

## **CHINA AND THE SECURITY OF SOUTHEAST ASIA**

Niklas Swanstrom  
Department of Peace and Conflict Research  
Uppsala University  
Sweden.

*Rencana ini membincangkan dasar luar negara China terhadap rantau Asia Tenggara dan implikasinya terhadap keselamatan rantau ini selepas krisis ekonomi Asia. China telah mengalami beberapa perubahan beberapa tahun kebelakangan ini, termasuk pengembalian Hong Kong kepada China dan perkembangan ekonomi yang pesat bagi negaranya. Krisis ekonomi yang telah melanda negara-negara Asia telah mengakibatkan hubungan China dengan rantau Asia Tenggara menjadi tegang. Ini disebabkan oleh persaingan ekonomi yang wujud disamping kemelesetan pembangunan bagi kedua-dua kawasan ini. Rencana ini dibahagikan kepada tiga bahagian. Pertama, perubahan-perubahan yang berlaku dalam negara China dan juga negara-negara Asia Tenggara semenjak krisis ekonomi Asia. Kedua, perhubungan antara China dan rantau Asia Tenggara dalam sektor-sektor ekonomi, tenaga, perdagangan dan militari. Ketiga, kesan-kesan terhadap keselamatan rantau Asia Tenggara dan juga peranan China dalam rantau ini dimasa akan datang.*

### **INTRODUCTION**

This paper deals with the foreign policy of China towards Southeast Asia and the implications it has on the security of Southeast Asia after the Asian financial crisis. If a background is needed for China's foreign policy towards Southeast Asia see Swanstrom (1999c). The term "security" will be defined somewhat more broadly than the traditional military-political dimensions. The former Russian Foreign Minister, Yevgeny Primakov, pointed to the expanded security interest when he stated that:

"the forecast that existing and mounting financial and economic challenges, represent the gravest danger to stability and further progress in the region"...in addition to military issues, should cover a wider range of problems related to the entire security concept, including economic, financial, environmental, energy and other issues" (Primakov, 1998).

The politico-military dimension has proven itself too narrow when we take into consideration the last few years' changes, such as environmental hazards,

financial crisis, unemployment and social challenges in individual countries. El Nino created more destruction than many war has been able to create, China faces grave environmental degradation, and many states in the region faces domestic challenges in areas of economic and political freedom.

The Chinese foreign policy towards Southeast Asian (SEA) has gone through great changes in the last three years due to the return of the British colony of Hong Kong to the "motherland" on the first of July 1997, and the financial crisis that erupted in Thailand two days after HK became the Chinese political entity Hong Kong Special Administrative Region (HKSAR) (Kessings, 41734). China's acquisition of one of the most important harbors in the world and the fact that it is China's main trading post will have some important effects on the Chinese foreign policy. The question is what those changes are and how those changes have effected the Chinese foreign policy towards SEA. The Asian financial crisis that rampaged the region and effected the world trade has definitely effected China and China's relations with the Southeast Asian states. This has been particularly notable in the Chinese foreign policy, especially since the impact of the crisis on the regional trade and development has threatened economic development in China. China's reaction to the crisis has been of the utmost importance to keep a further deterioration of the crisis at bay. Apart from looking at the regional and international changes, I will put some emphasis on the domestic changes in the region that could impact on Beijing's politics towards the Southeast Asian region.

The paper is organized in three sections. The first deals with the changes inside China and Southeast Asia since the crisis erupted. The second part deals with the relations between China and Southeast Asia in areas such as economy, energy, trade, and military. The third part looks at the effects on the security environment in Southeast Asia and the regional role of China in the future.

## **CHANGES IN CHINA AFTER THE FINANCIAL CRISIS**

China has gone through some major changes in the aftermath of the financial crisis. Politically there is a transition period from a closed political system to a system where the citizens have a greater say in political and economic processes.<sup>1</sup> Premier Zhu Rongji has been a driving force in the liberalization

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<sup>1</sup> The adoption of China's Administrative Law enables citizens to bring suit against the system. This law has spread through China and is widely used even if there are problems to solve in the legal framework. The so-called "village Democracy" has spread through China and there are positive signs that it has been successful and is there to stay.

process of the Chinese economy and in creating greater accountability and transparency. The improvement Zhu has created in the economy is, however, threatened by the possible purge of Zhu himself. In Beijing most of the Senior Staff I interviewed, both in the Foreign Ministry and the Ministry of Finance, has little faith that Zhu will stay in power for long.<sup>2</sup> There are more careful predictions such as those of the *Economist*, which argues that leadership changes are possible, but unlikely (EIU, 1999). A leadership change could have a great impact on the future trade relations with the surrounding countries if the leader chooses a more conservative and militant posture than the current government has tried to implement. Currently there is a power struggle behind the scene and it is likely that a new Premier will focus more on the political dimensions of Super Power relations (with the assumption that China is a superpower) than on trade and economic liberalization.

