

➤ Southeast Asia Between China and the United States

Munir Majid

The new geopolitics of Southeast Asia is dominated by the emerging regional rivalry between China and the United States. The contest has been highlighted by incidents in the South China Sea where the US has made clear its interest in ensuring freedom of navigation and in the peaceful settlement of China's disputes with smaller regional states. Some in the Pentagon project an 'AirSea Battle' in the region similar to the 'AirLand Battle' planned during the Cold War – a scenario given credence by US Secretary of Defence Leon Panetta's announcement at the Shangri-La Dialogue in June 2012 of an American naval force 'rebalancing' in the Pacific from the current 50 percent to 60 percent by 2020. More widely, historian Arne Westad describes Southeast Asia as 'The decisive territory, on the future of which hangs the outcome of a great contest for influence in Asia.'¹ Indeed, the rivalry extends well beyond maritime issues, and Southeast Asian states have been drawn into this contest, whether or not they have disputes with China in the South China Sea. What led to this strategic turn, how the maritime disputes might develop, and the diplomacy required to negotiate the tensions and determine the future of regional institutions, are matters of some complexity. Close proximity to events and issues can lead to premature conclusions. There has, therefore, to be a certain level of circumspection in any commentary on the new geopolitics of the region. Nevertheless, any analysis of this situation must project future trends and outcomes, even as contemporary events are weighed against their long-term strategic significance.

STRATEGIC CONTEST

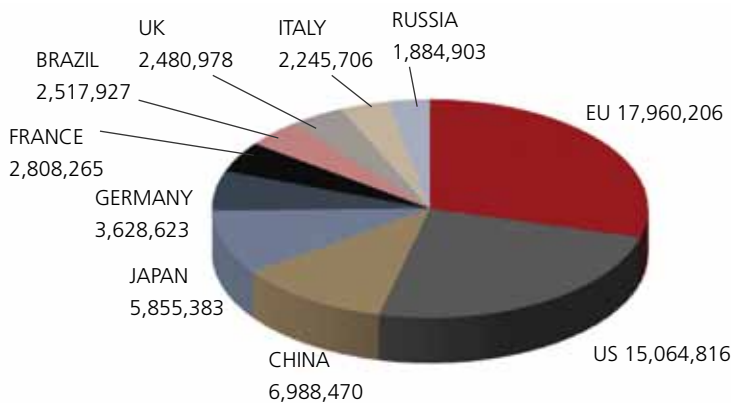
Not all is new in the 'new' geopolitics of Southeast Asia. What is new is the priority the United States has declared it is now giving to the region. This follows a period of relative neglect since the end of the Vietnam War, and the more recent American focus on Afghanistan and Iraq, even if there was an engagement with Southeast Asia in the aftermath of 9/11. Since the United States' departure from Indochina, and especially in the last two decades, China's economic rise has seen the depth and breadth of its influence in Southeast Asia, and indeed the world, increase. At the same time, American security and military preoccupations in the Middle East and Central Asia, as well as the financial and economic crisis since 2008, have caused its regional role to diminish. A new strategic reality has therefore been evolving in Southeast Asia, driven by China's economic rise against a background of the US' foreign policy adventurism and its relative economic decline.

¹ Foreword in Munir Majid, *9/11 and the Attack on Muslims*, Kuala Lumpur, MPH Publishing, 2012. For a useful American perspective on the rivalry see Aaron L Friedberg, *A Contest for Supremacy*, New York, W.W. Norton, 2011. Arne Westad has recently published a magisterial work on the modern foundations of China's view of the outside world: see Arne Westad, *Restless Empire, China and the World since 1750*, New York, Basic Books, 2012.

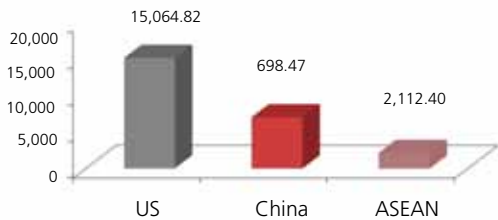
The Obama administration has decided to attempt to arrest this regional strategic drift with a strategic ‘pivot’ towards the Asia-Pacific. The US protests it has always been an Asia-Pacific power, but it had been a while since it acted like it, at least insofar as Southeast Asia was concerned.² Now it has done so through clear strategic policy pronouncement and diplomatic manoeuvring. There is a new contest for influence in Southeast Asia.

The pivot is taking place in the context of deepening Chinese regional relationships. China’s economic rise and success not only won the admiration of Southeast Asian countries, but also helped Beijing establish strong trade and financial ties with them. China is now the second largest economy in the world (figure 1), with economic growth of about 9-10 percent per annum since the late 1970s, even as the American share of global GDP declined since 1999. The size of the Chinese economy is expected to surpass that of the US by 2030. As of 2005, China had lifted over 600 million people out of a dollar-a-day poverty. It is the world’s largest exporter and will probably be the biggest importer as well in the not too distant future. It is the world’s largest holder of foreign exchange reserves. It has become the world’s biggest creditor, lending more to the developing world than the World Bank. China’s economic and financial might has particularly been felt in Southeast Asia as that of the United States receded, especially since the Asian financial crisis of 1997-98, when with the United States conspicuous by its inaction, China’s refusal to devalue the renminbi (RMB) was of great help to struggling Southeast Asian economies. Beijing’s economic diplomacy since then has been deft and effective. The China-ASEAN dialogue process had started with the Senior Officials Consultation meeting in

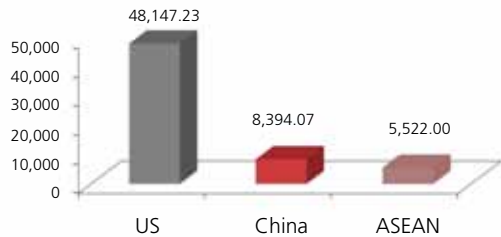
Figure 1: GDP Current Prices (in billions of US dollars) 2011



GDP Current Prices (2011)
(billion dollars)



GDP based on PPP per capita GDP
(units current international dollars)



Source: World Economic Outlook Database, IMF

² US Secretary of State Hillary Clinton remarked during a visit to Malaysia in November 2010: ‘Since day one of the administration, Obama and I have made it a priority to re-engage with Asia-Pacific as we know that much of the history of the 21st century will be written in this region because it is the centre of so many of the world’s biggest opportunities and challenges.’ Secretary Clinton fully developed the point, America’s Pacific Century in *Foreign Policy*, November 2011.

