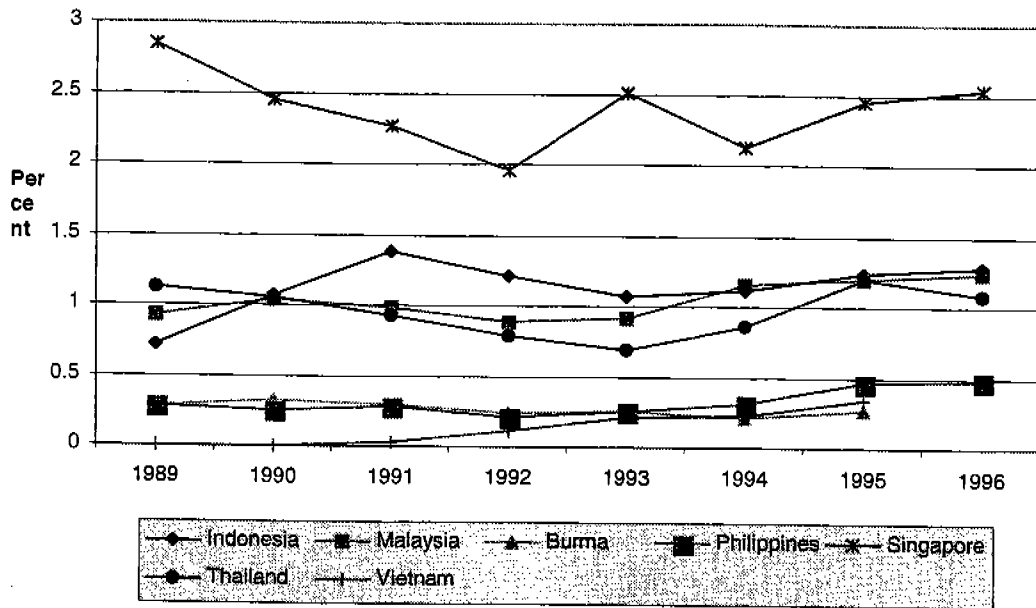
Both in terms of volume and as a percentage of China's total trade, China's trade with Southeast Asia as of 1996, from highest to lowest are with: Singapore, followed at a distance by Indonesia, Malaysia, and Thailand, then trailing far behind are the Philippines, Vietnam and Burma. (See Fig 1a and 1b).

Fig 1a. China's Trade with Southeast Asia (US\$ million)  
(1988-1996)



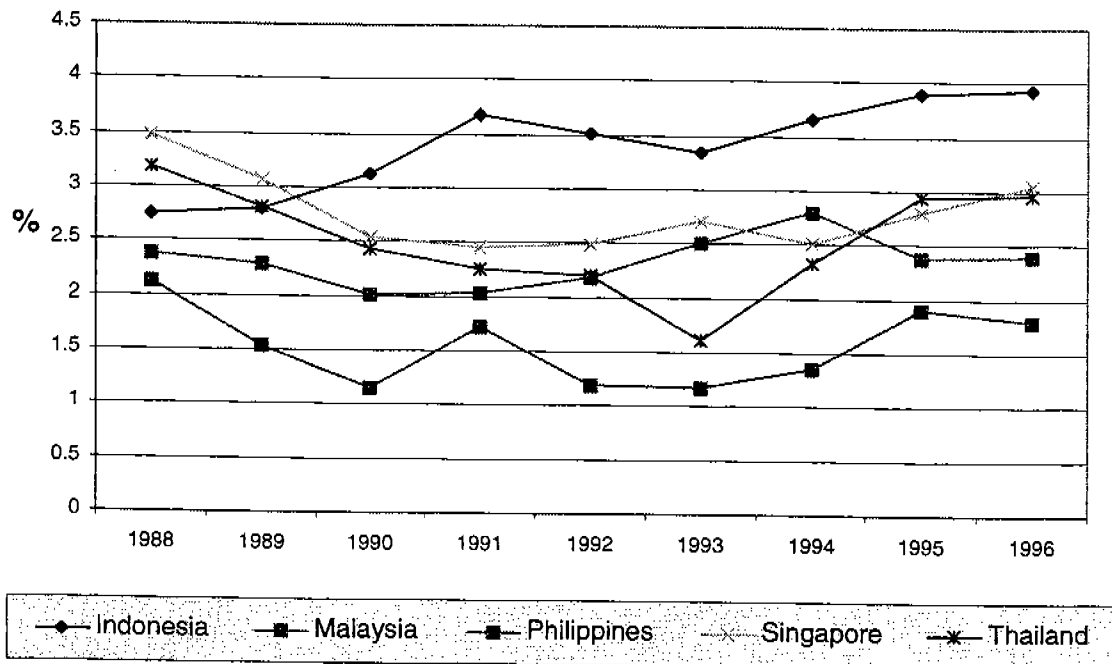
<sup>25</sup> Richard L. Grant, "China's Domestic and Foreign Policies: An Overview," in *China and Southeast Asia: Into the 21st Century* (Washington, D.C.: Center for Strategic and International Studies, 1993), p. 25.

Fig 1b. China's trade with Southeast Asia as percentage of China's total trade (1989-96)



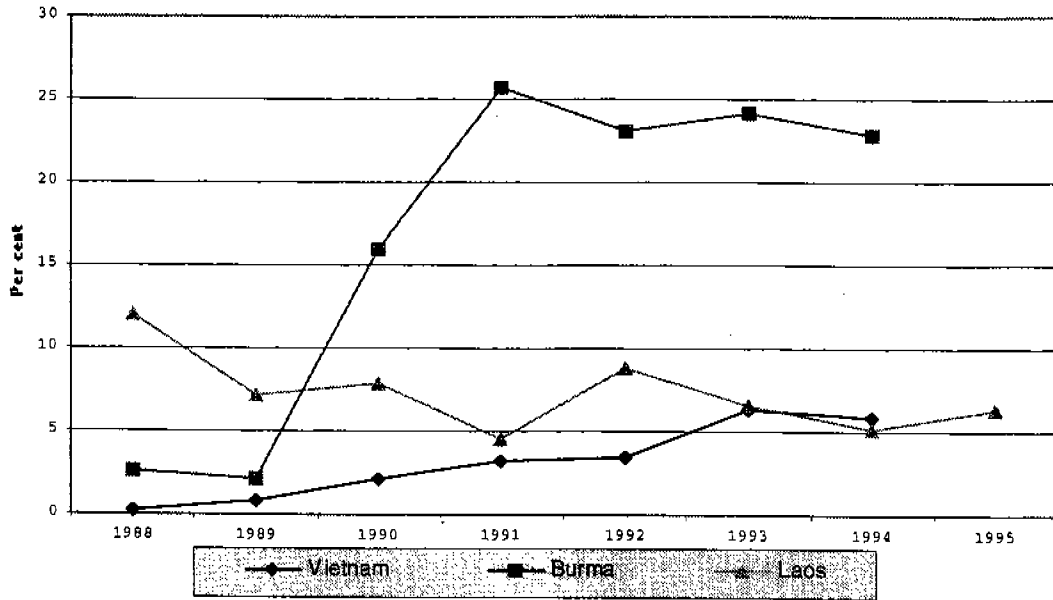
On the other hand, looking at trade with China as a share of the country's total trade (See Fig 2a and 2b), the highest to lowest rates by 1996 for the ASEAN-5 were as follows: Indonesia, Singapore, Thailand, Malaysia and the Philippines. In 1988, Indonesia had ranked only third after Singapore and Thailand but beginning in 1990, the year diplomatic relations were established, it has consistently ranked first among the ASEAN-5.<sup>26</sup>

Fig. 2a. ASEAN 5 Trade with China as Percentage of Country's Total Trade (1988-96)



<sup>26</sup> If we include Vietnam and Laos, we find that their trade dependency on China is even slightly higher (nearly 6% as of 1995) Burma, on the other hand, beginning only in 1991 has had 20-25% of its trade with China, much of it clearly explained by strategic considerations between the two sides.