Apart from this cleavage in the party there is a challenge to the system from within. Democratization and deepened political reforms has been favored by several individuals in the top leadership and among the senior political advisors (Economy, 1999; Pastor, 1998). The impact on China's foreign policy through the growth of civil society and democracy is unclear; it might create better relations but also could increase nationalism and xenophobia. It is important to keep in mind the fundamental political changes that are underway in China today to be able to understand the changes in China's foreign policy. Downs *et al* has noted that nationalism is on the rise in China but argues that it is too early to talk about a risk of expansion and isolationism (Downs, 1998/1999). The problem is that nationalism could work in favor of the *Junshi* (military) faction that has shown itself to be more prone to military action, rather than the *Waishi* (political/trade) fraction.<sup>3</sup> Downs's argument could be seen in contrast with more conflictual propositions that argue that China will be the new "evil empire" and emerge as the threat to the liberal democracies (Bernstein, 1997). We will see below that such proposals are not only highly imaginative but also highly improbable due to domestic and financial circumstances.

Despite the fact that China was not severely hit by the crisis, it slowed down China's economic development and decreased its export to other Asian states. China has major social problems with a floating population and unemployment of more than 100 million and a state owned sector that has major problems with efficiency and deregulation (China Economy, 1999). The current position in

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<sup>2</sup> Interviews in Beijing with senior officials in the Foreign Ministry and the Ministry of Finance. August 1999.

<sup>3</sup> I am aware that there are other cleavages inside the Chinese leadership but I will limit myself to this one since I find this aspect the most important in determining the Chinese foreign policy towards Southeast Asia.

China has created a situation in which Beijing can afford very little economic slowdown before the current protests in China could take a critical dimension. Dibb *et al* has argued that China could be on the verge on economic collapse (Dibb, 1999). Statements like Dibb's do not take into consideration the fact that China has a good economy, despite obvious problems in the banking sector and the dismantling of the state owned companies (SOE's) (EIB-China, 1999). It is, however, clear that China has major domestic issues to solve before it can conduct a stabile foreign policy (Steinfeld, 1998; Economy, 1999; Song, 1998). Later in the paper I will look closer at different aspects of those domestic challenges and the effects on the Chinese foreign policy.

### **CHANGES IN SOUTHEAST ASIA AFTER THE FINANCIAL CRISIS**

The financial crisis caused an obvious economic decline, which has caused a social crisis in many countries, of which Indonesia is the most effected. The challenges for Indonesia are not only the social unrest the economic crisis has created, but also political challenges inside Indonesia after the crisis (Sukma, 1998, Lowry, 1998). This was first manifested in the fall of Suharto who conceded that East Timor could gain independence if it choose to do so, and then Habibbie who lost the first democratic elections in Indonesia and carried out the referendum that *de facto* granted independence of East Timor. The democratic process further complicates the situation. As an example of the problems that has erupted, many Indonesians feel that it is unfair that vice-president Megawati who is commonly seen as the winner of the elections but never became the President. It was President Wahid who won the presidency even if he never was close to threatening Megawati's party in the elections. Many Indonesians do not yet understand coalition building and tactical support as a part of democracy. The perception of flaws and corruption as inherent in democracy has increased further when President Wahid opened the door for Aceh independence, which is perceived by many Indonesians as an integral part of Indonesia.

Indonesia has other problems in addition to the political and social issues, such as the regional instability that has caused East Timor to secede, and which in turn increased the tension in areas such Aceh and Irian Jaya. The problem now is that more and more regions in Indonesia would like to gain independence and self-determination, seeing that East Timor could free itself. A fragmentation of Indonesia is possible but is not acceptable either for Indonesia, the military, or the international community. There have even been voices raised for a military

coup if the fragmentation of Indonesia would continue.<sup>4</sup> If the fragmentation of Indonesia takes unexpected dimensions it is not impossible that the international community would look the other way to safeguard for a military intervention and stabilization.

Most states in the region have social or/and political problems that have been accentuated or created by the crisis. Thailand's political weakness is threatening the current government, and it is perceived to be forced to schedule an early election within the next year due to lack of political support (Dibb, 1999). The other nations have similar factions calling for more openness or a more nationalist stand in several questions; this could create a more complicated situation in terms of further integration in ASEAN (Southeast Asian Affairs, 1998). This instability among the members of ASEAN makes the organization slow or even reluctant to act in crisis situations such as the economic crisis and the Chinese occupation of Mischief Reef (Lim, 1998; Foot, 1998; Cheeseman, 1999). Without a cohesive ASEAN, Southeast Asia will have problems acting against China, or any other power, this since the leverage that ASEAN could bring is not available (Setboonsarng, 1998). The lack of a coordinated market that could increase ASEAN's bargaining power by increasing the regional financial and financial clout has been lost. This is important since each individual country is negligible both politically and economically by international standards.

