

**HEARING ON CROSSROADS OF COMPETITION: CHINA IN SOUTHEAST ASIA
AND THE PACIFIC ISLANDS**

HEARING
BEFORE THE
U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION
ONE HUNDRED NINETEENTH CONGRESS
FIRST SESSION

THURSDAY, MARCH 20, 2025

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WASHINGTON: 2025

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AND THE PACIFIC ISLANDS**
THURSDAY, MARCH 20, 2025

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

Washington, DC

The Commission met in Dirksen Senate Office Building, Room 215, and via videoconference at 9:30 a.m., Chair Reva Price and Vice Chair Randall Schriver (Hearing Co-Chairs) presiding.

**OPENING STATEMENT OF CHAIR REVA PRICE
HEARING CO-CHAIR**

CHAIR PRICE: Good morning. Welcome to the U.S.-China Economic and Security Review Commission's third hearing of 2025. At the outset, I would like to thank each of our witnesses for sharing your expertise and testimony today. I would also like to thank the Senate Finance Committee for allowing us to use their hearing room and the Senate Recording Studio for their assistance livestreaming this event, and hopefully we will fix the problems we are having shortly.

Additionally, a huge thank-you to the USCC staff who have worked tirelessly to put together this hearing. Your efforts are greatly appreciated.

Lastly, a reminder to all listening today that witness testimonies are available on the Commission's website where we will also post a recording of this hearing.

Today we will address China's activities and intentions in Southeast Asia and the Pacific Islands. Both regions are crucial to strategic competition between China and the United States. Accounting for nearly nine percent of global GDP growth over the past decade, Southeast Asia is a linchpin of global supply chains and home to a large and growing middle class. The region's sea-lanes are also vital corridors for global trade and military transport that could become key chokepoints in the event of conflict in the Indo-Pacific.

The Pacific Islands span nearly fifteen percent of the Earth's surface, and we need only to recall the U.S. island-hopping campaigns during World War II to appreciate their strategic significance. If China succeeds in becoming the dominant power in these regions, it will significantly alter the regional and global balance of power in the PRC's favor.

Beijing fully appreciates the strategic importance of the region. Xi Jinping refers to Southeast Asia as a priority for China's neighborhood diplomacy strategy, designed to undermine U.S. power in the Indo-Pacific by building Chinese influence in nearby countries. The leadership of the PRC, likewise, views the Pacific Islands as essential to their goals of diplomatically isolating Taiwan and projecting power past the second island chain.

Beijing uses its economic influence and leverage as a key tool to promote its objectives in both regions. Southeast Asian countries have been among the top destinations for Belt and Road Initiative projects, and Chinese tech companies have made deep inroads into their telecommunications and e-commerce networks. In the Pacific Islands, China has a long-term and multifaceted economic engagement strategy, including numerous BRI projects. Chinese companies often end up as the lowest, and in some cases, the only bidder for construction projects funded by multilateral banks, enabling China to claim credit for infrastructure projects, even when they are funded primarily by other countries. China also poses an economic threat, increasingly flooding Southeast Asian markets with cheap goods, putting local firms out of business.

On the security front, China's aggressive gray zone actions in the South China Sea create uncertainty around critical trade lanes and risk embroiling the region in devastating military conflict. And in the Pacific Islands, Chinese influence activities are driving an increase in corruption and transnational crime, while undermining U.S. partnerships.

We will hear today that many in the region do not want to choose sides between China and the United States, having adopted a "friends to all, enemies to none" policy. With that in mind, it is urgent that we listen to local and expert perspectives on how China's influence is affecting Southeast Asia and the Pacific Islands and how the United States can best advance our shared interests in regional peace and prosperity.

I look forward to hearing from our witnesses today about these and other challenges posed by China's activities and specific steps Congress can take to address them.

I will now turn the floor over to my co-chair for this hearing, Vice Chair Randall Schriver.

**PREPARED STATEMENT OF CHAIR REVA PRICE
HEARING CO-CHAIR**



Hearing on “Crossroads of Competition: China in Southeast Asia and the Pacific Islands”

March 20, 2025

Opening Statement of Chair Reva Price

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I will now turn the floor over to my co-chair for this hearing, Vice Chair Randall Schriver.

OPENING STATEMENT OF VICE CHAIR RANDALL SCHRIVER, HEARING CO-CHAIR

VICE CHAIR SCHRIVER: Thank you, Madam Chair. Good morning, and thank you to our witnesses.

Southeast Asia and the Pacific Islands are home to nearly 700 million people. Collectively, if taken together, they would constitute the fifth-largest economy in the world. And as Chair Price mentioned, they occupy strategic geographies, straddling these key sea-lanes which connect the Indian Ocean to the Western Pacific.

It's also quite diverse. There is a broad range of development. This region is bookended by Laos, with an annual income of around \$3,000 U.S. dollars, and Singapore, which is closer to \$70,000. There are different systems of governance in the region, ranging from thriving democracies like the Philippines to very oppressive regimes, like the one in Myanmar. And it's diverse in terms of religion. The world's most populous Muslim country, Indonesia, is in the region, and the two countries with the highest percentage of Catholics outside the Vatican are in this region, in Timor-Leste and the Philippines.

The United States has a broad spectrum of bilateral relationships with countries and territories in this region. There are U.S. territories, where American citizens reside. There are states where we have compacts of free association. There are treaty allies, including some with which we have persistent military presence. There are important trade and security partners, like Singapore, where we have a free trade agreement and U.S. forces have ready access there. And there are countries with whom we have very strained ties, like Myanmar.

Beyond this story of great diversity, there is one common quality that these countries all share, and that is their proximity to China, and that affects virtually all aspects of the lives of the citizens in these two regions. Proximity to China affects trade and investment patterns and shifting supply chains. It impacts the degree to which Chinese organized crime is a disruptive factor. It brings threats to food security and climate patterns. And most acutely, it affects security. Each country in Southeast Asia and the Pacific Islands is well within range of the People's Liberation Army's most common and plentiful power projection capabilities, their ballistic and cruise missiles, and many have been directly bullied and coerced by the PLA Navy, Coast Guard, and/or Maritime Militia.

So the United States must compete, and compete smartly. In the Pacific Islands, this means paying particular attention to the issues they care about, such as climate change, transnational crime, corruption, and protection of fisheries. In Southeast Asia it means balancing a strong security role where we have traditionally upheld deterrence and secured the free and open maritime commons with robust development, trade, and investment strategies that lift all.

Southeast Asia and the Pacific Islands are demographically populous and young, so we must have a strategy that is appropriate for the long term, and this strategy should display our values as well as prove the United States to be a durable and reliable partner.

I look forward to exploring these issues today and learning more from our expert witnesses.

**PREPARED STATEMENT OF VICE CHAIR RANDALL SCHRIVER,
HEARING CO-CHAIR**



Hearing on “Crossroads of Competition: China in Southeast Asia and the Pacific Islands”

March 20, 2025

Opening Statement of Vice Chair Randall G. Schriver

Southeast Asia and the Pacific Islands are home to nearly 700 million people. Collectively the countries in these regions would make for the fifth largest economy of the world. And they occupy strategic geography straddling sea lanes that connect the Indian Ocean to the Western Pacific, through which about one third of global shipping transits.

It is also quite diverse. There is a broad range of development in the region bookended by Laos (under \$3,000 annual income) and Singapore (close to \$70,000). There are different systems of governance including thriving democracies such as the Philippines, to among the world’s most oppressive in Myanmar. And the region is home to the most populous Muslim country in the world in Indonesia, as well as the two countries in the world with the highest percentage of Catholics outside the Vatican in Timor Leste and the Philippines respectively.

The United States has a broad spectrum of bilateral relationships in the region. They range from U.S. territories where American citizens reside (Guam and American Samoa), to Compacts of Free Association (Palau, RMI, and FSM), to treaty allies (the Philippines and Thailand), to security and trade partners (Singapore), to those with whom ties are very strained (Myanmar).

Beyond this story of great diversity is one very important common quality these countries share – geographic proximity to China. This affects virtually all aspects of life for citizens in these regions. Proximity to China affects trade and investment patterns and shifting supply chains. It impacts the degree to which Chinese organized crime is a disruptive factor. It brings threats to food security and changes to climate patterns. And it probably most acutely affects security. Each country in Southeast Asia and the Pacific Islands is within range of the People’s Liberation Army’s (PLA) most common and plentiful power projection capabilities (ballistic and cruise missiles), and many have directly been bullied and coerced by the PLA Navy, Coast Guard and/or maritime militia.

The United States must compete and compete smartly. In the Pacific Islands this means paying particular attention to issues they care about such as climate change, transnational crime, corruption, and the protection of fisheries. In Southeast Asia it means balancing a strong security role where we have traditionally upheld deterrence and secured the free and open maritime commons with a robust development, trade, and investment strategy that lifts all concerned. As

Southeast Asia and the Pacific Islands are demographically populous *and* young, competing smartly also means playing a long game which displays our values, as well as the durability and reliability of the United States as a partner.

I look forward to exploring these issues today and learning from our expert witnesses.

PANEL I INTRODUCTION BY CHAIR REVA PRICE

CHAIR PRICE: So our first panel will examine China's strategic objectives in Southeast Asia and the Pacific Islands and the extent to which they have been successful in engaging countries in the region diplomatically.

We will start with Dr. Prashanth Parameswaran, Global Fellow at the Wilson Center. Dr. Parameswaran's testimony will evaluate the overall strategic competition between China and the United States in Southeast Asia.

Next we will hear from Dr. Lynn Kuok, Lee Kuan Yew Chair in Southeast Asia Studies at Brookings Institution. Dr. Kuok will discuss shifts in how elites and the public in Southeast Asia view China and the United States.

Finally, we will hear from Dr. Graeme Smith, Senior Fellow at Australia National University, joining us remotely. Thank you for joining us from across the world. Dr. Smith will examine China's strategic objectives and diplomatic activities in the Pacific Islands and the efforts of the United States and its allies and partners to counter China's growing influence.

Thank you all very much for your testimony. The Commission is looking forward to your remarks. I ask that all of our witnesses please keep your remarks to 7 minutes, and Dr. Parameswaran, we will begin with you.

OPENING STATEMENT OF PRASHANTH PARAMESWARAN, GLOBAL FELLOW, WILSON CENTER

DR. PARAMESWARAN: Great. Thank you so much to the Commission for the opportunity to testify today.

My testimony makes three basic points.

My first point is that the United States and China are engaged in high-stakes, asymmetric competition in Southeast Asia. In my trips to all of the 11 countries in Southeast Asia over the past two years, except Myanmar, policymakers acknowledged competition as a new normal. There are also worries that an excessive focus on competition will complicate other priorities such as domestic growth. Within this competition, the United States is recognized as the leading security provider, with an unmatched alliance network. But economically, China has a nearly two-to-one advantage on the United States in terms of trade. It is also closing the gap on investment, where American companies have led.

China wants to entrench itself as the leading power in Southeast Asia at the expense of the United States. Chinese officials openly say this in the region. In recent months, some have indicated they sense a window of opportunity for China to make inroads in Southeast Asia if the United States is distracted from the region. As one Chinese diplomat told Southeast Asian countries recently at a regional forum, China sees itself as “the most leading” partner in ASEAN, and quote/unquote, “the self-evident choice for the region.”

A Southeast Asia dominated by China would undermine U.S. interests in a significant region in its own right. Southeast Asia is the fifth-largest economy and third-largest population center in the world, hosting critical sea-lanes and the Indo-Pacific’s default diplomatic convener, ASEAN. All countries in the region recognize the need to live with China, but none of them see it in their interest to be dominated by China. Many of them also worry about shifts in U.S. commitment to the region when a new administration takes office. We have seen some of that at play in recent weeks.

My second point is that China has made gains, but the region and other powers are not standing still. It is impossible to miss China’s footprint when traveling and operating in Southeast Asia. China’s presence is highly visible across media, digital payments, electric vehicles, and infrastructure.

But these gains also need to be kept in perspective. I had the opportunity to ride Southeast Asia’s first high-speed rail project in Indonesia, built by China last November. It was visually impressive, as the headlines suggest, but there were also major delays in some of the stations that local Indonesians complained about, as well. When I spoke with small restaurant owners in Laos, operating next to the Mekong River, they were acutely aware of China’s negative influence on food and water security.

Countries also recognize that China’s growing presence intensifies the need for them to diversify their options to prevent overreliance. The good news here is that more powers beyond China are doing more in Southeast Asia. That includes U.S. partners like Australia, India, and Japan.

Southeast Asian countries themselves are also exerting their own agency in some cases. Singapore is a leader in minilateral partnerships in the digital and green economy. Vietnam’s proliferating trade agreements have intensified the friendly but often fierce intraregional competition in Southeast Asia, with major economies like Malaysia and Thailand.

But alternatives are not always available for smaller countries in the region like Laos, and

policymakers in Southeast Asia concede privately that politicians may go for cheap and quick options from China that benefit regime interests but do not benefit national interests.

My third and final point is that the United States should focus on what I call a “swing sector” competitive approach in the region, and Congress has a key and critical role to play in this approach. I continue to believe that the United States should ideally pursue full spectrum competition, at the very least across all four letters of the acronym DIME -- diplomatic, informational, military, and economic. At the same time, given constraints on time and resources, there is also a need to focus on a core value proposition within this comprehensive approach. In my view, that focus should be on providing options and shaping choices Southeast Asian states are making in a narrower set of significant strategic industries. To my mind, this is more preferable to a focus on just a few quote/unquote “swing states” in U.S.-China competition that some have advocated, which ignores the full range of countries in a diverse and dynamic region. Designated priorities should focus on areas like technology, strategic infrastructure, the maritime domain, and sustainable approaches to managing critical minerals and rare earths.

Congress has an important role to play in at least three particular areas across and beyond these sectors. The first area is scrutinizing interagency coordination and focus. In complex areas like technology, even some U.S. partners have a really difficult time figuring out areas with respect to interagency coordination and focus, including getting clarity on what the right mix of agencies are to structure cooperation across administrations. More able partners like Singapore have been able to navigate this, but frankly, this is a high bar, and ongoing changes to areas like U.S. international assistance may make this even more challenging.

The second area is ensuring key sectors are prioritized in budgeting. Regional funding for maritime domain awareness is especially critical for issues like the South China Sea and should be distributed across key regional countries like Indonesia, Vietnam, and Malaysia, even as the Philippines remains a priority.

The third and final area is ensuring a focus on ASEAN, which, for all of its flaws which are recognized in the region, gives U.S. policy one way to engage across all 11 countries in a diverse region in a resource-constrained environment. Engagements with the ASEAN Secretariat in Jakarta, paired with CODELs and part of standalone visits is one way to address this, and I applaud the Commission’s own recent visit to the ASEAN Secretariat this month, broadcast on the Secretariat’s social media, as one example of this. There are other examples as well, including holding U.S.-ASEAN summits in the United States to get past the issue of presidential engagement on an annual basis in the region.

Thank you again for the invitation, and I look forward to the rest of the panel and your questions. Thank you.

CHAIR PRICE: Thank you. And Dr. Kuok.

**PREPARED STATEMENT OF PRASHANTH PARAMESWARAN, GLOBAL FELLOW,
WILSON CENTER**

“Managing Asymmetric US-China Competition in Southeast Asia”

Testimony of Dr. Prashanth Parameswaran
Global Fellow, Wilson Center; Founder, ASEAN Wonk Newsletter; Senior Columnist, The Diplomat; Advisor, BowerGroupAsia

Before the U.S.-China Economic and Security Review Commission at the Hearing “Crossroads of Competition: China in Southeast Asia and the Pacific Islands”

Thank you to the committee for the opportunity to testify today. My testimony draws on ongoing analysis on strategic competition in Southeast Asia for the Wilson Center and my other affiliations¹. It is informed by trips within the last two years to 10 of the 11 countries in Southeast Asia (all except Myanmar given the ongoing civil war). It is also a product of hundreds of conversations with policymakers and experts in all of those 11 countries, a portion of which is publicly available on the twice-weekly *ASEAN Wonk* newsletter in order to highlight diverse regional voices. I will also draw on my book *Elusive Balances: Shaping US-Southeast Asia Strategy*, which examines U.S. commitment to the region across the past half-century².

My testimony will cover three points:

1. The US and China are engaged in high-stakes asymmetric competition in Southeast Asia.
2. China has made some gains within limits, but the region and other powers are not standing still.
3. The US should focus on an affirmative “swing sector” competitive approach with partners.

1. The United States and China are engaged in asymmetric competition in Southeast Asia.

It is critical to recognize that the United States and China are engaged in *asymmetric competition* in Southeast Asia, even though this competition is at times presented symmetrically. Put differently, the United States and China have different strengths and weaknesses, and this plays out in how they compete in the region in ways that make like-to-like comparisons less useful. This can begin to be discerned (non-exhaustively) by employing the so-called DIME framework, which analyzes the diplomatic, informational, military, and economic realms (see table below).

Table 1: DIME Framework as Applied to US and China in Southeast Asia

Domain	US Strength	US Limitation	China Strength	China Limitation
Diplomatic	Big partnership network	Cohesion; “Not-like-minded” challenge	Prioritization	Assertiveness
Informational	Free media; dissent as a check	Unclear and messy narrative that changes by administration	Coordinated message	Echo chamber challenge
Military	High-end capabilities	Overmilitarization of relationships.	Proximity; “cheaper” options	Lack of close security partners
Economic	Innovation and standards	Lack of speed in delivery	Economic gravity pull	Coercion risk

¹ The initial portions are drawn from: Prashanth Parameswaran, “Southeast Asia and US-China Competition: Contours, Realities and Implications for the Indo-Pacific,” Wilson Center, December 21, 2023.

² See: Prashanth Parameswaran, *Elusive Balances: Shaping U.S.-Southeast Asia Strategy* (Singapore: Palgrave MacMillan, 2022).

For instance, the US has strengths across DIME – including its allied and partnership network and innovative foreign companies. But it also has limitations, including the lesser weight given to diplomatic resources relative to the military, as well as the difficulty of crafting a clear narrative that sustainably aligns a diverse domestic stakeholders in areas such as advancing a more active trade policy. An additional challenge is crafting policies that are both attractive to Southeast Asia but can also be sustained over time in the U.S. domestic context despite changes in administrations. Within Southeast Asia, US strengths tend to be more visible to long-term security allies such as the Philippines or developed commercial and strategic hubs like Singapore. Washington’s limitations play out more in relatively less like-minded and lesser-developed countries, with Cambodia being a case in point in recent years.

U.S. and Chinese regional visions build on their strengths. Take, for instance, Washington’s free and open Indo-Pacific (FOIP) strategy, which has been sustained with some adjustments across administrations. In Southeast Asia, this has combined areas such as values, partnerships, and military power, with lines of effort including boosting partner maritime defense capacity.

Meanwhile, China’s so-called “community of common destiny for mankind” (CCD) in Southeast Asia uses Beijing’s strengths, such as its geographic proximity and economic heft as the region’s top trading partner and a leading investor. Manifestations have included Belt and Road Initiative projects, subregional initiatives such as the Lancang-Mekong Cooperation mechanism, and the gradual development of security institutions and exercises. China is also leveraging its involvement in trade agreements, including the Regional Comprehensive Economic Partnership (RCEP), a pact that Washington was ineligible to join at the time due to the absence of a US-ASEAN free trade agreement relative to other ASEAN dialogue partners³.

For China, this rise, in what might be termed its Community of Common Destiny narrative, is natural given its history and status as benign on aggregate for Southeast Asia, even though the region itself has mixed views Beijing’s vision amid a trust deficit. China also attempts to frame Washington as an extraregional actor stirring up regional trouble, while at the same time promoting “Asia for Asians” initiatives that in fact reinforce its own dominance (one official described it to the author as nothing less than a “China-first concept in an Asia-first disguise” to create an exclusive China-Southeast Asia community reinforcing Beijing’s dominance).

The stakes in U.S.-China competition in Southeast Asia are high for the United States. To start, Southeast Asia as an aggregate unit is the world’s third-largest population center and fifth-largest economy. Among other things, the region hosts sea lanes that carry a significant portion of the world’s trade and energy, partly a source of what China has termed its so-called “Malacca Dilemma.” Southeast Asia is also home to the Association of Southeast Asian Nations (ASEAN) that – notwithstanding its limitations recognized by policymakers in the region – is the Indo-Pacific’s diplomatic convenor by default and has helped manage historically contentious intraregional ties. Given these various markers of significance, a Southeast Asia that either falls under greater Chinese control or is increasingly unstable amid Beijing’s bid for dominance would have profound implications for U.S. interests.

³ While it is yet to be admitted, China has also applied to join both the Digital Economic Partnership Agreement and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

The stakes are also high for Southeast Asian states themselves. Southeast Asia is no stranger to major power competition: the region was under major power influence for centuries, from empires and open maritime routes linking it to China, India, the Middle East, and Europe to colonization. Southeast Asian states have also adjusted to multiple balance of power shifts over the decades. But Southeast Asia's leaders today worry that an overly narrow focus on U.S.-China competition risks derailing the so-called "Asian century"⁴. This prism may also detract from other priorities such as growing domestic pressures to deliver growth and stresses on regional institutions such as ASEAN amid the proliferation of crises from Myanmar to the South China Sea. Malaysia Prime Minister Anwar Ibrahim described this most vividly when he warned that "unfettered" major power rivalry was leading to "a dark, self-destructive action-reaction spiral."⁵ Furthermore, an excessive emphasis on U.S.-China dynamics also obscures the reality that multiple powers are engaging more with Southeast Asia beyond just Beijing and Washington, including countries outside of the Indo-Pacific region. As Vietnam's Prime Minister Pham Minh Chin has put it, Vietnam's desire to "pick no side" is partly rooted in the fact that it is operating in world with "a great many choices."⁶

2. China has made some gains, but the region and other powers are not standing still.

China wants to entrench itself as the leading power in Southeast Asia and the partner of choice for regional countries at the expense of the United States. Chinese officials openly frame this as a choice for Southeast Asian states, and in recent months some have indicated privately that they sense a window of opportunity with the incoming U.S. administration for China to push for more advances in Southeast Asia and the wider Global South. As China's ambassador to ASEAN put it in a forum recently, China sees itself as "the most leading" partner in ASEAN, and "it is self-evident which choice truly aligns with the interests and expectations of countries and people in this region, and which force moves against the historical trend."⁷

China has made notable advances in the region even though it continues to run into challenges. Economically, Chinese firms are highly visible among populations in areas like railways, digital payments or electric vehicles, and Beijing has also long been the region's top trading partner on aggregate (even if key balances often run in its favor). But Beijing's advances have extended far beyond economics and run across DIME. They include media content-sharing agreements to drive China-friendly messaging and scouting military facilities beyond the ongoing scrutiny around Cambodia's Ream Naval Base. While China is occasionally prone to clumsiness in its diplomacy and prefers bilateral pathways, the country's diplomats nonetheless engage actively not just in ASEAN but also in more obscure subregional mechanisms like the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA).

China's limitations are also clear. Polls have repeatedly pointed to the fact that China is the most distrusted power in Southeast Asia alongside its growing influence⁸. And though most of the

⁴ See for instance: Lawrence Wong, "Speech and Q&A at the Nikkei Forum 28th Future of Asia: Leveraging Asia's Power to Confront Global Challenges," Singapore Prime Minister's Office, 25 May 2023.

⁵ See: Anwar Ibrahim, "Keynote Address," Asia Pacific Roundtable, August 10, 2023.

⁶ See: Pham Minh Chinh, "Sincerity, Trust and Responsibility for a Better World," Vietnam Government Portal, May 16, 2022.

⁷ Hou Yanqi, "Keynote Speech by H.E. Hou Yanqi at the ASEAN-China Forum 2024," Speech delivered at the ASEAN-China Forum, November 28, 2024.

⁸ See: ASEAN Studies Center, "State of Southeast Asia Survey," Updated 2025.

regimes in Southeast Asia may not be fully democratic by some metrics and may persist in business with China in spite of threats to national interests, policymakers are wary of backlash by parts of their population against specific Chinese project concerns across areas including finance, labor and environmental standards. China's assertiveness in the South China Sea and the Mekong subregion is also a reminder of the challenge Beijing poses to the interests of some regional states.

Beyond China, regionally, more actors like Australia, India and Japan are shaping the institutional landscape amid China's lingering trust deficit, even if there is still a gulf between these powers and Washington and Beijing that defy simplistic characterizations of bipolar or multipolar realities. Initiatives like Australia's announcement of a new economic strategy out to 2040 or Japan's Asia Zero Emission Community connect major power interests to regional needs and also raise the bar for other powers including the United States. Southeast Asian states are also trying their best to exert their agency amid intensified competition. Examples include Vietnam's upgrading of its multitiered partnerships or Singapore's kickstarting of a new green economy trade joint working group on the sidelines of last year's Asia-Pacific Economic Cooperation forum (APEC) summit⁹.

3. The US should focus on an affirmative “swing sector” competitive approach with partners.

The United States can maximize its success in U.S.-China competition by focusing less on what China is doing and more on an affirmative, focused approach that integrates regional and global allies and partners. Given constraints on time and resources in a global U.S.-China competition across domains as well as ongoing wars outside the Indo-Pacific, the focus should be on providing options and shaping select choices Southeast Asian states are making on their own with what may be termed “swing sectors” that could have long term implications. These “swing sectors” are a narrower set of significant strategic industries or areas that include those carrying a relatively greater risk in national security terms, including artificial intelligence, critical minerals, telecommunications, and strategic infrastructure¹⁰.

Focusing on “swing sectors” has several advantages. First, it goes beyond the notion of “swing states” – a decades-old term used to describe a select group of countries perceived to have significant clout but are not closely aligned with China or the United States (in Southeast Asia, this is perceived to include countries like Indonesia or Vietnam). Focusing on just a few capable, less aligned states understates “swings” that can occur on either end, as seen in the setbacks Washington experienced in its twin treaty alliances with the Philippines and Thailand in the second half of the 2010s. It also risks narrowing engagement around already relatively more “like-minded” partners rather than truly engaging a diverse region. Second, narrowing the focus to certain industries provides guidance for policymakers on where to focus within specific countries given that sectors like telecommunications are relatively more tied to national security and hence present greater risks than other sectors like retail. Third and finally, it shifts the focus from aggregate U.S. approaches (e.g. a “small yard, high fence approach”) to ask what choices states are making with respect to key areas, alternatives, and architectures that could have long term implications.

⁹ See: New Zealand Foreign Affairs and Trade, “Public Consultations: Green Economy Joint Working Group with Chile and Singapore,” November 14, 2024.

¹⁰ For more on this point, see: Prashanth Parameswaran, “Southeast Asia's Real Choices Lie Beyond the ‘Swing State’ Paradigm,” *The Diplomat*, June 28, 2024.

An affirmative U.S. swing sector approach with partners in Southeast Asia could include designated priority areas within four sectors:

- **Drive regional and bilateral arrangements around key technological areas including artificial intelligence.** The United States should build out and institutionalize a sustainable, technology-specific cooperation vertical with Southeast Asian states to ensure this remains a continuous priority across U.S. administrations, including high-level summits. This should build on previous work including the ASEAN-U.S. Leaders' Statement on Artificial Intelligence publicized at the U.S.-ASEAN Summit in Vientiane in October 2024¹¹. Technology is a key U.S. strength, and Southeast Asia is deepening its focus on the digital realm via initiatives such as the ASEAN Guide on AI governance and ethics as well as the Digital Economy Framework Agreement (DEFA). ASEAN also has a succession of active chairs in the coming years with an interest in this domain including the Philippines in 2026 and Singapore in 2027. Collaborating with Southeast Asian states in tech areas like semiconductors could also be a valuable touchpoint as early starters like Malaysia look to climb the value chain and emerging economies like Vietnam develop trusted partner "ecosystems" requiring range of capabilities including human capital. Bilateral tech partnerships should also be considered over time as with one cultivated with Singapore¹².
- **Facilitate maritime (and underwater) domain awareness adoption and capacity-building.** The United States should seek to facilitate more maritime domain awareness (MDA) adoption and capacity-building in Southeast Asia¹³. In addition to the fact that this is key to addressing China's maritime assertiveness in areas like the South China Sea, MDA is useful for a range of maritime challenges including marine sustainability and disaster management. The focus should be on promoting "common desktop" approaches that help countries navigate the marketplace of proliferating MDA products and address concerns on duplication and compatibility. Multi-country or public-private partnerships should be considered to mitigate costs, reduce geopolitical sensitivities and empower local communities to utilize MDA technology for use cases like IUU fishing or environmental disasters. While these approaches will need to be tailored for each country, the Philippines offers one example of multi-country approaches such as Canada's Dark Vessel Detection Program and the US SeaVision program. Conversations on the underwater domain should also include sharing best practices on subsea cables as ASEAN builds on previous regional guidelines.
- **Cultivate inclusive cooperation around critical minerals and rare earths.** The United States should work with other like-minded partners as well as Southeast Asian states to cultivate more inclusive cooperation around critical minerals and rare earths. The demand for collaboration in this space has already been clear, with countries like Indonesia and the Philippines approaching the United States previously regarding deals. Beyond individual agreements, Washington and its partners should also help lead conversations on how to adopt more inclusive and sustainable approaches in areas like mining and processing given the role

¹¹ See: U.S. Mission to ASEAN, "ASEAN-US Leaders' Statement on Promoting Safe, Secure and Trustworthy Artificial Intelligence," October 11, 2024.

¹² See: ASEAN Wonk, "Upgraded US-Singapore Partnership Takes Shape Across Technology Domains," October 15, 2023.

¹³ For more on this point mentioned in a recent report, see: Prashanth Parameswaran, "Southeast Asia Maritime Security and Indo-Pacific Strategic Competition," Wilson Center, March 13, 2025.

of other actors in this space including China. In cases like Myanmar or Laos, this issue touches on other sensitive areas including state control and China dependency.

- **Foster sustainable critical infrastructure ecosystems.** The United States should work with partners to deepen cooperation on strategic infrastructure with Southeast Asian states given the importance of this domain on its own terms and China’s ongoing pursuit of “dual use” infrastructure touchpoints. Collaboration should adopt a comprehensive ecosystem approach that emphasizes both “hard infrastructure” and “soft infrastructure,” with the latter including a focus on areas like setting up ways to evaluate incoming investments short of full screening; national categorizations of critical infrastructure and supporting assessments on strategic projects such as ports as we have seen U.S. allies such as Australia and the European Union do. Where required, the U.S. government, relevant stakeholders and partners should also be prepared to offer quick alternatives to compete. It took some time before alternatives like an O-RAN (Open Radio Access Network) architecture to emerge in the telecom space to offset Huawei’s dominance, while some officials in Laos contended that few competing alternatives were readily available when the state-run electricity corporation entered into a power-grid sharing agreement with a Chinese state-run firm in 2021. On a more positive note, creative solutions by Washington and its partners helped the Philippines avoid China taking over a bankrupt strategic shipyard in Subic Bay¹⁴.

¹⁴ See: Ralf Rivas, “American Firm’s Buyout of Hanjin Shipyard a Win for Philippine Military – DOF,” *Rappler*, April 25, 2022.

OPENING STATEMENT OF LYNN KUOK, LEE KUAN YEW CHAIR IN SOUTHEAST ASIA STUDIES, BROOKINGS INSTITUTION

DR. KUOK: Thank you so much. Co-Chairs Price and Schriver, distinguished Commissioners, USCC staff, thank you for the opportunity to testify on this important topic of U.S.-China strategic competition in Southeast Asia.

The United States has prioritized the Indo-Pacific but is ceding influence to China in Southeast Asia, a region at its geographic heart, with about 700 million people, a fast-growing market, and vital sea-lanes. Southeast Asia is central to U.S. Indo-Pacific strategy. Unlike other subregions identified in the U.S. Indo-Pacific strategy, however, Southeast Asia's geographical proximity to China dovetails with rising levels of Chinese influence, making it a weak link in U.S. engagement in the Indo-Pacific.

In September of last year, I published a piece in *Foreign Affairs* entitled, "America is Losing Southeast Asia." I chose the title partly to focus minds, but also because it captured regional sentiment. Just before its publication, I was speaking to a senior regional diplomat, and he, unaware of the title of my publication, told me, "If the United States is not careful it will lose Southeast Asia."

Now, this does not mean that the U.S. position in the region is irreversible, at least not yet. Through decades of providing a security counterweight, the U.S. has contributed to the region's peace and prosperity and is very much valued for it, even as these contributions have also benefitted the United States. Even today, Southeast Asia does not want to choose between the United States and China, and without strong U.S. engagement the region's strategic options will shrink and China's influence will grow.

And, of course, a U.S. loss does not mean a Chinese win. As Prashanth pointed out earlier, Southeast Asia is diversifying its partnerships. However, given its proximity, its economic clout, and its sustained diplomacy in the region, China stands to benefit most from reduced U.S. engagement.

Now I think it is important to ask at the outset what the United States' strategic vision for the region is. Does it remain to outcompete China, or is Washington considering a grand bargain or a comprehensive economic deal with China that some are talking about, which could make Washington more amenable to accommodating Beijing's concerns, whether it is on Japan and the East China Sea, Taiwan, the South China Sea, or the U.S.-Philippines' mutual defense treaty. Further, do allies and partners play an important role in U.S. strategic vision?

Now, for the purpose of this testimony I assume that Washington's strategic vision remains unchanged, but that is not entirely clear to me, and recent developments suggest otherwise, or at least that the strategic vision is contested.

On U.S. influence, in 2024, for the first time in an annual survey of government and non-government elites, China overtook the United States as the preferred alignment partner, if countries were forced to choose -- 50.5 percent chose China while 49.5 percent chose the United States. This edge was slim, but a breakdown of results by country revealed a sharp decline in U.S. support. In Malaysia and Indonesia, two countries with which the United States seeks closer ties under the U.S. Indo-Pacific strategy, support for the United States dropped by a full 20 percentage points. In Thailand, a U.S. treaty ally, the drop was nearly 10 percentage points. The decline was even steeper in Laos, where China has been actively engaging in the country. The support there was 30 percentage points. This was followed by Cambodia, with an 18 percentage point drop, Brunei with 15, and Myanmar with 10.

Only in three countries out of ASEAN's 10 countries did the United States show gains, but these were small. These countries were the Philippines, Singapore, and Vietnam.

Two key factors explain the shift in the region. First, the Gaza crisis. This was likely the tipping point. In Malaysia, Indonesia, and Brunei, all Muslim-majority countries, between 70 and 75 percent of respondents preferred alignment with China, and you would note that all three countries are countries that have a dispute with China in the South China Sea.

Nearly half of all respondents in the survey ranked the Israel-Hamas conflict as their top geopolitical concern, surpassing even the geographically more proximate South China Sea dispute. The numbers were even higher in Muslim-majority countries.

The second factor on declining U.S. influence is weak U.S. economic engagement. China has outperformed the United States in trade, multilateral engagement, and infrastructure development. Since 2009, China has been ASEAN's largest trading partner. Meanwhile, the United States' credibility has eroded due to its withdrawal from the Trans-Pacific Partnership and ongoing uncertainty over whether the United States will pull out of the Indo-Pacific economic framework.

The United States has also struggled to compete with China in infrastructure development. Efforts such as the BUILD Act in 2018, the Blue Dot Network in 2019, the Build Back Better World initiative in 2021, which was later rebranded as the Partnership for Global Infrastructure and Investment, have yet to yield tangible results in Southeast Asia, and some in the region, in fact, wonder whether the emperor has any clothes.

China, in contrast, despite criticism and despite delays, has delivered major projects, like the Jakarta-Bandung High-Speed Rail in Indonesia, and the Boten-Vientiane railway in Laos, both of which are not perfectly operational, but nonetheless operational.

While regional countries remain cautious about economic dependence and strategic risks, they nonetheless welcome much needed infrastructural investment. In Indonesia, plans are underway to extend the high-speed rail network across Java, potentially connecting Jakarta and Surabaya.

The United States remains the largest source of foreign investment in the region, but much of this investment is concentrated in Singapore, and China is rapidly closing the gap in FDI levels.

Adding to the drop in U.S. influence is inconsistent U.S. diplomacy. Beijing's actions in the South China Sea remain the main obstacle to its greater influence, but it has been remarkably effective at minimizing fallout through economic incentives and diplomatic outreach.

Finally, a growing perception of U.S. unreliability is setting in. Many Asian countries are watching U.S. security commitments in Europe and questioning whether Washington can be counted on in a crisis. The Philippines, in this respect, is particularly exposed.

Restoring U.S. influence requires a comprehensive, coherent, and sustained strategy. My written testimony details policy and legislative recommendations in three key areas:

Deepening U.S. economic engagement. Washington must expand trade ties, sustain its commitment to IPEF, and support infrastructure investments in strategic sectors like digital connectivity and critical minerals.

Resources to the U.S. International Development Finance Corporation should be increased to incentivize private sector investment in regional infrastructure. Additionally, USAID funding should prioritize initiatives that more directly align with U.S. strategic interests, such as maritime security, capacity building, and digital infrastructure.

Second, the United States should strengthen its alliances and partnerships. It needs to

reaffirm security commitments, increase defense cooperation, and avoid coercive diplomacy. That will be essential to retaining trust.

And finally, the United States should lead on defending international law and maritime rights, U.S. leadership in the South China Sea and affirm commitment to upholding UNCLOS, critical to maintaining regional stability. Importantly, framing choices in terms of international law, not as a binary choice between the United States and China, makes it easier for regional governments to align with Washington. I would refer the Commissioners to my written testimony for further details.

Now, to conclude very briefly, expanding U.S. influence in Southeast Asia requires a clear strategic vision and a coherent approach. But even the best-crafted strategies require political will. I return to the question I posed at the outset -- what is the U.S. strategic vision for the region? And if it remains to restore influence and to outcompete China, then Washington must act now, and it must act with its allies and partners. Lee Kuan Yew, the founder of modern Singapore, once observed that Asia is not a movie that the United States can pause and expect its ability to shape the region's strategic trajectory to remain unchanged. His words remain as relevant today as ever. The U.S. and the region are at a turning point.

And I will close with the title of my written testimony, "'America First' Cannot Mean 'America Alone.'" This was also the title of an article that I published in 2016, 6 months before H.R. McMaster and Gary Cohn write a piece similarly entitled, "'America First' Doesn't Mean 'America Alone.'" "

If Washington fails to recognize the strategic importance of its alliances and partnerships it risks becoming a power that knows the cost of everything, but the value of nothing. Without allies and partners, Washington's leadership in Asia and globally will erode, leaving America weak abroad and poorer at home. Thank you.

CHAIR PRICE: Thank you. And Dr. Smith.

**PREPARED STATEMENT OF LYNN KUOK, LEE KUAN YEW CHAIR IN
SOUTHEAST ASIA STUDIES, BROOKINGS INSTITUTION**

**“AMERICA FIRST” CANNOT MEAN “AMERICA ALONE”:
ENGAGING SOUTHEAST ASIA¹**

Testimony of Dr Lynn Kuok
Lee Kuan Yew Chair in Southeast Asia Studies
Brookings Institution

Before the U.S.-China Economic and Security Review Commission at the hearing
“Crossroads of Competition:
China in Southeast Asia and the Pacific Islands”
20 March 2025

*Panel 1: U.S.-China Strategic Competition in Southeast Asia
and the Pacific Islands*

Co-Chairs Price and Schriver, distinguished Commissioners, and staff, thank you for the opportunity to testify on this first panel, “U.S.-China Strategic Competition in Southeast Asia and the Pacific Islands.” I work on the geopolitics of Southeast Asia and its international relations, particularly its ties with the United States and China, and will confine my remarks to Southeast Asia.

This is an important topic. The United States has prioritized the Indo-Pacific and recognizes that “loss of U.S. preeminence in the Indo-Pacific would weaken [the United States] ability to achieve U.S. interests globally,”² but is ceding influence to China in Southeast Asia, a region at the geographic heart of the Indo-Pacific. With about 700 million people, Southeast Asia is projected to be the world’s fastest growing region, offering a vast market and economic opportunities. Its location makes it critical to U.S. Indo-Pacific strategy. Allies and partners offer the United States access to military facilities. However, unlike other sub-regions in the Indo-Pacific, namely, Northeast Asia, South Asia and Oceania, geographical proximity to China dovetails with rising levels of Chinese influence in Southeast Asia. In terms of U.S. engagement in the Indo-Pacific, Southeast Asia represents a weak link.

In September last year, I published a piece in *Foreign Affairs*, arguing that “America is Losing Southeast Asia.”³ I chose the title partly to focus minds, but also because it

¹ “‘America First’ cannot mean ‘America Alone’: Engaging Southeast Asia” was the title of my commentary published by the Brookings Institution on 15 December 2016. About half a year later, H.R. McMaster and Gary D. Cohn published “America First Doesn’t Mean America Alone” in *The Wall Street Journal*, 30 May 2017. Their piece acknowledged that America is “asking a lot of our allies and partners,” but emphasized that “in return the U.S. will once again be a true friend.”

² *U.S. Strategic Framework for the Indo-Pacific*, declassified on 5 January 2021 ((approved in February 2018).

³ Lynn Kuok, “America is Losing Southeast Asia: Why U.S. Allies in the Region are Turning Toward China,” *Foreign Affairs*, 3 September 2024.

captured ground sentiment. Just prior to my commentary's publication, I was speaking to a senior diplomat from the region who, without knowing the title of my then-upcoming piece, told me, "If the United States is not careful, it will lose Southeast Asia," echoing my choice of title.

None of this, of course, is to say that the U.S. position in Southeast Asia is irreversible—at least for the moment. Through decades of providing a strategic counterweight and security umbrella in the region, the United States has contributed to the region's peace and prosperity and is valued for it, even as these contributions have brought benefits to the United States as well. Even today, the region does not want to have to choose between the United States and China. Without a strong U.S. presence, the region's strategic options will shrink and, with them, its ability to demand better behavior from China.

Moreover, a loss for the United States does not necessarily mean a win for China—the region is also looking to increase economic and strategic engagement with other players. In May, for instance, Malaysia, as ASEAN chair, will host a joint ASEAN-GCC summit aimed at strengthening ties between the two groupings. However, given China's proximity, economic heft—it is already the region's largest trading partner and one of its top investors—and consistent engagement with ASEAN and its member states, China stands to benefit most from any fallout between Southeast Asia and the United States.

The Commission's decision to focus on Southeast Asia is an important step toward reversing the loss of U.S. influence and enabling the United States to compete more effectively with China in the Indo-Pacific.

U.S. goals and strategy?

I just suggested that U.S. goals in the region are regaining influence and out-competing China. But the extent to which this remains true is far from clear. To what extent can we continue to take guidance from the Indo-Pacific Strategy of the United States issued during the Biden administration, which identifies China as one of several regional challenges and seeks to work with allies and partners to counter China?⁴ Or even from the first Trump administration's declassified U.S. Strategic Framework for the Indo-Pacific,⁵ which seeks "strategic primacy" and aims to have "most" Indo-Pacific countries view the United States as their "preferred partner," recognizing that "[s]trong U.S. alliances are key to deterring conflict and advancing our vital interests"?

⁴ The White House, "[Indo-Pacific Strategy of the United States](#)," February 2022.

⁵ "[U.S. Strategic Framework for the Indo-Pacific](#)," classified by Matt Pottinger, DAP and Senior Director for Asia, NSC, and declassified in part by Assistant to the President for National Security Affairs Robert O'Brien, 5 January 2021.

A grand bargain or a comprehensive economic deal with China could make Washington more willing to accommodate Beijing's concerns, whether regarding support for Japan in general or specifically in the East China Sea, Taiwan, the South China Sea, or U.S. support for the Philippines under their treaty alliance.

Even if Washington continues to act on the basis that China is a strategic, rather than just an economic, threat, it is not evident that it continues to view allies and partners as essential in countering China. Washington's ambiguity on security guarantees for Ukraine and NATO allies, its treatment of allies and partners in Europe, and its threats of tariffs and uncertainty surrounding military support for Japan, South Korea and Taiwan suggest otherwise. Threatening tariffs does not just have economic implications; it also makes it harder for allies and partners to align with broader U.S. goals.

For the purposes of this testimony, I will assume that the United States remains committed to enhancing its influence and maintaining strategic primacy over China in the Indo-Pacific—or at least to deny China regional hegemony.

My testimony today is structured as follows:

1. Southeast Asia's perceptions of China and the United States
2. Why Southeast Asia is turning toward China
3. Factors driving the decline of U.S. influence in Southeast Asia
4. The effectiveness of China's diplomacy in the region
5. Strategic implications of diminishing U.S. influence for the United States
6. Recent developments and their impact on America's position in Southeast Asia
7. Rebuilding U.S. influence: Policy and legislative priorities

1. Southeast Asia's perceptions of China and the United States

The United States is losing ground in Southeast Asia. In an annual poll of Southeast Asian government and non-government elites ("the ISEAS poll" or "ISEAS survey"),⁶ 2024 marked the first year in which China edged past the United States as the region's choice of alignment partner if forced to align with one of the two powers: 50.5 percent of respondents chose China, and 49.5 percent chose the United States.

China's edge was slim. Breaking down the result by country, however, reveals a sharp decline in support for the United States among respondents in Laos (-30 percentage

⁶ *The State of Southeast Asia 2024*, ISEAS-Yusof Ishak Institute, Singapore, 2 April 2024.

points), Malaysia (-20), Indonesia (-20), Cambodia (-18), and Brunei (-15). The United States has also lost ground in Myanmar (-10) and Thailand (-9).

Only in three countries did respondents' preference for aligning with the United States over China grow from 2023 to 2024—the Philippines, Singapore, and Vietnam—and the increases were small. While the United States remained the preferred choice in the Philippines (83%) Vietnam (79%) and Singapore (62%), as well as Myanmar (58%), and Cambodia (55%), this likely overstates countries that might align with the United States if they had to choose. Non-government respondents in Myanmar and Cambodia are more pro-U.S. than their governments, which have close ties to Beijing and depend on it for economic, military and diplomatic support. Cambodia under Prime Minister Hun Manet who came into power in 2023 is seeking improved relations with the United States to better balance its foreign policy, but there is little doubt where Cambodia's loyalties must lie if push comes to shove.

In short, the 2024 poll shows a significant drop in support for the United States in seven out of the 10 ASEAN countries, including in Thailand, a U.S. ally, and Indonesia and Malaysia, two of the four partners with which the United States' 2022 Indo-Pacific Strategy seeks stronger relations.

2. Why Southeast Asia is turning toward China

The primary driver of Southeast Asia's turn towards China is its vital economic role. I will not go into detail on this as Panel 3 will focus on economic issues, but it is important to highlight a few key points to understand China's pull. China has outperformed the United States across multiple economic dimensions, including trade, multilateral engagement and infrastructure development.

China became ASEAN's largest trading partner in 2009, and its economic ties with the region have only deepened since. While the United States has withdrawn from multilateral trade agreements, China concluded the Regional Comprehensive Economic Partnership (RCEP) in 2020, which entered into force in 2022, involving all 10 ASEAN countries, and applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in 2021, portraying itself as a staunch supporter of the multilateral trading system.

Despite criticism and setbacks, China's Belt and Road Initiative (BRI) has delivered major infrastructure projects across Southeast Asia. One of the most notable examples is Southeast Asia's first high-speed rail service, the Jakarta-Bandung High-Speed Rail (Whoosh), which began commercial operations in 2023. Plans are now underway to extend the rail network across Java, potentially connecting Jakarta and Surabaya. In

December 2021, the Boten-Vientiane railway was completed, connecting Laos to China's high-speed rail network. It has transformed Laos from a landlocked country into a land-linked one, boosting trade, tourism, local businesses and investment.

Some in the West emphasize the appeal of China's authoritarian model, but ideology plays a limited role in the region's foreign policy choices. China's economic strength and perceptions of it as a growth engine, rather than its governance model, drive China's influence in Southeast Asia.

Framing the U.S.-China rivalry as a battle of ideologies may serve a purpose in the West—helping to unify Western governments and building domestic support for countering Beijing—but does not capture why Southeast Asia seeks stronger ties with China. Even democratic-leaning ASEAN countries continue to engage with China despite differences in political systems, reinforcing that pragmatism, not ideology, dictates regional foreign policy choices. Any effective U.S. response in the region must recognize and address China's economic pull.

3. Factors driving the decline of U.S. influence in Southeast Asia

Two primary factors have contributed to the decline of U.S. influence in Southeast Asia.

3.1. The Gaza factor

The first is the U.S. approach to the Gaza crisis since 7 October 2023. The 2024 ISEAS poll revealed a particularly steep drop in support for the United States in Muslim-majority countries. Seventy-five percent of Malaysian respondents, 73 percent of Indonesian respondents, and 70 percent of Bruneian respondents indicated a preference for alignment with China over the United States, compared with 55 percent, 54 percent, and 55 percent, respectively, in 2023.

Respondents were not explicitly asked why they made this choice, but the U.S. stance on Gaza was likely a major factor. When asked to select their top three geopolitical concerns, nearly half of all respondents ranked the Israel-Hamas conflict as their top concern, surpassing even the South China Sea dispute. The numbers were even higher in Muslim-majority countries, where 83 percent of Malaysian, 79 percent of Bruneian, and 75 percent of Indonesian respondents ranked Gaza as their foremost concern. In Singapore, where 15 percent of the population is Malay-Muslim, 58 percent of respondents also ranked Gaza as their top geopolitical priority.

The U.S. position on Gaza has reinforced perceptions of Western hypocrisy and double standards in the application of international law and the treatment of different

populations. Beyond the issue of double standards, many in Southeast Asia, including non-Muslims, have been horrified by the humanitarian crisis in Gaza and see the United States as having contributed to or at least been complicit in the suffering.

3.2. U.S. economic engagement

The second factor contributing to the decline of U.S. influence in Southeast Asia is Washington's relatively weak regional economic engagement, particularly in comparison to China's expanding trade, investment and major infrastructure projects.

Once a dominant economic force driving growth in Southeast Asia, the United States has fallen behind China. While the United States remains the largest foreign investor in ASEAN, much of this investment is concentrated in Singapore.

The United States' withdrawal from the Trans-Pacific Partnership (TPP)—now the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)—in 2017 was an own goal that further weakened its position in the region. China has since applied to join the CPTPP.

A U.S. withdrawal from the Indo-Pacific Economic Framework (IPEF), a framework already criticized for lacking market access, would further undercut America's clout and credibility in Southeast Asia. Without broad-based and multi-faceted engagement extending beyond security, U.S. influence in a region for which economics is security will be limited.

The United States has also struggled to compete with China in infrastructure development. China launched its Belt and Road Initiative (BRI) in 2013, delivering large-scale infrastructure projects that have transformed connectivity across the region. In response, the United States and its allies have introduced several initiatives, including reforms to the BUILD Act in 2018, the Blue Dot Network (with Japan and Australia) in 2019, and the G7's Build Back Better World (B3W) initiative in 2021. In 2022, the United States, together with G7 partners, rebranded B3W as the Partnership for Global Infrastructure and Investment (PGII), pledging to mobilize \$600 billion by 2027. However, these efforts have, as yet, yielded few tangible results in Southeast Asia.

The United States' relatively weak economic engagement with Southeast Asia is reflected in regional perceptions. In the 2024 ISEAS survey, nearly 60 percent of respondents identified China as the "most influential economic power" in Southeast Asia, while only 14 percent chose the United States.

4. The effectiveness of China's diplomacy in Southeast Asia

China's bilateral and multilateral diplomacy in Southeast Asia has been consistent and sustained, with Beijing successfully cultivating formal strategic partnerships with nearly all ASEAN members and ASEAN itself. Of the ten Southeast Asian countries, all but Singapore have signed strategic partnerships with China, though the depth of these relationships varies. Even U.S. treaty allies—the Philippines and Thailand—have entered into high-level strategic agreements with Beijing. The Philippines and China established a Comprehensive Strategic Cooperation (CSC) agreement in 2018 under President Rodrigo Duterte; Thailand signed a Comprehensive Strategic Cooperative Partnership in 2012. In 2021, China also elevated its relationship with ASEAN to a Comprehensive Strategic Partnership.

