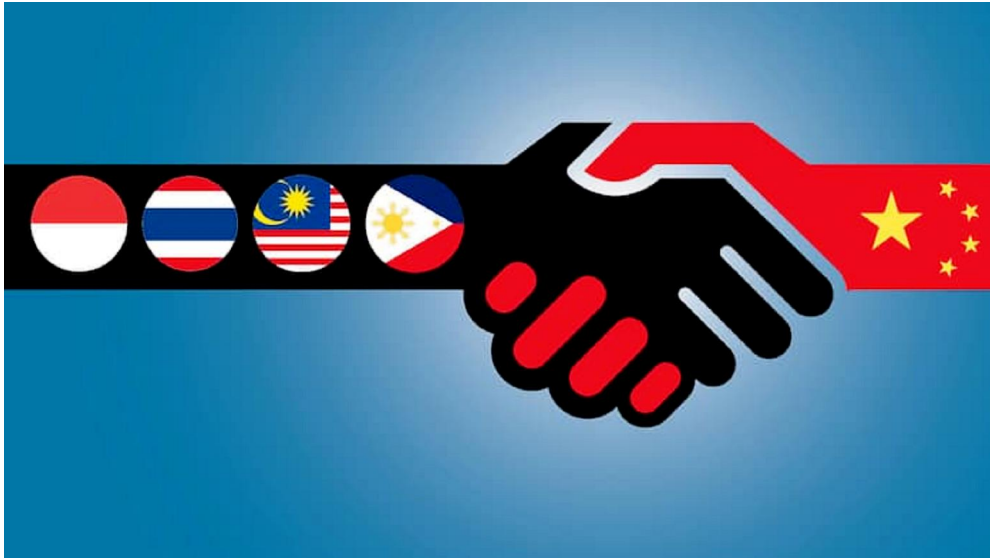


China Politics & Policy

China tries chequebook diplomacy in Southeast Asia

Deals indicate Beijing getting better at geopolitics but neighbours do not want to abandon US ties

The Big Read



© FT Graphic / Chris Tosic

YESTERDAY by: **Charles Clover** and **Michael Peel**

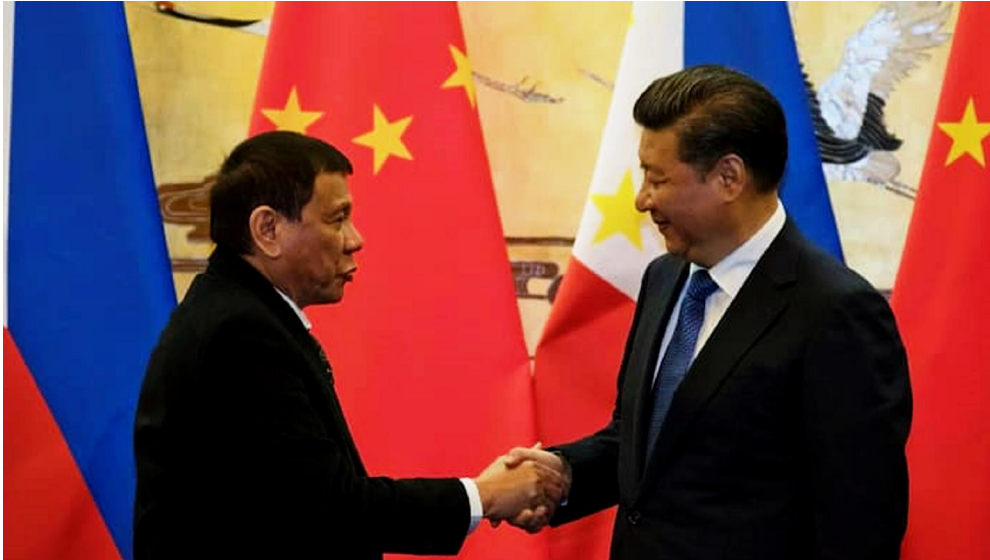
Cannons blasted the frigid air of Tiananmen Square with a 21-gun salute last week, as China feted Malaysian Prime Minister Najib Razak during a five-day visit. Mr Najib inspected a regimental colourguard on Tuesday before being whisked into the Great Hall of the People to sign \$34bn in [trade and investment agreements](http://in.reuters.com/article/malaysia-china-idINKBN1320F9) (<http://in.reuters.com/article/malaysia-china-idINKBN1320F9>).

