



China and Southeast Asia

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Changes and
Regional
Challenges

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ABBREVIATIONS

ADB	Asian Development Bank
ACFTA	ASEAN-China Free Trade Agreement
AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
APEC	Asia Pacific Economic Co-operation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
ASEM	Asia-Europe Meeting
CALD	Council of Asian Liberals and Democrats
CPP	Cambodian People's Party
CPM	Communist Party of Malaya
CEPA	Closer Economic Partnership Arrangement
CRTA	Committee on Regional Agreements
CU	Custom Union
DPP	Democratic Progressive Party
FDI	Foreign Direct Investment
EAEC	East Asian Economic Grouping
EHP	Early-Harvest Programme
EU	European Union
FTA	Free Trade Area
GATT	The General Agreement on Tariffs and Trade
GTAP	Global Trade Analysis Project
HS	Harmonized System
ICDF	International Co-operation and Development Fund
MFN	Most-Favoured Nation

MILF	Moro Islamic Liberation Front
NAFTA	North American Free Trade Agreement
NGO	Non-Governmental Organizations
NSC	New Security Concept
PGN	Policy of Good Neighbourliness
PLA	People's Liberation Army
PRC	People's Republic of China
PTA	Preferential Trade Agreement
RIA	Regional Integration Agreement
ROC	Republic of China
RTA	Regional Trade Agreement
SAM	Social Accounting Matrix
SCO	Shanghai Co-operation Organization
SCS	South China Sea
TACSA	Treaty of Amity and Co-operation in Southeast Asia
WHO	World Health Organization
WTO	World Trade Organization

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INTRODUCTION

China-ASEAN Relations: Confronting New Realities

Ho Khai Leong

The relations between the Association of Southeast Asian Nations (ASEAN) and China occupy a unique and important position in the foreign relations of the Asia-Pacific region. China and Southeast Asia's political, strategic and economic importance in the realm of international relations has been transformed by the region's unprecedented economic growth, unexpected financial crisis and turbulent political changes. In the economic front, there has been a five-fold increase in per capita income in the ASEAN region over the last four decades. The 1997 financial crisis, however, exposed the weaknesses of the corporate sector in ASEAN, which include questionable political inventions, poor investment structure, weak legal and accounting system. Simultaneously, the political development of the Southeast Asian states underwent a dramatic democratization process and leadership changes, making them barely recognizable.

China, on the other hand, also experienced economic changes that have allowed more people to become wealthy in a shorter period of time than in any other historical period. Its emergence as an economic, military and political power poses continuous challenge not only to the Southeast Asian states, but also to the great powers. Despite the fact that common economic interests and strategic concerns exist for both China and ASEAN, tensions

and suspicions abound. China and its ten ASEAN neighbours of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam, are likely to share the same political and economic fate in an era of regionalism and globalization. While good neighbourliness and mutual trust are standard official rhetoric in the relationships, the complexities of China as a country and ASEAN as a regional organization intensify the enormous challenges ahead. The opportunities for co-operation and the challenges in dealing with problems arising from rapid economic and political transformation at both the global and regional levels will continue to confront their policymakers in years to come.

International and Global Changes

In the past decades, scholars have attempted to relocate the locus of conflict and competition from the military/security to the international/global economic realm. Globalization played a major role in the remarkable world economic expansion of the 1990s. Undoubtedly, it has contributed to rapid economic growth in parts of Asia, Europe, and Latin America. At the same time, the expansion of markets and opportunities promoted the expansion of democratic values and stability. A dramatic expansion of democratic governance can be evinced in Eastern Europe, Latin America and Southeast Asia. Economic forces are making the world more interdependent — states are, therefore, constrained in their ability to formulate selfish national interests. In general, countries have experienced the benefits of trade, open markets and more open systems of governance.

The expansion of world trade has had a powerful impact on both national and regional trade policy preferences. New opportunities have provided the impetus for previously protectionist regimes to turn towards a restructuring of their economies towards free trade and multilateralism. The new economic system has, therefore, transformed national economic structure and regional policy preferences. Current trade disputes are obstacles to effective globalization. Trade is the primary means of economic development for poor countries, and an important tool for growth and expansion for developed countries like the United States. Despite the benefits of trade, divisions among developing and developed countries are threatening the future of multilateral and bilateral free trade agreements.

It is against these backdrops that the relations between ASEAN and China have evolved in the last decades. ASEAN and China's policymakers look beyond their region for any emerging signs of economic developments that would have an impact on their regional and domestic policies. The

failures of the world trade talks in Cancun and its impact on the WTO have shaken these economies.

Another global challenge is the counter-terrorism efforts by the United States-led alliances. The sensitivities of the Islamic countries in Southeast Asian cannot be dismissed. China's recent political and economic initiatives clearly need to be examined from this perspective against United State's military and economic presence in the Southeast Asian region. In the post-Cold War environment, the brave new world following the collapse of the Soviet Union's communist system heralded a dramatic reshuffling of global geopolitics, where the United States emerged as the world's sole superpower. Consequently, a novel paradigm of Sino-American relations has emerged. This paradigm has the tendency and potential to be predominantly rooted in adversarial competition rather than co-operation.

