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February 6, 2024

About RCAS

香港亞洲研究中心| The Hong Kong Research Center for Asian Studies (RCAS) is a nonprofit research organization focusing on Asian affairs. It is a newly established institution founded in February 2022 by Dr. Nian Peng in Haikou and subsequently moved to Hong Kong in September 2023. We currently have an international research team with nearly 100 resident/nonresident researchers from China and other countries.

RCAS aims to become a leading research institute and think tank on Asian affairs in the Indo-Pacific region. To date, RCAS has conducted research programs on maritime disputes in the South China Sea (SCS), China's relations with the Indo-Pacific states, the Belt and Road Initiative (BRI), terrorism/counterterrorism in the Afg-Pak region, and so on. It is committed to promoting maritime cooperation, regional integration, and regional peace in the Indo-Pacific region at large.

RCAS has published nearly ten books in Chinese and English and more than 20 papers in SSCI/SCOPUS/CSSCI-indexed journals. Recent English publications include *Populism, Nationalism and South China Sea Dispute: Chinese and Southeast Asian Perspectives* (Singapore: Springer Nature, 2022); *Pakistan's Foreign Policy: Contemporary Developments and Dynamics* (London: Routledge, 2022); *Crossing the Himalayas: Buddhist Ties, Regional Integration and Great-Power Rivalry* (Singapore: Springer Nature, 2021); *The Reshaping of China-Southeast Asia Relations in Light of the COVID-19 Pandemic* (Singapore: Springer Nature, 2021); *Territorial Disputes, The Role of Leaders and The Impact of Quad: A Triangular Explanation of China-India Border Escalations* (2023); *Managing the South China Sea Dispute: Multilateral and Bilateral Approaches* (2022); *China-Pakistan Cooperation on Afghanistan: Assessing Key Interests and Implementing Strategies* (2022); *Hedging Against the Dragon: Myanmar's Tangled Relations with China since 1988* (2021); and *China-Pakistan Conventional Arms Trade: An Appraisal of Supplier's and Recipient's Motives* (2020).

RCAS has also published hundreds of articles, and its researchers have been interviewed in various local and international media outlets, such as *The Diplomat* in the United States, *East Asian Forum (EAF)* in Australia, *Bangkok Post* in Thailand, *Jakarta Post* in Indonesia, *Lian He Zao Bao*, *Think China* in Singapore, *South China Morning Post (SCMP)*, *China-US Focus* in Hong Kong, *CGTN*, *Global Times*, *World Affairs* in China. RCAS researchers have actively participated in international conferences or study visits in the United States, India, Pakistan, Sri Lanka, Nepal, Myanmar, Cambodia, and other places.

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RCAS Event

Dr. Nian Peng's Views on Marcos' State Visit to Vietnam Were Cited by Japan Times

Frustrated with the slow progress in reaching a regional maritime code-of-conduct with China, Philippine President Ferdinand Marcos Jr. is turning to neighboring South China Sea claimant states to boost regional security cooperation and potentially forge a united front against Beijing at a time of growing friction in contested waters.



▲ Vietnamese soldiers wipe away rain ahead of a welcoming ceremony for Marcos at the Presidential Palace in Hanoi on Tuesday. | AFP-JIJI

A first step in this direction came Tuesday as the Philippines signed two memoranda of understanding (MoUs) on security with Vietnam that will not only deepen coastguard cooperation but also help prevent untoward incidents in the South China

Sea, where both countries have overlapping claims.

Signed during the final day of Marcos' two-day state visit to Hanoi, the deals aim to “enhance coordination on maritime issues bilaterally, within the ASEAN (Association of Southeast Asian Nations) and with other dialogue partners,” said the Philippine presidential office, noting that both sides would increase efforts to “promote trust” through dialogue and cooperative activities.

At the same time, Manila and Hanoi agreed to establish a hotline between their respective coastguards and form a joint coast guard committee to discuss common issues and interests.

But while important steps on policy coordination, the deals fall short of the “informal” bilateral code-of-conduct agreement Marcos has been proposing, experts say, arguing that there is currently little appetite by other claimant states to risk angering China and derailing talks on a wider maritime security deal with Beijing.

Before meeting Vietnam's President Vo Van Thuong, Marcos described Hanoi as Manila's “sole strategic partner” in Southeast Asia, stressing that maritime cooperation was the “cornerstone” of their relationship.

