

# IDS

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### China as a Development Actor in Southeast Asia

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## CHINA AS A DEVELOPMENT ACTOR IN SOUTHEAST ASIA

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# Abbreviations

ADB	Asian Development Bank
ADIZ	Air Defense Identification Zone
ADMM	ASEAN Defence Ministers Meeting Plus
AEC	ASEAN Economic Community
AIB	Asian Infrastructure Investment Bank
APEC	Asia-Pacific Economic Cooperation
APT	ASEAN Plus Three
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
BRICS	Brazil, Russia, India, China and South Africa
CAF	China-ASEAN Investment Cooperation Fund
CAFTA	China-ASEAN Free Trade Area
CBO	community-based organisation
CPAFFC	Chinese People's Association for Friendship with Foreign Countries
CPC	Communist Party of China
CSO	civil society organisation
CSR	corporate social responsibility
DAC	Development Assistance Committee (OECD)
DFID	Department for International Development
EAS	East Asia Summit
FDI	foreign direct investment
GDP	gross domestic product
HDI	Human Development Index
ICT	information and communications technology
LDC	least developed country
MDG	Millennium Development Goal
MSR	Maritime Silk Road
NGO	non-government organisation
OBOR	One Belt, One Road
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PPP	purchasing power parity
PRC	People's Republic of China
RCEP	Regional Comprehensive Economic Partnership
SCO	Shanghai Cooperation Organisation
SDG	Sustainable Development Goal
SREB	Silk Road Economic Belt
SRF	Silk Road Fund
SSC	South-South Cooperation
TPP	Trans-Pacific Partnership
UNDP	United Nations Development Programme
UNOSSC	United Nations Office of South-South Cooperation

# Executive summary

This Evidence Report identifies and explains the central factors driving China's policies towards Southeast Asia. It examines China's foreign relations through the perspective of foreign policy. In this context, as the title indicates, the report gathers together and evaluates the evidence on China's role as a development actor in this neighbouring region.

The study aims to contribute to evidence-based policy deliberation, formulation and implementation. It finds that, since the accession of President Xi Jinping, Southeast Asia has gained additional importance for Chinese foreign relations as a key region in China's new 'neighbourhood policy' and the twenty-first century Maritime Silk Road (MSR) initiative.

China's economic cooperation and its development assistance are said (by the Chinese government) to provide investment and logistical know-how, skills and experience to undertake infrastructure capacity building in Southeast Asia. Yet the strength of Sino-regional relations is tempered by continuing tensions. These include unresolved territorial disputes, China's unilateral action in declaring an Air Defense Identification Zone (ADIZ) in the South China Sea, and growing concerns over weaknesses in Chinese corporate social responsibility (CSR).

This report concludes that: (1) Southeast Asia's policy portfolio would be strengthened through enhanced multilateral and national economic diversification strategies; (2) Sino-regional development partnerships can draw upon the new post-2015 global development agenda to strengthen trilateral cooperation; and (3) civil society should be engaged as a full partner in policy determination.

## Box 0.1 Policy implications

- Foreign and development policies towards Southeast Asia are increased priorities for China under President Xi Jinping and Premier Li Keqiang.
- China's 'neighbourhood policy' reflects a more proactive and innovative approach to regional relations and is auguring in a new diplomacy.
- This new diplomacy is evident in the Maritime Silk Road (MSR) and Asian Infrastructure Investment Bank (AIIB) initiatives.
- China's approach to international development (or 'foreign aid') is relatively new and still evolving, but differs substantially from traditional donors.
- China provides significant levels of investment for infrastructure capacity building, but this is tailored to Southeast Asia's development needs.
- Weighted against this investment are the negative costs of weak corporate social responsibility, and social and economic dislocation and environmental degradation associated with Chinese-backed and operated projects.
- Sino-Southeast Asian relations will remain problematic until there is a resolution to longstanding territorial disputes and regionally destabilising Chinese unilateralism.
- Southeast Asian governments and the Association of Southeast Asian Nations (ASEAN)<sup>1</sup> should seek to maximise their countervailing bargaining power with China through: (1) systematic adoption of diversification policies and strategies; (2) actively promoting a 'value chains for development' policy; and (3) bringing civil society into all stages of policy development and operationalisation.
- China, ASEAN and Southeast Asia's least developed countries (LDCs) should utilise the opportunities presented by the post-2015 global development agenda and Sustainable Development Goals (SDGs) to scale-up triangular cooperation in the region.

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<sup>1</sup> ASEAN members are: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

# 1 Introduction

China's presence and role in Southeast Asia, as in other regions of the world, is both substantial and highly controversial. There are divided opinions over China's motives as well as the scale and impact of its involvement. Regional governments are caught in a dilemma between the need for Chinese investment, project know-how and political goodwill on the one hand and, on the other, the potential pitfalls and constraints of over-dependency.

This report identifies and explores the main factors driving China's policies towards Southeast Asia. It examines China's foreign relations through the perspective of foreign policy. In this context, as the title indicates, the report gathers and evaluates the available evidence on China as a development actor in this neighbouring region. The study aims to contribute to Chinese and Southeast Asian policy deliberation, formulation and implementation, with a view to maximising the development benefits accruing to the region from China's engagement, while also minimising or avoiding potential costs.

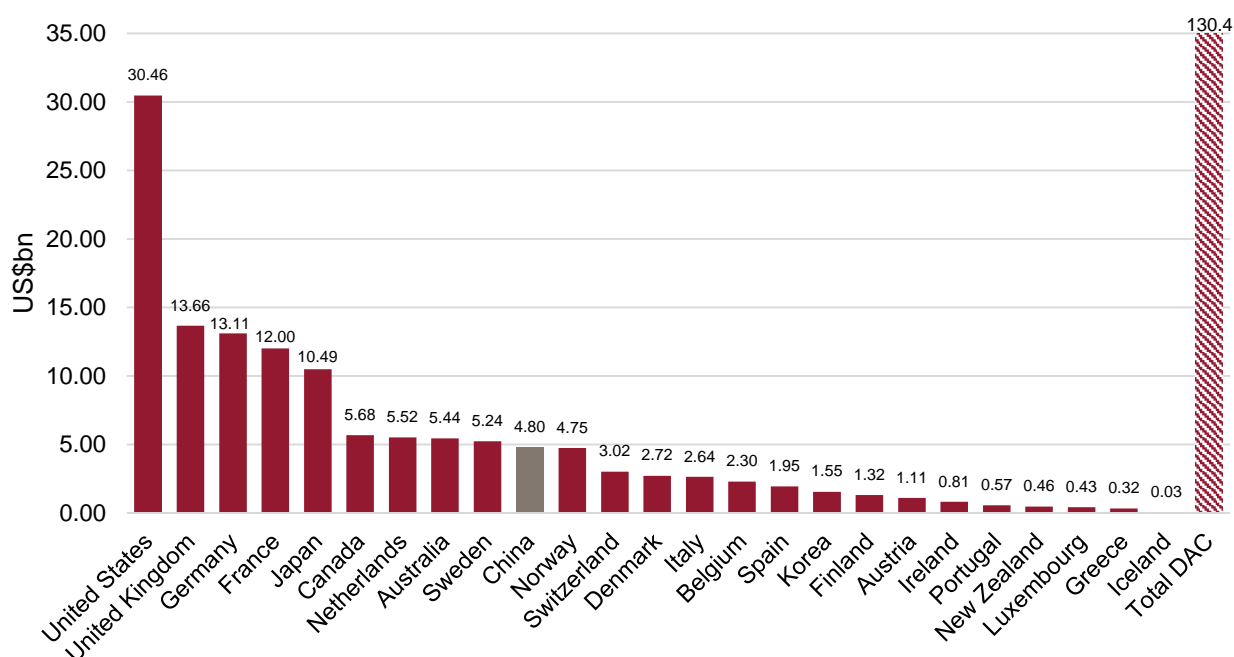
## 1.1 The central issue

China is now the world's second largest economy, having overtaken Japan in terms of nominal gross domestic product (GDP) (*The Economist* 2010). In the past decade, China's trade, capital and corporations have 'gone global', reaching across every continent. Two aspects of this emergence are of particular interest and significance.

