

China Asean Economic Relations and USA Factor

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ABSTRACT

The implementation of CAFTA (China ASEAN Free Trade Agreement) in January 2010 marked an important milestone in relations of China and ASEAN member states. This specific agreement built on and extended the growing economic relationships between the two sides. However it also caused concern for United States influence in the region. The economic relations of both sides have been talked about from various angles at many occasions and conferences worldwide but how China and ASEAN economic terms are influencing United States influence in the region in the present times have rarely been discussed. This research focuses on the growing China- ASEAN economic relationship over the past decade and a half, especially under CAFTA umbrella, observes some of the major areas of this relationship, and considers the implications for U.S. interests in the region. The vastly growing economic relations of China ASEAN did create concerns for United States initially. The observant war on terror has got United States more involved with neighbouring regions of ASEAN and China i-e Afghanistan and Iraq. But since United States is refocusing on this region with its new strategies and engagement, it is proved that it has not lost its influence in the region which it was losing especially right after the 9/11 incident. At the same time, it is proved as well that China is constantly gaining importance in the region especially after the implementation of CAFTA.

Keywords: China; ASEAN; economy; CAFTA; United States; Asia Pacific.

I. INTRODUCTION

There have been noteworthy changes between the relations of China and ASEAN states for the last twenty years. Looking at their history, one can see that during 1970s China first developed official contacts with the original ASEAN-6. At that time, China barely had good diplomatic terms with Indonesia and had begun to normalize relations with Vietnam. In addition to it, it just had established diplomatic ties with Singapore. The ASEAN member states had very strong doubts and apprehensions over China's rising influence and goals toward Southeast Asia.¹

The official relations between China and Malaysia were developed in 1974. Gradually it established diplomatic terms with Thailand and the Philippines in 1975. The terms between China and Vietnam were fragmented so Beijing started to view ASEAN as a possible collaborator in dealing and resolving the frequent

security disputes and restrictive Vietnam's goals in Indochina. It became evident in late 1978 after intrusion of Vietnam into Cambodia. The defining moment was the year 1991 in China-ASEAN relations. The opening meeting of the 24th ASEAN Foreign Ministers' Meeting was joined by the Chinese State Councilor and Foreign Minister of that time, Mr. Qian Qichen at Malaysia. This very event initiated the process of negotiation and dialogue between China and ASEAN.²

Keeping history at a side, there are other salient factors which became a big reason for casting dark shadow on China-ASEAN relations. China was very firm and forceful with its control over Sparty Islands in the South China Sea. China's military expansion and its use of force while claiming for territories of South Vietnam

¹ Jing-Dong Yuan, "China-ASEAN Relations: Perspectives, Prospects and Implications for U.S. Interests," *SSI*, October 26, 2006, <http://www.Strategicstudiesinstitute.army.mil/>. (Accessed on 28 May 2013)

² Lee Lai To, "China's Relations with ASEAN: Partners in the 21st Century?," *Pacific Review*, 13: 01, 2004: 61.

³ Jing-Dong Yuan, "China-ASEAN Relations: Perspectives, Prospects and Implications for U.S. Interests," *SSI*, October 26, 2006, <http://www.Strategicstudiesinstitute.army.mil/>. (Accessed on 28 May 2013)

⁴ Lee Lai To, "China's Relations with ASEAN: Partners in the 21st Century?," *Pacific Review*, 13: 01, 2004: 61.

⁵ Ibid. Jing-dong Yuan, 01.



and Vietnam in 1974 and 1988 respectively was also a major factor. Besides these events, that was the time when United States was showing assurance and commitment to the region and was on military expulsion from the region. Prominent examples for the United States military expulsion include the Subic and Clark military bases of Philippines which were closed in 1991. Consequently, China was considered a threat to ASEAN states.

But just fifteen years made a huge difference. Today by having a glimpse at China ASEAN relations, it is evident that a strategic partnership for peace and prosperity has been signed by China and ASEAN. Both sides have established a framework agreement on a China-ASEAN Free Trade Agreement (CAFTA) and in addition to it, a number of multilateral concerns and issues of joint interests are discussed and cooperated by both China and ASEAN varying from traditional security to nontraditional security disputes and challenges.

In the contemporary era of compound and deep modifications, the way China and ASEAN are working together as important and significant partners of Asia-Pacific would definitely fulfill the interests and would address the concerns of both sides. As a result, it would add to the region's harmony and stability. The way China-ASEAN economic relations are improving especially after signing of CAFTA, is really making United States cautious that lest it might affect the United States-ASEAN economic relations suffer.

In this context, it is important to study the economic relations of China and ASEAN and see how CAFTA is affecting their trade relations positively and how long they'll go and prosper. In addition to it, it would also be analyzed that are their relations affecting United States-ASEAN relations negatively and to what extent? So China ASEAN economic relations and their effects and implications for United States influence in the region would be the major focus of this study.

Since China's economy multiplied because of its tremendous growth, it became a salient factor for China's improved terms with the Association of Southeast Asian Nations (ASEAN) states. Finally both sides' growing relations became a big reason for the establishment of China ASEAN Free Trade Agreement

(CAFTA). This very agreement helped both China and ASEAN to reach new heights of prosperity and mutual economic cooperation. After witnessing China's rising importance in ASEAN states, United States is also trying to adopt a new policy and strategy to swing its economic interests back to Southeast Asian region.

