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Chinese Foreign Policy: Southeast Asia

Taomo Zhou and Hong Liu

Introduction

Traditionally known in Chinese as the ‘South Seas’ (Nanyang 南洋), it is only since World War II that the area south of China and east of India has been called ‘Southeast Asia (东南亚)’ in both English and Chinese. Today’s Southeast Asia is a diverse region composed of eleven nations: Brunei, Burma (Myanmar), Cambodia, East Timor, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. Contemporary China–Southeast Asia relations have been shaped by longstanding geopolitical, ethnic and economic ties. From the ‘domino theory’ of the Cold War era to the ongoing tensions in the South China Sea, China has often been perceived as a powerful and potentially expansionist player in regional politics. The existence of a large ethnic Chinese population adds another dimension to China’s interactions with Southeast Asia. From Thai King Rama VI (Wachirawut)’s booklet on *The Jews of the East* published in 1914¹ to the 1998 anti-Chinese riots in Indonesia, the Chinese in Southeast Asia have long been regarded as wealthy elites who wield disproportionate economic influence. At the same time, however, they are also a vulnerable minority who have been the target of racial discrimination and ethnic violence. Last but not least, for centuries Chinese merchants have been trading with Southeast Asia. Their business ventures linked China with Southeast Asia ‘in a broad, mercantile embrace.’² Today, the two regions are highly dependent on each other commercially and are crucial to the world’s economic growth.

This chapter examines the changing contours of China-Southeast Asia relations from the founding of the People’s Republic of China (PRC) in 1949 to the present. It consists of two

parts: The first part presents a chronological historical overview of the relationship between China and Southeast Asia. During the Mao era (1949-1976), ideology had been the main driving force behind Chinese policy towards Southeast Asia. Since the launch of the ‘reform and opening-up’ (*gaige kaifang*, 改革开放) program by a new leadership under Deng Xiaoping at the end of 1978, Sino-Southeast Asian relations have been mainly shaped by the economic interests and *realpolitik* calculations of different stakeholders, including the Chinese and Southeast Asian governments as well as major external powers such as the United States and Japan. The second part of this chapter discusses three major factors affecting this relationship: ethnic Chinese in Southeast Asia, South China Sea disputes, and increasingly complex trade and investment networks. The conclusion identifies a few currently debated issues and some future challenges, including the PRC’s ‘One Belt One Road’ initiative and its efforts to project soft power.

Historical Overview

When tracing the roots of Chinese perceptions of Southeast Asia, Wang Gungwu, the leading scholar in overseas Chinese studies, locates the region in the geographical imagination of the rulers of Ming China (1368–1644) as follows:

[They] would not have recognized the region known today as Southeast Asia. They considered the archipelago east of Brunei (modern Borneo) to be part of that area they termed the Eastern Oceans, while all other coastal states they considered part of the Western Oceans, which also included countries bordering on the Indian Ocean ... [T]he view of other nations held at the imperial capital at Nanking or Peking was always sinocentric. Foreign countries were considered to have no meaningful existence unless their rulers had a relationship with the emperor of China.³

In the pre-modern and early modern periods, China’s vast territory and population, rich resources and the legacy of the hierarchical tributary system made it difficult for some of its Southeast Asian neighbors, such as Vietnam, to strike a balance between resistance and

dependence.⁴ As historian Chen Jian points out, this longstanding ‘central kingdom’ mentality strongly influenced the leaders of the Chinese Communist Party (CCP), who aspired to promote a world proletarian revolution according to the Chinese model.⁵ In the early years of the PRC, policy-makers believed so strongly in the reproducibility of China’s experiences in Southeast Asia, where local communist movements had already gained momentum after World War II, that some leaders were convinced that ‘China’s today is Southeast Asia’s tomorrow.’⁶ For example, in his opening remarks at the Trade Union Conference of Asian and Australasian Countries held in Beijing in November 1949, the vice president of the PRC, Liu Shaoqi, called upon the working class in Indochina, Burma, Indonesia and Malaya to stage armed struggles against imperialism.⁷

In the mid-1950s, this revolutionary ardour was tempered by the strategic need for the PRC to break down international isolation by winning recognition from formerly colonized areas of the world. The Chinese leadership believed that Asia, Africa and Latin America, where there were ample opportunities for Beijing to rally support, should not be divided between the spheres of influence of the two superpowers. At the Geneva Conference of 1954, the PRC announced the Five Principles for Peaceful Coexistence (*heping gongchu wu xiang yuanze*, 和平共处五项原则), which stated that the newly independent states should follow a new framework of international relations based on mutual respect for each other’s territorial integrity and sovereignty, mutual non-aggression, mutual non-interference in each other’s internal affairs, as well as equality and cooperation for mutual benefit.⁸ The Five Principles for Peaceful Coexistence set the tone for China’s new approach to Southeast Asia, as most countries in the region were searching for a ‘third way’ that would subvert the bipolar structure of the Cold War. The first Afro-Asian Conference held in Bandung, Indonesia, in 1955 marked the zenith of China’s pragmatic flexibility towards Southeast Asian countries, particularly those governed by political forces from ideological backgrounds strikingly different from China’s. In Bandung, the head of the Chinese delegation, Zhou Enlai, legendarily befriended not only ‘leftists’ like the conference host President Sukarno but also ‘centrists’ like U Nu of Burma and

