THE END OF THE (PEACEFUL DEVELOPMENT) ROAD:
IS THE FINANCIAL CRISIS ENDANGERING THE
CHINA-SOUTHEAST ASIA RELATIONSHIP?

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I. Introduction

Since the “reformation and opening” period of the early 1990s, China has actively engaged the international community, opening both its markets and its borders to foreign companies and travelers. This “opening” is by no means unconstrained – China retains tight control over its finances and population through the unitary rule of the Chinese Communist Party (CCP). However, due in large part to its increasing participation in both political and financial international institutions, China is currently enjoying an unprecedentedly high level of relations with the international community.

Nowhere is this dynamic more evident that in Southeast Asia, where a half-decade of Cold-War tension has been thawed by China’s rising economic clout, regional diplomatic initiatives and the omnipresence of the Chinese diaspora. Southeast Asian countries remain wary of growing Chinese power and the potential for conflict over territorial issues in the South China Sea and increased competitiveness for foreign investment and export markets. However, as China modernizes, it stands to become the most significant economic – and eventually military – power in the region. In particular, China’s new enthusiasm for free trade, its commitment to the “Peaceful Development Road” of modernization, and the economic opportunities this opening has provided, has been enormously appealing to Southeast Asian investors and manufacturers. A complex network of processing chains (known as the “export-processing system) has tied together the economies of Southeast Asian countries and China, which has been mutually beneficial to both parties over the past decade.
At the same time, however, the current global financial crisis will have a significant effect on this dynamic, one that will either be to the detriment or the benefit of the relationship. The “Peaceful Development Road” model makes all countries in the export-processing network highly dependent on levels of trade and foreign demand for manufactured goods, factors which have been hit hardest by the credit crunch in advanced economies. This financial stress has had serious implications for domestic stability within each country as well as for regional relations.

China in particular has been hit hard by the global economic slowdown. A steep reduction in exports in late 2008 has seriously damaged its crucial manufacturing sector, which in turn has led to rampant unemployment, a fall in the consumer price index and fears of price deflation, and uncertainty over whether or not China will be able to sustain the level of GDP it believes necessary for domestic stability. Securing this stability is the paramount concern for Beijing, and the CCP is currently enacting a number of economic and political measures to boost economic growth, measures which some say is already have an effect.

China’s sheer size and regional interconnectivity mean that these policy choices deeply affect the economic stability of its partners and neighbors. In particular, since China’s substantial stimulus package was passed in November 2008, there has been evidence of economic transformation directed at boosting domestic demand, and non-tariff protectionist policies directed at favoring Chinese firms and brands. Actions like these would place regional partners, and in particular Southeast Asian countries, at a serious disadvantage.
Discussion of Hypothesis: These policy choices, and Southeast Asia’s reactions to these policy choices, will determine the future of the regional dynamic. This paper will examine that reaction more closely, and attempt to measure the overall effect of the global financial crisis on the relationship between China and Southeast Asia. Considering Southeast Asia’s own current financial difficulties and Southeast Asia’s historical wariness of Chinese power and influence, it would be rational to hypothesize that Southeast Asian countries would react negatively to any Chinese policymaking that puts them at an economic disadvantage. It would also be rational to expect this negative image of China to intensify as time goes by and the effects of the financial crisis are felt more keenly. Through gathering evidence about how Southeast Asian countries have viewed Chinese actions throughout the financial crisis, this paper will test the strength of these expectations.

If this hypothesis is correct, I would expect to see an increasingly critical portrayal of Chinese economic decision-making and China’s role in the region throughout the course of the financial crisis. If, however, the hypothesis is incorrect, I would expect to find that Southeast Asian opinion of China is remaining stable, or even improving, over the course of the crisis. Were this the case, it would be necessary to examine potential intervening variables, or reject the hypothesis completely and posit new counterhypotheses that might better explain the dynamic of the relationship.

Preview of Findings: My research indicates that Southeast Asian opinion of China has not, in fact, decreased significantly throughout the financial crisis. Despite severe disruption of regional trade flows, significantly disadvantageous Chinese
economic policymaking, and a number of specific bilateral economic disputes with Southeast Asian countries, regional opinion of China’s economic influence for the moment remains high.
II. Methodology

This paper will examine the evolving relationship between China and a selection of Southeast Asian countries, and how that relationship is being affected by the global financial crisis. To this end, I will begin by providing crucial historical background for understanding the economic relationship between China and Southeast Asia, focusing on how the relationship has developed since the last transformative regional event, the Asian Financial Crisis of 1997-1998.

Second, I will discuss how the financial crisis, which began as a credit crunch in Western advanced economies, has spread to affect the world and Asia in particular. Within my selection of Southeast Asian countries, I will discuss economic indicators that describe how the financial crisis has impacted the country’s economy and domestic stability, government actions taken in response to the crisis, and prospects for the country’s economic recovery. In addition to providing critical understanding of each country’s economic background, this information will also provide a clearer picture of how the financial crisis has affected the region’s economic structure.

Third, I will discuss in greater depth the bilateral relationships between China and this selection of Southeast Asian countries, and examine specifically how these relationships have developed throughout the financial crisis. Based on this research, I will draw general conclusions about how each country has viewed China and China’s role in the region throughout the financial crisis; in addition, I will attempt to extend key findings and common themes to draw general conclusions about opinion of China within Southeast Asia as a region.
Discussion of Narrative and Variable Measurement: As stated above, this paper will test the hypothesis that Chinese policies throughout the financial crisis will damage its relations with Southeast Asia. In order to measure the dependent variable, China’s policymaking, I will examine a variety of policies enacted to deal with the domestic effects of the global financial crisis, including both the substantial stimulus package passed in November and recent policies that influence manufacturing and trade. In addition, I will supplement my own research with interviews with academics and United States government (USG) analysts specializing in Chinese economics, providing me with a historical perspective on the significance of these policies.

