Abstract: This study explores the trade relationships between China and the ASEAN countries from a political and economic perspective. Historical background, current economic and development status, and trade progress for China and the ASEAN countries are reviewed. China’s main strategies for establishing trade connections or ties with ASEAN countries are analyzed. Finally, variables are proposed that will foster the emergence of further trade development in an effort to convert the region’s atmosphere of “China threat” to “China opportunity.”

The trade relationships between ancient China and Southeast Asian countries were based on tributary relationships. These relationships were political on the surface, but the economic transactions enacted within them were more substantial than any political benefits gained. In the 1920s, these relationships began trending toward political connections.

In the 1960s and 1970s, relationships between the People’s Republic of China (PRC), established in 1949, and the Southeast Asian countries were unstable because the alliance of China and the Soviet Union against their common enemy, the United States, forced the Southeast Asian countries to choose between the two sides.

The Association of Southeast Asia Nations (ASEAN) came into being in 1967, partly motivated by anticommuinst sentiment. In 1969, as its relations with the Soviet Union soured, China joined the United Nations. The visit to China of President Richard Nixon and the Shanghai Communiqué in February 1972 altered U.S. foreign policy in Asia (Xia 2006, 153). China began implementing a “one-line”
diplomatic strategy in an attempt to join the United States against Moscow. In this changing international environment, China established diplomatic relations with various Southeast Asian countries, including Malaysia (May 31, 1974), Thailand (July 1, 1975), and the Philippines (June 9, 1975), thus initiating official contact with ASEAN.

During the cold war, the relationship between China and Southeast Asian countries was overshadowed by security concerns regarding the “China threat,” and China’s political influence on countries worldwide exceeded its economic influence. However, the relationship between China and ASEAN changed rapidly after the end of the cold war. Even before then, regardless of trade volume, dependence on foreign trade, and trade system (e.g., tariff system or the commercial environment for foreign investment), China began to match the economic productivity and comprehensive national power of countries engaging in highly open trade, especially after the implementation of the Reform and Opening-Up policy in 1978. The Asian financial crisis in 1997 drew increasing global attention to China’s strong economic and trade position. Before the Reform and Opening-Up policy, China had foreign relationships only with the third world and African countries, but after the policy was adopted in 1978, China’s foreign economic and trade relationships attracted increasing deliberation as its national power increased. Toward the end of 2001, after the financial crisis, China entered the World Trade Organization (WTO). China’s developing economy has contributed to its intense and meticulous economic and trade network across Southeast Asia. By joining the Bangkok Agreement in 2001, China gradually achieved close economic partnerships with several Southeast Asian countries. As the world’s most populous country and occupying a central geographic location in Asia, China has attracted substantial global consideration regarding its prospects for further economic development, stable political and economic affairs, and pursuit of international prestige and position. From the twentieth century on, with its economic influence steadily on the rise, China has attained a position where it can establish economic and trade rules for East Asia. In the last ten years, China has led East Asian economic development, replacing Japan, which was formerly considered the “lead goose” in the flying-geese model or paradigm. China is now the leader of economic development in East Asia (Brean 2011). It has intentionally established friendly relationships with the ASEAN countries in an effort to convert the “China threat” into the “China opportunity” (Athukorala and Hill 2010). Based on the background discussed above, this study explores the economic and trade development of China and the ASEAN countries from a political-economic perspective. Based on a historical review of the trade relations between China and the ASEAN countries, we conclude that changes in China’s diplomatic policies and the positioning of ASEAN countries made possible the development of trade between China and ASEAN. Our analysis demonstrates that China has employed three main strategies to facilitate trade connections or ties with ASEAN countries: (a) establishing a China-ASEAN free-trade area; (b) expanding border trade; and (c) developing trade networks through Chinese businesses and businesspeople.
Trade and Economic Cooperation Between China and Southeast Asia