‘rightists’ like Carlos Romulo of the Philippines. Zhou adopted a conciliatory attitude towards the nationalist rhetoric expressed by some participating countries at the conference and even pleaded with those leaders who had a religious orientation to be tolerant towards his atheism.⁹

But the moderate policy defined by the Five Principles for Peaceful Coexistence was interrupted by domestic political campaigns launched by Mao, most prominently the Great Leap Forward (1958–1961). Though its original aim was to accelerate the pace of the modernization of China’s economy, the Great Leap Forward resulted in three years of catastrophic economic recession and had a profound impact on China’s foreign relations. In the immediate aftermath of the Great Leap Forward, as part of a critical reflection on domestic and international policies, the Chinese leadership established the principle of ‘actively opening up a new horizon in foreign relations’ (*nuli zhudong de zaiwaijiaoshang kaichuang xin de jumian*, 努力主动地在外交上开创新的局面) in January 1961.¹⁰ However, this policy adjustment was short-lived. Wang Jiexiang (王稼祥), the CCP International Bureau Chief, who had proposed that Beijing should endeavour to search for stability with major power players, was fiercely attacked by Mao in 1962.¹¹ With Mao denouncing any attempt to ease international tensions as ‘rightist,’ an international outlook that denied any possibility for détente or long-term peace emerged as the cornerstone of Chinese foreign policy.

The PRC’s policy towards Southeast Asia between 1960 and 1965 was a reflection of the general radicalization of its foreign policy. From the late 1950s to the early 1960s, when its relations with both the United States and the Soviet Union became increasingly confrontational, Beijing shifted its attention to Southeast Asia in search for potential allies in a militant international united front against both superpowers. In 1963 and 1964, China hosted two strategic planning meetings attended by leaders of the Vietnamese, Laotian and Indonesian communist parties. Premier Zhou Enlai proclaimed at these meetings that Southeast Asia had become the key site for the international anti-imperialist struggle, announcing that ‘the basic mission of the revolutions in Southeast Asia is against imperialism, feudalism, and comprador capitalism.’¹² In the mid-1960s, under the banner of fulfilling China’s duties of ‘proletarian

internationalism,' Beijing provided Vietnamese communists with substantial support, including the dispatch of 32,000 Chinese engineering and anti-aircraft troops to North Vietnam in 1965–1969.¹³

Between the mid-1960s and late-1970s, aggressive anti-imperialist struggles alienated China from many of its former friends in Southeast Asia. From the late 1950s to early 1965, in maritime Southeast Asia, Indonesia was one of China's closest partners in the Third World. But this remarkably cordial quasi-alliance ended in the aftermath of the regime change and mass killings in 1965–1966 in Indonesia. The left-leaning Indonesian President Sukarno was deposed and the Indonesian Communist Party, the largest non-ruling communist party in the world at the time, became the target of a nationwide political purge. China's close relationship with Sukarno and the Indonesian Communist Party gave the newly established anti-communist regime under Suharto a pretext to make repeated but unfounded accusations of PRC intervention in Indonesian domestic affairs.¹⁴ Sino-Indonesian diplomatic relations were suspended in 1967. A similar shift in diplomat relations can be traced in mainland Southeast Asia. In the 1950s, the relationship between Beijing and Hanoi was lauded as an 'alliance between brotherly comrades.' However, it deteriorated significantly from the early 1960s to the late 1970s, with the Vietnamese communists refusing to accept an inferior status when dealing with a fellow communist nation.¹⁵ The simmering tension between the two countries culminated in the Sino-Vietnamese border war in 1979, an offensive launched by Beijing in response to Vietnam's invasion of Cambodia.¹⁶

While launching a limited attack on Vietnam, Deng Xiaoping also started an overhaul of Mao-era economic policies by introducing market principles and opening up China for trade with the outside world. Since 1979, Chinese policy towards Southeast Asia has been increasingly driven by the country's search for financial resources and technological know-how for national economic development. In November 1978, Deng Xiaoping visited Thailand, Malaysia and Singapore. Before his Southeast Asian trip, Deng seemed to have had the impression that the region was backwards. Yet he was impressed with the socio-economic progress these three countries, particularly Singapore, had achieved since the 1960s. During his