Measuring the independent variable, the effect of these policies on Southeast Asia’s relationship with China, will be considerably more challenging. The very meaning of “international relations” stretches across multiple dimensions, including political-diplomatic relations, economic relations, and military-security relations. It is certainly important to note that the interaction of these dimensions is complicated and not always composite; in other words, concern about adverse relations in one sector – such as economics – may be superseded by positive relations or the strategic importance of another sector. For the purposes of this study, however, I will be looking only at the status of economic relations, and assuming that positive or negative economic relations would contribute to more positive or negative relations overall.

In order to measure the state of economic relations between China and Southeast Asia, I will conduct an analysis of the media’s portrayal of China’s economic influence.
throughout the selected Southeast Asian countries. In order to standardize my analysis, I will examine daily newspaper coverage of China in each country, focusing on key indicators of favor or disfavor in how Chinese business, its government leadership, and its role in the region’s economic environment are all portrayed. In this way, I will answer the following questions: how is the status of the bilateral relationship portrayed? Based on this, how are China’s economic capabilities portrayed, including both its strengths and weaknesses? Finally, how is China’s role in the region portrayed? This analysis will provide valuable insight into the way that Chinese economic decision-making is portrayed to average citizens of each country.

My most in-depth analysis will necessarily be limited to the most widely distributed English-language daily newspaper within each country, whose back issues are available freely online. However, I will further supplement these with native-language articles, gathered and translated by the United States Open Source Center (OSC). For both types of newspapers, where available, the analysis will reach back nine full months, creating a baseline of pre-crisis relations against which bilateral economic relations with in each country can be measured.

Case Selection: Southeast Asia is a large, sprawling region that is only loosely bound by geographic and cultural similarities; as such, opinions and bilateral relations vary widely across the region. Even within the ten countries of the Association of Southeast Asian Nations, (ASEAN)², the economic, cultural, and political diversity that

² Namely, Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar/Burma, the Philippines, Singapore, Thailand, Vietnam, and arguably candidate state Timor-Leste and observer state Papua New Guinea.
remains between the different countries makes broad attempts at analysis very difficult. However, since a thorough and balanced analysis of ten cases is outside of the scope of this study, I needed to carefully select a subdivision of case studies within the region.

The hypothesis that I am testing posits that China’s recent economic policymaking, enacted to counterbalance the effects of the financial crisis, will antagonize states in Southeast Asia. It is logical to assume that any changes in Chinese policies directed at transforming the economy and moving away from the export reprocessing system would have the greatest initial impact on its largest regional trade partners, and in particular those partners from whom China imports the majority of its goods. In 2007, a year before the financial crisis affected Chinese regional levels, China’s total imports from the ASEAN member countries were as follows:

**China’s Imports from ASEAN (2007)**

- **PHILIPPINES, 21.3**
- **SINGAPORE, 16.2**
- **THAILAND, 20.9**
- **MALAYSIA, 26.5**
- **INDONESIA, 11.4**
- **MYANMAR, 0.3**
- **BRUNEI DARUSSALAM, 0.2**
- **VIETNAM, 3.0**
- **LAOS, 0.1**
- **CAMBODIA, 0.0**

*Source: IMF Direction of Trade Statistics*
It is not coincidental that the top sources of imports for China are the original “ASEAN-5” countries: Malaysia, Thailand, the Philippines, Singapore, and Indonesia. Despite the damage to the manufacturing sectors of all of these countries during the Asian Financial Crisis of 1997-1998, they remain the most advanced economies in Southeast Asia. Singapore is widely considered an advanced economy, and Malaysia, the Philippines, Thailand, and occasionally Indonesia are considered Newly Industrialized Countries (NIC) also known as Newly Industrialized Economies (NIEs), meaning that their economies have notably outpaced their developing counterparts, usually through export-oriented growth. These countries have far greater technological and manufacturing skills, and produce the majority of computer chips and hi-tech components at the early stages of the export-processing chain. As such, they will be the countries first – and most significantly - impacted by any Chinese efforts to transform its economy away from dependency on export reprocessing.

Ideally, this study would conduct media analyses for all five countries in this group of major importers to China. However, this study also requires a detailed knowledge of each country’s relevant economic background, as well as a thorough understanding of each bilateral relationship being tested; as such, a five-country study of bilateral relations is simply outside the scope of this study. Instead, for this study, I will examine in depth the top three countries in this group of major importers to China: Malaysia, the Philippines, and Thailand.

Selecting case studies from within this group of countries has both disadvantages and advantages. While the economic, political, and cultural differences between these
countries should not be underestimated, these states also form a uniquely cohesive group of similar levels of economic development in comparison to the rest of the region. In this way, an analysis based on a selection these countries is not truly representative of Southeast Asia as a whole. On the other hand, these countries are among Southeast Asia’s most important economic and strategic countries; thus, their reactions and opinions will have great significance for the rest of the region.
III. Background

China and Southeast Asia

After decades of Cold War tension, China is currently enjoying an unprecedentedly good level of relations with the regional and international community³. Beginning in the 1990s, “China’s diplomats have worked hard...to build its reputation as a good global citizen and regional neighbor” by increasing regional and international engagement and participation in international organizations⁴. The latest phase of this “charm offensive⁵” began with the transition of power of 2002-2003, China’s “Peaceful Rise” school of thought suggested that rather than challenging the international system, China should work inside the comparatively peaceful unipolar world to “focus on the domestic tasks of economic growth and transformation⁶. This transition in Chinese foreign policy toward a “less confrontation, more sophisticated, more confident, and, at times, more constructive approach” marks a new era in Chinese regional and global affairs⁷.

However, China’s policy of increased engagement stems only in part from its desire to improve relations with the international community; like all of China’s policymaking, its international strategy is driven primarily by domestic concerns and the need to secure domestic stability. Specifically, China’s foreign policy has been aimed at securing resources, reducing external threats, and maintaining the stable international

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environment essential for rapid economic growth. To achieve these, China is using the openness of the international system to its advantage, building a “velvet-glove” combination of engagement, reassurance, and growing strengths and capabilities.