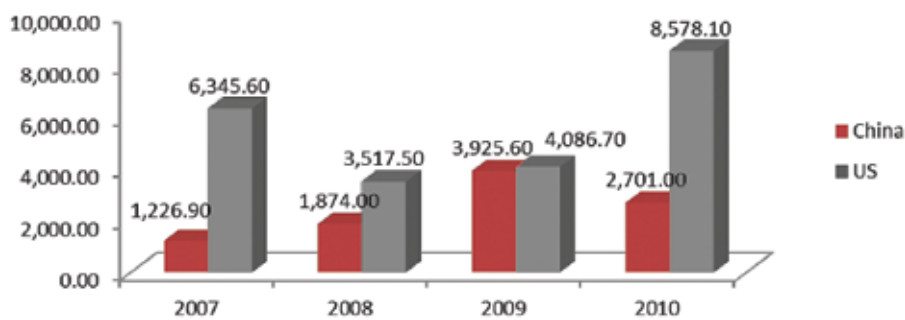
1995, and in the wake of Asian financial crisis, China, along with Japan and South Korea, accepted ASEAN's invitation to attend an informal summit in Kuala Lumpur in 1997, which evolved into ASEAN+3 (APT). By October 2003, China had acceded to ASEAN's Treaty of Amity and Cooperation (TAC). The China-ASEAN Free Trade Area (CAFTA) came into effect in January 2010.

Regional economic integration in East Asia as a whole has proceeded apace. Intra-regional exports have been growing in the past decade from 34 percent in 2002 to over 50 percent in the ASEAN+3 region (figure 2). The rest of the region is riding on China,

even if the final products are still destined for the huge consumer markets of the US and Europe. Since 1993 China has been a net importer in regional trade. About 50 percent of China's component imports are from Japan, Taiwan and South Korea. In terms of FDI, Japan has over 30,000 companies investing over \$60 billion in China; South Korea also over 30,000 investing more than \$35 billion; Singapore is involved in over 16,000 projects with investments of over \$31 billion. Even Taiwan, with whom China has a non-negotiable 'core interest' problem, has over \$110 billion invested on the mainland, and just in August this year signed an investor-protection agreement

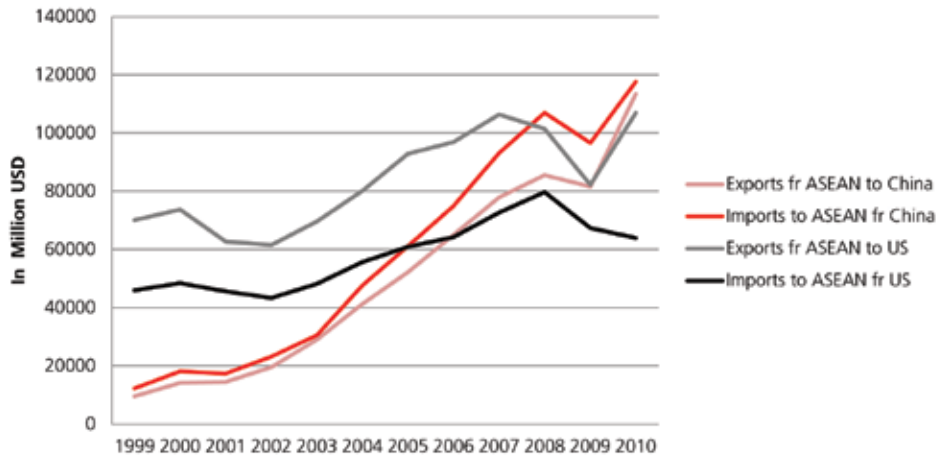
Figure 2:

China and US Direct investment in ASEAN (US million dollars) 2007-2010



Source: ASEAN Statistics Database

Direction of ASEAN Imports and Exports (China vs US)



Source: ASEAN Statistics Yearbook, China Daily, Office of the United States Trade Representative

with Beijing (Taiwanese firms are responsible for 60 percent of China's hardware exports). Furthermore, multinational companies account for 60 percent of China's total trade, and 80 percent of the value of their exports is imported. Indeed, about 60 percent of all imports into the US emanate from US subsidiaries or sub-contracted firms operating in China. What these figures show is that it is not simply 'Chinese' exports that determine the geoeconomic terrain of the region. Instead, China is at the centre of regional and international division of labour.

Moreover, all the surpluses are recycled. Paul Krugman calls China a 'T-bills republic', such is its integration in the global and regional economy. During the Western financial and economic crisis of 2008, China pulled its weight with a RMB4 trillion (\$586 billion) stimulus package. East and Southeast Asian countries were better able to contend with the 2008 crisis not only because of the improvements they had made in corporate governance, foreign exchange reserves, bank capitalisation and regulation since the Asian crisis of 1997-98, but also because of China's emergence as a key driver of economic growth.³ Following the Asian crisis, China had been instrumental in the setting up of the Chiang Mai Initiative Multilateralisation (CMIM) to support economies in the ASEAN+3 region facing short-term liquidity problems with a pool of foreign exchange reserves presently standing at \$240 billion. A regional office based in Singapore has been set up to conduct the kind of macro-economic surveillance the IMF does, with the CMIM standing ready to give financial support of up to two years based on agreed covenants. China's economic rise, while enabled by the US-led open global financial and economic system, has also been achieved by doing the right economic and financial things together with regional states. As a result, seven Asian economies have been identified as the future engines of global growth, with the growth in the emerging middle class being a key driver (figure 3).

Figure 3: Engines and Drivers of Growth

Engines of Growth (Asia-7 Economies)
Between 2010 and 2050, they will account for 87 percent of total GDP growth in Asia and almost 55 percent of global GDP growth. They will thus be the engines of not only Asia's economy but also the global economy.