meeting in 1978 with the then Prime Minister of Singapore, Lee Kuan Yew, Deng remarked that Singapore had undergone a ‘dramatic transformation’ and congratulated Lee. Deng further said, ‘[I]f I had only Shanghai, I might be able to change Shanghai as quickly. But I have the whole of China!’¹⁷ Deng’s words signified a resolute discarding of the ideologically colored lenses through which China used to view Southeast Asia in the past. After Deng’s visit, the *People’s Daily*, the organ of the CCP, took a different line and portrayed Singapore as ‘a garden city worth studying for its greening, public housing and tourism’ instead of a country of ‘running dogs of the American imperialists.’¹⁸ Singapore – a society under one-party dominance, 75% of whose population is ethnic Chinese – became a source of inspiration and a model for emulation in the public eye in China after Deng openly expressed his admiration for the city-state’s successful transformation and called for learning from Singapore during his Southern Tour in 1992. In 1992 alone, Singapore received over 400 Chinese delegations keen to study various aspects of Singapore’s development.¹⁹ Since the establishment of official diplomatic relations in October 1990, Singapore’s foreign direct investment (FDI) in China has increased substantially. In 2011, China became Singapore’s third largest trading partner. Since 1997, China has overtaken Malaysia as the most important destination for Singapore’s FDI in cumulative terms.²⁰ Flagship projects between the two countries include the 1994 Singapore–Suzhou Industrial Park, the 2008 Tianjin Eco-City and the newly established China–Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity, whose plan was announced by President Xi Jinping during his visit to Singapore in November 2015.

The China–Singapore story is representative of the changing nature of Sino–Southeast Asian relations since the late 1970s, as the focus of both sides shifted from Cold War ideology to inter-regional trade. Founded in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand, the Association of Southeast Asian Nations (ASEAN) had been a tool for collective security arrangements on behalf of the comparatively smaller and weaker countries of Southeast Asia against perceived communist threats.²¹ Following President Nixon’s visit to Beijing in 1972 and the Sino-US rapprochement, most non-communist governments in Southeast Asia took steps to normalize their relations with China. By 1975, Malaysia, Thailand and the

Philippines, which refused to recognize Beijing in the past, had opened government-to-government diplomatic channels with the PRC. Suharto's Indonesia, which froze diplomatic relations with Beijing in 1967, also joined the trend and engaged in diverse trade contacts before officially restoring diplomatic relations in 1990.

Joshua Kurlantzick argues that since the final years of the 20th century, China's unimaginable rate of economic growth has provided it with a new model of development that has attracted the interest of many developing nation's leaders. Kurlantzick marks the 1997 Asian financial crisis as a turning point in the expansion of China's influence in terms of 'soft power' in Southeast Asia. While the US hesitated to bail out the Thai economy, which was on the verge of bankruptcy, the Chinese government made the symbolic decision not to devalue its currency in order to prevent further damage to Thailand.²² In the aftermath of the Asian financial crisis, China and ASEAN forged a closer relationship through a currency swap initiative, known as the Chiang Mai Initiative. In 2009, China surpassed that of the US, Japan and others to become ASEAN's largest and most important external trade partner, while ASEAN has been China's third largest trading partner since 2011.²³ In 2010, ASEAN-China Free Trade Area (ACFTA), a treaty designated the largest free trade zone in terms of population and third largest in terms of nominal GDP, came into effect.

Thematic Analysis

Having viewed the historical trajectory of China-Southeast Asia relations, we will proceed to thematically organized analyses on three topics: diasporic influence on diplomatic relations, multi-polar power struggles over territorial disputes in the South China Sea, and collaboration as well as conflict between China and Southeast Asia in terms of trade and investment.

The Chinese Disapora in Southeast Asia

Michael Leifer, a pionner in the study of the politics and international relations of Southeast Asia, notes that a key component of the region's relations with China is the contention

surrounding the national status of the ethnic Chinese.²⁴ A fundamental concern underlying Sino-Southeast Asian diplomacy after WWII was the uncertain citizenship status and fluid national allegiances of the Chinese minority in the newly established Southeast Asian states. Wang Gungwu interprets this issue as an entanglement of two important concepts: ethnic relations and nation-building.²⁵ According to Wang, whereas ethnic identity – self-awareness in terms of cultural heritage, ancestry, religion, language or dialect – has a long history, nation-building is a comparatively new phenomenon. At a time when both China and some Southeast Asian countries had recently emerged from WWII as nascent independent nation-states, the diplomatic relations between the PRC and Southeast Asian governments became closely linked to the changing sense of belonging among ethnic Chinese.

From the late 1940s to the mid-1960s, multiple national orientations divided the Chinese communities in Southeast Asia. Wang Gungwu's analysis of the political history of the Malayan Chinese reveals what was a general state of mind among Chinese communities across different parts of Southeast Asia. Wang categorizes the Malayan Chinese into three groups. 'Group A' includes Chinese who were concerned about the destiny of China and were oftentimes enthusiastic participants in China-oriented politics in their countries of residence. Some returned to China with the hope of aiding its reconstruction. 'Group B' refers to the 'hard-headed and realistic majority,' who were active in commerce, trade and community affairs but rarely expressed political ideas. 'Group C' represents those who were committed to their host country.²⁶ In many Southeast Asian countries, 'Group A' usually bifurcated into pro-Beijing and pro-Taipei factions that paralleled the sides in China's civil war. Both sides claimed that all ethnic Chinese owed their loyalty to China's sole legitimate center – Beijing according to the Communists or Taipei according to the Nationalists.²⁷ In particular, the founding of a socialist new China reinforced the sense of cultural superiority harbored by a number of ethnic Chinese. As a result, many Chinese in Southeast Asia experienced 1949 as a moment of national pride.²⁸