Trade relationships between China and Southeast Asian countries were traditionally characterized by tributary relationships. During the Ming and Qing dynasties, China considered itself the Celestial Empire and established a trade network by conferring titles to establish patriarch-vassal status (Hamashita 1990). At the end of the nineteenth century, Dr. Sun Yat-sen won significant support from overseas Chinese during the revolution against the Qing dynasty. Consequently, the government of the Republic of China developed a special appreciation for the overseas Chinese following the revolution. Under the slogan “The overseas Chinese are the creators of a successful revolution,” the Republic of China (ROC) government organized Chinese chambers of commerce in the Southeast Asian countries to facilitate the development of political alliances under the guise of overseas and international trade expansion. However, this trade network began to change with the establishment of the People’s Republic of China (PRC) in 1949. Because of internal political conflicts, trade relationships between China and the Southeast Asian countries varied and were transformed according to diverse ideologies. Subsequently, the economic and trade relationships between China and Southeast Asian countries have involved diverse ideologies (capitalism vs. socialism) and political stances (PRC vs. ROC) and became increasingly politicized. These relationships were closely related to the PRC’s diplomatic policy.

After 1950, China began promoting communication and exchange with Southeast Asian countries. In 1953, Zhou Enlai, then premier of the PRC, proposed the Five Principles of Peaceful Coexistence as guidelines to determine China’s diplomacy. However, due to China’s history of Communist rule, the anti-Communist Southeast Asian countries became concerned and apprehensive, and Southeast Asia refused to accept the PRC.

From the end of the 1970s to the 1990s, the PRC successively implemented the Open Door policy and the Good Neighbor policy, which became crucial turning points for improving relationships between China and ASEAN member countries (Ku 2006, 2008; Robinson and Shambaugh 1995). In implementing the Open Door policy in 1978, China established and confirmed the direction of reform and opening up, significantly altering the style of its foreign diplomacy from “warfare and revolution” to “peace and development” (Haacke 2005).

During the later cold war period, China’s Open Door policy was replaced by the Good Neighbor policy regarding Southeast Asian diplomacy (Chen 2000, 172; Muni 2002, 16). Combining the Good Neighbor policy with the three guiding principles of mutual security, mutual cooperation, and mutual development, PRC leaders made a number of visits to Southeast Asian countries to establish partnerships with them and maintain China’s advantage as a strong political and regional power.

During the Asian financial crisis of 1997, Southeast Asian currencies depreci-
ated. Many people expected the renminbi (RMB) to depreciate, but Zhu Rongji, the PRC premier at the time, stated that it would not depreciate and China would maintain the existing exchange rate. This policy reduced and eliminated the pressure to depreciate or devalue currencies in Southeast Asia, temporarily mitigating the impact of the financial crisis and enabling China to become a stabilizing force in the Asian financial system. In addition, by providing Southeast Asian countries with financial support to survive the crisis, China gradually attained a prominent position and influence in the regional economy, and as a driver of social stability facilitated further development of its relationships with Southeast Asian countries (Shiau 2001).

China’s strategy for Southeast Asia differed significantly before and after the cold war. The Asian financial crisis was an extraordinary opportunity to reestablish economic ties with Southeast Asia. China cultivated economic cooperation as a way to establish exchanges with surrounding countries and reduce concerns in Southeast Asia. Demonstrating its economic strength, China focused on cooperation rather than competition. These policies, by reducing tensions and animosity between China and ASEAN, contributed to the ongoing progress on economic and trade issues (Chen 2007). President Hu Jintao visited three Southeast Asian countries in April 2005 and announced the three elements of China’s policy concerning Southeast Asia: namely, to be a good, stable, and wealthy neighbor (Ba 2003, 646). This demonstrated that China had become a comprehensive regional participant in an era of changing global political and economic structures. Being a good, stable, and wealthy neighbor, and helping to bring about a peaceful rise in prosperity, are core elements of China’s policy regarding Southeast Asia (Tsai 2004, 317). These elements will not only obtain direct national benefits for China but will project a positive image that helps to extend its power, enabling China to gradually influence Southeast Asian affairs by applying its political and economic capabilities (Su 2006, 12).

The economic and trade interaction between China and ASEAN is evidenced by the amount of bilateral trade and the trade structure ratios. China implemented the Good Neighbor policy in the 1990s, and by the end of the century the volume of China-ASEAN bilateral trade reached approximately US$200 million. After 2000, bilateral trade continued to increase, especially after the signing of the Product Fair Trade Agreement in 2005, rising to more than US$100 billion, as shown in Figure 1. China was the ASEAN trading partner with the highest trade volume in the Asia-Pacific area (Table 1).