Country	2010 GDP (MER trillion)	2050 GDP (MER trillion)
PRC	5.7	62.9
India	1.4	40.4
Indonesia	0.7	11.4
Japan	5.4	8.2
Republic of Korea	1.0	3.7
Thailand	0.3	3.2
Malaysia	0.2	2.6
Total Asia -7	14.8	132.4

Source: IMF World Economic Outlook, Oct 2010; Centennial Group Projections 2011

The Emerging Middle Class is a Key Driver
The middle class is the source of savings and entrepreneurship that drives new products and processes. Growth comes mainly from new products and most growth happens when new products are targeted at the middle class. Consumption by the global middle class accounts for one-third of total global demand.

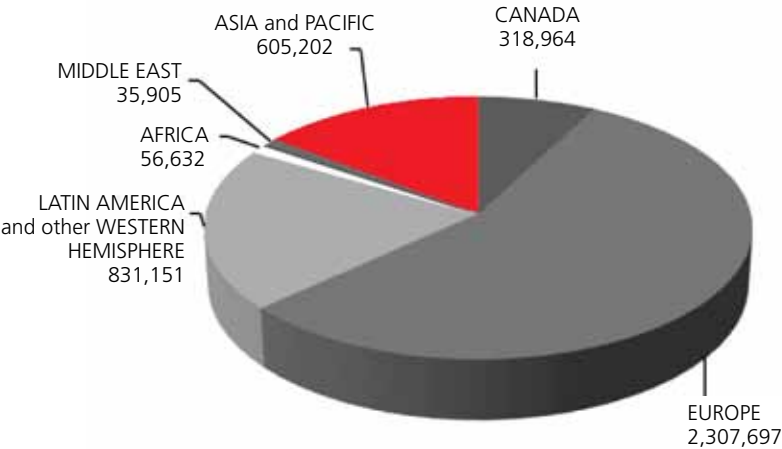
Country	2030			2050		
	Middle class	Upper class	GDP per capita (PPP)	Middle class	Upper class	GDP per capita (PPP)
PRC	1,120	40	21,100	1240	190	47,800
India	1,190	15	13,200	1400	210	41,700
Indonesia	220	5	13,500	250	40	37,400
Japan	100	20	48,900	60	40	66,700
Republic of Korea	30	20	60,200	10	35	107,600
Vietnam	80	2	11,900	100	15	33,800
World	4,990	580	19,400	5,900	1,500	36,600
US	185	190	65,500	120	290	98,600
Germany	50	30	51,300	2	60	77,800

Source: Centennial Group Projections 2011

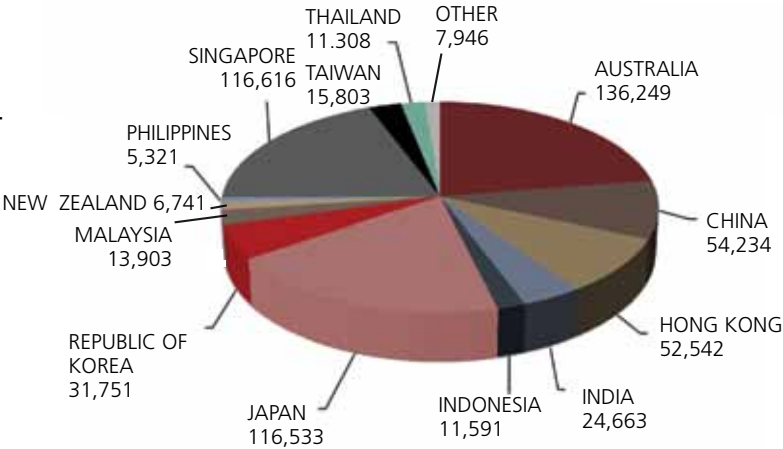
³ Morgan Stanley report, 6 November 2008.

Figure 4: Southeast Asia's Relative Position in US Investments

US Direct Investment
Position Abroad on a
Historical-Cost Basis
(in US millions of
dollars), 2011

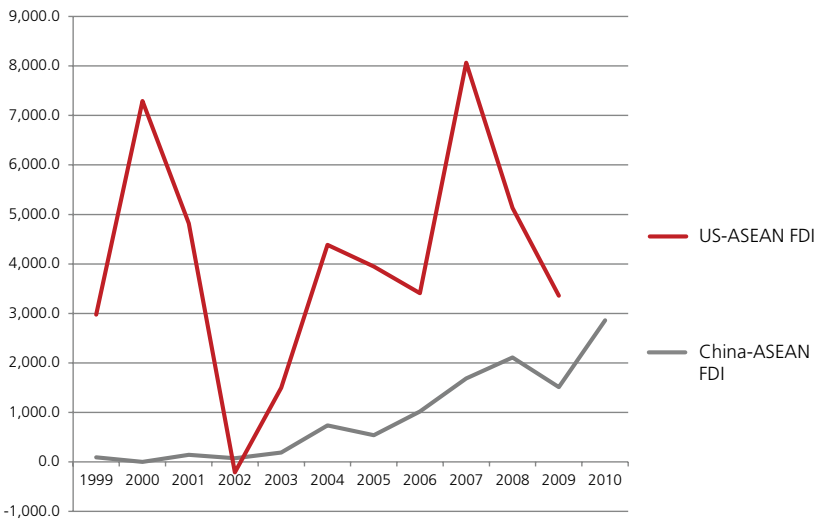


US Direct Investment
Position Abroad in Asia
and Pacific on a Historical-
Cost Basis (in US millions
of dollars), 2011



Source: ASEAN Statistics
Yearbook, China Daily,
Office of the United States
Trade Representative

Figure 5: China VS US Foreign Direct Investment in ASEAN



Source: ASEAN Statistics Yearbook, China Daily, Office of the Unites States Trade Representative

Impressive though such numbers and trends are, they only represent the foundation of a future prospect, a work-in-progress. While the story of China's and Asia's economic rise is absorbing, coming as it does at a time of relative American economic decline, it is important to avoid the temptation to treat future projections as current reality. The United States' economy is still by far the largest and most sophisticated single economy in the world. It is a substantial market for ASEAN, and US investment in the region is still substantially greater than China's (see figure 4). The United States also retains significant technological superiority, as well as structural advantages including the reserve currency role of the US dollar, that together mean that the US has greater capacity to extract itself from its economic problems than any other nation in the world.⁴ Moreover, China's massive holdings of dollar-denominated assets are a double-edged sword, described by some as 'symmetrical' interdependence.⁵ Finally, of course, the US has a military force without equal, ensuring American command of the global commons. In 2011 the US spent over eight times more on defence than China, its nearest competitor (see figure 5). The \$739.3 billion Pentagon budget comfortably exceeded the \$486.4 billion of the next nine powers, of whom only two could be remotely conceived as 'hostile' – China and Russia.