In the early and mid-1950s, despite the rise of China-oriented nationalism among diasporic communities in many parts of Southeast Asia, Beijing strove to assure Southeast Asian governments that the ethnic Chinese were not the PRC's 'fifth column.' With the signing of the Sino-Indonesian Dual Nationality Treaty in 1955, Beijing ended a previous policy that automatically granted all persons with Chinese blood Chinese citizenship and began to encourage the ethnic Chinese to adopt the citizenship of their countries of residence.²⁹ Before signing the treaty with Indonesia, Zhou Enlai made a speech in Bandung to leaders of the ethnic Chinese community who were concerned about being 'abandoned by the motherland.' Zhou emphasized that the ethnic Chinese owned primary loyalty to Indonesia, rather than to China. He used a metaphor in which the ethnic Chinese were like the PRC's daughters who were married off and settled in a new household. Zhou said some foreign governments had qualms about the ethnic Chinese, worrying that they might be used by Beijing to engage in subversive activities. A clear boundary had to be drawn and only by doing so could China win the trust of other countries.³⁰ The ban on dual nationality demonstrated Beijing's determination to prioritize its diplomatic relations with the post-colonial Southeast Asian states over its connections with Chinese overseas.

However, this conversion of political allegiance among the ethnic Chinese in Southeast Asia encountered multiple obstacles, including both the fluctuation of Beijing's foreign policy as well as the Southeast Asian states' nationalistic economic measures that aimed to weaken the Chinese minority. From the early to mid-1960s, with Chinese domestic politics increasingly radicalized, the previous moderate policy in overseas Chinese affairs was reversed. The PRC suspended its efforts to help the ethnic Chinese integrate into local societies and acted with much less restraint in exporting its political culture. This re-mobilization of the overseas Chinese reached a climax in the late 1960s, when the Cultural Revolution engulfed the PRC. For instance, in 1967, left-wing ethnic Chinese students in Rangoon ignored the Burmese government's ban on wearing Mao badges in school, leading to a wave of large-scale ethnic riots and a drastic deterioration of bilateral relations.³¹ Meanwhile, the emotional bonds between the ethnic Chinese and their countries of residence were strained by anti-Chinese

movements, such as the 1959–1960 crisis in Indonesia. In 1959, the Sukarno regime revoked the licenses of ‘aliens’ – mostly non-citizen ethnic Chinese – to operate retail businesses in the countryside and legitimized the takeover of these foreign-owned enterprises by the indigenous population. Approximately 200,000 ethnic Chinese, most of whom lost their means of livelihood due to the new policy, left Indonesia for mainland China.

In the 1970s and 1980s, most Southeast Asian countries witnessed a tremendous decline in the passionate sense of belonging the ethnic Chinese had once felt towards China. Gradually, the settled and local-born generations of ethnic Chinese became politically identified with their host societies. This new sense of national consciousness manifested itself in the everyday practices of the ethnic Chinese: national symbols such as the Five-star Red Flag of the PRC or the Blue Sky and the White Sun and Red Earth flag of the Nationalist government disappeared; the celebration of October 1 and the Double Tenth, the anniversaries of the establishment of the PRC and the Republic of China respectively, became obsolete; Chinese civic associations transformed into host-country-oriented groups. On the one hand, this process was partially facilitated by the local ethnic Chinese who recognized that in the new age of nation-building, the nation-state, rather than race, ethnicity or cultural heritage, had become the most important site of identification. On the other hand, though in an excruciating way, the heavy-handed discriminatory policies launched by several Southeast Asian governments accelerated the formation of new national identities among the ethnic Chinese. For example, both Ne Win of Burma and Suharto of Indonesia banned Chinese-language education in their countries. The Suharto government also required the ethnic Chinese to take on Indonesian-sounding names. To some extent, the formation of a Southeast Asian-oriented national consciousness among the Chinese diaspora paved the way for the normalization of state-to-state relations between the PRC and Southeast Asian countries in the post-Cold War era.

Locally-oriented national identities allowed the ethnic Chinese to steadily contribute to the improvement of China–Southeast Asia relations.³² For instance, between the late-1970s and 1980s, the Southeast Asian Chinese added momentum to the early stage of the Chinese economic reform through their investments in China and their involvement with trade between

China and Southeast Asia.³³ In return, the new socio-economic developments in post-reform China set the stage for the Southeast Asian Chinese to help Southeast Asian countries share the benefits of China's economic growth. This new circle of positive exchanges altered the image of ethnic Chinese as a source of friction between China and the Southeast Asian countries during the Cold War. Conceptually, diasporic involvement in foreign policy in both their host country and ancestral homeland offers a new perspective for scholars to investigate the intellectual connections between transnational migration and international relations.³⁴

Great Power Politics in the South China Sea

Bill Hayton wrote in *The South China Sea: The Struggle for Power in Asia*: 'In our era, what happens in the South China Sea will define the future.'³⁵ Although global attention to the issue goes up and down in tandem with the rise and decline of tensions, disputes over territorial sovereignty and maritime jurisdiction in the South China Sea remain a defining feature of contemporary China–Southeast Asia relations. The PRC, Taiwan, Vietnam, the Philippines, Brunei, Malaysia and Indonesia are contending for the control over shipping lanes, energy resources, and fishing areas in the South China Sea, called *Dagat Kanlurang Pilipinas* (the West Philippines Sea) by the Filipinos and *Biển Đông* (East Sea) by the Vietnamese. It is estimated that more than half of the world's maritime trade goes through the Straits of Malacca. The seabed beneath the disputed area may hold up to half the world's liquefied natural gas and one-third of its crude oil. The sea contains some of the richest fisheries in the world.