China’s Trade Policy in Southeast Asia

To achieve the goal of bilateral trade development in Southeast Asia, China devised three major strategies: (1) establishing the China-ASEAN Free-Trade Area (CAFTA); (2) expanding border trade; and (3) developing a trade network comprising Chinese businesses, businesspeople, and cultural exchanges.
Table 1

Intraregional Trade in Asia-Pacific Area, 1993–2011 (US$ million)

<table>
<thead>
<tr>
<th></th>
<th>ASEAN-China</th>
<th>ASEAN-Japan</th>
<th>ASEAN-South Korea</th>
<th>ASEAN-Taiwan</th>
<th>ASEAN-Australia</th>
<th>ASEAN–New Zealand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>8,865.06</td>
<td>86,655.16</td>
<td>13,274.01</td>
<td>14,303.3</td>
<td>90,888.645</td>
<td>1,287.931</td>
</tr>
<tr>
<td>1995</td>
<td>13,330.6</td>
<td>121,215.9</td>
<td>19,920.0</td>
<td>20,001.7</td>
<td>12,352.5</td>
<td>1,628.1</td>
</tr>
<tr>
<td>2000</td>
<td>32,315.9</td>
<td>116,190.7</td>
<td>29,635.3</td>
<td>18,959.7</td>
<td>17,588.8</td>
<td>2,248.2</td>
</tr>
<tr>
<td>2005</td>
<td>113,393.6</td>
<td>153,834.3</td>
<td>47,971.9</td>
<td>19,800.6</td>
<td>31,238.7</td>
<td>4,089.0</td>
</tr>
<tr>
<td>2006</td>
<td>139,961.2</td>
<td>161,780.5</td>
<td>52,519.6</td>
<td>21,908.9</td>
<td>36,411.4</td>
<td>4,549.8</td>
</tr>
<tr>
<td>2008</td>
<td>192,533.1</td>
<td>211,988.2</td>
<td>75,721.5</td>
<td>23,954.7</td>
<td>51,589.9</td>
<td>7,423.0</td>
</tr>
<tr>
<td>2010</td>
<td>232,013.2</td>
<td>206,637.1</td>
<td>98,628.3</td>
<td>35,111.6</td>
<td>55,426.3</td>
<td>7,335.4</td>
</tr>
<tr>
<td>2011</td>
<td>289,675.63</td>
<td>255,048.38</td>
<td>124,380.98</td>
<td>81,001.9</td>
<td>62,015.32</td>
<td>8,526.13</td>
</tr>
</tbody>
</table>


Figure 1. China’s Trade with ASEAN, 1990–2009

Establishing CAFTA

Establishing CAFTA is China’s most important strategy for developing trade relationships with ASEAN. Under the main direction and framework of the Good Neighbor policy, PRC President Jiang Zemin and ASEAN leaders met informally for the first time in December 1997, releasing a joint statement that confirmed the China-ASEAN partnership. Subsequently, China proposed the idea of a free-trade
area. The two parties reached an agreement in November 2001 to develop a free-trade area within ten years. In 2002, China and ASEAN signed the Framework Agreement on Comprehensive Economic Cooperation.

As a framework for economic cooperation, CAFTA can be divided into three levels: (a) the Product FTA signed in 2005 and completed in several stages; (b) the Service Sector FTA signed and implemented in 2007; and (c) the Investment Agreement signed in Bangkok, Thailand, in 2009 (Lin 2010). China and six ASEAN countries established a free-trade area that took effect formally in 2010 (Li 2011).

Based on trade conditions, trade-creation effects and trade-diversion effects derived from the implementation of the China-ASEAN Free-Trade Area, certain goods with prohibitive tariffs become tradable, and bilateral import sources replaced high-cost supply sources with low-cost sources. Overall, economic integration led to improved trade conditions. Therefore, most economists assert that the trade-creation effect generated by the free-trade area increased the bilateral benefits for China and ASEAN (Tongzon 2005).