- First, China's 12th Five-Year Plan (2011–2015) set out China's aim to: 'facilitate good neighbourship and practical cooperation with the neighbouring countries, safeguard regional peace and stabilisation, promote common development and prosperity' (CBI 2011). Under President Xi, China has initiated a 'neighbourhood' (*zhoubian* or 周边) policy in its foreign relations with states in contiguous regions, including Southeast Asia. The declared purpose of the policy is to help meet 'mutual' goals of Chinese national rejuvenation and regional sustainable development (*China Daily* 2013).  
Two major policy initiatives, discussed in detail later in this report, are central – and indeed potentially critical – to this approach. The first is the twin Continental and Maritime Silk Road or 'One Belt, One Road' (OBOR) initiative. This has two interrelated aspects: a land-based Silk Road Economic Belt (SREB) and a sea-based twenty-first century Maritime Silk Road (MSR). The project's vision is for the eventual integration of the economies along its path into a cohesive economic area. The second major policy initiative is the creation of the Asian Infrastructure Investment Bank (AIIB). The Bank's *raison d'être* is to provide much-needed investment in infrastructure capacity building in the Asia-Pacific region.
- Second, China is establishing itself as a major source of international development assistance or 'foreign aid'. While the level of China's foreign aid is growing steadily, it remains relatively small compared to the United States (US) and other traditional donors (see Figure 1.1).

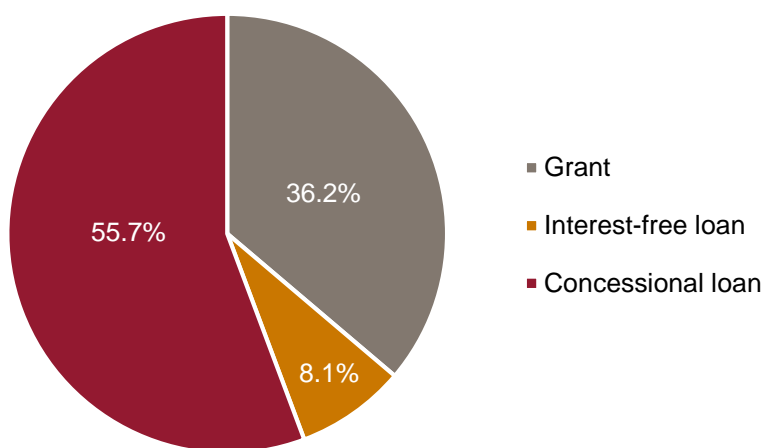
According to China's *Foreign Aid White Paper 2014*, its foreign aid budget totalled US\$14bn for foreign assistance from 2010 to 2012. This was directed to 121 countries, including 51 in Africa, 30 in Asia, 19 in Latin America and the Caribbean, 12 in Europe and 9 in Oceania. As Figure 1.2 shows, it was disbursed through grants, interest-free loans and concessional loans (Government of China 2014).

**Figure 1.1 China's foreign aid in international context**



Source: Adapted from DevPolicy (n.d.), cited in Murphy (2014).

**Figure 1.2 Breakdown of China's foreign aid**



Source: Adapted from Brant (2014).

China is working with international organisations such as the United Nations Office of South-South Cooperation (UNOSSC) and has been engaged with the post-2015 global development agenda and Sustainable Development Goals (SDGs). Both in its own right, and as an initiating member of the BRICS (Brazil, Russia, India, China and South Africa) and Shanghai Cooperation Organisation (SCO), China is seen as offering an alternative, largely 'without strings', to the international development assistance provided by 'traditional' donor countries and international institutions. The *White Paper 2014* stated that: 'When providing foreign assistance, China adheres to the principles of not imposing any political conditions, not interfering in the internal affairs of the recipient countries and fully respecting their right to independently choosing their own paths and models of development' (Government of China 2014: 1).

This study examines these policies and initiatives with respect to China’s relationship with Southeast Asia – a region of substantial economic growth with some high-income economies but also lower-income economies and continuing development challenges. Taken as a group, as noted above, the Southeast Asian economies are strong in global terms. Two of the Least Developed Countries (LDCs), Laos and Cambodia, have made major strides to exceed the Millennium Development Goal (MDG) of halving poverty by 2015 (UN 2015). Since the transition to civilian rule in 2011, Myanmar has been in the midst of profound economic and political reforms designed to rebuild its economy, cut poverty and end inter-ethnic conflicts. The Organisation for Economic Co-operation and Development (OECD)’s Development Centre predicts GDP growth rates of over 7 per cent for these three economies in 2015 and 2016. Myanmar is expected to have the highest growth in the region (7.9 per cent in both years), driven by foreign direct investment as well as reforms. Laos is predicted to record growth rates of 7.4 per cent in 2015 and 7.5 per cent in 2016. Cambodia is expected to see strong growth of 7.2 per cent in both 2015 and 2016 (OECD 2015: 2). Yet major development challenges remain. GDP per capita differs widely across the region. As Table 1.1 indicates, the lowest GDP incomes are in Cambodia, Laos and Myanmar, while Singapore and Brunei have some of the highest incomes in the world.

**Table 1.1 Southeast Asia GDP per capita 2014 (country and US\$)**

Singapore	82,762
Brunei	73,233
Malaysia	24,654
Thailand	14,354
Indonesia	10,640.901
Philippines	6,961.630
Vietnam	5,634.905
Laos	4,986.713
Myanmar	4,706.001
Cambodia	3,262.555
China	12,880

*Note:* GDP based on purchasing power parity (PPP) per capita.

*Source:* IMF-World Bank, World Economic Outlook Database, April 2015,

[www.imf.org/external/pubs/ft/weo/2015/01/weodata/index.aspx](http://www.imf.org/external/pubs/ft/weo/2015/01/weodata/index.aspx) (accessed 25 December 2015).

In terms of Human Development Index (HDI) rankings, Thailand, Cambodia, Lao PDR, the Philippines and Vietnam are all ranked as medium, as indeed is China, while Myanmar is classified as low (UNDP Myanmar 2013: 8). There remains a need for major investment, knowledge and skills transfers, and access to value-added roles in regional and global value chains. In September 2014, Li Yao, Chief Executive of the China-ASEAN Investment Cooperation Fund (CAF), commented that: ‘Without infrastructure no country can achieve sustainable growth... Infrastructure is the key for an economy to achieve efficiency’ (*China Daily* 2014). According to one estimate, East Asia, including ASEAN, needs an extra US\$600bn in infrastructure investment (*China Daily* 2014).

After years of relative complacency, China’s neighbourhood policy is renewing the country’s relations with this region. This renewed interest and attention reflects China’s re-evaluation, under the leadership of President Xi Jinping, of how its national economic, political and strategic interests are interwoven in the regions of its ‘near abroad’. As the analysis below will illustrate, these national interests centre on: (1) gaining reliable access to critical energy, natural resources and strategic minerals to meet China’s growth priorities while expanding trade and promoting offshore manufacturing platforms in lower-cost economies; (2) ensuring



political stability in this neighbouring region to facilitate economic and strategic objectives and (in the case of geographically contiguous neighbours) to counter ‘spillover’ into China of ethnic conflicts on its borders; and (3) securing China’s extended lines of supply and counterbalancing the US strategic influence in the region.

In terms of China’s development role and impact in Southeast Asia, the Chinese government’s basic policy premise is that its own experience demonstrates that sustainable development is driven principally by the levers of economic cooperation. China’s trade, direct investment and technical assistance are, therefore, potentially important means for Southeast Asia’s economic development. However, regional support is more ambiguous and contingent than might at first appear. Relations are also influenced by continued tensions over territorial disputes and emerging concerns over the potentially adverse impact of China’s growing presence on the region’s economies, social relations and the political-strategic balance.