In the past four decades, disputes over the South China Sea have evolved from a China–Vietnam affair into a regional or even global security issue. In January 1974, China and the then South Vietnamese government clashed over the Paracels, which resulted in Chinese control of the whole of the archipelago to this day.³⁶ China overpowered Vietnam again in a second major clash over the Western Spratlys in March 1988.³⁷ The turning point came in 1994, when China built structures that were said to be shelters for fishermen on the Mischief Reef, which was also claimed by the Philippines. This incident was very significant as Chinese

activities in the South China Sea started to affect countries beyond Vietnam. The territories China had controlled before 1994 – the Paracels and Western Spratlys – were far from the other countries involved in the South China Sea disputes. But by taking the eastern side of Mischief Reef, China had intruded into waters claimed by an ASEAN member state, a move perceived as a threat not only by the Philippines but also by Malaysia, Brunei and Indonesia.³⁸ However, none of these countries were prepared to risk open hostilities with China. In 2002, China and ASEAN agreed to a code of conduct in the Declaration on the Conduct of Parties in the South China Sea. Celebrated at the time as a major breakthrough, the declaration announced that all parties involved pledged to build mutual trust to create a ‘peaceful, friendly and harmonious environment in the South China Sea.’³⁹

But without enforcement or dispute resolution mechanisms, the 2002 declaration failed to curb the increasing tension. As Ian Storey puts it, since the late 2000s, the atmosphere in the South China Sea has been one of ‘growing rancor and mistrust, of claim and counterclaim, action and reaction.’⁴⁰ In early April 2012, a standoff over control of the Scarborough Shoal (also known as Huangyan Dao), located between the Macclesfield Bank and the Philippines’ Luzon Island, began after the Filipino navy attempted to arrest Chinese fishermen who were operating in the shoal’s lagoon. In 2014, Beijing’s decision to set up a petroleum drilling platform in the exclusive economic zone (EEZ) claimed by Vietnam gave rise to a crisis in bilateral relations, resulting in skirmishes between the Chinese and Vietnamese coast guards as well as riots in Chinese-owned industrial parks in Vietnam.⁴¹ Detailed satellite imagery released in 2015 and 2016, which shows China’s engagement in massive artificial island building and its potential installation of a high-frequency radar system, further perturbed the Southeast Asian claimant states.⁴² In March 2016, tension emerged for the first time between Beijing and Jakarta when the Chinese coast guards confronted Indonesian officials trying to capture a Chinese ship fishing in disputed waters.⁴³

While many Southeast Asian and Western foreign policy practitioners and observers regard Beijing’s increasing assertiveness as the main trigger for tension and discord, the Chinese government regards this as a legitimate course of actions. Beijing bases its sovereignty

claims on ‘the nine-dash line,’ a demarcation designed by the Republic of China’s government to include the major part of the South China Sea.⁴⁴ China saw it as its natural right to restore the territory taken by the Japanese and Western powers during China’s long ‘century of humiliation.’ While this claim differs from the United Nations Convention on the Law of the Sea (UNCLOS), Beijing suggests that the UNCLOS should be adjusted to accommodate China’s historical rights.⁴⁵ China was incensed by the Philippines’ decision in January 2013 to seek legal arbitration of the two countries’ competing jurisdictional claims at the International Tribunal of the Law of the Sea. From the very beginning of the case, the Chinese Government has repeatedly indicated that ‘it will neither accept nor participate in the arbitration thus initiated by the Philippines.’ On July 12, 2016, after hearings conducted without China’s appearance, the International Tribunal unanimously concluded that there was no legal basis for China to claim historic rights to resources within the sea areas falling within the ‘nine-dash line’ and Chinese actions in the disputed areas were a violation of the Philippines’ sovereign rights in its exclusive economic zone.⁴⁶

Whereas the Philippines welcomed the ruling but calls for ‘restraint and sobriety,’ China rejected the ruling as ‘null and void’ and non-binding. A statement issued by the Chinese Foreign Ministry declares: ‘China’s territorial sovereignty and maritime rights and interests in the South China Sea [will] under no circumstances be affected by those awards. China opposes and will never accept any claim or action based on those awards.’⁴⁷ The decision undermines China’s hard and soft political power. According to Li Mingjiang, despite Beijing’s efforts to dismiss the ruling, responses from stakeholders indicate that much of the international community expects to use the arbitration result as a policy tool in restraining further Chinese activities in the South China Sea.⁴⁸ Besides the harms to China’s regional security and strategic interests, Wang Jiangyu argues that the ‘non-participation’ stance caused enormous reputational costs for China. Wang asserts that by failing to appear before the tribunal to present arguments and evidence, China lost the opportunity to use international law to protect its national interest. Furthermore, China’s rejection of international law was highly detrimental to its credibility as a country striving to obtain international recognition as a global power.⁴⁹

