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**CHINA'S ACTIVITIES IN SOUTHEAST ASIA
AND THE IMPLICATIONS FOR U.S. INTERESTS**

Chairman Slane, Vice Chairman Bartholomew, Commissioner Wortzel, and members of the Commission, thank you for inviting me to appear before you today. The Asia-Pacific is an important region that we have approached with renewed commitment in the past year. My colleague from the Department of Defense will focus on defense related activities in Southeast Asia, so my remarks will be on the broader diplomatic and economic aspects of the region.

Economic Interests

China has longstanding strategic and economic interests in Southeast Asia given the region's proximity to the mainland, its expanding markets for Chinese goods, and its abundant natural resources. Economic ties have grown significantly as Southeast Asian nations take advantage of the opportunities presented by China's rapid growth. China's two-way trade with all ten ASEAN countries was \$193 billion in 2008 up from \$9 billion in 1993 – an average annual growth rate of 23 percent. Just to give you some examples of China's bilateral trade relations in the region, Vietnam's two-way trade with China was an estimated \$20 billion in 2009, a four-fold increase since 2005. Malaysia's trade with China reached \$53 billion in 2008, a 77 percent increase since 2005. In 2009 China imported 4 million tons of palm oil from Malaysia, which represented 23 percent of Malaysia's total production of palm oil. It is clear that both the PRC and the ASEAN countries see mutual benefits to be had from expanded trade. China's economic ties to the region will likely grow further under the China-ASEAN Free Trade Agreement that became effective the first of this year.

However, increased trade and investment with China has not been an unqualified good for many Southeast Asian economies. Some observers have stated that China has produced local economic dislocation and tensions for some Southeast Asian economies. Fearing that competition from low-cost goods from China could adversely affect their domestic industries, Indonesia has called for a revision of the agreement, and other countries in the region have also raised concerns.

In assessing the growth in China's trade with ASEAN states, it is useful to compare it to ASEAN's economic relationships with other major global economies. In 2008 U.S. trade with the ASEAN countries stood at \$181 billion, while Japan's trade with ASEAN was \$212 billion. The United States and Japan have also made huge direct investments in the region. Between 2006 and 2008, U.S. investors put \$12.8 billion in ASEAN countries, while the Japanese invested \$25.8 billion. China's direct investment in the region remained sparse over that period, totaling \$3.7 billion. This is to say that while Southeast Asians recognize big opportunities in China, they continue to see economic ties with the United States and others as vital.

China's trade in Southeast Asia has also been followed by Chinese development aid. Last October, the 12th China-ASEAN Summit yielded a pledge from China of up to \$25 billion in investment and commercial credits over the next three-to-five years. In December, China's Vice President Xi Jinping visited Cambodia, signing bilateral agreements worth over \$1 billion, and Burma, where he signed a number of agreements, including on economic projects. Despite many of the positive aspects of Beijing's outreach to Asia, the United States is concerned about certain aspects of China's development assistance to the region. While U.S.-supported social welfare and rule of law programs appeal mainly to civil society, China's aid programs include highly visible projects, such as Laos's new National Stadium and Cambodia's Council of Ministers building, that appeal directly to regional leaders. Moreover, China does not tie its aid to progress on governance, raising questions about the enduring value of such aid. Development assistance is most effective when designed to build up the political, social, and economic fabric of a society rather than projects that target elites and make limited impact across the developing country.

Strategic Interests

China believes that it has vital strategic interests in the region as well, particularly concerning China's immediate neighbors, Burma, Laos, and Vietnam.

For several centuries, colonial encroachment, chronic instability and war, American military presence in the '60s and '70s, and Soviet military presence in the '70s and '80s all were viewed by Beijing as serious threats to its security. Now, two decades after the Soviet pullout and the withdrawal of Vietnamese forces from Cambodia, continental Southeast Asia has never been more stable from China's perspective. China concluded an agreement demarking its long disputed borders with Vietnam in December 2008 and deploys few ground forces along its mainland Southeast Asia frontier.

Beijing's strategic interests in maritime Southeast Asia have grown considerably with China's rising reliance on maritime trade and imported energy supplies. The sea lanes that run through Southeast Asia are some of the world's busiest and most strategically important. They serve as the prime arteries of trade that have fueled the tremendous economic growth in China and the region. Last year 80 percent of foreign oil imported by China went through the Malacca Strait. Over half of the world's merchant fleet, including a large percentage of PRC-flagged merchant tonnage, sails through the South China Sea each year.

Visit Diplomacy and Soft Power

Beijing has deployed a range of diplomatic and military tools in an effort to advance its material interests and to build "soft power" in Southeast Asia.

