

# **Chinese Trade and Economic Practices in Mainland Southeast Asia\***

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## **Introduction**

Thank you for the opportunity to appear before the U.S.-China Economic and Security Review Commission and to speak on the subject of Chinese trade and business practices in mainland Southeast Asia. I have lived and worked in Southeast Asia and Northeast Asia, taught at the National War College and the Air War College, and made 29 visits to East Asian countries. My teaching focuses on US and Chinese security and economic relations with East Asia.

Chinese trade and economic practices in mainland Southeast Asia reflect a deliberate and growing overall Chinese engagement with the area that includes activities along a spectrum from formal trade to investment to private small business operations. To the extent all this trade can be measured and monetized, in 2005 Chinese economic activity with the five countries of mainland southeast Asia – Burma, Thailand, Vietnam, Laos and Cambodia – approached \$32 billion, with China running an overall surplus.<sup>1</sup> If previous trade growth figures continued in 2006 and 2007, this overall trade profile could now be at \$50 billion. A measurement problem generates from attaching exact US dollar figures to this trade as some of it is done in barter or barter equivalent given that Chinese firms generally take raw materials out of mainland Southeast Asia and pay for them with

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\*These views are the author's and do not necessarily reflect the positions of the US Air Force, Department of Defense, or any other US government agency. This material draws in part on the author's "China, the United States and Mainland Southeast Asia: Opportunism and the Limits of Power," *Contemporary Southeast Asia*, December 2006, pp 447-465.

manufactured goods, weapons, agricultural products, subsidies or other concessions which, in the case of the Burmese junta, essentially amount to bribes.

China's principal trade partners in mainland Southeast Asia are, in order, Thailand with its manufactured products and rich agricultural resources; Vietnam which is exporting crude oil, fish and timber to China; Burma given Beijing's interests in Burmese oil and gas; and Laos and Cambodia, very distant 4<sup>th</sup> and 5<sup>th</sup> customers, which sell timber and fish to Chinese firms. China appears to be running a significant trade deficit with Thailand, but trade surpluses with Vietnam, Burma, Cambodia and Laos.

In addition to China's bilateral trade relations with the five countries of mainland Southeast Asia, the momentum of Chinese economic and business operations in the area is being facilitated by multilateral developmental projects, particularly the Asian Development Bank's (ADB)'s "Greater Mekong Subregion Economic Development Program" (GMS) project, begun in 1992. More recently the GMS has focused on infrastructure building with emphasis on transport, energy and telecommunications. In addition there is the ASEAN Mekong Basin Development cooperation (AMBDC) forum whose centerpiece is a nearly US \$2 billion plan to build a rail connection from Kunming in China's Yunnan province all the way down to Singapore.<sup>2</sup>

## **Relationship of Chinese Trade to PRC Foreign policy and Security Policy Goals**

Chinese trade and economic policy toward the states of mainland Southeast Asia is coordinated with the Chinese Communist Party's (CCP's) larger strategic goals for the area. Thus economic policy takes place within cognizance of Beijing's larger "New Security Concept" which, in part, is designed to "de-securitize" the *perception* of China's rise and growth in power. This is evident in Southeast Asia which one analyst describes as China's "most pliable peripheral region."<sup>3</sup> China's specific goals for mainland Southeast Asia are: To ensure the area is friendly to and, if possible, compliant with China's rise in power; to capture the area's economic benefits for China's southwestern provinces as Beijing links them into Southeast Asia's infrastructure and resources; to hedge against or at least offset American and Indian Influence in the area; and, very specifically, to keep the Burmese junta a Chinese client providing raw materials, intelligence sharing and strategic access to the Indian Ocean.

The task of blending and coordinating Chinese trade activities with these broader Chinese goals is not perfectly synchronized; other variables can intercede to complicate Chinese policy. They include the shifting effects of globalization on the target countries economies; lingering suspicion of China's rise and continuing historical animosities; the shift of Foreign Direct Investment (FDI) away from Southeast Asia to China; and political behavior and trends in these smaller states that impact Chinese interests.

