

The Rationale and Strategy behind China's Foreign Aid towards Its Southeastern Neighbors

Min Zhang

China University of Political Science and Law
No.25 Xi Tucheng Road, Haidian District, Beijing
China

Abstract

China distributes half amount of foreign aid to its southeastern Asian neighbors, yet the rationale and strategy behind it are rather diversified and complicated. The paper argues that regional security and stability are China's priority consideration while economic benefit incentive plays a critical role in China's foreign aid towards its southeastern neighbors. The paper also indicates that to increase soft power influence in periphery is another impulsion of China's foreign aid towards its neighbors. The three dimensions open more opportunities to understand China's foreign aid, which is going to be expected to increase greatly with the new ambitious initiative on "Belt and Road" strategy.

Key words: Foreign aid Southeastern Asia China's foreign policy One Belt, One Road

Introduction

China has been practicing foreign aid towards neighboring countries for more than sixty years, yet the incentives behind it have changed subtly over time. National independence and socialist ideology were once China's primary concern in early days of China's foreign assistance, but after opening and reforming policy in 1978, economic development came to Chinese top priority and foreign aid was developed into economic diplomatic instrument to enlarge foreign trade and investment. With three decades of spectacular development, China becomes an emerging economic power with increasing influence on regional stage or even globally. From 2010 to 2012, China officially released that it appropriated in total 89.34 billion Yuan for foreign assistance (China foreign aid white paper, 2014). What's more, China overtook the US as the top destination for foreign direct investment in 2014. Recently, a more aggressive strategy named 'one belt one road' (OBOR) was launched by Chinese government to integrate regional development. It has been indicated that up to 60 countries could be included in OBOR across three continents. A US\$ 40 billion Silk Road Fund has been established and another US\$50 billion was launched for Asian Infrastructure Investment Bank (AIIB) that will directly support the development of OBOR mission. Why China put more attention and financial support on neighboring region nowadays? What does China want to achieve? This article will focus on China's southeastern neighbors and examine the rationale and strategy behind China's active foreign aid behaviors in there.

Southeast Asia is one of the most important geopolitical regions for China as many countries, like Burma, Laos and Thailand share land boundary with China while Philippine, Vietnam and Indonesia have maritime borders overlap. As well, it is a region that interests of powers, like the US, China, Japan and India become increasingly intertwined in there, turning the relations there are more complex, dynamic and significant than it has ever before. Hence, Not only economic incentives, but also political motives are pursued by Chinese government in developing cooperation with its neighbors, especially for regional security and stability, solving the maritime territory dispute, gaining access to natural resources, increasing trade interests and encourage Chinese enterprises going out. Furthermore, increasing soft power in Southeast Asia is another impulsion for China's foreign aid. The following part will make further explain for this.

Regional security and stability

Regional security and stability are China's priority consideration in foreign aid with Southeast Asian Countries. Chairman Xi, at China's Peripheral Diplomacy Work Conference 2013 stressed, "the Asia and Pacific is big enough for all countries to develop, and that countries in the region must promote regional cooperation in an open mind and with great enthusiasm.

China will deal with issues strategically by making improvements to planning and operational capability, maintaining that great efforts need to be made to safeguard peace and stability in the region” (Xinhua News, 2013). China’s foreign aid to its periphery is mostly motivated by political concerns regarding regional stability and domestic security, but also the level of political influence in the region (Sheives K., 2006). For China, spreading foreign aid to Southeast Asian countries serves as an important tool to maintain and further gain influence and support in the region.

As mentioned before, Southeast Asia is such a region where the interests of emerging powers and established powers overlap together. After World War Two, while the soviet Union had strong influence in North Vietnam and Laos, the United States gave South Vietnam government full control in defending against the communist sides and Thailand and Philippine were also a sphere of American influence. As a partner in socialist camp, China on one hand showed strong reliable with the Soviet Union, yet on another hand improved its own position in communist bloc in Southeastern Asia by giving assistance to Burma, Cambodia and Laos. During Cold War, China had delivered to these three countries the amount of \$365 million, \$49.2 million and \$72 million respectively (Wolfgan Bartke, 1989).

