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Thailand's Increasing Closeness To China: What It Implies For ASEAN – Analysis

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Locations of China and Thailand. Source: Wikipedia Commons.

Today, ASEAN comprises of ten member countries (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam)² having a

population of more than 600 million with trade, investment and security cooperation across all major countries in the world. ASEAN is a major global hub of manufacturing and trade, as well as one of the fastest-growing consumer markets in the world.

In 2014, ASEAN countries had a combined GDP (at current prices) of \$ 2.5 trillion with real GDP annual growth rate of 5.1 % over the period 2000-2013. Truly, in the past almost five decades ASEAN has seen several developments while reaching this stage with such a remarkable economic performance today.

The changing landscape of ASEAN

Stepping back a bit, we see that at the outset, ASEAN was primarily launched in 1967 as a political initiative that was meant to:

- (a) End the disharmony within the anti-communist bloc in the region: This meant mainly bringing Indonesia into a political association with countries such as Malaysia and Singapore with which it had been in armed conflict between 1965 and 1966
- (b) Strengthen the anti-communist bloc in facing the then Communist threat seen in the Vietnam war.

The geo-strategic focus shifted to concentrating on economic issues in the 1990s when the final conflict pitting the original members versus Vietnam in the Cambodian conflict – was resolved. The very nature of ASEAN changed with the entry of new members (Vietnam in 1995, Lao PDR and Myanmar in 1997 and Cambodia in 1999) and the focus began to shift away from purely geo-strategic towards closer economic integration.

On the same lines, there have been further developments in more recent times. For example, in 2008, the idea of ASEAN Community 2015 (AC15) took birth. By the end of 2015, the ASEAN Economic Community, envisioned as a single common market and production base is expected to become a reality. This will lead to the freer flow of goods, services, investment capital and skilled labour in the region. Tariffs and non-tariff barriers will be reduced which will have implications for intra-regional trade and investment. New opportunities for growth and prosperity are likely to emerge, but the challenge is to ensure that growth is inclusive and prosperity is shared.⁴ The ASEAN leaders have declared that the 2009-2015 Road Map consisting of the three Community Blueprints – Economic (AEC), Political-Security (APSC), Socio-Cultural (ASCC) shall form the basis of the overall ASEAN Community (AC15).⁵

Considering this changing landscape, the most critical question is, are the member nations ready to embrace this transformation as ASEAN makes commitments as part of the AC15 journey?

Since this article concerns discussions around Sino-Thai relations, Thailand being the ASEAN member nation, we will explore the above question taking only Thailand into consideration. Besides, Thailand, with a GDP of USD 387 billion and per capita GDP of USD 5, is one of the largest countries in ASEAN.

Is Thailand prepared for the change?

With the ambitious AC15 underway to realize its vision there are several opportunities that Thailand can deep-dive into. First, Thailand can capitalize on the opportunity offered by AC15, such as requesting for special offers from the ASEAN Economic Community, laws on the Rule of origin, and the requirements of entering foreign countries for investment. This will lead to entrepreneurial benefit and help improve inter-country trade relations. Second, with Thailand's surrounding countries like Myanmar and Cambodia having a different culture and ways of doing business, acting on AC15 can be a win-win for Thailand better understanding of its neighbours and bolster ASEAN's growth. Third, being a part of an open community would necessitate the need to develop skilled labour. The opening up of free trade and investment from neighbouring countries with much lower labor cost will cause unskilled labor in Thailand to be at risk for becoming unemployed.

Therefore, it is clear that Thailand must look at AC15 as an opportunity to create a win-win scenario not only for its prosperity but also that of ASEAN as a whole.

Amidst the changing ASEAN dynamics, Thailand and Chinese ties have been recently strengthened. Do these ties indicate a renewed friendship between ASEAN member states or a divide being created? And, are these bilateral relations taking into consideration the multilateral nature of ASEAN? The next section attempts to understand more about the ties and the implications of those ties in the bigger picture.