That said, the economic bottom line for China in this area adjacent to the PRC's southwestern flank is to drive the burgeoning trade engagement to the benefit of southwestern China. Informing that economic framework are China's bilateral goals for mainland Southeast Asia's Big Three: Keep the Burmese junta, China's principal surrogate in the area, viable and compliant with trade, military sales and subsidies; enhance Sino-Thai trade with the possible secondary effects of diluting US-Thai engagement; maintain beneficial relations with Vietnam to ensure that Hanoi does not lean too far toward the Americans, the Indians, or the Japanese.

## **Chinese –Burmese Relations**

China's closest ties in mainland Southeast Asia continue to be with the government of Burma (Myanmar). Yangon was the first Southeast Asian capitol to recognize the People's Republic of China.<sup>4</sup> Today it supports China's "one China" policy toward Taiwan. As Burma's authoritarian governments became more ostracized by the international community, Communist China – first for strategic and later for economic reasons – systematically deepened its relationship with Yangon. With Burma on both China's and India's borders, politically unstable, a source of drugs, and containing the lower Salween River, through the years Beijing has steadily sought to craft a stable, pliant, pro-Chinese Burmese government.<sup>5</sup> In 2007 David Steinberg, the senior Asianist and Burmese specialist at Georgetown University, commented on China's penetration of Burma:

“China, however much it may quietly be concerned with events in Myanmar, seeks stability and access and remains the staunchest supporter of that government with both military and economic assistance... [Myanmar] can provide [China] with access to the Bay of Bengal, the Malacca Straits, oil and gas pipelines to southwestern China, and a market for goods manufactured in China's southwestern provinces.... [There has been a] Chinese virtual inundation of

Myanmar through military and economic aid, investment and illegal immigration of considerable magnitude...”<sup>6</sup>

In return for Chinese financing, aid, trade, investments and concessions, and given no meaningful Chinese pressure against the Burmese junta’s oppression of Aung San Suu Kyi and the democracy movement, the results for Beijing have been steady and very useful: There are reports that the Chinese operate intelligence stations on Burmese territory <sup>7</sup>, sell the Burmese military equipment at concessionary rates, subsidize the regime financially, pay for Burmese officers to attend Chinese schools, and implicitly rely on the isolated state for containment of Indian and U.S. power. While some previous loans, which the junta essentially defaulted on, have been written off, Chinese military assistance to Burma may now be pushing US\$3 billion, including PLA underwriting of Burmese naval stations in the Great Coco Islands and on Hainggyi Island. Of strategic interest to Beijing are proposed oil pipelines constructed across Burma, allowing alternative means of getting Middle East oil into China without having to transit the Malacca Straits. Pakistan is providing the same kind of alternative for China.<sup>8</sup>

While China’s strategic embrace of Burma is a fact, it has not been entirely easy going for Beijing, given the corruption in Burma’s junta, and the difficulties of holding the generals to their commitments on ports, roads, airfields and trade.<sup>9</sup> And there is the question of Chinese citizens working in Burma – the numbers can vary in any year from 200,000 to possibly half a million and, like the Chinese in Vietnam, these people can get caught in ethnic and political conflicts, or extortionism by Yangon, even as Chinese have come to dominate Burma’s small businesses. The movement of Chinese traders and goods into northern Burma has produced such a de facto Chinese economic colonization that, for example, Burmese are resettling out of central Mandalay into satellite towns.<sup>10</sup> A variety of high level Sino-Burmese official visits back and forth including defense ministers and trade delegations are accompanied with declarations of “friendly” and “fraternal” state-to-state relations.

But complicating Beijing’s design is the difficulty of dealing with the junta – there are rake-offs in Chinese construction projects including a large container yard at Bhamo, a deep water port at Kyaukphu, a highway connecting to the port and recent work on other port facilities along the Burmese Littoral. Chinese bids on oil and gas exploration also have been slow rolled by Yangon, as the generals play to see if the Indians, the Japanese, or the Thais will up the ante.<sup>11</sup> And the bizarre relocation of the government capital from Yangon to Naypyidaw near Pyinmana,

some 400 kilometres to the north, nearly bankrupted the government.<sup>12</sup> So Burma's generals continue to look for cash in all directions.

