Beijing’s recent economic initiatives with neighboring countries focus on a reported $50 billion Chinese commitment to the Asian Infrastructure Investment Bank (AIIB) and a $40 billion commitment to the Chinese Silk Road Fund. The initiatives remained at the center of Chinese engagement in Southeast Asia throughout the early months of 2015. Chinese commentary on the initiatives emphasized how Southeast Asian and other neighbors will benefit greatly from Chinese largesse. The annual meetings of the National People’s Congress and the Chinese People’s Political Consultative Congress in early March highlighted the initiatives. They were also in the spotlight during the China-hosted Boao Forum for Asia Annual Conference in late March. The conference featured a keynote speech by President Xi Jinping emphasizing AIIB and Silk Road Fund support for infrastructure connectivity with neighbors to create a “common destiny” between China and Southeast Asian and other neighbors. Xi underlined similar themes in his speech at the April 22 commemoration celebration of the 60th anniversary of the Afro-Asia Summit of 1955 in Bandung, Indonesia.

Against that positive background, Chinese leaders generally sidestepped the strong language seen at the annual Chinese People’s Congress meetings and other venues in the recent past regarding Chinese determination to protect disputed sovereignty and insure peace through strength in dealing with territorial disputes. Senior leaders did respond sharply when Myanmar armed forces killed Chinese civilians in a cross-border air attack in March as the Myanmar military suppressed resistance by an ethnic militia with close historic ties to China. Chinese leaders tended to leave publicizing South China Sea disputes to lower-level officials, using carefully measured language to rebuff complaints made by US, Philippine, and Vietnamese representatives protesting China’s rapid creation and expansion of islands through massive dredging and follow-up construction of facilities for surveillance and power projection. In a departure from past practice, ASEAN leaders on April 27 publicly registered serious concern about the land reclamation in the South China Sea.

Assessing AIIB, Silk Road Fund, and China-Southeast Asian relations

The China-initiated AIIB represents a work in progress. Chinese officials reportedly were surprised by the number of states seeking to join, despite reports of opposition by the United States. The Chinese Ministry of Finance announced on April 15 that 57 nations were approved as founding members of the AIIB, including all members of ASEAN. Official media reported China’s commitment of $50 billion to the bank, but the commitments of other nations, the rules and regulations of the body and a host of other issues are in the process of being resolved. Deliberations to decide on the distribution of each country’s respective share of decisionmaking
power in the bank and the selection of leading bank officials reportedly are expected in meetings of representatives of the founding members later this year.

By contrast, the $40 billion China Silk Road Fund is under direct Chinese control and has registered more concrete progress than the AIIB. The Fund was established on Dec. 29, 2014 and began operation on Feb. 16, 2015. The scope of activities involves both the countries included in China’s Silk Road Economic Belt (mainly countries west of China going overland as far as Europe) and countries included in China’s 21st Century Maritime Silk Road Initiative (mainly countries along the sea routes from China through Southeast Asia and the Middle East to Europe). A map publicized by official Chinese television and print media on April 15 showed that the scope of the Silk Road Economic Belt and the 21st Century Maritime Silk Road involves all Southeast Asian countries as well as neighboring countries of the South Pacific.

Coincident with the Boao Forum on Asia Annual Conference and Xi Jinping’s keynote address emphasizing China’s common destiny with Southeast Asian and other neighbors, Chinese authorities released a new action plan on March 28 suggesting steps to be taken under the rubrics of the Silk Road Economic Belt and the 21st Century Maritime Silk Road initiatives. The plan was created by the National Development and Reform Commission, the Ministry of Foreign Affairs, and the Ministry of Commerce with endorsement by the State Council. It was as much a vision statement as a plan for action. The substance of the plan is in sections dealing with “framework” and “cooperation priorities” that detailed a very wide range of proposed or possible policies and practices. The details showed that while China is focused on developing infrastructure projects connecting China with its neighbors, Beijing is open to pursuing a broad range of actions to promote enhanced policy coordination across the Asian continent – financial integration, trade liberalization, and people-to-people connections.

