

# CHAPTER 3

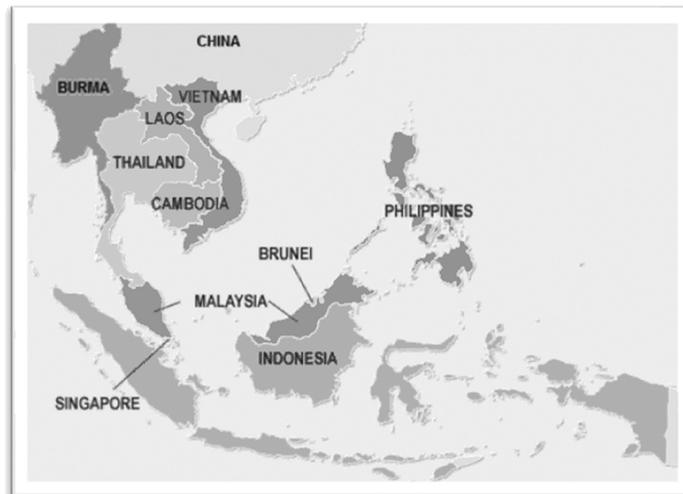
## CHINA IN ASIA

### SECTION 1: CHINA IN SOUTHEAST ASIA

#### Introduction

Through a combination of hearings, two fact-finding trips to East Asia, and research over the past year, the Commission learned about recent changes to China's relationship with the nations of Southeast Asia and how this may impact U.S. interests in the region. Despite a tumultuous history between China and Southeast Asia (see textbox for more details), Beijing has taken significant measures to improve its ties with the region in recent years. It has pursued these measures in order to further China's political, economic, energy, and security interests in the region. Beijing has worked to engage Southeast Asia diplomatically, to become more involved in regional organizations, to increase trade and investment, to develop energy partnerships, and to explore opportunities for military and security cooperation. Although these activities have increased Beijing's influence in Southeast Asia, many tensions still exist between Southeast Asian nations and China and, with some countries, the tensions are growing.

Figure 1: Map of Southeast Asia



Source: ASEAN [Association of Southeast Asian Nations]-Japan Center, "Introduction of the ASEAN Member Countries." <http://old.asean.or.jp/eng/general/info/index.html>.

This section of the Commission's Report will describe China's interests and activities in the region and how they may affect U.S. interests in Southeast Asia. For the purpose of this Report, Southeast Asia is defined as the region including the following countries: Brunei, Burma (Myanmar), Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

#### **Historical Legacy of China-Southeast Asia Relations**

Immediately following the establishment of the People's Republic of China in 1949, China's main interaction with Southeast Asia was its support for Communist insurgencies in Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. By the early 1990s, China had resumed formal ties with all of the nations of Southeast Asia, including Vietnam, with whom it had fought a brief, but bloody, war in 1979. Nevertheless, as China began to develop economically and militarily, its neighbors to the south began to view its growing strength as a potential threat. Southeast Asian views of China's aggressiveness were reinforced by Beijing's attempts to exercise sovereignty claims during the Taiwan Strait crisis in 1995–1996 and more recently in the South China Sea.<sup>1</sup>

In the late 1990s, Beijing took several steps to assuage Southeast Asian concerns that China could be a destabilizing force in the region. In 1997, the Asian financial crisis hit, severely affecting the economies of Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. China's response, which included a decision not to devalue its currency, to make contributions to International Monetary Fund (IMF) rescue plans, and to give additional financial support to Thailand, significantly reduced Southeast Asian apprehension.<sup>2</sup> In the late 1990s, China also unveiled its "New Security Concept," asserting that Beijing would use economic and diplomatic interaction to increase security in the region and would promote dialogue above the use of force. The concept resonated with the countries of Southeast Asia and, combined with Chinese actions during the Asian financial crisis, allowed Beijing dramatically to improve its image in the region.<sup>3</sup>

#### **China's Political Objectives and Activities in Southeast Asia**

China has three major political objectives in Southeast Asia. First, Beijing seeks to pull Southeast Asia into its sphere of influence. As Beijing increases its influence in the region, it also is able to maneuver more freely to achieve wider political, economic, and security goals. In addition, Beijing can ensure that Southeast Asian nations do not act in ways that are counter to these interests. While experts differ on whether China wishes to assert dominance over the region, it is clear that China is interested in being a prominent extraregional actor in Southeast Asia in order to balance influence from the United States, Japan, Australia, the European Union, and India. This allows China to compete more effectively in the region when its interests conflict with those of the other extraregional actors.<sup>4</sup>

A second political objective for China is portraying itself as a peaceful neighbor. According to Andrew Scobell, then associate professor at Texas A&M University, in the late 1990s “China recognized that it possessed an image problem in [Southeast Asia]” due to its aggressive actions in the region and its rapid economic growth.<sup>5</sup> As a result, Beijing has been working to convince Southeast Asian nations that its economic growth and military modernization efforts do not pose a threat to the status quo. In doing so, Beijing hopes to prevent political backlash from Southeast Asians against its broader policies in the region.<sup>6</sup>

Thirdly, China looks to isolate Taiwan from becoming an international actor and to deter Southeast Asian nations from engaging with what China considers a rogue province. Indeed, since the late 1990s when China stepped up its political engagement with the region, Southeast Asian nations have been more reluctant to engage Taiwan. Bronson Percival, senior advisor at the Center for Naval Analysis, maintains that:

*By the start of the new century, Beijing was in a position to block all visits by Taiwan’s President to Southeast Asia, and no head of state or government in Southeast Asia visited Taiwan. Moreover, Southeast Asian leaders and officials were increasingly reluctant to meet with their lower-ranking Taiwanese counterparts.<sup>7</sup>*

In addition, Southeast Asian nations have been reluctant to incorporate Taiwan into regional organizations and negotiate free trade agreements with the island because of a possible political backlash from Beijing.<sup>8</sup> In late August 2010, however, Singapore and Taiwan announced that they were beginning negotiations for a free trade agreement.<sup>9</sup> The Philippines also has announced that it is considering a trade agreement with Taiwan.<sup>10</sup> During the Commission’s July 2010 trip to China, an official from China’s Ministry of Foreign Affairs stated that China resolutely opposes Taiwan’s signing free trade agreements with any government.

In order to promote the aforementioned objectives, China employs a number of political tools to engage Southeast Asian nations. Diplomatic visits are a large component of this political activity. Since 2009, senior-level Chinese leaders have visited all ten countries in Southeast Asia on almost 30 trips to the region.<sup>11</sup> During many of these visits, Chinese leaders signed agreements to provide development aid and preferential loans to the host country. China distributes a large portion of this aid to the poorer mainland Southeast Asian countries.\* Although Beijing does not publicly release foreign aid data, according to Thomas Lum of the Congressional Research Service, “China is considered to be the primary economic patron of the small but strategically important nations of Burma, Cambodia, and Laos.”<sup>12</sup> Chinese aid is given without requiring any accompanying political or human rights standards.<sup>13</sup> This approach has the potential to undermine U.S. interests in promoting democracy and human rights in the region. For example, in 2003, China provided Burma with a \$200 million loan after the United States

\*For the purposes of this report, mainland Southeast Asia includes Burma, Cambodia, Laos, Thailand, and Vietnam. Maritime Southeast Asia includes Brunei, Indonesia, Malaysia, the Philippines, and Singapore.

imposed sanctions against Burma for human rights violations.<sup>14</sup> In addition, in December 2009, Chinese Vice President Xi Jinping traveled to Cambodia to announce \$1.2 billion in aid and loans for Cambodia.\* Only one day prior to Vice President Xi's arrival, Cambodian authorities forcibly deported 20 Uighur asylum seekers to China.<sup>15</sup> Prior to this forced return, the United Nations (UN) High Commissioner for Human Rights had expressed concern to the Cambodian government about the potential deportations to China. Both China and Cambodia are signatories of the 1951 UN Convention on the Status of Refugees, which obligates parties to cooperate with the UN High Commissioner for Human Rights.<sup>16</sup>

