China-ASEAN Economic Co-operation and the Role of Provinces

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ABSTRACT This article attempts to study the rationales and strategies of China’s involvement in sub-regional economic co-operation projects with the countries of the Association of South East Asian Nations (ASEAN), using the Greater Mekong Basin Sub-region and the Pan-Beibu Gulf Area as examples. It analyses China’s diplomatic and economic motivations, as well as the strengths and weaknesses of this involvement. It also examines China’s involvement at the provincial level and, in particular, the motivations, strategies, strengths and limitations on the part of the Guangxi Zhuang Autonomous Region in its participation in the Pan-Beibu Gulf Area project. China considers that its involvement facilitates its articulation of its interests, enhancement of its influence and promotion of multipolarity. Further, it would allow China to maintain a relatively low profile while seeking leadership and reducing external pressures. There are also the considerations of reducing China’s aid commitments and accelerating the development of China’s central and western provinces.

KEY WORDS: Greater Mekong Sub-region, Pan-Beibu Gulf Area, sub-regional economic co-operation, Guangxi, territorial disputes

In the past two decades, China-Association of South East Asian Nations (ASEAN) relations have been a bright spot in China’s foreign policy. Chinese leaders were acutely aware of the widely held perception of a “China threat” in ASEAN countries, and they have been working hard to diffuse such a perception (see Yee and Storey 2002). The perceived “China threat” has evolved through a three-stage process. First, from the 1950s to the early 1970s, Maoist China was eager to export revolution to its Southeast Asian neighbours, based on the “people’s war” model, as part of the Chinese Communist desire to achieve the downfall of Western capitalist imperialism. Second, since the launch of economic reforms and opening to the external world by Deng Xiaoping and his supporters, Beijing has professed that China would pursue an independent foreign policy emphasising peace. This was because the leadership in China needed a peaceful international environment within which to concentrate on its economic development. This was largely credible in the eyes of policy makers in the ASEAN countries, but there was still a serious concern...
that China’s economic rise would eventually push it on to the road of overseas expansion. It was also feared that China’s experience of industrialisation would result in a demand for resources that would be the motivation for expansionism. The controversial naval exercises in the South China Sea and China’s assertiveness in the territorial disputes between 2010 and 2012, for example, highlight that such a concern lingers and can be exacerbated (Valencia 2012). Finally, in the past decade and a half, China as “the international workshop” and “the black hole of foreign investment” has sometimes been seen as developing at the expense of ASEAN; the latter considers that Chinese exports reduce its share in international markets, and investment funds flowing into China reduce those flowing into ASEAN.

The response to these perceptions of threat and economic hegemony from China’s leaders has been to assert that its own development should be an asset rather than a liability to the ASEAN economies. Ideally, China would serve as an engine in support of regional growth; and its imports from ASEAN countries certainly have been rising. China’s expanding middle class would also generate a need for quality agricultural products from ASEAN and offer an increasing number of tourists to the region. In fact, China and most ASEAN countries have become integrated parts of global production chains while they all strive to move to the higher value-added parts of these production chains (International Relations Department and Economic Diplomacy Research Centre 2008).

Despite relatively slow progress and inadequate political will to overcome these obstacles, leaderships in China and ASEAN have dedicated their support for strengthening regional economic co-operation. In October 2000, at the Fourth “ASEAN plus China” summit in Singapore, some ASEAN leaders expressed concerns regarding the economic impact on ASEAN from the impending World Trade Organisation membership of China. To pacify these worries, Chinese leaders proposed to “strengthen trade, build investment links and establish a free trade area (FTA)” (Remin Ribao, October 30, 2002). In the following November, both sides reached a consensus on the establishment of the “China-ASEAN Free Trade Area (CAFTA)” (Xinhua, January 2, 2010). In November 2002, Chinese and ASEAN leaders formally concluded the China-ASEAN Comprehensive Economic Co-operation Framework Agreement that was to establish CAFTA covering Thailand, the Philippines, Indonesia, Singapore, Malaysia and Brunei by 2010, and involving all ten ASEAN members by 2015 (Wang 2008, 245). As observed by Alice Ba (2003, 646), among all the major powers involved in Southeast Asia, China seemed to have been most successful in developing closer ties with the regional countries.

Over the same period, China and some ASEAN countries continued to develop sub-regional economic co-operation projects. In 1992, the Asian Development Bank (ADB) proposed co-operation to develop the so-called Greater Mekong Basin Sub-region (GMS), but China’s involvement was not significant until the end of the previous decade. At the end of March 2008, the third leaders’ meeting on GMS economic co-operation was held in Vientiane and a Leaders’ Declaration was signed, reflecting China’s keen interest and commitment to the project (XinhuaNews Agency, 2008). The month before, the Chinese government formally endorsed the “Guangxi Beibu Gulf Economic Region Development Programme,” indicating that the development programme had become a part of the national development strategy (Renmin Ribao, 2008). The Pan-Beibu Gulf Area (PBGA) is the focus of
another sub-regional economic co-operation project between China and some ASEAN countries.

This article attempts to study the rationales and strategies of China’s involvement in sub-regional economic co-operation projects with ASEAN countries, using the GMS and the PBGA as examples. It analyses China’s diplomatic and economic motivations, as well as the strengths and weaknesses of this involvement. It will also study China’s involvement at the provincial level and, in particular, the motivations, strategies, strengths and limitations on the part of the Guangxi Zhuang Autonomous Region (henceforward Guangxi) in its participation in the PBGA project.

The article is based partly on interviews with China’s provincial experts in Southeast Asian studies. In June 2009, the author visited the provincial academy of social sciences of Guangxi and Yunnan, and interviewed five or six Southeast Asian experts in the two academies, respectively. The interviewees had to heed the central government’s foreign policy line, but they also offered provincial perspectives on sub-regional economic co-operation projects which were designed to some extent to promote local development and whose success has to depend on local initiatives and commitment.1

China’s Foreign Policy Objectives

Reducing External Pressures

The Southeast Asian experts I interviewed argued that, from China’s point of view, it would prefer to take a more active role in regional co-operation initiatives and mechanisms involving ASEAN as the most effective way of laying a foundation for better China-ASEAN relations. But it considers that its more active role may attract resistance from major regional players, especially the USA and Japan. Hence, the Chinese leadership displays an enthusiasm to engage in co-operation to generate so-called win-win situations. It stresses “peace and development” as well as “a harmonious world.” This emphasis on peace and harmony may be based on idealism or pragmatism; but certainly there is an understanding that given China’s current stage of development and its modernisation goal, the country has to avoid conflicts, especially those with the major powers (Cheng 2010, 23–52).

