

THE TESTING GROUND: CHINA'S RISING INFLUENCE IN SOUTHEAST ASIA AND REGIONAL RESPONSES

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EXECUTIVE SUMMARY

This paper examines China's foreign policy toward Southeast Asia in the context of its neighborhood diplomacy more broadly. It describes how China is navigating between the competing imperatives of pulling the region closer to it economically via the Belt and Road Initiative (BRI), while at the same time seeking to consolidate control over contested territorial claims in the South China Sea. The paper also discusses China's relations with the Association of Southeast Asian Nations (ASEAN) and individual Southeast Asian countries, focusing on Indonesia and Vietnam. The discussion shows how Southeast Asia looms large both as a testing ground for China's development as a great power and as a gateway for its global expansion in the future. Yet, it also shows that Southeast Asian countries aren't just inanimate stones as China crosses the proverbial river; they are countries with agency of their own that can frustrate or take advantage of China's moves. China could also face trip wires if it fails to better assess the social and ethnic dynamics in the region, and pushes ahead with old-style United Front activities with overseas Chinese communities at its own risk and folly.

Ultimately, China presents both geopolitical challenges and potential economic benefits to Southeast Asian countries. Their individual responses to China's rise will depend on geographic proximity, economic opportunity, threat perceptions, historical experience, and other factors. In the future, as the country cases suggest, Vietnam will continue to balance against China in an effort to protect its national interests, albeit delicately,

while Indonesia will take advantage of BRI to promote its own domestic economic plans and ambitions. The discussion also suggests that China's dominance over Southeast Asia is not a pre-ordained outcome, but will be a function of Chinese power and diplomacy, the response of ASEAN countries (both individually and multilaterally), and the role and engagement of other major powers like the United States, Japan, and India. In this increasingly competitive regional environment, Southeast Asian countries will continue to engage China, hedge, and manage their relations with Beijing carefully. They don't have the luxury of taking sides.

INTRODUCTION

In 2006, after working in Southeast Asia for many years, I moved from Hanoi to Beijing when my employer, the Asia Foundation, appointed me as their country representative to China. Trained in Southeast Asian studies, I was eager to better understand China's relations with Southeast Asia by speaking with Chinese experts at the elite universities and foreign policy think tanks that populate Beijing and Shanghai. What I discovered, however, was not just minimal human resource capacity in Southeast Asian studies, but little interest in the region itself. Things were different in China's southern provinces bordering the region, like Yunnan, where local universities had longstanding programs specializing in Myanmar and other countries in mainland Southeast Asia. But in Beijing and Shanghai, the world of grand strategy, experts mostly wanted to talk about China's relations with the United States, Japan, and other major powers. Southeast Asia seemed like a backwater.

Now the situation has changed entirely. The study of Southeast Asia is booming not only in Beijing, but across the country where new programs and centers are popping up — including centers of Southeast Asian studies in major inland cities like Chongqing and Xi'an. This didn't happen overnight. Even before I wrapped up my work in Beijing in 2014, think tank partners were asking to resuscitate earlier trilateral programs with Southeast Asian countries that had garnered little Chinese interest a few years earlier. Visit top Chinese think tanks today, meanwhile, and you're likely to encounter new initiatives and experts focusing on the Southeast Asia, including recently minted PhDs who have carried out dissertation research in the region and learned a Southeast Asian language. Where did this newfound interest in the region come from? This paper explores this question by examining the underpinnings of Chinese foreign policy toward the region, the toolkit that China employs to achieve its strategic goals, and relations between China and individual countries as well as the Association of Southeast Asian Nations (ASEAN).

SOUTHEAST ASIA IN CHINESE FOREIGN POLICY

Southeast Asia holds a special place in Chinese foreign policy owing to geography, historical economic ties, and the migration of millions of ethnic Chinese to the region. In the postwar period, China's relations with the Southeast Asia has evolved through distinct phases. It got off to a rocky start when the Chinese Communist Party (CCP) began supporting guerilla movements in the region after sweeping to power in 1949. These efforts influenced the formation of the short-lived Southeast Asia Treaty Organization (SEATO) in 1955 and the more enduring ASEAN in 1967 — then a bloc of five non-communist states comprised of Indonesia, Malaysia, the Philippines, Singapore, and Thailand.¹ ASEAN was thus created, at least in part, to serve as a bulwark against China's support for communist insurgencies in the region.