Chinese leaders maintain a brisk pace of official travel to the region, while hosting high-level visits in Beijing – as a sign of priority and respect for their Asian neighbors. For example, last year Chinese senior leaders, including President Hu Jintao and Premier Wen Jiabao, visited six countries in Southeast Asia, including four out of the five mainland countries. China also uses educational and cultural programs to try to enhance its soft power. China opened its first Confucius Institute in Asia in 2004; today there are 70 across Asia and 282 globally. There are 12 Institutes in Thailand alone, and China recently opened the first Institute in Cambodia. More Thai students – some 10,000 – now study in China than in the United States. And in December 2008, China launched China-Cambodia Friendship Radio. The actual effects of China's efforts on local views of and sensitivities to Chinese interests remain an area of U.S. interest.

China has also expanded military cooperation and aid to advance its interests in the region. PRC interactions include the provision of equipment, vehicles and weapons, military exercises and demonstrations, and the training of foreign officers in China.

Regional Forums

China also participates in a number of regional institutions, which enhances its image in the Asian region and improves its relationship with its neighbors. Participation ranges from institutions like ASEAN+3, the Shanghai Cooperation Organization to broader Asia-Pacific fora like APEC and the ASEAN Regional Forum. We encourage China's engagement with these organizations as a means to integrate China into the regional system and cooperate in areas of mutual interests.

The U.S. Approach to the Region

President Obama has stated that the United States welcomes the emergence of China and "in an interconnected world, power does not need to be a zero-sum game." Our relationship with China in Southeast Asia is composed of both cooperative and competitive elements. Economic integration has woven the American, Chinese, and Southeast Asian economies into a complex web. We also cooperate with China through APEC and the ASEAN Regional Forum, and a variety of other multilateral institutions like the IMF, the World Bank, the Asian Development Bank, and the World Health Organization. At the same time, China competes with the United States, Japan, India, and others for influence in Southeast Asia.

As the Secretary said in her January 2010 speech on Regional Architecture in Asia, "We start from a simple premise: America's future is linked to the future of the Asia-Pacific region, and the future of this region depends on America. The United States has a strong interest in continuing its tradition of economic and strategic leadership, and Asia has a strong interest in the United States remaining a dynamic economic partner and stabilizing military influence." Southeast Asia is central to our efforts in the wider Asia-Pacific.

Our aim is to achieve a stable balance between the diverse elements in our relationship with China as we seek a stable equilibrium throughout the region. As China's influence in the region rises, a continued strong U.S. presence in the region will guarantee freedom of action for our allies and friends, deter potentially aggressive behaviors, and safeguard our strategic interests in the Western Pacific and Indian Oceans. China's increasing presence in the region is a not threat to U.S. interests as long as it supports regional stability, the U.S. economy continues to be strong, our alliances and partnerships remain robust, freedom of navigation and access is preserved as a common good, and friendly states in the region see a need for U.S. presence.

It has been said that in order to pursue successful diplomacy in Southeast Asia, all you have to do is “show up.” This is too low a standard and this administration will do more. The United States at times fell short of this standard prior to this administration -- Presidents missed APEC Summits; Secretaries of State missed ASEAN Regional Forum meetings; senior U.S. officials did not spend enough time tending to regional bilateral relationships. The Obama Administration’s message to resolve this problem has been simple: we’re back and ready to be actively involved. The President had a successful visit to Singapore last November in connection with the APEC Summit and will travel to the region again in the first half of this year. Secretary Clinton visited the region three times last year and will make the region a priority in this and future years.

Just showing up is a necessary but not a sufficient basis for successful engagement. This Administration is also pursuing vigorous and creative diplomacy. We have conveyed to our friends in Southeast Asia that we are prepared to broaden and deepen our relations, moving our rhetoric beyond cooperation in limited areas, including counterterrorism.

Demonstrating our commitment to the region, in July 2009 Secretary Clinton signed the Treaty of Amity and Cooperation, something ASEAN had been seeking from the United States for two decades. She also attended the ASEAN Regional Forum meeting in Phuket in July. In February 2009, she was the first Secretary of State to visit the ASEAN regional headquarters in Jakarta. President Obama held the first ever presidential meeting with the heads of state and government of the ASEAN-10 during his visit to Singapore in November and he attended the APEC Leaders’ Meeting. The United States also intends to name a Jakarta-based ambassador to ASEAN and, in support of the President’s intention to engage more fully with new regional organizations, will begin consultations with Asian partners on how the United States can play a role in the East Asia Summit.

We are building a Comprehensive Partnership with Indonesia that is elevating the bilateral relationship and intensifying our cooperation and consultations with each other on regional and global issues. We are building a warmer relationship with Malaysia. We have reaffirmed our commitment to our allies in Thailand and the Philippines and deepened our partnerships with countries like Singapore and Vietnam. And we announced in July the Lower Mekong Initiative, which has the goal of improving the education, environment, health, and infrastructure in the Lower Mekong Basin, which includes Cambodia, Laos, Thailand, and Vietnam. Our renewed commitment to Southeast Asia has been broadly welcomed and opportunities for further engagement are increasing in a region seeking diversity in its foreign relations and trade.