Even so, China’s actions have prompted responses from other powers in the region. In response to the launch of the CAFTA project, Japan immediately signed the ASEAN-Japan Comprehensive Economic Partnership Relations Framework Agreement in 2002. Japan and the USA had already concluded free trade agreements with Singapore in January that year, and they are engaged in negotiating similar agreements with other ASEAN states (Xiong 2005, 60; Armitage and Nye 2007; Chanlett-Avery, Dumbugh, and Cooper 2008). Some of China’s foreign policy experts consider that the major powers in the Asia-Pacific region would try to counter and limit China’s attempts to enhance its influence in the region (a low-key “containment” strategy). While it is difficult to establish a causal relationship, these experts tend to believe that China’s enthusiasm to participate in the GMS and the PBGA sub-regional economic co-operation projects is related to its lack of progress in pursuing further co-operation within the broader Asia-Pacific framework (Wang 2008, 246).
China’s rapid economic growth, the appeal of the “Beijing Consensus” as well as the associated enhancement of its “soft power”\(^2\) and its increasing economic influence among its neighbours make China the most likely challenger of the USA’s global hegemony. After its involvement in the Vietnam War, the USA gradually reduced its commitment to Southeast Asia, but the combat of international terrorism since September 11, 2001 persuaded the then Bush administration to reverse the trend. The core interests of the US government in Southeast Asia is to ensure that the region would not be dominated by another hegemon, and that it would not be excluded from the region by another hegemon or a coalition of other major powers (Vaughn and Morrison 2006).

Some foreign policy experts in China argue that since the 1990s, China has been pursuing a regional policy successfully in terms of reducing US suspicions about its ambitions. In the first place, they argue, the Chinese government has demonstrated its acceptance of pluralistic and overlapping concepts of regionalism, which is in line with the USA’s idea of “open regionalism.” Further, China supports ASEAN’s leading role in the region, which satisfies ASEAN’s core interests without reducing US influence in the region in a significant manner. Finally, the Chinese government has been active in promoting co-operation with ASEAN with a recent emphasis on non-traditional security; but it has refrained from any efforts undermining the US government’s emphasis on the progress of Asia-Pacific Economic Cooperation (APEC) (Sun and Chen 2006, 30). These views, however, may be overly optimistic.

While China’s regional policy has been to avoid clashes over the USA’s fundamental strategic interests, it is probably believed that sub-regional economic co-operation is unlikely to pose any serious challenges to the USA. Hence, Chinese attention to projects at this level offers more room for China’s initiatives as membership of these projects is more flexible, and they do not directly compete with existing free trade areas and economic blocs (Li 2005, 113). The GMS and the PBGA projects allow overlap with other sub-regional and even regional economic co-operation arrangements.

From the perspective of the Chinese government, even though these sub-regional economic co-operation projects are open to the USA, its participation is not always effective and it is understood that the USA will maintain its influence through the advocacy of larger regional organisations. For China, it is felt that, despite the USA’s formidable economic power and international influence, sub-regional economic co-operation projects, which depend much more on geographical proximity and close transport networks, offer considerable opportunities.

Further, while sub-regional projects are mainly economic in orientation, they usually also include non-traditional security co-operation, such as prevention and combat of cross-border crime, campaigns against drug trafficking, and protection of animal and plant diversity, which are all in conformity with mainstream US values but do not involve military or security co-operation. Hence, sub-regional arrangements tend not to be sensitive for the governments of the USA and other Western countries. China also hopes too that this co-operation may spill-over and enhance interdependence in the political and security arenas. For example, in the case of the PBGA project, Guangxi has been active in offering initiatives without attracting any particular suspicions from the USA and Japan.
According to the Chinese experts interviewed, since the early 1990s, China has been quite successful in its approach to ASEAN, upgrading the relationship from “dialogue partners” to a “strategic partnership.” However, there is an awareness that mutual trust is far from strong. These Chinese experts consider that ASEAN countries are concerned about Chinese economic competition, especially as integration continues. Strategically and diplomatically, ASEAN countries want to maintain a regional balance of power among the major powers involved so as to allow them to retain the initiative. China’s rise may threaten this capability on the part of ASEAN, thus weakening its leading role in various regional organisations and co-operation mechanisms. Finally, unresolved territorial disputes between China and some ASEAN countries continue to fester, and the economic dominance of the ethnic Chinese communities in several ASEAN states can sometimes be seen as problematic (Li 2006, 63).

The Chinese experts interviewed consider that the Chinese government hopes that sub-regional economic co-operation projects will contribute to the strengthening of mutual trust. Economically, ASEAN countries, especially the less developed ones, hope to exploit the opportunities generated by China’s growth, but remain worried that China’s investment in natural resources may damage the environment and its manufacturing operations challenge their competitive edge in the export of labour-intensive products. Sub-regional economic co-operation projects, however, limit China’s advantage in terms of economies of scale as only some of its provinces are involved. But they are said to allow China’s neighbours to take part on a more equal basis. For example, in the case of the GMS and PBGA projects, China’s participation is largely limited to the two bordering provincial units of Guangxi and Yunnan. These are relatively backward provinces and their competitiveness is far less threatening in the eyes of the ASEAN countries concerned; certainly the amounts of trade and investment involved would remain limited for a considerable period of time.

China’s foreign policy experts argue that sub-regional economic co-operation has distinct advantages. It is based on border areas where there are already frequent interactions and flows of goods and people, which may lead to conflicts. Hence, economic co-operation in the border areas may help to strengthen mutual understanding, build trust, enhance mutual prosperity and reduce friction. Further, subnational co-operation can broaden the networks of co-operation involving both the public and private sectors. Finally, Chinese leaders consider subnational co-operation involves few concessions in contrast to, for example, state-to-state or regional free trade agreements, allowing China to avoid sensitive sovereignty issues and territorial disputes more easily (Chen 2001, 148, 151).

Strengthening Regional Influence

From a more aggressive point of view, China hopes to use the GMS and PBGA projects to strengthen ties with the ASEAN countries involved and to limit the influence of China’s competitors in the region (Chia and Lee 1993, 225–269). Like the Boao Forum for Asia and the Shanghai Co-operation Organisation (SCO), these projects are considered to be major initiatives meant to strengthen China’s regional influence and the government expects to assume a leadership role in them.
China’s ASEAN relationship tends to be divided into two levels: interactions with advanced countries (such as Singapore) and its links with the less developed member countries (Cambodia, Laos, Myanmar [Burma] and Vietnam – the CLMV Group; Mya 2007, 269–294). China has been offering these states grants and interest-free and low-interest loans as well as support for infrastructural projects (Zhang 2007, 250–268). In addition, Chinese leaders offer the group sub-regional economic co-operation projects including assistance in the building of railways, electricity transmission grids and other infrastructural projects, funding for improving the navigation of the Mekong, unilateral preferential tariff, and the establishment of a US$20 million fund for human resources development and poverty alleviation within the framework of the projects (Xinhuanet, 2005).

In offering support for the CLMV Group, China’s central government considers that the involvement of local governments contributes to the reduction in costs as well as political and economic risks. In this way, the positive benefits of co-operation may spread to the provinces rapidly, while the negative impact would be limited to the subnational level: hence it is an example of “smart power” in the eyes of Chinese academics (Li 2006, 184).

