

# Where is China taking Asia?

The recent upping of the ante by China in the South China Sea dispute and the flexing of its maritime muscle have underlined the dilemma faced by many countries in our region. The question is, how can we expand and deepen economic links and interdependence when political tensions are rising?

As we all know, China is now a very important source of economic growth, manufacturing and commercial activity for the region and beyond. Countries are selling more to, and buying more from, China. More importantly, the regional production networks and supply chains have intertwined China with other countries to the point that whatever happens in one part of the world will soon have knock-on effects in another.

Similar regional production and investment networks were developed by Japanese, US and European multinationals before the current China-centred one. Do you remember the “flying geese” concept? Japanese multinationals moved their production and investment first to the newly industrialised countries (South Korea, Taiwan, Hong Kong and Singapore) and then later to the Asean Tigers (Malaysia, Thailand and Indonesia). American and European companies later extended these production networks.

It must be pointed out that the extensive linkages that produced high growth for the region and made



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BY MAHANI ZAINAL  
ABIDIN



Chinese surveillance vessel the *Haixun 31* docked at the Singapore cruise centre after passing through the South China Sea on June 22, 2011. China's recent flexing of its maritime muscle has raised political and military tensions and must be viewed seriously.

East Asia the world's manufacturing hub could only be built in a time of peace and political stability. Asean and other countries worked together hard and long to create and maintain this condition. Therefore, the recent action by China that has raised political and military tensions must be viewed seriously.

Initially, the hard stance taken by China earlier

in the year on the disputed seas was thought to be an attempt to distract attention from internal problems such as burgeoning corruption and widening income inequality. Rising nationalism, especially among the young Chinese, is another thing that the leadership has to deal with. Thus, it is not surprising that outgoing president Hu Jintao, when speaking at the 18th National Congress of the Communist Party of China, made a special call to “resolutely safeguard China’s maritime rights and interests, and build China into a maritime power”.

However, the smooth leadership transition did not reduce China’s exertion of its strategic interests and military muscle. The new leadership announced that from Jan 1, 2013, police forces in the Hainan province will board, search and seize ships that enter what China considers its territorial waters in the disputed South China Sea. This has sent jitters around the shipping world.

China will also send more maritime surveillance ships to patrol the South China Sea. This policing of ships adds to the direct confrontations earlier between Chinese vessels and those of Vietnam and the Philippines, including the detention of the fishermen.

Free and safe passage along international ship-

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# The elephant in the Asian room

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ping lanes in the South China Sea is crucial for free flow of international trade because it is the artery that connects East Asia to the Indian Ocean. The US may be compelled to respond if this shipping passage is disrupted, thus notching the tensions higher.

On the diplomatic front, China recently angered a number of countries, not just its immediate neighbours — the Philippines and Vietnam — but also India when it issued new Chinese passports which contained a map of China that included the disputed parts of the South China Sea.

Are these moves just part of the power transition, which might be expected to settle down in the first quarter of 2013? Although it is tempting to take this view and hope for the best, we need to remind China that its military actions can have a long-lasting impact on the economy. It is difficult to separate or compartmentalise the spheres of economics and politics.

China is developing deeper and more extensive economic links with the region. The web of relations is complex and widespread, with foreign companies having operations in China, investing in skills upgrading and transferring technology. In fact, products made in China contain components made in various parts of the world. China welcomes its integration with the global economy by facilitating production facilities, building infrastructure and logistics, and providing labour.

China wants Asean to be its key economic partner, and Nanning, the capital of the Guangxi Zhuang Autonomous Region, has been nominated to lead this initiative. The annual China-Asean Expo, often attended by top leaders from China and Asean, provides a venue for discussion of cooperation in trade, investment, infrastructure and tourism.

Last year, Malaysia established the Qinzhou Industrial Park in Nanning, and its sister park will soon be developed in Kuantan. This is part of a larger project to establish links between China and Asean via the development of its Pan Beibu region. This is where China's southwest region is connected to Asean maritime states such as Vietnam, Cambodia and Malaysia through an extensive infrastructure network and manufacturing and trading centres. Importantly, this Pan Beibu area is washed by the waters of the disputed South China Sea.

The expansion of the China-Asean economic relationship needs to be facilitated by deepening their free trade agreements (FTA). The present liberalisation of trade in goods and investments is insufficient and more has to be done to open up trade in services, to agree on health standards and to improve trade facilitation.

These additional commitments will help improve the effectiveness of the China-Asean FTA. As it is, studies show that the awareness and grasping of opportunities in the FTA are not encouraging. Indonesia has raised con-

cerns about the possible negative effect of liberalisation on its domestic industries. China and Asean have to work closely together to create an environment that will encourage stronger economic relations.

In the main, China sees itself as an integral part of, and source of, growth and prosperity for the regional economy. In this context, it should be mindful that it cannot separate the two intertwined parts — economic and strategic imperatives.

By recklessly showing off its maritime power, it will surely create an unsettled economic environment. An environment of peace and stability must be nurtured as economic and commercial activities can only flower in a climate free from tension and disruption.

China is the elephant in the Asian room. The way it advances its economic role and displays its military might will have far-reaching implications for the region. Regional countries too need to walk a fine line between economic interdependence and protecting their strategic interests and sovereignty.

Needless to say, the decisions that the new Chinese leadership makes will largely determine the region's future, but countries in the region and their partners will also have to play their cards right. ■

**Datuk Mahani Zainal Abidin is chief executive of the Institute of Strategic and International Studies (ISIS) Malaysia**