After the Soviet Union broke up in the early 1990s, the US became the main rival for China in Southeastern Asia. In 2011, the US former Secretary of State, Hillary Clinton, declared that the 21st century would be “America’s Pacific Century” (Reuters, 2011). It includes deployment of American Marines in Darwin, Australia, stepped up U.S. naval visits to Philippines, updated the new US-Japan defense guideline and strengthened ties among U.S. and South Korea and Thailand on military and economics. What’s more, the U.S. will redeploy 60 percent air and sea power to Asia by 2020, surrounding China, and to negotiate the Trans-Pacific Partnership Agreement with allies, excluding China. The sphere of America’s influence encompassed China like a crescent that prevents China from expanding its influence to the East and South (Dai Xu, 2009). In response to the U.S. pivot to Asia, China launched the “One Belt, One Road” development strategy, which will become two wings of Asia, with China at the head of this flying eagle. This year, a new China-Myanmar oil pipeline was put into operation, which will reduce 80 percent cost of transportation and ensure a stable energy supply to China (Xinhua News, 2015). Significantly, the pipeline bypasses the Malacca Straits—a narrow channel that connects the Indian Ocean with the Pacific. The Chinese are concerned their access to the Malacca Straits as some 80 percent of its overseas purchases will have to travel the straits. The pipeline would help China ease its reliance on oil import having to ship via the Straits, where a sphere of America influence can cover. Furthermore, in response to ASEAN’s initiative on Trans-Asian Railway proposed by Premier Mahathir Mohamad of Malaysia in 1995, China formulated three route options: east route, west route and middle route (Fan Hongwei, 2011). However, one of the middle lines stretches from Kunming to Vientiane in Laos and another west line planned to link Kunming with Kyaukphu seem to not run smoothly.

Unlike other region, Southeast Asian countries share both land and maritime boundary with China and their relations are highly locked into geopolitical system. In South China Sea, Vietnam, the Philippines, Malaysia and Brunei compete for territory with China and the tension are flaring. Though a low hum of troubling incidents have afflicted the region for years, international attention has recently focus on accelerated Chinese reclaim land in disputed areas of South China Sea. Significantly, five countries have territorial dispute with China in ASEAN. Among them, Philippine and Vietnam are most actively challenges China’s claim over the South China Sea as they have 11 and 29 disputed islands with China respectively.

Since 2010, as China’s posture in the South China Sea has become increasingly assertive, Vietnam and the Philippines have pushed back harder against Beijing. As early as 1999, these two countries drafted a Regional Code of Conduct in the South China Sea pursuing to settle down the dispute under the frame of ASEAN. China and ASEAN already have one agreement on the South China Sea—the 2002 Declaration on the Conduct of Parties in the South China Sea, which reaffirmed a commitment to international law and to the freedom of navigation in the South China Sea. Yet since 2002, little progress have made towards taking next step. There is a simple fact that not every ASEAN member state is involved in the territorial dispute. Malaysia and Brunei keep a much lower profile while Vietnam and Philippines strongly protest China’s “aggression”. Of the remaining ASEAN states, Indonesia and Singapore often positions as a mediator and others, like Cambodia, Laos, Myanmar and Thailand have little interest in becoming embroiled in dispute between China and their neighbors. Therefore, China strategically keeps balance among ASEAN states to seek the followers. In 2013, China promised of nearly \$550 million in aid to Cambodia and for Myanmar, China take account for half of all foreign direct investment.

China was indeed paid off. In 2012 ASEAN ministerial meeting, Vietnam and Philippine pushed hard for progress on a code of conduct in South China Sea, however, other members, notably host nation Cambodia, refused to back the proposal.

Economic benefit

Economic benefit incentive also plays a critical role in China's aid with its southeastern neighbors. As a result of splendid economic increase in the past thirty years, a number of natural resources are indispensable to its economic growth. As the largest consumer of energy, China need diversity its energy resource suppliers through securing the access to foreign markets and raw materials. Development cooperation is an important tool in this effort, and it is expected that economic and commercial interests will be the stimulus behind China's foreign aid in the coming decades (Yasutami Shimomura & Hideo Ohashi, 2013).