SINO-THAI RELATIONS

As stated by Bangkok-based journalist Richard S. Ehrlich "There is perhaps nowhere in Southeast Asia where the growing influence of China – economically, militarily and diplomatically – is being felt more than in Thailand, long one of the United States' most steadfast regional allies."⁶

As the second largest economy of ASEAN, Thailand is an important country for China – both in terms of trade (China provides a market for 14% of all exports from Thailand and its share in Thai imports constitutes 18%) as well as in terms of its growing clout both internally and externally. Internally, as explained by several interviewees including Indian businessmen (Satish Sehgal, D.K. Bakshi, Mr. Bajaj) many major Thai businesses are owned by the Chinese (44% of all businesses are owned by Chinese, having taken on Chinese names and the latter have integrated seamlessly into the Thai society. In fact, China is also considering helping Thailand to construct a canal across the Kra Isthmus that would allow ships to bypass the Straits of Malacca, reducing China's overdependence on this route (Refer to Annexure: Map 1). This infrastructure build-up and the acquisition of resources in these countries are drawing attention of strategic thinkers in Thailand.

Background

China and Thai relations go thirty years back in time. To be precise, 1975 was the year in which the two nations established democratic ties. During the cold war period, they formed military

alignment against Vietnamese communists in Indochina. In the post-Cold War era, bilateral relations have remained healthy thanks to absence of territorial disputes, the firm connections between the Thai royal family and the Chinese leadership, and the well-integrated Chinese community in Thailand.⁷

In October 2003⁸, the first trade agreement between China and an ASEAN country: Sino-Thai free trade agreement was signed. Since then, there have been many developments in the bilateral ties but more recently, the ties have fortified in several areas.

Areas of development in the bilateral relations

ASEAN's second largest economy is strategically harnessing the fruitful ties with the world's most populous country in several areas.

First, Sino-Thai military links are among some of the most developed in the region — second only to Myanmar, China's quasi ally.⁷ Xu Qiliang, vice-chairman of the Central Military Commission of the Communist Party of China, travelled to Thailand for the second time in a span of six months. His visit included meetings with Thai defense minister Prawit Wongsuwan and Thai Prime Minister Prayut Chan-o-cha. According to defense ministry spokesman Maj Gen. Kongcheep Tantrawanit, during Xu's meeting with Prawit, Xu proposed the signing of a memorandum of understanding between the two countries' defense ministries to increase military cooperation. Some measures discussed include expanding joint military exercises and training, enhancing defense industry cooperation and greater Chinese assistance in helping Thailand set up an ASEAN center for military medicine.⁹

Historically, Thailand has been one of Washington's staunchest military allies in Southeast Asia and could have expected to see that relationship blossom under US President Barack Obama's "pivot" to Asia. But the May 2014 coup, the second in the past ten years, and the Junta's subsequent rights crackdown has strained those ties. Thailand has ever since forged closer ties with China. "The Junta is obviously much more comfortable with China because they speak the same language and commit the same practices: authoritarianism," said Puangthong Pawakapan, a Thai politics expert at Chulalongkorn University.¹⁰ There could be serious damage to Thailand's democratization as China is constantly supporting and possibly influencing the Thai military regime. China has just injected another dose of confidence among the Thai military leaders to hold on to their rule despite international pressure.⁷ More recently, in the light of the Sino-Thai joint military exercise, senior Thai government officials have also said that Thailand has not turned 180 degrees toward China, despite a chill in ties between Bangkok and Washington following the 2014 coup.¹¹

Second, China and Thailand have forged even closer ties with the recent exchange of visits of key policymakers. Foreign Minister Wang Yi, during his visit to Bangkok in May 2015, praised Thailand for playing a "significant" role in promoting relations between China and ASEAN. The two countries agreed to increase bilateral trade to US\$100 billion by 2015. Last year, two-way trade stood at nearly US\$70 billion, as a result of the successful Sino-Thai free trade agreement signed in 2003, when Thailand became the first ASEAN country to conclude a free-trade deal with China.¹²

Third, the USA led Trans Pacific Partnership does not yet include Thailand and five other ASEAN member countries. It includes at present, just four ASEAN member states: Brunei, Malaysia, Singapore, and Vietnam. Thailand and other ASEAN members are unwilling yet to join the TPP talks because of the requirements for regulatory convergence in areas such as intellectual property rights (IPR), state-owned enterprises, and competition, besides other strict requirements.¹³ The absence of Thailand and other member states of ASEAN does pose a threat to the internal economic integration of ASEAN. In contrast, ASEAN is at the center of the China- led Regional Comprehensive Economic Partnership (RCEP).