By the 1970s, however, the Sino-Soviet split motivated China to moderate its behavior in the region, and Beijing established formal diplomatic relations with Malaysia, the Philippines, and Thailand around the middle of the decade. The Vietnamese invasion of Cambodia in December 1978, which ousted the

China-backed Khmer Rouge, further strengthened China's relations with non-communist Southeast Asia — as Beijing coordinated with ASEAN countries in the 1980s to isolate Vietnam during its occupation of Cambodia. China finally normalized relations with Indonesia and Singapore in 1990 and then began formal dialogue with ASEAN as an organization, which had expanded to its current ten members by 1999, including Vietnam and Cambodia. Trade ties also grew significantly throughout the 1990s, prompting negotiations for the ASEAN-China Free Trade Area (ACFTA), with an agreement reached in 2002.²



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It is useful to view this evolution of China's relations with Southeast Asia in the context of China's "neighborhood diplomacy" generally. In official terms, Beijing pursued friendly coexistence and peaceful development with its neighbors from the reform and opening-up period until the 18th Party Congress in 2012. Shortly thereafter, Xi Jinping began prioritizing a highly proactive form of neighborhood diplomacy, with the goal of turning China's neighborhood areas into a "community of common destiny" (also translated as a community of shared destiny or future). During a speech to the Indonesian parliament in October 2013, Xi referred explicitly to a shared future involving China and ASEAN: "The China-ASEAN community of shared destiny is closely linked with the ASEAN community and the East Asia community. The two sides need to bring out their respective strengths to realize diversity, harmony, inclusiveness and common progress for the benefit of the people of the region and beyond."³

As reflected in these remarks, Beijing couches its "common destiny" concept in terms of inclusiveness and win-win cooperation, but it also seems designed to integrate neighboring countries into a Sino-centric network of economic, political, cultural, and security relations — not unlike the pre-modern tributary system, although the analogy can be overdrawn.⁴ While Xi's

predecessor, Hu Jintao, began using the “common destiny” terminology in 2007 to describe cross-Strait ties and in subsequent discussions of China’s peripheral diplomacy, Xi went further and made it the foundation of his foreign policy for the region.⁵

According to Chinese scholar Zhang Yunling, a new grand strategy began to emerge in China in the following decade. This strategy is characterized by China’s growing confidence in its ability to shape its surrounding neighborhood, which is “strategically indispensable in supporting China’s rise to Great Power status.”⁶ In this conception, Southeast Asia is widely seen as a pilot area and regional platform for China’s emergence as a great power. Having stabilized its land borders in earlier periods, Beijing now sees maritime regions like Southeast Asia as the best opportunity for increasing its economic reach and expanding its naval power. Thus, compared to other subregions on the periphery, Southeast Asia is viewed as the most important and accessible gateway for China’s global expansion in the future.

CHINA’S FOREIGN POLICY TOOLKIT IN SOUTHEAST ASIA

China uses a variety of diplomatic, economic and military tools to advance its strategic interests and foreign policy priorities in the region. The contents of the toolkit have been evolving and changing as China’s rise has progressed, with different elements taking precedence at different times, depending on broader policy priorities and initiatives emanating from Beijing.

Economic statecraft

Increasingly, China is employing a combination of economic inducements and coercion to advance its strategic objectives in the region. It does so through a host of new institutions and projects, notably the Belt and Road Initiative (BRI). BRI is the most visible platform for advancing China’s neighborhood diplomacy and achieving a community of common destiny in Southeast Asia. Launched in 2013, BRI is an ambitious effort to strengthen infrastructure, trade, and investment links between China and other countries. Prominent projects in Southeast Asia include hydropower dams, oil and gas pipelines, and Beijing’s extensive railway plans to connect the southwestern city of Kunming not just to Laos and Thailand, but eventually to Singapore through Malaysia.⁷

Although exact figures are difficult to pin down, Indonesia, Vietnam, and Malaysia consistently rank as the top recipients of Chinese capital for infrastructure development in Southeast Asia. In terms of projects that are at the stage of planning, feasibility study, tender, or currently under construction, Indonesia currently leads the list at \$93 billion, followed by Vietnam and Malaysia at \$70 billion and \$34 billion respectively.⁸ Xi Jinping also announced \$64 billion in new deals at the Second Belt and Road Forum for International Cooperation in Beijing in April 2019.