**The Peaceful Development Road Doctrine:** The latest phase in China’s foreign policy development was the creation of the Peaceful Development Road doctrine, a cornerstone of China’s current relationship with Southeast Asia. Originating from the “Peaceful Rise” school of thought, and formally laid down in the 2005 Defense White Paper, the Peaceful Road Doctrine is arguably the central foreign policy initiative of PRC fourth-generation leaders Hu Jintao and Wen Jianbao. At its simplest, this CCP strategy seeks to rapidly transform the Chinese economy while using a broad array of soft power tactics to reassure regional and global partners. Drawing on historical events, cultural characteristics, and economic arguments, the doctrine seeks to reassure regional and global partners that China’s rise to prominence will not threaten peace and security. In fact, the doctrine argues that China’s growth will benefit other nations through promoting world-wide peace, development, and friendly relations.

In an appeal to Southeast Asia, China specifically cites its actions during the Asian financial crisis, the SARS outbreak, and the 2004 tsunami as examples of leadership and promoting stability. Economically, China stresses that the Peaceful Development Road doctrine benefits the region through its principal of “win-win cooperation,” to which it contributes an “abundant labor force,” a “huge market,” and its

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role as a “key link in the global industrial chain.” While China’s own economy may be increasing at a far greater rate than any other in the region, it argues that the region will benefit through its economic interconnectivity, just as a “rising tide lifts all boats.” In this way, while not mentioning the export-processing system by name, China implies that this heavily integrated and segmented style of manufacturing benefits the entire economic system.

**The export-processing system:** Through the export-processing system, China has used the globalized economic system to its advantage, sculpting its economy into an “export-processing” or “export-oriented” economy. In other words, Chinese economic policies have actively encouraged the import of high-tech components for final-stage processing and then re-exporting. Currently, an estimated 40% of China’s manufacturing sector is directed toward export-reprocessing; while this amount has declined in recent years, export reprocessing is clearly still a considerable source of China’s economic power.

China’s involvement in the export-processing system has been both advantageous and disadvantageous for the country’s economy. On one hand, the system not only contributes to China’s economic growth, but it also gives China an important role in the regional economic system. However, in large part due to the export-reprocessing system, China’s manufacturing sector is unbalanced, a weakness that has become a clear liability during the financial crisis. Economic policy promoting the processing industry “has led

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to a relative discrimination against industries and firms involved in ordinary trade, or producing mainly for the domestic market\textsuperscript{12}. In addition, while China has export surpluses in final-stage, “downstream” export-processing products, China has struggled to develop its own high-tech manufacturing sector in the face of cheap, high-quality imports from more advanced Asian countries. For these reasons, China’s manufacturing sector is underdeveloped both in terms of domestic consumption goods and the more valuable and technically advanced “upstream” high-tech components.

The export-processing system has also affected the economic structure of the region as a whole. On one hand, this vertical division of production is efficient and promotes openness; however, it also promotes segmentation and specialization, resulting in uneven manufacturing advantages across different countries. In addition, export-processing systems also make the manufacturing and industrial sectors of each economy involved heavily dependent on foreign capital, technology, and trade. This system has been advantageous to the emerging Asian economies of Southeast Asia; however, it has also made them more vulnerable to fluctuations in trade, such as the severe fluctuations of the global financial crisis\textsuperscript{13}.

**Mixed regional reactions:** China’s strategy of diplomacy and mutually beneficial economics has been largely successful in persuading Southeast Asia of its benign intentions, and the region has entered a new era of good relations. All countries in the region have expanded bilateral political and economic relations in recent years, and

\textsuperscript{12} Bende-Nabende, Anthony. *International trade, capital flows, and economic development in East Asia.* (2003), 147.

China’s current relationship with the region is mainly positive and continuously improving.

However, while experts agree that the relationship between Southeast Asia and China has rarely been closer, concerns remain about shared security interests and future economic competition. From a security perspective, Southeast Asian countries remain concerned over China’s expanding military power, ongoing tension over territory in the South China Sea, and increasing demand for energy and natural resources\(^\text{14}\). While relations are mostly positive now, China’s neighbors remain wary of the country, “mindful that its capabilities are mounting and its intentions could shift”\(^\text{15}\).

Economically, “China is considered a possible worry among Asian nations, some of which are only one step ahead on the development ladder and hence vulnerable to Chinese economic progress”\(^\text{16}\). In particular, as China transforms its economy, the increase in Chinese finished-product exports has heightened competition in the region for both foreign direct investment and access to foreign export markets. In addition, as Chinese manufactured goods begin to enter Southeast Asian markets, concern about quality control and the impact of tainted Chinese goods has increased. For the time being, the economic data suggests that China’s diversification has not been at the expense of other countries; in fact, it may have drawn increased attention, boosting industry and investment for the entire region. However, it is not yet clear whether this “rising tide”


will continue to benefit the region as a whole now that credit and investment are scarce commodities.

The Global Financial Crisis

Background and Origins of the Crisis: Since mid-2007, the global economy has suffered through a long string of financial difficulties, including the failure of several of the world’s leading investment banks, widespread loss of consumer confidence, rapid price deflation, and increasing signs of a worldwide recession that suggest a future of rampant unemployment, bankruptcies, foreclosures and repossessions. However, while it is agreed that the roots of the financial instability stretch back months and even years prior to 2007, different sources emphasize different underlying causes.

Politicians on the campaign trail cite “Wall Street greed” in an attempt to appeal to “Main Street” Americans. In contrast, many economists argue that the crisis was caused by a combination of factors, including lax lending standards for sub-prime mortgages and a U.S. culture of over-consumption, weaknesses which were triggered by the US real estate bubble bust of the summer of 2007, house prices crashing, and a large percentage of loans defaulting. A second set of economic analysis faults global imbalances of trade and capital flows, arguing that a mid-90s savings-glut by some countries (in particular several Asian nations seeking large reserves in order to avoid a

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second Asian Financial Crisis) led to a surplus of cheap money, and imprudent investment\textsuperscript{18}.