Fourth, most Thai Cabinet ministers and powerful businesses in Thailand have invested heavily in in China. Thailand's Charoen Pokphand (CP), one of Southeast Asia's largest companies, has been doing business in China since 1949.⁷ Several critics however, question whether China really represents any solution to Thailand at this critical juncture of its political crisis.⁷ It is clear however that this bilateral relation has specific consequences (both positive and negative) and opportunities which accrue to Thailand. However, looking at the importance that Thailand plays as one of the stronger economies of the ASEAN region, surely, Sino-Thai relation dynamics have implications for the entire ASEAN region as well.

What's in store for ASEAN?

Considering strengthening Sino-Thai ties, there are several expected consequences for ASEAN. The consequences could be both positive and negative.

First, positive growth is expected across the ASEAN region as a result of growth Sino-Thai relations. Kraisin Vongsurakrai, secretary-general of the Thailand-China Business Council and vice chairman of the Board of Trade of Thailand, has emphasized on how ASEAN will continue to grow with these relations as China plays many roles in the region's economic activities including export-import, investment and tourism. For instance, in June 2015, China and Laos signed a memorandum of understanding to strengthen their cooperation in human-resource development.¹⁴ And, in November 2015, the two countries agreed to build a 40-billion Yuan (\$6.28 billion), 418-kilometer railway from Kunming, the capital of southwestern China's Yunnan province, to the Laotian capital of Vientiane. According to Chinese media sources, China will be responsible for 70% of the investment while Laos will be responsible for the rest.¹⁵

On the flip side however, there strong views by several critics that ASEAN is becoming a theatre of super-power rivalry and several countries have been competing for influence in ASEAN. As a result, ASEAN member countries are not speaking in one voice at ASEAN Summit meetings, including the one at Pnom Penh in November 2012. As stated by Kaplan, China maintains the ability to exploit divisions within ASEAN (Kaplan 2014). China's aggressive partnership with some countries of ASEAN – especially Laos and Cambodia and its bilateral rather than multilateral engagement approach with ASEAN member countries – is creating a divide within ASEAN.¹⁶ In fact, all the three pillars of ASEAN (ASEAN Political-Security, ASEAN Economic and ASEAN Socio-Cultural Community) are being compromised. The economic

pillar is compromised when preferential treatment for trade between China and only certain countries (such as Laos, Cambodia, Thailand) is given.

In addition, ASEAN countries do not have a united stand on key issues such as the South China Sea (SCS) dispute – as a result of which the political-security pillar is compromised. In September 2015, Ambassador Nina Hachigian, US Ambassador to ASEAN at the 4th Maritime Institute of Malaysia South China Sea Conference emphasized on the dual nature of the SCS dispute. Illegal, unreported, and unregulated (IUU) fishing in the area interact with the unstable political situation in the SCS to create a vicious cycle. Claimants want to assert sovereignty over islands because of the marine resources in the surrounding waters, but more than one country claims the islands, which makes the issue even more complex. In addition to this, the lack of multilateral binding agreement on fishing regulations in the SCS has led to the lack of also a united stand on the issue among ASEAN countries in turn affecting the political-security pillar.¹⁷ Indeed, even world leaders have emphasized, since a while now, on the need for moving in an organized manner with regards to the issue. For instance, in August 2011, while addressing ASEAN members at the 44th ASEAN anniversary, H.E. Dr. Susilo Bambang Yudhoyono, President of the Republic of Indonesia gave the clarion call to move toward agreeing on a legally binding Code of Conduct in the South China Sea, since this was and is still, of immense significance to help resolve the dispute.¹⁸

The conflicts that arise as a result of compromise on the economic and political-security pillar lead to reduced degree of freedom among ASEAN nations which negatively affect the socio-cultural pillar as well.