Providing some clarity on what Southeast Asian and other neighbors can expect from the Silk Road Fund, official Chinese media announced the first project supported by the Fund during President Xi Jinping’s visit to Pakistan on April 20. It involves providing capital to build the Karot Hydropower project in northeastern Pakistan and is valued at $1.65 billion. The project is part of a very ambitious Chinese plan to build a $46 billion 3,000 km China-Pakistan Economic Corridor from China’s Xinjiang Uyghur Autonomous Region through the Khunjerab pass (elevation 15,397 feet) in the Karakorum mountain range into Pakistan’s Baluchistan region to the Chinese-built Gwadar Port on the far western Pakistan coast, thereby connecting China, Pakistan, and the Arabian Sea. It remains very difficult at this early stage to determine how and if the $46 billion Chinese plan will be implemented and paid for, but the overall figure is staggering. By comparison, the US has been the main provider of assistance to Pakistan during the long US-led war in Afghanistan since 2001. The total amount of US assistance is about $31 billion and the assistance is forecast to decline sharply with the US pullback from Afghanistan.

According to official Chinese media, the hydropower project is emblematic of the types of medium- to long-term projects that will be supported by the Fund in Southeast Asia and elsewhere within its broad scope. Specific information on the Pakistan project says that construction of the proposed power station will start at the end of 2015 and should be in operation by 2020. The station will be operated by a Chinese company for 30 years, after which it will be transferred to the Pakistan government.
Chinese media reporting shows a diffusion of Chinese funding mechanisms both supporting the Pakistan power project and supporting the Silk Road Fund. Reporting does not provide a clear figure on how much of the $1.65 billion cost of the power project actually will be paid by the Fund. It says the Fund will join “a consortium led by the Export-Import Bank of China” which is supplying the funding for the power station, according to a China Daily report of April 20. The report also disclosed that the initial capital of the China Silk Road Fund will be $10 billion from a variety of sources including $6.5 billion from foreign exchange reserves, $1.5 billion from the sovereign wealth fund of the China Investment Corporation, $1.5 billion from the Export-Import Bank of China, and $500 million from the China Development Bank.

Motives, risks, and implications for China-Southeast Asian relations

Publicity surrounding the Boao Forum and President Xi’s speech there and his subsequent speech in Bandung underlined Chinese motives seeking mutual benefit, peace, development, and greater cooperation and integration with Southeast Asian and other neighbors. Chinese leaders and commentary also repeatedly disavowed seeking advantage in competition for influence with the United States, Japan, and others. Nevertheless, the surge of Chinese commentary also contained remarks by Chinese leaders and lower-level officials and commentators showing specific benefits China seeks from the Silk Road Fund, the AIIB, and related efforts. There are both economic benefits and strategic benefits.

The perceived economic benefits are:

- China’s massive foreign exchange reserves are better employed in infrastructure development and investments abroad in Asia than being employed to purchase US government securities and other low-paying investments abroad.

- Asia’s massive need for infrastructure meshes well with China’s massive overcapacity to build it after 30 years of rebuilding China. It will allow competitive Chinese construction companies to continue productive growth in building Chinese-funded infrastructure in neighboring countries.

- Connecting remote western and southern regions of China with neighbors through modern infrastructure will serve to develop these regions more rapidly and help bridge the wide economic development gap between interior and coastal provinces in China.

- The infrastructure will allow many Chinese industries with excess capacity, or facing higher wage demands, or more stringent environmental restrictions in China to relocate to nearby Asian countries and continue to prosper and develop.

- Connecting with neighbors will facilitate trade and the increased use of the Chinese currency in international transactions.

- Developing trade routes including road, rail, and pipeline connections to China from the Arabian Sea through Pakistan, from the Bay of Bengal through Myanmar, and overland
through Central Asian states and Russia will reduce China’s vulnerability to possible interdiction of sea-borne shipments of oil and other needed goods. In particular, Chinese strategists worry about such vulnerability of imports and exports passing through the Indian Ocean and the Strait of Malacca.

The perceived strategic benefits are:

- South China Sea territorial disputes and Chinese intimidation and divisive tactics in dealing with ASEAN and its member states have led to what some commentators see as “negativity” in recent China-Southeast Asian relations. These initiatives change the subject in China-Southeast Asian relations that improve Chinese influence and image.

