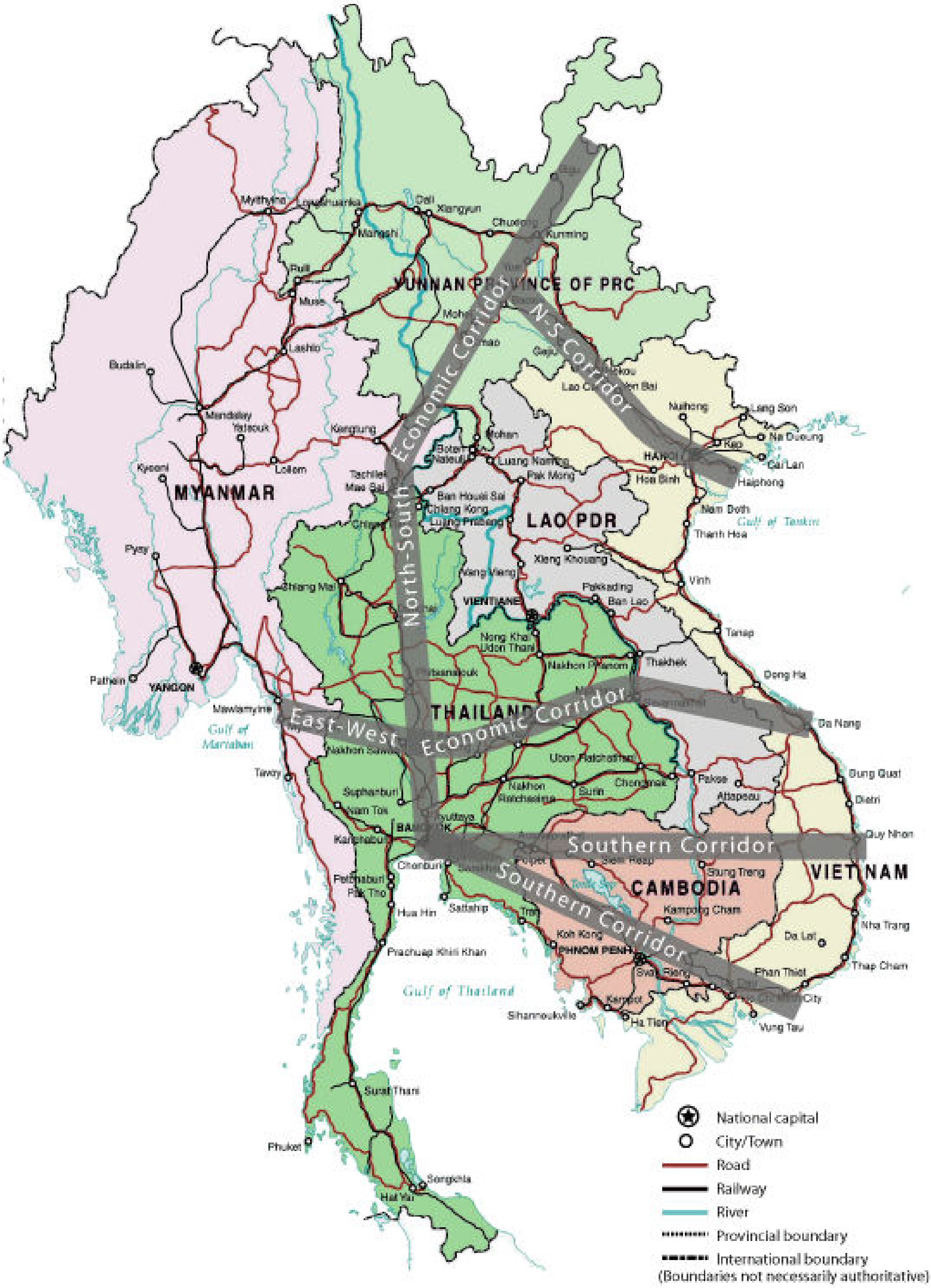
ASEAN Divides

Geoff Wade, December 2010

In 2010, as ASEAN celebrated the 43rd year of its existence as a regional organisation, signs of its division became increasingly manifest. Despite repeated urging for members to move towards the ASEAN Economic Community by 2015, it is becoming obvious that most of the mainland Southeast Asian states (CLMV) see their political and economic futures tied to China far more than to their insular Southeast Asian erstwhile brethren. While the ASEAN Secretariat in Jakarta pursued its 'Initiatives for ASEAN Integration,' lauded "ASEAN Centrality" and dutifully held its 300+ meetings over the year, the Greater Mekong Subregion (GMS), under the guidance of the Asian Development Bank and China, went from strength to strength in developing a wide array of new linkages, alliances, interactions and interdependencies in mainland Southeast Asia. The GMS has thereby moved steadily from "subregion" towards "region," and we are seeing the cracks which will almost inevitably produce a permanently-divided ASEAN.

