A Helping Chinese Hand: Trade and Aid with Southeast Asia

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Introduction

Long applying a carrot and stick approach to winning diplomatic allies in a sometimes ludicrous contest with Taiwan over diplomatic recognition, today China strives to establish itself as a "status quo" player in the international arena. "Softpower" replaces ideological approaches to the world, as in the sponsorship of scores of Confucius Institutes throughout the world, in hosting the Olympic Games, and even through the advent of mass Chinese tourism. "Resource diplomacy," that is the quest to secure natural resources, is emblematic of the scale of China's economic reach. At the same time, China is increasing participation in international peacekeeping missions, notably the dispatch of civilian police to such locations as East Timor, Haiti, and Lebanon. In 2000, China established a peacekeeping training center in Hebei province. China can also be proactive on international issues, as with its leading role in the 6-Party Talks on North Korea nuclear weapons, and its 3 May 2009 call for the establishment of a peacekeeping role in Somalia. While China's "string of pearls" approach to the construction of ports and naval bases across the Bay of Bengal to the Indian Ocean may alarm, the projection of its naval assets to the coast of Africa should not surprise given the international character of the "war" against piracy. In short, with China's accession to WTO and other international fora, alongside its sustained economic growth and its position as the largest owner of foreign reserves in the world, including U.S. debt in the form of treasuries, the nation of over a billion people is carving out a central position in world affairs.

But, by taking on the world, and most notably Southeast Asia as an aid donor, as Brian McCartan outlines, China has ratcheted up. Applying a global view, we observe that, through the China Development Bank, Beijing has extended loans worth over $50 billion to the national oil companies of Russia, Kazakhstan and Brazil, alongside cooperation with Venezuela and Cuba. As a "resource investor," China is careful to lock in long-term supply contracts. Australia also looms large in recent Chinese resource acquisitions. Such an approach differs from China's more controversial policy of investing in oil projects in unstable African states. While Nigeria, Angola, and the Middle East (Iran and Saudi Arabia) supply most of China's oil needs, China's national oil companies have also acquired interests in exploration and production.

So it should not surprise that Chinese economic integration with ASEAN is already a reality. Just as China's aid to the region now surpasses that of the U.S., we are reminded that, even prior to the current recession, Japan has slipped back in the ranks of aid donors. [Though refuted by Tokyo, Japan ranks last among developing countries according to the Washington-based Center for Global Development]. With Japan hobbled by domestic politics in its ability to sign meaningful free trade agreements with the ASEAN countries, trade pacts with China appear more attractive to many nations.

Although China cannot match Japanese investment levels in Southeast Asia reaching

back to the 1960s, Japan will nevertheless be obliged to work harder to maintain its niche as the economic shadow of China looms larger. Japan is also feeling pressure from China's push to use its own currency for trade settlements in Asia and beyond. In response, on 3 May 2009, at a forum in Indonesia, Japan offered to provide 6 trillion yen in loans to financially stricken Asian countries. According to Yuzuru Takano, writing in the Asahi Shimbun (5 May 2009), the measure is "essentially a bid to entrench the yen as the region's benchmark currency at the expense of the Chinese yuan." However, there is reason to be skeptical concerning the political reception of such a move on the part of the ASEAN countries, not to mention the U.S. Geoffrey Gunn

CHIANG MAI - A new investment fund and loan package to help alleviate the impact of the global financial crisis for Association of Southeast Asian Nations (ASEAN) represents the latest overture of China's "soft power" campaign towards the region. Many believe the aid package unveiled in Beijing this month was strategically announced to steal a commercial and diplomatic march over the economically ailing United States.

The aid package includes a US$10 billion investment fund, geared for cooperation in infrastructure construction, energy and natural resources development, and improvements in information and communications. China also announced it would extend a $15 billion line of credit over the next three to five years to needy ASEAN countries. Although the terms were not made public, the loans include preferential terms for $1.7 billion in cooperation projects.

Chinese aid to Southeast Asia

An additional $39.7 million was earmarked for "special aid" to Cambodia, Laos and Myanmar, the 10-member groupings poorest members and closest China allies, to meet "urgent needs". China also announced it would donate $5 million to the China-ASEAN Cooperation Fund and an additional $900,000 to the ASEAN plus China, Japan and South Korea cooperation fund.