China, therefore, took advantage of the general anti-American sentiments prevalent in the Southeast Asian region after the invasion of Afghanistan and Iraq. Its gestures may be interpreted in terms of establishing partnership and genuine co-operation with ASEAN governments. Indeed, current Sino-ASEAN relations are marked by increased mutual tolerance and admiration. In response, the Southeast Asian nations have maintained a certain aloofness in its dealings with China so as to preserve equidistance.

Regional Challenges

One of the most important challenges can be seen in recent years within both the Ten+1 (ASEAN + China) and the Ten+3 (ASEAN + China, Japan and the Republic of Korea) frameworks. Despite the broadly based and steady improvement in China-ASEAN relations, significant issues have remained unresolved as a result of intra-ASEAN conflicts fighting for a competitive advantage and regime legitimacy. While progress has been significant, it is unclear, even in the short term, where it is heading. If China does not have its house in order, it is difficult to envision a progressive and stable Southeast Asian region in the long run. This is further exacerbated by the fact that much of the regional economic and political destiny is tight closely with China's developmental trajectories. Thus, while the recent signing of the Framework Agreement on China-ASEAN Comprehensive Economic Co-operation represented a new breakthrough, China-ASEAN relations are now confronting new realities in almost all areas. Financial co-operation, political linkages, economic integration, strategic and non-traditional security issues are but some of the more imminent items on the policy agenda.

The regional challenge for ASEAN and China are in the realms of political security, trade and development co-operation. While China is an enthusiastic participant in the ARF, it is still being socialized into the negotiating process, which requires parties to practise multilateral consultation. In the economic arena, the development of ASEAN-China co-operation has been dramatic; more so, given that both sides signed the Framework Agreement on Comprehensive Economic Co-operation in November 2002. The target to realize the Free Trade Area in 2010 for the ASEAN-6 and 2015 for Cambodia, Laos, Myanmar and Vietnam would be an extremely challenging task for both China and ASEAN. Development co-operation between ASEAN and China — which would include science and technology, tourism, public health, youth, and culture — is not foremost on the policy agenda. However, it would prove to be a key indicator of political commitment of both sides in the long run.

Globalism and Regionalism: Can the Twins Meet?

Scholars of international political economy typically consider the interactions of domestic and international factors, as they affect economic policy-making. In the case of China and Southeast relations, regional factors are the most important. Thus, theoretical exploration in international political economy can be promising. This academic frontier can only be achieved through solid research and progress *vis-à-vis* domestic and international interaction factors.

ASEAN-China interaction can be examined from the domestic as well as regional politics, and an examination of the principle economic interests at stake as well as the transit of these economic interests through organizations of regional political economics, determines the kind of distribution and aggregation. The impact of regional interests on intra-regional interaction, and *vice versa*, is at the core of regional and international connections. The task is made much more complicated when China is regarded as a region rather than a country. ASEAN as a region is also problematic as there are different levels of development within the organization. Endogenizing these two levels of analysis is, of course, an extremely complex exercise, and research in this area has met with some progress. But much more remains to be done. Can ASEAN act as an interest-aggregate institution representing collective interest? Can these interests be translated into positive outcomes in a strategic environment witnessing rapid economic and political transformation? The feedback to national regional policies through the regional organization *vis-à-vis* China's interest will depend on ASEAN's evolution in the next decade.

To answer some of the complexities of these problems, a conference on China and Southeast Asia was organized. A group of senior and upcoming scholars gathered at the scenic campus of National Sun Yat-sen University in Kaoshiung, in March 2004, with generous support from the Sun Yat-Sen Institute of Interdisciplinary Studies and Centre for Southeast Asian Studies. The intense discussions and the intellectual dialogue were both inspiring and stimulating. The product is this book.

Structure of the Book

Wang Gungwu's article, which, incidentally, was the opening address to the conference, addresses the changing perceptions of the rise of American power in the twentieth century from the Chinese and Southeast Asian perspective. He argues that the developments in the region are dependent on its perceptions of American power. In turn, this is a timely reminder that the "triangular relationships" between United States, China and Southeast Asia are symbiotic and should be pursued strategically in the future. He traces the development of American investment in Asia, and the responses of China and Southeast Asian. He points out that the United States has made even larger commitments to Asia, and China and Southeast Asia since early 2000. This commitment is marked by closer attention to Asia, and China and Southeast Asia as well as the creation of new alliances and networks of co-operation.

The completion of unfinished economic and financial sector reforms for the sake of regional economic integration is one of the top priorities of ASEAN member states. This would mean the realization of the ASEAN Free Trade Area (AFTA), which is considered the key to enhancing the region's competitiveness. The three chapters by Vincent Wei-Cheng Wang, Wang Jiang Yu, and Suthiphand Chirathivat and Sothitorn Mallikamas, discuss the China-ASEAN FTA from different perspectives. Vincent Wang argues that in light of regionalism in East Asia and China's new diplomacy, the China-ASEAN FTA is by and large driven by a political logic: firstly, to respond to challenges posed by competitive regionalism in the world economy; secondly, to secure material resources for China's economic modernization; and thirdly, to buttress China's growing influence and to counterbalance American and Japanese power in the Asia-Pacific region. China's "peaceful ascendancy" in international relations would bring about a future that is, at best, uncertain.

Wang Jiang Yu, however, offers a more optimistic analysis of this phenomenon. He argues that the emergence of China and the formation of China-ASEAN FTA would ensure more prosperity for the region. China's pursuit of great power status and regional and national security, though