China-ASEAN economic relations developed quickly since implementation of CAFTA. Their economy is rising and trade share is increasing. Apparently their economic relations seem to affect United States influence in ASEAN member states but since current United States administration is following the policy to return to the region, it would not be right to say that China ASEAN relations have decreased the United States influence in the region.

Theoretical Aspect of Study

China and ASEAN have gained importance worldwide because of their economic integration. Since CAFTA has been implemented, the economy of China and ASEAN is on rise. Therefore, this study is conducted within the framework of theory of economic integration. A procedure in which a range of regional economies go through progressive elimination of obstacles to open and facilitate movement of commodities, labor, capital and services is called Regional economic integration. Reduced or no tax and non-tariff obstacles would encourage and step up the regional economic integration.³

Economic integration is the unification of economic policies between different states through the partial or full abolition of tariff and non-tariff restrictions on trade taking place among them prior to their integration. This is meant in turn to lead to lower prices for distributors and consumers with the goal of increasing the combined economic productivity of the states. The main focus of this study is on China ASEAN economic relations and their economic relations experienced a positive boom since both sides implemented CAFTA and as it is a free trade agreement so this theory of economic integration is applied on it.

Significance

⁶ Donghyun Park, Innwon Park and Gemma Esther B. Estrada, "Prospects for ASEAN-China Free Trade Area: A Qualitative and Quantitative Analysis," *China and World Economy*, 17: 04, 2009: 107.

The 'China ASEAN Economic Relations' is not an altogether new topic to be explored. For the last one decade a lot of in depth literature on the development of China ASEAN economic relations especially since implementation of CAFTA is inked. Although much has been said and written about the multiple dimensions in China-ASEAN economic relations, this study is significant in the sense that it addresses the topic from the new aspect of how China ASEAN economic relations affect United States' influence in the region. Moreover, it gives a comparison of China and United States economic relations with ASEAN member states. It has been proved that although apparently it seems that China ASEAN economic relations are affecting United States influence in the region but since Obama's administration followed the strategy of return to Southeast Asia, United States is not losing this region. It is gaining its influence back in the region.

II. METHODS AND MATERIAL

Method

This research is descriptive and analytical study. It is because it describes data and characteristics about the countries, the history of their relations, the economies and trade they do together etc. It answers the questions like:

Are China-ASEAN economic relations growing?

Did CAFTA implementation boost China ASEAN economic relations?

Are their relations affecting United States' influence in the region?

The research is adequately supported by statistical data of the countries' economies and their history. The qualitative analysis is supported by quantitative sources

Purpose

The study is conducted for exploring the new dimensions of China ASEAN economic relations especially after the implementation of CAFTA; therefore, the purpose of research is exploratory. Besides that, major focus is on implications of their trade relations on United States influence in the region.

Sources

For this study, secondary sources like books, journal articles, internet sources, and newspapers are consulted. Among documented primary sources, special attention is given to speeches delivered and papers presented in international conferences on economic relations of China and ASEAN. For getting statistical information, reports of statistical bureaus and research journals is accessed.

Literature Review

Review of literature for this study has been conducted on the basis of a designed plan. First of all, literature regarding the history of China and ASEAN economic ties has been considered. During the next step, major economic areas of China and ASEAN were reviewed followed by economic statistics and political relations of China and ASEAN. And in the end, literature related to the implications of China and ASEAN economic relations on United States influence in the region is collected.

Some of the existing published literature highlights how China and ASEAN relations became strong and how their economies started integrating. Narayanan Ganesan (ASEAN's Relations with Major External Powers, 2000) has highlighted the Chinese policy for Southeast Asia before 1990s. During 1980s, the Chinese policy for Southeast Asia saw important alterations in two vital areas. Firstly, China initiated prioritizing state-to-state interactions more than ideological ties. Secondly, it also started permitting and approving laws in 1989, regarding Chinese citizenship. According to these laws, abroad Chinese were supposed to adopt citizenship of their countries of habitation. Both of these significant alterations done by China paved a major means for better and cordial China-ASEAN relations.⁴

The opening meeting of the twenty fourth ASEAN Ministerial Meeting (AMM), Malaysia was joined by the Chinese Foreign Minister of that time, Qian Qichen as a Malaysian Government guest. It was July 1991 and that was the time when he spoke of Chinese interests in developing friendly and cordial relations with ASEAN states. In September 1993, Beijing was visited by the

⁴ Narayanan Ganesan, "ASEAN's Relations with Major External Powers," *Contemporary Southeast Asia*, 22: 02, 2000: 264.

ASEAN Secretary General Dato' Ajit Singh. At that time, both China and ASEAN decided to establish two mutual committees: One for Economic and Trade Cooperation and second for Cooperation in Science and Technology. On 23 July 1994, the ASEAN Secretary General and Chinese Foreign Minister exchanged letters in Bangkok to formalize the founding of committees.⁵

China was admitted as a complete dialogue partner to the Post Ministerial Conference (PMC) in July 1996. A joint Cooperation Committee was formed in February 1997 to organize the China-ASEAN conversation and all features of affairs between both sides.⁶

China is nevertheless a power in the world, and it is not only expected to remain one but become even stronger in coming years regardless of whether USA recognizes it or not. Its terms with ASEAN states are important and definitely matter for the remaining countries of the world.⁷ If China's place or impact in Southeast Asia is talked about, it can be said that China is an influential actor in the region's politics. ⁸ Since Cold War concluded, the contribution of China in different joint confidence-building activities has set South East Asia more positive, regarding China's international and regional actions and conduct.⁹

