CHAPTER II
CHINA’S FOREIGN POLICY IN SOUTHEAST ASIA

This chapter will explain about the historical background of South China Sea dispute that involving China and some Southeast Asian Member States. The background is explained from the 8th century to the declaration of nine-dash line in South China Sea until 2017. This chapter also discuss about China’s foreign policy in the Southeast Asia and specifically toward the involving states.

A. Historical Background

South China Sea is located on the south of China that surround by China, Taiwan, the Philippines, Vietnam, Thailand, Malaysia, Brunei, Cambodia and Indonesia. It covers around 3.5 million square kilometers and consist of around 250 small islands and reefs including Spratly and Paracel Island.

The activity around South China Sea is recorded back to the 8th to 12th century, during the trading era of Sri Vijaya sovereignty. The kingdom was ruling the Straits of Malacca and its surround area, as well as held a control on the maritime trade. There were various of ships from many regions that sailed on the area in order to did the business. In that period of
era, the merchants from China were mostly using silk route to run their trading.\footnote{Tonnesson, Stein, An International History of the Dispute in the South China Sea, EAI Working Paper No. 71, 16 March 2001.}

However, after 12\textsuperscript{th} century until 15\textsuperscript{th} century, there was a changing of naval power in China. The expansion of the power through maritime approach happened, and during the dynasty in that period of time, there was a famous expedition under Admiral Zheng He. During the era, China’s tradings were with Arabian, Persian and Southeast Asian, which led to the spreading of Islam to other nations and the usage of Malay language among the trader. Unfortunately, the expansion was ordered to stopped by the emperor.\footnote{Ibid.}

The impact of the end of expansion brought opportunity to other big nations like Korea, Japan and other surround nations. From 16\textsuperscript{th} century, the expeditions from Portuguese, British, Franch and other nations from Europe started to come and took over the trade dominance in South China Sea and the region. The states with its maritime strength took over the most important trading spot like Malacca. It also affected the Arabs’s role and influences in the region around South China Sea.\footnote{Ibid.}

After the occupation in the region of South China Sea, in 18\textsuperscript{th} century, the other European states such as British and
French came along with its more powerful ship and weapon. The arrival of those states were to balancing the occupation of other European states. It then started to change from trading became colony system, where they claims the sovereignty over the area. The colonization in the region is known as the modern sovereignty, where most of important trading spot—like Malacca, were occupied and controlled by the states with big maritime and navy power.\textsuperscript{26}

In nineteenth century, the HMS Rifle, the United Kingdom’s Royal Navy Ship started their expedition in the islands and reef features of South China Sea and took a claimant towards the islands in 1864. The Islands named after Cyrus’s captain—a private whaler ship, Richard Spratly. Hence, the islands that they found named as Spratly Islands.\textsuperscript{27}

However after that period, in 1930, France took over the claimant from British occupation, and started to introduce the Spratly Islands as France’s territory in 1933. After the declaration of Islands occupation by France, Japan opposed it since its phosphate companies had taken their sources for the Spratlys. Later on in 1939, Spratly Islands became Japan’s occupation that taken by hard power. The occupation

\textsuperscript{26} \textit{Ibid}.
continued until the Second World War  where it also included Paracel and Pratas as well.\textsuperscript{28}

During the war, Japan got the advantages from the occupation of Spratlys, the features in South China Sea. Japan used it as the advance to approach Southeast Asian with its “Asia for the Asians” policy. However, the tragedy in August 1945 brought Japan to surrender to the enemy. This led Japan to left the region and its claimant of Spratly Islands. The non-occupancy of the islands brought a vacuum in the area.\textsuperscript{29}

In 1947 before the ratification of the United Nations Convention on the Law of the Sea, eleven-dash line—which later changed into nine-dash line in 1954—published by the Nationalist government of the Republic of China showing an U-shape line in the South China Sea that claimed by the Peoples Republic of China (PRC) knowing as a respond for San Francisco Treaty that was signed in 1951.\textsuperscript{30} After the China’s claimant toward Spratly Islands in South China Sea, Vietnam also declared that Spratly and Paracel Islands are belong to Vietnam\textsuperscript{31}.

\begin{flushright}
\textsuperscript{28} Ibid. \\
\textsuperscript{29} Ibid. \\
\end{flushright}
Throughout the Cold War, South China Sea became an intense area as at that time The United States had naval bases; at Cam Ranh Bay in Vietnam and Subic Bay in the Philippines as the US needs to deploy its personnel during Vietnam War\textsuperscript{32}. South China Sea was also become important area as the UK, Australia, New Zealand, Malaysia and Singapore under the FPDA—Five Power Defense Arrangement\textsuperscript{33}.