In addition, China is developing new sub-regional initiatives, such as the Lancang-Mekong Cooperation (LMC) mechanism, to coordinate BRI projects and advance its economic and political ambitions in mainland Southeast Asia. Established in 2015 among the six countries that comprise the Greater Mekong Subregion (Cambodia, China, Laos, Myanmar, Thailand, and Vietnam), the LMC promotes cooperation across a range of economic and cultural domains, but the driving force is infrastructure.⁹ Beijing has set aside over \$22 billion under the mechanism to support projects focusing on technological connectivity and industrial development as well as trade, agriculture, and poverty alleviation. China is now Cambodia’s largest financial backer by a wide margin, pumping in \$12.6 billion in 2017 alone. In Laos, Beijing is bankrolling the \$7 billion China-Laos railway project, extending almost 260 miles from the Chinese border to Vientiane, a project that amounts to almost half the country’s GDP.¹⁰

Laos and Cambodia appear to be the first countries to sign bilateral action plans with Beijing that officially endorse China’s regional vision of a community of common destiny or shared future. Both action plans were concluded during the Second Belt and Road Forum in April.¹¹ In the Cambodian version, titled “Action Plan 2019-2023 on Building China-Cambodia Community of Shared Future,” the two countries committed to undertake 31 measures in the five domains of politics, security, economics, people-to-people relations, and multilateral cooperation. They also agreed to promote ties between China and ASEAN by building a “community of common destiny” in the region generally.¹²

Soft power: Reconnecting with the Chinese diaspora

Alongside these far-reaching economic programs, China is becoming more involved in the domestic affairs of Southeast Asian countries. Officially, non-interference in the internal affairs of other countries has been a core principle of Chinese foreign policy since the 1950s. While principle and practice have sometimes diverged, Beijing has generally sought to maintain good relations with whatever type of regime is in power in countries where China does business or has diplomatic or security interests.¹³ In recent years, however, China has stepped up activities in target countries to influence outcomes and public opinion in ways that are favorable to CCP preferences, both in terms of its standing at home and its strategic interests abroad.¹⁴

In Southeast Asia, for instance, there has been a noticeable uptick in official Chinese efforts to recruit Southeast Asians for short-term study programs in China. Khin Khin Kyaw Kyee, author of *China's Multi-layered Engagement Strategy and Myanmar's Realities*, estimates that between 1,000 and 2,000 Burmese citizens have participated in exposure trips, friendship visits, study tours, and capacity-building training programs in China since 2013.¹⁵ China is also establishing and funding new think tank networks with top research institutions in Southeast Asia to promote academic exchange and provide intellectual guidance for the LMC.¹⁶

Most strikingly, Beijing has begun reconnecting with “overseas Chinese” in Southeast Asia to help them fulfil their “dream” by realizing the “great rejuvenation of the Chinese nation.”¹⁷ Under Xi Jinping’s leadership, the CCP has been altering long-established policies toward overseas Chinese populations, fanning anxieties across Southeast Asia. Currently there are about 30 million overseas Chinese in the region, over 70 percent of the world’s total. In broad terms, they are divided between local citizens of Chinese descent (*huaren*) and Chinese citizens overseas (*huaqiao*). Most have lived in the region for generations. They have been the victims of anti-Chinese riots and violence in the past, especially when suspected of dual loyalties. Cognizant of these dangers, former Chinese premier Zhou Enlai initiated efforts in the 1950s to address

dual citizenship arrangements, while encouraging overseas Chinese to settle down permanently and serve their local communities. He also told them to follow the laws of their host country and refrain from “interfering in the internal politics of that country.”¹⁸

Today, however, Chinese leaders appear to be engaging overseas Chinese to strengthen relations with Southeast Asian countries, influence local politics, and serve as a “bridge” for supporting effective implementation of BRI in Southeast Asia. Significantly, Beijing recently merged the central government’s Overseas Chinese Affairs Office with the United Front Work Department of the CCP, an agency designed to build broad-based domestic and international political coalitions to achieve party objectives.¹⁹ This has sparked concerns in Southeast Asia that the party will be prioritizing mobilizational efforts in the future, with the overseas Chinese becoming an instrument of China’s soft power and public diplomacy in the region. These concerns were already close to the surface. In 2015, after China’s ambassador to Malaysia Huang Huikang spoke out in defense of ethnic Chinese interests ahead of a pro-Malay rally in Kuala Lumpur, he was chastised by the Malaysian government and widely criticized for interfering in Malaysia’s domestic affairs.²⁰

