

CHINA'S ECONOMIC INTERESTS IN SOUTHEAST ASIA IN THE POST-COLD WAR ERA AND ITS IMPLICATIONS FOR THE REGION

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Abstract

This paper investigates the economic interests of China in Southeast Asia from a regional (ASEAN) perspective. Southeast Asia's geographical location, ethnic Chinese connections and the abundant natural resources in the South China Sea have made this region of strategic interest to China and a traditional sphere of China's influence. The rise of China can bring about both pros and cons for Southeast Asia's stability and development. By taking advantage of China's economic interests in the region, Southeast Asian nations can use advantageous business conditions for regional and national development. Alternatively, China's rise may create pressures and challenges for its southern neighbors. The short-term and long-term implications of these evolving relationships are examined in terms of the benefits to Southeast Asia, focusing on how to maximize collective and individual state advantage for the region.

Southeast Asia has been considered as China's traditional neighbouring area of strategic economic interests geographically, regionally and multilaterally.

From the geographical perspective, Southeast Asia is located at an area that serves China's essential economic requirements for development. Evidence from Paul J. Bolt (2011) discovered that Southeast Asia is rich in important natural resources that meet the needs of China and much of China's imported energy is transported through regional sea lanes. A peaceful environment in Southeast Asia is regarded as an important precondition for China's continued economic growth. Moreover, most countries in the region are enjoying strong economic growth, being gathered in a regional organization ASEAN, which is believed to bind the area closer economically to Asia Pacific, the world's most dynamic region through ASEAN-led institutions.¹ Lee (2012) also pointed out that naturally Southeast Asia owns a valuable series of sea-lanes, most well-known as the Southeast Asian Sea-lines of Communication (SLOCs). The SLOCs covers the South China Sea, the Strait of Malacca, Singapore and other regional straits, namely, the Sunda, Lombok-Makassar and Ombai-Wetar. These sea lanes are significant as they

¹ Bolt, P.J. 'Contemporary Sino-Southeast Asia Relations', *China: An International Journal*, volume 9, number 2, September 2011, p.277-278

are vital waterways for every user countries in terms of foreign commerce.² As a result, China is supposed to have invested a lot of political capital in its relations with Southeast Asia over the last decade because of its expanding economic development. Southeast Asia owns huge source of raw materials and various commodities as well as energy resources that are ideal for China's growing economy. With its large population, this region also represents a potential market of more than 500 million consumers for Chinese manufactured products.³ Furthermore, China also finds economic benefits from cooperation with Southeast Asia through the multilateral level to control its overseas competitors mostly understood is America. There is mounting evidence which illustrates this argument by Khoo, Nicholas, Michael L.R. Smith and David Shambaugh (2005) that the planned establishment of the Sino-ASEAN Free Trade Area in 2010 was seen as a tool for China to enhance its power over the region with a view to reducing the influence of China's contenders like Japan, Taiwan and the U.S. The ASEAN+3 forum including China, Japan and South Korea but excluding Taiwan due to China's sensibilities was believed as a tactic of China to strengthen its Sino-ASEAN relations by ignoring the U.S. These calculations have come up similarly to the claim of Albert Hirschman in history that economic relations can be used as a growing power to obtain political achievements, as mentioned in realist theory.⁴ The next proof for the author's argument is found in Bruce Vaughn and Wayne M. Morrison (2006) that China's active participation in multilateral mechanisms, namely the Treaty of Amity and Cooperation with ASEAN in 2003 or the East Asia Summit or the advancement of Sino-ASEAN Free Trade Area in 2004 are basically seen as China's intentional grand strategy. This tactics is carried out on the basis of "non-threatening trade-focused" using "formal and informal mechanisms of interdependence as a de facto strategy to restraint the U.S".⁵

From regional view, China's main economic engagement with Southeast Asia is related to the majority of ethnic Chinese living and integrating into the societies of regional states. Vaughn and Morrison (2006) found out that approximately 30 to 40 million ethnic Chinese are now residing in Southeast Asia, mostly come from Guangdong and Fujian provinces. The details of number are discovered as follows: two million people in Singapore, made up 80% of its population; five million residents in Thailand, occupies over 10% of this nation's population; more than five million Chinese in Malaysia, equivalent to 28% of the population; two million ethnic Chinese in Myanmar out of this nation's overall population of fifty million people. Among Southeast Asian states, Indonesia has the largest Chinese ethnic community with eight million people with Chinese ancestry and the Chinese Lunar New Year was officially recognized in this country since 2003.⁶ The majority of Chinese community in