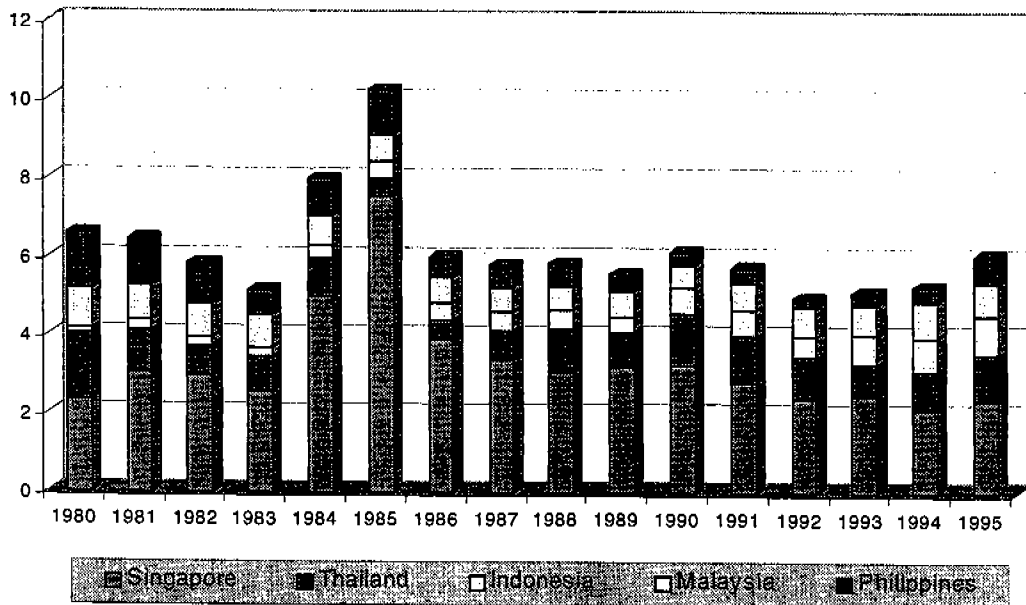
**Fig 2b. Vietnam, Laos, Burma Trade with China as Percentage of Country's Total Trade (1988-98)**



*Chinese exports to ASEAN:*

In terms of China's exports to ASEAN 5 (See Fig. 3 and Table A), the highest to lowest in terms of percentage of China's total exports (using average of 1980-1995) are with: Singapore (3.26), Thailand (.98), Malaysia(0.77), Philippines (0.68) and Indonesia (0.49). Altogether the ASEAN 5 received only an average of 6.16% of China's total exports from 1980 to 1995. In 1996, the total was even less at 5.83%.

**Fig 3. China's Export to ASEAN Countries 1980-95 as % of total**



**Table A**

**CHINA'S EXPORT TO ASEAN COUNTRIES 1980-1995  
(As Percentage of China's Total Exports)**

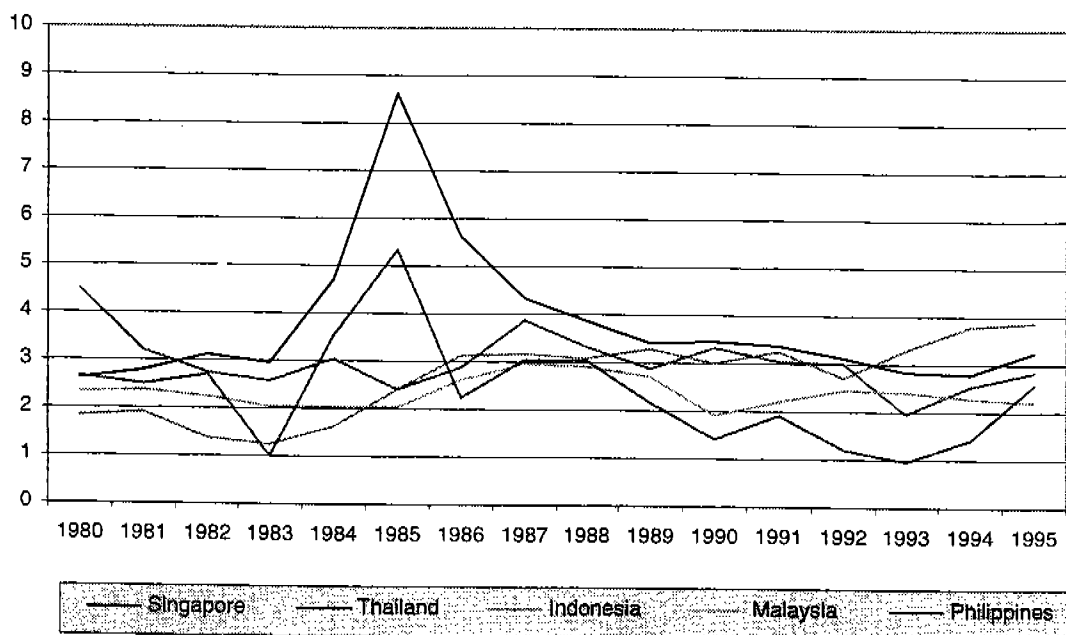
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Ave.
Singapore	2.32	3.06	2.96	2.56	4.99	7.55	3.88	3.35	3.07	3.17	3.21	2.80	2.38	2.45	2.12	2.35	3.26
Thailand	1.72	1.06	0.77	0.88	1.01	0.42	0.51	0.76	1.07	0.92	1.36	1.18	1.05	0.82	0.96	1.18	0.98
Indonesia	0.12	0.25	0.21	0.22	0.28	0.45	0.46	0.48	0.50	0.40	0.64	0.67	0.55	0.76	0.87	0.97	0.49
Malaysia	1.01	0.89	0.83	0.84	0.79	0.68	0.65	0.65	0.65	0.64	0.59	0.73	0.75	0.77	0.93	0.86	0.77
Philippines	1.42	1.19	1.08	0.65	0.90	1.15	0.50	0.56	0.56	0.46	0.33	0.35	0.24	0.31	0.39	0.69	0.68

Source: Computed from IMF Direction of Trade Statistics Yearbook (Washington, D.C.), various issues

Other than 1985, when Singapore received 7.55% of China's total exports, the figures show that the ASEAN 5 do not constitute a major market for China. In fact, the total exports to ASEAN only exceeded 7% of China's total in 1984, when it was 7.97% and in 1985 when it peaked at 10.25%, both due to increases in Singapore's imports.

From the ASEAN-5's perspective, their imports from China (Fig 4 and Table B) also do not represent a large percentage of their total imports. From 1980-1995, the average for Singapore was 3.8%, followed by Thailand (3.01%), Indonesia (2.68%), Malaysia (2.36%) and the Philippines (2.35%).

**Fig 4. ASEAN's Imports from China (1980-95)  
as % of Total**



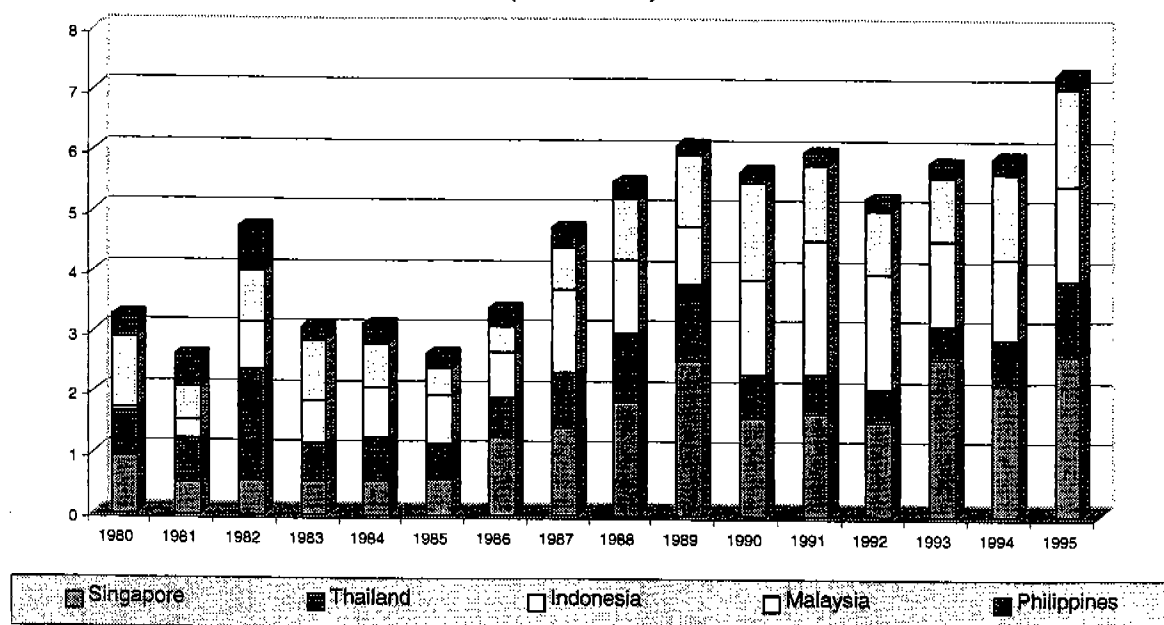
**Table B****ASEAN'S IMPORTS FROM CHINA 1980-95  
(As Percentage of Total)**

	Singapore	Thailand	Indonesia	Malaysia	Philippines
1980	2.62	4.52	1.82	2.35	2.67
1981	2.8	3.22	1.91	2.37	2.48
1982	3.13	2.73	1.37	2.23	2.7
1983	2.94	2.58	1.25	2.04	1
1984	4.7	3.06	1.61	2.03	3.54
1985	8.63	2.41	2.43	2.04	5.32
1986	5.61	2.87	3.14	2.61	2.24
1987	4.34	3.87	3.16	2.94	3.03
1988	3.86	3.35	3.09	2.91	3.05
1989	3.42	2.89	3.28	2.71	2.17
1990	3.44	3.32	2.99	1.92	1.4
1991	3.36	3.06	3.23	2.19	1.9
1992	3.12	3	2.7	2.44	1.19
1993	2.82	1.96	3.3	2.4	0.97
1994	2.81	2.55	3.8	2.29	1.42
1995	3.25	2.83	3.87	2.21	2.57
Average	3.8	3.01	2.68	2.36	2.35

Source: Computed from IMF Direction of Trade Statistics Yearbook (Washington, D.C.), various issues

*Chinese imports from ASEAN:*

Imports from ASEAN, on the other hand, have grown more than exports.<sup>27</sup> (See Fig 5 and Table C.) For example, the volume of exports to ASEAN from 1986-91 grew only 7% annually, while imports for the same period grew 20% annually.