Most foreign policy experts in China consider that the CLMV economies share their strongest complementary relationship with Yunnan and Guangxi provinces because of geographical proximity (see Lu 2006, 16–17). Further, as these provincial governments have been given greater flexibility in dealing with these states, they probably have a better grasp of local circumstances than the distant central government (Shu 2005). The ambassadors to China of the CLMV countries and ADB officials also share this view in their endorsement of the sub-regional projects (Liu 2005).

Until the turn of the century, Japan had been the most important trade partner and source of investment for ASEAN. Now it sees China as a serious competitor. Japan was worried that it might have been left behind with the establishment of CAFTA; the then Japanese Prime Minister Koizumi Shunichiro immediately declared his government’s plan to create a Japan-ASEAN FTA before 2012. In January 2002, during Koizumi’s visit to ASEAN countries, he proposed realising comprehensive economic co-operation leading to a closer economic union (Goh, 2002). Some Chinese scholars bluntly stated that China would find it difficult to tolerate Japan’s unrestrained expansion of influence in Southeast Asia (Wang 2008, 251). Samuel Kim (2004, 51) also considered that China and Japan would engage more directly and actively in competition for regional economic leadership in East Asia, especially in the ASEAN Plus Three process.

Leaders have decided that China has to adopt a soft approach, securing an edge while avoiding open confrontation. Japan’s advantages are obvious: it has been the largest investor in ASEAN, the largest trading partner and the principal source of official development assistance. There is also a strong complementarity between the trade structure of Japan and that of ASEAN. China’s strengths, on the other hand, are less prominent. It has been enjoying impressive economic growth; in the aftermath of the Asian economic crisis of 1997, it behaved as a “responsible major power” and refrained from further devaluing its currency, thus winning more trust in the ASEAN region at that time. China also has geographical advantage over Japan – a long coastal and land border, which means it has many neighbours at different
levels of economic development, implying opportunities for various models of economic co-operation. Border-spanning ethnic groups offer networks of ties based on common ethnicity, language and culture, thus possibly reducing transaction costs in regional economic exchanges. Hence, in the GMS and the PBGA projects, China has strong power projection capabilities and is perceived by its sub-regional partners to be more willing to make economic concessions, while domestic political pressures have prevented Japan from relaxing its protectionist policies in the agricultural sector (Liu 2002, 74). China’s Ministry of Agriculture has also been active in offering training programmes within the GMS framework on the prevention and treatment of animal diseases, the cultivation of marine products, and the development of rural resources and rural information technology. From the beginning of 2004 to the end of 2009, China implemented its “early harvest programme” and reduced its tariffs on agricultural imports from the ASEAN countries (Shang, n.d.). And, the Chinese leadership views slow progress on an FTA covering East Asia as an opportunity for China to catch up with Japan.

The Provincial Approach to Economic Co-operation

The GMS project was initiated by the ADB in 1992, in the context of the restoration of peace in Cambodia and following the end of the co-operation between ASEAN and China in opposing the People’s Republic of Kampuchea government. At the 8th GMS ministerial meeting in 1998, the economic corridor concept was raised, proposing an integration of the construction of transport routes and economic development. Three economic corridors were planned: the North-South Economic Corridor, the East-West Economic Corridor and the Southern Economic Corridor. Interest in the GMS has strengthened in recent years, especially on the part of China, and the construction of transport networks has also been accelerated. In March 2008, the Kunming-Bangkok highway was completed; and it is expected that it will facilitate economic exchanges between China, Laos and Thailand (Bi 2008, 139–140).

The concept of economic corridors has been filtering down to bilateral state-to-state relations and even to the provincial economic plans in China. In May 2004, then Vietnamese Premier Phan Van Khai visited China and proposed the construction of the Nanning-Hanoi Economic Corridor, the Kunming-Haiphong Economic Corridor and the Beibu Gulf Economic Circle as bilateral co-operation projects. Chinese leaders welcomed the proposals and, when Premier Wen Jiabao visited Hanoi the following October, it was stated in the Joint Communiqué released that the two governments would establish expert groups under the Sino-Vietnamese Economic and Trade Co-operation Committee to engage in feasibility studies on these projects. Since then, they have been mentioned in the bilateral high-level meetings, indicating that they have become important agenda items in the economic co-operation between the two countries (Liu 2007, 3).

Vietnam is the largest country within the CLMV Group, and its trade and economic ties with China are considered by China’s experts as likely to help contain territorial and other disputes between the two countries. As both countries need a peaceful international environment to concentrate on economic development, the diplomatic and security spill-over effects of their economic co-operation are
significant. Hence, Sino-Vietnamese economic ties are a significant element in their participation in the GMS project.

The “two economic corridors and one economic circle” proposal in turn attracted much attention in Guangxi Zhuang Autonomous Region bordering Vietnam. Guangxi has held an annual China-ASEAN Expo in its capital Nanning since 2004. In July 2006 at the “PBGA Economic Co-operation Forum” in Nanning, Guangxi Party Secretary Liu Qibao, advocated the “M strategy” for the autonomous region’s external economic co-operation and opening to the outside world. There are two interpretations of this “M Strategy:” in terms of content, it refers to maritime economic co-operation, mainland economic co-operation and the Mekong sub-region economic co-operation. It also refers to “one axis and two wings:” the axis of the Nanning-Singapore Economic Corridor, the GMS economic co-operation project west of the axis, and the PBGA economic co-operation project east of the axis (Liu 2007, 3). This article will use Guangxi as a detailed case study and an important provincial participant in the GMS project.

There are different perspectives and foci between China’s participation in the GMS and PBGA projects, Vietnam’s “two economic corridors and one economic circle” proposal, and Guangxi’s “one axis, two wings” strategy. The differences arise from different positions and interests (Wong 2010, 67–72). China has broad foreign policy objectives of reducing external pressures and strengthening regional influence in the context of pursuing the influence and status of a major power while maintaining a peaceful international environment to concentrate on its modernisation (Chen 2004, 57). Vietnam focuses more on bilateral economic co-operation with an emphasis on accelerating economic growth in its less developed northern and central provinces. Leaders in Hanoi try to achieve the latter objective through its taxation policy too. While Vietnam’s normal corporate tax rate is 28%, it is reduced to 20% in regions with difficult economic and social conditions, and is further reduced to 15% in regions with especially difficult economic and social conditions. The regions with corporate tax concessions are located mainly in the Red River Basin, and the northeastern, northwestern and central provinces (Wu 2008, 66–68). China’s investment in the past decade concentrated mainly in northern Vietnam, while 60% of Taiwan’s investment concentrated in the south, centred on Ho Chi Minh City; it is expected that more Chinese investment will go to southern Vietnam (Deng 2008, 34; Wu 2008, 68). Strong Sino-Vietnamese economic ties serve to promote mutual trust and contain territorial disputes. Guangxi’s rationale is simple, it wants to enhance economic growth and catch up with its rich coastal neighbours like Guangdong.