Academic empirical model analysis shows that a free-trade area has a significant effect on bilateral trade. In the development of the free-trade area, the economic cooperation framework and early harvest programs provided systemic arrangements, such as economic benefits, trade agreements for goods, and service trade agreements, for each ASEAN country, facilitating the increase of bilateral trade volumes. The development of a free-trade area generated continuous growth in bilateral trade volume because the provisions of the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China stipulated that both parties would gradually eliminate all tariff and nontariff barriers to trading goods in order to progressively increase trade liberalization and convenience, as shown in Table 2 (Zhu 2012).

After the FTA took effect, the bilateral trade volume between China and ASEAN was positively correlated with the bilateral economic scale. In other words, ASEAN countries with a higher GDP (Singapore, Malaysia, and Thailand) had greater potential for import demand, facilitating China’s exports to ASEAN. In addition, China’s increasing GDP influenced its supply market and increased its productivity, so that the amount of its exports to all the ASEAN countries soon increased. In light of this, we can assume that with increasing economic scales, the volume of bilateral trade between China and the ASEAN countries will also continuously increase (Wattanapruttipaisan 2006).

Finally, as stated in the research proposition of this study, analysis of the total amount of trade shows that the trade relationship between China and ASEAN is characterized by political actions that provide the impetus for economic progress. China has actively implemented political and economic policies that provide advantageous profit-sharing measures. These benefits enable China to cultivate relationships with other countries, thus becoming an important regional provider of public goods, as shown in Table 3 (Woo 2006).

In other words, China’s establishment of a free-trade area is not only an economic and trade cooperation arrangement, but also a strategic deployment that will further
open China’s domestic market to trade with ASEAN countries and gain ASEAN political support for China in the East Asian region (Wu and Tseng 2005). Certain systemic elements of CAFTA, such as the economic cooperation framework agreement, the early harvest program, the goods trade agreement, and the service trade agreement, have effectively boosted the volume of bilateral trade. In all of these trade cooperation mechanisms, China is the provider of crucial resources, and as Krasner (1976) observes, providers of public goods eventually change the international economy and the structure of trade.

**Expanding Border Trade**

From the perspective of overall trade, the economies of the ASEAN countries that border with China were small-scale and technologically backward, and thus there was little trade between them and China. Although these countries had the advantage

### Table 2

**CAFTA Tariff Relief**

<table>
<thead>
<tr>
<th>Year</th>
<th>Tariff rate</th>
<th>Tariff items or products</th>
<th>Participating countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>0%–5% for all ASEAN countries</td>
<td>85% of common effective preferential tariff (CEPT) items</td>
<td>Six original ASEAN countries</td>
</tr>
<tr>
<td>2001</td>
<td>Approx. 14%</td>
<td>All products</td>
<td>China</td>
</tr>
<tr>
<td>2003</td>
<td>0%–5% for all ASEAN countries</td>
<td>All CEPT items</td>
<td>Six original ASEAN countries</td>
</tr>
<tr>
<td>2004</td>
<td>Reduced agricultural tariffs</td>
<td>Agricultural products</td>
<td>All CAFTA members</td>
</tr>
<tr>
<td>2005</td>
<td>0% for all WTO countries</td>
<td>All products with tariff relief</td>
<td>China</td>
</tr>
<tr>
<td>2006</td>
<td>0% for all CAFTA countries</td>
<td>All agricultural products</td>
<td>All CAFTA countries</td>
</tr>
<tr>
<td>2010</td>
<td>0% for all ASEAN countries</td>
<td>All products with tariff relief</td>
<td>Six original ASEAN countries</td>
</tr>
<tr>
<td>2010</td>
<td>0% for all CAFTA countries</td>
<td>All products with tariff relief</td>
<td>China and six original ASEAN countries</td>
</tr>
<tr>
<td>2015</td>
<td>0% for all ASEAN countries</td>
<td>Majority of sensitive products</td>
<td>Four new ASEAN members</td>
</tr>
<tr>
<td>2015</td>
<td>0% for all CAFTA countries</td>
<td>Majority of sensitive products</td>
<td>Four new ASEAN members</td>
</tr>
<tr>
<td>2018</td>
<td>0% for all AFTA and CAFTA countries</td>
<td>Remaining sensitive products</td>
<td>Four new ASEAN members</td>
</tr>
</tbody>
</table>

of location in proximity to China, they were unable to exploit it in such a way as to increase their Chinese trade substantially. This led to a situation where China had more trade with faraway countries than with its nearest neighbors (Xie and Zhu 2012). Therefore, in addition to CAFTA, expanding China’s trade relationships with those ASEAN countries that shared a common border with China was the second strategy for developing ASEAN trade relations (Gao 2010, 3). This strategy was not just external, because increased trade with the countries just across the border provided an economic opportunity to resolve the unbalanced development of eastern and western China. Thus, China’s primary reason for promoting border trade was to promote local development through the economic benefits generated by trade.7