Whether the cause was US-centric or a reflection of a more systemic financial imbalance, the financial tumult that has rocked the international economy for the past year has certainly affected American and non-American alike. Spreading outward from the American real estate market through collections of internationally sold loan portfolios, the credit liquidity problem moved “across other credit segments and broader financial markets to the point where sizeable parts of the financial system became largely dysfunctional”\textsuperscript{19}. At first it was unclear how far the ripples of the crisis would spread; in fact, through mid-2008 economic analysts were predicting only modest slows of growth.\textsuperscript{20}

However, sharp inflation soon resulted in a worldwide rise in commodity prices. Most worryingly, prices of energy, key food items, and other staple products spiked dramatically, increases which directly affect emerging market economies and the populations of lesser developed nations. In the last quarter of 2008, plummeting global trade levels exposed weaknesses in the economy of developing countries, weaknesses which became more pronounced in the beginning of 2009. Today, the IMF predicts that world economic growth will slow to just $\frac{1}{2}\%$ in 2009, its lowest rate since World War

\textsuperscript{19} BIS.
\textsuperscript{20} See Tett, Gillian “Big Freeze Part 1: How it began” \textit{Financial Times} (2008); Ferguson, Niall “How a local squall might become a global tempest” \textit{Financial Times} (2008); and BIS.
II\textsuperscript{21}. Some argue that growth may even “slow to below zero,” a global recession\textsuperscript{22}. While the sharpest contraction will be felt by advanced economies, emerging and developing economies will also be significantly affected.

**The Global Financial Crisis and Asia:** Initially, Asia was among those regions that appeared resilient to the crisis. With a number of countries maintaining strong reserves and savings surpluses, and the particularly robust economies of China, Japan, and India, it was assumed that Asia would “weather the storm”\textsuperscript{23}. However, despite their robust foundations, economic indicators in early 2009 showed that Asian economies have been deeply affected by the financial crisis, and particularly by falling levels of tourism, stock prices, foreign demand, and trade. Since then, the economic forecast for the region has been adjusted heavily downwards:

| World Economic Indicators during the Financial Crisis |
|---------------------------------|----------------|----------------|----------------|
|                                  | 2007 | 2008 | 2009 (%) | 2010 (%) |
| **World Output**                | 5.2  | 3.4  | -1.7     | -0.08    |
| ASEAN-5                          | 6.3  | 5.4  | -1.5     | -1.3     |
| Developing Asia (China, India, and ASEAN-5) | 10.6 | 7.8  | -1.6     | -1.1     |

Source: IMF: “World Growth Grinds to Virtual Halt”

The economies of the ASEAN-5 countries are more dependent on manufacturing, industry, and exports than the rest of Southeast Asia; as a result, they are more sensitive to fluctuations in international trade flows, and have been hit particularly hard by the


\textsuperscript{22} Ibid.

global financial crisis. In comparison, less developed economies within the region have been less affected by the crisis; for example, Vietnam is expected to maintain a 5.1% GDP growth rate in 2009, down only slightly from its 2008 growth rate of 6.2%\textsuperscript{24}.

Despite the current discouraging regional statistics, analysts argue that “Asia could bounce back quickly”\textsuperscript{25}. However, its recovery will be dependent on several factors, including increased levels of trade, the recovery of foreign demand, and the effective use of financial stimulus and good economic policy on the part of each country in the region\textsuperscript{26}. The formation of these policies will depend in turn on the unique financial situation and needs of each country.

**Malaysia:**

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{malaysia_graphs.png}
\caption{Trade and Industrial Production of Malaysia (2008) and GDP Growth of Malaysia}
\end{figure}

Malaysia’s economy is “heavily dependent on manufacturing” and the export of manufactured goods,\textsuperscript{27} and so was heavily affected by “major setbacks” in the fourth

\textsuperscript{24} IMF Economic Outlook (2009).

\textsuperscript{25} IMF “Asian Growth Losing Steam.”


Overall macroeconomic indicators for 2008 appeared strained, but healthy: GDP slowed from 6.3% in 2007 to just over 4% for all of 2008\textsuperscript{29}. Total trade in 2008 was up by 6.8% and total export value up 9.6% over 2007\textsuperscript{30}. However, these indicators of yearly growth disguise an “unprecedented decline of 18.3% in exports”\textsuperscript{31} and a total GDP growth of only 0.1% in the fourth quarter,\textsuperscript{32} as “growth in this trade-sensitive economy came to a virtual halt… as the global environment deteriorated”\textsuperscript{33}. In 2009, the official government prediction is that growth will be somewhere between -1% and 1%; however, private estimates tend to be even more pessimistic; for example, the “country’s top economic think tank,” the Malaysian Institute of Economic Research, predicts a contraction of 2.2%\textsuperscript{34}.

So far, the Malaysia government has passed two economic stimulus initiatives: a modest 7 billion ringgit package in February 2008\textsuperscript{35}, and a “massive” 60 billion ringgit spending package to be spread over this year and the next\textsuperscript{36}. The packages make up approximately 1% and 9% of Malaysia’s total GDP\textsuperscript{37}. The latest effort aims to create jobs, help companies access funds, and stimulate the economy through public investment.

\textsuperscript{30} Ping. “Malaysia’s trade forges ahead.”
\textsuperscript{31} Ping. “Malaysia’s trade forges ahead.”
\textsuperscript{32} CNBC. “Malaysia’s Economy to Shrink 2.2% in 2009.” Reuters. April 14, 2009.
\textsuperscript{33} ADB. “Malaysia.”
\textsuperscript{34} CNBC, “Malaysia’s Economy to Shrink.”
\textsuperscript{36} CNBC, “Malaysia’s Economy to Shrink.”
in infrastructure and construction projects. However, critics argue that the package only really provides 15 billion ringgit “in actual spending, with the rest being guarantees”\textsuperscript{38}.

