China’s emergence as a great power is a global issue that may potentially alter the structure of world politics. Its rise is multidimensional, affecting the political, security, and economic affairs of all states that comprise the world’s fastest developing region of the Asia-Pacific.

Most of the recently published studies on China’s rise have focused on its relations with its immediate neighbours in Northeast Asia: Japan, the Koreas, Taiwan, and Russia. Less attention has been given to Southeast Asia’s relations with China. To address these issues this volume, with its wide range of perspectives, will make a valuable contribution to the ongoing policy and academic dialogue on a rising China. It examines a range of perspectives on the nature of China’s rise and its implications for Southeast Asian states as well as US interests in the region.

This book will be of great interest to students of Chinese politics, Southeast Asian politics, regional security, and International Relations in general.

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Effective foreign policy research institutes identify international problems with the potential to alter the structure of world politics. They then analyze the background to these problems, look forward to plausible outcomes, and identify what options governments have to cope with these issues. China’s emergence as a great power is surely one of these concerns. It affects all states involved in the world’s fastest developing region – the Asia-Pacific. China’s rise is multi-dimensional, affecting Asia’s political, security and economic affairs. Most of the recently published studies on China’s rise have focused on its relations with its immediate neighbors in Northeast Asia – Japan, the Koreas, Taiwan, and Russia – because there are important political, economic, and security tensions and opportunities between these states and the People’s Republic.

Less attention has been given to Southeast Asia’s relations with China. This volume is designed to fill this deficit. To address these issues, the National Bureau of Asian Research (NBR) and Singapore’s Institute of Defence and Strategic Studies (IDSS), with support from the US Department of State’s Bureau of Intelligence and Research (INR) and the US Army War College (AWC), convened a conference in Singapore on 22–24 August 2005 with Southeast Asian and American specialists on China’s political, security and economic relations with the region. Their papers – revisions of which form most of the chapters in this volume – examine a range of perspectives on the nature of China’s rise and its implications for Southeast Asian states as well as US interests in the region.

As the conference conveners, we would like to thank those who facilitated this project on both sides of the Pacific. In Singapore, we acknowledge our gratitude to the Institute of Defence and Strategic Studies (where Evelyn was then working as Assistant Professor) for supporting and hosting the conference. Barry Desker and Amitav Acharya, the Director and Deputy Director of IDSS respectively, were instrumental in facilitating the collaboration with NBR, while the IDSS administrative staff worked hard to make the conference in Singapore a great success. IDSS Associate Research Fellows Joey Long, Adrian Kuah, and S. P. Harish provided research assistance and served as rapporteurs at the conference.

In the United States, we wish to thank Richard Ellings, President of the National Bureau of Asian Research, Douglas Lovelace and Andrew Scobell at the Army War College, and Corazon Sandoval Foley at the Department of State, for their
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Finally, we also gratefully acknowledge our keynote speakers at the conference: Admiral Thomas B. Fargo (ret.) and Mr Ahmad Magad who, by their direct participation, have helped ensure that the conference findings have helped inform policy discussion on China–Southeast Asia relations.

It is our hope that this volume, with its wide range of perspectives, will make a valuable contribution to the ongoing policy and academic dialogue about a rising China.

Evelyn Goh, St Anne’s College, Oxford University
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The National Bureau of Asian Research

NBR is a nonprofit, nonpartisan research institution that focuses on major policy issues in the Asia-Pacific and their impact on the United States. Major themes in NBR’s research agenda include strategic and diplomatic relations, regional economic integration and development, trade, globalization, terrorism, energy, and health. Drawing upon an extensive network of the world’s leading specialists and leveraging the latest technology, NBR conducts advanced, policy-oriented analysis on these issues, and disseminates the results through briefings, studies, conferences, television, and email forums.

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The Institute of Defence and Strategic Studies

The Institute of Defence and Strategic Studies (IDSS) was established in July 1996 as an autonomous research institute within the Nanyang Technological University. Its objectives are to:

- conduct research on security, strategic and international issues;
- provide general and graduate education in strategic studies, international relations, defence management and defence technology;
- promote joint and exchange programmes with similar regional and international institutions; organize seminars/conferences on topics salient to the strategic and policy communities of the Asia-Pacific.

Constituents of IDSS include the International Centre for Political Violence and Terrorism Research (ICPVTR) and the Asian Programme for Negotiation and Conflict Management (APNCM).
1 Introduction

Evelyn Goh and Sheldon W. Simon

China’s emergence as a major regional power is transforming the economic, political, and security environment in Southeast Asia. At the same time, many observers consider ASEAN – the region’s main multilateral organization – to have been lacking cohesion and direction since the 1997–98 Asian financial crisis and the turbulent political situation in post-Suharto Indonesia. Although many Southeast Asian states appear to be recovering from the financial crisis, its effects are still evident, not least in political and social instability in key ASEAN states. Even those countries that appear to have recovered economically are beset by the interlocking challenges of globalization, political liberalization, and now transnational terrorism. Against this backdrop of rapid change and complex challenges, China’s decades-long economic growth and enhanced political influence pose major questions to the countries of Southeast Asia regarding the future of ASEAN, and to the United States for its role as the region’s security guarantor.

This volume explores whether American and Southeast Asian views on China’s rise are congruent and how some of the variations in perspectives may be explained by the different strategic settings of the global superpower versus a group of small and medium states whose geographic location, burgeoning markets, and political acumen combine to make them important actors for both Beijing and Washington.

The China–Southeast Asia dyad is mediated by a strong Southeast Asian desire to sustain US economic, political, and security interests as means of externally balancing China’s current dynamism. Illustrative of this Southeast Asian goal of keeping the Americans involved in regional political gatherings has been the hope of several Southeast Asian states that the United States would sign the Association’s Treaty of Amity and Cooperation as a prerequisite for membership in the initial December 2005 East Asian Summit (EAS). When Washington demurred, these same Southeast Asian members were quick to join Japan in extending EAS membership to Australia and India as a thinly disguised way of reducing China’s influence and raising the number of countries that might represent US views by proxy until Washington decides to join.

Southeast Asia’s efforts to encourage multidimensional US and Chinese activities in the region can be seen as “soft balancing,” that is, an American air and naval presence without any formal region-wide military alliance on one hand and
China’s membership in regional multilateral organizations on the other. The Southeast Asian goal is to bring about some degree of political convergence so that both great powers will have a stake in preserving Southeast Asia’s autonomy and promoting its prosperity. Once again, an example may suffice to demonstrate the balance. US armed forces regularly exercise with their counterparts of ASEAN’s original six members (Malaysia, Singapore, Thailand, Indonesia, Philippines and Brunei). China has no comparable military relationship. On the other hand, the PRC’s participation in all regional political gatherings makes it a useful ally against Western human rights pressures. Southeast Asia obtains security benefits from the United States and political support from China.

Thus, Southeast Asia’s broader regional security strategy depends crucially on harnessing and balancing American and Chinese power. In the context of regional developments over the last 15 years, it is now useful to ask, whether this ambitious strategy? Have China’s growing profile in the international economy and in regional institutions, and its successful regional diplomacy, persuaded Southeast Asian states significantly to revise their threat perceptions and thus their strategy? Given the priority accorded to the threat of international terrorism since September 2001, has the United States reconsidered its stance towards China, along with the strategic value of and its commitment to Southeast Asia? What are the key areas of agreement and contention between Southeast Asia and the United States regarding China?

To assess these questions, this book is organized in three sections. The first focuses on the most recent decade of China’s rapid economic growth and its effect on Southeast Asia’s export-led economies, covering both trade and investment and prospects for the China–ASEAN Free Trade Agreement (CAFTA). This section also examines Beijing’s efforts to ensure energy security, since access to fossil fuels is crucial to sustaining China’s economic growth. The second section deals with Beijing’s increasing political influence and its effect on the diplomatic landscape in Southeast Asia. It explores the differing security roles of China and the United States, Beijing’s increasingly prominent profile in such regional organizations as ASEAN+3 and the ASEAN Regional Forum (ARF), as well as the effects of Washington’s emphasis on counter-terrorism on its political position in the region. The third section examines the security implications of the modernization of China’s armed forces and the People’s Liberation Army’s (PLA) military balance with the United States – Southeast Asia’s traditional external security guarantor. It explores the strategic implications of China’s force projection capabilities and Beijing’s intentions with respect to South China Sea island disputes, together with China’s role as an alternative military supplier to Southeast Asian armed forces.

Overall, this thematic comparison of Southeast Asian and American perspectives of China’s rise finds that there is a significant degree of convergence in their assessments about of China’s achievements and challenges posed to the region. This volume of essays thus provides an important contemporary evaluation of the implications of China’s growing influence in Southeast Asia, as well as indicators of the key variables that will help to determine the future trends of regional security.
China’s grand strategy and Southeast Asia

Underlying the People’s Republic of China’s (PRC) political, economic, and security orientation toward Southeast Asia is a grand strategy, consisting of the plans and policies necessary to enable China to emerge as a great power in the twenty-first century.² These plans and policies took shape from the mid-1990s and, although not explicitly formulated in any single document, may be discerned by observing its international relations over the past decade. Four international conditions form the base from which China’s grand strategy emerges:

1. **US strength**: Beijing hoped that the Cold War’s end would lead to a change in the global power configuration toward a multipolar system in which China would be a major component. However, America’s economic and military strength in the 1990s – demonstrated in the first Persian Gulf War and the US role in establishing order following Yugoslavia’s breakup – showed that US unipolarity would last for decades and that Washington had the ability to frustrate China’s international ambitions. Nevertheless, the post-9/11 war on terrorism has brought US and Chinese security interests closer; and Washington’s focus on the Middle East tying up large numbers of US ground forces in Iraq and Afghanistan may have created the impression in China that the United States is “distracted.” If so, this could be a mistake. The 2006 US Quadrennial Defense Review (QDR) emphasizes Asia. There are plans to deploy stealthy B-1 and B-2 bombers to Guam and to move an additional carrier battle group to the region for a total of six throughout the Pacific and Indian Oceans, along with 60 per cent of the US submarine force.³

2. **China’s weakness**: Despite China’s impressive economic growth, beginning with the late 1970s economic reforms and its military modernization in the last decade, the PRC lags far behind the United States in both areas. The combined US and Japanese forces in Northeast Asia continue to maintain dominance over the PLA’s capabilities.

3. **Nervous neighbors**: Although militarily and economically outclassed by the United States, China’s unprecedented economic growth and increasing power projection capabilities have led to an Asia-wide debate about a “China threat.” In Southeast Asia, this concern centered on the PRC’s assertive posture toward maritime disputes in the South China Sea. China, in turn, is concerned about the revitalization of US Cold War alliances with Australia and Japan as well as US military cooperation with Southeast Asian states. Some in Beijing wonder if this is the beginning of a new China encirclement strategy.

4. **Taiwan tension**: The most likely regional conflict that could lead to a direct China–US confrontation is the prospect of a Chinese attack on Taiwan. Washington signaled its willingness to use force via coercive diplomacy during the 1996 Taiwan Strait crisis when the US deployed two carrier battle groups to both sides of Taiwan.
China’s response to the four challenges listed above has been to articulate a grand strategy originally termed “peaceful rise” but more recently renamed “peaceful development.” The idea is to change others’ perceptions of China’s modernization as a threat to a partnership.

From the mid-1990s, China devised policies to reassure its neighbors. On the economic front in the 1997–98 financial crisis, Beijing exercised self-restraint during the wave of currency devaluations in Southeast Asia. Politically, the PRC embraced multilateralism via its participation in ASEAN post-ministerial meetings, the ARF, and ASEAN+1. China formed its own security grouping focused on Central Asia – the Shanghai Cooperation Organization – and became a central actor in the Six Party Talks dealing with North Korea’s nuclear weapons. All of these activities are designed to show that Beijing is a responsible international player during a decades-long transition to great power status.

Nevertheless, the question remains: “What happens after China rises?” Cognizant of Asian suspicions, PRC leaders insist that China “will never be a hegemon, never practice power politics, and never pose a threat to its neighbors or to world peace.” The promise, however, can only be tested by its delivery, which may be years in the future. Nevertheless, China, the United States, and Southeast Asian nations possess important common interests (fighting terrorism, dealing with the proliferation of weapons of mass destruction, coping with environmental degradation, addressing public health crises, and encouraging trade and investment). Southeast Asia is a prime example of how Beijing’s promotion of common interests has largely overcome earlier suspicions and fears about China’s territorial claims. Beijing’s 2002 accession to ASEAN’s modus operandi for handling disputes in the South China Sea, ASEAN’s shift in emphasis to ASEAN+3 (with China, Japan, and South Korea) and somewhat away from the US-inclusive Asia Pacific Economic Cooperation (APEC) forum, in addition to the PRC’s prominent role in the December 2005 East Asian Summit, all suggest that China’s diplomatic profile is more visible than that of the United States in Southeast Asia. China’s elevated diplomatic profile in Southeast Asia will concern the United States if it leads to Chinese attempts to weaken US political security ties in the region. China’s growing economic position in mainland Southeast Asia could trouble US policymakers insofar as political influence correlates with economic dependence. Chinese energy investments in Indonesia may soon rival those of Western companies. In addition, China’s military sales are increasing to Thailand, Malaysia, and Indonesia – a new linkage that could lead to closer regional military-to-military relations for the PLA. In the aggregate, China’s varied initiatives in Southeast Asia could be seen as new steps in a zero-sum competition with the United States. Some US policymakers and analysts fear precisely this possibility. Others are less concerned, however, given well established US alliances, trade, and investment in the region.

Southeast Asian and US perspectives

This volume contains assessments by prominent US and Southeast Asian scholars on the economic, political, and military dimensions of the China–Southeast Asia
relationship. In order to delineate commonalities and differences with respect to China’s rise, the rest of this introductory essay reviews the US contributors’ perspectives and compares them with those of their Southeast Asian counterparts.

**Economics**

In discussing ASEAN–China trade relations, Etel Solingen comments on the scope of the 2002 China–ASEAN Free Trade Agreement (FTA) which, if implemented, would make it the third largest market after the European Union and North American Free Trade Agreement. For China, the FTA signifies Southeast Asia’s importance in PRC development plans; for ASEAN, the FTA is its first with an external partner, signaling China’s centrality to the association’s economic growth. Indeed, China–ASEAN bilateral trade has increased by about 20 percent annually since 1990. Moreover, after the 1997–98 financial crisis, Solingen notes, the trade balance has favored ASEAN, reaching $16 billion in 2003. However, investment direction is the reverse. That is, Singapore, Malaysia, Thailand, and Brunei have invested over $40 billion in China – with Singapore holding the lion’s share – largely in manufacturing and service. While China had invested only $2 billion in all of ASEAN by 2001, this figure is increasing with PRC energy acquisitions (see Mikkal Herberg’s chapter). Finally, Solingen sees ASEAN’s multiple FTA negotiations with Japan, India, South Korea, Australia, and New Zealand as ways of “triangulating” among China and other important players for the purpose of engaging them all. Regional security is enhanced by ensuring that business elites among ASEAN’s trade and investment partners have a stake in Southeast Asia’s stability.

In the two subsequent chapters, Southeast Asian economists offer more detailed analyses of China–ASEAN trade and investment trends. In his examination of trade patterns, Suthiphand Chirathivat points out that Southeast Asia has moved in recent years from exporting mainly primary commodities to China, to exporting a greater proportion of similar or intra-industry products. For instance, the top import-export items in ASEAN–China trade are electrical and electronic products, parts and components, constituting in 2003 up to 50 percent of ASEAN–6 (Indonesia, Philippines, Singapore, Malaysia, Thailand, Vietnam) exports to China, and 75 percent of ASEAN–6 imports from China. This reflects the growing integration of China and ASEAN as part of the same regional production networks of multinational firms.

In this context, Suthiphand provides a modeling analysis of the implications of the China–ASEAN FTA, concluding that the effects will be mixed. On the one hand, China will gain significantly from ASEAN’s tariff reductions, especially in the textiles, motor vehicles and electronics sectors, but also in some food and mineral sectors. But the rising imports of ASEAN agricultural goods will cause a decline in Chinese domestic outputs. On the other hand, ASEAN stands to gain mainly from increased market access to China in quality food products such as rice, sugar, seafood, poultry, and vegetable oils; in primary commodities, especially chemical, rubber and plastic products, and textile fibers; and in vehicles, vehicle parts, and electronic components. Suthiphand highlights that there will
be net gains of trade on both sides, with China increasing its imports from ASEAN by 53 percent and exports to ASEAN by 23 percent, resulting in real GDP increases of 0.36 percent for China and 0.38 percent for ASEAN. However, hopes for economic integration within ASEAN are likely to be dashed.

In his chapter on investment patterns and trends in regional monetary and financial integration, Tan Khee Giap argues for the need to examine the assumption that China is diverting foreign direct investment (FDI) from ASEAN economies. He presents a relative competitiveness index, which shows that China in fact ranks third in regional competitiveness, behind Singapore and Malaysia, and that simulation exercises projecting an improvement in each economy’s weakest indicators allow China to overtake only Malaysia. In addition, Tan cautions that better studies ought to focus on relative competitiveness between ASEAN states and key Chinese provinces, rather than China as a whole.

While Tan acknowledges that ASEAN faces stiff competition from China in terms of attracting FDI flows, he suggests that one key concern for Southeast Asia should also be how it can take advantage of the next wave of investment flows into China, which will take the form of portfolio investments. In this endeavor, the critical factor will be ASEAN’s ability to enhance regional monetary and financial integration in the wake of the 1997 financial crisis; and Tan examines challenges including exchange rate harmonization, the development of regional bond markets, and evolving regional financial arrangements. In other words, whether the Southeast Asian economies can cope with China’s massive attraction for foreign investors will critically depend on whether they can resolve coordination issues in the regional monetary and financial landscape.

Energy security constitutes China’s most recent economic quest. Mikkal Herberg’s chapter explores the reasons behind the PRC’s search for fossil fuels abroad as its needs outstrip available domestic energy resources. With its burgeoning economy, China is now the second largest overall energy consumer in the world and also the second largest oil consumer after the United States. Moreover, the International Energy Agency predicts that PRC oil imports will increase more than 500 percent by 2030 to more than 11 million barrels per day (MMBD), or 80 percent of the country’s total oil needs. Complicating China’s development strategy is its massive production and consumption of coal. The world’s largest producer, coal accounts for 80 percent of China’s electricity generation; and consumption is expected to double by 2025 with truly frightening environmental and health implications. Natural gas imports, currently a fraction of its energy sources, are also expected to jump as China shifts from coal to gas for electricity. Liquefied natural gas (LNG) will come mainly from Southeast Asia.

Security of the sea lines of communication (SLOCs), over which China currently provides no protection, is integral to Beijing’s future energy security plans. In effect, the PRC relies on the US Navy to secure the open ocean “public good” of security – an uncomfortable situation from Beijing’s perspective. Indeed, a conflict with the United States over Taiwan could lead to a US decision to disrupt China’s energy supply flow. To overcome this naval deficit, Herberg notes, Beijing is developing naval access arrangements with Pakistan, Burma, and
Bangladesh, and has expressed interest in joining the Malacca Strait states’ patrols. Herberg argues that, on balance, China’s energy investments in Southeast Asia are a moderating influence that has facilitated its adherence to the ASEAN Treaty of Amity and Cooperation (TAC), the 2002 Declaration of Conduct on the South China Sea, and the 2005 agreement with the Philippines and Vietnam on exploration of the sea bed under the Spratly Islands. These arrangements could help secure energy for all participants, or they could collapse if China were to insist on the lion’s share of whatever is discovered.

In sum, the authors foresee a significant increase in trade resulting from the China–ASEAN FTA but note that the PRC has invested much less in Southeast Asia than the ASEAN states have in China. Moreover, the United States has 150 percent more investment in ASEAN than it has in China. The composition of ASEAN’s exports to China is moving up the value ladder with a greater proportion of the trade in intra-industry products. ASEAN faces stiff competition from China in attracting FDI. That situation cannot be ameliorated until the ASEAN economies enhance monetary and financial integration. To meet its burgeoning energy needs, the PRC is expanding exploration, acquisition, and production of all available fossil fuels with growing investment in Southeast Asian oil and natural gas. Beijing’s need to protect its SLOCs through Southeast Asia is an important factor behind the PLA’s naval buildup plans.

Politics

Robert Sutter’s political overview notes that while the PRC’s stature has been rising in Southeast Asia in recent years and US prestige has flagged because of controversial post-September 11 policies abroad, the region nevertheless remains primarily oriented toward the United States. As Sutter puts it, Washington is seen as the “least distrusted power” in Southeast Asia with no territorial or other ambitions directly at odds with ASEAN states’ interests.

Nevertheless, China’s rise over the past two decades, Sutter argues, has created a new “inside-out” model of Asian regional politics in which an indigenous state – rather than an outsider – has become the primary security focus. Indicative of the PRC’s concomitant confidence in an Asian leadership role has been its weight in Asian regional organizations (also discussed in Alice Ba’s chapter). According to Sutter, China’s “benign and attentive” diplomacy has increased its “soft power” at a time when perceived US heavy-handedness has harmed its image. Particularly important from Southeast Asia’s perspective is that both Washington and Beijing support regional stability, thus ensuring that the region’s members are not being asked to take sides between the two great powers.

America’s advantages vis-à-vis China include its still predominant trade and investment position in Southeast Asia, though complicating this positive position are its controversial Iraq policies and the war on radical Islamism. Sutter concludes optimistically that open US markets and constructive Asian security policies can be further enhanced by playing a larger role in Asian multilateral institutions and eschewing unilateralism.
Alice Ba sees the ASEAN states as representative of a “structural predicament as lesser powers in a system dominated by larger ones.” The predicament they attempt to avoid is dependence leading to a loss of autonomy. After the Cold War, ASEAN members questioned the stability and longevity of a US commitment to Southeast Asian security, necessitating an ASEAN decision to engage China. ASEAN has chosen to draw China into the processes and norms of regional security discussions dominated by ASEAN rules, that is, the ASEAN ministerial conferences and the ARF. According to Ba, the hope was that multilateral engagement would create “a constraining web of interdependence” via a “lattice of networks and relationships.” The goal of this complex engagement is China’s socialization into a culture of restraint with respect to its activities in Southeast Asia.

Some positive outcomes have ensued: (1) China has abandoned its previous insistence on exclusively bilateral discussions on the South China Sea; (2) the PRC has agreed to general rules of conduct in maritime Southeast Asia, though no formal Code of Conduct yet exists; (3) Beijing was the first non-ASEAN signatory to the Association’s TAC in 2003; (4) China has expressed willingness to sign on to a Southeast Asian Nuclear Weapons Free Zone; and (5) the PRC negotiated an ASEAN FTA in 2002.

For ASEAN the underlying understanding is that China is already a great power. Southeast Asian states want to shape the kind of power China will be. Nevertheless, Ba appears to agree with Sutter that US hard and soft power in Asia will continue to exceed China’s efforts for some time and that greater US attention to regional multilateral organizations should help burnish its current tarnished image in Southeast Asia.

Irman Lanti provides an Indonesian perspective on the rise of China in an analysis that reflects key elements of Ba’s assessment of Southeast Asia as a whole. Lanti notes that Jakarta’s foreign policies are conditioned by Indonesia’s colonial experience, inclining it toward a “free and easy” unaligned position in relations with major powers; and by the intricacies of domestic politics in a democratic system in transition in the largest Muslim nation in the world. Moreover, he clearly places Indonesia’s approach toward China in a triangular context with Indonesia–US relations. Perceptions of China have changed since the fall of the Suharto regime – domestic tensions between the Chinese minority and Muslim majority population have been reduced and the security forces that are more traditionally suspicious of China now have less political influence – rendering successful recent Chinese diplomatic initiatives towards Indonesia, which culminated in the bilateral strategic partnership agreement signed in April 2005. This improving trend occurs, as Lanti notes, in contrast to deteriorating relations with the United States. Given their concerns about the US war on terrorism, the war in Iraq, and perceived US unilateralism, important Indonesian constituencies, including Muslim groups, see a rising China as potentially providing a “counterbalance for some of the more malevolent tendencies in US hegemony.” Lanti cautions, however, that Indonesian perceptions are changeable and could be influenced by domestic politics and by how the US shapes its broader foreign policy and its military policy toward Indonesia.
There is no doubt that China’s political clout is increasing in the ASEAN region and that for the first time in over 60 years an Asian state has become the primary security focus for Southeast Asia. For the ASEAN states, the challenge has been to draw China into regional security discussions without ceding dominance to Beijing and simultaneously keeping the United States involved, while pressing Washington to broaden its Southeast Asian agenda beyond counter-terrorism. Indicative of this new setting is Indonesia’s eager engagement of the PRC attendant upon the decline of tensions between the archipelago state’s Chinese minority and Muslim majority. For Jakarta and other Southeast Asian governments, China provides a balance to the United States (and Japan), once again bolstering Southeast Asia’s political independence.

**Military balance**

In his chapter on China’s military buildup, Paul Godwin argues that “Beijing’s objective is to build Asia’s dominant defense establishment.” However, there is no rush because “China is more secure from an imminent external military threat than at any time in the past 150 years.” Nevertheless, the PRC is apprehensive about US military power, its perceived encirclement of China, and the growing technological gap between the PLA and the US armed forces.

While China’s military buildup is directed primarily at a Taiwan scenario, it can apply to other contingencies, including the South China Sea. The PRC’s military modernization, however, is still heavily dependent on outside suppliers, particularly Russia. To become a truly independent military power, Godwin argues, China must develop its own state-of-the-art defense industry – a prospect that may be one to two decades away. Meanwhile, the vast majority of its air, naval, and strategic missile forces are based on updated versions of 1960s technology.

Godwin notes that should the PRC want to deploy its navy to establish a presence in, say, the South China Sea, it has the capacity to do so, but that does not translate into an ability to sustain combat far from China’s shores. With limited anti-aircraft capability and aerial refueling, its ships would even be vulnerable to regional air forces. Nevertheless, he believes that China can sustain a defense burden of 2 or 3 percent of GDP with a 5 percent annual national growth rate. Thus, within 20 years, Beijing will have produced a much more formidable armed force.

Michael Chambers concurs with Godwin, noting that the long-time emphasis on the army and a “people’s war” defense of China has been replaced by meeting security threats away from the mainland, with a consequent stress on air and maritime power. The primary purpose may be denial of access to the mainland but ultimately the PLA seeks the ability to operate beyond Taiwan all the way to the Mariana Islands to protect China’s SLOCs and trade routes. Nevertheless, Chambers quotes David Shambaugh that the PLAN has “few destroyers capable of operating in the open ocean,” and that “no military bases are being acquired abroad.”

China is engaging its neighbors in intensive security dialogues alongside regular military exchanges with Southeast Asian armed forces. Chambers presents a list of PRC security gestures designed to reassure Southeast Asia,
including China’s 2003 accession to ASEAN’s TAC – in effect a non-aggression pact. In 2004, China and ASEAN established a Strategic Partnership for Peace and Prosperity. In addition to reassurance, these relationships also provide Southeast Asian states with opportunities to influence China’s security thinking. A primary goal of this diplomacy is to downgrade the importance of the Cold War’s US alliances as “old thinking” in which states directed their energies against specific possible adversaries. By contrast, China argues Southeast Asia should consider as a replacement “cooperative security” examples of which would be the ASEAN Regional Forum and perhaps the incipient ASEAN Security Community. These are neither hierarchical nor organized against a putative enemy but based on consensus and particularly applicable to non-traditional security challenges such as infectious diseases, human trafficking, transnational crime, environmental pollution, and terrorism – all of which are now on Southeast Asia’s security agenda.

Beijing particularly courts the Strait of Malacca littoral – Thailand, Malaysia, Singapore, Indonesia – with the goal of ensuring that these states would not be part of any effort to close this vital passage at Washington’s request in the event of war over Taiwan. Nevertheless, Chambers insists that China is not promoting a regional strategic vision, nor proposing alliances to balance the United States. And, most important of all, there is no evidence that China is planning in the foreseeable future to replace the United States as the regional security guarantor.

Bernard Loo’s final chapter also presents a relatively sanguine assessment of China’s potential military challenge from a Southeast Asian point of view. He argues that, regardless of intentions, China does not have the capability to undertake a land, sea, or air campaign in the Southeast Asian theater. After analyzing the relative capabilities of both China’s and key Southeast Asian states’ militaries, Loo concludes that a Chinese land invasion of Southeast Asia is a “non-starter,” while taken as a whole, ASEAN air power is comparable with Chinese air assets, and that ASEAN navies can jointly deny access to the South China Sea to any PLA Navy (PLAN) vessel. While he concedes the difficulties of cooperative Southeast Asian military action, Loo is confident that in the event of a confrontation in the subregion, there would likely emerge a loose, ad hoc collation that would seek to counterbalance Chinese military power. Agreeing with Godwin’s observation that China’s defense industry needs significant development, Loo also notes that concerns about Chinese penetration of the Southeast Asian arms market are premature.

Comparisons

In the economic realm, the Southeast Asian and US contributors agree that the picture is mixed, as Southeast Asia faces severe competition from the rapidly growing Chinese economy, but also stands to gain from increasing intra-regional trade and from investments flowing into China. The authors all emphasize that the way forward for Southeast Asia vis-à-vis the Chinese economy must be cooperative rather than zero-sum competitive. Southeast Asian states need to work
together to overcome problems in forging greater China–ASEAN economic integration, whether in trade or monetary/financial regulation, and to develop cooperation in ensuring the security of the SLOCs that are so vital to economic growth in the region. Where they differ is in the greater emphasis placed by the Southeast Asian scholars on the differential impacts of China’s economic ascendancy on the different ASEAN economies, in part because they are more cognizant of the potential negative implications for intra-ASEAN regionalism and more aware of the fundamental challenges to cooperation within Southeast Asia itself.

There is greatest agreement among the two sets of authors regarding the political aspects of China’s rise. They uniformly observe that China’s successful diplomacy in Southeast Asia since the mid-1990s has moderated perceptions of it as a threat. In particular, they acknowledge the moderation of China’s claims in the South China Sea, pointing to its adherence in 2002 to a MOU on agreed behavior and then the 2005 agreement among the Philippines, Vietnam, and China for joint exploration of resources. The US and Southeast Asian authors also concur, however, that the United States remains of primary importance in underpinning regional security despite current problems with its image after the war in Iraq. Once again, the authors adopt different emphases but related explanations: the US view posits that the United States is more trusted and seen as more benign than other powers; while from the Southeast Asian perspective, continuing reliance on the US security umbrella reflects these smaller states’ need to diversify their dependencies and maximize room for maneuver between the major powers.

The most extreme concerns about China’s rise have naturally centered upon its growing military capabilities. In the military sphere, the Southeast Asian and US writers in this volume agree that Chinese defense capabilities are currently limited in power projection terms, thus constraining its ability to pursue ambitions outside of its immediate ambit, such as in Southeast Asia. They also recognize that Chinese military developments are aimed primarily at the US (across the Taiwan Strait) and not at Southeast Asia.

However, while they broadly agree on their assessments of Chinese capabilities, some differences do emerge among the writers regarding Chinese military intentions. For instance, Paul Godwin is not as sanguine as Bernard Loo about China’s ability to threaten Southeast Asia, particularly in the South China Sea. More generally, Godwin reads Beijing’s ultimate ambition as building the most formidable military establishment in Asia; while Chambers ascribes to China the more restrained intention of building sufficient power projection capabilities to protect its trading routes all the way to the Mariana Islands, but not to supplant the US role as security guarantor in Southeast Asia.

Conclusions

Overall, this volume reveals that US and Southeast Asian perspectives of China’s rising profile in Southeast Asia converge more than one might expect on the broad assessments of China’s achievements, the challenges it poses, and expected trends in Sino-Southeast Asian relations. This reflects the way in which Sino-Southeast
Asian relations have improved and deepened, sometimes beyond initial expectations, over the last decade. On the other hand, Southeast Asian and US views have tended to differ in their emphasis on Southeast Asian implications and motivations, and more obviously, in their assessments of Chinese military intentions. This may also reflect their divergent fundamental interests in the implications of China’s rise for Southeast Asia itself, as opposed to the broader impacts on US interests in East Asia and in the world respectively.

The degree of divergence between US and Southeast Asian views of China’s rise may increase should some key variables change. The first set of variables relates to Southeast Asian cohesion. This is a region made up of significantly differentiated countries, whether in the cultural, political, or economic realms. China’s growth consequently affects the ten countries in dissimilar ways and to varying extents; and Southeast Asia may become increasingly divided by different priorities and preferences in coping with the further rise of China. There are several ways to draw the divide, but a crude one is the fault line between maritime Southeast Asia (the Philippines, Malaysia, Indonesia, and Singapore), and continental Southeast Asia (Cambodia, Laos, Myanmar and Vietnam, with Thailand occupying an ambiguous position in between). The so-called CLMV countries have strategic landscapes that are dominated by China, due to a combination of geography, history, and a lack of alternatives. The maritime states, on the other hand, being more developed and the focus particularly of US regional strategy, have considerably more options vis-à-vis China, even though they also have differences in priorities among themselves. Such fault lines will expand as Chinese influence in the region increases, with significant implications for ASEAN solidarity and thus its collective regional strategy and identity. US regional policies may also serve to exacerbate these fractures, if they continue to focus on the maritime areas to the exclusion of mainland Southeast Asia.

The second set of critical variables resides in China’s domestic situation. It is far from clear whether the Chinese Communist Party (CCP) will be able to maintain its political dominance in the face of an increasingly complex array of social and economic problems. Some observers expect a strong authoritarian regime to remain in power for some time; others anticipate gradual political liberalization. The same uncertainties exist with regard to China’s economy. China may continue to develop along the current high levels of economic growth, but some analysts predict slower growth, stagnation or relative decline, if the government fails to address problems in public-private ownership, public and corporate debt, and energy security. One can thus imagine China’s future direction using the following simplified matrix:

| China liberalizes its political system and sustains a high level of economic growth. | China maintains an authoritarian regime and sustains a high level of economic growth. |
| China liberalizes its political system but encounters deep economic problems – stagnation, or worse. | China maintains an authoritarian regime but encounters deep economic problems – stagnation, or worse. |

Evelyn Goh and Sheldon W. Simon
China’s strategic interests in Southeast Asia are likely to remain consistent with current trends, but various combinations of these political and economic outcomes will almost certainly affect China’s intentions and policies toward Southeast Asia. Each of these four scenarios is therefore likely to have a different but significant impact on the future of China’s relations with Southeast Asia and US views of China’s role in the region. In part, varying projections of China’s future scenarios along these lines already help to account for differences in US and Southeast Asian assessments of China’s rise now.

Using the above matrix of possible future scenarios for China, future potential movements on the political spectrum may prove to be contentious. Southeast Asian states are less concerned about the need for democratization in China than is the United States, and many perceive the communist central government as more able to provide stability for the country than would a more decentralized democratic government. Thus, should the pace of Chinese political reforms remain slow and China retain its authoritarian political system, US and Southeast Asian perceptions of the Chinese threat are likely to diverge further, as the US continues to exert pressure on China for greater democratic accountability.

On the military front, the picture is less clear. Obviously the United States and Southeast Asia will be similarly alarmed by any aggressive Chinese military action in Asia. However, they may differ on what constitutes aggressive action, and their degrees of reaction will depend on where Chinese action takes place. If it is a conflict in the South China Sea, US and Southeast Asian threat perceptions will coincide, leaving only the critical question of to what extent the United States will want to get involved. If it is a conflict on the Taiwan Strait, Southeast Asian reactions will depend largely upon the circumstances surrounding the start of hostilities.

It is perhaps on the economic front, once again, where Southeast Asian and US views best coincide, even for different scenarios for Chinese growth. While Southeast Asians have fewer concerns than the United States about Chinese economic competition, both would be equally concerned if China’s economy was to stagnate significantly or to go into decline. This is not only because of the increasing role Chinese manufacturing and markets are playing in the world economy, but also because both appreciate that economic stagnation may lead to greater instability within, and unpredictable foreign policy behavior from, China.

For most policymakers, projecting five or ten years into the future constitutes a risky proposition. Nevertheless, there is sufficient accord among the authors in this volume to engage in such an exercise. If China’s rise is driven primarily by a ruling party whose legitimacy depends on sustaining high rates of economic growth, then military adventures with respect to Taiwan’s future or in the South China Sea appear unlikely. Such PLA actions around China’s periphery would jeopardize external investment and trade, thus undermining the PRC’s economic performance and political stability. Indeed, China’s long-term energy and resource needs for an economy still going through an industrial build-up suggests that the country requires a stable global environment in which the PRC is perceived as a contributor to global economic development.
China’s political, economic, and security trends over the next decade therefore should portend peaceful enterprise rather than military confrontation. This rather optimistic projection seems justified through 2015. Beyond that, imponderables emerge, and the crystal ball begins to cloud.

Notes
5 Mainland Southeast Asia comprises Thailand, Burma, Cambodia, Laos, and Vietnam.
6 In this context “soft power” refers to Beijing’s efforts following the 1997–98 Asian financial crisis to assist Southeast Asia’s recovery and subsequently increase foreign direct investment in the region as well as expand cultural activities and opportunities for Southeast Asian students to study in the PRC.
9 In the context of security, Thailand can be considered a littoral state given its involvement in the “Eyes in the Sky” program – the littoral states’ new arrangement for anti-piracy/anti-terrorism patrols along the Strait of Malacca.
Part I

Economics
2 From “threat” to “opportunity”?
ASEAN, China, and triangulation

Etel Solingen

Introduction
In November 2002 China and ASEAN signed a framework agreement – the ASEAN–China Comprehensive Economic Cooperation Agreement – to establish a free trade area (ACFTA). Most products would carry zero tariffs for Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand by 2010, and by 2015 for the newer ASEAN members (Cambodia, Laos, Myanmar, and Vietnam). In 2004 China and ASEAN signed the Trade in Goods of the Framework Agreement on Comprehensive Economic Co-operation and a Dispute Settlement Mechanism. Accordingly, tariffs were cut for approximately 7,000 categories of industrial goods beginning in July 2005. An “early harvest” provision enabled an early tariff reduction in particular products, providing ASEAN states with early access to China’s market as well as lower tariffs for Chinese agricultural items including meat, fish, fruits, vegetables, and milk. The “early harvest” program required separate bilateral agreements between ASEAN members and China.

These developments are highly significant for various reasons. First, their successful implementation could lead to one of the largest FTAs worldwide – the third largest market after the EU and NAFTA – with a total population of 1.7 billion, a combined GNP of $2 trillion, and an estimated total trade volume of $1.2 trillion. Second, this was the first FTA that China concluded with other countries or regions, signaling the importance that China attaches to Southeast Asia. Third, this was also ASEAN’s first FTA with an external partner, signaling the centrality of China to ASEAN’s political and economic predicaments and opportunities. Fourth, ACFTA provided further momentum for additional bilateral and regional-bilateral FTAs, including a framework agreement for a Japan–ASEAN FTA. Finally, these developments were both influenced by – and are expected to have profound effects on – a wider set of political relations between ASEAN states and China as well as among East Asian states more generally.

On the whole, ASEAN states seem to have moved from a period where China was discussed more frequently as a threat into one where China appears more associated with opportunities. The opportunities are provided not only in the economic arena but also by ASEAN’s perception that China’s new economic and strategic stature also enables ASEAN to enhance its role of “triangulator” in regional
politics. The chapter begins with an analysis of the domestic background underpinning these developments in ASEAN states and China respectively. Next I examine the dynamics of trade and FDI flows between ASEAN and China. The subsequent section places these dynamics in the broader political and strategic context embedding the China–ASEAN relationship. Of particular importance is ASEAN’s triangulation strategy between China on the one hand and other regional powers on the other, particularly Japan and the United States. The concluding section sum up the underlying questions elicited by the quick pace of events in this region and examines future China–ASEAN relations.

ASEAN: the domestic sources of regional cooperation

Since the 1960s leading ASEAN ruling coalitions have progressively pursued policies geared to attract foreign direct investment in order to stimulate economic growth and political stability, achieving some of the world’s highest trade-openness ratios (total imports and exports divided by GDP). Singapore pioneered export-oriented growth in 1965, followed by Malaysia and Thailand in the early 1970s, the Philippines and Indonesia in the 1980s, and Vietnam in the 1990s. The model, originally designed to curtail external and internal communist advances in the region, hinged on export-led industrialization to fuel economic growth and improve living standards at a time when serious armed insurgencies threatened stability from within. Indeed, the 1967 ASEAN Declaration listed as its first purpose the acceleration of economic growth, social progress, and cultural development. Most ASEAN declarations since, including those in response to the 1997 crisis, maintained the focus on economic viability or “resilience.” An implicit social bargain provided high per capita growth, employment creation, and relatively high investments in health and education.

The model was sensitive to synergies across the domestic, regional, and international spheres, where regional stability and a peaceful regional environment could yield foreign investment, financial resources, and access to international markets. Foreign direct investment began rising once regional as well as domestic political and economic stability in Southeast Asia created auspicious conditions. The model also required moderation in military expenditures both to enable economic priorities and to assuage the potential for arms races detrimental to stability and investments. Military expenditures relative to GDP (MILEX/GDP) declined over time despite their absolute increase in the context of impressive economic growth. Average MILEX/GDP for ASEAN as a whole declined from about 5 percent in the late 1970s and early 1980s to about 2.8 percent of GDP in 1990. Since then different sources estimate the MILEX/GDP to have oscillated between 2.7 and 4 percent. These ratios were lower than the 5 percent average for industrializing regions in the 1980s and many agreed that there had been “no highly focused competitive arms accumulations,” or arms races, in Southeast Asia. During the 1990s, even prior to the 1997 crisis, military expenditures also declined significantly as a percentage of central government expenditures (MILEX/CGE), from a high of about 16 percent in the late 1980s to about 10 percent in 2000. Myanmar
has been the exception with exorbitantly high ratios for both MILEX/GDP and MILEX/CGE.

The 1997 Asian financial crisis – the most dramatic economic, political, and social shock to the model since its inception – unleashed great concern with the model’s viability and with vulnerability to international capital flows. The crisis had adverse effects for widespread segments of the population and for some business sectors, and reduced military budgets further while enhancing political reforms and deepening internationalization. By 2000 fresh capital inflows, positive current accounts, stronger currencies, and improved foreign reserves had returned to the region, although Indonesia’s situation remained uncertain. Many had feared that the 1997 debacle might unravel earlier cooperative regional patterns. However, ASEAN states avowed their commitment to maintain cooperative initiatives in the aftermath of the crisis. The Manila Framework Agreement created an innovative “surveillance mechanism” and reaffirmed a commitment to resist protectionism. The Kuala Lumpur summit adopted the Vision 2020 plan calling for “a concert of Southeast Asian nations, outward-looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies,” emphasizing sustainable and equitable growth and regional resilience. The Hanoi Plan of Action stressed the need to restore confidence, foreign direct investment (FDI), economic growth, and financial stability. AFTA (not a customs union because it lacks a common external tariff) entered into effect in 2003.

By the mid-1990s, and even more so after the 1997 Asian crisis, China had become a key source of concern in ASEAN countries because of its ability to attract progressively higher shares of foreign direct investment, perceived by some to be at the expense of Thailand, Singapore, Malaysia, and Indonesia. In 2002 Malaysia’s Prime Minister Mahathir Mohammad argued that “China’s growing prosperity cannot but make it a great market for Southeast Asia” but added that China was already a threat for Southeast Asia as a rival for foreign investment and was also becoming a threat for Southeast Asia’s global trade. Others argued that FDI flows to China and other Asian countries were complementary rather than competitive because of different comparative advantages (labor, technological know-how) and because China’s own growth generate more trade with the rest of the region. Indeed, China’s dramatic economic rise had become a source of opportunity. As Thailand’s Commerce Minister Thanong Bidaya put it, “China is a big economy that ASEAN cannot neglect. Its economic growth means both a market and a rise for Asia.” In economic terms ACFTA was thus seen – from this viewpoint – as a means to lure foreign investment back into ASEAN and to enhance trade between China and ASEAN.

China: the domestic sources of regional cooperation

On the ashes of an autarkic Maoist model Deng Xiaoping developed a coalition of light industry, agricultural producers, and consumers (particularly in the coastal provinces), unleashing revolutionary market-oriented reforms and a
decentralization of economic authority eventually leading China into WTO membership. The internationalization of China’s economy also involved transfers from the military-industrial to the civilian sector, a 40 percent reduction in the PLA’s size, and an eventual decline of its relative power within the party leadership.10 Due to lack of transparency and potential transfers not included in the regular budget there is no consensus on China’s total military expenditures, which have been rising in absolute terms. However, the International Institute for Strategic Studies (IISS) reported a decline in MILEX/GDP from a high of about 9 percent in the late 1970s, prior to the reforms, to about 5 percent in the 1990s and lower since 2000. Both the Stockholm International Peace Research Institute (SIPRI) and the State Department’s World Military Expenditures and Arms Transfers (WMEAT) report lower MILEX/GDP averages of about 2.2 percent since 1990.11 MILEX/CGE was reported by WMEAT to have been above 30 percent in the early 1990s but declined to around 25 percent in the late 1990s. Instead, China’s dependence on foreign trade increased from 10 percent in 1978 to about 44 percent in 2001.12 Since the inception of economic reform China has attracted an estimated $450 billion in foreign direct investment by 2003.13 By the turn of the century China captured about 20 percent of all FDI going to the industrializing world. China’s own cumulative FDI outflows since 1979 were estimated to have reached $30 billion. China’s GDP reached over $1.3 trillion and is now the world’s third largest exporter after the United States and Germany, overtaking Japan.

From the standpoint of the architects of China’s new model, the potential for regional instability was anathema to their efforts to lure foreign investment and natural resources to fuel continued economic growth and domestic political stability. Thus, China’s internationalizing forces – emphasizing economic reform, growth, and stability, as well as the synergies between domestic, regional, and international objectives – advanced a new template for regional relations. Deng had already cleared the way for a more conciliatory approach to Taiwan, emphasizing diplomacy and enhanced communication (the “three links”) while minimizing military threats. By the 1990s the strategy included a “charm offensive” vis-à-vis ASEAN and a set of more mature economic and political relations with Northeast Asian neighbors, including Japan. Domestic forces favoring internationalization also promoted China’s support for multilateral regional institutions despite China’s previous aversion to anything but bilateralism.14 In 2000 Zhu Rongji proposed ACFTA. From the perspective of China’s internationalizing ruling coalition, a peaceful and prosperous Southeast Asia could better guarantee continued overseas and regional investments a sustained flow of natural resources required for China’s own economic growth and political stability, and a smoother operation of crucial sea lanes in the Strait of Malacca and the South China Sea – which are critical for most of China’s oil shipments.

However, China’s internationalizing coalition has faced discontent among domestic groups adversely affected by its rapid integration in the global economy. The latter included some elements of the People’s Liberation Army, some state enterprises and banks, some agricultural interests, and some local governments resisting economic openness and related foreign policies.15 Whereas the main
beneficiaries of the internationalizing policies in the coastal areas – about 200 million – have now joined the middle class, farmers and rural workers still endure economic hardship and official corruption. Premier Wen Jiabao acknowledged that despite China’s impressive growth, “there are still tens of millions of poor people in the country, plus an uneven domestic regional development, serious resource constraints and mounting environmental pressure.” Rural reform and urbanization, central versus local interests, rising unemployment, an aging population, sustainable development, and high dependence on foreign investment for continued growth constitute serious political challenges to the model adopted by reformists in China’s Communist party. Wen Jiabao and Hu Jintao have made commitments to address these problems. In an effort to deflate domestic opposition to either the reform process or party rule, or both, some leaders – such as Jiang Zemin – had favored the mobilization of nationalist support as a rallying theme. In early 2005 this mobilization reached its highest levels, triggering an effort by those concerned with the model’s viability to control nationalistic fervor.

Several of China’s discontinuities and ambiguities in regional policies reveal a protracted domestic contest between internationalizing and nationalist, inward-looking domestic political camps. With respect to Japan, economic cooperation has boomed but nationalist elements appear to have been provided with room for exacerbating frictions along maritime boundaries and symbolic-historical issues. Similarly, accelerating economic interdependence with Taiwan has not precluded combative legislation in 2005 that threatens war if Taiwan declares independence. As for the Spratly Islands – an important bone of contention with ASEAN – the more conflictive policies of the early 1990s evolved into a far more cooperative framework a decade later.

Bilateral economic relations between ASEAN and China became a fundamental element of this new template. The success of this model of political control by the Communist party yielded a rapidly growing economy which by the 1990s had also become a source of concern among some ASEAN states as well as among most of China’s neighbors. Although military modernization efforts geared to satisfy the PLA were not allowed to derail the outward-oriented model of economic growth and political control, a booming economy turned China into the second largest military spender worldwide according to US government estimates, which fueled further concerns beyond the economic dimension of China’s dramatic rise as a regional power. The perception of an awakening economic and strategic giant colored the way in which China’s neighbors – including ASEAN – devised their own responses.

**China–ASEAN economic exchange: a profile**

This section examines the evolution of China–ASEAN economic exchanges, particularly in the last decade or so. It begins with an overview of trade between ASEAN states as a whole on the one hand, and China on the other. I follow with a more disaggregated analysis of bilateral trade relationships between individual ASEAN states and China. Next I turn to investment patterns, beginning with the
respective shares of global FDI captured by China and ASEAN respectively, followed by an outline of bilateral investments between ASEAN (both as a collective and by individual states) and China.

**Trade**

ASEAN’s largest trade partner is the United States, followed by the European Union, both with bilateral trade flows of over $100 billion. Since 2000 China has become ASEAN’s sixth largest trading partner, whereas ASEAN has become China’s fifth largest trading partner. ASEAN–China bilateral trade has increased by about 20 percent annually since 1990, reaching $78.2 billion in 2003. Although bilateral trade dipped by over 5 percent immediately following the 1997–98 Asian financial crisis, subsequent levels reached an astonishing growth of over 45 percent in 2000 and nearly 43 percent in 2003 (see Figure 2.1). Total trade for 2003 was 90 times that of 1978. ASEAN countries represented about 6 percent of China’s total trade in 1990, growing to over 9 percent in 2003. Far more significant has been China’s share of ASEAN’s total trade, which nearly tripled to 9 percent in 2003.

China’s imports from ASEAN countries have increased more than tenfold since 1990 to $47.3 billion in 2003. Imports from ASEAN grew steadily, particularly after 2000. Between 1990 and 2003 China’s imports accounted for by ASEAN nearly doubled from 5.8 to 11.4 percent of China’s total imports (see Figure 2.2). These included mainly crude and liquefied petroleum gas, vegetable oil and other raw materials, and electronics. China’s exports to ASEAN – mainly electronic and machinery products, textiles and garments, and processed oil and cereals – increased from over $4 billion in 1990 to nearly $31 billion in 2003.

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![Figure 2.1 China–ASEAN trade 1990–2003](image-url)
This was a remarkable expansion into ASEAN, nearly trebling China’s share of ASEAN imports from 2.5 percent in 1990 to almost 8 percent. At the same time, exports to ASEAN remained at about 8 percent of China’s growing total exports. Instead, ASEAN’s exports to China were only 2 percent of ASEAN’s total exports in 1990 but over 10 percent in 2003. Clearly ASEAN was becoming far more dependent on exports to China than vice versa. The trade balance began favoring ASEAN in the aftermath of the Asian crisis, reaching $16 billion in 2003. Trade in produce increased by over 40 percent in the first ten months of 2004 and is bound to grow with the inception of reduced tariffs as of 2005.

A brief overview of bilateral trade between China and individual ASEAN countries is now in order. Table 2.1 provides an overview of the evolution of trade relations between individual ASEAN states and China between 1990 and 2003. Total trade between China and Thailand grew steadily during those years, and even more dramatically after the turn of the century, increasing by 37 percent in 2004. Total trade with China grew from 2.2 percent of Thailand’s total trade to over 8 percent, and exports to China trebled to nearly 11 percent of Thailand’s total exports. China became Thailand’s third largest export market after the United States and Japan but Thai exports still represented a small fraction of China’s total imports. Thailand is China’s fourteenth largest trade partner and the third largest among ASEAN states. The architect of this enhanced economic relationship with China was Thailand’s former Prime Minister Thaksin Shinawatra, who assumed power in 2001, favoring exports to China while selectively advancing his own business interests and those of political supporters.19

The “early harvest” zero-tariff agreement on fruits was implemented in 2004. For Thailand, agriculture (particularly tropical fruits) and food processing employing
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<td>12.00</td>
<td>34.50</td>
<td>74.37</td>
<td>165.45</td>
<td>262.87</td>
<td>346.00</td>
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<td>0.54</td>
<td>1.62</td>
<td>3.56</td>
<td>5.20</td>
<td>6.00</td>
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<td>223.57</td>
<td>240.47</td>
<td>276.15</td>
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<td>% of Cambodia total trade</td>
<td>3.26</td>
<td>2.97</td>
<td>8.78</td>
<td>8.74</td>
<td>6.55</td>
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<td>3.97</td>
<td>4.60</td>
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<td>% of Thailand total trade</td>
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<td>% of Vietnam total trade</td>
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<td>% of China Total Trade</td>
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<td>8.33</td>
<td>8.19</td>
<td>8.82</td>
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Note: All values in millions of US$
30 percent of the population are key sectors expected to benefit from ACFTA as are raw materials (coal, crude, rubber, pulp, wood, and paper). Thailand has also exported chemicals used in industry, organic chemicals, fertilizers, electrical appliances and parts, electronic equipment, and automobile parts to China. China’s demand has doubled the price of Thai rubber in three years. Thailand also expects enhanced tourism from China, estimating that only one percent of China’s population could yield 13 million tourists. Over 800,000 Chinese tourists visited Thailand in 2002. Minister Thanong also foresaw Thailand as an economic hub for trade between China and ASEAN countries, given its location and the role of Chinese-Thai businessmen. Although Thanong stressed that “free trade [with China] is a win-win situation, not a win-lose one,” some Thai producers are concerned with potential sharp increases in Chinese imports. The latter have included primarily capital goods, raw materials, and some consumer goods, including electrical machines, computers and parts, steel and products, metal ores, electrical appliances, and woven fabrics, but also garlic, carrots, and potatoes. Thailand included 242 “sensitive” products for which tariff rates will be cut to 20 percent by 2012 and another 100 “very sensitive” products for which tariffs will be reduced by 50 percent by 2015, including coffee, tea, certain types of rice, soy oil, palm oil, sugar, raw silk, marble, ceramics, cars, motorcycles, paints, automobile types, steel, compressors, refrigerators, air conditioners, and toys.