Some studies highlight the growing economic integration between China and ASEAN. Eddie Leung in one of his articles "**Southeast Asia-China: Threats, opportunities**" says that official economic terms between China and Southeast Asian countries were nearly deficient after World War II. The position has undergone an astounding modification since global communist revolution fell down and China initiated economic reforms. ASEAN states like Malaysia,

Singapore and Thailand got swamped by Chinese businessmen and tourists.¹⁰

According to Michael Yahuda (International Politics of the Asia-Pacific, 1996), the contemporary times has watched the growing characteristics of economic ties between China and ASEAN. Since the last decades, the bilateral economic terms between China and ASEAN states have remarkably grown. Southeast Asia is regarded as a major economic centre and China's growing weight within the region serves to enhance its global significance too.¹¹

One can witness the significant historic progress in China and ASEAN states' economic relations by observing the last fifteen years. It has remained a noticeable reality in the Asia-Pacific region. Both China and ASEAN formed close economic relations from the loose terms.

The region of ASEAN is not very developed and it has lower per capita GDP. It makes this region different from North America and European Union. In addition, ASEAN region is more populated and more socially diversified. A mercantile system was adopted by China while trading with the ASEAN region. It imported raw materials and exported consumer goods. As a market, ASEAN region is more significant to China than vice versa.¹²

The thousands of everyday tangible products show the ASEAN economic importance as evidence. The region has become an economic powerhouse. Moreover, in trade, it symbolizes the explosion that has characterized the world economy generally since the 1960s.¹³

The progress and development of China-ASEAN economic terms since past fifteen years particularly the foundation of CAFTA paved a way for both China and ASEAN to get maximum benefits from the occasions, chances and opportunities of economic progress.

⁵ Saw Swee-Hock, Sheng Lijun and Chin Kin Wah, "An Overview of ASEAN-China Relations," in *ASEAN-China Relations: Prospects and Realities*, ed. Saw Swee-Hock, Sheng Lijun and Chin Kin Wah (Singapore: ISEAS Publications, 2005), 01.

⁶ Hidayat Ali Soomro, "ASEAN's Impact on Regional Security and Stability," *Journal of Asia Pacific: ASEAN Special* (2002): 30-31.

⁷ Arthur Doak Barnett, ed., *The United States and China in World Affairs* (New York: McGraw-Hill, 1966), 219.

⁸ Melvin Gurtov, *China and Southeast Asia- The Politics of Survival: A Study of Foreign Policy Interaction* (Baltimore: The John Hopkins University Press, 1971), 3.

⁹ Imran Ali Noonari, "Strategic and Security Challenges in Asia for the Rise of China," *Journal of Asia Pacific* 26, 2008:148.

¹⁰ Eddie Leung, "**Southeast Asia-China: Threats, Opportunities**," *The Asia Times*, August 02, 2003, <http://www.atimes.com/atimes/China/EH02Ad01.html>.

¹¹ Michael Yahuda, *The International Politics of the Asia-Pacific* (New York: RoutledgeCurzon, 1996), 159.

¹² Jay Taylor, *China and Southeast Asia: Peking's Relations with Revolutionary Movements* (New York: Praeger Publishers, 1974), 388.

¹³ Bernard K. Gordon, *New Directions for American Policy in Asia* (London: Routledge, 1990), 23.

CAFTA is also improving market foundations and infrastructures and maximizing wellbeing for masses. It is helping in building the regional institutional architecture better. Consequently, the new growth of China-ASEAN economic terms, which is unusual compared to the rest of multilateral economic ties in ASEAN region, is significantly important from the regional economic development and integration point of view.

At the opening ceremony of the 6th China ASEAN Business and Investment Summit, Chinese vice Premier Li Keqiang said in his speech:

China and ASEAN countries hold a population of 1.9 billion, which accounts for one third of the world population. The China-ASEAN free trade agreement, located between the Pacific Ocean and the Indian Ocean, is the world's biggest free trade agreement in terms of population, an important channel for international trade, an energy corridor and an economic bond. It plays a very important role in the world economic structure. As significant emerging powers in the global economic system, China and ASEAN countries have seen rapid economic development and become one of the most vigorous economies. Also, China and most of the ASEAN countries are going through the process of industrialization and urbanization with huge market space and potential in growth, indicating broad prospects in cooperation.¹⁴

Several observed studies attempt to notice the effects of China ASEAN economic integration on United States influence in Southeast Asian region. Fu Kuo Lio in one of his articles, "Beijing's Regional Strategy and China-ASEAN Economic Integration" (2008) has mentioned that:

The entire region understands the implication of China's success in advancing into Southeast Asia and Central Asia by different economic means. It is important to note that China has managed well not only through bilateral economic cooperation but also by initiating or participating in multilateral economic mechanisms. By the same token, the region has also observed the rapid

¹⁴ Li Keqiang, "Opening Remarks" (Speech Presented at the Opening Ceremony of the Sixth China ASEAN Business and Investment Summit, China, Nanning, October 21, 2009).

decline of United States influence in all related policy areas. Especially on various joint statements announced by regional countries on occasions of regional multilateral forums, China postures itself with more confidence and a much firmer position in initiating new cooperative proposals and leading the ways of regional cooperation. In effect, regional economic and political interdependence between China and ASEAN countries is blossoming, though the degree of ASEAN dependency on China is accelerating, especially for those members of Greater Mekong Sub region (GMS). Through various development projects of GMS, China is quickly developing solid connections and networking with its partners.¹⁵