While condemning Manila for its ‘unilateral initiation of arbitration out of bad faith,’ Beijing also accused Washington of instigating the tribunal proceedings from behind the scenes. An op-ed published on China.org.cn, an authorized government portal site, blamed the US for ‘using the South China Sea disputes for its “Pivot to Asia” strategy and to contain China’ and for ‘sabotaging the relations between China and ASEAN countries.’⁵⁰ In an interview with Chinese media shortly before the ruling came out, Zhu Feng, Executive Director of the China Center for Collaborative Studies of the South China Sea at Nanjing University, remarked that the essence of the South China Sea issue is not the conflict between China and the concerned Southeast Asian states but the rivalry between Beijing and Washington. Historically, the US has enjoyed access to maritime and air space in the Western Pacific since WWII. But in the 21st century, these advantages clash with the strategic progression of China’s growth into a ‘maritime strong power.’⁵¹

In response to China’s hardening stance on the South China Sea, the United States has been increasing its military and economic presence in the Asia Pacific while maintaining a cautious distance from regional disputes. In April 2016, the United States Defense Secretary Ashton B. Carter confirmed that Filipino and American forces had conducted joint naval patrols in the South China Sea and would start air operations over the area.⁵² In May 2016, during his visit to Vietnam, American President Barack Obama announced the decision to lift a decades-old arms embargo on Vietnam in order to grant the country greater access to security equipment to counter the influences from China in the South China Sea.⁵³ Washington affirmed The Hague’s ruling as legally binding but refrained from risking military confrontation to pressure China to comply with the Tribunal’s decisions.⁵⁴ China’s rejection of the Arbitral Tribunal’s decision contradicted the US advocacy for freedom of navigation.⁵⁵ But the US adopted a low-key attitude towards the ruling in order to avoid becoming embroiled in a military conflict in case the Philippines seeks to enforce the tribunal’s decision via force.⁵⁶

Besides the United States, another external stakeholder in the South China Sea dispute is Japan. Tokyo is concerned that the conflicts will potentially disrupt the free flow of maritime trade on which the Japanese economy depends. Moreover, Japan sees a link between the South

China Sea disputes and contentions between the PRC, Japan and South Korea over the EEZs in the East China Sea. Tokyo is concerned that the possibility that China might undermine international legal norms if other Asian nations set a precedent of accepting China's claim to historical rights in the South China Sea.⁵⁷ Japan has been building partnerships with South China Sea claimant states. There are voices within Japan suggesting that the Japan Maritime Self-Defense Force should break away from its pacifist approach since the end of WWII and directly intervene in the South China Sea.⁵⁸ Welcoming The Hague's ruling, the Japanese Defense Minister Tomomi Inada stated that the country would 'increase its engagement in the South China Sea through ... Maritime Self-Defense Force joint training cruises with the U.S. Navy' and provide more military aid to the Philippines and Vietnam. These announcements triggered a series of fiery editorials from Chinese state media outlets.⁵⁹

The dynamics underlying the South China Sea disputes changed considerably after Rodrigo Duterte took over the Filipino presidency on June 30, 2016. A populist leader who is known for his anti-establishment rhetoric, Duterte pursued closer economic cooperation with China while distancing the country from the United States. Duterte has not expressed the intention to make China comply with the tribunal ruling. Moreover, his violent and controversial "drug war" at home has sidelined the issues over the South China Sea. So far, the disputes have been contained within the realm of diplomacy, avoiding bringing the countries involved to the brink of war. While the close commercial ties between China and respective Southeast Asian countries have helped de-escalate the tension, the lack of progress toward a resolution and continuous involvements by external powers may generate anxiety and uncertainty for the future of the region.

Commerce in the 21st Century

As mentioned earlier in this chapter, commercial connections between China and Southeast Asia, once overshadowed by Cold War ideology, took center stage again after the People's Republic's economic liberalization in the late 1970s. In the past four decades, the Chinese

economy has experienced unprecedented growth, which has enabled the country to export goods and services while propelling it to search externally for consumer markets and supplies of natural resources. Since the early 2000s, China has been transforming from a major recipient of FDI to an active global investor itself. Southeast Asia has been an important target region for investment by China. In 2014, ASEAN was the third largest destination for China's outward FDI, after Hong Kong and the European Union. FDI from China to ASEAN as a whole was \$7.81 billion, accounting for 6.3% of China's international investments, with a year-on-year increase of 7.5%.⁶⁰ By the end of 2014, China had established more than 3,300 FDI enterprises in ASEAN and hired 159,500 local employees.⁶¹ In 2014, among the top 20 countries (regions) in which China invested were four Southeast Asian countries : Singapore (No. 7), Indonesia (No. 10), Laos (No. 12), and Thailand (No. 15).⁶² Within the ASEAN by the end of 2014, China's Outward FDI Stock was directed in descending amounts to Singapore, Indonesia, Laos, Burma, Cambodia, Thailand, Vietnam, Malaysia, Philippines, and Brunei. PRC investment concentrated in realms such as infrastructure building (the production and supply of electricity, heat, gas and water, construction, transportation, storage, postal service, and real estate), natural resources (mining, agriculture, forestry, animal husbandry and fishery), manufacturing, wholesale and retail trade, and finance.⁶³