² Jae-Hyung, L. 'China's expanding maritime ambitions in the Western Pacific and the Indian Ocean', *Contemporary Southeast Asia*, December 2002, vol.24, no.2, p.557

³ Ian, S. 'China's relations with Southeast Asia', *Regional Outlook*, 2008/2009, Proquest Central, p.12

⁴ Hirschman, A.O. *National Power and the Structure of Foreign Trade*, (Berkeley: University of California Press, 1945) in Khoo, Nicholas, Smith, M.L.R (Michael Lawrence Rowan), Shambaugh, David L., 'Correspondence: China engages Asia?', *International Security*, vol. 30, no.1, Summer 2005, p.203

⁵ Vaughn, B. & Morrison, W.M. 'China-Southeast Asia Relations: Trends, Issues and Implications for the United States', Congressional Research Service, The Library of Congress, CRS Report for Congress, Code RL 32688, April 4th, 2006, CRS-3

⁶Ibid, CRS 6-7

these Southeast Asian states have played an important role in China's economic interests in the region thanks to their huge contribution to the regional economy.

Regarding the Chinese's economic interests in the South China Sea, Do Minh Cao (2012) described it as China's vital importance. A number of East Asian nations such as Japan, South Korea, Taiwan, Singapore and even China have national economy heavily depend on the marine route through South China Sea as it is the arterial navigation way to transfer oil as together with natural resources from the Middle East to Southeast Asia to these countries. More than 90% of the global commercial transportation is carried out through navigation, of which 45% must be done through South China Sea. Furthermore, the amount of oil and gas, which were transferred through this area is worth 15 times bigger than that of the Panama canal. It is estimated that China owns 29/39 maritime routes and 60% of its import – export goods as well as 70% imported oil are transported through South China Sea annually. The sea routes in this region play a crucial role for China's exportation products, which is worth 22%, equivalent to US\$ 31 billion. If disputes exploded in the South China Sea, let the vessels run in the new route passing southern Australia then the price is likely to rise five times, resulting in no competitive strength in the global market.⁷ The author agrees with this argument as the South China Sea is estimated to own the economic value occupies 25% of the global commerce thanks to its area of approximately 3.5 million square kilometres, one six of the global sea area, eight times larger than the Black Sea and ½ times larger than the Mediterranean, which is rank second importance in the global geo-graphics. Recently, it is also discovered that the South China is regarded as the second Persian Gulf with its wealth as follows:

The South China Sea owns 180 oil fields, approximately 50 billion of crude oil, more than 20,000 billion m³ gas, occupying 25 times of the Chinese's oil reserve and 8 times of the current Chinese's gas reserve. In addition, the natural gas is measured around 5,000 billion m³, the source of natural hydrate (known as "gas hydrate") is worth one half of the total oil reserve on the land of China (China declared to discover gas hydrate, which is believed to be the future energy of mankind in the north of the South China Sea since 2007, with the estimated reserve of 19,4 billion m³)⁸ Till the middle period of 2010, more than 200 oil and gas composition and 180 oil fields have been discovered in South China Sea, mostly in the deep water level of 500 to 2000 metres under sea level. China estimates the value of crude oil and gas in the South China Sea is worth of more than 20,000 billion RMB. For all of those above mentioned figures, South China Sea plays a vital role for China's economy with its position is regarded by the Chinese as "strategic exit" to expand the "survival space".⁹

More evidences are explored to reveal China's great interests in the South China Sea from its recent assertiveness in the territorial disputes with Southeast Asian neighbours. Zhaohong (2013) clarified the

⁷ <http://nghiencuubiendong.vn/tong-quan-ve-bien-dong/504-bien-dong-dia-chien-luoc-va-tiem-nang> in Dr. Do Minh Cao, 'The geo-strategic value of the South China Sea at the second decades of the XXI Century', The Chinese Studies Review, The Chinese Studies Institute, Vietnam Academy of Social Science, vol.11, no. 135, 2012, ISSN-08683670, p.60-61

⁸ <http://www.thanhvien.com.vn/pages/20120531/bang-chay-nguon-nang-luong-khong-lo.aspx>, date of visit 31 March 2013.