Besides the strategic importance location, it also believes that South China Sea have a lot of natural resources like oil and fish. It makes South China Sea becomes a center of attention as it connects China and other Southeast Asia countries.

The nine-dash line showed South China Sea territory under China and it covers some of other countries’ maritime exclusive economic zone or EEZ. Southeast Asian countries have agreed to follow the EEZ by the United Nations Convention on the Law of the Sea. Any dispute between two countries regarding its maritime zone that borders directly and does not require the EEZ, it settle with bilateral treaty. However, the central area of South China Sea does not have any agreement or negotiation on how the area divided.


\textsuperscript{33} Ibid.
Since the declaration of nine-dash line by China, there are areas that in dispute due to its collide with Southeast Asian countries’ maritime border.

According to the map above, there are some disputes area like Paracel Island that claimed by China, Vietnam and Taiwan. Also, Spratly Island that claimed by China, Taiwan, Malaysia, Brunei, Vietnam and the Philippines. The claimant is whether the whole Islands or part of the feature.

Figure 2.1 Map of Nine-Dash Line

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The dispute getting intense after the Philippine declared a statement in 1971 that Spratly Islands and some of its features are belong to them. Following it, Malaysia issued its new map with the Spratly in its official territory.

China started to take hard power to show its military capability in South China Sea. In 2014, China confronted the Philippines by attempting to block the supply to military outpost even though the attempt was not successful. Also, in the same year, there were a seventy-three days crisis between China and Vietnam due to China’s oil rig ship that deployed in to Vietnam’s exclusive economic zone (EEZ) within two hundred nautical miles.

However, China still maintains its diplomatic relations with Southeast Asian countries by cooperation ties. One of it is ASEAN-China Free Trade Agreement (ACFTA) where tariff elimination agreement to enhance the trade flow

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36 Catley, Bob & Keliat, Makmur, *ibid*.

37 Bonnie S. Glaser, Council on Foreign Relations: Conflict in the South China Sea, April 2015, retrieve from https://cfrd8-files.cfr.org/sites/default/files/pdf/2015/04/CPM_Update_South_China_Sea_.pdf on 20 August 2018 at 8:45PM MYT.
between China and ASEAN member states in term of goods and services. The agreement is effective by 1 January 2010.  

B. China’s Decision-Making Process and Structure

For a country, foreign policy is usually determine by its domestic or national interest. It influences by the decision making actors. Foreign policy also influences by domestic condition political situation. Foreign policy decision of a country is usually made by the leader of the state and a small cyrcle around it, such as the ministers. However in China, the decision making is not really taken by an individual.

China is a communist state that is ruled by the Communist Party of China (CPC). Hence, there are two structures of the decision-making, the CPC that lead by the Party Political Bureau (Politburo) and the Standing Committee. While the state government leads by the Premier as the head of the State Council.  

Every five years, there is the National Party Congress where it “set the country’s overall policy direction” and

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decide its Party’s Politburo members. The Politburo’s position is the most important body on the decision-making. Another important structure is the Politburo Standing Committee (PSC), where Xi Jinping and Li Keqiang are the member. Xi Jinping is representing the “elite” group which include the “princeling”—descendants of CCP and the elites group, and focus on its economic development and middle-class. While Li Keqiang is representing the “populist” group, focus on the “harmonious society” and improve the poor standard.

For day-to-day basis, there are Party Secretariat and State Council that holding an important position to decide and processing the decision-making. State Council is the People’s Republic of China’s (PRC) Cabinet that is head by the Premier.