The domestic instability in Indonesia has in combination with the financial crisis incapacitated Indonesia as the *de facto* leader of ASEAN; this has caused ASEAN to emerge in an institutional crisis in the midst of the financial crisis. An ASEAN without a leader will have grave problems formulating a coordinated foreign policy towards the external environment. The leadership issues are further complicated by ASEAN's lack of a common goal for the organization. ASEAN will need to coordinate their internal policies if they are to gain an international or even a regional role. ASEAN has, however, been divided over how to operate ASEAN in intra-member relations (Eng, 1999; Sheridan, 1998). The divide could be defined as a cleavage between open and closed societies. Thailand proposed a more interventionist approach in intra-ASEAN relations; the other members effectively suppressed this. The problem with different agendas among the ASEAN members remains and if ASEAN members are to further integrate politically or economically they will have to accept more intervention in internal issues. This is not to say that all political issues have to be up for discussion.

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<sup>4</sup> Interviews in with Senior officials at the Foreign Ministry in Jakarta, 1999 June.

The financial crisis showed quite clearly the inability of ASEAN to react to a common economic threat (Funston, 1998). This inability stems from the low political and economic integration in ASEAN, as well as the lack of a common goal for the organization. ASEAN is therefore in need of a new function that accounts for the end of the Cold War and the new changes in the international and regional security environment. I strongly believe that ASEAN has to focus more on the financial aspects of the organization if it is to fill a function in the 21<sup>st</sup> Century.

## **NEW RELATIONS OR (C)OLD PATTERNS?**

### China's economic relations with Southeast Asia

China's emphasis has moved from a geo-political security dimension to an geo-economic security dimension. This trend started in the late 1970s and intensified after 1989 and the end of the Cold War (Swanstrom, 2000). It was a common belief that Southeast Asia would increase in importance as China's trading partner after HKs return to the "motherland" since HK was a regional entreport. The financial crisis two days after the takeover created a disbelief in China's possibilities to increase its trade and consequently integration with the international community and, especially, the hard-hit Southeast Asia.

### Trade and finance

When Southeast Asia was dragged down in the crisis with Thailand as the main actor, the possibility was strikingly high that China could also be dragged into the crisis. The logical action from China, derived from China's earlier inaction, would be an isolationist move to secure itself from the crisis (Swanstrom, 1999b-c). China had a relatively strong economy with a very strong currency reserve that potentially could keep China out of the crisis and most of its loans were long-term loans with sound bases. The Chinese action was somewhat surprising. China was one of the main supporters of the grant of SDR 2.9 billion (US\$ 3.9billion) to Thailand in August and moreover pledged US\$ 2 billion (China and HK) to support Thailand (Kessings, 41777). This suprising action could be explained by the importance trade with Asia had for China. In 1992 80.36 percent of all trade went to Asia and 74.16 percent of the capital inflow (Ding, 1995). This major trade focus on Asia could be explained of the Tiananmen incident in 1989 and the following US boycott of Chinese goods. This increased the importance of Asian trade with China in Beijing's foreign policy. This has however changes somewhat by 1999 when the share exports to the US had increased to 21 percent export and imports to 12 percent. The Asian share has subsequently diminished, but a large part of the export change from

1992 to 1999 can be explained by the fact that the transit trade with HKSAR to and from China has lost in value when China has liberalized its economy.

China has emerged as one of the most important trading partners for the Southeast Asian states. In 1995 Thailand sent 278 trade delegations to China and China emerged as Thailand's tenth biggest trading partner in 1995 (Ruland, 1998). The ASEAN states are increasingly dependent on China as a trading partner, and China increasingly depends on the Southeast Asian states (EIU-Selected States, 1999). The potentially large market of both China and ASEAN makes it interesting for all parties involved to intensify the economic cooperation.