Guangxi’s Positioning in Sub-regional Economic Co-operation

Guangxi is a less developed province in China. When Liu Qibao advocated the “M Strategy” in 2006, its development ranking was 22 among China’s 31 provinces. Its per capita GDP was 10,296 yuan, compared with the national average of 16,084 yuan and 28,332 yuan in Guangdong (Zhu 2008, 350–351). From 1992, Guangxi’s western neighbour, Yunnan, was already participating in the GMS project, while Guangxi had to wait until the end of 2004 before it had Beijing’s endorsement to do so. In February 2008, the central government also approved the Guangxi Beibu Gulf
Economic District (GBGED) Development Programme; the GBDGED is China’s first important international economic co-operation district (Liu 2008, 28–29). In July 2008, representatives from Brunei, China, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam and the ADB met in Beihai in Guangxi and established a Pan-Beibu Gulf Economic Co-operation Joint Experts Group. In the Experts Group’s first meeting, it discussed its Work Plan and the guidelines for its preparation of a feasibility study report on Pan-Beibu Gulf economic co-operation (Gu 2008b, 11).

Beijing’s strong support for Guangxi in recent years is related to its keen interest in the promotion of sub-regional economic co-operation with ASEAN countries and its desire to accelerate economic growth in central and western China. At the same time, the Guangxi leadership has positioned its economic development strategy in line with China’s regional and sub-regional economic co-operation objectives. Guangxi claims that it could assume an important role in China-ASEAN co-operation in view of the two parties’ strategic partnership agreement signed in 2002 and the conclusion of their Comprehensive Economic Co-operation Framework Agreement in the same year, leading to the CAFTA. With the emphasis on transport networks in regional and sub-regional economic integration, Guangxi exploits the axis of the Nanning-Singapore economic corridor through highways and railway lines, extending the Nanning-Hanoi economic corridor in the Vietnamese “two economic corridors and one economic circle” proposal southwards passing through Laos, Cambodia to Thailand and then further southwards to Malaysia and Singapore.

Guangxi’s east wing, the GBGED, intends to converge with the Beibu Gulf Economic Circle proposal of Vietnam and involve the maritime states of Thailand, Malaysia, Singapore, Indonesia, the Philippines and Brunei, exploiting Guangxi’s port facilities at Fangcheng, Qinzhou and Beihai in support of the development of trade and logistics. Guangxi also wants to participate in the GMS project, and it considers the project as its west wing in approaching Indochina and the countries around the Bay of Bengal.

Guangxi trumpets its geographical location: it borders Vietnam; it is only about 170 km from the provincial capital Nanning to the Friendship Gate border and then 150 km or so to Hanoi. Nanning joins the border city Pingxiang by railway where it is linked to Vietnam’s north-south railway trunk line and then connected to the pan-Asian railway system to Singapore. It is hoped that the 418 km Nanning-Hanoi railway will eventually become a busy line; Nanning in turn has railway lines joining the neighbouring south-western provinces of Yunnan, Guizhou and Sichuan as well as Hunan to the north and Guangdong to the east.

Similarly Nanning has a highway linking it to Guangzhou (provincial capital of Guangdong) and then to Hong Kong; Beihai is linked to Chengdu (provincial capital of Sichuan) by another highway passing through Guizhou and the municipality of Chongqing; Nanning is also linked to Kunming by highway; and the Guilin-Liuzhou highway connects Guangxi and Hunan. Nanning has highways linking the port cities of Fangcheng and Qinzhou; and the Nanning-Pingxiang highway joins the No. 1 North-South Highway in Vietnam passing through the border town of Mong Cai and the port city of Haiphong. This highway network then converges with those of Laos, Cambodia and Thailand, and leads to Burma, Malaysia and Singapore.
Guangxi has major plans to improve its port facilities in Fangcheng, Qinzhong and Beihai, and the airport facilities in Nanning, Guilin and Beihai (Gu 2008b, 11).

Guangxi has numerous ethnic groups, and some of them may be located in neighbouring countries, including Vietnam. These ethnic commonalities are seen in Guangxi as a positive factor contributing to Sino-Vietnamese border trade; their significance, however, will decline in the long term as economic exchanges expand. Moreover, these linkages also serve as assets for Guangxi's tertiary institutions to develop language specialisations and attract foreign students from neighbouring countries. Co-operation in education will, in turn, strengthen Guangxi's ties with these countries.

Guangxi, ASEAN and Vietnam

Trade development in the past decade has provided solid ground for optimism on the part of the Guangxi authorities, and the central government too has adequate justification for granting Guangxi preferential policies, especially in comparison with Yunnan. Tables 1 and 2 show the rapid growth in trade between China and the ASEAN countries and between Guangxi and these countries. It shows that the trade expansion between China and the CLMV countries, with the exception of Burma, is even more impressive. It is noteworthy that China enjoys an expanding surplus in its trade with the CLMV countries, but suffers a consistent trade deficit in its trade with the entire ASEAN group. Trade deficits may become a friction in relations with China, especially Vietnam.

Table 2 reveals that trade between Guangxi and ASEAN and that between Guangxi and Vietnam since 2001 have been expanding faster than the national rates. In comparison with Guangdong, the export engine of China, for Guangxi, Vietnam and ASEAN are much more important trade partners. This demonstrates that sub-regional economic co-operation between China and ASEAN has contributed to the development of the less developed southwestern China region. As shown in Table 2, Guangxi, which has been much more active than Yunnan in promoting trade with ASEAN and Vietnam in the recent decade or so, has been rewarded for its efforts. In 2001, trade between Guangxi and ASEAN was only 57.7% of that between Yunnan and ASEAN; but, in 2010, the ratio became 142.6%. Similarly, in 2001, trade between Guangxi and Vietnam was 1.79 times that between Yunnan and Vietnam; but, in 2010, the ratio expanded to 5.4 times. Meanwhile, Yunnan’s trade with ASEAN has still been growing at a highly satisfactory rate, though Vietnam is less an important market to Yunnan when compared with Guangxi. In 2010, trade with Vietnam was 23.52% of Guangxi’s total trade, but only 6.72% of Yunnan’s total; the latter has obviously developed other ASEAN countries as its major trade partners because ASEAN as a group is equally important as trade partners to both provincial units (30.02 and 28.79% of Guangxi and Yunnan’s respective total trade in 2010).