**Table 1: Chinese High-Ranking Official Visits to Southeast Asia  
January–September 2010**

Date	Description
Jan. 2010	Vice Minister of Foreign Affairs Dai Bingguo visited Singapore, Indonesia, and Brunei
Mar. 2010	Vice Premier of the State Council and member of the Political Bureau of the Communist Party of China (CPC) Central Committee Hui Liangyu visited Cambodia
Apr. 2010	Vice Minister of Foreign Affairs Song Tao attended the first Mekong River Commission Summit in Thailand
May 2010	Director of the General Political Department of the People's Liberation Army (PLA) and member of the Central Military Commission Li Jinai visited Vietnam
May 2010	Vice Chairman of the Central Military Commission and member of the Political Bureau of the CPC Central Committee Guo Boxiong visited Singapore
May 2010	Vice Minister of Public Security Zhang Xinfeng visited Cambodia
Jun. 2010	Premier of the State Council and member of the Standing Committee of the Political Bureau of the CPC Central Committee Wen Jiabao visited Burma
Jun. 2010	Vice President and member of the Standing Committee of the Political Bureau of the CPC Central Committee Xi Jinping visited Laos
Jun. 2010	Deputy Chief of General Staff of the PLA Ma Xiaotian visited Singapore
Jun. 2010	Vice Minister of Transportation Gao Hongfeng visited Cambodia
July 2010	Minister of Foreign Affairs Yang Jiechi attended the Association of Southeast Asian Nations (ASEAN) Foreign Ministers' meeting in Vietnam
Aug. 2010	Minister of Commerce Chen Deming visited Vietnam

Sources: Ministry of Foreign Affairs of the People's Republic of China, "Diplomatic Agenda, Activities." <http://www.fmprc.gov.cn/eng/wjdt/wsrc/default.htm>; Robert Sutter and Chin-Hao Huang, "China-Southeast Asia Relations: Senior Official Visits; South China Sea Tensions," *Comparative Connections* 12:2 (June 2010): 74–76.

\* Only a small portion of this amount qualifies as Official Development Assistance, as laid out by the Organization for Economic Cooperation and Development. However, because China does not release official figures for aid, it is unclear how much of this amount includes concessional loans (which qualify as Official Development Assistance) rather than export buyers' credits and nonconcessional loans (which do not qualify as Official Development Assistance).

China also actively engages with several regional organizations that are an essential part of Southeast Asia's interactions with the rest of the world. The primary regional forum China interacts with is the Association of Southeast Asian Nations (ASEAN). While not a member of ASEAN, China has engaged actively with the group since 1991 and has held a total of 12 China-ASEAN summits.<sup>17</sup> Chinese ministers often attend ASEAN meetings as guests of individual member countries. China uses these summits to enhance economic and trade cooperation, promote infrastructure development, and improve people-to-people contacts between the two sides.<sup>18</sup> In addition to ASEAN, China has become a member of other regional forums, such as ASEAN+3, the East Asian Summit, and the ASEAN Regional Forum. (See textbox below.) Chinese foreign policymakers view participation with regional forums as a diplomatic opportunity to improve ties and gain leverage in the region by demonstrating Beijing's willingness to follow Southeast Asian norms.<sup>19</sup> These forums also provide Beijing with the opportunity to engage in bilateral discussions with other members on the sidelines.<sup>20</sup> In addition, by becoming more involved in regional groups, Beijing precludes meaningful involvement by Taiwan in these institutions and gives China an opportunity to engage with its Asian neighbors without U.S. involvement.<sup>21</sup>

#### **Southeast Asian Regional Forums**

**ASEAN**—Founded in 1967, the Association of Southeast Asian Nations includes Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. ASEAN has characterized its style of diplomacy as the “ASEAN Way,” which emphasizes informality, consensus, nonintervention in foreign affairs, and moving at a pace that is comfortable for all members.<sup>22</sup>

**ASEAN+3**—ASEAN+3 was established in 1997 and consists of the ten members of ASEAN plus China, South Korea, and Japan. The leaders of the 13 nations meet annually to discuss major international and regional concerns, including transnational crime, finance issues, energy, rural development and poverty eradication, and disaster management.<sup>23</sup> According to Ellen Frost, visiting fellow at the Peterson Institute for International Economics, “ASEAN+3 is the most institutionalized [of the Southeast Asian regional forums], the most active in different fields and at different levels, and the most effective.”<sup>24</sup>

**East Asian Summit**—The East Asian Summit was founded in 2005 and consists of the 13 members of ASEAN+3, Australia, India, New Zealand, Russia, and the United States.\* The summit is held after the annual meetings of ASEAN heads of state. Several western analysts have described the East Asian Summit as a “talk shop” that does not produce concrete policies, or as a “dinner followed by 16 speeches.”<sup>25</sup>

\*The United States and Russia joined the East Asian Summit in July 2010.

### **Southeast Asian Regional Forums—Continued**

**ASEAN Regional Forum**—Founded in 1994, the ASEAN Regional Forum groups together 27 nations' foreign ministers to discuss regional security issues. Included among its members are the members of the East Asian Summit group, the United States, the European Union, Russia, and several other countries, including North Korea.\* According to Dr. Frost, "Its members prevent any discussion of genuine military threats, notably those stemming from China-Taiwan relations and North Korean nuclear weapons . . . For [this] reason, the [ASEAN Regional Forum] has been declared dead or dying many times."<sup>26</sup>

**Shangri-La Dialogue**—The Shangri-La Dialogue is an annual security dialogue in Singapore between defense ministers, military officers, diplomats, and academics in the Asia-Pacific region.† The meeting was first held in 2002 and is organized by the International Institute of Strategic Studies, a think tank based in the United Kingdom. At the most recent Shangri-La Dialogue in June 2010, over 300 top military officials and analysts from a total of 27 countries discussed an array of security issues in Asia, including North Korea, disputes in the South China Sea, and U.S.-China military cooperation.<sup>27</sup>

Another tool that China uses is the promotion of Chinese culture in Southeast Asia. Two methods Beijing employs to accomplish this are (1) attracting Southeast Asian students to study in China and (2) establishing Chinese-language schools in the region. China has lowered barriers for foreign students to obtain visas and offered financial aid for Southeast Asians to study in China. From 2007 to 2009, the number of Indonesian students receiving visas to study in China increased by more than 30 percent, to 7,900 students.‡<sup>28</sup> According to testimony from Deputy Assistant Secretary of State for East Asian and Pacific Affairs David Shear, almost 10,000 more Thai students now study in China than in the United States.<sup>29</sup> In addition, China has sponsored the establishment of 31 "Confucius Institutes" in Southeast Asia, 23 of which are located in Thailand. These institutes are funded by China's Ministry of Education and are intended to promote the study of Chinese language and culture throughout the world.<sup>30</sup> Joshua Kurlantzick, fellow at the Council on Foreign Relations, has argued that Confucius Institutes are an important tool for China to increase its soft power abroad.<sup>31</sup>

\*The members of the ASEAN Regional Forum are Australia, Bangladesh, Brunei, Burma, Cambodia, Canada, China, the European Union, India, Indonesia, Japan, North Korea, South Korea, Laos, Malaysia, Mongolia, New Zealand, Pakistan, Papua New Guinea, the Philippines, Russia, Singapore, Sri Lanka, Thailand, Timor Leste, the United States, and Vietnam.

†Since the first meeting in 2002, the countries that have participated in the Shangri-La Dialogue include Australia, Bangladesh, Brunei, Burma, Cambodia, Canada, Chile, China, France, Germany, India, Indonesia, Japan, Laos, Malaysia, Mongolia, New Zealand, Pakistan, the Philippines, Russia, Singapore, South Korea, Sri Lanka, Thailand, Timor Leste, the United Kingdom, the United States, and Vietnam.

‡There were 7,700 students from Indonesia studying in the United States in 2009.