⁹ Interview Vietnamese political official in Hanoi, 7th October 2012.

main reason comes from Chinese's energy security emergency when the recent Arab Awakening in North Africa and the Middle East has placed its foreign energy strategy at risk of probable constraint and cost raising. As a result, China has to further implement its energy diversification tactics, shifting oil and gas development to the ocean, especially to the South China Sea. This is because this sea area is explored to be a reservoir of energy with approximately 130million oil barrels and 900 trillion cubic feet of gas.¹⁰ Other evidence also affirms China's heavily dependent on the seaborne resources that are located in the South China Sea. With China's economy expanded, up to present China has become the world's second largest oil importer, consuming half of the world's cement, a third of the world's steel, a quarter of the world's copper and a fifth of the world's aluminium. This huge amount of trade is transferred through the main waterways in Southeast Asia such as Malacca, Sunda, Lombok and Makassar as well as South China Sea. Under forecast, the oil importation of China will boost from 6.2 million bpd in 2004 to 12.7 million bpd in 2020. China's current domestic problems of pollution caused by coal burning are also another urgent pressure for China to explore new alternative energy resources in replacement for the traditional sources.¹¹ As a result, China's increasing developed economy has drawn this regional power into deeper energy dependence on the South China Sea in particular and Southeast Asia in general.

A growing China, of course, will have an important impact on the surrounding countries, especially on its southern neighbours. Due to strategic location of neighbouring area, the small-to-medium states in Southeast Asia are a bellwether for the implications of China's rise for the world. It is argued that China's interests in Southeast Asia can have both pros and cons to the region. Positively, it tends to show from historical experiences that a wealthier and stronger China can help its neighbours to gain more than to worry about. In the past, the old Southeast Asian Kingdoms used to regard the powerful imperial China as a source of prosperity and profitable trade rather than security threat in spite of being bridled at the Chinese imperial arrogance and paternalism.¹² Till the modern time after Chinese economic expansion in the 1970s, commercial exchange between China and Southeast Asia were continued lucratively. Currently, trade between China and some countries in the region was recorded greater than trade with EU or the US.¹³ Thus, from the perspective of business sector, China's spectacular economic development can be a leading engine for ASEAN's economic expansion. China's tariff-free market is a huge benefit for ASEAN exporters. Some dualistic views even suppose China's increasing economic power can help Southeast Asia to reduce western influence in the region.¹⁴ More advantageously, thanks

¹⁰ Zhaohong (2013), 'The South China Sea Disputes and China-ASEAN Relations', *Asian Affairs*, 44:1, p.32

¹¹ Vaughn, B. & Morrison, W.M. 'China-Southeast Asia Relations: Trends, Issues and Implications for the United States', Congressional Research Service, The Library of Congress, CRS Report for Congress, Code RL 32688, April 4th, 2006, CRS 19-20

¹² The best discussion and detailed analysis of this medieval trade with China can be found in Sarasin Viraphol, *Tribute and Profit: Sino Siamese Trade 1652-1853* (Cambridge: Harvard University Press, 1977) in Vatikiotis, Michael R J, 'Catching the dragon's tail: China and Southeast Asia in the 21st Century', *Contemporary Southeast Asia*, April 2003, volume 25, number 1, p.66

¹³ The ten ASEAN countries enjoyed a trade volume of US\$41.6 billion with China in 2011, a 53 percent increase from US\$27.2 billion in 1999 in Vatikiotis, Michael R J, 'Catching the dragon's tail: China and Southeast Asia in the 21st Century', *Contemporary Southeast Asia*, April 2003, volume 25, number 1, p.66

¹⁴ Bolt, P.J 'Contemporary Sino-Southeast Asia Relations', *China: An International Journal*, volume 9, number 2, September 2011, p.277 – 282.

