China’s offensive in Southeast Asia: regional architecture and the process of Sinicization

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ABSTRACT
During the 1990s, China had aimed at constructing good relations with neighboring countries including ASEAN members. After the start of external offensive strategy in 2001, China began to accelerate its economic involvement in Asian countries in general, and ASEAN countries in particular. At the same time, China has attempted to create China-led institutional framework and to make the region suitable to Chinese existence. This activity is called “the process of Sinicization” in this article. To explore the process of Sinicization in reference to China’s relations with CLMV (Cambodia, Laos, Myanmar, Vietnam) and Thailand, or China’s relations with ASEAN members, the author examines in detail two cases of the Greater Mekong Subregion Scheme or GMS (since 1992) and the Nanning-based China-ASEAN EXPO or CAEXPO (since 2004) in addition to comparison of Chinese and Japanese economic involvement in Southeast Asia. Through these case studies, the author will clarify the fact that both GMS and CAEXPO become strategic institutions/organizations for not only the promotion of regional cooperation but also the creation of China-led initiatives, such as various China-ASEAN forums. Furthermore, GMS and CAEXPO have also served as instruments to support economic development of border areas in China. Finally, by reviewing the recent movement of the “One Belt One Road” (OBOR) strategy and Asian Infrastructure Investment Bank or AIIB, the author posits that Chinese external offensive will be modified in the process of the OBOR and AIIB’s adjustment to international circumstances.

KEYWORDS
China; ASEAN; Sinicization; foreign economic activities; GMS; One Belt One Road

1. Introduction

The present study attempts to answer the following question: is China engaging or subduing Southeast Asia? China’s economic involvement in Southeast Asia stretches back to the 1990s and, since the 2000s, the two sides have witnessed a steady growth of economic cooperation. From a general perspective, the foreign policy of the PRC during the Maoist era (1950s–70s) prioritized the Afro-Asian strategic partnership, whereas the period of the 1980s–90s, following China’s self-positioning as a “developing country” and its growing involvement in APEC, is often labeled as the “Asia–Pacific decades”.

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was exactly at that time that the Chinese government showed strong interest in the Prime Minister Ohira’s “Pacific Rim Solidarity Initiative.”

With regard to Southeast Asia, the year 1992 – that is, the year China became a member of the Greater Mekong Subregion (GMS) economic development program – marked a turning point in China’s engagement in the region. In the 1990s, a framework for China–Southeast Asia cooperation – was constructed premised on ASEAN’s regional institutions. In 1993, China became a “consultation partner” of ASEAN. In 1996, its status was upgraded to a “dialog partner.” It should be noted, however, that at that time it was ASEAN who played a central role as the agenda-setter.

In the 2000s, the balance in China–ASEAN relations shifted substantially with China seizing the initiative and strengthening bilateral relations with the ASEAN countries. To take just one example, consider the 3rd China–ASEAN Expo (CAEXPO) held in Nanning between October 31 and November 3 2006. Although originally designed as a platform to promote trade and investment between ASEAN and China, it eventually morphed into a kind of “China–ASEAN Forum”. Since 1997, ASEAN leaders have met with their Chinese counterparts every year. The process is called “ASEAN + 1” (= “ASEAN–China Forum”) to signal ASEAN’s leadership role in it. It is presided over by the ASEAN chair, and its summits are held in conjunction with ASEAN’s annual meetings. CAEXPO, on the other hand, despite having identical membership, is a China-led initiative which serves as a de facto “China–ASEAN Forum”.

To capture this type of China-initiated processes (not necessarily limited to Southeast Asia), which aim at creating China-led international institutions/organizations and, by extension, a “China-friendly” international environment, I will deploy the concept of “Sinicization.” Inside China, actors participating in the process of Sinicization comprise both central and local government, the Communist Party, public and private enterprises, etc. Through active participation in various international institutions/organizations and through the wide array of formal and informal networks, those actors create an environment conducive to China’s ascent. This is exactly what I call “the process of Sinicization.” The aim of this study is to examine the dynamics of Sinicization in Southeast Asia.

The present article is organized as follows. In Section 2, centering on the concepts of “regional cooperation” and “regional institutions,” I compare briefly European and Asian regionalism. In addition, through the analysis of the ASEAN institutional model, I attempt to clarify the characteristics of China’s involvement in the region.

Section 3 offers an in-depth examination of China’s economic cooperation with the ASEAN countries. The analysis is based on 1990–2016 data concerning trade (= export), foreign exchange reserves, foreign direct investment by Chinese firms (outward FDI), foreign aid, and external economic cooperation. Further, using recipient countries’ FDI statistics, I compare fluctuations in China’s and Japan’s economic presence in the region.

In Section 4, I turn to China’s ASEAN diplomacy. This section investigates both bilateral relations with the ASEAN countries and China–ASEAN relations. A detailed chronology of events is offered including major turning points and institutional arrangements.

2At that time, although ASEAN leaders gathered at one place, they did not discuss any particular issue, nor issued they any joint statement.
In Section 5, two case studies are presented: (a) the formation and development of the GMS, and (b) the creation and impact of the Nanning-based CAEXPO. This section constitutes the centerpiece of the article.

The purpose of the conclusion is twofold: (a) to identify and evaluate the trajectory of China–ASEAN relations, and (b) to briefly outline the possible developments in China–ASEAN relations following the inception of the “One Belt One Road” (OBOR) initiative.

2. Varieties of regional cooperation and regional institutions

Mie Oba, an expert on Asian regionalism, divides methodological tools to study regionalism into three categories: (1) the concept of “regionalization,” (2) the concept of “region,” and (3) the concept of “regional institutions.” Regionalization refers to a process of the “inside–outside” differentiation in a specific geographical area. The concept of “region” is further subdivided into two sub-concepts: (1) region as an arena of activities, and (2) region as actors’ shared identity. In our case, the former is epitomized by the progress in the economic interdependence within East Asia, whereas the latter corresponds to a shared ASEAN identity. Regarding regional institutions, a sense of commitment to the “region” and a sense of common identity among the actors constitute indispensable conditions for their creation.3

With the above in mind, I would like to propose a six-dimensional conceptual framework to study various types of regionalism. The framework includes the following six indicators: (1) the degree of institutionalization, (2) forms of regionalism (de jure or de facto), (3) the scope of sharing (4) the purpose of regional integration, (5) the openness of regional cooperation (close or open to the third party), and (6) the presence of the core state/organization. Tying together those six dimensions, Table 1 outlines a tentative framework for the mapping out of the ASEAN Way.

It is clear from the above that European regionalism (e.g. European Economic Community (EEC), European Union (EU), etc.) corresponds clearly to Type A of the above table, whereas Asian type of regional integration fits roughly into Type B. Further, with regard to the ASEAN Way, it can be described as an outcome of the

### Table 1. Varieties of Regionalism and ASEAN.

| No. | Indicator                        | Type A                                                                 | Type B                                                                 |
|-----|----------------------------------|-----------------------------------------------------------------------|-----------------------------------------------------------------------|
| 1   | Degree of Institutionalization   | Formal a                                                              | Informal b                                                            |
|     |                                   | de jure                                                               | de facto a,b                                                          |
| 2   | Forms of Regionalism             | Shared Norms b                                                        | Shared Territory a                                                    |
|     |                                   | Shared Identity                                                       | Shared Space                                                          |
| 3   | Scope of Sharing                 | Inclusive (not only economic integration) b                           | Focus on economic integration a                                       |
| 4   | Purpose of Regional Integration  | Close Regionalism                                                     | Open Regionalism a,b                                                  |
|     | Regional Cooperation             | Core State/Organization – lead regionalism                            | Participant’s Cooperation a,b                                         |
| 5   | Openness of Regional Cooperation | Core State                                                            |                                                                       |
|     | Core Organization                |                                                                       |                                                                       |

Author’s own elaboration.

3Asian regionalism corresponds to Type B, while the ASEAN Way is an outcome of the 1A, 2B, 3A, 4A, 5B, and 6B.