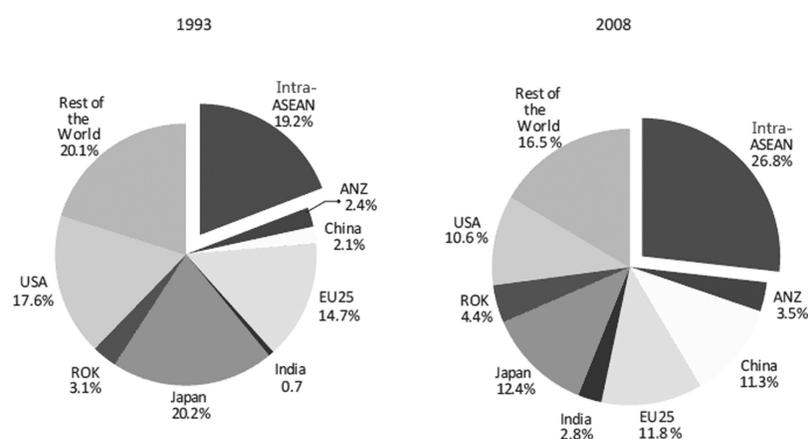
## China's Economic Objectives and Activities in Southeast Asia

China is heavily involved in trade, investment, and financing of development in both mainland and maritime Southeast Asia. These commercial activities not only provide profits for Chinese companies but also support the building of infrastructure to facilitate Chinese trade in energy and natural resources.

### Chinese Trade with Southeast Asia

One of China's primary objectives in the region is increasing trade. In testimony to the Commission, Walter Lohman, director of the Asian Studies Center at The Heritage Foundation, stated that "(t)he first three priorities for ASEAN are trade, trade, and trade."<sup>32</sup> From 1993 to 2008, China's share of total ASEAN trade increased from 2 percent to 11 percent (see figure 2 below). In 2008, trade between China and Southeast Asia totaled \$192.67 billion, making it the region's largest trading partner.<sup>33</sup> Southeast Asia holds a \$21.06 billion trade deficit with China (see table 2 below).<sup>34</sup> A large portion of Chinese exports from Southeast Asia to China consists of natural resources, including timber, coal, coke, copper, and rubber.<sup>35</sup> However, China is increasingly importing manufactured products from maritime Southeast Asia, reflecting China's move toward higher value-added production. These products include parts for office machines, electronic microcircuits, and parts for telecommunications equipment.<sup>36</sup> The majority of Chinese exports to ASEAN consists of electronics equipment.<sup>37</sup>

**Figure 2: Share of ASEAN Trade with Selected Trade Partners, 1993 and 2008**



NOTES: Australia and New Zealand=ANZ. Republic of Korea=ROK. Percentages for ASEAN include the amount of trade that ASEAN countries conduct with one another.

Source: Adapted from ASEAN Secretariat, "ASEAN Economic Community Chartbook 2009" (Jakarta, Indonesia: September 2009).

\* In comparison, the U.S. share of trade with ASEAN decreased from 18 percent to 11 percent from 1993 to 2008. In 2009, ASEAN held a \$14.83 billion trade surplus with the United States.

**Table 2: Chinese Trade with Southeast Asian Countries in 2008**  
(in billions of US dollars)

Country	Imports from China	Exports to China	Trade Balance	Total Trade	% of Total Trade with China
Brunei	\$0.17	\$0	-\$0.17	\$0.17	0.09%
Burma	\$0.67	\$0.5	-\$0.17	\$1.17	0.61%
Cambodia	\$0.93	\$0.01	-\$0.92	\$0.95	0.49%
Indonesia	\$15.25	\$11.64	-\$3.61	\$26.88	13.95%
Laos	\$0.13	\$0.02	-\$0.01	\$0.15	0.08%
Malaysia	\$18.65	\$18.42	-\$0.23	\$37.07	19.24%
Philippines	\$4.25	\$5.47	\$1.22	\$9.72	5.04%
Singapore	\$31.58	\$29.08	-\$2.5	\$60.67	31.49%
Thailand	\$19.94	\$15.93	-\$4.09	\$35.87	18.62%
Vietnam	\$15.55	\$4.49	-\$11.06	\$20.04	10.4%
<b>Total</b>	<b>\$107.11</b>	<b>\$85.56</b>	<b>-\$21.55</b>	<b>\$192.67</b>	<b>100%</b>

Source: Adapted from ASEAN Secretariat, "ASEAN Community in Figures 2009" (Jakarta, Indonesia: February 2010). <http://www.aseansec.org/publications/ACIF2009.pdf>.

Trade is likely to increase in the coming years because of the China-ASEAN Free Trade Agreement, which came into full effect on January 1, 2010. In testimony to the Commission, Ernest Bower, senior advisor at the Center for Strategic and International Studies, noted that this agreement has lower-level commitments than what the United States considers a free trade agreement.\* Nevertheless, he stated:

*[The China-ASEAN Free Trade Agreement] creates an economic region of 13 million square kilometers with 1.9 billion consumers, a regional GDP [gross domestic product] of about \$6 trillion. . . . It is also the biggest [free trade agreement] in the world in terms of population size and the third largest in terms of economic value after [the European Union] and [the North American Free Trade Agreement]. The China-ASEAN Free Trade Agreement may not be comprehensive, but its impact is practical and it is clearly having a strong impact on the economic integration of China and ASEAN and East Asia generally.<sup>38</sup>*

While the total volume of trade is likely to increase, there may be numerous negative implications as well. Some Southeast Asian countries, such as Indonesia and Vietnam, have expressed reservations about the preferential trade agreement because of increased competition from China in industries such as textiles, food, and electronics.<sup>39</sup> During the Commission's December 2009 trip to Vietnam, officials from Vietnam's Ministry of Industry and Trade stat-

\* China first proposed the China-ASEAN Free Trade Agreement in 2000. By 2004, the two sides began reducing tariffs on more than 7,000 goods. Despite coming into full effect in January 2010, the China-ASEAN Free Trade Agreement postpones the cutting of tariffs for the four poorest ASEAN members (Burma, Cambodia, Laos, and Vietnam) until 2015. In addition, each Southeast Asian nation may list dozens of sensitive areas where tariffs can still apply, from ports to cars to popcorn.

ed that Hanoi is already concerned about Vietnam's trade deficit with China, which reached \$11.1 billion in 2008 and formed a significant portion of Southeast Asia's total deficit with China. The China-ASEAN Free Trade Agreement may further widen this deficit.<sup>40</sup> Some analysts assert that the preferential trade agreement could also cause damage to U.S. manufactured exports in certain product areas, such as autos and auto parts. One modeling exercise estimated trade losses for the United States up to \$25 billion annually.<sup>41</sup>

### **China's Foreign Direct Investment in Southeast Asia**

Unlike its growing trade figures, China's foreign direct investment in Southeast Asia is relatively small. According to the ASEAN Secretariat, in 2008, China's annual foreign direct investment in Southeast Asia was \$2.11 billion, of which approximately 60 percent was in Singapore.\* Burma and Cambodia received the second- and third-largest foreign direct investments from China in Southeast Asia, at 9 percent and 8 percent, respectively.<sup>42</sup> China's cumulative foreign direct investment from 2007–2009 was less than a quarter of what the United States and Japan each invested, and one sixth of what the European Union invested in the same period.<sup>43</sup> However, China has taken several steps to increase its investment figures. At the most recent China-ASEAN Summit, China pledged up to \$25 billion in investment and commercial credits over the next three to five years.<sup>44</sup> In addition, the August 2009 China-ASEAN Investment Agreement commits China and ASEAN governments to protect foreign direct and portfolio investments and compensate for damages caused by civil disturbances.<sup>45</sup> It is still unclear whether the pledge and the investment agreement have led to tangible increases in investment.