- The initiatives are an effective way to use China’s geographic location and large foreign exchange reserves in crafting policies and practices that offset US efforts to advance its regional influence and standing through the rebalance policy in Asia.

While generally emphasizing the positive, Chinese commentary also contains statements by Chinese officials and commentators showing reservations about the Silk Road Fund and related initiatives, seeing notable risks. They involve economic risks and political risks.

The perceived economic risks are:

- Since the more viable investment opportunities in Asia have already been taken, China will have to focus on less secure investment opportunities. Some commentators warn against repeating the shortcomings seen in China’s “going out” efforts over the past decade using Export Import Bank and China Development Bank funding to seek energy and resources. Those efforts have a mixed record, with responsible officials saying that over half of Chinese overseas investment projects are unprofitable and 80 percent of Chinese mining deals have failed.

- Beijing continues to emphasize it is a “developing” country with major internal needs, meaning that Chinese funding abroad usually requires assurance that the funding will be paid back in some way. The long-term commitment to infrastructure development in less secure countries heightens the chance for changes and unrest that have destroyed or undercut massive Chinese investments carried out or planned in places like Iraq before 2003, Libya, the Philippines, Nigeria, and Myanmar. Chinese commentary also notes that longer term investment is more prone to loss due to corruption in less stable countries.

The perceived political risks are:

- China’s Asian neighbors are seen as wary of coming under China’s influence as a result of the closer economic connections called for in the Silk Road Fund and related plans. Chinese commentators have warned Beijing against appearing like Japan did in the late 1980s as Tokyo prompted regional fears as it bought resources and deepened investment using its highly valued currency and other economic advantages.
China also has a mixed reputation in its support for labor standards, environmental protection, quality of work, and sustaining large infrastructure projects. Backlash has come in African and Latin American countries and is seen in changing attitudes working against China among rulers in Asian countries including Myanmar, the Philippines, Sri Lanka, and others.

Meanwhile, data and assessments provided by ASEAN, The Economist, and the China-Latin America Economic Bulletin show that the Chinese record of actual investment abroad has amounted to much less than anticipated by Chinese and foreign media highlighting for many years a variety of multi-billion dollar Chinese investment schemes similar to the Silk Road Fund. The data and assessments show that China’s actual investment in Southeast Asia, Africa, and Latin America has amounted to a significant but still modest amount for these areas ranging from about 10 percent of total investment for ASEAN to around 5 percent each for Africa and Latin America. Even when one takes into account underreporting by the Chinese government of investment abroad, China’s low percentage of investment after many years of pledges and plans to increase investment is a notable finding.

Against the background of the above realities, prominent economic and political expert, Zhang Yunling of China’s Academy of Social Sciences advised China Daily on March 9 that the new Chinese investment plans may take a long time “20 years, 50 years, or even 100 years to accomplish.” He warned that the potential risks include “political instability in some countries, terrorism, global competition and concerns about China’s growing presence in some regions.”

Taken as a whole, the above assessment shows that despite China’s disavowals of seeking advantage at others’ expense, it does seek a number of advantages in using recent economic initiatives to advance its influence in Southeast Asia at the expense of the US, Japan, and their allies and partners. At the same time, knowledgeable Chinese officials and specialists appear realistic about the risks involved in these economic initiatives. And, specialists argue on the basis of Chinese experience over the past decade that the actual Chinese impact of the recent investment initiatives may remain limited and far from dominant for some time to come.