The Philippines’ total trade with China grew even more dramatically, with China’s share of the Philippines’ total trade leaping from 1.4 to nearly 13 percent and China’s share of the Philippines total exports rising from 1.1 to over 17 percent. China has become the Philippines’ fifth and fastest-growing trading partner. Against this background, President Arroyo argued that her response to the great debate over whether China’s rise was a threat or an opportunity was unequivocal: “In our administration, we have made the choice very clearly, we have embraced the opportunity to become China’s strong partner.” Notwithstanding this impressive growth, the Philippines were last to negotiate an “early harvest” provision, reflecting pressures to protect its agricultural industry. Organized farmers’ groups complained that smuggled Chinese goods had adversely affected producers of garlic, onion, poultry, sugar, livestock, fruit, vegetable, vegetable oil, potato, and coffee. Only about 30,000 Chinese tourists visited the Philippines in 2000 whereas Singapore attracted nine times that number, and Vietnam and Thailand over 20 times. Indonesia’s total trade with China increased roughly as much as Thailand’s, raising imports from China as a percent of total Indonesian imports several fold to nearly 14 percent. Indonesia reduced import tariffs on some 600 products as part of the “early harvest” program. At the same time, Indonesia’s economy has more sectors that compete with China than do other ASEAN neighbors and pressures from local producers were felt here as well. Indonesia listed nearly 400 categories of sensitive and highly sensitive goods to be excluded from ACFTA, including rice, sugar, soybeans, corn, electronics and automobiles, and selected branches of the textile and chemical industries. China is mostly interested in Indonesia’s oil and gas, minerals, and forestry products (wood and wood panel, pulp and paper). Chinese tourism has been relatively weak, perhaps reflecting
Indonesia’s debacles with confessional and secessionist struggles. Only 43,000 Chinese tourists visited Indonesia in 2003 accounting for only 0.9 percent of 4.47 million foreign tourists, possibly a function of lingering ethnic animosities.

Bilateral trade between China and Singapore also rose steadily, raising China’s profile in Singapore’s total trade from 2.5 to over 7 percent, and accounting for much higher shares of total Singaporean exports (over 7 percent in 2003). China became Singapore’s second largest trading partner but Singapore’s role in China’s total trade remained at roughly the same level. Total trade between China and Malaysia rose even more sharply, raising China’s role in Malaysia’s total trade to nearly 11 percent by 2003. China became a market for over 13 percent of all Malaysian exports, which accounted for 3.3 percent of all China’s imports, a higher share than Singapore’s (2.5 percent) and Thailand’s (2.1 percent). Bilateral trade between China and Myanmar increased as well but the latter’s overall trade dependence on China decreased progressively from a high of 34.6 to 18 percent. China’s role as a market for Myanmar’s exports also decreased from 23.3 to 6 percent of Myanmar’s total exports. Nonetheless Myanmar regards itself as a natural trade bridge between China and other ASEAN states, China and India, and between the Chinese hinterland and Middle East oil. Myanmar’s own natural gas potential has attracted Chinese interest. China unilaterally reduced tariffs on over 100 Myanmar products under the “early harvest” program, which covers 596 products, such as live animals, meat, fish and diary products, vegetables and fruits. Premier Wen Jiabao announced in 2005 that China would expand preferential tariffs to cover a wider range of products from Laos, Cambodia, and Myanmar as of 1 January 2006. China’s trade with Cambodia and Laos increased as well but represents lower proportions of the latter’s total trade than for Vietnam and other ASEAN states. About 30,000 Chinese work in Cambodia – a location where China envisages the construction of a facility for its navy that would facilitate access to the Strait of Malacca.

Investments

An overview of FDI flows should begin with the evolution and percentages of global FDI captured by China and ASEAN respectively, a source of grave concern among some ASEAN states. Malaysian and particularly Indonesian FDI inflows, for instance, never recovered the pre-1997 crisis levels (as of late 2005), although it is hard to trace that decline to the China factor alone, given their own policies and experiences during and after the crisis. Furthermore, both countries went on to capture progressively lower proportions of total FDI inflows into ASEAN itself. Instead, Singapore has attracted progressively higher shares of the ASEAN total. In 1980 ASEAN captured over 4 percent of the world’s total FDI and China virtually none. In 1985 their shares were comparable, at between 3 and 4 percent. By 1995 China had overtaken ASEAN at about 11 and 8 percent respectively. After the 1997–98 crisis ASEAN was only able to attract an average of 2.5 percent of the world’s total in contrast with China’s 6.6 percent average since 1998. As is clear from Figure 2.3, China has overtaken ASEAN since the mid-1990s in its share of
world FDI but after 2000 the gap has grown more markedly, with China attracting about 10 percent of the world FDI as opposed to ASEAN’s less than 4 percent. Regarding the relative percentages of all FDI inflows into East Asia (excluding South Asia) captured by China and ASEAN during that period, the contrast is even more apparent, with ASEAN attracting a high of over 60 percent of all FDI inflows into East Asia in 1980 but progressively declining to below 20 percent after 2000. China, instead, attracted less than 40 percent of East Asian FDI inflows in the early 1980s, climbing to over 55 percent by 2002.

Bilateral investments between ASEAN and China are relatively low, with ASEAN investments in China far more significant than Chinese investments in Southeast Asia. In 1991, total ASEAN investments in China were only $90 million, rising to $4.8 billion in 1998 and $26.2 billion by 2001, accounting for about 6.6 percent of total FDI inflows into China. Singapore alone was estimated to account for 70 percent of ASEAN’s investment in China, an aggregate of over $40 billion over time, largely in the manufacturing and service sectors. Malaysia, Thailand, and Brunei have recently increased their own investments in China. China’s investments in ASEAN are smaller than the other way around but growing, reaching a cumulative total of less than $2 billion in 2001 and accounting for 7.7 percent of China’s overseas investments. China’s yearly FDI flows into ASEAN have accounted for less than 1 percent of ASEAN’s total inflows in the last decade (although Hong Kong itself has averaged 2.7 percent). The EU, the United States, Japan, Hong Kong, and South Korea are the largest investors in ASEAN countries. In the last decade FDI flows from the United States have represented about 15 percent of ASEAN’s
total inflows, Japan’s have declined from a high of 20 percent to about 10 percent by 2003, and other ASEAN countries accounted for about 13 percent of total FDI flows since 1995 on average.

Malaysia has attracted the highest shares of Chinese investment in Southeast Asia. Chinese investments in Thailand went into textiles, garments, home electrical appliances, machine-building, cigarette, pharmaceutical, trade, and real estate sectors. Chinese investments in Singapore have gone mainly into insurance, banking, finance, shipping, and trade, with Singapore’s FTA with the United States and others becoming a more attractive target of Chinese investments. China’s investments in the Philippines were mainly in mining and oil exploration. China also provided a $500 million loan for a railway project in the Philippines and both countries signed an agreement for joint oil and gas exploration in the Spratly islands. China’s investments in Indonesia are directed to the oil and the chemical, household electrical appliances, and motorcycle manufacturing sectors. China’s National Offshore Oil Corporation (CNOOC) is now the largest offshore oil producer in Indonesia after buying Repsol-YPF facilities. Chinese investments – mostly from state-owned enterprises – have also targeted Cambodia, Myanmar, and Laos. China’s state agencies provide commercial credit to Chinese companies investing in Cambodia’s garment sector, which accounts for nearly 95 percent of its exports. China became Cambodia’s largest investor in 2004. In Laos China won a 30-year concession to develop part of the East-West corridor connecting Kunming to Bangkok. Chinese investments in Myanmar include timber, energy, and minerals and those in Vietnam target forestry, fishery, agriculture, light industry, aluminum, infrastructure, and tourism. Vietnam and China have also agreed on joint exploration for natural gas in the South China Sea.

To sum up this section, bilateral trade flows between China and ASEAN countries have increased dramatically, largely in agricultural goods and raw materials, creating a much stronger profile for China as a trading partner to its Southeast Asian neighbors. Brunei, Malaysia, the Philippines, Singapore, Indonesia, and Thailand have all benefited from trade surpluses. ASEAN has become more dependent on exports to China while China continues to seek primary resources from ASEAN countries.26 ASEAN can increase not only its food and agricultural exports but also raw materials, intermediate capital goods, insurance, banking, and other services. According to David Holst and John Weiss China has already displaced ASEAN exports in US and Japanese markets and competition between China and ASEAN is likely to grow in the short term, although export growth can be accommodated in the longer run if both can arrive at an optimal division of labor. China would then absorb more imports and allow ASEAN economies to sustain their current account surpluses.27

Chinese sources suggest that, in the aggregate, ASEAN is likely to benefit more from ACFTA because China enjoys fewer advantages in production costs and the Trade in Goods Agreement is more likely to benefit ASEAN producers than Chinese firms.28 However, others perceive ACFTA to reduce ASEAN’s attractiveness to foreign investment and to benefit China’s investment and trade in the longer term, except for raw material exports to China.29 In this view, ASEAN can
hardly maintain a competitive advantage in textiles, apparel, footwear, machine manufacturing, and low-end electrical appliances, sectors that have been vital to ASEAN’s growth. Furthermore, as Chinese firms build manufacturing plants in ASEAN countries, they are likely to displace local producers of consumer appliances, Malaysian cars, and Singaporean digital technology. ACFTA is thus alleged to have been designed, from China’s standpoint, to promote Chinese business activities in the southwest provinces of Sichuan, Yunnan, and Guangxi, as a way of resolving one of the crucial domestic gaps in China cited earlier. A final criticism suggests that too many FTA’s between individual ASEAN members and external powers could erode trade liberalization among the ASEAN-10, erecting artificial barriers. However, in 2004 ASEAN agreed to accelerate AFTA by phasing off tariffs on cars and certain consumer goods that would have otherwise taken place in 2007.

Clearly, beyond the domestic and state-level distributional effects of trade on both sides, whether or not the new China–ASEAN relationship is a panacea or a curse hinges on broader considerations.

Broader regional dimensions of the China–ASEAN relationship: ASEAN as triangulator?

China’s relationship with ASEAN countries are embedded in the broader political context of China’s dramatic rise as a regional superpower. As we have seen, China’s internationalizing forces have been hard at work to reassure its neighbors of its peaceful intentions and interest in political stability within the region. China’s awareness of ASEAN’s concern with its growing economic and political clout are clear in Premier Wen Jiabao’s words of reassurance at a Mekong Sub-region Summit meeting: “We are resolved to work together with other nations … to jointly foster a secure and stable regional environment, thus paving the way for regional economic and social development.”30 China’s strategic decision not to devalue its currency during the 1997–98 Asian financial crisis and its $1 billion aid package to Thailand provided it with enormous political advantage and goodwill in Southeast Asia. China’s “charm offensive” had the bonus of strengthening China’s hand in further isolating Taiwan. In effect, Taiwan’s FDI in Southeast Asia declined significantly throughout the 1990s although Taiwan’s FDI to China rose sharply.

In 1999 China signed the Southeast Asia Nuclear Weapon Free Zone Treaty and in 2002 the Declaration on the Conduct of Parties in the South China Sea. In 2003 China and ASEAN signed the Joint Declaration on Strategic Partnership for Peace and Prosperity to coordinate foreign and security policy, and China acceded to ASEAN’s Treaty of Amity and Cooperation, ahead of any other superpower. In 2004 the parties agreed to resolve quarrels concerning disputes in the South China Sea without the threat or use of force and on a Plan of Action to Implement the Declaration on the Strategic Partnership for Peace and Prosperity designed to deepen cooperation in economics and security. China also shares with ASEAN states a concern with sovereignty and a distaste for more formal, intrusive regional
institutions. China’s economic reformers have thus supported ASEAN’s institution-building efforts in East Asia, including the ASEAN Regional Forum and the ASEAN+3 process.31

Beyond these important steps, ACFTA should not be regarded in isolation from ongoing ASEAN efforts to negotiate FTAs with Japan, India, South Korea, Australia, and New Zealand. ASEAN as a collective perceives it can enhance its international role by “triangulating” among China and other great powers although the nature of triangulation may vary across different great power dyads. One important arena for triangulation involves China and Japan. The Japan–ASEAN relationship goes back to decades of economic exchange, including trade, investments, and overseas development assistance, particularly after 1977 and the inception of the Fukuda (Takeo) Doctrine. Japan has been Indonesia’s largest trading partner and Indonesia has been the largest recipient of Japan’s foreign aid. FDI and loans to ASEAN after the 1985 Plaza Accord and currency realignments fueled Southeast Asia’s economic development. Levels of total trade between Japan and ASEAN grew from about $36 billion in the early 1980s to an average of $78 billion in the early 1990s, rising above $120 billion during the mid-1990s but declining somewhat afterward. Japan’s “lost decade” seriously undermined its presence in Southeast Asia. Japan accounted for about 28 percent of ASEAN’s total trade in 1980, declining steadily to about 15 percent after 1998. Similarly, Japan had provided a market for over 35 percent of ASEAN’s exports in 1980 but for less than 15 percent on average since the mid-1990s. Despite these relative declines Japan’s total trade levels with ASEAN remain higher than China’s, although the trend toward a greater Chinese presence is quite clear, as Figure 2.4 suggests.32 Japan’s FDI to ASEAN is still 10 times higher than China’s, as reflected in Figure 2.5.

In 2002 Prime Minister Junichiro Koizumi launched an Initiative for ASEAN–Japan Comprehensive Economic Partnership (AJCEP) and a special “ASEAN–Japan Exchange Year 2003.” Japan and Singapore concluded an FTA – Japan’s first bilateral FTA – conceived of as a prelude to a Japan–ASEAN FTA. In 2003 ASEAN and Japan signed a Framework Agreement for Comprehensive Economic Partnership, and Japan acceded to ASEAN’s Treaty of Amity and Cooperation (after China and India had done so). In 2005, Japan and Malaysia signed a framework agreement for an FTA, which entered into force in July 2006, and others are at different stages of negotiation. Japanese sectors likely to be hurt by these FTAs have mobilized to obstruct them.33 Yet, clearly, ASEAN has become an important target for Japan as an economic, political, and strategic partner. The same is true for ASEAN’s perception that Japan should remain actively engaged in the region. Several regional institutional initiatives in East Asia can be traced to tacit coordination or explicit cooperation between the Japanese government and its counterparts in Southeast Asia. Japan continuously stresses shared beliefs in democracy and market economies, themes which highlight the contrast with China’s domestic political order. Japan also emphasizes the complementary nature of labor- and resource-rich ASEAN countries and capital- and technology-rich Japan, as opposed to the competitive nature of China and ASEAN economic endowments.
Some regard competition between China and Japan as positive for ASEAN, enabling it to enhance its own position in East Asian regional politics and play the role of triangulator. Greater cooperation between Japan and China presumably narrows ASEAN’s flexibility. This view sometimes overplays the Japan–China “rivalry,” overlooking the fact that internationalizing coalitions from China and Japan to ASEAN all share fundamental objectives of preserving regional stability and a hospitable environment for growth and foreign investment. Wen Jiabao acknowledged at a summit of the Greater Mekong Sub-region that China could not support growth in the region single-handedly and Wen’s spokesman Wang Xiaolong clarified that “both Japan and China and the South-east Asian countries
have … ample opportunities to work together.” Indeed Japan provides major financial support for highway and infrastructural projects in these countries. Fears of China appear to have subsided in Southeast Asia as well. One poll found about 70 percent of respondents in the Philippines and 68 percent in Indonesia to have positive views of China. Another found 76 percent of Thai respondents choosing China as Thailand’s closest friend, with only 8 percent naming Japan (Thailand’s top trading and foreign investment partner) and 9 percent choosing the United States, the world’s leading importer of Thai products.

A second important arena for triangulation is offered by the US–China relationship. Here there is significant agreement that the United States should remain positively engaged in the region, economically and politically, and that ASEAN should work to soften the rough edges of power politics between the two – one extant, one rising – superpowers. The United States has relied on the Enterprise for ASEAN Initiative to negotiate bilateral FTAs with ASEAN countries that are committed to economic reforms and openness and that are WTO members. Beyond that, ASEAN perceives the United States to be far more active in pursuing common anti-terrorism and anti-proliferation policies. Another major bone of contention between the United States and ASEAN has been ASEAN’s (particularly Thailand’s) reluctance to deny Myanmar the chairmanship of ASEAN, which is said to have kept Secretary of State Condoleezza Rice away from ASEAN’s meetings in July 2005. The US “Burma Freedom and Democracy Act” bans any imports from Myanmar. Unlike China, Russia, Japan, and India, the United States has not held annual (ASEAN+1) summits.

The third important subject in ASEAN’s perceived triangulating tasks is the China–India relationship. Senior Minister Goh Chok Tong encouraged ASEAN to implement FTAs with both China and India promptly because once China and India sign a bilateral FTA between themselves, ASEAN might become less central to coordinating relations between the two emerging giants. Finally, ASEAN has exercised triangulating leadership through its broader regional institutional initiatives, particularly the ASEAN+3 and the ARF. All these efforts are but an extension of the purpose of ASEAN itself: maintaining a stable and peaceful regional environment that enables the continuity and enhancement of domestic economic growth and of the regional synergies that can bolster it.

**Conclusion**

Internationalizing coalitions in both China and ASEAN countries see ACFTA, as other FTAs of this nature, as a tool to further liberalize their domestic markets and increase their respective competitiveness. For China, such agreements provide further push for domestic reforms, particularly as they struggle to transform state-owned banking and enterprises. Both Chinese and ASEAN ruling coalitions thus foresee external liberalizing commitments as a tool to undermine opponents of reform at home and to tie the hands of future leaders. At the same time, leaders vary in their exposure and allegiance to competing
domestic constituencies, some more vulnerable to increasing China–ASEAN trade and investments than others.

Views on the implications of growing economic ties between ASEAN and China are wide-ranging. Mahathir Mohamad provided one:

The race is already on, and Southeast Asian countries are already looking for niche products and businesses involving high-tech and information technology. Some Southeast Asian countries do have certain advantages, including geographical location, good legal and educational systems, and values and practices with which the international business community is comfortable.39

Thus far, this statement might be interpreted as cast in terms of pure economic competition. However, Mahathir goes on to suggest broader concerns: “The US, Europe, Japan and even South Korea would provide a counterbalance [to China] … Southeast Asia has the most to fear from China’s expansionism … It is important to remember that China will pose a challenge to Southeast Asian countries.” In the end, however, Mahathir’s statement acknowledges that “China too is afraid” and that “it is far better for China to be accepted as a major economic power. It will be powerful but it will not totally dominate the world … We do not think that China would indulge in military ventures. But establishing a mechanism for defusing potentially dangerous disputes is necessary. The East Asia Economic Grouping can provide this mechanism.”

Former Philippines’ president Fidel Ramos identified four challenges emanating from China for ASEAN in the economic sphere: competition in labor-intensive industries; competition for capital; competition for third-markets (with China enjoying greater efficiencies in electronics); and competition on the value-added chain (given China’s large internal market and economies of scale).40 In his view ASEAN can only compete by raising productivity, cutting costs, and by integrating the Southeast Asian market more effectively to increase economies of scale, reduce transaction costs, and attract foreign investors. Another area of concern involves the fact that both ASEAN states and China rely progressively more on oil imports, mainly from the Middle East. ASEAN has historically been a major oil-producing bloc and can satisfy about 60 percent of its own demand. However, by 2020 most major ASEAN states, including Indonesia, Malaysia, and Vietnam, are expected to become net oil importers.41 There is apprehension about a possible race for natural resource exploitation and its attending social and environmental consequences. Indeed, such reliance elsewhere on natural resources (e.g. the Middle East) has, arguably, harmed the potential for democracy itself as well as longer-term developmental prospects.

In contrast, Singapore’s Ministry of Trade and Industry Chan Lai Fung expressed the belief that ACFTA would have a positive impact on both sides. Prime Minister Lee Hsien Loong warned that “any attempt to contain China will have few takers in the region.”42 In Macapagal Arroyo’s view, the Philippines “stand boldly full of hope on the frontiers of a golden age of partnership with the People’s Republic of China,” that emphasizes centuries of close ties,
deep understanding, and shared interests. Indonesia’s Foreign Ministry spokesman Marty Natalegawa expressed that “we do not see the rising role of China as a problem but more as an opportunity for gains in areas like trade.” In Thailand, as we have seen, there is a new tilt toward China that some have labeled a “China fever.”

For yet others, whether or not the relationship is beneficial is beside the point, since it would seem that ASEAN has no alternatives. “Whether we like it or not, we’ve got to trade with China,” suggested Winichai Chaemchaeng, deputy director of Thailand’s trade negotiations department. Indonesian Minister of Trade Mari E. Pangestu echoes this view: “China is increasing competition for us … I don’t think you can avoid the rise of China.” However, the minister also sees this as an opportunity “to complement and synergize with China” and to enhance ASEAN’s collective competitiveness as a global actor selling “not just in East Asia but to the US [and the rest of the world] as well.” Finally, others raise the vantage point of Southeast Asian consumers likely to enjoy less expensive goods. As Thai government spokesman Jakrapob Penkair expressed, “Some commodities in Thailand that cannot compete with Chinese commodities will have to be out of business. But it’s all right. I mean, that’s life. We don’t presume that life is easy. Life is adjustment and life is competing.”

Meanwhile President Hu Jintao predicted that bilateral trade with ASEAN will nearly double to $200 billion by 2010, reassuring his neighbors that China was committed to fostering “an amicable, peaceful, and prosperous neighborhood,” supporting the ARF, fighting terrorism and transnational crimes, promoting maritime safety, and preventing disease and disaster. A complementary perspective foresees ASEAN’s wherewithal as similarly advanced by its growing relationship with China. In this view, the need to compete with China’s appeal to foreign investors is forcing ASEAN into additional economic reforms, including greater transparency and accountability. It also encourages unilateral, bilateral, and multilateral cooperative steps to stem domestic and transnational terrorism, piracy, and other sources of potential instability that could undermine growth, stability, and “resilience.”

Some have characterized the behavior of ASEAN states as a “bandwagon” dynamic, where weaker states opt for aligning themselves with an emergent power, following a neorealist logic. Indeed, one can detect an intra-ASEAN competition for the status of “beachhead,” “natural link,” or “interlocutor” between China and the region as a whole. However, from a different conceptual vantage point, the domestic political strategies of ASEAN’s ruling coalitions – emphasizing synergies among economic growth, political, and regional stability – also predict an accommodating attitude toward China.

From this latter perspective, relations between China and ASEAN are creating a situation in which internationalizing ruling coalitions advance economic reform at home while maintaining mutually beneficial conditions of regional stability. What will steer these states in the future is the nature of political coalitions: will they continue to be oriented to global access, foreign investment, and economic and political stability? Or will challengers with an orientation to economic protectionism (or
autarky), military modernization as their number one priority, and aversion to international economic institutions ascend to replace their competitors? Many have asked this question with respect to China but it is also a valid one for others in the region. Unfolding bilateral relations between China and ASEAN countries are thus likely to continue to reflect the broader domestic strategies that respective leaders favor to advance their political survival at home, as well as their mutual perceptions of the kind of leaders and strategies being pursued beyond their borders.

Acknowledgements

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Notes


See endnote 3.


18 Clarissa Oon, “Chinese reach out to Mekong neighbors; Beijing to spur investment with soft loans,” The Straits Times, 5 July 2005. I would like to especially thank Kaleb Brownlow, as well as Peter Mattis, from NBR for their assistance with the tables included in this section.

20 “ASEAN–China free trade.”
22 “Building an ASEAN–China strategic partnership,” Jakarta Post, 1 July 2004.
24 “Building an ASEAN.” China’s investments in ASEAN are probably higher because some Chinese firms invest through offshore companies, mostly owned by ethnic Chinese. All figures are from the ASEAN Secretariat, “Chapter VI: Foreign Direct Investment,” in Statistical Yearbook ASEAN, 2004 (Jakarta: ASEAN, 2004), 137–96.
29 For warnings from Thai economists, see “Thailand: economist warns against ‘Too many FTAs’,” Thai Press Reports, 1 June 2005. See also Michael Vatikiotis, “China–ASEAN FTA: who wins?” Jakarta Post, 2 December 2004.
30 Cary Huang, “Tariff cuts planned for developing neighbours; Wen uses Mekong subregion summit to strengthen ties with Southeast Asia,” South China Morning Post, 6 July 2005.
From “threat” to “opportunity”?  


32 On the decline of Japan’s flying goose model, see Andrew MacIntyre and Barry Naughton, “The decline of a Japan-led model of the East Asian economy,” in Remapping Asia, ed. Pempel (2005), 77–100.


34 Oon, “China wants peaceful links.”


38 Goh Chok Tong, “How ASEAN countries can benefit from a dynamic Asia,” Jakarta Post, 7 April 2005, 7.

39 See “China’s ascent spurs race,” for all citations to Mahtahir.


41 Andrew Symon, “Let energy flow … across ASEAN borders; it’s crucial to remove legal, regulatory obstacles to energy links in South-East Asia,” Straits Times, 9 July 2005. China’s CNOC was interested in Unocal’s oil and gas reserves in Vietnam, Myanmar, Thailand, and Indonesia, which account for two-thirds of Unocal’s assets.


43 Maragay, “China Rise Good for RP.”

44 Hannah Beech, “Deals and diplomacy: China’s influence in Southeast Asia is growing as its trade and investments boom,” Time Asia, 23 May 2005.


47 Ibid.

48 Ibid.

3 China’s rise and its effect on ASEAN–China trade relations

Suthiphand Chirathivat

Introduction

China’s rise today presents a whole set of economic, political, and social challenges. For empirical economists, estimating the net effects of a rising China remains difficult due to its sheer size and its ambiguous economic progress. As Southeast Asia borders China, it must face these challenges directly. The export-oriented Southeast Asian economies and their ability to attract foreign direct investment (FDI) have to adapt to the new dynamics of comparative advantage with regard to a rising China. ASEAN policymakers have sought to institutionalize a regional policy framework and advance regional integration with the global economy, even though major economic disparities exist within ASEAN.

The economic law of comparative advantage is ironclad: it prevents a single country from dominating world trade. China is no exception. However, as ASEAN’s economic structure is comparable to that of China, it is harder for ASEAN to enhance its current comparative advantage, let alone enhance possible complementary trade between them. A heterogeneous response from ASEAN toward a rising China is probable due to individual country differences. However, is there a need for ASEAN to implement a more coordinated and united strategy?

Analyzing economic cooperation between China and ASEAN, especially within the context of the recent ASEAN–China free trade agreement, reveals interesting implications for both sides. The agreement has already caused ASEAN to integrate beyond what was detailed in the ASEAN free trade area (AFTA). Although ASEAN expects to gain as much as China, how could ASEAN be sure the agreement would not merely translate into Chinese economic domination? What would ASEAN’s position be in such an arrangement?

Finally, growing opportunities with a rising China are not without potential risks. China’s increasing vulnerabilities and a possible economic downturn could easily spread throughout the world and certainly into neighboring ASEAN. The recent shift to a more flexible yuan exchange rate serves as a sign of more fluctuations to come, and thus creates an additional risk factor for economic transactions with China. What kind of measures has ASEAN prepared to face an abrupt change, be it an upturn or a downturn, within the Chinese economy? Sensitive areas might include trade in commodities and energy, destabilization of the monetary system...
China’s rise and its effect on ASEAN–China trade relations

This chapter provides a background to China’s rise and its significance for the Southeast Asian region. In particular, it focuses on the past decade’s rapid changes in ASEAN–China trade relations. It is necessary to look at the new dimension to the ASEAN–China economic partnership that has come into being following the establishment of the ASEAN–China free trade agreement. Though differences still exist, both sides now look more closely at their common interests and at the implications of such a trade pact. Finally, questions remain concerning the potential for an economic slowdown in China and what impact this might have on the Southeast Asian countries as a whole. The chapter begins by discussing the impact of a rising China upon ASEAN in economic terms. The second section deals with trade relations between China and ASEAN and how they have changed and developed. This leads an examination of the implementation of the ASEAN–China free trade agreement and the possible economic gains and losses for ASEAN member states. The chapter concludes by considering a potential economic downturn in China and its repercussions for ASEAN–China trade relations.

China’s rise and its significance for ASEAN

The post-Cold War international economic order is full of paradoxes. On one hand, it lacks the political/ideological divisions that used to separate the world; on the other hand, even as globalization advances business opportunities it leads to security threats – terrorism, nuclear proliferation, declining health, and environmental degradation. There is an increasingly complex structure of economic relations among countries, which has led to the emergence of new major actors: China and India.

Similarly to other countries, China has embraced outward economic orientation as a means to accelerate domestic economic growth. In the late 1970s, domestic economic reforms enabled record high growth rates, which have remained high through the 1990s, dramatically accelerating export capabilities and sharply raising living standards.\(^5\) China’s average growth of 10 percent between 1980 and 2000 has slowed to a range of 8 to 9 percent from 2000 to 2004. It is projected to grow at more than 9 percent in 2005.\(^6\) Its economic engine accounts for around 15 percent of global economic growth in 2004, with exports growing about 30 percent per year and imports growing even faster at about 40 percent per year.\(^7\) After accession to the WTO in 2001 China has been continuing with domestic deregulation and external liberalization.

The emergence of China as a major trading partner has dramatically shaken the world and even more so the East Asian region.\(^8\) A new kind of economic interdependence has been created in East Asia, centered upon China’s own economic growth. Since 2004, Japan has been trading more with China than with the United States. Such a trend has important implications. Because of its sheer size and rapid economic development, China will assume two roles in the region: \(^9\)
1 Because of its strong growth and China’s expanding domestic market, China will become the largest market and producer in Asia.

2 China will strengthen its export competitiveness in a wider range of products, leading to changes in trade patterns with neighboring Asian countries.

Therefore, it appears that China will situate itself between Asia and the US, Japan and the EU as an export and import competitor, respectively. However, China’s future growth prospects are increasingly uncertain, as it continues to be fueled by a rising ratio of fixed investment to GDP (investment is expected to reach 42.2 percent in 2003). This rate of investment exceeds normal levels, and might lead to overheating in the economy. Furthermore China’s investments are poorly monitored by sub-national entities. For this reason, rapid growth of such investment might erode its efficiency and could threaten future macroeconomic stability.

A recent study by Eichengreen, Rhee, and Tong uses a gravity model to disaggregate commodity types and account for the endogeneity of Chinese exports in order to understand the impact of China’s growth on exports from ASEAN and other Asian countries. The innovation of this work is to distinguish the increase in China’s demand for imports from its increased penetration of export markets. The findings confirm the tendency of China’s exports to crowd out the exports of other Asian countries:

- This effect is felt mainly in markets for consumer goods and hence by less developed Asian countries, predominantly ASEAN members.
- It is felt less in markets for capital goods or by the more advanced Asian economies, for which machinery and equipment are a significant proportion of exports.

As for China’s demand for imports, there has been a strong tendency for the rapidly growing China to import more goods from its Asian neighbors:

- This effect is mainly felt in markets for capital goods, such as the more advanced Asian NIEs and Japan.
- The effect is experienced differentially for raw materials and intermediate products, where less developed countries, including ASEAN members, are suppliers.

Therefore, the rise of China provokes differential changes in trade patterns and increasing economic interdependence among developed and developing Asian countries. For ASEAN, the effect is less discernable for middle-income countries (i.e. Indonesia, Malaysia, the Philippines, and Thailand) despite significant falls in consumer goods exports. It reflects ASEAN’s dependence on commodity exports to China, including energy in the case of Indonesia. This suggests that China’s elasticity of demand for imports from its Asian neighbors has been shifting over time.
ASEAN–China trade relations

Ever since China began to emerge as a major economic power in the early 1990s, ASEAN has been concerned that competition from China is likely to crowd out its export-oriented economies. The 1994 devaluation of the yuan and the Asian financial crisis of 1997–98 only increased these concerns. From 2000, China’s economic growth and its accession to the WTO started to benefit a growing level of ASEAN–China trade. A positive economic relationship in tandem with increasing cooperation and collaboration has helped to reduce pessimism toward China in ASEAN.

Trade development

China’s trade relations with the ASEAN countries registered a considerable revival and development in the 1970s after China started to open to the outside world. From 1970 to 1980 mutual trade increased ten times from $180 million to $1.85 billion, although there were significant differences between each Southeast Asian country. Economic reforms and the open-door policy in China allowed China to expand its role as a major trading partner. During the 1980s, ASEAN began to learn more about how best to connect with China for increased bilateral trade. However, ASEAN was still pre-occupied with the “flying geese” development pattern of regional economic interdependence, with Japan and the Asian NIEs playing a more dominant role in the development of ASEAN’s export-oriented economies, particularly for four ASEAN countries: Indonesia, Malaysia, Singapore, and Thailand. By 1993, mutual trade with China stood approximately at $9 billion with a striking balance between export and import figures. The 1990s signaled the end of the Cold War, which marked significant changes in both ASEAN and China. Southeast Asia expanded ASEAN to ten members and changed from boom to bust with the Asian financial crisis of 1997–98. China’s economic reforms and openness also started to make a significant impact on other countries. Mutual trade between ASEAN and China grew consistently during this period; in 1999, ASEAN–China exports and imports stood at $9.6 billion and $12.3 billion respectively.

Mutual trade between ASEAN and China entered a new period following 2000. China’s share of exports to ASEAN changed from around 2.2 percent in 1993 to 3.5 percent in 2000 and grew to 6.4 percent in 2003 with combined exports of $26.9 billion (see Table 3.1). Similar trends could be observed for China’s share of imports from ASEAN increasing from roughly 2.0 percent in 1993 to 5.2 percent in 2000 and reaching 7.8 percent in 2003 with combined imports of $27.7 billion, creating a trade deficit of almost $1 billion for ASEAN.13 If Hong Kong trade is included with mainland China then ASEAN–China trade is equivalent to that of Japan, the EU, and US trade with China (see Table 3.1). To enhance ASEAN–China trade relations, Hong Kong has been used to facilitate trade between them and to overcome problems caused by differences in trade and business practices.14

ASEAN-5 (Indonesia, Malaysia, Singapore, Thailand, and the Philippines) trade with China accounts for approximately 90 percent of total ASEAN–China trade, and similar trends of rapid expansion have been observed for both exports and imports (see Table 3.2). In 2004, ASEAN-5 exports to China were $38.1
billion, an increase of more than 35 percent from 2003. As for ASEAN-5 imports from China, these have increased to $41.4 billion, an increase of almost 45 percent from 2003. This trade results in an ASEAN trade deficit of more than $3 billion with China. Among the ASEAN-5, Singapore ranks first for its exports to China with an almost fourfold increase between 1999 and 2004. Malaysia and Thailand figure among the second tier with similar trends of export increase to China. As for ASEAN-5 imports from China, Singapore continues to rank the highest followed by Malaysia, Thailand, Indonesia, and the Philippines. It is noteworthy that the top three countries of ASEAN – Singapore, Malaysia and Thailand – are all facing trade deficits with China, leaving only Indonesia and, to a certain degree, the Philippines with a trade surplus.

### Table 3.1 ASEAN exports and imports by country of destination

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<td>722.6</td>
<td>1,243.9</td>
<td>966.7</td>
<td>1,144.4</td>
</tr>
<tr>
<td><strong>Total imports</strong></td>
<td>223,310.8</td>
<td>317,128.6</td>
<td>328,112.6</td>
<td>359,320.0</td>
</tr>
</tbody>
</table>

Source: ASEAN Trade Statistics Database
Note: Unit billion US dollars
Trade patterns

The recent rapid growth of ASEAN–China trade, as demonstrated above, has made a substantial contribution to explaining changes in trade patterns with diverse export performance and import penetration for ASEAN as a whole and for individual member countries. On the one hand, it is reasonable to argue that the rise of China has increased its needs for raw materials and intermediate inputs, which ASEAN is well positioned to supply. On the other hand, should growing interdependence between ASEAN and China become deeper, it will come through growth in intra-industry trade based on comparative advantage—a positive-sum game for both sides reducing transitional adjustment costs. Due to the limitation of available data, this section will partly attempt to analyze with such an assumption.

What is most noticeable in the ASEAN–China trade patterns is the change over time from ASEAN being primarily a supplier of primary commodities to trading in complementary (or intra-industry) products with China. One example would be the top items ASEAN trades with China, consisting of electrical and electronic products, and parts and components (HS 84 and HS 85). These items account for 50 percent of ASEAN-6 exports in 2003. The same top items that ASEAN imports from China takes another 75 percent of ASEAN-6 imports from China in the same year (see Table 3.3). The subsequent six major exports from ASEAN exports to China include minerals, fuels, and oil (HS 27), 13.1 percent; organic

### Table 3.2 ASEAN-5 trade with China

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>2.01</td>
<td>2.77</td>
<td>2.20</td>
<td>2.90</td>
<td>3.80</td>
<td>4.60</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2.32</td>
<td>3.03</td>
<td>3.82</td>
<td>5.25</td>
<td>6.43</td>
<td>8.38</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.57</td>
<td>0.66</td>
<td>0.79</td>
<td>1.35</td>
<td>2.14</td>
<td>2.65</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.92</td>
<td>5.37</td>
<td>5.32</td>
<td>6.86</td>
<td>10.15</td>
<td>15.40</td>
</tr>
<tr>
<td>Thailand</td>
<td>1.77</td>
<td>2.79</td>
<td>2.85</td>
<td>3.54</td>
<td>5.69</td>
<td>7.09</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Imports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.24</td>
<td>2.03</td>
<td>1.84</td>
<td>2.43</td>
<td>2.96</td>
<td>4.10</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2.14</td>
<td>3.24</td>
<td>3.80</td>
<td>6.18</td>
<td>6.73</td>
<td>10.34</td>
</tr>
<tr>
<td>Philippines</td>
<td>1.04</td>
<td>0.78</td>
<td>0.98</td>
<td>1.25</td>
<td>1.80</td>
<td>2.53</td>
</tr>
<tr>
<td>Singapore</td>
<td>5.70</td>
<td>7.10</td>
<td>7.19</td>
<td>8.87</td>
<td>11.08</td>
<td>16.21</td>
</tr>
<tr>
<td>Thailand</td>
<td>2.49</td>
<td>3.37</td>
<td>3.70</td>
<td>4.92</td>
<td>6.06</td>
<td>8.17</td>
</tr>
<tr>
<td>Total ASEAN-5</td>
<td>12.60</td>
<td>16.53</td>
<td>17.52</td>
<td>23.64</td>
<td>28.62</td>
<td>41.36</td>
</tr>
</tbody>
</table>

Source: ASEAN Trade Statistics Database

Note: Unit billion US dollars
chemicals (HS 29), 6.5 percent; plastic and articles thereof (HS 39), 6.1 percent; animal and vegetable fats/oils (HS 15), 5.6 percent; rubber and articles thereof (HS 40), 4.6 percent; and woods and articles thereof (HS 44), 3.2 percent. As for the other major ASEAN imports from China, these items are minerals, fuels, and oils (HS 27), 5.9 percent; precision and medical instruments (HS 90); cereals (HS 10); plastic and articles thereof (HS 39); articles of iron or steel (HS 73); cotton including yarn and woven fabric thereof (HS 52); inorganic chemicals (HS 28); and organic chemicals (HS 29).

The abovementioned trade change suggests increasing interdependence, especially among industries involved in both ASEAN and China as part of regional production networks of multinational firms. The other observation is that ASEAN is a supplier for China’s growth in key commodities as its exports to China continue to grow while ASEAN’s imports from China are both intermediate inputs and finished products.

As we further consider the individual ASEAN-5 (ASEAN-6 minus Vietnam) trade pattern with China, we can observe the trends revealed in Table 3.4. It appears that within ASEAN there are significant differences between the products exported to and imported from China. Trade for Singapore, Malaysia, and Thailand comprises mainly electrical goods and machinery, with the latter two states also supplying raw materials. In contrast, Indonesia appears to supply primarily raw materials to China, while the Philippines’ trade in electrical goods and machinery represents nearly 80 percent of its total exports to China.

This latest trade trend suggests ASEAN’s position as an increasing supplier of raw materials and intermediate inputs to China, especially Indonesia, Malaysia, and Thailand. The trend in trade of electrical and electronic products, parts, and components is also a significant factor in Singapore, Malaysia, and Thailand experiencing trade deficits with China. Further outlook on intra-industry trade of the above items could prove useful for policy analysis. As for other items, such as agricultural products, food, textiles and apparel, leather products, and machinery, ASEAN trade with China has not grown and remains low. All of these changing trends represent challenges for industrial adjustments and development among the ASEAN countries.

ASEAN–China free trade area

Understanding the effect of a rising China on ASEAN–China trade relations, one might ask whether there is a need to form such an ASEAN–China Free Trade Area (ACFTA). How is this FTA going to improve the economic linkages between them? What could be the benefits and costs involved once the FTA is established? Is such a formation just part of the Asian response to the rising trend of regionalism and bilateralism that has become a critical part of the post-Cold War international trade order? Or is it a sign of China beginning to pressure ASEAN to acquiesce and ASEAN ceding to Beijing’s demands out of necessity? Since ASEAN has its own free trade area (AFTA), how can it ensure that the ACFTA will not overshadow the group’s primary objective of long-term intra-regional integration? Despite the
China’s rise and its effect on ASEAN–China trade relations

Table 3.3 ASEAN-6 ten major exports and imports from China in 2003 by 2-digit HS code

<table>
<thead>
<tr>
<th>HS</th>
<th>Export commodities</th>
<th>Value</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>85</td>
<td>Electrical machinery, equipment and parts, sound equipment, television equipment</td>
<td>6,122.5</td>
<td>22.7</td>
</tr>
<tr>
<td>84</td>
<td>Nuclear reactors, boilers, machinery and mechanical appliances</td>
<td>4,824.4</td>
<td>17.9</td>
</tr>
<tr>
<td>27</td>
<td>Mineral fuels, mineral oils and products, bitumin substances, mineral wax</td>
<td>3,518.6</td>
<td>13.1</td>
</tr>
<tr>
<td>29</td>
<td>Organic chemicals</td>
<td>1,753.1</td>
<td>6.5</td>
</tr>
<tr>
<td>39</td>
<td>Plastics and articles thereof</td>
<td>1,636.7</td>
<td>6.1</td>
</tr>
<tr>
<td>15</td>
<td>Animal or vegetable fats</td>
<td>1,517.3</td>
<td>5.6</td>
</tr>
<tr>
<td>40</td>
<td>Rubber and articles thereof</td>
<td>1,228.8</td>
<td>4.6</td>
</tr>
<tr>
<td>44</td>
<td>Wood and articles of wood; wood charcoal</td>
<td>849.8</td>
<td>3.2</td>
</tr>
<tr>
<td>90</td>
<td>Optical, photographic, measuring, medical or surgical instruments, parts and accessories</td>
<td>623.7</td>
<td>2.3</td>
</tr>
<tr>
<td>72</td>
<td>Iron and steel</td>
<td>446.5</td>
<td>1.7</td>
</tr>
<tr>
<td></td>
<td>10 major commodities</td>
<td>22,521.4</td>
<td>83.6</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>4,408.0</td>
<td>16.4</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>26,929.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HS</th>
<th>Import commodities</th>
<th>Value</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>85</td>
<td>Electrical machinery, equipment and parts, sound equipment, television equipment</td>
<td>7,955.1</td>
<td>28.7</td>
</tr>
<tr>
<td>84</td>
<td>Nuclear reactors, boilers, machinery and mechanical appliances</td>
<td>7,128.9</td>
<td>25.7</td>
</tr>
<tr>
<td>27</td>
<td>Mineral fuels, mineral oils and products, bitumin substances, mineral wax</td>
<td>1,641.4</td>
<td>5.9</td>
</tr>
<tr>
<td>90</td>
<td>Optical, photographic, measuring, medical or surgical instruments, parts and accessories</td>
<td>611.6</td>
<td>2.2</td>
</tr>
<tr>
<td>10</td>
<td>Cereals</td>
<td>511.7</td>
<td>1.8</td>
</tr>
<tr>
<td>39</td>
<td>Plastics and articles thereof</td>
<td>510.5</td>
<td>1.8</td>
</tr>
<tr>
<td>73</td>
<td>Articles of iron or steel</td>
<td>455.9</td>
<td>1.6</td>
</tr>
<tr>
<td>52</td>
<td>Cotton, including yarn and woven fabric</td>
<td>448.7</td>
<td>1.6</td>
</tr>
<tr>
<td>28</td>
<td>Inorganic chemical, organic or inorganic compounds of precious metals, rare-earth metals</td>
<td>447.5</td>
<td>1.6</td>
</tr>
<tr>
<td>29</td>
<td>Organic chemicals</td>
<td>425.3</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>10 major commodities</td>
<td>20,136.5</td>
<td>72.6</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>7,597.9</td>
<td>27.4</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>27,734.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: ASEAN Trade Statistics Database
rising concerns and reservations of some countries, ASEAN decided to enter into an agreement with China. These issues and questions are discussed below.

**Question of principle**

Those unfamiliar with the regional changes might question the viability of regional integration among developing countries as with ASEAN–China. Both ASEAN and China have benefited from multilateral trade liberalization under the World Trade Organization (WTO) and its non-discrimination principles. China’s accession to the WTO in 2001 took 15 years because China was estimated to be the biggest

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**Table 3.4 Major imports/exports between ASEAN states and China, 2003**

<table>
<thead>
<tr>
<th>Country</th>
<th>HS</th>
<th>% Imports</th>
<th>HS</th>
<th>% Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>84/85 (Machinery/electrical appliances)</td>
<td>65.2</td>
<td>84/85 (Machinery/electrical appliances)</td>
<td>57.6</td>
</tr>
<tr>
<td></td>
<td>27 (Lubricants/fuels/oils)</td>
<td>6.1</td>
<td>27 (Lubricants/fuels/oils)</td>
<td>9.9</td>
</tr>
<tr>
<td></td>
<td>90 (Optical/medical instruments)</td>
<td>2.6</td>
<td>39 (Plastics)</td>
<td>7.9</td>
</tr>
<tr>
<td>Malaysia</td>
<td>84/85 (Machinery/electrical appliances)</td>
<td>55.9</td>
<td>84/85 (Machinery/electrical appliances)</td>
<td>42.3</td>
</tr>
<tr>
<td></td>
<td>10 (Cereals)</td>
<td>4.2</td>
<td>15 (Fats and oils)</td>
<td>16.4 (22.1)</td>
</tr>
<tr>
<td></td>
<td>98 (Postal packages/special transactions)</td>
<td>3.2</td>
<td>27 (Lubricants/fuels/oils)</td>
<td>11.8</td>
</tr>
<tr>
<td>Thailand</td>
<td>84/85 (Machinery/electrical appliances)</td>
<td>55.9</td>
<td>84/85 (Machinery/electrical appliances)</td>
<td>36.8</td>
</tr>
<tr>
<td></td>
<td>52 (Cotton)</td>
<td>3.3</td>
<td>40 (Rubber)</td>
<td>13.7</td>
</tr>
<tr>
<td></td>
<td>39 (Plastics)</td>
<td>2.4</td>
<td>27 (Lubricants/fuels/oils)</td>
<td>10.9</td>
</tr>
<tr>
<td>Indonesia</td>
<td>84/85 (Machinery/electrical appliances)</td>
<td>23.5</td>
<td>27 (Lubricants/fuels/oils)</td>
<td>26.1 (26.5)</td>
</tr>
<tr>
<td></td>
<td>72 (Iron/steel)</td>
<td>8.3</td>
<td>44/47 (Wood/wood pulp)</td>
<td>12.9</td>
</tr>
<tr>
<td></td>
<td>27 (Lubricants/fuels/oils)</td>
<td>18.5</td>
<td>15 (Fats/oils)</td>
<td>12.8 (9.9)</td>
</tr>
<tr>
<td></td>
<td>(19.4)</td>
<td>8.3</td>
<td>29 (Organic chemicals)</td>
<td>11.0</td>
</tr>
<tr>
<td></td>
<td>(21.3)</td>
<td>(2.3)</td>
<td>44/47 (Wood/wood pulp)</td>
<td>12.9</td>
</tr>
<tr>
<td>Philippines</td>
<td>84/85 (Machinery/electrical appliances)</td>
<td>37.5</td>
<td>84/85 (Machinery/electrical appliances)</td>
<td>80 (77.3)</td>
</tr>
<tr>
<td></td>
<td>27 (Lubricants/fuels/oils)</td>
<td>7.1</td>
<td>74 (Copper)</td>
<td>8.3</td>
</tr>
<tr>
<td></td>
<td>10 (Cereals)</td>
<td>4.4</td>
<td>27 (Lubricants/fuels/oils)</td>
<td>3.8</td>
</tr>
</tbody>
</table>

beneficiary. With some exception, Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand have also long enjoyed WTO membership and participated actively in the process since the last Uruguay Round of multilateral trade negotiations. In what context then was a FTA between China and ASEAN concluded?

The China–ASEAN FTA is China’s first bilateral FTA, and China is still one of the few WTO member states without any institutionalized regional and bilateral trade policy links to other countries. For ASEAN, it is also the first FTA it signed with other countries and following the signing, the grouping upgraded its integration effort to the ASEAN Economic Community (AEC). Yet AFTA has not been successfully implemented. Regardless, the FTA between ASEAN and China has catalyzed development of additional FTAs in East Asia. Following China, Japan and India have concluded similar FTA deals with ASEAN. Given this recent development, ASEAN must deal with the issue of overlapping FTAs between ASEAN and its different trading partners. How can ASEAN and China ensure that such an agreement will benefit all participants, even small countries like Laos and Cambodia?

For this reason, it is important to make sure that pursuing bilateral agreements are a viable alternative to multilateral negotiations and that such agreements will do more good than harm. Economic arguments inform us that both ASEAN and China could see widening income gaps between the poorest member state with unskilled labor and the wealthiest member state with skilled labor. The poorer countries and regions could suffer from trade diversion because of import replacement by member states rather than non-member states. The poorest countries and regions would have fewer opportunities to increase exports to the wealthier partner countries and regions.

For these reasons, equitable distribution of benefits from integration might turn out to be a source of conflict among participating member countries. By signing an FTA with China, more advanced ASEAN countries, such as Singapore, Malaysia, and Thailand, would be able to substitute for sophisticated manufacturing products, which formerly were imported from countries outside the ASEAN–China economic area. On the other hand, China will supplement third country suppliers through its exports to poorer countries: Laos, Cambodia, Myanmar, and Vietnam. If trade diversion is known to decrease welfare, how can the ASEAN–China FTA could lessen such an impact? In addition, there is an issue of transshipment of the Chinese products to a low tariff ASEAN country like Singapore, then re-export to other higher tariff ASEAN countries. To discourage such practices, which could cause trade deflection problems, sophisticated rules of origin have to be properly introduced.

Overall, ASEAN and Chinese trade barriers are higher than barriers in developed countries. Moreover, their production structures are often substituting rather than complementary as a result of their development levels. With the more developed ASEAN countries and developed regions of China, sophisticated manufacturing products could be an interesting area for firms operating in a competitive environment between the two. As for poorer countries of ASEAN and poorer regions of China, they might face higher adjustment costs, especially in terms of tariff revenue to financing the budget and industrial adjustment for labor-intensive industries.
Framework agreement and modalities

The ASEAN–China FTA was initiated by Chinese premier Zhu Rongji during the ASEAN Summit in 2000. It was signed at the ASEAN Summit in 2002 as part of the framework agreement on comprehensive economic cooperation. This framework agreement provided the groundwork for the establishment of an ACFTA by 2010 for the original ASEAN members plus Brunei, and 2015 for the newer members including Cambodia, Laos, Myanmar, and Vietnam. The next ASEAN summit in 2003 saw the joint declaration on “Strategic Partnership for Peace and Prosperity” in which ACFTA became a pillar in ASEAN–China economic cooperation as distinct from political, social, security, and regional cooperation. The 2004 ASEAN Summit saw the need to strengthen ACFTA implementation with an agreement on trade in goods with sections on tariff reduction and elimination under normal and sensitive tracks, enhanced rules of origin, and the establishment of a dispute settlement mechanism.

From the beginning, both ASEAN and China agreed to a flexible framework agreement with special and differential treatment for the newest ASEAN members. The leaders also agreed that the framework should provide for an “early harvest” in which the list of products and services to be liberalized would be determined by mutual consultation. The framework contains six major elements spanning trade and investment facilitation measures, such as provisions of technical assistance and capacity building – particularly for new ASEAN members – to the expansion of cooperation in various areas and the establishment of appropriate institutions to support the framework and implementation of ACFTA.

Implementation of the ACFTA is separated into three phases under the framework agreement:

- The first phase involves the implementation of an “early harvest” program from 2004 to 2006 for ASEAN-5, and up to 2010 for the new members including the Philippines. This phase is focused upon the products to be covered by tariff reduction and elimination, implementation timeframes, rules of origin, trade remedies, and emergency measures applicable to the program.
- The second phase includes the list of “normal track” items not covered by the “early harvest” program for which countries would phase out all tariffs, from 2005 to 2010 for ASEAN-5 and China, and 2010 to 2015 for new ASEAN members and the Philippines.
- The last phase includes the “sensitive track” items which are to be kept at a minimum. These items represent industries requiring time to adjust, and inclusion in the FTA would be step-by-step, with respective applied rates, reduced and eliminated within mutually agreed timeframes.