In turn, Vietnamese Prime Minister Pham Minh Chinh was quoted by Reuters as calling for greater unity and closer cooperation, arguing that the world and regional situation “are evolving in a rapid and complicated manner.”

The visit also saw the two sides sign a flurry of cultural exchange, trade and investments agreements, including a deal on rice trade to help Manila address supply concerns in times of crisis.

Marcos also welcomed interest by Vingroup, Vietnam's largest conglomerate, in

investing in the Philippines, particularly in electric vehicle battery production.

The bilateral security MoUs come at a time of heightened tensions in the South China Sea as Marcos has taken a much tougher stance than his predecessor on his country's territorial disputes with Beijing.

From laser pointers blinding Philippine sailors to collisions at sea near key military outposts, tensions have been rapidly surging in these strategically and economically important waters.

Against this backdrop, Marcos is attempting to get other Southeast Asian nations involved in Manila's fight against China. To achieve this, however, he is first aiming to lower tensions with those neighboring countries that have overlapping claims.

Experts such as Hanh Nguyen, from the Yokosuka Council on Asia Pacific Studies, view the recently signed security MoUs with Hanoi as a demonstration that South China Sea claimant states can at least temporarily put aside their differences to cooperate on maritime security.

This means that the MoUs will help both sides better understand each other's intentions and thus help prevent maritime incidents, especially involving fishermen operating in overlapping areas, Nguyen said.

Peng Nian, director of the Hong Kong-based Research Center for Asian Studies, has a similar view, noting that the main purpose of the MoUs is to manage the countries' fishing activities amid tensions over Vietnamese fishing boats entering waters claimed by the Philippines as part of its exclusive economic zone.

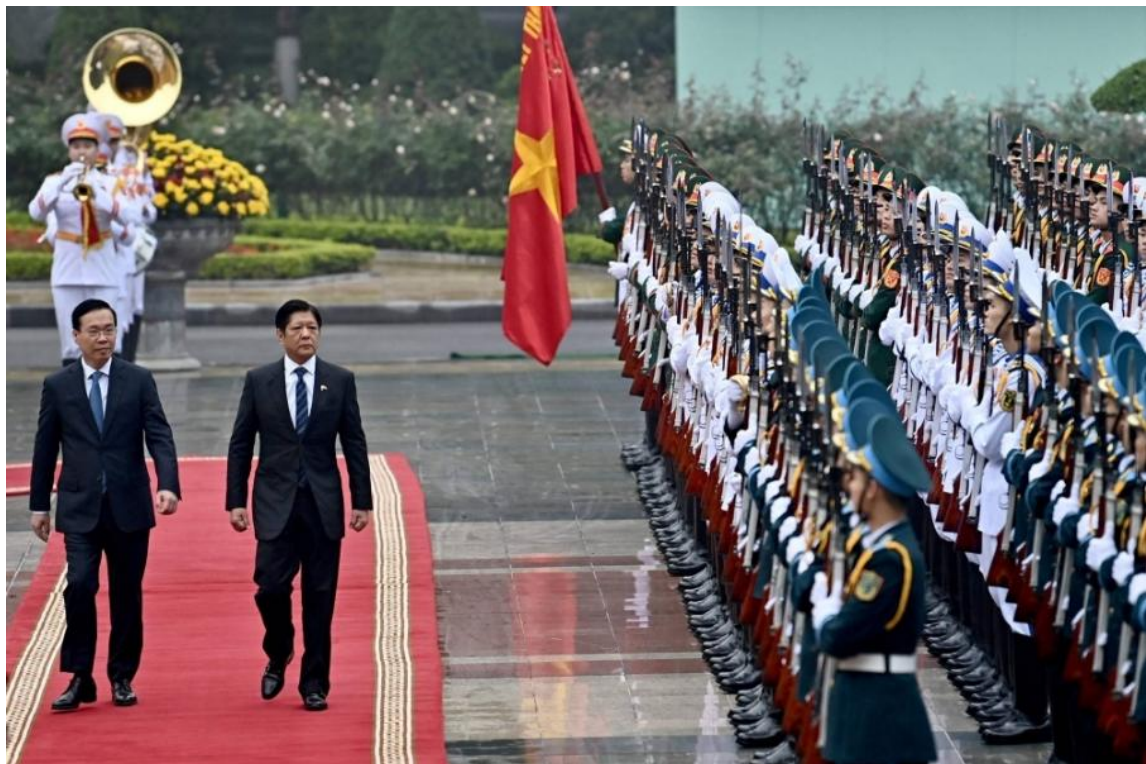
The move comes after Marcos revealed in November that Manila had approached Vietnam to craft a separate code of conduct and was hoping to extend similar talks to

other neighboring states such as Malaysia.