In the past couple of years or so, the US government has been less reticent about being seen to be promoting US trade, investment and technology in Southeast Asia. At the end of 2010 Hillary Clinton, while on an official visit to Malaysia, found time to showcase the cutting-edge technology of GE and Boeing. The US-ASEAN Business Council, which shadowed her visit, was represented at a much higher level than has usually been the case. In July 2012, the US Secretary of State spoke in Siem Reap at the end of a business promotion seminar jointly organised by the Council, the US Treasury and the Department of State. This concentrated US effort, not often seen in Southeast Asia, let alone in Cambodia, Beijing's close ally, came just after the Phnom Penh ASEAN Foreign Ministers meeting that failed to agree to a joint communique for the first time in its history because of differences over how to mention incidents in the South China Sea disputes. Apart from strong US government involvement, what stood out was a willingness to be politically agnostic in the furtherance of strategic economic interest. The next morning the US business delegation continued to Myanmar, accompanied by senior officials from the US Treasury. In these and other diplomatic endeavours, there is a desire to signal a strong economic dimension to the pivot distinct from the security and military concerns that have dominated the headlines.

However, there are shortcomings in what the US is offering. Leaving aside the administration's domestic economic and political difficulties, its proposed economic arrangements in East and Southeast Asia, in contrast to China's, are distinguished by their failure to be inclusive. The Trans-Pacific Partnership (TPP) initiative, apart from excluding China, also leaves out Cambodia, Laos and Myanmar, whilst including Vietnam and welcoming all other Southeast Asian states. Whatever the curious criteria for membership that is being applied here, it encourages regional division. The American insistence on rules-based economic integration or engagement has also slowed progress in forging free trade agreements (FTAs), for example one with Malaysia which has been stalled for some time over issues like procurement rules and freedom of investment. Although the Obama administration now appears to want to concentrate on the TPP rather than individual FTAs, the coupling of political and human rights issues with US trade and investment causes resentment and uncertainty among many regional states.

4 See Carla Norrlof, *America's global advantage: US hegemony and international cooperation*, Cambridge University Press (2010).

5 See, for instance, Joseph S. Nye, Jr, 'China's Bad Bet Against America,' PacNet Newsletter, March 25, 2010

All this is in sharp contrast with the way in which China conducts its relations with the region without apparent precondition.⁶ Whatever the US's domestic legal and policy predisposition, it will have to bring to the table a package of economic benefits that is not compromised by high political costs. Of course there are American technologies and corporations without equal in the world which could tip the balance, but there are also proximate companies emerging from China such as Huawei and Lenovo; just as Sony, Toyota and Samsung emerged in the past. The region has moved on from the time when American technologies and corporations were singularly dominant.

As with its economy, companies and technologies, the United States as a global political power no longer exercises sole dominion in Southeast Asia. China's economic counterweight has shifted the scales. However, the US is not waiting to be reduced to sub-primacy in the region as a result of what some have dubbed Chinese 'domination by stealth'. While singular but hugely significant events such as China's increasingly assertive approach in the South China Sea disputes may appear to have reignited US involvement in the region, there is a broader 'rebalancing' strategy to register American power and influence, and to thwart a *de facto* Chinese Monroe Doctrine over Southeast Asia.

However, the diplomacy of rebalancing faces a number of challenges. The US is not 'returning' to 'virgin' Southeast Asian territory. In recent decades the region has been transformed by a focus on economic development, and if the US wants to engage the region it has to recognise this, and rather than seek to dislodge any party instead strive to enjoy combined prosperity. Of course the region, including China, developed on the back of American markets, but this is global interdependence, from which American corporations and consumers also benefited. It is not a debt owed by anyone. The Americans understandably wish to benefit from the projected Asia-Pacific growth in the future, but participation has to be on an inclusive basis if autarchic arrangements or trade wars are not to develop which will stunt that prosperity. For a start, an inclusive TPP which includes China would show economic good faith. This would have far-reaching geoeconomic ramifications and will undercut exclusively East Asian arrangements favoured by China. Beneath the superstructure of evident strategic contest there is a deep unresolved conflict of ideas over economic and political order. When Francis Fukuyama wrote about the end of history he did not ask the East Asians.⁷ There is a nascent East Asian, largely state-based, model of development that offers an alternative to the American neoliberal model Fukuyama prematurely proclaimed triumphant with the demise of the Soviet Union. The weaknesses of the Western model highlighted in the financial crisis of 2008 and the subsequent recession – financial market excesses, over-consumption, under-saving and massive private and public deficits – are part of the contemporary economic landscape, and for it to retain its appeal demonstrable repair to correct the damage done is needed. While the 'Chinese' model is by no means fully formed and, indeed, has serious weaknesses, the United States should not expect to just gloss over the evident shortcomings of the Washington Consensus and the economies based on it.

On the political side, while the pivot is essentially diplomatic in nature, its execution cannot be comprised purely of diplomacy. The catalyst for the pivot was a situation not only of reduced American regional influence but also of more assertive Chinese actions, especially in the South China Sea. When Hillary Clinton proclaimed at the ASEAN Regional Forum (ARF) in Hanoi in July 2010 that the US had an interest in freedom of navigation and the peaceful settlement of disputes in the South China Sea, she did so with the encouragement of regional states at the meeting, and not in a benign context. This is often noted as the first real instance of American re-engagement in the region. China was put on notice and indeed, at that meeting, indicated it did

⁶ Interestingly, a trilateral FTA, as well as an investment promotion agreement, will be negotiated later this year among China, Japan and South Korea (constituting altogether around 20 percent of global GDP) despite tensions with one another. Such pragmatism will make possible the third largest FTA in the world after NAFTA and the EU. With the three countries also having FTAs with ASEAN, this could reinforce an ASEAN-led East Asian multilateral structure – while, of course, the Americans would want an Asia-Pacific dimension so as not to be excluded. The three countries (including Taiwan, Hong Kong and Macao) account for 90 percent of East Asia's total GDP and over 90 percent of its foreign reserves.