On the other hand, the refocusing of United States engagement in Southeast Asian region after 9/11 incident has changed the situation altogether. Ernest Z. Bower in one of his articles "A US strategy for ASEAN" mentioned that:

President Obama has declared himself the "first Pacific president of the United States" and has inaugurated a U.S.-ASEAN Summit that includes all 10 leaders of the Association of Southeast Asian Nations (ASEAN). Yet, while form is moving in the right direction, a substantive framework is required to support enduring engagement in Southeast Asia based on a clear-eyed understanding of U.S. interests in this vital region. The approach to this effort should be based on an objective assessment of current and future U.S. interests in Southeast Asia and engage stakeholders in government and business, with expertise in business and economics, defense and security policy, human rights, cultural issues, and others.¹⁶

China-ASEAN Economic Relations in the 21st Century

According to ASEAN official website, approximately 500 million is the total population of ASEAN. This specific region covers an area of 4.5 million square kilometers. The Combined GDP of ASEAN is \$ 800

¹⁵ Fu-kuo Liu, "Beijing's Regional Strategy and China-ASEAN Economic Integration," *China Brief*, 08: 10, 2008: 23.

¹⁶ Ernest Z. Bower, "A US Strategy for ASEAN," *CSIS*, March 01, 2010, <http://csis.org/publication/us-strategy-asean>

billion and it had total trade of \$ 985 billion in 2004.¹⁷ Internationally, ASEAN is an important figure since it gained significance in political and especially economic terms. It keeps on holding the meetings and sessions actively for having dialogues with its economic and trade partner countries such as United States, Japan, China, New Zealand, Australia etc.¹⁸

Bangkok Declaration, which launched the Association, thus envisaged its role:

To accelerate the economic growth, social progress and cultural development in the region through joint endeavour and partnership in order to strengthen the foundation for a prosperous and equal community of Southeast Asian nations.¹⁹

The economic relations between ASEAN and China can be divided into three phases, as per betterment and improvement in their political and diplomatic ties; the first phase was the time from 1967 to 1990, second phase from 1991 to 2001 and third phase from 2002 till to-date. During the first phase, the terms on both sides experienced the enhanced confidence and progressing trust. As China and ASEAN states recognized each other and developed diplomatic ties, the process of enhancing mutual understanding through bilateral actions and activities gradually opened up. During this period China signed several trade agreements with its Asian neighbours, including one with Malaysia.²⁰ In 1980s China made some changes in its foreign policy which would be discussed in detail in the coming chapter (2.2), and these changes proved to be very beneficial for China to develop its diplomatic ties with all ASEAN member states.

Period from 1991 to 2001 can be declared as the second phase. During this stage, political and economic terms on both sides boomed very effectively. Politically, both China and ASEAN started advanced official dialogue

¹⁷ ASEAN Trade Statistics Database, ASEAN Official Website, <http://www.asean.org/18137.htm> (Accessed on 01 Aug 2011)

¹⁸ R. Nagi, *Big Powers and South-East Asian Security* (New Delhi: Patel Enterprises, 1986), 99.

¹⁹ Zafar Imam, *World Powers in South and South-East Asia* (New Delhi: Indian Council of World Affairs, 1972), 229.

²⁰ Niloufer Wajid Ali, *Communist China and South & Southeast Asia (1949-1972)* (Lahore: Ripon Printing Press, 1975), 242.

series. In the meantime, bilateral investment and trade developed effectively. The positive response of China to the Asian financial crisis of 1997 with its pro-active policies strengthened their ties. A combined declaration on establishing a fine partnership leaning towards 21st century was issued in 1997. It led to full dialogue partnership by 2001.²¹

The third phase can be marked from 2002 till to-date. This phase gave birth to new strategic partnership between China and ASEAN. China-ASEAN Comprehensive Cooperation Framework Agreement was signed by China and ASEAN. In 2002, it started to form the building block of the China-ASEAN Free Trade Area by 2010. It was followed by signing of the Treaty of Amity and Cooperation in Southeast Asia by China in 2003. Therefore China won the credit of becoming the first non-ASEAN participant to the accord. China also earned the confidence of ASEAN states as a complete market economy status and hence in 2004, it joined the Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Cooperation with ASEAN. It was followed by the 'early harvest trade in goods' programme in July 2005 and finally the Agreement on Trade in Services in 2007. Now it is very much clear that both sides have entered into close economic terms and ties.²²

It is generally agreed that ASEAN felt the effects of the financial crisis of 1990s on several levels. Economically, the crisis destabilized economies and undermined investor confidence in the region. Politically, it unseated governments and weakened states. Institutionally, it damaged the credibility of regional organizations like ASEAN and APEC, which found themselves ill-equipped to respond. Moreover, the crisis shifted ASEAN's own attention inward to fixing domestic problems- mass poverty, ethnic separatism, and internal instability – that member states thought had been mostly solved. In this sense, there are parallels between this period and ASEAN's first years, when domestic

²¹ Zhao Jianglin, "Recent Development of China-ASEAN Trade and Economic Relations: From Regional Perspective," in *ASEAN-China Trade Relations: 15 Years of Development and Prospects: Summary Record of the International Conference* (Hanoi: The Gioi Publishers, 2008), 02.