By contrast the United States has no strategic interests in Burma although US firms have not completely foregone economic connections with the country; even as economic sanctions have been in play, the Unocal project and Yadana Pipeline Project show "that the US is not willing to completely shut out US investment in Myanmar or give up U.S. business interests in the country's policy-making process."<sup>13</sup> American high policy toward Burma, influenced by Congressional positions and Burmese human rights groups, has been politically focused, sanctions oriented, and often moralistic in tone. Diplomatic relations remain stymied at below the ambassadorial level. Supporting Suu Kyi at international and ASEAN levels, American and British policy has kept attention focused on the Burmese junta's abject human rights behavior and its drug exports.<sup>14</sup> Again, David Steinberg:

There is obvious corruption, there is no independent arbitration mechanism, the judiciary is not independent, there is no predictability as the rules change all the time, infrastructure is inadequate, there is government intervention at all levels, and interministerial coordination is minimal at best.<sup>15</sup>

U.S. efforts to affect change in Burma have met with only partial acceptance among Southeast Asian capitals; and Washington lost the effort to block Rangoon from ASEAN admission in 1977. When ASEAN members did press Yangon to step down from hosting the 2006 ASEAN summit, the Chinese quickly provided new assurances and visits to Yangon; Beijing wants stability in Burma over any democratic transition which could threaten Chinese economic interests and diplomatic leverage. The most recent set of US sanctions on the Burmese government limits all Burmese exports to the US, has stopped all US banking transactions with the country, and severely restricted Burmese travel to the US.<sup>16</sup>

In summary, with no vital American interests in Burma, but given the deep strategic Chinese insertion there, there is little influence which Washington seems able to bring to bear to change the situation. And it is doubtful that China, which clearly benefits economically and strategically from its embrace of the Burmese junta, will cooperate. However, given the cooperation of China in the North Korean nuclear talks, is there a chance that the Chinese could be induced, or embarrassed, into joining a multiparty group focused on getting Yangon to ease up on Suu Kyi and the democrats? I am skeptical, but it is worth a try.

## **Sino-Thai Relations**

Despite the de facto US-Thai security treaty (Rusk-Thanat agreement of 1962), the fact of this long military relationship between Bangkok and Washington has not inhibited either Bangkok or Beijing to restrain their growing economic engagement, or to avoid military relations. Indeed, China has steadily sought to compliment Thai purchases of high tech US military equipment with sales of more ordinary Chinese ground and naval hardware, including tanks, armored personnel carriers and several frigates. The Chinese also have sold Bangkok anti-aircraft missiles, diesel-electric submarines and even second/third generation Chinese fighter jets. “Friendship pricing” is the norm.

Chinese business families are very influential in Thailand, with the corollary that centuries of inter-marriage within Thailand’s Chinese and Thai communities has produced social classes and business alliances that are substantially Sinicized. Former Prime Minister Thaksin for one, is of Sino-Thai ethnicity. Indeed, it may be that more than half of Thailand’s parliamentarians can trace their family lineage back to China.<sup>17</sup>

Recent Chinese policy toward Thailand is prompted by southwest China’s relative poverty (especially Yunnan Province), and its proximity to Thailand’s comparative wealth, and trading and infrastructure advantages. In turn Bangkok has sought to position itself as a kind of energy “land bridge” to southwestern China, proposing Chinese-financed linking of tanker connections at Andaman Sea ports across Thailand’s Kra Isthmus into the Gulf of Thailand for trans-shipment north thru Thailand to Yunnan Province. This Thai alternative to the Malacca Straits route has been discussed for years, but Burma probably has the inside track on the oil pipeline gambit. Nevertheless Thailand also needs Chinese resources like limestone and coal, so there are some mutual inter-dependencies. A 2003 Chinese-Thai Free Trade Agreement (FTA) also plays a significant role.