In principle, the FTA provisions aim to extend beyond tariff reductions to cover reduction and elimination of non-tariff barriers, liberalization of trade in services, and investment. However, it will take time to negotiate all these issues in the process of establishing a FTA. For instance, two agreements on trade in goods and
China’s rise and its effect on ASEAN–China trade relations

on dispute settlement mechanism have been put in place since January 2005 with sections on tariff liberalization and rules of origin. In addition, ACFTA has a target to increase cooperation and reduce development gaps with the establishment of a “Strategic Partnership for Peace and Prosperity.”

Implementation and possible outcomes

As ACFTA becomes an integral part of the future course of ASEAN–China economic relations, one could ask where ACFTA would lead ASEAN and China; what are the potential economic benefits; and is the pact realistic in its goals, implementation, and timeframe? For instance, ACFTA begins with the tariff and non-tariff liberalization. For ASEAN-6, average tariff rates on Chinese products are already low at around 2.3 percent compared to the Chinese tariff rates on ASEAN products at around 9.4 percent, which are still quite high even with China’s accession to the WTO. Further non-tariff barriers imposed by China against ASEAN are generally much higher than the reciprocal non-tariff barriers.

In principle, abolition of trade barriers in ACFTA will allow trade expansion, which could be realized through trade creation, trade diversion, and welfare increases. As ASEAN and China are well adapted to regional and global competition with low costs and adequate efficiency, it is expected that the cost of trade diversion will be low compared to the benefits gained from trade creation. Although trade barriers are higher in China, there will be greater adjustments for all ASEAN countries since the removal of trade barriers will lower costs, expand intraregional trade, and increase economic efficiency. In addition, non-members of ACFTA might engage in greater trade and investment as their economies will be enhanced through market widening, intensified competition, and regional economies of scale.

There are, however, potential concerns associated with the ACFTA. Apart from non-tariff barriers in China, a free trade area could create significant associated costs due to the administrative surveillance and implementation of rules of origin. Other issues remain, including how to provide protection to losers of the trade pact, such as continental ASEAN countries that border China – Laos, Myanmar and Vietnam – these have been flooded with cheap Chinese consumer products. Even Indonesia, the Philippines, and Thailand are about to encounter increasing competition from Chinese goods in the agriculture and manufacturing sectors.

A modeling exercise to measure the impact of ACFTA is largely explained by Chirathivat and Mallikamas. The results indicate that China will benefit from ASEAN’s tariff reduction, especially in three sectors: textiles and apparel, motor vehicles and parts, and electronic equipment. There are also gains for the textile, food products, and mineral products sectors, resulting from lower input costs. Because of China’s needs in these sectors, it is expected that complementary ASEAN trade could play an important role in these bilateral exchanges. The only negative impact on China’s trade balance would be its imports of ASEAN’s agricultural goods, which could cause a decline in outputs due to import substitution. China’s rice tariff reduction of 113 percent will increase its rice imports from
ASEAN by 234 percent. China’s sugar tariff reduction of 26 percent will increase its sugar imports from ASEAN by 103 percent. Also, a 35 percent tariff reduction on vegetable oils will lead to a 146 percent increase in vegetable oil imports from ASEAN, especially from Malaysia. And finally a 26 percent tariff cut for imports of poultry and seafood will increase imports from ASEAN by 89 percent. Countries well placed to benefit from China’s import substitution are the Philippines, Thailand, and Vietnam for their rice, sugar, seafood, and poultry and Malaysia for its vegetable oil.30

As for ASEAN countries, their primary benefits will arise from market access to China for their quality food exports. Further gains would occur in exports of primary commodities in particular: chemicals, rubber and plastic products, textile fibers, vehicles and parts, and electronic components and parts. For example, a 19 percent tariff cut in chemicals, rubber and plastic products will cause a rise of 77.6 per cent in ASEAN’s exports to China. For vehicles and parts, its exports to China will grow by 473.5 percent as a result of a 20.1 percent tariff cut.31 However, ASEAN could face negative consequences resulting from the lower costs of Chinese imports of vegetable and fruits, other food products, and apparel, because of tough competition from China.

The overall result indicates trade gains for both ASEAN and China under the ACFTA. China will increase its imports from ASEAN by 53.3 percent while China’s exports to ASEAN will rise by 23.1 percent (see Table 3.5). The ACFTA will produce a minor trade diversion for China as it will decrease its import value from the United States by 2.4 percent, Japan by 1.3 percent, and the EU by 1.5 percent. ASEAN’s exports to the third markets will face a decline of 1.4 percent for Japan, 0.8 percent for the United States, and 1.0 percent for the EU. China’s competition against ASEAN exports in these markets will increase by 0.4 percent.

Finally, the macroeconomic impact based on the simulation results on the full implementation of ACFTA by its end-date will be a real GDP increase by 0.36 percent for China and by 0.38 percent for ASEAN; however, member countries will experience differential GDP changes. Private investment is expected to

### Table 3.5 Impact of ASEAN–China FTA on trade flows (%)

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>ASEAN</th>
<th>Thai</th>
<th>Malay</th>
<th>Indo</th>
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Source: CAMGEM, Chulalongkorn University
increase by 0.7 percent for China and 0.8 percent for ASEAN. Private consumption and savings will rise by 0.4 percent and 0.2 percent respectively for China and by 0.5 percent and 0.8 percent respectively for ASEAN.

The major findings of this study are trade gains for both, causing ASEAN to view China as an alternative source of inputs for natural resource-based and intermediate products. China will still need sources of imported inputs to satisfy the needs of its manufacturing sector that cannot be met by domestic suppliers alone. With continuing strong growth in China, ASEAN could come to play a crucial role in supplying China’s demand for such products. However, ASEAN’s industries could face increasing competition due to lower costs of Chinese imports. Exports directed toward China could also weaken ASEAN’s own integration under AFTA and third market exports.

**China’s potential economic slowdown and its implications for ASEAN–China trade relations**

Beyond the success of China’s economic growth, there is also a parallel question related to a possible economic downturn. For some careful observers, China’s economic downturn will certainly happen one day. China’s path to a market-driven economy is still faced with serious bottlenecks as the continued rapid growth of the Chinese economy makes economic, social, and institutional adjustments uphill tasks. The bottle line is flat; investors in China appear to be making more losses than making net profit. At present, conditions are worse for unlisted companies in the manufacturing sector. Banks have turned conservative with respect to these firms, which implies, they believe clients to be in financial trouble.

**Hedging against potential Chinese slowdown**

China’s possible economic downturn, in the short term or beyond, is the most basic issue for ASEAN countries to deal with in terms of their own strategic interests with China. Obviously, a soft landing for China’s strong economy is desirable, as it would allow each ASEAN member country to adjust. On the other hand, a hard-landing scenario for the Chinese economy could provoke an economic and financial crisis with a widespread impact on countries and regions that maintain strong linkages.

Closer economic ties with China help ASEAN to reap the benefits of China’s surging economy. However, this trend reveals ASEAN’s vulnerabilities and increasing exposure to the Chinese economy. What could happen with a sharp Chinese economic slowdown? What would the implications be for ASEAN–China trade relations? There is no doubt that a sharp decline in China’s economy would have a tremendous impact across all sectors, affecting much of the population. Adjustment could be costly depending on how deep the crisis goes.

For an ASEAN with strong trade relations with China, a stagnant Chinese economy following any slowdown would translate into less spending by China on its imports and a pressure to increase exports. Presently it appears that Southeast
Asian economies have become more dependent on exporting raw materials to China, and this could lead to a drastic net reduction of demand if a slowdown occurs. Whether or not these products are necessary for the Chinese economy, they will be rejected in the period of intense adjustment following any economic slowdown. A sharp reduction in Chinese demand will add costs to the production and employment of all those sectors involved throughout Southeast Asia. Individual adjustments could vary among the ASEAN countries but overall would be subject to all of the impacts. What is at stake for ASEAN is obvious with China’s rise; however, ASEAN needs to form a clear position with a more holistic and encompassing approach including investment, people-to-people, and other issues of economic cooperation. However important ASEAN–China economic relations may be, they must not be forged at the expense of ASEAN’s deepened ties with other major powers such as the United States, Japan, the EU, India, and Australia. These ties must be constructed and balanced as part and parcel of a broadened strategic outlook of the region and beyond.

On the other hand, the potential economic slowdown should provide an understanding on an increasing intra-industry trade between China and ASEAN. A number of ASEAN economies have successfully linked their manufacturing and production networks with the rise of China. In the wake of any sharp economic slowdown of China, these industrial linkages could be affected. One of the lessons from the Asian financial crisis regarding sectors such as electrical and electronic products and automobiles, with a strong presence of multinational and regional firms, was that the impact on the development of these sectors could be painful. It would cause slowdown in the overall development, including in the areas of trade, production, research and development, or even infrastructure development to support the above industries.

Given the potential of these sharp swings in various aspects related to the Chinese economy, shocks to ASEAN can arise from both the goods and capital markets. For the goods market, the fluctuated rate of growth in China affects the exports of ASEAN through commodity prices. ASEAN countries are substantial exporters of these goods to China and export price fluctuation alone may not reveal the full extent to which their economies would experience adverse shock to a sharp reduction in export demand. The principal import shocks can constitute an adverse external shock to imports of those commodities. Movements in the exchange rates could also contribute to further important effects on the prices of exports and imports in ASEAN. The net effect of these fluctuations depends on which magnitude of currency fluctuations one uses to measure prices. As for the capital market, the main factors are the cost of borrowing as determined by interest and inflation rates, and the constraints on international borrowing. Since international borrowing by both ASEAN and China is mostly in the US dollar, external shocks to ASEAN in the capital market might not affect much the ASEAN position in external borrowing and its debt.

The focus should be to integrate within bilateral relations the possibility of an economic slowdown of China and ASEAN’s response. Each country’s strategy could also be prepared with the region’s manufacturing sector that is involved with
China. Within ASEAN, Thailand, for example, sees itself as having comparative advantage in producing automobiles, electronics, textiles, and processed food. It is a notch below Singapore, which specializes in high-end services, but above the group’s poorest countries – Cambodia, Laos, and Myanmar, which rely on their natural resources and have yet to develop advanced production bases. Designing a strategy and an early warning system among members might prove to be useful in the medium- and long-term as they may have to respond to tremendous and rapid change in China. For this reason, apart from each country’s strategy, ASEAN needs to formulate a roadmap for hedging against potential external shocks from China and addressing proper domestic policy responses.

**Conclusion**

The rise of China is an important factor within the global economy. Few countries and regions can avoid the challenges posed by China’s re-emergence. In East Asia, a re-orientation of the regional economy around China has already occurred and will increasingly continue in that direction. Because of its strong growth and China’s expanding domestic market, it will translate into the largest market and producer in Asia. Also, China seems to have strengthened its export competitiveness causing changes in economic transactions with neighboring Asian countries and across the world.

The Southeast Asian region needs to develop its ability to organize ASEAN–China economic and trade relations in order to contribute to long-term growth in income per capita. This study offers the quadrangular perspective on trade, structural change, and efficiency gains to capture the way to which this future relationship could positively contribute. ASEAN and China will gradually climb up the technology ladder, and those countries which are able to attract increased FDI inflows relative to GDP will have more favorable economic outcomes and technological development.

Examination of the mutual trade between ASEAN and China reveals important gains for both sides. China’s growth has caught ASEAN’s attention, placing China as its sixth largest trading partner while ASEAN is China’s fifth largest trading partner. Differences remain when it comes to individual ASEAN countries’ trade with China from Singapore, the largest trading partner, to Indonesia, the resource-rich country, down to Laos, a small country in ASEAN. The latest trade trends suggest ASEAN increasingly supplies raw materials and intermediate inputs to the growth of China, especially from Indonesia, Malaysia, and Thailand. The rapid development of trade in electrical and electronic products represents an increasing share of ASEAN’s trade with Singapore, Malaysia, and Thailand. Careful examination of future intra-industry trade of these items will be useful for policymakers.

It is timely to ask how a recently implemented ASEAN–China FTA can help to improve ASEAN–China economic and trade relations. The framework agreement on Comprehensive Economic Cooperation initiated by China was accepted by ASEAN. It allows each ASEAN country to negotiate individually with China on trade liberalization, but highlights ASEAN’s understanding that it needs to
coordinate its effort in dealing with China. The study shows trade gains for both ASEAN and China under ACFTA, with a slight trade diversion for both. China will look increasingly to ASEAN as an alternative source of inputs for natural resource-based and intermediate products to supply the needs of its manufacturing sector. However, ASEAN’s industries could face increasing competition from Chinese imports, weakening ASEAN’s own integration, and lowering exports to the third markets.

Finally, the potential for a Chinese economic slowdown suggests an increasing need for ASEAN to be prepared for such a circumstance. For most countries in ASEAN, a stagnant Chinese economy following such a slowdown would have a strong impact on ASEAN–China trade relations, as most ASEAN economies depend heavily on the Chinese market for their exports of raw materials and intermediate products. Also, a sharp slowdown inside China could translate into troubles for the development of bilateral intra-industry trade. The overall impact would be contagious throughout the region with increasing movements of exchange rates. Developing a proper strategy and an early warning system among ASEAN countries might prove to be an important policy consideration.

Notes
4 By declaring a goal for a EU-style ASEAN Economic Community (AEC). The evolution of ASEAN into AEC by 2020 was an important response from ASEAN leaders to establish the future of ASEAN economic integration. It is envisaged that the AEC will be a single market and production base, with a free flow of goods, services, investments, capital, and skilled labor.
5 China began reforming its closed, centrally planned, non-market economy in 1978.
8 China now ranks third after the United States and Germany and has outpaced Japan to become the largest trading partner in Asia.
10 Ibid., 697. As Lee et al. said “Asian newly industrialized economies (Asian NIEs) have played such a role in the past, but none are comparable to China in size and scope of potential regional influence.”
13 By comparison, China’s share in Japan was 18.5 percent in 2003, up from 5.1 percent in 1990. These corresponding ratios were 12.5 percent in the United States, up from 3.2 percent, and 8.9 percent in the EU, up from two percent.
China’s rise and its effect on ASEAN–China trade relations


16 The adjustment implications of East Asian trade expansion are important for policymakers for both within and outside the region.

17 ASEAN-6 here is comprised of Indonesia, the Philippines, Singapore, Thailand, Malaysia, and Vietnam.

18 This might suggest ASEAN’s low competitiveness vis-à-vis the Chinese local production and greater competition from non-ASEAN producers. A further detailed analysis is still required in this regard.


20 Régnier, “Economic cooperation in East Asia.”


23 For transitional economies of ASEAN; Laos, Cambodia, and Vietnam have applied to be WTO members. Myanmar, on the other hand, is not yet ready to join the WTO in the near future.


27 Certainly, there are strategic interests for both sides to be considered as well. See the detailed analysis in Suthiphand Chirathivat, “Building ASEAN–China FTA: opportunities, modalities and prospects,” in ASEAN–China Relations: Realities and Prospects, eds Saw Swee-Hock, Sheng Lijin, and Chin Kin Wah (Singapore: Institute of Southeast Asian Studies, 2005).


29 Ibid.
30 Ibid.
31 Ibid.
32 CAMGEM, Chulalongkorn University
34 Ibid. There have also been reports about rising company bankruptcies.
4 ASEAN and China

Competitiveness, investment-trade patterns, and monetary and financial integration

Tan Khee Giap

Introduction

The emergence of China as a robust economic entity is a recent development that cannot be easily dismissed or ignored. Since the early 1990s, China has begun to rapidly integrate with the global economy. From the 1980s, the newly industrialized economies of East Asia (NIEs), particularly Hong Kong and Taiwan, have moved aggressively by shifting their production processes to China. The entry of China into the World Trade Organization (WTO) as one of the world’s lowest cost producers is a clear sign that pricing pressure will continue to build up within and beyond the East Asian region. Foreign direct investment from Europe, North America, Japan, and NIEs continues to pour into China, fully exploiting the tremendous cost advantages in terms of labor, technology, accessibility to its domestic economy, and proximity to other Asian markets.

The startling vulnerability of ASEAN, both for market and transition economies, evidenced since the 1997 financial turmoil, has caused concern for ASEAN, in addition to the fierce competition posed by large emerging economies (i.e. China and India). Significant investment risks have continued to prevail in most ASEAN economies, with the exception of Singapore. ASEAN, as an economic entity, must undertake serious reforms so it can unite and integrate with regional and global economies, or risk being marginalized.

Within this general context, it has become fashionable and a cliché to suggest that foreign direct investment (FDI) and portfolio investment (PI) flows to China are occurring at the expense of ASEAN. This chapter suggests that a more in-depth and reflective analysis is in order. The first section analyzes the quantitative ranking of competitiveness among the economies of ASEAN and China. A simulation exercise was conducted to gauge improvements in each state’s respective competitiveness if the weakest indicators (bottom quintile) increased to the average of the cumulative economies. The second section reviews the impact of China on global trade patterns, particularly since the late 1990s, taking into account developing trends in trade dispersion, shifting bilateral trade balances, and challenges resulting from WTO accession. Given the potential new wave of portfolio investments into China, the third section deals with the implications of monetary and financial development in East Asia. This is especially pertinent after the recent announcement by the People’s
Bank of China to drop the decade-old peg of the Chinese yuan to the US dollar, and the forthcoming liberalization measures. I discuss implications of portfolio investment flows to China as its authorities undertake further reforms of both their financial markets and institutions. I also attempt to identify various weaknesses of China’s economic development paradigm that may potentially derail its high rates of growth. The fourth section provides some tentative conclusions on the nature of the rising economic challenges posed by China, and how ASEAN can engage China in a more positive manner.

ASEAN and China: the latest competitiveness landscape

Since the introduction of economic reforms and “open door” policies towards the end of the 1970s, the Chinese economy has grown at 9.5 percent per annum during the period 1978–2004. Not only has China doubled its ratio of trade to GDP over the past two decades to more than 40 percent of its GDP, with per capita GDP growing at an average of 8 percent per year in the 1990s, its GDP growth is also expected to hover around 7–9 percent per annum for the next two decades. While these should be considered spectacular results by any standard, such impressive statistics do conceal the varied performances between urban versus rural and coastal versus inland China, which not only cause distortion and resource waste but also further exacerbate the problem of income distribution inequities.

Such imbalanced regional growth within China underscores the importance for ASEAN members to view China not as a single economic entity but a collection of economies with a diversity of competitive threats and opportunities. Yet China as a state is quite formidable in terms of its bargaining and negotiating power, as seen in the ASEAN–China free trade agreement (ACFTA) or other bilateral FTAs. It is thus useful to evaluate how competitive China is vis-à-vis ASEAN, as it is so often wrongly perceived in some quarters as being still a developing economy with low per capita GDP and an export sector largely dominated by labor-intensive manufacturing.

Classical economists evaluate the competitiveness among nations using statistics on factors of production such as land, capital, natural resources, and labor. It is widely acknowledged that a country’s competitiveness cannot be reduced to only gross domestic product, productivity, or some combination of “hard” (quantitative) macro aggregates: firms must also cope with “soft” attributes such as social, political, environmental, and institutional dimensions. And while annual publications such as the Global Competitive Report and the World Competitiveness Yearbook merge all economies across geographical locations, multinational corporations (MNCs) constantly search for the best location to direct their foreign direct investments and often find it more relevant to have competitiveness-ranking indices to compare economies within a single region. Relative competitiveness within ASEAN has yet to be analyzed, especially in the context of a rising Chinese economy and its impact.

This section presents results of a study which ranks the relative competitiveness of nine ASEAN economies and China (see Appendix for details). In the study, 122 criteria were used, consisting of 51 series of quantitative data and 71 series of
qualitative data sourced from International Financial Statistics, the IMF, the ASEAN Secretariat, and Political and Economic Risk Consultancy Ltd (PERC). Competitiveness components consist of the following:

1. *economic environment* – national accounts, international transactions, and foreign investments (18 criteria);
2. *political environment* – government finance and policies, institutional framework, standards, and regulations (43 criteria);
3. *business environment* – financial markets and labor market and productivity (22 criteria);

Among the nine ASEAN economies, Singapore ranked first, followed by Malaysia and Thailand (see Table 4.1). When China is included in the rankings, it is placed third after Singapore and Malaysia, and only slightly above Thailand. Singapore still retains a significant lead even after China is included (see Table 4.2).

The study also involved a series of competitiveness simulations conducted for

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*Table 4.1 ASEAN-9 competitiveness ranking*

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<td>6.71</td>
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</table>

*Table 4.2 ASEAN-9+1 competitiveness ranking*
each country by replacing the weakest competitiveness criteria (bottom quintile) with the average value from the ten states’ economies. In the simulation exercise that projected increased competitiveness, China overtook Malaysia with Thailand still remaining fourth. The Philippines and Vietnam retained their ranking even after 20 percent simulated improvement of the weakest criteria, implying that they need to overhaul their existing systems and institute comprehensive reform before they can improve further. Weak economies like Indonesia, Cambodia, Myanmar, and Lao PDR managed to jump a few ranks upon transcending their inherent limitations, showing potential for further improvement (see Table 4.3).

It is thus pertinent to ask whether the competition between ASEAN and China is a positive or zero-sum game. Can governments and policy experts map out a mutually beneficial strategy for ASEAN and China by accounting for the varied regional competitiveness landscape?

**China’s emerging investment-trade patterns and the reform agenda of ASEAN**

As China’s exports simultaneously expand into labor-intensive manufacturing and gradually move up the value-added chain, there will be either a direct competitive threat to or displacement effects on some of the economic activities of the more advanced NIEs and developing ASEAN economies. The paramount questions include the following:

1. How can individual economies promote economic resilience?
2. How can ASEAN as an economic entity enhance competitiveness and develop a balanced economic system?
3. How can regional governments strategically move forward for closer cooperation and integration within ASEAN and link to a rising China to fully exploit the new opportunities?
It is thus vital to have a good understanding of the regional economies’ current and future competitiveness landscapes. In the context of a growing China, we need to look at China’s impact on global trade patterns, changes in China’s composition of trade, and China’s significant shifts in bilateral trade balances with the United States, the European Union, and its Asian trading partners.

**Key trends in China’s trade patterns since the late 1990s**

1. China’s growth in market share (imports from China/total imports) in major export markets including Japan, the United States, and Europe has picked up momentum since the mid-1990s. By 2003 China’s share doubled compared to 1995 with values of 18.5 percent (10.7 percent), 12.5 percent (6.3 percent), and 8.9 percent (3.8 percent) respectively.

2. China’s market share (China’s total imports) in major import markets including Japan, the United States, and Europe, showed declining trends from 1995 to 2003 with values of 21.9 percent (18 percent), 12.2 percent (12.9 percent), and 16.1 percent (8.2 percent) respectively. However, import destinations from Asia, including ASEAN, South Korea, and Taiwan, have risen steadily in volume to 11.3 percent, 10.4 percent, and 12.9 percent in 2003 with expectations of further growth.

3. In 2003, China was among the most important export destinations for Asian economies, reaching 43 percent (Hong Kong), 14 percent (Japan), 21 percent (South Korea), 12 percent (Philippines), 11 percent (Malaysia), 7 percent (Indonesia), 7 percent (Thailand), and 7 percent (Singapore).

4. Rapid and extensive integration of China with the global economy is by no means unprecedented. In fact it compares well to the earlier experiences of Japan, the NIEs, and ASEAN, all of which achieved double-digit export growth over the past three decades.

5. China’s export base has become more diversified, shifting from labor-intensive footwear, clothing, toys, textiles, machinery, and transport equipment in the early 1990s, to more sophisticated export categories such as office machines, automated data processing, telecommunications, electrical machines, furniture, travel goods, and industrial supplies.

6. China’s imports composition reflects a high degree of vertical specialization of production with an increasingly high share of import content in its exports, especially in electronics products and micro assemblies.

7. China has been attracting strong FDI flows, increasingly from the NIEs and Japan, which accounted for 60 percent in 2002, and from the United States and Europe, which accounted for a further 20 percent.

8. In terms of changes in China’s trade pattern, we have been witnessing greater imports from Asia and increasing exports to the United States and Europe since the late 1990s. Hence China’s trade surpluses with these regions are widening, but were offset by increasing trade deficits with the rest of Asia, resulting in China’s overall trade surplus decreasing from $30 billion in 2002 to $25 billion in 2003.
A number of policy issues and implications can be drawn from the eight salient features mentioned above.

First, barring the unlikely event of an escalation of cross-Strait tensions, massive social upheaval, or systemic financial crisis occurring in China, China’s export trade – currently growing at a relatively slower pace in comparison to East Asian economies than during the similar stage of their development – represents an export train which has just picked up momentum and is probably less than halfway to its destination.

Second, there is rapidly increasing intra-Asian trade, as exhibited by rising Asian exports to China. ASEAN and the NIEs are likely to benefit and be drawn in further into China’s vast growing domestic market. The momentum of such a wave would accelerate with the conclusion of the China-ASEAN free trade agreement. ASEAN should take full advantage of China’s WTO accession commitments in terms of decreasing the level and dispersion of tariffs, to make further inroads into the Chinese markets, particularly for resource-rich developing ASEAN members who should organize export activities such as commodities, raw materials, fruits and food processing.

Third, unlike Japan or the NIEs, which moved up the technological ladder in stages under the “flying geese” theory of development, China’s abundant supply of both skilled and unskilled workers could be a stronger competitive threat that will both quicken the pace of economic restructuring for NIEs, and provide direct competition with labor-intensive industries in the developing economies of ASEAN. It is paramount that ASEAN members identify market niches and target consumer demand to exploit their comparative advantages. As a small economic entity, ASEAN could easily be bypassed as big investors aim for large and potentially lucrative markets. Establishment of the ASEAN+3 group is one measure to ensure the continued relevance of ASEAN.

Fourth, it will take a while before China can begin to export capital to the Asia region. It is thus useful to study the competitiveness of individual Chinese provinces that have been receiving strong FDI flows vis-à-vis each ASEAN member. After nearly two decades of consistent double-digit economic growth, there is an emerging middle class in China that will contribute significantly to the demand for services including tourism, education, wealth management, and healthcare industries.

Following the recent distribution of FDI in China, the Yellow Sea Region and Central China are beginning to attract more foreign investors as economic activities along the western coastal region exhibit signs of cost-driven production migration. Partnerships or joint ventures with state-owned enterprises that will no longer receive government subsidies by 2008 could serve as good business opportunities. As the Chinese authorities liberalize financial markets further – via progressively corporatized financial institutions and implementation of monetary liberalization measures – greater portfolio investment flows (PI) could be the next potential wave into China.
The new portfolio investments wave into China and ASEAN reforms

The absence of specific and deep reforms in the monetary and financial systems of East Asia is well recognized. We have long highlighted some of the reform inertia, policy inconsistency, and unrealistic expectations in monetary and financial reforms in East Asia. Major progress has been achieved in ten areas of reform in both emerging markets and the international financial system “which have helped to make the world a safer financial place,” although there is disagreement on the extent and the depth of the progress made in reforms for most of East Asia.

In the context of the next potential wave of PI flow into China, the financial community and monetary authorities need to re-examine four areas of unfinished business in East Asia in order to further enhance regional monetary and financial integration and take advantage of the potential flow of PI into China:

1. Harmonizing and adopting an appropriate exchange rate regime for sustained trade competitiveness and optimal foreign exchange reserves accumulation.

Economists have long recognized the impossibility of simultaneously pursuing a fixed-exchange rate regime, independent monetary policy and free movement of capital. Prior to the regional financial crisis in 1997, emerging market economies in Asia more or less pegged their currencies to the US dollar, pursued independent monetary policies, and rapidly liberalized their capital accounts. When the crisis struck, crisis-hit emerging economies in Asia either scrambled to change their exchange rate regimes or limit the internationalization of their local currencies. Indonesia adopted a free-floating exchange rate regime that increased exchange rate volatility. In contrast, Malaysia opted to impose capital controls and to fix the exchange rate with the US dollar. Thailand joined Singapore and Taiwan, which maintained their managed floating exchange rate systems. Hong Kong stuck onto her currency board system, while China kept the decade-old peg of the Chinese yuan to the US dollar with no capital account liberalization. As a result, a diverse set of exchange rate regimes currently exist in East Asia.

The freely floating regime, fixed rate system, currency board, or managed floating exchange rate regime each possess strengths and weaknesses, dependent upon the initial conditions or circumstances of the economy. Even though the establishment of an Asian Monetary Fund (AMF) and exchange rate coordination were identified as the two crucial prerequisites to move forward from the Chiang Mai Initiative, the prospects within the ASEAN+3 governments in terms of pace, extent, and direction of regional financial and monetary cooperation are not encouraging. Four reasons explain this inertia, including heterogeneous economies, being less economically self-contained especially in finance than trade, reluctant political integration, and a preference for weak formal institutions.

The ASEAN+3 economies need to initiate a serious discussion about harmonizing their diverse exchange rate regimes, rather than focusing on the unrealistic exchange rate coordination or reviving the failed AMF. In August 2005, Bank
Negara Malaysia and the People’s Bank of China simultaneously announced the adoption of the trade-weighted managed float exchange rate system, although the latter committed only to use the basket as a “reference” or benchmark. Such moves are certainly a step in the right direction.

2 Trade-off between tightening up of the capital account and developing bond markets with regard to capital flows exchange rate volatility, maturity, and currency mismatches.

Developing and promoting domestic and regional bond markets is an important part of domestic financial reform and regional financial arrangements. There is a dilemma caused by the apparent trade-off between non-internationalization of local currency and the feasible development of a local bond market. Allowing substantial holdings of an economy’s domestic currency by non-residents can lead to the development of domestic-currency-denominated offshore markets. This development can limit the effectiveness of domestic monetary policy since such markets can be used as an unregulated platform for currency speculation. Several Asian economies were moving to allow greater holdings of their domestic currency by non-residents before the onset of the regional crisis. In small, open emerging economies, holdings of national currencies by non-residents should be restricted. If substantial holdings of domestic currency by non-residents have already accumulated, such holdings and their use should be restricted (in some cases freezing the use of domestic currencies by non-residents) if threatened with a speculative attack.

Asian economies should strive to develop sound, liquid, domestic capital markets, particularly to begin the extended process of developing domestic corporate bond markets. Tremendous initiatives by ASEAN+3 governments and rationales for creating regional bond markets have been undertaken. Given that the policy of non-internationalization of local currency has been adopted by most East Asian economies since 1997, it would useful that member economies explore its operational aspects and implications for private sector participants.

3 Exerting peer pressure to motivate further financial sector reforms, market accessibility and corporate governance enhancement.

If the objective of any exercise is the encouragement of reforms, the process can and should be one that is friendly and constructive, based on exchanging positive and negative experiences. Peer review process should not be of a confrontational or even of a negotiating nature, and should be differentiated from one in which “the objective is to see certain international obligations or commitments are being met, or to determine if international standards designed to combat illegal or harmful activities are being applied.” Indeed, in the aftermath of the Asian financial crisis there still exists suspicion between the leaderships of troubled economies and compliance-imposing international agencies, with the result that calls for reforms are being resisted and good intentions doubted due to a mutual lack of good faith.
Evolving regional financial arrangements, trans-Pacific imbalances, and foreign exchange reserves management

Establishing regional financial arrangements (RFAs) is never an easy task, given the diverse economic structures and different stages of development of emerging economies. However, some preliminary progress has been achieved since the 1997 Asian financial crisis. Following the failed AMF initiative, the New Miyasawa Initiative (NMI) emerged instead, structured to be executed under the Japanese Overseas Development Assistance (ODA). Setting up of the Manila Framework Group (MFG) has led to the Chiang Mai Initiative (CMI), and a network of bilateral swap arrangements (BSAs). The recently conceived Asian Bond Funds (ABFs), launched and endorsed under the ASEAN+3 framework, though small in quantity are nevertheless another example of progress.

However, given the current less than satisfactory progress of RFAs, it is interesting to examine the implications and the potential risks of the ongoing trans-Pacific imbalances and the massive foreign exchange reserves accumulated by East Asian economies since 1997. Presently, a large portion of the East Asian current account surpluses result largely from exports to the United States through exchange rate-trade competitive interventions, and the huge post-crisis foreign exchange reserves accumulations are in turn being converted into holdings of short-term US treasury securities to fund the large US current account deficits. Some economists, however, do argue that East Asian current account surpluses are not the principle cause of such imbalances; rather it is due to a sharp reduction in domestic investment while domestic savings as a proportion of GDP have remained largely unchanged.

Many unresolved questions remain. How can the currently massive foreign exchange reserves of East Asian economies be managed? Can the central banks’ potential conflict of interests between simultaneously achieving the objective of exchange rate stability and making optimal returns on the foreign exchange reserves be resolved? Should all central banks be left with an “appropriate” level of reserves for liquidity management purposes only? Can such massive foreign exchange reserves be put into “good use,” in a way that serves as pseudo-capital account liberalization for economies that are not yet ready for it? Can such massive official sector reserves be used as the conduit for cross-border infrastructure investment to overcome the sharp reduction in private investment in East Asia since 1997?

Conclusion

China’s model of economic development, in transition from a centrally planned economy to a “market economy with socialist characteristics” embarked upon from 1978, has several potential weaknesses, and the sustainability of the FDI-driven Chinese growth model has become an intense academic discourse. In 2004, the Chinese economy was subjected to another round of macroeconomic reforms due to excessive investment growth, hikes in prices of raw materials, rising...
inflationary pressure, excess supply, and international friction caused by increasingly export-oriented economy.

The growth momentum of the Chinese economy is more reliant on externally-driven forces rather than the domestic-driven demand. Despite the rapid rise of factor endowment in China, there is little change in its structure, thus leading to low consumption demand. This is evident in the relatively high and sustained capital formation and export growth of 40 and 30 percent respectively in comparison to growth in gross domestic product, private consumption, and income. Clearly such investment-driven growth is constrained by the supply of global resources and raw materials and the expansion of international markets. Hikes in energy prices would foment international concerns. The rapid expansion of exports risks a “hollowing out effect” for the destination markets which are slower to adjust, and thus superficial interpretations of the increasing Chinese trade surplus, regardless of its changing structure and patterns, has led to the over-valued Chinese yuan being wrongly blamed as the culprit.

In terms of sustainability of the Chinese growth model, surely it will be of interest for the Chinese authorities to take measures to boost its domestic demand, but first several bottlenecks and constraints need to be resolved. The critical issues to be addressed include the following:

1. the high proportion of rural population and rural work force in relation to the total population, approximated to be 65 and 45 percent respectively;
2. a widening urban–rural income disparity;
3. imbalanced regional growth and resource allocations between coastal versus western provinces;
4. a widening revenue gap between the monopolized and non-monopolized national sector;
5. over-investment in unproductive property markets in many developed regions of China;
6. a lack of effective channels for financial intermediation, and few alternative investment assets for rapidly rising personal savings;
7. a transition to privatized state-owned enterprises which led to shortfalls and inefficient provision of public services, thus contributing to weak private consumption (i.e. decreased domestic demand).

If the momentum of the Chinese economy is less than halfway to complete global integration as we surmise, and since the reform process of the Chinese economy to stimulate domestic demand in ensuring sustainability of the growth model is under way, it is vital that ASEAN establish a coordinated front in development programs and trading strategies to avoid ending up as the “missing middle” in the globalization process. ASEAN members should therefore take make the most of any opportunities as the Chinese economy opens up under its commitments to the World Trade Organization, and niche areas must be quickly identified through the ASEAN–China free trade agreement.

Meanwhile, if ASEAN is to continue to be an attractive destination for foreign
direct investors, it must also adhere to the proposed timetable to the ASEAN free trade agreement (AFTA) for both the original ASEAN–5 and the transition economies. In fact, ASEAN should push further for both an ASEAN–Japan FTA and an ASEAN–EU FTA, even if these are second-best solutions to the impasse of the multilateral FTA. On this front, stronger members of ASEAN such as Singapore, Malaysia, and Thailand must take a lead and provide the economic leadership and initiative to strengthen the weaker ASEAN members. In the absence of the much discussed international financial infrastructure, those ASEAN members that are better endowed financially could kick-start cross-border investments in infrastructure within ASEAN to improve the investment environment and climate. In this context the international agencies, the World Bank and the International Monetary Fund, with the backing of the United States, could play a constructive role such as in the issuance of the guaranteed bonds for private sector infrastructure financing participation.

The Chinese economy’s transition is unlikely to be straightforward. The current development is perhaps one of the most extensive and boldest social market experiments, affecting the greatest number of people within relatively the shortest period. The lack of reference points and benchmarks will undoubtedly lead to erratic reform, with policy mistakes being made along the way. Often, bold macro policy changes, however well intended, can lead to unforeseen outcomes. The Chinese authorities realize that China does indeed require another few decades of continued and intense economic reforms and market experiments, especially when the fruits of a market economy are still spreading. Thus the view is of a China interested in continued comprehensive economic reforms and internal evolution of its political system toward greater openness.

The Chinese economy is expected to continue to expand at near double-digit growth in the medium-term; the next new wave would be that of portfolio investment flows as the Chinese authorities reform the financial sector and further corporatize the banking industry. Such developments would have significant implications for monetary and financial integration in Asia. In the long-term, only China will have the potential to internationalize its currency while the prospect of the much talked about “common Asian currency” will remain a distant prospect. In the short-term, efforts to pressure the Chinese authorities to revalue the yuan will not work and are unlikely to ease trade imbalances between the United States and China.

The inadequacy of the International Monetary Fund in responding to crisis-hit economies during the 1997–98 Asian financial crisis is widely recognized; that its policy prescriptions initially deepened the crisis due to a lack of understanding of the environment and institutions in which the East Asian economies operate is best regarded as water under the bridge. The lack of substantive progress in regional monetary and financial integration can only be tackled through an evolving learning process, based on more modest assumptions, rather than earlier attempts to force the process which often ended with unintended and unexpected consequences. It is in this regard, I believe, that an important next strategy is the
establishment of a ASEAN+3 secretariat, as a forum for substantive policy dialogue, and as a first step to push for further monetary and financial integration in Asia.

Appendix: Competitiveness analysis – methodological approach, definitions and data sources

Major international studies for competitiveness ranking are undertaken by the World Economic Forum (WEF), Harvard Institute for International Development (HIID), Heritage Foundation (HF), Fraser Institute of Vancouver (FI) and International Institute for Management Development (IMD). Major published competitiveness ranking indices include the Global Competitiveness Report (GCR), The World Competitiveness Yearbook (WCY), the Index of Economic Freedom (IEF), and the Economic Freedom of the World (EFW).

The annual Institute of Policy Studies-Nanyang Technological University (IPS-NTU) ASEAN competitiveness ranking indices (CRI) adopts the methodology of WCY, forming a sizable matrix of 122 criteria that links 10 economies which altogether comprise 1.8 billion people. Under the proposed methodological approach, the basis of ranking is the standardized value (STD), and we first compute the 10-country average for each criterion following which the standard deviation is calculated using the formula:

$$S = \sqrt{\frac{\sum (x-x)^2}{N}}$$

Following this, STD is computed, by subtracting the 10-country average from a country’s original value and then dividing the result by the standard deviation as:

$$\text{STD value} = \frac{(x - \bar{x})}{S}$$

Note that sub-factor rankings are the average of the STD values of all the ranked criteria that make up each sub-factor. This average is found by dividing the sum of the STD values by the number of criteria in each sub-sector. This enables us to “lock” the weight of sub-sectors independently of the number of criteria they contain (see the World Competitiveness Yearbook, 2004).

The exercises consist of initially ranking for nine ASEAN economies and re-ranking upon inclusion of China (i.e. ASEAN 9+1). However, a reminder from Krugman is perhaps useful that “competitiveness is a meaningless word when applied to national economies, and the obsession with competitiveness is both wrong and dangerous!” We therefore thought it would be more constructive and meaningful to conduct competitiveness simulations to investigate relative positions of those economies upon improving their designated weakest indicators. A series of competitiveness simulations were conducted on each country by taking the weakest 20 percent of the competitiveness criteria, and replacing the actual values with the 10-country average, i.e. one country improves and the rest
remained unchanged or *ceteris paribus*, and looking at how these improvements helped augment the country’s competitiveness ranking.

Our study has several limitations. First, some soft data based on the Vietnamese economy were being used as proxies for transition economies such as Cambodia, Myanmar and Laos. Second, we would have preferred to compute soft indicators of our own instead of relying on external agencies. Third, a large economy such as China may be too diverse and too aggregative for meaningful assessment for relative competitiveness among nations. We propose to include top Chinese provinces as separate economic entities (and perhaps top Indian provinces too); to rank these provinces among ASEAN-10 will certainly provide more insight into the regional competitiveness landscape.

Notes


5 Barry Eichengreen, “Strengthening the international financial architecture: the agenda as of 2004” (keynote speech at the Third Annual PECC Finance Conference, Santiago, Chile, 20–21 June 2004).


11 OECD, “Peer review: an OECD tool for co-operation and change” (paper presented at the Third

12 Rhee, “Domestic policy challenges.”


China’s search for energy security
The implications for Southeast Asia

Mikkal E. Herberg

Introduction
The goal of this chapter is to analyze how energy and energy security issues are likely to impact on China’s future economic and political relations in Southeast Asia. In broad terms, China is increasingly engaged in Southeast Asia in a variety of ways. Economic and financial ties are mushrooming as Chinese products and investment flow into Southeast Asia and as reciprocal flows reach China. These trade and investment relations are driving a growing range of trade negotiations, agreements, and other interchanges on economic relations. China is becoming increasingly involved diplomatically as its economic, political, and military power in the region grows. Conversely, the Southeast Asian states are seeking to “harness” China to cooperative security and political relationships with ASEAN, ASEAN+3, and bilaterally with key regional powers. All this reflects China’s growing economic and political weight in the region, as well as globally, that accompanies its booming economy and growing trade power. For a wide range of reasons, Beijing is increasing its diplomatic attention toward the region while, at the same time, the Southeast Asian states try to manage and channel the embrace of China’s growing power to their advantage.¹

China is also reaching out to the region as a nearby, secure source for natural resources and commodities vital to China’s growing economy. This ranges from Australian iron ore to Philippine copper, Malaysian palm oil, Indonesian lumber, pulp, and paper, Myanmar nickel and teak, and Thai rubber.² It also includes energy supplies which have become an increasingly major concern to the leadership due to the pivotal role energy plays in China’s economic prosperity and continuing rapid economic growth.³ Beijing’s growing energy security angst is driving a global search to secure future oil and natural gas supplies and Southeast Asia has significant proven and potential supplies of both. China’s growing dependence on energy imports, both oil and natural gas, means that a growing share of its energy needs will be sourced from the Middle East and Africa and, therefore, will need to transit the sea lanes of South and Southeast Asia, as well as pass through critical maritime bottlenecks such as the Strait of Malacca. Consequently, Beijing’s leadership has become quite focused on the risks of disruptions
China’s search for energy security

in its future oil and gas supplies and focused on developing maritime capabilities to influence developments along these vital Southeast Asian transportation routes.

As China’s economy grows and its energy needs boom, energy supplies and transit are likely to become increasingly important factors in China’s relations with Southeast Asia and the region’s key powers. In other words, the geopolitics of energy in the region are likely to become an important force in shaping overall regional relations. This raises a number of questions that will be the focus of this chapter. What are China’s key energy interests in the region and how are these energy interests likely to intersect with Beijing’s broader economic and strategic interests in the region? Is energy, on balance, likely to be a source of greater cooperation between China and Southeast Asia and a source of deeper economic and diplomatic interdependence? And what aspects of energy trade and development are most likely to support greater regional cooperation?

On the other hand, might China’s increasingly aggressive drive to secure energy resources and transport routes in Southeast Asia become a major source of tension between China and the region? What aspects of energy resource control are most likely to contribute to tensions between China and the major powers in Southeast Asia? What role will the United States play in the evolution of China–Southeast Asian energy relations and, conversely, how is this process likely to impact the future US role in the region? Finally, how differently would the regional geopolitics of energy among China, Southeast Asia, and the United States evolve over the next two decades depending on whether China’s path of economic and political development is increasingly liberal, fueled by high economic growth, or increasingly repressive, with slowing economic growth?

The chapter is divided into four sections. The first section briefly reviews the roots of China’s energy security angst and the major elements of Beijing’s current strategies in its global search for energy security. Understanding China’s energy angst is central to understanding the role of energy in China’s long-term diplomatic and economic strategies in Southeast Asia. The second section analyzes China’s range of current and future energy interests in Southeast Asia, including its interest in equity oil and natural gas supplies, control over sea lanes and key transport routes, the energy/maritime boundary nexus of disputes, the growing activities of China’s national oil companies (NOCs), and Beijing’s increasingly active “energy diplomacy.” The third section provides an assessment of the most salient energy and geopolitical issues that are likely to emerge and how they could impact China’s relations with Southeast Asia and the key powers in the region. The fourth section briefly considers the regional impact of energy security issues under varying scenarios for China’s future political and economic development.

The roots of China’s energy dilemma

China’s aggressive efforts to secure future energy resources in Asia have been one of the main catalysts recently for a virulent form of energy nationalism among virtually all the major Asian powers with potentially ominous implications for the region’s future. Asia’s oil demand is expected to mushroom over the next 25 years
and virtually all this increased oil demand will need to be met by oil imports from the Persian Gulf, Russia, Central Asia, Africa, and Latin America. China, Japan, India, and South Korea have been engaged in an increasingly intense competition to control major oil and gas supplies, pipelines, and maritime transport routes in the region.

This has been most evident in Northeast Asia where China has been engaged in a series of contentious energy development issues that have aggravated political tensions in the area, most importantly between China and Japan. India’s growing rush to secure oil and gas supplies globally has brought it in direct competition for large deals with China and other Asian powers in a number of key exporting countries. Russia is aggravating these tensions in Northeast Asia due to its potential to be a major supplier of energy to the region and combined with its erratic, politically-driven policies on major regional pipeline proposals and development of major oil and gas fields to supply Northeast Asian oil and gas markets.

Within this context, energy has become a central factor in shaping China’s global geopolitical and diplomatic architecture in key oil and gas exporting countries and regions. China is on a path to becoming a major player in the geopolitics of global energy. In Asia, energy and strategic relations in the region also are becoming increasingly intertwined in the wake of Asia’s booming energy demand and growing reliance on imported energy.

China is now the second largest energy consumer in the world, after the United States. Booming energy demand growth is a reflection of its rapid economic and trade growth, urbanization, population growth, and rising per-capita incomes. Rapid demand growth is observed across the fuel spectrum, including oil, natural gas, electricity, coal, nuclear, and hydroelectric resources.

However, oil is a special concern. Oil demand accelerated during the economic boom of the 1980s and early 1990s while domestic oil production lagged. Demand doubled between 1984 and 1995 from 1.7 million barrels per day (MMBD) to 3.4 MMBD and has doubled again to 6.8 MMBD in 2005. By 2003 China surpassed Japan to become the world’s second largest oil consumer behind the United States and is now the third largest oil importer behind the United States and Japan. China now imports more than 40 percent of its total oil needs.

China’s leadership has responded with both energetic domestic reforms and aggressive global energy security policies. Nevertheless, domestic oil production is unlikely to rise significantly in the foreseeable future while oil demand, and therefore imports, will continue to grow relentlessly. The International Energy Agency (IEA) forecasts that China’s oil imports will rise more than five-fold by 2030 – from slightly less than 2 MMBD in 2002 to nearly 11 MMBD. Accordingly, imports will account for 80 percent of China’s total oil needs. The leadership now faces the long-term realization that oil import dependence is unavoidable and will only grow. Thus China will become heavily dependent on the Persian Gulf for future supplies and its oil will increasingly have to transit a series of vulnerable maritime chokepoints. The East-West Center forecasts that, by 2015, 70 percent of China’s oil imports will come from the Middle East.
significant shares of China’s oil imports will come from Russia by pipeline and rail, from Central Asia by pipeline, and from Africa by tanker.

Another long-term factor in China’s sense of energy insecurity is the prospect of growing reliance on natural gas imports. Presently, China is largely self-sufficient in natural gas but this is only because it uses so little: gas represents less than 3 percent of China’s total energy consumption compared with a global average of 23 percent.10 Beijing has embarked on an aggressive policy to increase gas use to help replace coal to generate electricity, diversify overall commercial and household energy use, and fuel China’s economically thriving coastal region.11 The US Department of Energy forecasts that imports will account for 40 percent of China’s gas needs by 2025.12 Much of this will come in the form of liquefied natural gas (LNG), mainly from Southeast Asia, including Australia, Indonesia, Malaysia, Brunei, and East Timor. Consequently, a significant portion of China’s natural gas will have to be transported largely through the same volatile regions as oil imports.

China’s energy security response

Eroding energy self-sufficiency in combination with growing reliance on long-distance oil and gas supplies from unstable regions has created a powerful sense of energy insecurity among the Beijing leadership. It is rooted in a deep-seated fear that energy supply disruptions and price spikes could undermine China’s rapid economic growth and job creation. Slower economic and job growth raises the specter of social instability which, in turn, calls into question the continued power and political control of the Chinese Communist Party (CCP). Hence, there is a visceral and profound connection in the minds of the leadership between reliable energy supplies, political and economic stability, and continued CCP control. China’s economic prosperity is increasingly exposed to the risks of global supply disruptions, chronic instability in energy exporting regions, and the vagaries of global energy geopolitics.

Post-September 11 events, such as the wars in Afghanistan and Iraq and the war on terrorism, have heightened this sense of strategic vulnerability. Beijing is increasingly concerned about the risks of potential terrorist attacks on oil production and export infrastructure in the Persian Gulf and attacks on key maritime transit points like the Strait of Malacca.13 China also views the United States as a long-term strategic competitor, meaning that the deeper extension of US military power and influence in Central Asia and the Persian Gulf exacerbates their existing fears of strategic “encirclement.” US control over global oil supplies and the sea lines of communication (SLOC) in Asia aggravates China’s fears about US global “hegemony” and increases their sense of vulnerability over oil and gas flows vital to China’s long-term strategic room for maneuver, its economy, and its social stability.14 These fears coalesce most clearly in their deep concerns that the United States would cut off their seaborne oil imports during any confrontation over Taiwan. Other factors aggravate this sense of insecurity. China feels excluded from global energy management institutions (such as the IEA) and dependent on global oil markets and a global oil industry that are dominated by the United States
and major international oil companies in the industrialized states. In addition, high world oil prices and a growing fear of long-term global oil supply “scarcity” are feeding this sense of insecurity and the compulsion to try to unilaterally secure its future oil and gas needs throughout the world by direct state intervention.

Beijing is responding with a broad range of efforts aimed at guaranteeing greater supply security and reducing vulnerability to supply and price shocks. All things considered, these efforts reflect a “zero-sum” energy supply strategy which is deeply neo-mercantilist and competitive. It is built on efforts to gain more secure, and direct national control of, overseas oil and gas supplies by taking equity stakes in oil and gas fields and by diversifying supply sources as much as possible. This includes the promotion of the global expansion of China National Petroleum Corporation (CNPC), Sinopec, and China National Offshore Oil Corporation (CNOOC) – China’s three national oil corporations (NOCs) – and the development of new oil and gas pipelines to channel supplies directly to China through state-to-state diplomacy. The government is also employing an active “energy diplomacy” by developing broader government-to-government diplomatic, economic, and military ties with key exporter governments, promoting energy cross-investments between China and key exporters, and shaping its naval and maritime military strategy to try to protect the SLOCs through the Indian Ocean and South and East China Seas to China. These efforts naturally converge on key oil and gas exporting regions, including the Persian Gulf, Central Asia, Russia, Africa, Latin America, and Canada. For example, the Chinese government has signed “strategic energy alliances” with at least eight countries over the past five years which include a variety of energy, trade, aid, and military agreements.

**Beijing’s energy interests and diplomacy in Southeast Asia**

Understanding the role of energy in future China–Southeast Asian relations has to be constructed on an understanding of China’s main energy interests and activities in the region and on the likely evolution of those activities in the future. While the main thrust of China’s global search for energy supplies has been towards other major oil and natural gas exporting regions of the world, Beijing’s energy focus on Southeast Asia reflects the region’s particular energy endowments and its importance as an energy transit route. There are several strands of Beijing’s vital energy interests in the region. One reflects China’s oil interests in the region and the quest to secure equity oil supplies controlled by Chinese companies. Another set of interests centers on China’s natural gas and LNG supply and development activities which have a significantly different character than oil ties. Both oil and natural gas activities will be largely reflected in the activities of China’s NOCs as well as Beijing’s energy diplomacy in support of those activities. A third set of interests centers on the growing importance of Southeast Asia as an energy transport route to China. A final set of interests reflects China’s efforts to control energy resources in the South China Sea region and prospects for regional cooperation in resource development. China’s oil interests in Southeast Asia are quite narrow which reflects the overall limited prospects for the region as an oil producer and exporter.
Indonesia has recently slipped into the category of net oil importer. On a net basis, Southeast Asia is an oil importer from outside the region – Malaysia and Brunei being the only significant individual exporters.

Consistent with Beijing’s efforts in other regions, the majority of oil activities by China’s NOCs in Southeast Asia have been acquisitions of existing oil fields and related exploration properties from other companies, with the prime focus being Indonesia. In 2002, CNPC purchased the oil and gas producing assets of Devon Energy (US) for roughly $215 million. The following year CNOOC purchased a group of producing oilfields from Spain’s Repsol for nearly $600 million. By virtue of these two acquisitions Chinese companies are now the largest offshore oil producers in Indonesia. Outside of Indonesia, CNPC and Sinopec also have developed minor interests in oil exploration in Myanmar, Papua New Guinea, and Thailand.

In an ironic twist, the largest potential acquisition of oil production in the region would have come via CNOOC’s acquisition of Unocal in mid-2005. Unocal’s oil production in Southeast Asia of 76,000 barrels per day, evenly split between Indonesia and Thailand, would have more than doubled China’s oil production in the region and further boosted its role as a significant oil producer in Indonesia. Political opposition in the United States, of course, prevented the Unocal acquisition and set back CNOOC’s plans to build a stronger platform for oil and natural gas development in Southeast Asia.