State Council along with the governemnt ministries are conducting the daily adninistration of the government. State Council itself is consisit or around fifty people including the premier, vice premier, state councillors and the head of

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40 Ibid.
41 Ibid.
ministries. The premier involve in the foreign affairs and economic relations, as well as the vice-premier.\(^\text{44}\)

There is the National People’s Congress (NPC), that consist of three thousand members from the parties. It held annual meeting with fifteen-days length, where it decides the state’s policy and choose the PRC’s President, Premier and the cabinet. Besides, there is the People’s Liberation Army (PLA) that affect the military affairs as it might influence foreign military relations.\(^\text{45}\)

C. China’s Foreign Policy after 2000

China, in this modern era, is growing fast and becomes one of the biggest country in the world in term of economic, society and geography. To maintain its development’s stability, China needs to implement its foreign policy. It also aims to reach their national interest, people’s needs and control China’s relations with other international actor whether state or non-state actor.

Since in Mao Zedong era, China has been implementing peaceful development for its foreign policy. To introduce China’s new foreign policy, President Hu Jintao on September 2005 mentioned a concept of “harmonious world” in the United Nations 60\(^\text{th}\) anniversary summit. The concept of

\(^{44}\) A. Doak Barnett, \textit{ibid.}  
\(^{45}\) Kerry Dumbaugh & Michael F. Martin, \textit{ibid.}
harmonious world is a reflection of harmonious society that being use as Chinese leadership concept. By harmonious society as China’s domestic leaderships’ concept, it extends into the harmonious world as foreign policy of China.\textsuperscript{46}

In the summit, President Hu Jintao elaborated the way to establish a harmonious world.

“First, uphold multilateralism to realize common security. ... We must abandon the Cold War mentality, cultivate a new security concept featuring trust, mutual benefit, equality and cooperation, and build a fair and effective collective security mechanism. Second, uphold mutually beneficial cooperation to achieve common prosperity. ... establish and improve a multilateral trading system that is open, fair and non-discriminatory. Third, uphold the spirit of inclusiveness to build a harmonious world together. Fourth, promote UN reform actively and prudently.”\textsuperscript{47}

On 14 March 2013, the leadership changed to Hu’s predecessor, President Xi Jinping. Xi’s leadership is known with its popular campaign like anticorruption action which bring him to become one of the most powerful leader in


China. He gains trust and being a strong influential in decision-making process of policy.

Besides continuing peaceful development that has been implemented since Deng Xiaoping era, Xi Jinping who was the General Secretary of the Chinese Communist Party (CCP) introduce new national development goals during the 18th National Chinese CCP in November 2012 which later implemented as the new foreign policy of “Chinese Dream”\textsuperscript{48}. Since then, it often be mentioned by President Xi Jinping in his speech during his presidential era.

China dream that is implemented by Xi aims to fulfil China's national interest. There are two main objects to achieve by China dream foreign policy, “… that is to establish a ‘moderate well-off society’ by 2021 when the CCP has existed for 100 years, and a ‘rich and strong socialist country’ by 2049 when the PRC has existed for 100 years”\textsuperscript{49}.

Along with the new foreign policy, Xi tries to promote China’s position internationally as a developed country that have a strong position and influence in keeping the peace.


Wang Yizhou\textsuperscript{50} stated at the UN General Assembly Meeting in September 2013 that:

\begin{quote}
\textit{“China will become more active and constructive in participating in and in dealing with international and regional hot issues, in negotiating peace and ending conflicts and in safeguarding world’s peace and stability”}\textsuperscript{51}
\end{quote}

Chinese Dream foreign policy by Xi pursues to maintain peace and stability with neighbouring countries, developing countries and other states. By being more active in keeping peace and stable international environment, China change its foreign policy strategic direction as “striving for achievement”\textsuperscript{52}. Hence, China will actively take its own action to achieve its goal according to its foreign policy strategic dynamic without any compromise.

The “dream” in China’s foreign policy by Xi is inspired to develop China’s economy and technology through its industrialization and modernization as a whole nation’s achievement, rather than a success of individual.\textsuperscript{53} By that,

\textsuperscript{50} A Chinese international relations scholar.
\textsuperscript{52} Camilla T. N. Sørense, ibid.
\textsuperscript{53} Ferdinand, Peter, Westward ho—the China dream and ‘one belt, one road’: Chinese foreign policy under Xi Jinping, retrieve from
China under Xi presidential era increases its diplomatic relations with other countries.