**Fig 5. China's Imports from ASEAN Countries 1980-95  
(As % of Total)**

<sup>27</sup> Grant, p. 4.

Table C

**CHINA'S IMPORT FROM ASEAN COUNTRIES 1980-95**  
(As % of China's Total)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Ave.
Sing.	0.95	0.52	0.54	0.53	0.54	0.56	1.27	1.42	1.84	2.53	1.59	1.67	1.54	2.57	2.14	2.63	1.43
Thai.	0.70	0.71	1.84	0.63	0.72	0.61	0.66	0.93	1.15	1.28	0.72	0.66	0.53	0.58	0.75	1.25	0.86
Indon	0.07	0.29	0.80	0.70	0.82	0.77	0.75	1.36	1.23	0.98	1.59	2.20	1.93	1.40	1.37	1.59	1.12
Malay	1.20	0.55	0.83	1.01	0.74	0.46	0.41	0.70	1.03	1.17	1.60	1.26	1.03	1.05	1.40	1.60	1.00
Phil.	0.35	0.54	0.72	0.21	0.32	0.23	0.31	0.32	0.24	0.14	0.17	0.20	0.19	0.21	0.24	0.21	0.29

Source: Computed from the IMF, Direction of Trade Statistics Yearbook (Washington, DC), various issues

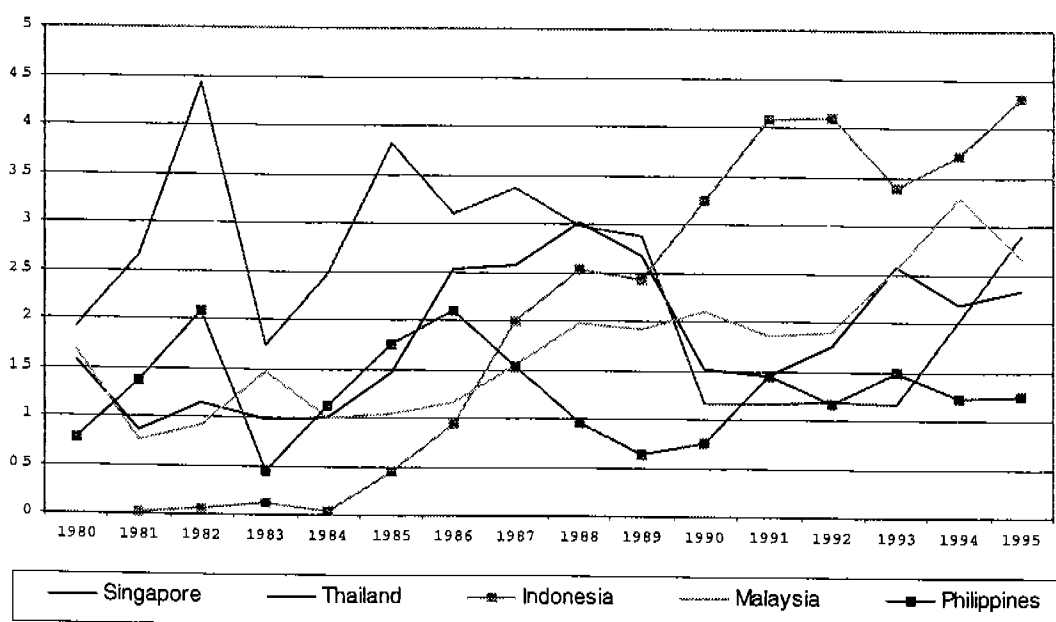
As a percentage of China's total imports, China bought only 1.43% from Singapore (average for 1980-95), while the total bought from ASEAN 5 for the same period was 4.7%. The Philippines contributed only a measly .29% of this amount.

A large increase in China's purchases from Thailand was recorded for 1982, from .71% of her total the previous year to 1.82%. On the other hand, there was a sharp reduction from 1989 to 1990.

Imports from Indonesia also abruptly increased in the early 1990s, following the moves to normalize diplomatic ties. From 1980-1989, they constituted an average .77% of China's total imports, but from 1990-1993 the annual average was 1.78%, with the most significant performance in 1991 at 2.2%.

Again, from ASEAN's perspective, China's potential as a market is not being tapped significantly (See Fig 6 and Table D). Even in 1996, Singapore was only exporting 2.71% of its total exports to China. For Thailand, the figure was 3.35%, for Malaysia 2.41% and for the Philippines 1.61%. It was Indonesia which increased significantly its China market, from a very low base of 0.03% in 1981 to 3.25% on the year diplomatic ties were renewed to 4.31% and 4.18% in 1995 and 1996 respectively.

Fig 6: ASEAN Exports to China as % of total 1980-95



In terms of volume of trade, however, in the past decade, China's economic relations with Southeast Asian countries developed steadily, from around US\$ 8 billion in 1991 to US\$ 25 billion in 1997.<sup>28</sup> ASEAN now has become China's fifth largest trade partner. China's trade dependence on the ASEAN countries is relatively greater than the latter's dependence on China, most of all in the primary commodities and resource-based manufactures categories.

China has also shown that it wants to expand economic relations with the ASEAN countries by taking substantial steps to promote and facilitate such relations, to balance the trade in which China has had a surplus, and to attract investments from the ASEAN nations. Besides traditional import items from Southeast Asia, China has agreed to buy some items that are not badly needed. For example, when the Thai economy was battered by severely depressed world rice prices, China signed a US\$43 million rice-and-maize deal with Thailand in early 1986.

**Table D**  
**ASEAN'S EXPORTS TO CHINA 1980-95**  
**(As Percentage of Country's Total Export)**

	Singapore	Thailand	Indonesia	Malaysia	Philippines
1980	1.58	1.91		1.67	0.78
1981	0.85	2.65	0.03	0.75	1.36
1982	1.15	4.42	0.06	0.91	2.09
1983	0.98	1.74	0.13	1.46	0.45
1984	1.01	2.47	0.04	1	1.12
1985	1.46	3.81	0.45	1.04	1.76
1986	2.54	3.11	0.94	1.17	2.1
1987	2.57	3.36	2	1.56	1.54
1988	3.03	2.98	2.54	1.97	0.95
1989	2.68	2.88	2.43	1.92	0.64
1990	1.51	1.17	3.25	2.1	0.76
1991	1.45	1.16	4.08	1.86	1.45
1992	1.75	1.19	4.11	1.9	1.16
1993	2.57	1.16	3.39	2.55	1.48
1994	2.18	2.02	3.71	3.29	1.22
1995	2.33	2.9	4.31	2.65	1.25
Average	1.85	2.43	2.1	1.74	1.26

Source: Computed from the IMF, Direction of Trade Statistics Yearbook (Washington, DC), various issues

#### Investment Patterns:

ASEAN-5 investments in China are mainly from Singapore, with the city-state's investments dwarfing that of any other country especially from 1994 onward. (See Fig 7a and 7b). Thailand also poured in respectable amounts from 1992 and 1993, according to Chinese official sources. By the end of 1991, the sum total of Southeast Asian investment in China was 1.412 b. China meanwhile had set up a number of joint ventures in ASEAN.<sup>29</sup>

<sup>28</sup> Ding Kuisong, "China and ASEAN: Enhancing Cooperation to Meet Economic Challenges," in Institute of Security and International Studies, The Sixth China-ASEAN Dialogue (Bangkok, Thailand: May 1988), p. 4-5.

<sup>29</sup> Grant, p. 25.