Beijing also announced increases in other forms of cooperative aid, including an offer of 2,000 government scholarships and 200 Master's scholarships for public administration students over the next five years from developing ASEAN countries. One thousand agricultural technicians will also have the chance to receive training in China over the next three years. Beijing also donated 300,000 tons of rice to an emergency East Asia reserve intended to boost food security and proposed a China-ASEAN scheme to create high-quality, high-yield crop demonstration farms in ASEAN countries.

The aid package underscores accelerating economic integration. China's trade with 10-member ASEAN has nearly doubled from $105.9 billion in 2004 to $202.5 billion in 2007. Even with the mounting global economic crisis, trade rose 14% last year to US$231.12 billion, making ASEAN China's fourth-largest trading partner. Gao Husheng, China's vice commerce minister, said at a preparatory meeting for the 6th China-ASEAN Expo on April 9 that ASEAN would

likely replace Japan as China's third largest trade partner in the near future.

A proposed China-ASEAN free-trade zone would pave the way for faster trade flows. The last step in those negotiations, the signing of an investment agreement, was expected to be completed on the sidelines of the botched ASEAN summit at Pattaya, Thailand, earlier this month. Once the agreement is signed and implemented as early as 2010, annual bilateral trade volumes are expected to reach $1.2 trillion, according to figures projected in China's state-controlled media.

Chinese Foreign Minister Yang Jiechi unveiled the economic aid package for the region on April 12 during a meeting with ASEAN envoys. On announcing the package, Yang said, "As always, China firmly backs ASEAN integration and community building, and firmly supports ASEAN to play a leading role in regional cooperation."

The proposal was supposed to have been announced by Premier Wen Jiabao at the postponed ASEAN summit, which was disrupted by anti-government protesters who stormed the meeting's venue. Yang went on to call for joint efforts to reach an investment agreement conducive to the establishment of the China-ASEAN free-trade zone.

Friend in need

Economists say China's proposal would potentially give ASEAN nations hard hit by the global economic and financial crisis other emergency funding options beyond the International Monetary Fund or Asian Development Bank. The IMF's rescue packages in the wake of the 1997-98 Asian financial crisis were strongly criticized for measures perceived to favor foreign over local interests. Beijing's recent aid offers are similar and notably more generous than the $4 billion it offered to financially distressed ASEAN states, including Thailand and Indonesia, in the wake of that crisis.

Many remember how China held its fixed rate currency steady while ASEAN countries depreciated their units, allowing several countries to export themselves back to financial health. That marked a difference from Western approaches at the time, which demanded economic and financial reforms that would pave the way for greater foreign participation and ownership in distressed Southeast Asian economies.

Those economic and financial gestures underscored an important policy shift from Beijing's past destabilizing approach towards the region, marked in particular by its past support for communist insurgencies, including the radical Maoist Khmer Rouge in Cambodia and communist guerillas in Thailand. That often confrontational policy was also seen in the 1979 invasion of Vietnam and the conflict with ASEAN states over the ownership of islands in the South China Sea.

While the new measures will go some way towards facilitating a quicker regional recovery from the global economic and financial crisis, some analysts see a more opportunistic side to China's aid announcement. China's soft power campaign has taken the form of increased foreign aid, economic networking, including the establishment of free-trade areas, and cultural transmission to encourage pro-China sentiment in the region.

China's aid to the region, by some reports including a November 2008 estimate from Taiwan's Center for Asia-Pacific Studies, has now surpassed that of the US. For China the benefits of greater integration are as much political as economic. For instance, a rising tide of pro-Chinese sentiment in the region has made it easier for Chinese companies to secure deals for natural gas exploration in Myanmar, land large

scale agriculture projects in the Philippines, and build transportation infrastructure in Thailand and Laos.