²² Ibid.

preoccupations and priorities discouraged more activist regional initiatives.²³

This financial setback could have worsened the China-ASEAN terms but amazingly they became better. Particularly, this very crisis gave a chance to China to prove itself as a valuable partner, as a head of the region, to show its overall political and especially economic value. ASEAN got disappointed with overall global response at that crucial time and International Monetary Fund (IMF) conditions which were improper and insensitive and China took advantage of that. ASEAN was highly disappointed with the United States as it was affiliated with the IMF terms and conditions and apparently it was viewed as taking advantage of financial crisis of Southeast Asia.²⁴

The financial crisis of 1997 has been an imperative event for the relations of China and ASEAN in the following two ways:

It altered the focus of concerns and issues from political security apprehensions which were in the limelight during 1990s to the economy and trade.

ASEAN's varying relationships with the big powers like United States, Japan and China were brought into spotlight.²⁵

The decade of 1990s saw growth of China-ASEAN economic relations through trade, business, investments and tourism. In the same way, during the crisis period, China sustained the value of renminbi (RMB), the Chinese currency. It helped the crisis from becoming more severe for ASEAN countries.

China's entry into WTO was another vital milestone that became a big factor for the steady China-ASEAN economic terms. China implemented a very wide-ranging package of market liberalization measures after entering the WTO. Industries such as garments, footwear, metals, electronics, utilities and other light manufactures are likely to benefit most from WTO accession.²⁶

These developments led to the rapid expansion of the ASEAN-China trade terms. During the year 2000,

²³ Alice D. Ba, "China and ASEAN: Renavigating Relations for a 21st Century Asia," *Journal of Asian Survey*, 43: 04, 2003: 635.

²⁴ Ibid.

²⁵ Ibid. Alice D. Ba, 638.

²⁶ Chia Siow Yue, "ASEAN-China Free Trade Area" (Paper Presented at the AEP Conference, Hong Kong, April 12-13, 2004).

ASEAN-China trade reached \$39.5 billion. In abroad merchandise trade of China, the share of ASEAN has been on continuous rise during that time. ASEAN was declared as the 5th biggest trading partner of China in 2000.²⁷

The idea of a free trade area between China and ASEAN was first discussed at the third ASEAN-Plus-China Summit in Manila in 1999. It was the time when ASEAN was trying to recover from the Asian financial crisis. On November 06, 2001, China and ASEAN formally declared their decision to initiate talks on CAFTA on the ministerial level at the fifth ASEAN-China Summit. A ten year period was recommended to establish the FTA so that it can provide the flexibility for the not so developed ASEAN countries like Vietnam and Cambodia.²⁸

In November 2004, both ASEAN and China agreed and signed the Framework Agreement on Trade in Goods. It was implemented in July 2005. The agreement required ASEAN-6 countries which includes Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand and China to eliminate tariffs on 90% of their goods by 2010, whereas the rest of ASEAN states were given flexible time till 2015 to eradicate the tariffs.²⁹

Since the inception of CAFTA, trade between China and six ASEAN countries including Brunei, Indonesia, Malaysia, the Philippines, Thailand and Singapore has become duty-free for more than 7,000 products. By 2015, the newer ASEAN countries, Vietnam, Laos, Cambodia and Myanmar, will join the zero-tariff arrangement.³⁰

As the world's third largest regional free trade agreement, after European Union (EU) and North America Free Trade Agreement (NAFTA), CAFTA has and will continue to have significant trade and development implications for ASEAN and beyond.

²⁷ Ibid.

²⁸ Kevin G. Cai, "The ASEAN-China Free Trade Agreement and East Asian Regional Grouping," *Contemporary Southeast Asia: A Journal of International and Strategic Affairs*, 25: 03, 2003:396.

²⁹ Ibid. "ASEAN-China Free Trade Agreement: A Primer," 07-08.

³⁰ Walden Bello, "The China ASEAN Free Trade Area: Propaganda and Reality," *TNI*, January, 2010, <http://www.tni.org/article/china-asean-free-trade-area-propaganda-and-reality>.

There is little doubt that CAFTA is important to ASEAN. As a rapidly growing economy, China offers enormous potential for the largely small and export-oriented ASEAN member countries. China's importance is even more evident at present with a fragile and uncertain global economic recovery and grave economic difficulties faced by the industrial world on which ASEAN countries rely heavily.³¹

China sees the agreement as a way of securing supplies of raw materials, while countries in ASEAN — an eclectic grouping ranging from highly advanced Singapore to Laos, a poor landlocked communist state — see opportunities in China's huge market.³²

The free trade area (FTA) arrangements mark one of the most important breakthroughs in China-ASEAN economic cooperation. The architects of this agreement, in creating the world's largest free trade area by population, hoped to benefit from increased trade as the result of the lowering or elimination of trade tariffs. This new step towards economic integration accompanied with other cooperative efforts between the two sides in recent years, resulted in a new era of engagement. Overall, the implementation of the FTA promoted greater economic ties between China and ASEAN. The FTA helped lower the costs for Chinese manufacturers and retailers, while lower tariffs compensated for raising wages and production costs.

III. RESULT AND DISCUSSION

CHINA ASEAN Economic Relations: Implications for United States Influence in the Region:

China's active involvement in Southeast Asia has elevated issues in the United States and Asia regarding the nature of China's vigorous expansion and its consequences. Believers of a China danger picture have long argued that what China wishes for is the regional domination and United States-China ties in this regard are a zero sum game. Correlations and contrasts are made between the mount and expansion of China and that of Nazi Germany or majestic Japan. According to Aaron L. Friedberg:

³¹ Ibid. Sarah Y. Tong and Catherine Chong Siew Keng, 01.