China had both an external and an internal strategy for promoting border trade. The internal strategy was designed to increase the border trade with the ASEAN
countries. It encompassed the Western China Development Program as a supplementary measure that utilized the economic development capacity of the eastern coastal areas to further the economic and social development of western China and stabilize the national defenses. In 1993, the State Council directed Yunnan and Guangxi provinces to establish pilot border trade programs to cultivate a distinctive outward border economy as a focus for development (Yu 1997, 151). Yunnan, also called the Southern Silk Road, was the center of commercial trade between southwestern China, Southeast Asia, and South Asia. Under the framework of the Western China Development Program, China’s southwestern border provinces of Yunnan, Guangxi, and Guizhou were designated as transport hubs for the adjacent ASEAN countries. The southwestern region has subsequently become a transfer station between China and the ASEAN nations, facilitating the development of trade with Vietnam, Laos, and Myanmar (Zhou 2006).

China’s external strategy, under the CAFTA framework, encompassed agriculture, information industries, human resource development, mutual investments, and development in the Mekong River Basin. The Greater Mekong Subregional Cooperation Program (GMS) includes five of the most important aspects of CAFTA’s preferential cooperation. The GMS program for economic development along the southwestern China-ASEAN border consists of Chinese participation in the construction of a trans-Asian railway, development of the Beibu Gulf (Gulf of Tonkin) rim area, and the signing of the international navigational channel plan for the Agreement on Commercial Navigation of the Lancang-Mekong River (signed in July 2002). To improve transport between China’s southwestern provinces and Southeast Asian regions across the border, these projects reduced China–Southeast Asia cargo transportation fees and time requirements, and increased the scale of transport and efficient use of resources, thereby lowering the logistics costs of bilateral trade. This facilitated improved logistics and population flows between China and the ASEAN countries, thereby increasing the amount of border trade and leading to further development of the border areas.

It should be noted, however, that a large surplus in the overall trade between China and the ASEAN member countries might destabilize trade relations between the two areas. This would hinder future expansion and the opening up of the ASEAN countries.

**Trade Networks Using Chinese Businesses and Businesspeople**

Since the tributary trade period, large numbers of people from the southeastern coastal regions of China have emigrated to Southeast Asia. The thriving ethnic Chinese colonies they established have had a profound influence on the political and economic development of the ASEAN countries. Networks established by “overseas Chinese” control trade operations in regions across Southeast Asia and also control many domestic economic activities. In consequence, ethnic Chinese people play a unique role in the economies of Southeast Asia (Rachanuphabh 2005, 5).
Following the changes in China’s economic and trade policies regarding Southeast Asia, and its skyrocketing economy in the 1990s, the ethnic Chinese in Southeast Asia have engaged in intense economic and trade interactions with China through commercial networks. The opportunities provided by these private economic ties and China’s market have prompted Southeast Asian countries to increase their economic interactions with China (Zheng and Huang 2009, 2). The newest generation of Chinese immigrants have integrated themselves in Southeast Asian society, with a large proportion of them participating in local politics. These Chinese politicians maintain close interactions with China because of their ethnic Chinese identity and business interests. This is a critical factor for improving China-ASEAN relations (Ku 2006, 124).

Learning the Chinese language has recently become a major trend in Southeast Asia because of China’s rising economic power. China has established the National Office for Teaching Chinese as a Foreign Language to subsidize students who on completing the program will take up residence in Southeast Asia as teachers, and has provided funds to universities to establish Confucius Institutes to promote the teaching of Chinese. Chinese language departments have been established in universities across Southeast Asia.