The Asian Development Bank (ADB) initiated “Greater Mekong Subregional Economic Zone” (GMS) project is a basis for economic and development cooperation among the six countries bordering or experiencing flows from the Mekong River. The idea is to promote infrastructure and trade connections and corridors between southwest China and mainland Southeast Asia – both east-west within Southeast Asia, and north-south linking Kunming with Chiang Rai. Sino-Thai economic connections appear to be the core emphasis of the ADB concept.<sup>18</sup>

Linking Yunnan Province into Southeast Asia's trade and infrastructure is a key piece of China's "Develop the West" strategy, with Thailand and Burma figuring most prominently. As one analyst observed:

"This strategy fits within GMS and China-ASEAN Free Trade Area schemes, creating additional opportunities to trade with ASEAN members and to implement the "go global" strategy of China to the outside world. Yunnan Province established a Lancang-Mekong River subregional economic cooperation and trade development centre to boost trade and investment areas."<sup>19</sup>

The Chinese have designated Yunnan border districts for trade relations with Thailand, Burma, Vietnam and Laos, and specific towns are prominently marked for business. Thailand, in turn, has the infrastructure to become the principal trading state in the Mekong subregion and for outlets of Chinese goods, which should also help poverty reduction in northern and northeast Thailand (although a flood of Chinese produce is competing with Thai agriculture). Other Sino-Thai cooperation under the GMS framework now includes air links between Bangkok, Chiang Mai and Yunnan, Upper Mekong River navigation studies, road-building designed to produce three possible routes linking Thailand to Yunnan, and feasibility studies on a railway connecting the two countries.<sup>20</sup>

Given Bangkok's historic tendency of balancing bigger powers (and in the late 19<sup>th</sup> century keeping Siam independent by this policy), it is not surprising that toward Washington, the Royal Thai Government continues to be the United States' closest friend and ally in mainland Southeast Asia and a government which, along with Singapore in the straits area, usually backs U.S. policies. Today the United States still remains Thailand's largest trade partner and substantial American business investments are in Thailand. The two countries have close military relations with the annual "Cobra Gold" and "CARAT" exercises being the largest in East Asia and drawing in other ASEAN participants. Joint counter-drug efforts and U.S. weapons sales also occur.

After the 1997/98 Asian financial crisis, Bangkok had no choice but to accept IMF conditionalities and eventually Thailand was rewarded with limited new U.S. assistance,<sup>21</sup> a noticeable contrast to China, which promptly offered no strings attached financial assistance to Bangkok. Former Prime Minister Thaksin's zig-zags in foreign relations ultimately settled down with the effect of pledging support to the United States on the Global War on Terrorism(GWOT,), providing

overflight, and refueling port access for U.S. operations in Afghanistan, closer counter-terrorism cooperation with other ASEAN governments. Also Thaksin eventually granted leases on Sattahip naval base and Utapao airbase to the United States in the build-up to the 2003 Iraq invasion. After Thailand sent a small force contingent to Iraq, the Bush administration designated Thailand a “major non-NATO ally” (MNNA).

In summary Thailand divides its strategic linkages between the US and China: Maintaining the US security tie while acceding to a deepening economic engagement with China. This is something of a political acrobatic act, but the Thais know how to do this quite well.

## **Sino-Vietnamese Relations**

In spite of seven years of American bombing of Communist North Vietnam, including the Linebacker I and II strategic campaigns, animosities between Washington and Hanoi officially ended in 1995 when the Clinton Administration normalized relations with the Socialist Republic of Vietnam (SRV). By comparison Vietnam’s relations with China are much deeper and much longer – thousands of years. Not surprisingly, streets and boulevards in Vietnam are named for patriots who fought Chinese invaders over the centuries. Indeed, it is only twenty-nine years since China’s last military invasion of Vietnam. Thus the fact of China, its huge presence next to and difficult history with the Vietnamese, is always evident in Hanoi’s planning and diplomacy. After the PLA invaded northern Vietnam in early 1979, it took until 1991 for China and Vietnam to normalize relations. Today, on the surface, things are fine: the two communist parties have “cordial” relations, and a long negotiated land border arrangement was finalized in December 1999 and a Tonkin Gulf demarcation was signed in December 2000.<sup>22</sup>