3Oba, Jusoteki Chiiki, Chapter 1.
following factors: 1A (No.1 in Type A), 2B (No.2 in Type B), 3A, 4A, 5B, and 6B. Last, it should be noted that my conceptual framework bears a close resemblance to Hettne and Soderbaum’s differentiation between “formal, de jure” regionalism (while referring to Europe), and “informal, de facto” regionalism (while referring to Asia).4

With regard to legal acts and collectively shared norms, the European Union possesses (independently of its Member States) a whole gamut of legislative and administrative bodies, whereas Asian type of regional integration, premised on the deepening of economic interdependence, has not developed any kind of *acquis communautaire*, nor does it offer clear rules for membership. That is precisely why it is called “open regionalism.” In a similar vein, Katzenstein and Shiraishi argue that Asian regional integration should be best described as a structure of informal networks.5

As can be seen from the above conceptual framework, ASEAN (as an international organization) represents a hybrid type of regionalism. The Association was formed in 1967 as a grouping of anti-Communist states within the context of the Cold War. However, it was not a security organization depending on the American military power. Instead, it emphasized loose cooperation in the economic, social, and cultural fields and promoted human exchange by means of conference diplomacy. In the course of time, the ASEAN countries became aware of their regional belonging, so that a shared regional identity was created. Based on the principle of unanimity, with the Chairmanship rotating annually following the alphabetical order of the English names of Member States, the “ASEAN Way” of reaching consensus through consultation came into existence.6

Let us now return to the conceptual framework proposed in Table 1. As indicated previously, in terms of institutionalization, the scope of sharing and the purpose of regional integration, the ASEAN Way resembles European regionalism. However, its open character, the predominance of de facto regional integration, and its emphasis on networking places the ASEAN Way within the scope of Asian regionalism. Thus, it is correct to argue that the ASEAN Way represents a hybrid of European and Asian types of regional integration.

In her study on Asian regionalism, commenting on ASEAN key characteristics, Oba argues:

> ASEAN countries, through positioning the ASEAN as a hub that extends its spokes to the major powers, succeeded in creating a favourable and stable environment for their own existence.7

Precisely at that point, when ASEAN succeeded in tying major powers and completing the process of creating “a favorable and stable regional environment,” China seized the initiative and started moving forward with the process of Sinicization, posing a considerable challenge to ASEAN’s role in the regional architecture.

The term “Sinicization” has been used by Katzenstein to refer to China’s ascent in the world. To examine the cultural, economic and security aspects of China’s rise, he discusses “rupture” (China’s rise seen as a “dramatic break” in world and East Asian

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4Hettne and Soderbaum, “Theorising the Rise of Regionness,” 457–473.
5Katzenstein, *Introduction*, 1–44.
6This process has also been named as “socialization” (Acharya, *Constructing a Security Community*), “ASEAN regime” (Sato, *Asean Rejimu*), and “consensus building politics” (Suzuki, *Goi Keisei Moderu*).
7Oba, *Jusoteki Chiiki*, 12.
affairs), “return” (China will soon regain its ability to mold the international agenda), and “recombination” as three possible scenarios, concluding that the current ascent of China should be viewed as a recomposition of “old and new patterns and components”. Further, with regard to the process of Sinicization, Katzenstein observes:

In its broadest sense, Sinicization means making the world suitable to China and the Chinese. The creation of comfortable milieus extends beyond the world of states to include all of society; it involves both government policy and social practice. Like other civilizational processes, … Sinicization is affected by the rise and decline of civilizational states, polities and empires. Civilizational processes, however, do not simply radiate in one direction, outward, from one center, as is widely assumed. Instead, Sinicization is a non-linear, multi-sited, and multidirectional set of processes.

Writing in the same volume as Katzenstein, Shiraishi calls our attention to the fact that the impact of China’s economic rise on Southeast Asia differs from country to country, concluding that “like their Japanese and American counterparts, Chinese state and non-state actors are attempting to create a milieu in which they can operate more comfortably and effectively. This is what region-wide Sinicization is all about”. In general, I am in agreement with much of the thrust of Katzenstein and Shiraishi’s work. However, in my opinion, the process of Sinicization comprises not only the economic and cultural/educational activities, but also aims at creating a new set of China-led institutions and organizations in Southeast Asia region. This aspect of Sinicization is best epitomized by the case studies of the GMS and the CAEXPO presented in Section 5 of this paper.

3. China’s foreign economic activities

3.1. Long-term trends and the “four-in-one” system

Before proceeding to examine the process of Sinicization, I would like to analyze briefly China’s foreign economic activities. Table 2 shows long-term (1990–2016) trends in export, foreign exchange reserves, outward FDI, foreign aid and economic cooperation. Also, please note that the year 2001 – that is, a year when China’s foreign economic activities sped up – is treated as a base year.

While analyzing the above five economic activities in a long-term perspective, it immediately becomes clear that the year 2001 was marked by a rapid increase in all five areas. That is precisely why the year 2001 is commonly viewed as “the first year of China’s economic internationalization”. During the period between 2001 and 2015, outward FDI swelled 16.7-fold, economic cooperation 16.1-fold, foreign exchange reserves 15.7-fold, export 8.6-fold, and foreign aid 8.2-fold.

However, it is worth noting that the foreign economic activities kept growing from 2000 till 2013, peaked in 2014 and has been on a downward trend ever since. This observation applies to export, foreign exchange reserves as well as outward FDI. While the strong RMB position against the dollar certainly contributed to the downward trend in foreign economic activities, it must be noted that, in 2016, China’s outward FDI

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8Katzenstein, “China’s rise,” 4–7.
9Ibid., 9.
10Shiraishi, “The Rise of China,” 147.
| Year | Export | Index 2001 = 100 | Foreign Exchange Reserves | Index 2001 = 100 | Outward FDI | Index 2001 = 100 | Foreign Aid* | Index 2001 = 100 | Economic Cooperation** | Index 2001 = 100 |
|------|--------|----------------|--------------------------|----------------|------------|----------------|-------------|----------------|-------------------------|----------------|
| 1990 | 62,090 | 23             | 28,594                   | 13             | 830        | 12             | 375         | 50             | 2604                    | 20            |
| 1992 | 84,940 | 32             | 19,443                   | 9              | 4000       | 56             | 345         | 46             | 6585                    | 51            |
| 1994 | 121,010| 45             | 51,620                   | 24             | 2000       | 28             | 334         | 45             | 7988                    | 61            |
| 1996 | 151,050| 57             | 105,029                  | 50             | 2114       | 30             | 387         | 52             | 10,273                  | 79            |
| 1998 | 183,710| 69             | 144,959                  | 68             | 2634       | 37             | 449         | 60             | 11,773                  | 90            |
| 2000 | 249,210| 94             | 164,000                  | 77             | 916        | 13             | 554         | 75             | 14,943                  | 115           |
| 2001 | 266,160| 100            | 212,170                  | 100            | 7092       | 100            | 743         | 100            | 13,039                  | 100           |
| 2002 | 325,600| 122            | 286,370                  | 135            | 2700       | 38             | 799         | 108            | 15,055                  | 115           |
| 2004 | 593,320| 223            | 609,930                  | 287            | 5498       | 78             | 972         | 131            | 23,844                  | 183           |
| 2006 | 968,936| 364            | 1,066,344                | 503            | 21,170     | 299            | 1481        | 199            | 66,005                  | 506           |
| 2008 | 1,430,693| 538           | 1,946,030                | 917            | 55,910     | 788            | 2498        | 336            | 104,562                 | 802           |
| 2010 | 1,577,750| 593          | 2,847,338                | 1342           | 68,811     | 970            | 3900        | 525            | 134,367                 | 1031          |
| 2012 | 2,048,710| 770          | 3,311,589                | 1561           | 87,803     | 1238           | 5300        | 713            | 156,529                 | 1200          |
| 2013 | 2,209,000| 830          | 3,821,315                | 1801           | 107,843    | 1521           | 5600        | 754            | 171,629                 | 1316          |
| 2014 | 2,342,747| 880          | 3,843,018                | 1811           | 123,119    | 1736           | 5400        | 727            | 191,756                 | 1471          |
| 2015 | 2,281,836| 857          | 3,330,362                | 1570           | 118,085    | 1665           | 6100        | 821            | 210,074                 | 1611          |
| 2016 | 2,097,444| 788          | 3,010,517                | 1419           | 170,110    | 2399           | n.a.        | *              | 244,010                 | 1871          |

*Source: Author’s own elaboration based on China Statistical Yearbook; Kitano and Harada, Estimating China’s Foreign Aid; Kitano, A Note on Estimating China’s Foreign Aid, etc.*
increased by 44% from 118 billion USD to 170 billion USD, while economic cooperation grew by 16% from 210 billion USD to 244 billion USD. Although China’s economic growth is clearly slowing down (in 2015 it missed its 7.0% growth target) giving rise to sluggish exports, China’s FDI and economic cooperation are on the upward trend. Nevertheless, the fact remains that the growth slowdown marked another turning point for China’s economic activities.