Interactions between citizens are a crucial indicator for evaluating bilateral trade exchange because they involve the bilateral interaction concepts of the contact zone and the invisible contact zone proposed by scholars (Liu 2006). Since the early 1990s, the number of Chinese tourists and businesspersons visiting ASEAN countries has gradually increased. In 1999, Chinese citizens were the fourth-highest number of travelers to Southeast Asia. The top three countries were Singapore, Malaysia, and Japan. In 2006, the number of Chinese visiting Southeast Asia surpassed the number of Japanese, rendering China the country with the most international tourists across Southeast Asia.

Kurlantzick (2006, 2007) contends that in the ASEAN region, China has more soft power to influence public opinion and win friends than any other country. For example, an opinion poll in 2003 indicated that 76 percent of Thai people considered China to be the closest ally and friend of Thailand, with only 9 percent choosing the United States. These figures indicate that the relationship between China and ASEAN has changed significantly and fundamentally as a result of foreign direct investment (FDI), official development and support, and cultural exchanges. Thanks to China’s economic and trade relationships with ASEAN countries, Chinese culture and civilization have won acceptance and admiration. Compared to Western countries, China’s use of soft power has given it a specific and comparative advantage in its trade relationships with the ASEAN countries.

**Trade Challenges: The “China Threat” and “China Opportunity”**

Although bilateral trade relations have improved, several ASEAN countries remain concerned about what they see as a “China threat.” Their fears pertain to political
and economic factors that might significantly influence future economic and trade relationships (Athukorala and Wagle 2011).

With the end of the cold war and the concomitant changes in the world’s power structure, China began to expand its relationships with countries to the south. No longer facing pressure from the north, it adopted a range of strategies to further its interests in Southeast Asia. On security matters, China emphasized the peaceful resolution of international conflicts, but its demonstrations of military power as a contingency strategy raised some concern. China claimed it was interested in codevelopment, and sincerely pursued economic cooperation, but it was not above using force to resolve the South China Sea problem if necessary (Yan 1995). Culturally, China promoted Chinese culture to unite the many ethnic Chinese enclaves in other countries, contending that the notion of “Cultural China” represented the consensus of the overseas Chinese.

From an economic standpoint, empirical studies by Taiwanese scholars have found that the increasing volume of imports of Chinese products poses a substantial threat to domestic production in the six ASEAN countries (Wu and Tseng 2005). Other scholars contend that China has captured most of the economic and trade opportunities in Asia, further damaging the economies of the surrounding countries (Wu 2005, 17). Certain ASEAN countries argue that developing open-market trade with China could seriously damage the competitiveness of local products (Ching 2001, 30; Ravenhill 2006).

Another economic threat is related to “Chinese man-made disasters,” that is to say, the political and economic pressure Chinese immigrants exert in Southeast Asian countries. Since the eighteenth century, China has experienced wide-scale emigration, accounting for a large proportion of international migration and inevitably altering the trade structure between China and Southeast Asia. Since the mid-1990s, approximately 2.5 million new Chinese immigrants have settled in Southeast Asia (Zhuang 2008). The reasons for this phenomenon include the improved political relations between China and Southeast Asia, the relaxed restrictions on emigration from China, the surplus of domestic labor in China, and the soaring amounts of money generated by the developing economic integration of China and Southeast Asia, which provide new Chinese immigrants with considerable employment and development opportunities. These factors have motivated an increasing number of Chinese to migrate and pursue business opportunities in Southeast Asian countries. Conflicts have developed between the original citizens of these countries and the influx of Chinese newcomers. In Singapore, the inflow of Chinese migrants has cut into employment opportunities for indigenous low-income workers who compete with the Chinese immigrants. Differences in manner of speech, behavior, and values between Chinese migrants and Singaporeans have fanned the Singaporean dislike of Chinese migrants (Fan 2012). In some countries already sensitive to ethnic Chinese people, the growing trade ties between local Chinese businesses or businesspeople and China have intensified the enmity toward the ethnic Chinese population (Booth 2011).