⁷ Francis Fukuyama, *The End of History and the Last Man*, London, Hamish Hamilton, 1992.

not appreciate being cornered. Whilst by the time of the East Asia Summit (EAS) meeting in Bali in November 2011, at which the US (and Russia) became members, the temperature had cooled down, there continued to be pressure on China about its actions and intentions in the South China Sea. Prime Minister Wen Jiabao handled the situation better than Foreign Minister Yang Jiechi did in Hanoi, soothingly noting comments on the disputes but repeating the Chinese mantra that they are best resolved bilaterally even if there might be regional concern, and swiftly proceeded to underline, in some detail, that the greatest challenge facing the region was economic. He referred consistently to 'East Asia' (as opposed to the Asia-Pacific), and emphasised how the region should be thinking about addressing the global economic problems facing it.

The United States, on the other hand, was more focused on political, security and military issues, and did not offer any guidance to the region on how the global economic problems could be addressed. Wen Jiabao's sub-text might well have been: the United States is the primary villain for the world's financial and economic problems, and is too busy grappling with its own to offer any leads to the region to which it has now come back. Of course, this reopens the whole argument over who is responsible for the global financial and economic crisis, a debate in which China and the region speak with one voice, emphasising the United States' mismanagement of the financial system and the unsustainable imbalances of Western economies that through public and private leverage have consumed more than they have produced for too long. Southeast Asia's conviction that economic discipline needs to be restored in the West, and in particular, that the United States' indebtedness needs to be reined in, highlights the intermingling of the economic with the political and security arguments, a feature of the regional strategic contest which the US cannot avoid and that China will always stress. Still, even from the purely political and security perspective, there will be questions asked about America's new commitment to the region, some founded, again, on economic sustainability. Many realists point to the risk of strategic over-stretch.⁸ Even as the US's commitments in Iraq and Afghanistan end, it does not mean the pivot in the Asia-Pacific is intended to take up the slack – there is no slack at this time of austerity. And what exactly does the pivot mean in wider security terms and in respect of its application in particular situations? While the US can 'rebalance' its naval forces, for what exactly is that formidable military power intended, either as a deterrent or in conflict? From Hillary Clinton's forceful statement at the ARF in Hanoi, it would appear that the US will use naval force to ensure there is no interference with shipping and navigation on the high seas. However, despite the many incidents in the South China Sea, it has not been deemed that there has been interference requiring such intervention. In the episodes this year involving China against Vietnam and the Philippines, Manila in particular had hoped to draw in the US in the Scarborough Shoal standoff, but found that from an American perspective the incident did not amount to interference with navigation, and that the US did not regard localised incidents as attempts at settlement by forceful means. The state of flux in the South China Sea thus reflects the ambiguous finer details of the pivot, and raises the question of how seriously regional states should take the United States' commitment to project military power in support of its declared principles.

This in turn raises a deeper question of credibility and constancy of policy. While it is clear that the US intends to be actively involved in Southeast Asia once again, confirmed by its membership of the EAS in November last year, it remains to be seen how deeply and enduring that involvement will be. Naval arrangements are being introduced, revived or improved, including with the Philippines, Singapore, Thailand and Vietnam, which reflect the credibility of American presence. However, in the wake of Iraq and Afghanistan, the US's concerned but cautious approach to the Arab uprisings and its delicate handling of the Iranian nuclear issue mean that China will be watching to assess America's approach to its use of military power – as will the rest of Southeast Asia. For those regional states, the handling of the South China Sea is likely to be the critical measure. The concern is China might miscalculate if there are not clear lines of mutual understanding with the US beyond

⁸ For a recent illuminating discussion on the limits of contemporary American power see Dana Allin and Erik Jones, *Weary Policeman, American Power in an Age of Austerity*, Routledge for International Institute for Strategic Studies, London, 2012.

the last incident. On the other hand, while it can be expected the US will decide for itself the balance of risk and benefit from the use of military power, it must do so in a way that avoids either wishful thinking about the nature of an adversary or a self-fulfilling panic about that adversary's intentions and capabilities.⁹

Such detached analysis is not currently evident in the US, which exhibits a disturbing sense of suspicion and fear of China across all fronts. During a visit to Washington in May this year, I found influential Senators and think-tanks uniform in their view China could not be trusted and was getting out of hand. This constituency feels vindicated in that assessment by Beijing's claims and recent actions in the South China Sea. High officials in the State department were more circumspect, and wanted to know how the US could work better with states in the region, including in addressing the South China Sea problems. The US could make a real contribution by taking the approach that the deep seabed was the common heritage of mankind and fashioning American involvement in these issues on this basis, rather than simply repeating the mantra of freedom of the seas and peaceful settlement of disputes.¹⁰ Without under-estimating its complexity or the political barriers involved, any engagement of the US along these lines could be a crucial step in winning over Southeast Asian States and, indeed, enlisting Beijing in a positive-sum game. However, the way relations between China and US are developing does not give much hope that creative engagement, especially in the strategic contest in Southeast Asia, will achieve much. Yet the animosity between American and Chinese elites will have to be addressed once the next Obama administration is in place and China's new leaders to be confirmed on 8 November find their feet.

Even then, domestic politics in both countries are not likely to allow easy accommodation. There is extreme polarisation in the US, which may also have foreign policy expression. President Obama's re-election still leaves unresolved the political paralysis in government between Congress and the White House. Whilst the President has wide-ranging prerogatives in foreign policy, the China question has deep domestic implications. A tough stance against Beijing could become an attractive trade-off for Congressional budgetary concessions, particularly if there is short-term economic benefit to be gained from that stance as well. A second term President Obama may surprise, but there will be domestic policy dues to pay, which may in the end bring out the pragmatist in him. There could be a 'tough' stance against China. In that eventuality, the pivot could become a hardball engagement in Southeast Asia, concentrated on the seas of North East and Southeast Asia. Regional states may be driven into making a choice between the US and China, something which they hope and imagine they can avoid. The impact of internal politics on China's foreign policy is also not to be underestimated. This is not only because of the purge of Bo Xilai or the coming change in the senior leadership of the Party. There is increasingly greater expression of popular views which can be channelled towards issues of foreign policy, especially where historical grievance animates nationalism, such as in the current relations with Japan. In addition, Chinese perceptions of their rise – as the second largest economy in the world on which the US depends for credit – can give rise to hubris. Internal politics, if it isn't already doing so, may therefore exert pressures on the Chinese leadership to prematurely show strength in international relations.