In addition to FDI, tourism has been an important component of China–Southeast Asian economic relations. ASEAN, particularly Singapore, Malaysia and Thailand, witnessed the rush of tour groups from Mainland China in 1991 when the country began to permit its residents to travel abroad for personal reasons. At first, Singapore, Malaysia and Thailand were the primary beneficiaries of the liberalized policy shift on Chinese outbound travel because they were the only destinations on the itineraries offered by authorized travel services. In the early 1990s, these three countries occupied more than a 90% share of the Chinese outbound tourism market.⁶⁴ With China's gradual opening to the outside world and the rise in living standards, Chinese tourists began to explore other ASEAN countries as the total number of arrivals in the region increased by 86% from 3.93 million in 2007 to 7.32 million in 2011.⁶⁵ In terms of

destinations, Thailand receives the largest number of Chinese tourists. According to the Tourism Authority of Thailand (TAT), in 2015 about 8 million Chinese tourists visited Thailand, generating revenue of 376 million Baht.⁶⁶ In 2016, Chinese visitors made up about 8.7 million out of the 34 million tourists to Thailand.⁶⁷ Yet with the appreciation of RMB in recent years and the increase in the buying capacity of Chinese tourists, Southeast Asia has to compete with South Korea, Taiwan, Japan and Western Europe for its market share. ASEAN countries such as Singapore are now shifting to a different demographic group – first time visitors from second- and third-tier Chinese cities rather than repeat visitors from big cities. In the reverse direction, ASEAN countries, particularly Vietnam, Malaysia, the Philippines, Singapore and Thailand, have become the major source market for China’s inward tourism.⁶⁸

The first decade of the 21st century has witnessed the rise of vibrant and complex economic interactions between China and Southeast Asia. But challenges have arisen as a result of China’s increasing economic presence. The country must cultivate goodwill in local societies, understand their culture, and adapt to their norms and practices. All of these goals will take a long time to achieve. The FDI from the PRC is important to Laos, Burma and Cambodia.⁶⁹ Although Chinese companies have accelerated infrastructure development in these three countries through the construction of roads, bridges, dams and railways, there is still lingering resentment over how China procured natural resources. Local communities sometimes feel disappointed that their Chinese business partners are not yet able to fulfil long-term local needs including technological development, educational resources, and employment opportunities. The strongest criticism of China centers on areas where raw materials are imported across porous borders that are difficult for states to surveil, such as those of the Kachin state—a politically turbulent jade-producing region in northern Burma. Jade smuggling conducted mostly by Chinese migrants from Yunnan has caused environmental degradation and human suffering in Kachin.⁷⁰ In response to criticism, in 2014 the PRC ambassador to Burma, Yang Houlan, admitted that some Chinese are breaking Burmese laws and assured critics that Beijing was increasing its efforts at more effective regulation.⁷¹

When navigating through the complicated political and economic environments of their destinations of investment, some Chinese enterprises in Southeast Asia suffer from an insufficient level of corporate social responsibility and a lack of understanding of local regulatory regimes. Chinese companies which thrive under the highly-centralized political structure in China oftentimes come to a belated realization that their success in Southeast Asia depends not only on relations with the top decision-makers but also on whether or not constituencies in these countries – such as labor unions, organized businesses and civil society groups – are satisfied with China’s response to their requests and concerns.

A noteworthy example in this regard is the suspension of the Myitsone Dam project in the Kachin state of Burma by President Thein Sein in 2011, despite a 7 billion yuan investment and two years of construction.⁷² The decision was made in part because of popular protests against environmental damage and insufficient compensation for land. In addition, the redeployment of troops to the Kachin area to safeguard the working compounds exacerbated ethnic tensions between the Kachin people and the Burmese government. The failure of the Myitsone Dam project reflects that China is not prepared to adapt to the shifting balance of power both within and outside of Burma. Since 1988, the country has been seeking economic and strategic support from China. The junta regime at the time believed that China would act as an ally against what they perceived as external threats, especially from the US. The reduction of Western sanctions since the 2010 election has brought about a greater diversity of foreign investments in the country. China, which was used to benefiting from previously exclusive relations with the junta, had to adjust itself to the recalibration of power in Burma.⁷³ With the move towards a more open political environment, Burmese political leaders now have had to take into account the wishes of their electorate. This means that the stakes that Chinese corporations have in Burma are no longer as stable and secure as they once were.⁷⁴ Since the failure of the Myitsone Dam, Chinese firms have begun to change their public profiles in response to Burmese pressure for more transparency, engagement with civil society and equitable profit sharing.