The Greater Mekong Subregion nominally comprises the CLMV countries (Cambodia, Laos, Myanmar and Vietnam) as well as Thailand and the two Chinese provinces of Yunnan and Guangxi. However, China *in toto* is in fact the member with national-level technocrats engaging in the various GMS initiatives. The idea of equality of GMS members can thus be dismissed immediately and entirely, with China completely dominating the arrangement. It is thereby that this country of 1.3 billion people is drawing into its various systems the polities and economies of mainland Southeast Asia. Under the GMS Economic Cooperation Programs, a multitude of new developments have been brought to much of mainland Southeast Asia. About US$11 billion has been injected into infrastructure investment in the GMS region over the last decade with one-third of this coming from the ADB. This aid has been channelled into three so-called economic corridors -- multi-country transport arteries now being built across mainland Southeast Asia. The North-South Economic Corridor connects Kunming to Bangkok, while the East-West Corridor ties the Indian Ocean coast of Myanmar with the South China Sea ports of Vietnam. The Southern Economic Corridor connects Bangkok with Phnom Penh, Ho Chi Minh City and Vung Tau. Apart from such hardware, the GMS is also planning and implementing software initiatives in terms of trade and investment facilitation. China openly declares that the GMS is the most effective economic mechanism in the region.

The GMS was initiated in 1992 by the ADB and continues to be planned and promoted by that Bank. Now entering a new decade, under the theme of "New Frontiers of Cooperation," the six countries of the GMS, together with the ADB, endorsed a plan of action in August 2010 to further develop transport and trade facilities in the region. The programs involve rail transport, environmental and biodiversity ccordination and trade facilitation. The phased corridor development strategy adopted for the GMS places an initial emphasis on physical connectivity, to be followed by transport and trade facilitation, and eventual economic development along the corridor. ADB projects such as the US$150 million loan to the PRC to develop three gateway cities in Guangxi to serve as gateways to Vietnam and other GMS countries, and "to convert GMS transport corridors into full-fledged economic corridors," are tying China ever closer to the mainland states.



Source: Asian Development Bank

The Mekong River – after which the grouping is named -- is the main artery of mainland Southeast Asia, and is also in itself becoming a bone of contention between global powers. A body which monitors the Mekong River – the Mekong River Commission (MRC) –comprises the countries of Cambodia, Laos, Thailand and Vietnam, and includes the United States as a donor. The first Mekong River Commission Summit was held in Thailand in April 2010, but the body's influence is small, as China and Myanmar have so far refused to join the MRC. One of the reasons China refuses to join this organization is the plethora of dams it has built or is planning along the Mekong. China, now the largest global producer of hydropower and the largest dam builder, already has four dams on the upper part of the river, is currently investing in three hydropower dam projects in Laos and another one in Cambodia, and has plans for a further 12 dams along the river. This will provide it with a handle to control the major lifeline of the downstream countries, despite its repeated protestations that China's dams have "little negative impact on the downstream water flow and environment." When the Mekong ran very dry in the first half of 2010, the Chinese government was quick to blame a natural drought rather than Chinese dams and, more recently, Cambodian Premier Hun Sen has stated that the lack of water in the Mekong has nothing to do with Chinese dams. Yet the Jinghong dam is one of the largest dams on the Mekong, with a generating capacity of 1,500 megawatts and is located only 280km from Chiang Rai province in Thailand. The effects of the existing dams are already being felt with the increasing salination of the Mekong delta, and disrupted fisheries and reduced water supply along the riparian fringe. China's control over the agrarian economies of mainland Southeast Asia is being strengthened.

A major initiative by which this ongoing integration with mainland Southeast Asia is being pursued by China is known as the "Bridgehead Strategy," announced by PRC President Hu Jintao in July 2009. Under this initiative, Yunnan constitutes the bridgehead by which China is drawing unto itself the mainland of Southeast Asia. The core of the strategy is the building of international transportation routes and the establishment of foreign trade production bases, but it includes diverse aspects of infrastructure, energy and logistics development, new industries, tourism and "cultural exchange." Yunnan – in both official and private capacities -- is investing widely in mainland Southeast Asian states, establishing hundreds of new enterprises in these countries over the last few years. Most investment is going into hydroelectricity development, mineral exploration, processing trade and building materials. An international mining industry trade centre has now been established in Kunming to assist in the exploitation of the region's minerals. Yunnan foreign trade in the first three-quarters of 2010, much of it with these bordering states, reached US$10 billion, up over 90 percent on the 2009 figure.

The related strategy on the Guangxi side is known as "One Axis, Two Wings", with the axis being the 3,500-kilometer economic corridor extending from Nanning down through Vietnam, Laos and Thailand to the Malay peninsula, and the wings being constituted by the Pan-Beibu Gulf Economic Cooperation Zone for sea transport on the east and the Yunnan-Myanmar-Thailand corridor of the GMS on the west. In its reportage, the PRC now often distinguishes "Southeast Asian countries" from those of the GMS.

Beyond the GMS programs being developed and implemented by the Asian Development Bank, and the Bridgehead Strategy being pursued by China, further factors which came into play over the last year were the China-ASEAN Investment Agreement which entered into force in July 2009 and the China-ASEAN Free Trade Agreement (CAFTA), initiated on 1 January 2010. The trade agreement promised even further growth on the six-fold growth in China-ASEAN economic activities over the last decade. But in which direction is this to proceed? Over the same 10 years, ASEAN's trade deficit with China widened by five times to US$21.6 billion. These new arrangements have provided new opportunities for China's engagement with the mainland states to be strengthened. Perhaps most interesting in these increasing interactions is China's stated aim of developing Renminbi settlement in trade exchanges with the countries of the GMS. In the first half of 2010, the Agricultural Bank of China started a Renminbi settlement program for cross-border trade with Yunnan, as part of China's push to internationalize its currency. Up to 50 percent of cross-border trade is now being settled in Renminbi. Kunming is also attempting to turn itself into a regional financial hub with the assistance of the China Development Bank, concentrating on cross-border Renminbi settlement, offshore financial services, M&A and project financing.