During a pause in proceedings, Liu Zhenmin, Chinese vice foreign minister, took a moment to reassure the Malaysian media that this was not the way it looked. “There is no such thing as using our financial muscle to improve ties,” he replied, stony-faced, to a question on whether China was exercising [chequebook diplomacy](http://next.ft.com/content/5bf4d6d8-9073-11e6-a72e-b428cb934b78) (<http://next.ft.com/content/5bf4d6d8-9073-11e6-a72e-b428cb934b78>).

But it was hard to hide the glee on the Chinese side: back-to-back visits by [Philippine](http://next.ft.com/content/e8113902-9b5b-11e6-8f9b-70e3cabccfae) (<http://next.ft.com/content/e8113902-9b5b-11e6-8f9b-70e3cabccfae>) and Malaysian leaders have marked a moment of rare foreign policy success for Beijing, which has spent more time recently alienating most of its Southeast Asian neighbours with an aggressive pursuit of maritime hegemony in the [South China Sea](https://www.ft.com/indepth/asia-maritime-tensions) (<https://www.ft.com/indepth/asia-maritime-tensions>).

In the space of a few weeks, Beijing demonstrated that a concerted charm — and cash — offensive in Asia could cause even staunch US allies to wobble in their pro-Washington orbits.

Taken at face value, it appears Beijing's foreign policy has turned a corner. First [Rodrigo Duterte](http://next.ft.com/content/0e724d10-8bb3-11e6-8cb7-e7ada1d123b1) (<http://next.ft.com/content/0e724d10-8bb3-11e6-8cb7-e7ada1d123b1>), the Philippines' president, stunned US policymakers during a visit to China last month, promising "separation" from Washington (<http://next.ft.com/content/6bof6430-9a82-11e6-b8c6-568a43813464>) and embracing China with his announcement that it was "springtime" in Beijing-Manila relations. The Philippines has a 64-year-old security pact with Washington and Mr Duterte's predecessor agreed to allow US ships access to five Philippine bases for the first time since the cold war.



Chinese President Xi Jinping and his Philippine counterpart Rodrigo Duterte at a signing ceremony in Beijing on October 20 © Reuters

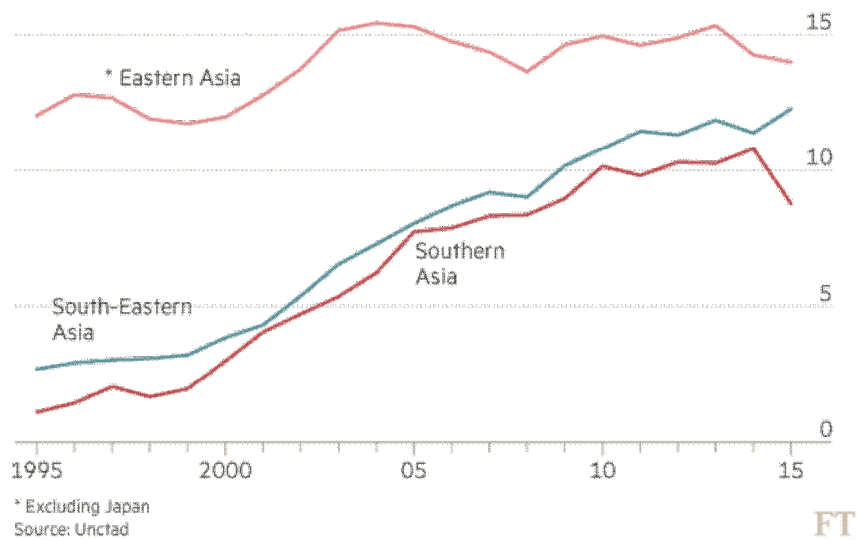
He was closely followed by Mr Najib, who signed a [naval co-operation deal](http://next.ft.com/content/76e53d98-a031-11e6-891e-abe238dee8e2) (<http://next.ft.com/content/76e53d98-a031-11e6-891e-abe238dee8e2>) — Malaysia bought four patrol boats, its first defence deal with China — and even took an oblique swipe at Washington, admonishing former colonial powers not to "lecture" nations they once exploited.