It is often said China prefers the clarity of Republican foreign policy to the nuance of the Democrats. This is of course an over-simplification. Henry Kissinger records Deng Xiaoping complaining of how he and President Nixon were not hindered by the savage Cultural Revolution from forging relations with China in the early 1970s, yet under George Bush snr the Tiananmen massacre became such an American bone of contention with China.¹¹ What made the difference was the impetus to seize the strategic moment – in Nixon's case the opportunity for strategic alignment with Beijing following the Sino-Soviet split. A tough stance against China could bring clarity to the hard strategic contest in Southeast Asia, and in doing so cause China's

⁹ This is the 'duality' of George Kennan's wisdom, in a different context of course, quoted in Allin and Jones, *op. cit.*, pp.104-5.

¹⁰ The common heritage of mankind idea was one of the main issues that prolonged negotiations before the conclusion of the UN Convention on the Law of the Sea (UNCLOS) in 1982. It is this notion, expressed in the establishment of the International Deep Seabed Authority, which prevents the US Congress from ratifying the convention. For a passionate espousal of this idea see C.W. Jenks, *Law, Freedom and Welfare*, London, Stevens and Sons, 1963.

¹¹ Henry Kissinger, *On China*, London, Penguin Books, 2012, p.425

peaceful rise to come off the rails. This would be bad news not just for China, but for Southeast Asia as a whole, with the region's hitherto economy-first-security-afterwards approach to international politics being sharply reversed. China's new leaders may struggle to deal with severe international and internal challenges being cast at the same time. The racy aspects of the Bo Xilai affair have been widely commented on, but the underlying and incremental loss of trust in how the country is being governed which it highlights has yet to be fully appreciated.¹² Combined with a slowing economy, rising unemployment and distributional issues, China's new leaders will be facing foreign policy challenges at a time of domestic distress, which does not make for stable external relations. Already, China has made some impulsive moves in the disputes in the South China Sea, and in its island disputes in northeast Asia. It has not quite thrown down the gauntlet, but conflict in the South China Sea has become the first serious test in the strategic contest between China and the US in Southeast Asia.

STORMY SOUTH CHINA SEA

For much of this year hardly a day has passed without a report or commentary on issues and incidents in the South China Sea. Not since the Vietnam War has there been this level of foreign interest in Southeast Asia. Yet for regional states the disputes in the South China Sea have existed for many years, always with the hope that the disputes will not escalate into conflict, as countries in the region concentrated on economic development and cooperation, including with China, with whom four of them have maritime disputes (see figure 6). Even when there had been serious outbreaks of conflict, as in a naval battle in the Paracels between China and the then South Vietnam in 1974, or in 1988, when over 70 Vietnamese were killed in a naval battle with the Chinese in the Spratlys, there followed an attempt to carry on with peaceful regional life even as those disputes were not resolved and memories of conflict not erased. ASEAN countries and China signed the Declaration on the Conduct of Parties in the South China Sea in 2002, and the regional organisation has been working for over ten years without success on a more specific code of conduct to govern maritime activity in the disputed waters. As ASEAN worked in good faith to produce those governing documents it was hoped that the states involved would avoid misconduct; what is sometimes seen as muddling through is rather the way ASEAN has tended to work so as not to ruffle too many feathers. This ASEAN way – the slow motion effectuation of functional integration – has worked in promoting economic cooperation, even if not at the pace many would have liked, and in limiting conflict in the region in the last couple of decades or so.¹³ But, almost suddenly, everything changed with the series of incidents in the South China Sea and premature proclamations of sovereignty, precisely the kinds of crises the muddling-through-to-functional-integration approach sought to avoid. The ASEAN approach of papering over cracks was a casualty when its Foreign Ministers met in Phnom Penh in July this year, but were unable to issue a joint communique for the first time in the organisation's 45-year history because of differences over how to word references to the South China Sea disputes and recent incidents.

What brought about this more impulsive and intransigent behaviour, both on the high seas and at the ASEAN council tables? China claims the American pivot and interference in the regional maritime disputes have encouraged claimant states to be more assertive. The two states cited – the Philippines and Vietnam – counterclaim that the Chinese vessels, both civilian and military, have become increasingly bullying at sea. The US continues to assert that it will not tolerate any interference with freedom of navigation and, whilst refusing to take sides in the disputes over rights and sovereignty of the islands, rocks and waters, to urge a peaceful settlement. Domestic constituencies, America's included, are becoming ever more agitated, as after

¹² See, for instance, Lanxin Xiang, 'The Bo Xilai Affair and China's Future', *Survival*, June-July 2012, pp. 59-68.

¹³ See generally the Special collection of papers on ASEAN in the Cambridge Review of International Affairs, Volume 22, Number 3, September 2009 where, among other points, it is asked if the 'ASEAN way' is receding and whether ASEAN is just the vehicle for conflict avoidance rather than resolution.

each incident reports highlight the untold hydrocarbon wealth in the seabed (for example, 213 billion barrels of unproven oil reserves, against the 265 billion barrels of proven reserves held by Saudi Arabia in 2011, according to BP's Statistical Review of World Energy), as well as rich but fast depleting fisheries resources in their waters.

Internationally, China is often identified as the villain of the piece. This of course riles the Chinese when they believe they have absolute right on their side. China argues its claim to sovereignty, exclusive economic zone (EEZ) and continental shelf rights in most of the South China Sea can be traced back 2,000 years

to the Han dynasty. China says it can provide proof from the 13th century and, further, that in 1935 it published the full names of the 132 islands or so (unsurprisingly estimates of the numbers involved vary based on claims and definitions which are not clear) in the South China Sea, including Huangyan Island (also known as Scarborough Shoal, where there was a stand-off with the Philippines this year). China points out that its vessels have long been fishing as well as conducting scientific exploration, radio communications and sea traffic in the area, and that official recorded statements by the Chinese leadership reaffirm China's control of the territories. This historical basis for its claims notwithstanding, Beijing points out

Figure 6: South China Sea Claims



Source: Voice of America
<http://blogs.voanews.com/state-department-news/2012/08/15/china-bashes-western-meddling-over-south-china-sea/>

that Article 2 of the Law of the People's Republic of China on the Territorial Sea and Contiguous Zone of 1992 includes all the claimed islands and was not disputed by any country at the time (including the Philippines). According to the Chinese, the Philippines only started making public claims after mid-1997, culminating in the amendment of the Philippines Territorial Sea Baseline Act in 2009 – before then, official maps of the Philippines all marked Huangyan Island as outside Philippines territory. The Philippines, in contrast, contend that from 1734 colonial maps showed Scarborough Shoal as part of its territory. Beijing counterclaims that the 1734 maps were drawn by a missionary and were not official, whereas China had itself produced an official map in 1279 which shows that it discovered Huangyan Island.