The Chinese government repeatedly refused to devalue the Chinese currency during the crisis in fear of worsening the crisis and dragging each country deeper into it. China kept this policy for two major reasons, to keep China out of the crisis and to create a platform for regional leadership. By refraining from a devaluation of the Chinese currency, the Chinese leadership accepted the cost of decreased competitiveness and higher import costs from its Southeast Asian neighbors. A devaluation of the Chinese currency would increase the Chinese competitiveness but increase the risk of further devaluations in the region and through that prolong the crisis.<sup>5</sup> In addition to the financial question marks, China could create a platform for regional leadership by acting as the regional stabilizer. China reacted rapidly to the crisis and was one of the first to give credits to Thailand on the eve of the crisis. Japan was slower and, despite its very high stakes in the region, reluctant to give credits to individual states. China subsequently was perceived by the states in the crisis to be more generous than Japan, despite the fact that Japan gave larger credits. This was due to the rapid response to the crisis and the fact that China was a developing nation and in many ways poorer than the nations it helped. This is not to say that China gave out of generosity; it gave to improve its regional base for regional trade and political influence, and because it lacked an alternative course of action that was feasible.

The best indication of the self-interest China had and the importance of Southeast Asia in this crisis is HKSAR. When the crisis first hit HKSAR the Chinese Government indicated that the local government in HKSAR was responsible for its own economic management, but added that the People's Bank "always stand by to help" (Kessings, 41861). The help that China

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<sup>5</sup> There was some debate if the Chinese currency already was at its right level and if a devaluation of the Renminbi would create any advantages for China. The risks involved with a devaluation were too high compared with the debatable gains so China refrained from a devaluation.

referred to was to defend the HK dollar against speculation and to keep the HKSAR\$ pegged to the US dollar (Swanstrom, 1999c). HKSAR had already become too important for China in its economic development, and a great proportion of HKSARs trade was with the crisis-hit Southeast Asia.<sup>6</sup> The acquisition of HKSAR had increased the importance of Southeast Asia for China, and Beijing knew that if it let the HK\$ devalue it would deepen the crisis in the region and moreover threaten the economic stability of HKSAR. HKSAR has also been singled out as the region of China that should be responsible for the increased trade and cooperation with Southeast Asia.<sup>7</sup> This has increased the importance of HKSAR in trade relations between China and Southeast Asia; political and military issues are still controlled from the mainland.

China has discovered that the Growth Triangles could be a successful tool in regional integration and economic development, especially in the environmental field. The Growth Triangles does not require the same governmental attention since it is decentralized to regional institutions such as HKSAR. The Mekong River project is the first of its kind, but Chinese sources have indicated interest for more cooperation in other regions, such as South China Sea, Burma, and Thailand.<sup>8</sup> The Chinese leadership sees Growth Triangles as a first step to improve economic and eventually political relations with Southeast Asia and Northeast Asia. The South China Sea could very well be a trial case to manage political disputes by Growth Triangles, since the sovereignty issue does not necessarily have to be resolved before cooperation around resources can take place.

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<sup>6</sup> Interviews with Senior managers at the Chinese Foreign Ministry, Finance Department, and HK Stock Exchange confirms that Beijing already guaranteed HKSAR financial support to defend the HK dollar against speculation. Beijing, 1999-09. HK, 1999-09 to 10

<sup>7</sup> Beijing seems to have ruled that it might be better if the trade with Southeast Asia and to a large extent Taiwan takes rout via HKSAR. Interviews with Senior managers at the Chinese Foreign Ministry, Finance Department, and HK Stock Exchange. Beijing, 1999-09. HK, 1999-09 to 10

<sup>8</sup> Interviews with Senior managers at the Foreign Ministry. Beijing 1999-09.



### Energy and other resources

The South China Sea could possibly possess a great deal of oil and natural gas that would decrease China's and Southeast Asian energy imports. Several sources have cited great oil deposits in the Sea but this is far from certain (Salameh, 1995; Valencia, 1995). Townsend-Gault has repeatedly warned of over-exaggeration of the potential oil resources (Townsend-Gault, 1998). The focus should be on resolving the conflict rather than on potential gains that might not be there. The situation is, however, far more complicated than this.

The most important resource in the South China Sea might not be oil but rather the transport lanes and the fisheries. Both Vietnam and China face a great discrepancy between population and arable land, and this discrepancy could be partly covered by increased fisheries in the South China Sea. China and Vietnam, moreover, suffer from being two overpopulated countries in combination with a deficit in resources (Chanda, 1995; Swanstrom, 1999b). The unsustainable usage of arable land creates environmental problems in the form of desertification, landslides, and flooding. This forces many Asian countries, especially Vietnam and China, to use land that is not appropriate for agriculture since the lack of arable land is more and more apparent. Efficient usage of the South China Sea's organic resources would increase the welfare of the nations since less land would have to be allocated to inefficient agricultural practice. China has noted the importance of the South China Sea as the new *Sheng cun keng jian* (lebensraum) and the living resources in the South China Sea are perceived as more and more important.