The central policy concerns are threefold:

1. *For China:* How can China define its approach and implementation of foreign and development policies in order to ensure robust compliance with its core declared principles, including ‘non-interference’, mutuality and reciprocity, as enshrined in statements dating back to the 1950s? How can it ensure compliance with its international commitments to the SDGs, addressing climate change, and pursuing South-South Cooperation?
2. *For Southeast Asia:* With respect to negotiating or bargaining power between China and the Southeast Asian governments (singularly and also collectively within ASEAN), how can the regional actors gain leverage or countervailing power against the Chinese economic giant?
3. *For the wider international community:* What constructive role should the international community play in contributing to both regional and Chinese interests? In its most simplistic and unhelpful formulation, it might be presented as a stark choice between being competitor or collaborator. However, in practice, it is a complex interweaving of both elements simultaneously, most evidently in emerging trilateral development projects. Triangular cooperation ‘involves Southern-driven partnerships between two or more developing countries supported by a developed country(ies)/or multilateral organization(s) to implement development cooperation programmes and projects’ (UNOSSC, n.d.). China is involved in South-South Cooperation (SSC) in various ways, including through the China South-South Cooperation Network and specific projects such as the Lancang Mekong Sub-regional Cooperation Programme. However, China’s trilateral cooperation work is embryonic, and there is a significant opportunity to scale up its efforts within the context of the 2030 Agenda for Sustainable Development and SDG 17, ‘Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development’ – specifically Targets 17.6 (‘enhance North-South, South-South and triangular regional and international cooperation...’) and 17.9 (‘enhance international support for implementing effective and targeted capacity-building in developing countries’) (UNDESA 2015).

This study examines China’s neighbourhood policy and, within that context, its development approach. China’s specific interests are identified, explained and assessed. In examining these interests, the study seeks to gain a deeper understanding of the economic, political, environmental, cultural and strategic interests at the heart of China’s evolving policies towards Southeast Asia. This, in turn, provides an important new reference point for Southeast Asian policies towards China.

## 2 China's approach to Southeast Asia

### 2.1 China and Southeast Asia

Southeast Asia is of key importance to China for access to critical energy and natural resources. The region is also significant as a potential conduit for the promotion of China's diplomatic influence and for its strategic role as a vital crossroads of sea and land. The countries and peoples of Southeast Asia have traditionally formed an important part of China's trading, cultural and demographic outlook (Stuart-Fox 2003; Tagliacozzo and Chang 2011).

China's main motivation for involvement in Southeast Asia is to further its national economic, political and strategic interests, each of which is important in its own right to Beijing's definition of its core national needs. From the Chinese government's perspective, this is not inconsistent with mutuality and development, and should not be viewed as 'zero-sum'.

In other words, the Chinese government sees China as contributing to both the short-term needs and the sustained long-term development and economic growth of its partners. In the Chinese worldview, its businesses and state assistance bring investment, knowledge, skills, jobs and incomes, as well as access to Chinese corporate value chains and markets. China maintains that this creates invaluable national income and vital human and material capacity for economic and social development (Government of China 2014). The reasons for this stance become evident if we review the economic, political, cultural and strategic dimensions of the Chinese presence in the Southeast Asia region.

#### 2.1.1 Economic relations

China's trade and investment profile in Southeast Asia is already substantial. This is well illustrated if we take a look at trade (Table 2.1) and investment (Table 2.2) between China and the top six of the ten ASEAN economies.

**Table 2.1 Key indicators on ASEAN-China relations (2014): trade**

	US\$bn	Ranking	Imports and exports (US\$bn)	Year-on-year increase over 2013 (%)
ASEAN's investment to China (total in 2014)	6.3	China's investment to ASEAN (total in 2014)	5.88	8.3
China's trade with Malaysia	102.02	1	Imports from China: 46.36 Exports to China: 55.66	3.8
China's trade with Vietnam	83.64	2	Imports from China: 63.74 Exports to China: 19.9	27.7
China's trade with Singapore	79.74	3	Imports from China: 48.91 Exports to China: 30.83	5.0
China's trade with Thailand	72.67	4	Imports from China: 34.29 Exports to China: 38.38	2.0
China's trade with Indonesia	63.58	5	Imports from China: 39.06 Exports to China: 24.52	7.0
China's trade with the Philippines	44.45	6	Imports from China: 23.47 Exports to China: 20.98	16.8

Source: ASEAN-China Centre, based on Statistics of the General Administration of Customs of China, [www.asean-china-center.org/english/2015-04/10/c\\_134140759.htm](http://www.asean-china-center.org/english/2015-04/10/c_134140759.htm) (accessed 15 February 2016).

**Table 2.2 Key indicators on ASEAN-China relations (2014): investment**

	US\$bn		US\$bn
ASEAN-China bilateral investment (total, as at December 2014)	126.95	China's investment to ASEAN (total, as at December 2014)	35.2
ASEAN-China investment (total, January to December 2014)	12.18		
ASEAN's investment to China (total in 2014)	6.3	China's investment to ASEAN (total in 2014)	5.88

Source: ASEAN-China Centre, based on statistics from Ministry of Commerce, [www.asean-china-center.org/english/2015-04/10/c\\_134140759.htm](http://www.asean-china-center.org/english/2015-04/10/c_134140759.htm) (accessed 15 February 2016).

China's economic interest in the Southeast Asia region is quite clear, as it is an important source of raw materials such as timber. Quite apart from illegal timber exports, the legitimate trade has been booming on the back of rising Chinese consumer demand. According to official Vietnamese statistics, wood exports totalled US\$5.37bn in 2013 – a 15.2 per cent increase from 2012. Over the past ten years, the Vietnamese wood industry has expanded rapidly, with an average export growth rate of 15.5 per cent every year. China is one of the principal destinations. This leaves Vietnam caught in a quandary, between the attraction of export-led growth as one of a range of developmental pathways, while producers could not keep up with demand, running out of domestic sources of raw materials and having to import wood at high cost. This added to regional competition for raw timber, inflating prices and costs of production. This in turn had potential implications for comparative advantage, value chain position, market competitiveness and sales volume.

Southeast Asia is also an increasingly critical supply line for oil and gas drawn from the Middle East through the Straits of Hormuz and Malacca, and the Indian Ocean. According to Richardson (2012):

China now imports 55 per cent of its oil consumption, a ratio that is set to increase. Natural gas, the least polluting of fossil fuels, is on a similar trend line. By 2020, China's gas imports by pipeline and sea will make up nearly 33 per cent of demand, up from around 20 per cent now and none in 2006, when China ceased to be self-sufficient in gas.

The region is also increasingly attractive for Chinese manufacturers facing increased competition for labour and, consequentially, rising costs at home (Bloomberg Business 2012). China's labour costs have risen significantly in recent years, by between 15 per cent and 20 per cent annually, forcing some Chinese firms to relocate to Southeast Asia (Qingfen and Quanlin 2012). Some Southeast Asian economies, such as Vietnam, have cheaper labour and production costs and preferential land provision by government (*China Daily* 2012).

Southeast Asia presents a market of more than 600 million people for China's goods and emerging service and financial industries. This is a major draw for Chinese business and investors. But it is the expectations of the market that provide the driving force. For Chinese firms and the phalanx of supporting quasi-governmental financial agencies such as the Export-Import (Exim) Bank, the anticipated growth in the numbers and spending power of Asia's new middle class presents a huge magnet. The Asian Development Bank (ADB) estimates that, by 2030, Asia (East and South) will add 2.5 billion people to the world's middle classes, increasing their spending by 9 per cent each year (Drysedale 2011).

China's economic strategy, the 12th Five-Year Plan (2011–2015), is explicit in seeing China's future growth as coming from a strengthening of the domestic market. This includes the transfer of labour-intensive manufacturing offshore and upgrading of domestic

manufacturing to higher value-added products. In 2012, an unnamed Chinese foreign trade official from the Ministry of Commerce was reported as confirming this trend, stating that 'nearly one-third of Chinese manufacturers of textiles, garments, shoes and hats' were working 'under growing pressure' and had moved all or part of their production outside China in what he called 'the great industry transfer' (cited in Qingfen and Quanlin 2012). Within ASEAN countries, Vietnam, Indonesia and Malaysia were primary destinations for this transfer.

In this scenario, regional development follows on from a Chinese economic engine fuelled by strengthening Chinese consumption. This could give an extra spurt for ASEAN and other East Asian exports and investment opportunities, particularly as the ASEAN Economic Community scheduled for 2015/16 eventually comes into being. It is also supported by the tariff exemptions provided through the China-ASEAN Free Trade Area (CAFTA) set up in 2010 (ASEAN 2014). China also made a commitment to conclude negotiations by 2015 on the Regional Comprehensive Economic Partnership (RCEP) trade liberalisation scheme, which includes ASEAN and the six countries with which it has free trade agreements (Xinhua 2013b). These negotiations are, however, scheduled to roll on through 2016, with three meetings timetabled for the first half of the year (Department of Foreign Affairs and Trade 2015).