Hard power: Island building in the South China Sea

Alongside these economic and soft power initiatives, China has also carried out aggressive moves to defend its far-reaching sovereignty claims in the South China Sea based on the “nine-dash line,” its historical claim that encircles as much as 90 percent of the contested waters. This tongue-shaped line extends as far as 2,000 kilometers from the Chinese mainland to within a few dozen kilometers of the Philippines, Malaysia, Vietnam, and Brunei.²¹ (The Permanent Court of Arbitration in The Hague rejected China’s claim in 2016, ruling that it was unlawful under the United Nations Convention on the Law of the Sea. Beijing has ignored the ruling, declaring it null and void.) China’s enforcement efforts began in 1974, when it seized control of the Paracel Islands from Vietnam. Beijing dramatically accelerated its maritime push in 2014, however, when it began dredging operations in the Spratly Islands aimed at transforming three rocks and

four low-tide elevations (a land feature submerged at high tide) into relatively large man-made islands. This is part of a concerted land reclamation and militarization strategy designed to create “facts on the sea,” including airfields, maritime ports, and resupply facilities.²²



While Beijing may be prioritizing BRI for the moment, it should not be expected to abandon its tough stance on the territorial disputes in the South China Sea over the long run.

More recently, China has turned to diplomacy in an effort to balance the imperatives of BRI, on the one hand, with its growing maritime ambitions, on the other. As Xi Jinping’s signature foreign policy initiative, BRI appears to be taking priority in terms of messaging toward the region. When attending a South China Sea conference in Ho Chi Minh City in November 2017, I heard a Chinese academic describe the situation in surprisingly plain terms (with SCS referring to the South China Sea and MSR denoting China’s Maritime Silk Road, the sea route component of BRI):

Understanding the dominant position of the Belt and Road Initiative in China’s diplomatic thinking is pivotal. Specifically in China’s neighborhood diplomacy, such a [sic] dominant thinking means that during MSR construction, all policies that do not accommodate well or even conflict with the MSR need to be adjusted. This is the fundamental reason why the Chinese government has accelerated its pace in recent years to adjust its SCS policies and to consolidate ties with ASEAN that are key to the MSR construction.²³

As evidence, the scholar noted that China had started holding “Code of Conduct” (COC) talks with ASEAN to help manage the South China Sea territorial disputes, based on a non-binding Declaration on the Conduct of Parties in the South China Sea (DOC) concluded in 2002. It is true that Beijing has resumed COC negotiations with ASEAN as a whole, having previously preferred to deal with ASEAN claimants (namely the Philippines, Malaysia,

Vietnam, and Brunei) on a strictly bilateral basis. At the same time, however, China is continuing to militarize its artificial islands in the South China Sea and recently sent a geological survey ship into Vietnam’s territorial waters, escorted by Chinese coastguard vessels. These activities suggest that while Beijing may be prioritizing BRI for the moment, it should not be expected to abandon its tough stance on the territorial disputes in the South China Sea over the long run. Rather, Beijing is striving to keep these disputes at a manageable diplomatic level as it pursues other priorities in its overall foreign policy agenda for the region.

REGIONAL REACTIONS FROM ASEAN AND INDIVIDUAL SOUTHEAST ASIAN COUNTRIES

Not surprisingly, China’s South China Sea activities have caused alarm in Southeast Asia. They have also led to significant strains among ASEAN members, preventing them from developing a unified position vis-à-vis China on how to address the territorial disputes. What has happened, time and again, is that Beijing has leaned on individual ASEAN members — primarily Cambodia and Laos — and preempted ASEAN from issuing strong or meaningful statements on the South China Sea at their annual summits. ASEAN’s ability to push back against China has been stymied by its consensus-based decision-making principle, since Beijing can effectively paralyze ASEAN by isolating a single member. There is some relief in ASEAN circles about the resumption of COC negotiations with China because it has reduced tensions and allowed for discussion of other pressing issues, but there’s also resignation that the end result will be limited to broad principles and basic confidence-building measures.