As the main reason for this, Marcos cited the slow pace of code-of-conduct negotiations between China and ASEAN, which have already taken more than 20 years.

Marcos' proposal, which essentially circumvents ASEAN's unanimity rule, is widely seen as part of his tougher stance on China, with the Philippine leader vowing not to cede "an inch" of territory to Beijing.

As such, Marcos has not only been bolstering his country's defense capabilities but also expanding Manila's security partnerships with the United States, Japan, Australia, and now Vietnam.



▲ Marcos (right) and Vietnam President Vo Van Thuong inspect the honor guard during a welcoming ceremony at Vietnam's Presidential Palace in Hanoi on Tuesday. | AFP-JIJI

Experts say that Manila's decision to reach out to Hanoi was no coincidence.

“The Philippines and Vietnam are the most predisposed to collaboration as there's less territorial overlap in their claims and, more importantly, both have borne the brunt of Chinese aggression,” said Zachary Abuza, a Southeast Asia expert and professor at the U.S. National War College.

This is something Japan has also recognized, singling out both countries for maritime law enforcement and coastguard cooperation. Moreover, Hanoi and Manila will be among the first beneficiaries of Japan's recently launched military aid program, which also includes reinforcing these countries' naval capabilities.

That said, experts warn against overestimating the significance of the security MoUs, particularly with regard to their potential impact on territorial disputes with China, which itself has a similar coastguard agreement in place with Vietnam.

Several analysts were also doubtful that Marcos' attempt to bypass ASEAN and craft a separate code of conduct between Southeast Asian claimant states could ultimately serve as the basis for a united front against Beijing.

“Marcos' proposal for a bilateral or multilateral code-of-conduct with just the ASEAN claimant states was greeted with relative official silence, which tells you all you need to know on its prospects with Malaysia, Brunei and Malaysia,” said Thomas Daniel, senior fellow at the Institute of Strategic and International Studies Malaysia.

The reasons for this are likely to be both externally and internally driven. On the former, Daniel said, China has repeatedly warned that any form of "ganging up" by the Southeast Asian claimants would be seen as a hostile move by Beijing and treated

as such.

This is important as many ASEAN countries would not want to sour economic relations with China and would prefer to continue balancing relations with both Beijing and Washington without formally taking sides.

On the latter, the fundamental differences between ASEAN claimants are no less significant, said Daniel, adding that the “lack of trust between them continues to impede their ability to find common ground and greater negotiating cohesion.”

Peng has a similar view, arguing that the latest security MoUs “don’t mean that Vietnam stands with the Philippines on the South China Sea disputes” or shows support for Marcos’s policy on territorial disputes.

These steps are rather “elements of Vietnam’s balancing act in the South China Sea” aimed at expanding maritime cooperation with all partners, including claimant states, he said.

Indeed, analysts view this as part of Hanoi’s “bamboo diplomacy” designed to maintain national sovereignty while remaining flexible in its international partnerships.

However, this doesn’t mean that Marcos’ diplomatic push won’t have an effect, with some arguing that it could help sort out lingering issues between other claimant states and set the stage for a more effective code of conduct among all ASEAN members down the line.

Source: Gabriel Dominguez, “Amid China concerns, Manila and Hanoi agree to better manage maritime disputes”, *Japan Times*, Jan 30, 2024, <https://www.japantimes.co.jp/news/2024/01/30/asia-pacific/politics/gabriel-vietnam-philippines/>.

RCAS Commentary

South China Sea: Return to Dialogue Vital for China-Philippines Ties

Nian Peng

With China-Philippines relations at a crossroads, Chinese Foreign Minister Wang Yi told his Philippine counterpart, Enrique Manalo, during a December 20 telephone call, that “faced with the choice of what path to follow, the Philippines must act with caution”. He added: “China has always been committed to resolving disputes through dialogue and consultation and jointly safeguarding maritime stability.”



▲Filipino Foreign Secretary Enrique Manalo listens during a bilateral meeting in Manila, Philippines, 30 October 2023. EFE-EPA FILE/FRANCIS R. MALASIG.

Wang also emphasised that, should the Philippines misjudge the situation, persist in its course or collude with external forces to foment trouble, China would “defend its rights in accordance with law and respond resolutely”.