In Southeastern Asia, China is embedded in energy, mineral and forestry resource projects. Two pipelines are conveying oil and gas from Burma's west coast to the eastern border with China's Yunnan Province. Chinese State owned Enterprises and private firms are extensively engaged in Burma's natural gas and raw materials sectors. As well, China also involved in hydro-power construction in Southeastern Asia, a region characterized by a series of generally north-south-trending mountains separated by a number of major rivers, shaping many waterfalls with huge slope and stored a large amount of energy. In the upstream of Lancang-Mekong River region of China, it has built eight dams in which four came to operation. In the middle stream of Mekong River, since 2006, eleven projects of dams were established (seven in Lao PDR, two at the Border area of Lao PDR and two in Cambodia) and most of the dams in Lao PDR and Cambodia are built by China (Truong-Minh Vu and Pham Thuy Tien, 2013). In Burma, China provides financial and technical support to help the Burmese government to build several hydropower plants, like Yeywa, Myitnge River, Shweli and Myitsone dam. These projects not only improve the infrastructure in local countries, but also secure the power supplier to China.

Apart from oil and hydro-power energy, Chinese firms are heavily involved in mining and forestry resources. Recent projects include a December 2012 agreement for two Chinese firms to undertake a US\$ 11.2billion iron ore mining in Cambodia (Aljazeera News, 2013) and a Letpadaung copper mining in Burma and a Sepoon mine operated by MMG limited that based subsidiary of the giant state-owned mining and metals company China Minmetals Corporation in Laos (Greenovation Hub, 2014). What's more, Chinese government also considers the forest sector important for the continued development of the country's economy, and with the government supports, China has become a very important player in the international forest products markets during the past ten years (ITTO Annual Report, 2013). Thailand, Vietnam, Indonesia and Laos are China's main timber product import countries while Myanmar is China's important hardwood log imports neighbors (Lacey/EUTR Report, 2015).

Trade-related assistance has long been an integral part of China's aid programs, and has increased significantly since the 2005 Hong Kong WTO Ministerial Conference (MOFCOM, 2013). In Southeastern Asia, it estimated that the amount of trade, investment and ODA directed toward there has grown substantially in recent years (Thomas Lum, Hannah Fischer, Julissa Gomez-Granger & Anne Leland, 2009). A Chinese foreign ministry paper, issued to coincide with the November 2011 summit of the ASEAN in Bali, stressed the rapid growth in China-ASEAN trade, averaging more than 20 percent annual growth since 1991, as well as growth in two-way investment to nearly \$80 billion. In 2010, China and ASEAN established Free Trade Area, which provides zero-tariff treatment for over 90 percent of products exchanged between China and ASEAN countries and can help cement trade relations (China Daily, 2011). In particular, China has cultivated economic relations with southeastern neighbors. Vietnam and Burma are major trading partner for China and China has involved much in infrastructure, energy, agriculture and mining programs in both countries. In 2013, the Bangladesh-China-India-Myanmar (BCIM) economic corridor was initiated, which will increase socioeconomic development and trade in these four countries. What's more, the Greater Mekong Sub-region corridor project in Southeast Asia, also seek to improve connectivity and infrastructure, agriculture, and trade and investment.

The Chinese government is currently undergoing several initiatives that encourages Chinese enterprises to "Go Out" and promote the internationalization of the Renminbi (Yuan). The one belt one road strategic objectives are closely connected to these two perceptions. Actually, Chinese government began prodding enterprises to go global in 2000, and since then, China's economy has made tremendous increase. Now, Chinese overseas investments cover more than 156 countries and regions and China has become the third largest source of global Foreign Direct Investment outflows since 2012.

Last year, the amount of China's FDI was \$102.89 billion. What's more, in order to provide financial support for the development of OBOR initiative, China is actively promoting the establishment of the Asia Infrastructure Investment Bank, the BTICS New Development Bank and the Silk Road Fund. The Renminbi has been increasingly popular in global trade in recent years. China's neighbors including Philippines, Malaysia, Indonesia, Singapore, Laos and Myanmar are using the Yuan with growing frequency. According to SWIFT, the value in weight of the RMB used for payments exchanged with China within Asian-Pacific region increased by 327 percent between April 2012 and April 2015. China's fast economic growth helps increase the global standing of RMB.