D. China’s Foreign Policy in Southeast Asia

China that has the largest population in the world and cover a large land area, borders directly with Burma, Thailand, Laos and Vietnam on the land and also South China Sea on the sea. Southeast Asia countries and China surround South China Sea itself.

Southeast Asia is a region that consists of the Philippines, Vietnam, Laos, Cambodia, Thailand, Burma, Brunei, Singapore, Malaysia and Indonesia. The region is located among China, Australia, East Asia, South Asia, and South China Sea. It makes the region as an attention for big country like China. The region is organized under the Association of Southeast Asian Nations or ASEAN.

According to China’s foreign policy, it is important for China to strengthen its diplomatic relations and cooperation with other countries especially Southeast Asian countries. Since the dispute in South China Sea raise, China also need to focus on improving its relations with the region especially after the Philippines filed the arbitration to the United Nations Convention on the Law of the Sea or UNCLOS.

To promote the diplomatic relations in peace way referring to China’s foreign policy, China implements trade, investment, infrastructure development and economic cooperation with Southeast Asian Member States.

1. Bilateral Relations

Vietnam that borders directly with China, has maintained its relations closely. The relations between those two have developed for years, especially since the Vietnam War. It is shown as the eleven-dash line area in South China Sea was changed into nine-dash as the exception for the (North) Vietnam in 1954.\(^{54}\)

\(^{54}\) Rustandi, Commodore Agus, The South China Sea Dispute: Opportunities for ASEAN to enhance its policy in order to achieve resolution, 2016, retrieved from http://www.defence.gov.au/ADC/Publications/IndoPac/Rustandi_IPSP.pdf on 24 September 2018 at 9:20PM MYT.
As the improvement of bilateral relations between China and Vietnam, in 2004 the export to Vietnam increased 20 percent while its import from Vietnam increased by 80 percent.\textsuperscript{56} Also, despite what happens on the oilrig installation issue in Paracel Island, China and

\begin{figure}[h]
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\includegraphics[width=\textwidth]{map.png}
\caption{Map of eleven-dash line in South China Sea\textsuperscript{55}}
\end{figure}

\textsuperscript{55} Rupert Wingfield-Hayes, China’s Island Factory, BBC News, 9 September 2014, retrieve from https://www.bbc.co.uk/news/resources/idt-1446c419-fc55-4a07-9527-a6199f5dc0e2 taken on 24 September 2018 at 9:33 PM MYT.

\textsuperscript{56} Vaughn, Bruce & Morrison, M. Wayne, China-Southeast Asia Relations: Trends, Issues, and Implications for the United States, CRS Report for Congress, 4 April 2006.
Vietnam stay focus on its peaceful resolution and “the long-term and steady growth of bilateral relations”\textsuperscript{57}.

The resolution is proven by export-import value between China and Vietnam. China main products that are exported to Vietnam are machinery, oil and raw materials, food products and consumer products, while main products that China import from Vietnam are raw materials, agricultural product, fresh and frozen seafood, and also consumer goods.\textsuperscript{58}

The average growth value keeps increasing from 2000 to 2006, with 25.25 percent for import from Vietnam and 39.87 percent average for export from China to Vietnam. By that point, China becomes the highest trading partner for Vietnam, after surpassing Japan.\textsuperscript{59}

To cut the cost of shipping and the shipping time, China and Vietnam agree to build up its bilateral relations. China implements the investment initiative by the Shenzhen-Haiphong trade corridor. The corridor is aimed

\textsuperscript{57} Jiye Kim, China’s Diplomacy towards the South China Sea Disputes, retrieve from http://web.isanet.org/Web/Conferences/AP\%20Hong\%20Kong\%202016/Archive/81673df0-1a83-4288-80f8-4365d18def22.pdf on 24 September 2018 at 9:59 PM MYT.

\textsuperscript{58} Ha Thi Hong Van & Do Tien Sam, Vietnam-China Trade, FDI and ODA Relations (1998-2008) and the Impacts upon Vietnam, taken from http://www.ide.go.jp/library/English/Publish/Download/Brc/pdf/01_vietnamandchina.pdf, retrieve on 3 October 2018 at 11:22PM MYT.