Natural gas and, in particular, LNG drives a much larger set of energy and geopolitical interests for China in Southeast Asia, mainly focused on Indonesia and Australia. Asia is the largest regional market in the world for LNG and Southeast Asia has been and will grow as a major LNG supplier to Japan, South Korea, Taiwan, China, and, in the near future, to the US west coast. China will begin importing LNG in 2006 with the opening of its first LNG re-gasification terminal in Guangdong Province. Over the next five years, six additional re-gasification terminals are planned to be built further north along the coast. CNOOC has been the designated NOC to handle LNG development. The major LNG consortia in Australia and Indonesia have been competing aggressively to get a share of China’s potentially enormous future gas market. CNOOC has exploited this by demanding an equity stake in each LNG production consortium as the price for signing major long-term LNG supply contracts. The first contract for the Guangdong terminal was signed with Australia’s Northwest Shelf Consortium and CNOOC later purchased a 6 percent equity stake in Northwest Shelf for roughly $490 million. For the second terminal planned for Fujian in 2007, CNOOC signed a supply contract with British Petroleum (BP) and the government of Indonesia for their Tangguh LNG project in a remote region of West Papua. CNOOC subsequently purchased a 12.5 percent equity stake in the Tangguh project for roughly $275 million. CNOOC is now negotiating for future LNG supply contracts with Australia’s Gorgon LNG consortium and Shell’s Sakhalin Island 2 LNG project. Both deals are partly contingent on agreeing to sell an equity stake to CNOOC in the upstream LNG project.

Boosting CNOOC’s natural gas development potential in the region explains
why the attempted acquisition of Unocal was of strategic commercial importance and why losing the deal was deeply disappointing for CNOOC. The acquisition would have substantially boosted China’s role in energy development in Southeast Asia and contributed to the diplomatic and economic importance of China in the region’s energy future. Unocal would have given China a significant additional LNG position in Indonesia through its sizeable offshore gas fields that provides a growing share of the gas to the large Bontang LNG project in East Kalimantan. The acquisition also would have given China and CNOOC a new strategic position as a major supplier to Southeast Asia’s domestic gas markets, including Indonesia and Bangladesh. Unocal is also the largest producer of natural gas for Thailand’s domestic market, producing fully one-quarter of Thailand’s total gas consumption. China also would have further entrenched its role in Thailand with control of Unocal’s controversial offshore Yadana gas project in Myanmar that exports gas by pipeline to Thailand.22

Putting these pieces together, China’s combined oil and natural gas interests in the region coalesce around Indonesia and Australia, with Thailand added had the Unocal acquisition succeeded. Therefore, it’s not surprising that Beijing’s energy diplomacy has focused heavily on these two countries with “strategic energy alliances” promising growing energy ties, and in the case of Indonesia, broader aid and trade relationships.23

The third set of Chinese energy interests in the region is concerned with the rapidly growing importance of Southeast Asia as a transportation route for current and future oil and LNG supplies bound for China. Concerns over growing reliance on seaborne oil and LNG supplies are aggravated by three additional issues. One is US dominance of the SLOCs in the region and China’s fears that the United States will, for the foreseeable future, be able to control a vital input to China’s economy.24 Second, there is a growing threat of terrorist attacks on the key bottlenecks of the Strait of Malacca and the Strait of Hormuz in the Persian Gulf. Finally, the Strait of Malacca has a serious piracy problem, accounting for 40 percent of the world’s piracy episodes in 2004. So far, Indonesia, Malaysia, and Singapore have shown little ability to collectively patrol the Strait.25

At present, China has no significant naval capability to play a role in these vital transportation corridors in the face of strong naval capabilities on the part of the United States, India, Indonesia, Australia, and Singapore. China is, therefore, beginning to react on several fronts. First, there is some evidence that China is shaping its growing naval strength – by way of submarine development and port access rights throughout Southeast Asia and into the Indian Ocean – to develop an economic way to have an impact on shipping and naval powers in the region.26 But with the long lead times required to develop a stronger naval presence, China also is searching for alternative oil transport routes to reduce its future dependence on the Strait of Malacca and South China Sea. China is currently considering building a large oil pipeline from the coast of Myanmar to Yunnan to divert some of the oil flows from the Strait and also building on strong ties with the junta in Myanmar.27 Other pipeline routes through Bangladesh and Thailand have been broached but neither is very practical. China initially showed some interest in a Thai scheme to
build a canal or an oil pipeline across the Kra Peninsula in Thailand but those proposals have also proved to be highly impractical. Third, China has embarked on a program to build its own oil tanker fleet to move China’s oil supplies. Currently only 10 percent of China’s oil imports arrive on Chinese tankers.28

On balance, China’s ability to mitigate these oil and gas transport risks is very limited in the near term and, therefore, must effectively “free ride” on US control of the Southeast Asian sea lanes for the foreseeable future, as well as on Indonesian, Malaysian, and Singaporean efforts to patrol the Strait of Malacca. Officially, China contends that the Malacca Strait’s littoral states, Indonesia, Malaysia, and Singapore, should patrol the Strait without the United States. This statement came at “The Strait of Malacca, Building a Comprehensive Maritime Environment” conference in July 2004 in response to a US plan for greater US involvement in patrolling the Malacca Straits called the “Regional Maritime Security Initiative” (RMSI).29 The RMSI proposal was also roundly rejected by Indonesia and Malaysia, while Singapore showed greater interest.30 Over time, energy will provide powerful incentives for China to develop “blue water” naval capabilities and, as this happens, serious issues will arise over control and patrolling these vital sea lanes, about which more will be said later.31

The fourth set of important Chinese energy interests in Southeast Asia focus on the competition for sovereign control over potential energy resources in the South China Sea, which intersects with a range of sensitive disputes over maritime boundaries. Much has been written about this which does not need to be repeated here.32 On the whole, the South China Sea has not proved to be a large and prospective oil producing region. Oil discoveries and development have been relatively small by international standards – mainly in Malaysia, Indonesian offshore waters, and offshore Vietnam. The South China Sea has proven, however, to be much more prolific in natural gas supplies with major gas developments around the rim of the Sea. Nevertheless, there is significant evidence that Chinese geologists believe there is a substantial potential for oil and gas resources and production in the South China Sea. For example, published Chinese estimates for total oil resources in the South China Sea range from roughly 100 to 200 billion barrels, compared to a 1993–94 US Geologic Survey estimate of 28 billion barrels.33

China’s growing anxiety about future oil and gas supplies suggests that it will remain strongly interested in maintaining its historic claims to sovereignty over large parts of the South China Sea.34 The key areas of dispute revolve around the Spratly and Paracel Islands but energy has generally played a limited role in these disputes, at least directly. Indonesia’s ownership of the natural gas-rich fields offshore of the Natuna Islands has been disputed by China through an official map of its “historic claims” with unclear maritime boundaries indicating that Chinese-claimed waters extend into the waters around the Natuna Islands. Indonesia responded by choosing the Natuna Islands region as the site of its largest military exercises to date in 1996. The Philippines’ Malampaya and Camago natural gas and condensate fields are in Chinese-claimed waters but China has not voiced a specific objection to the development of these fields. Vietnam and China have historically jostled over demarcation lines relative to offshore oil and gas
exploration block but an agreement in 2000 delineating their respective Exclusive Economic Zones (EEZs) has opened the way for some oil and gas development. However, the Paracel Islands dispute between the two remains outside that agreement. In October 2004 China protested that Vietnam was not living up to its agreements by inviting oil companies to bid for oil and gas exploration rights in disputed areas of the South China Sea.

Two recent broad agreements between China and ASEAN suggest that China may be taking a more cooperative approach to South China Sea energy development issues. The first is the November 2002 Declaration on the Conduct of Parties in the South China Sea issued by ASEAN and China that commits the signatories to “peaceful settlement” of territorial disputes. The other is the October 2003 signing of the Treaty of Amity and Cooperation, which renounced the use of force and called for increased economic and political cooperation. Another hopeful sign was a recent agreement between China, the Philippines, and Vietnam for joint oil and gas exploration in the South China Sea. All these signs suggest that Beijing wants to avoid letting energy and maritime border disputes undermine its broader efforts to engage Southeast Asian states more constructively on trade, financial, and political ties.

Nevertheless, China continues to expand its activities in the Spratlys which feeds the suspicion that a unilateral search for energy resources continues to be an important goal in its South China Sea diplomacy. If China is serious about its new cooperative approach to the region in terms of energy, it could demonstrate that by promoting joint energy exploration in the context of setting aside boundary claims for the long-term future. For example, Australia and East Timor recently agreed to set aside their maritime boundary disagreement in the Gulf of Timor for 50 years in order to pave the way for sharing the financial benefits of a large new natural gas field development that straddles the disputed maritime border. Similar arrangements are in place around the world, including the Joint Development Area straddling the maritime border between Thailand and Malaysia which is now the scene of extensive joint oil and gas exploration and development. Another possible initiative would be promotion of a Southeast Asia regional energy investment charter to establish broad rules on the treatment of energy investment in the South China Sea and more broadly in the region.

Long-term issues and implications for Southeast Asia–China relations

The previous discussion suggests that China has a fairly broad range of significant current and prospective future energy interests in Southeast Asia that are likely to influence its future role in the region as well as impact the triangular relationship among China, Southeast Asia, and the United States. There are clearly strands of interests that have the potential to enhance regional cooperation and integration in the future as well as ones that are more likely to add to tensions in the region.

Although energy will play a significant role in the future shape of relations between China and Southeast Asia, it is very likely to be secondary to the impact of
mushrooming trade and investment ties that will be the main drivers in Chinese-Southeast Asian relations. The scale of overall trade and investment in manufactured goods and other primary commodities will dwarf energy trade and investments. Beijing’s key energy security driver is the search for secure oil supplies and securing an equity stake in oil supplies. Southeast Asia simply does not have the potential for future oil supplies to be a major part of the solution to China’s energy security angst. Southeast Asia will remain a sideshow on this score, at least insofar as oil supplies are concerned.

This does not mean, however, that the Chinese NOCs will not become significant players in the Southeast Asian oil scene. In particular, Indonesia stands out as the place likely to see the greatest future Chinese oil interest in the region for a number of reasons. First, within the region Indonesia has the best oil exploration prospects for the future, especially deepwater oil exploration offshore of Kalimantan, Java, and Sumatra. Although many of the major international oil companies have strong positions in Indonesia and see good potential for future deepwater development, interest there has been undermined in recent years by the juxtaposition of rising exploration and development costs of deepwater development, weighed against very unfavorable exploration and development contract terms, the perception of growing political instability and rising nationalism, and uncertainty about erratic regulatory, taxation, and environmental policies. As a result, many existing operators have limited new investment plans in Indonesia and some are open to divesting their Indonesian operations which will present continuing opportunities for the Chinese NOCs to acquire positions there. From the Indonesian side of the equation, the government has struggled to attract new oil and gas investment for these same reasons. At the same time, China’s NOCs generally are not as constrained in their investment decisions by the same commercial profitability criteria as the international major oil companies and also are quite willing to take on very high political risk investments, making them an excellent match to provide a growing share of the future oil investment in Indonesia. This was borne out during the attempted CNOOC acquisition of Unocal when Indonesian authorities were quite enthusiastic about the prospect of China gaining a larger stake in the Indonesian oil patch that would have come with the Unocal acquisition. From this perspective, oil is likely to be an important factor enhancing China–Indonesia cooperation in the future, as their already developing “strategic partnership” indicates.

Other aspects of the oil relationship could also strongly enhance this partnership but these depend on a number of future developments. First, Chinese companies have discussed the possibility of a joint venture with Indonesian state oil company Pertamina to build two large refineries in Indonesia that would process crude oil from Persian Gulf suppliers and export the petroleum products to China. Although such an opportunity is also open to the international oil companies with the gradual de-monopolization of Indonesia’s refining and marketing sector, unattractive regulatory and contract terms have prevented any from taking up the offer. Hence, Chinese NOCs are likely to be the best candidates for this. However, it is still
unclear how far the negotiations have progressed and whether these potential oil cross-investments will actually materialize.

Other countries in Southeast Asia are unlikely to present the same scale of oil opportunities for China as Indonesia. Malaysia is a sizeable oil exporter and has modestly good prospects for oil exploration and development, but most of the best opportunities have been picked over by the international majors. Vietnam has reasonably good offshore oil exploration potential and China is showing growing interest. The two countries recently signed both a triangular exploration deal with the Philippines, and China and Vietnam just signed a joint exploration agreement for oil and gas in the Gulf of Tonkin. Nevertheless, the development of a strong role for China seems relatively limited given political suspicions between the two and China’s preference for acquiring existing oil production which is minimal in Vietnam.

China’s growing stake in natural gas and LNG production in Southeast Asia is likely to be a far more important driver than oil in enhancing future ties in the region. China’s growing appetite for LNG over the next two decades will compel it to seek greater involvement in a number of major LNG suppliers in the Asian region. Long-term LNG supply contracts and equity stakes are already major drivers in relations with Australia and Indonesia. These agreements are long-term contracts (up to 25 years) and involve decades-long commitments on major financial and energy markets. For example, though China’s equity investment in Australia’s Northwest Shelf LNG consortium was roughly $500 million, the cumulative value of the LNG to be supplied over the term of the 25-year contract to the Guangdong re-gasification terminal represents a $25 billion commitment. By their nature involving huge financing requirements, long-term market off-take guarantees, and large tranches of official financing and sovereign guarantees, these agreements have been negotiated primarily at the government and diplomatic levels to cement these deals. Hence, LNG is a government- and diplomatic-intensive form of energy partnership and clearly plays an increasingly important role in strengthen relations among Indonesia, Australia, and China. Moreover, China is negotiating for large new LNG investments and supply contracts in Australia’s Gorgon consortium and is likely to pick up new Indonesian LNG interests in any major new acquisitions in the region.

In view of the natural gas-prone geology of Southeast Asia, it is likely that gas will continue to play a larger role than oil in China’s energy involvement in the region. Future activities of the Chinese NOCs are likely to reinforce this. For example, in the wake of losing the Unocal deal, CNOOC is rumored to be looking at other potential acquisition candidates with strong existing production in Southeast Asia. Frequently mentioned in this context is Woodside Petroleum, an Australian company part-owned by Royal Dutch Shell which has major interests in Southeast Asian LNG projects (most importantly as the operator of the Northwest Shelf project, and other Australian domestic gas developments). Most of the major acquisition opportunities in the region are also likely to be more heavily involved in natural gas development than oil.

The natural gas industry has other characteristics that make investment in it
more of a catalyst for governmental involvement than oil. Most importantly, gas
development and use requires major infrastructure investments in expensive pipe-
lines and LNG production and transport facilities that require long-term contracts,
heavy financing requirements, well developed gas regulatory regimes, and market
development. All these entail intensive government involvement. Government-to-
government cooperation is especially important where gas is moving across
borders as is increasingly the case where Southeast Asian gas markets become
gradually more integrated. For example, the potential development of a Trans-
ASEAN Gas Pipeline Project would require a huge leap forward in the region’s
willingness to collaborate among themselves on a series of sensitive national regu-
laratory, pipeline tariff, gas pricing, and long-term supply guarantees.

Moreover, the underlying risk of gas development and transportation are inher-
ently higher because transportation of gas by pipeline or as LNG absorbs a signifi-
cant share of the ultimate market value of the gas (transporting gas often absorbs
up to 25–30 percent of the final marketplace value). By comparison, oil can be
moved by tanker from the Persian Gulf to Japan for roughly $2–3 per barrel, a
trivial share of the current market price. Given the much higher risks and tighter
economics of gas development, governmental guarantees and policies are critical
to allowing large gas developments to move forward.

Hence, in a broad sense the prospect of China significantly increasing its oil and
gas investments in the region seems likely to be a catalyst for closer political rela-
tions between China and those Southeast Asian states with significant prospects
for acquisitions and new exploration and development, most importantly in Indo-
esia and Australia. Energy investments also seem likely to fuel closer relations
between China and Myanmar both in terms of potential natural gas supplies and
also the prospect of an oil pipeline across Myanmar to China. Furthermore, Beijing
is already developing military and port access arrangements in Myanmar,
including reported electronic listening posts on islands offshore Myanmar.

The “welcome mat” for investment by the Chinese NOCs is likely to be out
among other Southeast Asian states such as Thailand and the Philippines up to a
point. Each would welcome additional energy investment from China but not to
the point where it claimed a dominant position. This became apparent in Thai reac-
tions to the prospect of China and CNOOC taking control of more than a quarter of
Thailand’s gas supplies via the Unocal acquisition. While their comments were
cautious, there was clearly an underlying concern over a Chinese state-owned oil
company having such a powerful role in Thailand’s natural gas development,
which is crucial to its electricity markets.48

The US view of growing energy and, by implication, political ties between
China and the Southeast Asian states seems ambivalent. On the one hand, it is in
the US interest that China’s rise in the region be characterized by peaceful coopera-
tion and energy investment. However, based on private reactions among US
government officials to CNOOC’s bid for Unocal, there is another concern that
growing energy investment ties between China and Southeast Asia could under-
mine US influence in the region by reducing the importance of US companies as
major energy investors in the region.49
While energy investment by China in the region is likely to support growing political ties and cooperation, the control over the sea lanes and energy transportation routes as well as ongoing boundary disputes in the South China Sea may put strain on these ties.50 For reasons outlined earlier, control of the sea lanes for energy flows in Southeast Asia is almost certain to become an increasingly salient issue for China and the region.51 There are two dimensions of this in the fairly immediate future that are portents of some longer term issues. First, China is rapidly accelerating its own submarine development along with the acquisition of sophisticated Russian-made submarines capable of operating at long distances. China is also expanding its submarine base on Hainan Island. Second, China is developing naval port access agreements along the coasts of the Indian Ocean, most importantly in Pakistan, Myanmar, and Bangladesh that would allow its ships and submarines to operate more effectively there and into the Strait of Malacca.52 A recent Pentagon study called this the “string of pearls strategy.”53 China has also expressed growing interest in working with the littoral states to be involved in patrolling the Strait of Malacca. These are just early steps in China’s long-term development of a naval projection capability into the region but they are indicative of the importance China attaches to developing a capability to project power there.

This raises a number of important questions about how the Southeast Asian naval powers and the United States react to China’s growing naval role. How will China’s efforts be perceived in Washington? The United States sees its own naval power in the region as vital to regional stability. The Pentagon has already flagged Chinese developments and has expressed growing concern over why China feels the need to expand its military and naval development in the region.54 As China’s capabilities grow, this will also draw in the interest of Japan and South Korea who rely very heavily on the transit of their oil and gas imports through the Strait and the South China Sea. India has become increasingly interested in looking east to form trade, political, and naval ties with Southeast Asia. Clearly, India sees China as its key regional rival and that Delhi is increasingly competing for energy supplies globally with China, which raises questions about how India will react to China’s efforts to secure the sea lanes through which its future energy supplies will flow.55

Ultimately, all the Southeast Asian states, along with China, the United States, Japan, and India have a common interest in maintaining the free flow of energy supplies through the region and a common interest in preventing terrorism and piracy from disrupting tanker traffic in the Strait of Malacca. However, at present it remains uncertain whether China’s growing naval reach in the region, driven by its energy angst, can be integrated into a more cooperative framework that accommodates the region’s major powers and the United States. Energy flows and supplies will be a key, potentially disruptive force in shaping the outcome.

Likewise, issues regarding maritime boundary disputes, sovereignty, and potential competition to control oil and gas resources in the South China Sea seem likely to be challenging. China continues to assert its historic claim to virtually all the South China Sea. It remains to be seen whether China and Southeast Asia can
develop a regional cooperative framework quickly enough to avoid several potentially nasty disputes over energy supplies and maritime boundaries.

**Energy, Southeast Asia, and China’s long-term outlook**

The previous discussion was predicated on what might be called a consensus outlook for China’s long-term economic and political development. Forecasts for growing energy demand are driven primarily by continuing strong economic growth, with most forecasts based on a 5–7 percent annual growth rate. Gradual political progress toward more responsive government is generally embedded in these assumptions about economic growth. Since energy demand is linked tightly with economic growth, this scenario suggests that China’s energy demand will continue to grow rapidly and energy security will inevitably grow as a concern for Beijing’s leadership.

However, given the tight link between economic growth and energy demand growth, China’s global energy strategies are certainly sensitive to fundamental changes in these underlying economic and political assumptions. Below is a brief discussion of the sensitivity of the previous analysis to changes in the outlook along three different dimensions: economic, political, and geopolitical.

If China were to experience significantly slower economic growth over the long term, this would clearly slow the rate of energy demand growth and reduce pressure on Beijing to aggressively go out to source oil and gas supplies globally, including Southeast Asia. The primary driver for China’s future rising oil demand is rapid motorization and increases in vehicles. However, this process could be sharply slowed in this scenario. Expected high natural gas and electricity demand growth would also be reduced under a slow growth economic scenario, reducing the pressure to source large supplies of LNG globally. In this case, the leadership would likely place renewed emphasis on coal use since it is domestically available and cheap. China’s national oil companies would have fewer financial resources to aggressively bid for fields and supplies which would significantly reduce their role internationally. Since they are the prime instrument of Beijing’s energy security thrust, this would sharply reduce China’s presence in global oil and gas industries. Beijing’s energy diplomacy, which includes large doses of economic aid and concessionary trade arrangements, would be curtailed as state financial resources become scarce. However, it is important to note that, with the exception of an outright long-term economic crisis, even a slow-growth China would drive energy demand to grow at rates sufficient to require gradually rising imports of oil and natural gas over the long run. China’s energy use per capita is still very low and will certainly rise even in a slow-growth case, as it has done in so many other countries. So China is likely to remain concerned about future energy supplies under most reasonable economic scenarios, although the sense of crisis one sees today among the leadership would be substantially muted.

For Southeast Asia, this would suggest that China may be less assertive about its future energy interests in the region, particularly regarding the urge to gain control over potential supplies in the South China Sea as well as being less assertive over
the long run on control over energy transport lines through the region and the
Malacca Strait – the two most likely sources of energy-driven tensions between
China and Southeast Asia. Overall, an economic slowdown scenario for China
suggests that it would be a less attractive partner in Southeast Asia for energy
development and would likely play a smaller energy role in the region.

A second dimension is the range of sensitivity of China’s energy security
approach to Southeast Asia to a very different domestic political outcome in
China: namely, a reversion to a more repressive, political system with a potentially
belligerent tilt to its foreign policy, rather than the current expectation of an
increasingly open political system and collaborative foreign policy partner, could
disrupt China–Southeast Asian relations. If combined with continuing high
economic growth and high energy demand growth, this might present more serious
issues for the Southeast Asian countries. Such a political scenario suggests Beijing
might be more aggressive on resource and energy issues in the region and a less
cooperative partner to ASEAN and the major Southeast Asian states individually.
Beijing’s NOCs are likely to be less commercially-oriented, more politically-
driven, and less attractive partners in regional energy development and invest-
ment. This scenario also suggests worsening relations with the United States
overall and greater suspicion on each side about the others’ motives regarding key
issues in Southeast Asia, thereby, putting Southeast Asia in a difficult balancing
act between the two key powers, something the region clearly wants to avoid.

A third dimension of variability is the potential for China to increasingly
become a “revisionist” power in the region rather than a “status quo” power, an
assumption imbedded in most high economic growth scenarios for China. In this
case, China would be increasingly aggressive in trying to marginalize US influ-
ence in the region and establishing Chinese hegemony in East Asia. This kind of
scenario would suggest that China will be more assertive to impose its view of
resource ownership in the South China Sea and move more quickly than expected
to build a “blue water” naval capability. Compared with a “peaceful rise” scenario,
this would present the Southeast Asian states with Chinese power that would be
difficult to resist. China’s energy role in the region would clearly be much stronger
in this scenario and would be tightly linked to a broader regional architecture
increasingly dominated by Chinese political power, energy security interests, and
Chinese energy companies.

Conclusions

Assuming China sustains reasonably good economic growth and avoids a serious
political reversal, energy is likely to play a significant role in deepening China’s
overall future engagement with Southeast Asia. However, this survey suggests that
energy is likely to be a less powerful influence compared to its future trade, invest-
ment, and diplomatic ties in the region. Oil and natural gas investment by China in
Southeast Asia will contribute to closer relations with Indonesia, Australia, and
Myanmar, and possibly Vietnam, Thailand, and the Philippines. On the other hand,
energy issues related to control of the sea lanes, patrolling the Strait of Malacca,
and resource and maritime border disputes will remain a challenge for the region and for the United States as they try to accommodate, manage, hedge against, and counterbalance China’s growing influence and efforts to project its power in Southeast Asia. It is quite possible that energy can be a fulcrum for better cooperation in the region, since all the powers have converging interests on key issues: enhanced investment in energy supply and infrastructure, unimpeded energy transportation and trade, and increased development of new energy resources in the South China Sea. The question is whether the states can forge the institutions and arrangements for cooperation quickly enough to transcend a growing list of potential resource and sea lane disputes.

Regarding the SLOC issues, the fact that China will not have the naval capability to challenge US predominance or, for that matter, the sea power of Japan, and several Southeast Asian maritime states, for the foreseeable future, suggests that potential tensions are likely to remain manageable for the near future. China is likely to remain amenable to “free-riding” on US control of the SLOCs. Any real challenge is more than a decade in the future. Barring some specific trigger event, these issues can be managed. Clearly, the exception to this optimistic view would arise from a US–China confrontation over Taiwan and potential US efforts to cut China’s oil import transit supply lines. With its growing and qualitatively improving submarine fleet and improving port access in the South China Sea and the Indian Ocean, China will very soon be able to at least threaten regional maritime traffic if it chose to in a crisis. This scenario would also draw other regional maritime states into making tough choices over whether to support and aid US interdiction efforts. Outside of this stress case, however, SLOC issues appear to be manageable for some time to come in the general context of improving relations between China and the major Southeast Asian maritime states.

Perhaps the most potentially troubling issue remains the intersection of maritime border disputes with the growing pressure to access potential oil and gas resources in the South China Sea. High energy prices, growing energy insecurity, and improving deep-water exploration and production technology are raising the pressure to move outwards into new areas, including disputed areas offshore. Although China has recently signed several regional agreements and a few joint exploration pacts, Beijing also continues inexorably to strengthen its hold on islets, reefs, and other outcroppings in the South China Sea and assert its sovereignty over the entire South China Sea. At the same time, ASEAN has shown little ability to maintain a unified position regarding bilateral exploration deals with China. A major oil or gas discovery in a disputed area would appear likely to trigger a major dispute and there are no real “shock absorbers” in place currently to cushion the collision. There are innumerable examples of agreements around the world to set aside border demarcation in order to facilitate energy development that benefits both countries in a disputed area. There is little progress on this in the South China Sea and little on the horizon. It looks like the proverbial “accident waiting to happen” in the absence of more effective efforts to develop a regional approach to managing boundary and energy resource disagreements.

This leads to a final point. Whether these specific energy tensions can be
managed over the longer term depends most of all on the overall tenor of China–Southeast Asian relations and US–China relations. To the extent that there are significant broader tensions in China’s relations with Southeast Asia, and with the United States, then energy issues are likely also to become a major source of tension and competition. On the other hand, to the extent Beijing’s relations with the region and the United States are increasingly characterized by growing engagement and dialogue, economic and financial integration, and the development of stronger regional institutions, then future energy tensions are also likely to be manageable. In this sense, future energy relations are highly dependent on the future tenor of relations in the region.

Notes

4 For a survey, see “China and long-range Asia energy security: an analysis of the political, economic and technological factors shaping Asian energy markets,” The James A. Baker III Institute for Public Policy, Rice University, Houston, Texas, April 1999.
13 The two major chokepoints for Asia’s supplies are the Strait of Hormuz exiting the Persian Gulf and the Malacca Strait between Indonesia and Malaysia entering the South China Sea. In 2003 roughly 15 million barrels of oil per day (MMBD) passed through the Strait of Hormuz, with around 10 MMBD of that headed to Asia through the Strait of Malacca. Another one MMBD
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passes through the Strait of Malacca from Africa. As a result, more than 50 percent of Asia’s daily oil supplies must transit the narrow Malacca Strait. See US Department of Energy, EIA, World Oil Transit Chokepoints, Washington, DC, April 2004.

14 For an interesting insight on Beijing’s orientation on these issues, see Ma Xiaojun, “East Asia energy strategy: conflict or cooperation” (presentation at the AEI/NDU Conference, Washington, DC, 9 May 2005), “Lording it over the world is the U.S.’ guide of action. Reinforcing its control of global energy resources is a way for the U.S. to contain other countries’ challenges. To reinforce its control of oil production, the U.S. initiated the Iraqi War and fought with Russia for oil at the Caspian Sea. In its control of oil transport, the U.S. has the world’s strongest navy.”


16 Zweig and Jianhai, “China’s global hunt for energy.”

17 Wu and Han, “Chinese companies pursue overseas oil.”

18 For example, see “Asian demand driving global gas trade outlook,” Oil and Gas Journal, 15 May 2000.

19 On China’s growing LNG demand, see Fereidun Fesharaki, “Higher natural gas demand has China looking worldwide,” Oil and Gas Journal, 18 July 2005.


22 Another long-term potential leg of natural gas involvement in Southeast Asia relates to proposals for the development of a Trans-ASEAN Gas Pipeline Project that would move gas around the region and link pipeline gas from Indonesia, Malaysia, and Vietnam into the Southeast China coastal region. The potential for such a grid is being researched by ASEAN but the proposal is a long way from serious consideration.


24 Kenny, “China competition for oil and gas.”

25 “Facing the terrorist threat in the Malacca Strait,” Terrorism Monitor, 2/9 (6 May 2004), Jamestown Foundation, Washington, DC.


27 For a survey of China’s oil pipeline views, see Mengdi Gu, “China wants more pipelines for improved oil import security,” Oil and Gas Journal, 3 January 2005, 59–61.

28 “China urged to spend $10 billion US on shipping to boost energy security,” AFX News Asia, 7 January 2004.


31 For a good historical discussion of these issues, see Evan A. Feigenbaum, “China’s new military posture and the new economic geopolitics,” Survival, 41/2 (Summer 1999).

32 See, for example, Mark J. Valencia, China and the South China Sea Disputes: Conflicting Claims and Potential Solution in the South China Sea (Oxford: Oxford University Press, 1995).

33 For a good review of these issues, see US Department of Energy, Energy Information Administration, South China Sea Region Country Analysis Brief, Washington, DC, September 2003.


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37 DOE, South China Sea Region.
47 “Win or lose, China’s asset hunt goes on,” Petroleum Intelligence Weekly, 1 August 2005, 1–2.
49 Author’s personal conversations with various US government officials.
55 Ramtanu Maitra, “The energy ties that bind India, China,” Asia Times Online, 12 April 2005.
56 For example, the DOE International Energy Outlook 2005 forecast is based on 6.2 percent average annual GDP growth in China between 2001 and 2025; the IEA’s 2004 World Energy Outlook forecast is based on 5.2 percent growth between 2002 and 2030.
Part II

Politics
6 China’s rise, Southeast Asia, and the United States

Is a China-centered order marginalizing the United States?

Robert Sutter

This chapter assesses the current state of play in China’s relations with Southeast Asia in order to test the widely publicized proposition that China’s rise in Asia is being accompanied by an emerging China-centered regional order that is marginalizing the influence of the previous regional leader, the United States. A careful analysis of China’s relations with its various neighboring countries in recent years shows that China has made the most significant gains in relations with Southeast Asia and South Korea, and that these gains have coincided with a decline in US influence in both areas exacerbated by controversial US foreign policies. Thus, if China’s rise truly is leading to a China-centered order in Asia that marginalizes the influence of the United States, the trends in the Southeast Asia–China relationship in the context of Southeast Asia–US developments should provide important evidence and indicators.

One purpose of the assessment in this chapter is to show the importance of Chinese diplomatic and political relations with Southeast Asian nations and ASEAN, the main regional multilateral organization, backed by China’s burgeoning economic and rising military power. It is impossible to assess political relations without some consideration of economic and security policies, but the emphasis on political and diplomatic relations in this chapter is to complement other chapters in this volume that focus more directly on Chinese economic and security policies regarding Southeast Asia.

Southeast Asian leaders generally have welcomed China’s diplomatic and political advances, along with economic and security opportunities, as they seek benefit for their governments amid changing regional circumstances including a rising China. However, as Chinese power and Sino-Southeast Asian relations have continued to grow, these leaders have demonstrated continuing hesitancy to move under China’s sway. Seeking to avoid subservience to China’s dominance has added to their continued interest in preserving and strengthening relations with the United States, and developing closer ties with other regional and world powers. To varying degrees, a number of Southeast Asian leaders have made important sacrifices (e.g. support for and even deployment of some forces backing the US military in Iraq; and greater efforts, in response to US prodding, regarding the war on terrorism) in order to sustain and advance cooperative ties with the United States. They have not made similar sacrifices in developing relations with China.
The chapter shows that such Southeast Asian hedging in the face of rising Chinese power is a common trend throughout China’s periphery in Asia, and that the United States is well-positioned to benefit from this broad trend in the region. The United States remains much more powerful than China in Asia. It has the added advantage of being seen by Southeast Asian and other Asian government leaders as Asia’s “least distrusted power,” as these leaders seek to enhance their nationalistic ambitions and independence of action among other Asian governments, including and especially China, that have territorial and other ambitions directly at odds with their national interests.

The United States remains much more powerful than China in Asia. It has the added advantage of being seen by Southeast Asian and other Asian government leaders as Asia’s “least distrusted power,” as these leaders seek to enhance their nationalistic ambitions and independence of action among other Asian governments, including and especially China, that have territorial and other ambitions directly at odds with their national interests.

The outlook of China’s political influence in Southeast Asia will be determined by domestic Chinese developments as well as by internal and external variables in the region. Southeast Asian governments have adjusted fairly smoothly to the generally compatible and accommodating posture of the politically authoritarian Chinese government bolstered by vigorous economic growth and rising military power. They seek to strengthen the tentative stability of the present circumstances and are reluctant to promote political or other potentially disruptive changes in China, fearing disorder and remembering well the negative consequences for Southeast Asia of past political turmoil in China.

Whatever benefits that would result from China’s move toward political pluralism and transparency seem offset by Southeast Asian concerns over the negative fallout for the region from what would be likely to be a disruptive political change in China. Meanwhile, continued vigorous Chinese economic growth makes China that much more important in the calculus of Southeast Asian leaders, even as it deepens the competitive threat to Southeast Asian manufacturers. Chinese economic stagnation or decay would probably be worse than strengthened Chinese competitiveness for Southeast Asia as it would sap regional growth, endanger stability in China, and worry China’s neighbors about the greater likelihood of disruptions coming from China. There is also concern that a stronger and more confident authoritarian Chinese government backed by a vigorous economy and growing military will revert to past Chinese practice and intervene more strongly in the affairs of Southeast Asia, in effect moving from being a status quo power to a revisionist power.

The uncertain outlook for political stability and related economic growth in China and the possible adverse implications for Chinese policies in Southeast Asia add to the reasons for Southeast Asian government leaders wanting to avoid overdependence on China and to seek close relations with the United States and other powers.

After the overview, this chapter’s following sections

- review recent assessments that tend to emphasize Chinese strengths and US weaknesses in Southeast Asia and throughout the region;
- focus on China’s rising influence in Southeast Asia as a widely perceived leading example of China’s advancing relations relative to the United States;
- explore why the uncertain outlook of China’s political and economic developments represents a drag on growing Chinese influence in Southeast Asia;
assess that on balance China’s rising influence in Southeast Asia and throughout China’s periphery involves a number of weaknesses and limitations that put China in no position to challenge US leadership in the region.

**Recent assessments – Chinese strengths, US weaknesses**

Western and Asian media commentaries have by and large fostered an image of strong success and accomplishment in China’s recent approach to Asia at a time of perceived US weakness and decline. Some recent accounts in mainstream media present a stark picture of China’s rise amid a US decline. In 2005, Chinese energy, home appliance, and information technology firms reached out to acquire holdings abroad, including prominent US firms. A wide range of media reports depicted a rising China determining the fate of significant components in the Asian and international economy, including the United States.

Scholarly literature also has tended to highlight Chinese advances and US shortcomings, albeit with more considered language and much greater care to sources and evidence. A prominent article “China engages Asia: reshaping the regional order,” in the prestigious scholarly journal *International Security* by leading China expert David Shambaugh summarized a steady stream of media and other commentaries highlighting China’s “growing economic and military power,” “expanding political influence,” and “increasing involvement in regional multilateral institutions.” He argued that these key elements were changing the order in Asia to one less influenced by the United States, “with China increasingly at the center,” and with Asia looking to China for “regional leadership.”

There are some specialists who judge that these trends are not particularly adverse to US interests. A more prevalent view in the United States, however, is one of serious concern. Chinese leaders have worked for over 50 years to rid their periphery of great power presence. The Chinese military continues to devote extraordinary efforts to purchasing and developing niche capabilities aimed at US forces potentially intervening in a Taiwan contingency. China also continues to offset and counter US influence in a variety of ways through trade agreements, rhetoric, Asia-only groupings, and other means, which in total amount to soft balancing against a superpower United States.

China’s rise amid growing Asian multilateralism adds to a common view in the United States and elsewhere that Asia – with China at the core – is emerging as a new center of geo-economic and geo-political activity where an “inside-out” model of regional governance is displacing the past half century’s “outside-in” model led by the United States through its regional allies. In the 1980s, it was common for projections to forecast, erroneously, that Japan’s economic prowess would lead to it displacing the United States as the region’s anchor. The developments of the past decade, however, are said to be very different and more seriously challenge US leadership for several significant reasons. First, China is far larger than Japan, and its rise coincides with Japan’s relative decline. Japan was, and remains, a staunch US ally, whereas China’s current rapid military build-up is considered threatening to important US security interests in the region.
Moreover, the significant states in the region—China, Japan, India, Russia, South Korea, Indonesia, Thailand, and others—are each playing a role in advancing Asian multilateralism as a means to pursue regional solutions to regional problems. In this context, US leadership is seen to have been eroded by the region’s growing self-confidence along with the spread of anti-US sentiment due to concerns particularly over trends in US foreign policy. Unlike in the past, genuine Asian diplomatic institutions with China in the lead are growing in number and strengthening, often to the exclusion of the United States. For example, the 2005 East Asian Summit has set conditions on participation that effectively exclude the United States.

Southeast Asia as a leading example of China’s advance relative to the United States in Asia

A careful review of the gains China has made in Asia in recent years shows Southeast Asia to be one of two areas of greatest achievement. The Chinese advances have coincided with often serious friction in US relations with Southeast Asian governments over the war in Iraq, the tough US stance toward North Korea and the war on terrorism, US positions in support of Israel, and other issues. Thus, if there is emerging a China-centered order that will marginalize the United States in Asia, trends in Chinese and US relations with Southeast Asia should provide valuable evidence and leading indicators.

China certainly has gained influence in Southeast Asia relative to the United States over the past five years. The positive elements of China’s recent diplomatic and political approach to the region, backed by the attraction and challenge of China’s rapidly growing economy, overshadow past and present issues and concerns.

Among the highlights of Chinese political and diplomatic advances are the following:

- Since the early 1990s, China has put aside reservations concerning ASEAN and related Asian multilateral organizations that are seen as of primary importance by Southeast Asian leaders. By early in the twenty-first century, China was actively involved in all these groupings, became eager to host summits and propose new multilateral bodies in cooperation with Southeast Asian leaders, and often eschewed an overt Chinese leadership role in deference to Southeast Asian leaders seeking the international spotlight.

- Furthermore, since the 1990s China has developed an elaborate framework of channels for interaction with ASEAN and with each Southeast Asian government that emphasize broad principles of equality, mutual respect, and common development involving a wide array of frequent top-level interchange between Chinese and Southeast Asian leaders. The China–ASEAN Joint Declaration on Strategic Partnership for Peace and Prosperity signed in October 2003 marked a major advance from the vague generalities in a similar joint declaration six years earlier and was much more specific in describing
various mechanisms for cooperation that had developed and the accomplish-
ments and agreements that were in the process of being implemented. China at
that time greatly pleased ASEAN leaders by signing ASEAN’s Treaty of
Amity and Cooperation, setting a precedent which several Asia-Pacific
powers followed. In 2004, China and ASEAN adopted a plan of action to
implement the 2003 joint declaration.

Recent examples of top-level Chinese attention include President Hu Jintao’s
April 2005 visit to Brunei, Indonesia, and the Philippines, and National
People’s Congress leader Wu Bangguo’s May 2005 visit to Malaysia and
Singapore. Earlier, Thai Prime Minister Thaksin Shinawatra and Indonesian
President Susilo Bambang Yudhoyono made China the destination for their
first major foreign official visits, as did Philippines President Gloria
Macapagal-Arroyo after her recent re-election.

The attractiveness of China – Chinese “soft power” – also has grown. China’s
development experience of rapid economic growth, resilience in the
face of the Asian economic crisis, and continued political authoritarianism is
studied by regional leaders. Economically influential Chinese minorities are
better accepted in Southeast Asia, while Chinese culture enjoys a popular
upswing fostered by Chinese cultural agreements with several ASEAN states.

Southeast Asian government officials and non-government specialists clearly
see Southeast Asian interests served well by growing cooperation with China, but
they are uncertain about China’s stability and longer-term objectives and wary of
the potentially negative implications for Southeast Asia. Some worry, for example,
that a resolution of the Taiwan issue, now the focal point of a large-scale Chinese
military build-up, would see the Chinese military focus shift to remaining territo-
rial claims, notably in the South China Sea. As Evelyn Goh argued in a recent
monograph, Singapore, Thailand, and Vietnam are endeavoring to broaden and
deepen their relations with the United States, Japan, South Korea, India, and others
as China exerts its growing influence in the region. Southeast Asian govern-
ments, like most governments in Asia, are less critical and more pragmatic in
dealing with the US government than the strongly critical elite and public opinion
in their countries would suggest. They try to engage and enmesh China into
ASEAN-backed multilateral and bilateral arrangements while also encouraging
other powers to become more actively involved in Southeast Asian affairs. The
hope is that the cumulative effect will be greater stability in the region. The major
powers would, in Goh’s words, be able to “keep an eye on each other” and act as
mutual deterrents against adventurism by China or others. She goes on to judge
that the aim of the hedging strategies of the Southeast Asian nations is not to
produce a multipolar balance of power, because the major powers involved are not
of equal strength and power. Rather, Goh detects a drive by Southeast Asian states
for a hierarchic order where the United States would retain the role as the predomi-
nant superpower, China would play the role of regional great power, and India,
Japan, and South Korea would be second-tier regional powers.

Goh’s framework of analysis appears to capture well the prevailing trends in
Southeast Asian treatment, and broader Asian treatment, of China, the United States, and other powers. Officials and non-government specialists in Southeast Asia seem pleased with the many positive accomplishments, benefits, and other features of China’s recent approach to Southeast Asia. Many stress how far China’s image has changed from the 1960s when China was the source of a “communist threat” in supporting insurgencies in Southeast Asia and the 1970s when China posed a “war threat” to Southeast Asia given China’s military offensive against Vietnam. China now has a much more benign image of cooperation and accommodation of ASEAN interests.13

China’s flexible, moderate, and accommodating diplomatic approach shows, in the view of Southeast Asian observers, that China “has learned to play the game” of carefully nuanced and attentive diplomacy in order to win favor in the region. Specific examples of such diplomacy include Chinese officials avoiding the placing of conditions regarding good Chinese relations with Southeast Asian states – a contrast to the United States that stresses human rights and open democracy in its diplomacy and policy toward Southeast Asia. China, of course, insists on Southeast Asian governments strictly adhering to the “one China” principle and shunning all official ties with Taiwan – at times a source of tension with some Southeast Asian governments.

On the whole, Chinese officials make few demands of Southeast Asian counterparts as they endeavor to develop common ground and put aside differences in a Chinese strategy emphasizing common geo-economic interests with the ASEAN states. ASEAN governments are especially welcoming of international relationships that enhance their nations’ development and nation-building efforts. In contrast, the United States has emphasized a geo-strategic approach that has forced ASEAN states to take actions that they have not necessarily been inclined to do, notably in the war on terrorism.

An effect of such benign and attentive Chinese diplomacy is that Chinese “soft power” is on the rise in Southeast Asia. This is happening at a time of reported decline in US soft power in the region on account of perceived heavy-handed US actions in the war on terrorism, the conflict in Iraq, and continuing strong US support for Israel against Palestinian interests.14

China’s impressive economic growth attracts widespread positive attention in Southeast Asia. There are increasing numbers of students studying Mandarin in Southeast Asia and Southeast Asian students studying in China. According to Chinese official data the total number of Southeast Asian students in China in 2003 was around 10,000, representing a significant rise from previous years though still considerably less than Southeast Asian students studying in the United States.15 Anecdotal evidence suggests to one analyst that “Chinese culture, cuisine, calligraphy, cinema, curios, art, acupuncture, herbal medicine, and fashion fads have all emerged in the regional culture.”16 Chinese music, movies, and name brands (some, of course, from Taiwan and Hong Kong) have also become more popular, and China has signed cultural cooperation agreements with several ASEAN states.17

The rise of China’s soft power also has resulted in and been reflected by the
rising prominence of ethnic Chinese communities in several Southeast Asian states, including Malaysia and Thailand. Even in Indonesia, where ethnic Chinese were subjected to great prejudice and repeated violence, the Chinese community is achieving greater prominence and in the process it is asserting itself as a more pro-China force in the country. Meanwhile, there is an upsurge in the travel and migration of Chinese nationals to Southeast Asia as tourists, students, and business people that is said to be welcomed by many in Southeast Asia. Ethnic Chinese and other Southeast Asian tourists increasingly go to China, a further indication of the attractiveness of China and China’s soft power to the people and officials of Southeast Asia.

The Southeast Asian view of China as increasingly supportive of regional stability is backed by Beijing’s more moderate approach toward the United States in Asian and world affairs, evident in Chinese commentary since 2001 and underlined by the Chinese government’s recent emphasis on China’s peaceful rise and development. Such flexibility and moderation serves to reassure Southeast Asian officials and commentators that ASEAN states would not be forced to choose or take sides between the United States and China – choices the Southeast Asian governments are loathe to make. It also improves the likelihood of US–China cooperation in Asian affairs – a key goal of ASEAN members.

Other factors influencing prevailing trends in Southeast Asia’s more positive view of China include geography. China’s size and location mean that it will always be a reality Southeast Asia will have to deal with. ASEAN officials see a big opportunity to deepen the engagement of China in regional and international relationships that would incrementally see China conform to international norms thereby securing ASEAN interests. They are encouraged by the fact that China’s much more active engagement in regional multilateral organizations means that China is now a central player in all salient Asian issues. The long-term ASEAN effort to engage China requires continued careful handling by Southeast Asian leaders, among others. ASEAN is in no position to confront or resist rising Chinese power and influence, and hopes to turn China’s greater engagement and cooperation in regional groups into arrangements and assurances that will preserve ASEAN interests in a stable and peaceful regional order.

Southeast Asian officials vividly remember the tension and confrontations with China in the past. To avoid this situation being repeated, they try to persuade the United States, Japan, and others to work cooperatively with rising China. Many in Southeast Asia are optimistic that China will continue along its recent moderate path so long as China is not provoked or confronted with outside pressures. They also worry about the main imperatives of China’s moderate approach, which are said to lie within China, in the many problems and issues in Chinese development. To sustain stability and strong economic growth requires China to modify its foreign posture and avoid outside conflicts and entanglements.

Among the issues that could derail this course of moderation in Chinese policy is Taiwan. Southeast Asian officials and non-government specialists take strong exception to Taiwan’s greater assertiveness against the Chinese mainland. They foresee that Taiwan’s actions could precipitate a crisis and military confrontation
in the Taiwan Strait that would involve the United States. Arguably this would be a disaster for ASEAN and Southeast Asian interests. They consequently pressure Taiwan to halt its perceived provocations, while seemingly siding with Beijing in strongly reaffirming adherence to a one China policy.

The closer ASEAN/Southeast Asian relationship with China also serves ASEAN/Southeast Asian interests by encouraging other powers to pay more attention to the region, its organizations, and governments. China’s growing role elicits a kind of rivalry among other powers, including Japan, India, and the United States. ASEAN welcomes these states’ increased interest in ASEAN and Southeast Asia prompted by Chinese activism in Southeast Asia. Thus, the Chinese-ASEAN Free Trade Agreement prompted a variety of free trade proposals from Japan, the United States, and other powers. China’s signing of the ASEAN security treaty prompted India and Japan, among others, to sign the treaty.

While tending to highlight the positives in China–Southeast Asia relations, Southeast Asian and Chinese officials and non-government specialists are privately attentive to differences, potential problems, and/or other real or possible negative implications and features of China’s rising influence in Southeast Asia. As noted above, these have received much less overt attention than in the past, but they are raised regularly, even in discussions that tend to focus on the positive aspects of China–ASEAN relations. The comments make clear that the two sides, the ASEAN countries and China, are approaching each other in calculated ways, less influenced by sentiment and more influenced by perceptions of interests.

Southeast Asian officials and non-government specialists tend to eschew emotional reactions to Chinese policies as the Southeast Asian governments continue to maneuver and hedge in order to preserve and enhance their nationalist ambitions and independence of action in the face of China’s rise. Useful in this regard are close ASEAN ties with the United States, Japan, Australia, India, Russia, South Korea, and the European Union. The United States is widely seen to represent the largest outside counterweight to China, but the ASEAN countries generally seek a more diversified range of contacts, partly in order to avoid a situation of having to choose between the United States and China.

Southeast Asian governments vary in their approach to China, with the Philippines and Indonesia being more reserved, and Thailand, Malaysia, and Singapore in the lead of those seeking close ties with China. Singapore took the lead in 2004 by recognizing China as a market economy, a step prompting others in ASEAN to do the same in order to keep pace in relations with China. Of course, Singapore at the same time concluded free trade agreements with the United States and Japan. Meanwhile, there remains a longstanding distinction between the way continental Southeast Asian states deal with China versus the approach of maritime states of Southeast Asia. The former have to be more sensitive and generally deferential to Chinese concerns given China’s proximity and easy access, while the latter are more free to follow policies either favorable or not to China.

Among real and potential differences in the burgeoning China–ASEAN relationship is the fact that China and ASEAN producers often seek to export the same kinds of goods to the same international markets; and both sides compete intensely
for investments from the same sources of foreign direct investment. Territorial, military, resource competition, and other issues that complicate Sino-Southeast Asian relations are dealt with in other chapters in this volume.

Southeast Asian officials and specialists also believe that China up until now has largely focused on doing “easy things,” emphasizing common ground and working especially with and within the ASEAN organizations where decisions become less sensitive in long processes of consultations that lead to often vapid final outcomes. Some Chinese specialists agreed that senior Chinese leaders are used to the protracted meetings and seemingly endless process with few concrete results characteristic of the “ASEAN way,” as it is similar to the iterative and deliberative decision-making process on a number of protracted issues in Chinese politics. By contrast, US leaders, anxious to make their mark in their few years in office, tend to be impatient with prolonged process if no tangible result seems likely to ensue. Thus, Secretary of State Condoleezza Rice appeared to reflect this US inclination when she decided to skip the annual foreign ministers’ meeting hosted by ASEAN for interested powers, a move seen as a snub by some in Southeast Asia.

Reviewing China’s advances in the region, some Southeast Asian officials and non-government specialists make rough comparisons between the rise of Chinese influence in Southeast Asia in recent years and the rise of Japan’s influence in Southeast Asia in the 1980s. They judge that although China’s influence is growing, Japan’s influence relative to other powers (e.g. the United States, the Soviet Union, and China) in Southeast Asia in the 1980s was greater than China’s influence relative to other powers in Southeast Asia today. To support this argument, they note that China’s trade with ASEAN has yet to overtake US trade with the region. The United States and Japan are also the source of many times more investment and assistance to Southeast Asia than provided by China.

Uncertain outlook

The uncertain outlook of Chinese political and economic developments is among the key determinants in Chinese policy toward Southeast Asia and vice versa. Southeast Asian governments are well aware that Chinese policy could turn in negative directions for a variety of internal as well as external reasons. As noted above, they have sought to moderate challenges to China posed by Taiwan and to encourage the United States, Japan, and others to get along with China, seeking to preserve the relative stability of recent trends in China–Southeast Asia relations and avoid provoking changes in China that could work against Southeast Asian interests in peace and development.

The longer term outlook for political stability in China is a particular worry. It is widely recognized that preserving an authoritarian one-party state in the midst of rapid economic and social change in China is a daunting task that may fail, perhaps violently, resulting in possible political disruption and turmoil, which likely would spill over to Southeast Asia. If changes toward greater political pluralism in China were carried out smoothly and led to greater transparency in Chinese decision making, they probably would reassure Southeast Asians and boost China’s
attractiveness to the region. However, many in Southeast Asia share the fears of Chinese leaders that any movement that might break the monopoly of power of the Communist Party would lead to serious internal turmoil, with as a consequence a large negative impact on the peace and development of China’s neighbors. Even if democracy takes hold in China, there is no guarantee that the kind of popular chauvinistic nationalism promoted in China and seen in anti-Japanese riots in China in 2005 would not persist and result in negative implications for China’s neighbors.

Meanwhile, continued vigorous Chinese economic growth makes China that much more important in the calculus of Southeast Asian leaders, although it does increase the competition Southeast Asian manufacturers face from China. For the time being, at least, economic stagnation or decay in China would probably be worse for Southeast Asia than growing Chinese competitiveness as it would undermine regional growth, endanger stability in China, and worry China’s neighbors about the greater likelihood of disruptions coming from China.