The more recent pattern of dispute resolution between China and Vietnam shows a relatively sophisticated, patient approach by both sides. And it evolved through stages: Vietnam’s gradual exhaustion in Cambodia and 1989 military exit; China’s subsequent softening toward Hanoi and its client Hun Sen; the sustained negotiations on territorial disputes including the Paracel and Spratly Islands; and finally the discussions over other water and continental shelf claims in the South China Sea and the Gulf of Tonkin. The results have been impressive despite persistent disagreements over portions of the Spratly and Paracel Islands and the surrounding seabeds.<sup>23</sup>



Chinese-Vietnamese trade may now be almost US \$10 billion annually, with China sending machinery, telecommunications equipment, pharmaceuticals, fertilizer, and vehicles, while the Vietnamese export crude oil, coal, coffee, fish and produce to China. An economic corridor – both road and rail – is being vitalized to complete a Kunming-Hanoi-Haiphong route as an outlet for southwestern Chinese trade. Joint exploration for offshore oil and gas is occurring with the China National Offshore Oil Corporation (CNOOC) being paired with a major Vietnamese oil firm to explore in Beibu Bay.<sup>24</sup> Beijing has recently gone further seeking to tie Guangxi Province, and Beibu Bay, into an economic zone that will formalize cross-border trade with northern Vietnam – a joint initiative known as “Two Corridors and One Ring.”<sup>25</sup>

Thus a growing economic inter-dependence has sidelined, for now, the deeper suspicions between China and Vietnam. Hanoi publicly supports Beijing’s “one-China” policy toward Taiwan, but without any special spin, given the large Taiwanese investments in Vietnam. One wonders, however, if the cordiality will last once the Chinese push real naval power down into the South China Sea and around Vietnam’s offshore oil claims.

Given Hanoi’s desire for “diversity” and “multilateralism” in its foreign affairs,<sup>26</sup> relations with Washington continue in a formative stage. 2005 was the 10<sup>th</sup> anniversary of the normalization of relations, and the 5<sup>th</sup> anniversary of the U.S.-SRV Bilateral Trade Agreement (BTA). There are nearly 1.5 million Vietnamese-Americans and another two million U.S. veterans of the Second Indochina War. U.S.-Viet cooperation continues on Prisoner of War (POW) and MIA issues. Nearly 2,500 Vietnamese are studying in the U.S. and about 100 non-governmental organizations (NGOs) have offices in Vietnam.<sup>27</sup>

But 2005 also was the 30<sup>th</sup> anniversary of Saigon’s fall, so U.S.-SRV relations, while pragmatic, still show definite sensitivities. Nevertheless, U.S.-SRV trade, spurred by the BTA, reached \$6.5 billion in 2004 (with a nearly \$4 billion U.S. deficit), and may now be \$8 billion. The United States purchases over 20 percent of Vietnam’s exports, and may be the SRV’s current largest export market next to China and Japan. Both sides saw the BTA providing valuable experience for the Vietnamese as Hanoi pushed for WTO admission. But U.S. organized labor continues to charge Vietnam with dumping seafood on the American market. Other aspects of the relationship show the United States pressing the Vietnamese on protection of minority rights, freedom of religion, and pirating of copyrighted

merchandise. The State Department classifies Vietnam as a “country of particular concern.”

U.S.-SRV military-to-military relations are not close, although there have been several U.S. Navy ship visits to Vietnam. U.S. Secretary of Defense Rumsfeld’s visit to Vietnam in June 2006 was notable for its cautious statements, and denial that the U.S. had any plans for access to Vietnam’s military facilities.<sup>28</sup> So far Washington provides no economic or training assistance to Vietnam’s armed forces, although an International Military Education and Training (IMET) agreement has been reached.<sup>29</sup> Nevertheless Hanoi and Washington have begun sharing intelligence on terrorism, drugs and smuggling.<sup>18</sup>

The mixed and evolving nature of U.S.-Vietnamese relations and the challenge of managing the differences was addressed by U.S. Ambassador to Vietnam, Michael Marine, in October 2005:

In fact – and to some extent counter-intuitively – the closer the two countries become and the broader their relationship is, the greater the number of areas in which contention can arise. I think this is where the United States and Vietnam now are, but it’s not something we should seek to change.<sup>30</sup>

Thus while Hanoi has set clear limits beyond which it will not lean toward either Beijing or Washington, carefully shying away from explicit military arrangements as the SRV continues its thrust into the global economy, Vietnam’s strategic calculus places China at the top of its diplomatic, economic and security agendas.