### Political relations

China's traditional political relations with Southeast Asia have been bilateral and informal to a very high degree (Swanstrom, 1999b). This changed in the late 1990's when China accepted a more multilateral approach focusing more on CBMs and trade than military security. This could especially be seen in China's positive approach to the ASEAN Regional Forum (ARF) (Foot, 1998). This can also be seen in China's increased participation and proposals for CBM's in the ARF environment. China has, however, refused to give ARF a role in regional mediation and conflict resolution. Beijing has argued that questions concerning the security environment should be solved bilaterally. ARF should, according to, China be limited to consultations and dialogue. ARF is also handicapped since the financial crisis has undermined ASEAN's ability to play an effective role in ARF, and any other leader of ARF would be unacceptable for China. Lim has proposed that China could hijack ARF with the purpose to divide and rule in the region (Lim, 1998). This is a possibility since ASEAN has not been able to reach a consensus in security questions; the

enlargement of ASEAN has further accentuated this. The question is whether China would benefit from this? China is in a great need to solve or at least manage -bilaterally- its disputes with neighboring states, due to the domestic situation.

Attempts by Australia and the US to formalize ARF have also decreased the willingness of China to participate in the development of ARF's functions. China is still not ready to engage in a formal security forum, and it is debatable whether ASEAN would participate in a formal security forum. This is true, since any formality of the ARF could force the members of ASEAN to formalize their internal conflicts, which the member states of ASEAN is as reluctant as China to do. China and ASEAN knows that any attempt to formalize the ARF would handicap the ARF as a security forum, and both parties sees the ARF as a necessary, and unique, forum for security discussions.

The conflicts of interest among the members of ASEAN and, primarily, the social and political instability in Indonesia will damage the stability ASEAN needs to take an active role in ARF. The risk that China will "hijack" the ARF since ASEAN is not capable to lead the organization increases as the disorganization of ASEAN continues. China emerges as the only Asian power capable of taking control over ARF, especially since Japan is not perceived as a legitimate power in this sense. It is doubtful whether ASEAN and the other Asian states would allow China to take a greater role in ARF, but if the anti-Western views grow among the ASEAN states it might be a possibility. For the moment both ASEAN and China are content with continued US presence in the region. China knows that a departure of US troops would increase the instability and, probably, the demands from domestic groups to take a more active role in the region.

The new members in ASEAN, Burma and Laos, have worked as integrating factors between China and ASEAN. China has traditionally had good relations with Burma especially (Swanstrom, 2000). This could forge a better integration of China into the region, but it could also create a position for China to divide and rule the region. The enlargement of ASEAN has made ASEAN weaker, not stronger, and China could well use this weakness to split the organization (Lim, 1998). This is, however, not in the Chinese interest. Chinese officials have repeatedly stated the importance of ASEAN as a regional player.<sup>9</sup> This is strengthened by the fact that ASEAN will not be able to become any military threat to China in the foreseeable future.

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<sup>9</sup> Interviews with Senior managers at the Foreign Ministry. Beijing 1999-09.

The overseas Chinese in Southeast Asia could be increasingly important factor if there is increased violence against Chinese minorities in Southeast Asia (Swanstrom, 1999b-c). This is further accentuated as China opens up in media and through internet. The Chinese in the mainland could get access to information on atrocities committed against Chinese overseas and demand action from the government. This political pressure from the population is increasingly important, as we could see in the popular protests against the Japanese occupation of Diaoyu Tai/Senkaku in Taiwan, HK, and the mainland (Downs, 1998).

During the financial crisis China and ASEAN improved their relations, due to China's actions and non-actions, but the South China Sea seems to be the main constraint on a further improvement of the bilateral and multilateral relations with Southeast Asia. In May, a Chinese fishing boat was sunk in a intermezzo with the Philippine Navy near Scarborough Shoal. In late July two more fishing boats were sunk and the Chinese side reacted with "shock" (SCMP, 1999a-b). China reacted by further reinforcing the structure on Mischief Reef that China has improved during 1998 and 1999 (SCMP, 1999a-b). China's stand on the Mischief Reef is strengthened by the lack of concerted response from ASEAN. A solution to the South China Sea dispute seems to be far away, and the only possibility today seems to be embodied in conflict management between the parties involved. China has repeatedly refused to engage in multilateral discussion concerning the South China Sea and its posture is that any solution to this question should be negotiated bilaterally (Swanstrom, 1999b).

### Military relations

The financial crisis has undoubtedly changed the military relations between China and Southeast Asia but the changes are not only changes toward insecurity but also toward a more relaxed security environment.