A politically secure and more confident authoritarian Chinese leadership, backed by a vigorous economy and strong military, could equally have negative implications for Southeast Asia, especially if China becomes more dominant in the region. Southeast Asian officials remain on guard against longstanding Chinese tendencies to adopt more interventionist policies, a Monroe Doctrine approach, toward relatively weak neighbors to the south. The pervasive Southeast Asian outreach to the United States and other powers is designed to hedge against China moving in this way from being a status quo power to a revisionist power.

In sum, the uncertain outlook of China’s future political stability, economic development, and its resulting policies toward Southeast Asia add to reasons why Southeast Asian leaders seek to avoid over-dependence on China and sustain close and cooperative ties with the United States and other powers to help foster stability and development. Southeast Asian leaders are not alone in this regard. This pattern is duplicated throughout China’s periphery and goes far in determining why the United States remains influential while China rises in Asia.

Implications for China and the United States in Asia

The continuing reluctance of Southeast Asian officials to move under China’s sway, their determination to sustain sometimes contentious relations with the United States, and to develop ties with other powers in Asia and abroad are indicative of broader trends in Asia that appear to demonstrate that those predicting a Sino-centric order in Asia that marginalizes the United States are wrong. Against this background, it appears that US officials and other observers should avoid being misled by prevailing media and academic assessments that stress China’s strengths and US weaknesses in contemporary Asian affairs, while playing down or ignoring wide-ranging Chinese weaknesses and important US strengths in Asia.

China’s recent success in Asia rests heavily on a fairly narrow foundation – intra-Asian trade, of which the significance may be exaggerated since more than half is processing trade in which the value added by China is much less than the stated export value, and generally adroit Chinese diplomacy. Chinese leaders and
officials pursuing a “win-win” approach to Asian neighbors usually follow policies that do not require the neighboring countries to do things they do not want to do, and policies that do not require China to do things it does not want to do. Thus, China’s Asian approach focuses on “easy” things – the “low hanging fruit” – and avoids costly commitments or major risk.

China’s purchases of international commodities and products are certainly important to Southeast Asian producers and others in Asia; however, China’s widely touted investment in nearby Asia and elsewhere actually amounts to very little money passing from China abroad, while China’s foreign aid effort sees much smaller amounts of money leaving China. Official Chinese figures show Chinese foreign investment amounted to less than $4 billion in 2004, and Chinese foreign aid involved China actually giving less than $1 billion that year.25 Such trends coexist with China’s acquisition of the lion’s share of foreign investment that otherwise might go to other parts of Asia, continued Chinese reception of significant amounts of foreign assistance that could go to other Asian states, and rapidly growing Chinese industrial and economic capabilities that threaten a wide swath of Asian manufacturers, including those in Southeast Asia.

Meanwhile, China is unable or unwilling to take significant political risks or undertake potentially costly commitments. A graphic example was China’s inability, despite strong Chinese government efforts, to establish a leading role in the international relief effort led by the United States following the tsunami disaster in December 2004 that saw Australia, Germany, and Japan relegate Chinese donations to a secondary place.

Southeast Asian governments worry that the Taiwan issue will so challenge China that it might seriously disrupt the regional order, and they do what they can to calm the situation. However, China for its part appears locked in by pervasive Chinese nationalism, and consequently Chinese leaders refuse to take the risk of dealing more effectively and constructively with the issue. The dysfunctional Chinese policy, seemingly trapped amid strident Chinese nationalism, reached a point of weakness in 2003–4, when Beijing’s mix of negative and positive incentives toward Taiwan basically failed to halt Taiwan’s continued movement toward independence, yet Chinese leaders refused to change policy. Under the circumstances, China was forced to rely on the Bush administration to curb the Taiwan government’s moves toward independence rather than take more effective action on its own to avoid a disastrous military confrontation in the Taiwan Strait.26

A similar refusal of Chinese leaders to take the political risk of curbing strident nationalist sentiment appeared to underlie Chinese authorities allowing several days of riots against Japanese diplomatic and business offices in April 2005.27 Another regional flashpoint is North Korea. Chinese officials clearly disapprove of US handling of the North Korean nuclear weapons issue, arguably the most important security issue in Asia. However, Beijing remains cautious, at least in part, out of concern over undertaking the likely economic costs and international responsibilities associated with a more prominent Chinese role in dealing with the North Korean issue.

By contrast, the United States is called upon and responds repeatedly with the
economic resources, strategic reach, and diplomatic means to promote the stability and prosperity essential to most governments in Asia, including those in Southeast Asia, which are focused on the tasks of economic development and nation-building. The US military presence, the open market, and foreign investment are essential for the well-being of Asian governments, notably including those in both Southeast Asia and China.

Among several key strengths in US-Asian relations, government leaders on both sides of the Pacific continue to put a high value on the US security commitment and military presence in Asia. The American resolve to remain actively involved in regional security has been strengthened by government efforts after the September 11 terrorist attacks, and a strong US military presence is generally welcomed by Asian government leaders.28

The Bush administration maintains open markets despite aberrations such as moves in 2002 to protect US farmers and steel manufacturers. The administration’s handling of currency valuation issues with China and Japan underlines a broad commitment to avoid the protectionism feared by Asian exporters. The United States’ open market policy is welcomed by Southeast Asian and other Asian governments that view the US economy as important to Asian economic well-being, especially after the 1997–8 Asian financial crisis and Japan’s persisting stagnation. While China has become one of the region’s engines of growth, US economic prospects remain much more important for Asian development. Notably, the United States in recent years has absorbed an increasing percentage (about 40 percent, according to US government figures) of the exports from China, which is emerging as the export-manufacturing base for investors from Southeast Asia and a wide range of advanced Asian economies. The US market continues to absorb one-third of the exports of Japan. The economies of South Korea, Taiwan, and ASEAN rely on the US market to receive around 20 percent of their exports. Meanwhile, US foreign direct investment has grown notably in China, but the cumulative level there represents only about a one-third of US investment in Australia, Hong Kong, or Singapore, and less than one-fifth of the US investment in Japan.29 As noted above, Chinese investment is miniscule by comparison.

Predictions of an emerging order in Asia led by a rising China that will marginalize the United States will undoubtedly persist in media and academic literature, but they reflect a poor understanding of, first, the ambitions of Asian governments, including those in Southeast Asia; second, the resilience of US power and leadership; and, third, the state of play in China’s influence relative to the United States in Asian states around China’s periphery.30 To some extent, a rising China generally accommodating to its neighbors benefits from the fluid post-Cold War Asian order as various Asian governments, notably many of those in Southeast Asia, seek to broaden international options with various powers in a continuing round of hedging and maneuver for advantage. However, as China rises in influence in Asia, these same neighboring governments hedge and maneuver against possible Chinese dominance. In this process, they quietly seek closer ties
with one another and particularly with the region’s dominant power, the United States.

The United States has a proven record of being able and willing to commit significant resources and prestige to protect allies and friends. The United States is very powerful – a superpower – but it is far away from Asia, and has none of the territorial and few of the other ambitions that characterize China and other Asian powers, and is therefore less distrusted by Asian governments in comparison with how these governments view each another. As a result, most Asian governments – including most of those in Southeast Asia, as well as China and all the other major powers in Asia – give priority to relations with the United States rather than to relations with any power in Asia.

In addition to being Asia’s economic partner of choice and acknowledged security guarantor, US leadership in Asia rests on a determined administration prepared to confront adversaries and opponents. This gives pause to Asian governments seeking to challenge or displace the United States. Even hard-line Chinese critics of US “hegemony” in Asian and world affairs have been compelled to adopt a low posture in dealings with the United States, choosing to wait as China builds comprehensive national power over the next decades.31

The United States’ assertive and unilateral foreign policy behavior, especially regarding the war in Iraq, has damaged its reputation and influence in Asia, even though few Asian governments are prepared to make a major issue of events that do not directly affect their interests. The North Korean problem, however, does directly affect many governments in Asia. Asian governments tend to oppose the Bush administration’s hard line, but the US government’s consultative approach has somewhat mollified their concerns. The US government’s handling of the India–Pakistan dispute over Kashmir and Taiwan Strait tensions – Asia’s other major flashpoints – receives muted appreciation among Asian governments.

China’s rise in Asia, focused on burgeoning trade and adroit diplomacy, has little direct bearing on the strength and weakness of US leadership in Asia and the US relationship with Southeast Asia. US leadership is more directly affected by how the United States manages its security presence in Asia and open markets, and is complicated by controversial US policies: Iraq, the war on terrorism, and North Korea among others. Indeed, Chinese officials are careful to reassure the United States that China’s rise is not directed against the United States and that Beijing seeks to deepen constructive US–China relations in the region.32 Chinese leaders, like their counterparts in Southeast Asia, are aware that the uncertainties surrounding Chinese domestic political and economic developments – whether these Chinese domestic trends move in negative or positive directions – add to reasons why China’s rise in the region will remain tentative and subject to limitations, hedging, or resistance while the United States, despite difficulties, continues to exert important and unequaled leadership in regional affairs. When and if this basic situation will change seems remote and uncertain.
Notes

1 This chapter is a revision of a draft paper for the conference, “China–Southeast Asia Relations: American and Southeast Asian Perspectives on a Rising China,” sponsored by the Institute of Defense and Strategic Studies (IDSS) and the National Bureau of Asian Research (NBR), Singapore, 22–24 August 2005 by Robert Sutter, School of Foreign Service, Georgetown University. Special thanks go to the organizers and sponsors of the conference, to the panel discussion involving the paper, and to Evelyn Goh, Sheldon W. Simon, and Michael Wills for their comments on the paper.


8 In addition to many of the above citations, see Michael Vatikiotis and Murray Hiebert, “How China is building an empire,” Far Eastern Economic Review, 2 November 2003.

9 See this judgment in among others Robert Sutter, China’s Rise in Asia: Promises and Peril (Lanham, MD: Rowman and Littlefield, 2005).

10 These are reviewed in, among others, Vaughn, “China–Southeast Asia relations”; Sutter, China’s Rise in Asia, 177–208; Brantly Womack, “China and Southeast Asia: asymmetry, leadership and normacy,” Pacific Affairs, 76/4 (Winter 2003/2004): 529–48; Alice Ba, “China and ASEAN:

11 The concept of soft power, as distinct from hard power involving military, economic, or political pressure and persuasion, refers to nations getting what they want in international affairs through attraction rather than coercion, especially the attractiveness of a country’s culture and ideas. Joseph Nye, Soft Power: The Means to Success in World Politics (New York: Public Affairs, 2004).


13 The assessment in this section is based on many of the sources noted in footnote 14, and consultations with Southeast Asian officials and specialists and Chinese officials and specialists 2004–5, summarized in particular in Sutter, China’s Rise in Asia, 199–204. A BBC World Service Poll in late 2004 and early 2005 showed that, of China’s neighbors polled, the Philippines and Indonesia, as well as India and Australia, were on the whole mainly positive about China’s rising international influence, while South Korea, the United States, and Japan were to increasing degrees more negative. “22-Nation poll shows China viewed positively by most countries including its Asian neighbors,” Program on International Policy Attitudes (PIPA), Washington, DC, 6 March 2005, www.pipa.org/OnlineReports/China/China_Mar05/China_Mar05_rpt.pdf.

14 Perlez, “Chinese move to eclipse US”; Vatikiotis and Hiebert, “China building an empire”; and “America’s role in Asia: Asian views.”


17 Glosny, “Stabilizing the backyard,” 36.


20 Consultations with Southeast Asian officials and specialists and Chinese officials and specialists 2004–5, summarized in Sutter, China’s Rise in Asia, 199–204.

21 Wong and Chan, “China—ASEAN Free Trade Agreement.”


25 Owen Brown, “China’s direct investment abroad rises 27% as Beijing policy shifts,” Wall Street
These low figures are hard for specialists to explain given the wide publicity of large-scale Chinese investment and foreign assistance. It appears that much of the latter involves loans or other means that do not require the loss of Chinese funds, while the former involve business deals where the value of Chinese agreements to purchase large amounts of commodities from foreign countries over many years are assessed as Chinese “investments” in those countries.

The tsunami aftermath and the Taiwan crisis are reviewed in relevant sections of *Comparative Connections*, January 2005 and April 2005, available at www.csis.org/pacfor.

James Przystup, “Japan–China relations: political breakthrough and the SARS,” *Comparative Connections*, 5/2 (July 2003).


Between China and America
ASEAN’s great power dilemmas

Alice Ba

The emergence of China as a political, economic, and cultural power will affect our lives in a thousand ways.

Singapore Trade Minister, George Yeo

Introduction
China’s growing influence is being felt worldwide and across different issues. Perhaps nowhere, however, is China’s growth more acutely felt than in Southeast Asia and by the member states of the Association of Southeast Asian Nations (ASEAN). While China as a security concern has mostly been (for the original ASEAN states, at least) an internal and relatively recent concern with its roots in China’s revolutionary radicalism of the 1960s, it is nevertheless the case that history, geographic proximity, and also relative disparities in size and potential, all give ASEAN states particular reason to pay attention to China. This paper offers an analysis of corporate ASEAN’s political and diplomatic efforts to manage and adapt to China as a rising power and in relation to the growth and expansion of relations experienced over the last decade and a half.

The paper begins with a predicament – that is, ASEAN states’ shared predicament as lesser powers in regional and global systems dominated by larger ones. In highlighting this predicament, this paper draws attention to states’ interest in attaining and preserving some degree of autonomy by diversifying their dependence on other powers. ASEAN’s predicament has been most evident in its relations with China and the United States – the former a rising power, the latter the acknowledged global hegemonic power since the end of World War II. The paper then discusses how this predicament conditions and informs ASEAN’s corporate and institutional response to China – first in the late 1980s to mid-1990s and then in the post-1997 period following the Asian financial crisis. Special focus is given to the emergence of new institutional arrangements and regional processes as part of ASEAN states’ larger effort to engage, socialize, and manage a rising China. Such arrangements include the ASEAN Regional Forum (ARF), ASEAN+1, and ASEAN+3 (and the East...
Asian Summit as well). At the same time, many of these wider arrangements both reflect and prompt concern about ASEAN’s limitations as an institution.

The paper concludes with a discussion about states’ hopes and fears about China, as well as some underlying and potential tensions between the United States and the ASEAN states where China and China policy are concerned. It also situates recent ASEAN–China developments in context and relative to the histories and expectations associated with ASEAN states’ great power relations.

**ASEAN’s great power predicament**

ASEAN’s great power predicament is fundamentally a dilemma about relative dependency on and autonomy from China and the United States: the United States because it has played such an important role in the regional security and economic development of Southeast Asia; and China because it has been a primary security concern of ASEAN states first as an internal security threat in the period after post-World War II and now as a rising power in the post-Cold War era. ASEAN states’ predicament vis-à-vis each of these powers is related in the sense that concerns about China have been one of the more important challenges to ASEAN sovereignty, as well as reason for why states desire and support a US political, military, and economic role in Southeast Asia. However, relying on the United States also puts at risk important autonomy goals and values.

Understanding ASEAN states’ common predicament and interest in autonomy is important for at least two reasons. First, it reminds us that though individual member states may have different interests and preferences, they also share a common predicament as lesser powers in regional and global systems dominated by larger ones. This predicament as lesser powers, along with ideas about national and regional resilience, provides an important basis for organization – not just in 1967 (when ASEAN was formed) but also today, as states continue to negotiate their post-Cold War relations with China. Second, focusing on states’ interest in autonomy and diversifying dependence widens our attention to include states’ relations with other major powers like the United States and Japan and the ways that ASEAN states’ relations with those other powers also inform states’ response to China.

This last point is worth underscoring especially as regards the US role in Southeast Asia. Again, the United States has been a primary provider of security, as well as economic goods considered critical to states’ national stability and development. Consequently, in the realm of both economic and security, most ASEAN states view the United States as being their most critical great power relationship. At the same time, dependence on the United States has also come with concerns about being abandoned, about being subject to shifting US priorities, and about a general lack of control over the future. In addition, there is also considerable awareness among the ASEAN states that the United States is no ordinary great power, and that as such, it also wields great power to intervene, interfere, dictate, and manipulate. Put another way, as lesser and mostly post-colonial states, states need important economic, political, and security resources that are associated with,
or controlled by, the United States; however, such reliance also puts states in a position of dependence and vulnerability that impinges on sovereignty.¹

This predicament sets up and defines ASEAN’s response to China in the post-Cold War period, a time marked by intensified questions about the US willingness and ability to provide the economic and security goods that it did during the Cold War, as well as its more active post-Cold War effort to liberalize and promote human rights abroad. Questions began with trade and a hardening of US trade policies towards the ASEAN economies in the late 1980s. Uncertainties about the US military commitment soon followed as the United States itself adapted to a post-Cold War world where economic competition was fiercer and the military threats less clear or imminent.

These concerns about dependence, autonomy, and interference arose, moreover, just as China’s economic, military, and political influence seemed to be picking up momentum. States found themselves faced with a rising China – a China whose intentions were less certain, that had become more assertive in its territorial and maritime activities in the South China Sea, and whose military expenditures and economic potential were on the rise. The coincidence of uncertainty about both the United States and China confronted ASEAN states with a complex situation where China came to represent, on the one hand, an intensified challenge – a challenge to ASEAN’s political, economic, and territorial interests at a time when US security guarantees seemed most uncertain – but also an opportunity, specifically an opportunity to diversify states’ dependence and create some additional space and range of action.

A rising China and ASEAN-style engagement

ASEAN’s response to developments reflected the organization’s particular material and political constraints. The destabilization of US guarantees and the rise of Chinese influence compelled states to seek other arrangements; however, as lesser powers with limited material capacities (relative to China) and as a group whose institutional identity had come to be defined by a non-coercive diplomacy, ASEAN’s institutional response to China was constrained in key ways. In particular, these considerations meant that a militaristic or even confrontational response on the part of corporate ASEAN to a rising China would be limited and considered a less appropriate course of action. What did become clear, however, was that the situation called on states, individually and collectively, to engage China. In regards to ASEAN states’ political security concerns, engaging China aimed to expand and improve relations so that security vis-à-vis China might be stable regardless of any US course of action. This is why many describe ASEAN’s engagement of China as a “hedging strategy” – it hedges against the possibility of further US retrenchment. Such an engagement attempts to moderate a potentially belligerent China, “hedge” against aggressive Chinese domination, and dampen potential regional instability.²

In addition to the uncertainties in areas of regional security, changing US trade policies also factored in terms of ASEAN interest in engaging China. While the lure of the China market was attractive in and of itself, China was certainly made
more attractive by Washington’s changing trade policies tying human rights to trade, and trade to security in the early 1990s and the US backlash against Asian products and trading partners in the late 1980s and early 1990s. For the ASEAN states, whose primary security concerns have mostly been of an internal, domestic nature, the economic goods provided by the United States over the decades of the Cold War have been as important to their security as the role the United States has played in a more traditional security sense. Thus, security and trade developments highlighted the vulnerability and autonomy trade-offs that came from overly relying on the United States, be it as security guarantor or as driver of ASEAN economic growth.

Mostly, uncertainties surrounding the US commitment created additional incentives to work and trade with China. Expanded economic relations and improved political relations with China would create new political, economic, and institutional foundations for ASEAN–China relations that would serve states well should the US commitment weaken (for whatever reason – changing strategic priorities, domestic politics, or as part of an effort to reform Southeast Asia’s illiberal governments). Similarly, the development of China as a supplementary market for ASEAN goods could ease some of ASEAN’s vulnerability and sensitivity to US pressures.

What therefore followed was a steady expansion of exchanges and dialogues between the ASEAN states and China. Much of the initial interest was economic, with states seeking access to the China market in the late 1980s. These activities vis-à-vis China, however, were pursued mostly on a bilateral basis. In the context of ASEAN regionalism that has mostly preserved individual member’s range of action, such bilateralism or unilateral pursuit of such arrangements is not inherently problematic. Nevertheless, these activities vis-à-vis China did factor into growing concerns about ASEAN’s future institutional relevance. This was a concern that was prominent in the minds of many who worried about ASEAN’s unity in a world where Cold War concerns, especially Vietnam’s intervention into Cambodia, no longer provided unifying purposes. Thus, the growing interest of individual members (especially Thailand) in China and states’ apparent interest in pursuing extra-ASEAN activities added to growing concerns about organizational unity and relevance.

Given both the political security and institutional challenge China posed to ASEAN, bilateral efforts were soon supplemented by, and folded into, a larger institutional effort to engage China. In 1991, for the first time, China came to enjoy normal relations with all the ASEAN states. Also in 1991, China attended ASEAN’s annual Post-Ministerial Conferences (PMC) for the first time as a consultative partner (it became a full dialogue partner in 1996). The ASEAN-PMC also gave rise to other arrangements, most notably, the ASEAN Regional Forum (ARF), East Asia’s first multilateral security dialogue. Though states were initially wary of such an arrangement (partly due to fears about ASEAN’s institutional relationship to such larger groupings), the ASEAN states came to view the ARF as serving a number of purposes. These included keeping the United States involved in the region but also reaching out to other interested powers as a way to diversify and expand existing regional relations and security foundations. The ARF was also about creating a
supplementary process in the interest of dialogue and transparency, and also moder-
ating a rising China through its inclusion and participation in regional processes and
frameworks.
In addition to the ARF, the 1990s also saw the emergence of other multilateral
frameworks whose purposes were even more explicitly tied to engagement
processes and on expanding communication and exchange. They also did not
necessarily include the United States. These included, for example, the Workshop
on Managing Potential Conflicts in the South China Sea and the ASEAN+3
(China, Japan, and South Korea) meetings. Engagement and dialogue also took
place bilaterally between China and ASEAN and became regularized through the
ASEAN–China Senior Officials Consultations, ASEAN–China Joint Cooperation
Committee meetings, ASEAN Plus China framework (alongside the ASEAN+3
process), and regular ASEAN–China summits. Various committees created to
promote functional cooperation on specific issues added additional layers to
ASEAN’s relations with China.
Thus, engagement came to be an important part of ASEAN’s institutional and
corporate response to China. In one sense, ASEAN’s institutional engagement of
China could be seen as a supplement to existing US arrangements; in another
sense, engagement was also much more than a simple hedging strategy. Though
ASEAN remained wary of China and its intentions, there was also the hope that
engagement and dialogue – much as it had for the ASEAN states – could transform
a competitive and conflictual relationship into a more cooperative one. Indeed,
despite varying degrees of concern among the ASEAN states about China and
differing ideas about the US security role, there emerged important agreement
about the necessity and value of engagement processes – bilateral and multilateral,
political and economic, informal and formal, that is, “complex engagement” – as
one way to mitigate against possible conflict with China. That engagement is
further defined in large part by ASEAN’s consensual style and emphasis on reas-
surance and relationship-building over coercion and deterrence.
Consequently, a mix of different institutional arrangements came to be a center-
piece of ASEAN’s response to a rising China. Specifically, ASEAN states have
increasingly looked to bilateral and multilateral engagement to create a con-
straining “lattice of networks and relationships” to improve transparency, and
“ease out” specific irritants in their relations with China. At the same time,
ASEAN’s complex engagement of China is also about more than the creation of
interdependence. Specifically, complex engagement is also about persuading
China to think and act less confrontationally in matters regarding regional security
and relations with the ASEAN states.
Thus, underlying ASEAN’s complex engagement of China is an important
belief that such engagement processes serve important reassurance and political
security functions. This is true even of those arrangements that were not explicitly
targeted at political security issues and concerns. As one of ASEAN’s founding
elites Ghazali Shafie explained about China-inclusive arrangements like the East
Asian Economic Caucus (EAEC), “though economic in name, the basic thought
was political and social in intent to ensure togetherness and the sharing of common
fate and destiny.” Ultimately, ASEAN’s complex engagement of China can be seen as a kind of socialization effort aimed at persuading China to adopt a culture of restraint, respect ASEAN norms, and positively identify its interests and future with the ASEAN states.

As regards the predicament ASEAN states confronted in the late 1980s and early 1990s, developments suggest that they mostly succeeded in creating a stronger foundation for ASEAN–China relations by the end of the decade. Indeed, ASEAN’s relations with China experienced dramatic improvement, and as a consequence, were less sensitive to fluctuations in US policies and commitments. At the very least, the expansion of relations associated with engagement created important avenues of communication and regular dialogue that could stabilize, as well as strengthen, relations. China’s reciprocating efforts to engage and reassure ASEAN states also helped to further expand, deepen, and improve relations. Consequently, while a US security presence in Southeast Asia certainly remained one important emphasis of ASEAN’s effort to manage its China relations by the end of the 1990s, regional engagement strategies had also become much more central as ASEAN grew more confident with complex engagement.

In sum, concerns about an over-dependence on the United States and about a rising and more assertive China all contributed to ASEAN engagement with China. These concerns have also helped catalyze the creation of new processes and institutional arrangements as a means to enmesh China in economic webs of interdependence, socialize China to ASEAN norms, and weave China into the institutional fabric of the region. The overall improvement in ASEAN–China relations also heightened ASEAN confidence in regional engagement processes and strengthened the argument that a “policy of friendship is better than a policy of containment.”

A persistent predicament

The end of the 1990s thus found ASEAN–China relations much improved. While there remained concerns, there was also growing hope and receptiveness to the idea that China could contribute to – rather than detract from – regional security in important ways. China also began to take a more proactive role itself in engaging the ASEAN states. The moderation of China’s policies and its willingness to accommodate some key ASEAN concerns have lent credence to Jiang Zemin’s proclamation that 1997 would mark the “beginning of a new stage of development in Chinese-ASEAN relations,” involving more active participation, enhanced mutual trust, and strengthened cooperation in “all areas.”

The 1997–98 Asian financial crisis represented a defining moment in ASEAN relations with China. As now widely discussed, China’s decision not to devalue the renminbi – and its willingness to keep that promise despite incentives to devalue – was very well received among ASEAN states. To be sure, China’s contributions to the IMF and bilateral supplementary packages given out were relatively small; and true, there were also reasons for China not to devalue the renminbi – nevertheless, China’s readiness to assist affected ASEAN economies contrasted well with
the actions of the United States and Japan, which were perceived as doing too little.\textsuperscript{11}

In addition, China expanded its participation in regional fora, abandoning its old preference for bilateral discussions over the South China Sea conflicts. It played a key role in developing the Declaration on the Conduct of Parties in the South China Sea signed in 2002. China also began to initiate new cooperative arrangements itself. In trade and economics, China proposed an ASEAN–China Free Trade Area (ACFTA) initiative largely aimed at addressing ASEAN states’ concerns about China as a looming economic threat. While other states, including Japan and the United States, soon followed with free trade proposals of their own, China’s proposal nevertheless stood out. Not only did it offer more to the original ASEAN states, but it also made important accommodations to ASEAN’s newest members. In addition, China’s proposal, though it also came to have bilateral components, was proposed to ASEAN as a group and was viewed as more supportive of ASEAN than the US and Japanese proposals. The US Enterprise for ASEAN Initiative (EAI) was offered to individual ASEAN states that met certain conditions – conditions that excluded ASEAN’s newest members and initially some original members. Japan offered its FTA to ASEAN as a group but only after it was criticized for proceeding bilaterally.\textsuperscript{12} In this sense, China’s offer to ASEAN as ASEAN was viewed as being more supportive of ASEAN as an organizational and political entity.\textsuperscript{13} Today, ASEAN states remain very concerned about their ability to compete economically against China in domestic as well as in third party markets; but they also see in China’s initiatives an important effort to reassure the ASEAN states and include them in China’s economic growth. This conclusion, for example, helped to persuade states to sign ACFTA in 2002 despite some strong reservations of several ASEAN states.\textsuperscript{14}

But though the last decade has found ASEAN–China relations much improved, this has not meant an end to ASEAN’s concerns about China. In particular, economic concerns have grown especially prominent since the Asian financial crisis and China’s entrance into the World Trade Organization (WTO). The disparate effects of the crisis on China, compared to the ASEAN states, has had the effect of reminding the ASEAN states that the relationship is defined by different capabilities and potentials. While relative power differences also defined relations before 1997, ASEAN states prior to the crisis had some leverage as attractive to investment and trade opportunities and as the preeminent regional organization in East Asia.\textsuperscript{15} However, not only were these former “miracle economies” transformed into “problem economies” by the crisis, but the absence of an explicit and coordinated ASEAN response also greatly hurt ASEAN’s image and leadership credentials in other fora like the ARF. Other developments – Indonesia’s political instability, problems in Cambodia, the environmental haze caused by fires in Kalimantan – only reinforced a growing image of Southeast Asia as in disarray. The financial crisis thus served to underscore structural inequalities that characterized the China–ASEAN relationship. While ASEAN had found such disparities worrisome before, the crisis, by revealing the problems of ASEAN growth strategies and regional organization, diminished ASEAN’s economic and political
leverage over regional developments and thus heightened a sense of vulnerability. Since China’s entrance into the World Trade Organization, those concerns have been exacerbated by China’s ability to attract the lion’s share of Asia-bound foreign direct investment and what many see as the redirection of investment to China and away from ASEAN.\footnote{16}

In addition to ASEAN concerns about being able to compete with China for trade and investment, there are also concerns that ASEAN as a whole will be overwhelmed and overshadowed by China. To take ACFTA as an example, ASEAN is interested in accessing the China market and see association with China as a way to increase the attractiveness of their own economies. They also see China’s initiative as a positive gesture. At the same time, ASEAN is also wary about China’s economic dominance and influence, China’s domestic stability and ability to manage economic reforms, and China’s future intentions. ASEAN states generally perceive China in a much more positive light than they did 20 years ago, but that does not mean that distrust and suspicion have been eliminated. While China’s economy can offset an over-dependence on the US economy, ASEAN states also fear over-dependence on the Chinese economy and that Beijing might in the future use that dependence to pressure the region. Thus, while ACFTA demonstrates China’s responsiveness to ASEAN concerns, and is a welcomed attempt to create cooperation rather than competition, members nevertheless continue to have questions about what ACFTA signifies, and are concerned that in a bilateral relationship between China and ASEAN the latter will find its autonomy to be considerably diminished.

Thus, China’s economic challenge and, more generally, the recent intensifications of relations intrinsically contain a deeper political challenge that has potentially significant ramifications for Southeast Asian autonomy. These concerns were an important reason why ASEAN welcomed the free trade proposals offered by Japan and the United States – even if those proposals offered less than China’s. ASEAN states have also been working on proposals with other powers, which can mitigate China’s influence and further diversify states’ dependence.

ASEAN’s concern that it might become – or be perceived as being – “too close” to China can be found in another recent example: specifically, ASEAN’s decision not to act on China’s expressed willingness to sign onto the Southeast Asian Nuclear Weapons Nuclear Free Zone Treaty protocol at the November 2004 ASEAN summit in Vientiane. Instead, after reportedly intense debate, ASEAN decided that it would be best to wait until other nuclear powers were also willing to sign.\footnote{17} This desire to put some distance between itself and China is consistent with ASEAN interest in diversifying its relationships. ASEAN may also be responding to Washington’s concerns about the growing China–ASEAN relationship and the perception that Washington is being marginalized.\footnote{18} These concerns have prompted states to give more serious attention to the expansion of other regional ties. In addition to the United States and Japan, ASEAN is pursuing closer economic relations and free trade arrangements with Australia, New Zealand, India, and South Korea. Since 1997 there has also been the expansion of political activities and relations with the European Union, Russia, and Pakistan.
Autonomy concerns about China may also be adding to the momentum behind “East Asian” regional arrangements – most notably, the ASEAN+3 process, which has exhibited considerable activity and dynamism since 1997, and the East Asian Summit, which holds its inaugural meeting in December 2005. A more multilateral arrangement that includes others powers – as opposed to just ASEAN and China – can also offset or dilute some of China’s growing influence. At the same time, the movement toward East Asian arrangements also comes with other concerns. As with its initial reaction to the ARF, ASEAN states have displayed more than a little concern that their voices – individually, collectively, and organizationally – will be subsumed or eclipsed by these larger arrangements. The reluctance that most in ASEAN have displayed towards an explicitly East Asian group and an ASEAN+3 secretariat was a function of this concern. On the other hand, there is still an understood need for East Asian cooperation as leverage, alternative, and supplement to US-dominated global regimes. Both ASEAN’s greater comfort level with China and its interest in mitigating the intensity of its relationship with China by bringing in Japan, Korea, India, and now Australia and New Zealand as well, are also likely factors behind the East Asian Summit.19 Philippines’ President Gloria Macapagal-Arroyo summarized ASEAN’s complex motivations at the 2004 ASEAN+3 summit in Vientiane:

There is only one way out, not by looking West but by looking inward. A large East Asia bloc can secure ASEAN, China, Japan, and Korea as economic leaders in the Asia-Pacific. We must ensure that China, Japan, and Korea find it more convenient to be in our bloc than not.20

ASEAN’s hopes and fears

Developments in the last 15 years mean that ASEAN’s views of China are much more complex than they used to be. On the one hand, ASEAN relations have improved significantly and views about China have softened. On the other hand, some concerns about China remain. As evidenced by some of the setbacks on the way to an ASEAN–China Free Trade Area, ASEAN states remain very concerned about being able to compete economically with China not just in third party markets but also in their own. Most of all, ASEAN states harbor a fear that China’s current good neighbor policy is simply instrumental and thus temporary, lasting only so long as China considers itself a weaker power vis-à-vis the United States. Such concerns were expressed, for example, at a 2004 workshop organized by the Stanley Foundation. At that workshop, some Southeast Asian participants noted that alternative periods of activism and quiescence have characterized Chinese policies towards the South China Sea dispute, and warned that a less friendly China could still make a reappearance.21 These concerns are softer than they used to be but do still exist. Only China’s sustained attention and sensitivity to ASEAN over time will address these concerns.
At the very least, states recognize that despite the “greater sophistication” exhibited by China’s ASEAN policy of late, there will continue to be room for mistakes and overreactions. Taiwan is a particular focus of concern and has already complicated China–ASEAN relations. A relatively recent example is China’s overreaction to Singapore’s Lee Hsien Loong’s meeting of Taiwanese leaders during a 2004 visit to Taiwan – over-reaction because Singapore and other ASEAN states have little interest in encouraging Taiwanese independence as that could lead to a dangerous US–China conflict, destabilize economic growth, and draw ASEAN states into an impossible situation.22 Less controversial but still a good indicator of how Taiwan has been an issue in China–ASEAN relations was China’s decision not to attend the May/June 2004 ASEAN ISIS Asia-Pacific Roundtable because some Taiwan security specialists would also be participating.23 ASEAN states, as a rule, recognize that Taiwan is a very particular issue for China, with its own dynamics, and thus need not hold any significance for other issues or for China’s relations with other powers. Nevertheless, China’s policies on Taiwan and willingness to risk significant economic interests and diplomatic advances/objectives (vis-à-vis other powers, as well as ASEAN) in order to prevent any acknowledgement of Taiwan also serve as potent reminders that China, despite its new diplomatic face, economic priorities, and cultivation of soft power, is still quite willing to use and threaten force on issues that it identifies as being of great importance. ASEAN states may know that “[Beijing’s] bark can be worse than its bite,” but these actions are also reminders of the old China that used “threats and bluff to force other states (friends and foes alike) to accede to its will.”24

Nevertheless, it is also safe to say that states are more optimistic about their relations with China than they were 15 to 20 years ago. Fears remain, but the improvement of relations has also led to a number of hopes where China is concerned. In particular, there is hope that China can and will provide a voice in global fora, as well as regional leadership. This is especially true in the area of trade and economics, an area where many had previously hoped Japan would provide such leadership. The kind of regional leadership ASEAN envisions is one that expands market access for ASEAN goods in China, one that works towards preserving and expanding market access in the United States and other countries, one that facilitates and helps attract investment to Southeast Asia, and one that speaks up for the concerns of developmental states in global fora such as the World Trade Organization and the United Nations, as well as the World Bank and International Monetary Fund.25

ASEAN’s interest in leadership from China speaks to some of its dissatisfaction with existing arrangements and bilateral relationships. In the late 1980s and early 1990s, as global trade talks stumbled, as Western Europe and the United States pursued their own regional trading blocs, and as Washington adopted increasingly hard-line trade policies, the search for alternative leadership began. These concerns and this search for new leadership have persisted into the new millennium due to troubled global trade negotiations, as well as Washington’s focused attention on Latin America, especially the creation of a Free Trade Area of the Americas (FTAA). Fifteen years ago, it was Japan that the ASEAN states
looked to for regional leadership. However, after nearly 20 years of looking to Japan to for an economic leadership role, it has become increasingly clear to most that Japan is too constrained by its own domestic politics, the United States, its troubled economy, its militarist history, and, finally, too constrained by its own ambivalence to play that role. The real turning point in ASEAN’s search for new regional leadership may be the Asian financial crisis – a crisis that dramatically demonstrated Southeast Asia’s economic and political vulnerabilities and particular dependence on US leadership and policies. Indeed, various observers (scholars, analysts, and seasoned diplomats) made note of the popular post-crisis view that the US might not be just undependable but that it might even be actively working to bring Asia down.26

In short, if China’s image in Southeast Asia improved after the financial crisis, the US image tended to suffer. At the same time, this preoccupation with whether China or the United States fared better from the crisis also obscures what the crisis really was about for the ASEAN states – a lack of options. The severity of the economic shock highlighted both the extent of their dependence on global financial flows and the limitations of their available responses. With regards to existing international arrangements, ASEAN also found itself with little influence over decisions that directly affected them. In that the United States was widely viewed (correctly) as exercising particular influence over the assistance available to the ASEAN states, much of ASEAN’s concerns focused on the United States. The Asian financial crisis especially brought home the lesson that ASEAN states are not just dependent on the United States as trade partner or as security stabilizer, but that the power of the United States (and ASEAN’s vulnerability to the United States) in fact goes well beyond that, since the United States is also the primary controller of international institutions, definer of international norms and rules, and provider of state and regime legitimacy. Thus, it must be understood that the post-1997 expansion of ASEAN–China relations and pursuit of such regional arrangements, as East Asian or ASEAN-plus initiatives are less about excluding the United States than they are about creating options. The issue here may be different for ASEAN’s newer members for whom the balance of dependence has historically been different – Vietnam, for example, sees in Washington a way to mitigate its intense relations with Beijing – nevertheless, for the original ASEAN states plus Brunei, what China may most represent is an expanded choice and a stronger voice on issues of direct concern to ASEAN states but on which they have had only limited input.

Underlying tensions over China policy

On the question of China, there are important differences between ASEAN states and the United States. The biggest difference between the ASEAN states and the United States may be that the United States tends to view China as an emerging rival and competitor while the ASEAN states mostly accept that inequalities will continue to be a defining feature of their relations. The United States, as the primary architect of global regimes and liberal institutions, also tends to see China
as more problematic because of China’s authoritarian regime. By contrast, the ASEAN states – most with illiberal tendencies themselves – are less concerned and do not see China’s authoritarianism as necessarily linked to China’s willingness or ability to work with other states.

These differences in capability and domestic orientation lead to different ideas and emphases on the question of how best to respond to China. As regards US policies, ASEAN’s concerns focus mostly on the more hawkish views of China that are often associated with those in the US Defense Department, who see China as a growing challenge to US interests. From the perspective of ASEAN states, overly hard-line and confrontational policies can only intensify Chinese insecurities and consequently complicate ASEAN’s interest in diversified relations. Thus far, China — though it may wish to see US dominance in Asia minimized — seems to accept and respect the preference of ASEAN states for a continued US strategic role and presence in the region, but that could also change should China feel more threatened.

Thus, ASEAN states hope the United States will focus more on “building good relations” and place greater emphasis on engagement and reassurance, as opposed to assuming future conflicts with China.27 At the same time, there are some differences in how ASEAN states understand the goals of engagement and how US proponents of engagement often do. Specifically, states see engagement as modifying Chinese behavior and goals, but compared to the United States, they place less emphasis on engagement as the means to democratic change in China. Many also question some of the more interventionist efforts the United States sometimes pursues to produce domestic and democratic change in China.28 Again, states tend to see the issue of a democratic China as less critical to the question of a moderate foreign policy based on mutual respect. Instead, ASEAN states are more likely to put greater emphasis on a politically stable and relatively secure China rather than one that is liberal or authoritarian.

In short, though ASEAN states support a US role in Asia, they do not support a hostile, anti-China role. In fact, ASEAN states generally believe that confrontational policies will produce exactly what nobody wants – a more hostile China. ASEAN is also concerned about China’s economic and political stability. While ASEAN and the United States may welcome further economic and even political reforms in China, ASEAN would prefer that the United States pursue this reform agenda cautiously. Their fear is that pushing reforms too quickly or too extensively could destabilize China, which then opens the door for less friendly policies or leaderships and could result in other undesirable economic and political consequences. ASEAN states see passive or soft balancing as beneficial to the objective of regional stability, and are not interested in seeing potentially destabilizing competitive balancing occur.

Perhaps most of all, ASEAN fears the possibility of US–China conflict whether by design or by accident (e.g. over Taiwan where nationalist sentiments combined with the potential for posturing and miscalculation make for a dangerous combination). Even more simple competition for influence in Southeast Asia has its problems despite the fact, that, thus far, much of the competition has been
relatively benign and even beneficial for Southeast Asia. For example, China’s ACFTA compelled the United States, Japan, and other powers to offer proposals of their own.

In the political security realm, competition has also brought some beneficial effects. Simon observes that in 2004 Washington increased its technical assistance and training to Southeast Asian navies patrolling the Malacca Strait “coincidentally” just as Beijing proposed to raise its maritime profile in the region. Similarly, the reinvigoration of US–Philippine security cooperation has been accompanied by the expansion of military exchanges with China and a promised $1 billion in soft loans and investment from Beijing, some of which is to be targeted at “enhancing the [Philippines’] roles as logistics and service hub in Southeast Asia.” A Strategic Partnership for Peace and Security between China and ASEAN, agreed to in 2003, has been followed by an Enhanced Partnership between the United States and ASEAN in 2005.

In short, recent competition between major powers has had some economic and political benefits for ASEAN states and can be seen as giving ASEAN more space and autonomy, especially in the economic realm. However, such competition can also be a dangerous game for ASEAN to play as ASEAN’s predicament will become most apparent should Southeast Asian states ever be forced to choose between China and the United States. Some ASEAN states may already be feeling pressure. In one reported instance, a US official expressed displeasure about Southeast Asia’s growing ties with China by suggesting that US–ASEAN relations would suffer “erosion” if Southeast Asian states persisted in expanding their political-military cooperation with China. Such pressures may suggest that some view US–China competition in Southeast Asia in zero-sum terms where any improvement or gains in China–ASEAN relations are a setback for the United States. Another US interpretation is the expansion of ties, along with the development of “East Asian” arrangements, means that the United States is being pushed out of the region despite the best efforts of states like Singapore to convince the United States otherwise. Both views, however, would fundamentally misread ASEAN and the ASEAN states, which seek to diversify their dependence and relations, not replace dominance by the United States with China. Most of all, having to choose can only be a no-win situation for Southeast Asia. For these states that live in the unavoidable shadow of China but for whom the United States is so important in so many ways, that choice will be an impossible one to make.

China’s impact on the US role in Southeast Asia

Because it may be tempting to view recent improvements in ASEAN–China relations as signifying the growing marginalization of the United States from East and Southeast Asia, it seems important to put developments into context. The significance of recent developments must be understood in relation to the different expectations that the ASEAN states associate with each major power. Specifically, the ASEAN states, having been both beneficiaries of US Cold War policies and also US Cold War allies, expect more from the United States. Furthermore, the
United States remains unparalleled in its economic, political, and military power and is the pre-eminent power in the regional and global system. Hence, ASEAN expects the United States to be able to do much more – not just in material terms but in terms of global and regional leadership on questions such as trade. Similarly, the ASEAN states expect as much from Japan, an economic superpower.

By contrast ASEAN states’ expectations of China began quite low. The 1990s, in fact, began with expectations of conflict; thus, anything better than conflict could be seen as progress. Also, ASEAN states expect less from China in a material sense. China may be a major power and ASEAN may hope China will provide important regional leadership in trade and economics, but China is also a developing power with all the constraints – material, political, domestic, and international – that come with it. This means that states do not expect China to be able to do as much for them as the United States or Japan. This is partly why China’s gestures and its willingness to work with ASEAN – during the Asian financial crisis, the ASEAN–China Free Trade proposal, as well as other trade and investment concerns – are viewed as positively as they are. China’s willingness to work with ASEAN without being pressured is a contrast to the reluctance ASEAN sees in the other major powers.

Thus, if it sometimes appears that China is gaining in Southeast Asia at the expense of the United States, it may be partly due to the fact that ASEAN’s respective expectations of each power are varied. However, it is still worth reflecting further on how US policies may themselves be creating additional space and opportunity for the growth in China–ASEAN relations. In the United States, the narrative is often focused on China – China’s policies, China’s intentions, and China’s efforts to displace the United States from Southeast Asia. And while it may be true that China is seeking leverage and seeking to minimize US influence, the problem with this narrative is that it may also miss the ways that dissatisfaction with some US policies have contributed to ASEAN states’ interest in solutions that are not US-centered. Put another way, China’s overtures to ASEAN would not be very effective if there were not some receptiveness on the part of Southeast Asian states.

On a range of issues, there are more questions being asked about US interests and leadership relative to 20 years ago. US trade policies push the liberalization of Asian markets and open investment, but that stance contrasts with Washington’s own protectionist measures – the protection of US steel, manufacturing, agriculture, as well as proposed legislation against outsourcing, and abuse of anti-dumping trade measures. Washington pushes burden-sharing and alternative leadership only to object when states seek out more independent, non-US-based solutions (e.g. Japan-led initiatives: the Asian Monetary Fund – AMF; and East Asian Economic Group – EAEG). Southeast Asian states are lectured by the United States on human rights and democratic process, only to be confronted with US abuses at Abu Ghraib prison and circumvention of international law and process as regards Iraq; these contradictions diminish US credibility in the face of ASEAN states.

From the perspective of ASEAN states, US trade policies also often under-
appreciate what they see to be a critical link between trade and national stability/security. There have been concerns that US decisions to withdraw aid and assistance from countries like Indonesia and Cambodia (on human rights grounds) may do more harm than good with respect to regional security questions. For the ASEAN states, these policies are about more than human rights; they are regional security concerns. The continued restrictions on Indonesia are considered especially worrisome to ASEAN states because Indonesian stability is seen as so central to regional security. Restrictions also have implications for intra-ASEAN cooperation, especially between Indonesia and the Philippines, whose inability to police their common border appears to be allowing for greater terrorist activity.

These questions and contradictions in US policy create a context in which states are more interested in expanding their field of relations. This interest is not exclusive to China, but China has benefited because of its own interest in expanding its influence in Southeast Asia and mitigating US pressures. As one observer characterized it, “at various intervals in the 1990s, US relations with Southeast Asia might have been described as a loose arrangement of irritations.” Those irritations have provided “entry points [for China] to expand relations with individual countries and strengthen its overall role in the region.” Much has been made of how US assistance to Southeast Asia after the tsunami in 2004 has led to an up-tick in Southeast Asian (especially Indonesian) views of the United States; however, the tsunami effect will be a temporary one if it is not supported by informed policies in other areas of concern to Southeast Asia.

To be clear, neither the disappointments about the United States nor the expansion of ASEAN–China relations change the fact that ASEAN states see an important role for the United States in Asia. The fact that the United States will continue to be the pre-eminent power for some time to come will alone ensure the United States a place in Southeast Asia; there also remains much respect for the United States and the political values it has historically represented. What the rise of China does mean, however, is that the United States is no longer the only game in town. Southeast Asian economies have been looking to China to provide a supplemental motor for Southeast Asian growth in both trade and investment at a time of tougher US trade policies, new uncertainties about the US economy, and a time when US domestic interests often appear anti-Asia. ASEAN states are also looking to improve ASEAN–China relations on their own terms as a hedge against what they see to be further US military and political disengagement. They are also looking to China to provide some voice for East and Southeast Asian interests and perspectives on trade and development in global fora.

For the United States, these developments mean that it cannot be as complacent about its Southeast Asian relations as it used to be. And here the contrast between the approaches that the United States and China have pursued in their ASEAN relations may also give us some insight into recent developments. Perhaps the most critical difference between China and the United States where Southeast Asia is concerned is that China has not taken its relations with Southeast Asia for granted. China has had to work hard to convince the ASEAN states that it is interested in working with them and that it is attentive to their interests. This has not
been easy nor has it happened quickly. China, however, has remained attentive to ASEAN despite its greater advantage, which impresses ASEAN states, even though they remain wary of China’s intentions.

In contrast, the United States is often perceived as displaying less commitment, attention, and care. In US failure to consult ASEAN states on matters of Southeast Asian concern is a longstanding complaint but many in ASEAN nevertheless see it as indicative of the unimportance the United States attaches to Southeast Asia or a lack of interest in the region. Most recently, the United States has also been criticized for not paying enough attention to the concerns of Southeast Asian states and East and Southeast Asian issues. For example, of the major powers, the United States comes across as having the least respect or patience for ASEAN and ASEAN-derived processes. US officials that work with ASEAN can, in fact, be quite blunt about this. This leads to Washington’s preference for dealing with states bilaterally, as opposed to multilaterally, but ASEAN consequently sees Washington as being less supportive of ASEAN as an organization. Some also worry about potentially divisive effects on ASEAN that come from this bilateral approach.

The appointment of Robert Zoellick, who is very well-regarded in Southeast Asia, to the position of US Deputy Secretary of State may signal a more sophisticated and attentive approach to Southeast Asia, but as long-time commentator on Southeast Asian affairs, Michael Vatikiotis puts it, Zoellick also needs to be backed up by his superiors. For example, while most in ASEAN viewed Zoellick’s 2005 tour of Southeast Asia as a positive signal of US attention, the beneficial effects at that visit were mitigated by President Bush’s statements preceding the 2005 APEC conference and Secretary of State Condolezza Rice’s no-show at the ASEAN meetings in July 2005. Both examples served to confirm, rather than disconfirm, two widely held perceptions: first, that the United States does not think Southeast Asia or ASEAN processes are that important; and, second, that the United States is more concerned with criticizing Asian governments than listening to them. In Japan, on his way to the APEC conference President Bush was given the special opportunity to articulate his vision for the region. Instead of speaking to the issues that most concern states in East and Southeast Asia – namely, trade and the state of the world’s trading and financial systems – he chose to deliver what one analyst described as “a highly divisive democracy speech that segregated the region by political system.”

In the case of Secretary Rice, her decision to skip the ASEAN meetings was perceived by many as a criticism of Myanmar’s government, which had been scheduled to assume the ASEAN presidency the next year (it has since declined it), and ASEAN’s policy toward Myanmar. Unfairly or not, the message being received in ASEAN is that Myanmar’s human rights practices are more important to the United States than supporting ASEAN as an institution, participating in the region’s only regularly scheduled multilateral security dialogue, or talking to North Korea which would be in attendance. Deputies like Zoellick and Christopher Hill (Assistant Secretary for East Asia) may say that the United States is “very, very much supporting multilateral structures in Asia” but the actions of Rice and Bush speak otherwise.
On the perceived “snub” from Secretary Rice, it is a fair question to ask whether analysts and observers are making too much of it. This may also be precisely the point – that there is a readiness to believe that the United States does not care that much about Southeast Asia or its views. This point further relates to an ongoing discussion about US soft power in Asia. The concern being expressed is not that China is overshadowing the United States in the area of attractive or context shaping power (China does not yet have that kind of cultural or ideological power), but rather that the United States seems to have lost some important moral authority, as well as states’ willingness to give it the benefit of the doubt. Washington still has significant clout and attraction in Asia due to its material position and historically close relations with many of the states, but it may also find that, relative to the past, states will be less receptive to its messages.

In the end, there is the sense that US inattentiveness to Southeast Asia and its concerns risks squandering its position in the region – relatively speaking. ASEAN views the United States as more “generous” and positive compared to other regions’ views – since for much of the last few decades, US power and influence in Southeast Asia have been considerably bolstered by the great respect that most countries held for it. Southeast Asian states want the United States engaged and involved, yet US inattention to Southeast Asian perspectives and interests has led many not only to doubt its commitment but also to question whether US regional security concerns and interests are congruent with theirs. At the minimum, the situation has compelled states to seek other relationships as insurance and as supplement to their US relations.

Conclusion

The expansion of relations between ASEAN and China point to a relationship that has grown increasingly more complex. On ASEAN’s side, states’ interest in engaging China reflect two interests – an interest in moderating the policies of a rising China and an interest in mitigating what has been a particularly comprehensive and intense dependency on the United States. Relations between China and the ASEAN states have improved significantly; however, the expansion and intensification of relations also come with their own particular concerns about dependency and autonomy.

As regards ASEAN’s questions about US priorities, while recognizing that the US has more important interests and preoccupations elsewhere – the Middle East, Iraq, the war on terrorism, economic and political liberalization, as well as US domestic politics – developments of the last twenty years have nevertheless underscored for the ASEAN states the dangers of over-relying on any one power. To rely solely on the United States or any one market to drive Southeast Asian economic growth is to have that growth held hostage to the fickleness of US domestic politics and its economic upturns and downturns. Further, relying on any one power for security and economic goods opens oneself up to efforts to manipulate, dictate, and pressure ASEAN governments in areas considered to be of domestic concern. It is this predicament and this context of changing US
priorities that compelled ASEAN’s expanded engagement of China politically, as well as economically.

Even more important, for these lesser powers who have no choice but to exist in China’s shadow, they must engage China and must at least try to get along with China so that relations will be strong enough and stable enough on their own terms should there be more questions about the US role in Asia. Also, where a rising China is concerned, relying on a US security role can be considered a temporary solution that fails to address the real sources of insecurity. By contrast, ASEAN states see engagement processes as laying the foundations for more stable relations in the long term. The bigger pay-off lies not in military deterrence but in China’s being persuaded that mutual respect for other states and regional norms is the surest way to ensuring its own security and future prosperity.