Next, let us place China’s foreign economic activities in comparative perspective. In 2014, China’s foreign currency reserves and the export reached 3843 billion USD and 2343 billion USD respectively. For comparison, Japan’s foreign currency reserves and the export reached 1260 billion USD and 690 billion USD, respectively. As the above figures indicate, Japan’s foreign currency reserves and exports totaled less than one-third of the Chinese one.

Another important point is that China’s foreign aid (a topic that attracts a worldwide attention) amounted to 6.1 billion USD in 2015, whereas its foreign economic cooperation peaked in the same year reaching 210.1 billion USD. Please note that foreign aid figures have not been taken from the China Statistical Yearbook’s “Government Finance” section, but are based on data calculated independently by Naohiro Kitano and include: (1) bilateral grants and interest-free loans, (2) bilateral commercial loans, and (3) multilateral aid.11 The figures are highly credible and offer the best available estimate to date.

I would like now to discuss China’s foreign economic cooperation, which can be further subdivided into three categories: (1) construction contracts, (2) labor force supply, and (3) plant design works. By way of illustration, let us analyze the potential case of China helping one of the Southeast Asian countries to construct a dam. In such a case, the Chinese side designs the dam, provides necessary materials and equipment (e.g. building materials, generators, etc.) and sends construction workers. It is frequently the case that the major construction company and the temporary employment agencies involved in the project are owned by the local government (e.g. Yunnan provincial government). As a result, the Chinese side is likely to receive rewards in the form of design fees, construction contract rewards, export payments, and workers’ wages, so that the amount of money received by the Chinese side exceeds greatly the sum given as foreign aid.

Let us now turn to China’s outward FDI which has grown rapidly since 2001. In the past, it was China’s inward FDI that attracted widespread attention of pundits and scholars. However, since the beginning of the 2000, the focus has shifted toward Chinese companies’ outward FDI which has been growing steadily ever since. For example, in 2000, 916 million USD of China’s outward FDI accounted for about 2% of China’s inward FDI, whereas in 2010, 68.8 billion USD – worth China’s outward FDI amounted to 60% China’s inward FDI. Further, in 2014, China’s outward FDI (that amounted to 123.1 billion USD), for the first time exceeded the inward FDI that reached 119.6 billion USD that year.12

The discussion about China’s foreign economic activities revolves around the concepts of “three-in-one” development (trade – investment – aid) or “four-in-one” development

11Kitano and Harada, *Estimating China’s Foreign Aid*; and Kitano, *A Note on Estimating China’s Foreign Aid.*
12For a detailed analysis of the variety of actors participating in China’s outward FDI flows, see Ito, “Chugoku – ASEAN Keizai Kankei no Shoso”.
(trade – investment – aid – economic cooperation). For example, Takaaki Kobayashi, an expert at Japan Bank for International Cooperation (JBIC), observes:

When we look at the rapidly growing [China’s] aid to the resource-rich African countries, we can see Chinese companies (which are very competitive thanks to China’s government preferential loans) dispatching a large number of workers (=outward labour cooperation), building plants (=outward construction contracts), transferring technology (=outward design consulting) and capital (=outward FDI) as well as supplying materials (=foreign trade) to the recipient countries, so that a system of resource development is fully established.\(^\text{13}\)

The above quotation is a vivid example of a “four-in-one” development strategy. In a similar vein, Shiraishi and Hau explore the interactions between China’s trade, outward FDI, foreign aid and economic cooperation in the case of Laos.\(^\text{14}\)

However, it must be noted that the degree of interdependence between trade, outward FDI, foreign aid and economic cooperation varies from region to region, so it is difficult to generalize on correlations between the above four variables. For example, in 2014, Asia (excluding Hong Kong) accounted for 29% of world exports, 12% of global FDI inflows (but 70% including Hong Kong), 29% of foreign economic cooperation, and 30% of foreign aid. Thus, the proportions of the foreign economic activities (with the exception of the FDI) are similar. In the case of Africa, however, the continent accounted for 5% of world’s exports and 3% of global FDI inflows, whereas it received 52% of international aid and accounted for 37% of the world’s economic cooperation.

As can be seen from the case of Africa, there is no correlation between exports/outward FDI on one side, and foreign aid/economic cooperation on the other. For this reason, the concept of “four-in-one” system should be applied with caution.

\section*{3.2. ASEAN countries, Japan and China}

In this subsection, I would like to compare China and Japan’s economic relations with ASEAN. Figure 1 compares the total value of trade between ASEAN and Japan with the total value of trade between ASEAN and China over the period of 1990 through 2016.

As can be clearly seen from Figure 1, until the year 2000, the volume of trade with Japan was much greater than that with China. In the 2000s, however, China exports increased greatly, so that, in 2006, China and Japan’s trade with ASEAN leveled off, whereas, in 2008, China’s trade with ASEAN exceeded that of Japan. Since then the gap has been widening steadily. In 2014, the volume of trade with China reached 480 billion USD, almost twice as much as that with Japan (230 billion USD). Further, in 2016, although China’s trade volume with ASEAN decreased to 452 billion USD, the gap between China and Japan’s performance was even wider and reached 264 billion USD. The above figures show clearly that China and Japan’s engagement in the region took rather different trajectories.

Let us now consider in more detail the issue of the sharp growth in China–ASEAN trade in the 2000s. The reason lies in a relatively high complementarity of their trade structures. In terms of goods exported to China from the ASEAN countries, two groups of products clearly stand out. First group includes traditional-type trade products obtained

\(^{\text{13}}\)Kobayashi, “Chugoku no Enjo Seisaku,” 136–137.

\(^{\text{14}}\)Shiraishi and Hau, “Chugoku ha Higashi Ajia wo do Kaeruka,” 106–112.
from the processing of natural resources and plants (e.g. crude oil, petroleum, palm oil, natural rubber, rice, tapioca, sugar, plywood, etc.). Second group comprises the so-called “intra-firm trade” that takes place among two or more entities that exist within one company (e.g. a Japanese or American IT company that expanded its business to China and the ASEAN countries and trade parts and finished products among its own local subsidiaries). In terms of goods imported from China to the ASEAN countries, IT products (computer parts and finished goods in the form of intra-firm trade) and labor-intensive goods (such as textile, clothing and small vessels) account for the bulk of import.

Thus, in terms of trade structure, the ASEAN countries mainly export products obtained from the processing of natural resources and agricultural products (A) and IT goods (B1), while importing labor-intensive industrial products (C) and IT goods (B2). Products A and C account for trade exchange between countries based on vertical comparative advantage, whereas products B1 and B2 constitute horizontal, intra-firm trade between the parent company and its subsidiaries or between subsidiaries in different East Asian countries. Thanks to the fact that the value of exports of A-type goods increased greatly during the 2000s (the so-called “primary commodity boom”), and, at the same time, as a result of the rapid expansion of the China-based production networks, the value of exports of IT products rose at fast rate, the trade between China and the ASEAN countries was truly a win-win relationship.\(^\text{15}\)

However, as can be seen from Figure 1, the volume of trade between China and ASEAN decreased for the first time in 2015. The reason behind this is twofold: (1) the primary commodity boom is over, (2) the division of labor between Chinese and ASEAN companies has evolved. In other words, since China-based companies have recently increased self-manufacturing of necessary parts, their inter-dependence is set to decrease.