Prior to the financial crisis, Asia accounted for some 23 percent of the world's combined military resources (Cheeseman, 1996, 1999). Cheeseman and others argue that this pattern radically changed with the crisis, but the changes came earlier than this. From 1985 to 1994, Thailand halved its military expenditure from 5 percent to 2.6 percent of GDP. During the same period, Malaysia cut its military expenditure from 5.6 percent to 3.9 percent (Solingen, 1998). The GDP outgrew the military expenditure by an average of 50 percent and in 1990-1991 the Southeast Asian military expenditure was 2.8 percent of GDP. China's military development and improvement on the other hand does not seems to have been affected by the end of the Cold War to the same extent (Simon, 1998). China cut its military force by a million men during the early 1990's, but military expenditures have not decreased, which points to a radical

modernization of the standing Chinese army (Dennison, 1996). There have even been calls for higher spending on military technology (EIU-China, 1999). The ASEAN decline in military expenditure was however accelerated when the financial crisis hit Southeast Asia, and in December 1997 the Thai Government announced that the country would have to further cut its defense expenditures by 30 percent. The following April, it was announced that the armed forces would have to cut their personnel by 75 percent over the next few years (Sirithaveepor, 1998; Tang, 1998).

On its face, it might seem only positive that the Southeast Asian states does not spend a great deal of their resources on military modernization. We should, however, remember that the power balance is uneven and that, even if China focuses most of its military personal and training towards Russia, India, Northeast Asia, and Taiwan, China is building a blue water navy and has recently achieved air to air refueling capacity which will increase its capabilities to fight in the Spratleys or any other place in Southeast Asia. China will, however, not have the capability to fight a long-range war in the Southeast Asian region before the PLA improves its military intelligence and lines of communication and supply and, most important of all, before it achieves an overall modernization (Godwin, 1996). Even if selected units are modernized, China needs to get an overall improvement before it will be able to take on any major adversary; this will take at least decade.

There have been suggestions that the US will become increasingly important for Southeast Asia as a force to fence of China.<sup>10</sup> The Southeast Asian economies will not be able to control their EEZ, much less defend their own claims in the South China Sea. The first question is whether China is capable of occupying the South China Sea. As we will see below the possibility is limited, and the economic development is far more important than securing a short-term interest in the South China Sea. The difference in military capabilities between China and the Southeast Asian States could create a power vacuum in the region that China could be able to fill. The Southeast Asian states hope that US will fill this vacuum in the short time until the situation has stabilized. This is also in the interest of China since the current power vacuum would destabilize the region.<sup>11</sup>

I have earlier proposed that China's relations with Southeast Asia will be increasingly peaceful, but that there will be domestic factors, such as in the

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<sup>10</sup> Interviews in Malaysia, Thailand, Indonesia, and Singapore between May-June 1999.

<sup>11</sup> Interviews with Senior Officials in the Foreign Ministry and the PLA Navy in Beijing and HKSAR 1999 July-August.

Mischief Incident that could increase tension between China and Southeast Asia. (Swanstrom, 1999b; Wallenstein, 1998). The Dioyutai dispute with Japan shows clearly how nationalism and domestic pressure can force a more confrontational stand from the Chinese government (Downs, 1998). The Chinese leadership is increasingly dependent on the support of the population and pressure groups. Mistreatment of the Chinese minorities in Southeast Asian would be able to trigger a more aggressive stand from the Chinese military and even the civilian leadership that could be forced to react. Despite this possible tension the military situation after the financial crisis seems to suggest that the peaceful relations will remain is, even if the lack of military modernization in Southeast Asian could create a power vacuum. The situation could, however, be complicated by the dual policy of cooperation and tension in the Chinese government.

China's dual policy of an aggressive military foreign policy and a more trade-related foreign policy stems from the division of interest between the Foreign Ministry and PLA. The linkage between defense and foreign policy seems to be the weakest of all linkages in national security policy-making (Swaine, 1998). This view has been reinforced by interviews in Beijing and HKSAR, where the division and the perceived incompetence of the other side are striking.<sup>12</sup> This division between the two most powerful institutions for security policy-making makes the situation more insecure. Both parties have a tendency to react to domestic pressure and to use this to create a better position to further their specific agendas. This division can explain the Mischief incident. Senior officials at the Foreign Ministry in Beijing claim that they did not know what was going on and that it was a mistake by PLA to engage militarily.<sup>13</sup> The danger was not that China would loose the conflict but that trade would be hurt. Fortunately for China, ASEAN was divided and no uniform action was taken towards China. This lack of action by ASEAN taught the PLA that the international community and ASEAN would tolerate minor military operations, such as the Mischief incident. The foreign Ministry is not as convinced that this would be accepted by ASEAN or the international community and is more prone to focus on bilateral cooperation or through multilateral cooperation, such as, ARF, WTO or other multilateral organizations. There is still reluctance, even in the Foreign Ministry, to accept multilateral decision-making, even if new possibilities have been opened up.