Economists and policy makers want a division of labour to develop among China’s provinces in developing export markets in accordance with their “comparative advantages.” Though Guangdong’s trade is over one-quarter of the country’s total and ASEAN is the third largest trading partner of China after the European Union and the USA in 2011, trade with ASEAN is only 8–9% of
<table>
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<th>China and Cambodia Total trade</th>
<th>China's trade surplus/deficit</th>
<th>China and Laos Total trade</th>
<th>China's trade surplus/deficit</th>
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<td>662.71</td>
<td>218.36</td>
<td>119.07</td>
<td>1,460.07</td>
<td>954.77</td>
<td>9,950.54</td>
<td>4,978.72</td>
</tr>
<tr>
<td>2007</td>
<td>202,548.27</td>
<td>-14,190.44</td>
<td>932.81</td>
<td>830.64</td>
<td>262.44</td>
<td>92.38</td>
<td>2,062.04</td>
<td>1,319.92</td>
<td>15,117.46</td>
<td>8,685.54</td>
</tr>
<tr>
<td>2008</td>
<td>231,219.70</td>
<td>-2,686.15</td>
<td>1,134.37</td>
<td>1,056.71</td>
<td>402.37</td>
<td>133.85</td>
<td>2,625.32</td>
<td>1,330.22</td>
<td>19,458.45</td>
<td>10,785.81</td>
</tr>
<tr>
<td>2009</td>
<td>217,185.40</td>
<td>-15,003.3</td>
<td>944.15</td>
<td>870.37</td>
<td>751.80</td>
<td>2.54</td>
<td>2,900.12</td>
<td>1,607.86</td>
<td>21,045.18</td>
<td>11,550.12</td>
</tr>
<tr>
<td>2010</td>
<td>232,013.2</td>
<td>-6,013.60</td>
<td>1,440.97</td>
<td>1,253.71</td>
<td>1,085.12</td>
<td>-118.87</td>
<td>4,442.07</td>
<td>2,508.97</td>
<td>30,086.08</td>
<td>16,117.00</td>
</tr>
</tbody>
</table>

Vietnam joined ASEAN on July 28, 1995; Lao PDR and Burma on July 23, 1997; and Cambodia on April 30, 1999.

Table 2. China’s provincial trade with ASEAN and Vietnam, 1991–2010 (US$ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Guangxi and ASEAN</th>
<th>Guangxi and Vietnam</th>
<th>Yunnan and ASEAN</th>
<th>Yunnan and Vietnam</th>
<th>Guangdong and ASEAN</th>
<th>Guangdong and Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Trade amount</td>
<td>As a % of Guangxi’s total trade</td>
<td>Trade amount</td>
<td>As a % of Guangxi’s total trade</td>
<td>Trade amount</td>
<td>As a % of Yunnan’s total trade</td>
</tr>
<tr>
<td>1991</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>0.35&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.06&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>1996</td>
<td>–</td>
<td>–</td>
<td>442.63</td>
<td>15.80</td>
<td>14.95&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.77&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>2001</td>
<td>408.88</td>
<td>22.75</td>
<td>287.75</td>
<td>16.01</td>
<td>708.54</td>
<td>35.62</td>
</tr>
<tr>
<td>2002</td>
<td>623.13&lt;sup&gt;b&lt;/sup&gt;</td>
<td>25.64&lt;sup&gt;b&lt;/sup&gt;</td>
<td>486.07</td>
<td>20.00</td>
<td>822.44</td>
<td>36.94</td>
</tr>
<tr>
<td>2003</td>
<td>821.74&lt;sup&gt;b&lt;/sup&gt;</td>
<td>25.75&lt;sup&gt;b&lt;/sup&gt;</td>
<td>665.55</td>
<td>20.85</td>
<td>1,021.17</td>
<td>38.28</td>
</tr>
<tr>
<td>2004</td>
<td>995.72&lt;sup&gt;b&lt;/sup&gt;</td>
<td>23.22&lt;sup&gt;b&lt;/sup&gt;</td>
<td>752.52</td>
<td>17.55</td>
<td>1,268.47</td>
<td>33.89</td>
</tr>
<tr>
<td>2005</td>
<td>1,224.04</td>
<td>23.62</td>
<td>987.41</td>
<td>19.05</td>
<td>1,556.87</td>
<td>32.86</td>
</tr>
<tr>
<td>2006</td>
<td>1,826.69</td>
<td>27.37</td>
<td>1,466.86</td>
<td>21.98</td>
<td>2,174.54</td>
<td>34.89</td>
</tr>
<tr>
<td>2007</td>
<td>2,908.46</td>
<td>31.35</td>
<td>2,377.22</td>
<td>25.62</td>
<td>2,978.80</td>
<td>33.93</td>
</tr>
<tr>
<td>2008</td>
<td>3,987.54</td>
<td>30.02</td>
<td>3,123.93</td>
<td>23.52</td>
<td>2,763.82</td>
<td>28.79</td>
</tr>
<tr>
<td>2009</td>
<td>4,943.62</td>
<td>34.70</td>
<td>3,984.57</td>
<td>27.97&lt;sup&gt;&amp;&lt;/sup&gt; &amp;</td>
<td>3,151.29</td>
<td>39.30</td>
</tr>
<tr>
<td>2010</td>
<td>6,525.59</td>
<td>36.86</td>
<td>5,128.15</td>
<td>28.96</td>
<td>4,575.45</td>
<td>34.22</td>
</tr>
</tbody>
</table>

<sup>a</sup>Figures for 1991 include only trade with Thailand, Malaysia, Singapore and Indonesia. Figures for 1997 have been used instead of those in 1996, and they include only Vietnam, Thailand, Malaysia and Singapore.

<sup>b</sup>Figures for 2002–04 include only trade with Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam; figures for 2001 include only Indonesia, Malaysia, Singapore, Thailand and Vietnam; and data for Singapore are available only for 1991 and 1996.

Guangdong’s total. Hence, Chinese experts hope that other provinces may concentrate more in developing the ASEAN market, with Guangxi focused on Vietnam, Yunnan on Thailand, and so on.

Table 3 shows that Guangxi’s trade with Vietnam has expanded significantly since 2001, and has generally managed a substantial trade surplus. This surplus provides foreign exchange for industrial upgrading and the development of Guangxi’s enterprises and funds investment in Vietnam. It is significant that exports of mechanical and electrical machinery constituted one-third of Guangxi’s exports to Vietnam in the 2003–06 period (the years when statistics are available). Guangxi’s machinery plants are not the most advanced in China, but geographical proximity and price competitiveness enable the development of export markets in Vietnam.

### Challenges in China-ASEAN Sub-regional Co-operation

China’s sub-regional approach is intended to reduce external pressures on China from the USA and Japan seeking to contain China’s influence in the region. It is acknowledged that any strengthening of China’s regional influence depends a lot on the responses of these countries. There is an increasingly strong awareness in these countries that China’s rise challenges the status quo and the US hegemony. According to Kindleberger (1973, 28), the existence of a hegemon will contribute to the stability of the international system and even its economic prosperity and interdependence. The USA will likely attempt to “contain” China, together with its formal Asian allies and other countries, like India, which share a “China threat” perception (Callahan 2005, 701–704). At the same time, they will try to persuade China to follow the existing international norms and exert pressure on issues ranging from trade surpluses and yuan revaluation, to intellectual property rights (Segal 2000, 262–265). Hence, China’s efforts to enhance its influence in the Asia-Pacific