It all meshes with China's so-called "going out" policy, which aims to secure natural resources and economic opportunities that serve local development goals. That said, China's foreign aid activities often lack transparency; despite the rising outflows, Beijing still lacks a centralized foreign aid body or a regularized funding schedule. Nor does China publicly disclose data related to foreign aid expenditures. Some aid disbursements more closely resemble foreign direct investment (FDI), while other projects undertaken by companies with strong government ties more closely resemble aid.

Surging assistance

What is clear, however, is that China's foreign aid and government-supported economic projects have grown dramatically in recent years. Research done by the New York University Robert F Wagner Graduate School of Public Service indicates that Chinese assistance to Africa, Latin America and Southeast Asia grew from less than $1 billion in 2002 to $27.5 billion in 2006. The same research shows that sum fell modestly to $25 billion in 2007.

Although the researchers caution that some figures may be inflated, certain pledges and loans may not have been fulfilled and some multi-year projects could have been double-counted, the dramatic increase in aid flows is unmistakable. According to a February 25 Congressional Research Service (CRS) report, many of China's aid operations don't correspond to the usual definition of development assistance and that many of China's economic activities in developing countries are supported by the government.

Many economic investments could be considered aid since "they are secured through bilateral agreements, do not impose real financial risks upon PRC [People's Republic of China] companies involved, or do not result in Chinese ownership of foreign assets", the research said. In Southeast Asia, some analysts suggest that China has become one of the largest sources of economic assistance, even though it is not considered a major regional provider of traditional overseas direct assistance.

Wagner School researchers compiled a list of Chinese aid and related investment projects or offers to ASEAN from 2002-2007 and arrived at a combined total value of $14 billion. They estimated that 43% of that figure went to infrastructure and public works projects, 32% for natural resource extraction or development, 3% to military, humanitarian and technical assistance and the remaining 22% to unspecified activities.

China's assistance and economic interaction with ASEAN has come largely without the political, legal and environmental strings attached to Western country aid. It is also provided comparably faster and without the bureaucratic procedures that major aid donors, multilateral financial institutions and multinational corporations usually require.

The lack of interference in domestic affairs is especially appreciated by ASEAN's more authoritarian regimes, including Myanmar, Laos and Vietnam, and has earned a measure of public appreciation since it appears to be more respectful of national sovereignty than Western donors. China has enhanced its local reputations through various goodwill investments, including outlays for national stadiums, cultural centers and friendship roads and bridges.

These projects are often very publicly announced at regional summit meetings - such as the package planned for the Pattaya summit - and used to project an image of Chinese fraternity with its developing world brethren.

Some analysts perceive China's soft power foray with ASEAN as a struggle for dominance with

the US, which for many years has been strategically linked to ASEAN. They suggest that the balance of power is starting to tilt in China's favor, as it increasingly leverages soft power initiatives into hard power gains. Certain ASEAN nations are known to view China as a useful hedge against US and Japanese influences.

China's improved relations with ASEAN are broadly geared towards providing a security hedge in the event of a conflict with the US. The majority of China's oil and gas imports still pass through the narrow Malacca Straits, a potential strategic chokepoint. With China's ascension in 2003 to the ASEAN Treaty of Amity and Cooperation in 2003, and the US still not a signatory, its not clear what stance ASEAN would take should the US and China ever become engaged in a regional conflict.

To be sure, Southeast Asian opinion is still very much divided over China and its rising influence. The maritime nations of Indonesia, Philippines, Malaysia and Vietnam are known to be uneasy over Chinese intentions, particularly with the recent advances in its naval capabilities and the unresolved claims to the disputed and potentially fuel-rich Spratly Islands.

China has made firmer inroads with the mainland countries of Cambodia, Laos and Myanmar, although even these countries try to balance Chinese influence with other big countries, including the US and India. At the same time, there is deep suspicion and angst over China's opaque plans for building a series of hydroelectric dams on the upper reaches of the Mekong River, which flows through and sustains the livelihoods of large populations in many mainland ASEAN states.

While some ASEAN countries may still be wary of China's rising regional clout, its recent aid proposal will no doubt be warmly welcomed across the region. And as the gathering economic and financial crisis hits the US's and Europe's ability to provide aid and assistance, ASEAN nations will have little choice but to rely more on its increasingly magnanimous northern neighbor.

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