The Global Economic Outlook 2015 estimated that real GDP growth would be 3.3 per cent, despite the slowing of the Chinese economy and the financial turbulence caused by the so-called 'Great fall of China'. The Outlook concludes that 'The Asia-Pacific region remains the leader for global growth' and that 'Despite short-term headwinds from the global economy, Southeast Asia will continue to strengthen to become a global production hub', with average GDP growth predicted at 4.3 per cent in 2015, 4.3 per cent for 2015–19, and 3.9 per cent for 2020–25 (The Conference Board 2015).

A brief regional review offers a flavour of China's regional involvement. Across the region, China's ties are generally robust, although political tensions with the Philippines and Vietnam in particular carry some degree of adverse economic impact. China is Indonesia's second largest trading partner, with bilateral trade standing at US\$66.2bn in 2012 – four times that of 2005. Two-way trade in the first half of 2013 hit US\$33.84bn, up 4.6 per cent from the same period in 2012. In Malaysia, the first seven months of 2013 saw bilateral trade total US\$59.72bn – a remarkable 14.9 per cent rise over the previous year. In April 2013, China's leading railway car manufacturer, the China South Locomotive and Rolling Stock Corporation, began construction of its US\$131m ASEAN manufacturing and maintenance centre in Malaysia (Xinhua 2013c).

Premier Li visited Vietnam as part of his October 2013 tour of the region. In 2012, trade between the two countries topped more than US\$41bn, and in the first eight months of that year, bilateral trade stood at US\$31.8bn. By the end of August 2013, China had 934 projects in Vietnam, with a total recorded capital stock of US\$4.79bn, ranking 13th in foreign investment. At the time, there were about 13,500 Vietnamese students studying in China, and around 3,500 Chinese students being trained in Vietnam. The declared shared goal was to increase bilateral trade to US\$60bn by 2015. However, reaching this objective proved problematic due to the 2014 territorial dispute between the two countries, which sparked violence against Chinese firms and workers in Vietnam, and diplomatic clashes. The Chinese government's subsequent decision to ban Chinese state-owned enterprises from bidding for new contracts in Vietnam reinforced the downward spiral in relations. However, according to Vietnam's Transport Minister, speaking in June 2014, there were nine Chinese contractors with 17 projects valued at approximately US\$1.4bn in Vietnam, and most were already more than half completed. The Cat Linh-Hà Đông urban elevated train project was funded by Chinese official development assistance (ODA) (Vietnam.net 2014).

China has been ASEAN's largest trading partner since 2009 and ASEAN has been China's third largest trading partner since 2011. The two-way trade volume reached US\$366.5bn in 2014, representing 4.6 per cent growth on the previous year. Both partners agreed to work towards achieving a US\$500bn two-way trade volume by the end of 2015, pushing further to US\$1tn by 2020 (ASEAN 2015). China's foreign direct investment (FDI) into ASEAN was almost US\$19bn in 2012.

China has also established an infrastructure investment bank to promote greater interconnectivity in the region – the China-ASEAN Investment Cooperation Fund (CAF) – pledging an initial US\$10bn to it. The stated aim is to promote Chinese infrastructure investment throughout Southeast Asia to strengthen connections in roads, railways, water transport, telecommunications and energy. As in Africa, however, there are concerns that China's growing impact will distort local production and trade – a factor compounded, in the eyes of critics, by CAFTA. The recent consolidation of ASEAN and the creation of the ASEAN Economic Community (AEC) present not only an economic opportunity for China, but also a significant political-strategic relationship, one that has been steadily building over a substantial period.

### **2.1.2 Political and cultural relations**

China's political relations with its Southeast Asian neighbours have never been easy; commercial ties have been offset by territorial, ethnic and ideological disputes as well as occasional cross-border or maritime tensions. China's present-day relations with some of the region's states date back to Zhou Enlai's bridge-building at the 1955 Bandung Conference (with Burma (Myanmar), Cambodia, Indonesia, Laos, South Vietnam, Thailand, the Philippines, and the Democratic Republic of Vietnam). The Cold War's ideological competition and the first Indochina war split the region, its countries and peoples, while the Sino-Soviet dispute split the region's Communist parties. Numerous factors contributed to a steady albeit at times still uneasy rapprochement. These included Southeast Asia's post-war economic renaissance, the formation of ASEAN (in 1967), China's dramatic shift to market socialism under Deng Xiaoping after 1979, and the country's subsequent transformation to a global economic powerhouse.

This shift is reified in China's institutional involvement in ASEAN. China has steadily become embedded in the institutional fabric of Southeast Asia. Its diplomatic opening with ASEAN began in the early 1990s, becoming a full Dialogue Partner in 1996. Today's relationship dates back to the signing of the ASEAN-China Strategic Partnership agreement in 2003. The institutionalised architecture is formalised in a series of forums: ASEAN Plus Three (APT), the East Asia Summit (EAS), the ASEAN Regional Forum (ARF), and the ASEAN Defence Ministers Meeting Plus (ADMM Plus). Reciprocal diplomatic missions have been established and the ASEAN-China Centre, set up in 2009, operates in Beijing.

Cooperation has been framed through a series of joint statements, and two Action Plans (covering 2005–10 and 2011–15). There are 11 agreed priority areas for cooperation: agriculture; information and communications technology (ICT); human resource development; Mekong Basin development; investment; energy; transport; culture; public health; tourism; and environment. Economically, the headline event was the establishment of the 2010 ASEAN-China Free Trade Area (CAFTA). Given the territorial disputes in the South China Sea, the flagship yet nonetheless impotent agreement is the Declaration on the Conduct of Parties in the South China Sea, signed in November 2002, with implementation guidelines eventually agreed in July 2011 (ASEAN 2002).

Beyond the formalities, substantial tensions remain. For example, relations between China and the Philippines are still at their lowest point for decades, marked by the relative paucity of Beijing's humanitarian assistance in the wake of typhoon Haiyan and clashes in 2014 over disputed maritime waters. In addition, Sino-Vietnamese relations fell to a new low point in

2014, when the positioning of China's US\$1bn oil rig in contested waters close to the disputed Paracel Islands, accompanied by a flotilla of naval, coastguard and civilian ships, sparked bitter exchanges and led to anti-Chinese riots (Wen 2014; *Daily Telegraph* 2014). A spokeswoman from the Chinese Foreign Ministry used uncharacteristically blunt language to criticise Vietnam: 'On the one hand, they have been increasing their damaging and harassing activities on the scene, while internationally everyone has seen they have been unbridled in starting rumours and spreading slander, unreasonably criticising China' (*Brunei Times* 2014). Such inflammatory rhetoric is unhelpful in promoting constructive dialogue, and only serves to entrench the respective parties in antagonistic positions over the short term. However, the deployment of such rhetoric is a marker in a number of respects: as a reflection of a more assertive China in terms of nationalistic (or 'patriotic') expression speaking to audiences at home; and as a means of signalling Chinese intent to regional audiences.

Culturally, there is one significant factor in China's relationship with Southeast Asia – the ethnic Chinese diaspora and the discrimination, resentment, animosity and violence Chinese communities have experienced over the centuries. In 1947, for example, the number of ethnic Chinese in Southeast Asia was estimated at 7 million or around 5 per cent of the region's population (Vandenbosch 1947). In 1956, there were 10 million ethnic Chinese in the region, and by 2001, the figure had risen to around 20 million, accounting for one-third of the 60 million Chinese people living overseas (BBC News 2001). The most recent estimates suggest the number is around 33 million (Malaysian Chinese News 2014).

Ethnic tensions are prevalent across the region. These include latent anti-Chinese sentiment among local communities who perceive that closed communities of ethnic Chinese have assimilated into their host countries (*huayi*) and businesses, and resent their relative affluence. These tensions flare up periodically; they were evident most recently in anti-Chinese riots in Vietnam in May 2014. After the riots, an estimated 60,000 local workers became jobless, as many foreign-owned factories were forced to close indefinitely (Du 2014). A key consideration here is the Chinese government's increasing willingness to assert its responsibility to ethnic Chinese communities in the Southeast Asian Chinese diaspora and to court such communities (Chang 2013).

### **2.1.3 Strategic relations**

Strategically, for the United States, the region holds difficult memories, based largely on the Indochina war with Vietnam, which drew in Cambodia and Laos. But time moves on, and the United States now has diplomatic relations with these countries and, after decades of treading water, the Obama administration re-prioritised its involvement with the region. The intent behind its renewed regional interest is clear – to reinvigorate its diplomatic presence and alliance relationships, maximise its economic position, and counter Chinese strategic expansion.