### Table 3. Guangxi’s trade with and exports of mechanical and electrical machinery to Vietnam, 2001–11 (US$ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total trade</th>
<th>Imports</th>
<th>Exports (B)</th>
<th>Trade surplus/deficit</th>
<th>Exports of mechanical and electrical machinery (A)</th>
<th>A/B in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>287.75</td>
<td>115.91</td>
<td>171.84</td>
<td>55.93</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>2002</td>
<td>486.07</td>
<td>145.49</td>
<td>340.58</td>
<td>195.09</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>2003</td>
<td>665.55</td>
<td>225.39</td>
<td>440.16</td>
<td>214.77</td>
<td>153</td>
<td>34.76</td>
</tr>
<tr>
<td>2004</td>
<td>752.52</td>
<td>298.15</td>
<td>454.37</td>
<td>156.22</td>
<td>147</td>
<td>32.35</td>
</tr>
<tr>
<td>2005</td>
<td>987.41</td>
<td>343.54</td>
<td>643.88</td>
<td>300.34</td>
<td>227</td>
<td>35.26</td>
</tr>
<tr>
<td>2006</td>
<td>1,466.86</td>
<td>717.12</td>
<td>749.74</td>
<td>32.62</td>
<td>266</td>
<td>35.48</td>
</tr>
<tr>
<td>2007</td>
<td>2,377.22</td>
<td>953.48</td>
<td>1,423.74</td>
<td>470.26</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>2008</td>
<td>3,123.93</td>
<td>856.85</td>
<td>2,267.08</td>
<td>1,410.23</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>2009</td>
<td>3,984.00</td>
<td>886.43</td>
<td>3,097.57</td>
<td>2,211.14</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>2011</td>
<td>5,128.15</td>
<td>1,049.35</td>
<td>4,078.80</td>
<td>3,029.45</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

region will be handicapped by resistance from the USA, as seen in the Obama administration’s “return to Asia” (Hadley 2012; see also Wanandi 2004, 38–40).

Japan also sees China’s rise as a challenge to its leadership in Asia. Since the turn of the century, USA-Japan security co-operation has been strengthened while Sino-Japanese relations have been a weak link in China’s diplomacy (see Boyd 2005). In January 2008, Japan invited the foreign ministers of the five Mekong-region countries to Tokyo for the first Mekong-Japan foreign ministers meeting (Ministry of Foreign Affairs of Japan 2008). The absence of China illustrates Tokyo’s intention to compete with Beijing for influence in the GMS and the Japanese leadership’s intention to maintain its established influence in the region. In June 2008, Japan ratified its economic partnership agreement with ASEAN; presumably as Japan’s means of balancing the CAFTA. The lack of mutual trust between China and Japan is probably the most significant factor adversely affecting economic integration in East Asia (Boyd 2005: 277–286). Interestingly, the resistance to China’s growing regional influence by the USA and Japan has been supported by several Southeast Asian governments, which appear to prefer a hedging strategy in view of lingering suspicions about China’s intentions (see Goh 2005; Sokolsky, Rabasa, and Neu 2001).

In 2010, China felt the pressure acutely as its expanding naval strength and assertiveness in territorial disputes aroused concern. Its relations with Japan and the USA deteriorated, and the ASEAN countries’ hedging strategy became more prominent. In early June 2010, at the informal annual Shangri-La Dialogue in Singapore, there were open verbal clashes between the Chinese and the American delegates over the Korea and Taiwan situations, leading to a postponement of the planned visit to China by US Defence Secretary Robert Gates (Huang 2010, 12–14).

In July 2010, at the foreign ministerial meeting of the ASEAN Regional Forum in Hanoi, US Secretary of State Hillary Clinton declared that US national interests were involved in the South China Sea, while the Chinese Foreign Minister Yang Jiechi maintained China’s position of rejecting external involvement in regional affairs. In a parallel meeting with Vietnamese Vice-Premier and Foreign Minister, Pham Gia Khiem, Japanese Foreign Minister Katsuya Okada also indicated Japanese concerns about the South China Sea question (Ming Pao, July 5 and 28, 2010). Meanwhile, in response to a US-Vietnamese naval exercise involving the aircraft carrier USS George Washington, China’s North Sea, East Sea and South Sea fleets conducted a large-scale exercise in the South China Sea (Ming Pao, July 30, 2010; and BBC, August 10, 2010). These developments demonstrate that China’s increasing strategic influence in Southeast Asia is not perceived as benign by other states in the region.

These confrontational naval exercises have become more regular. The Hanoi government has accused China of harassing PetroVietnam oil survey ships in Vietnam’s Exclusive Economic Zone. In 2011, it was said that Chinese vessels twice deliberately severed the cables of a Vietnamese survey ship (Glaser 2012). The incidents provoked demonstrations at China’s Embassy in Hanoi and at the Ho Chi Minh City Consulate-General. Hanoi soon permitted port calls by US naval ships (The Straits Times [Singapore], August 31, 2012). In June 2012, US Defence Secretary Leon Panetta visited Hanoi, symbolising a new tilt towards the USA in Vietnam’s hedging strategy.
Even so, Vietnam understands that it has to maintain a balancing act. In the escalation of tension, Hu Jintao and Nguyen Phu Trong, top Party leaders in China and Vietnam, signed the “Agreement on Basic Principles concerning the guidance for the Resolution of Sino-Vietnamese South China Sea Issues” in October 2011. They also agreed to establish a hotline to resolve crises and semi-annual talks to discuss their maritime disputes (McCornac 2011).

The US-South Korea naval exercise (with Japan participating as an observer) and that of China in the Sea of Japan/Yellow Sea in the summer of 2010 symbolised the potential security conflicts and rising tensions in Northeast Asia (Hong Kong Economic Times, July 24, 2010; Ming Pao, July 26, 2010; and China Daily (Beijing), July 31, 2010). This potential was again demonstrated for Sino-Japanese relations in 2010. The detention of a Chinese fishing boat and its crew by the Japanese authorities after its bumping on to a Japanese Coast Guard vessel in the Exclusive Economic Zone of the disputed Diaoyutai/Senkaku Islands caused uproar among nationalists in both countries. The territorial dispute reached a new peak in mid-2012 over the Japanese government’s formal purchase of the islands from a private citizen to whom it had previously paid “rent.” Neither Beijing nor Tokyo could be seen to be “weak” as they pandered to nationalists in both countries. These incidents exacerbated distrust and the difficulties of resolving the territorial and associated resources disputes through negotiations. There have been further military exercises in recent years. These developments in Northeast Asia have spill-over impacts in Southeast Asia as the USA and Japan are more concerned with the “containment” of China’s expanding influence in the Asia-Pacific region and they believe that their efforts are welcomed in Southeast Asia.

China is implementing an anti-hegemony regional diplomacy designed to shape a regional security environment where the US alliance system will no longer be relevant or necessary (Xiao 2009, 22–23). An important element of this diplomacy has been to reassure China’s neighbours of its constructive regional role and the value of their economic ties. An opinion survey conducted in July and August 2003 by the US State Department’s Office of Research and Intelligence revealed that China’s image had significantly improved in Japan, South Korea and Australia. A majority of those polled – 54% in Japan, 68% in South Korea and 67% in Australia – had an overall favourable opinion of China (Garrison 2005). Another poll by the BBC in March 2005 reported that 22 countries across continents believed that China was playing a more constructive role in international affairs than the USA (Walker 2011). In short, the above indicates that China’s charm offensive in East Asia had made considerable progress until 2010 or so. But the Bush administration in its second term already allocated more resources to project US soft power, and China now expects much keener competition from the Obama administration which has been working hard to “return to Asia” (Qin 2011, 306).