to Chinese new leadership generation's viewpoint, Southeast Asia is considered as China's "core interests". Consequently, Southeast Asia through ASEAN can gain great benefits from the four-point program developed by Chinese Vice President Xi Jinping (then the presumptive President and Party General Secretary). This is a favourable condition for the region to boost its economic development and bilateral relations with its giant neighbour thanks to Xi's plan to increase bilateral trade from \$326 billion in 2011 to \$500 billion in 2015, encourage Chinese companies to step up investment in ASEAN, promote transportation on land and sea between China and ASEAN as well as enhancing people to people two-way exchange of 100,000 youth and students over a ten year period.¹⁵

In terms of tourism, Southeast Asia can also gain great benefits from bilateral relations with China to attract the favourable amount of Chinese tourists to the region. It has been observed that Chinese tourists to Southeast Asia increased sharply with 4,5 million in the year 2008. Even when the regional financial crisis hit Southeast Asia, in 2010 Thailand was reported to receive 45% of Chinese tourists more than in the year 2009.¹⁶

In general, Southeast Asia through ASEAN can seek advantageous benefits from China's interests in the region. However, negatively, it is worried that China's rise is likely to bring about a variety of risks for Southeast Asia. These challenges are probably appears as threat for the region such as the Sino military modernization, aggressiveness over the territorial disputes in the South China Sea or other environmental problems.

Most recently, China's increasing budget for naval modernization has created potential worry for regional stability. It was analysed that in many respects, Chinese defence transformation can be seen as part of the normal process of military modernization, a reasonable understanding after Chinese success in economic expansion. However, the United States, Japan and Australia as well as other regional states have raised the voice of concern over China's military build up is more than defensive. To some extent, China's development of blue water navy may be viewed as an effort to ensure the security of SLOCs and to protest China's growing global interests.¹⁷

Most notably, Chinese growing assertiveness in sovereignty over the South China Sea has become the biggest threat for Southeast Asia in the context of bilateral relations with the neighbouring regional power. It is concluded precisely by an experienced scholars about Southeast Asia that the territorial disputes in the South China Sea represents the greatest challenge to ASEAN unity and cohesion in its

¹⁵ Under this proposal 10,000 Chinese will go to Southeast Asia each year and 10,000 Southeast Asian (normally 1,000 from each of the ten ASEAN countries) would go to China each year in Carlyle A. Thayer, 'Can the Center Hold? ASEAN in the midst of China-United States Strategic Rivalry', Presentation to China in Transition, The Asan China Forum 2012, The Westin Chosun Hotel, Seoul, South Korea, December 11-12, 2012

¹⁶ ASEAN tourist statistics are at <<http://www.aseansec.org/Stat/Table29.pdf>> [12 May 2011]. See also "Thailand Eyes Its Share of Chinese Tourists", *Bangkok Post*, 24 Jan.2011, at <http://www.bangkokpost.com/travel/news/217812/thailand-eyes-its-share-of-evergrowing-number-of-chinese-tourists> [12 May 2011] in Paul J.Bolt, 'Contemporary Sino-Southeast Asia Relations', *China: An International Journal*, volume 9, number 2, September 2011, p.282

¹⁷ Thayer, C.A. 'China's naval modernization and U.S. Rebalancing: Implications for Stability in the South China Sea', Paper to Panel on Militarization and Its Implications, 4th International Workshop on the South China Sea co-sponsored by the Diplomatic Academy of Vietnam and the Vietnam Lawyer's Association, Ho Chi Minh City, November 18-21, 2012

road map towards ASEAN Community in the year 2015. This unresolved matter not only pits Southeast Asian claimant states against China but also ASEAN as a collective against China.¹⁸ More concretely, the disputes have made Southeast Asian states divided and polarized, adding the threat to become worse. It is found out that Southeast Asian states were driven into deep division among mainland (Myanmar, Thailand, Laos and Cambodia), littoral (Vietnam, the Philippines, Malaysian and Brunei) and maritime (Indonesia and Malaysia) towards the South China Sea disputes. This is called "security complex" of individual attitudes towards the problem while the mainland states pursued greatest deference to China, the littoral countries carried out the policy of both deference and defiance with a noticeable military component and the maritime neighbours supported the approaches of deference as well as defiance with a notable focus on diplomatic efforts.¹⁹

Historical lessons experienced that all superpowers are potential threat to stability because superpowers aim to use power to achieve strategic ends. China is emerging superpower so it is reasonable to forecast whether China is a threat to regional security and stability.²⁰ In the highlight of a realist's perspective to see the world as it is, the author argues that the threat from China's rise is existed. Hence, how ASEAN should react or response in the situation of living next door to the emerging regional power?