China's pandemic diplomacy was particularly effective in Southeast Asia, in contrast to Europe, where its pandemic response drew criticism. Beijing's rapid provision of vaccines, medical supplies and financial assistance during the pandemic strengthened diplomatic goodwill across much of ASEAN.

In contrast, China's actions in the South China Sea remain the primary thorn in the side of its relations with Southeast Asian countries. Beijing's militarization of disputed land features, and low-tide and submerged features in its neighbors' exclusive economic zones—as well as its violations of its neighbors' exclusive economic rights to their exclusive economic zones (EEZs)—have strained relations, particularly with the Philippines and Vietnam. Beijing could have consolidated greater influence by resolving maritime disputes diplomatically—all its Southeast Asian neighbors want good ties with China—but Beijing shows no indications that it is open to shifting its approach to the South China Sea.

That said, Beijing has been remarkably effective in minimizing the diplomatic fallout from its actions in the South China Sea through economic incentives and diplomatic outreach. For instance, despite repeated Chinese incursions in Indonesia's exclusive economic zone near the Natuna Islands, Jakarta continues to engage closely with Beijing on multiple fronts. In August 2024, China and Indonesia agreed to resume joint drills for the first time in a decade. In November 2024, both sides issued a joint statement agreeing to elevate defense and security as an additional pillar of cooperation, signifying “strong mutual trust between the two countries.”⁷ The joint statement also included a “common understanding on joint development in areas of overlapping claims,” which could be interpreted as Jakarta conceding that China has overlapping maritime claims

⁷ “[Joint Statement Between the People's Republic of China and the Republic of Indonesia on Advancing the Comprehensive Strategic Partnership and the China-Indonesia Community with a Shared Future](#),” Beijing, 9 November 2024.

with Indonesia—something Jakarta has always denied. The statement also included language aligning with China’s position on Taiwan—“the Government of the People’s Republic of China is the sole legal government representing the whole of China and that Taiwan is an inalienable part of China”—leading to strong protests from the Ministry of Foreign Affairs of the Republic of China (Taiwan).⁸ Similarly, Malaysia’s political elites have maintained pragmatic ties with China, opting to quietly manage or downplay disagreements over the South China Sea whenever possible.

While determining the exact rankings of investment destinations can be challenging due to varying definitions of what constitutes BRI investment and the timeframes considered, it is notable that Indonesia and Malaysia consistently rank as the leading recipients of Chinese BRI investments in Southeast Asia.

5. Strategic implications of diminishing U.S. influence for the United States

Countries in Southeast Asia will continue to hedge between the United States and China as far as possible. However, China’s growing sway in Southeast Asia hampers the United States’ ability to engage bilaterally and multilaterally in the region to strategic effect. The most obvious example is ASEAN’s cautious approach on the South China Sea. Despite Beijing’s increasingly assertive actions within the Philippines’ exclusive economic zone, including physical confrontations between Chinese and Philippine naval or coastguard vessels, the bloc has issued no statement calling China out by name.

Another example is the deterioration of U.S. defense cooperation with Thailand. Ties with Thailand have frayed since the United States declined to provide direct financial assistance to Thailand during the 1997 Asian financial crisis and downgraded military ties following coups in 2006 and 2014, although multilateral engagement in the form of the annual Cobra Gold exercises has continued. China filled the gap, expanding military and economic cooperation. It overtook the United States to become Thailand’s primary arms supplier in 2016.⁹ Although the United States maintains a higher volume of bilateral training and defense dialogue with Thailand, Beijing has been steadily expanding its footprint through increased joint military exercises, such as the “Strike-2024” drill, technology transfers and investments in Thailand’s defense sector. China’s expanding footprint in Thailand contributes to the erosion of U.S. influence in Southeast Asia.

⁸ Ministry of Foreign Affairs Republic of China (Taiwan), “[MOFA response to false claims regarding Taiwan in joint PRC-Indonesia statement issued by PRC](#),” 11 November 2024.

⁹ Jack Sato and Abdul Rahman Yaacob, “[Is China Replacing the US as Thailand’s Main Security Partner?](#),” *The Diplomat*, 2 December 2023, citing data from the Stockholm International Peace Research Institute (SIPRI).

Beyond the region, the erosion of U.S. standing in Southeast Asia has also weakened Washington's ability to marshal support on key global issues—whether in condemning Russia's invasion of Ukraine or in securing even limited understanding for its policies in the Middle East. While national interests ultimately drive foreign policy decisions, Washington's diminished standing in Southeast Asia has made it harder to convince regional governments why a particular position might serve their interests. Washington's appeals for stronger action against Russia's flagrant violations of international law—which undermine the interests of all countries, including Southeast Asia, in the rule of law—largely fell on deaf ears in Southeast Asia. Meanwhile, Chinese and Russian narratives about the war have found traction in the region. Perceptions that the United States has double standards in its foreign policy—and self-interested goals when it comes to China—have undermined its ability to garner greater support. With a new U.S. administration in place, there are valid questions to be asked about whether regional perceptions have shifted or become more entrenched.

I mentioned that countries will continue to try to hedge between the United States and China for as long as they can. This, of course, assumes that they are not forced into a binary choice, as we saw Washington do recently with Panama, demanding that it reduce Chinese “influence and control.” Similarly, the National Security Presidential Memorandum signed on 21 February established a “fast-track” investment process for “specified allies and partners,” conditioned on them refraining from “partnering with our foreign adversaries in corresponding areas.”¹⁰ In an upcoming article for *Foreign Affairs*, I examine the emergence of a more binary and coercive U.S. approach and its potential consequences for the region—and for Washington's position there. Forcing Southeast Asian countries to choose between the United States and China would run counter to their preference for hedging and non-alignment, shaped by colonial history and the Cold War. Countries will weigh U.S. leverage, economic ties with China and the viability of alternative options. Ultimately, forcing a choice on Southeast Asia risks backfiring, driving countries in the region closer to Beijing. In short, the United States could force a choice—but it might not like the answer.

6. Recent developments and their impact on America's position

Several factors will shape the future of U.S. influence in Southeast Asia.

First, the Gaza issue will likely continue to damage the United States' reputation. As one might expect, the proposal to empty Gaza of Palestinians and transform it into a “Riviera of the Middle East” has not been received well in the region.

¹⁰ The White House, “[Fact Sheet: President Donald J. Trump Encourages Foreign Investment While Protecting National Security](#),” 21 February 2025.

That said, Southeast Asian countries are pragmatic and will welcome deeper economic and diplomatic engagement with Washington. Malaysia's Prime Minister Anwar Ibrahim has been the most outspoken of Southeast Asian leaders in condemning the U.S. approach toward the Gaza crisis—Putrajaya takes the position that what is happening in Gaza is “genocide” and failure to act constitutes “complicity.” But even Malaysia would welcome further economic and diplomatic engagement with the United States.¹¹

Second, whether Washington forces countries into a binary choice or relies on coercive diplomacy will be a major determinant of its regional standing.

Third, the degree to which the United States is perceived as a reliable partner will be crucial. Southeast Asia has always been skittish about U.S. dependability. But anxieties now run deep. Governments in Asia have taken Washington's abrupt recalibration away from long-standing European allies and partners to heart. Beijing has warned behind closed doors, including at ASEAN meetings, that Washington could similarly withdraw from its commitments in Asia. But governments in Southeast Asia, like those in Northeast Asia, have not needed these warnings.

The Philippines, a U.S. treaty ally, is particularly exposed. The Marcos administration has significantly expanded defense ties with the United States and has been actively pushing back against unlawful Chinese claims in its exclusive economic zone. Yet, Manila must now contend with the increased possibility that U.S. support might not be forthcoming in a crisis. Senior Filipino diplomats and military officials have expressed their “concern.” Although the Philippines enjoys bipartisan support in Congress and the U.S. Department of State has reaffirmed America's “ironclad” commitment to the country and confirmed that the U.S.-Philippines Mutual Defense Treaty extends to the South China Sea and Philippines coast guard,¹² President Trump has demonstrated a strong aversion to military entanglements.

¹¹ Writing before Malaysia assumed the Chair of ASEAN, he stated that as ASEAN Chair, Malaysia would seek to bolster ties with ASEAN+ partners, “China, Japan, South Korea, India, Australia and New Zealand.” There was no mention of the United States in his piece: Anwar Ibrahim, “ASEAN's Second Renaissance is Now,” *Project Syndicate*, 16 December 2024. More recently, however, he explained that Malaysia has no interest in taking sides in the Sino-American rivalry and its decision to join BRICS was not about aligning with an anti-US bloc but about expanding its strategic options in turbulent times and addressing development gaps between the Global South and the Global North. Anwar Ibrahim, “The Global South's Path to Economic Resilience,” *Project Syndicate*, 14 March 2025.

¹² “Senators Coons, Ricketts introduce resolution celebrating the 73rd anniversary of our mutual defense treaty with the Philippines,” 3 September 2024; “Secretary Rubio's Call with Philippine Secretary of Foreign Affairs Manalo,” readout, U.S. Department of State, Office of the Spokesperson, 22 January 2025; “U.S. Support for the Philippines in the South China Sea,” press statement, Tammy Bruce, Department Spokesperson, U.S. Department of State, 19 February 2025.

Further compounding concerns around U.S. reliability is the lack of clarity surrounding the United States' goals and strategy in the Indo-Pacific, a point I alluded to in my opening. A grand bargain between Washington and Beijing, or even a more limited economic deal, could make Washington more willing to make concessions on issues affecting regional allies and partners, whether related to Japan and the East China Sea, Taiwan, the South China Sea, or the U.S.-Philippines defense alliance. The perception that U.S. objectives in the region could shift—and that the interests of its allies and partners could be sacrificed in the process—will hurt U.S. credibility and influence.

Fourth, the risk of U.S. trade retaliation deeply concerns many countries in the region and could further complicate U.S. ties in Southeast Asia. Vietnam, Thailand, Malaysia and Indonesia all have significant trade surpluses with the United States. If President Trump withdraws from the Indo-Pacific Economic Framework (IPEF), one of the few remaining avenues of U.S. multilateral economic engagement in the region, Washington's economic leverage will weaken further.

Fifth, the withdrawal of U.S. foreign aid and development assistance risks accelerating the decline of U.S. influence in Southeast Asia. On the one hand, it may facilitate engagement with some regional governments that saw U.S. investments in democracy and education initiatives as meddling or interference in domestic affairs. Moreover, it is not clear that U.S. aid was yielding meaningful strategic returns. According to the Lowy Institute's Southeast Asia Aid Map,¹³ the United States disbursed more aid in grants than China between 2015 and 2022—\$8.0 billion compared to \$1.9 billion (although China disbursed far more in loans—\$51.8 billion compared to \$597 million), yet this did not translate into clear geopolitical advantages.

Even if U.S. aid failed to produce strategic gains, its abrupt withdrawal will reinforce perceptions of U.S. disengagement and diminish U.S. standing in the region. The decision to cut funding for humanitarian aid, health programs, and demining, in particular, sends an unfortunate message of American callousness—these initiatives can mean the difference between life and death. Meanwhile, China has stepped in to fill some gaps, recently providing a grant to support a Cambodian mine-clearing project.

Finally, there are broader concerns about whether the United States will remain a positive presence in the region. Singapore has been one of the United States' most steadfast security and economic partners in the region. When the Philippines decided to close Clark and Subic bases in 1990 and regional countries opposed U.S. basing, Singapore stepped up granting the United States access to its air and naval facilities. In 1998, Singapore allowed it to use the newly constructed Changi Naval Base, a facility

¹³ Lowy Institute Southeast Asia Aid Map.

purpose-built to accommodate aircraft carriers—despite Singapore not having one of its own. Defense ties have expanded through multiple agreements. Singapore also strongly supports U.S. regional economic integration and hosts over 5,800 U.S. companies, contributing significantly to U.S. employment.

Part of Singapore’s rationale for supporting a robust U.S. presence is to prevent any single power from dominating Asia. But if Washington forces a choice upon the region or becomes a source of instability rather than a constructive force, it could erode support for the United States. The 2025 ISEAS survey will launch in early April, but since responses were collected between early January 2025 and mid-February, it may not fully capture evolving regional perceptions of the United States. However, the read thus far is not reassuring: at this year’s Munich Security Conference, Singapore’s Defence Minister observed that perceptions of the United States in the region had shifted—from “liberator” to “disruptor” to “landlord seeking rent.”¹⁴

7. Rebuilding U.S. influence in Southeast Asia: Policy and legislative priorities

Rebuilding U.S. influence in Southeast Asia demands a comprehensive, coherent and sustained strategy that integrates all elements of American power effectively. A single-dimensional or piecemeal approach will fall short. In particular, unwarranted tariffs will have strategic repercussions, limiting the extent to which countries are willing to align with Washington. U.S. strategy must encompass greater economic engagement, strengthening alliances and partnerships, and a firm commitment to international law.

7.1. Deepening U.S. economic engagement

Economic engagement is central to rebuilding U.S. influence. While existing frameworks such as IPEF and PGII provide a foundation for engagement, they must be reinforced by targeted, high-impact strategic initiatives and sustained commitments.

Policy recommendations:

1. *Sustain U.S. commitment to IPEF.* A withdrawal would further erode Washington’s credibility and leverage in the region.
2. *Negotiate sector-specific trade agreements in strategic industries*, such as digital infrastructure, semiconductors and critical minerals, to enhance American technological leadership and economic security.
3. *Increase U.S. International Development Finance Corporation (DFC) funding* to incentivize private-sector investment in regional infrastructure.

¹⁴ Philip Hejmans, “Singapore Says Asia Sees US as ‘Landlord Seeking Rent,’” Bloomberg, 16 February 2025.

4. *Prioritize USAID funding toward initiatives that more directly align with U.S. strategic interests, such as maritime security capacity-building and digital infrastructure.*

Legislative proposals:

- *Southeast Asia Trade and Supply Chain Resilience Act:* To encourage U.S. private investment in key Southeast Asian sectors to reduce reliance on China and strengthen supply chains in industries critical to U.S. economic and strategic interests (e.g., digital infrastructure, semiconductors and critical minerals).
- *Southeast Asia Infrastructure Development Act:* To increase DFC resources to support private-sector investment in digital connectivity, clean energy, and transportation infrastructure. Digital connectivity strengthens U.S. tech leadership and aligns regional digital standards with the United States' rather than China's. Clean energy investment focuses on renewable energy infrastructure, such as power generation, grid modernization, and energy storage, to reduce dependence on China for energy solutions and prevent Beijing from monopolizing critical mineral supply chains needed for clean energy technologies. Transportation infrastructure enhances U.S. economic access and limits Beijing's ability to dominate key trade routes. The legislation should require adherence to good governance, environmental sustainability and anti-corruption provisions while ensuring eligibility criteria are not overly restrictive or complex.

7.2. *Strengthening alliances and partnerships*

U.S. influence in Southeast Asia depends on strengthening alliances and partnerships through clear, consistent and credible commitments. This requires reinforcing existing security relationships while expanding engagement with key regional players.

Policy recommendations:

1. *Reaffirm U.S. security commitments to the Philippines* via a statement in a White House National Security Strategy (NSS) or through a formal presidential statement or joint declaration. The Philippines grants access to key military facilities near Taiwan and the South China Sea under the U.S.-Philippines Mutual Defense Treaty (MDT) and the Enhanced Defense Cooperation Agreement (EDCA), amplifying U.S. power projection. The Luzon Strait's depth allows nuclear submarines to pass undetected. Manila's high-profile legal and physical clashes with China also highlight Beijing's flouting of international law and bolster the U.S. narrative that China is a rule-breaker and there is regional demand for the United States to counter China's actions.
2. *Enhance U.S. force posture in the Philippines in a measured and non-confrontational manner*—focusing on domain awareness cooperation, joint maritime patrols and

intelligence sharing. This is to balance Manila's—and the region's—desire to avoid outright confrontation with China while enhancing U.S. credibility and deterrence.

3. *Expand cooperation with key partners:*

- *Deepen defense and economic ties with Singapore and Vietnam.* Singapore offers the United States military access to Changi Naval Base and Paya Lebar Air Base, despite not seeking direct U.S. security guarantees. Its stable government, advanced economy and diplomatic influence within ASEAN make it a cornerstone of U.S. regional presence. Vietnam's 2023 Comprehensive Strategic Partnership with the United States presents an opportunity to advance defense, economic and technological cooperation.
- *Enhance engagement with Cambodia, particularly on economic issues.* China is reportedly establishing a presence at Ream Naval Base; while Phnom Penh previously denied reports of a Chinese base, recent developments suggest increased Chinese activity and infrastructure projects. Despite Phnom Penh's pro-China leanings, 55% of Cambodians in the ISEAS poll still preferred aligning with the United States, although this figure dropped 18 percentage points from 2023. Prime Minister Hun Manet, a West Point graduate and fluent English speaker, is more open to leveraging great power competition to secure concessions. While the country is highly dependent on China economically, its lower development levels provide Washington an opening for deeper economic engagement and influence.
- *Strengthen ties with Indonesia and Malaysia,* recognizing their growing regional and global clout. Both have pursued BRICS membership—Indonesia became a full member this year—a move motivated by a desire to expand economic options, but one that could still lead to a shift away from the West if not managed carefully.

4. *Bolster engagement with ASEAN* as an institution, reinforcing its central role in diplomacy and security.

5. *Increase training programs, joint exercises (e.g., Balikatan with the Philippines and Cobra Gold with Thailand), defense technology transfers, and selective arms sales* focused on defensive capabilities to strengthen regional deterrence and align Southeast Asian militaries with U.S. defense systems.

6. *Avoid a transactional approach and coercive diplomacy.* Washington must reject a purely transactional approach towards allies and partners, where support is contingent on short-term gains. U.S. alliances and partnerships provide strategic advantages that cannot be measured solely in financial terms. Approaching allies and partners in a transactional manner and threats to force alignment can alienate allies and partners and risk driving regional countries closer to China.

Legislative proposal:

- *Southeast Asia Maritime Security Assistance Act*: To expand existing initiatives, such as the Indo-Pacific Maritime Security Initiative (MSI), by providing increased Foreign Military Financing (FMF) and facilitating transfers of surplus U.S. defense equipment (patrol vessels, surveillance aircraft and radar systems) to key allies and partners. While Excess Defense Articles (EDA) already enables transfers, this legislation provides additional financing and explicit prioritization for Southeast Asian allies and partners.

7.3. *Defending international law and maritime rights*

Defending international law reduces conflict risks and advances concrete U.S. interests. The second Trump administration should continue the strong legal stance on the South China Sea that it adopted during President Trump's first term. During the first Trump term, the United States made regular, lawful assertions of passage rights and freedoms of the seas, preserving these freedoms in practice and under international law. It also, in 2020, accepted the merits of the 2016 international tribunal ruling,¹⁵ a stance the earlier Obama administration had failed to take. This helped reassure coastal countries that the United States cared about their economic rights as well as passage and freedoms of the seas.

Policy recommendations:

1. Sustain regular, lawful assertions of passage rights and freedoms of the seas. While regional sensitivities exist—Malaysia, for instance, views foreign warships as tension-inducing—these actions are critical to preserve passage rights and freedoms and to ensuring that the South China Sea does not become a Chinese-controlled waterway.
2. Reaffirm that the United States accepts the merits of the 2016 South China Sea tribunal ruling.
3. Ratify UNCLOS to strengthen U.S. credibility when challenging China's illegal maritime claims and denial of passage rights and freedoms of the seas.

Legislative proposal:

- *South China Sea Freedom of Navigation Act*: To mandate and fund continued Freedom of Navigation Operations (FONOPs) and to revitalize the broader U.S. Freedom of Navigation program. Beyond FONOPs, this legislation should reinvigorate a Track 1 or Track 1.5 U.S.-China maritime dialogue to resolve disagreements over passage rights and maritime freedoms. Such disputes put stress on even the most robust military-to-military communication channels and

¹⁵ Michael R. Pompeo, "[U.S. Position on Maritime Claims in the South China Sea](#)," press statement, 13 July 2020.

increase the risk of incidents at sea and in the air, which could escalate into a broader conflict.

Even during the Cold War, the United States and Soviet Union reached an agreement on the Uniform Interpretation of Rules of International Law Governing Innocent Passage, harmonizing their positions on innocent passage in the territorial sea.¹⁶ The United States and China should aim for similar agreements to reduce tensions and enhance regional maritime stability.

Conclusion

Expanding U.S. influence in Southeast Asia requires a clear strategic vision and a coherent approach that integrates deepened regional economic engagement, stronger alliances and partnerships, the rejection of coercive diplomacy, and a firm commitment to defending and promoting international law.

But even the most well-crafted strategies require political will to be implemented. I return to my initial question: What are America's goals in the region? If they remain to restore influence and out-compete China, the United States must act now. Lee Kuan Yew, the founder of modern Singapore, once noted that Asia is not a movie where America can pause freeze developments and expect its ability to shape the region's strategic trajectory to remain unchanged.¹⁷ His words remain as relevant today as ever. More than at any other time, the United States—and the region—is at a turning point.

China builds influence through sustained, long-term engagement. If Washington fails to recognize the strategic importance of its alliances and partnerships and actively weakens them, it risks becoming a power that, in Oscar Wilde's words, "knows the cost of everything but the value of nothing." Without allies and partners, Washington's leadership in Asia—and globally—will erode, leaving America weaker abroad and poorer at home.

¹⁶ Lynn Kuok, "[China can learn from Soviet approach to the law of the sea](#)," Brookings Institution, 27 March 2018.

¹⁷ Graham Allison and Robert D. Blackwill, *Lee Kuan Yew* (Cambridge, MA: Belfer Center for Science and International Affairs, 2012), p 28.

OPENING STATEMENT OF GRAEME SMITH, SENIOR FELLOW, AUSTRALIAN NATIONAL UNIVERSITY

DR. SMITH: Thank you so much for this hearing, and I am really grateful to be asked to talk about the Pacific. I will do my best to represent an incredibly diverse region. To slightly correct the Co-Chair, the poorest country of both regions is actually Kiribati, with a GDP just over 2,000 U.S. dollars. So, unfortunately, the Pacific bookends the region in a not very positive way.

So where to begin. Apologies firstly for all the footnotes in my testimony. I am an academic. It is a bit of a disease.

The framework of losing the Pacific, probably in the next section you are going to get patter and verse about who has lost the Pacific, and you will probably be told Australia and New Zealand have lost the Pacific and the U.S. must save the Pacific from China. It is a really unhelpful way to talk about the region. Pacific people can listen to this broadcast too, and as soon as you talk about the Pacific as something that might be lost behind the couch, they tend to tune out and ignore any efforts to engage with them. Because if you are engaging purely for geostrategic regions, purely to keep China out or to block them, then the region is just not interested. It has a long history of being involved in the non-aligned movement. Yes, phrases like “friends to all, enemies to none” do sound incredibly silly. But to quote my fellow testimony from Dr. Kuok there, she uses this great phrase, “Forcing a choice on Southeast Asia risks backfiring, driving countries in the region closer to Beijing.” You could substitute the Pacific for Southeast Asia and get exactly the same problem.

So tone really matters as well as substance and consistency. The region was already a little bit on edge about the U.S. and its commitment to the region, and the current Administration seems to be enforcing the fears that the U.S. doesn’t have a consistent strategy for the region. But also respect about the way you approach the region, and having the patience to listen to what the Pacific is actually concerned about. Obviously climate change, transnational crime, and fisheries, the last two areas that the current Administration will not have problems acting on, the first one obviously there is an issue there.

Now, I will talk briefly about trends about China and the region that we have been observing over the last 15 years as we have been researching things we are looking at. You are getting a lot more serious Chinese diplomats in the region, and you didn’t see this under Hu Jintao. They tended to send people there as sort of a punishment post. But now you are getting some much more serious people there.

When I was first sort of engaging with the Ministry of Commerce in China in the Pacific they sent this guy out to write up a country plan for Tonga. So a full week before he was arriving in Tonga he thought he was going to Togo. So since 2013, when that happened, China has come a very long way. You have serious investment in Pacific languages, in Pacific research expertise, and a serious effort to sort of influence Pacific academics and Pacific media.

On the diplomatic side they are also showing a really interesting tendency to go beyond the usual. They are targeting traditional chiefs. They are targeting religious groups, areas that they just simply were not aware of 15 years ago. They are now flying chiefs out to China and giving them full 2-week tours, something that I don’t think happens in the U.S. or even in Australia.

Another big change is that the companies have always been the big player in the Pacific, the state-owned companies such as China Civil Engineering Corporation. These ones have really

taken on a quite prominent geopolitical role. CCECC played a role in switching Solomon Islands from Taiwan to China. They literally flew out to meet with Sogavare and his retinue, and basically put half a billion dollars on the table and said, “You know what you need to do,” and they then went and did it.

Now, other huge changes are, on the security side, everyone worries about bases, but the big shift is that China now pitches itself as the internal security partner of choice for the Pacific. It is offering policing initiatives, and it is offering an alternative model, if you like, of how people can be governed. It is also very much about policing their own diaspora. So they have significant diaspora populations in many Pacific nations, and they are not very trusting of them. So the police aren’t just there to further international gains. They are also there for domestic political stability reasons.

The narrative side, again, I like what Dr. Kuok had to say about Gaza. That is really hurting the U.S. and its allies in the region. Russian narratives are also being boosted by the Chinese about Ukraine.

Another huge narrative change is that China is now selling a development model, and under Hu Jintao they certainly did not do that. Now they have the confidence to sell everything from the way they do poverty alleviation to the way they do media, even the way they do the rule of law, which I never thought I would see.

So what to do? There are all these variants. What is the U.S. going to do? Are they going to make Guam a state? Are they going to pull back to Hawaii? People need to know fairly soon what is going on. As always, best policy, work to your strengths. In the Pacific, your strengths are the social media companies. Facebook is still seen as a U.S. company in the Pacific, probably not in the rest of the world, but there it has tremendous capacity to do good. It is not doing all that much good at the moment, but it really could have a big influence.

Chinese actors I talked to are really concerned about the tech companies being left off the loose. They see Google building cables. They see Elon Musk advising the President. They had their own moment with Jack Ma and they are wondering, what on Earth is the U.S. doing, and it has really got them on edge.

Other strengths, the U.S. has Pacific communities; China does not. So treat those communities well, not just as sources for the U.S. military but genuinely treat them well. Don’t deport them willy-nilly, and really cultivate them.

Cuts to the Voice of America and Radio Free Asia are affecting all kinds of organizations that are significant in the Pacific. OCCRP, Benar News, and even something like *WHYNOT*, a Chinese magazine that was funded by RFA, now cut. An incredible blow to the U.S. position amongst the Chinese diaspora and amongst even the Chinese community in America.

Don’t go for shortcuts. Don’t do these influence operations. You will get found out. I know not everyone is for them, but they just don’t work in the Pacific. The Pacific is too small.

Work with church groups. Everyone from the 7th Day Adventists to the Latter Day Saints are there, and you can certainly work through those. And be bipartisan. I am up with my 7 minutes. So I will leave you there.

**PREPARED STATEMENT OF GRAEME SMITH, SENIOR FELLOW, AUSTRALIAN
NATIONAL UNIVERSITY**

Testimony before the US-China Economic and Security Review Commission

Hearing on “Crossroads of Competition: China in Southeast Asia and the Pacific Islands”

March 20, 2025

Panel 1: U.S.-China Strategic Competition in Southeast Asia and the Pacific Islands

Witness: Associate Professor Graeme Smith, Senior Fellow, Department of Pacific Affairs, College of Asia and the Pacific, The Australian National University

Witness Topic: China’s Objectives and Strategies in the Pacific Islands

China’s Strategic Objectives in the Region

The strategic objectives of the People’s Republic of China (PRC) can broadly be divided into four main goals: *diplomatic, economic, security and narrative objectives*. While there is a lack of coherence and coordination between PRC actors in the region—indeed different companies, migrants and the diplomats often find their interests in direct conflict—this does not preclude the gradual development by PRC officials on the ground in the Pacific of what might be termed a ‘grand strategy’ for the region.¹ There is a considerable literature on geostrategic competition with China in the Pacific² that this testimony will draw upon, while attempting to address the guiding questions provided by the Commission.

Diplomatic objectives

These may be divided into two main categories: enhancing China’s territorial integrity, through support for the PRC position on the South China Sea, and more importantly, furthering the diplomatic isolation of Taiwan; and obtaining support for China’s position in multilateral fora, both existing international bodies and those created under the aegis of the Belt and Road Initiative (BRI).

On the South China Sea, China has enjoyed some success in gathering support for its position, with Vanuatu confirming its support in a 2017 meeting with the Chinese Communist Party Center for International Exchanges, largely because the PRC position aligned with its own

¹ Pete Connolly. 2024. China’s Quest for Strategic Space in the Pacific Islands. *The National Bureau of Asian Research*. January 16.

<https://strategicspace.nbr.org/chinas-quest-for-strategic-space-in-the-pacific-islands/>

² See in particular Mihai Sora, Jessica Collins & Meg Keen. 2024. The Great Game in the Pacific Islands. Lowy Institute Interactives. August. <https://interactives.lowyinstitute.org/features/great-game-in-the-pacific-islands/>; Anna Powles. 2024. How Strategic Competition Is Shaping Security Cooperation in Solomon Islands. *NBR Special Report* 110. July 25. <https://www.nbr.org/publication/how-strategic-competition-is-shaping-security-cooperation-in-solomon-islands/>

maritime boundary concerns.³ The previous Papua New Guinea (PNG) government of Peter O'Neill took the unusual step of stating its “respect” for China’s position, and its right to “independently choose the means of dispute settlement in accordance with law.”⁴

Diplomatic isolation of Taiwan remains a consistent driver of PRC diplomatic activities in the Pacific. Long regarded as an irritant by both Pacific nations for its role in destabilising the region by driving “dollar diplomacy” and corruption,⁵ Taiwan’s presence now enjoys support from Australia, New Zealand and Japan, and tacit support from PRC-recognising states such as Samoa and Fiji. Despite this, China has succeeded in persuading three more Pacific nations cut ties with Taipei since 2019, with Solomon Islands and Kiribati leaving within four days of each other in 2019 (in time for the 70th anniversary of the founding of the PRC) and Nauru joining in 2024. Taiwan is effectively “on the ballot” in several Pacific nations,⁶ including those that have recently switched, as well as those who remain with Taiwan—Palau, the Marshall Islands and Tuvalu.

China has persuaded all the Pacific nations that recognize it to sign on to the Belt and Road Initiative, even though the Pacific was a late inclusion in the BRI, added on only after Xi Jinping’s visit to Suva in 2014, when he encouraged his then eight allies to “get on board the express train of development.”⁷ The suitability of the Pacific, with its small populations and distance from major global markets, for joining the BRI has been questioned, not least by Chinese scholars. A survey by the Taihe Institute and Peking University ranked six Pacific nations in the bottom ten for BRI nations, with Cook Islands ranking last, behind Yemen and Palestine.

While BRI membership does not shift voting patterns at the UN General Assembly (European BRI members are less likely to vote with China than non-signatories),⁸ in other fora such as the UN Human Rights Council, BRI membership has played a role in furthering China’s diplomatic objectives. In a 2022 vote on whether to discuss the UN’s own report on human rights violations in Xinjiang,⁹ the only developing nations to vote in favor were Taiwan allies—the Marshall Islands, Honduras and Paraguay—as well as Somalia.

³ Glenda Willie. 2017. Vanuatu reaffirms stand on South China Sea. *Vanuatu Daily Post*. August 31. https://www.dailypost.vu/news/vanuatu-reaffirms-stand-on-south-china-sea/article_94a1c49d-f82d-59d3-86ef-f2ad89dc541e.html

⁴ RNZ News. 2016. PNG respects China position on South China Sea. *RNZ*. July 10.

<https://www.rnz.co.nz/international/pacific-news/308349/png-respects-china-position-on-south-china-sea>

⁵ Graeme Dobell. 2007. China and Taiwan in the South Pacific: diplomatic chess versus Pacific political rugby. *Lowy Institute Policy Brief* January 18. <https://www.lowyinstitute.org/publications/china-taiwan-south-pacific-diplomatic-chess-versus-pacific-political-rugby>

⁶ Jessica Marinaccio. 2024. The promise of a return to Taiwan in recent election campaigns: Federated States of Micronesia, Solomon Islands and Honduras. *Taiwan Insight*. <https://taiwaninsight.org/2024/11/15/the-promise-of-a-return-to-taiwan-in-recent-election-campaigns-federated-states-of-micronesia-solomon-islands-and-honduras/>

⁷ Liam Fox. 2014. China’s president invites Pacific island allies to ride the Chinese ‘express train’ of development. *ABC News*. November 23. <https://www.abc.net.au/news/2014-11-23/chinese-president-touts-pacific-ties-on-visit-to-fiji/5911774>

⁸ Christoph V. Steinert & David Weyrauch. 2024. Belt and road initiative membership and voting patterns in the United Nations General Assembly. *Research & Politics*. 11(1). <https://doi.org/10.1177/20531680241233784>

⁹ Emma Farge. 2022. U.N. body rejects debate on China’s treatment of Uyghur Muslims in blow to West. *Reuters*. October 7.

Economic Objectives

China's importance as an economic partner to the Pacific has increased substantially since the 1990s; it is now the major trading partner of most Pacific nations. While the Pacific represents less than one percent of China's trade and investment,¹⁰ trade and investment volumes have grown at impressive rates since 2006. Along with 2018, when Xi Jinping attended APEC in Papua New Guinea,¹¹ 2006 marked a watershed in China's economic engagement with the region. In 2006, Premier Wen Jiabao convened the first China-Pacific Island Countries Economic Development and Cooperation Forum in Fiji,¹² signalling to Chinese state-owned enterprises (SOEs) that commercial and development finance was available from China Development Bank and China Exim Bank.

While few companies took up China Development Bank's commercial loans, concessional loans from China Exim Bank gave China's SOEs—particularly those in construction and telecommunications—access to Pacific Island economies. The first tranche of loans contributed to debt distress in the Kingdom of Tonga,¹³ which took on substantial loans to rebuild Nuku'alofa, which was—ironically—burnt to the ground in riots targeting Chinese-run shops. Sources familiar with the Tonga loan confirm that the lead contractor—Chinese Civil Engineering Construction Co. (CCECC)—gave Tongan financial officials the impression that the debt would ultimately be forgiven. Along with Samoa and Vanuatu, Tonga's debt repayments to GDP place it in the top ten of debtors to China, behind only Bhutan, Laos and Djibouti (see Table 1).¹⁴ Scope for economic coercion varies widely across the region. At the extreme end, the Solomon Islands is highly dependent on the PRC, with around two-thirds of its trade volume with China, much of it unprocessed logs.¹⁵ Other nations, such as Fiji, have a more diverse range of trading partners, and are better able to resist PRC pressure.

China has attempted to use economic coercion in the Pacific. Beyond the well-known example of Australia, the most forceful case was Palau's tourism sector, when China 'reminded' its group tour operators that Palau was not an approved destination, halving visitor numbers and causing Palau's economy to contract.¹⁶ The government of Tommy Remengesau acknowledged the goal of China's economic statecraft, but made no move to switch away from Taiwan, instead

<https://www.reuters.com/world/china/un-body-rejects-historic-debate-chinas-human-rights-record-2022-10-06/>

¹⁰ Denghua Zhang. 2023. China-Pacific Islands economic relations under the Belt and Road. *East Asian Policy*. 15. 82-97.

¹¹ Xinhua. Full text of Chinese President Xi's speech at APEC CEO summit. *XinhuaNet*. November 17.

http://www.xinhuanet.com/english/2018-11/17/c_137613904.htm

¹² Xinhua. 2006. Wen's speech at China-Pacific Island Countries forum. *China Daily*. April 5.

https://www.chinadaily.com.cn/china/2006-04/05/content_560573.htm

¹³ Riley Duke. 2024. Tonga walks a tightrope on its Chinese debts. *Lowy Interpreter*. January 31.

<https://www.lowyinstitute.org/the-interpreter/tonga-walks-tightrope-its-chinese-debts>

¹⁴ Doug Dingwall & Marian Kupu. 2024. Pacific Island nations owe 'astronomical' debts to China. Can they repay? *RNZ*. July 29. <https://www.rnz.co.nz/international/pacific-news/523464/pacific-island-nations-owe-astronomical-debts-to-china-can-they-repay>

¹⁵ Charley Piringi. 2023. The Unsustainable Exploitation of Solomon Islands' Natural Resources. *USIP*. November 30. <https://www.usip.org/publications/2023/11/unsustainable-exploitation-solomon-islands-natural-resources>

¹⁶ Farah Master. 2018. Empty hotels, idle boats: What happens when a Pacific island upsets China. *Reuters*. August 19. <https://www.reuters.com/article/world/empty-hotels-idle-boats-what-happens-when-a-pacific-island-upsets-china-idUSKBN1L403K/>

introducing a policy of “high-value” tourism that continues under the current administration of Surangel Whippa Jr. In private conversations, Pacific officials acknowledge the promise of future PRC investment is more effective than threats, especially when contrasted with the lack of non-military investment from Western countries.¹⁷ PRC officials are increasingly aware of this; China’s special envoy to the Pacific, Qian Bo, is famous in Suva for mocking Australia and New Zealand for lacking “real economies.” As will be discussed in a later section, China’s SOEs have become effective geopolitical operators in the Pacific.

Security Objectives

Of China’s four strategic objectives in the Pacific, China’s security objectives have perhaps seen the most striking changes, reflecting China’s growing global assertiveness in the promotion of its companies, and the protection—and control—of its citizens abroad. Security objectives also vary with proximity to China, Taiwan and the South China Sea. China’s security ambitions in Guam or the Federated States of Micronesia are quite different to those in Vanuatu or the Solomon Islands. There is no Honiara equivalent to the “Guam killer” missile.¹⁸ Yet there are commonalities to its approach, including a shift to positioning itself as a provider of internal security to Pacific governments that are attracted by Beijing’s model of policing.¹⁹

Despite lacking shared border issues, as in Southeast Asia, the PRC has tried to elevate its cooperation with Pacific police from scattered bilateral relationships to a regional multilateral framework. While security cooperation was previously an area where PRC actors showed limited interest, restricting their interactions to providing uniforms, vehicles and short-term training, since 2017 China’s security engagement has shown greater ambition,²⁰ even as its overall aid to the region has plateaued since 2016.²¹ We have seen more lethal materiel, PRC police serving in-country in at least four Pacific nations, and the development of China-based institutions catering to Pacific security needs, with the involvement of PRC provincial governments.

Police cooperation is used to achieve the objectives of an evolving PRC policy, the ‘Foreign related rule of law’ (FROL *shewai fazhi* 涉外法治)²² with implications for the expansion of security networks. While FROL was initially a defensive response to U.S. extraterritorial reach,

¹⁷ See, for example, Jayvee Vallejera. 2025. Guam think tank head tells senators: Ask US military the hard questions. *The Pacific Island Times* February 27. <https://www.pacificislandtimes.com/post/guam-think-tank-head-tells-senators-ask-us-military-the-hard-questions>

¹⁸ Franz-Stefan Gady. 2015. Revealed: China for the First Time Publicly Displays ‘Guam Killer’ Missile. *The Diplomat* August 31. <https://thediplomat.com/2015/08/revealed-china-for-the-first-time-publicly-displays-guam-killer-missile/>

¹⁹ Pete Connolly. 2024. China’s Police Security in the Pacific Islands. *The National Bureau of Asian Research* May 30. <https://www.nbr.org/publication/chinas-police-security-in-the-pacific-islands/>

²⁰ Prianka Srinivasan & Virginia Harrison. 2024. Mapped: the vast network of security deals spanning the Pacific, and what it means. *The Guardian* 8 July. <https://www.theguardian.com/world/article/2024/jul/09/pacific-islands-security-deals-australia-usa-china>. See also Connolly, Peter. 2024. China’s police security in the Pacific Islands. *The National Bureau of Asian Research* 30 May. <https://www.nbr.org/publication/chinas-police-security-in-the-pacific-islands/>

²¹ Rajah, Roland, Meg Keen & Alexander Dayant. 2023. Chinese aid to the Pacific: decreasing, but not disappearing. *Lowy Interpreter* 25 January. <https://www.lowyinstitute.org/the-interpreter/chinese-aid-pacific-decreasing-not-disappearing>

²² Erie, Matthew. 2023. Foreign policy implications for China’s Foreign-Related ‘Rule of Law’. *Orbis*. Fall, 565-78.

expanding security networks into the Pacific allows extraterritorial reach to enemies of the CCP, largely those involved in crime that targets Chinese citizens (such as online scams) but also potentially political dissidents, or even the business rivals of China's economic gatekeepers in country. Developing security networks across the Pacific allows the PRC greater influence in non-traditional security matters, especially in countries without militaries, positioning itself as the "internal security partner of choice"²³ in the context of geopolitical rivalry with the US.

Considerable Australian media attention has been dedicated to the question of whether China is looking to acquire a Pacific base, usually framing the Pacific countries as "penniless" victims of "debt-trap diplomacy".²⁴ While its base count still stands at zero, informal conversations with PRC sources suggest China is looking for a base, and that it is most likely to come about to further the corporate interests—and status—of a Pacific-based PRC company. The clearest example to date, a clumsy attempt by the well-connected China Sam Group to lease the island of Tulagi in the Solomon Islands, displayed both the savviness of Chinese companies in targeting subnational officials, and the impracticality of trying to secretly build a base in countries where the majority of the land is under traditional ownership.²⁵ For now, access and influence through policing and security agreements remain China's main focus in this sector.

Narrative Objectives

China's narrative objectives in the Pacific are twofold—channelling Pacific voices to support China's domestic objectives, particularly on internationally contentious issues such as Xinjiang, Tibet and Hong Kong, but also a narrative battle with Western powers in the Pacific, drawing on historical memories of colonialism and current approaches to developing the region. While the first objective is a common to all regions, China's lack of involvement in anti-colonial struggles in the Pacific (in contrast to Africa and Southeast Asia), mean that it has less of history of looking to Pacific countries to take its side on the global stage.

Under Xi Jinping's leadership, the Chinese Communist Party (CCP) has been steadfastly focused on international narrative around China's role in the world, as the formulation goes, to "tell China's story well" (讲好中国故事).²⁶ The China referred to in this phrase is not ordinary Chinese people, but rather the CCP telling China's story, with itself as the hero in the drama. The core of this formulation is—to put it crudely—a group of old men telling a story about their infallibility. Finding allies that are willing to speak on the CCP's behalf at international fora, most prominently at the United Nations, has become a primary focus. This can relate to issues China is defensive about—detention camps for Uyghurs and other minorities in Xinjiang, island

²³ Oriana Skylar Mastro. 2024. *Upstart: How China became a great power*. Oxford University Press. See also Sheena Chestnut Greitens & Isaac Kardon. 2024. Playing both sides of the U.S.-Chinese rivalry: Why countries get external security from Washington—and internal security from Beijing. *Foreign Affairs*. March 15. <https://www.foreignaffairs.com/united-states/playing-both-sides-us-chinese-rivalry>

²⁴ See, for example, Tom Steinfert. 2022. Too close to home. *60 Minutes*. <https://9now.nine.com.au/60-minutes/too-close-to-home>; Tom Steinfert. 2021. Is China taking over the South Pacific? *60 Minutes*. <https://www.youtube.com/watch?app=desktop&v=3NF3y1ouJ64&t=9s>

²⁵ Graeme Smith & Joseph Foukuna. 2019. Rumbly along the federal fault line in Solomon Islands. *Lowy Interpreter* October 21. <https://www.lowyinstitute.org/the-interpreter/rumbly-along-federal-fault-line-solomon-islands>

²⁶ The China Media Project. 2021. Telling China's story well. *The CMP Dictionary* April 16. https://chinamediaproject.org/the_ccp_dictionary/telling-chinas-story-well/

building in the South China Sea or the imposition of the National Security Law in Hong Kong.²⁷ More allies can be useful in a narrative sense. When a motion is put by Western nations condemning China's actions, a counter motion will be put in support, typically with more signatories supporting China's position. This is fed into domestic anti-Western discourses, through traditional news outlets and commercial social media, where nationalism sells.²⁸

Still more interesting is the amplification since 2013 of anti-Western narratives across the region. The lack of historical engagement by the PRC with the Pacific means that their Pacific knowledge is starting from a low base; I've come across PRC officials assuming that Papua New Guinea is in Africa or believing that Tonga is in fact Togo. This is changing rapidly—you can now learn any Pacific language—even Cook Islands Maori—at Beijing Culture and Language University.²⁹ Liaoning University in Shandong has more than 50 scholars focused on the Pacific. Part of the driving force is a desire from the Chinese state—and particularly its propaganda organs—to apply Mao's aphorism 'using the past to serve the present' (古为今用 *gu wei jin yong*) to the Pacific. Or rather, since the Chinese state had little to do with the Pacific before the 1970s, using the West's Pacific colonial past to serve the present.

Once neglected, PRC academics with Pacific knowledge are given a platform by outlets like the *Global Times*, China's nationalist tabloid. Researchers such as Yu Lei, from Shandong University, provide critical commentary about Western colonialism in the Pacific. In 2023 Australia agreed to resettle the entire population of Tuvalu under the Australia-Tuvalu Falepili Union treaty³⁰ which had neocolonial overtones,³¹ particularly Article 4, which required "Tuvalu shall mutually agree with Australia any partnership, arrangement or engagement with any other State or entity on security and defence-related matters. Such matters include but are not limited to defence, policing, border protection, cyber security and critical infrastructure, including ports, telecommunications and energy infrastructure." Commenting in the *Global Times*, Yu Lei argued the Treaty demonstrated "former colonial powers" wanted these countries to remain "politically subservient... and economically reliant" on them, through "instructions and manipulation."³²

Part of China's story in the Pacific is that unlike three of the other permanent members of the UN Security Council, China hasn't conducted any nuclear tests there, though they do lob the odd missile.³³ Chen Hong, an academic at East China Normal University, who gained the

²⁷ Dave Lawler. 2020. The 53 countries supporting China's crackdown on Hong Kong. *Axios* July 2. <https://www.axios.com/2020/07/02/countries-supporting-china-hong-kong-law>

²⁸ Qiye Wang & Mingjiang Li. 2025. Traffic, Money, and Political Consent: Explaining the Growth of Commercial Cyber-Nationalism in China. *Journal of Contemporary Asia*. 55 (1): 96-115.

²⁹ Denghua Zhang & Setope So'oa'emalelagi. 2019. A new trend: Pacific Island language teaching as part of the Belt and Road Initiative. *DPA In Brief* 2019/14. July 10. <https://openresearch-repository.anu.edu.au/server/api/core/bitstreams/0fa32d68-1c3f-4993-870e-2d9027661b57/content>

³⁰ Australian Department of Foreign Affairs and Trade. 2023. *Australia-Tuvalu Falepili Union treaty*. Australian Government. <https://www.dfat.gov.au/geo/tuvalu/australia-tuvalu-falepili-union-treaty>

³¹ Jessica Marinaccio. 2023. The Australia-Tuvalu Falepili Union: Tuvaluan values or Australian interests? *DevPolicy Blog*, November 15. <https://devpolicy.org/the-australia-tuvalu-falepili-union-tuvaluan-values-or-australian-interests-20231115/>

³² Editor. 2023. Do not make the resettlement offer to Pacific a geopolitical chess move. *Global Times*. November 14. <https://www.globaltimes.cn/page/202311/1301824.shtml>

³³ Nic Maclellan. 2024. My missile is bigger than your missile. *Islands Business*. November 3. <https://islandsbusiness.com/latest-magazine-articles/my-missile-is-bigger-than-your-missile/>

distinction of having his visa cancelled for trying to influence a minor Australian politician,³⁴ was among the first to dip into the United States' nuclear legacy, highlighting Operation Castle Bravo, the first in a series of tests on Bikini Atoll in the Marshall Islands, the first fusion nuclear bomb tested and still the most powerful nuclear device ever detonated by the US. The US, the UK, and France detonated 315 nuclear devices in the Pacific over three decades, including 12 in Australia.³⁵ With expanding knowledge, and (likely) expanding tensions with the United States in the Pacific, this narrative war is likely to intensify.

Efforts have also been made to cultivate individual Pacific journalists and academics, in keeping with practices elsewhere,³⁶ funding “look and learn” trips to China by influential Pacific Islanders—even including trips to Xinjiang. While not all Pacific journalists have been won over by these trips,³⁷ there have been bolder efforts to gain direct influence over traditional media outlets, notably newspapers in Palau,³⁸ Papua New Guinea and the Solomon Islands.³⁹ Along with Russia (largely to erode the reputation of the US) and Indonesia (exclusively related to West Papua), the PRC has engaged in disinformation campaigns in the Pacific.⁴⁰ Russian and Chinese actors have worked together to amplify each other's narratives, notably stoking rumors of a US-backed coup against the government of Manasseh Sogavare in the Solomon Islands, led by former Malaita premier Daniel Suidani.⁴¹ Whether these campaigns work is an open question—a study of a disinformation campaign which attempted to blame Taiwan, the US and Australia for the 2021 riots in Solomon Islands capital city, Honiara, found evidence that it reduced anti-China commentary, but had little impact on views of the West. A visit by US officials in response to the signing of the China-Solomon Islands security agreement did lead to more anti-West

³⁴ Sean Rubinsztein-Dunlop & Echo Hui, Australia revokes Chinese scholar visas and targets media officials, prompting furious China response. *ABC News*. September 9. <https://www.abc.net.au/news/2020-09-09/chinese-scholars-have-visas-revoked-as-diplomatic-crisis-grows/12644022>

³⁵ Nic Maclellan, *Prohibiting Nuclear Weapons: A Pacific Priority*, Melbourne: ICANW, online at: <https://icanw.org.au/wp-content/uploads/Pacific-Report-2017.pdf>

³⁶ Louisa Lim & Julia Bergin. 2021. The China Story: reshaping the world's media. *IFJ Research report on China and its impact on media*. https://www.ifj.org/fileadmin/user_upload/IFJ_Report_2020_-_The_China_Story.pdf

³⁷ Dorothy Wickham. 2019. The lesson from my trip to China? Solomon Islands is not ready to deal with this giant. *The Guardian*. December 23. <https://www.theguardian.com/world/commentisfree/2019/dec/23/the-lesson-from-my-trip-to-china-solomon-islands-is-not-ready-to-deal-with-this-giant>

³⁸ Bernadette Carreon, Aubrey Belford & Martin Young. 2023. Failed Palau Media Deal Reveals Inner Workings of China's Pacific Influence Effort. *OCCRP*. July 21. <https://www.occrp.org/en/investigation/failed-palau-media-deal-reveals-inner-workings-of-chinas-pacific-influence-effort>

³⁹ Bernadette Carreon & Aubrey Belford. 2023. Solomon Islands newspaper promised to “promote China” in return for funding. *OCCRP*. July 30. <https://www.occrp.org/en/news/solomon-islands-newspaper-promised-to-promote-china-in-return-for-funding>

⁴⁰ Anouk Ride, Tessa Ballard & Graeme Smith. 2025. Foreign state-sponsored disinformation in the Pacific Islands. *Australian Outlook*. March 13. <https://www.internationalaffairs.org.au/australianoutlook/foreign-state-sponsored-disinformation-in-the-pacific-islands/>

⁴¹ Ilya Tsukanov. 2024. Is US plotting electoral coup in Solomon Islands? *Sputnik Global*. 9 April. <https://sputnikglobe.com/20240409/is-us-plotting-electoral-coup-in-solomon-islands-1117758198.html>; see also GT Staff Reporters. 2024. As Solomon Islands votes, allegations of US interference highlight struggle of developing countries to forge independent foreign policy. *Global Times*. April 22. <https://www.globaltimes.cn/page/202404/1311050.shtml>

commentary on social media, building on existing narratives such as the US being “too late” in returning to the Pacific. These efforts are likely to become more sophisticated.⁴²

Assessing PRC Diplomatic Engagement

Assessing the success or otherwise of PRC diplomacy in the Pacific is tricky. There have been a string of public failures over the years, including embarrassing confrontations over Taiwan at Pacific Islands Forum meetings,⁴³ the 2022 failure of to sign the region onto a comprehensive trade and security agreement,⁴⁴ which limply became a “position paper on mutual respect and common development”;⁴⁵ awkward cross-cultural moments, such as China’s new ambassador to Kiribati being pictured walking across the backs of 30 men from Marakei Island”;⁴⁶ there was even a punch-up involving its diplomats in Fiji over a cake decorated with the Taiwanese flag.⁴⁷ Yet beyond these incidents, many of which were performed for the sake of the diplomats’ superiors in Beijing, go against a long-term trend of more serious and nuanced engagement by PRC officials in the Pacific.