Nye (2005) offered an assessment of the weaknesses of China’s “soft power” appeal as follows:

China does not have cultural industries like Hollywood, and its universities are not yet the equal of US higher educational institutions. It lacks the many non-governmental organisations that generate much of America’s soft power. Politically, China suffers from corruption, inequality, lack of democracy,
human rights, and the rule of law [problems]. While that may make the Beijing consensus attractive in authoritarian and semi-authoritarian developing countries, it undercuts China’s soft power in the West.

One may easily lengthen the list. While the inadequacies of China’s “soft power” are considerable, the issue of sovereignty in international co-operation in natural disaster relief posed a serious challenge for the Chinese leadership, with implications for China’s relations with Southeast Asian countries. The devastation of Cyclone Nargis which struck Burma in early May 2008 was a good example. Under what circumstances would China accept that human security, which the international community has increasingly adopted as the norm for its actions in recent years, takes precedence over traditional security based on national sovereignty? In the Burma case, China, Russia, South Africa and Vietnam opposed the Responsibility to Protect doctrine and the United Nations Security Council intervention to deliver relief supplies to stricken areas in Burma without the consent of its government (Dieter 2009, 73–90). In the foreseeable future, China’s strong defence of the traditional concept of sovereignty and its veto in the United Nations Security Council would continue to serve as assets in Beijing’s approach to the CLMV Group of countries as any of the latter seek to resist pressure from Western countries in international organisations pushing enhanced liberal values and standards.

Beijing’s approach also has a demonstration effect. Its long support for Burma’s military junta and refusal to exert pressure on it regarding human rights issues have been followed by India and, to a lesser extent, Japan as well. They have been influenced mainly by the consideration to maintain their respective influences in Burma so as to “contain” China (Steinberg and Fan 2012; Du Boucher 2012). But China’s position has strengthened that of the ASEAN states which choose to uphold the “non-interference in domestic affairs” line. Burma’s recent opening to the West implies that the attempts to “contain” China’s influence in the country would be stepped up, as reflected in new aid programmes to Burma by the European Union and the USA, and the Burma visit of President Barack Obama in November 2012.

China’s perceived rapaciousness in terms of “resource diplomacy” and its pursuit of economic security today represent another challenge. They are reminiscent of Japan’s policy in Southeast Asia in the 1960s and early 1970s. When Prime Minister Tanaka Kakuei visited Southeast Asia in 1974, he encountered massive protests; this taught the Japanese leadership a lesson and Prime Minister Fukuda Takeo returned in 1977 with the proposal for “heart to heart diplomacy” (The Japan Times, 2002). However, unlike Japan, the People’s Republic of China has strongly identified itself with the Third World, and this remains an important theme of Chinese foreign policy.

Rhetoric alone is inadequate. There are already complaints in the GMS and by international non-governmental organisations. The World Wide Fund for Nature based in Switzerland observed that the “New City Development Project” in Luang Namtha province in Laos would damage the marshland in the area and bring about more floods and other environmental damages (see Biba 2012). In Cambodia, environmentalists and local residents are condemning China’s hydro-electric power projects there. Residents near the development sites perceived the projects as unnecessary; they told Western journalists that they did not want to see their
ancestral lands “stolen” by the projects. The International Rivers Network in the USA criticised the dam projects as “poorly conceived . . . needlessly and irreparably damaging Cambodia’s river system with serious consequences” (Lim 2009, 46).

Competition for water resources can become a serious problem between China and the mainland Southeast Asian countries. In March 2010, while south western China was suffering from one of the worst droughts in the past century, the water level of the Mekong River also fell to a 50-year low. Thailand, Vietnam, Laos and Cambodia jointly complained to China against its dam-construction projects in the Lancang River, which is the upstream segment of the Mekong within China. The Chinese authorities rejected the complaint and refused to release water from the upstream reservoirs, though they agreed to attend a meeting to discuss the issues (Fuller 2010).

The Lower Mekong Initiative launched in July 2009 is a good example of the Obama administration’s efforts to restore US influence in the region and the type of competition that China faces in Southeast Asia. In July 2010, US Secretary of State Hillary Clinton announced at the ASEAN Regional Forum (ARF) foreign ministers’ meeting in Hanoi that the USA would spend US$187 million on projects to help Cambodia, Laos, Thailand and Vietnam reduce the impact of climate change on water resources, food security, and the health and livelihoods of their populations in the Lower Mekong River Basin (US Department of State 2010). Earlier, in May, a sister-river partnership was also established between the Mekong River Commission and the Mississippi River Commission in the USA. It is expected that the tensions in the South China Sea will further encourage the USA to increase its inputs to projects of this kind (US Army Corps of Engineers 2010).

Trade and investment are positive factors in China-ASEAN relations, though some problem areas remain. China as a trade partner and a source of investment enhances the Southeast Asian countries’ bargaining power vis-à-vis the developed countries, which tend to take a common stand regarding demands for democracy, human rights and the rule of law. China’s demand for energy and raw materials has been a significant factor in driving up their prices in international markets, which has benefited many Southeast Asian countries in recent years. Some Chinese experts consider that China can be an important source of intermediate technology, which is cost-effective and appropriate for the stage of development of the less-developed ASEAN countries. China has yet to demonstrate that it can serve as a generous and effective source of technology transfer for them in household electrical appliance industries, textiles and apparel industries, infrastructural construction, and so on (Friedman 2009, 1–20).

To deal with the emergence of the “ugly Chinese” syndrome as seen in the exploitative aspects of China’s trade and investment activities, Beijing’s limited aid programme in Southeast Asia may not be enough. The Chinese authorities, while directing their state-owned enterprises (SOEs) to expand and invest internationally, have not directed them to operate as “model business partners.” However, Chinese experts assert that some of China’s aid money could go to the SOEs so that they will be able to behave as “model employers” and contribute to community projects. This requires effective co-ordination at the central government level and new mechanisms have to be built to achieve the desirable outcomes. The Chinese leadership is obviously aware of the emerging adverse publicity and will try to reverse the trend. This is one of the major challenges to the Chinese leadership’s attempt to enhance
China’s appeal and good image through sub-regional economic co-operation with ASEAN countries.

There are other types of challenge and difficulties at the provincial level. Power remains highly concentrated in the central leadership in China, especially when foreign affairs are involved. Hence the initiatives on the part of the provincial leadership in foreign economic relations are usually limited. Guangxi had to work very hard to get the green light from Beijing at the beginning of 2007. In May that year, there was a Guangxi-Vietnam investment conference held in Vietnam, and Guangxi claimed to have concluded contracts amounting to US$500 million; and in the following June, a Vietnam-Guangxi Economic Co-operation Forum was organised in Guangxi with active participation by Vietnamese provincial leaders. In May 2007, Party and government leaders of Guangxi visited Indonesia, the Philippines, Malaysia and Singapore to discuss Pan-Beibu Gulf co-operation. The Guangxi authorities then claimed that their projects had secured the support of the concerned ASEAN governments.