"China has achieved a radiating effect within the region with the successes of the Philippines and Malaysia," says Ding Duo, assistant research fellow at the National Institute for South China Sea Studies based in Hainan.

Experts caution that nothing concrete has been taken away from the US by either country, but in diplomacy, where perception is often more important than reality, much damage has been done. That this takes place in the midst of America's strategic "pivot" to Asia aimed at buttressing its standing in the region is another [headache for policymakers in Washington](http://next.ft.com/content/28eb69ca-99cc-11e6-b8c6-568a43813464) (<http://next.ft.com/content/28eb69ca-99cc-11e6-b8c6-568a43813464>).

Developing countries' exports to China

% of their total exports



The recent moves have given [President Xi Jinping](http://next.ft.com/content/57371736-4b69-11e6-88c5-db83e98a590a) a boost in domestic prestige as China heads into a round of dealmaking before the [19th Communist party congress](http://next.ft.com/content/3b7d494e-9c03-11e6-a6e4-8b8e77dd083a) next autumn.

“The overall perception that many of China’s neighbours are accommodating to Chinese interests will help to boost Xi’s position as he prepares for the congress,” says Bonnie Glaser, a China expert at the Center for Strategic and International Studies in Washington, adding that the tilt by both Malaysia and the Philippines is “still more of a perception than a reality”.

Goodwill torpedoed

Since the last congress in 2012, at which he was appointed general secretary, Mr Xi has quietly pushed a foreign policy that experts say [is a departure from](http://next.ft.com/content/810b4510-6ea4-11e6-9ac1-1055824ca907) the Deng Xiaoping-era approach known by the slogan *tao guang yang hui* — keep a low profile. Under Mr Xi, a new slogan has increasingly been heard — *fen fa you wei*, or “striving for achievement”.



Filipinos unload boxes of fish after returning from an expedition in the disputed South China sea. Beijing has arranged for the fishermen to return to the disputed Scarborough Shoal © EPA

“There is going to be a more intensified game of influence in the region,” says Paul Haenle, former China director for the US National Security Council who is now director of the Carnegie-Tsinghua Center in Beijing. Australia confirmed last week that it was in talks with Indonesia on joint naval patrols.

Attention is focused on Thailand, which since its 2014 military coup has been tilting towards China, and Vietnam, which has been going in the opposite direction. Vietnam looks set to allow the US navy to use facilities in Cam Ranh Bay and Danang, which would mark its first military return to the country since the end of the war in 1975.

A new US administration will have to convince sceptical allies that it is still [focused on Asia](http://next.ft.com/content/92b23c8e-7340-11e6-bf48-b372cdb1043a) (<http://next.ft.com/content/92b23c8e-7340-11e6-bf48-b372cdb1043a>), despite the distraction of crises in the Middle East and Ukraine, as well as the flirtation of the US electorate with the isolationist views of Donald Trump, the Republican candidate.

But while Washington’s chief problem is an inability to focus, China has its own chronic foreign policy disorders. Beijing has struggled to win friends in Asia, where most countries depend on China for their prosperity but prefer to rely on the more predictable US for security.



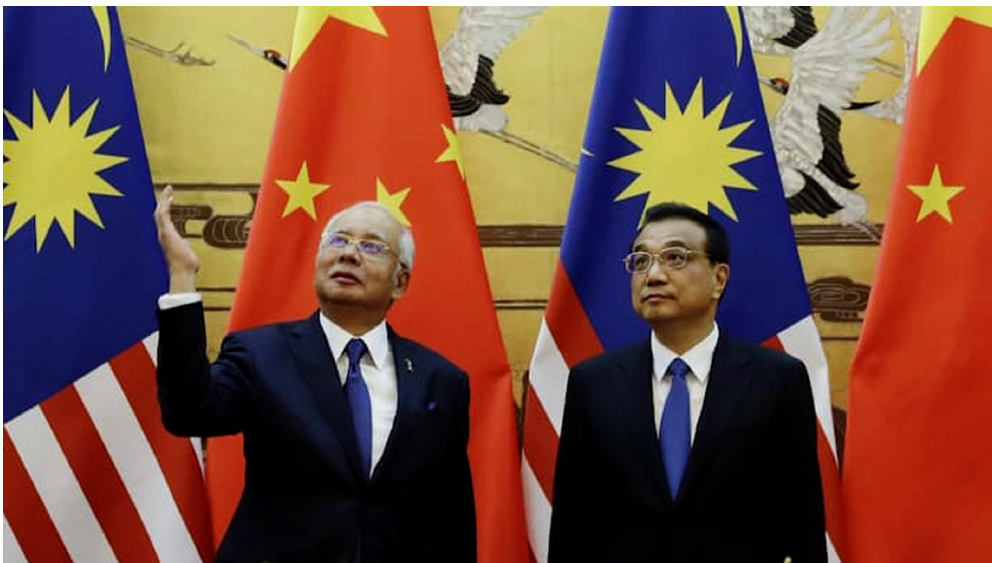
Golf buddies: US President Barack Obama and Malaysian PM Najib Razak play in Hawaii in December 2014 © AP