\textsuperscript{59} Ibid
to move the unloaded cargo from Shanghai and Hongkong for southern and southwestern China shipping.\(^6\)

Besides trading relations, China also has a geo-strategic interest with Burma. Burma is located in a strategic area where it connects China to Indian Ocean through Burma, which it can lead to the Middle East as the big oil source for China. The interest of oil from Middle East is shown by the interest of Chinese academics to build a pipeline across Burma without having need to transit its 60 percent oil flow from Middle East to China at the Malacca Straits.\(^6\)

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\(^6\) Vaughn, Bruce & Morrison, M. Wayne, ibid.
Besides that, China has assisted Burma with 200 million US dollar loan during the US sanction in 2003 as the consequence of the human rights violation. While in 2005, to improve their bilateral ties especially on its trade and military cooperation, China and Burma agreed to increase their trade value from approximately 1 billion US dollar to 1.5 billion US dollar in 2005.\(^{63}\)

Another country that has built its relations with China is Thailand. There are numbers of Sino-Thai ethnic

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\(^{63}\) Ibid
in Thailand itself. In 1997, opposite to the US response during the crisis, China offered assistance to re-build its economic\textsuperscript{64}. The relations of China and Thailand are not limited to the high level of government which is shown that there are 23 friendly cities and provincial capitals like Beijing-Bangkok, Yunnan Province-Chiang Rai, Wuzhou City-Chantaburi, and many others.\textsuperscript{65}

Thailand is also another geo-strategic attention for China. With its strategic location, Thailand might provide an energy flow for China. Since the relationship between two of them is stable in term of territory, Thailand proposed “Energy Land Bridge which would link the Andaman Sea with the Gulf of Thailand south of the Isthmus of Kra and thereby provide an alternative to the Straits of Malacca”\textsuperscript{66}.

Besides as a geo-strategic attention, Thailand and China also signed the MoU on Agricultural Trade Cooperation, Joint Action Plan on Thailand-China Strategic Cooperation and the Agreement on Expanding and Deepening Bilateral Economic and Trade Cooperation.\textsuperscript{67} Focusing on its trade, the value between

\textsuperscript{64} Ibid
\textsuperscript{66} Vaughn, Bruce & Morrison, M. Wayne, Ibid.
\textsuperscript{67} Hongfang, Shen, Ibid
China and Thailand increases from 85.61 hundred million US dollar in 2002, becomes 577.9 hundred million US dollar in the next 9 years.\textsuperscript{68}

As one of the biggest country Sutheast Asia, Indonesia also becomes one of China’s attention. Even though there was a gap of relations between those countries due to ideology difference, the relations between China and Indonesia now keep increasing since both of the country have a large population and concern on its economic development.

The economic cooperation between China and Indonesia shown at the risen of trade value where in 2010 China overtook the US second position with its 14 billion US dollar value of non-oil and gas export from Indonesia to China. Meanwhile, its import value is 19.6 billion US dollar value in the same year.\textsuperscript{69}

In the Joint Statement between the People’s Republic of China and the Republic of Indonesia during the President of Indonesia visit in 2012, China expressed its willingness to assist the Chinese Language department development in the Indonesia Peace and Security Center

\textsuperscript{68} Ibid
(IPSC) which is the security and defence institution.\textsuperscript{70}

Compare to Indonesia as the fourth position of trading partner with China, Malaysia is the largest trading partner for China as of 2010. The trading value between China and Malaysia is 22 billion US dollar, and followed by Singapore with 17.9 billion US dollar.\textsuperscript{71}

Three of the countries; Indonesia, Malaysia and Singapore, have a strategic location surrounding Malacca Strait where it is passed by the oil flow to South China Sea and direct to China. However in Asia, Singapore is the first country that implement the Free Trade Agreement with China.\textsuperscript{72}

As the first member of the ASEAN, Malaysia has established its relations with China since 1974 to strengthen China and ASEAN relations and bilateral relations between Malaysia and China itself. According to Bai Tian, China’s ambassador to Malaysia, the bilateral