The Guangxi authorities have ambitious plans, but these plans have to seek the approval of the Chinese leadership. The latter has to balance the requests from various provinces. In May 2008, the State Council approved Guangxi’s request that its Qinzhou port would be China’s sixth tax-free port, which would enjoy the benefits of a tax-free district, export-processing zone, tax-free logistics centre, tax-free warehouses/storage facilities, etc. This is the only tax-free port in central and western China and it began operation at the end of 2009. Guangxi would like to establish a “China-ASEAN Border Comprehensive Tax-free District” at Pingxiang, a brand new concept for the Chinese authorities, as well as tax-free logistics parks in Nanning, Fangcheng, Beihai and Dongxing. It would also like to seek visa-free access for citizens of ASEAN countries entering the GBGED and staying for no more than seven days; similarly it hopes that the Chinese authorities would secure visa-free treatment or visa-application-on-arrival treatment for Chinese citizens entering Vietnam and then other ASEAN countries through the border point at the Friendship Gate, Dongxing (CCTV.com 2010).

These ambitious plans easily arouse the jealousy of other provinces. It is significant to note that the Guangxi leadership does not seem to enjoy the support like that of leaders in Yunnan, Guangdong and other provinces in all these plans. Obviously there is keen competition for “special policies” from Beijing among all provinces. In contrast to Guangdong and Shanghai, Guangxi – as a relatively poor autonomous region – also needs funding support from the central leadership which makes its task even more difficult. It seems that Guangxi understands that in the first decade of the twenty-first century, the central leadership’s priority would go to the development of Tianjin, while the GBGED would be given its turn in this decade.

Planning and securing the central leadership’s approval are the initial steps; much effort is still required in the implementation stage. Guangxi is a late starter in development among China’s provinces. Despite substantial investment in its port facilities, about half of the trade of China’s southwestern provinces goes through the port of Zhanjiang in Guangdong; and about 70% of their imports of iron ore is downloaded there. Moreover these provinces, which are the hinterland of Guangxi’s ports, are the poorer provinces in China; their trade growth will remain limited for some years. The efficiency of Guangxi’s ports is low; electronic commerce and
container electronic inspection systems are not well developed; professionals with a good command of English and other foreign languages are also in short supply.

The inadequacies of banking facilities are also a severe problem. The central banks of China and Burma have no agreement on payment settlement involving their national currencies, and there are no direct settlement channels between their banks. Border trade between China, on the one hand, and Vietnam, Laos and Burma, on the other, has been much handicapped by inadequate banking facilities in the border towns offering trade settlement services. These services are often offered by underground banks and even street stalls which are illegal in China; but the Vietnamese government is flexible enough to give them business licences so they can serve as money-changers and offer a limited range of banking services.

In 2008 and 2009, because of Vietnam’s economic difficulties in the global financial crisis, it suffered from a shortage of US dollars; and many Vietnamese corporations asked their Chinese counterparts to settle their transactions in renminbi. This is in accord with China’s interest to promote the regionalisation of the renminbi and raise its international status. Further, settlement in renminbi will facilitate trade and reduce the currency risks in trade. Since China enjoys a substantial trade surplus in the bilateral trade, it will also encourage Chinese enterprises to invest in Vietnam with renminbi.

Conclusions

When the ASEAN Regional Forum was being organised in 1993, the Chinese leadership was hesitant to become involved in multilateral regional organisations. China subsequently participated because it considered that it would be more advantageous to exercise its influence within these organisations than being excluded from them. By 2001 when the Shanghai Co-operation Organisation was established, China’s leadership was convinced that multilateral and regional organisations were important mechanisms for articulating its interests, enhancing its influence and promoting multipolarity. China has moved from a passive and defensive participant to an active organiser with a well-defined set of agenda items and strategies. Later, Chinese leaders considered that participation in sub-regional economic co-operation projects along its borders would be useful in its pursuit of the above objectives. It would further allow a relatively low profile while seeking leadership and reducing external pressures. This approach has been in line with the Chinese economic strategy of “going out” to enhance economic security through investment to secure supplies of resources to support its economic growth and markets for its expanding exports. In the case of the less-developed ASEAN countries, there are the additional considerations of reducing China’s aid commitments and accelerating the development of China’s central and western provinces.

China has been successful to some extent in reducing its neighbours’ “China threat” perception. If its impressive economic growth remains sustainable, this process is expected to be enhanced. But its success has attracted considerable attention from the major powers involved in the Asia-Pacific region, and China anticipates keen competition. Like China’s venture into Africa, its activities in Southeast Asia have been criticised in the West for neglecting democracy, good governance and human rights, as well as for its selfish exploitation of natural resources at the expense of environmental protection. Apparently the Chinese
authorities are aware of these shortcomings, and a more sophisticated strategy to improve China’s image is being implemented.

At the provincial level, the major obstacles are co-ordination and resources. In the approach to the CLMV Group of countries, the Chinese provinces concerned are relatively poor. They have an uphill battle fighting for preferential policies and resources from the central government. Keen competition among them makes effective co-ordination even more difficult. But the situation is improving, given the favourable shift in priorities on the part of the Chinese leadership; and the economic benefits are obvious despite a low starting point. Higher economic growth rates have moved from the coastal provinces in China to its central and western provinces; similarly, they have moved from the four little dragons of Asia to countries such as Vietnam and Cambodia. The appreciation of an export-orientated growth strategy based on the attraction of foreign investment and the development of transport infrastructure is obvious.

Regarding China-ASEAN sub-regional economic co-operation, the learning curve in China has been steep at both the central and provincial levels; China’s engagement has been extensive and growing. Nationalist reactions – in the region and China itself – may mean that Chinese leaders may have to adopt a more assertive position which does not conform to its claimed harmonious world perspective.

Traditional national interest considerations still dominate Chinese foreign policy and China’s approach towards ASEAN. However, in the recent decade and more, increasing elements of liberalism/institutionalism and constructivism have emerged in Chinese foreign policy as the leadership makes substantial efforts to engage in multilateral diplomacy, enhancing China’s influence. Chinese foreign policy experts consider that despite the territorial and other disputes with ASEAN states, their economic co-operation will continue to strengthen, especially in view of the implementation of the CAFTA in 2010 and the development of the transport infrastructure. This strengthening co-operation may not lead to the satisfactory resolution of the disputes, but it will probably help to restrain the parties concerned because of common economic interests.

Notes
1 This paper is one in a series of papers published in the Journal of Contemporary Asia, analysing China’s relations with various regions (see Cheng 2003, 2004, 2006, 2011; Cheng and Shi 2009).
2 Chinese leaders and foreign policy experts have been much influenced by Joseph Nye Jr’s concept of “soft power” (see Nye 2004).
3 For a more optimistic view, see Friedman (2009).

References