From where is the funding for economic development of mainland Southeast Asia derived? As mentioned above, large amounts do come from the ADB. Further, in April 2009, Chinese Premier Wen Jiabao announced that China was establishing a US$10 billion China-ASEAN Investment Cooperation Fund to support infrastructural development in the region. It has also been announced that over the coming three to five years, China will also provide loans expected to total $15 billion to ASEAN countries. Much of these funds will be used in the mainland states. Additional funds are being made available as "special aid" to Cambodia, Laos and Myanmar. China is also pursuing other forms of cooperative aid. This includes an offer of 2,000 scholarships funded by the Chinese government and 200 Master's scholarships for public administration students over the next five years from developing ASEAN countries.

Most important to the integration measures being pursued by China vis-à-vis the mainland Southeast Asian states is the communications and transport infrastructure. The 16th GMS Ministerial Meeting last August adopted a plan to develop an integrated railway system connecting all GMS countries, establishing rail links between all states by 2020. China began building a railway from Mohan in Yunnan to Vientiane, the capital of Laos, in October 2010. China and Thailand have also agreed to jointly fund three high-speed train routes: Nong Khai-Bangkok, Bangkok-Padang Besar, and Bangkok-Rayong, which will, together with the Lao railway, provide a rail link from southern China to the Malaysian border. These economic corridors comprising road and rail links are being promoted by the ADB and by China. Yunnan is meanwhile pushing forward economic corridors between Kunming and Hanoi, Kunming-Vientiane-Bangkok and Kunming-Mandalay-Yangoon.

Road links are also being developed. In May 2010, China and Myanmar reached an agreement on developing a China-Myanmar corridor project to link Ruili and Kyaukphyu. This will include a road link running Kunming-Mandalay-Kyaukphyu-Sittwe. Elsewhere, the new Route 3 which runs from Southern China across Laos into Thailand now allows one to travel across these three countries in three hours. China is seeking to establish an free-flowing road transport route between Kunming and Bangkok, with no customs inspection in Laos. The route enters Thailand in Chiang Rai province where much new infrastructure including Chiang Saen port and the Chiang Khong Bridge, is being created. Thailand is preparing legislation to support this new route. The other major route --the Nanning-Singapore Economic Corridor, intended to connect also Hanoi, Vientiane, Phnom Penh, Bangkok and Kuala Lumpur -- has stalled for want of funds. It is not yet supported by the ADB because of lack of specific plans. The project aims to allow a two-day overland trip between Singapore and Nanning. Other regional infrastructure being promoted by China in mainland Southeast Asia includes electricity grids and energy pipelines. Construction on the Kyaukphyu-Kunming oil and gas pipeline, which will greatly reduce China's transport reliance on the Straits of Melaka, began in June 2010 and will be completed in 2013 at a cost of US$2.54 billion.

How are the new policies of Chinese engagement with mainland Southeast Asian states and these GMS projects affecting or being responded to the respective polities?

Laos

Given its size and economic level, Laos is one of the polities most susceptible to outside pressures. The effects of CAFTA on the country have been immediate with Laos-China bilateral trade being pushed to a new high of US$566 million in the first six months of 2010, a growth of 60 percent. The previous year also saw growth of 77 percent. These burgeoning economic relations are in part representative of increased Chinese economic activities in the north of the country. The Boten Special Economic Zone in northern Laos and close to the Thai border, for example, is leased from the Laotian government by Chinese business interests and is connected to China by a double-lane highway built by the Chinese. Here the Renminbi is the currency of choice. Other casinos dot the northern Laos landscape, attracting a large clientele from China. Plantation industries are also expanding southwards. In particular, there has been an explosion in rubber plantations in northern Laos, owned by Chinese firms and feeding almost exclusively the China market. Migration has also burgeoned. Unofficial Lao estimates give 400,000 as the number of visitors from China now unaccounted for, a not insignificant figure in a country of 7 million.

China is urging Laos into further intimacies. When Chinese Vice President Xi Jinping visited Laos in June 2010, 18 cooperation pacts involving trade, infrastructure construction, finance, power generation and grid renovation were signed. Military links have also been expanded, while PRC investment in Laos now surpasses Thai investment in the country. The Chinese state-owned dam builder China International Water and Electric Corporation has announced plans to build the Nam Ngieb 2 hydropower plant in Xiengkhouang Province, while the new Kunming-Vientiane railway project, now being built, will undoubtedly increase both interactions and dependence enormously. The construction and operation rights to the Kunming-Laos railway are held by the almost unknown Yunnan Xiaoxiang Pan-Asia Investment Co., which has registered capital of only CNY 10 million, suggesting that this is a front for China's Ministry of Railways which funds most railway construction within China.