This was spelled out by US Assistant Secretary at the Bureau of East Asian and Pacific Affairs, Daniel Russel, who stated in mid-July 2013 that: 'We are in an extraordinary period of growth and prosperity in the Asia Pacific region, and promoting that growth, facilitating it, sustaining it, and harnessing it, frankly, is central to America's economic and strategic interest' (Russel 2013). The US strategy itself received mixed reactions from the Southeast Asian states (Bush 2012). However, this 're-balancing' towards the Asia-Pacific region is widely viewed as a response to the United States' own longstanding interests, the region's economic dynamism, China's growing presence, and the turbulence in its territorial disputes (Campbell and Andrews 2013). These latter tensions were exacerbated when, in January 2014, China unilaterally imposed a new 'maritime identification zone', ostensibly a fishing exclusion zone, which covers 2 million km<sup>2</sup> of the South China Sea and is administered by China's Hainan Province. It provoked an ASEAN Foreign Ministers' statement of concern, citing the breach of international agreements (Asia Pacific Defence Forum 2014); the zone is ignored by transiting US vessels.

## 2.2 China's 'neighbourhood policy'

China is a vast country, but its long and unique history is inextricably intertwined with the countries and peoples of its near neighbours in Southeast Asia. In terms of policy, however, this is a much more recent facet of China's relationships with its neighbouring countries. One may, perhaps tentatively, see the geopolitical, ideological and strategic involvement of Mao Zedong's China in what was then termed in the West 'Indo-China' as based not only on Mao Zedong Thought but also on party and State policy. However, as the reform programme initiated by Deng Xiaoping took hold in China, and with the economic rise of many Southeast Asian countries, the Beijing policy perspective shifted significantly – most notably in relation to the ASEAN project. China's need for investment, production know-how and markets, combined with a stable regional environment, underpinned this cooperative approach.

However, a shifting policy context prompted the Xi leadership, early in its tenure, to focus on stronger relationships with this neighbouring region. That context was marked by: continuing tensions over territorial disputes; popular unease over the corporate behaviour of some Chinese firms; apprehension over the degree to which Southeast Asia's economies were becoming beholden to Chinese interests; the subliminal regional competition emerging between China and the US; and a sense, in Chinese policy circles, that policy towards the region had drifted in recent years.

The declared aim is quite straightforward. Initiating the new approach in October 2013, President Xi (Xinhua 2013d) stated that:

*'We must strive to make our neighbours more friendly in politics, economically more closely tied to us, and we must have deeper security cooperation and closer people-to-people ties'. China's approach would be to treat its neighbours as friends and partners, to make them feel safe and to help them develop. A guiding principle was to be reciprocity and 'identifying convergence points for cooperation; making use of China's advantages in economy, trade, technology, and finance and actively taking part in regional economic cooperation...'* China would strive for a sound neighbouring environment for its own development and seek common development with neighbouring countries. In terms of Southeast Asia, the political rhetoric was strongly in evidence, with President Xi's call for China and ASEAN to build a '*community of common destiny*'.

As noted earlier, this shift in focus has prompted China to launch some concrete initiatives. Two of the three already identified – the MSR and AIIB – form the cornerstone of China's new diplomacy under the leadership of President Xi. Together, they are likely to be critical in reconfiguring the landscape of international relations across a swathe of regions, influencing their development for decades to come.

In China's official public discourse presented through such organs as the Xinhua News Agency (the official press agency of the People's Republic of China (PRC)), these initiatives are held to represent the concrete implementation of the 'Chinese Dream' – the vision articulated by Xi Jinping in November 2012, just months before he formally took office. The Chinese Dream integrates national and personal aspirations, with the twin goals of reclaiming national pride and achieving personal wellbeing. It requires sustained economic growth, greater equality, and an infusion of cultural values to balance materialism (*China Daily* 2015).

This leadership vision links past, present and future together in a narrative that is appealing and easily recognisable to a national Chinese audience (*China Daily* 2015). It is easy to dismiss such discourses, statements and aspirational visions as ephemeral attempts by leaders to put their stamp on history and define their period of office. While this is undoubtedly characteristic of President Xi's 'Chinese Dream', it should be understood as

much more substantial than that. The discourse of history being constructed here carefully builds, as its centrepiece, the long road to economic, political and, most interestingly, now cultural freedom. The Chinese Dream is not only about completing China's revolutionary journey from colonial subservience, along the most arduous of roads, to a China that has truly 'stood up' (in Mao Zedong's 1949 declaration) – not only in terms of revolutionary rhetoric, but emphatically in economic, military and political sovereignty.

It has become almost commonplace to argue that China's political system, led by the 'vanguard' of the people – the Communist Party of China (CPC) – is 'communist' in name only; that the country has relinquished revolutionary political theology to the rapacious materialism of consumerism labelled 'market socialism', and moved to 'nationalism' as the glue holding China together and sustaining the CPC's position. President Xi's 'Dream' and the rhetoric his team have deployed in presidential speeches (in public and behind closed doors) is about marshalling history to meet the needs of the present. President Xi has made considerable efforts to emphasise the importance of Chinese culture to China today and to its future, exerting compatriots to demonstrate more pride in China's culture, civilisation and history. It is also an implicit attack on what is held to be a debilitating materialistic Western cultural threat to China – a reprise of former leader Deng Xiaoping's warnings against 'spiritual pollution' from the West, as China opened up to the world.

All this is highly relevant to China's approach to its 'neighbourhood' and to its role as a new development actor. The new narrative represents a powerful influence on the framing of China's worldview, its foreign policy, and its actions. It takes current analysis to the heart of the debate over 'China rising' – when (not if) it succeeds the US as the most powerful economy in the world, what will it do with this power and how will it manage its international relationships?

This is a classic debate for periods of historical 'shift' in the international system. Is China a 'revolutionary' state, seeking to replace the global system with one after its own image? Is it a 'reformist' state seeking to adjust and rebalance the existing system to account for its own interests? Or is it a 'status quo' state, essentially conforming to the institutionalised norms, rules, principles, and values of the existing system? In essence, is the transition to Chinese economic, political, military and possibly cultural world leadership going to be 'peaceful' (as the Beijing government asserts) or acrimonious, even conflictual?

It may be that China's emerging assertiveness in driving the AIIB, OBOR, BRICS and BRICS New Development Bank, and its 'alternative' approach to the idea and practice of development, is not supplementary, as President Obama has recently claimed over the creation of the AIIB. It may, in fact, be 'revolutionary' in creating an alternative, challenging new institutional architecture driven by a combination of a new Chinese 'patriotic' sense of national identity and consequential definition of national interests on the one hand, and a sophisticated construction of ideational narratives on the other. These include the 2030 Sustainable Development Agenda and SDGs, the Busan Partnership for Effective Development Cooperation, and the Paris agreement on climate change. These are packaged within China's avowed commitment to South-South Cooperation, and attaining a 'harmonious world' – a proposition first advanced by then President Hu Jintao at the 17th National Congress of the Communist Party of China in 2007 (Government of China 2007).

These initiatives are a reflection of China's frustration with what it and the other BRICS members have stated is a failure to reform the existing global economic and political system – one that is structurally weighted in favour of Western states. The AIIB, in particular, is a declaration of intent. For China, it presents new opportunities in terms of demonstrated international leadership and a new avenue through which to extend its influence.



The 'One Belt, One Road' initiative is China's flagship initiative under President Xi. It brings together two separate but interrelated elements: a land-based Silk Road Economic Belt (SREB) and a sea-based twenty-first century Maritime Silk Road (MSR). The initiative was born in September and October 2013 during President Xi's tours of Central Asia and Southeast Asia (Xinhua 2013a). The SREB includes countries situated on the original Silk Road through Central Asia, West Asia, the Middle East and Europe. As noted earlier, the initiative envisages the integration of the region into a cohesive economic area. This will involve investment in infrastructure, widening cultural exchanges, and increasing trade. In addition to this area with its obvious historic roots, SREB also includes South Asia and Southeast Asia. The MSR is intended to complement the SREB by building partnerships and collaborative relations with countries in Southeast Asia, Oceania, and North Africa as the 'Road' traverses the South China Sea, South Pacific and Indian Ocean.

