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# Introduction: China and Southeast Asia: Political and Economic Interactions

Anne Booth

The last decade of the twentieth century and the first of the twenty first century witnessed the peaceful and successful integration of China into the East Asian and the wider global economy. This process, largely market driven, is continuing, and has brought benefits to many tens of millions of Asians in terms of greater employment opportunities, and to even greater numbers in other parts of the world in terms of cheap consumer goods. But inevitably there have been repercussions for producers of traded goods in other parts of Asia, and in other parts of the world. In addition, China has also become a magnet for foreign direct investment from most of the OECD economies, while at the same time becoming an important source of investment in developing countries in Asia and Africa, especially in the extractive sectors. China's rise to a key player in the world economy has also had geo-strategic implications, not least on its immediate neighbours along its borders in Southeast Asia. Disputes have arisen about the sharing of the waters of the Mekong River, and also about its territorial ambitions in the South China Sea.

The six papers in this issue all examine aspects of China's rise on the countries of Southeast Asia, or the ASEAN-10 as they are often known. They are a very diverse group, including three countries where per capita GDP is higher than in China (Singapore, Malaysia and Thailand) and two more which although below China in terms of per capita GDP, have developed both their industrial and modern service sectors over the past four decades (Indonesia and the Philippines). They also include the three countries of former Indochina, whose post-independence economic development has been severely affected by conflict with both external and internal enemies. But since the early 1990s, Vietnam, Laos and Cambodia have all managed to achieve quite impressive growth in GDP; Vietnam has seen faster growth since the late 1990s than most other economies in the region, albeit from a lower base. In all three cases, growth has been achieved by opening up to international trade and investment, and by allowing market forces a greater role in the allocation of resources, while at the same time permitting only very limited political liberalization away from one-party states. On the western edge of the region Myanmar has also resisted political

liberalization since the election of 1990, although its economic performance over the last two decades has been far less impressive than that of Vietnam.

Given the diversity of the region, it is not surprising that the member states of ASEAN have reacted to the rise of China in different ways. Until the late 1990s, trade and investment flows were small; indeed as Krislert points out more investment was flowing into China from ASEAN than in the other direction until the early 2000s. Not surprisingly it was the large conglomerates controlled by Southeast Asian citizens of Chinese descent which were most active in investing in China. Business groups in Singapore, Malaysia and Thailand all viewed China as a growing market in which they were keen to establish a presence. Government-linked companies, especially from Singapore were also keen to enter China. But by the early 2000s there was also concern about China displacing exports from ASEAN in third markets, and also about China absorbing ever more inward flows of investment at the expense of the ASEAN economies. The papers by Leu and Booth argue that these fears were not without justification.

Booth examines the case of Indonesia where manufactured exports have grown more slowly since 1998 than in the decade from 1987 to 1997. But the evidence suggests that the main reasons for the slowdown in growth of Indonesia's manufactured exports were domestic, and related to the economic and political instability of immediate the post-Suharto years. Particularly damaging was the failure to invest in new infrastructure. Leu argues that the rise of China has presented the ASEAN nations, and especially the original five, with an opportunity to diversify their trade and investment ties; in fact she argues that this was an important reason for the formation of the ACFTA. She also points out that stronger ties with both China and Japan could be an important means of strengthening ASEAN itself as a credible economic bloc.

But increasing trade and investment flows are likely to give rise to tensions not least over environmental issues. Dosch's paper looks at the case of the Greater Mekong Region, where Chinese investment has raised both environmental and social concerns. Dosch suggests that outside donors might be able to play a constructive role in promoting more sustainable development in a region in whose development both China and the mainland Southeast Asian states have ongoing interests. Booth points out that trade between China and Indonesia has been growing rapidly in recent years, with Indonesian exports to China dominated by raw materials including coal, petroleum products and natural gas. Critics of China's energy policies have argued that China is more anxious to secure coal supplies from Asia, Australia and elsewhere than to invest in new, greener technologies for electricity generation.

To what extent is China becoming a hegemonic power, dominating many aspects of policy-making in the ASEAN region? Haacke's paper looks at the case of Myanmar, which is often considered to be the ASEAN state most dependent on China, especially since the ASEAN countries and most OECD countries have frozen trade and investment links. He points out that the SPDC government has used its natural resources and strategic position as bargaining tools when negotiating with its giant neighbour. This is likely to be even more the case if Myanmar's current government is prepared to even partially liberalise the domestic political system. Thayer's paper examines recent developments in the South China Sea, where China has traditionally pursued an aggressive stance in asserting what it claims are its territorial rights. Thayer suggests that recent events indicate that China is prepared to modify its hawkish stance, in order not to jeopardize its increasing economic links with the ASEAN region.

The six papers are hardly the last word on the China-ASEAN relationship which is both complex and fast-changing. But they serve to illustrate some of the key forces driving both political and economic ties. It is clear that the ASEAN countries can hardly be called "client states" of China in that they are pursuing their own agendas, both as individual governments and as an economic block. Even Myanmar, long considered to be the most dependent on China, is moving towards a greater autonomy in its relations with its northern neighbour. But all must adjust their domestic economies to the rapidly growing market in China for both raw materials and manufactured goods. This has inevitably involved changes in their comparative advantage and these changes will have important implications for the structure of output and the distribution of incomes in each ASEAN state. It will be fascinating, and perhaps at times alarming, to see how the relationship between China and the ASEAN countries evolves in coming years.

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