Continuing in this vein, it should be noted, then, that the changes and restraint that ASEAN hope engagement will produce in China is not necessarily tied to any of the political or economic scenarios outlined in this volume’s matrix – though there is one scenario that is seen as more destabilizing than the others. Specifically, the scenario most likely to work against the engagement objectives described earlier is the scenario where China faces “deep economic problems – stagnation, or worse.” Though ASEAN states have grown increasingly worried about their ability to compete economically with China (especially the economically booming China described in one contrasting scenario), they are pretty much in agreement that an economically stagnant China would most likely be destabilizing to the region as a whole. Economic stagnation is associated with political troubles, domestic unrest, and national instability. In addition, they worry that such domestic instability would introduce too many uncertainties into China’s leadership, create opportunities for more nationalist/militaristic voices, and potentially send an outpouring of Chinese refugees and workers from China to neighboring states, destabilizing Southeast Asia’s carefully constructed ethnic balances.

In general, ASEAN’s engagement of China has been mostly successful at creating a supplemental or alternative foundation for security that is less sensitive and reflexively tied to US policies and commitments. One can certainly debate the depth of changes in China–ASEAN relations and in Chinese policy, but engagement processes do appear to have strengthened relations and at very least stabilized expectations on both sides. Perhaps most important, if current trends continue – if both sides continue to be sensitive to the other and if both sides continue to practice engagement, reassurance, and restraint – it seems likely that relations will continue to expand and improve. At the least, relations have strengthened enough to better be able to withstand future challenges.

China’s focused attention to ASEAN does create potential dilemmas that get back to ASEAN’s structural dilemma – namely, their interest in preserving an important autonomy of action and mitigating its dependency/vulnerability vis-à-vis any one power. Again, states are not interested in trading US dominance for Chinese dominance – though they are interested in mitigating the dominance of both. The same concerns about external interference and the unpredictability of domestic changes and policies that are true of ASEAN’s relations with the United
States are true of ASEAN’s relations with China too – indeed more so given past relations, the newness of changes, the uncertainties surrounding China’s political leadership and future politics, and at very least, the ability of the current leadership to implement reforms and to manage all the socio-economic and political dislocations that come with them. Again, to refer back to this volume’s matrix, ASEAN states generally place more emphasis on economic and political stability and there being a reasonably assured and secure China as being the more important variables for future regional cooperation, security, and prosperity.

ASEAN and multilateral processes will also continue to be an important part of Southeast Asia’s response to China and their general predicament because states enjoy greater voice and clout in such fora than out of them. But most of all, for the ASEAN states, it cannot be just about China, just as it cannot be only about the United States. This is why ASEAN members not only continue to work on expanding relations with both the United States and China, but also with Japan, Korea, Europe, Russia, and especially India. Expanding their relations also has the effect of diffusing some of the competition and zero-sum dynamics between China and the United States that many perceive taking place in Southeast Asia. For ASEAN, having more players involved can mitigate dependence and expand choices and space for maneuver. The idea, as Singapore Prime Minister Lee Hsien Loong states, is to create a region that is “multi-connected and robust.”

Notes


10 For example, the fact that devaluation of ASEAN currencies made ASEAN products more competitive (cheaper) against China’s would have given China an important incentive to also devalue.

11 In Japan’s case, this perception may be somewhat unfair given its significant contributions to various IMF packages, its proposed Asian Monetary Fund, and the Miyazawa Initiative. It is possible that Japan’s image suffered in part because expectations of Japan commenced at a higher level.


14 See comments of Singapore Minister George Yeo, “China’s free trade proposal shocked ASEAN,” Agence France Press, 15 March 2002.


16 There is some debate about how much of that investment is in fact “redirected” away from ASEAN. There is no doubt that China is drawing a fairly disproportionate share of Asia-bound FDI but much of it may be generated by the attraction of China’s economy alone. In other words, much of the investment going to China may be new investment, not redirected investment.


18 The United States has explicitly made known its concern about its possible marginalization from the region. Its concerns have mostly focused on East Asian initiatives like the East Asian Economic Group and Asian Monetary Fund. But most recently, it has also expressed its displeasure about some recent cooperative efforts between China and some ASEAN states.

19 The inclusion of Australia and New Zealand also likely made the East Asian Summit more palatable to Washington, which has objected to exclusive East Asian arrangements, as well as to states worried about Washington’s reaction.


23 According to Ralph Cossa, president of the Pacific Forum CSIS, “Almost every think tank in East Asia has experienced Chinese bullying [on the subject of Taiwan’s participation in Track II and academic dialogues] in this regard as Beijing has even tried block bilateral academic exchanges between Taiwan institutes and their counterparts in Southeast Asia and elsewhere.” Ralph Cossa, “Regional overview: multilateralism and democracy march on, to many different drummers,” *Comparative Connections*, 6/2 (July 2004): 14.


25 Because its contributions to the IMF and World Bank are relatively small, China’s voice would clearly not be as strong or influential as Japan’s in either of those organizations however, its voice would still be larger than ASEAN’s.

See “PM to US: engaging Asian giants is better,” Straits Times, 14 July 2005.


Simon, “Philippines withdraws from Iraq.”


Some in the popular media have picked up this theme. See Mark Helprin, “Beyond the rim,” Wall Street Journal, 13 December 2004. See also comments of President Bush on the need to counter China in Southeast Asia, in Roger Maynard, “US gives Howard the nod to attend Asia summit,” South China Morning Post, 22 July 2005.


The LA Times characterized US trade policy thus as “Let’s have truly free trade for those goods we are really good at making, and in the markets you may have an advantage in, well, not so fast.” “Weaving a fair trade policy,” Los Angeles Times, 16 January 2005.


Ibid.


Michael Vatikiotis, “No rice for ASEAN this year,” International Herald Tribune, 9 July 2005

Ibid.


8 Indonesia in triangular relations with China and the United States

Irman Lanti

Introduction

The rise of China is probably one of the most salient factors affecting contemporary international relations in the Asia-Pacific. States in the region are crafting policies aimed at responding to the rise of the world’s most populous state. No doubt the policymaking process also involves the debate about whether or not, and the extent to which, the United States – both a global and a regional power – should be engaged in efforts to counterbalance the rise of China. In doing so, the policymakers in the region are influenced by both their global and domestic milieux. The results are policies that not only respond to China’s rise but also reflect the interplay of several factors: changes in the international system, regional security, and domestic politics.

For Indonesia, these global, regional, and domestic factors are especially important in shaping its response to the challenges that the rise of China poses. The terrorist attacks on the United States on September 11, 2001, the subsequent US-led war on terrorism, and, by extension, the US-led invasion of Iraq, have essentially changed the nature of security relations in the world. Regionally, Southeast Asia is still reeling from the 1997–98 financial crisis, which shattered the foundation of progressive economic growth that the region had experienced in the 1980s and early 1990s. Domestically, since the 1998 fall of Suharto, Indonesia has been experiencing a period of volatile transition. This period has been marked by the loss of stability and sense of security, the rise of separatist tendencies, increasing inter-communal strife, and widespread economic deprivation. According to Rizal Sukma – as the largest nation in Southeast Asia – Indonesia’s instability has created “domestic sources of regional insecurity.” Following the fall of Suharto there has been a leadership void within the region, and as a result Southeast Asia has become more unstable.

It is within the global, regional, and domestic contexts that the rise of China and the role of the United States as a counterbalance are viewed. This paper will discuss Indonesia’s perceptions of the rise of China in strategic terms, as well as the perceptions of many Indonesians regarding the US role in Southeast Asia, especially in relation to China’s rise. Any discussion about Indonesia’s international relations must first of all take into account a number of factors specific to
Indonesia; however, comparisons can be made with other Southeast Asian states. This paper will also highlight other salient factors that come into play with respect to Indonesia’s relations with China and the United States. From the perspective of many Indonesians and other Southeast Asians, this relationship can be perceived in a triangular form. This chapter concludes with an argument that Indonesia’s foreign policy, like those of many other Southeast Asian states, is non-dogmatic and relatively flexible. Being flexible means that the perception of who are friends and who foes is prone to change from time to time. It also means that Indonesian foreign policy in a transitional setting is very susceptible to domestic pressure and changes in the international system.

Factors defining Indonesia’s foreign relations

It is important to be mindful at the outset of the factors that define how Indonesians view the world and its position vis-à-vis the other states. The first is Indonesia’s long history of struggle against colonial powers. In domestic politics, it has translated into a strong nationalist ideology, which provided a raison d’être for the Indonesian state. In foreign policy, the doctrine of “bebas aktif” (free and active) is a reflection of this impulse. While many scholars, including Indonesians, are sceptical of this doctrine, and perceive it as no more than rhetoric, the fact is that at various junctures in Indonesia’s history this doctrine defined Indonesia’s foreign policy. It should be read as Indonesia’s attempt to assert its own identity as an independent entity in the global arena. Seen from this angle, Indonesia’s foreign policy has actually shown continuity over time, despite the differences in outlook exhibited by different leaders.

The second factor is Indonesia’s status as a developing nation whose nation-building agenda is still evolving. This agenda includes the debates between adherents of democracy versus autocracy, the Islamic state versus secularism, and a unitary state versus federalism. In such a situation, it is understandable that Indonesia might perceive foreign relations as a luxury. This pressing domestic policy debate has become predominant. Indonesian foreign policy therefore usually reflects domestic needs.

The third factor is the fact that Indonesia is the largest state in Southeast Asia, both in terms of size and population. Indonesian leaders are aware of these demographic and geographical facts and have always used them as justification to exert regional influence. Michael Leifer referred to this as “a sense of regional entitlement.” Indonesia traditionally regards Southeast Asia as its backyard. In fact, Indonesia’s foreign relations can practically be deduced from its relationship with neighboring states – that the country’s foreign policymakers assert that ASEAN is the most important pillar of Indonesia’s international relations should not surprise anyone.

The final factor is the demographic reality that Indonesia is the largest Muslim state in the world. However, the international political repercussions of this demography seemed to be muted prior to the terrorist attacks on the United States on September 11, but have since gained prominence. Despite being predominantly
Muslim, Indonesia was established sixty years ago as a secular state with Pancasila as the official state ideology and remains one until today. This is not to say that there has been no threat to the secular state. In fact, the majority of the conflicts in Indonesia’s history have centered on the debate between proponents of Pancasila and Islam. While this conflict has been manifested mostly in debates within constitutional institutions, some elements have occasionally taken the road of violence. But the state has always been able to deal with these threats. It is not, however, a secular state as the term is understood in the western political lexicon. The credibility of the state is decided by its performance in protecting and furthering the interests of the Muslims who make up the majority of its population.10

Indonesia’s triangular relations with China and the United States

Indonesia’s relations with China and the United States can be viewed as triangular from the Indonesian perspective. Many Indonesians perceive their country as being situated in the middle of a global power play. As the largest state in the region, Indonesia’s position in the wider scheme of great power rivalry is quite critical. Concurrently, Indonesia recognizes it will be occupied for some time with unfinished nation-building issues. As such, Indonesia tends to engage rather passively in global power politics. That said, the acute sense of independence in Indonesia’s foreign policy always prompts Indonesia to use its critical position for its own benefit. While a sense of ideological proclivity might appear in its leaders’ rhetoric, in fact Indonesia’s position has been informed less by ideology or leaders’ idiosyncrasy and more by domestic necessity.

Hence, Indonesia’s foreign policy towards both China and the United States can be viewed as an effort to secure its own position due to domestic considerations. In many ways, it is zero-sum in nature. As will be discussed below, Indonesia’s suspicion of China brought it closer to the United States at one period in time. At another juncture, Indonesia’s tenuous relations with the United States pushed it closer to the Chinese.

Reformasi and change in Indonesia’s foreign policy

During the authoritarian regimes of both Sukarno and Suharto, foreign policy was regarded as purely the domain of the president. It was the whim of the leader that became the supreme policy consideration. In general, the policies were quite idiosyncratic. For example, Sukarno’s dislike of Nikita Khrushchev, and his personal proximity to Nyoto, a pro-Beijing PKI leader, were at least partly responsible for Indonesia’s close relationship with China in the 1960s.11 In contrast, it was Suharto’s suspicion of and personal revulsion toward China’s complicity in the 1965 attempted communist coup that caused the postponement of any normalization of diplomatic relationships. Normalization eventually took place in 1990, after China issued a promise that it would halt its support for the Indonesian communist movement.12
The fall of Suharto and the Reformasi movement in Indonesia brought about a sense of uncertainty and discontinuity in various state policies, including foreign policy. Suddenly the roles of social and political groups became dominant. The pressures directed at the foreign policymaking body became intense. The foreign policymaking elite, who previously had only one master to serve, now had to be concerned with demands that came from all sides. In such an outburst of participation, Indonesia’s foreign policy became erratic, unpredictable, and exceedingly susceptible to social and political pressure from various groups.

Previous policy stances on various issues have to be redefined. But the effort to redefine Indonesia’s position is problematic because Indonesia is now an “open society” in which all groups are free to fight for their own agenda. Unavoidably, this competitive situation creates a problem in public policies, including foreign policy, because policymakers need to account for the aspirations of all of the major groups, even if they significantly contradict one another. It is within this setting that the following analysis of Indonesia’s contemporary relations with China and the United States is made.

Indonesia’s perceptions of China

One group’s rise to prominence in the Reformasi era seems to be particularly notable. Muslim groups, previously considered a nuisance by the foreign policy community, suddenly became forces that had to be reckoned with. Conservative Muslim groups were traditionally critical of China and resentful of the efforts made to maintain a good relationship between the two countries. Such resentment is primarily due to two factors, both sociological and domestic in nature. Moreover, it is related to the unfinished nation-building agenda. First, there is a historical legacy from the early decades of Indonesia, characterized by intense rivalry between the Muslims and the communists. Conservative Muslim groups tended to associate communism with China. In addition to China’s active support for communist movements in Asia, and the tendency for Indonesian communists to be closer to Beijing than Moscow, many Indonesian Chinese supported the PKI in the 1950s and 1960s. In the aftermath of the communist coup attempt in 1965, Muslim groups were wholeheartedly behind the Suharto’s government decision to “freeze” diplomatic relations with China. Second, there was an intense business rivalry between Muslim entrepreneurs and ethnic Chinese Indonesians. Many conservative Muslims are small- and medium-sized entrepreneurs, and they watched with envy the success of Chinese entrepreneurs. The fact that some of the Chinese business community achieved this success through collusion with government and military officials only added to this resentment. Again, there seemed to be no categorical differentiation in the eyes of the conservative Muslims between ethnic Chinese-Indonesians and China. China’s stance towards ethnic Chinese, especially in Southeast Asia, which acknowledges ethnic Chinese as Chinese citizens, compounded this perception. Beijing eventually changed its citizenship policy by allowing ethnic Chinese to choose between Chinese or country of residence citizenships in the late 1950s. For instance, Indonesia signed an agreement with
China in 1958 on this matter. However, throughout the 1960s and 1970s, the citizenship issue continued to loom in the background of China’s relations with Southeast Asian countries. Indonesia unilaterally cancelled the 1958 agreement in 1969.

Another group that eyes China with suspicion is the military. This was for an obvious reason, similar to that underlying conservative Muslims’ anti-Chinese stance. The staunch anti-communist platform of the military, and the military’s central role in Indonesia’s policymaking during the New Order, led Indonesians to view China as their primary security threat. But this position can be viewed at the same time as having a strong domestic political rationale. The New Order regime always justified its authoritarianism on perceptions of the existence of a “phantom threat,” coming especially from a possible resurrection of the Indonesian communist movement. The communist “bogeyman” (bahaya laten komunis – latent danger of communism) has always been used as a pretext to suppress political dissent. The relegating of China to a “threat” position could therefore be seen as an integral part of the New Order security policy.15

With the fall of the Suharto regime and the subsequent diminishing role of the military in Indonesia’s politics Indonesia’s perception of threat has become less certain. Some groups, especially the security establishment, remain suspicious of China’s intentions and greet the rise of China with alarm. But it is interesting to see that conservative Muslim groups seem to have changed their previous stance on China. The reason is September 11 and the subsequent US-led global war on terrorism. Bush’s unilateral policy in Iraq has created the perception among these groups that the United States is conducting a war against Muslims. What worries these groups is the fact that the United States is the sole superpower and there is no other power that can effectively check its might. So Indonesians welcome the rise of China at the global level. Even among non-conservatives, many are worried about the excesses of US unilateralism and they also greet the rise of China rather positively. China is seen as being able to provide a counterbalance for some of the malevolent tendencies in US hegemony. There is a tacit desire to see China adopt a more assertive stance in order to check US unilateralism.16

The current trend indicates a reversal from the previous possibility of a conflict erupting between China and Indonesia. China has had considerable success in its diplomatic overtures towards Indonesia, especially recently. A clear indication of this success is the signing of the “strategic partnership” agreement between President Hu Jintao and President Susilo Bambang Yudhoyono in Jakarta on 25 April 2005.17 Subsequently, President Yudhoyono made a state visit to Beijing on 27–30 July 2005, in which five additional agreements were signed and the two countries expressed the intention to more than double trade volume in five years, from $14 billion to $30 billion.18 The agreement also indicated Indonesia’s desire to play a foreign policy role that is more independent from that of the West. The Sino-Indonesian strategic partnership agreement was signed after the Asian-African Summit. Indonesia worked closely with both South Africa and Japan to prepare for the Summit; Indonesia’s more active search for new foreign policy partners is also apparent in the plan to sign a similar strategic partnership agreement with India.
The Indonesian Foreign Ministry even stated that Indonesia, China, and India have it in mind to establish a triangular partnership that will serve to counter possible US unilaterality in South and East Asia. The strategic partnership signified a major turn-around in Sino-Indonesian relations. Indonesia has transformed its perception of China from number one threat to “strategic partner.” The partnership has also signified a success in China’s diplomatic offensive to its southern neighbors. Chinese media hailed the signing of the partnership agreement as a sign that China has finally made an inroad in a region traditionally suspicious of China and its intentions. From the Indonesian perspective, the partnership is viewed as refreshing because it provided a template for future Indonesian foreign relations that are more independent of pressures from the West.

The trend to forge a closer relationship is happening not only among civilian authorities and Muslim groups but also among the Indonesian military (TNI). This is of special importance because the TNI has always been the most ambivalent about the idea of establishing a close relationship with China. The TNI is looking toward China in the hope to find an alternative source of weaponry because of the arms embargo imposed by the United States in the aftermath of the violence that followed the East Timor referendum in 1999. The embargo basically shattered the capability of the TNI. Many of its fighter jets, naval ships, and armored personnel carriers have had to be grounded due to a lack of spare parts. The embargo has created awareness among the TNI commanders that sources of weaponry should be diversified, and so Indonesia is looking towards other countries, including China, as possible alternative sources for military equipment. As early as 2002, the TNI commander Endriartono Sutarto was quoted as saying:

We are considering China as one of the alternative arms suppliers. Indonesia will not continue to be dependent on one source, which has imposed an embargo for the past few years.

These positive responses do not necessarily mean that China’s rise will be viewed without apprehension on the part of Indonesia. In fact, the discussion of a possible “China threat” is currently one of the main topics in public discourse on global affairs in Indonesia. But in general, when the “China threat” is discussed, the tendency is to view the threat in economic, rather than security, terms. This is especially because Indonesia is still struggling with its economic recovery. While signs of economic progress are evident, the state must continue to work hard to overcome poverty and unemployment, which runs as high as 40 percent of the workforce. Indonesian economic progress of the 1980s and 1990s was driven mostly by foreign direct investment. Reformasi has brought about changes that are not always amenable to the international business community. Labor unrest and security disruption, lack of legal certainty, and corruption are among the factors cited by potential investors in shying away from Indonesia. In fact, many businesses have left Indonesia for China (and Vietnam), and this has had dire consequences for Indonesia’s economy. If Indonesians are looking toward the future
they often perceive a more powerful Chinese economy and a weaker Indonesian one.

Economic linkages seem to be the most appropriate avenue given China’s current preoccupation. As economic recovery is presently Indonesia’s highest priority, it is in Indonesia’s interest to establish economic linkages with China, especially through finding complementary industries between the two economies. Currently China is Indonesia’s fifth largest trading partner, and Indonesia is China’s seventeenth. Indonesia’s exports to China in 2004 amounted to $1.263 billion. This was an increase of 232 percent from 2003 (by contrast, Indonesia’s export to the US was worth $7.371 billion, and only decreased by 0.04 percent in the same period). The establishment of an FTA between China and ASEAN is seen as a way to promote such linkages. However, concerns remain among some policymakers that the FTA would eventually induce more capital flight from Indonesia to China. In the series of negotiations currently underway, the Indonesian government has consequently been more heedful about this issue.

Indonesia’s perceptions of the United States and its role in Southeast Asia

Indonesians generally recognize that the United States is the sole superpower. As such, they also acknowledge the logic behind the presence of the United States in the key strategic regions of the world, including Southeast Asia. However, this recognition does not at all mean that the US presence is accepted as legitimate. Many in both policy and civil society circles see the United States as a non-indigenous power. The US involvement in the region is seen as a remnant of the Cold War and such involvement is therefore seen not as a regionally inherent need but rather as an external force driven by self-interest. However, this view of the United States is not shared equally across Indonesia’s political spectrum, nor is it a static view.

Indonesia’s relations with the United States have fluctuated over time, due to the policies and preferences of both Washington and Jakarta. Indonesia under Sukarno adopted a non-alignment policy that tilted toward the Eastern bloc and China. The United States perceived Sukarno as a “dangerous man” and tried a number of times to topple him from office, for example by such means as actively supporting a rebellion in the outer Java provinces, known as the PRRI/Permesta Rebellion (1957–61).22

The United States also maintained good links with some TNI officers, who later, under Suharto, would take over power from Sukarno. During the Suharto era the relationship was very cordial. The United States viewed Indonesia as an important power to contain communism in Southeast Asia, and Indonesia required US assistance for its economic development.

The relationship since Suharto stepped down has been unstable, and has been viewed unevenly in different quarters. Washington was apparently glad that Indonesia began to move down the road toward democracy, but at the same was worried that an unstable Indonesia would harm stability in Southeast Asia. Many
Indonesians initially viewed the United States favorably, hoping to learn about US democracy as they embark on this difficult path, and, perhaps more importantly, hoping to get support from the United States and international financial institutions for its ailing economy after the Asian financial crisis.23

Initially the United States regarded Indonesia, the most populous Muslim country and a newly founded democracy, as an opportunity. Furthermore, Indonesia could serve as an example for other developing and Muslim states that democracy and Islam are not incompatible. However, September 11 and the subsequent US-led war on terrorism changed the nature of this relationship once more. On the one hand, Washington began to see Indonesia as problematic. The lost sense of security and the lack of mechanisms to check the growth of militancy that had been ably provided Suharto’s authoritarianism presented the United States with a dilemma. On the other hand, some Indonesian Muslims began to view the United States policy under George W. Bush with contempt. The war in Afghanistan and Iraq and the conflict in the occupied territories of Palestine are viewed by many Indonesians as “proof” that the United States is out to fight Islam and Muslims throughout the world. The United States is increasingly viewed from a “conspiracy theory” perspective in almost all respects. This has soured the relationship between the two countries, even though at a formal level the governments remain on good terms with each other.24

However, periodic changes in US interests in Southeast Asia are a matter of history. During the Cold War, it was the containment of Communism in the region that led to the deep US involvement in Indochina. In the early post-Cold War years, US interests briefly took on a democracy and human rights dimension, resulting among other things in the arms embargo imposed on Indonesia following the 1999 post-referendum violence in East Timor. September 11 has shifted US interest in the region back to security with international networks of terrorism as the main enemy in sight. The tsunami relief operation launched by the US military in 2005 has somewhat altered the negative perceptions of the United States. Many Indonesians acknowledged this gesture positively. Others, however, viewed US efforts with suspicion. The long-term effect of this effort remains to be seen.

It is true that the security of Southeast Asia and the economic prosperity enjoyed by non-communist parts of the region are at least partly due to the security umbrella provided by the United States during the Cold War.25 However, the US role in Southeast Asian security nowadays is unclear. On one hand, the overriding concern with the war on terrorism seems to cause the United States to turn a blind eye to non-democratic measures and human rights violations in some countries, so long as these countries remain committed to the global struggle. On the other hand, vestiges of the past interest in democracy and human rights remain, such as the Indonesian arms embargo and sanctions against Myanmar. In 2005, the US government did partially lift the Indonesian arms embargo. There is a perceived lack of clarity and consistency in US interests in the region which to Indonesians at least makes the US security role unclear.

The US security involvement in Southeast Asia can be both beneficial and harmful for states in the region; it largely depends on the motivation behind the
involvement. If it is directed more towards providing a security umbrella against possible conflicts either internal or external in origin, then it will be viewed quite favorably. But if it adopts a more aggressive posture, especially if directed towards certain groups in certain countries, as has been the case post-September 11, then it can cause more security disturbances and breed instability at the regional or state level. It would thus be preferable for the United States to retain its role as the provider of the security umbrella in the region, and to limit itself to a cooperative and supportive role in fighting terrorism.

The US relationship with Southeast Asian countries is very much determined by Washington’s global anti-terrorism strategy. Such a policy is naturally viewed differently in various quarters of Southeast Asia. It is perceived as more favorable for non-Muslim Southeast Asia than in the predominantly Muslim states, Indonesia and Malaysia. In the latter, US policy is viewed with much more skepticism, especially by those in the Islamist circles.

The Indonesian government had long been in a state of denial about the presence of militant networks in the country, but successive terrorist attacks seem to have changed that. Now the government enjoys the support of the general public in the fight against terrorism. There is, however, a divergence between Indonesia’s approach to handling its terrorism problem, which remains mindful of the country’s new democratic structure, and US expectations that the Indonesian government should adopt a more heavy-handed approach. The government also remains critical of the way the United States is handling such affairs as Iraq and Palestine, and employs racial profiling that affects US Muslims.

Indonesians expect the United States to provide a security umbrella in the region just in case the assumption of a “powerful but peaceful” China breaks down. None the less, the level of US presence in the region is something that causes Indonesians to worry. The general Indonesian public as well as the policy community are still sensitive about the issue of foreign military bases in Southeast Asia. Even the naval facility in Singapore frequently used by the United States and other powers is a subject of intense discussion in Indonesia.

As mentioned above, tacitly and openly many Indonesians expect the rise of China to provide a counterweight to US unilateralism at the global level. They may wish to see a powerful China that would not wreak havoc in the region, but one that is providing a sort of “alternative” leadership in international diplomacy.

Indonesians generally wish to see bilateral military-to-military relations with the United States restored. The adverse effect of the arms embargo has been exposed, especially recently after the Aceh tsunami. The early response capacity of the military that was generally expected in large-scale natural calamity was tardy at best, due to lack of functioning military hardware. At the same time, it seems to be a consensus in the military establishment that Indonesia should look towards some alternative sources for weaponry and other military infrastructure. China and Russia happen to be among these alternative sources, to the dismay of the United States.

It seems that the issues such as the “China threat,” human rights, and promotion of democracy have taken a backseat in US policy priorities in the region following
September 11. The war on terrorism seems to take a clear precedence in US–Southeast Asian policy. With regard to China, the emphasis seems to be deterrence of possible aggression toward Taiwan and securing Chinese assistance to help resolve the North Korean issue – China’s threat to the region is regarded as minimal.

The impact of such reprioritization is clear. Southeast Asians cannot rely totally on US security balancing of China in the region. There must be an effort to engage China more intensively in the framework of regional multilateral institutions or bilaterally. There must also be closer security cooperation among Southeast Asians, to create a better sense of self-reliance. This is important not only because of the reprioritization of US policy but also because deeper security involvement of the United States in the region may well be increasingly controversial in the future.

Conclusion

The triangular relationship between Indonesia, China, and the United States has fluctuated throughout history. The peak of Indonesia–China relations was during the Sukarno era when the Jakarta–Beijing axis became an irritant to Washington. After an initial honeymoon period, when the United States supported Indonesian independence against the wish of its Dutch ally, the relationship went sour as Sukarno tilted towards China. But the United States continued to cultivate allies among military officers during this period. Sino-Indonesian relations took a freefall dive almost overnight after the failed communist coup attempt back by China in 1965, which killed a number of high-ranking army officers. Suharto’s anti-communist Indonesia became one of the United States’ most important allies in Southeast Asia. The US also became one of the most important allies for Suharto in carrying out his developmental policies.

Currently the triangular relationship has shifted yet again since the fall of Suharto. Chinese diplomacy seems to have made a great inroad in the attempt to at least “neutralize” the largest Southeast Asian nation. The strategic partnership treaty between Indonesia and China signed this year by President Susilo Bambang Yudhoyono and President Hu Jintao is a testament to a vastly improved relationship. But such an improvement would probably not have come about were it not for a deteriorating relationship on the other side of the equation, that is Indonesia’s relations with the United States, especially after the terrorist attack on September 11 and the subsequent US-led global war on terrorism.

The ascendancy of various political forces, including conservative Muslim groups who have grown increasingly bitter towards US policies in the Middle East and the plight of other Muslims after the fall of Suharto, created great pressure on Indonesian foreign policy. In order to secure support from new power centers, foreign policymakers have to demonstrate their stance in siding with the interests of the “majority” of Indonesians.

At the same time, President George W. Bush’s unilateral policy of invading Iraq seemed to prove the point stated by conservative militant groups in the Islamic
world, as well as those in Indonesia, that there is an “anti-Muslim” conspiracy being waged by the West. This has fueled anti-US sentiment in the Indonesian society, which had previously experienced a rejuvenation of Islamic identity at the same time as dire living conditions had been created by the financial and economic crises.

The discussion in this chapter also shows that Indonesian foreign policy elite has never had relative autonomy from external pressure. During the authoritarian regimes, it succumbed to the idiosyncrasies of the autocrats. In the democratic setting, it was basically taken hostage by interest groups, which sometimes contradict each other sharply.

Future Sino-Indonesian and US-Indonesian relations are therefore very susceptible to the perception of the domestic political groups. It is highly possible that there could be a disruption in Sino-Indonesian relations either due to economic competition or inter-ethnic violence involving the Indonesian ethnic Chinese. On the other hand, an improvement in US-Indonesian relations is also highly probable if the arms embargo is lifted and the United States improves its handling of problems in Iraq and other Muslim areas. In short, it is the international/global battle for “hearts and minds” that counts the most.

All of the above analysis, of course, is done with the assumption that China is an autocratic state with an open and expanding economy. What would happen to the triangular relations between China, the United States, and Indonesia if either or both of these assumptions were unfulfilled? Implausible as it may appear at present, the fall of the ancien régime in China would create a condition of instability and volatility in China’s foreign policy. As Indonesia’s own experience with Reformasi showed, the fall of an authoritarian regime does not automatically guarantee the rise of liberal democracy. Instead, the state and society must undergo a painful and precarious process of transition. In this condition, nationalist and primordial (ethnoreligious) impulses could become the driving forces behind China’s policies. While China may not have too many sources of primordial impulses, chauvanistic nationalism could bring China to adopt a more aggressive posture against its neighbors as well as against other major world powers such as the United States. Even in recent years, events such as the demonstrations against the United States following the bombing of the Chinese embassy in Belgrade in 1999 and the demonstrations against what was considered to be Japanese historical revisionism have demonstrated that both the Chinese state and society are capable of lapsing into an adverse form of nationalism. Chinese military aggressiveness as a result of unstable conditions in China would not be greeted well by Indonesia, because it would remind Indonesian policymakers of Chinese adventurism from the 1950s to 1970s. While officially, Indonesia would stay “neutral” in the event of a Chinese invasion of Taiwan, China would lose much of the trust and credibility that it has developed in its bilateral relations with Indonesia.

A breakdown in China’s economic machine would also bring an adverse effect to its external relations for two reasons. One is related to the political change argument above. Reflecting on the fall of Suharto after Indonesia’s economy was hit by a financial crisis, it is also plausible to imagine a scenario where the ruling Chinese
Communist Party (CCP) would lose its credentials in the eyes of the masses if the economy broke down. As in the Indonesian case, the growing middle class could become a powerful force for political change if faced with diminishing or even shattered expectations of economic betterment. The other reason relates to any possible change in Chinese trade and economic policy in the event of an economic breakdown. Chinese policy would become much more predatory and shy away from the cooperative pattern that it has so far demonstrated. The competition to secure the access to markets necessary for an economic rebound would be fierce. Indonesia, which has so far not seen China’s rise as a threat, would view such rapacious Chinese behavior of the Chinese with contempt, and it is possible that China might once more be perceived as being the primary threat to Indonesia.

Notes


2 The notion that foreign policy is a product of systemic interaction between domestic, external, and idiosyncratic factors is nothing new. It has been explored and developed in the 1970s and 1980s. See for instance, James N. Rosenau, ed., The Scientific Study of Foreign Policy (New York: Free Press, 1971).


5 Rizal Sukma, “US—Southeast Asia relations after the crisis: security dimension” (paper prepared for the Asia Foundation’s Workshop on America’s Role in Asia, Bangkok, 22–24 March 2000, 2–5). There were some concerns over the lack of leadership in ASEAN since the fall of Suharto, which for instance had been expressed by key member states. See the statement by Singapore’s Prime Minister Goh Chok Tong on his concerns that Indonesia was losing its leadership role in the association, ibid., 6.

6 Creating a nation out of the immense ethnic and religious plurality seems daunting. Indonesian nationalism is therefore what Anthony D. Smith calls a territorial nationalism. See Anthony D. Smith, National Identity (Reno, NV: University of Nevada Press, 1991). According to nationalist leaders, such as Indonesia’s first president Sukarno, Indonesia is not a colonial invention but could trace its history sufficiently through instances of past kingdoms such as Majapahit and Sriwijaya to make a claim for a nativistic Indonesia. See Sukarno, “Shaping and re-shaping Indonesia,” (speech at the Thirtieth Anniversary of Partai Nasional Indonesia (Indonesian National Party), Bandung, 3 July 1957; reprinted in Iman Toto K. Rahardjo and W. K. Herdianto, eds, Bung Karno dan Partai Politik: Kenangan 100 Tahun Bung Karno [Bung Karno and Political Parties: Commemorating 100 Years of Bung Karno] (Jakarta: Gramedia Widiasarana Indonesia, 2001).

7 This doctrine was first expressed by Vice President Moh Hatta in a speech to Indonesia’s first post-independent parliament, 2 September 1948. See www.bung-hatta.com/detail.php?id=22 for the details of Hatta’s thoughts on Indonesia’s foreign relations. See also Rizal Sukma, Indonesia and China: The Politics of a Troubled Relationship (London: Routledge, 1999), especially chapter 1.
9 On Indonesia’s role in ASEAN consult Dewi Fortuna Anwar, Indonesia in ASEAN: Foreign Policy and Regionalism (Singapore: Institute of Southeast Asian Studies, 1994).
12 Sukma, Indonesia and China, chapter 7.
13 During the New Order in 1987, a number of conservative Muslim figures who in the 1950s had fought for an Islamic state in the constitution assembly (Konsituante) set up KISDI (Komite Indonesia untuk Solidaritas Dunia Islam – Indonesian Committee for Solidarity with the Islamic World). KISDI was intended to be a pressure group that would ensure Indonesia took a more active role in fighting for Muslims’ interests worldwide, such as in Palestine, Afghanistan, Bosnia, and Kashmir. Foreign policymakers, however, paid little attention to KISDI’s demands. On KISDI, see Rizal Sukma, Islam in Indonesian Foreign Policy (London: RoutledgeCurzon, 2003), chapters 4 and 5.
15 Ibid., chapter 4.
19 Based on an interview with an authoritative figure in the Indonesian Foreign Ministry, Jakarta, May 2005.
22 The PRRI movement (Pemerintah Revolusioner Republik Indonesia – Revolutionary Government of the Republic of Indonesia) occurred in Sumatra, at the same time as the Permesta movement (Perjuangan Rakyat Semesta – Charter of Common Struggle), which took place in Sulawesi. For a description of the US role in supporting the PRRI/Permesta rebellion, see Audrey R. Kahin and George McT. Kahin, Subversion as Foreign Policy: The Secret Eisenhower and Dulles Debacle in Indonesia (New York: New Press, 1995). Interestingly, among the proponents of this rebellion were members of Masyumi (Majelis Syura Muslimin Indonesia – Indonesian Muslim Consultative Council), a reformist Islamist party, which promoted an Islamic state in Indonesia, as well as members of PSI (Partai Sosialis Indonesia – Indonesian Socialist Party), a liberal democrat party close to the West. Engaged in fierce political competition with the communists during this period of the Cold War, the conservative Muslims tended to view the United States in much more favorable terms than would be the case after the Cold War.
23 Consciously or otherwise, the current Indonesian political and institutional structure looks very much like the US one, for instance, the establishment of the DPD (Dewan Perwakilan Daerah – Council of Regional Representatives) last year is modeled after the Senate, even though with much more limited power.
24 Other things have also disrupted the relationship, such as the killing of two US citizens in Papua in 2002, Indonesia’s opposition to the wars in Afghanistan and Iraq, the continued arms embargo, and an incident involving the intrusion of American fighter planes into Indonesian airspace in July 2003. For an account of the deteriorating state of US–Indonesia relations see Roger Mitton, “US–Jakarta ties hit rocky patch: tardy efforts to find killers of two Americans. Aceh and lack of support for Iraq war among sticking points,” Straits Times, 18 July 2003. All these incidents have made the grounds in front of the US Embassy in Jakarta a location where demonstrations most frequently take place.
25 US security umbrellas in Europe and East Asia are often quoted as examples of US hegemonic benevolence, which eventually drains the hegemon and causes it to decline. Many studies in the

Anti-Western sentiment among Muslim groups is not a novelty in Indonesia. Groups that are concerned about the plight of fellow Muslims worldwide typically have this kind of sentiment. During the Suharto era, the prominent group was KISDI (*Komite Indonesia untuk Solidaritas Dunia Islam* – Indonesian Committee for Solidarity with the Islamic World). In the Reformed era, groups such as the FPI (*Front Pembela Islam* – Islamic Defender Front), MMI (*Majelis Mujahidin Indonesia* – Mujahidin Council of Indonesia), and Laskar Jihad share some anti-Western sentiments.
Part III

Military
9 China as a major Asian power

The implication of its military modernization (a view from the United States)

Paul H. B. Godwin

Introduction

There is a seeming contradiction between China’s increasing influence in global and regional politics and the apprehension seen in Beijing’s perception of its security environment. Without doubt, China today is more influential in world politics and the Asia-Pacific region than at any time in the modern era. Yet Beijing’s official national defense policy suggests China is extremely uncertain about its national security environment. So apprehensive is Beijing that it believes military power is becoming increasingly important in preserving China’s security. This anxiety comes after 15 years of double-digit defense budget increases and is reflected in what appears to be an acceleration of China’s military modernization programs.

Over the 25 years since their initiation, China’s current defense modernization programs have reached the point where they suggest that Beijing’s objective is to build Asia’s dominant defense establishment. In the United States, the improving capabilities of the Chinese People’s Liberation Army (PLA, as the services and branches are collectively named) are increasingly perceived as a potential threat to US strategic interests in the West Pacific. The purpose of this chapter is to assess China’s military modernization programs by addressing five issue areas. First, Beijing’s perspective on its national defense policy and the primary threat it is designed to counter will be addressed. Second, Chinese and US military strategies will be compared and evaluated. Third, China’s current and near-term military capabilities will be assessed, including the PLA’s capacity to project conventional forces beyond China’s periphery. Fourth, the progress in China’s intent to develop a self-sustaining military industrial complex will be addressed. Finally, an assessment will be made of possible circumstances that could change the direction of China’s military modernization and defense policies.

In approaching these issues, although current and near-term capabilities are addressed, the chapter’s primary focus is on the long-term trends seen in China’s military modernization programs. Given the broad scope of these programs, which range from modernizing China’s strategic nuclear deterrent to developing capabilities in information warfare, trends are a stronger indicator of possible intent than current capabilities. In conclusion, the chapter assesses the policy implications that these trends suggest both for the region and for the United States.
Key findings

While China will have other security concerns, Beijing’s defense white papers clearly indicate that the principal military threat China’s modernization programs are designed to counter is a possible confrontation with the United States. Nevertheless, China’s national interests drive Beijing to sustain a policy of engagement with the United States. The United States, while apprehensive over the ultimate purpose of China’s military modernization programs, pursues a similar policy for similarly pragmatic reasons. This results in a paradox where, while pursuing parallel policies of engagement, China and the United States are preparing for a possible war with each other. The proximate potential cause of such a clash is over Taiwan. In the long term, unless the mutual strategic distrust overshadowing Sino-US relations can be eliminated or eased, extended regional rivalry is probable.

Beijing’s perspective on China’s national defense policy

Beijing’s defense policy is formulated in an era where China is more secure from imminent external military threat than at any time in the past 150 years. Moreover, although Beijing does not view China as a “great power” because it lacks the technological sophistication of the world’s most advanced economies, China has become a major player in the international system. Beijing is conducting an active diplomacy implementing a foreign policy strategy with multiple objectives collectively designed to transform China into a major world power. This diplomacy is intended in large part to uphold an international environment conducive to sustaining and expanding the global trade and commerce necessary to build the economy and technological sophistication China needs to be a great power. Such trade does more than enrich China and contribute to its domestic economic development. It also provides access to many of the technologies and manufacturing skills required to achieve Beijing’s most critical long-term defense modernization objective: a self-sustaining defense research and development (R&D) infrastructure and military-industrial complex (MIC).

This same foreign policy strategy now pursues positive relations with the world beyond its initial concentration on China’s Asian neighbors. Beijing seeks to work closely with the European Union and to extend its diplomatic influence into Latin America, the Middle East, and Africa. While much of the recent diplomacy is intended to ensure China’s access to the energy supplies demanded by a rapidly expanding economy, it is also designed to reinforce Beijing’s status as an influential player on the world scene. Within Asia, this diplomacy has established Beijing as a primary player in regional security forums while simultaneously easing but not eliminating apprehension over China’s increasing military capabilities. In brief, the strategy executed by Beijing has made China richer and more influential in the world than at any time since the mid-eighteenth century. Nonetheless, Beijing’s defense policy does not reflect the confidence one might anticipate from China’s diplomatic achievements. What it does reflect is a fundamental apprehension of US power and military presence in the Asia-Pacific region and globally.
National defense policy

The authoritative statements of Beijing’s perception of its security environment and the defense policy and strategy it requires are to be found in China’s defense white papers. Whereas the most recent white paper, published in December 2004, sees the international system as stable, “factors of uncertainty, instability and insecurity” are viewed as increasing. In an only thinly veiled reference to the United States, the white paper states that “tendencies of hegemonism and unilaterality have gained new ground as struggles for strategic points, strategic resources, and strategic dominance crop up from time to time.” This statement and the white paper’s reference to the US invasion of Iraq as exerting a “far-reaching influence on the international and regional security situations” demonstrates Beijing’s apprehension regarding the power and influence of the United States. These judgments also explain the white paper’s conclusion that “(t)he military factor plays a greater role in international configuration and national security.” The United States is unquestionably at the center of Beijing’s military security concerns.

The reason for this is found in the white paper’s logic explaining why Beijing sees military power assuming greater importance in protecting China’s national security. First, the metric employed in describing the developments in military capabilities changing the conduct of war is clearly drawn from the technological advances and doctrinal changes found in the US armed forces. The white paper focuses on the consequences for military operations of the transition from mechanization to “informationalization” – referred to as the “World-Wide Revolution in Military Affairs (RMA).” In Beijing’s view, as the world’s major militaries undergo this transformation and battlefield technologies change the conduct of war to “(a)symmetrical, non-contiguous, and non-linear operations,” the global military imbalance is widening. Because US armed forces are the leaders in this transformation and have applied advanced technologies to military operations in war, the imbalance of most concern to Beijing is between China and the United States. Second, as Chapter III of the white paper details, the PLA’s modernization is now dedicated to “building an informationalized force and winning an informationalized war.” The only adversary the PLA will potentially confront with the capabilities it fears most is the US military. Currently, should that confrontation occur, it could be over Taiwan. Preventing Taiwan’s independence is declared to be the PLA’s “sacred responsibility.” In preparing China’s armed forces for this contingency, the white paper is explicit in its attachment of foremost priority to modernizing the PLA’s naval, air, and strategic missile forces. This priority is declared necessary “in order to strengthen the capabilities for winning both command of the sea and command of the air, and conducting strategic counter-strikes.” A military confrontation with the United States over Taiwan is the only probable scenario requiring this combination of military capabilities.

Apprehension about US capabilities is clearly stated in the white paper’s assessment of the Asia-Pacific security environment. Although viewed as essentially
stable, responsibility for any potential instability is placed on US policies and strategy. Whereas the Six-Party Talks seeking to end North Korea’s nuclear programs are described as weak, and terrorism and transnational crimes are recognized as major problems, the United States and Japan are seen as the principal sources of potential regional instability. The white paper states:

The United States is realigning and reinforcing its military presence in this region by buttressing military alliances and accelerating missile defense systems. Japan is stepping up its constitutional overhaul, adjusting its military and security policies and developing the missile defense system for early deployment. It has also markedly increased military activities abroad.8

As expected, the United States is criticized for increasing the quantity and quality of its arms sales to Taiwan. The Taiwan issue, however, was to become even more salient following the February 2005 meeting of the US–Japan Security Consultative Committee (SCC).

The SCC’s joint statement issued on February 19 included a carefully worded reference to Taiwan as being among their agreed “common strategic objectives.” Specifically, the United States and Japan agreed they would “(e)ncourage the peaceful resolution of issues concerning the Taiwan Strait through dialogue.”9 China’s Foreign Minister, Li Zhaoxing, was inflexible in his response during a press conference. He declared that “(a)ny move to include Taiwan directly or indirectly in the scope of US–Japan security co-operation constitutes an encroachment on China’s sovereignty and an interference in China’s internal affairs.”10

This focus on the US military presence in the region, the alliance with Japan, and the centrality of Taiwan in Beijing’s perception of its Asian security environment contrasts sharply with Beijing’s assessment of the role played by ASEAN and the ASEAN Regional Forum (ARF). The white paper declares:

China has established a strategic partnership with the Association of Southeast Asian Nations (ASEAN) dedicated to peace and prosperity in the region, and engaged in comprehensive cooperation that has seen rapid expansion. Cooperation in East Asia, with the ASEAN and China, Japan, and the ROK as the main players, keeps expanding, leading to greater economic development and political and security trust in the region. The ASEAN Regional Forum (ARF), as the most important official channel for multilateral security dialogue in the Asia-Pacific region, plays a positive role in promoting security cooperation in the region.11

Even with the severe tensions so evident in Sino-Japanese relations, the contrast between China’s apprehension over US capabilities and strategy, and the contributions ASEAN and ARF make to regional security could not be more starkly stated.

Beijing’s concerns are not necessarily misplaced. Certainly, the degree of cooperation achieved between China and the United States in the years following the tragic terrorist attacks of September 11, 2001 (9/11) on the World Trade Center
and the Pentagon has significantly increased. Nonetheless, despite this enhanced cooperation, US mistrust of China’s long-term strategic intentions toward the Asian region has been stated in official documents laying out US national security and defense strategies. One year after the 9/11 tragedy, “The National Security Strategy of the United States” warned that “In pursuing advanced military capabilities that can threaten its neighbors in the Asia-Pacific region, China is pursuing an outdated path that, in the end, will hamper its pursuit of national greatness.” On September 30, 2001, the US Defense Department’s Quadrennial Defense Review’s (QDR) reference to a possible “military competitor with a formidable resource base emerging in Asia” could only be read as referring to China. Secretary of Defense Donald Rumsfeld’s statement at the 2005 Asian security conference held in Singapore would confirm to Beijing that US concerns over China remained high on the Defense Department’s priorities. In his prepared remarks, Secretary Rumsfeld asserted that because no country threatened China, Beijing’s investments in its military modernization programs were questionable.

Beijing’s concentration on defeating or offsetting US military capabilities can be seen in the trends found in China’s acquisitions from foreign sources, especially Russia, and in its indigenous programs and R&D projects. Nonetheless, although the primary driver for China’s current military modernization programs is the preparation of the PLA for a possible military conflict with the United States over Taiwan, the weapons, equipment, operational doctrine and training being developed are fungible. The capabilities being developed can be applied to military contingencies other than a Taiwan scenario, and these are not minor capabilities. Simply listing them, some of which have their origins in the military programs of the 1950s, attests to the level of military capabilities sought by Beijing:

- R&D in space systems to provide wide-area intelligence, surveillance and reconnaissance (ISR) capabilities;
- R&D in anti-satellite systems;
- cruise missile acquisitions and programs dedicated to improving the range, speed, and accuracy of land-, air-, and ship-launched weapons;
- ballistic missile programs improving the range, survivability (mobile systems), reliability, accuracy, and response times of tactical-, regional-, and intercontinental-range weapons to augment or replace current systems;
- construction of new classes of nuclear-powered attack and ballistic missile submarines (SSN/SSBN) to augment or replace those now in service;
- acquisition and development of advanced diesel-electric submarines armed with submerged-launch cruise missiles and guided torpedoes to augment or replace older vessels now in service;
- development and acquisition of more capable surface combatants armed with advanced anti-ship cruise missiles, anti-submarine warfare (ASW), and air defense systems;
- air power programs developing and acquiring technologically advanced multiple-role combat aircraft together with airborne early warning and control system aircraft (AWACS) and aerial refueling to increase their effectiveness.
and combat radius; and unmanned aerial vehicles (UAV) designed to attack an adversary’s air defense radars;
- air defense programs developing and acquiring surface-to-air missiles (SAM) and aircraft capable of providing an integrated air defense of China’s territory;
- ground force programs modernizing armor and artillery weapons; deploying increasing numbers of helicopter aviation units; improving airlift for airborne units; deploying increasing numbers of special operations forces units; and increasing amphibious warfare capabilities;
- R&D in offensive and defensive information warfare operations;
- R&D and deployment of improved command, control, communications, and computer systems (C4);
- increasing the tempo and complexity of exercises to make the PLA capable in the joint service operations essential for contemporary warfare, including amphibious operations.

Although undoubtedly now primarily intended for a possible military conflict with the United States over Taiwan, as they mature these trends will provide military capabilities China can apply to its maritime claims and defense of its land borders. Beijing’s defense requirements should not be underestimated. China’s land border stretches some 13,728 miles extending from Russia and North Korea in the north and northeast to Southeast Asia and South and Central Asia touching on no less than 14 countries. China’s coastline extends some 9,000 miles from Russia in the north to Vietnam in the south. China’s current threat environment, however, is low, and Beijing’s regional diplomacy is dedicated to sustaining a cooperative relationship with all neighboring states, including resolving border disputes. Moreover, even now no single Asian state can match China’s military power on continental Asia. With the possible exception of Japan, it is likely that within a decade or so no Asian country will be capable of challenging China’s naval and air power in maritime East Asia. Only India will conceivably be able to countervail a Chinese naval presence in the Bay of Bengal and Indian Ocean, should Beijing choose to build a navy capable of operating that distance from its home waters.

The question arising from this unfolding range of military capabilities is what future security environments are China’s defense modernization programs designed to prepare for. It is difficult to assume they are primarily intended to enhance China’s prestige by presenting Asia and the world with technologically advanced highly trained armed forces. It is reasonable to conclude that China’s defense programs, especially the intent to develop the indigenous capability to design and manufacture any defense items Beijing believes it requires, are calculated to make China Asia’s dominant military power. If this should be the objective, then what will Beijing’s strategic intentions be, once this goal is achieved at some point in the coming decades? Currently, the United States is the Asia-Pacific region’s predominant power with every intention of remaining so.
The Sino-US paradox

Despite the undeniable focus of Beijing’s defense modernization on a potential military confrontation with the United States, Washington and Beijing recognize that their national interests are best served by avoiding direct confrontation. Both are expanding cooperation in all realms serving their mutual interests. That is, China and the United States are pursuing parallel polices of pragmatic and mutual engagement. More recently, when the two leaders met on the sidelines of the November 2004 Asia-Pacific Economic Cooperation (APEC) meeting in Chile, President Hu Jintao asked President Bush to engage in what he referred to as a “strategic dialogue.” President Bush agreed, but because the term “strategic dialogue” is reserved for close allies, Washington chose to term the meetings a “global dialogue.” Nonetheless, the United States and China agreed to hold regular high-level talks on political and security issues now referred to by the United States as “Senior Dialogues.” The first of these was held in Beijing on 1 August 2005, by Vice Foreign Minister Dai Bingguo and Deputy Secretary of State Robert Zoellick. The second session was completed on 8 December 2005. These meetings can be seen as paralleling the Sino-US Defense Consultative Talks (DCT) between the two defense establishments. This mutual engagement is a positive consequence both of reciprocal concerns over the potential costs of open confrontation as well the reality that Beijing and Washington have much to gain through cooperation.

Even so, the strong opposition the United States and Japan presented to the European Union’s potential lifting of its post-Tiananmen Square arms embargo on China is indicative of the tensions that mark this engagement. The central argument presented by the United States and Japan was that lifting the embargo threatened the regional balance of military power by potentially assisting China in its already accelerating military modernization programs. Similar arguments were raised by the United States with Israel in the dispute over Israeli arms and technology sales to China.

This reciprocal pattern of apprehension and cooperation reflects the utility China and the United States see in a pragmatic relationship. Perhaps contradicting China’s defense white paper, China’s Ministry of Foreign Affairs (MOFA) has expressed the view that it welcomes a continuing strong US regional presence for it contributes to regional security and stability. A sustained US political, economic, and military presence provides those Asian states apprehensive over Beijing’s growing influence with the ability to hedge against any potential attempt by China to dominate the region. In this sense, the United States assists in providing the regional stability that allows Beijing to pursue its primary external strategic objective of sustaining an international environment conducive to enhancing China’s economic development and modernization.