\(^\text{15}\)For a detailed analysis, see Suehiro, “Nanshin Suru Chugoku,” Chapter 4 & 5.
Indeed, trends in exports and imports between China and ASEAN show that from 2000 to 2011 (thanks to the primary commodity boom), ASEAN enjoyed an exports surplus that turned, in 2012, into trade deficit of 8.2 billion USD. In 2015, ASEAN trade deficit with China ballooned to around 83 billion USD, bringing their win-win relationship to the end.\textsuperscript{16}

Let us now examine China and Japan’s FDI toward continental Southeast Asia (Thailand, and the CLMV countries).\textsuperscript{17} The following tables (Tables 3 and 4) illustrate China and Japan’s outward FDI utilizing recipient countries’ FDI statistics, which are based on the so-called “approval basis.”

Given the fact that FDI toward the CLMV countries have sharply increased since 2004, the analyzed period is divided into two stages: up to 2003 and 2004–2015. Over the period 2004–2015, China’s outward FDI soared to reach 43% of total FDI in Cambodia, 25% in Laos, and 45% in Myanmar. In Thailand, China’s outward FDI recorded modest increase (from 2.6 to 6.4%), while in Vietnam it posted a slight decrease (from 9.9 to 8.3%).\textsuperscript{18}

| Table 3. China’s FDI in Thailand (1995–2015) and the CLMV (1988/1992–2015) (Unit: Millions of USD; for Thailand, Billions of Baht). |
|---|
| Country | Total | China + Hong Kong | % | Total | China + Hong Kong | % |
| Thailand | 2084 | 1995–2003 | 2.6 | 4171 | 2004–2015 | 266 |
| Cambodia | 5602 | 1991–2003 | 12.7 | 25,458 | 2004–2015 | 10,937 |
| Laos | 5449 | 1992–2003 | 4.9 | 19,333 | 2004–2015 | 4830 |
| Myanmar | 7592 | 1989–2003 | 3.1 | 55,851 | 2004–2015 | 25,377 |
| Vietnam | 44,787 | 1988–2003 | 9.9 | 229,426 | 2004–2015 | 19,146 |

Source: Author’s own elaboration based on ASEAN - Japan Center Statistics, JETRO Global Trade and Investment Report, etc.

\textsuperscript{a}Data are not available for Laos in 2012.

| Table 4. Japan’s FDI in Thailand (1995–2015) and the CLMV (1988/1992–2015). |
|---|
| Country | Total | Japan | % | Total | Japan | % |
| Thailand | 2084 | 1995–2003 | 43.7 | 4171 | 2004–2015 | 1971 |
| Cambodia | 5602 | 1991–2003 | 0.3 | 25,458 | 2004–2015 | 427 |
| Laos | 5449 | 1992–2003 | 0.4 | 19,333 | 2004–2015 | 484 |
| Myanmar | 7592 | 1989–2003 | 3.1 | 55,851 | 2004–2015 | 395 |
| Vietnam | 44,787 | 1988–2003 | 8.4 | 229,426 | 2004–2015 | 30,279 |

Source: Author’s own elaboration based on ASEAN - Japan Center Statistics, JETRO Global Trade and Investment Report, etc.

\textsuperscript{a}Data are not available for Laos in 2012.

\textsuperscript{16}Following the end of the primary commodity boom, ASEAN trade deficit (194.5 billion USD for ASEAN export to China and 277.7 billion USD for ASEAN import from China) climbed to 83.2 billion USD in 2015. In 2016, it was still high reaching 59.3 billion USD.

\textsuperscript{17}We should be careful while comparing Japan’s FDI and China’s FDI in ASEAN countries. For instance, Chinese investors in the ASEAN countries sometimes set up dummy companies registered on local Huqiao’s name, thus making available figures underestimated. For further details, see Suehiro “GMS wo Do Toraeruka,” 40–41.

\textsuperscript{18}For a detailed analysis of the FDI toward the CLMV countries, see Ishida, Mekon Chikki Kaihatsu; Suehiro, “Chugoku no Taigai Keizai Senryaku,” 94–97; and Ishida, Umezaki and Yamada, Tai Purasu Wan.
Let us now turn to Japan. In the case of Thailand, in both time periods, Japan’s outward FDI accounted for more than 40% of total FDI, making Japan the leading country of origin of FDI into Thailand. However, although Japanese companies are keen to invest more in Cambodia, Laos and Myanmar, the amount of Japan’s FDI toward those countries is lagging behind China’s FDI by a wide margin. To remedy the above situation, since 2009, Japanese government has hold annual meetings attended by the heads of the governments of the Mekong River countries (the so-called “Mekong–Japan Summit Meeting”), but so far, it has not succeeded in broadening bilateral trade and economic cooperation with the CLMV countries.

4. The progress of China–ASEAN relations

In this section, I would like to examine the bilateral relations between China and Southeast Asia countries as well as China–ASEAN relations over the last quarter-century.

The early 1990s was an eventful period in China–ASEAN relations. In 1992, China joined the GMS Economic Cooperation Program, while in the next year, the “Kunming Import Export Commodity Fair” (hereinafter, Kunming Fair) was inaugurated. Doubtless, the above events were the result of the tectonic shift spearheaded by the fall of the Berlin Wall (1989). In Southeast Asia, the end of the Cold War was marked by the transition to the market economy in the three states of Indochina as well as Prime Minister Li Peng’s strategy of the opening of China’s border regions.19

The “Opening of Border Regions” (OBR) strategy set up “border cities” in three designated border areas with an aim of facilitating border trade and creating cross-border trade zones. The above three border areas include: (1) North-East Border Region centered on Jilin and Heilongjiang, (2) Western Border Region of Xinjiang, and (3) South-West Border Region comprising Yunnan and the Guangxi Zhuang Autonomous Region (GZAR). Among those border areas, it was Yunnan province that reacted in the most enthusiastic manner.20 So it came as little surprise that it was Yunnan local government that joined the GMS program as a Chinese representative and spearheaded the Kunming Fair, initiating, in Aoyama’s words: “the decentralization of the national strategy”.21

The 1990s is frequently described as an “engagement period” in China–ASEAN relations. At that time, China strove to win ASEAN’s trust, while ASEAN made efforts to incorporate China into its organizational framework. Yamakage describes the above process as “the domestication of the great power”.22 In 1993, China was given the status of the “consultation partner” and, in 1996, it became a full “dialog partner” of ASEAN. In December 1997, the first informal China–ASEAN Summit was convened in Malaysia, during which President Jiang Zemin and ASEAN leaders agreed to establish “A Good-neighborly Partnership of Mutual Trust for the 21st Century”.

19Prime Minister Li Peng announced the strategy during the 5th session of the 7th National People’s Congress in February 1992.
20Aoyama, Chugoku no Ajia Gaiko, 47–48.
21Ibid., 206.
22Yamakage, “Daikoku wo Kuinarasu,” 151–152.
China was the first great power to sign, in October 2003, the “Treaty of Amity and Cooperation in Southeast Asia” (TAC). Under the TAC, China’s status vis-à-vis ASEAN was upgraded to the “strategic partnership” effectively ended the period of China’s passive attitude toward ASEAN. In addition, it must be noted that Japan signed the TAC one year after China (2004), whereas the USA and the EU acceded to the TAC much later, namely in 2009.

As indicated in the Introduction, in the 2000s, the balance in China–ASEAN relations shifted substantially with China seizing the initiative and taking the role of the agenda-setter. The process proceeded in three steps. First, China behaved like a “responsible stakeholder” during the Asian financial crisis (1997). Next, in 2000, China adopted a new good neighbor policy. Finally, in December 2001, China joined the World Trade Organization (WTO) taking a first step on the road toward internationalization.23

With regard to China–ASEAN economic relations, in 2000, during the 4th ASEAN + 1 Summit, Prime Minister Zhu Rongji floated the idea of China–ASEAN Free Trade Area. Two years later, in November 2002, Prime Minister Wen Jiabao signed a framework agreement on comprehensive economic cooperation, in which both parties agreed to launch the China–ASEAN Free Trade Area (CAFTA). Ten years later, in January 2010, the CAFTA was established completely on schedule.

The process of the strengthening of China–ASEAN economic relations was conducted at both central and local government level. As shown in the Chronology of Events (Table 5), in November 2002, Chinese central government officially participated in the 1st GMS Summit of Leaders (Phnom Penh), signaling its strong commitment to the initiative. Also, with regard to the CLMV countries, China’s came up with the “Asian Debt Relief” initiative, writing off old debts and offering foreign aid with the aim of strengthening China – the CLMV countries economic cooperation.