Second, and more specific, the slow progress towards ASEAN Economic Community has been a cause of concern. ASEAN-6 (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) were largely economically stronger than the CLMV countries (Cambodia, Laos PDR, Myanmar and Vietnam) and they have had different perceptions of the benefits and costs from integration. Although post AFTA, the common effective preferential tariff rates between the ASEAN-6 have fallen to virtually zero and less than 5% is subject to tariffs above 10%, the non-tariff barriers are substantial. Integration has, thus, failed to fully yield the expected economic benefits, thus leaving members apprehensive of moves toward deeper integration. Besides, there is a lack of strong leadership in the region.¹⁹ In addition, the majority of interregional trade is generated by only one country – Singapore (followed by Malaysia). The EU –Singapore trade is a case in point. While bilateral trade in goods and services between the EU and ASEAN reached over €235 billion in 2012, EU-Singapore trade alone comprised for almost a third (€80 billion).²⁰ Besides, ASEAN countries themselves have very stringent conditions on movement of skilled persons as well as competing interests and alliances, as a result of which the movement towards building the ASEAN Community is slow.²¹

Third, the relations between the riparian states along the Mekong River are expected to have a consequential effect on other ASEAN nations. The Mekong river flows southwards through Myanmar, Laos, Thailand, Cambodia and Vietnam. As a result of four big dams constructed by China, the flow of water is under China's control. According to Prof. Likhit Dhiravegin²², "The news of four more dams to be built is worrisome for the downstream riparian states. Most regrettably China does not join the Mekong River Commission (save being a dialogue partner

together with Myanmar) despite the fact that the Mekong River flows through China, downwards to the four riparian states.” He added that China also desires to deploy patrol ships in the Mekong River. Ecological issues with river banks getting eroded and the number of the giant cat fish declining have also surfaced. Despite such concerns having been articulated at international forums, Thailand’s neighbours in the North and the Junta government itself is not willing to annoy China. This viewpoint shows that Thailand itself may be keen to further fortify the partnership with China even though there may be negative consequences of such developments.

WAY FORWARD

In April 2015, Malaysian Prime Minister Datuk Seri Najib Tun Abdul at the ASEAN Business Awards Malaysia function stated that according to OECD’s prediction, overall annual growth should stand at 5.6% over the next four years. If current trends continue, ASEAN will become the world’s fourth largest economy by 2050. He said it would be the seventh-largest in the world now if ASEAN were seen as one economy, with its combined gross domestic product in 2014 at US\$2.5 trillion and US\$2.4 trillion in 2013.²³ ASEAN also has a huge advantage of demographic dividend. With the world’s third largest labour force, 60% of ASEAN’s population is below the age of 35. This will provide the region the opportunity for accelerated GDP growth. Complimenting ASEAN’s demographic dividend is urbanization, which will usher a larger share of the population to more productive sectors. Currently ASEAN’s urban share makes up about 36% of its 622 million population.²⁴ This share is expected to increase to 45% by 2030 allowing ASEAN to continue enjoying urbanization gains beyond 2030. ²⁵

In November 2015, Charles H. Rivkin at the ASEAN Economic Community at the Jakarta Foreign Correspondents Club stated that ASEAN Member States represent one of the fastest growing regions on the planet and a major source of the world’s rapidly growing middle class.²⁶ The steps ASEAN nations take as the way forward will be governed by the results on AC15, intra-ASEAN dynamics between countries and bilateral relations between ASEAN member nations and other countries across the globe.

As the ASEAN Chair moves to Laos this year, keeping ASEAN united with mutual trust and confidence and agreeing on a joint communiqué especially on the SCS will not be achieved easily.

Thailand’s proximity to China, as discussed above, will pose a challenge to ASEAN’s security pillar, given the latter’s core interests in the South China Sea clashing with several ASEAN members. Regional integration in ASEAN mandates a unique role of Thailand, especially, within ASEAN as it has a large volume of trade, second only to Singapore. Thailand’s importance for ASEAN is well –known to China too, which ensures that the Thai polity is kept engaged, both through economic and security initiatives. The 2015 promised elections in Thailand was not a date to be kept.