Improved quality of diplomats

During the Jiang Zemin and Hu Jintao eras, China rarely sent its best diplomats to the Pacific. Rather, it was a place for exile and punishment, a term to be served without incident. When diplomats could be found they were disinclined to engage with local media or even local communities. Pacific embassies were ghostly, often made up of a handful of staff, frequently seconded from provincial or city governments, even universities.

A few examples point to a new approach. China’s ambassador to PNG during APEC, Xue Bing, had a command of English and willingness to talk with the media that went well beyond any of

⁴² Blake Johnson, Miah Hammond-Errey, Daria Impiombato, Albert Zhang & Joshua Dunne. 2022. Suppressing the truth and spreading lies. *ASPI Report*. October 5. <https://www.aspi.org.au/report/suppressing-truth-and-spreading-lies>

⁴³ Isabella Steger. 2018. A Pacific island nation of 11,000 people is picking a fight with China. *Quartz* September 6. <https://qz.com/1380770/taiwans-ally-nauru-fights-with-china-at-pacific-islands-forum>

⁴⁴ ABC News, Pacific nations walk away from trade and security deal with China as Australia aims to 'build stronger family'. May 30. <https://www.abc.net.au/news/2022-05-30/pacific-nations-shelve-region-wide-china-deal/101109614>

⁴⁵ Ministry of Foreign Affairs. 2022. China’s Position Paper on Mutual Respect and Common Development with Pacific Island Countries. *Chinese Central Government* May 30. https://www.mfa.gov.cn/eng/wjbzhd/202205/t20220531_10694923.html

⁴⁶ Jordan Fennell. 2020. Chinese ambassador to Kiribati pictured walking across the backs of people as part of welcoming ceremony. *ABC News* August 18. <https://www.abc.net.au/news/2020-08-18/kiribati-chinese-ambassador-tang-songgen-walking-on-backs/12567506>

⁴⁷ Amber Wang. 2020. China and Taiwan diplomats have a Fiji cake fight. *Asia Times* October 20. <https://asiatimes.com/2020/10/china-and-taiwan-diplomats-have-a-fiji-cake-fight>. Curiously, one of the same officials was involved in a brawl with pro-Hong Kong demonstrators inside the PRC consulate in Manchester two years later. Stephen Dziedzic & Bang Xiao. 2022. Chinese diplomat in spotlight after violence in Manchester was involved in previous brawl with Taiwanese officials. *ABC News* November 2. <https://www.abc.net.au/news/2022-11-02/chinese-diplomat-gao-lianjia-also-involved-in-fiji-hotel-brawl/101602940>

his predecessors. He went on to become China's special envoy for the Horn of Africa.⁴⁸ Serving alongside Xue Bing was Liu Linlin, the Economic Counsellor who was part of the Ministry of Commerce (MOFCOM) system which runs in parallel (and often at odds) to the Ministry of Foreign Affairs. In most Pacific nations, MFA and MOFCOM are housed in the same Embassy compound, but in PNG, MOFCOM got their own residence. Liu was no less adept at community outreach than Xue, regularly featuring in NewsCorp's Post Courier,⁴⁹ and known for providing candid advice to Chinese companies, pushing them to use more local labor, and to rely on local law and security firms.⁵⁰ China's first ambassador to the Solomon Islands, Li Ming, came to the post with nearly two decades of experience in the Pacific, meeting regularly with groups well beyond the traditional remit of PRC diplomats, including NGOs and church groups. After a dialogue with church leaders, then prime minister Sogavare praised his efforts: "Thank you for meeting with the Churches. We are hitting areas where we need to come out and set the records right. Christianity is the fastest growing religion in China."⁵¹

Beyond the top-down signal of posting more competent diplomats, China has also taken a more diverse approach, applying different strategies in different Pacific nations, trying to squeeze more propaganda value from its foreign aid projects, making use of Chinese subnational and corporate actors, and reaching out to older, and often more respected, Chinese communities where possible.

China Aid: "Small but Beautiful"

The newly created aid agency, the China International Development Cooperation Agency (CIDCA) is yet to have a noticeable effect on the way China delivers aid to the Pacific, particularly in addressing deficiencies in monitoring and evaluating projects, and maintaining infrastructure after project completion. The lack of officials with knowledge of foreign aid makes it unlikely this will be addressed⁵² and hopes that China Aid might be more open to working with Chinese NGOs have yet to be realised.⁵³ China's overall aid to the region peaked in 2016. Yet aligned with the narrative war mentioned above, China is doing a better job of selling its aid projects to the Pacific than in the past, and the size of the average PRC aid project has dramatically decreased, in keeping with the slogan "small but beautiful."⁵⁴

⁴⁸ Embassy of the PRC in the Federal Republic of Somalia. 2022. Ambassador Xue Bing appointed as the special envoy for the Horn of Africa affairs. *Chinese Central Government* February 24. http://so.china-embassy.gov.cn/eng/zfgx_1/202202/t20220224_10645225.htm

⁴⁹ Yombi Kep. 2018. Chinese company offers a chance to study overseas. *Post Courier* September 5. <https://www.postcourier.com.pg/chinese-company-offers-chance-study-overseas/>

⁵⁰ Graeme Smith. 2019. China's Guide to Investment Cooperation in Papua New Guinea. *DPA In Brief* 2019/25. <https://openresearch-repository.anu.edu.au/server/api/core/bitstreams/4b1fab4f-243c-4624-b5b4-916befc08ff0/content>

⁵¹ Prime Minister's Press Secretariat. 2021. PRC Ambassador applauds PM for initiating relationship between our Churches and Churches in PRC. *Solomon Star* August 3. <https://www.solomonstarnews.com/prc-ambassador-applauds-pm-for-initiating-relationship-between-our-churches-and-churches-in-prc/>

⁵² Denghua Zhang & Graeme Smith. 2017. China's foreign aid system: structure, agencies, and identities. *Third World Quarterly* 38 (10): 2330-2346.

⁵³ Denghua Zhang & Hongbo Ji. 2020. The new Chinese aid agency after its first two years. *DevPolicy Blog* April 22. <https://devpolicy.org/the-new-chinese-aid-agency-after-its-first-two-years-20200422-2/>

⁵⁴ Alexander Dayant & Riley Duke. 2023. China's shifting Pacific engagement – loud and brash to "small but beautiful." Lowy Interpreter. <https://www.loyyinstitute.org/publications/china-s-shifting-pacific-engagement->

Pacific attitudes towards Chinese aid vary between Pacific elites and Pacific communities, with elites seeing China as the “go to” for projects—such as government buildings and stadia—that other donors knock back. For their part, PRC aid officials often express frustration with their place in the Pacific aid ecosystem. Some aid initiatives—such as the Peace Ark medical ship—are well received by all; despite the preferential treatment they give to Chinese diasporas. Surveys of Pacific communities have revealed deep concerns about debt. More than 90 percent of Pacific university students (in a survey covering PNG, Fiji and Tonga) believed China would seize strategic assets in their countries if they defaulted on repayments.⁵⁵

The primary appeal of China Aid is its speed of delivery, flexibility, and lack of conditionality (beyond the condition of not recognizing Taiwan). The subsidisation of large SOEs means PRC companies are better able to tolerate the delays that often characterise aid projects in the Pacific,⁵⁶ and some companies—notably COVEC PNG and China Railway Fifth Group—have adapted to local conditions, hiring workers from the community where they are building roads or bridges. The PRC contracting companies also play a significant role in the nature, size and terms of China Aid projects, finding a local champion for their projects (usually a politician or a senior public servant) and “reverse engineering” projects to make them appear as local initiatives to CIDCA and China Exim Bank.⁵⁷

China’s diplomats have also shown flexibility in disbursing aid money, with embassies given a small amount of discretionary funding to fund small projects that might produce soft power wins. They have also been able to bend the rules laid down by CIDCA, getting involved in supporting constituency funds in Solomon Islands, infamous as a vote buying instrument for incumbent MPs.⁵⁸ China’s first ambassador to the Solomon Islands, Li Ming, was initially reluctant to match Taiwan’s approach of disbursing money to the fifty members of parliament, and tried to set them up as fifty separate aid projects, before realising his embassy had no capacity to select, monitor and evaluate that many projects. At last count, there are three separate constituency funds, including the existing Rural Constituency Development Fund, the longstanding (but little known) National Development Fund, funded by the PRC and managed by the Prime Minister, which appears to have only gone to government MPs,⁵⁹ and another development fund which favours government MPs.⁶⁰

Perhaps the most significant shift in PRC aid to the Pacific is China’s new confidence it has a model of development to offer the developing world. Particularly in the early Hu Jintao era, PRC

[loud-brash-small-beautiful](#) According to Lowy Institute research, the average size of Chinese aid projects between 2013 and 2019 was \$40 million, while project sizes now average around \$5 million.

⁵⁵ Denghua Zhang. 2023. Perceptions of China’s influence in the Pacific: Chinese and Pacific perspectives. *Australian Outlook*. August 29. <https://www.internationalaffairs.org.au/australianoutlook/perceptions-of-chinas-influence-in-the-pacific-chinese-and-pacific-perspectives>

⁵⁶ Terence Wood, Sabit Otor & Matthew Dornan. Why are aid projects less effective in the Pacific? *Development Policy Review*. 40, e12573. <https://doi.org/10.1111/dpr.12573>

⁵⁷ Graeme Smith. 2015. The six billion kina answer. October 8. <https://devpolicy.org/the-six-billion-kina-answer-20151008/>

⁵⁸ Transform Aqorau with Stewart Firth. 2022. Personal Reflections on Political Economy and Nation-Building in Solomon Islands. *DPA Working Paper* 2022/3. December 19. <https://core.ac.uk/download/pdf/551923857.pdf>

⁵⁹ Eddie Osifelo. 2021. Silence over controversial China development fund. *The Island Sun*. September 7. <https://theislandsun.com.sb/silence-over-controversial-china-development-fund/>

⁶⁰ Personal communication, Jon Fraenkel, 14 March 2025, Canberra.

officials would run from any suggestion China could offer a model of development, insisting China's historical situation was unique and deriding any suggestion there was a "Beijing Consensus" to rival the Washington Consensus.⁶¹ High-level tours by Pacific leaders to China now routinely include visits to remote, rural counties to demonstrate China's success in eliminating poverty. Fijian Prime Minister Sitiveni Rabuka, often cast as a China skeptic, said during a 2024 tour of a Chinese border county, "China's approach to rural development and poverty eradication in Malipo County in Yunnan Province serves as an inspiring model."⁶²

Subnational Diplomacy

While the initial response to the Belt and Road initiative was primarily taken up by central SOEs and central ministries, back when it was primarily about encouraging Chinese exports,⁶³ in recent years subnational actors have started to play a more active role in the Pacific, including companies, universities, and city and provincial governments. The assumption that Pacific actors are working with the Chinese central government is hard to shake—the central government taking the credit has a long history in China, but this trend is more pronounced under Xi Jinping, where it is a given that "the party leads everything." A recent study of interactions between PICs and PRC law enforcement agencies in repatriations of Chinese nationals revealed that Pacific authorities assumed they were dealing with central government agencies but were dealing with city or even county-level authorities. Police on the PRC side did nothing to correct their assumptions.⁶⁴ While *de facto* federalism⁶⁵ is less visible under Xi Jinping's rule, the drive to impress the central leadership has exacerbated inter- and intra-provincial competition.

The most straightforward way to measure the level of interest of PRC provinces in the Pacific is by tracking the number of sister city/province arrangements they have entered into with Pacific Island states. The most accurate database of these arrangements is maintained by The Chinese People's Association for Friendship with Foreign Countries (CPAFFC), which records all arrangements entered into by the PRC. For Oceania, the first recorded agreement is a sister province arrangement signed between Guangdong province and the Australia's largest state, New South Wales, on 1 September 1979. The relatively peripheral position of the South Pacific in PRC diplomacy is immediately clear from the dataset: the first agreement signed with a PIC came more than nine years later, when Jinan City in Shandong signed a sister city agreement with Port Moresby on 22 September 1988. It was another six years before another agreement was signed, this time between Shanghai and Port Vila, Vanuatu.

Examining trends over time also provides data to support the thesis that—until recently—Pacific Island nations were not a central focus of China's paradiplomacy. Since the first agreement was

⁶¹ Scott Kennedy. 2010. The myth of the Beijing Consensus. *Journal of Contemporary China*. 19(65): 461-477.

⁶² Fiji Ministry for Foreign Affairs. 2024. PM Rabuka commends China's poverty alleviation and rural revitalisation program. Fijian National Government. August 15. <https://www.foreignaffairs.gov.fj/pm-rabuka-commends-chinas-poverty-alleviation-and-rural-revitalisation-program/>

⁶³ Ryan Manuel. 2019. Twists in the Belt and Road. *China Leadership Monitor*. Hoover Institution. <https://www.wita.org/atp-research/twists-in-the-belt-and-road/>

⁶⁴ Graeme Smith. 2025. Inducing Compliance: Shaping Audiences' Perceptions in China's Cyber Crime. *Regulation & Governance*. DOI: 10.1111/regg.70007

⁶⁵ Yongnian Zheng. 2006. Explaining the sources of *de facto* federalism in reform China: Intergovernmental decentralization, globalization, and central–local relations. *Japanese Journal of Political Science*. 7 (2): 101-126.

signed in 1979 through to the end of 2024, Chinese subnational entities signed 116 agreements with Australian states, cities and towns, 42 with those from New Zealand, and only 27 with PICs. To some extent this understates the degree of engagement—only fully self-governing members of the United Nations are included on the CPAFFC list, which means the three agreements signed with French Polynesia are not included.⁶⁶

While the focus of the seaboard provinces on Australia and New Zealand since 1979 is in keeping with the economic focus of coastal provinces,⁶⁷ the trend since COVID suggests politics rather than economics are in charge. Since 2020, no friendship agreements have been signed with Australia, a single agreement was signed with New Zealand in 2020, and eight agreements have been signed with PICs.⁶⁸ Recent agreements point to two trends driving Pacific paradiplomacy from the PRC side: links to diaspora communities in the Pacific and the presence of a Pacific-focused institution that provides policy advice in China. All agreements since 2020 reveal one of these, with five driven by diaspora links and three reflecting the influence of an institution providing policy advice.

PRC diplomacy has also targeted subnational groups in the Pacific associated with traditional power structures, such as councils of chiefs, which have not typically been feted by Western countries.⁶⁹ In the case of a recent visit by Fiji's Grand Council of Chiefs to China led to the designation of Rewa Province as a site to trial "some of the best practices brought back by the visit."⁷⁰

Diaspora Diplomacy

Between 2017 and 2018, China undertook a major shift in the way it managed its diaspora. With the Office of Overseas Affairs subsumed into the United Front Work Department, China's migrants to the Pacific went from being seen as a potential source of funds to invest back into China, to being the face of China's public diplomacy.⁷¹ The task for implementing this vast "reprogramming" in the context of the Belt and Road Initiative has largely fallen to the politically toothless, but well connected, Chinese People's Political Consultative Conference.⁷² The strategy

⁶⁶ The agreements signed with French Polynesia are Jiangmen, a wealthy county-level city in Jiangsu paired with Faa'a; Changning District in Shanghai with Papeete; and Behai City in Guangxi province with the Leeward Islands.

⁶⁷ Audrye Wong. 2018. More than Peripheral: How Provinces Influence China's Foreign Policy. *The China Quarterly*. 235: 735-757; Xiaojing Ye. 2025. Diverse Patterns of Paradiplomacy by Chinese Local Governments: A Comparative Case Study of Zhejiang and Yunnan Provinces. *Journal of Contemporary China*. 34 (151): 43-60.

⁶⁸ These are Jiangmen City in Guangdong with Lautoka in Fiji (2021); Qingdao City in Shandong with Teinainano Urban Council, South Tarawa in Kiribati (2022); Liaocheng City in Shandong with Betio Town Council, South Tarawa (2022); Jiangmen City in Guangdong with Honiara in the Solomon Islands (2022); Guangdong with Guadalcanal Province, Solomon Islands (2023); Liaocheng City in Shandong with Port Vila, Vanuatu (2023); Fujian with Western Province, Solomon Islands (2024); and Pingtan City in Fujian with Madang Province in PNG (2024).

⁶⁹ Jan Kahout. 2023. Council of Chief's visit to China paves way for potential documentary film on Vanuatu culture. ABC News. June 19. <https://www.abc.net.au/pacific/programs/pacificbeat/vanuatu-s-council-of-chiefs-visit-china-s-tea-and-film-capitals/102494704>

⁷⁰ Wata Shaw. 2024. GCC endorse China tour report. *Fiji Times*. June 1. <https://www.fijitimes.com.fj/gcc-endorse-china-tour-report/>

⁷¹ Oscar Almén & Ivar Ekman. 2024. The Chinese Diaspora, the United Front, and hybrid warfare as an integral part of Chinese statecraft. *Strategic Outlook* 10 (2024): 57.

⁷² Flora Sapiro. 2019. The United Front Principle. *European Journal of East Asian Studies*. 18(2): 133-164.

adopted in the Pacific has been to recruit the most successful members of the Chinese community in each country, and to attempt to govern the growing Chinese diaspora in the Pacific through community associations. Chinese embassies have taken different approaches in different countries, but there is a distinct preference for working with what remains of the “old” Chinese communities because of their social status and deep links to political and commercial elites. In the case of Fiji, the Embassy still relies heavily on the longstanding Chinese Association of Fiji, even though more than 40 “new” Chinese associations have opened up.⁷³ Some of these are more front than united front; the Fiji Northern Chinese Association, run by Zhao Fugang, is said to boast five vice presidents, but no members.⁷⁴ Chinese community leaders contrast the disunited PRC community with the Indian community in Fiji; running associations takes up time, and aside from the head of the association, there aren’t many benefits.

In the case of Zhao Fugang, the informal leader of the “new” Chinese community in Fiji, his outing for alleged ties to organized crime on *60 Minutes*⁷⁵ and prompt public abandonment two days later as a “Fijian citizen” by the Chinese Embassy⁷⁶ led to the embassy summoning all the heads of Chinese associations, where they reassured them the embassy “had their backs.” The community leaders weren’t so sure. The embassy also released an amusing video rebuttal of the 60 Minutes program, featuring the author of this testimony.⁷⁷ Yet despite a brief fuss, including an abrupt flight to Hong Kong, Zhao Fugang continues to do business, has faced no criminal charges and has close links with a current government minister. Links between PRC authorities and organised crime will be discussed in a later section.

The dilemma for much of China’s Pacific diaspora was that their image in both the eyes of the Chinese state, and in the local population, was less than glorious. As one Fujian businessman who’d arrived in Port Moresby in the 1990s explained, “When I first arrived, they called me ‘baba’, now I’m cursed wherever I go as a ‘f-ing kong kong.’”⁷⁸ PRC migrants I’ve interviewed since 2009 put this down to the involvement of some of their community in organized crime. As one shopkeeper in Port Moresby explained after the failed assassination⁷⁹ of businessman Jason Tan:⁸⁰

⁷³ Henryk Szadziwski. 2023. The China dream in Fiji: Migrant perspectives of the Belt and Road Initiative. *Belt & Road in Global Perspective*. May 9. <https://munkschool.utoronto.ca/belt-road/research/china-dream-fiji-migrant-perspectives-belt-and-road-initiative>

⁷⁴ Author’s interview with Chinese community leader, Suva.

⁷⁵ 60 Minutes Australia. 2024. China’s dirty tactics to control the Pacific. March 24. <https://www.youtube.com/watch?v=FzW1APWxBjs>

⁷⁶ Vijay Narayan. 2024. Fugang is a Fijian national and we suggest you consult the Fijian government about his activities – Chinese Embassy. *Fiji Times*. March 26. <https://www.fijivillage.com/feature/-Fugang-is-a-Fijian-national-and-we-suggest-you-consult-the-Fijian-government-about-his-activities--Chinese-Embassy-8fr4x5/>

⁷⁷ Chinese Embassy in Fiji. 2024. Slander in paradise. *Twitter/X*. March 30. https://x.com/ChineseEmb_FJ/status/1773822035686523073

⁷⁸ Author’s interview with Fujian trader, Port Moresby, 2 July 2010. “Kong kong” is a derogatory Tok Pisin expression meaning “Asian.”

⁷⁹ Julia Daia Bore. 2010. Murder attempt. *The National*. January 4. <https://www.thenational.com.pg/murder-attempt/>

⁸⁰ Author’s interview with Fujian businessman, Port Moresby, 6 October 2010. Rather than organised crime, most believed the amateurish hit was organised by a relative impatient to inherit Tan’s fortune.

“After they were caught, it affected everyone. People would say that the worst sorts of people are here; Chinese killers have come into our country. Our reputation was destroyed. Wherever Chinese people go, particularly Fuqing people, our name is worse than pig shit. There’s too much illegal migration, and there are too many new arrivals.”

Shopkeepers also cited the growing number and visibility of PRC shopkeepers, and general deterioration in law and order.⁸¹ Despite efforts to govern PRC migrants through the diaspora elites who run community associations (Fiji has more than 40), China’s migrants largely maintain a wary distance from PRC officials and even hold a negative view of the BRI, which they perceive as only benefiting large SOEs.⁸² The capacity of PRC embassies in the Pacific to meet the growing consular expectations is also limited. As one Moresby shopkeeper complained:⁸³

“Even when someone gets killed, they’re no use. They’ll just send out a notice telling you to take extra care, and not to go out. All they can do is host visitors, conduct ceremonies, there’s no capacity to do much in PNG... and besides, this country isn’t that important. It was only after Taiwan [tried to] buy their allegiance⁸⁴ that they gave it some attention.”

A frequent complaint is that they feel looked down on by embassy staff, who live comfortable lives, “eating the emperor’s grain.” PRC officials and even PRC netizens, need little encouragement to blame China’s migrants for ruining China’s image in the Pacific. One report by Guangdong’s Office of Overseas Chinese Affairs—the agency meant to be in charge of protecting Chinese people abroad—blamed the 2006 Honiara riots on recent migrants from Guangdong, who were described as “low quality”, “happy to use cash to grease all transactions” and changing the “locals from respecting the Chinese to resenting their presence.”⁸⁵

The arrival of middle class “lifestyle” migrants in some Pacific countries—particularly Fiji, Vanuatu and Palau—drawn to the region by a slower paced life in a cleaner environment,⁸⁶ may change the image of the diaspora, although these migrants also create concerns for the PRC, being more vulnerable to robbery and more likely to complain on social media about lack of consular support. Attempts in 2024 by China’s foreign ministry to portray Palau as a “dangerous” destination⁸⁷ were met by mocking videos by Chinese residents of Koror on the platform *Douyin*. One response to address the lack of consular support has been the recruitment of “consular volunteers” to assist the embassy with liaison in the event of crime or natural

⁸¹ Patrick Matbob. 2021. On-the-ground tensions with Chinese traders in Papua New Guinea. In *The China Alternative: Changing Regional Order in the Pacific Islands*. Edited by Graeme Smith & Terence Wesley-Smith. 451-472. Canberra: ANU Press. See also Graeme Smith. 2014. Fuqing dreaming: ‘new’ Chinese communities in Papua New Guinea. In *Pacific-Asia partnerships in resource development*. Edited by Paul D’Arcy, Patrick Matbob & Linda Crowl. 131-137. Madang: DWU Press.

⁸² Denghua Zhang. 2023. China’s diplomacy and diaspora perceptions: Evidence from the Pacific region. *Asia & the Pacific Policy Studies*. 10 (1): 46-72.

⁸³ Author’s interview with shopkeeper from Fujian, Port Moresby, 5 October 2010.

⁸⁴ A reference to the short-lived government of Bill Skate, which attempted to switch to Taiwan.

⁸⁵ Graeme Smith. 2012. Chinese reactions to anti-Asian riots in the Pacific. *The Journal of Pacific History*. 47 (1): 93-109.

⁸⁶ Fei Sheng & Graeme Smith. 2021. The shifting fate of China’s Pacific diaspora. *The China Alternative: Changing Regional Order in the Pacific Islands*. Edited by Graeme Smith & Terence Wesley-Smith. 427-450. Canberra: ANU Press.

⁸⁷ Leilani Reklai. 2024. China Warns Citizens of Travel Risks in Palau. *Island Times*. June 14. <https://islandtimes.org/china-warns-citizens-of-travel-risks-in-palau/>

disasters, but also potentially to monitor PRC citizens.⁸⁸ PNG has at least 45 such volunteers on the ground, covering every province.⁸⁹ The arrival of Chinese police teams in some Pacific countries has also led to attempts to directly control the diaspora. Chinese shopkeepers in Honiara were recently informed they were not to contact the Royal Solomon Islands Police Force (RSIPF) and should direct their enquiries to the China Police Liaison Team (CPLT).⁹⁰ Prior to the switch from Taiwan and the arrival of the CPLT, the RSIPF had relied on the Solomon Islands Chinese Association for crime involving Chinese nationals.⁹¹ Nearly all Chinese shopkeepers I interviewed in 2019 opposed the Solomons switching to China, even thanking opposition MP Peter Kenilorea Jr. for his support of Taiwan.⁹² They—rightly—feared the establishment of diplomatic links would lead to more intense business competition and monitoring by PRC authorities.

The opening of an embassy in Honiara had quite different impacts on another group of PRC actors—workers and managers in state-owned enterprises who had managed to establish themselves in the Solomon Islands before the switch. In the following section I will outline the role SOEs play in furthering PRC influence in the Pacific.

The Role of State-Owned Enterprises (SOEs)

The types of companies that exercise influence in each PIC varies according to the structure of their economies. In atoll-based countries, fisheries companies are prominent; extractives companies are important in larger Melanesian nations such as PNG and the Solomon Islands where logging, minerals and gas dominate exports; while construction companies are found across the region and are often important players in geopolitics. PRC companies have been central to the three most recent diplomatic switches. In the Solomon Islands, regional directors of the construction company China Civil Engineering Construction Corporation (CCECC) flew in from Vanuatu and met with then prime minister Sogavare and his advisers, pitching a \$500 million aid package.⁹³ In Kiribati, while Taiwan's refusal to provide Kiribati with a passenger airline was cited in media outlets as the reason for the switch,⁹⁴ a fisheries company which held annual meetings in China with the Kiribati fisheries minister was the most useful conduit to the Maamau government. Concerns that Taiwan would back Maamau's opponent also played a

⁸⁸ Sean Rubinsztein-Dunlop & Echo Hui. 2021. Liberal Party donor Huifeng 'Haha' Liu 'engaged in acts of foreign interference': ASIO. *ABC News*. March 12. <https://www.abc.net.au/news/2021-03-12/asio-assessment-revealed-in-haha-liu-court-application/13234740>

⁸⁹ Zhang. *China's Diplomacy*. 56.

⁹⁰ Anna Powles, personal communication, February 2025.

⁹¹ Author's interview with association member, Honiara, 14 July 2019.

⁹² Author's interview with Peter Kenilorea Jr., 14 July 2019.

⁹³ Graeme Smith. 2019. The wisdom of Solomons: Taiwan and China's Pacific power play. *Lowy Interpreter*. September 12. <https://www.lowyinstitute.org/the-interpreter/wisdom-solomons-taiwan-china-s-pacific-power-play>

⁹⁴ Yimou Lee. 2019. Taiwan says China lures Kiribati with airplanes after losing another ally. *Reuters*. September 20. <https://www.reuters.com/article/world/taiwan-says-china-lures-kiribati-with-airplanes-after-losing-another-ally-idUSKBN1W50DH/>

role.⁹⁵ The reasons behind Nauru's switch is harder to prove, but those who claim insider knowledge link it to the long-delayed port project built by China Harbor Engineering Corporation (CHEC).⁹⁶ In all three cases, the “win-win” aspect was evident: CCECC won a string of contracts funded by China Aid and the Solomon Islands Government, Kiribati has signed on to closer fishery ties with China,⁹⁷ and CHEC continues to work on ADB funded projects in Nauru.⁹⁸

The large SOEs with regional headquarters across the Pacific are arguably more influential than China's formal representatives in country. Despite the improvement in the quality of PRC diplomats sent to the region, PRC companies in the region have greater resources—at times they are called on to provide and deliver PRC aid themselves⁹⁹—and real skin in the game, more so with China's domestic economy overloaded with fixed asset investment. They also often enjoy greater status—and higher political rank—than the Ministry of Foreign Affairs. Our team's recent survey found Beijing-based SOEs dominated the construction sector in the Pacific, led by China Railway Engineering (中国铁路工程总公司), China Railway Construction (中国铁道建筑有限公司) and China Communications Construction Company (中国交通建设公司). The top three subsidiaries were CCECC (based in Vanuatu), CHEC (based in PNG) and China Railway First Group (based in Fiji).¹⁰⁰

Such has been the concentration of investment in the construction sector that as early as 2019 an investment guide published by China's Ministry of Commerce (responsible for regulating and assisting PRC companies abroad) warned “homogenous” construction companies had saturated the market in Papua New Guinea.¹⁰¹ Other researchers note that in many Pacific markets, PRC companies' main challenge is each other, leading some companies to “make lowball offers to win the bid and substantially increase the cost afterwards”.¹⁰² The situation in PNG became extreme, as many contractors set up their offices in Port Moresby in order to have a presence when Xi Jinping attended APEC—the number of registered PRC companies doubled in the space of one

⁹⁵ Christopher Pala. 2020. China Could Be in Reach of Hawaii After Kiribati Elects Pro-Beijing President. *Foreign Policy*. June 19. <https://foreignpolicy.com/2020/06/19/kiribati-election-china-taiwan/>

⁹⁶ Henryk Szadziwski. 2024. How PRC companies influence diplomatic switches from Taiwan in the Pacific. *ASPI Strategist*. February 13. <https://www.aspistrategist.org.au/how-prc-companies-influence-diplomatic-switches-from-taiwan-in-the-pacific/>

⁹⁷ Mark Godfrey. 2024. China inks closer fishery ties with Kiribati, including deal involving controversy-plagued Ocean Family. *Seafood Source*. July 11. <https://www.seafoodsource.com/news/supply-trade/ocean-family-signs-deal-with-kiribati-company-despite-labor-wildlife-abuse-allegations>

⁹⁸ Nick McKenzie. 2024. Australia pays controversial Chinese company millions for Nauru's new port. *Sydney Morning Herald*. April 23. <https://www.smh.com.au/politics/federal/australia-pays-controversial-chinese-company-millions-for-nauru-s-new-port-20240422-p5flks.html>

⁹⁹ Nic Maclellan. 2020. Geopolitics meets pandemic in the Pacific. *Inside Story*. May 6. <https://insidestory.org.au/geopolitics-meets-pandemic-in-the-pacific/>

¹⁰⁰ Graeme Smith, Daria Impiombato, Tarcisius Kabutaulaka & Henryk Szadziwski. 2023. Mapping PRC companies in the Pacific. *DPA Discussion Paper* 2023/1. 10 November. DOI: 10.25911/K10Z-8806.

¹⁰¹ Graeme Smith. 2019. China's Guide to Investment Cooperation in Papua New Guinea. *DPA In Brief* 2019/25. Canberra: ANU. <https://openresearch-repository.anu.edu.au/items/48bbf6e1-b8c1-477f-b041-9a0f36f58feb>

¹⁰² Denghua Zhang. 2023. China-Pacific Islands Economic Relations under the Belt and Road. *East Asian Policy*. 15: 96.

year.¹⁰³ While some subcontracting goes on between PRC companies—which can inflate the price of projects—competition between PRC construction companies is intense. One area of tension with Pacific communities is the different attitude toward waged labor promoted by PRC companies, from disputes over inadequate safety equipment, low wages and barriers to forming trade unions, to frustration on the PRC side about a perceived lack of work ethics.¹⁰⁴ PRC investments in the region have increased in volume and value, adding up to US\$2.72 billion by the end of 2021.¹⁰⁵

Observing these companies over time, their willingness to get involved in furthering China's influence has increased during Xi Jinping's extended term in office, undergoing a visible shift in 2017. During the late Hu Jintao era, when CCP rule had the characteristics of a divided oligarchy, many of these companies were indifferent to the wishes of the central government; I recall one interview with an official from China Metallurgical Group (MCC), the main investor in the Ramu Nickel project in PNG, scoffing at the idea the State-Owned Assets Supervision and Administration Committee of the State Council (SASAC)—the body charged with managing China's "core" SOEs—could influence his company's behavior.¹⁰⁶ Five years later, SASAC had placed MCC under the control of another mining company,¹⁰⁷ and MCC's controversial chairman Shen Heting was soon under investigation following a string of poor investments from Afghanistan to Australia, apparently made with the guidance of a Hong Kong-based fortune teller.¹⁰⁸

Our survey revealed corporate history and company structure had an effect on willingness to work on behalf of the central government. A company like CCECC, which is a purely state-owned company, undiluted by stock market listing or mixed ownership, has few options but to respond enthusiastically, even if its project managers on the ground are engineers who miss their families and have no interest in geopolitics. Whereas in the past the distance of China's projects in the Pacific from Beijing encouraged SOE managers focus on personal and firm-level profits, recent governance reforms to SOEs, increasing the ability of the CCP to control personnel appointments and decision-making procedures, gives SOE managers in the Pacific less scope to ignore CCP directives.¹⁰⁹

¹⁰³ Pete Connolly. 2020. The Belt and Road Comes to Papua New Guinea: Chinese Geoeconomics with Melanesian Characteristics? *Security Challenges*. 16(4): 41–64.

¹⁰⁴ He Wenzhen & Graeme Smith. 2025. Negotiating Work: China's Labour Model in the Pacific. *Journal of Contemporary Asia*. <https://doi.org/10.1080/00472336.2025.2475959>

¹⁰⁵ MFA (Ministry of Foreign Affairs of the People's Republic of China). 2022. Fact Sheet: Cooperation between China and Pacific Island Countries. Chinese Central Government. 24 May. https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/202205/t20220524_10691917.html

¹⁰⁶ Interview with senior MCC official, Beijing, 19 July 2010.

¹⁰⁷ Zheng Xin. 2015. MCC shares slump in wake of merger with Minmetals. *China Daily*. 10 December. https://usa.chinadaily.com.cn/business/2015-12/10/content_22679052.htm

¹⁰⁸ Kinling Lo. 2017. Fallout from fall of Chinese executive who sealed copper mine deal in Afghanistan. *South China Morning Post*. April 1. <https://www.scmp.com/news/china/policies-politics/article/2084043/fallout-fall-chinese-executive-who-sealed-copper-mine>

¹⁰⁹ Kasper Beck & Kjeld Erik Brødsgaard. 2022. Corporate governance with Chinese characteristics: Party organization in state-owned enterprises. *The China Quarterly*. 250: 486-508.

Corruption and Transnational Crime

PRC involvement in corruption and transnational crime in the Pacific is considerably less than in Southeast Asia, but PRC actors, both corporate, criminal and in between¹¹⁰ have been active in fuelling both corruption and transnational crime in the region. The overall benefit to PRC interests is difficult to gauge, as while there are short-term gains—outlined below—long-term damage is being done to the image of the PRC among Pacific communities.

Coopting corrupt and criminal actors to work on behalf of a nation-state is not a PRC invention; from Harmid Karzai's brother to the Contra rebels in Nicaragua, the temptation for nation-states, and particularly their intelligence services, to work with criminals and criminal groups is not new.¹¹¹ Criminals are well connected, they can get things done, and they can be denied when things go wrong. The difference in the PRC case is the frequent intersection between legitimate state actors, United Front Work Department (UFW) affiliates, local politicians and PRC criminals in a number of PICs. The cases of Zhao Fugang¹¹² in Fiji and Hunter Tian¹¹³ in Palau have been well documented by OCCRP; in both instances an alleged PRC criminal is the effective (in the case of Zhao) and actual (in the case of Tian) leader of UFW activities in country. Recent reports that the Cambodia-based Prince Group is becoming involved in the Pacific are of concern.¹¹⁴ The company has a track record of allowing PRC security services to work inside the company to kidnap PRC dissidents, presumably in return for PRC authorities turning a blind eye to their involvement in money laundering and human trafficking.¹¹⁵ Online PRC diaspora forums in Cambodia discuss Palau as “the new Sihanoukville” for online gaming and scams, noting good internet speeds, low level of crime, proximity to China's time zone and the lack of a PRC official presence. However, most discussions end with an acknowledgement that Palau is too small for large criminal operations to go unnoticed, which has proved to be the case for Broken Tooth Koi and more recently Chen Zhi's Prince Group.

¹¹⁰ The concept of ‘grey capital’ is useful for understanding the overlap between legitimate and criminal PRC business interests in the Pacific. Gregory Raymond. 2024. Explaining ‘grey capital’: The sociology of transnational Chinese companies and crime in Thailand, *Journal of Contemporary China*. DOI: 10.1080/10670564.2024.2302485

¹¹¹ Alfred McCoy. 2016. Covert Netherworld: An Invisible Interstice in the Modern World System. *Comparative Studies in Society and History*. 58(4): 847-879. See also Carolyn Nordstrom. 2007. *Global Outlaws: Crime, Money, and Power in the Contemporary World*. Berkeley: University of California Press.

¹¹² OCCRP. 2024. Top Australian Criminal Target Zhao Thrived in Fiji Despite High-Level Warnings. *Organized Crime and Corruption Reporting Project*. November 27. <https://www.occrp.org/en/investigation/top-australian-criminal-target-zhao-thrived-in-fiji-despite-high-level-warnings>

¹¹³ Bernadette Carreon, Aubrey Belford & Martin Young. 2022. Pacific Gambit: Inside the Chinese Communist Party and Triad Push into Palau. *OCCRP*. <https://www.occrp.org/en/investigation/pacific-gambit-inside-the-chinese-communist-party-and-triad-push-into-palau>. See also Bernadette Carreon, Aubrey Belford & Martin Young. 2023. Failed Palau Media Deal Reveals Inner Workings of China's Pacific Influence Effort. *OCCRP*. <https://www.occrp.org/en/investigation/failed-palau-media-deal-reveals-inner-workings-of-chinas-pacific-influence-effort>

¹¹⁴ Jack Adamović Davies & Jane Tang. 2025. Pacific governments warned of ‘threat’ from Cambodia's Prince Group. *Benar News*. March 13. <https://www.benarnews.org/english/news/pacific/pac-cambodia-corruption-03122025213557.html>

¹¹⁵ Echo Hui, Elise Potaka & Dylan Welch. 2024. China's secret spy. *ABC 4 Corners*. May 13. <https://www.abc.net.au/news/2024-05-13/china-spy-secret-police-agent-tells-all-four-corners/103826708>

PRC authorities demonstrate a differentiated approach to policing PRC criminal actors in the Pacific—criminal activities that harm China, such as online scams targeting PRC citizens, are more likely to be targeted than crime which has little impact on China. The harshest examples of PRC policing in the region have involved alleged online scammers, 77 of whom were arrested with great theatre from Fiji in 2017—an operation that involved more than 500 PRC police from four different levels of government.¹¹⁶ As you will hear from Jason Tower in the next session, these police operations are common in Southeast Asia—serving to warn PRC nationals not to get involved in crime, and to justify ever-tighter domestic restrictions on online access.

The susceptibility of PICs to criminality and corruption varies according to the prevalence of clientelism in their societies and polities; surveys suggest countries with a diversity of languages and large extractives sectors are more susceptible to sort of patrimonialism that allows corruption to flourish.¹¹⁷ PNG ranks as the most corrupt PIC on most indices,¹¹⁸ but in comparison to other regions the Pacific is not poorly governed. It does, however, lack the resources, technology, legal codes and police to tackle modern transnational crime. In one of the most striking examples, an Australian caught making methamphetamines in his hotel room was released because the *PNG Dangerous Drugs Act 1954* had not been updated to include meth as a proscribed substance.¹¹⁹

While PRC actors do not dominate criminality in the Pacific, they have significant involvement in money laundering, drug trafficking, weapons smuggling, and human trafficking, all of which the Pacific lacks the regional architecture to tackle.¹²⁰ Once a transit point for drugs, the PICs have become both the victims of “spillover” and a production hub.¹²¹ Policy decisions related to the forced deportation of migrants of Pasifika background from Australia (known as “501s”)¹²², New Zealand and the United States have exacerbated transnational crime in the region, providing opportunities for PRC criminal interests. Vanuatu’s ‘golden passport’ scheme has also proved to be a lure for PRC criminals, including those involved in the PlusToken cryptocurrency ponzi scheme, which holds the record for the largest crypto scam in terms of number of victims

¹¹⁶ Smith, *Inducing Compliance*. See also Hagar Cohen. 2017. Fiji silenced part 1: China’s secret mission exposed. *Background Briefing*. Australian Broadcasting Corporation. <https://www.abc.net.au/listen/programs/backgroundbriefing/fiji-silenced-part-1-chinas-secret-mission-exposed/8996040>

¹¹⁷ Grant Walton & David Jackson. 2020. Reciprocity networks, service delivery, and corruption: The wantok system in Papua New Guinea. U4 Anti-Corruption Resource Centre. <https://www.u4.no/publications/reciprocity-networks-service-delivery-and-corruption-the-wantok-system-in-papua-new-guinea.pdf>

¹¹⁸ See, for example, Transparency International. 2025. *Corruption Perceptions Index 2024*. <https://www.transparency.org/en/cpi/2024>

¹¹⁹ Bethanie Harriman & Edwina Seselja. 2021. Australian Jamie Pang caught up in drug bust, after alleged meth lab, illegal firearms discovered in his PNG hotel. *ABC News*. November 24. <https://www.abc.net.au/news/2021-11-24/australian-jamie-pang-png-hotel-alleged-meth-lab-drug-bust/100643446>

¹²⁰ Jose Sousa-Santos. 2024. Amid Illicit Drug Boom, Is the Pacific’s Regional Security Architecture Fit for Purpose? USIP. <https://www.usip.org/publications/2024/08/amid-illicit-drug-boom-pacifics-regional-security-architecture-fit-purpose>

¹²¹ Jose Sousa-Santos. 2024. Illicit Drugs Are Undermining Pacific Security. *USIP*. March 9. <https://www.usip.org/publications/2024/03/illicit-drugs-are-undermining-pacific-security>

¹²² Henrietta McNeill. 2024. Products of Australia: The International Consequences of Australia’s Deportation Policy. *Australian Outlook*. June 20. <https://www.internationalaffairs.org.au/australianoutlook/products-of-australia-the-international-consequences-of-australias-deportation-policy/>

(over 2 million) and amount stolen (upwards of \$6 billion).¹²³ Although they should have been given access to lawyers and 30 days to make a case, Vanuatu's Interior Minister was happy to hand over the six suspects to a Chinese city-level police department, even though at least four of them had Vanuatu passports.¹²⁴

Pacific Policymakers' Views of the PRC

A comprehensive survey of the views of Pacific policymakers has not been undertaken, but from public statements, several strands of thought become apparent. Pacific leaders are wary of outsiders placing labels on their region, be it the narrative of the Belt and Road Initiative, or the Indo-Pacific Strategy. As Samoa's then prime minister Tuilaepa explained in 2018:

"The renewed vigour with which a 'Free and Open Indo-Pacific strategy' is being advocated and pursued leaves us with much uncertainty. For the Pacific there is a real risk of privileging 'Indo' over the 'Pacific'... shifting global and regional geopolitics is creating an increasingly complex and crowded region that places the Pacific at the centre of contemporary global geopolitics. This trend, coupled with broader challenges such as climate change and disaster risk, rising inequality, resource depletion, maritime boundary disputes and advances in technology, will continue to shape the Pacific regional security environment."¹²⁵

The strand of thinking that geopolitical competition is a distraction from the existential problems faced by the Pacific—primarily climate change—is widely shared among leading Pacific thinkers. The mantra, "friends to all, enemies to none" is heard so frequently as to be open to parody, but it reflects the genuine connection of many Pacific nations to the non-aligned movement. There is also a perception that Western powers look to block PRC investment in PICs, without offering an alternative and while enjoying deep trade and investment links with the PRC. Many Pacific leaders resent the implication Pacific actors lack the agency, or the smarts, to deal with PRC actors. As then Pacific Islands Forum Secretary General, Dame Meg Taylor, argued in 2019:¹²⁶

"Such a narrative [of a China alternative] tends to portray the nations of the Pacific as passive collaborators or victims of a new wave of colonialism. In this context it is often difficult to engage in meaningful dialogue over relations with China without being labelled "pro-China" or perhaps even as naïve... Forum members view China's increased actions in the region as a positive development, one that offers greater options for financing and development opportunities – both directly in partnership with China, and indirectly through the increased

¹²³ Smith, *Inducing Compliance*.

¹²⁴ Dan McGarry. 2019. Who are the PlusToken Six? *Vanuatu Daily Post*. July 17.
https://www.dailypost.vu/news/who-are-the-plustoken-six/article_df1f863f-a763-52e9-8cba-eea51c77cde0.html

¹²⁵ Hon. Tuilaepa Sailele Malielegaoi. 2018. Speech by the Hon Prime Minister Tuilaepa Sailele Malielegaoi on Pacific perspectives on the new geostrategic landscape. Lowy Institute. August 30.
<https://www.loyyinstitute.org/publications/speech-hon-prime-minister-tuilaepa-sailele-malielegaoi-pacific-perspectives-new>

¹²⁶ Dame Meg Taylor. 2019. Keynote address by Dame Meg Taylor, Secretary General "The China Alternative: Changing Regional Order in the Pacific Islands." Port Vila, Vanuatu. February 12.
<https://forumsec.org/publications/keynote-address-dame-meg-taylor-secretary-general-china-alternative-changing-regional>

competition in our region. Indeed, if there is one word that might resonate amongst all Forum members when it comes to China, that word is access. Access to markets, technology, financing, infrastructure. Access to a viable future. For example, Australia's access to China's markets make it the former's largest trading partner in terms of both imports and exports."

Evidence of Pacific leaders using the presence of China to exercise their agency is not hard to find; at the regional level the rejection of Beijing's 2022 treaty was a clear example of the Pacific refusing to be rushed into a vision of development and security they weren't sold on. At a country level, Pacific leaders who occasionally lean towards the PRC can argue their strategy of hedging works—more face time with China leads to greater interest from other powers. At the grassroots level, where PRC business migrants often dominate the business landscape, there are many communities that have driven out these hardy traders—large swathes of Bougainville have only locally-owned shops (albeit largely stocking PRC-made goods.)

The views of Pacific leaders are also shaped by geography, with leaders closer to the first-island chain—and within reach of Chinese and North Korean intermediate-range missiles—more likely express reservations. On the eve of this hearing, Guam Local Senator William A. Parkinson put forward a motion proposing statehood for his island of 166,000 people, laying out their choice in stark terms: "We have to be real about what's going on in this part of the world. We are a tiny island but we are too strategically important to be left alone. Stay with America or do we let ourselves be absorbed by China?"¹²⁷

Perhaps the most critical testimony on PRC activities in the Pacific came from the outgoing president of the Federated States of Micronesia, David Panuelo. He wrote two letters, which letters accused China of engaging in espionage, called upon FSM to switch its allegiance to Taiwan, alleged the majority of his colleagues had taken bribes from China, and even accused China's special envoy to the Pacific, Qian Bo, of arranging goons to follow him at the Pacific Islands Forum. The letter ranged from the serious—research vessels mapping FSM's ocean floor without permission—to the comical, where Panuelo relates how he changed his phone because the Chinese ambassador was calling him incessantly asking him to accept COVID vaccines.¹²⁸

Finally, some Pacific leaders have internalised PRC messaging about China offering a superior development model. Unlike previous Solomon Islands elections, the ruling government's candidates went to the polls in 2024 under a united banner—the OUR Party. While media coverage of the campaign focused on some of the more colourful remarks, such as Sogavare equating democracy with "moral decay" and the spread of gay marriage,¹²⁹ the striking feature of stump speeches by OUR Party candidates was how much of them were dedicated to selling a new model of development, with implicit (and sometimes explicit) Chinese characteristics. For many Solomon Islands politicians, after just one electoral cycle, Taiwan is a distant memory.

¹²⁷ Mar-Vic Cagurangan. 2025. Guam at decolonization 'crossroads' with resolution on US statehood. *Benar News*. March 14. <https://www.benarnews.org/english/news/pacific/guam-statehood-decolonization-03142025040420.html>

¹²⁸ David Panuelo. 2023. President Panuelo's Letter on Chinese "Political Warfare" in Micronesia. March 9. *Vermilion China*. <https://www.vermilionchina.com/p/primary-source-president-panuelos>

¹²⁹ Nick Sas, Stephen Dziedzic & Chrisnrita Aumanu-Leong. 2024. Solomon Islands prime minister critical of democracy, praises 'Chinese-style' governance. ABC News.

Taiwan's level of engagement with PICs

By the measurable metrics of engagement, Taiwan's support for the Pacific has dropped off considerably—according to Lowy Institute data, Taiwan's aid to the region is at one-fifth of historic levels to be just \$7.2 million in 2022.¹³⁰ As Taiwan loses allies, aid is simply cut, and not reallocated to their three remaining allies (Palau, Marshall Islands and Tuvalu) or the region as a whole. Conversations our research team had with Taiwanese representatives suggest support for a new approach to the Pacific, that goes beyond Taiwan's three remaining allies, varies across government departments. While Taiwan's Ministry of Foreign Affairs appears to maintain a conservative approach, the national security community, academic and development officials were open to a more nuanced approach. Differences along party lines were also apparent, with the ruling Democratic Progressive Party (DPP) less inclined to get involved in areas they view as reflecting traditional Nationalist Party (KMT) concerns and methods, such as influencing Pacific diasporas through overseas Chinese associations and networks. DPP-leaning agencies, such as the newly opened Cognitive Warfare Center, are more open to working with Pacific nations on emerging issues such as misinformation.

Those who have worked on aid in the Pacific over the past decades will question the wisdom of working with Taiwan on development assistance, given their track record of directly funding Pacific political elites (which appears to continue with their three remaining allies), of setting up vote-buying schemes such as the Rural Constituency Development Funds which made up 70% of their aid to the Solomon Islands,¹³¹ and (during the DPP's early years) of outlandish dollar diplomacy to win Pacific allies over from China. Yet there are a few areas we can encourage Taiwan to return to the Pacific to enhance Taiwan's standing in the region and address genuine development needs. But firstly, what to avoid.