All very substantive. Indeed, from the Chinese point of view, formidable in respect of its wider South China Sea claim and especially in regard to Scarborough Shoal. If so, the Philippines has responded, why not take the matter to the International Tribunal on the Law of the Sea established by the UN Convention on the Law of the Sea (UNCLOS), to which both countries are parties, or to the International Court of Justice (ICJ), knowing full well China had always ruled this out. Some contend the Philippines is seeking to score a moral point, others that it is willing to take a chance as it has little to lose. State attitudes to the settlement of international disputes by judicial means or arbitration is a vexed matter not amenable to easy generalisation.¹⁴ Nevertheless, the greater the expanse of territory involved the less likely states are to subject its status to judicial determination, and major powers have been averse to any kind of reduction of their super-sovereignty on most matters, let alone one relating to territorial extent. China, of course, is in the good company of the United States in this, and its stance on judicial arbitration will not change. It would be better to recognise this reality and to find other ways to resolve the disputes peacefully.

Trying to do so without antagonising one party or another is particularly difficult given the bewildering number of claims and the wealth of resources at stake. The Philippines has not always been consistent in the pursuit of its claims. Between 2003 and 2005, it broke ranks with ASEAN and signed a number of energy cooperation agreements with China. PETROVIETNAM, Vietnam's Oil and Gas Corporation, also signed the agreement in 2005 for joint marine seismic survey in certain areas of the South China Sea with the Philippine National Oil Company (PNOC) and the China National Offshore Corporation (CNOOC). In it the Philippines 'made breath-taking concessions in agreeing to the area for study, including parts of its own continental shelf not even claimed by China or Vietnam. Through its actions, Manila has given a certain legitimacy to China's legally spurious 'historic claim' to most of the South China Sea.'¹⁵ This agreement was allowed to lapse by the Arroyo administration when it expired at the end of June 2008, following allegations of kickbacks and corruption. Before the amendment to the Territorial Sea Baseline Act in 2009, debate in the Philippines was divided between the Senate and the House of Representatives, with the former choosing to define the Spratlys only as a 'regime of islands' outside the baselines and the latter expressly including Scarborough Shoal and the Spratlys within the country's territorial baselines. The Senate's version was passed in February 2008 – before the 2009 amendment reversed this position.

Since June 2010, the Aquino administration has taken a firmer stand in furtherance of Filipino claims. It is difficult to say if the Philippines has been encouraged by Hillary Clinton's notice of American interest in the South China Sea, but there have been indications of a willingness to assert Philippine interest. In April 2012, a two-month stand-off ensued in Scarborough Shoal when a Philippine warship tried unsuccessfully to apprehend eight Chinese vessels 'caught' fishing in disputed waters. The incident showed a number of Filipino dilemmas in the defence of its claims, with its desire to take action restricted by a lack of military capability and an economic dependence on China for trade and tourism. The Philippines has also sought to engage the US, but has been unable to draw either the State Department or the Navy into particular dispute

¹⁴ See Munir Majid, *Asian and African Attitudes to the Settlement of International Disputes by Judicial Means*, unpublished PhD thesis, Department of International Relations, London School of Economics and Political Science, 1978

¹⁵ Barry Wain, *Manila's Bungle in the South China Sea*, Far Eastern Economic Review, January/February 2008.

situations; whilst the US expressed robust official support during President Aquino's Washington visit in June this year, there was no specific commitment to any particular South China Sea situation. The Philippines has also sought full ASEAN support, but at the same time not been averse to going-it-alone, and appealed to international law, but only when serving national interests. It might be time for the Philippines to pull itself together and reflect more deeply on a truly regional approach to the solution of the issues involved.

Vietnam has had even more difficulty confronting China's claims. Two out of three sets of territorial issues – the land border and delineation of the Gulf of Tonkin – have been largely resolved. The outstanding South China Sea overlapping sovereignty claims, particularly the Paracels and the Spratlys, put Vietnam in an unenviable position vis-à-vis China. Hanoi sees its new naval association with the US as a help, but keeps this arrangement limited, reluctant put all its eggs in one basket.¹⁶ Vietnam also looks to Japan, South Korea and Australia for 'support', as well as to India and Russia. In September last year Hanoi signed an agreement with New Delhi to jointly explore in disputed waters, and the following month entered into a memorandum of understanding on defence cooperation enhancement, and has also been trying to entice Russia into oil and gas exploration. Clearly, the idea is to increase the number of nations with a stake in a peaceful Southeast Asia.

Vietnam has an advantage in having the opportunity to soothe relations with China through communist party-to-party fratricidal discussions, but has the greater disadvantage of having the most number of conflicting claims in the South China Sea with Beijing – framed by a thousand year history of conflict. Bilateral relations over the dispute have been bad, with accusations, skirmishes and threats. They have been exacerbated by Vietnam's agreement to allow oil exploration by international energy companies, Chinese attacks on Vietnamese fishing boats, Beijing's plans for tourist cruises in the disputed Paracels and military exercises in the region, and demonstrations and protests in Vietnam against China's 'hegemonic ambitions'. In January 2008 the China-Vietnam Steering Committee met in Beijing in an attempt to calm things down following the Chinese decision to create an administrative centre on Hainan for the Spratlys, Paracels and Macclesfield Bank in December 2007. This initiative failed, and in June this year Vietnam passed a law claiming sovereignty over the Paracels and Spratlys, as China raised Sansha City in the Paracels to prefecture level and 45 legislators were elected in July to govern the 1,100 Chinese people in the claimed areas, covering 772,000 square miles of the South China Sea.¹⁷ To underline all this, later in July China's Central Military Commission approved deployment of two military garrisons – one army, the other navy – to guard the disputed islands.