³² "China-ASEAN to Launch World's 3rd Biggest Trade Zone," *Daily Times*, Saturday, January 02, 2010, http://www.dailytimes.com.pk/default.asp?page=2010%5C01%5C02%5Cstory_2-1-2010_pg5_40.

China's rise will necessarily be highly disruptive to US preeminence in the global system, stability in Asia, and the international system writ large.³³

The policies of America and China directed towards Southeast Asia signify remarkable features as both powers hedge against the future. It is evident that if China has deep terms with Burma, United States has with Thailand. There is some resistance showed by Vietnam for developing terms with both China and United States but Laos and Cambodia make the afterthought for both states. Both China and United States bump into restrictions to their strategies for influencing Southeast Asia. The Burmese junta is cautious of surplus Chinese involvement and looks for manipulating the accessibility of its oil and gas sales among China, Japan, and India. On the other hand, United States in spite of having close military links with Thailand cannot stop it to have economic associations with China. In brief, Southeast Asia is a strategic and economic hub for China whereas for United States which is busy with war against terrorism, it is a region having governance and democracy issues.³⁴

Others paint a picture of China returning to the wonder times of the Middle Kingdom. This is because China is growing and expanding enormously in economy and it is influencing most of the Asia and it is helping its neighbouring states to prosper as well.³⁵

No other country has more influence than the United States on China's ASEAN policy. It was 1994 when China called back all its ambassadors from abroad for a conference on the reorientation of its general international policy to complete the new challenges of post-Cold War era. During the conference, attempts were made to phase out its preceding much stress on the United States to stress more on its ASEAN neighbouring states. Therefore, this would set China's ASEAN policy more on what ASEAN states actually are than on the

³³ Aaron L. Friedberg, "Ripe for Rivalry: Prospects for Peace in a Multipolar Asia," *International Security*, 18:03, 1993–1994: 25.

³⁴ Grinter, Lawrence E., "China, The United States and Mainland Southeast Asia: Opportunism and the Limits of Power," *Contemporary Southeast Asia*, 28: 03, December 2006: 447.

³⁵ Eric Teo Chu Cheow, "An Ancient Model for China's New Power; Paying Tribute to Beijing," *International Herald Tribune*, Paris, January 21, 2004, 06.

United States factor. This proposal was abandoned roughly once it was initiated. Since tensions across the Taiwan Straits broke out the next year, China was compelled to give preference to United States factor and Taiwan's crawling independence on its diplomatic agenda. It also consisted of the construction of its ASEAN strategy.³⁶

A major problem in China-United States terms is that on the one side, the United States feels that its impact on China is peripheral, as the former U.S. ambassador to China, James Sasser said. On the other side, China feels that the United States is almost the only country that has a major bearing on basic interests of China. Consequently, any initiative or step taken by United States is viewed as a serious threat by China, even if it is very casual. Likewise, any normal action or step taken by China in Southeast Asian region is viewed with suspicion by United States. So Southeast Asian region is itself at a point where its relations and terms with anyone of two super powers would be over interpreted by the other.³⁷

Southeast Asian region is a critical arena of competition between China and ASEAN. United States has profound political, security and economic terms with the region whereas China has struggled over a decade to form cordial relations with ASEAN states on the basis of economy, trade, foreign aid and diplomatic steps. Indeed, both super powers have deep and well-built associations with Southeast Asian states, and both sketch substantial energy in picturing soft power in the region.

According to some analysts, China tries to build its impact in Southeast Asia and to wear away the United States supremacy. Whereas others argue that China does not have the determination and ability or acquiescence of countries in the region to fulfill such an objective.³⁸

Many citizens of Southeast Asian region accept the United States military presence in their region but they have apprehensions and issues regarding the United

States attitude and they feel that the superpower has often ignored them diplomatically. While China's rising soft power covered this exact void in part. A research stresses upon the overarching doctrine that tell China's soft power actions and make it an influential substitute to the United States soft power. The official embracing of Southeast Asian region by China has raised China's increasing power.³⁹ In comparison, this region is somewhat unhappy with the United States constricted security measures in the region and especially with the inappropriate terms and conditions of United States for financial aid.

In October 2002, the "Enterprise for ASEAN Initiative" (EAI) was begun by the Bush Administration, with an objective of looking for deeper economic terms with ASEAN region, including the opportunity of bilateral free trade agreements with member states of ASEAN. A prospective FTA associate would need to be a member of the World Trade Organization (WTO) and have accomplished a Trade and Investment Framework Agreement (TIFA) with the United States. The TIFA agreements have been signed by United States with Vietnam, the Philippines, Singapore, Thailand, Cambodia, Indonesia, Malaysia and Brunei. United States has a free trade agreement with Singapore since 2004 and has apprehended talks with Malaysia and Thailand on launching FTAs, though these meetings couldn't reach any agreements. USTR Susan Schwab signed a TIFA agreement with ASEAN and President Bush met with seven ASEAN leaders attending the APEC summit in Australia on August 25, 2007 and September 2007 respectively.⁴⁰

Both United States and ASEAN work under the ASEAN Economic Ministers-US Trade Representative (AEM-USTR) Consultations and the Senior Economic Officials-Assistant USTR (SEOM-USTR) Consultations. One of the major trading associates of ASEAN is considered United States. In 2010, ASEAN-United States total trade showed a sharp rebound, recording a boost of 24.4%, totaling US\$186.1 billion compared with US\$149.6 billion in 2009. In the same year, United

³⁶ Sheng Lijun, *The U.S. Factor in China's ASEAN Policy* (Singapore: Institute of Southeast Asian Studies, 2006), 01.