Fig. 7a. ASEAN 5 Investments in China (US\$ million) 1989-1996

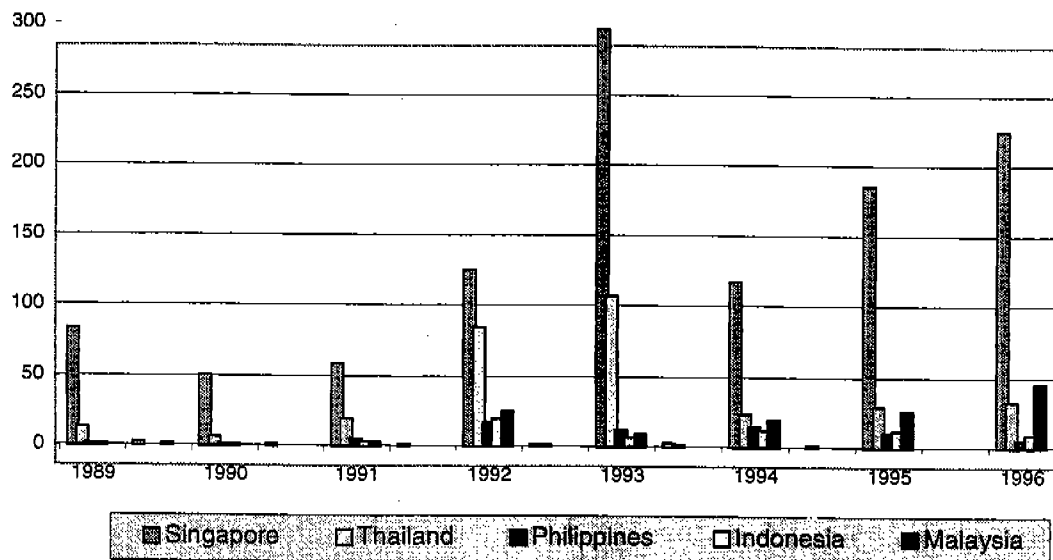
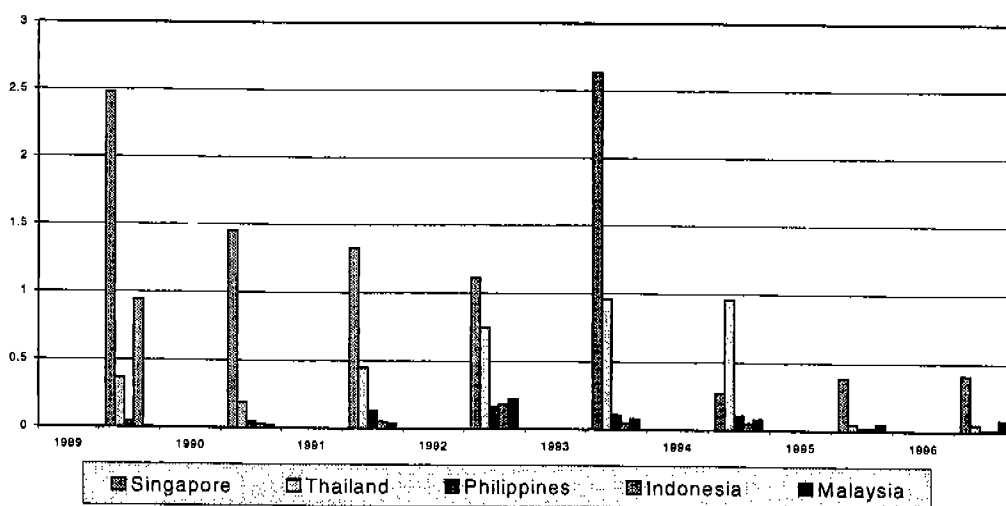


Fig 7b: ASEAN 5 Investments in PRC as Share in Total DFI (1989-1996)



As a percentage of total investment in China, however, the figures are again miniscule even during the 1990s, with Singapore reaching only 2.64% in 1993. Even then, Singapore was by 1994 the fourth largest investor in China, surpassed only by Hong Kong, Japan and the United States.<sup>30</sup> Southeast Asia is therefore not a major source of investments for China.

Each of the ASEAN 5 countries has been noted to have a different investment pattern, reportedly ranging from contractual and equity joint ventures with local partners to wholly foreign-owned enterprises. It has been observed from the outward investments of these ASEAN countries that Thai investors tended to allocate capital for human capital-intensive and technology-intensive industries, while Indonesian, Malaysian

<sup>30</sup> Zhang Zhaoyong and Ow Chin Hock, p. 155.

and Filipino investors were attracted to unskilled labor-intensive manufactures. These were the sectors where China possessed a strong comparative advantage.<sup>31</sup>

By the mid-1990s, the investment from ASEAN-5 actually utilized by China was three times of that in 1990. Singapore, for example, has invested around US\$ 450 million in infrastructure of Suzhou Industrial township --- now seen as the trademark of Singapore investment in China.<sup>32</sup>

### Other Forms Of Cooperation

There are several multilateral fora where economic cooperation between the two sides might also take place, including the Asia Pacific Economic Cooperation or APEC and the ASEAN-China Joint Cooperation Committee. ASEAN has also expressed strong support for China's entry into the WTO. At the sub-regional level is the Mekong Basin Development Cooperation which was first organized in 1996.

ASEAN, principally Malaysia, is interested in obtaining China's active participation in Dr. Mahathir's proposal of an East Asian Economic Caucus, as added leverage should these East Asian economies need to face up to pressures from the United States and other major economic powers. The "East Asia Economic Caucus", a proposal formalized during the 1991 ASEAN Economic Ministerial Meeting, proposed to set up a coordinating mechanism among East Asian countries that would help strengthen the economic, technological, trade and investment cooperation among ASEAN, China, Japan and the Republic of Korea. Strong opposition by the United States and equivocation by Japan led to the shelving of the proposal, but consultations were nevertheless inaugurated in 1997 in the form of the so-called East Asian Informal Summit or "9+3" (ASEAN + Japan, China, ROK) meetings that follow the annual ASEAN Post-Ministerial Conferences. Separate China-ASEAN Informal Summits also took place in December 1997 and December 1998, after what is now an annual 9+3 meeting.

One question is does China have a unified economic policy towards ASEAN, or are economic relations mainly shaped by bilateral considerations? It would appear from the literature that, in contrast to China's tendency to focus political-security cooperation with ASEAN at the regional, rather than merely bilateral level, in the economic arena China as yet sees no value in crafting a regional economic policy towards ASEAN or, for that matter, AFTA. Bilateral trade and investment ties are what make up ASEAN-China economic ties, while the mechanisms for economic coordination at the regional level have only just been introduced

### **BILATERAL RELATIONS WITH SELECTED STATES: STRATEGIC PERSPECTIVES**

A study of China's relations with Southeast Asia cannot be complete without giving consideration to bilateral relations with certain key countries of the subregion. This is partly because ASEAN itself has, strictly speaking, no common foreign policy. Its collective political-diplomatic clout is a relatively recent phenomenon. As expected, China has had to define and promote its interests in Southeast Asia through its dealings with individual countries.

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<sup>31</sup> Hao Yufan and Huan Guofang, p. 217.

<sup>32</sup> Reside, p.1.

## Sino-Indonesian Relations

Of all the countries of Southeast Asia except for Vietnam, it is Indonesia that has had the most difficult of relations with China. On the other hand, with the possible exception of Thailand, Indonesia is the most important ASEAN country for China.

Normalization of diplomatic ties between Beijing and Jakarta took place in August 1990 when Li Peng went to Jakarta with a promise of, among others, non-interference in Indonesia's internal affairs. Prior to this had been relations characterized by deep mutual suspicions since 1965, since China was allegedly implicated in internal power struggles in Jakarta leading to the downfall of Sukarno.

Indonesia's attraction to China could be attributed to several factors. First is its size and status in ASEAN, which give it considerable influence over the positions taken by the organization on international issues. Another would be her strategic location as co-guardian of the Straits of Malacca, a position that could be a crucial source of control over freedom of navigation by China or any other maritime power in the South China Sea and its gateways to the Indian Ocean.<sup>33</sup>

A third reason, no less important, is Indonesia's consistent adoption of a foreign policy posture that is independent and non-aligned.<sup>34</sup> Such a posture was consistent with China's own distaste for superpower involvement in its Southeast Asian backyard, and was sufficient basis for China to realize the strategic value of cooperation with Indonesia.

On the other hand, the Suharto government appears to have been persuaded on the benefits of normalization after China had demonstrated it could be trusted by ASEAN in the handling of the Cambodian issue. At the same time, it realized that for Indonesia to be able to continue to play a prominent role in regional and international diplomacy, it must be able to engage China under a framework of normal diplomatic relations.

Prospects of economic benefits have also been cited as a factor considered by the Indonesian leadership, although its importance is not highlighted in existing literature. Many private sector groups saw normalization of ties with Indonesia as a new challenge. Some anticipated economic benefits from the relations, while others saw China as a dangerous economic competitor since a great number of its exports are similar to those from Indonesia. Others were afraid that China's large domestic market would draw away investments, especially from the United States and Japan, from Indonesia.

Spokesmen for certain Muslim groups also expressed fears that the normalization of relations with Beijing would further strengthen the position of Indonesian Chinese capitalists, already in control of conglomerates in the country. This, they argued, would intensify local resentment against the overseas Chinese population and, thus, make assimilation even more difficult.<sup>35</sup>

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<sup>33</sup> China had in fact supported Malaysia and Indonesia's aspirations for joint control of the Straits of Malacca, hailing the Agreement on Safety of Navigation through the Straits of Malacca signed by these two countries as "an important move forward." in Dewi Fortuna Anwar, "Indonesia's Relations with China and Japan: Images, Perception and Realities," Contemporary Southeast Asia, December 1990, p 231.

<sup>34</sup> Wayne Bert, "Chinese Policies and US Interests in Southeast Asia," Asian Survey, March 1993, p. 321.

<sup>35</sup> Rizal Sukma, "Recent Developments in Sino-Indonesian Relations: An Indonesian View," Contemporary Southeast Asia, June 1994, pp. 35.