\textsuperscript{70} Joint Statement between the People’s Republic of China and the republic of Indonesia, retrieve from https://www.kemlu.go.id/Documents/Bilateral\%20RI-RRT/Joint\%20Statement\%20RI\%20-%20RRT\%20Final.pdf on 7 October 2018 at 2:49PM MYT.
\textsuperscript{71} Alexander C. Chandra & Lucky A. Lontoh, \textit{ibid}.
\textsuperscript{72} Emile Kok-Kheng Yeoh & Siaw-Yien Loh, China-Malaysia Trade Relations, China-ASEAN Regional Cooperation and Malaysia’s Policy Responses, University of Malaya: Institute of China Studies, 2015, retrieve from https://www.researchgate.net/publication/242539155_China-Malaysia_Trade_Relations_China-ASEAN_Regional_Cooperation_and_Malaysia's_Policy_Responses on 7 October 2018 at 5:15PM MYT.
trade between China and Malaysia increased to 42.7 billion US dollar in the first five months of 2018. It will keep increase since there is Alibaba presence, also other e-commerce and e-business in Malaysia.\footnote{Bilateral Trade between Malaysia, China to Exceed 100billion USD, June 18, 2018, @ 6:11PM, Bernama, retrieve from https://www.nst.com.my/business/2018/06/381187/bilateral-trade-between-malaysia-china-exceed-us100-bln on 7 October 2018 at 5:57PM MYT.}

Additionally, China and Malaysia have some mega projects that include East Coast Railway Line. The East Coast Railway Line is a reflection from China’s “Belt and Road Initiative” policy that aims to move the goods faster from Kuantan Port to Port Klang, where it saves one and a half day of sailing time.\footnote{Tham Siew Yean, Chinese Investment in Malaysia: Five Years in to the BRI, 27 February 2018, Singapore: Yusof Ishak Institute Analyse Current Events, retrieve from https://www.isseas.edu.sg/images/pdf/ISEAS_Perspective_2018_11@50.pdf on 7 October 2018 at 8:24PM MYT.}

Besides Indonesia and Malaysia, China relations with Southeast Asia’s island countries is with the Philippines. The relation between those two countries is up and down since the claimant of Spratly Island features by China. The Philippines location that mostly borders directly with the South China Sea on the north west side of its island country, lead the dispute becomes a serious attention.

However, in 2005, the average trading value
between China and the Philippines keeps increasing. During five years, its trade value increase 26.6 percent average annually. Also, there were a lot of oil and natural gas around Spratly Island that reportedly have been reserved.75

In 2004, China and the Philippines agreed to conducting a pre-exploration around Spratly Islands area.76 The agreement signed on 1 September 2014 in Beijing, China, between China National Offshore Oil Corporation (CNOON) and Philippine National Oil Company (PNOC).

“... CNOON and PNOC Exploration Corporation (PNOC EC), a subsidiary of PNOC, held discussions with a view of engaging in a joint research of petroleum resource potential of certain areas of the South China Sea as a pre-exploration activity”.77

This joint research between China and the Philippines aims to explore the resource of potential oil

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76 Jiye Kim, China’s Diplomacy towards the South China Sea Disputes, retrieve from http://web.isanet.org/Web/Conferences/AP%20Hong%20Kong%202016/Archive/81673df0-1a83-4288-80f8-4365d18def22.pdf
77 An Agreement for Joint Marine Seismic Undertaking in Certain Areas in the South China Sea By and between China National Offshore Oil Corporation and Philippines National Oil Company, retrieve from https://www.spratlys.org/documents/agreement_bilateral_marine_seismic_undertaking.pdf on 8 October 2018 at 10:57PM MYT.
and gas in the agreement area. The agreement is held for three years since it was signed by the parties.

2. Trilateral and Multilateral Relations

To strengthen the relations among the countries surround South China Sea, China has built its relations closer to maintain the stability in the region. Since the issue is South China Sea becomes an attention, China along with the Philippines and Vietnam agree to put aside the dispute in South China Sea and together joint exploration of the resources in the area. These three countries agree to built trilateral cooperation, named the Joint Marine Seismic Undertaking (JMSU). The JMSU was formerly signed only by China and the Philippines. However, Vietnam decided to joint the research agreement.

The tripartite of JMSU itself is consist of China National Offshore Oil Corporation, Vietnam Oil and Gas Corporation and Philippine National Oil Company. The JMSU three years agreement was covering 142,886 square kilometer of South China Sea area. The parties of JMSU agree to collect works on 2D and 3D seismic line within the agreement area.