Relations between China and economically advancing yet not fully developed countries such as Vietnam involve a tense combination of economic dependency and competition. In 2013, a report released by HSBC predicted that China would become Vietnam's top trading partner by 2030, overtaking the United States.⁷⁵ Yet in light of its historical memory of domination by its northern neighbor and rekindled conflicts in the South China Sea, Vietnam has been ambivalent towards Chinese economic presence. This ambivalence turned to public indignation in 2014, when Chinese bauxite mining projects in the central highlands of Vietnam triggered a significant civil society movement. Scientists, intellectuals and activist groups participated in protests against Chinese enterprises' lack of environmental protection measures, immature crisis management and disregard for local law.⁷⁶ Meanwhile, Vietnam has been taking advantage of the increasing production costs in China as low-cost manufacturing sectors such as the garments and electronics industries started to migrate from China to Vietnam. The country is itself emerging as an investor in natural resources in Cambodia and Laos. In Laos, for example, Vietnam is competing with China for investment in rubber and hydropower.

In 2013, Chinese President Xi Jinping unveiled plans for two massive trade and infrastructure networks: the Silk Road Economic Belt and the 21st Century Maritime Silk Road (also known as 'One Belt One Road'). The plans aim to reinvigorate and expand the ancient Silk Roads with high-speed rail, motorways, pipelines and ports stretching across more than 60 countries in the Asia-Pacific, Europe and East Africa.⁷⁷ The Maritime Silk Road initiative pays special attention to Southeast Asia, as it offers China a platform to overtake the United States, EU and Japan as the major source of FDI in the region. By promising to improve economic connectivity, increase long-term investment, and enhance multilateral cooperation, Beijing intends to rectify some Southeast Asian nations' perceptions of China as preoccupied with short-term gains such as natural resources. Positive changes in this direction have occurred, for example, in China's engagement with Indonesia. Chinese state-owned enterprises and private investors have begun to transform the coal trade by supporting the sustainable development of Indonesia's mining industry.⁷⁸ Moreover, in September 2015, after a heated competition against Japan, China won the bid for the Jakarta–Bandung High Speed Railway.⁷⁹ Scheduled for

completion in 2019, the project is expected to boost the tourism, manufacturing, logistics and property sectors in an envisioned Jakarta-Bandung megapolitan area.⁸⁰

Conclusion

In our survey of the trajectory of China–Southeast Asian relations in the past seven decades, we have broadened the concept of ‘foreign relations’ to encompass the multilayered interplay of great power politics, transnational ethnic ties, trade and investment, as well as soft power manifested in the forms of models of modernity. We have demonstrated how interactions between the Chinese and Southeast Asian governments were shaped by ideological conflicts, competing nationalisms, clashes of strategic interests as well as economic interdependence; how the longstanding Chinese migrant networks both intimately connected and intricately complicated state-to-state diplomacy between the PRC and the newly established nations in Southeast Asia after WWII; and how the century-long commercial exchange between China and Southeast Asia has evolved into a transnational infrastructure and investment network in the 21st century. To comprehend this multifaceted relationship, it is essential to place the connections between China and Southeast Asia in a historical and network perspective rather than narrowly focusing on current front-page events and high politics.⁸¹

From the Southeast Asian perspective, one key question in the outlook for relations with China is ASEAN’s ability or desire to deal with China as a unified bloc. Michael Leifer discerned twenty years ago that ‘in the absence of suitable access to external countervailing power, regional states have been thrown back to their own resources in an attempt to prevent China from pushing its way into the maritime heart of Southeast Asia.’⁸² The ASEAN states have long been unable to formulate one coherent policy towards China. The tension between a common regional identity and divergent individual interests has become more acute in recent years. For instance, at the Special ASEAN–China Foreign Ministers’ Meeting in Kunming, China in June 2016, an agreed-upon joint media statement by the ten ASEAN Foreign Ministers was withdrawn due to vetoes which were presumably from China’s allies within ASEAN.⁸³

The president of the Philippines, Duterte, has shown openness to negotiating with China through direct bilateral conversations rather than through multilateral dialogue. The ‘One Belt One Road’ initiative might further complicate the relations among ASEAN states as Beijing’s increased economic leverage might entice some countries to adopt a more pro-Beijing stance on geopolitical issues in exchange for China-financed infrastructure projects. For instance, in contrast to his ironfisted approach to domestic issues, in the realm of foreign relations Duterte welcomes Chinese investment in railway construction in the Philippines and downplays unresolved maritime disputes with Beijing in the South China Sea.

To forge well-balanced relations with Southeast Asia, China needs to improve its image abroad and accumulate intellectual capital at home. Admittedly, China has made considerable efforts to increase its influence through soft power initiatives such as the creation of student–scholar exchanges, the establishment of cultural centers, and the offer of development aid. Viewed more broadly, China suffers from a knowledge gap as there is a pressing need for information about Southeast Asia. Policy-makers need this information to develop their strategy and entrepreneurs need it to push forward business ventures. As the Chinese foreign policy under Xi Jinping pivot towards the developing world and neighboring countries, Southeast Asia’s importance to China has grown exponentially. Consequently, the profile of Southeast Asian studies has risen in China and governmental funding towards research in the region has substantially increased.⁸⁴ But China’s knowledge is still lagging behind that of its counterparts around the world. A systematic training program for a new generation of researchers to thoroughly understand the region is not yet fully developed. It might not be an exaggeration to say that addressing this knowledge gap is critical to the peaceful resolution of the South China Sea disputes, the successful implementation of the ‘One Belt One Road’ project, and the stabilization of the course of Sino-Southeast Asian relations.

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