Avoid domestic political games and influence operations

In the aftermath of Solomon Islands switching to China in 2019, media coverage was devoted to the struggle of the then governor of Malaita Province to retain ties with Taiwan, citing the provincial assembly's support for democratic values, and resistance to “investors connected directly or indirectly with the Chinese Communist Party”, outlined in the Auki Communique. Taiwan supplied aid to the province, and USAID followed up with a \$25 million project supporting agriculture. Following his denouement, Governor Suidani was feted by the Heritage Foundation and Sky News for “standing up to China”. An account describing the ecosystem around Suidani, whose backers were former Malaita Eagles gunmen, made it clear the personal domestic politics and geopolitics became entangled such that it was difficult to separate them

¹³⁰ Alexandre Dayant, Riley Duke, Nasirra Ahsan, Roland Rajah & Hervé Lemahieu. 2024. Pacific Aid Map: 2024 Key Findings. Lowy Institute. November 20. <https://pacificaidmap.lowyinstitute.org/analysis/2024/key-findings/>

¹³¹ Georgina Kekea & Anouk Ride. 2023. How Constituency Development Funds Undermine Solomon Islands' Democracy. *United States Institute of Peace* October 25. <https://www.usip.org/publications/2023/10/how-constituency-development-funds-undermine-solomon-islands-democracy>

out.¹³² It would be wise to steer clear of Taiwan-related influence operations in the Solomons or elsewhere. As I've argued in the case of Palau, the Pacific is too small for IOs.¹³³ Fortunately, there is plenty that can be done to balance China's influence without looking foolish.¹³⁴

Sectors for collaboration in the Pacific

Given the Taiwanese aid agency, The International Cooperation and Development Fund (ICDF) already has programs in PNG and Fiji, there may be value in encouraging Taiwan to expand its aid footprint into countries that maintain diplomatic relations with China but are sympathetic to Taiwan. It also aligns with the "friends to all, enemies to none" foreign policy of most Pacific nations. Obvious candidates are stable Polynesian countries with strong regional influence, such as Samoa, Tonga or the Cook Islands. There are indications senior ICDF officials are open to a new approach. While ICDF's relationship with MOFA is a passive one (as one MOFA official put it, "they just do aid") the geopolitical benefits of this approach might gain MOFA's support.

Taiwanese representatives hint they would welcome working with the US, Australia and New Zealand on trilateral aid projects in the Pacific, as ICDF recently did with USAID in Fiji in the health sector. A more productive approach might be to encourage Taiwanese government, SMEs and civil society to develop partnerships in the Pacific where Western countries can offer support and in areas where Taiwan has natural advantages: health care and communications; agriculture and aquaculture; scholarships; cyber resilience; and diaspora engagement.

Health care and telecommunications. Two of Taiwan's natural advantages in aid have considerable scope for adoption in the Pacific. This is a focus of ICDF's work with its allies in the Western hemisphere (particularly Paraguay) and it has scope for promotion in the Pacific where non-communicable diseases (NCDs) are the leading cause of death. There is also scope for medical aid to be delivered by Taiwanese civil society organisations, through the umbrella body Taiwan Alliance in International Development. Many of its NGOs have Christian origins, reducing political sensitivity.

Agriculture and aquaculture. The ICDF lists agriculture as its first priority, and research by our team across the Pacific suggests that these projects have been among its most successful in improving diets, enhancing livelihoods and reducing the incidence of NCDs.

Scholarships. To date, ICDF claims to have offered 98 scholarships to the Pacific, dwarfed by China's efforts to provide 2000 scholarships to the Pacific a decade ago.¹³⁵ By offering more scholarships through the Taiwan/ROC-PIF Scholarship Fund, Taiwan can build goodwill in the Pacific beyond its remaining allies by raising its support from the current annual contribution of

¹³² Ed Cavanaugh. 2023. *Divided Isles: Solomon Islands and the China Switch*. Melbourne: La Trobe University Press.

¹³³ Graeme Smith. 2025. The US isn't the only country voting on Nov 5. This small Pacific nation is also holding an election – and China is watching. *The Conversation* October 15. <https://theconversation.com/the-us-isnt-the-only-country-voting-on-nov-5-this-small-pacific-nation-is-also-holding-an-election-and-china-is-watching-237321>

¹³⁴ Chris Bing & Joel Schectman. 2024. Pentagon ran secret anti-vax campaign to undermine China during pandemic. *Reuters* June 14. <https://www.reuters.com/investigates/special-report/usa-covid-propaganda/>

¹³⁵ Matthew Dornan, Denghua Zhang and Phillippa Brant. 2013. China announces more aid, and loans, to Pacific islands countries. *DevPolicy Blog*. November 13. <https://devpolicy.org/china-announces-more-aid-and-loans-to-pacific-islands-countries-20131113-2/>

\$1 million per year. Given qualifications obtained in China often struggle to obtain local recognition in the Pacific,¹³⁶ this could be presented as a cost-effective way to enhance soft power and influence among future elites in the region.

Cyber resilience. Taiwan is the world's leading target for disinformation.¹³⁷ There is scope for Taiwanese government agencies and civil society organisations to work with the Pacific on an area of concern to both Pacific elites and Pacific communities. Many of the issues Taiwan is dealing with around cyber-attacks on government agencies, and disinformation spread through social media platforms map directly onto Pacific concerns. Whether misinformation about measles vaccines in Samoa, or online rumours about child kidnappings,¹³⁸ social media—particularly Facebook—can be lethal in the Pacific. In addition to information exchange, media training could also be offered.

Diaspora engagement. Officials in Taiwan confirm the budget for cultivating China's diasporas abroad (through the Overseas Community Affairs Council 僑委會) has been drastically reduced, in part due to the DPP's discomfort with the KMT's traditional approach to winning over Chinese diasporas association-by-association, school-by-school. Yet there is scope to work with Taiwan in building better relations with China's Pacific diasporas. Research shows that most of these business-focused populations do not hold a positive view of the Chinese Communist Party or the Belt and Road Initiative,¹³⁹ and see their long-term futures in the Pacific, or in future migration to Australia, New Zealand or the US.

Recommendations

- Encourage Taiwanese diplomats to take a less zero-sum approach to engagement with the Pacific, and to expand their reach beyond their three diplomatic allies, whose total population is less than 70,000 people;
- Boost engagement by Taiwanese agencies with Pacific multilateral fora, in particular credible bodies such as the Pacific Islands Forum, the Pacific Tourism Organisation, and the Pacific Community;
- Advocate for a greater footprint for Taiwanese civil society organisations, media outlets, universities and church groups across the Pacific; these sectors are skeptical about China's engagement with the region and open to Taiwan's SME-centred approach to development.

¹³⁶ Denghua Zhang & Jessica Marinaccio. 2019. Chinese and Taiwanese Scholarships for Pacific Island Countries. *DPA In Brief* 2019/10. <https://openresearch-repository.anu.edu.au/items/54011a15-c107-44c0-bc8c-ae8b12b11bc3>

¹³⁷ Yang Mien-chieh & William Hetherington. 2024. Taiwan most affected by disinformation. *Taipei Times*. March 25. <https://www.taipeitimes.com/News/taiwan/archives/2024/03/25/2003815440>

¹³⁸ Anouk Ride. 2024. Fake kidnaps and real dangers of disinformation in Pacific Islands. *Lowy Interpreter*. November 7. <https://www.lowyinstitute.org/the-interpreter/fake-kidnaps-real-dangers-disinformation-pacific-islands>

¹³⁹ Denghua Zhang. 2023. China's diplomacy and diaspora perceptions: Evidence from the Pacific region. *Asia & The Pacific Policy Studies*. 10(1): 46-62.

US Policy Recommendations

Half of diplomacy is showing up. INDOPACOM has a strong presence, but government and commercial actors need to show up more. As Pacific islands policymakers have limited resources—and personnel—it's important for US delegations to show up in the right way. Time-pressed, intense visits that focus on what the US side wants are counterproductive.

Encourage US trade and investment to the region, and work to remove barriers to doing business in the Pacific, such as the high cost of data for consumers across most of the Pacific, or the high cost of flights in the Northern Pacific brought about by United's monopoly.¹⁴⁰

A pillar of US soft power in the region are its social media companies, which could be involved in a far more constructive way, not just to counter disinformation of all stripes, but to come up with innovative approaches to development and health in remote communities.

The US, unlike China, has a large Pacific diaspora and strong connections through church groups. Leveraging this connection and avoiding punitive deportations will enhance America's image in the region. China, with its Han-centric ethnic policies, will never look more like a Pacific nation. By providing a pathway to citizenship for Pacific Islanders, the US will be more credible in its claims to be a Pacific nation.

Engage with friendlier parts of a decentralized and fragmented China. Xi Jinping is not forever, but PRC companies and migrants are in the region for the long haul. Many business and middle-class migrants have left China because they can't make a good life there. Treating them as agents of the PRC state plays into CCP narratives and abandons potentially invaluable sources of intelligence about what PRC actors are actually doing in the Pacific.

Support media and civil society groups. Investigative journalism in the Pacific relies heavily on US support—without the scrutiny of organizations such as OCCRP, Benar News, and Radio Free Asia, corrupt and criminal actors from the PRC and elsewhere will face far less resistance.

Encourage subnational diplomacy. US states, cities and even counties with Pacific diasporas could be encouraged to partner up with PICs.

Finally, influence operations to further US interests should be avoided—the Pacific is too small; you will get caught out.

Thank you for this opportunity and I look forward to addressing your questions.

¹⁴⁰ See Cleo Paskal. 2025. Examining the Office of Insular Affairs' Role in Fostering Prosperity in the Pacific Territories and Addressing External Threats to Peace and Security. Subcommittee on Indian and Insular Affairs. March 5. <https://www.fdd.org/analysis/testimonies/2025/03/05/examining-the-office-of-insular-affairs-role-in-fostering-prosperity-in-the-pacific-territories-and-addressing-external-threats-to-peace-and-security/>

PANEL I QUESTION AND ANSWER

CHAIR PRICE: Thank you so much. Thank you all, actually, so much.

I am going to take the prerogative of the Chair and ask the first question to all of you. With the concept of “friends to all, enemies to none,” what, in your estimation, would the countries of the region want that to look like? How would that best work for them? What are they aiming for?

DR. PARAMESWARAN: I can start. I think it is a complex question, because I think increasingly policymakers in the region, I think, appreciate the fact that while ideally they don’t want to make choices between the United States and China, and it is a much more sort of multipolar landscape, there are going to be certain sectors where they do have to make choices. We have already seen that with telecommunications. We are seeing that with artificial intelligence.

And that is why I mentioned in my testimony that I think there might need to be some reframing of how we think about competition. So perhaps in the full spectrum competition sense, you can sort of envision this as being no zero-sum choices, but there are going to be certain industries where ecosystems need to be constructed where countries are going to have to make choices.

And I actually think a good example of this is Vietnam, for example, on semiconductors. They have actually been socializing this idea of thinking about technology more as an ecosystem rather than as a transactional approach of something you buy off the shelf from one country and then another country. So I think that is one way of approaching it. But I do agree that in some of the other countries there is a tendency to say, you know, we don’t want to make certain choices across all of these realms. Thanks.

CHAIR PRICE: Ms. Kuok?

DR. KUOK: Thank you very much for your question, Commissioner Price. I think when countries say they do not want to be forced to choose, they would prefer not having to choose across issues, and in general, on alignment, so whether to align with the United States or China. Increasingly, they are accepting that even though they don’t like it, that they might have to choose on specific issues, whether it is about banning Huawei and 5G infrastructure or restricting Chinese access to semiconductors, or excluding Chinese firms from undersea cable networks. That said, they want that to be limited to perhaps specific issues as opposed to the United States requiring a general alignment on the United States versus China.

However, I think what is fair, which has not happened very much, is for the United States to expect Southeast Asia to make a clear choice on being for international law and not just saying that. So for instance, Southeast Asia cannot fairly be expected to choose between the United States and China given what both countries bring to the table. But they should be expected to align clearly with our principles of international law. So in the case of Russia’s invasion of Ukraine, most countries stood with the United States and other Western powers that condemned the invasion. However, I think stronger action needs to be taken by countries who say that international law is important to them, and it is.

CHAIR PRICE: Thank you. Dr. Smith?

DR. SMITH: Thank you. This is a great question. I will add two dimensions to that. One is that it can often be a transactional thing on the Pacific side, so not having to choose also means if you choose to not provide something, then we can go to China and they will provide it. So this often leads to a slightly reactive approach to policymaking here in Australia and elsewhere.

The other side to it is if you are going to ask us to choose, make sure you are giving us a meaningful choice. And particularly in the area of investment you hear this throughout the Pacific is like you are telling us not to take Chinese investment. Okay, where is the American investment, be it in Guam, on tourism? If you are in Fiji, the power of China is not debt-trap diplomacy. That has got a lot of play. But the real power of China in the region is the pipeline of investment, the promise of if we go with China, Fiji is lacking 5,000 hotel beds. Who is going to build those hotels? They are betting that China is going to build a fair chunk of them.

So if you are going to push for a choice, make sure it is a choice that is meaningful to Pacific Island countries, because at the moment they just don't see it, beyond military engagement. They are wanting more on the trade and investment side, and they are just not seeing it from the U.S.

CHAIR PRICE: Thank you. My time is up. Co-Chair?

VICE CHAIR SCHRIVER: Thank you. This idea of not wanting to choose never particularly bothered me as long as countries are willing to choose their own sovereignty, choose rule of law, choose to make decisions from capital without undue pressure or coercion. That generally aligns with us, so I think your point, Dr. Kuok, about putting those arguments forward about international law, rules, norms, et cetera, is a very important one.

I want to ask a question maybe of all three about China's perceptions of the current trajectory in the region. How do they judge, in Beijing, whether they are winning, gaining, succeeding? What are their criteria? And do they feel as though they have got the wind at their back right now, given whatever you might want to cite, given our own policy decisions here in Washington, given the success of their diplomacy and investment? But I am curious how you think the Chinese view the current trajectory, and what is the important criteria for them in this competition? We can just go down the line again.

DR. PARAMESWARAN: Yeah, it is a great question. I think, at least publicly, China tends to evaluate its capabilities more sort of in a comprehensive basis, so comprehensive national power, and when they refer to this in public engagements with ASEAN or individual Southeast Asian countries they tend to point to the breadth of their engagement and not focus as much on the depth of their engagement, because they know that they have a perceived advantage over the United States in certain channels of communication. So that is kind of the general line that I see.

I also do see that China has been talking a lot more publicly about its non-economic levers of influence over the past few years. I think perhaps a decade or two ago -- you know, Lynn mentioned this in her testimony, as well -- China being a leading trade partner is frankly quite an old story. It is kind of the story of the 2000s. Right now, China is very, very bold and public in terms of talking about engagement more on the global security initiative. We want to talk to you about dual-use facilities. And this is not something that is sort of secret or something that you have to parse statements through. They are saying this publicly, across to all of the Southeast Asian states.

So the strategy that people talked about hypothetically, maybe about two decades ago, that China, like every power we have known in history, is going to initially start with economic levers of influence and then move to the security domain and have comprehensive levers of influence, I see that very much happening in Southeast Asia. So when we talk about things like the Ream Naval Base in Cambodia, I think that is just one sign of something that is going to become more regular across the region. I mean, they are talking about minilateral exercises, more patrols, going across all of these Southeast Asian countries and saying, "Look at how much

we are giving you economically. Why are you not doing more with us in the security domain? You can do something with the United States, but you need to do more with us across all of these domains.”

So I think that is kind of how I see it, more generally.

DR. KUOK: Thank you very much for your important question. How does China see recent developments and where it stands? I think if I were China I would be looking on quite cheerfully at what is happening. First, I mentioned how the Gaza issue was impacting the region. We do not see a change in that, and we, in fact, see a doubling-down.

Second, you mentioned earlier that the United States doesn’t expect countries to choose, and I think that has been the case in terms of general alignment for a long time. However, there are signs, say, for instance, the United States’ approach to Panama, where Panama was asked to reduce Chinese influence and control, and that was a news-catching report. But there are also smaller developments since -- well, not smaller -- that they also have in development since, say, the National Security Presidential Memo issued, I believe it was in February, where the United States is fast-tracking investments for allies and partners, if allies and partners do not invest in adversaries. So I think there are indications where the United States might be forcing a harder choice.

I think China would be watching how the United States is behaving with respect to its allies and partners in Europe with some glee. I think it has been quiet publicly, but behind closed doors it is pointing out to ASEAN and its member states that the United States could similarly be lacking in its commitment to Southeast Asian countries.

Fourth, I think if it were looking at the U.S. activities in the trade realm, the imposition of tariffs or the threats of tariffs on allies and partners, I think that would be concerning countries in the region, many of whom have either a significant or major trade surpluses with the United States. And so it is not only about economic implications of those tariffs but if countries are worried about how the United States might retaliate against them in terms of their trade surpluses with the United States, how willing would these countries then be willing to support positions that are in the U.S.’s interests.

VICE CHAIR SCHRIVER: I am sorry, Dr. Kuok, I am over time. Can we get a quick answer from Dr. Smith, please.

DR. SMITH: Yeah, a very brief take. They would be very happy with their progress in two countries, in particular, in the Solomon Islands and in Kiribati, where they have got some regimes that, to a certain extent, have internalized China’s own development narratives.

I think it is also important, though, there is a distinction between Southeast Asia and the Pacific. The Chinese regime has a very strong historical engagement with Southeast Asia. It doesn’t have any presence in the Pacific before the 1970s, and even then it wasn’t really until the 2000s.

So they are a fair way behind in terms of the consciousness, if you like, within the Chinese system of the Pacific, and also the public. There was a memorable moment when Nauru switched to Taiwan after the Taiwanese election, sort of punished the DPP for being reelected. And the reaction on the Chinese internet was very much, are we seriously going to get excited about winning over the third-smallest country in the world? No, we’re not.

VICE CHAIR SCHRIVER: Thank you. Just for the record, all three have cited things are moving in a positive direction for China at the moment.

CHAIR PRICE: Thank you. Commissioner Brands.

COMMISSIONER BRANDS: Thank you. So this question is for Dr. Parameswaran. You

mentioned in your testimony that Beijing perceives a window of opportunity to expand its influence in the region. Could you just say a bit more about that and why that window is open and what its implications might be?

DR. PARAMESWARAN: Yeah, I think since late last year, Chinese interlocutors have been talking about this idea that if we saw a second Trump administration, they sense, for their own interests, that there might be a perceived window of opportunity for China not just in Southeast Asia but also the broader Global South. So they have been parading across the region and talking about things like if there are potential U.S. tariffs, we have a zero-tariff policy across some of these Southeast Asian countries. They have tried to apply this to a lot of the lesser developed countries proactively.

I think they also see a window on trade because China is going to be the chair of APEC next year, in 2026. So I think they see an open runway for them to engage in this domain.

I also do think that China senses that a lot of the reprioritization that we are seeing on international aid and media engagement gives them another window of opportunity there. But I would just offer a cautionary note that China's inroads in Southeast Asia is a more than three-decade story, and it is filled with perceived windows of opportunity that China has repeatedly not been able to capitalize on. And a lot of that is a consistent trend. Lynn mentioned it in her testimony and Graeme talked about it, as well. Consistently across the region, China is seen as the most influential power but the most distrusted power. And the question for the region is does China care, and I am not sure they do.

So it is important to look at these polls, but it is also important to recognize that there is a lot of rhetoric to China's sort of window of opportunity. But a lot of that is not repeatable across the domains. So on international assistance, for example, the U.S. and China defer almost in the opposite. So the U.S. offers about 85 percent of its assistance through aid versus loans. China does almost the exact opposite.

So the idea that China is going to fill some void on international development assistance I think is quite overstated.

COMMISSIONER BRANDS: You also mentioned the issue of maritime domain awareness and how the U.S. has traditionally pursued sort of a Philippine-centric strategy on this. Could you just say a little bit more about the importance of that issue, in general, and then where you think there may be opportunities to go beyond the existing paradigm in the U.S. approach to this issue?

DR. PARAMESWARAN: Yes. I think this is an important question because I think to us here in the United States, the Philippines, it is a treaty ally, it is a long-standing U.S. partner, so it is very easy to work with the Philippines. I mean, they have a lot of military ties with us, and so on and so forth.

But within parts of the region, the Philippines is seen as more of an exception rather than a norm in that regard. And it is also really important for us to recall that within the sort of intraregional balance of power, on issues like the South China Sea, you need to keep the Philippines onside, but also need Vietnam. You need Malaysia. You need Brunei. You need Indonesia.

So it is important to address all of these countries so that these countries can also get along with each other. I mentioned ASEAN in my testimony, and the reason why I mentioned it is because, yes, on big geopolitical issues ASEAN moves very slowly, but the whole purpose of ASEAN in the first place was to make sure that they contained these intraregional tensions within the region.

So U.S. policy should keep that in mind. I mean, one regional interlocuter mentioned this. He was making a football or soccer analogy, and he said, "U.S. policy sometimes is so narrow that it is perceived that it has a PSV problem," which is we engage a lot with the Philippines, Singapore, and Vietnam, but beyond that the engagement starts getting a little bit sketchy. And I think Lynn mentioned this in her testimony, as well.

So I think it is not only important just as kind of an optics conversation, but the intraregional balance of power is very important in terms of how we plan our Southeast Asia strategy.

COMMISSIONER BRANDS: And then finally, just in the limited time we have left, you mentioned a potential Chinese push for additional basing or access opportunities. Could you just talk a little bit about what the implications of that might be?

DR. PARAMESWARAN: Yeah. I think Cambodia, as I mentioned, is one of those examples that we think about. It is in the headlines a lot. But actually, in terms of the actual strategic presence and utility, it is actually quite limited given its location in the Gulf of Thailand.

There are other scenarios that policymakers have been thinking about. For example, East Timor, or Timor-Leste, is right near sort of certain areas where you are able to run submarines through. And that actually, if this kind of proceeds in that direction -- and I am not suggesting that it necessarily may -- but it is something that is not only a challenge for the United States. It is a challenge for Australia, it is a challenge for Indonesia, and it is a challenge for a lot of partner countries in the region. So that is one area to watch.

The other one that I would mention, as well, is China is talking about not just military facilities but also dual-use facilities, including ports, as locations for those. There were a number of instances where they were trying to make inroads, including in Malaysia, for example. Some of that has not taken off as much as they would like. But you could easily see what is happening in mainland Southeast Asia, where we usually see the initial indications of where China is advancing move to maritime Southeast Asia, where the U.S. actually has had a very significant strategic advantage. And if we see that, that is a big cautionary call for the United States.

COMMISSIONER BRANDS: Thank you very much.

CHAIR PRICE: Commissioner Friedberg.

COMMISSIONER FRIEDBERG: Thank you very much and thanks to all of our witnesses for your statements.

I would like to ask each of you to respond to this question. We talk a lot about winning and losing, increasing American influence, decreasing American influence, and so on. If you had to explain it as our bosses, if you like, the Members of Congress whom we serve, have to answer questions from their constituents, if you had to help them answer the following questions, how would you do it?

What exactly does it mean for the United States to lose influence, or for China to gain influence, or for one or the other to win or lose in this part of the world? And even more important, why exactly does it matter? Why should the constituents and Members of Congress care about that?

Maybe we could start with you, Dr. Parameswaran.

DR. PARAMESWARAN: If I were to just put it in one or two sentences, I would say if China were to gain control and create a geoeconomic sphere of influence in the center of the world's most prosperous region, which is the Indo-Pacific, that would make everyday Americans poorer, that would make everyday Americans less secure, and that would also make everyday

Americans also more isolated from that sort of hub of growth and opportunity. So that would be a clear sort of issue or challenge for U.S. interests.

But I also think, more importantly, imagine any region of the world, and now imagine the most dynamic region of the world looking more like China than it does the United States, or for that matter, forget the United States -- Australia, Japan, any of our allies and partners. That is a scary thought to imagine, when you think about not just security and economics but also democracy, human rights, media freedom, and so on.

COMMISSIONER FRIEDBERG: Thank you. Dr. Kuok.

DR. KUOK: Thank you so much. Just very quickly, I wanted to respond to the point of there being a great deal of mistrust on China, and there is, but notwithstanding that high degree of mistrust, which was recorded in the poll last year, as well, China still came out on top of the United States in the choice of alignment partners.

In response to your point, Commissioner Friedberg, I think what Prashanth highlighted is an important point, namely that if China were to control the Indo-Pacific or the South China Sea with Southeast Asia, we could see trade routes potentially being closed off. In the past, that was hard to imagine, because in the past that would be cutting off its own nose to spite its face, given the high levels of interconnectedness between China and the rest of the world, including the United States. But now with decoupling, it is not that hard to imagine. Now with decoupling as well as deteriorating relations it is not that hard to imagine.

And second, if the United States' military does its job in terms of deterring military conflict in the region, and I think it will, then what the United States and China are competing for is influence in the region. So in terms of all measures short of war, where does the United States stand vis-à-vis China, and I think influence is that battleground. Thank you.

COMMISSIONER FRIEDBERG: Thank you. Dr. Smith.

DR. SMITH: Look, notwithstanding I disagree with the whole losing the Pacific thing, if you were to pitch it to your Congressman, I would say, to make it an issue of transnational crime, if the U.S. leaves the region and draws back to Hawaii and Chinese transnational crime networks, which are not purely Chinese but they are big players in money laundering, human trafficking, and drugs. The Pacific used to just be a place where the drugs passed across. It is now shifting to a region where the drugs are actually produced and shipped to Australia and the U.S.

So purely from a self-interest point of view, if you want a stable region that is not shipping drugs into America, then you need to do something to dissuade China from becoming the dominant force in the region. And this also applies to other forms of crime. Online scams are far more prominent in Southeast Asia than in the Pacific, but there are signs of scam centers. And it is more profitable to target the U.S. than it is to China, because of the way China sets up its social media companies.

So yeah, I'd go with fear.

CHAIR PRICE: Commissioner Goodwin.

COMMISSIONER GOODWIN: Thank you, Madam Chair. I would like to follow up on Commissioner Friedberg's question, because I suspect the impact of losing influence and losing competition in these regions may be broader than what we just heard. So I want to return to the question of what the loss of influence in those regions means for our ability to engage in other regions around the world and on other issues, including Middle East policy, the war in Ukraine and the like. And I will open it up to the panel.

DR. PARAMESWARAN: I guess part of the question was on how does this affect U.S.

engagement with other regions of the world, I think, right, including the Middle East?

COMMISSIONER GOODWIN: Yeah. So if China's growing influence in these regions obviously affects our ability to engage strategically in Southeast Asia and the Pacific Islands, if we lose that influence in those regions how does it further hinder our ability to engage in other regions and on other issues?

DR. PARAMESWARAN: Right, and I think that is the sort of essence of a very pertinent question in the region, because I think the perception -- and it could be right or it could be wrong -- that you often hear when you are in the region, and I think Lynn kind of referenced this in her testimony, as well, is that the era of the pivot to Asia that we heard, so now almost two decades ago, where Asia would be prioritized and there was the pivot within the pivot, where Southeast Asia was going to be prioritized within that, is over. Now the focus is on a global competition with China, and each of the subregions is going to get less and less attention. The competition is going to be fiercer, and at the same time the United States is engaged in two wars, and the resolution of two conflicts, that are outside the Indo-Pacific theater.

So this idea that we can only focus on Asia and we are going to prioritize Southeast Asia within that, I sense talking to policymakers a lot more uncertainty about what that means. And that has fundamental implications. We talk a lot about U.S. commitment in the aggregate, but that is derivative of not just how we talk about power and threats, but it also has to do with how we resource our priorities.

And with each administration coming in and promising a lot of these initiatives, you sense a little bit of commitment fatigue in the region. I spoke to one official who sort of called this, quote/unquote, "commitment bombing." So every time China is coming in and offering something, the United States feels compelled. Then other countries feel compelled to say, "No, no, no. Here is an alternative." But the question for these countries is in 5 or 10 years, what is the actual deliverables that they are getting for these resources?

So they see a lot of commitments being put up as this resourcing challenge across theaters happens, but actually the sort of deliverables that confront these countries, and what they are getting out of it, is a lot less certain. So I do think that does affect our credibility to engage --

COMMISSIONER GOODWIN: I am sorry to interrupt. That kind of touches on another question I have, which is what are the risks to the United States of viewing and approaching these regions, primarily if not exclusively, as fora for competition with China?

DR. SMITH: I am happy to answer that one, if that's okay.

COMMISSIONER GOODWIN: Sure.

DR. SMITH: Yeah, no, that is really the key question for people in the Pacific. The Pacific is not fully governed but it is very much stretched. It is small populations and they are engaging with a huge number of donors and partners. So the commitment fatigue he was talking about there really stretches in the Pacific.

Now, where it is a problem is the question of why you are coming to us is a really key question. If you are only coming to talk to us because China came here last week, as we often see, then your credibility is reduced. There was a fascinating study done of Solomon Islands social media reaction to the security agreement that was signed with China. And it actually ran negative for the U.S., because straight after it was signed, a bunch of U.S. officials flew in, and rather than seeing this as what business does China have signing this draconian security agreement with our government, yes, it didn't poll well for the Solomon Islands government, but it polled even more negatively for the U.S., where people were kind of like, "Hang on. You've ignored us since World War II. Suddenly you are flying in every second week." It is just seen as

if you are only here because of China, then we are not impressed.

DR. KUOK: I think, as you point out, Commissioner, the impact on the United States of a declining influence in Southeast Asia is broader, and engaging Southeast Asia through the lens of U.S.-China competition is not ideal.

Let me point out a number of ways in which it has a broader impact on the near region as well as beyond. In the latest meeting between Xi Jinping and the President of Indonesia, the two leaders signed a joint statement, and in that joint statement Indonesia not only agreed to joint cooperation in the South China Sea with China -- so possibly conceding that there are overlapping claims between China and Indonesia -- but Indonesia went further in other parts of its statement to also cite language, or use language very much in favor of China on Taiwan. So that was an issue, impacting more than just Southeast Asia.

Second, on the Middle East, I think it will be very hard to get Southeast Asian countries' alignment on the Middle East with the United States. Nonetheless, I think it is important not to have the region think about the United States as a power with double standards and allowing of great atrocities in the region, but one that is constructively trying to handle the situation.

And finally, of course, it hurts its position in Ukraine and broader Europe because this is part of the sort of anti-global north sentiment that is coming from the global south.

DR. PARAMESWARAN: Could I just add something really quick? I just wanted to go back to something Graeme said because I think it is a really important point, which is countries don't want to make choices, but they do want more options and alternatives. And I think the U.S. is in a position to provide that, not necessarily a like-for-like necessarily.

But there are plenty of examples where the United States has stepped in to do this. There was a bankrupt shipyard in Subic Bay in the Philippines, and the United States stepped in to prevent that from happening and China acquiring it. In Myanmar there was a giant port project that China was sort of involved in, and the United States supported capacity-building not for an actual port project but for the government of Myanmar, the previous government of Myanmar, to evaluate that and then shrink it so that it wouldn't get into a huge debt burden.

These don't get a lot of headlines, but I just want to point out that it is not either the U.S. provides an alternative or it can do nothing. There are instances where the United States has actually been quite creative with the options that they can provide Southeast Asian states, and I think that sometimes goes under the radar, but it is very much appreciated by regional policymakers.

CHAIR PRICE: Thank you all. Commissioner Kuiken.

COMMISSIONER KUIKEN: Thank you, and thank you for your testimony. It is good to have you all here today. Let me do three questions, and I will throw them all to the panel and that way when we run out of time Commissioner Friedberg will not get upset with me.

One, I would like to hear from all three of you about the perception in the region of the moves the Trump administration has taken with respect to USAID and sort of Voice of America and similar institutions. I just wanted to sort of hear your views on that.

And then as I have listened to all of you, just sort of giving us the perception that the U.S. is sort of taking it on the chin pretty badly in the region, what are the economic opportunities that we should think about, that we haven't discussed already this morning, in the region, and how can we potentially think about those in a creative way? I think the answer you just gave us suggests there is some space there. If you have any sort of broad policy ideas in that space it would be really interesting to hear them.

And then there is always this sort of push-pull on soft power versus hard power. Given

some of the things going on right now, it seems that we are going to be putting more on the sort of hard power side of the ledger. As we think about options in that space, what do you think should be considered?

And with that I will throw it over to, why don't we go with Dr. Smith first since he is at the competitive disadvantage of being online, and then go down the panel.

DR. SMITH: All right. I will try to keep my answer to exactly 1 minute and 10 seconds. USAID and Voice of America, as I mentioned in my testimony, a lot of the support of investigative journalism in the Pacific comes through RFA and Voice of America. Without that, a lot of the more corrupt forces in the Pacific are going to be very, very pleased. So that has had a huge impact.

Much of America's assistance tends to be in the Northern Pacific and go through the Department of Interior Affairs, so it isn't as affected as other regions. But it certainly has not gone down well at all.

In terms of economic opportunities, you have pretty well any sort of thing you could imagine in the Pacific. You have tourism-dependent economies, you have resource-rich economies, and you have an English-speaking and generally very well-educated population, all kinds of possibilities for what can be done with companies in the area. Yes, there are small population sizes, but I think for some of the tech companies, even data centers, for example, could be located in the region where the time zones kind of work for multinational companies.

There is a huge number of opportunities on hard power. I think that is one area where INDOPACOM has been pretty solid for a very long time. INDOPACOM has an incredibly impressive corporate memory, but I don't think there is an immense appetite for yet more military facilities. I think they are looking for much more on the trade and investment side.

DR. KUOK: Thank you for your question. In terms of perceptions of USAID programs being cut in the region, I think obviously there has been a huge, well, I wouldn't say huge. I don't know accurately. But I think there are negative perceptions of how it has happened.

I think the first point to caveat is that, number one, the withdrawal of certain aid programs might actually help rather than hinder U.S. engagement with some governments in the region. The second caveat I would note is that it is not entirely clear to me that these USAID programs led to strategic gains. I am not saying that they did not lead to it, but I am just saying that the causative link, or the link wasn't that clear to me. As Prashanth pointed out, and according to a Lowy Institute Southeast Asia Aid Map, the U.S. disburses far more in grants than China, to the tune of \$8 billion compared to \$1.9 billion. And yet, that doesn't seem to translate into strategic influence.

So with those two caveats in place, I would say that nonetheless a withdrawal of USAID programs hurts the United States. It is just the abrupt withdrawal reinforces a sense of U.S.'s disengagement in the region, and I think it diminishes U.S. standing. And I think also, just from a purely humanitarian perspective, I think it sends the unfortunate message of American callousness, which then reinforces some sentiment already in the region because of the Middle East crisis. And of course, China has stepped up to provide things like de-mining assistance in certain countries.

In terms of economic opportunities, I would say pick areas that Southeast Asia cares about but also the U.S. cares about, so digital infrastructure, semiconductors, and critical mineral processing.

On soft against hard power and the focus on hard power and what more should be done, I think something that was mentioned at the outset was that countries, while worried about China's

activities in the South China Sea, also do not want a confrontation between the United States and China. And so in terms of the hard power bolstering, I would focus, as the United States has in the past, very much on issues that don't escalate tension in the region further, things like domain awareness, joint patrols, as well as intelligence sharing, which countries in the region would be welcoming of. Thank you.

DR. PARAMESWARAN: Yeah. I think those are very comprehensive responses so I will just a couple of things. I think, as a former news editor, I view this very much from a content lens. And I do have to say, irrespective of what people's views might be on Radio Free Asia or any one of these institutions, the fact is if you are looking for news on certain stories in Southeast Asia, I will just give you a very concrete example.

Sinkholes in the potash mining sites that China has in Laos. Radio Free Asia was the only outlet that was reporting on this story. Rubber plantations in Laos. And we often sort of say, in response to these things, let's localize this. But if you go around Southeast Asia and you look at the media landscape, several of these regimes are not free. So often a lot of these local people can't have the voice to say the things that they need to, and a lot of the scandals in Southeast Asia, the big controversies, are broken by outlets that are overseas in nature and not within the region.

And I will just give a very quick example. The big, billion-dollar 1MDB scandal in Malaysia. *The Wall Street Journal* and a couple of other outside news outlets were the ones that broke the story, not because the local news networks were not sort of competent, but because they were being suppressed on that particular issue by the regime that was in office.

So I do think that there is a very legitimate role, even if you are thinking about it just strictly from a content perspective.

On economic opportunities, I mentioned a couple there. But I would say, if I were to just say one thing, technology is just a great enabler because the United States already has a leading edge in that domain. Of course, a challenge here is that a lot of the technological companies don't really market themselves as U.S. companies. They prefer to see themselves as global companies. And that leads to Lynn's point, which is it is a bit depressing. Considering how much the United States does in the region in terms of investment already, the United States doesn't get enough credit. And often the perception on the street in Southeast Asia is China is the economic power; the U.S. is the security power.

And to my mind, that is very wrong-minded, but it goes to show you that irrespective of the reality of the situation, if we don't actually say more about what we are doing, and we are very clear about our messaging, that message doesn't get out to the streets in Southeast Asia. And frankly, as I pointed out in my testimony, some of these regimes don't really have the incentive to say that the United States is doing as much as China.

So we have to do our own messaging and our own marketing, and sometimes I think the U.S. has a tendency to do things but not talk a lot about it, and China has a tendency to talk a lot about things and not actually do them. And I think we need to maybe inverse that equation a little bit.

And then on soft power and hard power, finally, I think the U.S. is doing a really good job on security already. I think the U.S. and its partners, the Lowy Institute figures are that they constituted about 60 to 70 percent of all military exercises in the region.

So the security story is there already. But there is a huge opportunity for the United States to sort of tap into the comprehensive security discussion in Southeast Asia, and kind of build off of that. You already have the exercises. Why not think about the intersection between the

maritime and the cyber realm and talk about economic security, port security, and so on and so forth.

So just as we can use the economic lever to kind of pull on those conversations and broaden our engagement, I also think we can talk a lot about our security engagement in more economic and people-to-people terms. And it is as much for me a messaging story. I mean, like I said, the big thing for me, whenever people say the United States should do more, my first response is, how does the United States get enough credit for the many things it is already doing in the region? And I think we could do a lot more on that front.

COMMISSIONER KUIKEN: Thank you.

CHAIR PRICE: Commissioner Sims.

COMMISSIONER SIMS: Thank you, Madam Chair. Dr. Kuok, I wanted to ask you about something I think I heard in your opening statement, when we were talking about Muslim-majority countries in the region, that when you look at the basically survey data, I guess, they prefer China as a partner, and their number one issue that I think you were saying influences that is Gaza, what is going on in Gaza. That is their number one issue. Is that an accurate reflection of your testimony, before I ask my question? Is that right?

DR. KUOK: Yes.

COMMISSIONER SIMS: Okay. So the curious thing I found about that is they are mad about Gaza, it is their number one issue, and that makes them want to partner with China. Do they not care about Uyghur Muslim enslavement, or do they not know about it, or do they not buy it? Because it seems like hypocrisy on its face, to me, that you are mad about what is happening to Muslims in the Middle East but you don't care about what is happening to Muslims in China. But if I want to give them a little bit more benefit of the doubt, are they not aware of that, or do they not believe that that is what is happening? Are they buying Chinese propaganda? How do you square all of that?

DR. KUOK: It is a question I have also wondered about and asked about, so thank you for your question. I think it is a mixture of all of those, but fundamentally I think the Palestinian issue is something that has reached back into several decades of Malaysia's history, where they have felt that the Palestinians have been unfairly treated and the U.S. approach does not help.

And I asked about this, and there is something about the salience of that issue that really reaches deep into the psyche, which doesn't reach into the psyche in the same way that the Uyghur minority issue hits them.

So I take your point and I recognize your point, but I think partly it is not as salient an issue in Malaysia, so they do not see as much about it, and even if they do, it is something that doesn't connect as much to them. And I don't think it is a phenomenon that is unique to Malaysia. I think there are certain issues that tug at American heartstrings a little bit more than other issues, and I think that is also part of the criticism that has been leveled against America in terms of which issues, quite apart from a strategic significance, tug more at American heartstrings than others.

COMMISSIONER SIMS: Okay.

DR. SMITH: If I can add to that. Oh, sorry. Can I add quickly to that?

COMMISSIONER SIMS: Sure.

DR. SMITH: Thank you. I think it is a really interesting question. For example, when Indonesia voted against discussing the U.N.'s own report on human rights violations in Xinjiang, it voted against discussing the report while not denying that there were real atrocities going on and there were real issues. But they said, "Look, we could discuss it but we won't get anywhere

with China, so we are simply just going to shelve it.”

Also, I just think it is simple geopolitics. The Uyghurs in Xinjiang are poor, they are Sunni, and they don’t have control of their oil. It’s that simple.

COMMISSIONER SIMS: [Inaudible.]

CHAIR PRICE: Okay. Commissioner Stivers.

COMMISSIONER STIVERS: I mean, first of all, thank you all for your strong and eloquent support for strengthening U.S. diplomatic and development initiatives. I think, frankly, it is amazing we are in this place. Congress has been pushing for a stronger presence in Southeast Asia and the Pacific Islands for decades. It hasn’t happened in the way many of us have wanted. But the fact that we are decimating these programs and these initiatives now is really -- it’s kind of insane to me.

But Dr. Kuok, I wanted to focus on something that you said and that was in your testimony. You stated that we haven’t achieved the strategic returns of our assistance, that China is providing, over the last 7 years, \$51.8 billion in loans. And thank you all for distinguishing between loans and grants. It is a big difference between the way we do foreign assistance between the U.S. and China. That is often not compared in the right way. The U.S. has provided about \$8 billion in grants over that 7-year period.

And Dr. Kuok, you said we haven’t really achieved strategic returns there, but wouldn’t you consider the EDCA bases in the Philippines -- we have a very robust USAID program there that, frankly, has been suspended right now. Those bases were a significant strategic return that the U.S. achieved in recent years. The COFA agreements that we achieved in the Pacific Islands. That gives us a strategic presence in those Pacific Island countries.

Wouldn’t you agree that those are some very significant strategic gains that we have achieved in the region?

DR. KUOK: Thank you, Commissioner Stivers, for your question. I did not say that USAID programs haven’t achieved strategic objectives. I said that it is not clear to me whether they have or have not. I think it is hard to show, which is what I was saying. And the argument I was making is that even if there were no strategic returns whatsoever, the abolishment or the suspension of some of these programs hurts the United States. So that was my comment.

In terms of the EDCA bases, whether it is the original EDCA bases or the additional four that the Philippines granted the United States access to in 2023, I think that was the result, to my mind, of sustained engagement between the Philippines and the United States to enhance defense and security ties. Likely not the direct result of USAID programs, although USAID programs probably do help and contribute to it. But I think ultimately the Philippines saw a strategic advantage to be deepening -- at least the Marcos administration saw a strategic advantage to be deepening and strengthening defense ties with the United States, and that is what led to the Enhanced Defense Cooperation Agreement sites with the United States, or granting more access to them. Thank you.

COMMISSIONER STIVERS: Thanks. I appreciate that clarification. But wouldn’t you agree it is kind of amazing that China has provided five to six times the amount of funding, and the strong trade relationship in Southeast Asia, and the U.S. is still competitive in Southeast Asia, that we haven’t completely lost it, relative to the fact that China has contributed so much economic resources to the region.

DR. KUOK: Yes, I agree with you. But imagine if China were able to disburse either its grants or its loans more effectively and the United States were not competitive, how much more the United States would be behind. And imagine, as well -- and this is what I tell the Chinese

when I meet with them -- imagine if China settled at least its maritime disputes with its neighbors, not necessarily its territorial disputes in the South China Sea but its maritime disputes with its neighbors, which is the main thorn in the side of China-Southeast Asia ties, or at least maritime Southeast Asia ties. Imagine if they settled that, how much more competitive they would be than the United States in the region.

COMMISSIONER STIVERS: Absolutely. Thank you. Turning quickly to the Pacific Islands, Dr. Smith, you brought up the issues that China is doubling down on subnational diplomacy and particularly support for the police sector in many Pacific Islands countries. How can the U.S. best counter that?

DR. SMITH: There are a few ways to go about it. One is to engage in subnational diplomacy of your own. Obviously, implicit in your critique is the Federal Government has dropped the ball. But there are some very capable state governments and very well-resourced state governments that could definitely -- and in many ways the values of those governments align quite closely with the Pacific. They have Pacific communities. I am thinking not only of the obvious ones but maybe even places like Oregon could engage in diplomacy with countries where they have a strong diaspora connection.

The other way to approach it, I guess, is to provide the resources that China is looking to step in and provide, because there are genuine transnational crime concerns. And to have people, be it the DEA, on the ground there, providing the sorts of detection services that are just not there at the borders, to provide them with patrol boats, to really step up in transnational crime, in many ways reduces the demand on the Pacific side. Because at the moment, the feeling is, look, if we want to address transnational crime we really do need to engage with the Chinese. Some of the criminals are Chinese, so they presumably know how to get in touch with them and have ways of dealing with them.

But I think to vacate the space in this sort of policing security sector would be a huge mistake, because there is a lot of demand, particularly on the drugs side of things, to give resources to detect and prevent these drugs from spilling over into Pacific communities, because they are having a devastating impact in countries like Tonga.

COMMISSIONER STIVERS: Thank you.

CHAIR PRICE: Yes.

DR. PARAMESWARAN: I just wanted to add a little bit to that point, because I think on Southeast Asia this is a perennial challenge, right, the sort of distinction between the military and some of the other law enforcement agencies. And I think one of the things that I think is to our favor, and one of the things that the U.S. and other partners can do, is that there are a lot of commercial solutions that have come in for a maritime domain awareness. There is a whole proliferation of products. And in some cases, in these Southeast Asia countries, there is a lot of assistance that goes into particular countries, so the Navy or the Coast Guard.

But the challenge really is the infighting between the agencies. And one of the things that has happened, that I think is really positive, is that in places like the Philippines, you have commercial providers providing these technologies directly to fishermen, and they are actually seeing what is going on in these waters and actually telling the government, "You need to be acting." And I think that is the kind of creative diplomacy that we also need, and that leverages commercial solutions. That does not have to come from U.S. Federal assistance.

And one other example I will mention is thinking about cross-border solutions. I think one of the examples of this is the Luzon Economic Corridor in the Philippines, which, you know, I mean, we will have to see where that goes. But one of the reasons why I find this very

interesting is because if you talk to people involved in the initiative they say that China does a lot of things bilaterally. They have a lot of advantages in that domain. But when it comes to actually thinking about linkages between countries and across provinces and regions within these countries, the United States has a big advantage there in terms of that diplomacy.

So I think thinking more generally -- the Lobito corridor is another example, in Africa -- thinking about connections across countries and subnational economic diplomacy might be another creative way to think about it. Even if we have problems like trade and so on and so forth, I do think there are other economic statecraft initiatives that we can think about creatively.

COMMISSIONER STIVERS: And in an asymmetric competition, as you mentioned, that totally fits into leaning into U.S. strengths.

CHAIR PRICE: I want to thank all of you. We are at time. Dr. Smith, thank you for joining us in whatever time in the middle of the night it is for you. We appreciate it. Dr. Kuok, Dr. Parameswaran, thank you so much for all of your time today.

And we will take a 10-minute break and reconvene at 11:20. Thank you.

PANEL II INTRODUCTION BY VICE CHAIR RANDALL SCHRIVER

VICE CHAIR SCHRIVER: -- will examine China's expanding military and strategic footprint in Southeast Asia and the Pacific Islands. We will start with Mr. Greg Poling, who is the Director and Senior Fellow of the Southeast Asia Program and Asia Maritime Transparency Initiative at the Center for Strategic and International Studies. Mr. Poling will analyze China's force posture and escalating gray zone activities in the South China Sea.

Next we will hear from Mr. Jason Tower, who is joining us virtually. He is the Country Director for Burma at the United States Institute of Peace. Mr. Tower will provide insight into the growth of Chinese transnational criminal networks and the response of both the Chinese and host governments.

Then we will hear from Ms. Cleo Paskal. She is a Non-Resident Senior Fellow at the Foundation for Defense of Democracies. Ms. Paskal will examine China's growing security engagement with the Pacific Islands and the impact on the outcome of a potential conflict of the Indo-Pacific.

So we thank you each for your testimony, and the Commission is looking forward to your remarks. And I will just ask that you keep your opening statements to seven minutes. Mr. Poling, we will begin with you.

OPENING STATEMENT OF GREGORY B. POLING, DIRECTOR AND SENIOR FELLOW, SOUTHEAST ASIA PROGRAM AND MARITIME TRANSPARENCY INITIATIVE, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

MR. POLING: Thank you. Chair Price, Vice Chair Schriver, and members of the Commission, it is an honor to be here today. I should note first that CSIS does not take policy positions, so the views represented in my testimony are mine alone.

And in my testimony I would like to reflect on three issues: briefly on Beijing's strategic goals in the South China Sea; then the gray zone tactics with which it has pursued them; and finally, the recent successes or resilience of Southeast Asian partners with the support of the U.S., that I think at times is overlooked.

So first, on China's strategic goals. I think it is important to recognize that what China wants, particularly under Xi Jinping in the South China Sea, is tied to national mythmaking and political salience, far more than any logical commercial or military value that China may see in the South China Sea. That is not to say that there is no military value or that there is no commercial value, or that individual stakeholders within the Chinese bureaucracy or society don't pursue their own aims under that umbrella. But the South China Sea is fundamentally about the political salience that the party has given it and that leaders in both Beijing and Taipei have built up over the last 80-plus years.

I will note that in Xi Jinping's very first speech on the "China Dream" in 2013, he highlighted China's rise as a maritime power and the importance of recovering lost maritime territories as a core component of that. The South China Sea, and particularly the increased risk-taking and political salience we have seen under Xi's leadership, is because he has placed the South China Sea as one of the core components of the great rejuvenation of the Chinese nation. It is part of his political mission.

And so with that framing we have to understand that we are unlikely to see major compromises by a Chinese leadership under Xi Jinping, given that role. The game plan for Southeast Asian claimants, the U.S., and other like-minded partners has to be to mitigate risk and hold the line, hoping to shape the environment so that a future Chinese leadership may be willing to make the compromises necessary to help resolve or at least manage the issues. The fact that China's goals in the South China Sea are not primarily military, however, doesn't make them any less threatening to the national interests of the United States and its closest allies and partners in the region.

Now let me address the way that China has pursued its claims. China has primarily pursued its claims with increasing coercion and intentional creation of risk below the level of kinetic force, and that is because there remains a limit on what Beijing is willing to do in the South China Sea, at least under current circumstances.

It is unwilling to be the first to use lethal military force in the conflicts for two reasons. First, China assesses that Southeast Asia claimants, particularly the Philippines, will eventually bend and break under sustained pressure, and therefore there is no need to accept the unpredictable escalation risk that comes with military force.

Second, the PLA is still uncertain of its ability to prevail in such a contest if things escalate out of the gray zone. I think that China's military advantages in the South China Sea have grown considerably, and that concern is likely shrinking with every passing year.

From 2012 until 2021, China's gray zone tactics were remarkably successful. Our institute, the Asia Maritime Transparency Institute, spent the last 10 years documenting a myriad

of statistics by which China gained more control over the water, seabed, and airspace of the South China Sea every single year from 2015 until late 2021. That, however, has stopped, and I will talk about that in a moment.

How did China do that? Primarily it was through the use of the Coast Guard and the militia, and that was facilitated by China's island-building campaign. The ability to forward deploy hundreds of forces, 800 or more miles from the Chinese homeland, from 2016 onward, changed the status of forces in the South China Sea. It allowed China to maintain a greater presence in the waters of its neighbors than those neighbors could themselves.

The CCG has been the tip of that spear. Every year, AMTI has released a tracker of the number of ship days that CCP spends at locations around the South China Sea. Suffice it to say that last year it was effectively every day of the year, at all the reefs that China patrols. Those reefs include the major ones in the Philippine EEZ, from which China harasses Philippine operations and tries to deny the Philippines access to their own islands. It also includes the reefs from which China regularly patrols the exclusive economic zones of Malaysia, Indonesia, and Vietnam.

The second component of that strategy has been the militia. Now I will note that in U.S. government documents we often see the term "People's Armed Forces Maritime Militia." That is a U.S. term. It is not a Chinese term. I think it is a useful shorthand, but it also conflates two very different forces -- the professional Maritime Militia, which in Chinese is called Maritime Militia Fishing Vessels, or haishang minbing yuchuan (海上民兵渔船). These are the ones that are actively harassing U.S. and allied and partner forces. And then the civilians, what China calls the Spratly Backbone Fishing Vessels, or nansha guban yuchuan (南沙骨干渔船). These are the hundreds of vessels that just ride and anchor, tied together, not doing anything.