On the security side, while shelving the South China Sea territorial disputes, China and ASEAN signed in November 2002 the “Declaration on the Conduct of Parties in the South China Sea” (DOC) reaffirming their commitment to peaceful settlement of the existing disputes. In addition, in 2002, China signed the “Joint Declaration on Cooperation in the Field of Non-Traditional Security Issues,” pledging international cooperation on infectious disease and natural disaster prevention.24

Throughout the 2000s, Chinese government respected ASEAN’s autonomy and chose to adhere to the ASEAN Way. In contrast, local governments took more proactive, risk-seeking approach, while dealing with their Southeast Asian neighbors. For instance, Yunnan province (that shares a 4600 km-long border with Myanmar, Laos and Vietnam) has greatly expanded the scope of its Kunming Fair since it was first held in 1994. In 2001, the number of ASEAN exhibitors was 77, while in 2004 it reached 267.25 The GZAR government, on the other hand, successfully launched (in cooperation with the Ministry of Commerce) the China–ASEAN Expo (CAEXPO).26 Further,

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23Aoyama, Chugoku no Ajia Gaiko, 48–53; and Amako, “Shin Kokusai Chitsujo Koso,” 27–41.
24Arase, “Non-Traditional Security,” 821.
25Suehiro, “GMS wo Do Toraeruka,” 52.
26For details, see Section 5.2. of this study.
The ASEAN Summit is convened in Kuala Lumpur (Malaysia), during which it is agreed to establish “A Good-neighborly Partnership of Mutual Trust for the 21st Century”. President Jiang Zemin attends the Summit.

Aug. 1999 In Kunming, Yunnan provincial government organizes the 1st “Bangladesh–China–India–Myanmar Forum for Regional Cooperation” (BCIM).

Nov. 2000 During the 4th ASEAN + 1 Summit, Prime Minister Zhu Rongji floats the idea of China–ASEAN Free Trade Area.

Dec. 2001 China joins the World Trade Organization (WTO).

2001 The Overseas Chinese Affairs Office inaugurates “China Discovery Trip”. The program targets young overseas Chinese-origin entrepreneurs from all over the world including the ASEAN countries. In response to this initiative, Thailand forms the “Young Thai Entrepreneurs Association” (Samakhom Thurakit Thai Run-mai).

June 2002 The number of the Kunming Fair exhibitors from the ASEAN countries rises to 136, reaching 267 in 2004.

July 2006 The 1st Sino–ASEAN Business Forum is organized and operated separately from the Kunming Fair.

Dec. 2005 Ministry of Commerce and the GZAR jointly propose a plan of constructing special industrial estates for overseas Chinese-origin entrepreneurs from all over the world including the ASEAN countries. In

Nov. 2002 The 1st GMS Summit of Leaders is officially attended by the representatives of Chinese government.

Nov. 2002 China officially announces its “Asia Debt Relief Program”.

Aug. 2003 Former Vice Minister of Finance, Jin Liqun, is appointed the Vice President of the Asian Development Bank (ADB). Later, he will be elected the President of the Asian Infrastructure Investment Bank (AIIB).

Oct. 2003 During the 7th ASEAN + 1 Summit, the Chinese government announces its joining the Treaty of Amity and Cooperation in Southeast Asia (TAC). China becomes a full “strategic partner” of ASEAN.

Nov. 2004 China and ASEAN also sign a joint Declaration on Cooperation in the Field of Non-Traditional Security Issues.

Nov. 2004 The 1st China–ASEAN EXPO (CAEXPO) is held in Nanning, Guangxi Zhuang Autonomous Region (GZAR).

Nov. 2004 China and ASEAN also sign a free trade agreement on trade in goods.

July 2005 The 2nd GMS Summit of Leaders convened in Kunming. The GZAR becomes a member of the GMS program.

Dec. 2005 Ministry of Commerce and the GZAR jointly propose a plan of constructing special industrial estates for Chinese investors in the ASEAN countries. This plan is carried out in Thailand, Malaysia and Indonesia.

July 2006 The 1st Sino–Viet Tonkin Gulf (Beibu Gulf) Economic Cooperation Forum in convened in Nanning. The M-shaped strategy for economic integration between China and ASEAN is put forward.

Aug. 2006 President Hu Jintao delivers a speech in which he argues that “China’s diplomacy is not only about economic development, it also needs to safeguard China’s national interests and security”. The speech marks a significant shift in China’s diplomatic strategy.

Oct. 2006 All ten ASEAN leaders, along with the Secretary General of ASEAN, Prime Minister Wen Jiabao and Minister of Commerce Bo Xilai attend the 3rd CAEXPO opening ceremony. A de facto “China–ASEAN Summit” is created.

Aug. 2009 China and ASEAN sign a free trade agreement on investment.

Jan. 2010 The China–ASEAN FTA is established on schedule.

Nov. 2011 To counter the TPP, ASEAN leaders come up with the idea of Regional Comprehensive Economic Partnership (RCEP) that would include 10 ASEAN countries + Australia, China, India, Japan, New Zealand and South Korea.

June 2012 During the Shanghai Cooperation Organization (SCO) Summit in Beijing, President Hu Jintao delivers a speech in which he proposes to “breathe new life into the ancient Silk Road”.

June 2013 In Kunming Dianchi International Convention & Exhibition Center (DCEC), the 1st China–South Asia Expo (CSAEXPO) is held. The CSAEXPO is organized and operated separately from the Kunming Fair.

Sept. 2014 During the 11th CAEXPO, the China–ASEAN Investment Summit discusses the construction of the platform of cooperation for the new Maritime Silk Road.

Mar. 2015 The National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce jointly released an Action Plan on the Belt and Road Initiative.

June 2015 The AIIB Articles of Agreement are signed by 50 founding members.

June 2015 Number of Kunming Fair exhibitors increased more than twofold, reaching 722.

Jan. 2016 AIIB starts its operation with 57 members.

(Continued)
in 2006, also in the city of Nanning, the 1st Sino Viet Tonkin Gulf (Beibu Gulf) Economic Cooperation Forum was convened.\(^{27}\)

The 2000s was marked by the growing Sino-Japanese rivalry in the Southeast Asia region. First, in response to Prime Minister Zhu Rongji’s CAFTA proposal, Japanese Prime Minister Junichiro Koizumi, during official visit to ASEAN countries in January 2002, came up with the project of an “East Asian community.”\(^{28}\) Next, in April 2005, the Japan–ASEAN negotiations on comprehensive economic partnership began, resulting in the Japan–ASEAN FTA which entered into force on December 1 2008. Last, to counter China’s growing influence in Indochina (e.g. the GMS program, the Asian Debt Relief Initiative, etc.), the 1st Japan–CLV Summit was held in Vientiane in November 2004. In 2009, the initiative expanded into the “Mekong–Japan Summit Meeting” (Japan plus Thailand and the CLMV countries), which has been held annually since then.

In 2008, during the “ASEAN + 6” Economic Ministers Meeting, Trade and Industry Minister, Toshihiro Nikai, announced the “East Asia Industrial Artery Initiative (Higashi Ajia Sangyo Daidomyaku Koso).” Stressing close Japan–ASEAN cooperation in the areas of transport infrastructure and urban development planning, the Initiative aimed at countering China’s expanding economic presence in the region. Despite all the above efforts, it must be concluded that, whereas China (through various regional

\(^{27}\)On the Beibu Gulf Economic Cooperation Forum, see Hosokawa, *Chugoku no Taigai Bocho*; Suehiro et al. *Nanshin Suru Chugoku*; Aoyama, *Chugoku no Ajia Gaiko*; Aoyama and Amako, *Chotaikoku Chugoku*; Nihon Keizai Shinbun internet website, and *Shukan Tai Keizai* internet website.