There is a paradox underlying this policy of mutual engagement. Even as pragmatic cooperation forms the core of their relationship, China and the United States are simultaneously preparing for war with each other over Taiwan. Both will have contingency plans on the shelf containing operational designs to defeat the other.
United States and China: military strategies

In essence, the military strategies of China and the United States consist of a continental power countered by a maritime power. US forces deploy throughout the Asia-Pacific region from US- and foreign-hosted bases and facilities. These bases and facilities extend from the west coast of the United States to Hawaii and Guam, and from the Republic of Korea and Japan in the north through Southeast Asia down to Australia and Diego Garcia in the Indian Ocean. US access to bases in Central Asia could perhaps be included in this listing. Their purpose, however, is to support coalition operations in Afghanistan rather than serve as facilities for possible operations against China.

Given this continental-maritime structure, Beijing’s basic military strategy for defense against the United States is to maintain strategic deterrence through a credible second-strike capability and to defend China’s territory and littoral seas. Because of its location some 100 miles from the mainland, Taiwan is encompassed by this strategy. The trends in China’s defense modernization programs listed earlier are designed in large part to make this strategy increasingly robust.

Strategic deterrence will be bolstered by the new class (094) of nuclear-powered ballistic missile submarines (SSBN) armed with 12 JL-2 submarine-launched ballistic missiles (SLBM). It can be safely assumed they will be quieter and more reliable than the troublesome single-ship Xia-class that represents China’s first generation SSBN, thereby granting China a more survivable sea-based strategic force. The new SSBN will complement the solid-fueled, mobile, land-based DF-31 and DF-31A ICBMs now under development for deployment in the near future. These new weapons will be quicker responding, more accurate, and survivable than the 20 slow-responding, liquid-fueled, silo-based DF-5A ICBMs that form the core of China’s current deterrent. Equally important, even if only two 094 SSBN were deployed in the coming decade, they would add 24 ICBMs to the 20 land-based weapons now in place. When the DF-31/31As are deployed, the number of ICBMs capable of striking the United States will increase even more.

There are many unknowns about China’s nuclear force planning. Among them is how Beijing conceptualizes its future strategic force structure as it confronts the US national missile defense (NMD) program and becomes capable of deploying increasing numbers of weapons at sea and on land. Possibly, rather than relying on just a few weapons – a minimal deterrent – as it has in the past, Beijing will conclude that with NMD on the horizon a significantly larger force is necessary.

Strengthening littoral defense is sought by improving the PLA’s naval and air power capabilities to conduct operations several hundred miles from China’s coast. When employed in a joint service campaign, these capabilities will provide the basis for a “local sea denial” or “anti-access” strategy potentially extending 200 miles or possibly much further from China’s territorial waters. The current military objective is to present a threat to US aircraft carrier strike groups that will slow their advance into the Taiwan area of operations (TAO). Once in the TAO, the objective is to make US Navy operations extremely hazardous and costly.

Although China is exploring the use of ballistic missiles to strike ships, the
greatest imminent threat to US naval forces is the deployment of modern Russian and indigenously developed quiet, diesel-electric submarines (SS) and the new class of nuclear-powered attack submarines. The 093 SSN, Russian Kilo, the latest Song, and the Yuan SS are armed with submerged-launch long-range anti-ship cruise missiles (ASCM) and wake-homing and/or wire-guided torpedoes. This deployment is complemented by the acquisition and development of more modern and lethal surface combatants, including the Sovremenny-class guided-missile destroyers (DDG) from Russia and the indigenous development of DDGs and guided missile frigates (FFG). The ASCMs arming these ships are increasing in range, speed and lethality.

Air power improvements focus on the acquisition from Russia and indigenous development of fourth-generation multiple-role combat aircraft. The new air-launched cruise missiles (ALCM) arming these aircraft have greater range, supersonic speed, and the ability to take evasive maneuvers to defeat the target ships’ defenses. The combat potential of these aircraft will be enhanced by the deployment of AWACS and aerial refueling aircraft. When these two capabilities mature, they will grant PLA Navy (PLAN) aviation and PLA Air Force (PLAAF) aircraft greater range and effectiveness.

In response to potential US “deep strike” operations, point defense of essential military, industrial, and political installations is being replaced by an integrated air defense system (IAD) that includes SAMs, air defense artillery, and offensive counter-air operations. The “high-tech” contribution of advanced SAMs and air defense aircraft to IAD is joined by a twenty-first century version of “People’s War.” “People’s Air Defense” units formed out of China’s urban militia are now assigned the task of repairing bombing and missile damage, restoration of electricity and water supplies, reestablishing communications, and responding to all other consequences of enemy air and missile attacks.

Although our ability to determine what progress has been made is minimal, the PLA’s interest in offensive and defensive information operations must not be overlooked. The PLA views these operations as “Integrated Network Electronic Warfare” and as a capability essential to seizing battlespace initiative through “electromagnetic dominance in the early stages of a conflict.”

Looking further ahead, China’s space programs are to provide two capabilities critical to a littoral defense strategy. Wide-area intelligence, surveillance, and reconnaissance (ISR) capabilities will serve to locate and track US aircraft carrier battle groups and permit over the horizon (OTH) targeting for China’s air and shipborne cruise missiles. Should China’s anti-satellite program be successful, it would be used to degrade the ISR and command and control satellites central to US military operations. Finally, as mentioned earlier, the 2005 DOD annual report states that China is exploring the possibility of using ballistic missiles to attack US Navy (USN) task forces. Clearly, using ballistic missiles to target US aircraft carriers will require both maneuvering warheads and space-based ISR to locate, track, and target the task force.

It seems evident that in the foreseeable future, and even with the anticipated improvements in US platforms, weapons, and supporting systems, China’s littoral
defense is going to become ever more difficult to penetrate. Indeed, it would be prudent to anticipate that future Chinese conventional submarines will incorporate air-independent propulsion (AIP). Extending the number of days PLAN diesel-electric submarines can stay submerged operating on their batteries would make them even more difficult to locate and kill than they are today. The same level of improvement should also be anticipated for China’s new SSN over the noisy first generation Han-class. Similarly, the well-known deficiencies in the air defense capabilities of the PLA surface combatants are evidently being overcome by the introduction of two indigenously developed Aegis-type DDGs referred to as Project 052C. None of this progress suggests that China’s armed forces are intended to match overall US capabilities. What PLA modernization programs do demonstrate is that China is systematically overcoming the deficiencies found in the existing legacy platforms and weapons systems as it brings its armed forces into the twenty-first century. Although China’s naval and air forces are clearly not as numerous or well-equipped and trained as their US counterparts, they are reaching for capabilities that will make a military confrontation with them more hazardous and costly.

As Thomas Christensen so concisely stated the problem several years ago, China can cause problems for US security policy without matching US military capabilities. The distribution of the US Pacific Fleet’s large inventory of sophisticated and extremely competent combatants serves as an example of the problem. The submarine force contains 26 SSN, 7 SSBN, and 3 SSGN (converted Ohio-class SSBN capable of being armed with 154 Tomahawk land-attack cruise missiles). Sea-based air power consists of five aircraft carrier air wings. A sixth aircraft carrier, the Ronald Reagan (CVN 76) does not have an assigned air wing. Each air wing contains from 60 to 85 aircraft. A typical air wing’s missions include strike, airborne early warning, electronic attack, ASW, and logistic support. The Pacific Fleet’s surface combatants consist of 11 guided missile cruisers (CG), 22 DDG, 2 DD and 13 FFG. This inventory is divided among the Third and Seventh Fleets, Task Force 12, and Task Force 14. Only the Seventh Fleet, headquartered in Yokosuka, Japan, is forward-based in the West Pacific. The Seventh Fleet’s combat power centers on the Kitty Hawk (CV 63) Strike Group, composed of the aircraft carrier’s air wing, 2 CG, 3 DDG, 2 FFG and 2 SSN.

Thus, although the US Pacific Fleet’s aggregate capabilities are far superior to anything China can put to sea, few ships are forward-based in the West Pacific. Any major confrontation with China would require the redeployment of ships to the West Pacific, involving considerable transit time. US naval vessels steaming at 14 knots would take 18 days to reach the East China Sea from the US West Coast. From Pearl Harbor, the steaming time is 14 days. Transit from Yokosuka would consume 5 days and from Guam 4 days. Ships in the Persian Gulf would steam for 15 days to reach the East China Sea. More rapid advance, say 20 knots, would result in ships arriving in the operating area with engineering problems and most likely with weapon systems and sensors needing maintenance. This speed of advance would also restrict crew training and readiness for combat operations, especially for the air wing embarked on aircraft carriers. Furthermore, the
increased speed would require either additional refueling stops or additional replenishment ships for underway refueling. Therefore, a moderate advance of 14 knots would result in greater combat effectiveness in the area of operations despite the longer transit times. Submerged nuclear-powered submarines will have shorter transit times because their machinery and weapon suites are not subject to the vibrations and other consequences of high-speed transit on the ocean’s surface.

Recent US responses to China’s improving military capabilities are difficult to separate from what could also be preparation for a potential North Korea crisis. Nonetheless, changes being made to US air and naval forces in preparation for a Taiwan or North Korea crisis can be applied to either contingency. The Pacific Fleet has moved three SSN to Guam, placing them closer to China. Consideration is being given to moving an aircraft carrier and its air wing from the Atlantic Fleet to be based in Pearl Harbor. In May 2005, the Thirteenth Air Force moved from Guam to Hawaii. According to General Paul V. Hester, commander of US Pacific Air Forces (PACAF), the new Thirteenth Air Force headquarters will provide an air operations and warfighting center to cover the entire Pacific region. General Hester plans to establish a strike force at Andersen Air Force Base (AFB) on Guam composed of 6 strategic bombers and 48 fighters rotated from US bases. These combat aircraft will be joined by 12 aerial refueling aircraft to provide a long-range force projection capability. In November 2004, Major General David Deptula, PACAF’s Director of Air and Space Operations, anticipated the strategic bombers being employed for maritime control. Available technologies now provide strategic bombers with all-weather, day/night precision anti-ship capability. In addition, three Global Hawk unmanned reconnaissance aircraft will be based on Guam. With 28 hours endurance and a range of more than 11,780 miles at altitudes up to 65,000 feet, a Global Hawk will be capable of missions covering 62,000 square miles a day from Bangkok to Beijing. Adding to these developments, Lieutenant General Henry Obering, USAF, Director of the Missile Defense Agency, has stated that China would be treated as a potential missile threat in the development program for national missile defense. This decision was made, he said, because it was “prudent” to do so.

Assessing China’s military capabilities

Although Beijing’s aspirations for its military modernizations programs are seemingly evident, assessing the PLA’s current and near-term capabilities confronts several analytic dilemmas. Whereas China’s “hardware” inventory of such items as ships, submarines, aircraft, tanks, armored fighting vehicles, weapons and supporting equipment is reasonably accessible, the “software” of warfighting is not. Doctrine, training, logistical support, maintenance, and the officer and noncommissioned officer (NCO) competence that melds hardware and personnel into effective military operations is not fully accessible to the outside observer.

Equally uncertain is the PLA’s capability to command, control, coordinate, and provide timely intelligence to its modernized forces. These problems are the result of basing analyses on open sources. Even the US intelligence community has to
grapple with the secrecy enveloping China’s modernization programs. The recent Department of Defense report on China’s military power states that because of this secrecy, the report’s “findings and conclusions are based on incomplete data.” Furthermore, as China’s armed forces modernize across the board and the defense industrial complex becomes more capable in the R&D and production of sophisticated platforms, weapons suites, and supporting systems, estimating the PLA’s future capabilities is becoming even more difficult. The PLA could be moving faster or slower toward its aspirations than an external observer, especially one using only open sources, could know with any confidence.

Any evaluation is therefore left with trying to make informed guesses from the platforms, weapons, and supporting systems in the PLA’s inventory joined with what is known about PLA operational doctrine and the exercises conducted to train for this doctrine. This is not firm ground for assessing capabilities. Nevertheless, there appear to be significant deficiencies in the PLA’s present and near-term capabilities to implement an anti-access strategy against the United States and in the projection of conventional forces much beyond China’s territorial and maritime borders.

The relatively small number of modern platforms and weapons currently in the PLA’s inventory limits China’s ability to implement an anti-access strategy against the United States. The majority of China’s air and naval forces consists of older types incorporating updated 1960s technologies. For example, of the some 2600 combat aircraft in the PLAAF and PLAN aviation units, only about 300 are third and fourth generation types armed with sophisticated munitions. The PLAN suffers from a similar imbalance in both its surface combatants and submarines. Most are older ships, albeit in many cases updated. Nor have the capabilities of AWACS aircraft and aerial refueling yet been sufficiently developed by training to be considered operational. Moreover, the effectiveness of PLAN ASW and anti-air warfare (AAW) even with its most modern platforms cannot be confidently assessed. The quality of training, maintenance, and all the other factors that contribute to effective ASW and AAW simply cannot be determined from the information available. Similar problems affect assessments of essentially all other realms of warfighting.

A second dilemma that an assessment must confront is the difficulty of determining the PLA’s capabilities against a specific adversary or adversaries in a particular scenario. An example of this difficulty is found in the disagreement between Michael O’Hanlon of the Brookings Institution and Lyle Goldstein and William Murray of the Naval War College. The central issue they debated was the potential cost in USN ships required to defeat a PLAN submarine blockade of Taiwan. One could assume, given the overall ASW superiority and numbers of US SSN, destroyers, aircraft carriers, and land-based P-3 ASW aircraft that any Chinese attempt to enforce a submarine blockade of Taiwan would be quickly defeated. However, continuing improvements in China’s submarine force joined with the complexities of ASW operations in the Taiwan area and the post-Cold War withering of US ASW assets led Goldstein and Murray (an experienced retired USN submarine officer) to argue to the contrary. In doing so, they criticized Michael O’Hanlon’s earlier essay, which argued that in the most severe case
while assisting the Taiwan navy the USN could possibly lose two ships.\textsuperscript{39} Goldstein and Murray conclude that in the best case US losses would be three ships and in the worst case 14 ships could be lost in a single tactical exchange.\textsuperscript{40}

**Force projection capabilities**

A second deficiency is in the PLA’s ability to project conventional forces much beyond China’s borders. Although in principal the PLA’s emerging capabilities are applicable to scenarios other than Taiwan, the current Defense Department report judges that “China’s ability to project conventional military power beyond its periphery remains limited.”\textsuperscript{41} The question arising from this statement is how limited are these capabilities. With the PLAN conducting exercises in the South China Sea and its nuclear submarines patrolling further east, on one occasion circling Guam, this question requires more detailed assessment.

Beijing is working diligently to resolve its remaining land border disputes, and no state in Asia is contemplating an invasion of China. Consequently, beyond possible border incidents that China must prepare for, a ground war is so unlikely that it does not warrant discussion. Should a border incident flare up, PLA ground forces are capable of responding effectively.

In China’s maritime realm, tensions in northeast Asia primarily involve territorial disputes with Japan. With Japan an ally of the United States, a major military confrontation over these disputes is improbable. Moreover, Japan’s Maritime and Air Self-Defense Forces (MSDF/ASDF) are themselves extremely capable. The only potential but still unlikely use of China’s force projection capabilities other than in a Taiwan crisis is over the continuing territorial disputes in the South China Sea and to protect China’s sea lines of communications (SLOC). Beijing’s sensitivity to SLOC defense has increased with China’s growing dependence on seaborne energy supplies from the Middle East and Africa.

In a South China Sea scenario, as in all other uses of military force, one has to ask the purpose of the force projection. If it is to establish “presence,” perhaps as an act of coercive diplomacy, the PLAN can carry out the mission with ease. A surface action group (SAG) composed of four or five DDGs and FFGs accompanied by one or two submarines and an underway replenishment ship would make China’s intent clear. If, however, a PLAN SAG has to prepare for possible sustained combat operations, then two deficiencies come into play. Despite the PLAN’s recent introduction of \textit{Aegis}-type DDGs, the fact remains that almost all PLAN surface combatants have only limited AAW capabilities. If the PLAN is conducting sustained combat operations, its surface combatants are exposed to land-based air attack from several regional air forces. Some protection for the SAG could be provided by China’s land-based aircraft using aerial refueling, but this technique is thus far not fully operational. Moreover, the defending aircraft would require frequent refueling to ensure sustained loiter time over the area of operations. This is far beyond the PLA’s capabilities. An aircraft carrier with fixed-wing aircraft would be needed for sustained air operations in an area as distant as the South China Sea. Such a ship remains only a distant dream for the PLAN.
A second deficiency is the limited wide-area surveillance capability available to the PLAN. China’s Y-8 transport aircraft equipped with British Skymaster early warning radars would be effective, but their loiter time over the South China Sea is likely to be limited. The Russian A-50 Mainstay being acquired is a more effective system and has increased loiter time. A potential third PLAN deficiency is ASW. The PLAN is acquiring improved ASW helicopters for its surface combatants and the new submarines will have an improved ASW capability, but how competently these capabilities can be employed is simply not known. Nonetheless, a PLAN SAG would not be defenseless. Assuming one or two submarines are part of the SAG, surface ships attacking with ASCM confront a daunting task. In addition to facing the SAG’s submarines, the PLAN’s newest DDGs, especially the Sovremenny, are armed with lethal, supersonic, long-range ASCM.

China’s increasing dependence on imported energy has enhanced Beijing’s sensitivity to SLOC defense. SLOC defense, however, confronts the same deficiencies seen in projecting naval forces into the South China Sea, but with added problems. Most of China’s imported energy originates in Africa and the Middle East. The PLAN simply cannot sustain a naval presence capable of protecting energy supplies transiting the vast ocean distances from Africa and the Persian Gulf. Despite considerable speculation, for the foreseeable future the PLAN will not have enough ships, submarines and replenishment vessels to perform this task. It would be possible for the PLAN to sustain a SAG protecting the Malacca Strait chokepoint, but it is unlikely the littoral states would accept frequent Chinese naval patrols of the Strait. It is far more likely that Beijing will accept continuing Indonesian, Malaysian, and Singaporean responsibility for Malacca Strait security. Whether Beijing will ultimately conclude that China’s reliance on imported energy requires it to gain access to foreign port facilities and build a navy of sufficient size and capability to sustain a presence from the Persian Gulf to the East China Sea remains an open question.

**China’s military-industrial complex**

As it has been since the first defense modernization programs began in the mid-1950s, Beijing’s long-term strategic objective is to build a self-sustaining defense R&D and MIC. Extensive industrial reforms undertaken in the late 1990s have made a substantial progress in achieving this objective. R&D procedures and production methods have all improved with consequent progress in the quality of the output. Nonetheless, even in the shipbuilding sector, which has demonstrated the most progress other than the missile industry, reliance on imported components and technologies continues. Whereas significant headway has been made in the production of platforms, a critical element of China’s most advanced ship types consists of imported components and technologies. The PLAN’s newest diesel-electric submarine, the Yuan-class, likely draws upon Russian submarine technology. The most recent Song-class submarines rely on German diesel engines and copies of the French DUUX-5 digital sonar system and other copies or imports of
European, Russian, or Israeli components. The PLAN’s newest destroyers use Ukrainian gas turbine engines and Russian anti-aircraft missile systems and search radars.

The aviation industry has demonstrated the least progress. Despite China’s development of the Kunlun turbo-jet engine and the anticipated WS-10 advanced turbo-fan power plant, the engine for China’s first indigenous fourth generation combat aircraft, the F-10 designed with Israel’s assistance, is supplied by Russia – the A1-31FN built by Salyut. China’s continuing reliance on Russian aircraft for PLAAF and PLAN aviation demonstrates the aviation industries’ ongoing deficiencies. Naval aviation for example is being enhanced by the purchase of Russia’s Su-30MK2 armed with the supersonic Kh-31 ASCM.

Even China’s missile industry, which has had pride of place among the defense industries since the mid-1950s, has its own weaknesses. The industry’s successes can be seen in the development and production of solid-fueled ballistic missiles and new classes of cruise missiles. China’s cruise missiles are increasing in range and accuracy and a land-attack cruise missile (LACM) is under development, as is a long-range surface-to-air missile perhaps comparable to the US Patriot or Russian S-300. These successes must be tempered with the recognition that the United States has had solid-fueled ICBMs since the 1960s. Moreover, whereas LACMs, beyond-visual-range air-to-air missiles, and anti-radiation missiles have long been in the inventories of Western and Russian militaries, they are new to China.

While not a defense industry, the information technology (IT) sector has established a close working relationship with the PLA. IT corporations provide command, control, communications, and intelligence (C4I) equipment to the armed forces, thereby providing an important modernizing component. This has allowed the PLA to incorporate major improvements in its communications abilities and operational security. Presumably, these same technologies have assisted the PLA in developing capabilities in offensive and defensive information operations often now referred to as “computer network operations” (CNO).

Although Chinese rightly feel pride in the success of their manned space program, China’s space industries and R&D have had a military purpose since their origins in the mid-1950s. China’s military space and counterspace programs are focused primarily on countering US capabilities. Beijing’s primary interests are space-based C4ISR (command, control, communications, computers, intelligence, surveillance and reconnaissance), targeting for a variety of weapons, including cruise and ballistic missiles, and anti-satellite (ASAT) systems. China’s progress in these realms is difficult to estimate. Nevertheless, as in other areas of advanced technologies, Beijing actively seeks international cooperation. Partners now include Brazil, the European Union, and a joint university program between Qinghua University and Britain’s University of Surrey. Four state-owned space industries are supervising China’s R&D as part of Beijing’s participation in the European Union’s Galileo satellite navigation system. Additionally, China is developing its own Beidou satellite navigation system and has access to Russia’s Global Navigation System (GLONASS). How close China is to disrupting US
space systems while employing its own systems for C4ISR and targeting cannot be determined from unclassified sources, and perhaps not by the intelligence community. What is important is the concentrated and expensive priority Beijing has placed on developing these capabilities.

The effort Beijing has directed at improving China’s defense industries and R&D over the past 25 years, and particularly in the past five years, demonstrates Beijing’s commitment to a self-sustaining MIC. Beyond extensive reorganization and reform, Beijing has increased its R&D investments and raised expenditures on the importation of foreign manufacturing technologies. These policies have generated an expanding cohort of technicians, engineers, and scientists. With all its deficiencies, especially in view of the heavy baggage the MIC carried over from the 1960s and 1970s, the improvements made are remarkable. Whether these improvements signify a take-off stage for the MIC is not knowable. It is clear that the groundwork has been prepared for the time when further progress in military technologies can depend on China’s indigenous R&D and production capabilities. As this groundwork has its effect over time, it is probable that, with the exception of Japan and India, no Asian state will have a defense industrial complex comparable to China’s.

Resources, potential political change, and China’s future course

What circumstances could cause China to change its current course? Will economic expansion stagnate, thus limiting the resources Beijing can allocate to military modernization? Will China’s political system undergo such change that Beijing will alter its strategic objectives? There are no firm answers to these and similar questions, but exploring them could shine some light on Beijing’s determination to pursue China’s current defense policies.

Resources

Can Beijing sustain the level defense expenditures it has accepted since 1989? With an average annual increase of 14.5 percent, the official defense budget has doubled in real terms about every five years. Even with these increases, the official defense budget over this period consumed a modest 1.6 percent of GDP. When the recent RAND study adjusted the official budget to reflect probable total military expenditures, the defense burden in 2003 was 2.3 to 2.8 percent of GDP. This is not an unusual defense burden. It is reasonable to assume that China’s future economy will slow from its current high rate of expansion and grow at an average annual rate of 5 percent. This rate of growth will triple the size of China’s economy by 2025. Maintaining defense expenditures at some 2 percent of GDP as China’s economy expands at 5 percent a year will provide the defense establishment with sufficient funding to sustain its modernization programs. Nevertheless, it is questionable whether the rates of increase seen in recent years can be sustained if the economy grows at 5 percent per annum. To maintain such a high rate of annual
increase, estimated by the RAND study to average 9.8 percent a year in real terms, would require Beijing to accept defense expenditures ranging from 6.2 to 7.6 percent of GDP by 2025. This level of spending is excessive. China’s military expenditures would exceed those of any NATO or Asian country.53

Moreover, the central government confronts demands for more societal spending. China’s economic expansion will be accompanied by an older, more urbanized population that although wealthier will also be making more demands on government expenditures. Currently neglected areas such as pensions, health care, education, public infrastructure, and the environment will compete with military spending. These demands join the bad debts created by the non-performing loans granted by government banks to state-owned enterprises in placing an increasing burden on government expenditures. Even with these competing demands, sustaining military expenditures at around 2 percent of GDP is probably acceptable.

Defense spending at 2 percent of GDP could be viewed as inadequate should Beijing perceive its security environment deteriorating to the point where it believes a major war is probable. Under this condition, Beijing could consider it necessary to increase its defense expenditures to the range of 3–5 percent. Such a decision, however, would create a serious friction with the increasing societal demands on central government expenditures.

Although the probability of economic collapse is slim, defense expenditures would be threatened by economic stagnation. If stagnation did set in, demands for spending on pensions, health care, and other societal needs would increase with the growth in unemployment and other consequences of prolonged economic decline. Unless China confronted a severe and immediate external military threat to its security, fear of internal unrest could well result in priority being placed on domestic spending to ease societal tensions with the cost paid by decreased expenditures on military modernization. It also possible that, even without economic stagnation, China’s political leadership could conclude that mounting national debt and increasing societal demands required diminishing military expenditures.

Political change

The swelling demands on future government spending are accompanied by tensions afflicting China’s polity stemming from uneven economic expansion, unemployment, corruption, and the malfeasance of many government and party officials. It would be imprudent to assume, however, that the Chinese Communist Party (CCP) is about to lose control and China to disintegrate. Certainly, popular protests are rapidly increasing in number, and are growing larger and better organized. This pattern of protests is especially strong in China’s northeast “rustbelt” and in rural areas. In urban areas, the organization of protests is being aided by the widespread use of cell phones, email, and the internet. China’s police, however, are becoming more sophisticated in their responses. The police now admit that the protesters often have legitimate complaints against such problems as avaricious managers and corrupt local officials. Moreover, despite the occasional and widely reported use of deadly force, police techniques for controlling
these protests have begun to change from blunt suppression to containing and placating the protestors.54

China’s political elite is worried about the implications of increasing unrest for the CCP’s continued monopoly of political power, but the response across China’s polity has been mixed.55 At the top of the political system, the CCP has sought to increase its control over the political process and over the mass media and internet. At lower levels, however, experiments first seen in village elections have been repeated in urban areas. Moreover, experiments in “e-government” are under way in some provinces and municipal governments, including electronic bulletin boards that seek feedback and public opinion on government policies. There are even the early signs of an emerging civil society, especially in the rich, internet and cell phone-linked urban areas. In short, changes under way in China suggest continued CCP rule in a still controlled but more open political climate. Collapse of CCP rule and the disintegration of China seem far less probable than an incremental easing of authoritarian controls beginning at the level of local governance.

More importantly from the PLA’s point of view, maintaining an authoritarian but slowly liberalizing political system that eases societal tensions minimizes the possibility that it will be used to bring mass protests under control as it was in Tiananmen debacle. Unless public protests get completely out of control, they are the responsibility of the civilian Ministry of Public Security police and the People’s Armed Police (PAP). The PLA can be used for domestic security purposes only when requested by local authorities and approved by the central government.56

Conclusion

For the United States, the major unresolved question hovering over China’s military modernization programs is whether Beijing’s ultimate intent is to challenge US military supremacy in maritime Asia. From a US perspective, the trends are potentially dangerous. China’s programs embracing strategic nuclear force enhancements, space exploitation for the conduct of military operations, information warfare, naval and air power modernization, and homeland defense against air and missile attack are all designed in large part to counter US capabilities. From a Chinese perspective, beyond a possible confrontation over Taiwan, these programs are a necessary hedge against an uncertain future security environment that has at its center a potential US shift to a more confrontational policy as China’s power and influence increases. Beijing’s defense white papers consistently signal such apprehension. Consequently, in Beijing’s eyes there is no contradiction between China’s expanding regional and global political influence and the aspirations of its military modernization programs. China’s most dangerous potential adversary wields the world’s most powerful military.

From an Asian perspective, China’s intent to build a self-sustaining military industrial complex presents a challenge only India and Japan can contemplate matching. Beijing will undoubtedly maintain what has been a central strategic objective since the 1950s; as a result, China will become the region’s most
powerful military state. Whether either India or Japan will choose to commit the investment necessary to compete with China is unknown, but China’s future course seems evident.

For the coming decade, China’s national interests drive Beijing toward maintaining its policy of fostering a pragmatic mutual engagement with the region and the United States. Similarly, although Chinese military capabilities developed in response to US military power are applicable to scenarios other than a Sino-US confrontation, Beijing will continue to rely on expanding trade, commerce, foreign direct investment, and technology transfers to build China’s economy. This will constrain China’s use of force. Aggressive military action in Asia would undermine the international environment Beijing correctly believes China needs to achieve its long-term strategic objectives. For this reason, even as China prepares for a possible war with the United States over Taiwan, Beijing does not seek such a war. It is more probable that Beijing believes the PLA’s overt war preparations serve as a deterrent to Taiwan and stimulate the United States to keep pressure on Taipei to avoid unnecessarily provocative actions and statements.

Beyond this decade, the strategic landscape is uncertain. Because each is suspicious of the other’s strategic intent, neither China nor the United States accept the legitimacy of each other’s defense policies and strategies. At the root of the problem is what former Deputy Assistant Secretary of State Randall Schriver has recently defined as “strategic distrust.” Schriver suggests the gravest political danger underlying Sino-US relations is a “steady drift toward great power global rivalry, if not outright adversarial relations.”57 Such mutual suspicion does not serve the interests of the United States, China, or Asia. East Asia has long looked to the United States as the region’s security guarantor with US allies and friends contributing the bases and access to facilities that make US military strategy possible. Despite the stability the US military presence brings to the region, thereby serving China’s near-term interests, America’s role as East Asia’s security guarantor is an aspect of US policy and strategy that feeds Beijing’s suspicions of Washington’s strategic intent.

The opportunity to ease this reciprocal mistrust exists. Although senior defense and military officials from China and the United States can play an important role in this task, the objective cannot be accomplished at this level of authority. Because it is a matter of strategic intent, easing mutual apprehension can only be achieved by the most senior political leadership in both capitals. This requires Beijing and Washington to face the reality of their reciprocal suspicion. The best avenue for approaching this sensitive area today is the “strategic dialogue” suggested by President Hu Jintao and now conducted by Vice Foreign Minister Dai Bingguo and Deputy Secretary of State Robert Zoellick. Ultimately, however, mutually acceptable visions of the roles the United States and China will fulfill in Asia have to be agreed by the two countries’ political leaders. Beijing and Washington undoubtedly anticipate political and economic competition. The difficult task will be to find reciprocal acceptance of their military security policies. No such agreement is now in sight, but the perilous consequences of a sustained military rivalry should spur initial steps toward easing their mutual apprehension.
Notes


3 Ibid., 2.

4 Ibid.

5 Ibid., 5–12.

6 Ibid., 4.

7 Ibid., 6.

8 Ibid., 3.


20 See Shambaugh, “China engages Asia,” 91, where Professor Shambaugh cites both then-Foreign Minister Tang Jiaxuan in 2001 and more recently the Ministry of Foreign Affairs Director General for Asian Affairs Cui Tiankai as taking this position.


25 Ibid., 4.

China as a major Asian power  

28 Pacific Fleet submarine force can be found at www.csp.navy.mil. Surface combatants can be found at www.surfpac.navy.mil. Amphibious warfare ships are not included in this listing.
29 USS Kittyhawk’s Air Wing composition can be found at www.kittyhawk.navy.mil.
30 Seventh Fleet ships can be found at www.c7f.navy.mil. Amphibious warfare ships, the command ship, mine countermeasures ships, the salvage ship, and submarine tender are not included in this listing.
32 This discussion is taken from Richard Halloran, “Checking the threat that could be China,” *Japan Times*, 12 June 2005.
35 DoD Report 05, Executive Summary.
36 “Country briefing: China,” *Jane’s Defense Weekly*, 13 April 2005, reports the number of PLAAF combat aircraft as 3,000. The DoD 05 report in Figures 11 and 44 credits the PLAAF and PLAN aviation with some 2,600 combat aircraft.
40 O’Hanlon *et al.*, “Damn the torpedoes,” 205.
41 Ibid.
43 For a recent example of this speculation, see Bill Gertz, “China builds up strategic sea lanes,” *Washington Times*, 18 January 2005. Gertz reports on a study prepared for the Department of Defense Office of Net Assessment that interpreted China’s naval ambitions as establishing bases and diplomatic ties that would allow the PLAN to protect its energy supplies from the Persian Gulf through the South China Sea, especially from interruption by the US Navy.
45 Goldstein and Murray, “China emerges as a maritime power.”
47 Goldstein and Murray, “China emerges as a maritime power.”
48 DoD Report 05, 25.
49 Ibid., 35–6.
52 The following discussion is taken from Keith Crane *et al.*, “Future expenditures on the military,” in *Modernizing China’s Military* (Santa Monica, CA: RAND, 2005), 205–37.
53 Ibid., 224–7.
The following discussion is taken from Dr Richard Baum, “China’s state control mechanisms and methods,” testimony before the US–China Economic and Security Review Commission, 14 April 2005.

I am grateful to Dennis Blasko for bringing this point to my attention. See Article 22, adopted at the Fifth Session of the Eight National People’s Congress, “Law of the People’s Republic of China on National Defense.”

10 China’s military rise to great power status
Its implications for the United States in Southeast Asia

Michael Chambers

Introduction
Over the first six months of 2005, US military and civilian officials became increasingly vocal about the pace and scope of China’s modernization of the People’s Liberation Army (PLA). Such concerns were spelled out explicitly in the Pentagon’s annual report on the Chinese military:

China does not now face a direct threat from another nation. Yet it continues to invest heavily in its military, particularly in programs designed to improve power projection. The pace and scope of China’s military build-up are, already, such as to put regional military balances at risk. Current trends in China’s military modernization could provide China with a force capable of prosecuting a range of military operations in Asia – well beyond Taiwan – potentially posing a credible threat to modern militaries operating in the region.1

The People’s Republic of China (PRC) is on a rapid course to becoming a great power in East Asia, perhaps the great power of the region. Just as China’s economic rise is causing apprehensions, so is its effort to create a military capability worthy of a great power.

This chapter seeks to understand some of the implications for Southeast Asia and US interests in that region due to China’s emergence as a great power, focusing particularly on the military and security aspects of the situation. The central theme of this paper is that great-power China will challenge US interests in Southeast Asia and compete with the United States for influence. However, there are apparent limits to China’s efforts. Moreover, the desires of the Southeast Asian countries to accommodate China but hedge against its possible aggressiveness leave opportunities for the United States to maintain a strong presence in the region. The chapter begins with a brief examination of China’s efforts to modernize and build up its military into one worthy of a great power. It then considers China’s emerging security interests in Southeast Asia and how these might affect the PLA’s modernization plans. The implications for the United States of China’s rise to great power status are addressed in the third section, and
the paper concludes by considering the prospects for China’s rise to great power status under different assumptions about China’s economic health and potential changes to the political system.

**China’s military rise to regional great power status**

If China is to emerge as an Asian great power, it will need to develop not only a large and strong economy and an influential political/diplomatic presence in the region but also a military that is one of the best in Asia – one that is able to project power throughout the region. Japan is currently in the throes of a debate over whether or not (and to what extent) it should become a “normal country,” meaning that it should develop military capabilities commensurate with its international economic and political standing. Under the US security umbrella and with a pacifist popular bent, Japan was able to develop as a “trading state” in the post-World War II era, focusing on economic development as its route to international influence. While the PRC is clearly seeking to become one of the major trading nations of the world, it neither enjoys nor desires the luxury of the US security umbrella. Rather, it is pursuing a more traditional path toward great power status, one that combines political, economic, and military capabilities. In order to add the military piece of the equation, it needs to significantly modernize the PLA.

The modernization of the Chinese military began in earnest in the early 1990s. It had been on the table at least as early as 1978, when the modernization of national defense was included as one of the “Four Modernizations” – albeit in the fourth position behind agriculture, industry, and science and technology. With the lackluster performance of the PLA in the February 1979 punitive war against Vietnam, Deng Xiaoping and other senior leaders sought to implement reforms in the military that would make it a more professional and more modern institution. Despite the progress made over the 1980s, China’s military leaders and analysts were stunned by the display of high-tech military power provided by the US military during the 1991 Gulf War, which demonstrated how much of a gap still existed between the modern militaries of the West and the PLA. Alarmed by this gap, the Chinese civilian and military leaderships embarked on a process of significant modernization of the PLA.

While the Gulf War served as the primary catalyst for China’s military modernization efforts to transform into a high-tech force, two other factors have also contributed to this modernization drive. The first of these is the fact that by the early 1990s, China’s economic reforms were well on their way to enhancing the economic potential of the country – and the resources that the government could allocate to military modernization. Second, with the ending of the Cold War and the concomitant ending of the Soviet threat, the Chinese began to revise their security strategy away from “People’s War” toward meeting security threats at a distance from the PRC’s borders. In particular, this re-conception of the Chinese security perimeter incorporated a significant maritime dimension, drawing heavily on the promptings of General Liu Huaqing and his strategy of “offshore defense” out to the first and (eventually) second island chains to China’s east.
These two factors contribute strongly to the American and East Asian anxieties about China’s military modernization. As China’s economy continues to grow, the Beijing government will continue to have additional resources to devote to military modernization. In the 2005 annual report on China’s military power, the US Department of Defense estimates that in 2025 the Chinese economy will have grown to $6.4 trillion (constant 2005 dollars) from approximately $1.8 trillion – the US economy is predicted to total $22.3 trillion and Japan’s $6.3 trillion in 2025. Based on this economic growth, the Pentagon projects that the real Chinese military budget may range between $225 billion and $325 billion (up from $60–90 billion in 2005). Such numbers indicate that China could build quite a formidable military by 2025. Moreover, as civilian Chinese industry enhances its quality through competition in the global market and investment from foreign firms, these quality improvements can spill over into the military industries.

Because of the new conception of the Chinese security perimeter, Washington has also become concerned about Beijing developing power projection capabilities that could bring the two armed forces into conflict. The PLA seeks to operate in the waters and airspace out to the area of Taiwan and the Philippines – and even extend toward the Bonin, Mariana, and Caroline Islands – and to deny access in these maritime security areas to other military forces. Since at least late 2003, there is also mounting evidence that Beijing sees the sea lines of communication (SLOCs) through Southeast Asia and across the Indian Ocean as vital to its security. In order to operate in these areas, the Chinese need to develop at least limited naval and air power projection capabilities. A PLA Navy (PLAN) and PLA Air Force (PLAAF) that could operate in these maritime spaces would potentially challenge US control of the far Western Pacific in the event of a military conflict (e.g., over Taiwan). In its defense white paper of December 2004, the PRC acknowledged that it is emphasizing precisely these arms of the PLA, along with the ballistic missile arsenal of the Second Artillery Force. Yet we should keep these developments in context: the PLA will be focusing on China’s littoral maritime regions and the regional SLOCs, but the United States will continue to have global military responsibilities and will maintain capabilities necessary to implement these missions.

The focus of China’s military modernization since the late 1990s has been to develop the capabilities to resolve a Taiwan crisis in a way favorable to the mainland, which includes deterring or delaying a US intervention to assist the Taiwanese military forces. Toward this end, the PLA has augmented its short-range ballistic missile (SRBM) arsenal facing the island. It has also enhanced its naval and air capabilities to operate in this theater, both through acquisitions of weapon systems from Russia and through indigenously developing new weaponry. (For a thorough discussion of the modernization of the PLA, see Paul Godwin’s contribution to this volume.) Although these enhanced capabilities are primarily intended to deal with a Taiwan scenario, they also provide the PLA a growing ability to operate in Southeast Asia, including patrols of the Spratly Islands and port calls in maritime Southeast Asia. Because of the continuing vulnerabilities of the PLAN surface vessels and the inability of either the PLAN
Air Force (PLANAF) or the PLAAF to provide effective air cover to PLA naval vessels operating in maritime Southeast Asia, China’s ability to project power in this region remains limited. The one area in which the PLA does currently possess effective power projection into Southeast Asia is with its ballistic missile arsenal. The CSS-6 and CSS-7 SRBMs are mobile, and could be redeployed if necessary to target a large portion of mainland Southeast Asia. In addition, the PRC has 14–18 CSS-2 intermediate-range (IRBMs) and 19–23 CSS-5 medium-range ballistic missiles (MRBMs) that could target all of maritime Southeast Asia, and it is developing improved capabilities in this area.9

Over the next two decades, we can expect to see continued enhancements of the PLAN’s surface and submarine fleets, and the PLAAF will increase the deployment of modern aircraft with longer ranges and more lethal weaponry. The PLA is expected to complete development of land-attack cruise missiles (LACM), and to further enhance its deployment of anti-ship cruise missiles (ASCMs). Moreover, the Chinese military is emphasizing asymmetrical warfare methods, such as information warfare and electromagnetic warfare, to cripple those modern militaries that rely heavily on computers and information networks. But these improvements represent only a limited ability to project power throughout the region. Despite the ambitions of some Chinese strategists – including General Liu – that China should develop a global “blue water navy,” this vision remains in the distant future. In particular, the Chinese have shelved plans for an aircraft carrier, which would be critical to project power throughout maritime East Asia.10 Moreover, the PLAN has not taken other steps necessary for blue water, power-projection force:

> few destroyers capable of operating in the open ocean have been built; no military bases are being acquired abroad; [and] training over open water or far from China’s shores is minimal … Although the PLA Navy has about sixty surface combatants and more than seventy operational submarines, they generally do not operate beyond China’s territorial waters.11

Why has China not sought a more rapid military modernization program with greater power projection capabilities? Certainly, issues of technological competence play a major role, as discussed by several recent studies.12 But China currently seeks to balance military modernization with a continued emphasis on economic growth. In the defense white paper of December 2004, the second and third “basic goals and tasks in maintaining national security” are:

- To safeguard the interests of national development, promote economic and social development in an all-round, coordinated and sustainable way and steadily increase the overall national strength.
- To modernize China’s national defense in line with both the national conditions of China and the trend of military development in the world by adhering to the policy of coordinating military and economic development … 13

Moreover, as discussed in the recent RAND study, numerous socio-economic
challenges will be facing Beijing on the domestic side (e.g. education, health, pensions, and infrastructure development), and these will require hefty budgetary allotments in order to maintain domestic stability and economic growth.

A third possible reason is Chinese attentiveness to the operation of the security dilemma – at least as it pertains to Southeast Asia. It is difficult to know to what extent this is influencing Chinese thinking, but PRC efforts to engage these neighbors in security dialogues and forums, as well as the increasing number of military exchanges, suggest a sensitivity to the security dilemma as Beijing tries to reassure these neighbors. China holds regular security consultations with Thailand (the fifth was in 2006) and Japan (the seventh was in 2006), and has held annual strategic dialogues with Australia and New Zealand (albeit these are countries not technically in Southeast Asia). In 2003, China participated in 18 major military exchanges with Southeast Asian militaries, seven with Northeast Asian countries, and three with Australia or New Zealand; in 2006, the numbers of exchanges were 25 with Southeast Asia, four with Northeast Asia, and six with Australia and New Zealand.14 The PRC regularly participates in the ASEAN Regional Forum (ARF) and its intersessional meetings and in 2003 promoted the idea of an annual security policy conference within the ARF framework. The proposal was accepted by ASEAN and the first conference was held in November 2004 in Beijing.15 In addition, the PRC became the first non-ASEAN country to sign the Treaty of Amity and Cooperation in 2003, and in 2002 signed a Declaration on the Conduct of Parties in the South China Sea and a Joint Declaration on Cooperation in the Field on Non-Traditional Security Issues. In October 2004, China and ASEAN agreed to a Strategic Partnership for Peace and Prosperity that pledged security cooperation (among other cooperative ventures). Combined with limits in the PLA’s build-up, these actions suggest an effort to reassure the countries of Southeast Asia on China’s military direction, and to dampen anxieties that could trigger a regional arms race. These Chinese efforts have been welcomed by ASEAN as they provide the Southeast Asians a means for input into the PRC’s security thinking; they also suggest that ASEAN’s efforts to “socialize” China into “the ASEAN way” and away from a more belligerent policy have born fruit.16

Finally, it is possible that China will not try to directly match US military power in the region, but instead will use asymmetrical capabilities to meet the challenges that it sees the US military posing.17 Realizing that it cannot easily afford the budgetary outlays to build naval and air forces to match those of the United States (e.g. building aircraft carrier battle groups) and that attempts to do so would not only potentially disrupt social and economic stability at home but trigger a regional arms race based on the security dilemma, Beijing may rely on cyber warfare, electronic warfare, and precision missile strikes to raise the costs for an adversary to unacceptable political levels.

**Chinese security interests in Southeast Asia**

Based on its growing economy and broadening diplomatic influence, China is rapidly becoming an Asian great power. Its military modernization program is
adding the third component to this status, and will continue to do so over the next twenty years. As a great power, what will be China’s security interests with regard to Southeast Asia? And how might these interests shape the PLA’s modernization program?

**Chinese security interests**

Probably the most basic security interest of the PRC with respect to Southeast Asia will be to reduce the influence of the United States, or any other major power. As Robert Sutter has commented, for the past fifty years the Chinese leadership has sought to rid their periphery of great power presence, and it is unlikely that they will turn away from this goal today as China emerges as a great power itself. During the Cold War, and even back into the late imperial era, China came to see the Indochina region and mainland Southeast Asia more generally as its “strategic backyard.” It worked assiduously to prevent the domination of this region by any one country, whether that power was external to the region (France, the United States, and the Soviet Union) or a regional state (Vietnam). With Beijing’s claims to the South China Sea, and its increasing dependence on the sea lines of communication through maritime Southeast Asia, this conception of a “strategic backyard” is likely to grow to encompass all of Southeast Asia.

This being the case, the PRC will seek to reduce the US presence and influence in the region – or at least to neutralize it. China’s relationship with the United States is a complex one: many Chinese analysts view the United States as the primary long-term threat to China’s security and position in the world, yet they also recognize that China has benefited from the relative security, stability, and prosperity that the United States helps provide in East Asia. China’s desire to reduce US influence can be seen in several settings, including Beijing’s promotion of an East Asian Community, which would preferably leave the United States outside the organization, and in the PRC-sponsored security policy conference mentioned earlier (viewed as an alternative to the annual Shangri-la Dialogue hosted in Singapore, which is seen by the Chinese as too heavily influenced by the United States).

Despite this interest in reducing US influence in Southeast Asia, it is not clear that China seeks to fully remove it or replace the US security presence with a Chinese security presence. The US military is seen within the region as the guarantor of peace and stability; China has not made an effort to take over this role. Although Chinese officials did peddle the idea of dissolving bilateral alliances in the region (i.e. the US alliances with Japan, South Korea, the Philippines, Thailand, and Australia) in the late 1990s, they backed off this proposal when rebuffed by regional countries. China continues to view these alliances as anachronistic vestiges of the Cold War and directed at third countries (namely, the PRC), and has offered its own “new security concept” as an alternative model for organizing international relations globally as well as in East Asia. Included in this concept are mutual trust, mutual benefit, equality, resolving disputes through dialogue, and promoting security through cooperation. While the new security concept is an
effort to undermine the US alliance-based military role in the region and replace it with an alternative vision, missing from this concept is a notion of how to maintain security when discussions and negotiations fail. China does not appear to desire replacing this critical role of the United States. Indeed, to play such a role, the PLA would need more power projection capability than it is currently developing; aircraft carrier battle groups would be particularly helpful here. This is not to say that China will not develop a willingness to play the role of security guarantor, for it has done so at times in the past. In the early Ming era, China used and threatened the use of military force in attempts to maintain regional order and stability in Southeast Asia. More recently, the PRC’s involvement in the Cambodian-Vietnamese conflict between the 1970s and 1990s – including the limited invasion of Vietnam in February 1979 – could be viewed as an effort to maintain stability in the Indochina region. The point here is that while China seeks to reduce US influence in Southeast Asia, it does not appear willing to assume the US role as the guarantor of peace and stability in the region.

Concomitant with this desire to reduce US influence in Southeast Asia is a second security interest, namely, to create a zone of friendly states in the region that could provide a strategic buffer between the PRC and an assertive, hegemonic United States. Just as the desire to reduce great power influence around China’s periphery has historical roots, so too does this goal. In the 1950s, Prime Minister Zhou Enlai sought to create a “zone of peace” that would stretch across China’s southern borders from Pakistan in the west to Vietnam in the east. This string of friendly, or at least neutral, neighbors would provide the PRC with a buffer zone between itself and potentially threatening great powers. Beijing’s current efforts to develop strong and friendly relations with the countries of Southeast Asia can be seen in a similar light, particularly its promotion of the East Asian Community and regional integration. In discussions with several participants from an April 2004 conference sponsored by the PRC Foreign Ministry to consider China’s approach to regional integration, it became clear that they saw the creation of an integrated East Asian Community as a type of strategic buffer against future US pressure on the PRC. This goal is thus already emerging in PRC strategic thinking, and we should expect it to become even stronger as China develops into a great power. China’s ability to achieve this goal is less certain than its pursuit; many Southeast Asian countries welcome the PRC’s professions of friendship, but hedge against more inimical behavior through maintenance of good relations with other countries, such as the United States, Japan, and India.

A third Chinese interest in Southeast Asia is protecting its territorial claims, particularly its claims in the South China Sea. Overlapping with these territorial claims are the PRC’s interests in energy resources which may lie under the sea. These territorial claims have been the source of tensions between Beijing and several Southeast Asian countries in the recent past, including the brief 1988 naval skirmish in which the PRC took seven islands from the Vietnamese and the Chinese seizure of Mischief Reef in 1995. Although the PLAN has built up and fortified the “fishermen’s shelter” on Mischief Reef and built an airstrip on Woody Island in the Paracels, the Chinese, overall, have taken steps to dampen the
potential for conflict over the Spratly Islands in recent years. Agreeing to the Declaration on Conduct of Parties in the South China Sea in 2002 is perhaps the most significant of these steps, but in September 2004 Chinese and Philippine oil companies agreed to a joint exploration project in an area which they dispute; the Vietnamese—who have overlapping claims—joined the project in March 2005. It is certainly possible that these territorial disputes, with the promise of substantial energy resources linked to them, could reignite in the future, but the trend at the moment is toward shelving the disputes and cooperating in development of the resources. The fact that the PRC is integrating itself into the global and regional commercial trading systems is a positive factor here: unlike imperial Japan, which saw economic self-sufficiency and security as the prerequisite for national security and thus sought to guarantee itself access to important resources by militarily dominating the location of the resources (e.g., in Korea and Manchuria), the Chinese seem to be content to trade for these resources.

A fourth important security interest the Chinese will have in Southeast Asia is the security of the sea lanes. With the PRC’s growth as a trading power and as it continues to increase its thirst for imported oil and natural gas, Chinese dependence on maritime commerce is growing significantly. For example, in 2003, China became the world’s second largest consumer of oil and third largest importer; over 40 percent of its oil is imported, and 80 percent of the imported oil travels through the Strait of Malacca. This overdependence on this strait for trade, and for energy imports in particular, makes China vulnerable to a disruption in this vital sea line of communication. At a high-level economic work conference in December 2003, President Hu Jintao reacted strongly to this predicament, calling for a solution to be found to the PRC’s “Malacca dilemma” and for heightened attention to be paid to securing China’s energy sources. Piracy is of concern, certainly, but more serious is the possibility of a formidable naval adversary seeking to shut down the supply line in time of armed conflict. The political and military leaderships in Beijing are particularly concerned about US influence in this strait and its capabilities to close it to Chinese shipping should a conflict over Taiwan erupt.

In order to “solve” this dilemma, the Chinese will likely follow two parallel tracks. The first track is to reduce their vulnerabilities to disruptions in the oil flow through the Strait by seeking alternative sources in Russia and Central Asia (or even in the Americas) and by investigating the possibilities of building oil pipelines across Pakistan, Burma, or Thailand to bypass the Malacca Strait. Efforts along both aspects of this track have already taken place. The second track will be to develop enhanced relations with countries located along these SLOCs, in particular the three countries situated on the Strait: Malaysia, Indonesia, and Singapore. Enhanced cooperative relationships with these three countries would hopefully prevent them from working with the United States to hamper Chinese use of the Strait in time of conflict. The PRC already has close relations with Burma, situated just north of the western end of the Strait, and with Bangladesh and Pakistan, which are situated near the sea lines extending out from the Middle Eastern and African oil fields and through the Indian Ocean. One study completed for the Pentagon suggests that China might try to create a “string of pearls” consisting of
military facilities in several of these countries in order to protect Chinese oil supplies. Included here could be the use of the new port at Gwadar that China is assisting Pakistan to build, Burmese military bases and the port at Sittwe, and yet-to-be-arranged port facilities in Bangladesh. While it might be further away from the sea lines of communication than Beijing would prefer, the Chinese are also familiar with the port at Kompong Som (Sihanoukville) in Cambodia from their close relationship with the regimes of Prince Sihanouk and then the Khmer Rouge in the 1960s and 1970s. Use of facilities in these ports would allow the PLAN to enhance its protection of Chinese shipping but also to threaten the shipping of other countries through these sea lines, thereby possibly deterring interference with China’s own oil supplies. In keeping with China’s claims not to be hegemonic or expansionist when it becomes a great power, such facilities may not be formal Chinese military bases, but more informal arrangements. Nevertheless, they will be unprecedented steps for the PLA.

A fifth key interest for Beijing will be in the general security and stability of Southeast Asia. The Chinese see the next 15–20 years as a period of strategic opportunity during which they can pursue their strategic economic goal of developing their economy and achieving a moderately well-off society. Beijing understands that economic growth and development is the engine driving China’s rise to great power status; a strong, developed economy will provide the wherewithal to enhance its strategic security. As it has said on many occasions, the PRC desires regional peace and stability in order to create a favorable international environment in which to pursue this high-priority goal. Toward this end, China will likely endeavor to help resolve international tensions that crop up in Southeast Asia (e.g., conflict between Thailand and Burma over narcotics trafficking), much as they have taken a leading role regarding the North Korean nuclear crisis. The PRC will continue to cooperate in the global war on terrorism, and would likely be unhappy should an Islamic fundamentalist regime come to power in Southeast Asia, since such a regime might seek to export its revolution.