One of those is far more dangerous to U.S. and partner interests than the other, and I think it helps us, in the analytical context, to separate the two when we talk about the militia.

Like the CCG, AMTI has released an annual report on the activities of the militia, and find that last year their deployments around the Spratlys increased by about 15 percent. But I will note that they spend far more time today inside the lagoons of Chinese island bases in the Spratlys than they used to. They no longer operate primarily out in the EEZs of Vietnam and the Philippines, pretending to fish. It seems, in all likelihood, that since 2021, China has abandoned, or at least largely abandoned, the façade that these are civilian fishing vessels. They continue to operate in the Spratlys largely by bureaucratic inertia. They keep getting checks to do so, and so they do it. It no longer appears to be delivering strategic gains for China.

Now, let me briefly end on the gains that I noted Southeast Asian claimants have made, and I am more than happy to expound on this more in Q&A. But since late 2021, AMTI has not released a significant report on any Chinese gains in the South China Sea. China has not been able to stop drilling of a single oil and gas project by Malaysia, Vietnam, or Indonesia in that time. Malaysia, despite getting more and more pressure from the CCG with every passing year, has regularly set new records, drilling a record 25 new oil and gas wells in its EEZ in 2023, and 15 last year. Indonesia similarly developed new offshore wells, as has Vietnam.

But most impressive has been the situation for the Philippines. The Philippines, under President Marcos, have reestablished patrol around the Scarborough Shoal for the first time since 2012. It spent a year and a half repairing the BRP *Sierra Madre* at Second Thomas Shoal, despite the highest intensity of Chinese pressure any claimant has ever faced over a sustained period of time in the South China Sea. And it has leveraged that Chinese harassment to modernize the U.S.-Philippine alliance in a way we have not seen since at least the '70s, embed itself more into

a regional security architecture, and more than triple the number of countries that have publicly called for compliance with the 2016 arbitration.

That does not mean the South China Sea is becoming any safer. Quite the opposite. Southeast Asian claimants have realized that Beijing is unable to stop their activities in gray zone methods alone. They have brought themselves into more and more frequent interactions with the CCG and militia, as we saw around Second Thomas Shoal. And as with the June 17th incident last year, in which China very nearly killed a Filipino sailor, the more those interactions happen, the more it becomes a mathematical certainty that China will kill a Southeast Asian mariner sooner or later.

With that I will conclude my testimony. Thank you.

VICE CHAIR SCHRIVER: Thank you, Mr. Poling.

**PREPARED STATEMENT OF GREGORY B. POLING, DIRECTOR AND SENIOR
FELLOW, SOUTHEAST ASIA PROGRAM AND MARITIME TRANSPARENCY
INITIATIVE, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES**



**Statement before the
U.S.-China Economic and Security Review Commission**

***“China’s Military and Security Footprint
in Southeast Asia and the Pacific
Islands: China’s Grey Zone Predations
in the South China Sea”***

A Testimony by:

Gregory B. Poling

Senior Fellow and Director, Southeast Asia Program and Asia Maritime
Transparency Initiative, Center for Strategic and International Studies

March 20, 2025

Chair Price, Vice Chair Schriver, distinguished members of the Commission, I am honored to share my views with you on the topic of China's grey zone coercion in the South China Sea. CSIS does not take policy positions, so the views represented in this testimony are my own and not those of my employer. In my testimony, I would like to reflect on Beijing's goals in the South China Sea, the grey zone tactics with which it pursues them, and the recent successes by Southeast Asian partners in standing up to that coercion.

Beijing's Goals in the South China Sea

The South China Sea disputes are primarily about national mythmaking and political legitimacy. That is at the core of most territorial disputes and we should not look for a more logical military or commercial rationale in China's case. The Republic of China put the islands and shoals on a list of offshore territories almost 80 years ago and successive generations of leaders in both Taipei and Beijing saw political value in repeating that claim until it became conventional wisdom. What began as a sovereignty claim to rocks and reefs evolved by the 1990s to an ill-defined claim to maritime rights and resources. And since Xi Jinping's rise to leadership, that maximalist demand for "historic rights" everywhere in the nine-dash line has taken on an unprecedented political salience.

In Xi's first speech on the "China Dream" in 2013, he highlighted China's rise as a maritime power and the importance of recovering lost territories. Since then, the state has grown steadily more risk-tolerant in efforts to "reclaim" the islands and waters of the South China Sea as a necessary part of the "Great rejuvenation of the Chinese nation." It has also put in place myriad incentives for bureaucratic and private actors to pursue their own parochial interests in order to advance the "rights protection" mission in the South China Sea. This includes national oil companies, owners of militia vessels, and the leadership of the China Coast Guard (CCG) and People's Liberation Army – Navy (PLAN).¹

PLAN or CCG officers are undoubtedly sincere in their desire to keep the Americans out of the first island chain. But that is not the primary reason China has advanced its maritime claims. If it was, then Beijing long ago would have struck the necessary deals with Southeast Asian neighbors to degrade U.S. military access to the South China Sea. It could have negotiated equitable fisheries management and resource exploitation schemes in exchange for ASEAN accepting its preferred language restricting foreign military activity as part of a code of conduct. It could have allowed Filipino traditional fishing at Scarborough Shoal and been more flexible with the previous Duterte administration in order to sever the U.S.-Philippines alliance. But Beijing has never shown any willingness to trade resource rights or other aspects of its claim in exchange for a reduced U.S. presence in the waterway. China's goals in the South China Sea are not primarily military in nature nor most concerned with the United States. But that does not make them any less threatening to U.S. national interests and those of our allies and partners.

¹ On the South China Sea and the China Dream, see Ryan D. Martinson, "From Words to Actions: The Creation of the China Coast Guard," paper presented at Chian as a Maritime Power Conference, CNA, Arlington, Virginia, July 28-29, 2015, 1-4, https://www.cna.org/cna_files/pdf/creation-china-coast-guard.pdf.

Grey Zone Pressure in the South China Sea

China has pursued its claims with increasing coercion and threats of force under Xi's leadership. But there is still a limit: China remains unwilling to be the first to use lethal military force in the conflicts. Beijing assesses that it can achieve its aims through pressure and non-lethal force which, in its estimation, will eventually compel Southeast Asian states to acquiesce. This paired with lingering doubts about when the United States might intervene on behalf of the Philippines and uncertainty about the PLA's ability to prevail in such a contest keeps the disputes in the "grey zone."

From 2012 until 2021, China's gray zone tactics were remarkably successful. Southeast Asian fishers were increasingly driven from traditional fishing grounds, especially in the case of Filipinos around Scarborough Shoal. Nearly every foreign oil and gas operator engaged in offshore operations in Vietnam abandoned their projects or saw them canceled by Hanoi in the face of coercion by the CCG. Chinese survey ships mapped the seabed throughout the South China Sea with impunity and denied Southeast Asian law enforcement the ability to enforce their own laws within their exclusive economic zones (EEZs).

All of this was made possible by the island building campaign of 2013 to 2016 and the subsequent construction of naval, air, and sensing infrastructure at those bases. Chinese vessels were a rare sight in the southern reaches of the sea prior to 2014; by 2017 they were able to sustain operations across the nine-dash line every day of the year. The islands themselves have not seen more than modest new construction in recent years. Most major infrastructure was built in the 2017-2018 period. By April 2018, PLA maritime patrol aircraft and military transports were using the runways at all three of China's air and naval bases in the Spratlys: Fiery Cross, Mischief, and Subi Reefs.²

By that time, the PLAN and CCG were also regularly operating from the harbors at those three to maintain a persistent presence across the nine-dash line. The CCG has been the most visible arm of China's grey zone campaign against its neighbors. These vessels protect illegal Chinese fishing fleets and survey vessels, harass the lawful activity of China's neighbors within their EEZs, and keep up an almost daily presence at strategically or symbolically important reefs across the sea which China does not physically occupy.

The CCG patrols focus on five key locations: Luconia Shoals, Vanguard Bank, Scarborough Shoal, Second Thomas Shoal, and Thitu Island. The first two are key to China's efforts to block Southeast Asian oil and gas activity. Chinese law enforcement vessels have lingered at Luconia Shoals since late 2013 and from there patrol across Malaysia's oil and gas operations off Sabah and Sarawak states. The CCG has regularly patrolled from Vanguard Bank since 2020, using it as the base of operations to harass Vietnamese drilling in the area as well as Indonesian oil and gas exploration to the south. The other three patrol locations – Scarborough, Second Thomas, and Thitu – are all focused on harassing Philippine operations. The CCG has blocked Philippine access to Scarborough since seizing it in 2012, harassed and sometimes blockaded the Filipino

² Asia Maritime Transparency Initiative, "An Accounting of China's Deployments to the Spratly Islands," Center for Strategic and International Studies, May 9, 2018, <https://amti.csis.org/accounting-chinas-deployments-spratly-islands/>.

troops stationed at Second Thomas since 2014, and maintained a constant presence around Thitu since at least 2018. The Asia Maritime Transparency Initiative (AMTI) has tracked these patrols since 2019 and documented that the number of ship days the CCG spends at each location has increased steadily year over year. In 2024, CCG vessels patrolled at least 359 days at Luconia Shoal, 354 at Vanguard Bank, 313 at Scarborough Shoal, 263 at Second Thomas Shoal, and 241 at Thitu Island. The CCG also took up a new patrol at Sabina Shoal in response to a standoff with the Philippines in fall 2024, but it is unclear if that will become a permanent feature of its presence in the South China Sea.³

The other major player in China's grey zone strategy is its militia. U.S. government sources often call this fleet the "People's Armed Forces Maritime Militia," but that term is not used by the Chinese government or experts. It can be a useful shorthand, but it also conflates two different fleets which have distinct missions. China refers to these as "Maritime Militia Fishing Vessels" (海上民兵渔船, *haishang minbing yuchuan*) and "Spratly Backbone Fishing Vessels" (南沙骨干渔船, *nansha guban yuchuan*). CSIS alongside the Center for Advanced Defense Studies and colleagues from the China Ocean Institute profiled these fleets, including their ownership, funding, home ports, and in many cases ownership, in a 2021 report funded by the State Department.⁴

The professional Maritime Militia Fishing Vessels operating in the South China Sea are purpose built, usually state-owned, and fully funded by the local, provincial, and central governments. They serve as a de facto third sea force for the Chinese military, directly harassing foreign government vessels and operating hand in glove with the CCG and PLAN, as seen in recent violence directed toward the Philippines at Second Thomas, Scarborough, and Sabina shoals. They all appear to operate from Hainan province and have analogs in other provinces to cover operations in the East China Sea and Yellow Sea, though neither of those fleets seem to be as large or active as the South China Sea fleet. Over half of Hainan-based militia identified by AMTI are registered to Sansha City on Woody Island in the Paracels and are operated by the state-owned Sansha Fisheries Development Co. Ltd. Sansha city has been the center of the militia's modernization and professionalization since 2013.⁵ As of 2024, AMTI has been able to identify 152 professional militia vessels by name which, while incomplete, likely encompasses most of the fleet.⁶

³ Asia Maritime Transparency Initiative, "China Coast Guard Patrols in 2024: An Exercise in Futility?", Center for Strategic and International Studies, February 6, 2025, <https://amti.csis.org/china-coast-guard-patrols-in-2024-an-exercise-in-futility/>.

⁴ Gregory B. Poling, Tabitha Grace Mallory, Harrison Prétat, and C4ADS, *Pulling Back the Curtain on China's Maritime Militia*, Center for Strategic and International Studies and C4ADS, November 2021, https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/211118_Poling_Maritime_Militia.pdf?VersionId=Y5iaJ4NT8eITSLAKTr.TWxtDHuLIq7wR.

⁵ Zachary Haver, "Unmasking China's Maritime Militia," Radio Free Asia, May 18, 2021, <https://www.rfa.org/english/news/china/maritime-militia-05182021094638.html>.

⁶ Asia Maritime Transparency Initiative, "Behind the Curtain: An Update on Hainan's Maritime Militia," Center for Strategic and International Studies, December 12, 2024, <https://amti.csis.org/behind-the-curtain-an-update-on-hainans-maritime-militia/>.

The Spratly Backbone Fishing Vessels, by comparison, are civilians which are ordered by authorities to avoid direct confrontation with foreign government vessels. Instead their job is simply to linger in the Spratlys to create the illusion that China has a commercial fishing fleet which traditionally operated in the area. This fleet is numerically larger than the professional force and of more recent vintage, having emerged from a new subsidy regime put in place after Xi's ascension in 2013. These vessels mainly operate from ports in Guangdong province and are privately rather than state-owned. Their owners are eligible to receive a special fuel subsidy for each day the vessel operates in the waters around the Spratly Islands if it does so at least 280 days of the year. The vessels must also meet certain specifications, including being at least 200 tons and 35 meters in length. Most are over 55 meters, at which size the subsidy as of 2020 was CNY 24,175 (\$3,340 at today's exchange rate) per day. This rate well exceeds operational costs, allowing owners to easily profit by hiring a skeleton crew to pilot the vessel to the Spratlys and then ride at anchor, usually tied alongside ships from the same port, for most of the year.⁷

Like the CCG and professional militia, AMTI has tracked this fleet in annual reports since 2022. In 2024, satellite imagery revealed an average of 232 vessels per day spread across 11 reefs at which they most often gather, a modest 15 percent increase from 2023. Most of these ships deploy to the Spratlys at the end of the Lunar New Year and stay in the area until the end of the calendar year. But whereas in recent years the fleet mainly anchored at unoccupied features like Whitsun Reef and Iroquois Reef to keep up the façade that they were commercially fishing, in 2024 they spent much more time within the harbors at China's artificial islands. This suggests that authorities are no longer pressuring them to maintain the illusion of fishing, since the fact that they do not operate commercially has become common knowledge across the region. The special subsidy regime and therefore the Spratly Backbone Fishing fleet seems to go on due to bureaucratic inertia and not because it is measurably advancing China's goals.⁸

Southeast Asian Resolve

Despite their growing numbers, the tactics employed by the CCG and militia have become less effective since late 2021. Across multiple fronts, Southeast Asian claimants have been able to succeed in resource exploitation, military upgrades, patrols, and resupply missions despite concerted pressure from China. Throughout this period, CCG and militia tactics have grown more violent, including intentional collisions, more frequent use of high-pressure water cannons, dangerous air-to-air intercepts, and use of dazzlers and acoustic devices. This suggests a force whose orders are to assert China's prerogatives but not at the cost of military escalation. Southeast Asian claimants have realized this and proven willing to accept considerable risk in order to maintain access to the waters and reefs still left to them. And so Chinese forces appear stuck iterating on unsuccessful gray zone tactics to which Southeast Asian claimants have grown increasingly resilient.⁹

⁷ Poling et al, *Pulling Back the Curtain*.

⁸ Asia Maritime Transparency Initiative, "Dropping the Act: China's Militia in 2024," Center for Strategic and International Studies, February 27, 2025, <https://amti.csis.org/dropping-the-act-chinas-militia-in-2024/>.

⁹ Gregory Poling, "China Loses Strategic Waters in the South China Sea," East Asia Forum, March 15, 2024, <https://eastasiaforum.org/2024/03/15/china-loses-strategic-waters-in-the-south-china-sea/>; Gregory Poling and Monica Michiko Sato, "Beijing Treads Water in the South China Sea," East Asia Forum, March 12, 2025, <https://eastasiaforum.org/2025/03/12/beijing-treads-water-in-the-south-china-sea/>.

The Philippines under the administration of President Ferdinand “Bongbong” Marcos, Jr., has reestablished a patrol around Scarborough for the first time since 2012 and enhanced its posture in the Spratlys, especially around Thitu Island. Most impressively, the Philippines was able to sustain monthly resupply missions to the BRP *Sierra Madre* in 2023 and early 2024 despite a violent Chinese blockade effort. Manila eventually repaired the ship and was able to negotiate a return to the status quo without triggering military escalation. In the meantime, Manila used the increasing Chinese pressure to rally domestic support behind a once-in-a-generation modernization of the U.S. alliance in order to enhance deterrence (which proved critical at Second Thomas). It has also embedded itself more firmly in an emerging regional security architecture, strengthening its partnership with Australia under the Status of Visiting Forces Agreement, concluding a Reciprocal Access Agreement with Japan in July 2024, and nearing conclusion of similar pacts with Canada, New Zealand, France, Germany, and the United Kingdom. Just as importantly, Manila has refocused international attention on the illegal nature of China’s claims, more than tripling to 28 the number of countries that have publicly called on Beijing to comply with the 2016 South China Sea arbitral award since Marcos came into office.¹⁰

Elsewhere, China has failed to stop Malaysian, Indonesian, or Vietnamese oil and gas surveys or drilling operations since the fall of 2021. In addition to the daily presence at Luconia Shoals, a leaked diplomatic note in September 2024 revealed China had pressured Malaysia to halt oil and gas exploration in the area. Instead, Malaysia drilled 15 new exploratory wells off Sarawak in 2024 after having broken a record by drilling 25 in 2023.¹¹ China also challenged a seismic survey in Indonesia’s Natuna D-Alpha gas field in October 2024. Indonesia broke with its usual policy by publicly releasing photos and footage of China’s harassment. Then it completed the survey operations as planned.¹²

Meanwhile Vietnam has spent the last three years expanding its own military outposts in the Spratlys. That effort accelerated in 2024 and by the middle of the year, Vietnam had created more than two-thirds as much land as China. It continues to dredge at a blistering pace and will likely match China’s acreage in 2025. The most impressive work has been on Barque Canada Reef, now the fourth-largest outpost in the Spratly Islands and home to Vietnam’s second and longest runway in the islands. At least one other feature, Pearson Reef, seems likely to get a new runway.¹³ Despite this, China has made no effort to physically stop Vietnam’s island building

¹⁰ Asia Maritime Transparency Initiative, “Arbitration Support Tracker,” Center for Strategic and International Studies, updated January 10, 2025, <https://amti.csis.org/arbitration-support-tracker/>.

¹¹ World Oil, “PETRONAS Discovered over 1Bboe in 2023 with ‘Significant’ Malaysian Oil, Gas Exploration Campaign,” December 1, 2023, <https://worldoil.com/news/2023/12/1/petronas-discovered-over-1-bboe-in-2023-with-significant-malaysian-oil-gas-exploration-campaign/>.

¹² Asia Maritime Transparency Initiative, “Seismic Strife: China and Indonesia Clash over Natuna Survey,” Center for Strategic and International Studies, <https://amti.csis.org/seismic-strife-china-and-indonesia-clash-over-natuna-survey/>.

¹³ Asia Maritime Transparency Initiative, “How Many Runways Is Vietnam Building in the Spratly Islands?,” Center for Strategic and International Studies, October 30, 2024, <https://amti.csis.org/how-many-runways-is-vietnam-building-in-the-spratly-islands/>; Asia Maritime Transparency Initiative, “Hanoi in High Gear: Vietnam’s Spratly Expansion Accelerates,” Center for Strategic and International Studies, June 7, 2024, <https://amti.csis.org/hanoi-in-high-gear-vietnams-spratly-expansion-accelerates/>.

campaign and has only once criticized it publicly, in a rather boilerplate statement on February 19, 2025, by Foreign Ministry spokesperson Guo Jiakun.¹⁴

The reasons for China's muted response to Vietnam's island building compared to its violent reaction to much less ambitious activities by the Philippines are debated, but four factors are likely at play. First, Beijing deployed a significant number of CCG and militia vessels and took on a great deal of international criticism during the 2023-2024 operation against Philippine resupply at Second Thomas Shoal. It may not have wanted to pick another fight at the same time. Second, the situation at Second Thomas was framed by Chinese officials as a proxy contest with the United States as the Philippines' patron. That made the stakes higher and retreat or acquiescence much more politically difficult than in the case of Vietnam, which is not and never will be a U.S. ally. Third, the Party-to-Party channel between China and Vietnam provides a means of deescalating issues behind closed doors that is not available to other parties. And fourth, Vietnam has a history of accepting risk and even casualties in the South China Sea when it deems something a strategic necessity. Beijing likely realizes that grey zone coercion will not stop Vietnam's island building campaign, which means there is not point in trying unless China is prepared to use military force.¹⁵

China's control over waters, seabed, and airspace has plateaued and in some cases may have retreated over the last three years. But the South China Sea is not getting any safer. Quite the opposite. As Southeast Asian states stand firm at a handful of symbolically or economically important locations, China has steadily increased the number of vessels it deploys in reaction and the tactics they employ. This creates a steady drumbeat of interactions that have a low but non-zero chance of military escalation due to an accidental fatality. That nearly occurred in June 2024 when Chinese forces severed a Filipino sailor's thumb by pinning it between their boat and his. Had he been pinned by the elbow, the Philippines might have triggered the U.S.-Philippines Mutual Defense Treaty over a fatality. If this tempo of operations continues, it is a mathematical certainty that a Southeast Asian mariner—most likely a Filipino—will be killed with unpredictable escalation risks.¹⁶

Recommendations

I would make three recommendations for the U.S. Congress to support partners and push back on China's grey zone coercion in the South China Sea.

First, it is vital that the United States continue to appropriate sufficient funds to support the longterm modernization of the Armed Forces of the Philippines. Annual Foreign Military Financing from the United States to the Philippines roughly doubled in 2022, to \$100 million, and then quintupled to \$500 million in 2024. The administration issued a waiver to the freeze on

¹⁴ "China Denounces Vietnam's Island Building in South China Sea," Radio Free Asia, February 19, 2025, <https://www.rfa.org/english/china/2025/02/19/vietnam-spratlys-south-china-sea-protest/>.

¹⁵ Zack Cooper and Gregory Poling, "The South China Sea Dog that Hasn't Barked... Yet," War on the Rocks, June 18, 2024, <https://warontherocks.com/2024/06/the-south-china-sea-dog-that-hasnt-barked-yet/>.

¹⁶ Asia Maritime Transparency Initiative, "Shifting Tactics at Second Thomas Shoal," Center for Strategic and International Studies, August 22, 2024, <https://amti.csis.org/shifting-tactics-at-second-thomas-shoal/>.

foreign assistance in February 2025 allowing the Philippines to access the remaining \$336 million of those FY24 funds, which has been well received. It is unrealistic to expect the Philippines to be able to absorb \$500 million in FMF each year, but an adequate annual appropriation should be maintained to sustain the ambitious modernization plans agreed in the U.S.-Philippines 10-year Security Sector Assistance Roadmap.

Second, the Congress should again take up ratification the United Nations Convention on the Law of the Sea. There has not been a serious discussion of ratification since 2012 and the United States' exclusion from the treaty and the regulatory bodies it created such as the Commission on the Limits of the Continental Shelf and the International Seabed Authority only cedes ground to China and undermines U.S. legal arguments. This applies not only in the South China Sea but globally, including in the realm of deep seabed mining where the United States cannot minimize Chinese inroads due to its exclusion from the International Seabed Authority.

Third, it would be helpful for the Congress to include in the National Defense Authorization Act a requirement for a report on the frequency of unsafe air-to-air intercepts by the PLA of both U.S. and partner aircraft over the South China Sea, East China Sea, and Taiwan Strait. The Pentagon released some of these details in 2023 after warning that numbers had spiked over the previous two years.¹⁷ The PLA has reportedly decreased the frequency of unsafe intercepts of U.S. aircraft since early 2024 but continues to threaten the safety of Australian, Philippine, and other allied and partner aircraft. Better documentation of this behavior would help rally international pressure against what is likely the most dangerous but least reported aspect of China's grey zone activity.

¹⁷ Mallory Shelbourne, "Pentagon Officials Provide Data on Unsafe Chinese Fighter Intercepts over Western Pacific," USNI News, October 17, 2023, <https://news.usni.org/2023/10/17/pentagon-officials-provide-data-on-unsafe-chinese-fighter-intercepts-over-western-pacific>.

OPENING STATEMENT OF JASON TOWER, COUNTRY DIRECTOR FOR BURMA, UNITED STATES INSTITUTE OF PEACE

VICE CHAIR SCHRIVER: Mr. Tower, thank you for joining us. Thank you for the great work of USIP that you are representing, and we look forward to your statement.

MR. TOWER: Thank you, Chair Price and Vice Chair Schriver. Thanks for the invitation to be here for the hearing, to testify at this hearing today.

For members of the Commission that do not know the institute, USIP is an independent, nonpartisan institute that was founded by the U.S. Congress in 1984, and works globally on the prevention and mitigation of violent conflicts. I am speaking today on USIP's ongoing research on China-linked transnational criminal organizations and their malign activities in Southeast Asia, as well as implications for both global and U.S. national security.

Before I move forward I did want to stress that the remarks I will be making today represent my own views and not those of the Institute.

Since early 2022, China-linked transnational criminal organizations have begun targeting a global population with a scourge of sophisticated online scamming based out of industrial-scale scam compounds, also known as "fraud factories," primarily in the countries of Cambodia, Laos, and Myanmar. These scams, which are known as pig-butcher scams in Chinese -- the term being sha zhu pan (杀猪盘) in Chinese -- involve criminals using common social media applications to target victims online.

The scams generally involve first an extended grooming process, where often through, for example, a romantic relationship that is established with the targets, the perpetrator builds trust and then gradually, over time, introduces the scam, which often takes the form of a fraudulent investment opportunity, sometimes a bogus cryptocurrency trading application. The perpetrator then coerces the victim into putting most of their worldly possessions into these platforms before then disappearing, ghosting the victim, leaving that individual both financially, but also psychologically, devastated.

In May of 2024, a USIP expert group estimated that these PRC-linked criminal groups, based out of Southeast Asia, steal nearly \$64 billion per year globally. And in 2024, losses to Americans rose year-on-year by 42 percent, to an estimated \$5 billion per year. Equally concerning is that those perpetrating the scams are themselves also often victims, as since 2021, the China-linked transnational criminal syndicates have tricked or trafficked tens of thousands of people, according to our research, from more than 70 countries at this point, these including Americans, into these highly securitized scam compounds in Southeast Asia, where they are forced to scam and subjected to torture if they refuse.

So how did we get to this point where Chinese criminal organizations are actually able to control territory in Southeast Asia, able to operate these large-scale scam centers on this level, and for the first time able to traffic people from around the world into countries that have never traditionally been destination countries for human trafficking?

Well, the Chinese transnational organized crime groups were largely centered around the illicit online gambling markets before 2017, and between the early 2000s and 2017, they consolidated an unprecedented web of illicit influence across Southeast Asia, extending back into China. They did this by coopting elites across the region, but especially in weak and fragile countries with poor governance and high levels of corruption, such as Myanmar, Cambodia, and Laos.

In these countries they built vast, unregulated casino cities, investing also in cutting-edge

technologies to launder funds and to support the online casino operations. They also built elaborate networks that could move money underground, between China and Southeast Asia, and increasingly these networks are consolidating around the world lot become some of the most sophisticated money laundering mechanisms that are currently operating anywhere.

By the mid-2010s, it was estimated that there were over 500,000 Chinese nationals working for these offshore gambling syndicates across the region, and they brought in between \$25 to \$60 billion per year in illicit funds.

As China introduced its Belt and Road Initiative in 2013, you saw where these offshore gambling syndicates immediately took up the mantra of the BRI, plunging more funding into BRI projects but also using their web of illicit connections across the region to assist implementers of the Belt and Road Initiative, also giving many lucrative contracts to state-owned enterprises who, in many cases in countries like Myanmar and Cambodia, built the very infrastructure in which the scams are now taking place.

By 2019, you started to see where the transnational criminal groups behind the online gambling increasingly pivoted to online scamming, using a lot of the same methodologies that were developed to get people addicted to online gambling, to begin targeting Chinese with scams.

COVID-19 then presented a major shock to these China-linked transnational criminal organizations, when China called its nationals back from Southeast Asia and launched a significant crackdown. This led the crime groups to adapt in two ways: first, the introduction of kidnapping, trafficking, and deception, which brought people from across the world into the scam compounds; and then secondly, the rapid globalization of the operations, which led to them beginning to target people around the world.

As this “scamdemic” continued to go global, China pivoted to leverage the crisis to deepen its security influence, both at home and abroad. And China had introduced the highly invasive anti-scam app and many other surveillance mechanisms, which they claimed were being used to keep Chinese safe from scamming, but actually they consolidated Chinese security control domestically.

Externally, China framed its response to fighting crime around its Global Security Initiative, exporting its authoritarian model of policing overseas and pressuring neighboring countries either to give it police access to crack down or to make significant economic, political, or security concessions to look the other way. A selective crackdown by China also resulted in a rapid expansion of criminals targeting the U.S. and other countries.

Let me then turn finally to some recommendations for what the U.S. could do to address this problem. From our report we found that the U.S. really should adopt a whole-of-government, whole-of-society approach to address these issues. This could begin by focusing on steps that could be taken to keep Americans safe from this form of scamming, including nationwide awareness-raising, training of law enforcement, and mobilizing the U.S. private sector to prevent criminal actors from exploiting U.S. social media platforms, dating apps, or fintech to target Americans.

Second, the U.S. could establish an interagency task force to coordinate efforts to address these problems. These initiatives could take the lead in holding China to account for this crisis, including demanding that China share with the United States intelligence, including intelligence gathered from millions of seized devices that include information about American victims. In this regard, the U.S. could consider this issue alongside fentanyl as a second case where China looks the other way, or even benefits as China-linked crime groups harm the American public.

Finally, the U.S. can hold other countries that are actively protecting these crime groups, such as Cambodia or Myanmar, accountable by the use of sanctions and other tools that can enhance accountability and increase the costs of those actors that are engaged in these forms of crimes.

I would be happy to go into more detail in the Q&A. Thank you.

VICE CHAIR SCHRIEVER: Thank you very much. Ms. Paskal?

**PREPARED STATEMENT OF JASON TOWER, COUNTRY DIRECTOR FOR
BURMA, UNITED STATES INSTITUTE OF PEACE**



UNITED STATES INSTITUTE OF PEACE

Crossroads of Competition: China in Southeast Asia and the
Pacific Islands

Testimony before the USCC

China-Linked Transnational Organized Crime in Southeast Asia:
A Rising Threat to U.S. National Security

Jason G Tower

Myanmar Country Director and Team Lead, Program on
Transnational Crime and Security in Southeast Asia

United States Institute of Peace

March 20, 2025

Introduction

Commissioner Price and Commissioner Schriver, distinguished members of the U.S.-China Economic and Security Review Commission, thank you for the invitation to speak about China-linked Transnational Organized Crime in Southeast Asia and the growing threat that it presents to America's national security. In my remarks today, I draw heavily on the findings of USIP's Senior Study Group Final Report published in May of 2024 titled Transnational Crime in Southeast Asia: A Growing Threat to Global Peace and Security¹, as well as over 7 years of work, and more than 20 USIP reports on China-linked Transnational Organized Crime (TOC) groups in Southeast Asia.²

Since early 2022, these criminal groups have begun targeting a global population with a scourge of sophisticated online scamming based out of industrial scale scam compounds or "fraud factories" located in Cambodia, Laos and Myanmar. As of the end of 2023, a USIP expert group estimated that these criminal groups stole nearly 64 billion US dollars per year, including over 3.5 billion U.S. dollars from Americans. In 2024, losses to Americans continued to rise, with estimates of 5 billion U.S. dollars³ – an increase of 42%. Equally concerning, the criminal syndicates have tricked or trafficked people from 70 countries, including Americans into scam compounds, where they are forced to scam and subjected to torture.⁴

Also of direct concern to U.S. national security is the role of China in this crisis. Since the mid-2000s, Chinese government actors played a direct role in enabling the rise of these criminal groups by legitimizing them, accepting lucrative contracts from them to build out the infrastructure now housing the criminal activity, and piggybacking on them to build Chinese security influence across the region. Since 2019, China has advanced an unprecedented crackdown, but in ways that incentive the crime groups to increasingly target Americans and the nationals of other countries. Meanwhile, China continues to fail to hold its own officials accountable for their involvement in enabling this crisis, while it refuses to share critical intelligence on the perpetrators that might be used by U.S. and other international law enforcement to crackdown. The harm that China is doing to the United States with these online scams now parallels that related to fentanyl.⁵

¹ Transnational Crime in Southeast Asia: A Growing Threat to Peace and Security, United States Institute of Peace, May 2024, [ssg_transnational-crime-southeast-asia.pdf](#).

² These reports are available at [Transnational Organized Crime in Southeast Asia | United States Institute of Peace](#)

³ The FBI has estimated losses to the scams in 2024 at over 5 billions U.S. dollars. [FBI says 'pig butchering' cryptocurrency scams hit victims in all 50 states](#). Given also that case of fraud are generally underreported by a factor of 10 or more, this means that these are very conservative estimates.

⁴ USIP documented 68 countries at the time of publication of its SSG Report in May of 2024. It has subsequently identified two additional victim countries, bringing the total to 70.

⁵ See for example, Sean O'Conner, Fentanyl, China's Deadly Export to the United States, USCC, 2017, [USCC Staff Report Fentanyl-China's Deadly Export to the United States020117.pdf](#); and more recent reporting from the Brookings Institute: [The fentanyl pipeline and China's role in the US opioid crisis](#).

Before going deeper into these issues, please allow me to introduce myself.⁶ Since late 2019, I have served as Myanmar Country Director in the Asia Center at the United States Institute of Peace, and since 2022, I have also directed a USIP program on Transnational Crime and Security in Southeast Asia. I have over 20 years of experience working on peace, security, and transnational crime in Southeast Asia, and since 2019 have focused much of my research and analysis on the growing rise and influence of China-linked crime groups in the region.

For the past 40 years, USIP has worked to prevent armed conflict, support peace, and support U.S. national security interests around the world. As part of its work in Asia, USIP has worked to support peace and address security threats stemming from Myanmar, including through efforts to counter the growing influence of criminal groups which have become a key driver of the country's internal conflict; and by working to hold the military regime accountable for its direct involvement in protecting, supporting and even operating criminal enterprises as a means of generating financing for its ongoing war against the Myanmar people since the February 2021 military coup. USIP has also supported initiatives across the region and in the United States to raise awareness of the growing threats that transnational crime presents to peace, security, democracy and governance, and supported efforts of law enforcement and decision makers to map the criminal actors, identify perpetrators and to strengthen local, regional and international responses.⁷

Background: Chinese criminals take to the Belt and Road and how China Enabled a Global Crisis

Despite being illegal in China, the market for gambling is enormous, with online gambling alone constituting annually a US\$25 – 60-billion-dollar illicit market.⁸ Throughout the first decade of the 2000s, as online gambling technologies became more readily available, they spread almost completely unchecked across China. In 2006, Chinese authorities launched a major crackdown,⁹ displacing large numbers of operators overseas into especially Myanmar, the Philippines and Laos, where they leveraged the presence of poorly regulated physical casinos to begin building a massive network of offshore online gambling facilities that would permit them to continue tapping the vast Chinese market. While the Chinese government continued some measure of efforts to crackdown, by the mid-2010s, it was estimated that over 500,000 Chinese nationals

⁶ The views expressed in this testimony are those of the author and not the U.S. Institute of Peace.

⁷ [Transnational Organized Crime in Southeast Asia | United States Institute of Peace](#)

⁸ More conservative estimates placed the size of this market in 2018 at 25 billion U.S. dollars; see: World Gaming Information, "Foreign Media: China's Annual Illegal Gambling is 25 billion uS Dollars; The Government Is Cracking Down" [in Chinese], September 20, 2018, www.wgi8.com/news/news_27049.html

⁹ See: [China Criminal Law Analysis of the Crime of Establishing Online Casinos](#) (in Chinese)

were working for the offshore gambling syndicates. They had become especially embedded in Northern Myanmar, where both local militia groups with close ties to China, as well as the Myanmar military provided protection for their activities, as well as in Laos and Philippines, where they had built deep ties with local authorities.

As China introduced its Belt and Road Initiative (BRI) in 2013, the offshore gambling syndicates almost immediately took up the mantra of the BRI as a means of legitimizing their activities and gaining support from powerful Chinese government actors that might shield them from Chinese law enforcement.¹⁰ Key individuals from across these illicit capital networks began investing billions of dollars in an infrastructure development spree across the region, slapping the label of BRI on casino and “smart city” projects, offering lucrative construction contracts to Chinese State-Owned Enterprises desperate to increase their overseas market share. To cite one example, in the case of Myanmar, an illicit capital network hired a government think tank under China’s premier state planning body to design a high-level plan for a new “smart city” as part of China’s Belt and Road Initiative. They then plunged millions of dollars into buying influence and official titles in Chinese Chambers of Commerce across the region, eventually managing to convince the Federation of Overseas Chinese Entrepreneurs and the Chinese Embassy in Myanmar to host a signing ceremony of a multi-billion dollars project designed explicitly to host thousands of online gambling syndicates.¹¹ One of China’s largest state-owned companies, the Metallurgical Corporation of China received a 350-million-dollar contract to construct the first phase of the infrastructure. Similar developments took place across Southeast Asia from 2016 – 2020, with the leaders of Chinese online gambling syndicates building unprecedented influence in a wide range of Chinese agencies and organizations involved in implementing the Belt and Road Initiative.¹²

The China-linked crime groups also found ready partners in Chinese agencies tasked with overseas influence operations. This included national and provincial foreign affairs offices (FAOs) and agencies linked to the Communist Party’s United Front. The illicit capital networks proved to be ready partners in assisting these agencies towards meeting their objectives of influencing overseas Chinese to support China’s narratives and interests overseas. The case of Wan Kuok-kui, aka Broken Tooth, one of Asia’s most notorious criminal figures, illustrates this point. Having spent nearly a decade in prison for a wide range of crimes, Broken Tooth became deeply involved in online gambling and money laundering in Southeast Asia following his release from prison in 2010. He rebuilt his criminal organization under a front known as the Hongmen World Cultural and

¹⁰ Jason Tower and Priscilla Clapp, Myanmar’s Casino Cities: The Role of China and Transnational Criminal Networks, USIP, July 2020, [20200727-sr 471-myanmars casino cities the role of china and transnational criminal networks-sr.pdf](#)

¹¹ Ibid.

¹² In Cambodia, the Dara Sakor project represents a similar example: [Reflecting On China-Cambodia’s Dara Sakor Project, 15 Years In – The China-Global South Project](#); while in Laos the Golden Triangle Special Economic Zone is a commonly cited case.

Historical Association, which claims to promote the Chinese “Freemason culture.” This organization publicly claims to be deeply patriotic and mobilizes its members to parrot the propaganda of the Chinese Communist Party, attacking the United States, and threatening the human rights of Chinese dissident actors.¹³ Famously, Wan Kuok-koi’s public motto was “I used to fight for the triads, and I now fight for the Community Party.”¹⁴

From Casino Cities to Industrial Scale Scam Cities: The Rise of the Scamdemic

By 2019, the China-linked transnational criminal groups behind the online gambling syndicates had emerged as one of the region’s most powerful crime networks. This was despite occasional crackdowns by Chinese authorities, which rather than eradicating the syndicates from any particular country, instead resulted in their expansion into a broader range of geographies. Crackdowns in the Philippines from 2014-2016 resulted in the syndicates pouring into Cambodia, where by 2019 they had become the dominant players in Sihanoukville, which emerged as one of the region’s largest unregulated gambling hubs.¹⁵ A sudden crackdown in Cambodia triggered a massive movement into the Myanmar-Thailand border, where the Myanmar military’s border guard force (BGF) was quick to provide territory and security to the crime groups to build out another network of “casino cities,” even though this was illegal under Myanmar’s national laws.¹⁶ Meanwhile, in response to crackdowns on money laundering back in China, the criminal networks also began to invest heavily in crypto-currencies, underground banking networks, and sophisticated financial technologies as a means of circumventing the moves of Chinese police to follow their money trails.¹⁷ This, combined with a growing number of wealthy Chinese looking to evade China’s increasingly draconian capital controls resulted in the China-linked transnational crime groups also emerging as some of the most influential regional players in facilitating illicit capital flows.

By 2019, China-linked crime groups controlled vast territories across borders in Myanmar, Laos and Cambodia, and had managed to lobby the government of the Philippines to provide a formal legal framework to support their activities. They had invested tens of billions of dollars to construct entire online gambling cities, with the capacity to house well over 1 million people.

¹³ See case study in USIP 2024, p.45.

¹⁴ [How Chinese mafia are running a scam factory in Myanmar – DW – 01/30/2024](#)

¹⁵ Ivan Franceschini and Roun Ry, Sihanoukville: Rise and Fall of a Frontier City, Global China Pulse, 2024, [Sihanoukville: Rise and Fall of a Frontier City](#)

¹⁶ Ibid, USIP 2020.

¹⁷ See, Jason Tower and Priscilla Clapp, Myanmar: Casino Cities Run on Blockchain Threaten Nation’s Sovereignty, USIP, 2020, [Myanmar: Casino Cities Run on Blockchain Threaten Nation’s Sovereignty | United States Institute of Peace](#).

While so, competition and growing campaigns back in China targeting online gambling platforms resulted in a gradual pivot from online gambling to online scamming. By 2016, tens of thousands of online gambling platforms were struggling to expand their customer base in China, and the industry pivoted towards a more customized marketing strategy. Gambling syndicates would hire large numbers of “marketers” who were tasked with doing whatever they possibly could to compel people to open and fund online gambling accounts. This increasingly involved using some form of grooming process – building friendships or even romantic partnerships online to gain new customers. As this form of grooming process became the norm, some of the syndicates pivoted in 2017 towards what is now referred to as the “pig-butcherer scam.” Instead of using these unconventional marketing methods to entice gamblers, they instead marketed investment opportunities, introducing fraudulent crypto-currency platforms or securities trading platforms that would be used to get their targets to part with much greater sums of money.¹⁸ On the eve of COVID-19, this “scamdemic” was beginning to take a large toll in China.

COVID-19 presented a major shock to the China-linked TOC groups. First, China called its nationals back from Southeast Asia, the Chinese police launching an unprecedented campaign to require that all individuals that had been staying Myanmar, Laos, Cambodia or the Philippines return or face serious fines or even confiscation of assets back in China if they failed to do so. This move caused the gambling syndicates to suddenly lose access to their primary labor supply. Second, China banned crypto currency¹⁹ and ramped up its crackdown on both online gambling and scamming during the early phases of the pandemic, making it much more costly for the syndicates to scam Chinese.

This resulted in three very sinister adaptations: (1) the pivot further towards online scamming in place of or alongside online gambling; (2) the use of kidnapping, trafficking and deception to bring individuals into the compounds under control of the syndicates hosting the activity; (3) the rapid globalization of the operations of the China-linked scam syndicates.

From 2020-2021, the China-linked crime groups began a new building spree, this time though constructing facilities in Cambodia, Laos, Myanmar and the Philippines that looked less like luxurious casino cities and instead appeared more like penal colonies.²⁰ These facilities were in close proximity to the casino cities, which were also rapidly converted into similar sorts of compounds that were built to prevent people from getting out. In 2020, rumors emerged in cities across mainland Southeast Asia of Chinese being kidnapped or forced into compounds. By 2021,

¹⁸ For a quick overview of these pig-butcherer scams, see: [Jason Tower on the Dangerous Proliferation of Scam Compounds in Southeast Asia | United States Institute of Peace](#); or [The Pig Butcherer Invasion Has Begun | WIRED](#).

¹⁹ China banned crypto-currency in 2019, and launched major crackdowns on foreign crypto-exchange platforms operating in the country in 2021: [China declares all crypto-currency transactions illegal](#).

²⁰ See for example: [The Myanmar Army's Criminal Alliance | United States Institute of Peace](#)

this evolved further as reports emerged of desperate job seekers from Thailand, Cambodia, Laos, Myanmar and Malaysia being tricked into crossing borders illegally for what they thought were legitimate jobs, only later to discover that they had been trafficked into cyber-slavery and forced to scam. Conditions inside these compounds were horrifying – individuals were tortured if they failed to meet aggressive targets or if they refused to scam. They were also openly sold between compounds, treated by the Chinese scam syndicate bosses as commodities.²¹ By 2022, as air travel began to open once again, the scam syndicates continued to globalize, targeting people across the world with fake job opportunities, and setting up elaborate websites for fake companies to deceive people into the compounds.²² This resulted in Interpol releasing a warning in 2023 that “anyone in the world could fall victim to the human trafficking or the online scams carried out through these criminal hubs,”²³ and alarm bells in media and from law enforcement and immigration authorities across the world.²⁴ For the first time in history, Myanmar, Laos and Cambodia had emerged as destination countries for trafficking, and with cyber-enabled trafficking into scam compounds emerging as the newest threat.

Meanwhile, access to a global labor market meant that the China-linked crime groups could now target a global population with scams. Beginning in early 2022, they began targeting the United States, the U.K., Australia, and other developed economies, as well as wealthy countries in the region such as Singapore and Japan. By 2024, they targeted middle class individuals from across the world. In just 5 years, the China-linked TOC groups emerged as a global threat, now with the capacity to scam or traffic people from across the world, and to rapidly move and launder funds on a global scale.

Host States and Elite Capture

While a broad range of Chinese state and party actors were key to enabling the rapid rise of the China-linked crime networks behind the global pandemic of scams, money laundering, cyber-slavery and trafficking, corrupt elites across Southeast Asia and beyond also played a major role in fueling their rise. The three countries that represent the epicenter of this crisis – Myanmar, Laos and Cambodia – also represent the countries in the region with the weakest governance,

²¹ See, UN OHCHR, Online Scam Operations and Trafficking into Forced Criminality in Southeast Asia: Recommendations for a Human Rights Response, United Nations, 2023, [Online Scam Operations and Trafficking into Forced Criminality In Southeast Asia](#)

²² Al Jazeera released a documentary including interviews for rescued trafficking victims inside the compounds in July of 2022: [Forced to Scam: Cambodia’s Cyber Slaves | Human Trafficking | Al Jazeera](#)

²³ Interpol Issues Global Warning on human trafficking-fueled fraud, June, 2023: [INTERPOL issues global warning on human trafficking-fueled fraud](#)

²⁴ The FBI first issued a warning to Americans in May of 2023: [Internet Crime Complaint Center \(IC3\) | The FBI Warns of False Job Advertisements Linked to Labor Trafficking at Scam Compounds](#)

highest levels of corruption, greatest levels of instability, and those that are most politically aligned with China.

China-linked TOC groups became involved in illicit gambling and narcotics earliest in Myanmar, preying on the instability in Myanmar caused by the country's 7-decades long civil war. In the case of Myanmar, China-linked crime groups have been central for decades to the Myanmar military's efforts to weaken ethnic insurgent groups, to extend its control into territories long under the control of minority groups seeking autonomy – many of these also having deep connections in China, including with Chinese illicit capital networks. On the Myanmar – China border, the three areas where the scam syndicates developed to industrial scale proportions included areas controlled by two ethnic armed groups with longstanding ceasefire agreements with the Myanmar military – the United Wa State Army and the National Democratic Alliance Army (Mongla Army). Both of these groups have a long history of involvement in narcotics²⁵, and are former members of the Burmese Communist Party, which was a communist insurgency group that the Chinese government supported from the 1960s until its collapse in the late 1980s.

The third, which until late 2023 was the largest player in Myanmar's scam industry was the Myanmar military's Border Guard Force (BGF) in a border territory known as Kokang, or as Self-Administered Region #1. This Kokang BGF illustrates perfectly how the Myanmar military used criminal activity to consolidate its control.²⁶ In the mid-2000s, the military demanded that all EAOs drop their arms and fold over into BGFs as a prerequisite to participating in a national peace process. After the majority rejected these demands, the military used a combination of force and co-optation to splinter and ultimately defeat several key armed groups. On both the China and Thailand borders, the army cut a deal with corrupt elements of local armed groups, whereby which they accepted the deal, defected with troops and joined the military as BGFs in exchange for the right to engage in any form of illicit activity as they saw fit. In 2009, four key clans central to the leadership of an EAO known as the Myanmar National Democratic Alliance Army (Kokang) accepted this deal, defected, and received the rights to develop massive casino cities in Kokang, largely in partnership with Chinese crime groups. From 2009 until 2023, the scale of these operations grew to the point that by early 2023 there were over 50,000 foreign nationals under more than 200 scam syndicates spread across more than 30 industrial scale scam centers. All of these were directly owned and operated by the Myanmar military's own BGF, which at the same time had close ties with Chinese government officials in Yunnan Province as well as in other parts of China.²⁷ Scam facilities operated on a similar scale in the UWSA and NDAA territories, in these

²⁵ The UWSA has been the focus of a series of sanctions by the U.S. Treasury Department since at least 2000; see: [Treasury Action Targets Burmese Drug Cartel | U.S. Department of the Treasury](#)

²⁶ [Myanmar Regional Crime Webs Enjoy Post-Coup Resurgence: The Kokang Story | United States Institute of Peace](#)

²⁷ For years, the Fully Light Group, which was the front company for many of the Kokang based scam syndicates poured money into formal trade platforms with the Chinese government. This continued until August of 2023, only 2 months before a major crackdown began, see: [Chinese media report](#).

two cases, the scam centers being directly under the control of these armed groups. These facilities brought in billions of dollars in revenue annually, largely targeting Chinese nationals, with a significant amount of the proceeds going both to the military and to EAOs to purchase weapons. Similar developments took place later on the Thailand border, with the Myanmar army's BGF there once again partnering with China-linked TOC groups beginning from late 2016.

While the democratically elected National League for Democracy government attempted to crackdown on the criminal groups from 2016 – 2020, following the 2021 military coup, the development of scam compounds was thrown into overdrive, as the situation created by the coup morphed the country into a breeding ground for illicit activity. According to the Global Organized Crime Index, following the coup, Myanmar emerged as the country with the lowest resilience to crime in the world, and is now the number one illicit market for scamming and narcotics.²⁸

Whereas in Myanmar, the Myanmar military's willingness to build alliances with crime groups to consolidate power made conditions perfect for the rise of this criminal activity, in Laos, the country's weak governance made it a hub for criminal actors. In particular, the Laos government has long struggled to govern territory adjacent to the Mekong River in the Golden Triangle where Laos, Myanmar and Thailand connect. This area has been central to the global drug trade for decades, and Myanmar's war has frequently spilled over across this region. Beginning from the mid-2000s, Chinese crime groups in partnership with the NDAA and the UWSA pushed into Laos, where they aimed to consolidate the drug trade and build a new casino hub to launder proceeds from the drugs. The Lao government agreed to a scheme in 2007 which effectively brought control of the Golden Triangle under a Chinese criminal named Zhao Wei who had amassed a fortune operating casinos in Northern Myanmar since the late 1990s. The territory under his control was given status as a Special Economic Zone (SEZ) known as the Golden Triangle SEZ (GTSEZ), and he became the effective governing authority over the zone. Zhao Wei constructed one of the largest casinos in the region and poured funds into developing the area into a hub for online gambling and scamming. In this case, the Lao government played a direct role in enabling the illicit activity by granting a concession that effectively brought Laos territory under the control of an alliance of China-linked crime groups and Myanmar armed groups deeply involved in narcotics.²⁹

In the case of Cambodia, elites welcomed the arrival of powerful Chinese gambling syndicates starting from 2015. Nearly all of the known players in China's online gambling sector have well documented and public dealing with top elites, including the former Prime Minister's Nephew, Hun To and senator Ly Yong-Phat.³⁰ During the 2019 pandemic, the scam syndicates became the main investors in the economy, the scam business growing so rapidly that by 2023 it had emerged

²⁸ Myanmar's ranking on the Index is available here: [Criminality in Myanmar - The Organized Crime Index](#)

²⁹ See case study on the GTSEZ in USIP 2024, p. 37.