Another reason Indonesia took the final steps to normalize ties was the much-improved relationship between the United States and China, coupled with initial moves by the United States to reduce its military presence in the region. From the beginning of the Sino-US détente in the early 1970s, as the two consolidated their military partnership at the expense of the then Soviet Union, Indonesia was already fearful that a US-backed economically and militarily powerful China would in the long-term move to dominate Southeast Asia. Ali Moertopo had earlier cautioned the United States against exaggerating the importance of its strategic ties with China. He bluntly stated that "the role of the People's Republic of China in the military field will always raise great concerns in Southeast Asia because of its history, its unstable domestic politics, its connection with subversion and infiltration of local communist parties, the presence of the overseas Chinese who are not yet fully assimilated and the fact that China in the last analysis is the one major power in the immediate neighborhood of the Southeast Asian region".<sup>36</sup>

Nevertheless, Indonesia's decision to normalize relations was made. Suharto visited Beijing in November 1990, following which Pres. Yang Shangkun came to Jakarta in 1991.

While there are no outstanding issues that place these two Asian giants in direct confrontation with each other today, strong mutual suspicions and antipathy remain. For one, the two countries have overlapping claims over historic waters, encompassing the rich natural gas fields around Natuna islands. Indonesia has signed an agreement for these reserves to be developed by the U.S. Exxon Corporation, but exploration has been hindered by doubts regarding possible conflict with China.

Indonesia itself is not a claimant to any of the Spratlys or other islands on the South China Sea that China says it owns and which are seen as potential regional flashpoints for inter-state conflict in Asia. However, as a sprawling archipelagic state with considerable interests in protecting its access to the region's maritime resources, it has taken an active interest in seeking solutions to the territorial and maritime jurisdiction disputes surrounding it.

The sensitivity of the ethnic Chinese issue once again came to a head recently in the wake of the economic crisis and the political turmoil surrounding Suharto's ouster from power. Frequent rioting took place which targeted ethnic Chinese families and businesses, commonplace in situations of economic difficulty when resentment against the wealthy minority grows.

#### *Trade and economic relations.*

In the economic arena, the renewal of diplomatic ties was followed by robust trade, particularly Chinese imports of Indonesian goods. Prior to normalization, trade had been conducted through third countries, but by the end of 1995, Indonesia was next only to Singapore in volume of trade with China. However, seeing that the increase was due to higher imports by China rather than by Indonesia, one may venture a guess that China was using trade to help consolidate newly restored political relations with a strategically important neighbor.

Competition rather than complementarity characterized economic relations. Indonesian international oil markets were particularly being hurt by competition from China. For instance, Japan had traditionally been a big market for Indonesian oil but this market contracted when Japan increased oil imports from China. The Japanese were also reported to have used Chinese oil to cut the price of Indonesian oil. Likewise, there is

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<sup>36</sup> Anwar, p.235.

potential competition in the future for other items such as rice, tin, and textile products, products which both sides now export in large amounts.<sup>37</sup>

China managed to score a diplomatic coup when, following the collapse of the Indonesian and Thai economies in mid-1997 due to the currency crisis, it quickly came in with an offer of bilateral assistance to these two countries. The assistance package for Jakarta included US\$ 3 million worth of medicine and materials, US\$ 200 million worth of export credits and US\$ 400 million contribution for the IMF's Indonesian bailout package.<sup>38</sup>

In light of the post-crisis economic difficulties which has led to an alarming 60% poverty incidence in Indonesia, and given the internal political transitions taking place following the removal of Suharto from power, Jakarta has been playing a very subdued role in regional policy. It is not yet clear how these internal problems will affect its relations with China, or Indonesia's role in China-ASEAN relations as a whole.

### China-Thailand Relations

Thailand is in a unique position of being the only Southeast Asian country that is not involved in a territorial dispute with China. For this reason as well as due to other shared geopolitical interests, the deep suspicion that characterizes relations between most Southeast Asian states and China does not exist for Thailand. Nevertheless, relations between Thailand and China were also difficult in the past. Thailand, together with the Philippines, was a member of the anti-communist Southeast Asian Treaty Organization or SEATO. China had supported the Communist Party of Thailand's efforts to overthrow the Thai government through guerilla warfare. But the American defeat in Indochina probably shocked Thailand more than any other country in Southeast Asia, so much so that Thailand needed to come to terms with China as a new balancer.

Of Thai foreign policy, it has also often been noted that a tendency exists to seek accommodation with dominant powers based on pragmatic considerations. Contemporary relations with China are no less a reflection of this.

Kukrit Pramoj and Zhou Enlai established relations between Thailand and China in 1975, marking a shift in Thai policy to one of "peaceful coexistence" with communist states and equidistance between the superpowers. The strongest basis for cooperation between the two then was common opposition to Vietnam's attempts to carve a sphere of influence over Indochina through its occupation of Cambodia. With Vietnam's occupation of Cambodia coming at a time of US withdrawal from Indochina, China emerged as the strongest guarantor of Thailand's security. It also became a source of imports of cheaper military equipment. Since then, military-to-military ties have been very strong, with relations eventually expanding to cover comprehensive economic and political cooperation at various levels. Ties have been marked by a flurry of high-level visits through the decades.

In March 1985, President Li Xiannian visited Thailand and held talks with Prime Minister Prem Tinsulanonda. Two major economic agreements were signed during the visit, while China donated one million U.S. dollars to the Thai Red Cross Society as a relief fund for the people living along the war-worn Thai-Kampuchean border and for Indochinese refugees.

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<sup>37</sup> Hao Yufan and Huan Guofang, p. 216.

<sup>38</sup> Reside, pp. 3-4.

After becoming premier in 1988, Li Peng chose Thailand to be his first foreign destination. Li Peng visited Thailand again in August 1990, followed by President Yang Shangkun in June 1991 and Foreign Minister Qian Qichen in April 1993. Thai prime ministers Anand Panyarachun and Chuan Leekpai visited China in September 1991 and August 1993, respectively.

From the perspective of China's involvement in the Kampuchean conflict, Thailand was an indispensable channel for Chinese arms, ammunitions and other logistical supplies to the Khmer Rouge who were resisting the Vietnamese occupation. Because of China's need for Thai cooperation in Kampuchea, Thai Prime Minister Kriangsak Chomanan was able to negotiate with China the cessation of its assistance to Thai communists --- including closure of the CPT's clandestine radio station in China's southern province of Yunnan.<sup>39</sup>

After Vietnamese soldiers began incursions across the Thai border at Non Markmum to ferret out Cambodian rebels, Beijing vowed to assist Thailand and threatened to act against Vietnam. In 1986, Thailand began to acquire heavy armaments from China, when China donated thirty-six 130 mm guns to Thailand. An initial agreement for a US\$557 million tank program for 1986-1990 was signed. In January 1987, General Chaovalit negotiated the purchase of a wide range of Chinese arms which were provided by Beijing at only 10 per cent of the market price.<sup>40</sup> These included more than a hundred Chinese T-69 MK-II tanks and several 410 YW-531 and T-63 MK- II armored personnel carriers (APCs), and armored cars.<sup>41</sup> It was also reported that a possible multi-million baht joint venture for the manufacturing of APCs for the domestic market and export was being negotiated. In light of the arms build-up that was already happening in Southeast Asia, the move was interpreted as Thailand's initial step towards establishing itself in the heavy arms export industry and China's attempt at enlarging the regional market for its armament exports.<sup>42</sup> Subsequently, however, the discussions to manufacture APCs in Thailand fell through after the Thai military decided that Chinese equipment performed poorly.<sup>43</sup>

The volume of Chinese arms transfers to Thailand decreased in 1990, however, as a result of internal political instability in Thailand that eventually overthrew the Chatichai government in February 1991.<sup>44</sup> Nevertheless, this cooperative military relationship between Thailand and the PRC continues to be a source of some concern for the other ASEAN countries. Many in Southeast Asia still feel strong reservations with regard to China's long-term intentions, and how its relations with Thailand might allow it extended influence in the region.

At the same time, Thailand's own ambitions of a "greater Thailand", which would integrate parts of Myanmar, Laos and Cambodia into a Thai sphere of influence, is a long-standing notion that could help balance both Vietnamese and Chinese expansion in Indochina.<sup>45</sup> Of late, Myanmar's growing strategic and economic ties with China are being eyed with some concern in Thailand. Um Katharya describes the situation:

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<sup>39</sup> Surachai Sirikrai, "Thai Perceptions of China and Japan," Contemporary Southeast Asia, December 1990, pp. 252-3, 254.

<sup>40</sup> Ibid., p.255.

<sup>41</sup> Um Khatharya, "Thailand and the Dynamics of Economic and Security Complex in Mainland Southeast Asia," Contemporary Southeast Asia, December 1991, pp. 255-6.

<sup>42</sup> Ibid., p.257.

<sup>43</sup> Michael Vatikiotis, "Political Weapons: Mahathir's Nod to Chinese Arms Raises Eyebrows," Far Eastern Economic Review, August 1993, p. 12.