The MSR remained a relatively amorphous idea until 28 March 2015, when China's National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce jointly released an action plan on the principles, framework, and cooperation priorities and mechanisms in the SREB and MSR initiative. On that same day, President Xi emphasised the importance of the strategy in his speech at the opening ceremony of the 2015 annual conference of the Boao Forum for Asia, held in Hainan Province. Earlier in March 2015, in trying to distance the MSR project from traditional approaches, Chinese Foreign Minister Wang Yi argued that it represented: 'the product of inclusive cooperation, not a tool of geopolitics, and must not be viewed with an outdated Cold War mentality' (*China Daily* 2013).

OBOR was underpinned not only by a major round of foreign relations trips to neighbouring countries and reciprocal visits to Beijing, but also a substantial financial commitment (Li 2014). In November 2014, President Xi announced that China would contribute US\$40bn to establish the Silk Road Fund (SRF), to provide investment and financing support for infrastructure, resources, industrial cooperation, financial cooperation and other projects in countries along the 'Belt and Road'.

China's overall investment commitment to these initiatives totals around US\$100bn. In addition to the SRF commitment, this includes US\$50bn to the AIIB, and an additional US\$10bn to the BRICS New Development Bank. In China's view, the SREB and MSR will promote trade and investment between China and the countries along both routes.

According to the McKinsey Global Institute, the projected global need for infrastructure investment between 2015 and 2030 is approximately US\$57.3tn (Dobbs, Pohl, Lin, Mischke, Garemo, Hexter, Matzinger, Palter and Nanavatty 2013). In regard to the Southeast Asian sphere, in September 2014, Li Yao, Chief Executive of the CAF, commented that: 'Without infrastructure no country can achieve sustainable growth... Infrastructure is the key for an economy to achieve efficiency' (*China Daily* 2014). One estimate is that East Asia, including ASEAN, needs an extra US\$600bn in infrastructure investment (*China Daily* 2014).

The AIIB has emerged from an idea first put forward by China in 2013. This led to discussions and the formal launch of the proposal in Beijing in October 2014, with the Articles of Agreement signed in late June 2015. As its title indicates, the purpose of the Bank is to provide much-needed investment in infrastructure capacity building in the Asia-Pacific region. Its establishment is a direct response to the identified critical need for large-scale investment in many Asia-Pacific countries. The Bank also emerged from China's assessment that the heavy dominance of the US and Japan in the ADB, and the lack of progress on reform, meant that an alternative financial institution was needed.

## 2.3 China as a development actor in Southeast Asia

China's growing presence and revised foreign policy approach embodied in its neighbourhood policy raises the question of what is China's development role in Southeast Asia? The principal economic and diplomatic mechanisms with respect to Sino-ASEAN relations are CAFTA, set up in 2010 – an arrangement China has recently proposed should be 'upgraded' to extend the liberalisation of trade and investment (ASEAN-China Centre 2015g) – and the 10+1 and 10+3 dialogue frameworks. Of longer-term potential importance is the proposed Regional Comprehensive Economic Partnership (RCEP), involving 16 countries that account for almost half of the global population and 30 per cent of global GDP (ASEAN-China Centre 2015g). Taken in conjunction with the AIIB and BRICS New Development Bank, the RCEP presents another new substantial alternative grouping in the Asia-Pacific, and a challenge to the US-sponsored Trans-Pacific Partnership (TPP).

In November 2015, Liu Zhenmin, Chinese Vice Foreign Minister, announced at a press briefing on the sidelines of the 27th ASEAN Summit and Related Summits that China was committing US\$560m to underdeveloped ASEAN member states in 2016. Further, China would also offer infrastructure loans totalling US\$10bn to Southeast Asian countries (ASEAN-China Centre 2015a).

The current debate is largely concerned with the character, intentions and impact of China's international development assistance. Clearly, China's emerging role in international development has drawn a large amount of attention and critical evaluation, particularly with respect to Africa. This literature focuses on a wide range of issues, including questions around whether China can be considered as an alternative development 'model' to that of traditional donors. There are also questions around 'conditionality' or 'non-interference' and human rights, and how China's assistance fits within SSC and dialogue.

Not surprisingly, assessments of China's role vary widely. Some are outright in their criticism and cynicism about China's motives and practices (Manji and Marks 2007). Others challenge orthodoxies surrounding the 'emerging' powers (Watson 2014). Others still (Paulo and Reisen 2010) adopt a more balanced position, while there are those that argue that China's role and contribution is positive and constructive (Moyo 2009; Shimomura and Ohasi 2013; Zimmermann and Smith 2011). A recent collection of analyses is *China and International Development: Challenges and Opportunities* (Gu, Zhang, Li and Bloom 2014).

China's role as a major international development actor is, clearly, very recent and its thinking and practice remains very much a work in progress. However, to try to provide some greater understanding of its thinking and approach, the government in Beijing issued its first White Paper on Foreign Aid in April 2011, followed by a second in July 2014 (IOSC 2014). The White Papers provide a basis for understanding China's perspective on international development. According to the 2011 White Paper (Xinhua 2011: 4):

China is the world's largest developing country, with a large population, a poor foundation and uneven economic development. As development remains an arduous and long-standing task, China's foreign aid falls into the category of South-South cooperation and is mutual help between developing countries.

The 2011 White Paper identified five principles that underscore China's understanding and practices of foreign aid: (1) to help recipient countries build up their self-development capacity; (2) to refrain from imposing political conditions on provision of assistance; (3) to adhere to 'equality, mutual benefit and common development'; (4) to remain 'realistic while striving for the best'; and (5) to keep pace with the times, paying attention to reform and innovation.

The 2014 White Paper restated these five principles and added another: ‘keeping promise’, i.e. a reconfirmation of China’s continuing commitment to its international development. Of course, China’s approach has not emerged out of a historical vacuum; it reflects the history and challenges experienced by China through its semi-colonial past and tortuous revolutionary eras through to the present day. It is this experience that China’s diplomatic discourse on development emphasises as a distinctive and differentiating element of shared or common heritage with many developing countries; indeed, this has become the cornerstone of China’s engagement in South-South dialogue (see Chan 2013 for an insightful account). In policy terms, there is much that links today’s thinking and practice to historical antecedents – most notably the Five Principles of Peaceful Coexistence, the Bandung Declaration (and ‘Bandung Spirit’) and the Eight Principles for Economic Aid and Technical Assistance to Other Countries promulgated by China’s former premier Zhou Enlai in 1964.

As a consequence of this, China’s approach is grounded within ‘a wider remit of economic relations’ (Gu *et al.* 2014). In other words, China seeks development partnerships as one component within the wide range of economic cooperation. Despite the complexities and nuances of China’s emerging development discourse and policy framework, five distinct characteristics appear evident:

1. China’s approach to international ‘development’ in the current international system is a learning experience. It is establishing its first Development Studies Centre as well as working with organisations such as the UK Department for International Development (DFID) in the Africa-Britain-China (‘A-B-C’) development initiative, and the OECD’s Development Assistance Committee (OECD-DAC) in defining its approach. The two foreign aid White Papers represent Beijing’s response to international calls for greater clarity and transparency in its approach. The ‘traditional donors’ terms are redefined in China’s political culture. For example, economic development aid is subsumed by the overarching concept of ‘economic cooperation’. This term is intended to account for the whole spectrum of economic and non-economic activity; it includes development aid, loans, technical assistance, and state-sponsored investments.
2. China’s development discourse keeps faith with its foundational guiding principles embedded in the Five Principles of Peaceful Coexistence (1955) and the Eight Principles for Economic Aid and Technical Assistance to Other Countries (1964). As President Xi emphasised in his April 2015 address to the Africa-Asia 60th Anniversary Commemoration Summit in Jakarta, China remains committed to the principles set out by the 1955 Bandung Conference and to advancing them further through inter-regional dialogue (Xinhua 2015). The most controversial of this corpus of foundational principles for China’s current role as a ‘new’ or ‘non-traditional’ donor is that of ‘non-interference’ in the sovereign affairs of other states, including recipient states with questionable human rights and transparency records. The ‘non-interference’ principle is a *sine qua non* of declaratory Chinese foreign and development policies. However, recent research suggests that it may be becoming more malleable than is claimed by the Chinese government and is often conventionally assumed. The Chinese government, it is argued, may be quietly altering its interpretation of this principle and adopting a more ‘creative involvement’ approach based on three elements: respecting sovereignty; consulting on an equal footing; and promoting peace and impartial dialogues (Lu 2012). This would constitute a case-by-case assessment, rather than the current blanket prohibition of actions and statements that may be regarded as interfering in the sovereign affairs of its partners. Grounds for such a shift may be found in the consequence of burgeoning Chinese business activities and numbers of Chinese now living overseas (Duchâtel, Bräuner and Hang 2014: vi). Attacks on Chinese businesses or Chinese communities, such as those in Vietnam in 2014, have simply