**The Philippines:**

![Graph of Merchandise Trade of the Philippines (2008) and GDP Growth of the Philippines](image)


The Philippines have “so far remained resilient to the spillovers from the global financial crisis;\textsuperscript{39}” however, there are signs that “the severe global slowdown will further and significantly impact the economy”. Going into the crisis, the Philippine financial system had a strong banking sector with a solid deposit base, widely available liquidity, and little direct exposure to distressed global banks or foreign funding.\textsuperscript{40} These strengths helped offset the heavy reliance of the Philippine manufacturing sector on US and EU demand (these markets claim 17% and 14% of Philippine’s total exports)\textsuperscript{41}. When demand in advanced countries collapsed in late 2008, the country’s export earnings fell dramatically, culminating in a stunning 39.1% drop in February 2009\textsuperscript{42}. The Philippine

\textsuperscript{38} CNBC, “Malaysia’s Economy to Shrink.”


stock market has also been hit, with prices dropping by nearly 50% over the course of 2008\textsuperscript{43}. Due to these and other factors, GDP growth slipped from its record high in 2007 of 7.2\%\textsuperscript{44} to 4.5\%\textsuperscript{45}, with a 4\textsuperscript{th} quarter low of 3.6\%\textsuperscript{46}.

The Philippine government passed a 330 billion peso package in January 2009 that aims at increasing job opportunities through the rapid implementation of infrastructure projects, providing education and training, and supporting welfare\textsuperscript{47}. Other policies include establishing a P100 billion “crisis fund,” increasing overall budget spending in infrastructure\textsuperscript{48}, changing tax laws to provide more capital for both individuals and corporations\textsuperscript{49}, and strengthening “accounting and regulatory forbearance”\textsuperscript{50}. With these efforts, the Philippine economy is expected to bottom out at an estimated 2 to 2.5\% growth in 2009 before rising again in 2010\textsuperscript{51}.

\textsuperscript{43} IMF. “Philippines: Selected Issues.”
\textsuperscript{44} NEDA. “DevPulse.”
\textsuperscript{48} NEDA. “DevPulse.”
\textsuperscript{49} ADB. “Philippines.”
\textsuperscript{50} IMF. “Philippines: Selected Issues.”
\textsuperscript{51} Remo, “IMF lowering Philippine growth outlook.”
Thailand:

While Thailand’s economic strengths, including its strong banking and financial sector “have enabled Thailand to withstand the contraction in global liquidity,” the double pressure of domestic political unrest and the global economic slowdown have damaged the Thai economy. As with Malaysia and the Philippines, economic growth slowed sharply in 3Q08, followed by a contraction of 4.3% in 4Q08. A major part of this contraction is attributable to the 9% drop in exports in 4Q08, a sector which has traditionally supported growth despite flagging domestic demand and public consumption.

In January the cabinet approved a “sizeable” 115.7 billion baht stimulus package that aimed at providing cash transfers for low-income people, increased training programs and education, and expanded public health services. However, critics argue

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54 ADB. “Thailand,” 257.
56 ADB, “Thailand, 257.
that Thailand badly needs more public investment in its deficient infrastructure in order for private sector development to improve\textsuperscript{57}. In addition, say critics, the disbursement is too gradual: the government should accelerate the rollout schedule “to ensure speedy and complete implementation”\textsuperscript{58}. Although the economic growth forecast for 2009 is a grim contraction of 2 to 4\%, economists expect that recovering exports and the stimulus provided by government investment products will boost economic growth for 2010, assuming that the domestic situation remains stable\textsuperscript{59}.

**China:** Finally, China too appeared largely unaffected by the financial crisis, at least until the fourth quarter of 2008. China’s booming economy, strong sector by sector growth, large reserve surplus, and comparatively healthy banking sector led analysts to hope that its economy could “sustain stable growth independent of the U.S. and Europe,”\textsuperscript{60} and perhaps even “shoulder the global economic burden” for the benefit of greater Asia\textsuperscript{61}.

However, while official import-export and GDP growth numbers for this period of time are being held as unavailable (in comparison, official statistics for 4Q07 were available by mid-January of 2008), analysts have observed a “record plunge” in recent extrapolated data\textsuperscript{62}. In stocks, China tied Russia as the “world’s worst performer” in 2008\textsuperscript{63}. Imports fell an estimated 17.5\% in January 2009, followed by a 25.7\% drop in

\textsuperscript{57} World Bank. “Thailand Economic Monitor.”
\textsuperscript{58} IMF. “Statement of an IMF Mission.”
\textsuperscript{59} IMF. “Statement of an IMF Mission.”
\textsuperscript{60} Sutter. China’s Rise in Asia: Promises and Perils. (2005)
\textsuperscript{61} Pilling, David “Asia and the Crisis: Unlucky Numbers.”
February\textsuperscript{64}. GDP growth officially expanded by 6.7\% in 2008\textsuperscript{65}, down from 11.9\% in 2007\textsuperscript{66}, a sharp drop that is particularly worrying for a country that holds an almost ideological belief that 8\% growth is necessary to maintain domestic stability\textsuperscript{67,68}.

The effects of the economic crisis have been felt across the Chinese economy. The manufacturing sector, which comprises about 40\% of China’s GDP growth, has slowed dramatically to 3.8\% in January and February, down from an already-low 5.7\% in December\textsuperscript{69}. Widespread factory closures have led to rampant unemployment: an estimated 20 million migrant workers have been laid off, roughly 15\% of the total migrant worker population\textsuperscript{70}, and an unknown number of university graduates failed to find employment.