³⁰ See Jake Sims, Coercion and Criminality: Cambodia's Dual Threat to Regional and Global Security, January 15, 2025: [Coercion and Criminality: Cambodia's Dual Threat to Regional and Global Stability – The Diplomat](#)

as the largest sector in the Cambodia economy.³¹ This has resulted in the Cambodia government emerging as one of the most vocal international defenders of the online scam syndicates, actively denying that there is human trafficking, slavery and scamming operating on an industrial scale even though the scam syndicates have expanded across all of the country's borders and even into inland provinces.³²

In addition to these three mainland Southeast Asian countries, the Philippines represents the fourth country which hosts the scam syndicates at a significant scale. In this case, it was largely the interests of the Duterte Presidency that fueled their rise.³³ The Philippines provided initially the online gambling syndicates with a legal platform to operate offshore gambling facilities targeting China – something which became a major flashpoint in the China-Philippines relationship. While so, under Duterte, the country opted to make major political concessions to China as a means of reducing Chinese state pressure on the country related to the online gambling issue.

This trade off resulted in serious harm to the country's sovereignty, which ended up coming back to haunt Duterte in the 2022 election. The current President came into office with a direct focus on the issue of the illegal activity under the POGOs and the social instability that they had produced. Unlike Cambodia, Myanmar or Laos, the Philippines launched an unprecedented crackdown on the POGOs and the scam syndicates hiding behind them in 2023, making major progress in addressing the problems, but on the Philippines own terms.³⁴ While the problems persist, the Philippines has emerged as one of the countries in Southeast Asia with the highest levels of political will to address the problems.

The case of the Philippines also underscores another darker side of Chinese influence operations, unearthing strong evidence of direct ties between scam centers and Chinese influence operations, including even covert military operations. For example, the Philippines military documented a presence of scam centers adjacent to military facilities, and seized sophisticated listening equipment through raids on the centers.³⁵ Meanwhile, they also found evidence of state sponsored hackers having used space in or working with the scam syndicates. In another case, a

³¹ UNODC estimated the size of the scam economy in “one Southeast Asian state” at 7.5 to 12.5 billion U.S. dollars: [UNODC joins regional crime fighters to tackle scams and human trafficking in SE Asia | UN News](#); this tracks with USIP's 2024 estimate: [ssg_transnational-crime-southeast-asia.pdf](#)

³² See for example: [Cambodia Challenges UN on Scam Center Claims | Cambodianess](#).

³³ See: [Hontiveros says Rodrigo Duterte benefitted from illegal POGOs - Philippine Information Agency](#); as well as a wide range of in depth media reports highlighting the history of the rise of the POGOs, [\[Closer Look\] Drugs, POGOs, Quiboloy: Duterte's tyranny at the service of corruption](#)

³⁴ [Help eradicate POGOs, Marcos tells LGUs | Philippine News Agency](#)

³⁵ See: [China, Scam Centers, and National Security in the Philippines - Inkstick](#)

Chinese criminal kingpin has even publicly alleged that he and several other kingpins operating in the Philippines were Chinese spies.³⁶

Meanwhile, the China-linked crime groups behind the scamdemic have a web of influence that extends across every country in ASEAN.³⁷ This enables them to launder money, to develop, register and operate sophisticated fintech, to traffic individuals from across the region and to obtain “golden passports” or new identities by exploiting corruption or gaps in the capacity of states when it comes to determining the identity of their nationals. It is important to note that the China-linked crime groups have attempted to establish scam centers in other countries in the region, including Malaysia, Vietnam, and Thailand, but that authorities in these countries have cracked down relatively swiftly on any sizable scam operations in their territories. Until very recently though, countries like Thailand have demonstrated a lack of will to crackdown on cross-border operations, resulting in it becoming a significant transit hub for the criminal activity, as well as an operations center for many of the criminal kingpins involved.

How the Scams Work³⁸

Criminals engaged in pig-butcher scams are adept at using current digital technology—social media, artificial intelligence (AI), cryptocurrency, and blockchain—to lure potential victims, operate the financial side of the scams, and launder the proceeds of their crimes. They use cryptocurrency for several reasons. The most basic is that victims are usually unfamiliar with cryptocurrency and can be easily manipulated to follow the damaging suggestions of their new romantic or investment partner from the beginning of the scam. Most pig-butcher scams run roughly according to the following script: The perpetrator reaches out on social media or a dating platform to a victim flagged as belonging to one of several vulnerable groups—for example, a single individual between ages 40 and 60. The initial hook is what appears to be a misdirected message, such as “I are we still meeting in 5 minutes?” that comes from an account with an attractive profile picture. The potential victim responds that he is “not J,” and the perpetrator then attempts to begin a conversation and get to know the victim on a personal level. A period of courtship follows, during which the perpetrator forms a romantic relationship or friendship with the victim that sometimes lasts for months and involves video calls to deepen trust. On video or in photographs shared with the victim, the scammer may appear in luxurious surroundings that the scammer says are the product of their financial acumen. With trust established, the perpetrator introduces what they assure the victim is a moneymaking opportunity. Victims are

³⁶ 101 East, She Zhijiang: Discarded Chinese Spy or Criminal Mastermind, Al Jazeera, September 2024: [She Zhijiang: Discarded Chinese spy or criminal mastermind? | Crime | Al Jazeera](#).

³⁷ Ibid, USIP 2024.

³⁸ Note that this section draws heavily on pages 21-22 of USIP 2024.

encouraged to wire funds to an unregulated cryptocurrency exchange they may be familiar with, such as Coinbase or Gemini, and to convert their currency to Tether, a “stablecoin” that is tied to the US dollar and that is fast and inexpensive to move. The victim is then directed to download a bogus “investment platform” app provided by the perpetrator, open an account on it, and move their cryptocurrency from the exchange where it is under the victim’s control to the platform account controlled by the scammers. A sham dashboard on the platform will show the victim is booking impressive profits—encouraging continuing deposits—as their money is being moved out and laundered through a chain of “crypto wallets” (devices or platforms that store cryptocurrency) and off the blockchain completely. The relationship and subsequent deposits in the scheme continue until the perpetrator determines that the victim has been bled dry of assets. The scammer then “slaughters the pig” and disappears. All of this, accomplished by scam syndicates working in highly specialized teams, can leave the victim financially and emotionally devastated, even suicidal. In many cases in the United States, losses range from 100,000 to over 1 million dollars per victim, with several cases involving much higher losses. In one case in 2023, a victim from Kansas lost 47 million U.S. dollars, most of which he managed to embezzle from a bank, resulting in the failure of the bank and serious damage to people across a small town.³⁹

For investigators, the transparency of the blockchain is helpful—to a point. By looking at the blockchain, law enforcement can follow the transactions but cannot identify the owners of the wallets. Investigators are unable to determine the identity of the wallet owners until the cryptocurrency lands in an exchange where customer information is mandated. Many exchanges are deliberately housed in locations not subject to US law and are unwilling to cooperate voluntarily with criminal probes. Law enforcement internationally is plagued by insufficient understanding of how to use blockchain in investigating financial crime. The gap between scammers’ and investigators’ knowledge is wide and grows daily. While law enforcement struggles to catch up, the scammers stay dangerously ahead.

But there is still more to the story – often the person on social media perpetrating the scam is also a victim. Since 2021, the scam syndicates have used another form of fraud to deceive and traffic tens of thousands of people into modern slavery. While the modalities of trafficking continue to evolve, the majority were tricked using advertisements on common social media platforms for high paying jobs in key transit cities such as Bangkok, Dubai, or Kunming. The individuals pass through several rounds of online interviews, and once they are “hired,” have plane tickets purchased for them. On arrival in the transit city, they are told that they need to hand over their passport to process work visas before being trafficked, often across borders into the scam compounds.

³⁹ [Crypto scam wrecks Kansas bank, sends CEO to prison](#)

Over the past year, even more sinister forms of trafficking have been devised by the China-linked crime groups. This includes a much more customized approach involving reaching out to professionals with a very specific job or business opportunity, such as a chance to engage in business negotiations for a sizable contract, or to audition for a part in a movie.⁴⁰ In late December a group of Chinese movie professionals were trafficked using this modality, and it is likely that the syndicates will continue to use this and even more complex forms of tricking victims into the scam centers.

Moving the Money: Criminal Fintech and Underground Banking Networks

The China-linked crime groups behind the scams have also emerged as some of the most dominant players globally in laundering illicit capital around the world. In conjunction with the rapid development of online gambling syndicates throughout the 2000s, a web of underground banking facilities began to emerge across Southeast Asia, which enabled Chinese to move money offshore without having to make overseas transfers. These underground money facilities or “Dixia Qianzhuang” now operate globally, providing Chinese illicit capital networks with many options for moving illicit cash. Common platforms are based in countries like Myanmar and Cambodia, with some of the largest including Huione,⁴¹ Yatai Exchange and Fully Light Guarantee. Each of these maintains a network of exchanges across multiple cities and countries that enable scam syndicates to access cash where needed. The key service provided is moving massive amounts of stolen crypto currency across tens of thousands of wallets before pulling it out into the formal economy, often then laundering it through a web of upscale restaurants and often Chinese Hot Pot restaurants, casinos, nightclubs, bars and e-commerce platforms. A recent study by the University of Texas illustrates the scale of these money laundering operations. By following movements of stolen crypto-currency across the blockchain, researchers identified that over 75 billion US dollars was moved through a web of consolidation accounts using a full range of crypto-currency exchanges.⁴² Another media expose illustrates the direct involvement of Chinese business groups in laundering this money, linking a Chinese Chamber of Commerce in Thailand to the laundering of 90 million dollars stolen from American victims.

These money laundering rings have a thriving business including in China, where hundreds of millions of dollars are laundered back into the otherwise suffering Chinese economy. In the case

⁴⁰ A recent USIP report documents this: [China Exploits Thailand’s Crackdown on Scam Compounds to Grow Security Influence | United States Institute of Peace](#)

⁴¹ For a full expose on Huione, see: Elliptic, Huione: the company behind the largest ever illicit online marketplace has launched a stablecoin, 14 January 2025, [Huione: the company behind the largest ever illicit online marketplace has launched a stablecoin](#).

⁴² John Griffin and Kevin Mei, How do Crypto Flows Finance Slavery? The Economics of Pig Butchering, SSRN, March 2024, [How Do Crypto Flows Finance Slavery? The Economics of Pig Butchering by John M. Griffin, Kevin Mei :: SSRN](#)

of Cambodia, billions of dollars of stolen money go directly into real estate in the country and represent the main source of capital funding new real estate projects. Much of the proceeds from Myanmar move into countries across the rest of the region, including into Cambodia, but also Thailand. Singapore has also featured significantly in the operation of these money laundering syndicates,⁴³ as has Malaysia. Many of the syndicates also are looking to move assets into a much broader range of markets, including key financial centers around the world. Evidence of movement of such assets into the Isle of Man, for example have recently been exposed, as well as the presence of the scam syndicates there.⁴⁴

China's Crackdown and the Global Security Initiative: Rising Chinese Security Influence

Chinese court cases and state media reports highlight how China has scaled up its moves to crackdown on offshoring online gambling networks and scam syndicates especially from 2012. While so, until very recently, these moves failed to rein in any of the significant Chinese criminal kingpins involved – largely due to the protection they enjoy vis-à-vis a web of elites across Southeast Asia and extending back into China. The case of the notorious criminal kingpin behind one of the world's largest scam cities, the Shwepokko Yatai New City Project on the Myanmar – Thailand border illustrates this point. She Zhijiang AKA She Lunkai was targeted by Chinese police from 2012-2014 for hundreds of millions of dollars of financial crimes related to his operation of illegal offshore gambling operations from the Philippines. Chinese courts sentenced several individuals in his network to multiple years in prison, issuing a warrant for his arrest.⁴⁵ By 2019 though, She had scaled up his illicit operations in the Philippines, obtained a Cambodian passport, and established direct business relationships with representatives of China's People's Consultative Conference (CPPCC) to build a scam city in Myanmar. He did all of this and made numerous trips to China despite being wanted by Chinese police.⁴⁶

China's posture towards these scam syndicates began to shift however in mid-2019 when the Myanmar government decided to raise directly with Beijing concerns about the rampant criminal activity surging on its border with Thailand. At the time, Myanmar elected National League for Democracy government demanded that China explain why a "casino city project" – which was

⁴³ See CNA reporting on a multi-billion dollar money laundering case linked to these criminal networks from August 2023: [All the convicts in Singapore's S\\$3 billion money laundering case have been sentenced. What now? - CNA](#)

⁴⁴ See BBC Investigative report: [Chinese scammers used Isle of Man for 'pig-butcher' con](#); a recent UNODC report also highlights this trend: [TOC Convergence Report 2024.pdf](#)

⁴⁵ See: [Fugitive Behind \\$15 Billion Myanmar Business Hub Arrested in Thailand - Caixin Global](#); original court case heard by the Yantai City Court on December 22, 2014.

⁴⁶ Jason Tower and Priscilla Clapp, Myanmar's Criminal Zones: A Growing Threat to Global Security, November 2022, [Myanmar's Criminal Zones: A Growing Threat to Global Security | United States Institute of Peace](#).

not approved by the central government -- was advancing as part of China's BRI outside the formal mechanism between the countries that had been established to negotiate BRI projects. This, combined with strong media pressure prompted China to distance itself from the criminal activity, and the Chinese Embassy in Myanmar publicly pledged to assist in addressing the illegal activity in August 2020. This incident marked a significant shift with China suddenly turning to target some of the criminal groups that had previously openly partnered with Chinese state actors.⁴⁷

This coincided with rising public pressure in China, as tens of thousands of victims began to publicly protest the failures of the Chinese government to help them recover lost funds. With the collapse of the Chinese economy during COVID-19, China began to increase dramatically attention on these issues, this becoming one of the top issues of concern for Chinese police by 2022. China began to leverage a response to the offshore online scam syndicates to advance at least four objectives: (1) to deepen Chinese state control over the Chinese public. This was accomplished through the introduction of a wide range of new monitoring and surveillance technologies that were framed as measures to keep Chinese safe from scams, such as an anti-scam application.⁴⁸ This in reality provided the Chinese police with a wide range of new tools to monitor both online and offline activities of the public; (2) to promote the role of Chinese police overseas as part of a propaganda effort to demonstrate to the Chinese public and to overseas public audiences their ability to keep Chinese nationals safe; (3) to assert control over increasingly powerful overseas Chinese crime groups, some of which had started to openly counter the Chinese state and Communist Party narratives;⁴⁹ (4) to dominate the police intelligence space around these issues by repatriating back to China millions of devices that have been seized in raids on scam centers. China gained access to a massive database of information in late 2023, when a military operation on its border in Kokang resulted in a sudden flood of 50,000 plus individuals streaming across the border. China has not shared this information with other countries, even though the phones and computers certainly contain important intelligence on and private information of individuals from around the world targeted by scammers.

China began ramping up its efforts to "shock and awe" the Chinese public by televising the repatriations of Chinese criminals from overseas, and by regularly reporting on the "interception" of and prevention of billions of dollars in losses from scams.

⁴⁷ The Chinese police went on to issue a new arrest warrant for She Zhijiang in 2022, leading to his arrest in Bangkok in August 2022.

⁴⁸ Human rights groups have raised a range of concerns about the usage of the Chinese anti-scam application; see: ["Anti-fraud" \(反诈\) spyware apps, phone inspections in China · Issue #354 · net4people/bbs](#)

⁴⁹ This is especially the case for She Zhijiang who now openly claims to be a Chinese dissident: [Detained gambling tycoon She Zhijiang faces rendition to China – Radio Free Asia](#)

In 2022, China unveiled its Global Security Initiative (GSI), which aims to reshape global security norms and structures to give China advantage in terms of securing its overseas economic interests and dramatically increasing China's overseas security influence.⁵⁰ Since the introduction of GSI, China has started to link the involvement of its police in cracking down on online scam syndicates as part of the initiative. Increasingly, China is demanding that countries across Southeast Asia and beyond accept "Joint Law Enforcement Cooperation" as a means of cracking down on these criminal syndicates. In reality, what China is seeking through these joint law enforcement cooperation frameworks is access for its police overseas, and an opening to increase Chinese influence in the security space.

Since 2023, this has become very apparent in the Mekong Region, which not coincidentally is the "pilot zone" for China's GSI according to a 2023 White Paper on the Initiative.⁵¹ Throughout 2023, China became very aggressive in demanding that Myanmar's military regime crackdown on criminal scam networks operating under its control, and after it refused, China openly partnered with Ethnic Armed Organizations on its border which launched a military operation to advance a crackdown. This resulted in the Myanmar military losing control of dozens of towns in the China-Myanmar border area, and ultimately in the Myanmar military dismantling its own border guard force (BGF) and handing its leaders over to the Chinese authorities after China issued a warrant for their arrest.⁵² Following this development, the Myanmar military has become one of the most vocal advocates for China's GSI, and has made a series of concessions allowing the Chinese police, as well as armed Chinese security to operate in the country.

In Thailand, China has also used coercion to push Thai authorities to accept Chinese police access. In early 2024, following the trafficking of several Chinese nationals into Myanmar through Thailand, the Chinese government permitted and even openly encouraged disinformation about public security concerns in Thailand to surge in Chinese media and social media. This resulted in serious economic losses for Thailand, which is highly dependent on tourism, especially from China. To reverse this, Thailand made very significant concessions to China in the security space in exchange for getting China's support in addressing the public safety narratives and restoring confidence on the part of Chinese tourists. What has resulted is that China now has an active police presence on the ground on the far south of the Thailand – Myanmar border. China has used its growing security presence in Thailand and the leverage gained from the scam syndicate issue to push Thailand to cave to Chinese demands that threaten to seriously undermine Thailand's

⁵⁰ Carla Freeman, Bates Gill, Alison McFarland, China's Global Security Initiative Takes Shape in Southeast Asia and Central Asia, USIP, November 2024: [sr534_chinas-global-security-initiative-takes-shape-southeast-central-asia.pdf](#)

⁵¹ China's GSI White paper refers to Lancang-Mekong Cooperation (LMC) as a pilot zone:

[The Global Security Initiative Concept Paper.pdf](#).

⁵² Jason Tower and Priscilla Clapp, Myanmar's Collapsing Military Creates a Crisis on China's Border, USIP, April 2024, [Myanmar's Collapsing Military Creates a Crisis on China's Border | United States Institute of Peace](#).

relations with other countries.⁵³ In February of 2025, this included Thailand's deportation of 40 Uyghurs who had been seeking asylum in the country for over 8 years.

China has also leveraged this issue to deepen its security influence vis-à-vis countries across Southeast Asia and even within international institutions. It has pushed countries across the region to accept a stronger presence of Chinese police on the ground, and it has pushed to frame any moves to crackdown on crime as part of its GSI. Meanwhile, it has managed to compel the UN Office on Drugs and Crime (UNODC) to introduce a China-ASEAN roadmap for work on the crisis related to online scamming,⁵⁴ ignoring the fact that this crisis now impacts almost every country across the world. Such moves risk mainstreaming China's authoritarian approach to policing across the region and beyond.

Perhaps of most significant concern to the United States is the way in which China's crackdowns are increasingly incentivizing the China-linked scam syndicates to make America their number one target. With China deepening its control over the social media platforms used to scam Chinese, and with it putting in place much stricter controls over the banking system and even on Chinese travel to certain Southeast Asia countries, this has increased the cost of scamming in China dramatically. In response, the scam syndicates are increasingly pivoting to target the rest of the world, and especially Americans. In 2024, China reported a year on year decrease in losses to scams of 30% -- whereas the U.S. saw an increase of over 40%. At the same time, it is also clear that China is much less concerned about cracking down in cases in which the crime groups are: (1) laundering money back into China; (2) have deep connections with Chinese political elites and are openly patriotic. The case of Wan Kuok-kui and his Hongmen network, discussed above underscore this point.

Recommendations for U.S. Policy

To address this growing crisis, the U.S. needs nothing less than a whole of government, whole of society approach. This should begin by focusing on immediate steps that can be taken to keep Americans safe from this scourge of online scamming. Several immediate steps could prove to be critical in this regard: (1) a nationwide awareness raising campaign to help prevent people from falling prey to the scams; (2) training of law enforcement in addressing sophisticated forms of scams and fraud, particularly those employing crypto currency; (3) mobilizing the U.S. private sector to systematically prevent criminal actors from exploiting U.S. social media, dating,

⁵³ Jason Tower, China's Exploits Thailand's Crackdown on Scam Compounds to Gain Security Influence, USIP February 2025, [China Exploits Thailand's Crackdown on Scam Compounds to Grow Security Influence | United States Institute of Peace](#).

⁵⁴ [ASEAN, China, and UNODC agree to a plan of action to address criminal scams in Southeast Asia](#)

professional networking, and recruitment platforms, which are the main entry points that the criminal actors use to target Americans. Some interesting initiatives have already been undertaken in this regard to increase transparency when fraud occurs on dating applications.⁵⁵

Second, the U.S. could establish a task force, potentially under the National Security Council to coordinate government and law enforcement efforts to address these problems. This could potentially be coupled by the creation of a Congressional Caucus that might be tasked with monitoring trends, identifying policy options to keep the U.S. safe, and aiding states and/or districts that have been hit particularly hard by the scams. Such initiatives could also take the lead in holding China to account for this crisis, including demanding that China share with the United States intelligence that it has collected from raids and seizures on scam compounds that might be helpful for the U.S. in combating these problems and in seizing and returning stolen assets. The U.S. may also push for China to hold its officials accountable for their role in enabling this crisis, and to prevent China's crackdown from incentivizing the criminal groups to pivot towards targeting Americans. ***In this regard, the U.S. could consider this issue alongside fentanyl, as a second case where China looks the other way or even benefits as China-linked crime groups harm the American public.***

Third, the United States can consider strategic partnership in the region, particularly in countries like the Philippines or Thailand. In the case of the Philippines, political will to crackdown is high, and the government is openly concerned about the national security implications related to both the China-linked TOC groups and China's response. Philippines has access to large amounts of intelligence related to the scam centers drawn from recent crackdowns but lacks the capacity to harvest and analyze this data. In both the Philippines and Thailand, the U.S. might provide direct technical assistance into this process, which could put the U.S. in a much better position to advance a crackdown.

Fourth, the U.S. can hold other countries actively protecting the crime groups or obstructing efforts to crackdown accountable. This might include through sanctions targeting malign actors and elites especially in Myanmar and Cambodia. Finally, in the case of Myanmar, given that problems around transnational crime will continue to flourish as long as the Myanmar military continues its war against the Myanmar people, the U.S. might play a greater role in addressing the crisis. Insofar as China has deepened its security influence in Myanmar following the 2021 military coup, such a move could also help combat Chinese designs on establishing dominance over the Indo-Ocean region through Myanmar – a direct threat to a U.S. interest in free, open and fair trade in the Indo-Pacific.

⁵⁵ See for example, a piece of legislation aimed at increasing responsiveness and accountability on the part of dating applications: [House Passes Congressman Valadao's Online Dating Safety Act | U.S. Congressman David Valadao](#).

The views expressed in this testimony are those of the author and not the U.S. Institute of Peace.

OPENING STATEMENT OF CLEO PASKAL, NON-RESIDENT SENIOR FELLOW, FOUNDATION FOR DEFENSE OF DEMOCRACIES

MS. PASKAL: Chair Price, Vice Chair Schriver, distinguished members of the Commission, thank you.

Think of a map of the world. Chances are you see the map on the wall of classrooms around America, something that National Geographic calls “a classic world map.” What’s at the center of that map? Europe, not America. That casual euro-centrism has affected the way we think about the world and even about America.

America goes from Alaska, in the north, to American Samoa, in the south, to the U.S. Virgin Island, to the Marianas. The Marianas are 1,600 miles from the coast of China. If we saw a map that had America at the center, all of America, it would show how central the Pacific is to the United States.

Since at least the middle of the 19th century, U.S. leaders knew that if a hostile power controlled the center of the Pacific, the U.S. was not safe. This is a key reason the U.S. took the Philippines and Guam after the Spanish-American War. As President McKinley said, quote, “I ordered Dewey to go to Manila and to capture or destroy the Spanish fleet because he had to, because if defeated he had no place to refit on that side of the globe, and if the Spanish were victorious they would likely cross the Pacific and ravage our Oregon and California coasts.”

From that time it was clear America’s geographical pivot of history was the Pacific. If America had free access it could trade and prosper. If it was controlled by others, it was at risk.

In 1907, President Roosevelt sent the Great White Fleet through the Pacific, landing at new parts of America -- Hawaii, American Samoa, the Philippines, and showing the whole world what 16 brand-new American battleships looked like. Roosevelt said, quote, “I had become convinced that for many reasons it was essential that we should it clearly understood, by our own people especially but also by other peoples, that the Pacific was as much our home waters as the Atlantic.”

After World War I, the League of Nations gave Japan control over a vast part of the Central Pacific. Many in the U.S. thought that they had the Pacific covered because they had the Philippines and Guam off the coast of Asia and Hawaii as a fallback. On December 7, 1941, Japan hit Hawaii and soon after took Guam and the Philippines. It cost 100,000 American lives and the devastation of island communities across the region to fight back across the Pacific.

After the war, the U.N. Security Council gave the area of the Central Pacific that had been held by Japan to the United States to administer. The U.S. wanted to thread the needle. It didn’t want colonies and it didn’t want anyone else to be able to use the Central Pacific to hit the U.S. In the end, the people of what is now the Northern Marianas voted for a covenant with the U.S., joining it in 1986.

What are now Palau, the Federated States of Micronesia, and the Marshall Islands became independent countries, and each voted -- the people did -- to sign a Compact of Free Association, or COFA, with the U.S. These agreements read, quote, “The government of the United States has full authority and responsibility for the security and defense matters relating in and to the COFA states,” and that includes strategic denial.

The results have been, in the words of the governor of the Commonwealth of the Northern Marianas, just last year, quote, “The U.S. territories of the Northern Marianas, Guam, and American Samoa firmly anchor America’s position in the Pacific. Together with the Freely Associated States, it creates a vast corridor of peace and security that span nearly 3 million

square miles and connects to the seas of other allied nations.” And that is a problem for China.

China wants to be in a position to reshape the world to its own liking. It studied World War II and it knows how important the Central Pacific is. If it remains outside Beijing’s control, there will be limits on its expansion and ambitions, including with Taiwan.

China has been targeting the Pacific Islands region as a whole and the U.S. territories and the COFA states, in particular, using methods that General Brawner from the Philippines has described as “illegal, coercive, aggressive, and deceptive,” which I like better than gray zone, known by its initials as ICAD. There are many examples of this sort of Chinese unrestricted warfare in the Pacific Islands in my written testimony.

China’s goal is not hidden. In 2008, then-Commander of USPACOM, Admiral Keating, said a senior Chinese official suggested to him, “You take Hawaii east. We’ll take Hawaii west.” There was no word on what would happen to those Americans living in Guam or the Commonwealth of the Northern Marianas Islands.

China wants to control the Pacific geographical pivot of history, and will destroy communities and families, including Americans in places like Guam, to do it. What to do? Block and build. What this means is blocking China’s ICAD activities while building economic and social resilience. You can’t do one without the other. While China uses commercial fronts to open up engagement with countries, it actually doesn’t want to see independent economic growth in those countries. It wants to create economic dependencies.

I think of the BRI as standing for the “Bribery and Repression Initiative,” because that is essentially what it is exporting along those systems, ways of operating that create dependencies and destroy autonomy.

So any attempts at building real prosperity also has to block the expected attacks and sabotage from China.

At the same time, blocking alone won’t work. The region is hurting economically, and if it is only blocking, but no building, social disruptions caused by increasing desperation can open up pathways for China.

The U.S. might invest \$100 million putting in an airfield in a Pacific Island country, and that is happening across the region. But if you don’t go after the strategic corruption and what is going on on the ground in terms of that ICAD activity, all you are going to be doing is building an airfield for China.

Like kinetic warfare, to make headway you have to both attack and defend. If you sit in a bunker and just defend, you will never get anywhere. Attack without cover and you won’t last long. China treats this as war, and the U.S. should take it no less seriously.

There are legislative relevant recommendations in my written testimony, and additionally, I would recommend:

1. No sitting U.S. President has ever visited a Pacific Island country. If one does, if President Trump chooses to visit a Pacific Island country, if he went to one of the compact states, it would really show the enduring depth and importance of the relationship. It would be a diplomatic version of a visit by the Great White Fleet.

2. The Department of the Interior is responsible for the U.S. territories and COFA states. Due to his position as head of the National Energy Council, Interior Secretary Burgum is on the NSC. Expanding his role to include overseeing and coordinating blocking and building in the Pacific would ensure that it gets the attention it needs, especially the sort of interagency coordination that would be helpful for countering that ICAD activity. Also, it would make sure that the cuts that are happening in the federal government don’t inadvertently affect the

relationship with the compact states and the U.S. territories.

Generations of U.S. leaders understood American prosperity is tied to what we now call a free and open Indo-Pacific, that can only be secured by limiting the influence of those who want exclusive control. Over the centuries, that has been the Spanish, the British, the French, the Germans, the Japanese, a little bit of the Soviets, and now it is China.

We and the people of the Pacific have been here before. World War II shows us the cost of underestimating the importance of the Central Pacific. In the same way that in the '30s there was complacency because of the Philippines and Guam, now there is a focus on the first and second island chain rather than how to get there. Spending a small amount now, but especially to root out Chinese-linked crime and strategic corruption, Beijing's favorite entry points for influence, can save hundreds of billions and possibly many, many lives later.

The question is, will the U.S. decolonize its mental strategic map in time and realize what McKinley, Roosevelt, Pete Ellis, Billy Mitchell, Reagan, and so many others knew -- if a hostile power takes the Pacific, they have stuck a dagger into the heart of the American heartland.

Thank you.

**PREPARED STATEMENT OF CLEO PASKAL, NON-RESIDENT SENIOR FELLOW,
FOUNDATION FOR DEFENSE OF DEMOCRACIES**

U.S.-China Economic and Security Review Commission

Crossroads of Competition: China in Southeast Asia and the Pacific Islands

Panel II: China's Military and Security Footprint in Southeast Asia and the Pacific Islands

CLEO PASKAL

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Washington, DC
March 20, 2025

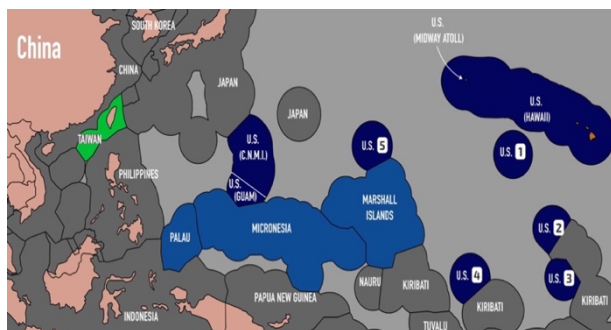
Chair Price, Vice Chair Schriver, and distinguished members of the Commission, on behalf of the Foundation for Defense of Democracies (FDD), thank you for the opportunity to testify.

China's attempt to gain influence, if not control, in the Pacific islands is a few decades old — relatively recent by strategic standards. However, the effort made to accomplish that goal is deep, broad, and relentless. To understand why this is such a high priority for Beijing, it helps to first look at what the region means for the United States.

Often, the U.S. Pacific strategic focus is on the First and Second Island Chains. There are major U.S. defense installations along the chains (including in Guam) and U.S. Treaty allies (including Japan and the Philippines) to fight alongside should it be needed. Less attention is paid to ensuring the United States can get across the vast expanse of the central Pacific to reach the chains. This is in part because of a set of unique agreements between the United States and three Pacific island countries (Palau, Federated States of Micronesia and Republic of Marshall Islands) called the Compacts of Free Association (COFA) that, among other things, afford the United States broad defense and security rights and responsibilities as well as strategic denial to keep out other countries' militaries.



These agreements were borne of the bloody experience of World War II. Japan had been in control of that same area from 1914 to 1944. Japanese control over the central Pacific meant that, in spite of U.S. possession of Guam and the Philippines, Japan could still hit Pearl Harbor and make it very difficult for the United States to get back across the Pacific. Having learned the cost of letting a hostile power set up in the middle of the Pacific, the Compacts were agreed upon. This has given some planners a sense of complacency that the middle of the Pacific is 'secure.'



China, having also learned from the experiences of Japan and the United States in World War II, is using a range of activities, including many that are illegal, coercive, aggressive, and deceptive (ICAD), to erode the U.S. position in the central Pacific and to expand influence in the Pacific as a whole, so that it can be in a position to control this 'geographical pivot' and launch from there.

Chinese activities in many of the Pacific island countries (PICs) have been economically and politically destabilizing and have undermined the rule of law. Ensuring that the people of the PICs can build their economies and democracies under sovereign control, and so be a part of a free and open Indo-Pacific, will require a "block and build" approach in which Chinese ICAD activity is blocked (including via investigations and prosecutions of strategic corruption) and local economies and rule of law are built up in locally adapted ways, making them secure and sustainable over the long term.

The Pacific: America's Geographical Pivot of History

American strategic thought still contains deep strains of Eurocentrism — literally. Most maps used in the United States have Europe at the center, with the dominant ocean being the Atlantic. Academic courses on strategy will linger over Halford Mackinder's 1904 'Heartland'¹ theory — that the Eurasian landmass is the geographical pivot of history and control there determines the direction of the world. Maybe if one is European. But America's geographical pivot has, for over a century at least, been the Pacific.

Looking back at American strategic thought about the Pacific shows that with advances in naval power, it was clear to American strategists and leaders by at least the end of the 19th century that if a hostile power controlled the Pacific, the United States wasn't safe. This resulted in some of the grandest naval expeditions mounted by the United States, and misreading the Pacific map led to some of the highest military casualties America has suffered. Understanding some of that thinking is essential for understanding what the United States got right, what it got wrong, and what China is trying to do.

The United States explored and expanded into the Pacific Ocean in fits and starts. The first great foray was the U.S. Exploring Expedition (1838-1842), made up of six ships and 346 men — one of the largest voyages of discovery of the era. According to the Smithsonian, which subsequently became home to many of the samples the Expedition brought back, "Besides establishing a stronger diplomatic presence throughout the Pacific, the Expedition sought to provide much-needed charts to American whalers, sealers, and China traders. Decades before America surveyed and mapped its own interior, this government-sponsored voyage of discovery would enable a new, determined nation to take its first tentative steps toward becoming an economic world power."²



Being in the Pacific was key to that goal. Once California was admitted as a state (1850), Alaska was purchased (1867), and the transcontinental railway was completed (1869), the United States was on the Pacific. Over time, smaller strategically or economically important islands in the Pacific were taken or deals were made with local leaders, as with the 1878 treaty in

¹ H.J Mackinder, "The Geographical Pivot of History (1904)," *The Geographical Journal*, December 7, 2004. (<https://www.jstor.org/stable/3451460>)

² Nathaniel Philbrick, "The Scientific Legacy of the U.S. Exploring Expedition," *Smithsonian Libraries*, accessed March 13, 2025. (<https://www.sil.si.edu/DigitalCollections/usexex/learn/Philbrick.htm>)

which the chiefs in what is now American Samoa gave the United States the right to set up a naval station on Pago Pago harbor. Then, in 1898, repeated attempts to take a major piece of the Pacific were successful with the annexation of Hawaii.

That year marked another turning point, the Spanish-American War. According to American naval officer and strategist Alfred Thayer Mahan in his 1900 book *The Problem of Asia and its Effects Upon International Politics*:³

[T]he expansionists themselves, up to the war with Spain, were dominated by the purely defensive ideas inherited from the earlier days of our national existence. The Antilles, Cuba, the Isthmus, and Hawaii were up to that time simply outposts — positions — where it was increasingly evident that influences might be established dangerous to the United States as she then was. Such influences must be forestalled; if not by immediate action, at least by a definite policy.

It was to such a state of mind that the war with Spain came ... Habit had familiarized men's minds with the idea of national power spreading beyond the bounds of this continent, and with the reasons that made it advisable, if not imperative. [There was] no serious difficulty of acceptance, so far as concerned the annexation of the Philippines — the widest sweep, in space, of our national extension.

The war with Spain has been but one of several events, nearly simultaneous, which have compelled mankind to fix their attention upon eastern Asia, and to realize that conditions there have so changed as to compel a readjustment of ideas, as well as of national policies and affiliations. Nothing is more calculated to impress the mind with the seriousness of the impending problems than the known fact that Japan, which less than four years ago notified our government of her disinclination to our annexation of Hawaii, now with satisfaction sees us in possession of the Philippines.

The Spanish-American War gave the United States not only the Philippines but Guam as well.



The United States declined to take other Pacific islands that had belonged to Spain, and Spain promptly sold them to Germany (a move that 43 years later cost the United States dearly). By the time Theodore Roosevelt became president in 1901, the United States spanned the Pacific.

Roosevelt wanted to ensure that the world, and Americans, understood the United States was part of the Pacific. He sent the “Great White Fleet” around the world (1907-1909). It consisted of sixteen

³ Alfred Thayer Mahan, *The Problem of Asia and its Effect Upon International Policies* (Boston: Little, Brown, and Company, 1900). (https://archive.org/stream/problemasiaandi04mahagoog/problemasiaandi04mahagoog_djvu.txt)

new battleships, painted white with gilded scrollwork on their bows, crewed by thousands of sailors and, at times, escorted by destroyers and auxiliary ships.⁴ The fleet did an extensive tour of the Pacific, including Australia, New Zealand, China, and Japan, and stopping at new parts of the American Pacific, including Hawaii, Pago Pago, and the Philippines.

In his autobiography, Roosevelt wrote:⁵

In my own judgment the most important service that I rendered to peace was the voyage of the battle fleet round the world. I had become convinced that for many reasons it was essential that we should have it clearly understood, by our own people especially, but also by other peoples, that the Pacific was as much our home waters as the Atlantic.

A subtext to the voyage was concerns over the intent of Imperial Japan. In an echo of the debate over current freedom of navigation exercises, some tried to dissuade Roosevelt, saying the fleet would ‘provoke’ Japan. His reply:⁶

I said that I did not believe Japan would so regard it because Japan knew my sincere friendship and admiration for her and realized that we could not as a Nation have any intention of attacking her; and that if there were any such feeling on the part of Japan as was alleged that very fact rendered it imperative that that fleet should go ... I believed that Japan would feel as friendly in the matter as we did; but that if my expectations had proved mistaken, it would have been proof positive that we were going to be attacked anyhow[.]

Roosevelt’s focus on the Pacific also led him to strongly support the actions that resulted in the construction of the Panama Canal (opened in 1914). By the outbreak of World War I, the United States had substantial territories on both sides of the Pacific, a way to get from the Atlantic to the Pacific more easily, and Hawaii and well-located refueling and watering ports to support distant Pacific logistics, for example, Pago Pago. It seemed, in the terms of Mahan, that dangerous influences could be forestalled.

Then, during World War I, Imperial Japan took control of Germany’s Pacific Island possessions. After the war, the League of Nations formalized the takeover by granting Tokyo the Japanese Mandate — oversight of a massive swath of the central Pacific consisting of what is now Palau, the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), and the Commonwealth of Northern Marianas Islands (CNMI).

For three decades, Japan colonized the region, seeing it as part of Japan for the long term. It built schools, clinics, and businesses. Men and women moved from Japan (including Okinawa) to the islands of the mandate. Koror, in what is now Palau, was the civilian headquarters of the mandate and, at times during the interwar years, there were more Japanese in Koror than

⁴ “The Great White Fleet,” *Naval History and Heritage Command*, accessed March 13, 2025.

(<https://www.history.navy.mil/research/histories/ship-histories/the-great-white-fleet.html>)

⁵ Theodore Roosevelt, *Theodore Roosevelt: An Autobiography* (New York: Charles Scribner’s Sons, 1920).

(<https://www.gutenberg.org/cache/epub/3335/pg3335-images.html>)

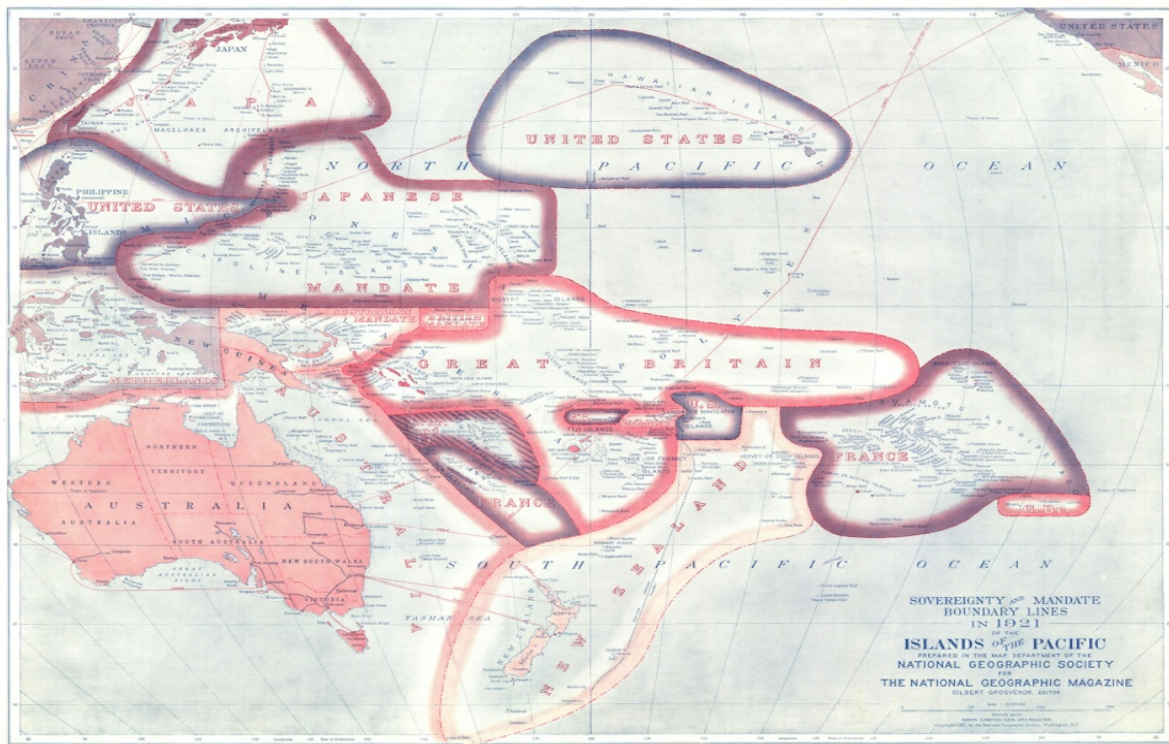
⁶ Ibid.

Palauans. The Palauan language still has many Japanese loanwords and, owing to intermarriage, Japanese ancestry and surnames are still common across the region.

While the Japanese build-up had a strong civilian component, especially at the beginning, it didn't take long for concerns to arise. In the interwar period, the Japanese Mandate area was largely closed to outsiders. One American who got in was Major Earl "Pete" Ellis (United States Marine Corps). In 1921, he wrote *Advanced Base Operations in Micronesia*,⁷ describing the likely need to fight Imperial Japan in the Pacific and the strategies and tactics required to win. He wrote:

Japan is a World Power, and her army and navy will doubtless be up to date as to training and materiel. Considering our consistent policy of non-aggression, she will probably initiate the war; which will indicate that, in her own mind, she believes that, considering her natural defensive position, she has sufficient military strength to defeat our fleet.

Pete Ellis died in Koror, where Japanese officials had him under watch,⁸ in 1923.



Throughout the 1920s and 1930s, in what we would now call civil-military fusion, Japan put great effort into establishing ports, airfields, and other infrastructure with dual-use capabilities.

⁷ Earl Hancock "Pete" Ellis, "FMFRP 12-45, Naval Bases: Location, Resources, Denial, and Security. *Advanced Base Operations in Micronesia*," July 23, 1921. (<https://archive.org/details/earl-h-pete-ellis-navy-marine/book/mode/2up>)

⁸ 21st Century Ellis: *Operational Art and Strategic Prophecy for the Modern Era*, Edited by B.A. Friedman. Naval Institute Press. 2015.

On Saipan, for example, a local business said it was clearing ground for a baseball field when, in fact, it was working on an airplane runway. It also put in extensive defensive fortifications and communications systems and built-up resource extraction, refining, and exporting processes.

The United States also moved, albeit in a small way, to consolidate toeholds in the region. In 1936, to clarify U.S. sovereignty over Jarvis, Baker, and Howland Islands, President Franklin Roosevelt issued an executive order⁹ placing them under the jurisdiction of the secretary of the interior.

However, there were serious gaps in U.S. strategic thinking. As Lt. Col. Thomas McCabe wrote:¹⁰ “[The United States] implicitly made two assumptions. The first assumption was that if war came, it would primarily be in the western Pacific. Second, Hawaii was now a rear area and therefore secure. On 7 December 1941, the Japanese Navy showed these assumptions were wrong.”

The United States had underestimated the importance of the central Pacific. By the time Japan attacked Pearl Harbor on December 7, 1941, with the intention of pushing the United States out of the Pacific, it was already prepared and dug in across the mandate. Japan attacked the Philippines and Guam a few hours later. There was little the United States could do to defend these territories.

Imperial Japan also went after the Aleutians, having understood, as “father of the Air Force” Billy Mitchell told Congress in 1935, that Alaska (a key part of the Pacific) was of core strategic importance — effectively part of America’s Pacific geographic pivot of history.¹¹

In a foreshadowing of thinking today, the United States had focused on the Pacific coasts and had taken the center for granted. It was a costly mistake. As a result, to be within striking distance of mainland Japan, the United States had to bypass the most heavily fortified islands of the mandate and “island hop” south and west to be in a position where it could keep supply lines open to Australia and New Zealand and head north to the Japanese Mandate in the central Pacific.

Liberating the region from Imperial Japan resulted in some of the most brutal fighting of the war. Countless locals suffered and died, islands were devastated, and the enormous military casualties in battles such as Guadalcanal (Solomon Islands), Tarawa (Kiribati), Peleliu (Palau), Truk (now Chuuk, Federated States of Micronesia), Kwajalein (Marshall Islands), Saipan (Commonwealth of Northern Mariana Islands), Guam, and others shaped generations. By the time the war ended, around 100,000 Americans had died in the Pacific.

⁹ Executive Order 7368, “Placing Certain Islands in the Pacific Ocean Under the Control and Jurisdiction of the Secretary of the Interior,” May 13, 1936. (<https://www.presidency.ucsb.edu/documents/executive-order-7368-placing-certain-islands-the-pacific-ocean-under-the-control-and>)

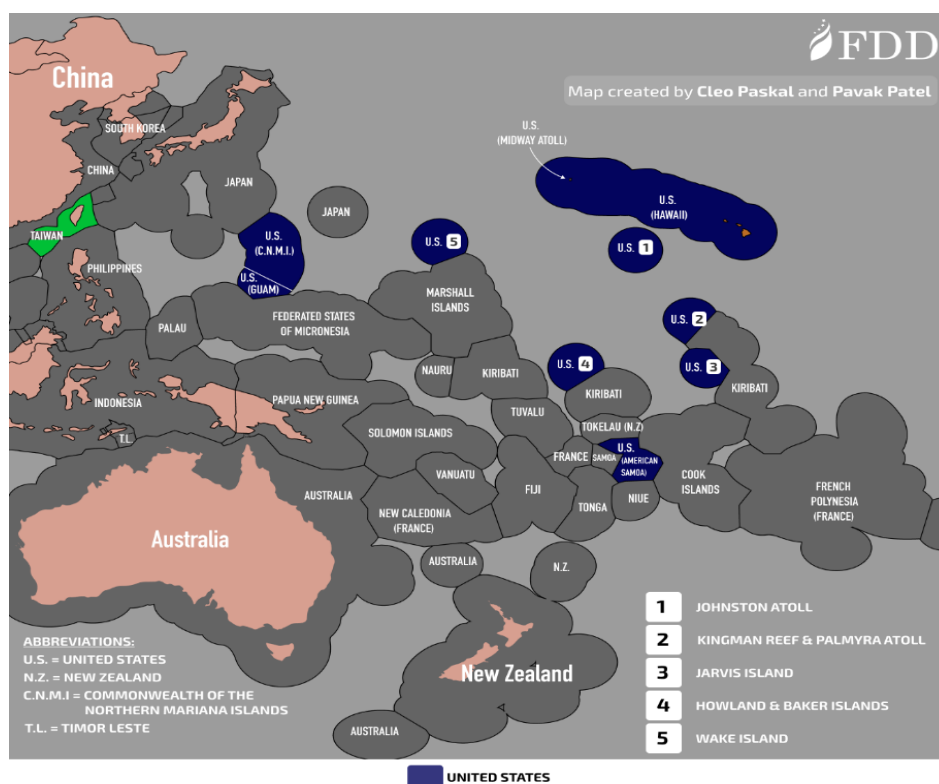
¹⁰ Lt. Col. Thomas McCabe (Ret.), “China Could Attack Pearl Harbor—and the West Coast,” *Proceedings: U.S. Naval Institute*, March 1, 2025. (<https://www.usni.org/magazines/proceedings/2025/march/china-could-attack-pearl-harbor-and-west-coast>)

¹¹ Larry Gedney, “Billy Mitchell: Alaska Pioneer,” *Alaska Science Forum*, January 13, 1986. (<https://www.gi.alaska.edu/alaska-science-forum/billy-mitchell-alaska-pioneer>)

After the massive losses and destruction of the war, the United States was not keen to let anyone else be in a position to strike the United States from the Pacific. The United Nations Security Council gave the area of the central Pacific that had been the Japanese Mandate to the United States for administration as the world's only Strategic Trust Territory.¹²

By the 1960s, decolonization movements were gaining traction across the region. The United States wanted to resolve the legal status of the Trust Territory nations while still ensuring the central Pacific couldn't be used again to hit Americans, including in Guam.

So, the United States established the Congress of Micronesia on Saipan, with the first meeting in 1965, consisting of delegates from across the Trust Territory.¹³ The core of it was that the United States didn't want colonies, and it didn't want Mahan's dangerous influences in the center of the Pacific where it could hit the United States. Meanwhile, the people of the region didn't want a continuation of colonization.



In the end, the people of what is now the Commonwealth of Northern Mariana Islands (CNMI) voted for a “covenant” with the United States — joining it in 1986. What are now Palau, the Federated States of Micronesia, and the Republic of Marshall Islands (RMI) became independent countries but each signed a Compact of Free Association (COFA) with the United States.¹⁴

¹² “UN Trusteeship Council Documentation,” *Dag Hammarskjöld Library*, accessed March 13, 2025.

(<https://research.un.org/en/docs/tc/documents>)

¹³ Norman Meller, *The Congress of Micronesia: Development of the Legislative Process in the Trust Territory of the Pacific Islands* (Honolulu: University of Hawai'i Press, 2019).

¹⁴ Compact of Free Association Act of 1985, Pub. L. 99-239 (99th Congress), 99 Stat. 1770, codified as amended at 48 U.S.C. §1681, (<https://www.congress.gov/99/statute/STATUTE-99/STATUTE-99-Pg1770.pdf>); and Trust Territory of the Pacific Islands, Pub. L. 99-658 (99th Congress), 100 Stat. 3672, codified as amended at 48 U.S.C. §1681. (<https://www.congress.gov/99/statute/STATUTE-100/STATUTE-100-Pg3672.pdf>); William Chapman, “In Palau, Even God Is Said to Oppose Micronesian Unity,” *The New York Times*, July 16, 1978.

The COFAs are a unique agreement that allows the people of the Compact states to live and work in the United States freely, serve in the U.S. military (which they do at very high rates) and the United States provides a wide range of federal services and financial support to their governments. The Compacts also read: “The Government of the United States has full authority and responsibility for security and defense matters in or relating to the Marshall Islands and the Federated States of Micronesia [and Palau].”¹⁵ They also afford the United States strategic denial, meaning the United States can veto the granting of military access to other nations.