\(^{28}\)In contrast to the European Economic Community (EEC), in official English translation of the Koizumi’s proposal, the word “community” is spelled without a capital letter. The reason for it was to emphasize the “open” character of the East Asian regional cooperation.
50. The Greater Mekong Subregion (GMS) and the China–ASEAN expo (CAEXPO)

5.1. GMS and China’s inland development

Section 3 has examined China’s trade and FDI vis-à-vis the ASEAN countries, while Section 4 has reviewed China–ASEAN diplomatic relations and FTA negotiations. Both sections have shown clearly that since the 2000s, balance in China–ASEAN relations shifted substantially with China seizing the initiative. In this section, I analyze two case studies – the formation and development of the GMS and the creation and impact of the CAEXPO – to show how China, through the establishment of a new institution/organization, creates an international environment conducive to its ascent.

As shown in the Chronology of Events (Table 5), in 1992, the ADB initiated the GMS economic cooperation program. A sequence of events that led to the program inception goes as follows.

First, in 1986, Vietnam announced the “Doi Moi Policy” followed by Laos and its “Chintanakan Mai (New Thinking) Policy,” so that the transition to market economy took off in both countries. Next, in 1988, under the slogan “take Indochina from the battlefield to the market” Thai Prime Minister Chatichai Choonhavan decided to expand trade and investment with the neighboring countries. Then, in 1989, Vietnam’s military withdrawal from Cambodia was completed. Finally, in 1991, diplomatic relations between China and Vietnam were established. In the same year, the Paris Peace Accords, signed by all involved parties, were concluded ending the Cambodia Civil War. In this new Post-Cold War environment, the three countries of Indochina proceeded laboriously with (1) economic reconstruction, (2) transition to market economy, and (3) economic liberalization and market integration. Against such a backdrop, in March 1992, the ADB took the bold step and initiated the six countries (including China’s Yunnan Province) GMS economic cooperation program.

The first ministerial meeting of the GMS was conducted in October 1992 at the ADB headquarters in Manila and was attended by the representatives of the six Mekong River Basin countries. At that time, the program consisted of six sectors: (1) transportation, (2) energy development, (3) environment preservation, (4) human resource development, (5) trade and investment, and (6) tourism promotion. During the second GMS Economic Minister Meeting (August 1993), the designation “Greater Mekong Subregion” was officially adopted.

In the course of time, the number of GMS working groups and forums reached eleven. In 1995, GMS working groups on tourism, electricity, transportation, environment, telecommunications, and subregionalism were set up, followed by the working

29Oba depsects East Asian regional integration as a set of “multilayered” institutions which result from the activities of the key regional actors (= Japan, China and ASEAN) (Oba, “Jusoteki Chiiki,” 17).

30Suehiro “GMS wo Do Toraeru ka,” 18.

31Shiraishi, “Posuto-reisenki Indoshinaken,” 50–51. For a general overview of the GMS, see Asian Development Bank, Greater Mekong Subregion; Ishida, Mekon Chiiki Kaihatsu; Ishida and Kudo, Dai Mekonken Keizai Kyoryoku; and Suehiro, “Dai Mekonken wo Chugoku kara Toraenaosu”.

 initiatives) has been steadily advancing the process of Sinicization, Japan, so far, has failed to come up with a consistent vision of Japan–ASEAN relations.
groups on human resource development (1996), regional energy connectivity (1998), and trade promotion (1999). In 2000, GMS Business Forum (GMS-BF) was established, with the Working Group on Agriculture or WGA (2003) being the latest addition to the list. With the exception of the Business Forum and the working group on agriculture, all other sectors originated in the six initial areas of cooperation.32

Three economic corridors (including six sub-corridors) constitute the main pillar of the GMS economic cooperation program. The East–West Economic Corridor (EWEC, 1502 km) connects Vietnam’s port Tien Sa with Myanmar’s Mawlamyine, passing through the territories of Laos and Thailand. The North–South Economic Corridor consists of two routes: (1) the Myanmar Route (1909 km) that connects Bangkok with Jinhong and Kunming, passing through Chiang Khong and Mainra located in Myanmar, and (2) the Laos Route (1805 km) that connects Bangkok with Jinhong and Kunming, passing through Houayxay and Borten in Laos. The Laos Route also includes the Kunming–Haiphong port sub-corridor. The last of the corridors, the Southern Economic Corridor (SEC, 1024 km), connects Bangkok with Ho Chi Minh in Vietnam, passing through Poipet and Phnom Penh in Cambodia.33 At the moment, GMS joint projects focus mainly on developing transportation and energy infrastructure along the above three routes.

GMS economic cooperation program is usually divided into two stages, namely 1994–2007 (Stage 1) and 2008–2012 (Stage 2). Table 6 below shows the distribution of the investment over time (Stage 1 and Stage 2) arranged by sectors and main investors involved. As Table 6 illustrates, transportation sector accounts respectively for 82% (8,057 million USD) and 73% (11,315 million USD) of the total value of the investment. If we add up the value of the investment in transportation and energy sectors, it becomes immediately clear that those two sectors account for 99% of investment during the first stage and 94% of investment during the second stage of the program.

Let us now turn to the investors participating in the GMS projects. Major investors can be divided into four groups: (1) the Asian Development Bank (ADB), (2) the governments of the Mekong River Basin six countries, (3) international financial institutions other than the ADB, and (4) the non-regional countries foreign aid agencies that participate in joint projects.

As a rule, a given GMS project (e.g. a road construction project) cannot take off unless it is agreed upon by at least two governments of the Mekong River Basin countries. Thus, it follows logically that those countries should become the project’s main investors. However, as Table 6 apparently illustrates, the actual major investors in the GMS projects are the ADB, the Chinese government and the non-regional countries that co-finance the joint projects (including JICA, JBIC, China Development Bank, as well as foreign aid agencies of France, Sweden, the Netherlands, etc).

The number of investment projects in Stage 1 was 34, with the ADB and Chinese government accounting for, respectively, 35 and 27% of the total investment value. By contrast, in Stage 2, with the total investment increasing 1.5-fold (from 9.87 billion USD to 15.45 billion USD), China topped the major investors list (32%), while the ADB took

32Ishida and Kudo, Dai Mekonken Keizai Kyoryoku, 20–21.
33Suehiro, “GMS wo Do Traeruka,” 15–16.
second place (22%). The reason for that was that Chinese central and local governments sped up border regions highway construction contributing to the development of the GMS economic corridors. In other words, China’s inland development (known as Western Regions Development Program (WRDP)) converge with the development projects initiated by the ADB, resulting in the better utilization of the international funds. Indeed, funds provided by Chinese government for the GMS were used mainly to construct its own highways. Consequently, it must be noted that under the regional connectivity project, the Chinese side utilized the international funds to the maximum.

This is even more evident with regard to the Stage 3 of the GMS economic cooperation program that covers years 2014–2018. According to the GMS Regional Investment Framework Implementation Plan (2014–2018), the number of investment projects increased to 61 (including 42 transportation projects and 4 energy projects) with the investment value reaching 30.06 billion USD, a twofold increase comparing with the Stage 2. Further, according to report announced by the ADB in May 2016 (data for 59 projects), China topped the major investors list (62% of the total investment), while the ADB contribution was reduced to 17.4%. Also, it must be noted that the value of investment provided by the governments other than Chinese account for only 8.2% of the total sum.

As can be seen from the above, the GMS projects are slowly and inevitably being incorporated into China’s own development program. That exactly illustrates how the process of Sinicization by means of the existing institutions advances in the Mekong River Basin (= continental Southeast Asia). Soon, given the scope and scale of China’s involvement, it will be difficult to call the GMS program an “intergovernmental cooperation” in the real sense.