Another main component of China's economic interaction with Southeast Asia is providing financial loans, many of which are for infrastructure development projects. These projects both facilitate trade with China and create business opportunities for Chinese companies. As part of the China-ASEAN Investment Agreement, the Export-Import Bank of China created a private equity fund, with the goal of raising \$10 billion to finance infrastructure development in Southeast Asia. These funds will go toward infrastructure projects in mainland Southeast Asia, such as the construction of harbors in the Mekong River subregion, and railways and highways that connect Vietnam and southwestern China.<sup>46</sup> Several of these agreements for joint infrastructure projects with mainland Southeast Asian governments contain provisions for upwards of 30,000 Chinese workers and their families to be settled on special "plantations" in the region, depriving local workers of employment

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\*There is disagreement among analysts as to whether this figure represents total Chinese foreign direct investment in Southeast Asia. According to Derek Scissors, research fellow at the Heritage Foundation, "The Chinese figure for direct investment into ASEAN is almost certainly too low, and by a notable amount. In all Chinese investment data to this point, Hong Kong is treated as a final destination, rather than a transit point. This is wildly inaccurate, producing results where a metropolitan area of 7 million people absorbs 70 percent of all Chinese outward investment, or \$38 billion in 2008 alone. Some of the money counted as investment in Hong Kong no doubt made its way to ASEAN, and a better estimate of the level of Chinese [foreign direct investment] in ASEAN [in 2008] is \$3.1 billion." Derek Scissors (research fellow at the Heritage Foundation), e-mail interview with Commission staff, October 5, 2010.

on these projects.\*<sup>47</sup> China has also financed projects in maritime Southeast Asia. In the Philippines, the Export-Import Bank of China lent \$500 million to rehabilitate the Philippine National Railway's north line.<sup>48</sup> In addition, China and Indonesia agreed to maximize the allocation of \$1.8 billion of preferential export buyers' credits to finance power plant and toll road construction in Indonesia.<sup>49</sup> Mr. Bower testified that these projects are generally welcomed, but can often overlook the interests of Southeast Asians:

*Too often, Chinese funds are used to build unnecessary projects that serve political rather than practical requirements. These projects support local politicians and Chinese contractors and labor, but not the indigenous population.*<sup>50</sup>

In addition to bilateral financing agreements, China has also committed to being involved in the Chiang Mai Initiative, a multilateral currency swap agreement. Donald Weatherbee, professor emeritus at the University of South Carolina, testified that the initiative is a regional alternative to the IMF for the members of ASEAN+3.<sup>51</sup> It originally was established as a series of bilateral currency swap agreements designed to help manage balance of payments after the Asian financial crisis. However, in 2009, the ASEAN+3 finance ministers agreed to multilateralize the Chiang Mai Initiative and increase the pool of reserves to \$120 billion, of which China will contribute \$38.4 billion.<sup>†</sup><sup>52</sup>

### **China's Energy Objectives and Activities in Southeast Asia**

A major component of China's trade and investment activity in Southeast Asia is in the energy sector. Southeast Asia has abundant oil and gas reserves. Proven reserves exist in six of the ten countries in ASEAN. In addition, the international waters of the South China Sea have at least 28 billion barrels of oil, with one Chinese study placing the amount as high as 213 billion barrels.<sup>53</sup> The U.S. Energy Information Agency estimates natural gas resources in the South China Sea to be almost 900 trillion cubic feet.<sup>54</sup>

Seeking to meet its growing domestic energy demands and enhance energy security, China is actively working to acquire Southeast Asian oil, natural gas, and coal resources. Chinese oil and gas companies currently have exploration and production agreements with seven of the ten ASEAN countries (see table 3 below).<sup>55</sup> Chinese companies also have coal mining operations in all of the ASEAN countries except Singapore and Brunei (both of which lack coal reserves).<sup>56</sup> In the South China Sea, China has partnered with Vietnam and the Philippines to conduct joint seismic surveys and has considered trilateral oil and gas exploration in the sea. How-

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\* Catharin Dalpino testified to the Commission that these agreements serve as a "population pressure valve" for China's southern provinces. Not only does Chinese migration into Southeast Asia ease population growth, but it also provides opportunities for unemployed Chinese workers. U.S.-China Economic and Security Review Commission, *Hearing on China's Activities in Southeast Asia and the Implications for U.S. Interests*, written testimony of Catharin Dalpino, February 4, 2010.

† The other contributors to the fund include Japan (\$38.4 billion), South Korea (\$19.2 billion), Indonesia (\$4.8 billion), Singapore (\$4.8 billion), Thailand (\$4.8 billion), Malaysia (\$4.8 billion), Brunei (\$30 million), Cambodia (\$120 million), Laos (\$30 million), the Philippines (\$3.68 billion), and Vietnam (\$1 billion).

ever, due to territorial disputes\* and domestic opposition in the Philippines to joint exploration, Chinese investment in the South China Sea has been limited to areas off the coast of Hong Kong.<sup>57</sup> (For more information on the territorial disputes in the South China Sea, see the subsection later in this chapter.)

Despite Chinese companies having investments in many countries, only 3 percent of China's total oil imports come from the Asia Pacific, down from 11.5 percent in 2004.<sup>†</sup><sup>58</sup> Liquefied natural gas imports from Southeast Asia account for 24.9 percent of China's total gas imports.<sup>59</sup> However, as China attempts to curb its reliance on heavy carbon-emitting sources, such as coal, it is likely that its imports of cleaner natural gas from Southeast Asia will increase.<sup>60</sup> (For more information on China's clean energy efforts, see chap. 4, sec. 1, of this Report.)

**Table 3: Select Oil and Gas Investments by China in Southeast Asia**

Country	Description
Burma	China National Petroleum Corporation (CNPC) is building an oil pipeline and a natural gas pipeline that will cost a combined \$5 billion and connect to China's Yunnan Province. <sup>61</sup> The company also has production-sharing contracts for oil and gas exploration in three deep-water blocks in Burma. <sup>62</sup>
	In 2004, China Petroleum and Chemical Corporation (Sinopec) signed an agreement to explore for oil and gas in Burma's Rakhine State. The company has drilled three wells in northwest Burma, two of which have produced both oil and gas. <sup>63</sup>
	China National Offshore Oil Corporation (CNOOC) has signed memoranda of understanding for exploration and production in six petroleum blocks, two of which are part of a Sino-Singaporean consortium. <sup>64</sup>
Cambodia	In 2007, CNOOC signed an agreement with the Cambodian government to undertake oil and gas exploration in an offshore block in Cambodia. <sup>65</sup>
Indonesia	CNPC has investments in eight blocks in Indonesia and operates six of them. <sup>66</sup> The company will increase investment in oil and gas exploration and production in Indonesia by 30 percent in 2010, with total investments worth \$639 million. <sup>67</sup>
	Citic Resources reported to have found six million barrels of recoverable crude oil off of Seram Island and has plans to drill four more wells in Indonesia. <sup>68</sup>
	Sinopec has a joint venture with an Indonesian state-owned company for joint oil production and the development of a \$1.1 billion refinery in East Java. <sup>69</sup>
	CNOOC has invested in eight blocks and operates two blocks in Indonesia, making it the country's largest offshore oil producer. In 2006, the company signed an agreement to buy 2.6 million tons of liquefied natural gas from BP's Tangguh project in Indonesia. <sup>70</sup>

\*Parts of the South China Sea are claimed by China, Brunei, Indonesia, Malaysia, the Philippines, Taiwan, and Vietnam.

†The percentage of China's energy imports from Asia has declined as China has diversified its imports to include more supplies from the Middle East and Africa. Reserves of oil from these regions are more abundant, and crude is less expensive than supplies in Asia.

**Table 3: Select Oil and Gas Investments by China in Southeast Asia—Continued**

Country	Description
Laos	Citic Resources has a majority stake in one oil block and has invested \$97.4 million in exploration and production in Laos. <sup>71</sup>
Malaysia	In 2009, CNPC signed a \$6 billion, 20-year deal to buy oil products from a planned refinery in northwest Malaysia. <sup>72</sup>
Singapore	In 2009, CNPC bought a minority stake in Singapore Petroleum Co. for \$1.1 billion. <sup>73</sup>
	Sinopec currently is in talks to build a large refining and petrochemical complex in Singapore. <sup>74</sup>
	In 2007, CNOOC signed a production-sharing contract with Singapore Petroleum Co. for an oil block in the South China Sea. <sup>75</sup>
Thailand	CNPC has investments in three oil and gas blocks in Thailand. <sup>76</sup>
Vietnam	Sinopec is part of a joint venture to build a \$4.5 billion petrochemical complex in Vietnam. <sup>77</sup>
	In 2006, CNOOC signed an agreement with PetroVietnam to explore the Gulf of Tonkin for oil and gas. <sup>78</sup>

Source: USCC staff compilation from various sources. For more information, see footnotes 61–78.