- helped define the problem of perceived growing risks to Chinese national assets and peoples (whether they be Chinese citizens or members of long-established ethnic Chinese communities) that has been seen in Africa.
3. Governments working with China as development partners must first commit themselves to Beijing's 'One China' policy, disavowing Taiwan, before assistance will be provided. Cambodia, for example, ended its relationship with Taipei in 2004 and closed its representative office while accepting a sizeable development loan from the mainland.
  4. Related to China's 'non-interference' principle, and equally controversial internationally, China's 'cooperation' is often non-conditional in terms of requisite reforms intended to improve the partner's quality of governance. China is often criticised as 'soft' on its interest rates and repayment schedules and for encouraging a 'binging on debt', thereby working against the best efforts of the traditional donors. Nevertheless, there are still cooperation requirements. These are usually associated with the use of Chinese suppliers and materials, imported Chinese workers and technical expertise.
  5. China has tended to prefer bilateral relationships in its foreign and development policies and practice. But this too is changing, with new drives, first *upwards*, to multilateralism and, second, *downwards* to promote closer 'people-to-people' relations. Under President Xi, China is demonstrating an increased willingness to engage in regional multilateral organisations and processes. In the Southeast Asian context, China's multilateral engagement is both Southeast Asia-specific (the principal driver here clearly being its strengthening relationship with ASEAN) and overlapping with the range of pan-Asia-Pacific agencies, including Asia-Pacific Economic Cooperation (APEC). At the same time, the Chinese government has been actively promoting closer relations between Chinese societal organisations and their counterparts in neighbouring countries. A number of these involve semi-civil (i.e. civil society organisations (CSOs) that operate in the civil domain but remain regulated, approved and monitored by government ministries) bilateral 'friendship associations'. These are, however, lodged within the overarching framework of the Chinese People's Association for Friendship with Foreign Countries (CPAFFC), which since 1954 has been responsible for promoting friendly relations with other countries.

Within this framework, China has also been evolving a more specific 'foreign aid' programme. Around half of the US\$14.41bn that China claims it provided in foreign aid between 2010 and 2012 went to Africa (Xinhua 2014). Its cooperation focuses on infrastructure and technical capacity building through financing, providing goods and materials, project management, construction, sending medical teams and volunteers, offering emergency humanitarian aid, and reducing or exempting the debts of recipient countries. Between 2010 and 2012, China completed 580 such projects across 80 countries, focusing on infrastructure and agriculture.

## **2.4 China and ASEAN development cooperation**

Between 2010 and 2015, China declared a range of development assistance initiatives at the various China-ASEAN Summits. The primary focus was on supporting infrastructure construction. Cambodia, for example, has received significant levels of assistance and Chinese corporate technical involvement. According to Cambodia's Ministry of Mines and Energy, Chinese firms have invested more than US\$1.6bn to build six dams with a combined capacity of 928MW (megawatts) in the country. The most recent, the sixth hydroelectric power facility (the 246MW Tatay River Hydropower Plant) was developed by the China National Heavy Machinery Corporation at a cost of US\$540m under a 42-year build-operate-transfer (BOT) contract with the Cambodian government (ASEAN-China Centre 2015b). October 2015 saw the inauguration of the Cambodia-China Friendship Chroy Changvar II

Bridge (a China-funded bridge across the Tonle Sap River) – the sixth bridge to be built in the country with Chinese aid.

According to Xinhua's press report on the event, 'The 719-metre-long bridge... is designed to ease traffic flow in the capital city of Phnom Penh. It took China Road and Bridge Corporation 37 months to build under a concessional loan of 27.5 million US dollars from the Chinese government' (ASEAN-China Centre 2015d). In late November 2015, the Anhui Foreign Economic Construction Group signed a contract with the Cambodian government to build offices for the leaders of the Cambodian Senate. China has provided grant aid of US\$3.5m to Cambodia for this project (ASEAN-China Centre 2015c).

China is involved with the construction of a large number of infrastructure projects in ASEAN countries. In Indonesia, in July 2015, Chinese officials declared China's intention to expand two-way trade, aiming to increase China's exports to US\$150bn and imports from Indonesia to US\$10m by 2020 (ASEAN-China Centre 2015f).

Although there has been significant Chinese activity in Cambodia, Laos is also attracting Chinese development assistance. August 2015 saw construction begin on a railway linking Yuxi to Mohan, part of the China-Laos international railway. In addition, preparation work for Mengla airport is underway. The railway and airport are expected to be in use by 2020.

However, these transport links need to be understood in the context of China's own economic development aims. In particular, the Chinese government has been driving regional development in China's Yunnan Province, building a new critical mass of economic infrastructure to diversify the country's economic base and promote regional development. The Yunnan hub is critical to this strategy, and the various developmental projects being initiated with Laos and Myanmar are important means by which China can pursue and meet its development goals in Yunnan. In Myanmar, China has financed and built two pipelines carrying gas and oil – traversing the whole of Myanmar from coastal port (also Chinese-financed and built) to the Chinese border – to fuel the new industrial hub in Yunnan. In October 2015, China announced an investment of US\$31.4bn in a pilot economic zone on the border with Laos. The investment is intended to cover more than 240 projects including transportation, education and energy for the Mengla zone in Xishuangbanna Dai Autonomous Prefecture in Yunnan Province, according to the Provincial Development and Reform Commission and the Xishuangbanna government. The 4,500km<sup>2</sup> zone includes an economic development park at Mohan on the border. The zone will focus on agriculture, biological industries, processing, logistics and cultural tourism (ASEAN-China Centre 2015e).

The agriculture sector provides a good example of China's involvement. Beginning in 2010, ASEAN and China have collaborated in this sector through the China-ASEAN Action Plan on Comprehensive Food Productivity Enhancement. Reflecting China's emphasis on technical cooperation and knowledge transfers, it has established 20 experimental research stations for improved crop varieties, with demonstration areas totalling 1 million hectares. It has also built three agricultural technology demonstration centres in ASEAN countries and sent 300 agricultural experts and technicians to provide technical advice and support. It has set up cross-border monitoring stations for animal and plant disease prevention and control, and established a new system for joint prevention and control of cross-border epidemics.

The Chinese government also notes that it has sought to facilitate capacity building in ASEAN. Between 2010 and 2013, China trained more than 5,000 officials and technicians in ASEAN member countries. The training included business conferences and exhibitions, culture and arts, Chinese language, finance and taxation, traditional medicine, control and treatment of infectious diseases, new energy, as well as agriculture. This study has already noted the importance and potential for triangular cooperation. China's 2014 White Paper states that it is 'piloting' trilateral cooperation. China, the United Nations Development

Programme (UNDP) and Cambodia launched a cooperation project to increase cassava exports on the basis of a successful training course on cassava planting techniques.

However, China's support for the agricultural sector is controversial; some have criticised its motives for being less about philanthropy and more about self-interest linked to the Beijing government's definition of its present and future food security. After decades of pursuing a policy of self-sufficiency, China is now a major importer of food (OECD 2013). Chinese agricultural firms have grasped the 'going out' policy firmly in Africa and elsewhere. As in Africa, Chinese firms in ASEAN countries are accused of 'land grabs' to the cost of local farmers.

### 3 Analysis: explaining China's Southeast Asian relations

There are two interrelated debates: over China's *foreign policy* and over its *development policy*. The first centres on the question of whether it is adopting a more assertive, higher-octane approach, fuelled by its evident domestic needs, expanding regional interests and domestic political pressure from advocates of just such an approach. Or do China's policies simply demonstrate Beijing's balancing of what it sees as its legitimate 'rights' with its commitments to regional cooperation, equality, inclusivity and reciprocity. The second debate concerns whether China's approach to development in Southeast Asia is beneficial for or detrimental to the region's economic and political wellbeing.