Wang’s statement conveyed two explicit messages. First, it served as a warning to the Philippines that any escalation or persistence in provocation in the South China Sea would not be tolerated. China will respond with full vigour and take all necessary countermeasures.

Water cannon attacks, for instance, criticised by the Philippines as a dangerous manoeuvre, might become customary in disputed waters should the Philippines persist in increasing tensions or attempt to involve external actors in maritime disputes.

The second message is that Beijing will strengthen its relations with other claimant states and Asean members such as Vietnam, Malaysia and Indonesia-leaving the Philippines to fight a lonely battle.

China has been drawing closer to these three countries as part of efforts to foster a community with a shared future. There were three significant state visits: Malaysian Prime Minister Anwar Ibrahim in Beijing in March, Indonesian President Joko Widodo in Beijing in October, and Chinese President Xi Jinping in Hanoi in December. Importantly, these high-level diplomatic engagements occurred after tensions erupted between China and the Philippines in February.

Vietnam, Malaysia and Indonesia have all expressed their willingness to work with China towards the maintenance of peace and stability in the South China Sea.

It is worth noting that these three countries have neither responded to the Philippine proposal for a separate code of conduct in the disputed waters nor become part of the Philippines’ recent provocative actions against China. This is significant because all three also have separate contesting claims with China.

It is evident that the other claimants harbour no intention of provoking China in the South China Sea. Instead, they are committed to fostering economic cooperation and diplomatic engagement with China, aiming to advance economic growth and social stability within their respective territories.

In addition, positive trends have emerged in China–US relations in recent months, exemplified by the China-US summit in San Francisco in November and restoration of full military communication in December. The underlining of non-confrontation and non-conflict as foundational principles for China–US relations also underscores expectations that both countries will pragmatically manage their competition, preventing tensions from escalating.

Against this backdrop, the Philippines' aggressive behaviour in the South China Sea would be discouraged by the United States to some extent. As Manalo said during his call with Wang, he hoped to manage disputes in a way that is acceptable to both sides, to relieve tensions and prevent conflict in the South China Sea.

More recently, in an interview with Japanese media, Philippine President Ferdinand Marcos Jr pointed out that despite US assistance, the maritime dispute with China is "a purely Filipino concern" and that Manila considers it "a Philippine problem and we intend to solve that problem ourselves".

Perhaps the Philippines has come to realise the serious consequences of US military involvement in the South China Sea and is trying to keep some distance between itself and the US in its territorial disputes with China.

Notably, China has not closed the door to dialogue. If the Philippines is willing to return to the right track and jointly manage maritime disputes, China can reopen consultation with the Philippines.

In response to Wang's advice on dialogue, Manalo said he hoped to strengthen dialogue with China in good faith, give full play to the role of communication mechanisms in maritime issues between the two countries, and jointly seek solutions to problems, according to the Chinese readout. In his short official statement, Manalo described his conversation with Wang as a "frank and candid exchange".

Both sides also agreed to soon hold a meeting of the bilateral consultation mechanism on the South China Sea.

While the phone call between the two foreign ministers was significant in breaking the ice, improved bilateral ties will depend on the outcome of the coming dialogue between the two sides.

Despite the thaw, several Philippine actions continue to concern China, such as the activation of a newly installed Japanese-made radar system by the Philippine navy on the day of the phone call, to monitor vessel activities in the South China Sea. At the ceremony, Philippines' defence minister Gilberto Teodoro strongly refuted China's criticism that the Philippines had provoked tensions.

It would appear that while the Philippines is worried about growing tensions with China, it is not softening its position on the South China Sea to avoid appearing weak.

To conclude, it is too early to say if China-Philippine relations will improve as a result of the Wang-Manalo phone call. Factors including factionalism within Marcos Jr's

cabinet and the role of the US could affect the Philippines' China policy, putting relations on an uncertain trajectory. Hopefully, both sides can minimise internal and external interferences, and expedite the normalisation process.

The article was first published at South China Morning Post, Hong Kong, Jan.1, 2024,

<https://www.scmp.com/comment/opinion/article/3246759/south-china-sea-return-dialogue-vital-china-philippines-ties>.

RCAS Commentary

Marcos' New Code of Conduct for the South China Sea Is A Non-starter

Nian Peng

On 20 November 2023, Philippine President Ferdinand Marcos Jr claimed that the Philippines had approached neighbours such as Vietnam and Malaysia to craft a separate ‘code of conduct’ (COC) in the South China Sea (SCS).