Cambodia

The state next most susceptible to Chinese blandishments and engagement is Cambodia. The intimate and hierarchical political relationship between the two was demonstrated clearly in December 2009 when 20 Uighurs who had sought refuge in the country were deported to China at the request of the PRC, despite Cambodia being a signatory to the 1951 UN Refugee Convention. Given the Chinese influence and economic control of Cambodia, the country can today be effectively considered a client state of the PRC. As in the case of Laos, trade with China is growing quickly. Under the first six months of CAFTA, the volume of China-Cambodia trade was US$627 million, a growth of 38 percent on the first half of 2009. Cambodia is also a major source of agricultural products, particularly rice and tapioca, for China. And again like Laos, Chinese investment in the country is both growing and diversifying. Earlier investments in textiles and garments have now expanded into a range of new sectors, including hydropower, agriculture, construction and development of special economic zones.

Huge amounts of Chinese funds, both official and private, have flowed into the country. In December 2009, Chinese Vice-president Xi Jinping officiated at the signing of Sino-Cambodian economic agreements worth US$1.2 billion. By July 2010, there were 360 Chinese investment projects in Cambodia with investment agreements totalling US$80 billion. China is the largest investor in Cambodia and Cambodian officials frequently visit China seeking further investment. In 2010 the Erdos Hongjun company, based in Inner Mongolia, announced its intention to invest US$3 billion in the Cambodian power, property, and metal-processing sectors, reportedly with the support of Cambodian Prime Minister Hun Sen. During the November 2010 visit to Cambodia by Wu Bangguo, the chairman of China's National People's Congress, a further 16 deals totalling US$6.4 billion were signed in the areas of infrastructure construction, water resources development, telecommunication technology and energy exploration, while China waived US$4 million in Cambodian debt. Wu also urged the further use of Chinese financial institutions, and the engagement of Chinese firms in the telecommunications, construction and transport areas. Chinese interests have secured potentially lucrative oil exploration rights both in the Tonle Sap and offshore in secretive deals. Only Chinese firms have been given exclusive rights to specific exploration blocs -- Polytec (Bloc C) China Petrotech (Bloc D) and CNOOC (Bloc F). Large construction projects such as the Council of Ministers edifice and the Senate Conference Hall in Phnom Penh are being built with Chinese funds by Chinese construction companies, while US$70 million in Chinese loans are funding bridge and highway construction by the China Road and Bridge Corporation. Meanwhile, China Communications Construction Co Ltd is making major inroads in other national construction projects. In the hydropower area, the Chinese company China Thang is building a hydropower station in Pouthisat province, and many new memoranda have been signed for the development of other hydropower projects by Chinese companies in Cambodia.

In the financial sphere, in November, Hun Sen met with the heads of the Bank of China and the Industrial and Commercial Bank of China (ICBC), urging them to open more branches in Cambodia and to support Cambodian agriculture. The ICBC has now confirmed that it will be opening further offices in Cambodia to meet "the needs of Chinese investors in Cambodia." The EXIM Bank of China has also provided a soft loan to fund the Cambodian section of the fibre-optical network connecting Cambodia to the existing fibre-optic cable in Laos, Thailand, China and Vietnam. To aid in further connectivity in these countries, China has reportedly promised US$600 million to build a railway from Phnom Penh to the Vietnamese border. PRC business interests in Cambodia are represented by the 15-year-old Chinese Chamber of Commerce in Cambodia which boasts 150 members from the PRC engaged in hydropower, construction, agriculture, tourism, infrastructure and telecommunications. It also runs a daily newspaper—the *Phnom Penh Evening Post*.

Many of the political and social links between China and Cambodia are being established and developed through the Chinese Council of Cambodia, an ethnic Chinese organization which maintains close relations with the Office of Overseas Chinese Affairs (Qiaoban) of the PRC's State Council. The Qiaoban is now engaged in promoting Chinese education in Cambodia, assisted by increasing numbers of "volunteer" Chinese language teachers arriving in the country from China. Cambodian elementary schools now boast the best Chinese language curricula in Southeast Asia staffed with hundreds of well-qualified Chinese teachers from the PRC. The largest Chinese-language school in Southeast Asia is now in Phnom Penh. In the defence realm, the People's Liberation Army has also pledged to keep funding the Cambodian Army. As a further telling indicator of the burgeoning intimacy between this mainland Southeast Asian state and China, Cambodia is establishing 6 new consulates in the PRC to promote and assist Chinese investment and tourism in the country.

Myanmar

Myanmar has very little option but to cooperate closely with China. With western sanctions still in place, it has no alternative but to rely on PRC aid, trade, investment and largesse. China remains pleased with the western sanctions on Myanmar as this situation allows further integration of the transport and economic aspects of Myanmar with those of China. Political links saw growth in June 2010 with a visit to Myanmar by Wen Jiabao -- the first visit by a Chinese premier in 16 years. The PRC premier signed 15 agreements covering areas such as a natural gas pipeline, a hydropower station and aid funding. Two other CPC politburo members have visited the country over the last 18 months, as compared to none in the previous 8 years. Senior General Than Shwe responded to these visits by travelling to Beijing in September 2010. Military links are also expanding with a Chinese destroyer and a frigate visiting Yangon for the first time in August 2010.