Finally, we should expect to see a rising Chinese interest in Indonesia, particularly due to its energy resources and its geostrategic location along several major SLOCs in the region. This increasing attention is already evident with the exchange of state visits between Presidents Hu Jintao and Susilo Bambang Yudhoyono in April and July 2005 and in the decision to create a “strategic partnership” between the two countries – a partnership which includes increased defense cooperation. While some analysts caution us to remember the lingering obstacles in Sino-Indonesian relations, these developments still point to the growing attention that Beijing will shower on Jakarta. For most of the past 25 years, Thailand has been China’s closest friend in Southeast Asia and has served a bridge role that facilitated the improvement of relations between the PRC and ASEAN. While Thailand will probably retain a special place in China’s policy toward Southeast Asia, greater emphasis will come to be placed on Indonesia for these strategic reasons.

The increasing attention paid to Indonesia despite the longstanding friendship between the PRC and Thailand suggests a more fundamental shift in great-power
China’s security interests vis-à-vis Southeast Asia. During the Cold War, the PRC’s security interests in the region focused on mainland Southeast Asia, and Indochina in particular. This was a function of the security threats that emanated from this region toward China and of Chinese military power consisting primarily of ground forces. The Chinese leadership also focused much of its attention from 1949 until 1979 on internal political issues, and was not well integrated into the international economic system until the 1990s. The end of the Cold War saw an end to the Cambodian conflict (and with it the Soviet-supported Vietnamese challenge to Chinese security interests in Indochina) and a China that was rapidly developing economically – one increasingly tied into the regional and global economies dependent on international trade and foreign energy. Although some scholars have suggested that because of the PRC’s advantages as a continental power and the US dominance of maritime East Asia we would see a balance of power along these lines during the post-Cold War era, China’s rise to full-fledged great power status – with its dependence on the sea lines for energy and trade to drive its economy – is leading Beijing to expand its security interests to more fully incorporate maritime Southeast Asia. This does not necessarily mean that it will ignore mainland Southeast Asia; to do so would be foolish, particularly as this subregion is a major source of non-traditional security threats to the PRC, such as illegal narcotics trafficking. However, the most important threats to Chinese security in the future will be ones coming from, or on, the seas. Thus, Beijing is in the process of increasing its security interests in maritime Southeast Asia.

From interests to capabilities

How will these security interests affect China’s military modernization? All of these interests point toward the need for significantly enhanced power projection capabilities. Such capabilities will be required to protect China’s territorial interests in the southern stretches of the South China Sea, and to protect Chinese commercial traffic through the Southeast Asian and Indian Ocean SLOCs. Currently, the US Navy provides freedom of the seas and security through the sea lines as a “public good.” However, the Chinese – being suspicious of US intentions toward the PRC’s emerging great power status and with the potential for conflict between the two countries over Taiwan – will naturally be concerned that this could become an excludable good. Thus, prudent Chinese military planners will develop sufficient power projection capabilities to protect Chinese shipping through the sea lanes and to thwart US efforts to bottle up China’s energy imports moving through these potential chokepoints in the event of conflict. Such capabilities would include long-range air power, more blue-water naval vessels, and the necessary command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) systems.

As Paul Godwin and Bernard Loo discuss in their contributions to this volume, the trends in the modernization of the PLA are moving in these directions. Gradually, China is acquiring the capability to implement an area-denial maritime strategy in its littoral areas and to project air and naval power into the South China
Sea and beyond to the Indian Ocean. However, since the development and deployment of these capabilities will likely take several years (Godwin suggests a decade or so), it would behoove the PLA to avoid a showdown over Taiwan until such assets were in place, so that they could more easily defend against or deter potential US efforts to hinder Chinese shipping through the sea lanes. Of course, the timing of such a conflict does not rest with PLA planners, and they may have to face the “Malacca dilemma” before they are ready. This puts a greater burden on the Chinese diplomats to avoid such a situation.

**Implications for the United States**

In the 2002 National Security Strategy of the United States, the Bush administration avers that it will seek to dissuade the emergence of a peer competitor to the United States. While China may not become a full military peer in the next 20 years, it will become a great power in East Asia. Washington will not be able to deter Beijing from taking this path, because it is one which the PRC has sought to follow for decades. The Chinese believe it is in their interests to achieve great power status, and to develop the military capabilities to protect their own interests. Since China will emerge as a great power in East Asia, what are the security implications for the United States, particularly with regard to Southeast Asia?

First, at a more general level, newly emergent great powers will seek to reshape the international “rules of the game” to suit their interests, and they will seek to alter international institutions or create new ones. International institutions can be used by a great power as a tool for influence, and so it is best to set them up to achieve this goal. How might China’s interests in the region impact US interests there, and will they be drastically different than US interests? Will China seek to upset the status quo? These are not easy questions to answer. China today is not guided by a political ideology that could be used to help shape the international system in a certain manner, as was the case for the United States and the Soviet Union in the period after World War II. While it does not fully subscribe to the political and economic liberalism of the United States, it clearly does not hold much stock in communism. There is no overarching system of thought to provide a guide for the way that China would organize international life. There seems only to be its “national interests,” the calculus of which may differ from issue to issue. Beijing has been largely accepting of the WTO and the international economic system (established under a US-led framework), but it has promoted the East Asian Community, its own “new security concept,” and other regional institutions that would minimize US influence (and enhance China’s influence). China has supported international norms of sovereignty and independence, mutual cooperation in relations with other countries, and dialogue and negotiations to solve problems. On specific issues, China and the United States have differing interests with regard to Taiwan or the military role of Japan in the region, but the two have much greater coincidence of interests with regard to the war on terrorism or the North Korean nuclear crisis. Studies by Iain Johnston and David Shambaugh that have looked at this question in a more
systematic way have arrived at similar conclusions: China’s interests do not fully align with those of the United States, but they do not represent a clear overturning of the international system in Southeast Asia either.39

Turning to specific issue areas, the emergence of China as a regional great power is likely to have an impact on US alliances and other less formal security relationships in Southeast Asia. As has already been mentioned, in the late 1990s China promoted the dissolution of US alliances in the region, but was rebuffed by the regional countries themselves. In the event of a Sino-US conflict over Taiwan, we should expect Chinese attempts to neutralize the US alliances in the region as well as access agreements the United States has with some of the regional countries (e.g. Singapore). As has become well known, Southeast Asian countries do not want to have to choose between the United States and the PRC. Beijing could use political, economic, and even military pressures on Southeast Asian countries to remain neutral, and not provide basing or other access rights or transit and overflight rights. Any success for China in these efforts could significantly hamper US prosecution of the military campaign.

While Beijing will try to weaken US alliances and security arrangements in the region, it is unlikely that the Chinese will try to create their own system of alliances. First, since the early 1960s, the Chinese have preferred informal security alliances (i.e. ententes) to formal alliances as these will give it greater flexibility in responding to threats against their ally while reducing the chances of the PRC being dragged into an unwanted conflict.40 Thus, we should not expect to see China create any formal alliances with Southeast Asian countries. Second, in the past, China’s formal and informal alliances have been created to oppose a common security threat. This being the case, it is unclear which Southeast Asian nation – other than Burma or perhaps Indonesia if it were to become an Islamic fundamentalist regime – might come to perceive a security threat from the United States and seek to counterbalance it through an informal alliance with China. Finally, alliances would appear to run counter to China’s “new security concept” since they move away from peaceful negotiations and mutual trust. This is not to say that the Chinese might not violate their own concept, or reinterpret the concept so that it allows for some types of purely “defensive” alliances, but Chinese espousals of this conception of security would seem to leave no room for military alliances.

While the PRC will not seek to create alliances with its southern neighbors, it will seek to enhance its military-to-military cooperation with Southeast Asian countries as a means to increase its own influence in the region (and hopefully reduce US influence). Exchanges of senior military personnel, port calls, and the like will factor in here; the PRC and Indonesia have announced that defense cooperation will be part of their “strategic partnership.” We might also see increasing attempts by China to sell arms to the Southeast Asians. In the past, Chinese arms transfers were largely a function of an existing close security or political relationship, as was the case with North Vietnam, Cambodia in the 1970s, Thailand in the 1980s, and Burma. Sales were often at “friendship prices” or in some cases gratis. The benefit to using Chinese weapons was that they were inexpensive, and so a poor Southeast Asian country could afford more. The problem was that the quality
was also quite low. As the Chinese modernize the PLA and its weapons systems, the quality should improve while the costs remain relatively low. This should in turn increase their attractiveness to Southeast Asian militaries. That Chinese weapons systems hold some attraction to Southeast Asian countries is evinced by Thailand’s purchases since 1999 of two off-shore patrol vessels and a training ship, 28 C-801/CSS-N-4 Sardine anti-ship missiles, and their recent barter deal for 133 WZ551B armored personnel carriers. In August 2005, Indonesia signed an agreement to jointly develop 150-km range missiles with China as part of their defense cooperation, with subsequent reports of Jakarta purchasing a small number of anti-ship missiles. Following the September 2005 signing of a defense cooperation memorandum, there are also reports that Malaysia may be looking to the PRC to acquire air-defense missiles as well as a small number of naval vessels.

China’s emergence as an Asian great power will also pose a challenge to the US deployment of military assets in the Asia-Pacific region. Maintaining a substantial military presence in the region is critical if the United States is to encourage Asian countries, particularly those in Southeast Asia, not to jump on a bandwagon with rising China but to continue their hedge strategy of accommodating the PRC while reserving balancing options if necessary. Following the loss of the naval and air force bases in the Philippines in the early 1990s, the United States switched to a “places, not bases” approach to its presence in Southeast Asia, with Singapore in particular providing critical logistics and repair facilities. The creation of “cooperative security locations” (CSLs) in several countries (e.g. at Utapao Naval Station in Thailand, which proved important in the tsunami relief operation) are key elements of this new approach. And while the United States is reorganizing and reducing its presence in South Korea and Japan to address local complaints and to make US forces there more efficiently organized, it is simultaneously enhancing capabilities in Guam to allow for rapid response to Asian crises. A new aircraft carrier strike group is also planned for deployment to either Guam or Hawaii, which will further strengthen the US commitment and presence in the region.

These developments reduce the number of US military assets within easy range of Chinese forces in the event of armed conflict, such as over Taiwan. Without significant power projection capabilities beyond China’s coastal waters, the PLA would be forced to rely heavily on missiles and information/electronic warfare to attack US forces. However, the reliance on Southeast Asian CSLs for access and logistical support in such a conflict could prove problematic. As mentioned above, the Southeast Asian countries very much want to avoid having to choose between the United States and China, and Beijing could use political, economic, and military threats to pressure Singapore, Thailand, the Philippines, or others from providing access points, logistical support, or transit/overflight rights to US forces. Should such pressures fail to dissuade Southeast Asians from assisting US forces, any Chinese attacks on facilities in, for example, Singapore would be perceived as Chinese aggression, undermining Beijing’s position in the region. Nevertheless, the United States might need to consider the deployment of missile defense systems to protect such facilities and CSLs, particularly as the PLAN develops land-attack cruise missile capabilities for its vessels.
Conclusion

Despite the declared US goal of dissuading other countries from developing military capabilities that could challenge US interests and allies and friends, China is rapidly emerging as an Asian great power. This status is based on its strong economic growth and its new political/diplomatic activism, but Beijing is modernizing the PLA so that it can add this third component of great powerdom. As a great power, Chinese security interests are expanding from its traditional concerns in mainland Southeast Asia to incorporate the whole of Southeast Asia. In particular, the PRC is developing critical interests in the Southeast Asian sea lines of communications based on its dependence on these waterways for its foreign trade and energy imports.

As it rises, China is seeking greater influence for itself in Southeast Asia and is seeking to reduce US influence and presence. However, so long as the United States remains determined to play a beneficial security (and political and economic) role in the region, China will not replace US influence. Southeast Asian countries are accommodating China’s rise and seeking to benefit themselves from it, but they are also hedging against Chinese aggression. Thus, most Southeast Asians want a US presence in the region (as well as Japanese and Indian) to at least implicitly counterbalance China. Moreover, it is worth noting that the current limits to PLA modernization – as well as the “new security concept” – suggest that China is not seeking to replace the United States as the security guarantor in the region. Beijing seeks to weaken and undermine the US system of alliances, but it is unlikely to build its own alliance network to challenge the US system. Even if China did pursue such a course, it is unlikely that many (if any) Southeast Asian countries would sign on.

China’s rise to regional great power status presupposes a continued strong to moderate growth of the Chinese economy for the next fifteen years. If the economy stagnates or collapses, so too will China’s great power position. Although many neoconservatives in the United States might welcome such a development, it would not necessarily be a good thing.

If the Chinese economy collapses, this would result in (and perhaps be triggered by) domestic tumult. It also would likely mean the end of Chinese Communist Party rule. The primary source of legitimacy for continued Party rule over the past 15–20 years has been economic growth and prosperity (combining with nationalism as well over the last decade or so), and the collapse of the economy would be catastrophic for the Party. The demise of the Communist Party would not necessarily lead to a democratic regime in China. To the contrary, a new authoritarian regime is just as likely to emerge, based on elements of the old Party, members of the PLA, and technocrats. Such a regime could resemble the bureaucratic-authoritarian regimes of Latin America and the authoritarian regimes that led South Korea and Taiwan in the 1970s and 1980s. Because this regime would come to power without any ideological basis for its legitimacy, and with an economic crisis to cope with, the primary source of the legitimacy of this new leadership would likely be a strong nationalism with a heightened emphasis on defending
national sovereignty and territorial integrity against perceived threats. In such a
situation, the new leadership may look for foreign scapegoats to bolster their own
power domestically, leading to increasing tensions with regional neighbors. They
would also be inclined to increase pressure for favorable resolutions of the Taiwan
issue as well as territorial disputes in the South China Sea.

If somehow the Communist Party is succeeded by a more democratic regime,
we can not be assured of a peaceful situation. As Mansfield and Snyder have noted,
countries undergoing democratic transitions often fall under the sway of hyped-up
nationalism and become belligerent. 45 Several of the same security pathologies
mentioned above would hold true for this democratizing regime in China. Overall,
with economic collapse, we are likely to get a more belligerent China. The silver
lining to this cloud is that because of the economic collapse and resulting domestic
troubles, the government will have fewer funds to put toward the military – if they
want to solve their domestic problems.

If the Chinese economy stalls and stagnates (perhaps as the result of a banking or
currency crisis), dropping to only minimal growth, the Communist Party could
likely muddle through without regime change, but it would be forced to focus on
domestic issues. China would continue to rely on exports to boost its economy and
would rely on imported energy to keep its economy going, keeping it engaged with
the international community. While China’s economically generated security
interests in Southeast Asia would still exist, Beijing would lack the revenues to
continue the pace of military modernization and expansion it has engaged in of
late. It also would continue to desire a peaceful regional security environment so
that it could focus on its domestic economic issues, meaning that it would not
inflame territorial disputes for nationalistic purposes. Thus, an economically stag-
nant China would be less likely to threaten its Southeast Asian neighbors and US
regional interests than a China that has undergone economic collapse.

If China is able to maintain its economy at a moderate to high level of growth
over the next 15–20 years, we will see an economically prosperous and militarily
strong China – China as an Asian great power. Does it matter whether this China
has a democratic or authoritarian regime? One’s inclination is to say “yes.” A
democratic China will have greater common interests with its neighbors based on
similar political systems. There is also the strong argument that liberal democra-
cies do not fight each other, but create a separate peace for themselves in the inter-
national community.46 On the other hand, there is a fear that authoritarian regimes
will too often take their nations into armed conflict. Despite this desire to see polit-
ical liberalization in a militarily strong and economically prosperous China,
Mansfield and Snyder’s admonitions about democratizing countries becoming
aggressive and belligerent advise caution – even more so because of the military
capabilities great-power China will possess. The key here would appear to be
Chinese nationalism: will the PRC government continue to inculcate its youth with
a strong version of nationalism? If so, then trouble could be over the horizon
whether great-power China remains authoritarian under the Communist Party or
begins to transition toward democracy. The demonstrations and riots in May 2005
over yet another controversial Japanese history textbook give some sense of how
Chinese popular opinion could be whipped into a frenzy to support foreign policy goals, or even to get out ahead of official policy.

In the recent report on Chinese military power, the Department of Defense repeated official US policy that the United States “welcomes the rise of a peaceful and prosperous China.” However, the report then goes on to examine the various factors leading against this preferred US (and Asian) outcome for China. Hopefully, the US government is also examining in detail the factors that might lead toward this desired goal – factors other than building US military forces to dissuade the PRC from becoming a great power. Relying on this alone will not work, particularly given the nationalistic fervor and suspicions of the United States that are found in China today.

Notes

4 Bernard D. Cole, The Great Wall at Sea: China’s Navy Enters the Twenty-First Century (Annapolis, MD: Naval Institute Press, 2001), 165–8. The first island chain was conceived to run from the Kuriles through Japan, through Taiwan and the Philippines, to Borneo. The second island chain stretches from the Kuriles through Japan, the Bonins, the Marianas, and the Caroline Islands. See also Ji Guoxing, “SLOC security in the Asia Pacific,” Center Occasional Paper, Asia-Pacific Center for Security Studies, Honolulu, Hawaii, February 2000.
6 Ibid., 21. By comparison, a recent RAND Corporation study forecasts China’s 2025 GDP to rise to $9.45 trillion (constant 2001 dollars), just under half of the projected $19.69 trillion US GDP, with the military budget ranging from $185.2 billion to $403.4 billion in 2025 (which would represent between 60 percent and 132 percent of the US defense budget in 2003). See Keith Crane et al., Modernizing China’s Military: Opportunities and Constraints (Santa Monica, CA: RAND, 2005), 39–48, 223–37. The US defense budget is forecast to reach $583.9 billion in 2025.
7 This point is made in several analyses of China’s military modernization. See for example US DoD, “Military power of the PRC,” 13–14, 20–23; and Crane et al., Modernizing China’s Military, chapter 5.
14 Ibid., Appendix III, “Major military exchanges with other countries (2003–2004).”
16 For a discussion of ASEAN’s motivations in engaging China, see Alice Ba’s contribution to this
volume, as well as her chapter “Southeast Asia and China,” in Betwixt and Between: Southeast Asian Strategic Relations with the US and China, IDSS Monograph no. 7, ed. Evelyn Goh (Singapore: Institute of Defence and Strategic Studies, 2005).


21 Shambaugh, “China engages Asia,” 70.


26 As Mikkal Herberg notes in his contribution to this volume, Chinese analysts estimate much higher oil potential in the South China Sea than do others. Should the Chinese estimates prove closer to reality than the more conservative estimates, this could change the dynamics of cooperation regarding these resources.

27 An important exception here appears to be energy resources. As Herberg argues in his contribution to this volume, the Chinese have sought to “lock up” guaranteed access to energy supplies in several of their oil and gas deals. Herberg argues that these energy deals are closer to a neo-mercantilist approach than a free market approach. On the Japanese strategy prior to World War II, see Michael Barnhart, Japan Prepares for Total War: The Search for Economic Security, 1919–1941 (Ithaca, NY: Cornell University Press, 1987).


32 For a review of Chinese thinking along these lines, see Zweig and Bi, “China’s hunt for energy,” 34.


35 For further discussion of this Sino-Thai relationship, see Michael R. Chambers, “‘The Chinese and Thais are brothers’: the evolution of the Sino-Thai friendship,” *Journal of Contemporary China*, 14/45 (November 2005).


41 See Bernard Loo’s contribution to this volume for a discussion of the Thai experience with their *Jianghu*-class frigates.


Military modernization, power projection, and the rise of the PLA

Strategic implications for Southeast Asia

Bernard Loo

During the Cold War, US analyses of Soviet military power suffered from the over-emphasis on armaments. Hence this literature tended to paint a fairly dire picture – one in which Soviet military power was steadily growing, and United States strategic interests were constantly under threat. The fact that the Soviet Union never utilized its apparent military superiority over the United States in a direct military fashion – the fact that conventional war never broke out along the central European front at any time during the Cold War – seems to have escaped the attention of this literature. These problems point to a fundamental flaw in the discipline of Strategic Studies, which stems from the almost unquestioned preference for empiricism – a tendency to over-emphasize capability at the expense of will. The standard argument then made was that intentions were difficult, if not impossible, to quantify, measure, and assess; hence the focus on such quantifiable variables as armaments. Ironically, most analyses of Chinese military power appear to suffer from the reverse – too much attention being paid to the issue of will, and insufficient in-depth analysis of armaments and actual Chinese military capabilities per se.

Certainly with regards to the issue of the regional impact of Chinese military power, this argument largely pertains. Perhaps it is the sheer imbalances in size – in physical geography, in population, or in potential economic power – that inhibit a closer examination of Chinese military power and its ability to affect the strategic and security environment of Southeast Asia. Perhaps this bias simply reflects an ideological bias: more fundamentally, a desire to cast China as the new putative adversary for the United States. This paper seeks to address the central issue of Chinese military capabilities, both existing and projected over the next five-year period, and the strategic implications of this growing Chinese military power for Southeast Asia. To do this, this paper begins with an examination of Southeast Asian military power. Part of this analysis will incorporate issues pertaining to the current revolution in military affairs (otherwise referred to as military transformation). This forms the necessary context in which the strategic implications of Chinese military power for Southeast Asia can then be analyzed.

China could hypothetically seek to influence Southeast Asian political dynamics through two key strategic instruments. One is the ability of China to project its military power into Southeast Asia, in a variety of scenarios that range from low-level
limited aims missions to high-intensity force-on-force encounters more typically referred to as conventional military operations. Chinese military power might be used aggressively to coerce Southeast Asian states into certain policy choices consonant with Beijing’s own political objectives. The second is its ability to penetrate the Southeast Asian arms market, and through the instrument of arms sales, gain some leverage over the states of the region. Here, some analysis of the relative technological benefits of Chinese weapon systems and platforms will probably be necessary. In other words, does it make military sense – in a political vacuum – for states in Southeast Asia to begin to acquire Chinese weapons systems and platforms? Some comparison between Chinese and Western (defined as United States and European NATO countries) weapons systems and platforms will be necessary here. Of course, since military assessments cannot be made absent the political context, the political implications of shifting from Western to Chinese sources of military acquisitions will have to be made.

Assumptions

This paper makes three main assumptions concerning the emergence of China as a significant military power in the region. First, Chinese military power will become strategically important for Southeast Asia under two sets of conditions. In the first set of conditions, Chinese economic power translates into significant amounts of military power while remaining an essentially authoritarian regime. China then chooses to flex its muscles, to realize long-held ambitions for territorial expansion. In the second set of conditions, Chinese policymakers face tremendous domestic or international pressures to resort to the use of military force. Such pressures may plausibly emerge in the event of deep economic crisis in China.

A second assumption underpinning this paper is that Chinese military power will not be used in offensive land operations in Southeast Asia. This paper assumes that China has no territorial ambitions in the region, with the exception of the claims on the Spratly Islands. As such, if Chinese military power is to be used offensively, it will be essentially in the realm of the air and maritime environments. Such episodes of offensive application of Chinese military power will likely be for limited offensives, designed to attack and destroy adversarial air and naval capabilities. Hence this paper will focus on Chinese air and naval assets and assess the ability of the Chinese military to project air and naval power into Southeast Asia. A related scenario involves China’s increasing dependence on sea lines of communication for its energy supplies, whether from the Middle East or its liquefied natural gas (LNG) interests that generally coalesce around Indonesia and Australia – an issue that Mikkal Herberg explores in greater detail in this volume.

Finally, there is the issue of the military presence of the United States in the region. As Paul Godwin points out in this volume, the United States remains the key security focus for China and the Chinese strategy of sea and air denial is designed with an armed conflict against the United States in mind. No doubt, the United States military presence in the Asia-Pacific is a significant military factor. Nevertheless, this study takes as its assumption the scenario where the United States does not
intervene militarily in a military conflict in Southeast Asia involving any number of Southeast Asian states on the one side and China on the other. The plausibility of this scenario might be debatable—while some might see this as utterly implausible, it is nevertheless possible to envisage a situation where US military personnel are still tied down in the Middle East and simultaneously engaged in another conflict either in the Korean peninsula or South Asia. The point, however, is to use this as a device to highlight the limitations that Chinese military power currently, and for the next ten years, will almost certainly face in the hypothetical event that China becomes involved in a shooting conflict in Southeast Asia.

This paper recognizes that wars are fought for political reasons, the central argument of the Clausewitzian paradigm. However, this paper will adopt a more encompassing understanding of “politics,” to include both the high policy realm of state actors, but also to include so-called low politics, including such issues as resource access and freedom of sea lines of communication. This list is by no means exhaustive. In any case, the point of the Clausewitzian paradigm is that politics infuses every aspect of the phenomenon of war, which underpins the approach undertaken in this paper. This paper does not take into consideration the circumstances under which Chinese policymakers might resort to the use of military force. Rather, the decision to resort to military force is taken as a given. In any case, the aim of the paper is to examine whether or not Chinese military power, extant and within a ten-year time frame, can actually be deployed in Southeast Asia.

Projecting Chinese military power into Southeast Asia

Since the 1990s, China has been moving away from an exclusive continental orientation toward a posture that also incorporates a maritime orientation as well. Some analysts see Chinese military ambitions, at least for the medium term, moving toward an area denial capability in its immediate strategic environment. This can be seen in China’s air and naval acquisitions. Its interest in airborne early warning and control and aerial refueling capabilities ought to extend the operational range for its combat airpower, permitting operations over the South China Sea. Its naval acquisitions probably provide a more active offshore posture that can forward Chinese maritime goals, including territorial claims, economic interests, and sea lines of communication. In the long term, China will need to enhance its command, control, communication, computers, intelligence, surveillance, and reconnaissance (C4ISR) capabilities, including space-based and over-the-horizon platforms, so as to give it greater coverage throughout the Pacific Ocean. The People’s Liberation Army (PLA) will also likely develop a limited power-projection capability through the acquisition of new air and naval weapons platforms.

Chinese naval power

It is in the realm of Chinese naval power that some of the most interesting developments are occurring. Currently, the PLA Navy (PLAN) comprises some 69 submarines, 62 surface combatants, 56 amphibious ships, 39 mine warfare ships,
368 coastal patrol craft, and 3 replenishment-at-sea oilers. In the mid-1980s, the PLAN moved from a “coastal defense” to an “offshore defense” posture, extending up to 600 nautical miles out to sea. This range encompasses the Yellow Sea including Japan and Korea, much the East China Sea including Taiwan, as well as the South China Sea. The PLAN has also been concentrating on phased and joint operations augmented by improved command and control capabilities and a truly integrated computer system. There are also plans to integrate certain aspects of its operations with the civilian sector, including the development of a joint civilian-military fuel system and the possible use of merchant ships for amphibious purposes.

Regardless of its shift from coastal defense to offshore defense, the PLAN’s operational missions include attacking enemy warships, antisubmarine warfare, amphibious warfare, coastal defense, surveillance, mine warfare, convoy protection, sea-air rescue, and logistics. Its current offshore defense posture, however, highlights the age of its existing fleet and the significant weaknesses of indigenous surface ships and submarines, resulting in Beijing having to purchase or jointly develop new platforms from foreign suppliers such as Russia.

Acquiring aircraft carriers

This is potentially the most important naval program currently in the PLAN. Chinese naval power appears to be on the cusp of a quantum leap having acquired, under varying guises, three former Soviet aircraft carriers – the 40,000-ton Kiev and Minsk, each capable of deploying twelve Yak-38 vertical/short take-off and landing (VSTOL) aircraft, and the 67,500-ton Kuznetsov-class Varyag capable of deploying the more capable Su-27K/J-11 and MiG-29K fixed-wing aircraft. The Kiev and Minsk are likely to be conventionally powered, since Chinese naval experience with nuclear power has thus far been restricted to its submarines. This development has come to be seen by some analysts as evidence of a long-standing Chinese desire for a blue water-capable fleet. It is possible to argue that the possession of these carriers, particular the larger and more powerful Varyag, would give the PLAN a sea-control capacity it has thus far lacked. Russian design assistance has been sought for the Chinese carrier program and China has studied the ex-Australian carrier Melbourne, which it was towed to China for scrap. Nevertheless, it ought to be remembered that, while China has acquired these vessels, there are no clear signs as yet that these vessels will eventually be deployed by the PLAN in a militarily significant manner. Even if the PLAN plans eventually to convert these vessels into a significant military capability, this will likely take quite a number of years. Several important and difficult hurdles would have to be negotiated successfully – the acquisition of carrier-based air platforms, the acquisition of the necessary military skills for carrier aviation, and the transformation of Chinese naval doctrines and protocols to incorporate naval aviation into their operational procedures. Furthermore, Chinese naval aviation remains fairly antiquated. Although China has acquired Su-27s and Su-30s, both carrier-deployable, neither aircraft appears to have been designated to the PLAN. Training its pilots for naval aviation missions will be another long-term and difficult hurdle.
to negotiate. These are hurdles that will take a number of years to overcome, likely at least a decade before the PLAN can claim to have a fully functional and mature naval aviation capacity.

**Modernizing China’s principal surface combatants**

The number of ships and overall tonnage of China’s surface combatants has been increasing steadily since the 1980s. The most important addition to the Chinese Navy has been the two Russian-built *Sovremenny*-class destroyers, which were specifically designed to counter United States *Aegis*-class cruisers, with another two vessels likely to be acquired in 2006. The *Sovremenny*-class destroyers have an operating range of 2,400 miles at their top speed of 32 knots, or 4,000 miles at 18 knots. The vessels can deploy eight SS-N-22 Sunburn supersonic sea-skimming anti-ship missiles (ASM), which are among the most advanced in the world and against which there are only limited countermeasures. The missile can reach targets within 130 kilometers, and the PLAN may soon acquire the follow-up to the Sunburn, the Yakhont, which possesses a longer range. The *Sovremenny*-class destroyers are also armed with the SA-N-7 Gadfly surface-to-air missile (SAM), backed by a semi-active radar that allows it to engage enemy air platforms at ranges of 25 kilometers, which will give the PLAN a limited naval air-defense capability. Up to now, China has possessed only short-range SAMs of French or domestic design.

The PLAN operates other indigenous-designed destroyers of three classes. The most modern are four 6,000-ton *Luhai*-class destroyers, which have a top speed of 29 knots, and a maximum operating range of 4,500 miles. They are armed with C-802 ASMs that can engage targets up to 120 kilometers away, and have Crotale-based launchers armed with CSA-N-4 SAMs that can engage enemy air targets up to 13 kilometers away. The 4,200-ton *Luhu*-class destroyers are armed with eight C-801 ASMs that can engage targets up to 40 kilometers away, as well as Crotale-based SAM launchers similar to those deployed on the *Luhai*-class vessels, anti-submarine warfare (ASW) torpedoes and mortars, and many guns. They are also capable of carrying two Harbin Zhi-9A helicopters, which are used for ASW and anti-ship missions. The other class of destroyers is the *Luda I/II/III*, which have top speeds of 32 knots and maximum ranges of under 3,000 miles. The *Luda I* ships are armed with six C-201 ASMs that can engage targets up to 120 kilometers away, ASW torpedoes and mortars, and up to four 130mm guns. On the *Luda II*, the aft-most gun turrets have been replaced with helicopter pads and hangars. The sole *Luda III* carries the C-801. Two vessels have been fitted with a Crotale launcher. Others may be fitted in due course, but priority is being given to the construction of additional ships.

Finally, the PLAN also deploys a large number of frigates. As is the case for most of the PLAN destroyers, the frigates are designed mainly for anti-surface warfare and lack any significant self-defense (SAM or ASW) capabilities. The newest and most capable frigates are the *Jiangwei*-class ships, which have similar armaments to the *Luhu*-class destroyers, but with fewer guns and missiles. These
vessels can operate up to 4,000 miles out to sea with a maximum speed of 27 knots. They are capable of carrying a single Dauphin helicopter. The next class of frigates is the *Jianghu*-class frigates, which have a top speed of 26 knots and a maximum range of 4,000 miles. The *Jianghu I* carries four C-201 ASMs, up to four 100 mm guns, plus varying numbers of lighter caliber guns. The *Jianghu II* deploys helicopter hangars in place of the aft armaments. The *Jianghu III/IVs* replaced the C-201 ASM with eight C-801 or C-802 ASMs.

**Developments in China’s submarine forces**

For most of its history, the PLAN has deployed only small coastal patrol submarines and domestically produced versions of the Soviet *Romeo*-class Type 033 submarines. The old *Romeo*-class submarines are now outclassed by nearly all ASW systems deployed other regional powers. These *Romeo*-class vessels are virtually non-deployable today – the few that remain in active duty can undertake missions of a few days’ length only.

China initiated a large submarine building program in the 1960s, which tapered off in the late 1980s, which included many diesel-electric patrol submarines and some nuclear-powered submarines. Many of the diesel-electric submarines from that construction period are now in reserve. The first of these was the *Ming*-class Type 035, which are not significantly better in capability than their *Romeo* predecessors, although they are of newer construction. The *Ming*-class vessels have an operational radius of up to 8,000 miles. Recently, construction and acquisition of new submarines has begun to intensify. In the near future, China’s submarine fleet is expected to be smaller, but more modern. The PLAN acquired four *Kilo*-class submarines from Russia, with possible additional purchases of the newer *Amur*-class submarines. The *Kilo*-class submarine is a potentially impressive advance for the PLAN, especially when armed with wake-homing torpedoes. Among the indigenous designs, the *Song*-class Type 039 follow-on from the *Ming*-class vessel is slightly larger and incorporates a streamlined hull for better subsurface performance. Later models may incorporate design features from the *Kilos*. This most recent indigenous design may be fitted with a version of the C-801 or C-802 ASM that is capable of submerged launch. The possibility of further purchases of *Kilos* or *Amurs* mentioned above will likely depend on the performance of these *Song*-class vessels.

The Chinese navy’s first nuclear-powered submarines were the *Han*-class Type 091 vessels, which first entered service in 1974. These vessels proved to be unsatisfactory, experiencing difficulties with their power plants. Despite their problems, which may have been fixed, and the long delays in construction, China seems committed to deploying the five submarines built. The new Type 093 submarines, similar in capability to Russian *Victor III* submarines, are produced with Russian assistance. The PLAN also deploys a single class of nuclear-powered ballistic missile submarines, the *Xia*-class SSBN, which experiences problems with its power plants similar to the *Han*-class vessels.
Logistics capabilities

To support fleet actions, the PLAN deploys two *Fuqing*-class underway replenishment vessels that can operate at a maximum range of 18,000 miles. There is a single *Nanyun*-class replenishment vessel currently deployed. In addition, there are 36 other smaller, less capable supply vessels with more limited operating ranges. There are also three *Dajiang*-class submarine support vessels. Finally, the PLAN deploys nine *Fuzhou*-class oilers and another five coastal tankers. This is basically a support fleet that would be hard-pressed to support major Chinese naval actions over long distances.

Modernizing China’s air force

In the past, the PLA Air Force (PLAAF) could only wage defensive positional campaigns. It is, however, working toward employing offensive mobile capabilities. The long-term aim is to be able to operate joint-force campaigns and to use each of its branches in combined-arms operations. Currently, each of the PLAAF’s five branches – aviation, SAM units, anti-aircraft artillery, radar, and airborne forces – operates individually. The Chinese Air Force makes clear in its writings that it sees a distinction between the role of air defense – SAMs, anti-aircraft artillery, and radar troops – and the role of aviation.

The PLAAF currently possesses over 4,000 aircraft, of which the majority are combat aircraft. There are near-term plans to significantly reduce this number to about 2,000 by phasing out the older J-6 aircraft. In addition, personnel reductions have continued since the late 1980s – the air force has gone from 470,000 at the end of the 1980s down to about 300,000–320,000 personnel. The PLAAF is also modernizing its overall force structure, with plans to focus on developing greater flexibility with longer-range combat aircraft, improved electronic warfare and air defenses, enhanced long-range air lift capabilities, and mid-air refueling among other required capabilities.

Air combat systems

Older platforms such as the J-7 and J-8 aircraft are being modernized. The J-7, depending on the variant, has a maximum operating range of 1,900 kilometers. The J-8 has a maximum operating range of 900 kilometers. The J-8 (D variant) is currently the only aircraft that can be refueled in mid-air with the H-6 aerial refueling aircraft (converted former Soviet Tu-16 bombers). The J-8Ds are stationed next to Guangzhou, and naval aviation’s J-8Ds are located on Hainan Island. The newer F-10s have an operating range of about 800 kilometers. The PLAAF is also constructing under license up to 200 Su-27 (locally called the J-11) and Su-30 aircraft. These aircraft will be stationed primarily in six military regions: Beijing, Nanjing, Guangzhou, Jinan, Shenyang, and Chengdu. For now, the PLAAF has stationed the Su-27s considerably inland, where, given their maximum operating ranges of about 3,000 kilometers, will have the range to reach Taiwan only. Even if the Su-27s were stationed considerably closer to the Chinese southern coastline,
given that these platforms have a combat radius of about 1,500 kilometers without mid-air refueling, these Su-27s would have only very limited projection into the South China Sea.

The PLAAF has begun to place increasing emphasis on air-to-air missile (AAM) systems. The Su-27 purchases apparently came with acquisitions of AA-10 Archer and AA-11 Alamo AAMs. Together with the Slotback radar and helmet-mounted sights, this gives the Su-27 an air superiority capability that would be difficult for the air forces of Southeast Asia to match, let alone overcome. However, without aerial refueling capability, the PLAAF will be hard pressed to project this military power over much of the South China Sea. These aircraft will therefore not be able to provide air cover for any Chinese naval operations in the South China Sea very far beyond the Taiwan Strait. There is also the related political aspect of providing PLAAF pilots with sufficient range to fly over Taiwan or South Korea, as there may be legitimate fears of increased rates of defection by PLAAF personnel.11

Airlift capabilities

With the exception of roughly 10 Il-76s, the airlift capabilities of the Chinese Air Force are limited to old Soviet tactical airlift aircraft built under license or reverse-engineered in China, such as the Y-5/An-2, Y-7/An-24, and Y-8/An-12. The Fifteenth Airborne Army’s designation has been elevated to branch status, and its brigades have been upgraded to divisions. The Fifteenth Airborne Army received the first Russian Il-76 transport aircraft and has successfully practiced its first landing on an island. These aircraft may provide airlift capabilities for approximately 5,000–7,000 airborne troops.12

Southeast Asian military dynamics

Whither Southeast Asian military cooperation?

Of course, the difficulty this study comes into is precisely the prospect of Southeast Asian military cooperation against the hypothetical scenario of a China aggressively using its military power. Before commencing any analysis of Southeast Asian arms acquisitions and comparison of Chinese military power with Southeast Asian military capabilities, it is therefore necessary first to examine the likelihood of a coordinated Southeast Asian military response against a militarily aggressive China. The prospect of greater Southeast Asian security cooperation remains a contested issue, with some scholars generally optimistic, others remaining generally pessimistic. This is clearly an issue that requires further examination.

The problem, at least for the argument in this study, is that there is almost universal dismissal of the notion of a Southeast Asian security organization along the lines of the North Atlantic Treaty Organization. Certainly, there is a general consensus that Southeast Asia can never evolve into a defense community.13 Even ad hoc or functional security cooperation tends to be ruled out as possibilities for
Southeast Asia. Southeast Asian leaders have always taken great pains to insist that the Association of Southeast Asian Nations (ASEAN) is not a military pact or security community. Indeed, since the 1990s, there have been some doubts as to whether or not the organization remains relevant or viable. Furthermore, there are potential rifts that might plausibly threaten to further undermine organizational cohesion within ASEAN – disputes over territorial boundaries and access to resources being two such potential rifts.

This is a difficult issue to resolve, admittedly. The point this study makes, however, is that absent any United States military intervention in a scenario where China aggressively uses military force in Southeast Asia, the regional states will be faced with two choices – either to bow to China’s dictates or to attempt to counteract Chinese military power through cooperation. What such a militarily aggressive stance by China would mean for ASEAN is a question that lies beyond the scope of this study. Nevertheless, this study suggests it is difficult to see how at least some ASEAN states would not come together in a loose coalition to act against any Chinese military aggression.

**The balance of military power in Southeast Asia**

It is clear that Southeast Asian arms acquisitions have been gathering pace since the mid-1980s. This arms acquisition process can be characterized as force modernization, which suggests an essentially natural process of obsolescence and replacement rather than these states responding to external threats. Most of the armed forces of Southeast Asian states have been configured to meet internal security challenges that have, for some, only recently receded into insignificance; whereas for other Southeast Asian states internal security challenges remain the predominant security concern for their armed forces. As such, by the standards of conventional warfare requirements, virtually all Southeast Asian armed forces have been weak and under-equipped. Inasmuch as internal security challenges have receded, the region’s armed forces have had to undergo a process of reconfiguration and restructuring to take on new conventional military capabilities. To a large extent, therefore, the proliferation of conventional weapons in Southeast Asia has reflected these two needs: building up their material capabilities from very low levels and reconfiguring their respective armed forces from internal to external invasions. These arms acquisition and reconfiguring processes obviously give the Southeast Asian states limited power projection capability, but these capabilities can be seen as commensurate with the geopolitical concerns of these states.

In maritime Southeast Asia, Singapore has maintained an interest in some offensive strike assets, such as air-refueling platforms and heavy air and sea lift capabilities, while its naval platforms also deploy the largest number of missile launchers of any naval force in the region. The imminent introduction of its French-designed stealth frigates will give the Singapore navy at the very least a green water capability that it has never had. Its air force is widely regarded as the most modern and well trained of the region. Its latest air combat acquisition is the F-15T, which
introduces a new range of air combat capability into the region. Singapore is also participating in the Joint Strike Fighter program. The Singapore Air Force also deploys mid-air refueling platforms that significantly extend the operating ranges of its air power. Malaysia has also, since the 1990s, become increasingly interested in similar power projection capabilities. The initial Indonesian, Singapore, and Thai purchases of F-16A/B aircraft were matched by Malaysia’s acquisitions of F/A-18s and MiG-29s. Other acquisitions being planned include the Su-30 and F/A-18 Super Hornets. Certainly the Malaysian interest in airborne early warning systems is indicative of its concerns about being caught unaware by surprise air attacks coming from any direction. Indonesia’s interest in acquiring Su-30Ks and Mi-17 helicopters further reflects this growing regional interest. In 2003, then-President Megawati agreed to the initial purchase of two Su-20s, two Su-27s, and two Mi-35 helicopters, hopefully leading to 48 Su-20s and Su-27s by the end of the decade. The Philippines has maintained its focus almost exclusively on its internal security challenges, despite its access to surplus United States military equipment under the US Excess Defense Articles program resulting from the 1999 ratification of the Visiting Forces Agreement. The Philippines have expressed interest in acquiring UH-1H and S-70 Black Hawk helicopters, unmanned aerial vehicles, and coastal patrol vessels. Perry-class and Knox-class frigates may in future also be refurbished for the Philippine Navy. There are also plans to acquire a number of second-hand F-5E Tiger combat aircraft, possibly from Taiwan. A small squadron of three modern maritime patrol aircraft has also been officially identified as an important priority.

In mainland Southeast Asia, Myanmar has sought to develop a conventional military capability, but has been hampered by its lack of foreign exchange. Its planned naval build-up programs will likely feature Chinese hulls and Israeli electronics. Its Chinese-built F-7 jetfighters are being upgraded with Israeli avionics. By and large, however, Myanmar’s focus in arms acquisitions is directed towards its internal security rather than external defense requirements. Vietnam has been relatively quiet in terms of its arms acquisition programs, despite the various deficiencies in the Vietnamese military, especially with regard to the country’s maritime interests. The air force’s MiG-21 fighters are being upgraded and reinforced with a 1998 purchase of 24 new Su-27 jetfighters. These upgrading programs will probably go some distance toward answering these deficiencies, but more substantial investment will probably still be needed to completely modernize Vietnam’s armed forces. For both states however, these capabilities fall short of providing even rudimentary power projection capabilities.

Strategic implications for Southeast Asia

Chinese naval and air power in the South China Sea

In the air dimension, China’s most modern air platforms are at least comparable to their Southeast Asian counterparts. The Su-27s in the PLAAF are comparable platforms to the air combat platforms – including F-15Ts, MiG-35s, possibly even the
Rafales – which Southeast Asian states are either acquiring or likely to acquire in the future. However, at least some Southeast Asian states are moving towards the acquisition of advanced medium-range air-to-air missiles and airborne early warning and control (AEW&C) platforms. Malaysia and Thailand are clearly interested in eventually acquiring these capabilities, and together with Singapore, could pose a potent threat to whatever naval air power the Chinese navy could eventually deploy. It will of course be the ability of these Southeast Asian air forces to integrate these varied platforms – advanced air combat capabilities with advanced medium-range air-to-air missiles and AEW&C – into a coherent and seamless combat system that matters in a hypothetical air campaign against China. The point therefore is this: even absent AEW&C capabilities, Southeast Asian air combat platforms are a match for the most advanced Chinese air combat platforms. When these Southeast Asian platforms are integrated with AEW&C, this generates a force multiplier effect that will exponentially increase the lethality of Southeast Asian air power.

In the maritime domain, the essential purpose of Chinese power projection capabilities is to gain either area control or at least denial to a putative adversary. It seems clear that this putative adversary is unambiguously the United States, rather than other states in the region.23 Based on the assumption that the aircraft carriers mentioned earlier will eventually become militarily deployable assets, together with the ranges of its newest air combat systems and naval platforms, China can at best expect to slow down a United States naval task force in a hypothetical scenario involving a crisis in the Taiwan Strait region. The PLAN suffers from serious doctrinal and organizational shortcomings: a lack of integration in its command, control, and communication systems; targeting; air defense; and antisubmarine warfare capabilities. Its ships are vulnerable to attack by aircraft, torpedoes, and anti-ship missiles. Beyond the Taiwan Strait, the ASEAN navies could hypothetically, if able to operate together, deny access to the South China Sea to any PLAN vessel.24 Southeast Asian navies are beginning to focus not simply on new, longer-range platforms but on ensuring that these platforms will be armed with increasing numbers of advanced anti-ship missiles. The Singapore navy currently has the largest number of missile launchers of any Southeast Asian navy deployed onboard their naval platforms; however, Thailand and Malaysia are beginning to catch up in this respect. Together in a hypothetical coalition against Chinese naval power in the South China Sea, these Southeast Asian naval assets could inflict significant damage against a Chinese adversary less well equipped with such precision munitions. Furthermore, the PLAN would have to operate in an environment where they could not be guaranteed air cover, let alone air superiority or dominance. Such a Chinese fleet would therefore be operating in an extremely dangerous environment, having to face threats of enemy precision-guided anti-ship munitions from both air and naval platforms.

Penetrating the military market in Southeast Asia

Another key interest in this paper is the ability of China to penetrate the Southeast Asian arms market. China could hypothetically seek to influence the region
through the instrument of arms sales to Southeast Asian states. The overwhelming majority of Southeast Asian arms acquisitions programs have been sourced externally – either from the United States, Europe, Russia, or newer players in the global arms market such as Brazil and South Africa. Furthermore, the geopolitics of Southeast Asia cannot be considered absent other external actors, such as the People’s Republic of China and Japan, both of whom dominate the economic landscape of the region, along with the United States and Europe. Given the tendency of most Southeast Asian military organizations to rely on a small number of external sources of military hardware, a key concern of their policymakers must surely be the influence that external actors can exercise through the instrument of arms sales and military sanctions such as arms embargoes. Diversifying sources of military hardware is clearly one approach towards resolving this strategic weakness of dependence on a single source.

However it is unlikely that China can be a significant actor in the Southeast Asian arms market. The only significant Chinese military sale in Southeast Asia has been the Jianghu-class frigates, which it sold to Thailand at “friendship” prices. However, the Thai navy rarely deploys these frigates on operational missions. China itself still relies heavily on external sources for its advanced military hardware, with Russia being the most important source. Israel, especially in the Phalcon case of 2000–1, has become another important source for Chinese defense technologies. Even as its defense industries mature, China continues to purchase from abroad major military systems to meet its immediate requirements while awaiting domestically produced – such as the Su-30MK2 multi-role Flanker aircraft in 2004 to fill a gap (until the F-10 or a license-produced Su-30 can be deployed); the Russian turbofan AL-31FN aero-engine for the F-10 fighter; as well as Russian SA-10 and SA-20 SAM systems as interim air defense solutions. The purchase of the Kilo-class submarines and Sovremenny-class destroyers is partially meant to assist China in its development of its indigenous Song-class submarines and Luyang-class destroyers. Even in land warfare systems, China received help from Russia on a turret for a new infantry fighting vehicle. Russian design features also appear in a new multiple launch rocket system, the A-100.

China has made the development of a local aerospace industry capable of producing technologically advanced aircraft a top priority. However, the results produced by the Chinese aerospace industry to date have not been promising. Despite decades of work, the only original combat aircraft to be designed and produced in China are the J-8 and JH-7, both of which took so long to develop that by the time they entered service, they were already obsolete by Western standards. The newer J-10, which has been in development for twenty years, probably won’t enter service for another five years.

China is certainly not unique here. Outside of the United States, Russia, Britain, France, and Germany, every other national attempt at developing an indigenous aircraft industry has failed, primarily because these other states have not been able to exercise economies of scale outside of the five powers listed above. Even Russia lags behind the other four states, especially in the area of military technology.
The Chinese military has recognized these structural problems, and has more or less resigned itself to relying on Russian sources for advanced combat aircraft. China will continue to pursue its own aviation projects only in small batches.

**Conclusion**

Even at first glance, Chinese military power is not as significant as some scholars traditionally make it out to be. Limitations in numbers, operating ranges, and doctrinal developments continue to hamper the ability of the Chinese military to project significant power into Southeast Asia. This is certainly true in the cases where the Chinese aim to project air and/or significant land power into Southeast Asia. China simply does not have the operating ranges for its airpower to penetrate the region. And its lack of sufficient sea lift and amphibious capabilities means that China cannot insert a significant land presence into maritime Southeast Asia. China can probably insert a small naval presence into Southeast Asia, but its small number of oilers means this naval presence cannot be maintained at length.

Second, China’s ability to penetrate the Southeast Asian arms market, and thereby exercise a degree of political influence through the instrument of arms sales, is similarly limited. Its continued reliance on Russia for the majority of its military hardware especially for significant items like naval and air combat platforms, likely to continue for the medium term, means its indigenous arms industry will almost certainly concentrate on small-ticket items such as artillery and small arms. These are industries that Southeast Asian states, with a few exceptions, are already self-reliant in. The fact that Thailand’s *Jianghu*-class frigates spend little time at sea and are more often than not in dry dock undergoing maintenance indicates the lack of quality in China’s indigenous weapons systems. This case is a poor advertisement of Chinese military hardware and will likely dissuade other Southeast Asian states from turning to China as an alternative source of military hardware.

Under what conditions might the above analysis prove to be untenable? As stated earlier, this study has assumed two conditions as pertinent: where China’s growing economic power translates into significant amounts of military power under an essentially authoritarian regime, and where Chinese policymakers face tremendous domestic or international pressures to resort to the use of military force. Such pressures may plausibly emerge in the event of deep economic crisis in China. Even in the event that the Chinese political system undergoes a process of liberalization, the above analysis may continue to hold, inasmuch as Chinese policymakers conclude that there are significant political interests in Southeast Asia that require the aggressive use of military force.

In the final analysis, Chinese military power is more imagined than real. Concerns about China’s ballistic missile programs might be justifiable, but these are capabilities that will not be brought to bear in any scenario involving the projection of Chinese military power into Southeast Asia. It is rather Chinese conventional military capabilities that attention ought to focus on. There are causes for concern in China’s military modernization, especially in the air and naval
domains. Nevertheless, these Chinese acquisitions are fairly long-term projects, in terms of the acquisition of advanced air and naval platforms. Platforms, however, do not necessarily equate to capability; capability is the result of the ability to integrate platforms into a coherent operational doctrine. The ability to integrate these platforms into a coherent operational doctrine comes about only after several years of trial and error, of experimentation, of constant practice and eventual validation. In this respect, therefore, China’s capability to project power into Southeast Asia will remain fairly static for the next decade, before the strategic impact of these new platforms can be truly appreciated. And in this aspect, closer scrutiny suggests that there remains little to be concerned over.

Notes
1 The author wishes to acknowledge the assistance of Adrienne Li-Tan and Wei Chong Ong in the research that underpins this paper.
3 One of the very few authors who have examined the issue of will in strategic assessments of military power has been Richard Betts, Surprise Attack: Lessons for Defense Planning (Washington, DC: The Brookings Institution, 1982). See also Bernard Fook Weng Loo, Medium Powers and Accidental Wars: A Study in Conventional Strategic Stability (Lewiston, NY: Edwin Mellen Press, 2005).
6 Keith Crane et al., Modernizing China’s Military: Opportunities and Constraints (Santa Monica: RAND, 2005), 200–3.
10 Brown, Prueher, and Segal, Chinese Military Power, 28.
11 Allen, Krumel, and Pollack, China’s Air Force, 171.
13 See, for instance, N. Ganesan, Bilateral Tensions in Post-Cold War ASEAN (Singapore: Institute of Southeast Asian Studies, 1999); Rodolfo C. Garcia, “Military co-operation in ASEAN,”
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13 “To Sukhoi or not to Sukhoi,” Indonesia Digest, 24 (6 July 2003).
17 For instance, Myanmar has used rice to barter for 20 130mm artillery pieces from North Korea. See Jane’s Defence Weekly, 5 August 1998, 19.
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