The deployment caused the US State department to issue a statement of concern over the escalation, obtaining in return China's rejoinder that the Americans had no right to interfere in a matter of its sovereign jurisdiction. For good measure, the US Deputy Chief of Mission in Beijing was summoned to the foreign ministry. China feels its actions are unjustly selected out for criticism while the provocative activities of other claimants, particularly the Philippines and Vietnam, are glossed over or ignored. China has thus become less tolerant of criticism and more insistent on its sovereign rights. Chinese state-controlled newspapers have been particularly shrill in their insistence on China's freedom of action. The *China Daily*, in a commentary on 30 July this year, accused the US of double standards and reflected it was 'Better [for China] to be safe than sorry... [and] to safeguard its sovereignty and territorial integrity.' More broadly, it was of the view that the United States' strategic shift is intended to contain China. 'The current security environment for Beijing is the most complex and severe since the foundation of the People's Republic of China', an assessment that led it to conclude that, with respect to safeguarding national sovereignty and territorial integrity, no country would renounce the use of force. Alongside such thinly-veiled official warnings is a concentration of opinion calling for China to take a more aggressive stance, including from maritime agency chiefs, PLA officers and military advisers. An official

16 During a discussion with the LSE Asia Research Centre on 8th November 2011, a delegation from Vietnam which included government officials contended that while ASEAN talks and talks, China talks and takes. There was a wish for unilateral declarations of interest on issues in the South China Sea, for example by the UK. A multi-layered approach was preferred from ASEAN to EAS to the wider international community.

17 China wrested *de facto* control of the Paracels following the naval showdown in 1974 when (then South) Vietnam withdrew. A 2,700 meter long runway was completed in Sansha city in 1990. Beijing claims to have established an administrative apparatus to manage its claimed islands since 1959.

with China Marine Surveillance argues that 'China now faces a whole pack of aggressive neighbours headed by Vietnam and the Philippines and also a set of menacing challengers headed by the United States, forming their encirclement from outside the region.' Responding to developments in July, Major General Zhu Chenghu, who once urged the use of nuclear weapons if American forces intervened in a conflict over Taiwan, accused the US of 'meddling' and said it was 'unreasonable and illegal' for the Philippines and Vietnam to claim territory that historically belonged to China, claiming that there had been no disputes in the South China Sea until the discovery of large amounts of gas and oil reserves in the 1970s. Cui Liru, President of the China Institutes of Contemporary International Relations, a Beijing think-tank closely linked to China's intelligence services, has also been urging a tough stance. At the World Peace Forum in Beijing in June he argued that China needed to do more in terms of demonstrating its sovereignty. Others at the forum voiced the view that China's patience had been tested to its limits and there was no room for further tolerance. Such official views are reflected on the ground, where formerly Hainan-based fishermen now in Sansha City ask why China should tolerate challenges to its sovereignty now that it is so strong.

The situation in the South China Sea has deteriorated precipitously. From the latter half of 2011 until early 2012, it was characterised by a more moderate approach from the Chinese, and a focus on diplomatic engagement, investment and trade with neighbouring countries. This came to an abrupt end with the Scarborough stand-off, and China has instead become both assertive and reactive. Whether or not Scarborough was a miscalculation by the Philippines, it is now used by China to defend its claims to a domestic audience. US Secretary of Defence Panetta's historic Cam Ranh Bay visit in June and the Vietnamese law of the sea passed that same month, similarly allowed China to claim encouragement and abetment by the US. China has rapidly come to view the disputes as a tool being used by the Americans to contain China, just as the US becomes more engaged in the region through the pivot. Nonetheless, China is once again making peaceable gestures with respect to the South China Sea issues. In September Xi Jinping, the soon-to-be-appointed Chinese leader, gave the assurance to

ASEAN leaders at a trade fair in Nanning that China wishes to solve the disputes peacefully. At the ASEAN Maritime Forum in Manila in October, China once again offered a grant for maritime cooperation in the South China Sea. It remains to be seen whether such gestures reflect a substantive softening of the Chinese position or merely the ebb and flow of diplomatic manoeuvring. What is surer is that states with a stake in the South China Sea do not want to be fully exposed to the caprice of the Chinese.

China's actions in its sea disputes have been bewildering and fraught with threat, and its threat and use of force have alarmed states in Southeast Asia. Such a belligerent foreign policy risks neutralising the goodwill Beijing has built in the region over almost two decades. While other South China Sea disputants, particularly the Philippines and Vietnam, are not exactly innocent, China has shown a disproportionate propensity to punish and to physically assert its sovereign claims in a manner that is disconcerting, and which frankly frightens regional states.

In the complexity of causes that have conspired to incite China's actions, its unsteady and erratic hand reveals a desire to be feared more than respected. Such a populist bellicose attitude cannot be allowed to rise to the level of official policy in a great power which claims to seek peaceable relations, even if as a hegemon. It is not just the threat or use of force that is a matter of concern. It is also the indifference to the interdependent economic good that such actions put at risk.

The beneficiary of China's strategic misjudgment will be the United States. The Chinese of course see the Americans as the cause of their discomfiture, but their inability to ride the US pivot towards Southeast Asia will ensure its success. If the Americans had intended to contain China in the rebalance in Asia-Pacific, they could not have asked for a better response than what Beijing has offered in the past of couple of years.

Yet the strategic contest in the region is by no means settled. The US still has to manage its relations with China, which extend far beyond the regional canvas. The dilemma the US cannot escape is how to integrate into the international system a rising power which will eat into American predominance in the world,

even if it will remain the preeminent power for a long time to come. The instinct to attempt to snuff out the rising power has to be resisted, even if such a strategy were possible. Washington has so far managed this well, in spite of the pressures of domestic opinion from both sides of the partisan divide. In Southeast Asia China has become economically preeminent, and whatever China's strategic mis-steps over the South China Sea disputes, the United States will not displace China's economic importance in the region. The test for the United States is to manage its relations with China in Southeast Asia as elsewhere without reflecting China's self-righteousness with its own sense of exceptionalism. The US must show it has come back to Southeast Asia not to displace China but to be a counterweight and a force for the regional good. ■