The border region between the two countries is extremely porous and unsettled. In 2009, fighting between an ethnic Chinese Kokang army and the Myanmar junta forced some 37,000 refugees into China. Many have now returned. In early May 2010, Beijing deployed around 5,000 extra troops on the Burma border, with concerns that any new fighting will impact on border trade between the two countries. China continues to play a key mediating and indeed proactive role in Burman interactions with the Wa, the Shan State Army-South, the Kachin Independence Organisation and the National Democratic Alliance Army.

More settled conditions are seen in the northern Shan State town of Mongla which is booming and constantly filled with Chinese tourists and 14-tonne lorries. The latter are the result of the drying of the Mekong River which has now limited river transport. These lorries are linking China to Thailand across the Shan states and through Laos. As in Laos and Cambodia, Chinese-funded casinos are booming in the country's north. Trade with China is also growing swiftly, with a one-stop customs service now available at Myanmar's Muse 105th Mile Border Trade Zone across the border from Ruili in Yunnan. Informed sources in Myanmar speak of the areas north of Mandalay as now being controlled more by China than by Naypyidaw.

Trade between the two countries is also trending upwards, with bilateral trade in the first four months of 2010 growing by over 70 percent. China is now Myanmar's main trading partner. Chinese investment is seen in every sector of the economy, and is growing very swiftly, with over US$8 billion of Chinese funds being invested in the country since March 2010 --US$5 billion in hydropower, US$2.15 billion in oil and gas and US$1 billion in mining. Other BOT projects, officially classified as loans and thus not included in the official investment figures, include Huaneng's MOU with Myanmar's Ministry of Electrical Power on the Shweli II hydropower project and Datang's MOU relating to the Taiping River I hydropower project. But the intimate links between the junta and Chinese business interests remain far from clear. China North Industries Corporation (Norinco), one of China's biggest military suppliers, is now engaged in developing the copper mines of Monywa, following a 2010 agreement signed in the presence of Chinese Premier Wen Jiabao and Myanmar Prime Minister Thein Sein, and Chinese engineers and workers are operating the mines. China Power Investment Corporation is further involved in discussions on developing hydropower across the country. In the manufacturing sphere, talks are well-advanced for the First Myanmar Investment Company, a state-owned company, to begin producing light commercial vehicles in collaboration with the Chinese company Dongfeng Automobiles. Dongfeng vans are already sold widely in Myanmar. Myanmar is also seeking additional Chinese investment in the country's agriculture. The benefits from these various investment projects are not always obvious to those in Myanmar, with the power from the Myitsone Dam in Kachin State, slated for completion in 2017 by China Power Investment, for example, being earmarked primarily for China. To facilitate further Chinese trade and investment in the country, Myanmar opened a trade representative office in Nanning, the capital of Guangxi, in October 2010.

New transport linkages being planned or built include the new deep-sea port of Kyaukphyu to be constructed on the island of Maday, which will be connected by road to China along the route Sittwe-Kyaukphyu-Mandalay-Ruili-Kunming. The other major maritime development is a deep-sea port at Dawei, which will connect up with Bangkok and then to China. Other port developments involving China include Hainggyi, Coco, Myeik and Zadetkyi Kyun. The country is also, in conjunction with these projects, upgrading domestic airports at both Kyaukphyu and Dawei to international standards.

Myanmar Airways International began flights between Yangon and Guangzhou in 2010. China needs Myanmar in order to meet its expanding energy needs, and intends to use the country as a conduit for oil imports from the Middle East and Africa, as well as to provide gas from the Shwe field. To this end, a major refinery in Yunnan is being developed to refine crude oil and natural gas delivered through the pipelines being built across Myanmar by the China National Petroleum Company.

Two years ago, China started building a rail link between Dali and Ruili, on the Myanmar border, which will link with the Myanmar railways system. Myanmar is now constructing the Mong Nai-Kengtung railway which will also later extend into China. In late 2010, it was announced that a 2,000 km high-speed railway will be built between Kunming and Yangon, with formal discussions to begin in early 2011.

Vietnam

A polity making some efforts to try to keep the GMS initiatives within the broader ASEAN program is Vietnam. With the increasing Chinese domination of the GMS region, Vietnam sees its own autonomy and sovereignty increasingly threatened. At the same time, to shore up its own influence within mainland Southeast Asia, Vietnam is competing with China to bring both Laos and Cambodia within its own sphere of influence through increased trade, investments and political interaction. This battle for influence in Laos and Cambodia is however increasingly one-sided.

On the integration front, the respective border provinces of Vietnam and China have, through joint working groups, been engaged in efforts to boost links in the spheres of border management, trade, energy, and transport-tourism. Visits between Vietnamese senior officials and those of Guangdong, Yunnan and Guangxi are burgeoning. During a September visit to Vietnam by the Guangxi Governor Ma Biao, with a mission comprising 1,000 persons, Guangxi enterprises were reportedly signed 50 economic and trade cooperation projects worth over US$1.8 billion with their Vietnamese counterparts. People-to-people links between the two sides are also expanding, with a youth meeting held in Nanning in August 2010 bringing together 32,000 young people from the two countries. Military exchanges are also growing with PLA officials now participating in training programs in Vietnam. Transport links between the two countries are seeing improvement with construction of a high-speed rail line between Debao and Jingxi (on the Vietnamese border) beginning in June 2009 and other work being carried out to revamp the Xianggui rail link, connecting Hengyang (in Hunan) with Pingxiang (on the Guangxi border with Vietnam), being commenced at the end of 2008. A planned high-speed link between Nanning and Pingxiang, expected to start in 2010, will greatly reduce the journey time from Nanning to Hanoi.