▲Filipino President Ferdinand R. Marcos Jr. attends the closing ceremony of the 40th and 41st Association of Southeast Asian Nations (ASEAN) Summit and Related Summits in Phnom Penh, Cambodia on Sunday (Nov. 13, 2022). Marcos said the need for Code of Conduct in the South China Sea is becoming “more urgent.” (Photo courtesy of Bongbong Marcos Facebook page).

Speaking in Honolulu, Marcos said, ‘We are now in the midst of negotiating our own code of conduct, for example, with Vietnam because we are still waiting for the code of conduct between China and ASEAN and the progress has been rather slow

unfortunately’. He also said that Vietnam and Malaysia were among the Southeast Asian nations with which he was trying to negotiate a code of conduct to maintain peace in the SCS.

This is not the first time that Marcos has called for the COC negotiations with the Philippines’ neighbours to be pushed forward. During the 40th and 41st ASEAN summits and related summits in Phnom Penh, Cambodia on 11 November 2022, he said there was an ‘urgent need’ for the COC but did not propose creating a separate COC.

Manila is endeavouring to form alignment with its neighbours within the COC consultation process, leveraging their collective influence to oppose clauses that are advantageous to China. It also attempted to assert pressure on China to make concessions through threatening to lead a separate COC. The Philippines also aims to involve Vietnam and Malaysia in its fight against China in the SCS to strengthen its bargaining position. Through collaboration with other claimants, the Philippines also intends to stop China from taking aggressive actions in the SCS.

But Vietnam and Malaysia are unlikely to follow Marcos’ suggestions of crafting a separate COC. Despite Vietnam’s collaboration with the Philippines on the South China Sea Arbitration, it has not yet formally filed its case with the Hague Tribunal. Vietnam has not endorsed Marcos’ suggestion, though Hanoi differs in opinion from China in the COC consultation.

Unlike the Philippines, Vietnam has no intention of provoking China in the SCS. Instead, it prefers to adopt a diplomatic way to carefully managing its territorial disputes with China without undermining bilateral relations. In June 2023, the Vietnamese government cooled its maritime standoff with Chinese coast guard vessels in Wan’an Bank. Vietnam is unlikely to join the Philippines’ anti-China camp.

Malaysia has historically maintained a nonconfrontational approach to SCS disputes. Despite tensions in the SCS, the Malaysian government has consistently stressed a diplomatic solution. Since President Anwar Ibrahim assumed office in November 2022, Malaysia has maintained an even closer relationship with China. The warmth in China–Malaysia relations is evident in the frequency of high-level contacts, such as President Anwar’s meeting with Chinese President Xi Jinping in Beijing in March 2023 and the deepened cooperation on Belt and Road Initiative projects.

According to a survey conducted by the Merdeka Center on 22 November 2023, the Malaysian public is more concerned about the economic performance of the new government led by Anwar Ibrahim than its geopolitical manoeuvring. The top priority of the Anwar administration is economic growth rather than destabilising the SCS.

Both Vietnam and Malaysia were among the six participating countries in China-led maritime exercise that kicked off on 13 November 2023 in Zhanjiang, the headquarters of the Chinese navy’s South Sea Fleet. The objective of the exercise, code-named Peace and Friendship-2023, was to enhance mutual trust and cooperation to jointly safeguard regional peace and stability. It is clear that the majority of Southeast Asian nations and China are committed to maintaining peace and stability in the SCS.

Shortly after Marcos’ claims of crafting a new ‘code of conduct’, Chinese Foreign Ministry spokesperson Mao Ning warned that ‘any departure from the Declaration on the Conduct of Parties in the South China Sea framework and its spirit will be null and void’. This not only signalled China’s opposition to Marcos’ suggestions but also demonstrated Beijing’s resolve to prevent the Philippines from disturbing the COC consultation process.

Marcos’ assertions regarding the development of a new code of conduct will not only

fail to garner support from neighbouring countries but will also erode any tenuous trust that may have been forged between the Philippines and China during the brief discussions conducted between Marcos and Xi at the APEC Summit in November 2023.

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RCAS Commentary

Chinese Yuan Gains Currency in the Gulf States

Ghulam Ali

China's pursuit of internationalising the yuan, currency swaps, e-currency, cross-border deals and digitalised currency have recently made international news. These efforts are mainly on the rise with Gulf states.