³⁷ Ibid.

³⁸ For different views on China's strategic goals, see John Tkacik and Dana Dillon, "China's Quest for Asia," *Policy Review* (Hoover Institution), December 2005-January 2006.

³⁹ Joshua Kurlantzick, "China's Charm Offensive in Southeast Asia," *Current History*, September 2006, 276.

⁴⁰ Thomas Lum, et. al., "Comparing Global Influence: China's and U.S. Diplomacy, Foreign Aid, Trade and Investment in the Developing World," *CRS Report for Congress*, August 15, 2008, 83.

States imports amplified by 27.0% to US\$85.6 billion whereas exports reached 22.3% to US\$100.5 billion. United States and ASEAN are the fourth biggest trading associates of each other.⁴¹

United States assistance for ASEAN member states includes sectors of environment, counterterrorism, security and trade. Other programs focus on education, good governance and eradicating transnational crime. In 2009, USA funding for East Asia Pacific Regional programs was near about \$20 million. East Asia Pacific Regional programs help in achieving ASEAN, ARF, and APEC objectives.⁴²

In terms of bilateral assistance, the United States provided an estimated \$526 million in 2009 to nine ASEAN countries (Brunei Darussalam does not receive U.S. assistance). Since 2001, large increases in U.S. assistance have been received by Philippines and Indonesia, mainly for counterterrorism programs. Vietnam also has received large amount of U.S. aid, reflecting major funding and assistance for HIV/AIDS programs.⁴³

In the areas of cultural and political soft power, China has made some gains relative to the United States in some Southeast Asian countries. A 2007 Pew Research poll⁴⁴ found that only 29% of Indonesians and 27% of Malaysians had a favorable view of the United States as opposed to 83% of Malaysians and 65% of Indonesians who had favorable views of China. The rating for Indonesia is up slightly from a favorable view of only 15% in 2003 but remains well below the 75% favorable view of the United States in 2000.⁴⁵ One striking exception to this trend is the Philippines, which ranks first in the world in trusting the United States to act responsibly in global affairs, according to a 2007 survey. In this survey,

64% of Indonesians and 56% of Thais did not trust the United States to act responsibly.⁴⁶ Despite these negative views toward the United States, another poll suggests that the United States is still viewed as the predominant soft power influence in Asia.⁴⁷

To take perhaps the most important question first: does it matter who holds a strong position In South East Asia? At some point it might not, but right now it clearly does.

US importance in Southeast Asia from economic and security point of view is well known and recognized. It can be judged from the Council on Foreign Relations task force report on *The United States and Southeast Asia: A Policy Agenda for the New Administration* which said in 2001, "Southeast Asia's importance should be evident: it is home to almost 525 million people, commands a GNP of greater than \$700 billion, is our fifth-largest trading partner, holds a position of great geostrategic consequence sitting aside some of the world's most critical sea-lanes (the Strait of Malacca, through which nearly half of the world's trade passes), and features a growing number of emerging democracies"⁴⁸

President Barack Obama in November 2011 tied the hopes of a faster American economic recovery to the flourishing Pacific Rim region, saying "the United States will play a larger and long-term role in shaping this region and its future, by upholding core principles and in close partnership with our allies and friends". According to Obama, it is USA's top priority. It is the region where his administration is pouring in time and political capital to expand exports and business ties. Obama used his moment to signal to business executives and Asian leaders that the United States has shifted from a post-

⁴¹ Ibid.

⁴² Thomas Lum, Coordinator, et. al., "United States Relations with the Association of Southeast Asian Nations (ASEAN)," *CRS Report for Congress*, November 16, 2009, 15

⁴³ Ibid.

⁴⁴ The Pew Research Center is an American think tank organization based in Washington, D.C. that provides information on issues, attitudes and trends shaping the United States and the World.

⁴⁵ The Pew Global Attitudes Project, "*Global Unease with Major Powers*," June 27, 2007, <http://www.pewglobal.org/2007/06/27/global-unease-with-major-world-powers/>.

⁴⁶ "Filipinos Rank High in Supporting the U.S. in World Affairs, According to 18-Nation Survey," *Social Weather Stations* (Manila), June 12, 2007, <http://www.sws.org.ph/pr070612.htm>.

⁴⁷ The Chicago Council on Global Affairs, *Soft Power in Asia: Results of a 2008 Multinational Survey of Public Opinion*, http://www.thechicagocouncil.org/UserFiles/File/POS_Topline%20Reports/Asia%20Soft%20Power%202008/Chicago%20Council%20Soft%20Power%20Report%20Final%206-11-08.pdf.

⁴⁸ Report of an Independent Task Force, *The United States and Southeast Asia: A Policy Agenda for the New Administration* (New York: Council on Foreign Relations, 2001), 1-2.