**Border friction with Myanmar**

Relations between China and Myanmar turned tense in the last few months over continued unrest and instability in the border areas. Fighting in the Kokang region of northern Myanmar broke out on Feb. 9 between the Myanmar government forces and the Myanmar National Democratic Alliance Army (MNDA), the latter deemed by Nay Pyi Taw as a rebel force. The week-long fighting resulted in nearly 50 casualties, with thousands displaced and fleeing toward the Chinese border. Shortly after the clashes broke out, the Chinese government called on Myanmar to restore stability, prevent the conflict from escalating, and strengthen border management. The Chinese Foreign Ministry indicated that the China-Myanmar border areas remain open and that it would not interfere with Myanmar’s sovereignty and domestic affairs. In spite of the rebel group’s close historic ties to China, senior Chinese officials rejected speculation that Beijing was involved in the conflict, but acknowledged that it has been providing temporary settlements and relocated 14,000 border residents to Yunnan province since the conflict started.
Aggravating the situation, on March 14, a Myanmar military plane dropped a bomb along the border area and killed four Chinese civilians in the Yunnan city of Lincang. The People’s Liberation Army Air Force responded by putting its fighter jets on high alert and dispatching them to patrol and protect the region. Fan Changlong, vice chair of China’s Central Military Commission, expressed his concerns to senior Myanmar military officials about the border incident and said that the PLA will take “firm and decisive action” to protect its nationals. Fan also requested the Myanmar government to issue an apology and to carry out a joint investigation on the incident. Chinese Foreign Minister Wang Yi visited Yunnan and engaged with local authorities on the border security situation and subsequently met with Myanmar Foreign Minister U Wunna Maung Lwin in Beijing to discuss border security. Myanmar President U Thein Sein commented on April 3 that the cross-border situation will not affect the overall strategic partnership Myanmar has with China and acknowledged his government will take the necessary steps to prevent similar incidents from happening.

The swift response to the crisis by the Chinese military stepping in to monitor and patrol the border area and the strong rhetoric and condemnation from senior PLA officials reflected Beijing’s heightened concerns with the ongoing unrest and instability along the China-Myanmar border. Local officials have reportedly tightened border checkpoints and security in an attempt to stem the influx of refugees into one of China’s poorest provinces. The political impasse and the humanitarian spillover effects of Myanmar’s civil unrest in the Kokang region will continue to test Beijing’s strict adherence to its noninterference policy, and will be closely monitored and assessed in the coming months for impending developments.

South China Sea disputes

This reporting period featured a steady stream of commercial satellite photographs in widely publicized US and international media and think tank reports showing Chinese dredgers and construction crews rapidly creating over 600 acres in disputed South China Sea islands along with berthing facilities, aircraft runways, and other means that strengthened Chinese capacity to tighten enforcement of territorial claims, project power, and rebuff other claimants. The operations involved seven locations in the Spratly Islands far from the China coast and well into the distant reaches of the South China Sea. The Spratly Islands are claimed in total or in part by Vietnam, Taiwan, the Philippines, Malaysia, and Brunei. Vietnam, Taiwan, the Philippines and Malaysia also occupy some outposts in those disputed islands. China is also expanding two locations in the Paracel Islands, South China Sea islands closer to the China coast that have been under its control since Chinese forces drove out Vietnamese forces guarding some of those islands over 40 years ago. Vietnam and Taiwan also claim the Paracel Islands.

The Philippines government made repeated complaints against the Chinese behavior and called for US involvement in countering Chinese expansion in the disputed islands. Vietnam was much more muted though a senior Vietnamese diplomat weighed in with a strong statement critical of Chinese actions. Other Southeast Asian states generally remained quiet.

Pressed by the Philippines and reportedly supported by Singapore and Indonesia, ASEAN leaders meeting in Malaysia on April 27 atypically took a stand implicitly targeting China over the South China Sea disputes. They said they had “serious concerns” over land reclamation in the
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South China Sea which “erodes trust and confidence and may undermine peace security and stability.” On April 28, China’s Foreign Ministry spokesman said China was “extremely concerned” with the ASEAN statement, arguing that China has shown “extreme restraint” on South China Sea disputes.

A series of escalating US complaints and related statements began on Jan. 29 when Commander of the US Seventh Fleet Vice Adm. Robert Thomas supported the idea of having the Japanese Maritime Self Defense Forces patrol in the South China Sea. The remarks came as a surprise to media observers unaware of any Japanese decision to undertake this task. The comments were promptly criticized by the Chinese Foreign Ministry spokesperson. In late April, coincident with Prime Minister Abe Shinzo’s official visit to the US, media reports citing unnamed Japanese and US officials disclosed active Japanese consideration of air patrols in coordination with the US in the South China Sea. Thomas returned to the South China Sea dispute with publicized remarks in Malaysia on March 17 calling on the Southeast Asian countries to form a combined maritime force to patrol the disputed South China Sea. He promised that the US forces in the Pacific would be ready to support such an initiative. On March 20, the Chinese Foreign Ministry spokesman criticized the admiral’s remarks. [Editor’s note: please see US-China relations in this volume for a full assessment of the confrontation between the US and China over the South China Sea]