Experts blame a Chinese foreign policy characterised by charm offensives that are followed by acts of aggression, which all but torpedo any goodwill. In 2014, China unveiled a new strategy for relations with the 10-member Association of Southeast Asian Nations, but seven months later moved an oil rig into waters claimed by Vietnam — bringing the diplomatic effort to a halt.

Beijing then declared 2015 to be the “year of Asean-China maritime co-operation”, and then ramped up island-building efforts in the South China Sea, completing a 3,300m runway on Fiery Cross Reef.

“The question the US and the west ask is: can China win friends and win territory at the same time?” says Mr Haenle. “While we see contradictions in this dual approach, the Chinese do not.”

Analysts are sceptical that Beijing can keep the charm going and avoid “anger management issues” with its neighbours, in the words of one western diplomat.



Mr Najib and Chinese PM Li Keqiang at a signing ceremony in Beijing last week © AP

The focus of China's diplomatic drive is on the South China Sea, where Beijing has laid claim via a "historic right" to maritime territory marked by [its nine-dash line](http://next.ft.com/content/9787dod2-5c2c-11e5-97e9-7f0bf5e7177b) (<http://next.ft.com/content/9787dod2-5c2c-11e5-97e9-7f0bf5e7177b>). Its effort with Mr Duterte started when an arbitration court in The Hague in July ruled in favour of a Philippine challenge after China occupied Scarborough Shoal, claimed by Manila. The court repudiated Beijing, explicitly denying China's historical claim.

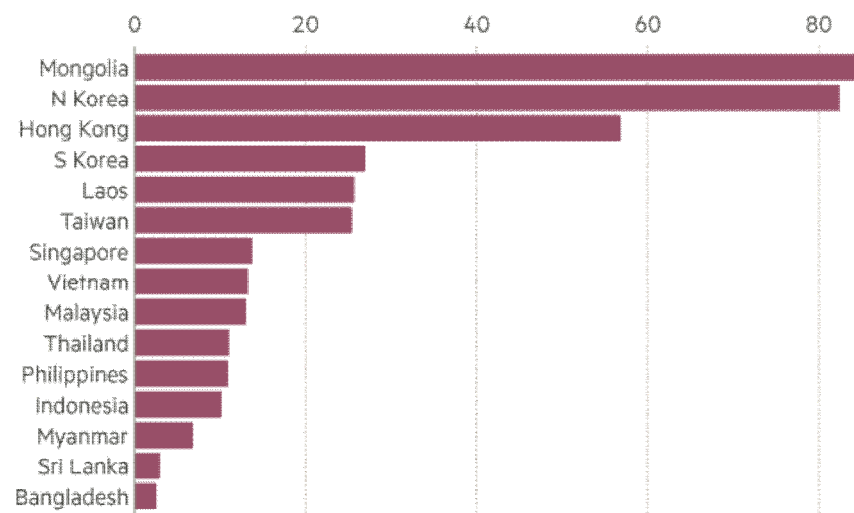
China sought to blunt the force of the ruling with a time-honoured strategy of what Beijing calls "shelving disputes in favour of joint development" — in other words, buying off its opponents.

Rather than pressing on with the tribunal ruling, Mr Duterte deferred to Beijing during his four-day visit, receiving \$13.5bn in promised investment and trade deals. Beijing showed the president that he could get what he wanted by throwing out what he called "just a sheet of paper with four corners".