China also hopes that its energy production in mainland Southeast Asia will serve as a means of providing alternative supply routes, thus avoiding the need to transport oil and gas through maritime chokepoints. Currently, 80 percent of Chinese oil imports are shipped through the Malacca Strait, which separates Singapore and Malaysia from Indonesia.<sup>79</sup> In November 2003, President Hu Jintao highlighted what became dubbed as the “Malacca Dilemma,” noting that if “certain major powers” were bent on controlling the strait, China would have no independent source of energy except for what it could get over land.\*<sup>80</sup> As discussed in the Commission’s 2009 Annual Report, Chinese security analysts continue to be concerned about this energy insecurity.<sup>81</sup> To help address this problem, China National Petroleum Corporation (CNPC) has begun constructing a 690 mile crude oil pipeline and a 1,123 mile natural gas pipeline that will travel across Burma and connect to China’s Yunnan Province. The \$5 billion pipelines are estimated to be completed in 2013 and to deliver 22 million tons of crude oil and 39 billion cubic feet of natural gas per year to China.†<sup>82</sup> The project is likely to generate about \$1 billion or more in annual revenue for Burma’s government over 30 years. The annual payment is the equivalent of one-third of the country’s foreign exchange reserves.<sup>83</sup>

\* Analysts consider President Hu’s reference to “certain major powers” to mean the United States and India.

† Of note, delivering oil to Yunnan Province through the Burma pipeline could cost more than \$4 per barrel, whereas shipping oil from the Middle East or Africa to Guangdong Province is less than \$2 per barrel.

### China's Military and Security Activities in Southeast Asia

In order to support its various interests and goals in the region, China is involved in a number of military and security activities in Southeast Asia. Deputy Assistant Secretary of Defense for South and Southeast Asia Robert Scher testified to the Commission that “most Southeast Asian states are receptive to China’s defense engagement . . . and view defense ties as a natural complement to China’s increasing economic and diplomatic engagement.”<sup>84</sup> Indeed, China has a comprehensive security relationship with Burma and military ties with Thailand and Vietnam. In recent years, it has also reinvigorated defense ties with Cambodia and Laos. Additionally, according to Mr. Percival, China is beginning a “baby-step” military-to-military relationship with Indonesia, Malaysia, the Philippines, and Singapore.<sup>85</sup>

Several examples of China’s defense cooperation with Southeast Asia include the following:

- *Military diplomacy*—China is a member of the ASEAN Regional Forum, the main regional forum for security cooperation in Southeast Asia. ASEAN Regional Forum meetings have resulted in only modest collaboration, leaving Beijing’s chief military diplomacy efforts to occur on a bilateral basis.<sup>86</sup> Senior Chinese military officials have visited each of the ten countries in Southeast Asia in the past three years.<sup>87</sup> In addition, in the past decade, the People’s Liberation Army (PLA) Navy has conducted several port calls in the region to serve as a visible reminder of China’s presence.<sup>88</sup>
- *Arms sales*—Between 2000 and 2008, China sold an estimated \$264 million worth of arms to Southeast Asian countries. Of this total, over 60 percent were sold to Burma.\*<sup>89</sup> Deputy Assistant Secretary of Defense Scher noted that weapons and military equipment sales “can often serve ends that are inconsistent with [those of the United States] as we seek to promote stability, good governance, rule of law, and respect for human rights.”<sup>90</sup> For example, in June 2010, China provided Cambodia with 257 military trucks after the United States cancelled a similar shipment when the Cambodian government deported a group of Uighurs back to China.<sup>91</sup> Nevertheless, most Southeast Asian countries, especially in maritime Southeast Asia, prefer more sophisticated weaponry from Russia and the United States.<sup>92</sup>
- *Nontraditional security cooperation*—China has pursued cooperation with Southeast Asia on issues such as epidemics, terrorism, piracy, and illicit trafficking. In 2002, China and ASEAN signed the *Joint Declaration on Nontraditional Security Issues*, which enhances intelligence-sharing, training, and other forms of cooperation to curtail transnational crime.<sup>93</sup> China also has cohosted an ASEAN Regional Forum seminar

\*China’s military sales to Burma include antiship cruise missiles, targeting radar, naval guns, and corvettes. Some analysts maintain that in return for this military support (and other economic support), Burma is willing to give China access to its territory along the Indian Ocean. Dean Cheng, “China’s view of South Asia and the Indian Ocean” (Washington, DC: The Heritage Foundation, August 31, 2010). <http://www.heritage.org/research/lecture/china-s-view-of-south-asia-and-the-indian-ocean>.

on narcotics control and is a party to the *ASEAN Regional Forum General Guidelines for Disaster Relief Cooperation*.<sup>94</sup> More recently, in May 2010, Zhang Xinfeng, vice minister of the Ministry of Public Security, pledged to increase police cooperation and information-sharing between China and ASEAN members.<sup>95</sup>

- *Military exercises*—China also conducts military exercises with Southeast Asian countries. Two recent examples include joint counterterrorism training with Thailand in 2008 and joint maritime exercises with Singapore in 2009.\*

China's security engagement with the region remains fairly small. Deputy Assistant Secretary of Defense Scher testified to the Commission that:

*[d]efense ties [between China and Southeast Asia] remain relatively modest in comparison [to the United States], and China is long from becoming the security partner of choice to the region as a whole.*<sup>96</sup>

For example, Chinese military exercises are small in scale and infrequent compared to those held between Southeast Asia and the United States. In the 2009 military exercises with Singapore, China only sent 61 PLA personnel. In comparison, at the most recent U.S.-Thailand multinational joint training exercise, a total of 14,000 soldiers from Thailand, the United States, Singapore, Indonesia, Japan, and South Korea participated.<sup>97</sup>

Despite China's efforts to increase this security cooperation, two significant problems remain. Beijing's territorial claims in the South China Sea and its construction of a cascade of dams along the Mekong River have the potential to undermine the efforts and lead to conflict with Southeast Asia in the future.