**The Global Financial Crisis and Chinese Policymaking**

These economic troubles have analysts wondering if China will see a surge in economic-related conflict or instability in 2009. Domestically, popular opinion holds that the CCP has used economic progress as a primary source of political legitimacy since the “reformation and opening” period, and that any interruption in this progress could lead to

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\textsuperscript{66} IMF. “IMF Survey: Asian growth to slow sharply.”
\textsuperscript{67} Thompson, Drew. “Beijing’s GDP Numerology.” *Foreign Policy*. March 2009.
\textsuperscript{68} Note: This figure is even more alarming because China calculates GDP growth on a year-on-year scale (y-o-y), unlike the international standard of a seasonally annually adjusted (SAAR) quarter-on-quarter scale (q-o-q). A y-o-y scale will not immediately reflect extreme differences between quarters; because of this, these statistics looks better during a slowdown, producing a misleading image of stability. However, while recalculating GDP growth without hard statistics is an uncertain process, many analysts agree that China’s actual growth for the fourth quarter of 2008 would be “close to zero, if not negative” (“Is China’s Economy Tanking?”).
\textsuperscript{69} “China ‘faces most difficult year’.” BBC News. March 5, 2009.
\textsuperscript{70} Pei, Minxin. “Will the Chinese Communist Party Survive the Crisis?” *Foreign Affairs*, March 2009.
domestic unrest. However, theories that domestic instability will increase as GDP growth decreases generally fail to take into account the CCP’s high approval rating and solid monopoly of power, the unity of the CCP leadership concerning political reform, its extremely effective use of media campaign and propaganda to reassure citizens.

Perhaps most important has been recent government action taken to counteract the effects of the financial crisis, including a hefty stimulus package and new fiscal policies.

**The Stimulus Package and Economic Transformation:** Passed in November 2008, China’s stimulus package officially weighed in at 4 trillion RMB (approximately US$600 billion), an impressive 16% of 2008’s total GDP. The majority of the package is devoted to reconstruction and infrastructure development, projects that will boost employment figures and supply quick economic stimulus to rural areas. However, another focus of the stimulus package is “technical upgrading and research and development,” a clear commitment to developing a wider manufacturing capability and diversifying out from final stage processing. Interest in economic transformation has increased over the course of the financial crisis: when the package’s contents were updated in March 2009, no other sector increased as dramatically as R&D, which more than doubled from 160 to 370 billion yuan.

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72 Pei, Minxin “Will the Chinese Communist Party Survive the Crisis?”
74 Ibid.
75 Ibid.
While China has long showed an interest in transforming the Chinese economy, making it more innovative and less reliant on foreign demand and export reprocessing, evidence suggests that China is using the crisis to jump-start transformation efforts. In addition to the funding for increased R&D in the stimulus package, China has recently enacted several new policies aimed at economic transformation. For example, China has recently begun lifting credit controls to encourage domestic consumption and boost domestic demand, reducing the amount of its GDP derived from the export-processing system. In addition, by removing restrictions and facilitating the acquisition of foreign firms and assets at low, mid-crisis prices, China is expanding its manufacturing capability and “trying to use the disruption of this moment to enter wholly new markets and do what so few Chinese firms have yet done: make high-tech, high-value products that bring high rewards.” Finally, China is increasing value-added manufacturing of both intermediate and beginning manufacturing stages within its own firms, becoming not just an assembler, but also a producer of high-tech components and products. The economic transformation indicated by these policies will be “undoubtedly in China’s interest,” however, these efforts will also “make China an even stronger economic competitor than it was before,” both globally and regionally.

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78 IMF “Asian Growth Losing Steam.”
79 Fallows, James. “China’s Way Forward.”
80 IMF “Asian Growth Losing Steam.”
81 Bradsher, Keith. “In Downturn, China Sees Path to Growth.”
**Non-Tariff Signs of Protectionism:** Economic transformation has been a Chinese goal for decades, and will take years more to fully develop. More immediately worrying are signs that China may be using protectionist behavior to offset the pressure of the financial crisis. While China’s tariff agreements and major economic policies remain largely in accordance with its WTO responsibilities, throughout 2008 there were more subtle increases and expansions of non-tariff policies that have resulted in a less open trade regime and more restrictive domestic investment environment.

During 2008 China imposed several new indirect barriers on both imports and exports. In imports, China has pressured domestic companies to reduce and in some cases cancel order from foreign companies. In addition, China has continued to limit trading rights for key industries. In fact, a refusal to grant trading rights altogether for the importation of copyright-intensive products (films, music recordings, books, etc) has prompted an ongoing US-initiated WTO case. China’s control of exports has become even more restrictive, including the increased use of export quotas, export duties, related licensing requirements, and “what appear to be prohibited export subsidies,” all policies that can “significantly distort trade”.

Domestically, China has enacted several policies that clearly favor Chinese manufacturing and production. Manufacturers have been widely encouraged to lower wages, a move which allows for maximum employment but which also revives China’s

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82 Fallows, James. “China’s Way Forward.”
regional advantage in labor and assembly costs\textsuperscript{85}. In monetary policy, China has begun pushing the RMB’s value back down after three years of a controlled rise, stimulating its own export growth but damaging that of trade competitors in Southeast Asia and elsewhere\textsuperscript{86}. In addition, China has used “an array of policies promoting and protecting” home-grown and famous Chinese brands and limiting foreign investment in China.\textsuperscript{87} Both of the two new WTO cases brought against China by the US in 2008 challenged Chinese policies that “appear designed to shield domestic enterprises from foreign competition”\textsuperscript{88}. More recently, what would have been the largest acquisition of a Chinese brand by a foreign company was denied based on the first application of a new anti-monopoly law, a law whose very applicability to the situation is being heatedly debated by political economic analysts\textsuperscript{89}.

\textsuperscript{85} Bradsher, Keith. “In Downturn, China Sees Path to Growth.”
\textsuperscript{86} Sutter, Robert and Chin-Hao Huang. “China-Southeast Asia Relations: Economic Concerns Begin to Hit Home.”
\textsuperscript{87} USTR, 75
\textsuperscript{88} USTR, 123
\textsuperscript{89} Referring to China’s rejection of Coca-Cola’s bid for Huiyuan.
IV. Media Analysis and Southeast Asian Opinions of China

Malaysia

Key Events in the Bilateral Relationship: Bilateral economic relations between Malaysia and China expanded in very concrete ways during the nine month scope of this study; this increased engagement clearly has had an effect on the relationship. The period of observation started off on a low point, during the melamine scandal in September when Malaysia banned all Chinese milk products. In November 2008, Malaysia attended China’s first Overseas Investment Fair. In January 2009, China and Malaysia signed a bilateral agreement increasing cooperation in shipping and aviation. In February, China’s currency swap agreement with Malaysia increased the availability of liquidity in that country. Finally, at least seven delegations of Chinese businessmen, provincial government officials, and various industry representatives visited Malaysia throughout the nine months.