Essentially, the goal is to have Compact states that are independent, supported and defended by the United States, and that don’t become a risk to the United States. When the agreements were being finalized, in 1984, President Ronald Reagan said: ¹⁶ “The United States of America is part of the Pacific. There’s Hawaii, American Samoa, Guam, and the soon-to-be commonwealth status of the Northern Mariana Islands and our special relationship with the Federated States of Micronesia and the Republics of the Marshall Islands and Palau. It is my hope that our administration will be remembered as helping the people of the Pacific Basin achieve their hopes and aspirations, and that together, we will bring a pacific, tranquil future to the region.”

Today, the leaders of the region understand their importance. As CNMI Governor Arnold Palacios said in 2023:¹⁷ “The U.S. territories of the Northern Marianas, Guam, and American Samoa firmly anchor America’s position in the Pacific, and together with the Freely Associated States, create a vast corridor of peace and security that spans nearly three million square miles and connects to the seas of other allied nations.”

While the Pacific islands as a whole are strategically important, for the United States, the U.S. territories and Compact states are the core of America’s geographical pivot of history. The United States doesn’t need to control it; it just needs to be able to deny access to those intent on using the pivot to hit the United States. In the process, all free countries benefit as the region is kept free of aggressive, exclusionary powers. This is the basis for a free and open Indo-Pacific.

The problem is the structure designed to do that during the Cold War, the Compacts, assumed the primary dangerous influences would be kinetic and were therefore focused on keeping hostile militaries out of the region. But there is a new dangerous influence in the region, and it uses different tactics and strategies.

<https://www.washingtonpost.com/archive/politics/1978/07/17/in-palau-even-god-is-said-to-oppose-micronesian-unity/f85347c8-d7cc-4680-bfe4-7371975bd349>)

¹⁵ Compact of Free Association Act of 1985. Pub. L. 99-239 (99th Congress), 99 Stat. 1770, codified as amended at 48 USC §1681. (<https://www.congress.gov/99/statute/STATUTE-99/STATUTE-99-Pg1770.pdf>); Trust Territory of the Pacific Islands. Pub. L. 99-658 (99th Congress), 100 Stat. 3672, codified as amended at 48 USC §1681. (<https://www.congress.gov/99/statute/STATUTE-100/STATUTE-100-Pg3672.pdf>)

¹⁶ Ronald Reagan, “Written Responses to Questions Submitted by Pacific Magazine on United States Policy in the Pacific Island Region,” *Ronald Reagan Presidential Library*, May 4, 1984. (<https://www.reaganlibrary.gov/archives/speech/written-responses-questions-submitted-pacific-magazine-united-states-policy-pacific>)

¹⁷ Gov. Arnold I. Palacios, “*Peace Through Strength: The Strategic Importance of the Pacific Islands to U.S.-led Global Security*,” *Testimony before the U.S House Committee on Natural Resources*, August 24, 2023. (<https://governor.gov.mp/news/oral-testimony-of-governor-arnold-i-palacios-commonwealth-of-the-northern-mariana-islands>)

China Makes a Move on the Geographical Pivot

China wants to be in a position to reshape the world to its own liking, including being able to take the territory of other countries without effective opposition. It has been pursuing its goals in ways General Romeo Brawner, chief of staff of the Philippines Armed Forces, describes as illegal, coercive, aggressive, and deceptive — known by its initials ICAD.¹⁸

China knows as long as the core of the Pacific geographical pivot — the U.S. territories and the Compact states — remain outside Beijing's control, there will be limits on its aggression, expansion, and ambitions, including with Taiwan. Conversely, if Beijing can push out the United States, Washington's ability to reach the First and Second Island Chain, and treaty allies Japan, the Philippines, South Korea, and Thailand (and Australia, New Zealand, France, Tonga, and others in the Southern Pacific) becomes much more restricted. Perhaps fatally so. If this map sounds familiar, there is a reason.

The People's Liberation Army (PLA) has studied the Pacific War. It's unlikely to be accidental that when the People's Republic of China (PRC) gains a foothold in a Pacific nation, it tries to acquire locations that were strategic in World War II, such as Tulagi in the Solomon Islands¹⁹ or Kanton in Kiribati.²⁰ According to Dr. Toshi Yoshihara's *Chinese Lesson from the Pacific War: Implications for PLA Warfighting*: "The Pacific War covered a geographic expanse that roughly overlaps with areas where the PLA would likely fight in the coming years. China's Rocket Force now boasts long-range missiles that can reach Guam, while its diplomats are attempting to secure access across the Pacific Islands, the bloody battlegrounds of the Pacific War." It is trying to grab the pivot that was so important for both Japan and the United States just over 80 years ago.

One of China's top diplomats, Wang Yi, visited the region in 2022. Despite it being during COVID, when many PICs had closed their border, restrictions were lifted, and the Chinese delegation was let into eight countries in the region. The agreements they were proposing gave insight into China's thinking on how to gain influence, if not control, in as many PICs as possible. The two main regional agreement documents being floated were *China-Pacific Island Countries Common Development Vision* and *China-Pacific Island Countries Five-Year Action Plan on Common Development (2022-2026)*.

Elements of the *Vision*²¹ and *Plan*²² included cooperation on law enforcement, customs, inspections, quarantine, network governance, cybersecurity, laboratory construction used for fingerprint testing, supporting airlines to operate flights between China and Pacific island

¹⁸ Bill Gertz, "China's gray-zone operations 'illegal, coercive, aggressive, deceptive,' Paparo says," *The Washington Times*, May 6, 2024. (<https://www.washingtontimes.com/news/2024/may/6/chinas-gray-zone-operations-illegal-coercive-aggre>)

¹⁹ Damien Cave, "Chinese Lease of Entire Island Is Deemed Illegal in Solomons," *The New York Times*, October 24, 2019. (<https://www.nytimes.com/2019/10/24/world/australia/solomon-islands-china-tulagi.html>)

²⁰ Thomas Newdick and Joseph Trevithick, "China Wants to Revive a Strategically Located Airfield Deep in The Pacific: Report," *The War Zone*, May 6, 2021. (<https://www.twz.com/40471/china-wants-to-revive-a-strategically-located-military-airfield-deep-in-pacific-report>)

²¹ @CleoPaskal, X, May 26, 2022. (<https://twitter.com/CleoPaskal/status/1529867665992474626>)

²² @CleoPaskal, X, May 26, 2022. (<https://twitter.com/CleoPaskal/status/1529849187071926273>)

countries, the possibility of a China-Pacific Island Countries Free Trade Area, thousands of government scholarships, establishing a “China-Pacific Island Countries Disaster Management Cooperation Mechanism” (including a prepositioned “China-Pacific Island Countries Reserve of Emergency Supplies”), and support for drugs, electronics, and digital forensics.

Combined, the *Vision* and *Plan* were a blueprint for control over key elements of sovereign countries. For example, it would put the PRC in a position to move people and supplies (including military prepositioning) with limited external oversight and to direct or subvert investigation and prosecution operations, stymying the rule of law and attempts to counter illegal Chinese activities that can lead to bribery and coercion.

Then FSM President David Panuelo wrote about the *Vision* and *Plan*: “All of this, taken together, is part of how China intends to form a ‘new type of international relations’ with itself as the hegemonic power and the current rules-based international order as a forgotten relic. That’s a direct quote, I should emphasize a ‘new type of international relations’ — and an explicit goal on behalf of China from the Common Development Vision.”²³

It is regularly reported that Wang’s ‘failure’ to get countries to sign on to the two documents was a setback for China. However, China operates differently, and it is unlikely Beijing thought that was a possibility.²⁴ Otherwise, Wang would have held his group meeting with the PIC foreign ministers at the end of his trip — after he had a chance to speak to more of them individually — rather than in the middle. Also, at the time, four of the countries in the region recognized Taiwan. Those signing up to Beijing’s vision would have been striking a blow-by-proxy against their neighbors. It is not the way things are usually done in the Pacific.

China would know that. It has a half-dozen think tanks dedicated to studying the region, has trained hundreds (if not thousands by now) of Pacific island bureaucrats, and has generational, focused intelligence on key leaders and their families. Within the PICs that recognize China, it has large footprints — often including the largest embassy in the country, staffed with people who speak the local language — financial relationships between Chinese nationals and key business leaders, friendly members of the media, and control over large sections of the retail sector, including in the relatively remote areas. There is also the widespread use of Chinese organized crime as an ‘auxiliary,’ as has been seen in Hong Kong.²⁵

What Wang was likely doing by floating the deal was drawing out those who oppose China to enable them to be isolated and targeted and seeing who was willing to be compliant so they could be built up and rewarded. Panuelo, who so strongly objected to the agreements, was not reelected.

²³ Former President of Micronesia David W. Panuelo, “To FSM leaders,” *Letter to the 22nd FSM Congress, FSM Governors, and leadership of FSM state legislatures*, March 9, 2023. (<https://www.fdd.org/wp-content/uploads/2023/11/President-Panuelo-Letter-9-March-2023-to-FSM-leaders-on-PRC-political-warfare.pdf>)

²⁴ Cleo Paskal, “Is Anyone Listening to the Pacific Islands?” *The Diplomat*, July 1, 2022. (<https://magazine.thediplomat.com/2022-07/is-anyone-listening-to-the-pacific-islands>)

²⁵ Federico Varese and Rebecca WY Wong, “Resurgent Triads? Democratic Mobilization and Organized Crime in Hong Kong,” *Journal of Criminology*, March 17, 2017. (<https://journals.sagepub.com/doi/abs/10.1177/0004865817698191>)

Additionally, while the multilateral *Vision* and *Plan* went unsigned, Wang did sign a series of bilateral deals, some of which echoed elements of the *Vision*, in most of the countries he visited.²⁶ Some were formalizations or expansions of existing areas of cooperation, but some were new, such as agreements on fingerprint laboratories for Samoa and Tonga.

Some elements of the *Vision* and *Plan* are now in place, and they demonstrate how fundamentally different Beijing's vision is for the future of the region — one in which Beijing's rules take precedence rather than the rule of law. The degree to which rights and democracy have been eroded in the Solomon Islands under PRC pressure is a case in point, with those opposed to increased PRC influence in the country being targeted — including one elected member of a provincial legislature having his elected seat taken away for not recognizing China's definition of the One China Policy.²⁷

Which gets to the core of it. It suits China's narrative to present this as an era and area that is China versus the United States. However, this is fundamentally a battle of systems — a free and open Indo-Pacific in which the United States takes the lead but the model benefits everyone or a Chinese lake where Beijing has a direct veto over elections and anything else it decides it wants.

To accomplish its goals, China uses a range of methods, including public and private loans, bribery, blackmail, coercion, investment, and influence. This has included attempts at breaking a country into pieces if seen as advantageous. (This is consistent with China's unrestricted and “disintegration” warfare.²⁸) According to Panuelo, China has supported separatist movements in the FSM to advance its interests: “It is not a coincidence that the common thread behind the Chuuk State secession movement, the Pohnpei Political Status Commission and, to a lesser extent, the Yap independence movement, include money from the PRC and whispers of PRC support.”²⁹

Former Yap Governor Henry Falan said China created a “boxing ring” in Yap, “pitting leaders against leaders and citizens against citizens with proposals for large commercial developments that will overwhelm us ... We are now left with internal bullying, corruption, and no accountability by a faction among our leaders who are influenced and backed by foreigners.”³⁰

²⁶ “China's whirlwind Pacific tour a slight success with several bilateral agreements signed,” *RNZ* (New Zealand), June 4, 2022. (<https://www.rnz.co.nz/international/pacific-news/468464/china-s-whirlwind-pacific-tour-a-slightsuccess-with-several-bilateral-agreements-signed>)

²⁷ Cleo Paskal, “Daniel Suidani's arrest in the Solomons proves CCP is scared,” *The Sunday Guardian* (India), October 13, 2024. (<https://sundayguardianlive.com/investigation/daniel-suidanis-arrest-in-the-solomons-proves-ccp-is-scared>)

²⁸ U.S. House Committee on Oversight and Accountability, Majority Staff, “CCP Political Warfare: Federal Agencies Urgently Need a Government-Wide Strategy,” October 24, 2024. (<https://oversight.house.gov/wp-content/uploads/2024/10/CCP-Report-10.24.24.pdf>)

²⁹ Former President of Micronesia David W. Panuelo, “To FSM leaders,” *Letter to the 22nd FSM Congress, FSM Governors, and leadership of FSM state legislatures*, March 9, 2023. (<https://www.fdd.org/wp-content/uploads/2023/11/President-Panuelo-Letter-9-March-2023-to-FSM-leaders-on-PRC-political-warfare.pdf>)

³⁰ “Former Yap governor: China is a bad influence,” *Pacific Island Times*, July 21, 2022, (https://www.mvariety.com/news/former-yap-governor-china-is-a-bad-influence/article_d367a4b8-07f3-11ed-9ec8-1bfefe5c3e13.html)

Often, the Chinese approach is not just dual use but triple use, or ‘braided,’ with three mutually reinforcing strands: commercial, strategic, and criminal elements.³¹ Chinese organized crime is often a part of the ‘China experience’ in the Pacific islands. They bribe, enforce, smuggle, blackmail, and more. While largely free to make their own money and develop their own networks, Chinese criminals do so with the understanding that they must be useful to Beijing when required.³² As per China’s 2017 National Intelligence Law, every Chinese citizen and organization is legally obligated to support the government’s intelligence operations.³³

How successful have China’s efforts been? Let’s take two metrics, Taiwan recognition and signing on to the Belt and Road Initiative — both high priorities for Beijing.

Getting countries to de-recognize Taiwan is a high priority for China, not only for diplomatic reasons but also because Chinese embassies and consulates can act as forward operating locations for covert activities.³⁴ Not having an embassy in-country hampers Chinese ICAD efforts. Over the last decade, China has cut the number of PICs that recognize Taiwan from six to three.

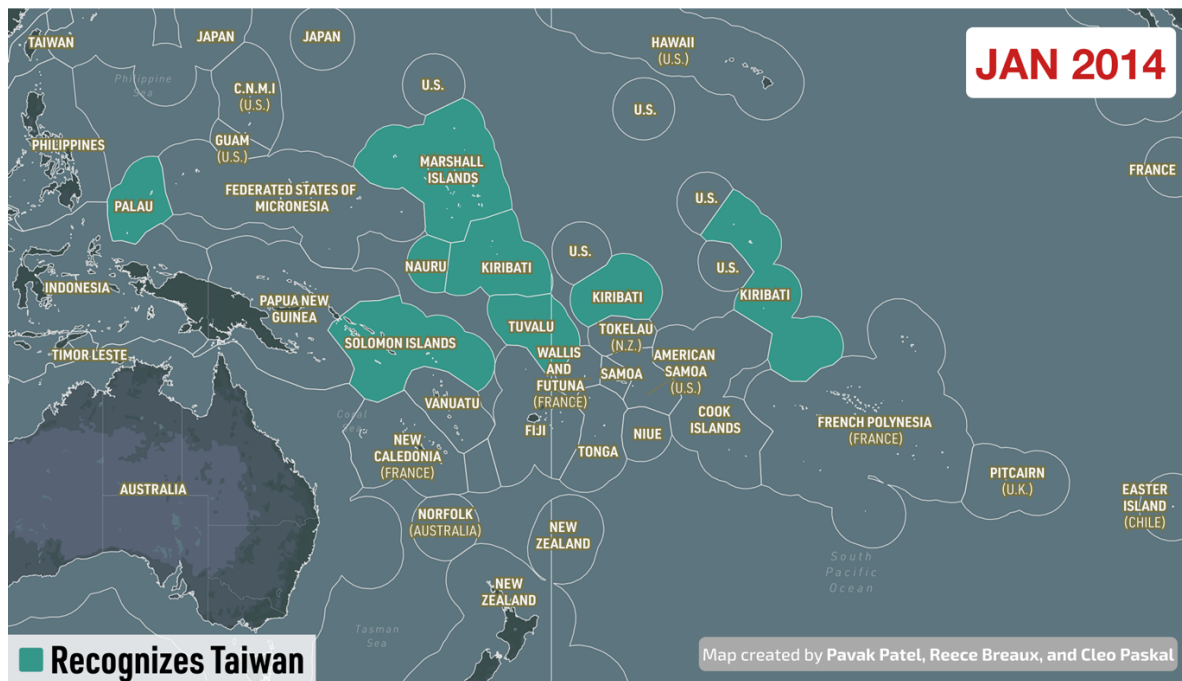
³¹ Cleo Paskal, “How the Compacts of Free Association Support U.S. Interests and Counter the PRC’s Influence,” *Testimony before the House Natural Resources Committee Subcommittee on Indian and Insular Affairs*, June 14, 2023. (https://naturalresources.house.gov/uploadedfiles/testimony_paskal.pdf)

³² Bernadette Carreon, Aubrey Belford, and Martin Young, “Pacific Gambit: Inside the Chinese Communist Party and Triad Push into Palau,” *Organized Crime and Corruption Reporting Project*, December 12, 2022. (<https://www.occrp.org/en/investigation/pacific-gambit-inside-the-chinese-communist-party-and-triad-push-into-palau>)

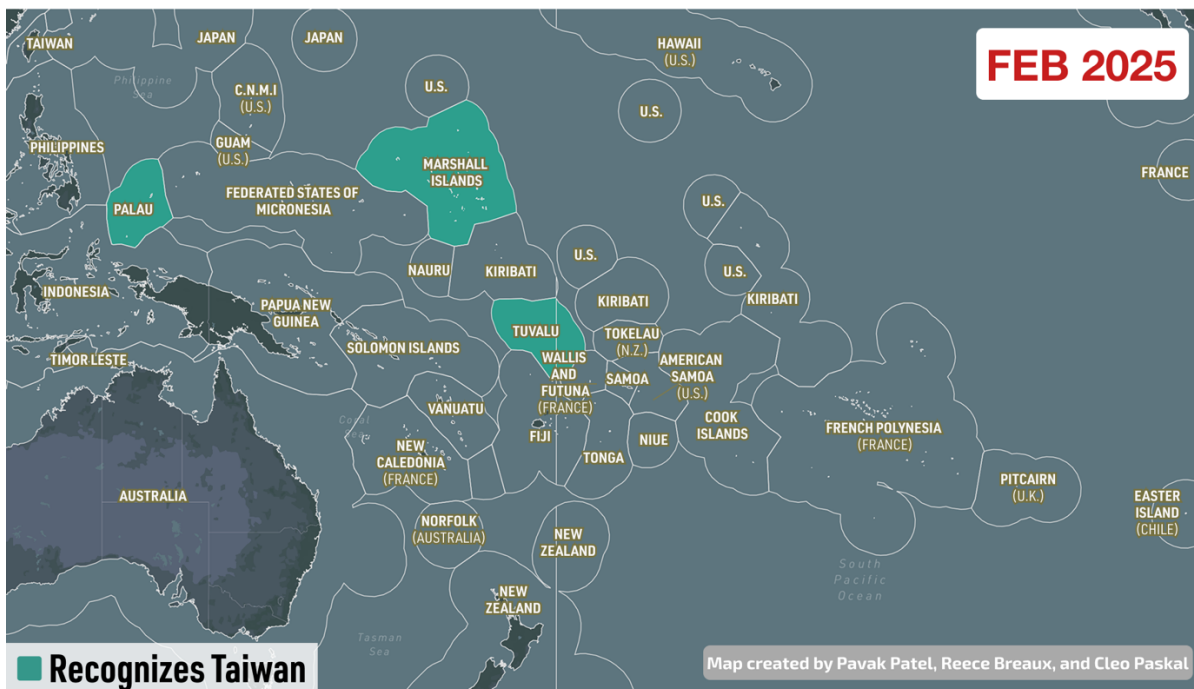
³³ PRC National Intelligence Law (as amended in 2018), trans. China Law Translate, June 27, 2017. (<https://www.chinalawtranslate.com/en/national-intelligence-law-of-the-p-r-c-2017>)

³⁴ Tom Winter and Carol E. Lee, “Chinese consulate in Houston was hot spot for spying, say U.S. officials,” *NBC News*, July 22, 2020. (<https://www.nbcnews.com/politics/national-security/chinese-consulate-houston-was-hotspot-spying-say-u-s-officials-n1234634>)

FDD | Diplomatic Relations with Taiwan

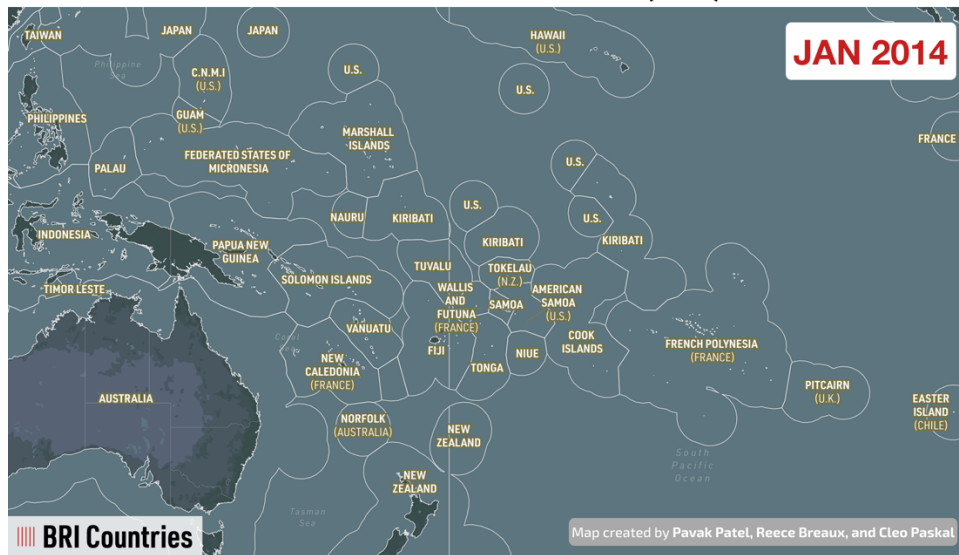


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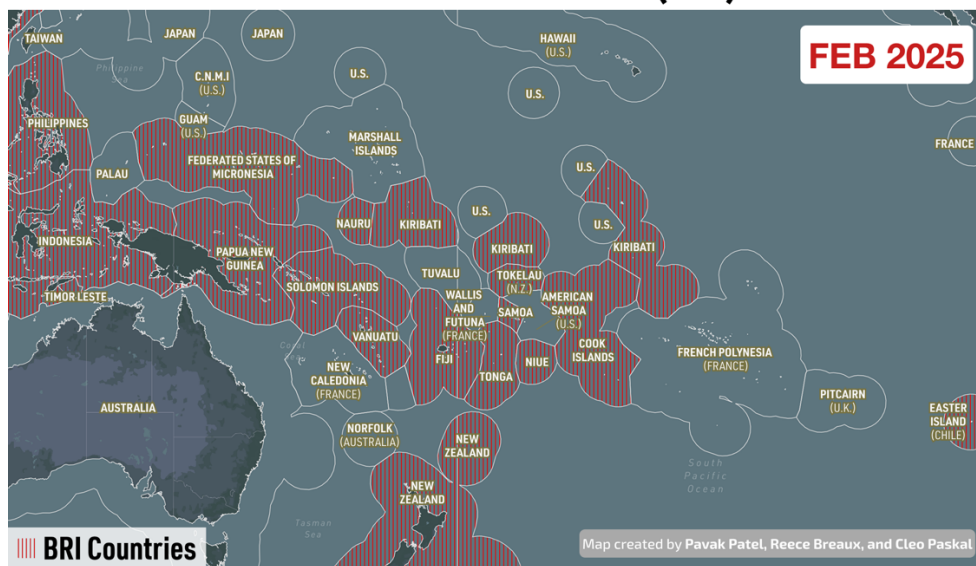


Another priority for Beijing is getting countries to sign onto the Belt and Road Initiative (BRI). This isn't just about infrastructure that is possibly dual use, or creating debt, it's also about what can be thought of as Beijing's other, unstated, BRI — a Bribery and Repression Initiative. What's actually being exported from China with the Belt and Road Initiative is a way of doing business that metastasizes the Chinese system of corruption and coercion. And it is spreading.

FDD | Participants in China's Belt and Road Initiative (BRI)



FDD | Participants in China's Belt and Road Initiative (BRI)



Target: The Heartland of the Geographical Pivot — U.S. Territories and Compact States

While the PICs as a whole are important to China because of their importance to the United States and their ability to deter and even counter Chinese aggression, the U.S. territories (in particular CNMI and Guam) and the Compact states are the main targets of China-linked ICAD attacks.³⁵ Note that two of the three (Palau and the Marshall Islands) still recognize Taiwan and aren't part of the BRI. Those are layers of ICAD protection Beijing is working hard to erode.

Some examples:

In the **Marshall Islands**, a Compact state that recognizes Taiwan and has a major U.S. military base, two Chinese individuals secured Marshall Islands passports and, according to the U.S. government, launched “a multi-year scheme that included establishing a nongovernmental organization and allegedly bribing officials in the Republic of the Marshall Islands with the intention of establishing a semi-autonomous region, akin to Hong Kong, in the U.S.-defended Marshall Islands.”³⁶ Given that part of the operation involved activities in Hong Kong that included members of the Marshall Islands government, it is unlikely the Chinese government wasn't aware of the plan and at least let it proceed.

That attempt came within one vote of succeeding in the Marshall Islands legislature. The couple involved were charged in New York and pleaded guilty to bribery. The United States deported them back to the Marshall Islands, where they were walking free, able to reestablish their linkages with local elites.³⁷

In **Palau**, another Compact state that recognizes Taiwan, China worked to build up Palau's dependence on Chinese tourism. In 2008, there were 634 Chinese tourists in Palau, less than 1 percent of all tourists. By 2015, it was more than 91,000, or around 54 percent.³⁸ Then, in 2017, Chinese tourists stopped coming and it was made clear that, unless Palau switched from Taiwan to China, the tourists wouldn't return. The country didn't buckle. This devastated the economy and left empty and crumbling Chinese-leased real estate and developments across the country — the pause in travel caused by COVID allowed time for a reevaluation and a refocusing on other markets. However, the economic and physical scars remain. Illegal Chinese activity is also making a comeback, with recent deportations of Chinese involved in, at the least, illegal gambling. The two Chinese/Marshallese who were found guilty of bribing Marshallese officials in the events described above tried to enter Palau in February 2025 and were refused entry.

³⁵ Cleo Paskal, “How the Compacts of Free Association Support U.S. Interests and Counter the PRC's Influence,” *Testimony before U.S. House Natural Resources Committee, Indo-Pacific Task Force*, June 14, 2023. (https://naturalresources.house.gov/uploadedfiles/testimony_paskal.pdf)

³⁶ U.S. Immigration and Customs Enforcement, Press Release, “ERO New York City removes noncitizen aggravated felon to the Marshall Islands,” April 27, 2023. (<https://www.ice.gov/news/releases/ero-new-york-city-removes-noncitizen-aggravated-felon-marshall-islands>)

³⁷ Ibid.

³⁸ Kate Lyons, “‘Palau against China!’: the tiny island standing up to a giant,” *The Guardian* (UK), September 7, 2018. (<https://www.theguardian.com/global-development/2018/sep/08/palau-against-china-the-tiny-island-defying-the-worlds-biggest-country>)

Palau has also been subject to cyberattacks that seem to track back to China, including one that happened on the day Palau and the United States were celebrating the renewal of parts of the Compact, leading Jay Anson, chief information security officer of Palau's Ministry of Finance, to say, "Our analysis was that this was a hit against the Palau government but also the ability of the U.S. to provide security for Palau, and in this case, cybersecurity."³⁹

There have also been incursions into Palauan waters by Chinese 'research vessels' that linger over its subsea cables and Chinese organized crime operations that tie back to influential Palauans.⁴⁰

In the **Federated States of Micronesia**, then President Panuelo wrote that one of the tactics is bribery: "we are bribed to be complicit, and bribed to be silent ... The practical impact of this is that some senior officials and elected officials take actions that are contrary to the FSM's national interest, but are consistent with the PRC's national interest."⁴¹

FSM is the only one of the three Compact states that recognizes China. Panuelo writes: "China is seeking to ensure that, in the event of a war in our Blue Pacific Continent between themselves and Taiwan, that the FSM is, at best, aligned with the PRC (China) instead of the United States, and, at worst, that the FSM chooses to 'abstain' altogether."⁴²

This is likely China's ultimate goal for all the PICs, with the highest priority being in the Compact states and the U.S. territories.

The U.S. Territory of **CNMI** has had Chinese-linked casinos with myriad legal issues,⁴³ including Chinese individuals who used the U.S. postal service to distribute illegal drugs, sold illegal drugs, and illegally bought U.S. identification documents.⁴⁴ Two suspects involved in a recent murder in Palau were ethnic Chinese carrying CNMI identifications. There is no similar link to such extensive criminal activity with any other single nationality in CNMI.

³⁹ Jonathan Greig, "An attack on the reputation of Palau: officials question who was really behind ransomware incident," *The Record*, April 4, 2024. (<https://therecord.media/palau-attack-who-was-behind-china-us>)

⁴⁰ Bernadette Carreon, Aubrey Belford, and Martin Young, "Pacific Gambit: Inside the Chinese Communist Party and Triad Push into Palau," *Organized Crime and Corruption Reporting Project*, December 12, 2022. (<https://www.occrp.org/en/investigation/pacific-gambit-inside-the-chinese-communist-party-and-triad-push-into-palau>)

⁴¹ Former President of Micronesia David W. Panuelo, "To FSM leaders," *Letter to the 22nd FSM Congress, FSM Governors, and leadership of FSM state legislatures*, March 9, 2023. (<https://www.fdd.org/wp-content/uploads/2023/11/President-Panuelo-Letter-9-March-2023-to-FSM-leaders-on-PRC-political-warfare.pdf>)

⁴² Ibid.

⁴³ Mathew Campbell and Daniela Wei, "Human Smuggling, Money Laundering Probes Surround Saipan Casino," *Bloomberg*, April 9, 2017. (<https://www.bloomberg.com/news/articles/2017-04-10/human-smuggling-money-laundering-probes-surround-saipan-casino?sref=3OIZCXOE>)

⁴⁴ Alex Wilson, "Chinese citizens use Northern Marianas as illegal pathway to Guam, authorities say," *Stars and Stripes*, February 27, 2024. (https://www.stripes.com/theaters/asia_pacific/2024-02-26/guam-china-illegal-entry-northern-marianas-13130497.html); "CNMI Customs confiscate \$700K 'ice' at post office," *Islands Business* (Fiji), March 23, 2022. (<https://islandsbusiness.com/news-break/cnmi-largest-drug-haul-in-five-years>); U.S. Attorney's Office, Districts of Guam and the Northern Mariana Islands, News Release, "Chinese Illegals: CNMI DMV Chief Convicted of License Fraud," December 18, 2023. (<https://www.justice.gov/usao-gu/pr/bureau-motor-vehicle-chief-and-prc-citizen-sentenced-federal-prison-cnmi-drivers-license>)

CNMI allows Chinese to enter the territory short term without a visa. They are not supposed to leave CNMI, but Chinese are traveling illegally to Guam by boat, with some being found on military installations. Thirty members of Congress wrote⁴⁵ to then DHS Secretary Alejandro Mayorkas expressing concern about the “loophole.” As of March 2025, Chinese still do not need a visa for short-term visits to CNMI.

Guam has been subject to China-tied cyber hacks⁴⁶ of its critical infrastructure. Additionally, Guam’s delegate to Congress, James Moylan, wrote about Chinese nationals in January 2025: “From those associated with cartels in distributing drugs, to making the selling of drugs as part of their (migrant) payments to illegally enter through our shores, to those in question being spotted inside military installations near key defense assets, we have some serious issues here. This includes the safety of our people, and potential national security breaches.”⁴⁷

Where Is This Heading?

Amb. Amatlain Elizabeth Kabua, the permanent representative of the Marshall Islands to the United Nations, said that when the Compacts were originally negotiated with the United States: “Many in the U.S. Congress and government had fought in the Pacific during World War Two — they knew who we were, where we were, and why we were important.”¹

Today, it’s the Chinese who know. In fact, they seem to know — and have learned from — U.S. Pacific history more than many in the United States. They know they need the ‘Heartland’ and have deployed relentless ICAD activities across the region to ‘sinoform’ the geographical pivot.⁴⁸ The goal isn’t hidden. In 2008 then Commander of United States Pacific Command, Adm. Timothy Keating, said a senior Chinese official suggested to him: “You take Hawaii east. We’ll take Hawaii west.”⁴⁹

It’s a choice Teddy Roosevelt would have recognized. In his 1913 autobiography, Roosevelt wrote:

If [America] is content to abandon Hawaii and the Panama Canal, to cease to talk of the Monroe Doctrine, and to admit the right of any European or Asiatic power to dictate what immigrants shall be sent to and received in America, and whether or not they shall be allowed to become citizens and hold land—why, of course, if America is content to have nothing to say on any of these matters and to keep silent in the presence of armed

⁴⁵ Letter to U.S. Department of Homeland Security Secretary Alejandro Mayorkas, November 30, 2023.

(<https://dunn.house.gov/cache/files/a/7/a7be6e9c-aa2c-4c5b-844f-0f9477022930/5C3DD18E5C7728487178D0D0CFACAAAD.20231130152328384.pdf>)

⁴⁶ Andy Greenberg and Lily Hay Newman, “China Hacks US Critical Networks in Guam, Raising Cyberwar Fears,” *Wired*, May 24, 2023. (<https://www.wired.com/story/china-volt-typhoon-hack-us-critical-infrastructure>)

⁴⁷ Haidee Eugenio Gilbert, “DHS’s Noem: Critical to secure Guam borders from unlawful Chinese entry,” *Pacific Daily News*, February 24, 2025. (https://www.guampdn.com/news/dhss-noem-critical-to-secure-guam-borders-from-unlawful-chinese-entry/article_2eb780f0-efef-11ef-ab07-83483e10ebf6.html)

⁴⁸ Cleo Paskal, “How the Compacts of Free Association Support U.S. Interests and Counter the PRC’s Influence,” *Testimony before the House Natural Resources Committee, Indo-Pacific Task Force*, June 14, 2023.

(<https://www.fdd.org/wp-content/uploads/2023/06/06-14-23-Paskal-Written-Testimony.pdf>)

⁴⁹ Donna Miles, “China Requires Close Eye as It Expands Influence, Capability,” *American Forces Press Service*, March 12, 2008. (<https://www.dvidshub.net/news/17315/china-requires-close-eye-expands-influence-capability>)

outsiders, then it can abandon its navy and agree to arbitrate all questions of all kinds with every foreign power. In such event it can afford to pass its spare time in one continuous round of universal peace celebrations, and of smug self-satisfaction in having earned the derision of all the virile peoples of mankind.

For the last 80 years, the Pacific heartland has mostly been a model of a free and open Indo-Pacific, benefitting countries across the world — a peace bought in blood and crafted with patience and intelligence by American and Pacific island leaders. The status quo will not persist unless it is defended. The dangerous influences have taken root.

Pacific islanders are deeply experienced at geopolitics. They have gone through centuries of colonization, had their beaches and jungles soaked in the blood of passing militaries, had islands destroyed in world-changing weapons testing, and fought complex legal, political, and sometimes physical battles for their own independence. If you are from Yap, your great-grandfather's second language may have been Spanish, your grandfather's German, your father's Japanese, and now, you speak English. And perhaps now you are wondering if your kids should learn Mandarin. They know they live in the geographical pivot of history. What happens next is up to us.

Recommendation: Block and Build

The starting assumptions for the recommendations are:

1. China operates not in a zero-sum game but in a negative game. It will allow itself to lose if the other side loses more. This is implicit in its concept of relative Comprehensive National Power.⁵⁰
2. China doesn't want target countries to be economically self-sustaining. It wants to shift countries (or to be more precise, decision-makers) from relationships based on goodwill to support to dependency. That is easier to do if there are few economic options. (An example of this is China's attempt to damage Palau's economy by building up and then crashing its tourism sector.)
3. This is a high-priority geographical zone for China, and it has a lot of people on the ground, and in China, actively thinking about how to advance Chinese interests.

Given those assumptions, U.S. activities that are designed to help build sustained and sustainable economic and social resilience will likely be seen as a threat by Beijing and be targeted by Chinese ICAD activity. It is likely that any major project designed to give Pacific islands economic or political independence, especially one that will make them less reliant on China, will be targeted for, at least, 'slow down' by Chinese agents through a variety of unrestricted warfare tactics, ranging from bureaucratic stalling to unfair competition, from information warfare to lawfare, from cyberattacks to sabotage.

As such, the overall structure of the recommendations is a "block and build" approach.

⁵⁰ Cleo Paskal, "The Strategic Importance of the Pacific Islands," *Testimony before the House Foreign Affairs Committee, Subcommittee on Asia, the Pacific, Central Asia, and Nonproliferation*, October 20, 2021. (<https://docs.house.gov/meetings/FA/FA05/20211020/114157/HHRG-117-FA05-Wstate-PaskalC-20211020.pdf>)

This means “blocking” those dangerous influences (including ICAD activities) while “building” economic and social resilience. Unless that targeting is “blocked,” projects will be very hard to “build.” At the same time, blocking Chinese ICAD activities alone will not work. The region is still hurting economically, and if there is only blocking but no building, social disruptions caused by increasing desperation could open up new pathways for China that will be extremely difficult to block.

It is like kinetic warfare. To make headway, one has to both attack and defend. Sit in a bunker and just defend, and you will never get anywhere; attack without cover, and you will not last long. The same is true for countering Chinese ICAD warfare. While attacking the problems (economic development, access to health care, and others), you have to defend against those who see your activity as a threat. China treats this as war; the United States should take it no less seriously.

Recommendations

1. **President Trump could visit a Compact State** (Palau, the Marshall Islands, the Federated States of Micronesia). No sitting U.S. president has visited any of these three countries so deeply tied to the United States — and the core part of the American geographical pivot of history. A visit would show the enduring depth and importance of the relationship — a diplomatic version of a visit by the Great White Fleet.
2. **Raise Pacific Hemispheric defense to the National Security Council (NSC) level.** Ensure that clearing the Pacific ‘negative influence,’ and promoting economic and social resilience as part of that, is made a Teddy Roosevelt-level priority at the National Security Council so that all the tools of state can be deployed. At least part of that can be accomplished through the U.S. Department of the Interior’s leadership mandate regarding the U.S. Pacific territories and the Compact states. They are America’s western border and should be included as part of the hemispheric defense approach being adopted by the Trump administration.
3. **Expand the role of Interior Secretary Doug Burgum on the NSC.** Due to his position as head of the National Energy Council,⁵¹ Secretary Burgum is on the NSC. Interior is also responsible for the U.S. territories and the Compact states. Expand his role to include overseeing and coordinating their defense and reinforcement.
4. **Revitalize the Interagency Group on the U.S. Compact states,** which is co-chaired by the secretaries of the interior and state.
5. **Set up a special investigative interagency unit to uncover strategic corruption and prosecute criminal networks that operate across the region.** This could focus initially on the U.S. territories and Compact states. Under the Compacts of Free Association, Washington has an “obligation to defend the Marshall Islands and the Federated States of Micronesia [and

⁵¹ Chris Megerian and Matthew Daly, “Trump names Interior-designee Doug Burgum to head new White House council on energy,” *Associated Press*, November 15, 2024. (<https://apnews.com/article/donald-trump-transition-white-house-cheung-gor-f3e02df04ffce1b07a44062ee723d71>)

Palau] and their peoples from attack or threats.” One would think the deliberate attempts at economic destruction count as a threat. At this point, a few good investigators and aggressive lawyers from outside the region might provide them with more security than any number of F-35s. And it could ensure the F-35s (or their pilots) don’t get sabotaged on the runway if the time ever comes that they are needed. Currently, given the degree of involvement of Chinese organized crime and the tight-knit nature of Pacific islands societies, there is difficulty going after the ‘big fish.’ If this isn’t done, it will be very hard to get anything else to work over the long run. The region is not equipped to investigate and counter this scale and complexity of penetration on its own. Currently, across the region, there is little downside to selling out to China and significant economic and social downsides for those who take a stand — including, as seen in the Solomon Islands, risks to livelihood and life.⁵² The corruption is destroying the rule of law, breaking up families, and becoming a conduit for illegal drugs, human trafficking, and more. It also creates a pervasive atmosphere of fear in these tight-knit societies. It would also make sense for the U.S. military to assist on some of the investigations. The Department of Defense has the largest American presence on the ground in the Compact states, and it knows and possibly values the region the most. As an example, the attorney general of Palau is consistently looking for lawyers. Perhaps look at using military reservists?

6. **Fully prosecute high-profile corruption cases** (the Marshall Islands case was plea bargained, meaning information of value to the people of the Marshall Islands was never made public). This would hearten honest officials and make others recalculate their cost-benefit analysis of selling out their country — and by extension, U.S. security. Ignore anyone who says “they are all corrupt” — they are either dangerously wrong, lazy, or part of the problem. The region contains myriad examples of honesty and courage in the face of vicious ICAD attacks.
7. **Put in structures to create a Micronesian zone of security, prosperity, and freedom that would knit the U.S. territories and Compact states (and maybe others) together.** This idea was brought up by Gov. Leon Guerrero of Guam⁵³ who recommended the territories could be supported in setting up national security coordinators/councils — and perhaps a regional council that included the Compact states and maybe eventually Nauru and Kiribati — to better advise and coordinate, including on countering ICAD threats. It builds on the successful example of Palau’s National Security Coordinator (an office that should receive substantially more support from the United States). Given that the region is facing many of the same problems it would let the countries and territories learn from and reinforce each other.
8. **U.S. policies should be different in different parts of the ‘Pacific islands.’** The U.S. Territories — including American Samoa — and Compact states are where Washington owes

⁵² Cleo Paskal, “Australia vies with China to turn the Solomon Islands into a police state,” *The Sunday Guardian* (India), December 29, 2024. (<https://sundayguardianlive.com/investigation/australia-vies-with-china-to-turn-the-solomons-into-a-police-state>)

⁵³ Cleo Paskal, “War flashbacks in Guam as China projects power in the Pacific,” *The Sunday Guardian* (India), September 17, 2023. (<https://www.fdd.org/analysis/2023/09/17/war-flashbacks-in-guam-as-china-projects-power-in-the-pacific>)

the most, lost the most, and needs the most. It's the heartland. Acknowledge, including through adapting structures at State, Defense, and the NSC, that the relationship between the United States and the region is unique, forged by mutual sacrifice, and essential for U.S. security. Lumping the region together under the general 'Pacific islands' category is inaccurate and insulting, given the nature of the relationship. Other PICs will understand privileging the region, and in fact, doing so might make a closer relationship with the United States seem more attractive to them.

9. **Investigate financial crime, waste, fraud, and abuse in the U.S. territories, especially CNMI.** The Governor of CNMI has repeatedly asked for the FBI, Treasury, and more to come and investigate his territory. This should include centralized tracking and oversight of federal programs. The Office of Insular Affairs should also focus on technical assistance programs designed to counter corruption, waste, fraud, and abuse.
10. **In keeping with the America First Investment Policy, attention should be paid to vetting proposed investments in the U.S. Territories from foreign entities.**
11. **Work with PICs to fill specific needs.** For example, there is no **drug-testing lab** in Palau. This means that for lab results that will hold up in court, two Palauan police officers are sent with the sample to Guam, which they then escort back. This is prohibitively expensive, and complicated by corruption within the Palau police force.⁵⁴ However, Palau's president is keen to clear up his system, as are his attorney general, national security coordinator, and others, so it's largely a matter of listening to what they need and getting it for them.
12. **Do not outsource American interests, including to partners.** Some partners have had years to solve the problems and haven't. For example, Australia has been very keen to place itself at the heart of policing in the Pacific, yet under its 'watch,' country after country has abandoned Taiwan, the rule of law has greatly deteriorated,⁵⁵ and corrupt Pacific islands officials reportedly greatly enjoy spending ill-gotten gains holidaying in Australia (Queensland is a favorite destination) where they have real estate and bank accounts. Meanwhile, the China-Australia relationship is 'normalizing.' Will Canberra risk Chinese tariffs against its businesses to investigate corruption in the Solomon Islands? Until Canberra and Wellington start serving their people and the people of the Pacific by going after the corruption that passes through their systems, they are part of the problem, not the solution, as they are effectively protecting Chinese assets.
13. **Work appropriately with a wider range of allies that are welcome in the PICs.** For example, Japan is doing excellent, if quiet, work across the region. Japan has better knowledge about, and connections in, Palau than does Australia or New Zealand. Some in the strategic community in Palau also want closer ties with the Philippines (Manila is around a

⁵⁴ Leilani Reklai, "Two Women Law Enforcement Officers Charged with Drug Trafficking," *Island Times Palau*, September 10, 2024. (<https://islandtimes.org/two-women-law-enforcement-officers-charged-with-drug-trafficking>)

⁵⁵ Cleo Paskal, "Australia vies with China to turn the Solomon Islands into a police state," *The Sunday Guardian* (India), December 29, 2024. (<https://sundayguardianlive.com/investigation/australia-vies-with-china-to-turn-the-solomons-into-a-police-state>)

three-hour flight from Koror), Indonesia, and Vietnam given that those countries are facing similar maritime incursion challenges and are seen to be more assertive about sovereignty than other, more traditional partners. Taiwan and India also have much to offer.

14. **Move from maritime domain awareness (MDA) to maritime domain enforcement.** For many countries in the region, fisheries have the potential to create stabilizing economic benefits for the people. However, illegal, unreported and unregulated (IUU) fishing is rampant, as are drug smuggling, human trafficking, and more. There is a constant stream of MDA workshops and consultant-written reports but few resources devoted to action and enforcement. Locals say repeatedly, “We know about all sorts of illegal activities happening in our waters — but we do not have the capacity to do anything about it.” Following the law and seizing and destroying a few of the illegal fishing boats would provide more benefit and boost morale more than a year’s worth of MDA workshops. Given the dual-use nature of the Chinese fishing fleet, IUU fishing in the FAS should be viewed as a national security issue for the United States. The U.S. military should be defending the exclusive economic zones of the Compact states aggressively — and using American Samoa as a base to do the same in the southern Pacific, perhaps with a permanent Coast Guard station. But blocking is not enough on fisheries. There should be simultaneous efforts to help the territories and Compact states (and others, especially members of the South Pacific Tuna Treaty) to build their fisheries in a way that is diversified and resilient. That would be an excellent block and build effort.
15. **Establish an FBI field office on Guam and satellite offices in CNMI and American Samoa.** The Guam office can also work with the Compact states, as there seem to be criminal networks working across the territories and Compact states. Consolidating knowledge in the region would be helpful for connecting the dots.
16. **Homeland should require all those entering CNMI to have the same visas as those entering the rest of the United States.**
17. **Efforts by appropriate departments (including the private sector) should be made to lower energy and communications costs** in the territories at least, and ideally the Compact states and the PICs in general. Costs are often extortionate. In some cases, that is due to monopolies or shady practices. This is greatly hampering economic development, healthcare costs, educational opportunities, and more.
18. **Ensure those fighting for the things considered to be shared values and that are in the U.S. interest are not targeted by ICAD activity and, when appropriate, are supported.** It is inexplicable that U.S. officials passed over David Panuelo’s offer for FSM to recognize Taiwan.⁵⁶ Had that happened, it would have undermined China’s “inevitability” narrative about peeling off countries from Taiwan one by one (“cut a deal with us now — everyone else has — or when we make a move on Taiwan you won’t get anything”). When someone is willing to make a courageous move based on democratic principles, and the United States

⁵⁶ Former President of Micronesia David W. Panuelo, “To FSM leaders,” *Letter to the 22nd FSM Congress, FSM Governors, and leadership of FSM state legislatures*, March 9, 2023. (<https://www.fdd.org/wp-content/uploads/2023/11/President-Panuelo-Letter-9-March-2023-to-FSM-leaders-on-PRC-political-warfare.pdf>)

does not support it, it hands China another example to demonstrate why Washington should not be taken seriously.

19. **Spend military dollars in the region in ways that provide some tangible benefit to locals.**
20. **Quad members (The United States, Australia, Japan, and India) should treat Micronesia as a priority for engagement.** This could include establishing a common headquarters for humanitarian assistance and disaster relief in the region. The Quad should also hold exercises in the region, including ones that address IUU fishing operations. Bring in others, such as the Philippines and Taiwan where it makes sense.
21. **Defense should use the U.S. Army Corps of Engineers more in the region and expand the Civil Affairs Teams,** putting in more permanent, compact, and small teams led by young officers who pay attention to those around them, adapt easily, and build useful things for locals. Permanent presence is essential to avoid the ephemeral “cargo cult” effect of U.S. forces periodically showing up and then leaving or flag officers dropping by for a short visit and leaving, thinking everything is fine.
22. **The use of military contractors should be limited and supervised carefully to ensure they are not damaging trust.** Locals rarely differentiate between U.S. military contractors and the United States itself, and poor behavior by contractors reflects on the country as a whole. There have been issues with this across the region, including in Palau.
23. **Focus on improving and lowering the cost of transport in the region.** For example, work with the private sector to establish new commercial flights and ferry routes, possibly with Japanese, Filipino, or Taiwanese partners (depending on the location), that allow the people of the region easier access to one another’s countries. (Currently, in Micronesia under what seems like an effective United Airlines monopoly, flights in the region are some of the most expensive per mile in the world.) Affordable transportation will facilitate the development of options for education, healthcare, and trading hubs, encouraging regional cohesion and economic development. Sample actions could include a waiver from cabotage and support for specific routes, like the establishment of a fast ferry service between Guam and Rota.
24. **Consider offering COFAs to other countries, such as Kiribati, Tuvalu, and Nauru.** Tuvalu and Nauru recently signed deals with Australia, but they were done without the consent of the population (no referendum),⁵⁷ and Australia is in no position to defend them — as was painfully seen by its flailing response to the recent Chinese naval patrol and live-fire exercises in the Tasman Sea. By claiming strategic denial when it can’t deliver, Australia is putting everyone, including itself, at risk.
25. **Do all the ‘should have been done already’ things** that have been lingering, in some cases for decades, that will build trust and improve the chances of working together, including: **apologizing to the Marshallese** for the nuclear testing and thanking them for their sacrifice

⁵⁷ Cleo Paskal, “Australia vies with China to turn the Solomon Islands into a police state,” *The Sunday Guardian* (India), December 29, 2024. (<https://sundayguardianlive.com/investigation/australia-vies-with-china-to-turn-the-solomons-into-a-police-state>)

for global security; focusing on **delivering health and education**; ensuring all U.S. Embassies have **consular services** and sending ‘visa camps’ to PICs without an embassy; fully returning the **Peace Corps** to the region; and delivering the promised **medical services to U.S. military veterans** in the Compact states.

Note that the vast majority of these recommendations involve ‘political warfare’ tools (politics, economics, rule of law, transparency, etc.). While the U.S. industrial base and Navy need to be resurrected as well, at this stage, much progress can be made for the people of the region and the United States without traditional military intervention. China is fighting on a political warfare battlefield now. All it takes is fighting back. And the United States has that most splendid weapon on its side: the truth.

The PRC has made its trajectory clear — it wants to control the Pacific geographical pivot of history. And it will destroy American communities and families to do it. The question is, will the United States decolonize its mental strategic map in time and realize what Roosevelt, Ellis, Mitchell, and so many others knew: if a hostile power takes the Pacific, they’ve stuck a dagger into the American heartland?

PANEL II QUESTION AND ANSWER

VICE CHAIR SCHRIVER: Thank you very much. For my fellow Commissioners, we are going to go reverse alphabetical order for this round. But we are also going to begin with the Chair and Co-Chair of the hearing, which means I will begin the questioning.

Ms. Paskal, maybe we could just pick up where you left off. What does losing look like? Are we losing? And what does really bad outcome mean for us?

MS. PASKAL: Thank you very much. The Pacific Islands are, if you want to understand Chinese operations, the Pacific Islands are a very good place to do it because they are so small that you can see what China does when it comes into a country. And there are very specific cases, like, for example, in the Solomon Islands. It recognized Taiwan until 2019, and then it switched. And what China did to that country between 2019 and now gives an indication of what it looks like when you are starting to lose.