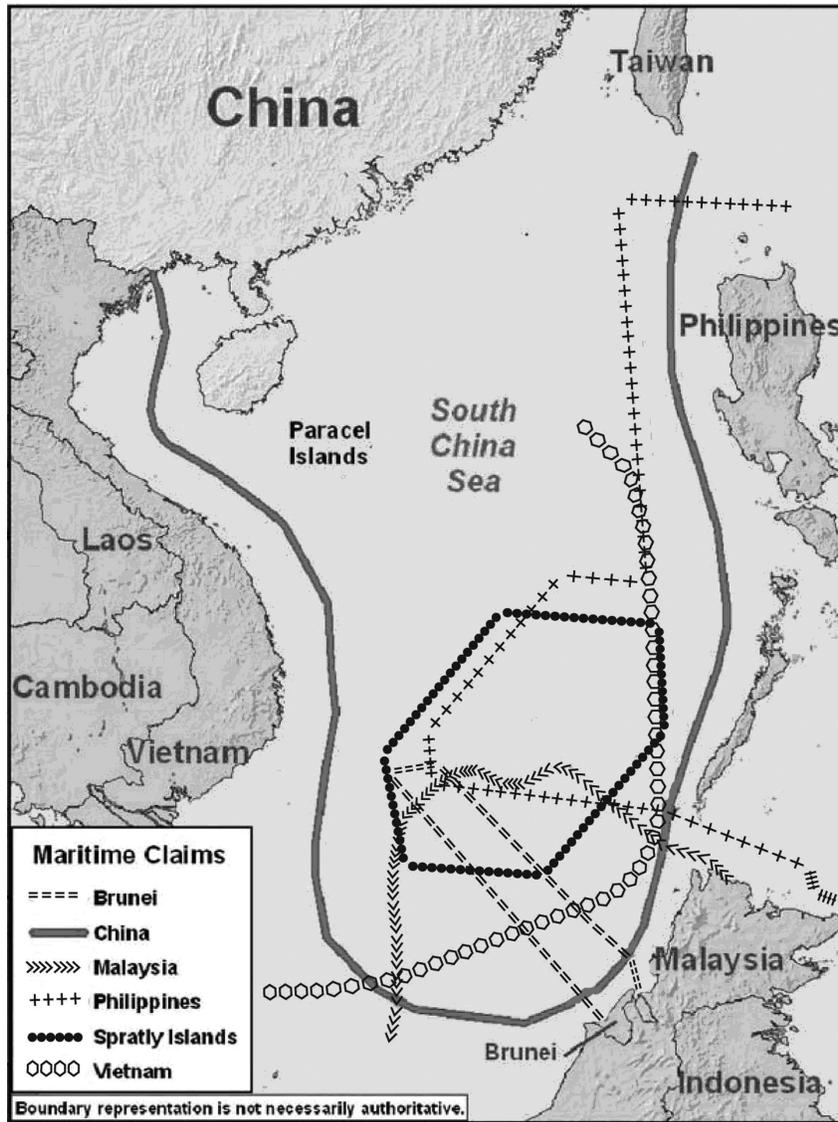
### **China's Claims in the South China Sea**

A major source of growing tension between China and many countries in Southeast Asia is Beijing's sovereignty claims over much of the South China Sea. China claims "indisputable sovereignty" over almost the entire sea along with the Paracel and Spratly Island chains.<sup>98</sup> Vietnam, the Philippines, Malaysia, Taiwan, and Brunei dispute parts or all of China's claims (see figure 3 below). During the Commission's July 2010 trip to China, a representative of China's Ministry of Foreign Affairs stated that China's claims are based on hundreds of years of history, whereas the other claimants only started making their claims in the 1970s. Exacerbating this issue, Beijing recently labeled the South China Sea as part of its "core interest" of sovereignty, similar to what it labels Taiwan and Tibet.<sup>99</sup> According to an official statement given to the Commission by the Chinese embassy in Washington, DC, "The issue of [the] South China Sea involves the core interests of China [and] is very complicated and sensitive."<sup>100</sup> Dr. Scobell testified that China has elevated the importance of the South China Sea in recent years because of the country's growing energy needs. The

\*For more on Chinese military exercises with foreign militaries, see the Commission's *2009 Report to Congress* (Washington, DC: U.S. Government Printing Office, November 2009), pp. 120–121.

South China Sea seabed possesses what Beijing believes to be vast amounts of untapped oil and gas deposits that could help the country meet its growing energy needs. Furthermore, as mentioned earlier, most of China's oil and gas imports traverse the South China Sea.<sup>101</sup>

**Figure 3: South China Sea Territorial Claims**



Source: Adapted from U.S. Department of Defense, *Annual Report to Congress: Military Power of the People's Republic of China, 2009*, (Washington, DC: 2009), p. 6. [http://www.defense.gov/pubs/pdfs/China\\_Military\\_Power\\_Report\\_2009.pdf](http://www.defense.gov/pubs/pdfs/China_Military_Power_Report_2009.pdf).

In recent years, China has grown more forceful in asserting its claims in the disputed waters. In 2002, ASEAN and China signed the legally nonbinding *Declaration on the Conduct of Parties in the South China Sea*, which was to pave the way toward confidence-building measures and eventual peaceful resolution of the disputes. Despite the agreement, since 2007, China has become more aggressive and has taken numerous steps to uphold what it considers its sovereignty and to prevent Southeast Asian countries from asserting their own claims in the sea. Chinese activities in the past several years include the following:

- *Pressuring foreign energy companies to halt operations*—In June 2007, BP announced that it was halting seismic work off the coast of southern Vietnam after China hinted that the company's actions were infringing on China's sovereignty.<sup>102</sup> In addition, in July 2008, an ExxonMobil executive revealed that his company had come under Chinese pressure to scrap a preliminary oil exploration agreement with Vietnam.<sup>103</sup>
- *Imposing fishing bans*—Since 1999, China has unilaterally imposed an annual fishing ban on parts of the South China Sea that are claimed by Vietnam, Malaysia, and the Philippines. In the past two years, China has increased patrols to enforce the ban and harass fishermen who do not abide by it.<sup>104</sup> In 2009, China detained 433 Vietnamese fishermen who were working in the disputed waters.<sup>105</sup>
- *Naval modernization efforts*—China's growing military capabilities, which include advanced submarines, surface vessels, long-range aircraft, a future antiship ballistic missile capability, and a potential aircraft carrier will allow Beijing increasingly to project power in the South China Sea.<sup>106</sup> According to Clive Schofield and Ian Storey of The Jamestown Foundation, "China's emergence as Asia's pre-eminent naval power is potentially a game changer in the context of the territorial disputes and puts the other claimants, who cannot match the [PLA Navy's] increasing capabilities, at a disadvantage."<sup>107</sup> During the Commission's December 2009 trip to Vietnam, officials from the National Border Commission acknowledged that Southeast Asian countries are at a disadvantage, because even all of ASEAN members' navies combined could not resist Chinese forces in the event of a conflict over the sea. The Commission's 2009 Annual Report described how China's naval modernization efforts are leading to a maritime arms race in the region.\*<sup>108</sup>
- *Avoiding multilateral discussions about the South China Sea*—China has campaigned against having the South China Sea brought up on the ASEAN agenda or in any other international forum, preferring bilateral dispute resolution.<sup>109</sup> In July 2010, Chinese Foreign Minister Yang Jiechi stated,

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\* From 2005 to 2009, arms sales to Southeast Asia nearly doubled compared to the five preceding years. For example, in December 2009, Vietnam purchased six Kilo-class submarines and 12 Sukhoi Su-30 MK2 warplanes. In addition, Singapore recently purchased eight F-15E combat aircraft with advanced air-to-air and air-to-ground missiles from the United States, two LaFayette frigates from France, and 40 tanks from Germany.

“Turning the bilateral issue [of the South China Sea disputes] into an international, or multilateral one would only worsen the situation and add difficulties to solving the issue.”<sup>110</sup> During the Commission’s July 2010 trip to Beijing, representatives from China’s Ministry of Foreign Affairs repeated this claim, noting that the issue of the South China Sea should not be brought up in ASEAN forums because the goal is cooperation, not confrontation. Furthermore, China protested vehemently when Vietnam and Malaysia submitted continental shelf claims to the United Nations.<sup>111</sup> In meetings with Vietnam’s Ministry of Foreign Affairs, officials told the Commission that China has refused to take part in multilateral discussions about the South China Sea and, as a consequence, Southeast Asian claimants have had a difficult time bonding together on the issue.