## **Chinese Relations with Cambodia and Laos**

China’s basic interest in Cambodia and Laos is timber products and fish, although China’s vigorous development of the Upper Mekong River’s hydroelectric power is also affecting the two smaller states. By contrast, the United States, with few interests in Cambodian or Laotian resources, keeps its policies focused on the human rights and governance issues, and encourages market liberalization in Phnom Penh and Vientiane. Cambodia and Laos are both governed by corrupt authoritarian regimes that have proven willing to see their nations’ natural resources sold off to various bidders with little concern for environmental or cultural damage. This phenomenon and the inability or unwillingness of Phnom

Penh and Vientiane to stop the plundering has become an agenda item for international organizations and environmental protection groups.

Cambodian forests are being cut down by local loggers selling to Chinese, Thai and Vietnamese interests. Laotian timber is being harvested by the Lao Army and sold off. Precious Cambodian antiquities at Angkor Wat and Angkor Thom are being stolen by local smugglers for the international market. All this is occurring as Cambodia's politicians quarrel over power and privileges, and Laos rulers cash in to sustain their dictatorship. Finally, the Upper Mekong River system flows are being intersected by Chinese dam building projects.

The deforestation of mainland Southeast Asia, initially Thailand and Burma, began to ring environmental alarm bells nearly thirty years ago. China's accelerating demand for wood products, partly exacerbated by logging bans in the PRC after the disastrous 1998 floods, has seen Chinese timber needs swing aggressively toward Southeast Asia's forests. While Burma still has more than half of the remaining natural forests in mainland Southeast Asia, they are depleting rapidly.<sup>31</sup> The impact on smaller Cambodia of Chinese and Thai timber demand is even greater, such that concerted NGO pressure and publicity about the abuses resulted in sharp, if temporary, declines in destruction of Cambodian forests in the early 2000s.<sup>32</sup>

Laos is ruled by an even more secretive political apparatus than Cambodia; it has completely interblended its single party, the Lao People's Revolutionary Party (LPRP) and its legislature, such that all parliamentarians are also members of the Central Committee.<sup>33</sup> No opposition groups are permitted in Laos, few NGOs operate there, and no real human rights or political freedoms exist. Laos remains one of the poorest countries in the world. AIDS has reached serious proportions, and the country's transportation infrastructure is inadequate to modernization needs; the country has no railroads and the road system is badly under-developed.

China's other principal impact on Cambodia and Laos involves damming the upper Mekong River (called the Lancang by the Chinese). Dam building on the upper Salween River (called the Nu by the Chinese), which parallels the Mekong before pushing south into Burma, is also affecting Burma's ecosystem. The Mekong is the largest river in Southeast Asia and journeys through or along the borders of China, Burma, Thailand, Laos, Cambodia, and Vietnam. Cambodians may depend for 50 percent of their diet protein on Mekong River fish. Laos is waiting to discover if Chinese dam building up river will leave them with enough water flow to keep generating electricity for export.<sup>34</sup>

China's newly focused interest in the Mekong and Salween Rivers is prompted by the PRC's increasingly critical water problems – much of China's territory is arid, and the PRC's current water use levels cannot be sustained. This is being exacerbated by China's massive urbanization and industrialization, and resultant pollution. Seeking to capture more hydropower, the PRC has plans to build eight dams on the upper Mekong by 2019 with the potential of generating even more electricity than the Three Gorges Dam. Chinese plans for the Upper Salween involve thirteen more dams. As an environmentalist in Thailand observed:

Turning a natural river into a series of huge bathtubs is going to have a hideous impact on the ecological integrity of the Salween. Fish migration routes will be destroyed. Downstream some of the last great teak forests on earth will be buried under water.<sup>35</sup>

And as a Cambodian cabinet minister put it: “What can we do? They are upstream. They are a richer country operating in their own sovereign territory. How can we stop them?”<sup>36</sup> China's Yunnan province, containing upper reaches of six important rivers, will constitute the basis of a huge west-to-east hydropower electricity transfer system.<sup>37</sup>