In terms of the first of these debates, evidence shows that opinion is divided, even within China's elite policy establishment. François Godement's careful evaluation of a 2013 roundtable of Chinese and international experts held at the China Institutes of Contemporary International Relations (CICIR) explains that the presentations 'show that Chinese thought on foreign policy is still divided, with quite a few discordant notes' (Godement 2014: 1).

China's policy and practice in Southeast Asia, as elsewhere, is framed by its political discourse. This emphasises a series of core foreign policy principles. These include Peaceful Development and a Harmonious World (Government of China 2007) and the values of political equality, mutual benefit, 'win-win' cooperation, cultural exchange, and non-interference. Central to this enduring discourse are the Five Principles of Peaceful Coexistence put forward by Premier Zhou Enlai during negotiations with India in December 1953: mutual respect for territorial integrity and sovereignty; mutual non-aggression; non-interference in internal affairs of other states; equality and mutual benefit; and peaceful coexistence. The Asian-African Conference, held in Bandung, Indonesia, in 1955, adopted Ten Principles for Conducting International Relations, which represented a continuation and development of the Five Principles (Ministry of Foreign Affairs n.d.).

China's engagement with Southeast Asia can be explained by six factors:

1. Unease at home and abroad over the sustainability of its economic growth rate and potential knock-on impact on international markets.
2. Domestic political concerns over a perceived drift in China's policy towards the region under the previous leadership of President Hu Jintao – specifically, a failure to recognise the currents of change in the region and the potential for China's position of influence to be weakened.
3. The national priorities and resulting policies of party and State established under President Xi Jinping's leadership.
4. The overall economic strength of ASEAN and the impending establishment of the ASEAN Economic Community.
5. The increased scale of China's economic involvement in the region in recent years.
6. Southeast Asia's return to the forefront of US foreign policy priorities, exemplified by the Obama administration's 'pivot' strategy, which provides an important context of geo-economic, geopolitical and geostrategic competition for China's 'neighbourhood policy'.

## 4 Key findings

1. China's current foreign relations with Southeast Asia have five characteristics: (1) foreign and development policies towards the region are increased priorities for China under President Xi Jinping and Premier Li Keqiang; (2) China's recent approach is much more proactive and innovative, rooted in the new diplomacy of China's 'neighbourhood policy'; (3) this new diplomacy is evident in the MSR and AIIB initiatives; (4) China's approach to international development (or 'foreign aid') is relatively new and still evolving, but differs substantially from traditional donors; (5) all of China's recent endeavours to 'court' Southeast Asia – most clearly demonstrated by its concerted programme of leadership and high-level diplomatic tours in 2013 – have been compromised by territorial disputes and ill-advised ADIZ action.
2. China invests sizeable funding in Southeast Asia's economic development through international development assistance ('foreign aid') to ASEAN and individual states. This includes technical support and funding for infrastructure, social welfare and humanitarian assistance. The wider economic-based approach adopted by China, emphasising trade and investment, offers opportunities for increased national income generation as well as critical access to the value chains operated by Chinese enterprises. However, ensuring that local production bases are not fatally compromised by expanding Chinese corporate presence and onward 'third country' exports is far from simple. Weighing the acceptable boundaries for free-market competition against protective instincts towards local national producers and national interests and priorities is the most pressing policy challenge, and is likely to become even more urgent in the context of the evolving CAFTA and AEC, and the emerging MSR project.
3. Weighted against the potential for a positive Chinese contribution are the negative costs of unresolved territorial disputes, regionally destabilising Chinese unilateralism, and weak Chinese corporate social responsibility (CSR). The territorial disputes are not likely to be resolved in the near future given the tensions of 2014–15 and the limitations posed by potential for loss of face. In the meantime, governments are placing their hopes on negotiating a code of conduct to manage the South China Sea disputes, albeit with growing frustration over a perceived slowness in China's engagement in the negotiating process. China's declaration of the ADIZ merely served to intensify regional antipathy and apprehension. In addition, mounting civil society protests in countries such as Myanmar over alleged Chinese corporate environmental degradation, lack of transparency, minimal knowledge and skills transfers, company secrecy, imported workforces and claims of corruption all represent part of a growing agenda of problems for the Chinese government. China's recent guidelines on CSR are a welcome step along the road but, as simply non-enforceable 'guidelines', do not go far enough; regulatory policies are required for Chinese firms operating internationally.
4. To increase potential gains and minimise possible costs, Southeast Asian governments and ASEAN need to maximise their countervailing bargaining power with China. This can reasonably be undertaken through diversification policies and strategies and, in terms of development policies, placing greater emphasis on triangular cooperation. Evidently enough, ASEAN has a multilateral approach to relations with China, whether this is in terms of attaining a diplomatic resolution to the various territorial disputes its members have with China or in terms of economic development. China's 'new diplomacy' and emerging interest in multilateralism notwithstanding, Beijing still prefers its traditional and comfortable approach of bilateral relations. However, China's approach has to change, not least because of the pressure that comes from both the regional and global dynamics of globalisation – a point recognised in recent leadership comments following the so-called 'Great Fall of



- China's stock market and financial crash in mid-2015. Drawing in development agencies from the OECD-DAC membership, together with China, carries potential benefits for all stakeholders. These include knowledge exchange, shared experiences and, in terms of this particular region, recognition of continuing post-independence relationships of a number of states grounded in their shared former colonial status – for example, those retaining membership of the Commonwealth group of states.
5. China, ASEAN and Southeast Asia's LDCs are well placed to take up the opportunities presented by the post-2015 global development agenda and SDGs to scale up *triangular cooperation* in the region. Two key interconnected meetings in 2015 served to underline the growing importance of triangular cooperation and its emerging centrality to the post-2015 development agenda. The first was the High-level Meeting on South-South and Triangular Cooperation in the Post-2015 Development Agenda: Financing for Development in the South and Technology Transfer, held in May in Dhaka. The second was the High-level Multi-stakeholders Strategy Forum, in late August in Macao, which focused on 'Scaling-up Global Support for South-South and Triangular Cooperation in the Context of the Post-2015 Development Agenda'. Together with the United Nations Outcome Document for the SDGs, the decisions and resulting post-2015 implementation strategies from these meetings hold a pivotal role for Southeast Asia and particularly for China's future approach to development. China's *Foreign Aid White Paper 2014* describes China as presently 'piloting' triangular cooperation. However, as the 19 volumes of successful casework projects collected and collated by UNOSSC and China's continuing collaborative 'A-B-C' triangular development project in Africa testifies, the 'experimental' test phase is, in all probability, now over. It is both timely and opportune for China to revisit its policy portfolio in order to 'scale up' its commitment to, and programme for, triangular cooperation.

## 5 Recommendations

There are five recommendations arising from this report.

1. The Southeast Asian LDCs and ASEAN should actively pursue economic diversification policies and strategies to counterbalance China's growing economic and political presence.
2. The development policies of Southeast Asian countries, ASEAN and China should be harmonised in order to prioritise, promote and facilitate greater trilateral cooperation, involving China within the context of the post-2015 global and regional development agenda and SDGs.
3. Extra value-added for the regional actors can be attained through robust advocacy and facilitation of 'bottom-up' participation of local producers in Chinese 'value chains for development'. Local producers should be brought into the development of policies and operational strategies. This will actively promote greater mainstreaming of grassroots enterprises into Chinese corporate value chains. Regional, national and sub-national actors should work in concert through the 10+1 and 10+3 dialogue processes to facilitate such mainstreaming.
4. The role of civil society in Southeast Asia in contributing to a strengthening of countervailing bargaining power should be actively recognised by governments and regional associations. The example of civil society dialogue and cooperation in Myanmar under the reform process is instructive and encouraging. It demonstrates that coordinated mass popular protest with a high media profile, combined with constructive dialogue with government agencies, can make a difference in increasing pressure for corporate compliance with CSR norms and practices.
5. The Chinese government's development approach can be facilitated by a strengthening of the CSR Guidelines (which are currently voluntary and subject to highly variable compliance within China and internationally) to a mandatory regulatory and monitoring system. Buttressing this would be a Chinese commitment to full implementation of the UN Business and Human Rights principles to which it has recently become a signatory. This recommendation can form a key dialogue stream – for instance, in the ASEAN-China Development Forum process as well as the Silk Road Forum, which brings together representatives from government, business, labour, non-government organisations (NGOs), community-based organisations (CBOs) and the media.

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