- *Military exercises in the South China Sea*—In late July 2010, China conducted naval exercises, involving numerous warships, submarines, and combat aircraft, in the South China Sea. Chinese state media reported that these exercises were the largest of its kind in the history of the PLA. During the exercises, Chen Bingde, member of the Central Military Commission and chief of the PLA General Staff Department, stated, “[China] must pay close attention to changes in [regional] situations and . . . prepare ourselves for military struggle.”<sup>112</sup> These exercises took place at the same time as a joint U.S.-South Korean drill in the Yellow Sea. It is unclear if the South China Sea exercise was planned in advance or was a response to the U.S.-South Korean drills.<sup>113</sup>
- *Planting a Chinese flag on South China Sea floor*—On August 26, 2010, a deep-sea submarine sponsored by China’s Ministry of Science and Technology planted a Chinese flag on the floor of a disputed area in the South China Sea. One of the engineers for the submarine stated, “[The planting of the flag] might provoke some countries, but we’ll be all right. The South China Sea belongs to China. Let’s see who dares to challenge that.”<sup>114</sup>

### **China's Recent Assertiveness in the East China Sea**

In recent months, China also has been more assertive in stating its claims over the Diaoyu Islands (called the Senkaku Islands by Japan) in the East China Sea, an area disputed by China, Japan, and Taiwan. In September 2010, Japan detained a Chinese fishing boat captain after he allegedly rammed into two Japanese coast guard boats that were chasing him from the disputed territory. China responded to the detainment by temporarily suspending high-level exchanges with Tokyo, imposing a week-long unofficial ban on rare earth\* exports to Japan, and imprisoning four Japanese citizens on charges of photographing military facilities in China.<sup>115</sup> Several western media analysts have said that China's strong response to the incident was meant as a message to all countries with which it has maritime territorial disputes that Beijing is willing to go to great lengths to assert its sovereignty claims.<sup>116</sup>

China's claims to the South China Sea are a potential threat to U.S. interests in the region. As discussed in the Commission's 2009 Annual Report, in early March 2009 five Chinese vessels harassed the USNS *Impeccable* while it was conducting operations in international waters in the South China Sea. Former U.S. Director of National Intelligence Dennis Blair called the event the most serious military dispute between China and the United States since 2001.<sup>117</sup> Although the United States has not taken an official position on any of the specific claims that China and the Southeast Asian countries have made, Deputy Assistant Secretary of Defense Scher testified to the Commission that:

*[The United States] strongly objects to behavior that puts at risk the safety of [U.S.] vessels and is a clear violation of international norms of behavior in ocean waters outside territorial seas . . . Further, [the United States] rejects any nation's attempt to place limits on the exercise of high seas freedoms within an [exclusive economic zone.]*<sup>118</sup>

In July 2010, at the ASEAN Regional Forum in Vietnam, U.S. Secretary of State Hillary Clinton asserted that the United States has a strategic interest in the South China Sea. She stated, "The United States, like every nation, has a national interest in freedom of navigation, open access to Asia's maritime commons, and respect for international law in the South China Sea." Secretary Clinton also stressed the importance of solving disputes multilaterally and said that the United States would be willing to "facilitate initiatives and confidence building measures" to establish a binding code of conduct for the six disputants.<sup>119</sup> In response, China's Foreign Ministry announced that Secretary Clinton's remarks were "in effect an attack on China." An op-ed later published in the official news agency *China Daily* stated, "Clinton's attitude at a formal occasion like an ASEAN forum was obviously inappropriate and also

\*Rare earth elements are a collection of 17 elements that are critical to civilian and military high-technology applications. Countries such as the United States and Japan depend on China for imports of rare earths because China produces 97 percent of the world's rare earth elements.

a provocation to China, aimed at sowing dissent between China and its Southeast Asian neighbors . . . What Washington is really seeking to do is to win over some Southeast Asian nations in its long-harbored attempt to contain China and balance Beijing's growing influence in the region."<sup>120</sup>

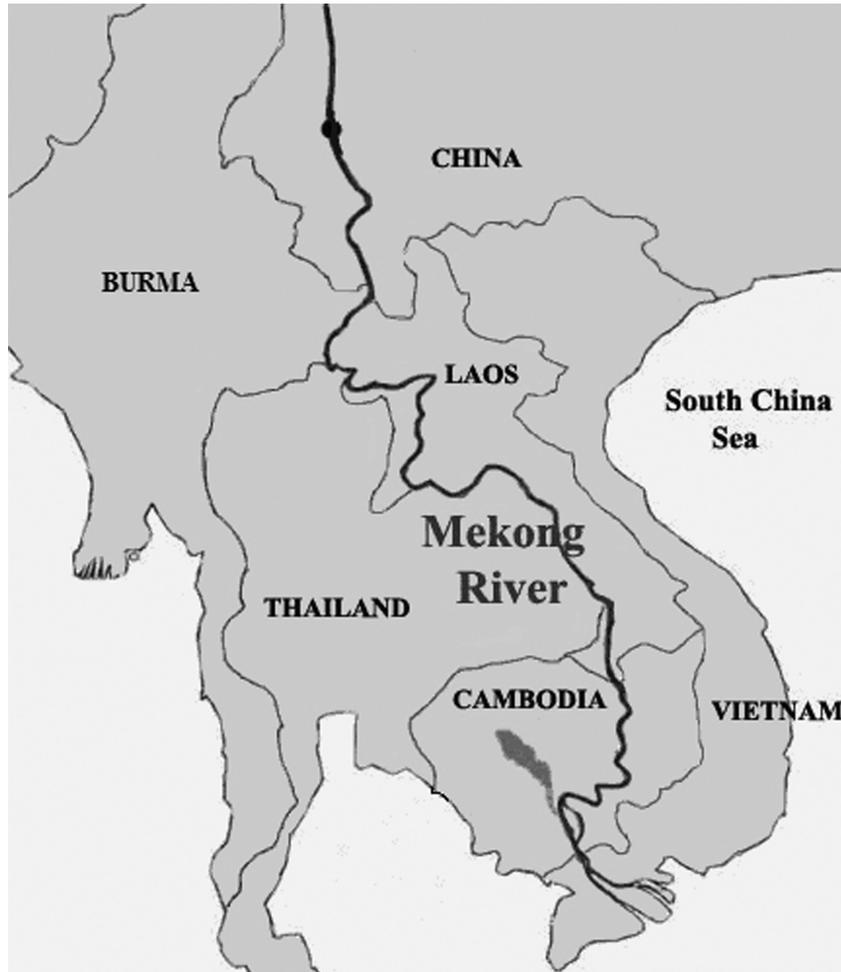
### **Chinese Construction of Dams along the Mekong River**

A second major concern that has the potential to lead to conflict in Southeast Asia is China's construction of hydroelectric dams along the Mekong River, which has the possibility of creating large environmental and food security crises for the region in the near future. The Mekong River starts in the Tibetan Plateau in China and flows through Burma, Laos, Thailand, Cambodia, and Vietnam and has enormous hydropower potential (see figure 4 below).<sup>121</sup> China has built seven or more hydropower dams in the province of Tibet and eight large, megasize dams in the province of Yunnan in order to exploit the river's energy and navigation potential. Thailand, Laos, and Cambodia are building a total of 13 dams along the Lower Mekong, several of which China is financing.<sup>122</sup>

Regional experts have criticized the construction of these dams because of the potential security and environmental effects they will have on the countries in the region.<sup>123</sup> According to Richard Cronin, senior associate at the Henry L. Stimson Center:

*If completed as claimed, the mainstream dams in both the Upper Mekong in China and the Lower Mekong in Laos, Thailand and Cambodia will have an almost incalculable impact on human and food security and livelihoods in the whole Mekong Basin.*<sup>124</sup>

The dams in Yunnan Province could allow China to regulate the supply of water flowing to the downstream countries. Thus, these countries would have to depend on China to release a sufficient amount of water to fully utilize the downstream dams. From an environmental perspective, the planned dams will likely disrupt natural flood waters that turn the lower river into vast temporary wetlands. These waters become the nursery for billions of fish that Southeast Asian nations depend on for food. In addition, the upstream dams have the ability to alter the river's flow to the extent that they will threaten rice fields that produce 40 percent of Vietnam's output.<sup>125</sup> Because Vietnam is the world's second-largest exporter of rice, this could have a dramatic effect on global food security.<sup>126</sup> Many Southeast Asians pointed to the infrastructure projects as a reason for a crippling drought in spring 2010, a claim that China denies.<sup>127</sup>

**Figure 4: Map of the Mekong River**

Source: Map of Mekong River, *Yale Environment* 360, 2009. <http://e360.yale.edu/content/images/0616-mekong-map.html>.