▲ A clerk counts renminbi banknotes in Hai'an city in eastern China's Jiangsu province. AP

On 28 November 2023, the People's Bank of China and the Central Bank of the United Arab Emirates renewed their currency swap agreement worth US\$4.89 billion for five years. Both banks also signed a memorandum of understanding to enhance collaboration in digital currency development.

Meanwhile, the Dubai Financial Market, in collaboration with Nasdaq Dubai and the Shanghai Stock Exchange, signed a memorandum of understanding covering various areas of digital financial cooperation. China-UAE currency swap started in 2012, and in March 2023, the two sides made the first-ever purchase of liquified natural gas in yuan.

On 20 November 2023, the People's Bank of China and the Saudi Arabian Monetary Authority signed a currency swap of US\$6.98 billion for three years. In a separate

development, Saudi companies were listed on the Hong Kong Stock Exchange. Saudi Arabia is in active talks with Beijing to price some of its oil sales in Chinese yuan, a move that would dent the US dollar's dominance in the global petroleum market and mark another shift by the world's top crude exporter towards Asia.

China also has a currency swap agreement with Qatar. In addition to currency swaps, China has signed cross-border trade settlement arrangements with all six members of the Gulf Cooperation Council and has established yuan clearing centres in different cities. These measures could make the yuan a trade invoicing currency, reduce cumbersome processes and costs and create a pool of liquidity in the yuan.

The growing financial cooperation between China and Gulf Cooperation Council states is not unexpected. It is the result of steady, systematic growth over a decade and confirms deepening bilateral relations. Both sides have placed a significant premium on the digitalisation of their finances. They are taking measures to create greater space and avoid US sanctions. The Gulf region, especially the United Arab Emirates, has positioned itself as a global financial hub and is drawing investments towards it. Saudi Arabia is also striving to catch up quickly.

From the Chinese side, the Belt and Road Initiative and its energy needs pushed it towards the Gulf Cooperation Council. The Belt and Road Initiative's Action Plan stresses financial connectivity, the internationalisation of the yuan, cross-border payment agreements, financial integration and the incorporation of the yuan in the International Monetary Fund's Special Drawing Rights basket of currencies. China achieved this milestone in 2016.

In line with these goals, China launched the Yuan Cross-Border Interbank Payment System in 2015, providing a stable platform service for cross-border yuan settlement. By early 2023, this payment system boasts 1366 participants from 109 countries and regions. Additionally, the People's Bank of China has entered into currency swap agreements with the central banks or monetary authorities of 29 countries.

China initiated efforts to internationalise the yuan in 2004 and started financial cooperation with the Gulf Cooperation Council a decade later. In 2013, during his meeting with the King of Bahrain, Sheikh Hamad bin Isa al-Khalifa, Chinese President Xi Jinping emphasised the need for closer cooperation with Gulf countries. Xi reiterated this during his speech at the Arab League headquarters in 2016. Acting upon Xi's guidelines, Chinese banks and financial institutions expanded their presence, cross-border financial transactions and activities in the Gulf region.

As a result, Chinese banks have more than doubled their balance sheets in the Dubai International Financial Centre since mid-2014. By 2018, their total assets accounted for nearly a quarter of the financial centre's assets. And Chinese financial entities

have upgraded their licenses from subsidiary to branch status in the Dubai International Finance Centre.

Though these deals are moderate in volume, they demonstrate China's growing ties with the region. Beijing has institutional mechanisms with the Gulf Cooperation Council and the Arab League. Saudi Arabia and the United Arab Emirates are set to join the China-and-Russia-led BRICS in early 2024. They are also dialogue partners of the Shanghai Cooperation Organisation, with the possibility of achieving full member status in the future.

These financial agreements between China and the Gulf Cooperation Council hold great potential. They could reduce the duration and cost of transactions, mitigate risks, enhance resilience against financial crises, expand market access, promote bilateral trade and facilitate regional integration. They may serve as catalysts, encouraging other Middle Eastern countries to engage in similar deals with China.

Saudi Arabia-as one of the primary oil exporters to China-may consider adopting the yuan for oil trade in the long term, reducing dependence on the dollar. These deals will strengthen bilateral relations and indicate a shift from the petrodollar to the 'petroyuan', albeit over an extended timeframe.

The article was first published at East Asia Forum, Australia, Jan.17, 2024, <https://www.eastasiaforum.org/2024/01/17/2444504/>.