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78 Jiye Kim, *ibid.*
79 A Tripartite Agreement for Joint Marine Scientific Research in Certain Areas in the South China Sea, retrieve from
3. China-ASEAN Free Trade Agreement

The increasement economic relations between China and Southeast Asian member states, including trade, infrastructure and investment. The region that agree to joint under the Association of Southeast Asian Nations (ASEAN) open its multilateral relations with other countries including China.

As the global influential for the economic development especially for each ASEAN member states, China and ASEAN signed an agreement to improve their trading cooperation. One of the agreement is the ASEAN-China Free Trade Agreement (ACFTA).

The decision of establishing the Framework Agreement on Comprehensive Economic Co-Operation and ASEAN-China Free Trade Area was discussed during the ASEAN-China Summit in Brunei, on 6 November 2001.\textsuperscript{80} The Framework Agreement on Comprehensive Economic Co-Operation is signed in Phnom Penh on 4 November 2002. The agreement’s objectives are stated to

“strengthen and enhance economic, trade and investment cooperation between the parties; progressively liberalise and promote trade in goods and services as well as create a transparent, liberal and facilitative investment regime; explore new areas and develop appropriate measures for closer economic co-operation between the parties; and facilitate the more effective economic integration of the newer ASEAN Member States and bridge the development gap among the Parties.”

The agreement was signed by all ASEAN Member States’ leader and the People’s Republic of China’s premier, Zhu Rongji. The framework agreement is aimed to establish the free trade agreement of ASEAN and China within the next ten years.

According to the Framework Agreement, the ASEAN 6 nations that include Singapore, Malaysia, Indonesia, Thailand, the Philippines and Brunei will fully implement the China-ASEAN Free Trade Agreement (FTA) in 2010. The initiation is stated under Early Harvest Program and exceptional for Cambodia, Vietnam, Lao PDR and Burma as the newer member of ASEAN at that time. Those four newer member states received a time adjustment until 2015.

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81 Ibid
82 Ibid
On 29 November 2004, China and ASEAN Member States signed the Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Co-Operation between the People’s Republic of China and the Association of Southeast Asian Nations. The signed agreement is to reaffirm the commitment among the countries toward China-ASEAN free trade agreement.\[83\]

The import and export tariff elimination is done gradually within ten years. As most of the tariff rate is 20% for China and the ASEAN 6 Member States, it decreases from 20% in 2005, 12% in 2007, 5% in 2009 and it gets to zero percent in 2010\[84\]. Also, the deduction of tariff rate for the other four member states is aimed in 2015.

The elimination of tariff rate should not exceed 1 January 2012 for China and ASEAN 6 states. Meanwhile, for the other four nations should not exceed 1 January 2018.\[85\]

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The impact of China-ASEAN Free Trade Agreement (CAFTA) is affecting the economic development of Southeast Asian nations and China itself. The overall increasement of China’s exports to ASEAN Member States in the first year from 2004 to 2005 is 7.2%, while the import overall increasement from ASEAN to China is 11.4% by the same year\(^\text{86}\). As the table below,

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<td>42,902</td>
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Table 2.1 China’s Exports to ASEAN 2004-2005

Meanwhile, the import impact for China and ASEAN member states after the signed of the Framework Agreement as below.

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<thead>
<tr>
<th>Overall Rank in 2005</th>
<th>Country</th>
<th>2004 ($million)</th>
<th>2005 ($million)</th>
<th>2004-2005 % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Malaysia</td>
<td>18,162</td>
<td>20,108</td>
<td>10.7</td>
</tr>
<tr>
<td>8</td>
<td>Singapore</td>
<td>14,002</td>
<td>16,531</td>
<td>18.1</td>
</tr>
<tr>
<td>11</td>
<td>Thailand</td>
<td>11,538</td>
<td>13,994</td>
<td>21.3</td>
</tr>
<tr>
<td>12</td>
<td>Philippines</td>
<td>9,062</td>
<td>12,870</td>
<td>42.0</td>
</tr>
<tr>
<td>18</td>
<td>Indonesia</td>
<td>7,212</td>
<td>8,430</td>
<td>16.9</td>
</tr>
<tr>
<td>36</td>
<td>Vietnam</td>
<td>2,478</td>
<td>2,549</td>
<td>2.9</td>
</tr>
<tr>
<td>72</td>
<td>Burma (Myanmar)</td>
<td>207</td>
<td>274</td>
<td>32.7</td>
</tr>
</tbody>
</table>