Philippines, Vietnamese, Indonesian actions

Philippine leaders have remained the most vocal critics of the Chinese land expansion and construction activities, and Chinese government spokespersons have routinely rebuffed their complaints. The Philippines and China also continued to exchange charges about incidents, including reports in January of Chinese Coast Guard forces ramming Philippines fishing boats near disputed Scarborough Shoal and reports in March of Chinese Coast Guard boats harassing Philippine resupply of the small contingent of forces the Philippines has on Second Thomas Shoal. While Chinese official commentary claims that most of ASEAN members support China’s approach to the South China Sea disputes, Philippine officials make clear that Manila is pushing – thus far without a great deal of success – for ASEAN to adopt a more resolute stance against Chinese actions.

The Philippine government also enthusiastically backs stronger US support for the country in the face of Chinese pressure. The U.S.-Philippines Balikatan annual military exercise in April featured significantly larger numbers of troops than in the past. Philippines Foreign Minister Albert del Rosario told the media at the start of the exercises that Manila seeks greater support from the US in defense of its position in the South China Sea.

Meanwhile, the Philippines and Vietnam moved toward a “strategic partnership” during a foreign minister meeting in January, and both countries continue to maneuver for advantage in their disputes with China as they pursue ties with Australia, Japan, and other powers.

Vietnam appears determined not to allow such maneuvers to upset a focus on reestablishing a framework of cooperative relationships with China following the crisis in Sino-Vietnamese relations after the anti-Chinese riots in Vietnam in response to China’s deployment of a large oil
rig and a flotilla of protecting ships in the Vietnam-claimed Paracel Islands last May. The Communist Party leaders of Vietnam and China met in Beijing in early April and pledged to strengthen ties strained by disputes over the past year. An exception to Vietnam’s low profile came when the Vietnamese secretary general of ASEAN, veteran diplomat Le Luong Minh, gave an interview in early March that attacked the legality of China’s nine-dashed line territorial claim in the South China Sea and criticized China’s land expansion activities in the South China Sea as dangerous and disruptive of the status quo. The interview prompted a strongly worded rebuke from the Chinese Foreign Ministry spokesperson on March 12.

During a visit to Japan on March 23, Indonesia’s President Joko Widodo (Jokowi) said that China’s nine-dashed line claim has no basis in international law. The president avoided such comment in a subsequent visit to China. Perhaps of more lasting importance, Indonesian Military Chief Gen. Moeidoko told the media in February that “to deal with foreign threats” and expected “flash points” in the South China Sea, Indonesia will build over the next decade a joint command known as Kogabwilhan off the coast of Sumatra and Kalimantan. Meanwhile, an Indonesian Navy spokesman in April highlighted favorably a military exercise with US near the South China Sea and forecast regular Indonesian-American exercises in this area.

Chronology of China-Southeast Asia Relations
January – April 2015

Jan. 7, 2015: Provincial and border security officers from China, Laos, Myanmar, and Thailand attend a regional meeting in Laos to discuss nontraditional security issues, increasing border patrol, and economic development along the Mekong River.

Jan. 13, 2015: Meeting in Beijing, senior officials of China and Indonesia pledge to deepen communication and bilateral cooperation on counter-terrorism activities.

Jan. 22, 2015: Philippine officials criticize China’s increasing reclamation activities in the disputed reefs in the South China Sea.

Jan. 21, 2015: China’s Foreign Ministry confirms that 155 Chinese citizens are being detained in Myanmar for illegal logging, denying reports that they were trapped by an armed conflict in northern Myanmar.

Jan. 26, 2015: Chinese State Councilor Yang Jiechi meets senior Indonesian officials in Beijing to convene the first China-Indonesia High-Level Economic Dialogue. The meeting provides a platform to promote bilateral business, trade, and economic activities.