Media analysis: In Malaysia’ primary English newspaper The Star (circulation 310,000), the tone of the coverage of China and Chinese economic influence was largely positive over this period of time, and seems to become only more positive as the financial crisis wears on. Initially, however, the quality control scandals in early fall (and the RM3.28 million of food products banned by the Malaysian Health Ministry) created a “roll-coaster image” problem for China, leading to accusations of lax safety standards and that China was trying to find a “short-cut to global ascendancy” ⁹⁰.

⁹⁰ Nagara, Bunn “Roller-coaster image of China also of its own doing.” Oct 1.
Despite these criticisms, Malaysian interest in investing in “the new fast and furious Mr. China” had Malaysian investors “scouting for deals” and “fueling dreams” about opportunities. The January aviation and shipping deal was seen as a way to “improve the economic well-being of the nation” by allowing it greater access to the “world’s largest market” in China. Over the months, domestic economic difficulties tempered Malaysian interest in investing in China; however, interest began to rise about Chinese investment in Malaysia, which would create job opportunities and a “host of economic opportunities.”

Regionally, throughout this period, Malaysian media consistently portrayed a link between the health of the Chinese economy and the regional economy, suggesting that closer ties with China would “ensure a stable growth in the world economy.” Articles pointed toward China’s large population as a source of cheap labor and a driver of economic growth. Articles also increasingly portrayed Chinese economic decision-making and the Chinese leadership in a favorable light, lauding the Chinese economy’s “strong backing from the communist government.”

A similar favorable change occurs in the presentation of China’s engagement of the region. At first, columnists warned that “it is clear we cannot expect China’s...
traditional high growth to keep the Asian or the world economies afloat”. However, the language of this portrayal changed over the course of the crisis: China became “a strong economic power,” with a “vast and promising economy” that had the power to become the “driver of global economic growth” and even “the potential saviour of the global economy”.

Speaking directly to the hypothesis being tested in this paper, competition between China and Malaysia is addressed only occasionally during this time period. China is described as a “strong rival in key export markets” and “posing tough competition” to Malaysian shipping ports. However, economic competition is not a major theme, and is certainly overshadowed by the emphasis on the benefits of increasing investment and engagement. In short, the image of China as voiced by Malaysia’s primary English newspaper, *The Star*, is both highly positive and improving over time.

**The Philippines**

*Key Events in the Bilateral Relationship:* The Philippines share a less intimate cultural, diplomatic, and economic relationship with China than does Malaysia. As such, there were comparatively few developments in the formal bilateral relationship during this time period. The memory of failed China-funded projects, tainted with corruption

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102 Khor, Martin. “China slows down, economists worry” Dec 22.
104 Nagara, Bunn. “It’s mostly about China.” Feb 22.
105 Choonsik, Yoo. “South Korea wary as China rises to economic power.” April 13.
106 Choonsik, Yoo. “South Korea wary as China rises to economic power.” April 13.
and domestic political scandals, continued to resonate. In August, there was a high-level trade meeting between the two countries. The melamine scandal was reported on at great length throughout the fall. In early 2009, the Philippine’s unilateral claim of the Spratly island chain set off a diplomatic incident, although with no obvious economic cross-over. And of course, the Philippine media carefully watched and commented on China’s role throughout the financial crisis.

**Media analysis:** In general, the Philippine coverage of China, as examined in *The Daily Inquirer* (circulation 260,000), seems more nuanced than that in Malaysia’s *Star*, though the bilateral economic relationship is still framed very positively. In August, a columnist declared that relations between the Philippines and China were at an “all-time high” largely due to “economic cooperation” between the two nations. However, shortly thereafter the melamine scandal began to dominate the portrayal of the relationship, causing “considerable damage” to China’s reputation and “shak[ing] confidence in the integrity and safety of Chinese products.” The scandal reflected poorly on both China’s products and its government, giving “reason to doubt the safety of China’s food exports and the veracity of guarantees from its regulators.”

Similar to the coverage in Malaysia’s *Star*, as the global financial crisis became more pressing, coverage of the Chinese economy in *The Daily Inquirer* began to improve. Starting in November, there is a noticeable change in the portrayal of China away from

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108 “RP-China relations at all-time high” Aug 10.
109 “China scrambles to salvage reputation amid milk scandal.” Sept 25.
being “a key ally… despite the melamine contamination scandal”\textsuperscript{112} and toward a more positive image as “emerging Asia’s most important economy”\textsuperscript{113} with “growing importance… to our country and the rest of the world”\textsuperscript{114}. However, the image of China remains mixed: on one hand, Chinese government economic decision-making is praised as “investors cheer China’s $586-B plan,”\textsuperscript{115} and China is lauded for being “economically dynamic,” “technologically advanced,”\textsuperscript{116} and possessing “growing economic clout”\textsuperscript{117}. On the other hand, however, throughout this time period China continues to be pressed on its “poorly regulated manufacturing industry,” and “shoddy food safety record,”\textsuperscript{118} its “low skill level,” and lingering “concern over intellectual property”\textsuperscript{119}.

While the overall image of China’s economy may be conflicted, its “growing engagement with the region”\textsuperscript{120} and efforts to “strengthen regional ties amid the global crisis” are viewed extremely positively\textsuperscript{121}. The Philippine press captures China’s dual strategy of “presenting itself as a stabilizing force in the region”\textsuperscript{122} while also keeping “a relatively low profile in the debate on what reforms are needed”\textsuperscript{123}. However, while China’s leadership may be an ongoing question, its role within the region prompts a great

\textsuperscript{113} Plumberg, Kevin. “China’s fiscal might helps emerging Asia” Nov 26.
\textsuperscript{115} “Investors cheer China’s $586-B plan.” Nov 11.
\textsuperscript{117} “China to offer $10B fund at failed summit.” April 12.
\textsuperscript{118} “China steps up food inspections.” Jan 12.
\textsuperscript{119} “China eyes outsourcing industry.” Feb 3.
\textsuperscript{120} “China appoints special envoy to ASEAN.” Dec 30.
\textsuperscript{121} “China, Malaysia enter swap agreement.” Feb 9.
\textsuperscript{122} Chan, Royston. “China banks out to help Taiwan investors.” Dec 21.
\textsuperscript{123} “China wants IMF tougher on rich states.” Feb 9.
deal of hope: “hopes for policies from Beijing to jump start growth,”¹²⁴ “hop[es] that [China] can jumpstart the entire region,”¹²⁵ and “hopes that a revival in China will support the weak global economy.”¹²⁶.