<sup>44</sup> McDougall, pp. 212-3.

<sup>45</sup> Um Khatharya, p.247.

"With tightened economic links between Hunan Province and the northern provinces of Myanmar, the PRC has acquired a quasi-economic hegemony over Upper Myanmar. Cheaper and of higher quality than locally produced goods, Chinese products are flooding the markets of Mandalay....

For the PRC, this economic linkage has an important strategic dimension. In the face of a changing power alignment between Thailand and Vietnam, China may be looking towards a greater hold on Myanmar (and to a similar extent Laos) as a deterrence to any prospective power consolidation on its southern border. With Myanmar economically and militarily dependent upon the PRC, China could remain poised at Thailand's western flank."<sup>46</sup>

Economic cooperation has developed as an offshoot of strategic cooperation. The first time China came to Thailand's assistance was in 1974, when Thailand requested shipments of diesel oil to help relieve the consequences of the world oil shortage. Since then, China has on several other occasions tried to bail Thailand out in time of need, not for expected economic returns but for political advantage.

In 1985, China willingly absorbed an additional 50,000 tons of Thai sugar in order to help Thailand alleviate a surplus problem. In 1986, China bought US\$ 43 million worth of rice and maize and 30,000 tons of Thai glutinous rice, 20,000 tons of green mung beans, and 10,000-200,000 tons of raw sugar even if China itself was exporting some of these products.<sup>47</sup>

Bilateral trade in the period immediately following normalization (1975-79) grew 129-fold. The major items traded were Chinese petroleum and Thai agricultural products. China was also known to have made voluntary adjustments in its purchasing quotas from Thailand, due to political considerations rather than economic objectives.

Thai exports to China increased 71% in 1994 and two-way trade leapt up again the following year to a total value of \$ 2.3 billion, making Thailand one of China's top ten trading partners.<sup>48</sup>

Both countries have emphasized multi-faceted cooperation in trade and investments, cultural exchanges as well as in technologies and scientific cooperation. This is believed to have been made possible by the strong political and military cooperation that had already taken place between the two sides over the Cambodian crisis.

Following the collapse of the Thai currency in mid-1997, China offered aid consisting of a bail-out to Thailand of US\$1 billion, apart from contributions to the IMF's US\$17.2 billion bail-out package, promised infusion of new investments into the Thai economy, and pledges to buy more agricultural and marine products from Thailand.

Thailand's huge conglomerate CP Group by the early 1990s had over twenty major investment projects in various parts of China. They notably expanded investments

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<sup>46</sup> Um Khatharya, p.259.

<sup>47</sup> Ibid.

<sup>48</sup> Vatikiotis, p.21.

after the 1989 Tiananmen incident when Western investors shunned any dealings with Beijing.<sup>49</sup>

At the same time, China has also established joint ventures in Thailand covering such projects as construction, travel agencies, transportation, shopping centres, housing estates, factories for manufacturing chemicals and farm machineries. By 1995, there were 1,900 Sino-Thai joint ventures in China worth more than \$ 600 million.<sup>50</sup>

The close economic and political cooperation has not come without a price. In the aftermath of the Tiananmen massacres of Chinese civilians, many Western countries decided to impose limited sanctions against China. A visit by the Thai Prime Minister had already been scheduled prior to the June 4<sup>th</sup> incident, placing the government in a dilemma as to whether or not to proceed with the visit. In response, Beijing cautioned Bangkok against imposing sanctions, reminding it at the same time that China was Bangkok's largest purchaser of rice.

The visit by Chatichai Choonhavan proceeded in October 1989; signifying Thailand's commitment to a strong relationship with China. Bangkok demonstrated that it was willing to break ranks with the near universal sanction against summit meetings with Chinese leaders. Analysts remarked that although Chatichai's visit to China was linked to Thailand's strong interest in resolving the Cambodian conflict, it also underscored the necessity of accommodating Chinese power, regardless of the circumstances.<sup>51</sup>

At the regional level, Thailand has long wanted to turn its special relations with China into a high-profile diplomatic role as interlocutor in China-ASEAN relations, much as it had tried to play a similar role in Indochina-ASEAN relations prior to ASEAN membership expansion.<sup>52</sup> At least one Thai Prime Minister, Chuan Leekpai, had spoken about Thailand playing a mediating role in the Spratlys dispute between China and other ASEAN countries, although he appears unsure of how to proceed.<sup>53</sup>

### China's Relations with Malaysia and Singapore

High-level visits to and from Malaysia and Singapore have been a key feature of China's foreign relations in the 1990s. Premier Li Peng visited Singapore in August 1990 and Kuala Lumpur in December 1990. President Yang Shangkun went to both capitals in January 1992, as did President Jiang Zemin in November 1994 and Li Peng once again in August 1997.

In June 1993, Malaysian Prime Minister Mahathir Mohamed visited Beijing. During his meetings with Jiang Zemin, the Chinese side used the occasion to refute any suggestion that China wanted to fill in a power vacuum in Asia. Mahathir suggested that China and Malaysia instead should "seize the present opportunity to contribute to

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<sup>49</sup> Ding Kuisong, pp.5-6.

<sup>50</sup> Hao Yufan and Huan Guofang, pp 212.

<sup>51</sup> Robert S. Ross, "China's Strategic View of Southeast Asia: A region in Transition", Contemporary Southeast Asia, September 1990, p. 115.

<sup>52</sup> Chatichai's 1991 campaign to turn Indochina from a "battlefield to a trading market" appeared to some to be a reversal of its opposition to Vietnam. Thailand indicated it would focus less on military actions against Vietnam and more on developing business links. This spurred China to call for a stronger anti-Vietnam united front among ASEAN, China and the United States. Chatichai's new policy was overturned upon his removal from office.

<sup>53</sup> Vatikiotis, p.21

regional peace and stability and promote mutual development by actively boosting economic cooperation." <sup>54</sup>

It may be observed that a strong unifying factor in Chinese ties with these two countries since the end of the Cold War has been their opposition to United States' propensity to interfere in their countries' internal affairs, particularly Washington's outspoken criticism of their respective human rights records.

Even in the early 1970s in the absence of diplomatic ties, China had seen Malaysia as a desirable partner because among the ASEAN countries, it was not a client state of the United States. In 1971, Beijing had unequivocally supported the Malaysia proposal to turn Southeast Asia into a Zone of Peace, Freedom and Neutrality.<sup>55</sup>

After relations with Malaysia had been normalized in June 1974, two sensitive issues remained: continued support by the Chinese Communist Party of the outlawed Communist Party of Malaysia, and the presence of over 200,000 stateless Chinese in Malaysia.<sup>56</sup> Deng Xiaoping's 1978 visit to ASEAN capitals addressed both issues and sought to reassure Malaysia, which had a significant and influential ethnic Chinese population, that China's overseas Chinese policy was one of non-interference.

Ever sensitive to China's dominant presence, Malaysia had early on adopted a well-calibrated pragmatic posture vis-à-vis China. Ghazalie Shafie, in 1982, articulated this in a speech:

"...(D)o the countries in Southeast Asia accept the need for their policies and activities to be such as not to jeopardize the basic national interests of China, and do they also accept the need for adjustment and accommodation to take into account the legitimate role of China in the region? It is in this particular context that Malaysia has advocated the neutralization of Southeast Asia based on respect for the integrity and independence of the countries of the region and guaranteed by the three superpowers -- China, the Soviet Union and the United States....

"...We do not,,, deny that China has a legitimate right to play her part in world affairs or for that matter to take an interest in the affairs of our region because of her geographical situation...."<sup>57</sup>

Since 1993, it has been Malaysia's position that China is not a threat, but rather should be understood in a more positive light. Like Thailand, Malaysia had explored the possibility of co-manufacturing arms with China's Norinco. This was interpreted as a purely political move, meant to improve relations with China so as to increase Mahathir's leverage with the US and the West which had been very critical of his government.<sup>58</sup>

In a 1995 Kuala Lumpur forum on Malaysia-China relations, Prime Minister Mahathir was quoted as saying, "It is high time for us to stop seeing China through the lenses of threat and to fully view China as the enormous opportunity that it is.... in my

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<sup>54</sup> McDougall, p.214.

<sup>55</sup> Shee Poon Kim, "Peking's Foreign policy toward Malaysia," Issues and Studies, August 1987, p. 142.

<sup>56</sup> Ibid., p.145.

<sup>57</sup> Ghazalie Shafie M., Malaysia: International Relations (Selected Speeches). Malaysia: Creative Enterprise Sendrian Berhad, 1982.