87 Ibid.
<table>
<thead>
<tr>
<th></th>
<th>Brunei</th>
<th>Cambodia</th>
<th>Laos</th>
<th>ASEAN Total</th>
<th>Total Imports</th>
<th>Imports from ASEAN as a % of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>79</td>
<td>251</td>
<td>30</td>
<td>13</td>
<td>62,955</td>
<td>560,811</td>
<td>11.2</td>
</tr>
<tr>
<td>121</td>
<td>208</td>
<td>27</td>
<td>26</td>
<td>75,017</td>
<td>660,222</td>
<td>11.4</td>
</tr>
<tr>
<td>122</td>
<td>-17.4</td>
<td>-7.6</td>
<td>102.4</td>
<td>19.2</td>
<td>17.7</td>
<td></td>
</tr>
<tr>
<td>ASEAN Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Total Imports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2.2 China’s Imports from ASEAN

By the time, China and ASEAN Free Trade Agreement makes China as one of the highest trading partner for ASEAN member states, along with the United States, UK and Japan. In 2015, bilateral trade between China and ASEAN member states reached 395 billion US dollar which cover 15 percent of ASEAN trade.

China and ASEAN trade includes the agricultural exports which is one of critical sectors for Southeast Asian countries where agriculture is related to the food products and palm oil. Also, it includes the trade in service which is tourism. The average Chinese tourist arrival in Southeast

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88 Ibid.
89 Oh Yoon Ah, China’s Economic Ties with Southeast Asia, Korea Institute for International Economic Policy: World Economy Brief, 4 September 2017.
Asia countries is accounted for 17% of total tourist arrival.\textsuperscript{90}

4. China’s “Belt and Road Initiative” Policy

Chinese President Xi Jinping introduce the new long term development strategy and one of the most ambitious foreign policy at the end of 2013 that is called as One Belt, One Road. Even though it is called a One Belt, One Road (OBOR), the policy is targetted to build a Silk Road Economic Belt and 21\textsuperscript{st} Century Maritime Silk Road. Eventually, in 2015, Chinese tried to change the name to become Belt and Road Initiative (BRI)\textsuperscript{91}.

\textsuperscript{90} \textit{Ibid.}

\textsuperscript{91} Dr. Christina Lin, The Belt and Road and China’s Long-term Visions in the Middle East, ISPSW Strategy Series: Focus on Defense and International Security, October 2017, retrieve from http://www.css.ethz.ch/content/dam/ethz/special-interest/gess/cis/center-for-securities-studies/resources/docs/ISPSW-512\%20Lin.pdf on 13 October 2018 at 4:51PM MYT.
The initiative is discussed during the 18th Party Congress in 2013 where the policymakers have a meeting to build the new foreign policy strategy, especially for its neighbouring countries. President Xi stated that strengthening economic ties, deepening security cooperation and relations with the neighbouring countries need to be improved. The aims of BRI are to

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92 Retrieve from http://www.hoylam.net/xitayning_bir_belwagh_bir_yol_pilani_heqqide_qisqiche_chushenchche/ on 13 October 2018 at 6:09PM MYT.
“... to offset higher domestic production cost and excess capacity, reduce transport cost, create new markets for Chinese goods and services and internationalize the Chinese currency RMB.”

The silk road will include Burma, where the pipeline to transfer oil flow from the Middle East can take a shorter road. The pipeline from Middle East will flow from Sittwe or Irrawaddy River and go across Burma to reach Kunming, China.

As China’s reputation for its exports, China needs to upgrade its capability on industry. Aside from quantity that have been produces, China aims to emphasise its quality matter. By upgrading its industry, China can expand its production.

To show the expanding and upgrading of Chinese industry, China introduced the “high-speed railway diplomacy” to some countries like India, Thailand, Malaysia and Indonesia which considered as the strategic partner for the Belt Road Initiative. The estimation of the transport equipment export from China for the high-speed

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and Road Initiative, Lowy Institute, March 2017.

95 Dr. Christina Lin, ibid


railway market is around 263 billion US dollar by the year of 2018.\(^9\)