Since the visit, Filipino fishermen have been given access to Scarborough Shoal again, but Beijing has made it clear that this is at its pleasure.

Exports to China, 2015

% of their total exports



Source: Unctad

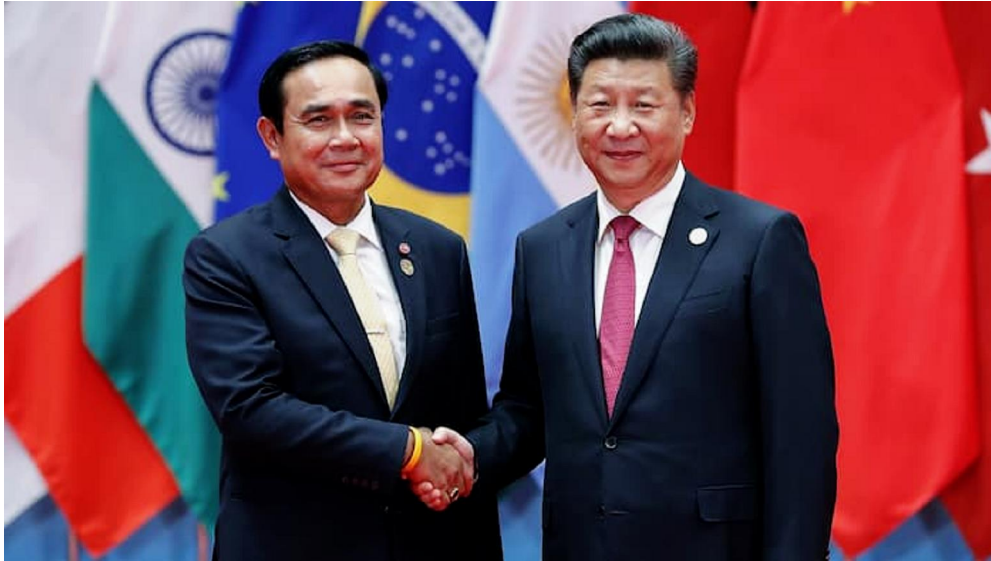
FT

The lesson has not been lost on the rest of the region.

"Right now the carrots are being fed and the sticks are in the back pocket because China wants to test how far it can pull these states into its orbit," says Prashanth Parameswaran, an expert on South China Sea diplomacy who is doing a doctorate at the Fletcher School of Law and Diplomacy in the US.

But Mr Duterte's rise arguably confirms that Beijing's approach of calibrating coercion and charm can work, Mr Parameswaran says. "After years of being beaten by Chinese sticks, the Philippines is now coming back begging for carrots."

Analysts are cautious about the consequences of China diplomacy. Both Mr Duterte and Mr Najib have been at least partially motivated by personal grievances against the US. Mr Duterte has railed against US criticisms of his domestic anti-drug war, in which the government has condoned the use of police death squads. Mr Najib has been stung by the US after federal prosecutors investigated [1MDB](https://www.ft.com/topics/organisations/1MalaysiaDevelopmentBhd) (<https://www.ft.com/topics/organisations/1MalaysiaDevelopmentBhd>), the debt-ridden government fund. China has bailed out the fund by buying its distressed assets.



Chinese President Xi Jinping (right) with General Prayut Chan o cha Thailand's coup leader turned prime minister during the G20 summit at Hangzhou in September this year © Getty

In Thailand, the ruling generals have turned towards China and away from the US after Washington's criticism of their 2014 coup. But a high-profile joint project to build a high-speed rail line from the southern Chinese city of Kunming to the Thai coast has been a stop-start affair, with questions hanging over the cost and viability of the plan.

Tang Siew Mun, head of the Asean Studies Centre at Singapore's Iseas-Isif of Ishak Institute think-tank, says the region's "turn" to China is not a sudden pivot but a "natural strategic phenomenon" that dates back to the end of the cold war. He says it would be a mistake "to label Malaysia and the Philippines 'pro-China' and by default 'less friendly' to the US" because of the recent deals.