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<sup>12</sup> Interviews with Senior staff at the foreign ministry and PLA in Beijing 1997 June-August, 1999 August; HKSAR June-July.

<sup>13</sup> Interviews with Senior staff at the foreign ministry and PLA in Beijing 1997 June-August, 1999 August; HKSAR June-July.

There seems almost to be a consensus that security policy making and the foreign policy in general will be *civilianized* as soon as the older leadership leaves power (Swaine, 1998).<sup>14</sup> There has undoubtedly been a shift from a more ideological and military based leadership towards a more liberal and trade influenced leadership (Swanstrom, 2000). It would be foolish to conclude that China's security policy making will be totally *civilianized*, and this would probably be unwanted since the military component will continue to be a significant part of any nation's security dimension. In the shift from a dual policy-making to a *civilianized* policy-making we, will see an increased focus on trade and economic interdependence. The liberal factions of the Chinese leadership have also indicated less negative attitudes towards multilateral forums for decision-making and cooperation.

Even if China would and could act militarily in the region, the chances that China would conduct any military operation today are limited since China is dependent on the export earnings, which could be distinctly effected if China were to engage in a conflict. China's trade goes to a very high degree to the Asian region and to an increased degree to Southeast Asia (EIB-China, 1999). To engage in a conflict with Southeast Asia would increase domestic instability. Domestic stability is dependent on continued economic development, and in the aftermath of the financial crisis, a problematic domestic economy and an international crisis would be hard to handle for China. Ginsberg argues the "conversion to a new fighting force would likely not sacrifice economic growth, which matters to the Chinese leadership" (Ginsberg, 1998). To go a step further and engage in a militarized conflict would be foolish for the leadership. It might, however, be possible if the domestic pressure is too strong to ignore.

## **ADVERSARY OR PARTNER**

Dibb et al has suggested the possibility of a more aggressive China in regional and international affairs (Dibb, 1999). It is undoubtedly so that China has an agenda of regional leadership, but it cannot be deemed more aggressive than US or EU leadership. It could be argued that China has proven that it could be a partner rather than an adversary, though this is not to say that China will act only with unselfish motives. Feignbaum has argued that China will focus on cooperation and strategic partnership due to the limitations to its own limited military capabilities (Feignbaum, 1999). China's limited military capabilities and economic goals make an aggressive policy unlikely in the foreseeable future. We should, however, not make the mistake of neglecting the strategic

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<sup>14</sup> Interviews with Senior staff at the foreign ministry and PLA in Beijing 1997 June-August, 1999 August; HKSAR June-July.

interest China has in the trade-lanes in the South China Sea or Beijing's commitment to modernize and strengthen its military.

China and the ASEAN members have several common interests, among which economic development stands out, but there is also a interest to control a US dominance in APEC or any other regional organization (Ruland, 1998). Even if both China and ASEAN sees a common interest to keep US troops in the region, there is also a common interest to limit the US dominance in the region. The conflicting interests of keeping both China and USA at bay are hard to balance for ASEAN, but the situation is simplified by China's reluctance to take military responsibility in the region. Human Rights are another area where the Asian governments seem to have a common line, with a few exceptions (Asian Human Rights Charter).

Moreover, China is a poor nation with relatively few resources that could be allocated to an expansive policy. China's first and most important task is to improve the living standard of the population and control social unrest. Lardy has gone a step further to state that China will need to focus on short-term growth rather than the reconstruction of the economy, due partly to the possibility of social unrest (Lardy, 1998). This exemplifies the importance of economic growth in defusing social instability that China faces today.

The current status of the economy reinforces the improbable threat the Chinese military force poses due to the limited capabilities. It is clear that China is upgrading its military troops, faster and more coherently than its Southeast Asian neighbors, but its fighting ability is still limited and focused on Taiwan, Japan, India, the Koreas, and Russia. China has few reasons to stir up more conflicts with its Southeast Asian neighbors; it is rather an active policy for cooperation rather than conflict between China and the Southeast Asian states. This policy has been cast off track from time to time by the division of interest between the *Junshi* and *Waishi* fractions inside China. Economic development is the first of policies for China today, and Beijing is actively trying to increase its cooperation with ASEAN and limit the conflicting issues. Zhu Rongji's visits to Southeast Asia are the most recent indications of the need of improved relations between China and ASEAN (SCMP, 1999c).