Spreading soft power

Increasing soft power was another impulsion towards China's foreign aid towards its southeast neighbors. Historically, China had claimed suzerain authority over numerous adjacent areas in Southeast Asia. Many countries, like Vietnam, Burma, Cambodia, and Malaysia kept diplomatic and trade missions that were construed in the context of a tributary relationship with Imperial China (Ge Jianxiong, 2007). However, since the cold war, the relations between China and nations of Southeast Asia are rather complicated, even after several years of cold war, when regional hostilities replaced superpower competition as a central concern. In the 1950s and 1960s, an army-led counterrevolution against the Indonesia communists' party occurred, resulting in thousands of communists and Chinese being killed or arrested. Sino-Indonesia relations ran into a crisis. In Malaysia, a virulence of the riots against ethnic Chinese was due in part to revelations that Malaysian communists were supported by the PRC, and Thailand and Burma both struggled with communist insurgency movements backed by Beijing (Catharin Dalpino & Juo yu Lin, 2003). No doubt, People in neighboring countries had realized the great charisma and appeals of Communism.

Owing to the unpleasant experience, neighboring countries tend to show contradict attitude towards China. On one hand, the development of Southeastern nations highly relies on demand from the Asian giant, but China's rise is viewed by many of them as a potential threat on another hand. How to alleviate the feeling of anxiety from neighbors for China's increasing influence play a significant role in China's foreign periphery policy and strategy. China's good-neighborly foreign policy was proposed in 1990s. China normalized relations with all its neighbors and created a good peripheral environment. It has achieved positive results in this good-neighborly diplomacy as the new century started (Wang Yizhou, 2010). After president Xi took office in 2012, the new government is prioritizing its peripheral diplomacy with Asia over the other relations, including Sino-US. In 2013, Chinese government held an unprecedented work forum on Chinese diplomacy towards periphery. This was the first forum specifically on peripheral diplomacy since the establishment of the PRC in 1949 and president Xi addressed "enhance political good will, deepen regional economic integration, increase China's cultural influence and improve regional security cooperation" policy guidance on the forum. Since then, Chinese leaders have traveled extensively and effectively across the country's vast neighborhood. China's proactive diplomacy has manifested its growing engagement and rapport with its neighbors, which aims to create and increasingly secure, peaceful and stable environment for the common development of countries in the region, including China itself.

China's growing influence in Southeast Asia largely stems from its role as a major source of foreign aid. China's aid policy of 'non-interference in domestic affairs' often wins friends not only among Southeast Asian governments but also by many peoples in the region because it is regarded as respectful of their countries' sovereignty. China is building a positive image in Southeast Asia, promoting the vision of win-win mutual economic benefit from cooperation. This endeavor is close to the concept of soft power as well. What's more, China is willing to share its experience and technology with its neighbors. Agriculture cooperation between China and Southeastern Asia is increasing fast owing to the success of Yuan Longping hybrid rice project in Vietnam Indonesia and Philippine. Human resource cooperation also develops fast in recent years. China has conducted training programs like the China-ASEAN Environmental Cooperation Center in Beijing and the China-ASEAN Women's Training Center in Nanning. Besides, over 400 people have participated in the Mekong Region Youth Leader Training Program and Over 400 people so far have participated in the Mekong Region Youth Leader Training Program. In Addition, Volunteers also play an active role in China's foreign aid with its neighbors. In 2002, China started a new plan to dispatch young volunteer who provide services in the fields of Chinese-language teaching, traditional Chinese medicine treatment, agricultural technology, sports and physical training, computer skills, international relief and so on. At the same year, the first five volunteers were sent to Laos to provide services in education and medical and health care for half year.

Since then, China has dispatched seven teams of volunteers to Laos and one for Thailand and two for Burma. All the Chinese endeavors indicate its strong will to increase soft power in Southeast Asia.

Conclusion

The Strongest rationale behind China's foreign aid towards its Southeast neighbors is promoted by political incentive and economic nature, and as well by soft power consideration. Here maintaining regional security and stability and solving territory dispute is central. Securing Chinese energy supplier, enhancing trade interests, encouraging Chinese enterprises going out and increasing soft power influence also plays a vital role. While debate continues on whether partner countries benefit from China's foreign aid or whether this is just a tool for China to increase its influence regional or even global, China's aid, trade and investment behaviors indeed meet with some success and are to be expected increasing engagement in the developing world as driven by China's ambitious initiative on one belt one road strategy.

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