In terms of BRI, China’s rising economic influence has generated unease and pushback across the region, but ASEAN countries appear to be getting smarter in the way they’re negotiating with China over infrastructure projects in the region. China is also showing a capacity to learn from its implementation mistakes and make adjustments. It strongly courted Southeast Asian participation in its Second Belt and Road Forum in Beijing in April 2019. Of the 36 heads of state or government who attended, nine came from ASEAN countries — a quarter of the overall total.²⁴

Meanwhile, at an individual country level, there is naturally a diversity of responses among ASEAN countries both to China's rise and to the intensification of great power rivalry between China and the United States. Former Singapore diplomat Bilahari Kausikan has observed that Southeast Asian countries simultaneously “balance, hedge and band-wagon” as the situation requires — an instinctive response that has been “honed by centuries of hard experience” and is now “embedded in our foreign policy DNA.”²⁵ For his part, David Shambaugh has identified six clusters of ASEAN countries to describe their response to China's rise and relative closeness to Beijing, as of 2017, from “capitulationist” Cambodia to wary “outlier” Indonesia. In between are dependent “chafers” Laos and Myanmar, “aligned accommodationists” Malaysia and Thailand which manage close ties with both China and the United States, “tilters” Brunei and the Philippines, and “balanced hedgers” Singapore and Vietnam.”²⁶

To conclude this paper, I look closely at two key countries, Vietnam and Indonesia, to see how they are responding to China's rise in different ways. Both are large, influential players within ASEAN. Vietnam borders China and is a front-line claimant in the South China Sea disputes, whereas Indonesia, more distant geographically, has had complicated and volatile relations with Beijing and the CCP, especially with regards to overseas Chinese in the country, who have sometimes been perceived as working on behalf of Chinese interests and Chinese communism in particular.



At its core, Vietnam's foreign policy aims to balance China without provoking it.

Vietnam

Vietnamese perceptions of China have deep historical roots. Having been occupied by China for over a thousand years, it shouldn't be surprising that some historical resentment was built up, or that many city streets are named after Vietnamese heroes who helped to expel the Chinese over the centuries. But the Vietnamese are realists and understand they need a stable relationship with China due to their

economic exposure and geographic position. At its core, Vietnam's foreign policy aims to balance China without provoking it. Consistent with this approach, Vietnam adheres to a “multi-directional” foreign policy doctrine rooted in the “three no's” principle: no military alliances, no foreign troops stationed on Vietnamese soil, and no partnering with a foreign power to combat another. Vietnam has established a “comprehensive strategic cooperative partnership” with China within this framework, the highest-level category in Vietnam's diplomatic pecking order.²⁷ It has also become the second largest ASEAN recipient of Chinese capital for infrastructure development under BRI, as noted above.

At the same time, Vietnam's efforts to balance China are real and have accelerated as Beijing has intensified its land reclamation activities in the South China Sea. For instance, U.S. relations with Vietnam have expanded considerably in recent years, including in the field of maritime security cooperation, owing to a common concern over China's maritime policies and activities. Highlights include the establishment of a “comprehensive partnership” in 2013 and the dramatic visit of a U.S. aircraft carrier to Da Nang in 2018.²⁸ Significantly, Vietnam's diversification efforts aren't limited to the United States: Japan is contributing to Vietnam's defense capabilities by enhancing military exchanges and defense personnel interoperability, and India is providing security support as well. Nor are these efforts limited to the security domain. Vietnam is now the top recipient Japanese infrastructure financing in Southeast Asia, with \$58 billion supporting a high-speed railway between Hanoi and Ho Chi Minh City.²⁹ It has also inked a free trade agreement with the European Union, and is an enthusiastic member of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Though Vietnam remains careful not to provoke China while expanding relations with other powers, the Vietnam-China relationship nevertheless remains fragile and subject to outbreaks of violence. In 2014, for example, the China National Petroleum Corporation moved an oil rig into waters off the Paracel Islands claimed by Vietnam. This set off protests lasting for weeks, with angry Vietnamese protestors burning down Chinese businesses and forcing Beijing to extract thousands of its citizens fleeing the country. Anti-Chinese protests broke out again in 2018 owing to

fears that newly planned special economic zones, set to open in three Vietnamese provinces, would lead to an influx of Chinese businesses. In addition, tensions heated up this year when China sent a survey ship into Vietnamese waters, as discussed above, illustrating the continuing challenge for Vietnam in managing this difficult and complex relationship.³⁰