## **A GLOBAL REGIONAL LEADER?**

It has been suggested by several authors that China would like to replace the current world order with one that is focused on itself (Lee, 1998). It is true that China has the aspiration to become a global leader, but the costs involved in this operation are beyond China's current reach. I agree with Sheldon, who argues that China will have to focus on economic development and regional security to

sustain a high domestic development pace (Sheldon, 1996). China lacks the military capability to take on a role like NATO or the US; the creation of a blue water navy is the first step to increase its global power. The success in creating a blue water capability moreover depends on China's ability to create a force that could defend such a naval power. The costs and the organization to handle this task are beyond China's current reach. The conclusion is that China is financially too weak to exercise global dominance or shared dominance.

The focus will be on regional leadership, which is in China's reach militarily and far cheaper for China to sustain. This is not to say that China will not participate and demand a role in the International Community, but it cannot afford to take an active role. China will not take an isolationist approach any longer; the economic development is dependent on international trade and cooperation. China's admission to the WTO is the first step for China to a more integrated and participatory role in international trade (Swanstrom, 1999a).<sup>15</sup> As China becomes more integrated into international and regional trade it will become increasingly more difficult to revert to an aggressive policy, until a high degree of development and economic independence is reached.

China has partly succeeded in taking a regional leadership role by its actions during the financial crisis in the region. Japan, on the other hand, failed to get credit from its engagement, since its financial contribution was believed to be far lower than the actual interest it had in the region. To engage actively in the crisis has been a consistent policy of China from the first credit extended to Thailand in 1997 to today. The political effects of this policy should not be underestimated, and for the part of China there was a effective marketing of itself as a partner during the crisis to the countries in Southeast Asia. China realized that it could not devalue its currency due to the risk of major economic consequences, so when the devaluation was out of question Beijing decided to create a political platform out of its inability to devalue.<sup>16</sup> As Zhu Rongji travels around Southeast Asian today we can see how powerful this position has been in integrating China into the region and make it possible for China to take a leadership role.

The different policies against Southeast Asia could be explained in the division of *Junshi* and *Waishi* (Swanstrom, 1999b; Swaine, 1998). The *Waishi* seems to gain power in relation to the *Junshi* faction as the old leaders resign. This

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<sup>15</sup> China has prepared for the admission to the WTO by adopting a new contract law that is very modern and focused on international trade. In combination with other changes in the legal system trade in and with China has been greatly improved.

<sup>16</sup> Interviews with Senior staff at the Foreign Ministry in Beijing, August 1999.



would indicate that Trade will become more prevalent in the relations between the parties, but this is a slow process entailing several drawbacks in the civilization of the foreign policy towards Southeast Asia. If the Taiwan issue becomes acute, the *Junshi* fraction will be able to prolong its position and even dominate the political scene in China. Zhu Rongji's current position as the Premier has reinforced the *Waishi* fraction, but if he is forced from his position the chance is great that the conservative fractions will take over and the *Junshi* fraction will gain the control of the foreign policy decision-making process.

## **A NEW SECURITY ENVIRONMENT?**

China has traditionally had a realist security perspective, and this still has a solid base in the Chinese foreign policy. The changes we have seen are a move from military security to a widened security concept with economic development as the main focus. This has obviously changed the Chinese view of Southeast Asia, particularly after the financial crisis. China has noted the importance of the regional economy in its economic development and the importance of regional stability for increased trade. Due to the domestic changes in leadership toward a more liberal government in terms of trade and the dependence on economic development, China has focused more on economic security than political or military security. This trend has intensified with the financial crisis and the social pressure that has emerged in China.

The increased importance of the regional economy has made the regional security environment more important for China. This is further reinforced by China's limited financial possibilities for global leadership. Regional leadership can be attained at a limited cost and could be monitored with China's limited military and political capabilities. This regional focus will have implications for ASEAN and each individual state. This refocus from a strict domestic focus to a regional and limited geo-economic focus has been a consistent trend since the late 1980's and has been intensified during the financial crisis.

HKSAR has had an impact on trade and to some extent on the political relations between China and Southeast Asia. This is especially prevalent in trade relations, since Southeast Asia is an important trading partner for HKSAR. The competition between Singapore and HKSAR as the entreport has increased the focus on ASEAN. There will surely be a more direct focus on Southeast Asia as both China and the Southeast Asian economies matures and the diversity of goods increases, and the trade possibilities opens up.

The South China Sea is a negative reason for a more direct focus on the region. China and many Southeast Asian states, but also Japan and Taiwan, has an

increased need for free sea-lanes and the fishery. The South China Sea seems to be an serious obstacle for improvements of multilateral or bilateral relations. A military security breach has the greatest potential to happen in the South China Sea region, especially since the border conflict between Vietnam has stabilized.

The security environment has not changed during the crisis, but the focus has been redirected towards regional leadership and economic development. This will increase the importance of ASEAN and its member states for the Chinese foreign policy in the close future. The stability in bilateral and multilateral relations will increase, with a reservation concerning the South China Sea.

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