The Mekong River Commission, which is comprised of Cambodia, Laos, Thailand, and Vietnam, is the only institution tasked with promoting cooperative water management along the Mekong. China is not a member and has provided little information on future dam construction and operation procedures.\*<sup>128</sup> The commission held its first intergovernmental summit in April 2010, despite the organization's having existed for 15 years. A Chinese vice for-

\*The U.S. State Department has partnered with the Mekong River Commission through its Lower Mekong Initiative. In 2009, the Lower Mekong Initiative spent \$7 million to build capacity to better manage resources and preserve biodiversity in the river. The initiative is seeking Congressional approval for an additional \$15 million for assistance related to improving food security in the Mekong countries.

eign minister attended the summit but denied that the proposed dams would have any negative impact on the Lower Mekong countries.\*<sup>129</sup>

### **Limits to Chinese Influence**

Several analysts claim that China's growing presence in Southeast Asia will lead to Beijing's substantially increasing its influence in the region. However, many Southeast Asian nations have employed a nuanced strategy that tries to prevent this from occurring. According to Mr. Bower, "Southeast Asia's leaders understand that China's rise is economically beneficial, but they do not want to be dominated by China."<sup>130</sup> As a result, many Southeast Asian nations are employing a hedging strategy, which includes engagement with China while simultaneously incorporating other regional actors. A combination of Southeast Asian concern about China's presence and a concerted effort by Southeast Asian nations to incorporate other powers into the region attempts to limit Chinese influence in the region.

Regardless of China's "friendly neighbor" approach in recent years, Southeast Asian governments and citizens remain wary of China's growing engagement in the region. Historic tensions continue to exist between China and many Southeast Asian countries that still remember the Chinese support for communist insurgencies that rattled their countries. Until the early 1960s in Thailand and the late 1990s in Indonesia, both countries banned the teaching of Chinese and all expressions of Chinese culture.<sup>131</sup> While these laws have changed, some underlying historic mistrust toward China remains. China's renewed forcefulness with respect to its claims in the South China Sea and its modernization of its military have not helped to allay these fears.<sup>132</sup>

The presence of other extraregional actors in Southeast Asia has also precluded Beijing from gaining a preponderance of influence. ASEAN has pursued a policy of hedging against China's growing presence by courting actors such as the United States, Japan, the European Union, India, and Australia. During the Commission's December 2009 trip to Vietnam, officials from the Vietnamese Ministry of Foreign Affairs noted that ASEAN is using forums such as ASEAN+3 and the East Asian Summit to balance Chinese influence. The officials also strongly emphasized the importance of U.S. economic and security engagement with the region as a balance to China's presence. In July 2010, after Secretary of State Clinton participated in the ASEAN Regional Forum and announced that the United States would join the East Asian Summit, Singapore's foreign minister, George Yeo, stated, "The U.S. is demonstrating very clearly under the [Barack] Obama Administration its commitment to the region. . . . That commitment is cheered by everybody in ASEAN."<sup>133</sup> In addition, ASEAN has signed free trade agreements with Australia, New Zealand, Japan, South Korea, and India and is in the process of negotiating one with the European Union.<sup>134</sup> By signing trade agreements with external powers, ASEAN is able to integrate them economically into the region and

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\* Before the summit, China agreed to share hydrological data with the Mekong River Commission. However, it is unclear how much data China has provided since April.

give them a stake in maintaining stability in Southeast Asia. In terms of security cooperation, many Southeast Asian countries lean toward the United States while still reaping the advantages that come along with economic cooperation with China. According to Walter Lohman:

*The ASEAN states are playing a game whereby they take full advantage of near-term trends in China's economic development while hedging against their longer-term security concerns. The question is whether in the long-term they might outwit themselves and be so deep in the economic side that their political choices are constrained.*<sup>135</sup>

### **The Trilateral Relationship among China, Vietnam, and the United States**

During the Commission's trip to Vietnam in 2009 and in meetings with Vietnamese leaders in Washington, officials highlighted underlying tensions with China that have led Hanoi to engage the United States to hedge China's growing presence. Although Sino-Vietnamese relations have improved since the normalization of ties in 1991, a host of problems impact the relationship, including historic mistrust stemming from a border war in 1979. Bilateral trade has increased tenfold in the past decade, but Vietnam's growing trade deficit with China has aroused concerns among its leaders and producers of manufactured goods.\*<sup>136</sup> Government representatives also were concerned about increasing tensions over the South China Sea and the potential instability that stems from China's building of dams along the Mekong River. All of these issues have led to wariness of China among Vietnamese citizens, an example of which was seen when strong opposition erupted toward China Aluminum Corporation's plans to mine bauxite in the central highlands of Vietnam in 2008. Hundreds of people, including environmentalists, scholars, economists, bloggers, religious leaders, National Assembly deputies, and famed war hero General Vo Nguyen Giap† all protested the mining project. Many argued that the mine would increase pollution and that the influx of Chinese workers would be a national security concern for Vietnam.‡<sup>137</sup>

\*The total trade volume has grown from \$1.4 billion in 2000 to \$13.2 billion in 2009, and today 19 percent of imports to Vietnam come from China. The Vietnamese trade balance with China has changed from a \$14 million trade surplus in 2000 to a \$9.6 billion trade deficit in 2009.

†General Vo Nguyen Giap was the principal commander during Vietnam's First Indochina War against French colonial rule from 1946 to 1954, and the Vietnam War against the United States from 1960 to 1975. General Giap continues to be a revered figure in Vietnam.

‡China Aluminum Corporation was allowed to continue with its project, but the National Assembly conducts regular reviews of how the project is being implemented.

**The Trilateral Relationship among China, Vietnam, and  
the United States—Continued**

Several analysts assert that as a means of balancing increased Chinese presence in the region, particularly its increasing role in the South China Sea, Vietnam has sought to improve ties with the United States.<sup>138</sup> In August 2010, two U.S. naval vessels made port calls in Vietnam, and U.S. Defense Secretary Robert Gates announced that the two countries will hold their first military-to-military talks at the end of the year.<sup>139</sup> In the same month, the U.S. State Department held talks with Hanoi on sharing civilian nuclear technology and fuel.<sup>140</sup> According to Carlyle Thayer, a Vietnam expert at the Australian Defense Force Academy, “Quite simply, these are not too subtle signals that Vietnam wants the United States to stay engaged in the region to balance China.”<sup>141</sup> Nevertheless, Vietnam believes it must continue to engage China and is balancing the economic benefits of its relationship with China and the strategic benefits of its relationship with the United States.

**Implications for the United States**

Despite challenges, China’s presence in Southeast Asia will continue to grow and therefore have an impact on U.S. interests in the region, which include promoting regional stability, preventing terrorism, creating a favorable economic environment for U.S. exports and investment, and maintaining freedom of navigation. Deputy Assistant Secretary of Defense Scher testified that the Obama Administration does not view China’s presence as a “zero-sum game” or a fundamental threat to these U.S. interests. In fact, China’s presence can help to deliver international public goods, particularly in the areas of counterpiracy, nonproliferation, and humanitarian assistance.<sup>142</sup>

Nevertheless, in some areas, China’s actions in the region have directly challenged U.S. interests. In particular, China’s assertiveness in the South China Sea could seriously affect U.S. economic and national security goals in Southeast Asia. More broadly, however, China’s increasing presence in the region could weaken the U.S.’s ability to exert influence throughout Southeast Asia. According to Dr. Frost:

*The risk is not that China will push the United States out of Asia, now or in the future. The main risk is that over time, the U.S. voice in the region will be gradually drained of influence relative to China’s. This challenge stems from the contrast between China’s galloping economic performance and America’s current domestic and international headaches . . . Although the United States is indeed a ‘resident power’ . . . it must never take its presence in Asia for granted.<sup>143</sup>*

**Conclusions**

- China's political, economic, energy, and security interactions with Southeast Asia have increased significantly in recent years and are expected to increase in the future.
- Tensions in the South China Sea and East China Sea, dam construction along the Mekong River, and Southeast Asian historical mistrust may limit China's influence in the region.
- Many Southeast Asian nations are looking to increase their relationships with the United States in order to hedge against China's growing presence in the region.
- China's assertiveness in the South China Sea constitutes a potential threat to U.S. interests, including the freedom of navigation.