Trade is booming. From 2000 to 2010 Sino-Vietnamese trade grew at an annual average rate of 32 percent. The balance is strongly in China's favour, with Chinese exports to Vietnam (US$15.1 billion) worth almost four times its imports (US$4.3 billion). Vietnam's trade deficit with China has sparked complaints from Hanoi that cheap Chinese imports are threatening the domestic businesses. At the same time, new trade routes are also opening up, with Qinzhou Port in China having opened a direct shipping route to the Vietnamese port of Hai Phong in August 2010. Now 82 percent of Qinzhou's exports to ASEAN pass through Hai Phong, and Vietnam-Guangxi trade has reached US$4 billion. Sino-Vietnamese trade in the first half of 2010 reached US$12 billion, an annual increase of 50 percent. Vietnamese rice has also been flowing into China with 600,000 tons of the grain moving into China in the first half of 2010. The Vietnamese took 120 companies to the 7th China-ASEAN Expo in Nanning in October, the largest contingent of any ASEAN country. Not unnaturally, China also provides Vietnam with the greatest number of tourists of any country, with some 65,000-90,000 Chinese arrivals in Vietnam every month,

Vietnam continually angles for Chinese investment, particularly in the manufacturing sector, and it hopes to capitalise on Chinese companies wishing to diversify their investment locations. A major forum to promote Vietnam-China business and investment cooperation was held in Beijing in August 2010. As in other mainland Southeast Asian states, Chinese companies are heavily involved in power generation as well as metals and minerals projects in Vietnam, with one Chinese company investing around US$1.6 billion in a large bauxite mining and alumina refining project. With direct approval of the Chinese National Development and Reform Commission, China Southern Power Grid Corp is to invest nearly US$1.75 billion in the Vinh Hung thermal power plant in Binh Thuan province. Work on a new steel plant being built by Shengli Vietnam Special Steel Ltd, which is a subsidiary of the Chinese Shengli (Fuzhou) Group, and Guangdong Metals and Minerals & Export Corporation, was began in September 2010 in Thai Binh Province, in the country's north. But the Chinese investment has come at a cost. The degree to which Chinese interests are gaining control over most of the upstream industrial sectors in Vietnam is confirmed by Vietnamese ministerial estimates which claim that about 90 percent of all engineering, procurement, and construction (EPC) contracts in Vietnamese projects are being won by Chinese firms. How does this augur for the independence of the Vietnamese economy?

Thailand

Thailand, as the only mainland Southeast Asian state among the original ASEAN-6, is in a quandary. While sharing much with the richer ASEAN members, its proximity to China and its increasing inter-linkages with the massive polity and economy to its north, have meant that it now perceives its future as more tied to China and the Mekong states than to its maritime neighbours to the south. Tej Bunnag, a former Minister of Foreign Affairs has recently stressed that the Thais and Chinese are "like siblings," a relationship not shared by any other Southeast Asian state. Thai Foreign Minister Kasit Piromya also suggested in late 2010 that Thailand's relationship with China is now changing from one of being a mere recipient of Chinese aid to working as a partner with Beijing in aiding the countries of Cambodia, Laos, Burma and Vietnam. Concerned over being left behind in the investment flood by China, Kasit noted that "Thailand must work with China to put more money into helping countries." This was immediately manifested in the announcement that the largest civil construction company in Thailand, Italian-Thai

Development, has signed a contract worth US$8 billion for an huge infrastructure project in Dawei in Myanmar, which will connect Dawei with Bangkok and then Kunming. The project will include a deep-sea port with shipbuilding and maintenance facilities, a petrochemical industrial estate with oil refining and gas-separation plant, and other medium and light industries. Wu Bangguo, head of the National People's Congress of China, also visited Bangkok in November and witnessed the signing of five new memoranda of cooperation between Thailand and China. Even Thai provincial administrations are directly approaching China for financial assistance. The Mae Hong Song provincial administration has submitted plans for the excavating of three mountain tunnels to the Chinese ambassador to Thailand, seeking financial assistance to cover the more that US$1 billion cost of the projects.

As in the case of Myanmar and Vietnam, the Thai military has been expanding cooperation with the PLA, and Thai special forces were training in Southern China in late 2010. China sponsors these joint sessions with most GMS countries. November also saw the first joint exercise between the Royal Thai Navy and China’s People's Liberation Army's Marine Corps. At the same time, while China expresses concerns about the annual Cobra Gold military exercise which Thailand conducts with the United States, the first joint military exercise with a focus on humanitarian assistance is being planned between Bangkok and Beijing.