With regard to Burma, for decades the Burmese regime has isolated itself by ignoring the results of the 1990 elections, imprisoning thousands for political reasons, spurning dialogue with the opposition that won the last contested election, and ruling by military fiat. The United States and much of the international community have responded with sanctions and kept the Burmese regime at arms' length. China has forged stronger ties with Burma and stands out as an exception to the stance taken by much of the international community.

Secretary Clinton directed us to evaluate our Burma policy because neither the sanctions-based approach advocated by the United States nor the engagement championed by others has produced positive results. So we are now pursuing direct, senior-level dialogue with Burmese authorities. In that dialogue we are laying out our expectations for a Burma that is democratic and protects the rights of its people. We are making it clear that sanctions will be lifted only in response to concrete actions by Burmese authorities.

U.S. allies are also engaged in Southeast Asia; for example, in November, Japan hosted the first-ever Japan-Mekong Summit where it pledged over \$5 billion in development assistance. South Korea continues its economic outreach to Southeast Asia, and that trend has been expanded under President Lee's "New Asia Initiative."

Maritime Issues

The United States has long had a vital interest in maintaining stability, freedom of navigation, and the right to lawful commercial activity in East Asia's waterways. For decades, active U.S. engagement in East Asia, including the forward-deployed presence of U.S. forces, has been a central factor in keeping the peace and preserving those interests.

We have aimed to support respect for customary international law, as reflected in the UN Convention on the Law of the Sea (UNCLOS). Although the United States has yet to ratify the Convention, this Administration and its predecessors support doing so, and in practice, the United States complies with its provisions governing traditional uses of the oceans.

China, Vietnam, Taiwan, the Philippines, Malaysia, Indonesia, and Brunei each claim sovereignty over parts of the South China Sea, including its maritime zones and land features. The size of each party's claim varies widely, as does the intensity with which they assert it. The claims center on sovereignty over the 200 small islands, rocks and reefs that make up the Paracel and Spratly Islands chains.

In 2002, the ASEAN countries and China signed the “Declaration on the Conduct of Parties in the South China Sea.” While non-binding, it set out useful principles, such as that all claimants should “resolve disputes...by peaceful means” and “exercise self-restraint,” and that they “reaffirm their respect for and commitment to the freedom of navigation in and overflight above the South China Sea, as provided for by the universally recognized principles of international law, including the 1982 UN Convention on the Law of the Sea.”

The 2002 document signaled a willingness among claimants to approach the dispute multilaterally. We welcomed this agreement, which lowered tensions among claimants and strengthened ASEAN as an institution, and we support efforts to strengthen the Declaration to by producing a binding Code of Conduct based on its principles.

U.S. policy continues to be that we do not take sides on the competing legal claims over territorial sovereignty in the South China Sea. We would nonetheless view with great concern any effort to change the status quo by force. We are also concerned about “territorial waters” or any maritime zone that does not derive from a land territory. Such maritime claims are not consistent with customary international law, as reflected in the Law of the Sea Convention.

In the case of the conflicting claims in the South China Sea, we have encouraged all parties to pursue solutions in accordance with the UNCLOS, and other agreements already made between ASEAN and China. We have also urged that all claimants exercise restraint and avoid aggressive actions to resolve competing claims. We have stated clearly that we oppose the threat or use of force to resolve the disputes, as well as any action that hinders freedom of navigation. We would like to see a resolution in accordance with international law, including the UNCLOS.

We remain concerned about tension between China and Vietnam, as both countries seek to tap potential oil and gas deposits that lie beneath the South China Sea. Starting in the summer of 2007, China told a number of American and foreign oil and gas firms to stop exploration work with Vietnamese partners in the South China Sea or face unspecified consequences in their business dealings with China.

We object to any efforts to intimidate U.S. companies and that go against the spirit of free markets. During a visit to Vietnam in September 2008, then-Deputy Secretary of State John Negroponte asserted the rights of U.S. companies operating in the South China Sea and stated that we believe that disputed claims should be dealt with peacefully and without resort to any type of coercion. We have raised

our concerns with China directly. Sovereignty disputes between nations should not be addressed by attempting to pressure companies that are not party to the dispute.

Conclusion

China's outreach to Southeast Asia is natural given its geographic proximity, its historical economic and cultural ties, and China's dynamic growth. We want China to get along with its neighbors, because a peaceful and stable region supports U.S. interests. We welcome China's involvement in the region and look forward to working more closely with China as well as our partners in the region. Increased dialogue between China and key regional stakeholders and greater transparency on all sides can ensure that stability remains and economic development continues on a positive path in Asia, and active U.S. engagement will play a critical role in bringing this about, and in securing U.S. strategic interests in this important region.

Thank you for the opportunity to testify before you today on this important topic. I welcome your questions.