As in the Malaysian media, the Philippine press does address the issue of competition with China, albeit sparingly. However, it has not been phrased as a Philippine problem, but as a regional one, with a regional answer: repeatedly it is argued that ASEAN must engage China, known for its “competitive exports,”¹²⁷ so that its “people [are] not sidelined economically… ASEAN itself aims to achieve a single market and manufacturing base by 2015 to raise its profile in the face of competition from China and India.”¹²⁸ Thus, although the issue of Chinese competition is addressed in the Philippine media, it is not presented in an alarming manner, nor does it detract from the positive influence that China’s economy is perceived to have on the region. In short, recent Philippine coverage of China in The Daily Inquirer is positive and hopeful of China’s engagement in the region, but also balanced by a realization of China’s continued development.

**Thailand**

**Key Events in the Bilateral Relationship:** In contrast to the rather unique cultural relationship between Malaysia and China, or the more security-focused relationship and between the Philippines and China, the relationship between Thailand and China is primarily

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¹²⁶ Nam, Rafael. “Asian stocks gain on China hopes.” March 5.
¹²⁷ “China to offer $10B fund at failed summit.” April 12.
¹²⁸ “ASEAN, China aim to finalize investment pact” Aug 28.
positive, but unremarkable. In October, a multi-state conference including China and Thailand discussed the possibility of future military cooperation. In November, China expressed concern about anti-government protests, and more specifically about the estimated 30,000 Chinese tourists stranded by the closure Bangkok’s main airport. In December, China offered its official congratulations to the new Prime Minister, Abhisit Vejjajiva.\(^{129}\)

**Media analysis:** In Thailand’s The Nation (circulation 60,000-80,000), the tone of Thai press coverage of China follows along these measured lines, with coverage remaining fairly balanced throughout the period of study. As in the Philippines, China is portrayed as a “major emerging economy”\(^{130}\) and a “rising economic power”\(^{131}\) but with “business risks” and “a long way to go in the areas of transparency and accountability”\(^{132}\). In the few mentions of its bilateral economic relationship, China is referred to as a key source of investment\(^{133}\) and importer of Thai products\(^{134}\).

There is much more discussion of China’s changing role within the region as a whole. China is clearly portrayed as attempting to “bolster its global economic status” during the financial crisis through regional and international acts of leadership\(^{135}\). Throughout this time period, coverage depicts a China that “has signaled that it’s


\(^{130}\) “World needs alternative growth drivers, such as India and China.” Nov 11.

\(^{131}\) “China does not have enough weight to pull Asia out of crisis.” April 11.

\(^{132}\) “Hoping a change for the better.” Jan 22.

\(^{133}\) “Korn says govt seeks Chinese investment in Thai railways.” Feb 22.

\(^{134}\) “Virachi outlines role for boosting ties with China.” Jan 3.

\(^{135}\) “China set to propel yuan into world big league.” March 30.
preparing to play a key role,”

taking “steps toward declaring itself a global economic power,”
and “vying to play [a] prominent role”. However, it is less clear how effective China has been in its bid for leadership. The Nation issued praise for China after its stimulus package was passed in November: “while the US economy slumps, the Chinese government has shown the world that the country would continue to be a catalyst for world economic growth”. However, this enthusiasm has not lasted; today, there is also a great deal of skepticism of China’s ultimate ability to make a considerable impact; columnists point out that “China does not have enough weight to pull Asia out of [the] crisis” as even with its considerable population it is not economically powerful enough to “offset the developed consumer recession”. In short, the coverage in Thailand’s The Nation indicates a perspective on China that is mostly positive, yet skeptical of China’s potential for both regional and global leadership.

136 “Emerging economies must have more say in new world order.” Nov 1.
137 “Hoping a change for the better.” Jan 22.
139 “China’s subtle moves ahead of G-20 summit.” March 30.
140 “Japan and China vie to be top contributo to regional fund.” April 10.
142 “China does not have enough weight to pull Asia out of crisis.” April 11.
143 “Emerging market Asian economies should be first to pull out of crisis.” March 14.
V. Conclusion

In this paper, I have found very little evidence supporting the theory that increasing competition from China has damaged its relationship with Southeast Asia. The structure of the argument remains sound: as I have shown, China’s modern history with Southeast Asia is an uncertain combination of both conflict and cooperation. The recent global financial crisis has weakened economies around the region, severely slowing rates of trade and total economic growth, and in some places leading to economic contractions. In attempts at economic recovery, each country has enacted policies to stimulate their own economies and boost domestic production; in particular, the financial crisis has pushed China to enact policies of economic transformation that will increase competition over export markets and FDI with its regional neighbors, as well as non-tariff barriers to trade and other clear signs of protectionism.

However, a careful analysis of the way that China and Chinese economic decision-making is portrayed in the press around the region has shown that China’s economic capabilities and role in the region are both portrayed in a fairly positive light. China is consistently seen as providing good opportunities for investment and business, with its strong economic foundation and massive, under-tapped domestic market. The image of the Chinese government has improved dramatically over the past few months, as the media has moved from widespread coverage of the melamine and other quality control scandals to coverage of China’s well-regarded economic decision-making throughout the financial crisis. Finally, China’s increase engagement in the region is clearly viewed as both positive and beneficial, although doubts remain about its ability to
lead. In short, if anything, these findings indicate that regional opinion of China’s economic influence has improved over the last few months.