In the past, it was examined that due to historical experience and geo-graphical location, Southeast Asia has a particular fear of the northern giant China. The Chinese great size and proximity, the longevity of Chinese civilization, the traditional tributary tradition of antiquity and the presence of wealthy Chinese ethnic communities among Southeast Asia have all contributed to such kind of fear. In the modern time, China's fast economic and military development has raised the worry of the possibility that China will soon make efforts to impose its agenda and domination in the region.²¹ However, in spite of all these potential challenges, in the short term, it is persuaded by most of Southeast Asian neighbours that Chinese diplomacy has been succeeded to the point where China does not pose an immediate security threat to the region. Beijing has dispelled all the suspicions that the PRC in the future can act as a great superpower to dominate the region. However, looking from traditional history, the typical power characteristic of superpower is to seek domination, Southeast Asia through ASEAN should be ready to be well-prepared for the possibility that a powerful China is ensured to demand special privileges, which can threaten the autonomy and independence of smaller states. In the long term, hedging or balancing in harmonization is proved to be the practical strategy for Southeast Asia to deal with Chinese possible

¹⁸ Thayer, C.A. 'Deference/Defiance: Southeast Asia, China and the South China Sea', Paper to the workshop, The Deer and The Dragon: Southeast Asia and China in the 21st century, co-sponsored by Southeast Asia Forum, Shorenstain Asia-Pacific Research Center, Stanford University and the China Programme, Institute of Defence and Security Studies, S.Rajaratnam School of International Studies, Nanyang Technological University, Singapore, November 15-16, 2012, p. 35

¹⁹ Thayer, C.A. 'Deference/Defiance: Southeast Asia, China and the South China Sea', Paper to the workshop, The Deer and The Dragon: Southeast Asia and China in the 21st century, co-sponsored by Southeast Asia Forum, Shorenstain Asia-Pacific Research Center, Stanford University and the China Programme, Institute of Defence and Security Studies, S.Rajaratnam School of International Studies, Nanyang Technological University, Singapore, November 15-16, 2012, p. 36

²⁰ Vatikiotis, Michael R J, 'Catching the dragon's tail: China and Southeast Asia in the 21st Century', *Contemporary Southeast Asia*, April 2003, volume 25, number 1, p. 74

²¹ Roy, D. 'Southeast Asia and China: Balancing of Bandwagoning?', *Contemporary Southeast Asia: A Journal of International and Strategic Affairs*, Volume 27, Number 2, August 2005, p.308

domination. This hedging approach aims to establish relations with other large outside powers to counter-balance the Chinese influence. For example, Southeast Asia through ASEAN has built up close linkage with not only the U.S but also Japan, Russia and India or the Five Power Defence Arrangements (FPDA) connects the region with the United Kingdom, Australia and New Zealand. This is an appropriate way for ASEAN to invite a multiple great powers to check each other while playing the important role in the region. Moreover, the policy of engagement should also be used as another effective tool for Southeast Asia to avoid the Chinese domination. This strategy involves encouraging China to participate in multilateral organizations, dialogues/forums and agreements to take advantage of its responsibility as regional power. Consequently, engagement can help to reduce tensions and bring about political convergence in the direction that China is connected to the region in partnership relations to act in the "ASEAN way".²² As a result, the effective way can help to create a win-win solution, not a zero-sum game for ASEAN's partners in the region including China. ASEAN's policy of engaging all players can make them engage positively by complementing one another for the development of the region. It is not ASEAN's desire to see powers in the region to compete hardly in rivalry so that no one can benefit. It is ASEAN's duty to make efforts for all the powers engaged in Southeast Asia can cooperate with each other well and positively to bring benefits to the region.²³

²²Ibid, p.310

²³ Interview Southeast Asian official on 11/6/2012 in Jakarta, Indonesia.