In the shadow of China's dam building on the Upper Mekong and Salween Rivers rests Laos' principal hope to continue generating electricity power for export: the Nam Theun 2 hydroelectric project on the Nakai Plateau. The World Bank is providing loans, and completion might occur around 2009.<sup>38</sup> Laos currently sells much of its hydropower electricity to Thailand. But much also depends on drought conditions and whether future Chinese dam building will allow the Laotians enough water flow to keep generating electricity. Chinese dam building on the Upper Mekong is already having downstream effects: In 2004 the Mekong reached record lows along the Laos and Thailand border.

The Mekong has been fluctuating and unusual amounts of silt and sediment have been accumulating. Pollution from Chinese toxic waste dumping also is affecting Cambodia and its delicate Tonle Sap ecosystem. The Mekong River Commission is alarmed – China has declined to join the commission – the members are Laos, Cambodia, Thailand, and Vietnam. To date the PRC has made few concessions to the downstream Mekong states. So much, then, at least at this point, for China's “peaceful rise” as it affects water sharing with mainland Southeast Asia.

## Conclusion

Whether one takes a benign or skeptical view of China's objectives for and activities in mainland Southeast Asia, it is undeniable that China's burgeoning economic engagement and impact upon the area has strategic consequences. Chinese activities are focused, disciplined and programmed for the long haul.

By contrast the United States is generally reacting to rather than leading mainland Southeast Asian developments given our preoccupation with other regions and crises. Nevertheless Indian and Japanese engagement with mainland Southeast Asia generally tracks with US interests, as do Thailand's policies. These three countries are affiliated in numerous ways with American interests and they can constitute friendly buffers, if not explicit obstacles, to Chinese momentum. United States policy would do well to coordinate carefully with these three friendly countries as Washington engages, or periodically reengages, with mainland Southeast Asia.<sup>39</sup>

## END NOTES

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- 1 Bruce Vaughn and Wayne M. Morrison, "China-Southeast Asia Relations: Trends, Issues, and Implications for the United States," CRS Report to Congress (Washington: Library of Congress, 4 April 2006), pp 10, 11.
  - 2 Evelyn Goh, "*Developing the Mekong: Regionalism and required security in China-Southeast Asian Relations*" Adelphi Paper #387 (London: IISS, May 2007), p 26
  - 3 Goh, p 15.
  - 4 Martin Stuart-Fox, "Southeast Asia and China: The Role of History and Culture in Shaping Future Relations," *Contemporary Southeast Asia*, April 2004, pp 116-139.
  - 5 A concise history of modern Burmese-PRC relations, and the mutual sensitivities, is in Jurgen Haacke, *Myanmar's Foreign Policy. Domestic Influences and International Implications*. (London: ISS, 2006), pp 25-32. Also see Helen James, "Myanmar's International Relations Strategy: The Search for Security," *Contemporary Southeast Asia*, (December 2004), p 535.

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6 David I. Steinberg, "The United States and its Allies: The Problem of Burma/Myanmar Policy," *Contemporary Southeast Asia*, August 2007, pp 220-221. Walter Lohman doubts that Beijing places any pressure on the Burmese junta. See his "Crisis in Burma: Choosing our Friends," Heritage Foundation, 28 September 2007.

7 Jurgen Haacke, *Myanmar's Foreign Policy: Domestic Influences and International Implications*, (London: International Institute for Strategic Studies, 2006), pp 26-27, and J. D. Yuan, *China-ASEAN Relations* (Carlisle, PA: SSI, 2006), p 37.

8 Bruce Vaughn and Wayne M. Morrison. "China-Southeast Asia Relations: Trends, Issues, and Implications for the United States", (Washington, D.C.: CRS Report for Congress, 4 April 2006), p 24.

9 These difficulties undoubtedly partly reflect Senior General Than Shwe's schizophrenic style of rule in Burma, a variation on the trusted "divide and rule" approach as he seeks to preserve his position and his family's wealth by pitting subordinates against each other. See Larry Jagan, "Intrigue and illness in Myanmar's junta," *Asia Times Online*, 26 February 2008.