<sup>58</sup> Vatikiotis, p.12.

view, to perceive China as a threat and to fashion our security order around this premise would not only be wrong policy, but it would also be a bad and dangerous one."<sup>59</sup>

China also has closer economic relations with Malaysia now than ever before, particularly since 1994, when China became Malaysia's fourth largest trade partner. Total trade reached an estimated \$2.5 billion, an increase of 40% over the previous year. 134 Chinese companies were also reported as having invested more than \$200 million in Malaysia.<sup>60</sup>

As for Singapore, a study of its relations with China should begin with recognition of its peculiarities as a predominantly ethnic Chinese city-state. Of Singapore's 1993 population of 2.87 million, 77.5% were ethnic Chinese.<sup>61</sup> Attempts by the government of Lee Kwan Yew to instill a sense of Singaporean identity and nationalism have had some success, but Singaporeans still have a long way to go to overcome their character as overseas Chinese. Moreover, Singapore is located in Southeast Asia, surrounded by the predominantly Malay and Muslim peoples of Malaysia and Indonesia. This means Singapore has to be extra cautious in its dealings with China, and exert more effort than most in proving its solidarity and affinity with Southeast Asia. Prime Minister Goh Chok Tong was quoted to have said in 1997 that :

"We must be very clear in our minds that geographically, politically and socially, we belong to Southeast Asia and we have to be Southeast Asians first. If Singaporeans don't understand that... that will spell trouble for us."<sup>62</sup>

Despite its small size, Singapore has been touted by mainland China's leaders as a model, in a way that Hong Kong and Taiwan -- also Chinese-populated NICs -- could never be considered due to political reasons. Among Singapore's lessons seen as worthy of emulation are:

"... its authoritarianism, discipline, limited freedoms, one-party rule, absence of corruption, high growth rate, and skillful management of public affairs."<sup>63</sup>

Given their similarities in political culture, Chinese leaders have been attracted to the Singapore model of "soft authoritarianism". Beijing and Singapore have also been cited as "allies in a rhetorical battle" with the West, opposing the predilection by some Western governments to impose their own way of thinking on others as universal.<sup>64</sup>

Both China and Singapore argue that US pressure on human rights is hypocritical as well as ineffective. Lee Kwan Yew has been quoted to have said at one time that "You can't change a Chinese civilization of 4,000 years by an Act of Congress or cancelling Most Favored Nation status", referring to US pressures on China's human rights record. He is seconded by his successor Goh Chok Tong, who more pointedly stated that "The new generation of Chinese leaders, like the previous generation, will

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<sup>59</sup> Frank Ching, "Malaysia Charts China's Course: Kuala Lumpur Warms to Beijing as China's Policies Shift," Far Eastern Economic Review, February 23, 1995, p. 32.

<sup>60</sup> Ibid.

<sup>61</sup> Paul J. Bolt, "The New Economic Partnership Between China and Singapore," Asian Affairs: An American Review, June 1, 1996.

<sup>62</sup> Ibid., p.34.

<sup>63</sup> Ibid., p.45.

<sup>64</sup> Denny Roy, "Singapore, China and the 'Soft Authoritarian Challenge'", Asian Survey, March 1994, p. 235.

want a strong government that can maintain stability and order.... They are not closet democrats. They do not want China to descend into chaos, and neither does the rest of Asia." <sup>65</sup>

Singapore's support for Chinese Confucian authoritarianism has been unconditional. Even while expressing shock and sadness by the Chinese government's behavior in Tianamen of June 1989, Lee Kwan Yew continues to defend the lack of political liberalization in China. <sup>66</sup> Leaders of both countries, however, have acknowledged that political liberalization can follow economic development.

It is economic relations with Singapore that is strongest between China and any ASEAN country. Singapore investment in China was minimal before 1990, mainly because of political factors and the absence of formal diplomatic ties<sup>67</sup>. But since Lee Kwan Yew's 1976 visit to China, there was already a growing realization that China presented much economic opportunity. In December 1979, a trade agreement was signed between the two. In 1981, Singapore established a commercial representative office in Beijing to facilitate the efforts of Singapore businesspersons. Lee visited again in 1985, during which an investment protection treaty was signed by the two sides. Other agreements followed: a 1986 pact on mutual cooperation in tourism, civil aviation and avoidance of double taxation, and a 1989 Shipping Agreement. In 1993, Singapore's National Trade Union Congress signed three agreements with the All-China Federation of Labor to invest over US \$10 million in Chinese businesses. Both the Trade Development Board and the Economic Development Board of Singapore are active not only in providing information, giving guidance or bringing as well as hosting business delegations to and from China, but themselves make it a point to invest in China.

China became Singapore's fourth largest trade partner in 1995 while being China's fifth largest foreign investor after Hong Kong, Taiwan, Japan and the United States. <sup>68</sup> In addition, by 1996 Hong Kong was Singapore's fourth largest export market, compared to Taiwan which was ninth and the Chinese interior which ranked tenth. But while Singapore's trade volume more than doubled from 1989 to 1996, its percentage in China's total actually declined from 2.8% to 1.9% in 1992 and went up to only 2.5% in 1996, reflecting the expansion of China's trade with other countries. This reflects also the low dependence by China on ASEAN trade.

Among Asian countries, China remains the principal target of Singapore's foreign investments. This is in part because of long-standing cultural affinities and connections, but mainly because of China's huge economic potential and power status.

Because of the size disparity between the two, Singapore's strategies in China focus on provinces and regions rather than the whole of the mainland. A Singapore-Shandong Business Council was launched in 1993, and a working committee for Singapore-Sichuan development cooperation was set up in 1995.<sup>69</sup> In 1993 as well, Singapore also began investing in development of a township in Suzhou which it dubbed "Singapore II". The project has come to symbolize the special affinities between Singapore and China. Other investment projects include a housing complex in Shanghai and other industrial parks.

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<sup>65</sup> Ibid., p. 237.

<sup>66</sup> Ibid., p. 241.

<sup>67</sup> Bolt, p. 8.

<sup>68</sup> Liao Shaolian, "China-Philippine Economic Relations: Features and Prospects," in Carlos P. Romulo Foundation, Towards the 21st Century: The Philippines and China in the Asia Pacific (Makati, Philippines: n.p., January 1988), p.3

<sup>69</sup> Bolt, p.14.

By 1992, Singapore's contracted investments grew to almost US\$ 1 billion, higher than the 1979-1991 total but still only 2% of the total US\$57.5 billion in contracted foreign investment in China for the year. Investments for 1994 totaled US\$ 3.78 billion, increasing by a billion while most countries were cutting back on their China exposures. By the end of 1995, cumulative investment commitments in China reached US\$9.47 billion in 4,811 projects, of which US\$2.4 billion had actually been invested.<sup>70</sup>

A 1994 report indicates that 80% of such investments were in real estate projects, tending to have high earnings and short development cycles. 80% as of 1992 were in Guangdong and Fujian provinces, where most of Singapore's own Chinese originated from.

On the other hand, one source reports that there were more than 70 Chinese enterprises of all kinds in Singapore in 1997, engaging in banking, insurance, transport, production, trade, survey, labor service, and other business. Another source says 150 Chinese companies were based in Singapore as of October 1995, mainly in the financial sector.<sup>71</sup> Chinese companies reportedly use Singapore as a base with which to raise capital and expand into Southeast Asia. Among these were the China Metallurgical Import and Export Corporation, the Bank of Communications, the Industrial Commercial Bank of China, the Agricultural Bank of China and the People's Construction Bank.

Singapore has taken advantage of its close links with China to offer itself as investment partner to other foreign companies operating in China. With an admirable industrial base but only 1.8 million workforce, Singapore is under pressure both to maximize productive potentials and to expand market possibilities by relocating certain operations to China. In electronics, Singapore's strongest point, it has been noted that Chinese demand for computers has been growing by 70% to 80% per annum. Chinese surplus labor has also moved into Singapore, 20,000 of them as of 1995.

It is not surprising that Singapore leads the ASEAN pack in terms of volume of investments in China, because Singapore has all along been leading the regionalization effort in its part of the world. Among incentives granted by its government to those who would invest in Asia are tax incentives, support for Singaporean expatriates, promotion of entrepreneurship, sponsoring the creation of a joint venture capital fund, and investing its own reserves in Asia.<sup>72</sup> With such a policy, dynamic economy, and given its ethnic affinity with the Chinese mainland, it is no wonder that Singapore has been the most successful ASEAN state to obtain economic advantage from the Chinese economic miracle.

## **CONCLUSIONS**

At the outset, this author hypothesized that from China's perspective, political and strategic factors do considerably affect China's economic policy and relations with its Southeast Asian neighbors. The theory rests on an appreciation of China's historical foreign policy behavior, especially during its earlier period of heavily planned socialist economy.

At the time, in China everything was "politics in command." Foreign economic relations were not a priority in the first place, as the development model being pursued

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<sup>70</sup> Ibid.

<sup>71</sup> Bolt, p.34.

<sup>72</sup> Ibid.

then suggested self-reliance. The strategy of import substitution was itself a political imperative in the face of isolation by the West and Soviet abandonment, rather than a conscious economic goal. But where economic ties were pursued by China, very often these would be tied to its strategic and political objectives.<sup>73</sup>

Since the reform and opening up of 1978, Chinese foreign policy changed very substantively in the relative importance it began to attach to domestic economic interests as the primary driving force in external relations. The fact that the United States and Japan, two strategic rivals, became China's major trade and investment partners could not have been effected were it not for the major paradigm shift in the thinking of China's leaders -- principally Deng Xiaoping. Yet, there is still a strong basis to think that China sees economic modernization not only as a goal in itself, but perhaps more importantly as instrumental to its long-term political goals.<sup>74</sup> This goal is to become a comprehensive power and to uplift China's standing and influence in the international community as a whole, but most especially relative to the major powers.