Jan. 26, 2015: Indonesian officials announce that Jakarta is revoking an agreement with China on fishery cooperation, citing Chinese fishermen’s continued illegal poaching activities around Indonesia’s coastal waters.
Feb. 4, 2015: Philippines accuses China of ramming Filipino fishing boats off Scarborough Shoal in the South China Sea and demands China respect its sovereignty over the territory. It also protests Beijing’s land reclamation at Mischief Reef.

Feb. 5, 2015: China responds to Philippine protests over activities near Scarborough Shoal, saying Philippine fishermen ignored instructions from Chinese patrols to leave the area.

Feb. 5-7, 2015: Chinese Minister of Defense Chang Wanquan visits Bangkok and meets Thai counterpart to discuss joint training, technology sharing, and arms procurement. Chang also proposes to expand Blue Strike, the joint air force exercise that began in 2010.

Feb. 11, 2015: Chinese President Xi Jinping and Vietnamese counterpart Nguyen Phu Trong hold a phone conversation to mark the 65th anniversary of bilateral relations and agree to maintain high-level exchanges on diplomatic, economic, and security issues.

Feb. 16, 2015: Chinese Foreign Ministry spokesperson reiterates China’s position that it respects Myanmar’s sovereignty and territorial integrity and will continue to play a constructive role in Myanmar’s ongoing peace process in the Kokang region that borders China.

Feb. 25, 2015: China calls on officials in Myanmar to restore stability and strengthen border management amidst continued unrest and instability along the China-Myanmar border.

March 3, 2015: Senior Chinese officials reject recent comments speculating that Beijing is involved in the internal conflict in the Kokang region in northern Myanmar.

March 13, 2015: A bomb released by a Myanmar jet kills four Chinese people near the border city of Lincang. Nine others are injured.” China’s Foreign Ministry calls on Myanmar to “thoroughly investigate the case and inform the Chinese side of the result.”

March 14, 2015: The People’s Liberation Army Air Force dispatches fighter jets to Yunnan to protect and patrol the border area with Myanmar.

March 22-28, 2015: Indonesian President Joko Widodo (Jokowi) visits Japan and China.

March 26-29, 2015: President Xi Jinping attends the 2015 Boao Forum and discusses major trade and economic initiatives such as the Asian Infrastructure Investment Bank and the Silk Road Fund to help boost regional ties.

April 6, 2015: China hosts the first senior officials meeting of the Lancang-Mekong River Dialogue and Cooperation forum with representatives from Cambodia, China, Laos, and Myanmar participating.

April 7-8, 2015: President and Communist Party leader Xi Jinping meets Vietnamese Communist Party counterpart Nguyen Phu Trong in Beijing. They sign the Cooperation Plan 2016-2020 that will deepen bilateral cooperation, establish three bilateral working groups on
maritime cooperation, and agree to better manage differences over the South China Sea and to work toward adopting a Code of Conduct.

**April 8, 2015:** Defense Minister Chang Wanquan meets senior Thai military officials and pledges to forge closer bilateral defense and security ties.

**April 9, 2015:** Chinese Vice Premier Zhang Gaoli meets Singaporean counterpart Teo Chee Hean in Beijing. They agree to strengthen business, trade, and economic relations, as well as deepening bilateral discussions on environmental protection.

**April 10, 2015:** 16th China-ASEAN Joint Cooperation Committee meeting is held in Jakarta.

**April 14, 2015:** Defense Minister Chang meets visiting Singaporean Defense Minister Ng Chee Meng to discuss military cooperation, including personnel training and closer communication.

**April 19, 2015:** Senior Chinese and Cambodian officials meet in Phnom Penh to discuss law enforcement and security issues.

**April 22, 2015:** President Xi Jinping visits Jakarta and delivers a speech at the African-Asian Bandung Conference Meeting. Xi’s speech emphasizes the prospects for infrastructure connectivity and deepening economic ties between Asia and Africa.

**April 27, 2015:** The 26th ASEAN Summit is held in Malaysia. The group discusses regional economic integration, the progress made toward achieving the ASEAN Economic Community, and the post-2015 vision for the regional bloc. The joint statement criticizes land reclamation and urges self-restraint among the claimant states in the South China Sea.