Indonesia

Indonesia presents another interesting example as the world's fourth largest country by population, its third largest democracy, and its largest Muslim-majority country. It is farther away from China geographically and isn't on the front lines of ASEAN's territorial disputes with Beijing. As a founding leader of the Non-Aligned Movement, Indonesia has traditionally taken a balanced approach to major powers. Accordingly, President Joko "Jokowi" Widodo has sought to strike a balance between Indonesia's relations with China, the United States, and Japan since he was first elected in 2014. But domestic economic priorities are paramount to Jokowi, a former mayor and governor, shaping his approach to foreign policy. His top priorities are securing foreign investment, promoting maritime development and sovereignty, and turning the country into a "Global Maritime Fulcrum."³¹ In keeping with these priorities, he is focusing on maritime infrastructure and connectivity by constructing sea highways along the shores of Java, establishing deep seaports, and developing Indonesia's fishing and shipping industries.



Jokowi's emphasis on foreign investment and maritime infrastructure makes Indonesia a natural fit with China's Belt and Road Initiative.

Jokowi's emphasis on foreign investment and maritime infrastructure makes Indonesia a natural fit with China's Belt and Road Initiative; not surprisingly, the country is now the largest recipient of Chinese infrastructure capital in Southeast Asia. In fact, Indonesia aims to channel multibillion-dollar BRI investments into four "economic corridors" — North

Sumatra, North Kalimantan, North Sulawesi, and Bali — to synchronize with the Jokowi's ambitious plan to develop outer areas and enhance the country's maritime connectivity. The Indonesian government is actively courting Chinese investment toward this end, signing 23 cooperation agreements with China during the Second Belt and Road Forum in Beijing in April.³²

In terms of maritime sovereignty, Indonesia has long insisted it does not have a South China Sea dispute with China, even though China's nine-dash line overlaps significantly with Indonesia's Exclusive Economic Zone (EEZ) that extends from the Natuna Islands.³³ Although Indonesian officials don't hesitate to criticize China for fishing in the EEZ, the government has generally been cautious in its official statements as the economies of the two countries become increasingly intertwined.

While maritime concerns appear to be manageable, the overseas Chinese issue is extremely sensitive in Indonesia, home to over eight million ethnic Chinese, the largest in any ASEAN country. Anti-Chinese violence broke out in 1965 and 1998, when there was large-scale destruction of Chinese businesses across the country, and always seems close to the surface. The Chinese community has played a critical role in Indonesia's economy since colonial times, often attracting the distrust and jealousy of the indigenous population. These feelings could be stoked by China's efforts to reconnect with the overseas Chinese in Southeast Asia, and further exacerbated by residual Indonesian concerns about the influence of Chinese communism. This is becoming a domestic political issue as well, with Jokowi being the target of a concerted social media campaign in the run-up to the April 2019 presidential elections, accusing him of being a handmaiden of both China and local Chinese interests.³⁴ Jokowi survived and won reelection, but the issue is not going away.

CONCLUSION

In sum, China's growing interest in Southeast Asia isn't just the intellectual curiosity of academics and think tank experts in Beijing and Shanghai, as discussed in the introduction, but is an outgrowth of its growing foreign policy ambitions and evolving grand strategy. The foregoing discussion clearly shows that China presents both geopolitical challenges and potential

economic benefits to Southeast Asian countries, and their individual responses to China's rise will depend on geography, economic opportunity, threat perceptions, historical experience, and other factors. In the future, as the diverse country cases in this paper suggest, Vietnam will continue to balance against China in an effort to protect its national interests, while Indonesia will take advantage of BRI to promote its own economic plans and ambitions. The case studies and discussion

also suggest that China's dominance over Southeast Asia is not a pre-ordained outcome, but will be a function of Chinese power and diplomacy, the response of ASEAN countries, and the role and engagement of other major powers like the United States, Japan, and India. In this increasingly competitive regional context, Southeast Asian countries will continue to engage China, hedge, and manage their relations with Beijing carefully. They don't have the option of taking sides.

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