9/11 war focus to re-engagement all across the Pacific. The President outlined a framework through which American military strength helps to guarantee security in the region, where growing economic ties help to deliver a shared prosperity.⁴⁹

United States has played a very crucial role in Southeast Asia to ensure the security of the region on a broader level. The biggest example is the effort put in by Bush Administration to convince the five relative countries to support the six-party talks on the North Korea nuclear threat. It was mandatory to re-engage North Korea in a manner that helps ensure a greater likelihood of a verifiable and enforceable agreement. Moreover, issues such as public health, environmental protection, human rights and drug trafficking all suggest that Asia needs United States for its commitment to transparency, openness, and human rights protection; a commitment that China does not evidence consistently, at least at the present time. And finally, as already noted, Asia's role in shaping the future of the United States' economy also argues for the United States to retain a dominant role in the region.⁵⁰

IV. CONCLUSION

The research shows alteration of China's political economy with Southeast Asia which started with three significant policies. These policies namely open-door policy, good neighbor policy and "go global" policy entirely altered the relations of People's Republic of China with the world. These policies helped in bringing the international investment into the market of China; improved relations with the neighboring countries of Southeast Asia and pushed China's capital overseas respectively.

Before the initiation of these policies, China had very difficult and challenging relations with almost all the countries of the Southeast Asia but since these policies started working, China embraced a very positive change

in terms of its relations and political economy. In just a span of a decade and half, China ASEAN relations witnessed significant changes. The relations changed from enmity and distrust to trust and interdependence. China's rapid growth in economy and its speedy extension in current years especially with Southeast Asian economies have proved fruitful in bringing the structural changes in the trade production of the region. Generally speaking, the rising economy of China is both a treat and threat to the ASEAN countries.

In return, CAFTA member states have also improved and enhanced their trade and investment relations with China to broaden the overall regional production. By having a glance at the contemporary economic globalization and regional incorporation, the future of China and ASEAN can be foreseen as more close. What provide both sides are the common interests and it binds both China and ASEAN in a mutually beneficial integration more.

One thing is for sure that even if the international scenario changes, China would continue its peaceful development, reliably follow its foreign policy which is based upon good neighborhood strategy and would continue as a good partner of ASEAN. It would also keep on assisting the less developed ASEAN member states, sustain the community of ASEAN and would encourage role of ASEAN in East Asian cooperation.

If one talks about United States, it is very obvious that it needs to focus on Southeast Asia more. United States should put in all efforts on contemporary Asian economic arrangements as they can have important consequences both for United States itself and for the global economic institutions. Even though USA has already devised its policies and strategies to counter back the Chinese influence in the region (as China is heading the Asian movement) but now United States should keep it relations with Southeast Asia more stronger and closer as President Barack Obama already said that this region is United States' top priority.

Both China and United States are intended to connect in wide inclusive competition in this specific region in the upcoming times. It is a two way process i-e competition leading to cooperation and cooperation leading to competition. It can be assumed that this very nature of China-US relations would be very much prone and

⁴⁹ Barack Obama, "Opening Remarks" (Address in the House of Representatives at Parliament House in Canberra, Australia, November 17, 2011).

⁵⁰ Elizabeth Economy, "China's Rise in Southeast Asia: Implications for the United States," *Journal of Contemporary China*, 14: 44, 2005: 412.

sensitive on global level and Southeast Asia can turn out to be a major platform to analyze their relationship.

Since choosing between the United States and China has always been a point of reluctance for Asian countries; US policy shouldn't try to compete with China's rise directly or indirectly to undermine China's influence. Becoming as Asia's foremost power and region's partner on economy and security can be a useful strategy. USA needs to be more sensitive, sensible and stable in developing in terms with Southeast Asia especially with states going through alterations i-e South Korea. It can definitely help USA to improve its image in this very region.

China and ASEAN understand their need to spread out and deepen their cooperation as both sides' economies are becoming interdependent. At China-ASEAN Ministerial Meeting in Brunei in August 2002, Chinese Foreign Minister Tang Jiaxuan said: "We should keep developing the momentum of China-ASEAN ties and further expand and deepen our cooperation to better cope with the changed situation".⁵¹

The apparent fact is the connectivity of China and USA in this evolving and transforming worldwide expansion. This is the major reason for the China ASEAN relations to be entitled as declining and rising, waxing and waning as stated in old Chinese concept of yin and yang. This association would always remain in a state of fluctuation in Southeast Asian region instead of being focused and stable.⁵²

⁵¹ Rommel C. Banlaoi, "Southeast Asian Perspectives on the Rise of China: Regional Security after 9/11," *Parameters*, June 22, 2003, 106.

⁵² Li Xingand Zhang Shengjun, "One Mountain with Two Tigers - China and the United States in East Asian

Regionalism," *Perspectives on Federalism*, 02: 03, 2010: 127-128. ⁵² Rommel C. Banlaoi, "Southeast Asian Perspectives on the Rise of China: Regional Security after 9/11," *Parameters*, June 22, 2003, 106.

⁵⁴ Li Xingand Zhang Shengjun, "One Mountain with Two Tigers - China and the United States in East Asian

It is evident that USA is still very influential in Southeast Asia. Many initiatives taken by United States in Southeast Asia (already mentioned before) are enough to prove that United States is well aware of the importance of this region and is trying its best to keep up its influence and is quite successful yet. It needs to put up some more efforts so that China, which has a major presence in the region, cannot take its place. As long as China continues to increase in power and the United States continues to put in efforts in response to the mount of China, the region of Southeast Asia would remain significant and critical where Sino-US competition will unfurl.

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