These phenomena have generated a new wave of “China threat” sentiment and
fear in the ASEAN countries (Shambaugh 1996a, 1996b). To resolve ASEAN concerns in this regard, PRC spokesmen have frequently stated that economic development and modernization are the prerequisites of political stability, and this goal requires a peaceful surrounding environment. High-ranking Chinese officials have regularly visited ASEAN countries in recent years. Exercising global strategy through big power diplomacy and establishing diverse partnerships with the surrounding countries, China aims to reduce the sense of threat the ASEAN countries experience because of China’s economic rise. China has frequently declared that it has no intention to overtake or replace either the United States or Russia as a regional power. Developing Good Neighbor partnerships and mutual trust with the ASEAN countries, and establishing a stable, prosperous surrounding environment, are China’s long-term objectives (Muni 2002, 16).

China’s experience highlights that the importance of economic factors in international relationships has increased significantly, and that peaceful and stable development is a global trend. Thus, China has shifted from its former focus on military security and war as the means of national survival to recognition that economic development is the path to security (Chang 2000, 64). In addition to participating in regional activities and developing economic cooperation relationships to mitigate concerns about the “China threat,” China has earned ASEAN’s favor through its Southeast Asian economic support programs. Since the late 1990s, China has become the main financial supporter of Southeast Asia. As the ASEAN countries gradually develop their infrastructure, their local quality of life will increase, and the economic development gaps between China and the ASEAN region will narrow. China’s early harvest program has provided many benefits to the ASEAN countries and opened markets, allowing late-developing ASEAN countries to enjoy tariff-free benefits at first. As for immigration issues, the bilateral interdependence of China and Southeast Asia resulting from China’s growing economic and political power in the region has reduced the potential for conflict. From China’s perspective, immigrants are a stabilizing force in the economic and trade relations between China and Southeast Asia. The new generation of immigrants maintain China’s national benefits internationally, facilitating the promotion of bilateral trade and interaction (Fan 2012, 96).

In other words, China has actively enhanced its economic and trade relationships with the ASEAN countries and has absorbed economic resources from surrounding countries to establish the Southeast Asian economic zone, thereby strengthening economic cooperation and market openings. China emphasizes that its economic development exerts no pressure on surrounding countries. The primary objective is to encourage the ASEAN countries to transform their concept of a “China threat” into a “China opportunity” (Stubbs 2004, 9).

Conclusion

History shows that the tie between ancient China and Southeast Asia was actually a trade connection politically disguised. When the People’s Republic was
established in 1949, China’s trade with ASEAN was limited because of political factors. Since the 1990s, China has developed trade relationships that accommodate its Good Neighbor foreign policy and has used this tool to actualize a range of political benefits.

The actualization of political benefits through China’s development of trade has several aspects.

First, in developing trade, China has attained regional influence and risen to a position of international power by providing public goods in regional economics and trade since the 1990s. International political economists assert that major powers have many complex reasons for providing public goods and building hegemony or a hegemonic position. A major power may provide tangible and intangible public goods in order to construct and maintain a regional regime (Gadzey 1996, 37–51). China has steadily promoted regional economic and trade cooperation, and reassured the ASEAN countries that they have nothing to fear from its rise. Providing public goods has not only increased their willingness for cooperation, but has also established China’s hegemony over the region (Kindleberger 1986). Arrangements such as CAFTA and border trade with neighboring countries most optimally demonstrate the actualization of China’s cooperative relationships through providing public goods.

Second, China has developed trade relationships with the ASEAN countries as a means of increasing its participation in Southeast Asian affairs and to eliminate concerns about the “China threat,” and lingering apprehension and distrust of China’s impressive rise. It encourages the Southeast Asian countries to utilize the opportunities availed by its own development. Maintaining equivalent and close economic cooperative relationships among East Asian countries is beneficial for economic and political security.

Third, developing border trade with neighboring ASEAN countries is an economic consideration and goal that not only improves China’s trade opportunities with neighboring countries as a precursor for comprehensive trade, but is also a foundation for engaging in GMS and ASEAN subregional cooperation to stabilize the economy of western China.

Fourth, trade development enables the ethnic Chinese people of Southeast Asia to intensify their economic and trade interactions with China through business or commercial networks, reducing the economic distance between Southeast Asia and China. Chinese culture is also exported during economic and trade exchange opportunities. Thus, Chinese culture or civilization forms a new type of identification and acceptance, a soft power beyond politics and economics that is sometimes termed “velvet hegemony.”