China-Thailand trade has been actively percolating of late. In the first half of 2010, through importing US$11 billion of Thai products, China overtook the United States and Japan to become the biggest export market for Thailand, while China became the second biggest source of Thailand’s imports. During Thai premier Abhisit’s talks with his Chinese counterpart Wen Jiabao in November, the hope was expressed that bilateral trade would grow by more than 50 percent and reach US$50 billion this year. It was also agreed that the two countries would set targets for trade and investment cooperation growth over the coming five years. Bangkok officials have stated that they aim to attract more Chinese tourists and to develop more road and air links with China. Much trade is now being carried out overland, and China has urged a quota of vehicles running directly between Kunming and Bangkok (via Laos, but without customs clearance in that country) of 500 trucks a year for each side. While that volume is not huge, it presages great changes in mainland Southeast Asian trade. In preparation for the new trade, the Chiang Saen II port in Chiang Rai is being built and will be completed by 2012. Chinese corporate investment in Thailand is also expanding. The Chinese electrical products giant Haier Electric has now established a production facility in Prachinburi province, taking on its Japanese and Korean rivals, but also exporting products to China, now at zero tariff. The company predicts that it will hold the largest share in the Thai refrigerator market by 2012.

To facilitate passenger transport between Thailand and China, the Thai Cabinet has this year approved a joint investment plan with China for three high-speed train routes, connecting the Chinese border in the north with the Malaysian border in the south. The investment framework includes technology transfers, route construction, and rail management. The Thai Transport Ministry will soon begin talks with China over this

US$30 billion joint project. Under the project, China will provide investment, technology, and management, while Thailand will be responsible for procuring land. China hopes the project will be completed within 5 years.

Chinese financial institutions are preparing to finance further Chinese investment in Thailand. Again it is the Industrial and Commercial Bank of China taking the lead. The bank has made Thailand the centre of its operations in mainland Southeast Asia and has now acquired the ACL Bank, renaming it ICBC (Thai). A recent seminar ICBC held in Thailand to promote joint operations between Chinese and Thai businesses, gave the bank great legitimacy through the attendance at the seminar of Prime Minister Abhisit and other senior minister of the Thai cabinet.

External Responses

This flurry of GMS developments and the growing Chinese engagement with the countries of mainland Southeast Asia -- which is in effect dividing ASEAN -- have not been ignored by regional powers. On the sidelines of the ASEAN meetings in Hanoi in July this year, Japan met with the Mekong nations of Cambodia, Laos, Myanmar, Thailand and Vietnam, openly excluding China from the gathering. They discussed regional development as well as ecological assistance, with Japan offering satellite imagery and other aid. Then, in September 2010, Japan convened a gathering of the GMS countries in Bangkok, nominally to address income disparities in the region, but also to assure members that they had options other than China. Japan's ODA committed to the Mekong region over the coming three years is US$5.9 billion, but the country is urging more private Japanese investment in the GMS. In October, Thai and Japanese defence ministers agreed to strengthen military cooperation between their countries both in current and future frameworks. Also, a succession of meetings between Korea and the mainland Southeast Asian countries suggests its own interest in balancing Chinese influence in this region. At the Mekong Development Forum held in Seoul in September 2010, Korean Finance Minister Yoon Jeung-hyun stated that Korea intends to actively participate in the development of the Greater Mekong Subregion, particularly in terms of transforming transport corridors into fully fledged economic corridors, and on environmental issues. The forum was followed by one-on-one meetings between Korean businesses and GMS senior officials to explore areas of cooperation and business opportunities. At the ASEAN summit in Hanoi in October, Korean President Lee Myung-bak proposed the creation of a regular meeting of economic ministers from Korea and Cambodia, Laos, Myanmar, Vietnam and Thailand to set up plans to jointly develop the area. Korea has been a prominent co-financier of a variety of development projects in the GMS since 2008.

The United States has likewise not been unobservant of the events in mainland Southeast Asia. Barack Obama claimed in Tokyo in 2009 that he was the first U.S. president with an "Asia-Pacific orientation." In a July 2010 speech while in Hanoi, U.S. Secretary of State Hillary Clinton spoke of U.S. interests in the South China Sea and noted that the U.S. saw its relationship with Vietnam "not only as important on its own merits, but as part of a strategy aimed at enhancing American engagement in the Asia-Pacific and in particular Southeast Asia." The Obama Administration has made the Mekong Basin the focal point of its reengagement with Southeast Asia and measures such as the U.S.-ASEAN leaders meeting in New York in September suggests an early lifting of the Myanmar sanctions. American new participation in the East Asian Summit is also partially aimed at countering perceived Chinese hegemony in mainland Southeast Asia.

The Future of ASEAN

The idea of "ASEAN centrality," manifesting a new regional role for the ASEAN bloc, emerged from the declaration on "Reinforcing ASEAN Centrality in the Evolving Regional Architecture" during the Hua Hin ASEAN Summit in February 2009. This concept is premised on two conditions: firstly that ASEAN will develop sufficient gravitas to constitute a bloc of any influence or significance, and secondly that the interests of its members will be sufficiently coterminus to ensure a commonality of stand on key issues. Neither condition looks likely to be realised, much less maintained, in the near future. The first is precluded by the unwillingness of the ASEAN states to surrender any of their sovereignty to a central administration and the inability of the body to take a unified position on international issues. No influence or political centrality will emerge from a purely administrative secretariat in Jakarta. The second condition is increasingly threatened by the phenomena detailed above, whereby the mainland Southeast Asian states are being divided from the maritime ASEAN members by new physical infrastructure connections, new economic interactions and new intimate political and military engagements with China. These countries are, together with China, forming a new bloc, which in effect divides ASEAN.