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**Table 6. GMS Development Projects (Stages 1 & 2, Approved Projects Only) (Unit: Millions of USD).**

| Investment period | Stage 1 (1994–2007) 34 projects | Stage 2 (2008–2012) 110 projects |
|-------------------|---------------------------------|---------------------------------|
| Investment value  | Millions of USD | % | Millions of USD | % |
| (1) SECTORS       | 9870              | 100.0 | 15,450          | 100.0 |
| Transportation    | 8057              | 81.6 | 11,315          | 73.2 |
| Energy            | 1728              | 17.5 | 3181            | 20.6 |
| Telecommunications| 0                 | 0.0  | 332             | 2.1  |
| Environment Protection| 0        | 0.0  | 185             | 1.2  |
| Tourism Development| 47               | 0.5  | 268             | 1.7  |
| Human Resources   | 39                | 0.4  | 103             | 0.7  |
| (2) INVESTORS     | 9870              | 100.0 | 15,450          | 100.0 |
| ADB               | 3426              | 34.7 | 3420            | 22.1 |
| World Bank        | 0                 | 0.0  | 469             | 3.0  |
| China             | 2686              | 27.2 | 4980            | 32.2 |
| Thailand          | 0                 | 0.0  | 201             | 1.3  |
| Vietnam           | 208               | 2.1  | 490             | 3.2  |
| Cambodia          | 82                | 0.8  | 5               | 0.0  |
| Laos              | 102               | 1.0  | 17              | 0.1  |
| Japan             | 0                 | 0.0  | 867             | 5.6  |
| Joint Projects    | 3466              | 35.1 | 5001            | 32.4 |

Author’s own elaboration based on ADB, Evaluation Report; ADB, Greater Mekong Subregion; and Suehiro, “GMS wo Do Traeruka?” 36.
Given the above, it is not surprising that with regard to Asian infrastructure investment, Chinese government parted its way with the Japan-led ADB and, in December 2015, came up with its own initiative in the form of the Asian Infrastructure Investment Bank (AIIB).  

5.2. **CAEXPO as the mechanism facilitating the process of sinicization**

China–ASEAN Expo (CAEXPO) (held annually since 2004), is a follow-up initiative to the ASEAN–China Free Trade Agreement (CAFTA) which was officially proposed by the Prime Minister Zhu Rongji in November 2000. In October 2003, during the 7th ASEAN–China Summit, Prime Minister Wen Jiabao announced officially that CAEXPO would be hosted by the city of Nanning (the capital of the GZAR). The reasons for the decision were as follows: (1) the city is located close to the border with Vietnam (the distance from Youyiguan border pass to Hanoi by land is 174 km), (2) Guangxi Hi-Tech Industrial Development Zone (a component of the WRDP) is located in the city, (3) the city is an important hub of the GMS North–South Economic Corridor (the Kunming–Haiphong port sub-corridor), and (4) the Guangxi National University along the Jinan University are two main centers for Southeast Asian Studies in China.

Further, it must be noted that both the GZAR government and the local CCP were very enthusiastic about frontier development programs. Although the CAEXPO is under the jurisdiction of the Ministry of Commerce (at that time headed by Bo Xilai), the GZAR government actively participated in the launching of the project.

Indeed, in the course of preparation, a delegation headed by Vice Premier Wu Yi and the GZAR Vice Chairman Li Jinzao, visited Laos, Cambodia and Myanmar (March 2004). Then, in April of the same year, a delegation headed by the GZAR Chairman Lu Bing, visited Cambodia, Thailand, Korea, and Japan. In Cambodia, the delegation held talks with Prime Minister Hun Sen, in Thailand, they met with Prime Minister Thaksin Shinawatra, inviting both countries to participate in the CAEXPO.

As of 2004 (as was the case with the Kunming Fair), the main target of the CAEXPO was Thailand and the CLMV countries. However, during the preparation to the 3rd CAEXPO in October/November of 2006, the GZAR government was trying its best to enlist all ten ASEAN countries leaders to visit the Expo. To this end, between March 28 and April 12 in 2006, the GZAR delegation headed by Lu Bing visited the Philippines, Brunei, Singapore, and Myanmar holding talks with the countries’ top leaders. Then, in April 13–25 of the same year, two GZAR delegations, headed respectively by the Party Secretary Cao Bochun and Vice Chairman Li Jinzao (= an investment delegation), visited Vietnam, Malaysia, Laos, Cambodia and Hong Kong, inviting them to participate in the CAEXPO.

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36 As of 2016, the ADB’s top three voting shareholders are Japan (12.84%), the USA (12.75%), and China (5.47%), whereas the AIIB’s top shareholders include China (26.06%), India (7.51%) and Russia (5.92%) (Wan, *The Asian Infrastructure Investment Bank*, 82).

37 Suehiro, “Nanshin Suru Chugoku,” 49. For a detailed sequence of events, see Xu and Gu, *The China – ASEAN Yearbook*, and Zheng, *The China – ASEAN Business Yearbook 2014*.

38 Masuo, “Sekai ni Tobitatsu Nanning,” 28–40.

39 Xu and Gu, *The China – ASEAN Yearbook 2004*, 91.

40 Xu and Gu, *The China – ASEAN Yearbook 2007*, 152–153.
The GZAR government succeeded in its efforts to bring ASEAN leaders together in Nanning. On October 31, all ten ASEAN leaders (including ASEAN Summit Chairman, the Sultan of Brunei), along with the Secretary General of ASEAN Ong Keng Yong, Chinese Prime Minister Wen Jiabao, Chinese Minister of Commerce Bo Xilai, the GZAR Chairman Lu Bing and the GZAR Party Secretary Cao Bochun, attended the 3rd CAEXPO opening ceremony. In my opinion, the above gathering amounted to nothing less than China-led “China–ASEAN Summit” reflecting China’s dissatisfaction with the “ASEAN + 1” model.41

Initially, CAEXPO was established to promote products and services from China and the ASEAN countries (in Table 7, total number of booths comprise (1) ASEAN companies’ booths, (2) Chinese companies’ booths, and (3) non-ASEAN foreign companies’ booths). In 2006, the number of exhibitors or booths from the ASEAN countries reached 837, while the Kunming Fair managed to attract only 207 ASEAN companies.42 Further, in the case of CAEXPO, Chinese provinces and private companies prepared 2663 booths, while non-ASEAN foreign companies set up 163 booths, so that the overall number of exhibitors reached 3663.

It must be noted, however, that the main difference between the Kunming Fair and the CAEXPO does not lie in the number of exhibitors and the scope of the exhibition, but in the CAEXPO’s structure and the political and economic intentions behind the exhibition.

CAEXPO consists of the following eight areas: (1) ASEAN countries’ pavilions, (2) ASEAN countries and China’s regional pavilions (mainly consisting of the industrial associations’ and corporate pavilions), (3) China–ASEAN Business Investment Summit, (4) “Cities of Charm” pavilion that introduce one city from each country to show their business and investment opportunities for tourism industry (since the 2nd CAEXPO), (5) an array of policy forums to discuss topical issues (e.g. financial cooperation, cross-border transportation, etc.), (6) China – the Country-of-Honor43 bilateral talks (including top-level meetings, trade and investment negotiations, etc.), (7) cultural and sports events (e.g. Golf Elites’ Invitational, tennis games, etc.), and (8) the CAEXPO opening ceremony attended by top-level representatives from each country.

By the way of illustration, let us examine closely the 8th CAEXPO held in October 21–26, 2010. Prior to the opening ceremony held in Nanning International Conference Hall on October 21, the signing of the cooperation document on China–Malaysia Qinzhou Industrial Park took place. In the afternoon of the first day, on the occasion of the 20th anniversary of China–ASEAN dialog relations, a roundtable meeting was held attended by the Prime Minister Najib Razak (Malaysia was the 8th CAEXPO Country-of-Honor), Prime Minister Wen Jiabao, Malaysian Minister of International Trade and Industry Mustapa Mohamed, Chinese Vice Minister of Commerce Gao Hucheng and selected Chinese corporate leaders. Further, 3rd China–ASEAN Financial Cooperation and Development Forum (chaired by the Head of the Bank of China) as well as other nine policy forums were held during the week-long exhibition.44

41Suehiro, “Nanshin Suru Chugoku,” 61.
42See note above 25
43A mechanism named “Country of Honor” was introduced at the 4th CAEXPO in 2007. Since then, for each CAEXPO, an ASEAN country is invited to be the CAEXPO Country of Honor.
44Suehiro, “Nanshin Suru Chugoku,” 60–61.
It must be noted here that the CAEXPO Financial Cooperation and Development Forum and the ASEAN+3 Finance Ministers’ Meeting, intentionally or unintentionally, cover similar topics. Also, the CAEXPO China–ASEAN Logistics Cooperation Forum (held for the first time on October 22 2011) addresses issues that are usually discussed during the meetings of the GMS working groups. Still, the Chinese side persists in creating China-chaired policy forums streamlining the discussion in line with China’s interest.