The economic sphere in foreign policy has become very important in China. However, it is the State, rather than China's budding private sector, that still has strong influence over the directions of foreign economic relations, making it difficult to imagine that foreign economic policy can be free from the influence of other strategic interests and goals of the Chinese leadership. Until now, most of the Chinese investment and trade with ASEAN are undertaken by state-owned companies. The private sector plays a very limited role, as such businesses are not yet globally competitive and therefore remain oriented to internal markets. Some exceptional private companies which had earlier explored trade and investment opportunities in the Indochinese countries found the situation there discouraging. Therefore, Sino-ASEAN economic relations are still mostly state-level and easily influenced by the state-to-state political relations.<sup>75</sup>

One example of China's use of economic instruments for political ends could be seen in its response to the Asian financial crisis. China, long before the United States or Japan could muster proposals to put a halt to the currency free fall in Southeast Asia, offered immediate assistance to Southeast Asian economies hardest hit by the crisis. China then pledged not to devalue its own currency - the renminbi - for fear that it would spark yet another round of currency falls in East Asia. This move came at a time when Japan was under severe criticism for not being able to decisively address its own economic and political problems, much less lead the way for the rest of the region. Thus, China's speedy offer of assistance, and its readiness to put its money up front, was like a welcome dose of medicine given to a rapidly deteriorating patient. Weeks after the initiative and until Japan came up with its own Miyazawa initiative, international news commentators and analysts lauded China's responsible actions and touted China

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<sup>73</sup> For instance, Beijing's aid to developing countries, particularly in Africa, despite its own meager economic resources, was completely divorced from expected economic returns. Third world policy was part of a strategic end-game of strengthening capacity of the developing world to resist the forces of "imperialism" or Soviet "social imperialism."

<sup>74</sup> One event that tends to confirm this was the so-called accidental bombing of the Chinese embassy in Belgrade by US-led NATO forces targeting Yugoslav defense outposts. The Chinese are convinced it was a deliberate US move against China. The initial reaction of the Chinese government was to tolerate and even encourage mass public outrage on the issue. But after much angry rhetoric and somewhat violent public expressions of anti-US sentiment in China - the Chinese leaders concluded that their best response to such actions would be to concentrate on modernizing their economy. One implication is that no country would dare make such a blatant move against China if it were economically powerful. The other, more ominous, message is that a more modern China would have the technological wherewithal to hit back against the biggest of their perceived oppressors.

<sup>75</sup> Author's written interview with Pan Yining, Guangzhou Academy of Social Sciences, July 1999.

(probably prematurely) as the new economic leader in the region, nudging Japan from its long-held position. China also obtained political mileage, as Thailand and Indonesia, two ASEAN countries -- were placed in a situation of indebtedness to China.

One could of course argue that the Chinese economy was very much affected by the crisis, if only indirectly at the start, through a decline in the total volume of Chinese exports to Asia. Whatever the motivation, the Chinese government has said it will stick by their pledge not to devalue the renminbi unless the instability of the Japanese yen forces it to. Chinese leaders have stated that they are willing to bear economic losses for the sake of financial stability in the rest of East Asia, because of the fact that in the long run China will benefit from the quick recovery of the economy in the region.

There is little doubt, however, that such a policy is also informed by China's other strategic interests in relations with Southeast Asia. ASEAN as a collective organization is important for China's diplomatic and security objectives in East and Southeast Asia. These include maintaining a balance in the relationships among the major powers of the region (principally US, Japan, Russia and China itself) and preventing any power from dominating all the rest. To the extent that ASEAN has projected a posture on security issues similar to China's own preference for a multipolar post-Cold War security order, China sees ASEAN as being more than the sum of its parts. On this basis, China is bent on improving political cooperation with ASEAN at the multilateral level, apart from its emphasis on close bilateral ties.

Moreover, while trade and economic relations between China and ASEAN have indeed grown in recent years, the degree of inter-dependence on each other as export markets and investment sources has not increased in the same proportion, leading to an observation that the principal dynamic in China-ASEAN relations may still be the political-security or the strategic dimension. Improvements in economic relations are sought by both sides for mutual economic benefit, but more than just economic benefit it is believed that solid bilateral economic linkages will help provide a firmer basis for broader types of cooperation in the regional and international arena. At the national level, both China and ASEAN have a good understanding of the linkages between economic stability and political resilience.

From Southeast Asia's perspective, China is a big and powerful neighbor that will figure prominently in any effort to build peace, security as well as economic prosperity in Southeast Asia. ASEAN is only gradually developing a common attitude towards China, an issue on which the members have had differences of opinion in the past.

There is still some suspicion towards China, but the general approach of the Southeast Asian countries has been to pursue engagement with China rather than to try to isolate or contain it. In the matter of Sino-American conflicts, ASEAN is more likely to take an equidistant posture than anything else, not only to protect relations with both but in realization of China's looming presence on the one hand, and the United States' distant and uncertain commitments on the other hand.

The South China Sea territorial and maritime disputes remain a potential flashpoint in Sino-ASEAN relations. How China decides to pursue its territorial and resource claims vis-à-vis ASEAN claimants will be a litmus test of China's attitudes towards ASEAN and its perception of its emerging role as the big power of the region. To a lesser extent, relations may also be negatively affected by internal problems involving treatment of ethnic Chinese minorities, especially in Indonesia and Malaysia. The propensity of some Southeast Asian governments to flirt with the issue of Taiwan recognition is another source of friction.

Tensions over such issues are expected to periodically emerge as part of the normal state of relations. Both ASEAN and China must therefore exert greater efforts to expand mutual trust, promote mutual understanding of their convergent as well as divergent interests, and most importantly begin defining the norms which will guide their political-security as well as economic relations in the next century and in the next millenium, when China may have become the comprehensive power that it seeks to be.

The situation of China facing us today presents both challenges and opportunities for ASEAN and for the Philippines. These include the opportunity as well as the challenge of constructively engaging China rather than isolating or antagonizing it, while raising the costs for China of ultra-nationalist or "big-power" behavior. If China's rise as a power is indeed inevitable, then ASEAN must make every effort to ensure that China becomes a benign, rather than a hegemonic, power. Treating China as an enemy and a threat can be a self-fulfilling prophecy, with possible serious repercussions for Southeast Asian countries.

There is also the challenge and opportunity of using the collective strategic importance of ASEAN to obtain collective as well as individual economic advantages in their relations with China. Individual countries such as Indonesia and Thailand have on occasion demonstrated the ability to obtain economic advantage from strategic factors, but not ASEAN as a bloc. To date, China does not have a common economic policy towards ASEAN. Economic relations are shaped by complementarities with individual countries as well as by common strategic interests and friendly political relations.<sup>76</sup>

Neither does ASEAN have a common economic policy or strategy for integration into the Chinese economy. This is understandable given the fact that the ASEAN economic integration, whether through ASEAN Free Trade Area (AFTA) or other mechanisms, is still in the making. ASEAN's economic leaders must nevertheless begin to explore, through its dialogue relations with China as well as through the EAEC (ASEAN + 3) framework, how the comparative advantages and complementarities of the economies of ASEAN and China may be maximized to help both sides achieve their common goal of prosperity.

At the same time, ASEAN and China can find common ground in dealing with impositions from Western-dominated international trading regimes. Within the debating halls of the World Trade Organization and the APEC there will be occasions where as representatives of developing countries, ASEAN and China may be expected to see eye-to-eye on certain issues, including liberalization globalization. Having said that, it is important to note that both China and ASEAN are in general committed at this point to open trade and investment regimes, both being dependent on the advanced capitalist countries as their respective major markets and sources of capital and technology.

These are but some of the challenges ASEAN must address in crafting the directions of Southeast Asia's future relations with China. The Philippines can play an important role in ensuring that these relations will be cooperative and mutually beneficial, rather than confrontational, for the generations to come. Our ability to do so requires that our decision-makers take a long, strategic view even in our responses to short-term issues such as the Kalayaan Islands disputes with China.

Economic and political-security relations cannot develop entirely independent of each other, especially when one deals with a country such as China where a strong centralized State machinery plays the dominant role. If the Philippines shares the

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<sup>76</sup> Ibid.

objectives of other ASEAN countries in seeking to gain advantage from the dynamism of China's economy, then it will have to take firm steps to improve political-security relations, notwithstanding our territorial disputes over the Spratlys. While sovereignty and territorial integrity are indeed vital concerns of the nation that need to be defended and promoted, the long-term imperatives of Philippine security demand the maintenance of peace and stability in the regional environment. Ultimately, the only guarantor of this is a friendly, not a hostile, relationship with the major powers in the neighborhood -- notably China.

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