In this context, the regional economic and trade cooperation among the Southeast Asian countries will be similar to that of the European Union, which requires trade channels to increase and extend motivation and power. China’s intentional efforts and expenditures will eventually provide the ASEAN countries with the motivation and power to participate in economic cooperation. Regardless of whether China’s
motivations are generally benevolent, and regardless of whether the public goods China provides are simple, these efforts and expenditures constitute an essential strategy for establishing and maintaining the ASEAN Free-Trade Area, which is directly relevant to China’s strategic development of trade relationships with ASEAN. To maintain East Asian economic and trade integration and China’s political and economic standing as a regional hegemon, China will continue the trade strategies elaborated in this article.

Notes

1. After China and the United States signed the Shanghai Communiqué, the Soviet Union held a summit with President Nixon, gradually establishing triangular diplomacy between China, the United States, and the Soviet Union.

2. During the cold war, China followed Lenin’s ideology of “export of revolution” and urged Communists in Southeast Asian countries to seize power by force, as in the Thirtieth of September Movement in 1965. Since the establishment of the PRC, numerous border conflicts between China and neighboring countries have occurred. China sent troops into Vietnam in the 1970s and engaged in warfare on the South China Sea in 1988. These factors limited the improvement of relationships between China and other countries during the cold war.

3. The Bangkok Agreement (1975) comprises a set of preferential trade arrangements between developing countries that provided preferential tariff concessions and expanded mutual trade between member countries. It was approved by the General Agreement on Tariffs and Trade (GATT) based on the enabling clause, with the U.N. Economic and Social Commission for Asia and the Pacific (ESCAP) serving as sponsors. The Bangkok Agreement actualized the codevelopment and prosperity of member countries by reducing tariffs on certain products. The current members of the Bangkok Agreement are India, South Korea, Bangladesh, Sri Lanka, Laos, and China, which formally joined the agreement in May 2001.

4. According to Muni (2002), China’s Good Neighbor policy has seven elements, four of which relate to Southeast Asia: (a) focus on the energy sources and reserves of Central Asia and the South China Sea islands; (b) identify channels to the Indian Ocean through Myanmar and Pakistan; (c) obtain extended markets in Southeast Asian countries and use local capital, technologies, and management skills; and (d) address and fill the regional power vacuum in Central and Southeast Asia resulting from the decline of the Soviet Union.

5. In addition to assisting Southeast Asian countries through techniques involving stable currency, the PRC agreed to provide additional support to ASEAN, which requested further support from the PRC in a ministerial meeting at the end of 1997.

6. Foreign Minister Qian Qichen attended the 24th ASEAN Ministerial Meeting in Kuala Lumpur in 1991 as a guest. He strongly promoted China’s desire to develop further relationships with the ASEAN member countries at the meeting and initiated dialogue with ASEAN. China became a consultative partner of ASEAN in 1992. Normalized trade relations between China and the ASEAN member countries were not achieved until 1994. At the 29th ASEAN Ministerial Meeting in 1996, China’s position as a “dialogue partner” of ASEAN was confirmed. In 1997, China and ASEAN held an unofficial summit in Malaysia. In 1999, the APT (ASEAN plus three) meeting proposed cooperation in the East Asian region. The “plus three” countries are China, Japan, and South Korea.

7. The World Trade Organization defines border trade as residents and businesses engaging in trade activities within 15 km on either side of the border between two countries. This was the WTO’s exception for the most-favored nation. The purpose was to facilitate border trade, including mutual exchange of needed goods between residents, scarce product
varieties, low trade amounts, and multiple forms of trade. Because the area within 15 km of the border may be deserted, China stated that a county can be defined as a geographical range or scope where border trade is allowed.

8. The GMS program was initiated by the Asian Development Bank in 1992 and involved six countries along the Mekong River basin (China, Myanmar, Laos, Thailand, Cambodia, and Vietnam). The purpose of the GMS was to enhance the economic connections between the members to promote subregional economic and social development. The first summit of GMS leaders was held in Phnom Penh, the capital of Cambodia, on November 3, 2002.

9. This describes the phenomenon where ethnic Chinese people dominate certain industries through business networks. They use these industrial networks to develop extensions back to China.


11. According to Kindleberger (1986), hegemony is not necessarily a negative situation implying interference. It can consist of benevolent actions performed to maintain the operation of international economic and trade systems.

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