10 Wayne Bert, "Burma, China and the U.S.A.," *Pacific Affairs*, Summer 2004, p 266.

11 Burma may have 90 trillion cubic feet(tcf) of natural gas. Despite New Delhi's traditional reservations about the Burmese regime, more recent Indian actions, possibly to offset the Chinese grip on Burma, have produced policy changes including economic assistance, port upgrades, road building, cooperation against insurgent movements, and limited Indian arms sales to Yangon. Russia also may now be selling arms to Burma. See Ardeth Maung Thawngmung and Maung Aung Myoe, "Myanmar in 2006: Another Year of Housekeeping?" *Asian Survey*, Jan/Feb 2007, p 198.

12 Speculation as to the motives for the junta relocating the government from the urban sprawl of Yangon, a city of five million people, run from astrological explanations, to fear of a U.S. military invasion, to getting the seat of government away from discontented urban masses and the political opposition. See Tin Maung Maung Than, "Myanmar: Challenges Galore But Opposition Failed to Score," in

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*Southeast Asian Affairs, 2006*, edited by Daljit Singh and Lorraine C. Salazar. (Singapore: ISEAS, 2006), pp 190-191.

13 Bert, “Burma, China and the U.S.A.,” op. cit., p 263.

14 U.S. counter-drug policy toward Burma is codified in presidential determinations which, for fiscal year 2006 were released on 15 September 2005, and listed Myanmar as a “major drug transit or major illicit drug-producing” country, having “failed demonstratively” to live up to its obligations under international counter-narcotics agreements. See Tin Maung Maung Than, “Myanmar: Challenges Galore but Opposition Failed to Score,” op. cit., p 194.

15 David Steinberg, “Sanctions Rarely Work,” *The Irrawaddy Online Edition*, 1 April 2003.

16 Steinberg, “The United States and Its Allies,” op. cit., p 223.

17 Tyler Marshal, “Southeast Asia’s Best New Friend,” *Los Angeles Times*, 17 June 2006, as cited in Toshi Yoshihara and James R. Holmes, “China’s Energy Driven ‘Soft Power’,” *ORBIS*, Winter 2008, p 126.

18 Siriluk Masviriyakul, “Sino-Thai Strategic Economic Development in the Greater Mekong Subregion (1992-2003),” *Contemporary Southeast Asia*, August 2004, pp 303-305.

19 Masviriyakul, op. cit., p 306.

20 See Lawrence E. Grinter, “China, the United States, and Mainland Southeast Asia: Opportunism and the Limits of Power,” *Contemporary Southeast Asia*, December 2006, pp 458-459.

21 Paul Chambers, “U.S.-Thai Relations After 9/11: A New Era of Cooperation?” *Contemporary Southeast Asia*, December 2004, pp 460-479, and Vaughn and Morrison, “China-Southeast Asia Relations,” op. cit., p 25.

22 For details see Yuan, *China-ASEAN Relations*, op. cit., p 33.

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- 23 Ramses Amer, "Assessing Sino-Vietnamese Relations through the Management of Contentious Issues," *Contemporary Southeast Asia*, August 2004, pp 320-345.
- 24 Asia Pulse/XIC, "Hu Calls for Closer Vietnam/China Links," *Asia Times Online*, 3 November 2005.
- 25 "China: New Economic Zone at Vietnam's Door," *Strat For Today*, 21 Feb 2008.
- 26 Briefing to the author at Ministry of Foreign Affairs, Hanoi, 3 March 2005.
- 27 U.S. Consulate data, Ho Chi Minh City.
- 28 Bill Hayden, "Rumsfeld in Vietnam as Ties Warm," *BBC News*, 4 June 2006.
- 29 Simon Montlake, "Military Ties Warm Between US, Vietnam," *Christian Science Monitor*, 7 February 2006.
- 30 Ambassador Marine to the Los Angeles World Affairs Council, as quoted in Grant McCool, "Vietnam at WTO's Doorstep," *Asia Times OnLine*, 12 January 2006.
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- 32 Lang and Hu, op. cit., p 182.
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