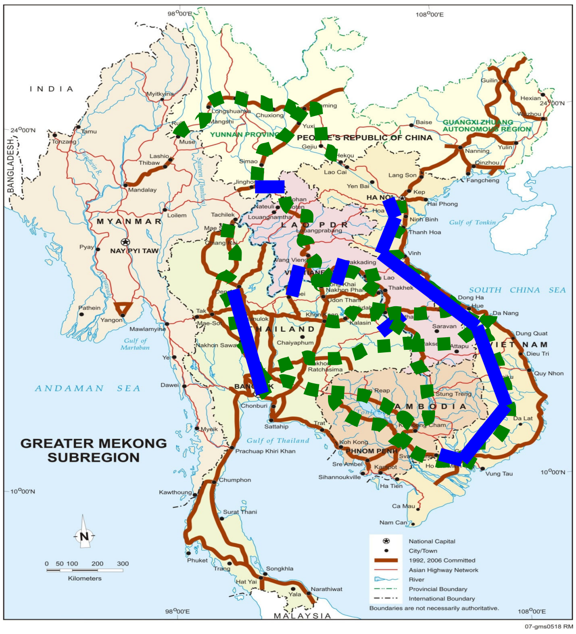
ASEAN's most recent response to this threat of division has been the calls for more "connectivity" among the ASEAN states. The *Master Plan on ASEAN Connectivity*, which was announced at the 17th ASEAN Summit in Hanoi in October 2010, sets down agenda in the three areas of physical, institutional and people-to-people connectivity. But the exhortations ring somewhat hollow when the connectivity agenda is already so well-advanced among the GMS states. The *Master Plan* recognises the crux of the issue when it notes that "The challenge is in ensuring that GMS and ASEAN programmes and projects mesh together very well." Explicit within this remark is the recognition that these are two separate initiatives already producing two separate systems. The difficulties for ASEAN in trying to claw back the mainland Southeast Asian countries is recognised in the *Master Plan* when it is stated that: "This is not likely to be smooth sailing, especially since the two programmes have been pursuing parallel efforts and have sunk substantial investments in certain areas of cooperation, which although should ideally be consolidated, may involve nuances and detailed issues that may be difficult to iron out." Specifically, Myanmar, Cambodia and Laos are already virtual client states of China, and Vietnam and Thailand are increasingly tied (and in some ways beholden) to the economic behemoth to the north. Given their increasing infrastructural linkages with China, growing investment and trade ties, Mekong water dependence and burgeoning political and military links, the likelihood is minimal that these countries will see their future lying in further integration with the maritime ASEAN states rather than with China.

The idea of an ASEAN Community coming into being by 2015 is thus increasingly unlikely. The mainland Southeast Asia states are growing distant from the maritime ASEAN states mainly as a result of the efforts of the ADB in developing the GMS initiatives, through intense economic engagement with China and through China pursuing its integration programmes. The mainland Southeast Asian states together with China are now forming a Greater Mekong *Region*, and the links being developed will override those existing and planned among ASEAN states. ASEAN is indeed dividing.

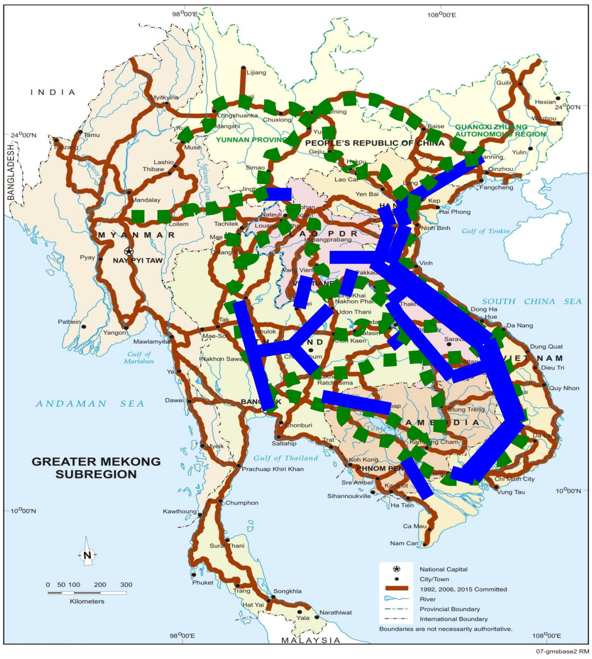
Are these changes simply a reflection of the geographic proximity of the mainland states to China, or a manifestation of a long tradition among Chinese states to keep neighbouring polities either divided from each or incorporated within the Chinese polity? In either case, we see the revival of a hierarchy in mainland Asia, a phenomenon which some may perceive as a rejection of the relevance of the Westphalian system to Asia.

1992

2009



2015 (proposed)



Roads
Telecommunications
Power Transmission Lines
Source: Asian Development Bank

Proposed road network for mainland Southeast Asia/Southern China by 2025
Source: Asian Development Bank

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