Another important feature of the CAEXPO is the presence of the so-called “Inland China”-type contracts. As Table 7 clearly shows, during the CAEXPO two types of contracts are concluded: (1) contracts between Chinese and ASEAN companies, and (2) contracts between China’s coastal and inland companies or “Inland China” contracts. Clearly, the number of “Inland China” contracts is much greater than the number of international contracts. For example, in 2014, the “Inland China” contracts amounted to 62% of all concluded contracts. It shows that although the CAEXPO was launched to strengthen China–ASEAN economic relations, it also serves as a platform to further the WRDP economic goals.

In other words, the purpose of the CAEXPO is twofold: (1) to facilitate the process of Sinicization in Southeast Asia, and, at the same time, (2) to contribute to China’s inland economic development.

6. In lieu of conclusion: one belt one road, AIIB and the process of Sinicization

The One Belt One Road (OBOR) initiative was first introduced by President Xi Jinping in 2013. It has two elements: (1) the Silk Road Economic Belt (SREB) (officially announced during President Xi Jinping’s visit to Kazakhstan in September 2013), and (2) the 21st Century Maritime Silk Road (MSR) (first proposed by President Xi Jinping during a speech at the Indonesian Parliament in October 2013). The SREB is a land route designed to connect China with Central Asia, Russia, the Middle East and Europe.
The MSR, on the other hand, is a sea route that connects Southeast Asia with Europe and the Mediterranean, through the South China Sea and the Indian Ocean. The OBOR initiative spans over 60 countries with the population of roughly 4.5 billion and is commonly viewed as China’s grand strategy. Further, the recently-established Asian Infrastructure Investment Bank (AIIB) is considered to be the financial arm of the OBOR.

Regarding China’s reason for launching the OBOR initiative and establishing the AIIB, several explanations have been put forward. It has been argued that the OBOR initiative was launched to counter America’s efforts to “encircle” China, best epitomized by the US “Return to Asia” strategy and the America-led Trans-Pacific Partnership (TPP). Lin Yifu (former Vice President of the World Bank), on the other hand, argues that the OBOR (interpreted as a Chinese version of the “Marshall Plan”) should facilitate economic growth in developing countries by increasing infrastructure investment worldwide. Other scholars point to the speech delivered by then President Hu Jintao during the 2012 Shanghai Cooperation Organization (SCO) Summit in Beijing, in which he proposed “to breathe new life into the ancient Silk Road.”

With regard to the AIIB, commentators believe that the Bank has the following roles to play for China’s as well as global economy: (1) to finance the growing infrastructure needs of developing countries as China progresses toward “responsible stakeholder” status, (2) to overcome Chinese economic slowdown and to invigorate the economy in the Chinese inland regions, (3) to ease the production surplus in steel industry and to reduce foreign currency reserves through overseas investment, (4) to create a reliable platform for supporting neighboring countries infrastructure projects, and (5) to fully utilize Central Asia and Southeast Asia’s natural resources with an aim of securing China’s economic development.

Whatever the reason might be, the end result was that the OBOR initiative was jointly proclaimed by the National Development and Reform Commission, the Ministry of Commerce and the Ministry of Foreign Affairs in March 2015. Two months later, in May 2015, 50 countries signed the Articles of Agreement of the AIIB.

Let us now consider the relationship between the process of Sinicization and the OBOR and the AIIB. For example, in terms of strengthening of the ASEAN’s internal connectivity, the AIIB is likely to become an important funding source for it. Consequently, it might contribute to the growth and development of the GMS economic corridors. With regard to the CAEXPO, for three consecutive years (the 11th (2014), the 12th (2015), and the 13th (2016) expos) the 21st Century Maritime Silk Road was the main theme of the gathering. It all points to the possibility that the CEAXPO, besides contributing to the strengthening of China–ASEAN relations, can also be perceived as a component of a wider maritime strategy.

In the 2000s, vis-à-vis ASEAN, China pursued a win-win economic diplomacy. In the 2010s, as can be seen from the escalation of the territorial disputes in South China

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45For a detailed account, see Ito, “Chugoku Ittaichiro”; Watanabe, “Chugoku no Shiruku Rodo”; Tanaka, “Hokoku I”; and Yukawa, “Chugoku, Ishitsu no Keizaiken”.
46For a vivid narrative of the process of the AIIB establishment in competition with the American global strategy, see Nishimura “Beichu Keizai Senso”; Kujiraoka “Dokumento TPP Kosho”; and Yoshioka “Jinmingen no Kobo”.
47As of May 2017, the Bank has 77 members.
48Zheng, The China – ASEAN Business Yearbook 2014, 436; the official website of CAEXPO (accessed on May 20, 2017).
Sea, China refocused its diplomacy on safeguarding core national interests. As discussed above, the early impetus for this shift can be traced back to President Hu Jintao’s speech in August 2006, in which he argued that “China’s diplomacy is not only about economic development, it also needs to safeguard China’s national interests and security”. With regard to the maritime disputes in South China Sea, under the United Nations Law of the Sea (UNCLOS, ratified by China in 1996), coastal states are granted 12 nautical miles of territorial sea and further 200 nautical miles of an Exclusive Economic Zone (EEZ). Clearly, there was a strong link between the 2006 speech and the “nine-dash line” claim (depicting China’s territorial claims in South China Sea) submitted by the Chinese government to the Commission on the Limits of the Continental Shelf (CLCS) in 2009. That shows how China’s maritime policy evolved from “promoting joint development through consultation” into “safeguarding territorial sovereignty and maritime rights”.

The above shift in China’s diplomatic strategy was re-confirmed by President Xi Jinping in his 2013 speech. Further, as noticed by Aoyama and Amako, to counter the U.S. strategy of refocusing to the Asia-Pacific region, China chose to strengthen its presence in Central and Southeast Asia (“advance west, head south” strategy). As a result of this strategic shift the One Belt One Road project came into existence.

As can be seen from Table 2 and Figure 1, China–ASEAN economic relations are not based on the win-win principle any more. Further, the national interests-centered approach has become even more relevant under the President Xi Jinping. Following this line of reasoning, One Belt One Road initiative can be interpreted as a device to spread the Sinicization worldwide. However, in my opinion, that is not necessarily the case.

Let us now consider the first batch of the AIIB projects approved in June 2016. Four projects were approved (in Bangladesh, Indonesia, Pakistan, and Tajikistan) with loans totaling 509 million USD. It must be noted, however, that three out of these four projects (excluding the one in Bangladesh) are “jointly funded” by the AIIB and, respectively, the World Bank, the ADB, and the European Bank for Reconstruction and Development (EBRD). Further, the AIIB aims to lend 1.2 billion USD in 2016, 2.5 billion USD in 2017, and 3.5 billion USD in 2018, which is a very modest sum of money, given the initial enthusiasm. Comparing the above figures with the ADB lending in 2015 (16.6 billion USD) and the GMS 3rd term projected loans (30 billion USD), the AIIB’s cautious approach becomes even more visible.

It seems to me that Chinese government has recently made attempts to suppress the blatant process of Sinicization. The AIIB’s cautious take-off (including its strict adherence to environmental and social safeguards) as well as the Chinese delegation’s conduct during the COP 21 Paris Conference (December 2015) aimed at reassuring the international public opinion. Further, despite Chinese government’s emotional reaction to Hague Tribunal’s rejection of China’s claims to economic rights across large swath of the South China Sea, China’s subsequent readiness to start bilateral negotiations with the Philippines did not escape the public’s attention.

Thus, in my opinion, it is incorrect to argue that China pursues the process of Sinicization in an arrogant manner. In addition, the recent shift in American strategy

49 Aoyama and Amako, “Chotaikoku,” 65.
50 Ibid., 66.
vis-à-vis China, from President Obama’s “encircling China with the TPP” to President Trump’s “withdrawing from the TPP and recognizing China as a super power,” might contribute to the toning down of American rhetoric, which in turn might result in China pursuing its OBOR-related goals in a less aggressive manner.

Given the above, it is my conclusion that Chinese government treads carefully when it comes to advancing the process of Sinicization. Largely adhering to international norms, it expands steadily China’s influence around the world.

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