But just as China is getting better at playing geopolitics, its neighbours are getting better at playing China, and many analysts are sceptical that Beijing actually got the better deal. So far, Mr Duterte has extracted aid promises from China while not repudiating any strategic agreements with the US — which, beneath the hyperbole, looks to some analysts like a sensible strategy.

Shen Dingli, the head of the Center for America Studies at Fudan University in Shanghai, says Mr Duterte's overtures to China cannot erase the "historical defeat" Beijing suffered with the ruling by the tribunal. "China allowed Philippine fishermen back, so what is the success? Success is that they would never return. Duterte made no actual concessions at all," he adds.

Carl Thayer, a Southeast Asia specialist at Australia's University of New South Wales, says: "It's almost universal in every country: make profits and benefit from the relationship with China, but don't make yourself choose between the US and China."

Another reason to be wary of predicting China's imminent hegemony over the region is that its economic muscle is waning. While Southeast Asian countries are keen to tap Beijing's money to build infrastructure, the slowing of China's construction boom and the rebalancing of its economy towards services have sent once fast-growing imports from Asean nations into reverse — [falling 6.5 per cent \(http://next.ft.com/content/12bdf894-a033-11e6-891e-abe238dee8e2\)](http://next.ft.com/content/12bdf894-a033-11e6-891e-abe238dee8e2) last year.

The US is also still a more important source of foreign direct investment in Asean. Last year, it accounted for [\\$13.6bn of FDI inflows \(http://asean.org/storage/2015/09/Table-26Oct2016.pdf\)](http://asean.org/storage/2015/09/Table-26Oct2016.pdf) to the region, according to Asean figures — almost double the 2013 level and well ahead of mainland China's \$8.3bn.

But the biggest obstacle to growing its influence in the region, according to many analysts, remains Beijing itself.

“This could well be just another period of Chinese charm that will be followed by another round of coercion. That's certainly been the pattern of Chinese behaviour before, and it is difficult to see why Beijing would change now,” says Mr Parameswaran.

Additional reporting by Sherry Fei Ju

e ional ties ei h o rs want ood relation t at a distance

The overtures of the Philippines, Malaysia and Thailand to Beijing reflect an unusual set of circumstances and personalities that have emerged among the 10 members of the Association of Southeast Asian Nations.

The oft-cited demographics of the region — which has a population larger than the EU and a combined gross domestic product less than India — mask wide variations. Asean's states range from Muslim-majority Indonesia, the world's fourth most populous country, to tiny Brunei, with fewer than half a million souls. Singapore is one of the richest countries in the world per capita while Myanmar is among the poorest.

While China's cultural ties with many Asean countries are strong, deep and reflected in generations of emigration, some states share the fear of being dominated by their giant neighbour. Beijing's 1970s border war with Vietnam and its support for the genocidal Khmer Rouge in Cambodia linger long in the memory. Popular hostility to China is notable in Vietnam, while Indonesia and Thailand have sought good relations with Beijing without declaring their loyalty as noisily as Rodrigo Duterte, the new Philippine president.

What many Southeast Asian countries have long had in common is that they have looked to keep China neither too close or too far away.

[Even Cambodia, a Chinese client state \(http://next.ft.com/content/23968248-43a0-11e6-b22f-79eb4891c97d\)](http://next.ft.com/content/23968248-43a0-11e6-b22f-79eb4891c97d) in important political and commercial respects, maintains relations with the US for strategic and financial reasons.

The emergence of Mr Duterte, the [1MDB corruption scandal \(https://www.ft.com/stream/organisationsId/ZWEyMDbZAtNWizLS0oZGU3LWE5ZTItNTkzMjUTo4\)](https://www.ft.com/stream/organisationsId/ZWEyMDbZAtNWizLS0oZGU3LWE5ZTItNTkzMjUTo4) in Malaysia and the military coup in Thailand have all coloured the region's politics in unexpected ways. Few would bet against more twists in the years to come.

Print a single copy of this article for personal use. Contact us if you wish to print more to distribute to others. The Financial Times Ltd.

Special Report: **he siness o Mar etin**

Advertising needs a rethink in a brand new world

Restless consumers and technology are creating disruption

Pro oted Content BY **arclays**

So interesting what the impact

A new study shows a positive link between high-ESG corporate bond portfolios and performance, dispelling the myth that doing good for the planet is a negative investment. Barclays' infographic explains.