What happens is it starts to go after all of the mechanisms that make a country free. And if you take the case of a specific person, Daniel Suidani, who was the Premier of Malaita province. When the switch to China happened, his province said, "We don't want any CCP-linked businesses operating in Malaita," and they put out this Auki Communiqué that included things like, "We believe in freedom of religion. We don't want to deal with a country that actively persecutes people of faith, all faiths."

When he needed health care, the PRC-influenced government denied him health care. They went after his seat. They kicked him out of his elected seat for not recognizing the one China policy. They arrested him on trumped-up charges, and this is the thing about policing. Chinese policing isn't policing. They are not helping you figure out break-ins. They are state security apparatus. They're helping to keep in place a regime that becomes increasingly indebted to it for its own security, which is why it doesn't care if it alienates the population.

So basically what you get is a sino-forming of countries. You get this exporting of this Chinese system where freedom goes by the wayside, the judiciary no longer works, the police are used for enforcement. And it is incredibly difficult to watch, you can see the courage of the people in the Pacific Islands who are fighting to try to keep their countries free.

VICE CHAIR SCHRIVER: Thank you. Mr. Poling, I don't believe you got to your recommendations in your oral statement, so I want to give you the opportunity, particularly your first recommendation on assistance to the Philippines. I understand FMF has been restored but perhaps some of the State programs like INL, that was working with the Coast Guard, have not. But you are very much in support of strengthening cooperation with the Philippines for the purposes of their resilience but also maritime domain awareness and protection of their sovereign areas. Could you expand on that recommendation?

MR. POLING: Happily, and that's absolutely right. The Philippines has done a remarkable job over the last 2 years of standing up to Chinese coercion, but that is largely because of the backstop of the threat of U.S. intervention under the MDT, the Mutual Defense Treaty. That is what keeps China from escalating to kinetic force. And the inverse for the U.S. is true. The U.S. cannot accomplish its own goals in South China Sea, or South Asia more broadly, without access to the Philippines. If we are talking about a contingency in the Spratlys, the closest U.S. basing is 1,200 nautical miles away in Japan, or 1,500 nautical miles away in Guam. In a theater of a China has significant strike and center dominance. So the alliance is vital for both sides.

The Philippines have been undertaking a very ambitious modernization plan for its

military, supported by a ten-time increase in U.S. annual FMF over the last couple of years. It was very good to see that Secretary Rubio granted a waiver to the Philippines alongside Taiwan for the remaining, I think it is 330-some million of their FMF this year. They don't have the absorptive capacity to get 500 million every year, but I do think it is critical that the U.S. Congress ensure that annual appropriations for the Philippines are sufficient to aid their modernization, which we have outlined in the 10-year security sector assistance roadmap, concluded under the previous administration.

VICE CHAIR SCHRIEVER: Thank you. Something that often comes up when we discuss the South China Sea, which I don't think has been addressed, is the freedom of navigation operations. It seems to me we are at an ops tempo now where they are pretty routine, where we are being joined by others. You mentioned Chinese coercion, gray zone activities or ICAD, as not prevented countries from exploring, extracting, et cetera. Has that proven of value, or what is your assessment of freedom of navigation operations?

MR. POLING: I think FONOPs by the U.S. are extremely valuable, but they are valuable in the long term. They create a record of U.S. noncompliance with Chinese illegal activity. They don't change China's behavior in the short term, nor are they meant to. The problem with FONOPs was that in 2015 and 2016, they took on this crazy emblematic role of U.S. commitment to the region, when other things we were doing, support for maritime domain awareness, support for the alliance were so much more important.

Since 2017, the FONOPs have been regularized, the op tempo has been made quite predictable, and as a result over the last years we hear less and less about them, not because they are not happening but because neither the U.S. nor China tend to publicize them unless something particularly norms-breaking happens.

I think that is exactly right. It has taken the focus off of this kind of side show and put it where it belongs, which is Chinese coercion of its neighbors and U.S. support for those neighbors.

VICE CHAIR SCHRIEVER: Thank you. Madam Chair.

CHAIR PRICE: Thank you, and thank you all for your excellent testimony.

Mr. Tower, I learned a lot from your testimony. Thank you. We like to think of China as having total control over those under its jurisdiction. What kind of control do they really have in terms of putting a big dent in stopping this transnational organizations in crime?

MR. TOWER: Yeah, I mean, it would seem that the Chinese government does not have full control in that sense. I mean, you see where there are large numbers of Chinese that are actually trafficked through China into Southeast Asia, so the trafficking networks are able to actually bring Chinese out of Yunnan and Guangxi provinces and traffic them down into Myanmar.

And then you have also seen where some of the criminal kingpins that have become increasingly wealthy and powerful across the region, some of them have even become outspoken critics of the Chinese Communist Party. And to cite one example of this, you had a case in Myanmar where one of these criminal kingpins that actually initially, together with Chinese state-run enterprises, developed a very large cluster of scam centers in the Myanmar-Thailand borderlands. After China started to crack down on him, he turned around and became a very vocal dissident, kind of a really presenting himself as being attacked by the Chinese Communist Party.

So you would see where there is some indication that currently these criminal networks have become so powerful that even the Chinese Communist Party is trying to rein them in, to

bring them under control.

That said, you can also see where there are other criminal networks that are openly working with, collaborating with the Chinese state. And in particular you see where there are many of them, also who are operating large-scale, sizeable scam centers, that even are very public in China.

So here I would highlight the example of one of Asia's most notorious criminals, Wan Kuok-koi, also known as Broken Tooth, who spent over a decade in prison for his involvement as one of the former leaders of the 14K cartel. This individual has been involved in narcotics, in online scamming, and all kinds of fraud across the region, and yet he still has close relations with the Chinese Communist Party, he openly lives in China, and he is almost kind of like a criminal influencer. On a daily basis he is posting things on TikTok and other platforms. So this would then demonstrate also some collusion that is there between the Chinese state and these criminal networks.

I think also the other thing that is underway is you are seeing where the Chinese police are often using the presence of the criminal networks as a real reason to deploy themselves overseas or to gain more security access in countries around its periphery. And this has been, I think, particularly the case in both Myanmar but also recently in Thailand, where after there have been instances of Chinese traffic or Chinese nationals killed, China has demanded police access, boots on the ground basically, in some of these countries, which I think really brings into question, again, issues of sovereignty, where the host countries really have very limited ability to control what Chinese police are then doing in Thailand or in Myanmar.

CHAIR PRICE: Thank you. Very helpful.

Mr. Poling, if one of the countries, Philippines for example, was pushed into a larger conflict, can you talk a little bit about the impact on the other countries in the region, specifically Vietnam, Malaysia?

MR. POLING: There is a direct impact which is the Philippines has served as a bulwark. They have been the finger in the dike for decades, facing the vast majority of Chinese pressure. Vietnam has also suffered a significant amount and deserve credit for standing up.

But the thing that has allowed Malaysia, Indonesia, and Brunei to suffer relatively little coercion is because so much Chinese focus is on the Philippines. Should the Philippines find itself forced to buckle under Chinese pressure, or defeated in some short sharp conflict, it would clearly lead to knock-on effects for the claims farther south.

And then there is the indirect impact, which is the Philippines is a U.S. treaty ally, the oldest treaty ally in the Indo-Pacific. It is one of the only two casus belli the U.S. clearly has in the South China Sea.

If China were to kill a Filipino mariner in a way that clearly implicates MDT obligations, and the U.S. does nothing, then every other ally in the region has to start wondering what the price on their head is, and every partner who is not an ally, like the Vietnam, Malaysia, and Indonesia, has to assume that the U.S. no longer has the stomach to uphold the rules-based order that it built.

CHAIR PRICE: Thank you very much.

VICE CHAIR SCHRIVER: Commissioner Stivers.

COMMISSIONER STIVERS: During the last panel we heard a lot about how countries in Southeast Asia do not want to choose sides between the U.S. and China. I would like to explore for a moment how that applies to the Pacific Island countries, because I think we are seeing actually perhaps the opposite. We have the agreement on COFA, the Compact of Free

Association, where these countries clearly picked sides. They made a deal, about 7.1 billion over 20 years, which is a considerable amount for those countries, in exchange for full defense authority for the United States.

Ms. Paskal, first of all, thank you for your recommendations. They are very thorough. I would love to go through all of them. But number 24 of the 25 says -- and I hope that is not a point of priority here -- says, "Consider offering COFAs to other countries in the region."

My question is, I guess first your comment on if Pacific Islands countries are choosing sides -- Solomon Islands seems to have chosen a side also, the wrong one in this case -- but are these countries open to a COFA-like agreement?

MS. PASKAL: -- have they chosen sides, because in many cases, as was presented, the information views about the U.S. was about the elite in those countries, and in many cases the people feel very differently than the elite. And in the Solomon Islands, in the recent election, the population very clearly voted for people who were not aligned with that pro-Chinese grouping. But because there was no going after the strategic corruption, the Chinese money will go into a Solomon Island political figure, and then they will often, or at least sometimes, launder it through Australian or New Zealand real estate or bank accounts. Because there is no downside to taking the Chinese money, that money circulates, and they can flip the government in a way that the population doesn't want.

So in the case of the Solomons, I wouldn't say it is lost. I would say what you need is to go after the strategic corruption that is affecting the ability, the will of the people.

And in case of choosing sides, exactly as you said. The compact states, they obviously are a part of the U.S. thing, but even more so, two of them recognize Taiwan, which gives them an added layer of defense. And I would argue that many Pacific Islands, you could see it at the inauguration of the President of Palau, which happened in February. This is a country that recognizes Taiwan, and the question was who would show up, because you know the Chinese are putting pressure on all of the leaders across the Pacific not to show up. And the only ones that showed up were the ones from other countries, the leaders, the other countries that recognized Taiwan, so Marshall Islands and Tuvalu, and Papua New Guinea, who is big enough not to care. But the foreign minister of Japan showed up, sending a very strong message, and he sat right next to the foreign minister of Taiwan.

So this "friends to all, enemies to none" stuff is, frankly, nonsense. They are breaking up the region. Chinese pressure is forcing Pacific Islands countries to ostracize their cousins who recognize Taiwan. They are creating the fragmentation, and the pressure is already there.

In terms of the COFAs, there were discussions in Trump 1 about looking at some of the other Micronesian countries, including Kiribati and Nauru. Since then, they have both flipped to China, so it would be a much heavier lift. But other countries like Tuvalu, and potentially Nauru, which signed what Australia calls a COFA, but which is actually not -- the Australian deals with those two countries are very dangerous. They set a terrible precedent, because they are government-to-government deals. They are not like the U.S. did, where you had referenda with the population. They just signed these very important deals that take away sovereignty from Tuvalu and Nauru, government-to-government. That gives a precedent for the Chinese to do the same thing.

So there is a potential for the U.S. to look at those countries, as well, and I would suspect if you worked with people who care about democracy, including within Kiribati, you might be able to get some movement on that, as well. There was definitely interest previously.

COMMISSIONER STIVERS: Okay. I have a longer question, but I feel like I only have

45 seconds. Okay, I will go ahead.

So does the U.S. have to, or the U.S. and our allies -- we should always mention that, because you are talking about Japan and Australia, very important obviously in terms of their relationships with these countries -- does the United States and our allies, do we have to protect, and do we have to defend all of the islands? If China gets a military foothold in one strategically located Pacific Island, what is the impact of that? Is that devastating for our military strategy, moving forward, especially in a Taiwan or a Philippines contingency?

MS. PASKAL: It depends on the location. I don't think they are going to stop at one. And if you want to understand the implications, just pull up your World War II battle map. Because Japan had the center of the Pacific, the U.S. had to come down to keep the lines of communication open with Australia and New Zealand, fight its way up through Guadalcanal and then back up this side.

The Chinese are jumping the first and second island chain, and the center of the Pacific, and the U.S. territories. And I would underline also that the Commonwealth of the Northern Marianas, U.S., their representative in Congress from the Commonwealth of the Northern Marianas, her big, repeated economic ask is to increase tourism from China, to lift the cap on direct flights from Mainland China and for Chinese not to have visas to come into CNMI, which they don't now.

So yes, we are looking at the Pacific Islands as a whole, independent countries, but there also needs to be an evaluation of what is going on within the U.S. in the Pacific, because it is not Solomons. It is not just Solomons. It is much closer to home, much closer to that core geographical pivot of history that is, I think, the heartland of American security and prosperity.

COMMISSIONER STIVERS: Okay. Thank you.

VICE CHAIR SCHRIVER: Thank you. Commissioner Sims.

COMMISSIONER SIMS: Thank you to the co-chairs. Thank you for your testimonies today. We heard in the first panel today, which was focused on strategic competition, maybe a little bit more on the economic side of the house, one of the panelists said that the way that countries in the region are assessing their security partnerships and their economic partnerships between China and the United States is that increasingly China is the economic partner of choice whereas the United States is still viewed as the security partner of choice.

I don't know how I feel about that kind of framing of this. But what I am curious about is how you guys think that the countries in the region are assessing that. Is that an accurate framing, do you think, and particularly on the security side of things, how are those countries in the region assessing the United States as a security partner? And the second part of that, the trajectory going forward. How do they feel going forward about the United States being the security partner of choice when compared to China specifically?

Maybe we will start with you, Mr. Poling, and work our way down.

MR. POLING: Thank you. I think that the framing is useful but a little too simplistic. Yes, on most metrics, trade flows, obviously China is the number one economic partner, and on investment, the U.S. is only the top investment partner for Singapore, and by a very thin margin Thailand, as of last year. But the U.S. is competitive in many other places, and there is a great desire for more U.S. investment. U.S. investment creates high-quality jobs. It doesn't have a lot of the negative downstream effects that China's investment does.

So to say that countries view China as the primary economic partner, I don't think it is quite accurate. They recognize the reality that they need both the U.S. and China, and they would love to see a lot more from the U.S. on the economic side.

There was a narrative 10 years ago that China was a runaway bullet train when it came to the economy, and either you got on board or you missed it. But --

COMMISSIONER SIMS: Sorry to interrupt, but I am definitely more interested in the security side of it for this conversation, if we can.

MR. POLING: I don't think that there is anybody in Southeast Asia, beyond maybe Cambodia, who has any interest in China being their number one security partner. And I would say obviously Vietnam and the Philippines have the world's lowest opinions of China, but if you look at a place like Indonesia, which has a relatively low opinion of the U.S., the majority of Indonesians also report that China is an external security threat to Indonesia, and in one poll, over 70 percent said that China's behavior in the South China Sea is an external threat. They don't say that the U.S. is an external threat.

MS. PASKAL: So the situation is a little bit different in the Pacific Islands where you do have countries like Solomon Islands that are definitely gearing towards that security partnership with China.

I would say that when I hear those phrases like "we don't want to choose" or "friends to all, enemies to none," "don't worry U.S., you've got our security vote," those are all indications, red flags to me that whatever that leadership is, is drifting into the China camp, and saying things that it thinks the U.S. wants to hear to buy itself time and space.

The economic engagement with China, China comes in with an economic face. It almost always has a strategic element to it. And then the third element is criminality. And it is that braided approach, especially the criminality, that destroys societies and creates more corrupt governments. Those corrupt governments then are unpopular with their populations, which you think would be great for democracy, but the problem is then they turn to the Chinese security, policing, in order to be able to put down the local population.

So you might end up with that Chinese engagement, but those other elements are always there. And what you can see in a place like Solomon Islands -- and again, these are very useful case studies to see what that trend line is -- is you end up with a security component at the end.

MR. TOWER: Maybe just to add also on the policing nexus, if you look around most of mainland Southeast Asia, in particular in places like Thailand, there is definitely a very strong preference for U.S. support in this space. From China, they are generally getting demands for access, or they are getting sort of models of policing that just do not at all fit with the context in a country like Thailand.

I think it is also interesting to see that even a place like Myanmar, where the Myanmar military has high levels of concerns with China, even in that context, where it is heavily reliant on China for security, given that China holds a lot of the cards in terms of its ability to influence ethnic armed organizations in the northern part of the country, despite all of that dependence and reliance and everything else, there is also, I think, a very deep suspicion, even within the Myanmar military of Chinese security influence.

So kind of mainland Southeast Asia I think you see where there are a lot of countries where there are very strong concerns about China on the security side.

COMMISSIONER SIMS: Thank you all.

VICE CHAIR SCHRIVER: Commissioner Miller.

COMMISSIONER MILLER: Thank you all for your testimonies here. I want to start with Mr. Poling. Your second recommendation was on the Law of the Sea treaty. And we have had very interesting conversations about this in other hearings, in our visits to the region. Talk about the oddity of the dynamic whereby the United States is not a member of the treaty but acts

like it is, and China is a member but acts like it isn't.

Can you speak a little bit about the pitfalls of this, and maybe even the benefits, if there are any, of the U.S. not being a member of the Law of the Sea and where you think we should go from here.

MR. POLING: Absolutely. The U.N. Convention on the Law of the Sea is the second-most universally respected piece of international legislation ever negotiated after the U.N. Charter itself. And even the U.S. government, for the last 40 years, has maintained that the treaty is effectively the law of the land. The G7 statement on maritime security, just last week, the U.S. Secretary of State said that the U.S. recognizes the maritime order unpinned by the U.N. Convention Law of the Sea.

So the fact that we still have not ratified and become a formal party of this treaty, that the U.S. helped negotiate for more than a decade, it doesn't gain the United States anything. The United States increasingly bears all the responsibilities of membership UNCLOS, because we treat it as customary law. But we miss out on a great many of the potential benefits. We are not a party to the International Seabed Authority. While we complain about potential Chinese monopolization of deep sea-bed mining, we had a guaranteed veto in the ISA if we had taken it up and chose not to. We cannot formally submit our extended continental shelf for the U.N. Commission on the Limits of the Continental Shelf, and therefore you are not going to get any commercial entity who is going to feel the certitude to invest in any exploration beyond 200 nautical miles, whether in the Pacific or the Arctic.

So I no longer see any substantive benefits the U.S. gets by staying outside. What I do see is that we give China a pass, in every argument, to say, "Who are you to complain about our violating the law when you won't even sign up to it?" It is a self-own that no longer makes much sense for the U.S. national interest.

COMMISSIONER MILLER: Thank you. Let me switch to Mr. Tower for a moment here. Transnational crime is something that we are starting to pay a little bit more attention to as a Commission. But we are also in a world where crypto, particularly in the United States, is becoming more high profile. We may have a strategic Bitcoin reserve. We are certainly having a different regulatory scheme being considered for crypto regulation.

What are the new or growing challenges that we should be keeping an eye on in terms of the proliferation of cryptocurrencies, in terms of China policy, in terms of Chinese transnational crime and their place in the region?

MR. TOWER: Yes. I mean, if you look at the online scamming that is now increasingly targeting the U.S., it really is leveraging taking advantage of the fact that many people in the U.S., many people in other countries don't have very high levels of literacy when it comes to these newer forms of financial products or of cryptocurrency or of a blockchain or of fintech, more broadly. I think that is the first thing, sort of increasing literacy in this space is important.

A second thing that they are taking advantage of is in these scams, once they have managed to get the currency into a crypto wallet, they are then using these massive networks of crypto mules to move the crypto across very widespread wallets. It may pass through hundreds of wallets before its consolidated somewhere and comes out. And they are doing this so quickly that it makes it extremely difficult for law enforcement, whether that is in the U.S., whether that is in a country like Singapore, but it makes it very difficult for law enforcement to trace the money, to track where the crypto is going, and then to look at where it actually comes out in the actual financial market somewhere.

So that, I think, is another challenge that the criminal actors are exploiting is that

generally the capacity of law enforcement -- and that is really across the board, across the world - to investigate crimes in cryptocurrency is a lot lower. And you hear, in many countries, these very common lines of law enforcement just simply not dealing in cryptocurrency at all.

And then I think another problem when it comes to regulation is that you have now just a real proliferation of all of these different fintech platforms that will enable transfers of a full range of cryptocurrencies into fiat currencies, but really without much collection of information about who the customers are, who is on the other side of the wallets. This is also another problem that you have so many of these unregulated fintech products that it is actually making it quite easy for criminal actors to launder the cryptocurrency once it has been stolen in these scams.

So again, maybe by increasing regulation, pushing other countries around the world to increase their regulation of these different types of financial technologies and some of these different fintech exchanges, that that could help to address some of these different problems.

COMMISSIONER MILLER: Thank you.

VICE CHAIR SCHRIVER: Commissioner Kuiken.

COMMISSIONER KUIKEN: Mr. Tower, I was reading your testimony and I was reminiscing in my mind about the time I actually landed the words "cash is king" in one of the National Defense Authorization Acts. It was wonderful to see somebody talk about transnational crime.

We had a recommendation last year about consumer product safety and counterfeits. And as I was listening to you today talking about transnational crime I was thinking whether it is fentanyl, the scams you talk about, or counterfeits of like really everything, from over-the-counter drugs to prescription drugs to swimming pool drains, to anything else you can imagine. It seems like China's incredible manufacturing capacity just allows it to basically deploy counterfeits at will, whether it is through sort of traditional avenues of trade or illegitimate ones where they may or may not use transnational criminal organizations.

I think everything you just said to my treasured colleague, Commissioner Miller, is totally right on.

As I looked at this problem when I was on the Armed Services Committee and trying to think about sort of the interagency in the United States government, I sort of never could put my finger on one thing the government could do to sort of get after this problem. I had a colleague who always asked me, if I wished one thing could be true, what would be true? If you had one thing you could get the government to do, or this Commission could make a recommendation and sort of urge action on it, what would it be?

MR. TOWER: For the scams or for counterfeits?

COMMISSIONER KUIKEN: Transnational crime, broadly. There are obviously things that are unique to each of them. There are also things where there is an incredible amount of overlap.

MR. TOWER: Yeah. I mean, on transnational crime broadly, I think one thing that would be really important to do -- I mean, we know who a lot of these bad actors are, and we know who a lot of the states that are providing protection to these criminal actors are. I think using more effectively sanctions on both the criminal actors and the different state actors that are harboring them, that are giving protection to them would be one quite effective tool.

And just to give an example of this, right now down in the Thailand-Myanmar border area, you have a militia group that is directly under the Myanmar military, that basically hosts tens of thousands of these Chinese scammers, as well as scammers from all over the world, a lot of these individuals being in forced criminality.

We know precisely who that person is. Right now the Thais are actually working on trying to execute an arrest warrant and to maybe go after this person. But they are struggling with it a bit. I think that this is kind of a clear-cut scenario where we could go out and put sanctions on these sorts of individuals, which I think would send a pretty strong message of the intent to hold them accountable. So I think that is one thing.

Then, when it comes to some of the more, I guess sort of specific crime trends, like for example, what we are seeing with the online scams, I think there one quite effective approach would be simply to mobilize the private sector in the U.S. to basically increase the cost of perpetrating those forms of crimes that impact Americans. If it was much more difficult for the criminals behind these scams to identify people using social media, using dating applications, for example, a lot of these scams would go away. You wouldn't see the criminals even getting access to Americans. So using AI more effectively to weed some of this stuff out I think would be a way of doing it. But really, again, incentivizing the private sector to take more steps to address some of these problems would be a second, I think, measure.

COMMISSIONER KUIKEN: Thank you, Mr. Tower.

I will give this question to both witnesses that are here. As I have been listening to you sort of respond to questions in your opening testimony, the sort of takeaway I have in my mind is that basically China has a total disregard for traditional norms and standards in the global commons. So whether it is the South China Sea, Taiwan, you guys have gone through this sort of list of things. And they basically establish a new normal, is sort of how I have thought about this.

So if we are going to sort of put this back in the box, what is the first thing we should do? I said to Mr. Tower, one thing, and he gave me two. What is the one thing, in the interest of time, you would want the United States government to do, or that you would want this Commission to recommend to Congress to compel the executive branch to do, to the extent that we can do that anymore?

MS. PASKAL: Raise the cost of taking Chinese money in the target countries. What the U.S. did recently with designating the Thais, who sent the Uyghurs back to China, that makes a big difference. So make the Chinese illegal activity unwelcome in the target countries. Make people know they are not going to get a visa to the U.S., their bank accounts and assets in the West might be seized, that there is a cost.

The Chinese will just send new people. Broken Tooth was operating in Palau. He was attempting to get land, we have heard, near where the U.S. is putting in a military installation. I mean, the nexus between transnational organized crime and strategic concerns is very tight. They will use the organized crime for strategic gains.

So make them unwelcome. You used to know, don't do business with the Soviets. They are the bad guys. It is going to be a problem for you when you are dealing with the U.S. Make it similarly a problem -- and this is even easier because this is illegal anyway.

MR. POLING: [Audio difficulties] -- would suggest -- can we do better. But the most important thing is, first, do no harm. Things like disbanding RFA, which had huge benefits compared to the meager cost it is, is only damaging the United States. Dismantling USAID, at least in the chaotic way it has been done, is hugely damaging. The United States, if it just maintains the presence it already has, is extremely competitive in the region. And we are our own biggest danger, not China.

VICE CHAIR SCHRIEVER: Okay. Commissioner Goodwin.

COMMISSIONER GOODWIN: Thank you, Mr. Chair. My appreciation to the panel for their great testimony today.

Mr. Tower, I was interested to see the parallels you touched on in your testimony about combating fentanyl and the fentanyl crisis with combating these criminal scams across these regions. In that context you touched on the value of cooperation and coordination between law enforcement agencies in China and the United States, including sharing intelligence, obviously holding individual officials responsible, and engaging in ensuring that any domestic crackdown doesn't simply shift the focus, the emphasis, and operations elsewhere, including especially towards the United States.

The challenge is, as it has been in the fentanyl efforts, how best to incentivize that sort of cooperation and coordination. And if we can't, and if they won't, how do we impose costs?

MR. TOWER: I think one way of addressing this is also considering that where are the scam centers? Where is a lot of this activity taking place? It is on Thailand's border. There are also scam centers in the Philippines. And in all of the different crackdowns and raids, you are seeing where lots of devices are being seized and taken out of Myanmar, going into Thailand.

Right now what is happening actually, I think it is really frustrating for the Thais, because Thailand is trying to be involved in a crackdown. It is trying to some of this work down there, but China is coming in and it is really kind of pushing the Thais around a little bit. China wants access to all of those phones. It wants access to all of that data. And basically what you have seen happen over the past month since this crackdown has started down on the Thai-Myanmar border, is that China has almost gotten all of those devices -- that includes computers, cellphones, everything else -- that has massive amounts of data on it related to all of the different scam victims around the world that these scam syndicates have been perpetrating crimes on.

Now, if the U.S. was kind of down in there and working much, much more closely with Thailand on this crackdown, I think the U.S. could then be accessing those devices, could then be supporting the Thais in those negotiations over who actually gets access to that information.

And then I think there is another space where this could also happen that could help us really kind of help us get a leg up and a better understanding of how these things work is in the Philippines, where there is a lot of political will, and unlike in other countries in the region where the scam centers are in Myanmar, Laos, or Cambodia, it is generally going to be the case it is going to be a lot harder for the U.S. to work in those countries. And you are often seeing where China is leading the crackdown, so it is going to get access to all that intelligence.

In the case of the Philippines, they are cracking down really on their own, and they don't want China involved with it. And, in fact, around some of their crackdowns they have seized lots of devices. They just simply don't have the capacity, the technology, to crack those devices open and to build out some of the analysis of that data.

So I think that is another avenue where the U.S. could kind of get ahead of the game a little bit in terms of actually working with other countries where the criminal activity is happening, where these Chinese crime syndicates are operating, we could get access to some of that information that way.

And then I think as the U.S. starts to build up more of a better understanding of how this works and starts to build more of a database of losses to victims and starts making more of those connections, then it will be on better ground to go and really push the Chinese to start giving over more of that data and more of that intelligence. I mean, there are other ways of getting access to the intelligence that we need to crack down on these crimes, other than just asking China for it.

COMMISSIONER GOODWIN: Thank you. Ms. Paskal, I wanted to follow up on the questions that Commissioner Stivers posed to you about your recommendation number 24 about

extending these COFA agreements to additional countries. Previously, in your written testimony, you also seemed to suggest that the structure of these existing COFAs were perhaps a bit outdated in the sense that they were built on the assumption that the greatest danger in the region would be hostile military action. How do we structure and craft these new agreements, as you would recommend, in a way that best confronts the threat of Chinese influence?

MS. PASKAL: Thank you very much. That is a core point. The COFAs have the ability to help the countries develop capacities in investigation and prosecution that could be supplemented in other ways, for example, information sharing and things like that.

One of the things that has been very helpful in Palau has been the setting up of a National Security Coordinator position that helps coordinate intelligence sharing and investigations with a range of allied partners. And that has been started now in the Marshall Islands. They are desperately understaffed. COFA funding can be used for training and facilitation for expansion of those facilities.

And just quickly, the whole framing we have had is U.S. versus China, and that is very much of a Chinese narrative. And what is clear in a lot of the compact states is, especially because two of them recognize Taiwan, is it is those who want a free and open Indo-Pacific, as has been conceived from Washington for about 150 years, functionally, at least in the Pacific, versus those who want to close it down. And when you look at it that way, you can bring in a whole bunch of different countries, including India in health care, Japan on microeconomic development. Taiwan has been helping Palau go through the Chinese language technology that has been seized from the Chinese organized crime groups. And they can be worked into the development of COFA structures that go after the ICAD activity and broaden the narrative from this just being a U.S. versus China thing.

So the shift to the sort of things that actually create social resilience, the tools and the money are there within the compacts. That money is mandated. But the way that it is delivered can be more responsive to those specific threats.

COMMISSIONER GOODWIN: With the indulgence of the Chair, just one quick follow-up, and Commissioner Stivers also explored this issue about the level of support in these countries for your recommendation. But specifically, my understanding of the existing compacts is that they were authorized by Congress and then approved by referendum in the individual states. If those votes were held today, how would they turn out in those countries that you recommend we should extend COFAs to?

MS. PASKAL: Bingo. The one that would be a big question is the Federated States of Micronesia, and it is an uncomfortable constitutional structure to begin with. And President Panuelo, the just past president, has written very incisive letters that describe Chinese activity within the FSM, within the Federated States of Micronesia, including the supporting of independence movements. And we are starting to see that happening. Yap, where the U.S. is putting in a major airfield, recently had a referendum to vote on reevaluating its constitutional relationship with FSM as a whole, which would, of course, involve reevaluating the compacts, the COFA.

So this sort of entropic warfare, or what the Chinese call “disintegration warfare,” of trying to break apart a country from the inside, is very apparent. I would highly recommend reading the letters from President Panuelo. They describe in great detail what has been going on in his country. And I think part of the goal for that is to create such internal fragmentation and competition that the compacts can break apart. And also the funding for the FSM compacts is different than in Marshall Islands, structured different than Marshall Islands and Palau, and I

personally think there is a case to be made that they have deliberately structured it to be in a position to walk away from the compacts, if not in 20 years then sooner.

COMMISSIONER GOODWIN: Thank you.

VICE CHAIR SCHRIVER: Commissioner Friedberg.

COMMISSIONER FRIEDBERG: Yes. Thank you very much. Mr. Poling, you suggest that China's policies in the South China Sea are primarily about national mythmaking and political legitimacy. I want to explore with you a hypothesis that that may understate the nature of China's ambitions, that, in fact, perhaps, their goal has been, for some time, maybe 20 years, maybe more, essentially to do what it appears they are trying to do, which is to get into a position where they can enforce their claims, territorial and maritime claims, and where ultimately they can exert effective controls over the waters, airspace, resources of this vast area, and that they have made real progress towards that over the last 20 years.

So just looking at the symbolic significance may understate, if we take a longer view, what it is that they are after. Could you respond to that?

MR. POLING: I don't disagree. The argument I would make, though, is the reason that China has wanted to exert control over the resources, the trade, the military in the South China Sea, is not because of those things in and of themselves. The resources are relatively meaningless. All the oil known to exist in the South China Sea accounts for less than 2 years of daily consumption in China. The impact of trade diversion has been vastly overstated.

I have no doubt that the PLAN really wants to use the South China Sea as a submarine bastion, and to exclude U.S. forces, but that is not the underlying reason for the claim. Because if that was the only desire, then China could very easily shatter the U.S.-Philippines alliance at any point during the previous Duterte administration by just playing a little nicer with the Philippines. The totality of China's claims only make sense, in my mind, in a framing based on nationalism. That doesn't change the behavior. It doesn't change China's aims or the threat they represent to us. But I think it helps give us clarity on what we can expect China to actually be willing to compromise on.

There is no bilateral military modus vivendi the U.S. and China can reach that would solve the South China Sea, and there is no amount of economic cooperation the Southeast Asians could offer that would do the same.

COMMISSIONER FRIEDBERG: Let me suggest an alternative hypothesis to that part of your argument. Maybe China hasn't negotiated and agreed to a reduction in the scope of its claims in the South China Sea in return for a reduction in the American presence because they think, in the long run, they can have both, and that that is what they are aiming for.

MR. POLING: I think that is probably accurate. I think certainly under Xi Jinping the two move in tandem, and I don't think there is any hope under Xi's leadership of a compromise, even if the U.S. did say it was going to stop close-in surveillance and FONOPs, et cetera. It wouldn't change anything about China's behavior toward the Philippines.

I do think that there is still room for compromise under a future Chinese leader, but it will have to involve both a compromise on the meaning of China's claims, the nature of historic rights, and concessions by the U.S., as well as Southeast Asian claimants.

COMMISSIONER FRIEDBERG: Okay. You suggest that, in fact, in recent years the countries of the region have been successful in pushing back against China, and they have sort of found that the Chinese are reluctant to escalate. Here, too, I wonder, though, if this isn't a little bit too narrow of a view. So perhaps the question would be what exactly might be required, what would change that you think could cause China to be willing to escalate? And let me suggest

here also, a hypothesis. Maybe it has to do with their assessment of the extent to which the United States is committed to pushing back against possible escalation, and if they come to doubt that, they may be willing to play a lot rougher than they have.

MR. POLING: I think that is absolutely correct. Had the United States not persistently clarified the application of the Mutual Defense Treaty with the Philippines over the last several years, I am quite confident that the BRP *Sierra Madre* would not be on Second Thomas Shoal, that China would have been willing to escalate to at least a small, contained use of military force, if necessary. And that probably applies across the South China Sea.

COMMISSIONER FRIEDBERG: Okay. So this could be a temporary improvement, depending on the extent of the American perceived commitment.

The last question I wanted to ask you, and it is a big one so maybe you could just give us a brief response, but what do you think China or this particular CCP regime's desired end state in the South China Sea is?

MR. POLING: I don't think that China actually wants all the resources of the South China Sea, but I certainly think that it wants all of its neighbors to have to ask permission before they can tap their own. I think it wants, as it is written into the very first draft of the DOC, all the way back in 1998, no foreign military activity without China's permission, no joint exercises without China's permission. This is about an acceptance of Chinese hegemony, not about direct Chinese control of all the activity.

COMMISSIONER FRIEDBERG: Okay. But that is more than just mythmaking, and it is more than just China's legitimacy.

MR. POLING: I would argue that that has now become synonymous with the mythmaking of historic rights that emerged in the '90s and was solidified under Xi Jinping since 2013.

COMMISSIONER FRIEDBERG: Okay. Thank you.

VICE CHAIR SCHRIVER: Commissioner Brands.

COMMISSIONER BRANDS: My questions pick up where the last set left off. Mr. Poling, you mentioned in your testimony the concerted Chinese pressure campaign that the Philippines found themselves under, particularly at Second Thomas Shoal, mostly last year I guess it was, extending perhaps far beyond that. And you mentioned, I think if I am paraphrasing correctly, the mathematical certainty that at some point a Filipino sailor is going to get killed in one of these encounters.

And so my question is, what happens then? You stated, and I would agree with this, that it would be extremely damaging if the U.S. were to sort of do nothing in response to that. It would also seem that Second Thomas Shoal is a bad place to sort of go all the way. So what does the suite of appropriate U.S. responses look like to that sort of scenario?

MR. POLING: I certainly think that we should avoid the framing of retreat versus sinking a Chinese DDG over some skirmish in the South China Sea. Article IV does not obligate the United States to go to war with China if China kills a Filipino servicemember. It requires the United States and the Philippines to jointly take steps to meet the common threat. Those do not have to be kinetic steps. I certainly think that in that case it will be incumbent on the U.S. to implement, hopefully, already agreed upon contingency plans that have been in the works under the last, say, 3 years of modernization of the alliance, to do things like enhance U.S. presence in the EDCA sites. Maybe take steps that the U.S. would have previously considered far too escalatory, like joint patrols in the Spratlys, doing resupply missions, even U.S. boots on the ground in the Spratlys.

There is a whole array of issues meant to reestablish deterrence that do not have to involve a direct strike on Chinese assets. I would say that every one of those steps is themselves going to be extremely provocative and provoke Chinese counter moves, which is going to put us in precisely the cold war that so many on both sides say they are trying to avoid.

COMMISSIONER BRANDS: So you mentioned the expanded EDCA sites, and there has been a significant amount of movement in the U.S.-Philippines alliance over the past few years. So what do you think are necessary or likely next steps in that alliance? What should a U.S. administration or the Congress be looking toward over the next, say, 5 years, in terms of making sure that alliance is fit for purpose?

MR. POLING: When it comes to platforms, I think the most important are going to be intermediate-range fires. We already have one set from the U.S. Tomahawks that have been there since last year. The Filipinos have their own BrahMos missiles. We need more of that on both sides to reestablish some credible risk to Chinese vessels in the South China Sea.

Then you need to see real, lasting U.S. infrastructure investment in all nine -- or at least seven, because of two of them might not be necessary -- of the EDCA sites. Because the point eventually is to turn those over to the AFP. They will become Filipino assets.

And finally, one that has been overlooked is we need to follow through on planned investments in the communities around the EDCA sites. Previously, that was led largely by USAID. Somebody else needs to step into that void, because it needs to be clear to Filipino communities that these are a benefit, not a burden, or they will end up the same political football the U.S. basing did in 1992.

COMMISSIONER BRANDS: And a final question for you. I think for years the conventional wisdom has been that China has a very strong presence in the South China Sea in peacetime, but that many of their assets and bases would be extremely vulnerable in war. I take it from what you implied in your testimony that you think that may be shifting as the PLA modernizes and builds out its footprint in the region.

So could you just say a little bit more about that?

MR. POLING: I actually think that is quite wrong. Yeah, I published an article in War on the Rocks years ago that provoked an amount of criticism, but I stand by it, that the U.S. could not effectively neutralize Chinese basing in the Spratly Islands, and has not been able to for years.

In theory, could I run a model that says yes? Sure. But in order to degrade the critical nodes on those islands, you would have to empty the magazine of every vessel in the Seventh Fleet. And I struggle to imagine the scenario in which you are willing to do that, that you are not fighting over Taiwan or some other more significant theater. So I just don't see the world in which the U.S. could actually do that.

COMMISSIONER BRANDS: Thank you very much.

VICE CHAIR SCHRIVER: Would any Commissioners like a second round? Yeah, Aaron.

COMMISSIONER FRIEDBERG: Ms. Paskal, I very much enjoyed your testimony in part because of its historical sweep and the Great White Fleet, Teddy Roosevelt. We don't always get that in testimonies, so I really appreciated it, a historical perspective.

But I wanted to go back to a question that one of my colleagues raised earlier, to expand on it. What is it exactly that you envision China doing or being able to do if it builds out its position, particularly in the South Pacific Islands? Are you imagining a war in which Marines are going to storm ashore at Guadalcanal, or where China is building bases from which it is going to

interdict sea lines of communication running across the Pacific? Play out that scenario a little bit for us.

MS. PASKAL: Sure. We are still kind of mirror imaging our version of war. So what you are starting to see -- and again, the Pacific Islands are a good place to see where this is going -- the headquarters of the Forum Fisheries Agency, which is the agency that is supposed to counter things like illegal fisheries, is based in Solomon Islands. The U.S. Coast Guard is acknowledged by everybody in the region to be doing a good job with a very small number of ships, helping with illegal fisheries. They were supposed to go into port in the Solomons to refuel and sort of check in, and nobody picked up the phone, they couldn't get in, there was bureaucracy. And the Islands will use the excuse, "Oh, you know us. We're all just disorganized," and whatever. But the point was they waited around as long as they could. They couldn't come into port. They had to move on to Fiji. And then it happened again in Vanuatu.

So you start to see this blocking of U.S. access. That is a port example, but you see it in commercial activities. You see it in telecoms. You see it in transport with the direct flights. You are seeing the unrestricted warfare, across-the-board usage of the islands, including for getting into other locations.

So in Palau, for example, they published a list of undesirable people, and there were a whole bunch of people from Vanuatu on there. And there were Chinese who had bought Vanuatu passports, and they were doing who knows what. And they are using those locations to then launch operations in other places.

So it is a much more comprehensive definition of warfare that creates an environment in which the U.S. cannot operate. And it may not know why, and it may be looking in the wrong location, and it is probably fighting in the wrong way.

Senator Rubio passed a law saying that there needed to be a study done and made public into the wealth of the leadership of the Chinese Communist Party. That would help. That would help as much as sending a Coast Guard vessel into Solomon Islands.

We are focused on their U.S. versus China narrative and on fighting in the way they want us to fight. I would say broaden it out and use the tools -- we have truth on our side. How much better can you get? We just need to get that truth out there. Otherwise, you are not going to be able to move, which was the great fear of Roosevelt and McKinley and Reagan. I mean, everybody saw it.

COMMISSIONER FRIEDBERG: Thank you very much.

VICE CHAIR SCHRIVER: Thank you again to our witnesses. I appreciate your support of this Commission's work with your expert statements.

And we will now break for lunch and reconvene at 1:50. Thank you.

PANEL III INTRODUCTION BY CHAIR REVA PRICE

CHAIR PRICE: Okay. We are going to start.

Our third and final panel will examine the impact of China's economic engagement on Southeast Asia and the Pacific Islands. We will start with Dr. Vikram Nehru, Senior Fellow at the Foreign Policy Institute at Johns Hopkins University School of Advanced International Studies. Dr. Nehru will testify on the risks presented by China's growing exports to, and excess manufacturing capacity in Southeast Asia.

Then we will hear from Dr. Guanie Lim, Associate Professor at National Graduate Institute for Policy Studies. Dr. Lim will discuss how multinational corporations from the United States, Japan, and other allies and partners in the region are impacted by Chinese investment in Southeast Asia.

Unfortunately, Dr. Alvin Camba is not available to testify in person today, but his written testimony is available on our website.

Thank you both very much for your testimony. I would like to remind both of our witnesses to please keep your remarks to 7 minutes, to preserve time for questions and answers.

Dr. Nehru, we will begin with you, and thank you so much for joining us today.

**OPENING STATEMENT OF VIKRAM NEHRU, SENIOR FELLOW, FOREIGN
POLICY INSTITUTE, JOHNS HOPKINS UNIVERSITY SCHOOL OF ADVANCED
INTERNATIONAL STUDIES**

DR. NEHRU: Thank you, Chair Price, Vice Chair Schriver, and distinguishes members of the Commission.

Dr. Lynn Kuok, this morning in her testimony, referred to a survey that I wish to start with. The survey's key conclusion, as she said, was that China remains the dominant economic, political, and strategic force in Southeast Asia, surpassing the United States. China's economic dominance, however, does not translate into popularity. Southeast Asians harbor deep-seated concerns about China. Half of those surveyed distrust China, fearing that its growing economic and military power could be leveraged to undermine their sovereignty and national interests.

Southeast Asians have greater trust in the United States, but recognize that not only is its economic influence less than China's but that economic influence is waning while China's is growing, and that its reliability as a partner is also in question.

There are two key reasons why China's economic impact in Southeast Asia is so strong, and of course you know the first one, and that is the fact that Southeast Asia's largest trading partner is China, and those links are, in fact, deepening as the years go by, and China is also the largest supplier of infrastructure finance for Southeast Asia, eclipsing the contribution of the G7 and the multilateral financial institutions. And the infrastructure that is being built with that finance -- ports, roads, rail, and now telecom and cloud computing -- broadly tied the Southeast Asian economies yet more closely to the Chinese economy.

The U.S., on the other hand, remains by far the largest foreign direct investor in Southeast Asia, and its focus tends to be on Singapore and in services. Indeed, Southeast Asia's trade in services is twice as large for the United States as it is with China.

Singapore is Southeast Asia's banker, and U.S. banks, and through them the U.S. financial authorities, wield considerable influence throughout the region. The U.S. dollar remains the currency of choice for all international transactions, irrespective of efforts by Beijing to urge the use of the renminbi.

Allow me to highlight just three different aspects of China's influence. Let me start with high tech, and then I will move on to two other issues which I have been asked to talk on.

On the high-tech front there are three subsectors which are worth considering. The first is the entire electric vehicle, or EV, manufacturing supply chain, where China dominates the landscape from downstream nickel smelting to batteries to EV manufacturing. Strikingly, U.S. and European companies, including EV producers, have been late in recognizing the potential of Indonesia's reserves, in particular, and generally speaking, Southeast Asia.

Similarly, the explosive growth of Southeast Asia's digital economy has led to rapid growth in the demand for telecoms infrastructure. Western telecom infrastructure providers had a significant presence in every Southeast Asian country, but now, other than in Singapore, Huawei is the key telecom infrastructure provider, offering cheaper technologies with fewer restrictions.

Finally, consider cloud computing. Here too, Western companies had a considerable advantage in Southeast Asia a couple of years ago, but with large investments in data centers, Chinese companies have, in very short order, come to dominate in many Southeast Asian markets.

Now let me come to two of the issues which the Commission's staff has asked me to focus on. The first is on excess industrial capacity, as the Chair indicated.

Trade dependence and the growth of Chinese FDI have made Southeast Asian economies vulnerable to the vicissitudes of the Chinese economy. Excess capacity in China is contributing to deflationary price pressures within Southeast Asia and in third-country markets where Southeast Asian manufacturers compete with Chinese firms.

But having said that, my sense is that the expected tsunami of cheap Chinese goods into Southeast Asia has not yet happened, although policymakers are bracing for this and are actively thinking about policy reactions if that were to occur.

The second issue that I have been asked to focus on was on transshipment through Southeast Asian ports. Several Southeast Asian countries, especially Vietnam but not only Vietnam, have become transshipment points for Chinese-made goods destined for the U.S., to circumvent Section 301 tariffs. Recent analysis shows that at its peak in 2020, the share of such transshipped products in Vietnam's total exports to the United States was estimated to range between 7.5 and 16 percent, depending upon the methodology used. But this share has since declined to 4 percent, or roughly \$5 billion, not a particularly large amount, and will probably decline further as Chinese firms relocate to Southeast Asia, and Southeast Asian authorities crack down on such transgressors.

Finally, my written paper makes seven policy recommendations, designed with one overarching objective -- advancing the long-term strategic and economic interests of the United States. They see Southeast Asian economies as partners, not adversaries, and focus on measures that will expand America's economic presence in Southeast Asia while, at the same time, making it a trusted and reliable partner, whose principles and commitment remains steady and, most importantly, durable.

Thank you very much.

CHAIR PRICE: Thank you very much, and we will revisit some of those points shortly.

Dr. Lim.

**PREPARED STATEMENT OF VIKRAM NEHRU, SENIOR FELLOW, FOREIGN
POLICY INSTITUTE, JOHNS HOPKINS UNIVERSITY SCHOOL OF ADVANCED
INTERNATIONAL STUDIES**

MARCH 20, 2025

VIKRAM NEHRU

Senior Fellow, Foreign Policy Institute, Johns Hopkins University School of Advanced International Studies

TESTIMONY BEFORE THE U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

The economic influence of China and the United States on Southeast Asia: Recent trends

Chair Price, Vice Chair Schriver, distinguished members of the Commission: Thank you very much for the opportunity to testify before you on the influence of the Chinese and U.S. economies on Southeast Asia.

Introduction: Contextualizing Southeast Asia

Southeast Asia comprises ten countries¹ that differ vastly in size, per capita income, resource endowments, political systems, religions, colonial histories, and, most importantly, development strategies.² Yet, over the past half century, four common forces have made the Southeast Asian region one of the world's consistently good economic performers. The first is the region's strategic location astride the Malacca Strait -- the world's second-busiest shipping channel and the second most traversed oil tanker route. The second is Southeast Asia's abundance of natural resources³ which have over the centuries attracted traders, colonists, and, more recently, foreign investors. Third, the region's shared institutional and trade architecture facilitated economic integration, promoted dialogue on economic and security issues, and created avenues for peaceful resolution of regional disputes. Finally, Southeast Asia's proximity to China, Asia's rapidly growing, resource-hungry giant, helped transform the countries of the region from "dominoes to dynamos".⁴

Taken as a whole, Southeast Asia looms large on the world stage. Its population of near 680 million is twice the size of the United States and smaller than only two countries, China and India. Likewise, only four countries in the world -- the U.S., China, Japan, and Germany -- exceed the region's nearly \$4 trillion GDP. Southeast Asia is the world's most trade-dependent region, which

¹ For the purposes of this testimony, Southeast Asia is deemed to comprise Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam, which are also the ten members of the Association of Southeast Asian Nations (ASEAN). Timor-Leste is physically located in Southeast Asia but is excluded from this testimony for three reasons: first, it is not a member of ASEAN; second, its GDP (in current dollars) is a quarter the size of Brunei's, ASEAN's smallest economy; and third, Timor Leste's economic data is scarce compared with the other economies in the region.

² For example, the largest Southeast Asian country (Indonesia) is 700 times as populous as the smallest (Brunei); the per capita income of the most economically developed (Singapore) is almost 80 times that of the poorest (Myanmar). Political systems in the region range from Communism to military rule to thriving democracies, with virtually everything in between. Different parts of the region were colonized by Britain, the Netherlands, and France at different times in their histories, with Thailand the sole exception.

³ Timber, rice, palm oil, cocoa, coffee, a variety of minerals, and a range of energy sources (hydro, oil, natural gas, and geothermal).

⁴ John Bresnan, *From Dominoes to Dynamos: The Transformation of Southeast Asia* (New York: Council on Foreign Relations, 1994).

has helped propel its economic growth over decades while, at the same time, linking it tightly to the world economy, especially the U.S. and China.

The rest of this written testimony examines the nature and trajectory of the economic links between Southeast Asia and the world's two economic superpowers, and their implications for this strategically critical region. Its structure has been guided by the questions posed by the Commission's staff.

Trends in trade

Trade lies at the heart of Southeast Asia's development story. At 116 percent, its trade-GDP ratio today is the highest for any region in the world, including the European Union.⁵ But there is a striking contrast in the trajectory of the trade-GDP ratio for these two regions. While the EU's trade-GDP ratio has climbed steadily,⁶ Southeast Asia's trade-GDP ratio reached its peak in 2005 (at 156 percent) and has since declined steadily. The main contributors to the descent were the "big four" (Indonesia, Malaysia, Philippines, and Thailand) on account of growing protectionist tendencies and resource nationalism – especially in Indonesia. To some extent, these trends were partially mitigated by climbing trade-GDP ratios in Southeast Asia's late trade liberalizers – Cambodia and Vietnam.

Merchandise trade. There are three notable features about the trend in Southeast Asia's international merchandise trade over the past two decades. The first is that China has become the largest trading partner for all Southeast Asian economies. In 2003-2023, Southeast Asia's merchandise trade with China grew twice as fast as with the United States (12.6 percent a year compared to 6.0 percent a year).⁷ In 1995, China's trade with Southeast Asia was a mere fifth of America's; today it is almost twice as large.⁸

Second, manufacturing in mainland Southeast Asia — led by multinational enterprises — have increasingly participated in complex regional and global value chains.⁹ These firms have largely supplied inputs to China for further processing or assembly. Southeast Asia was at the forefront of this "second unbundling" of globalization,¹⁰ making East Asia the "factory of the world". Production across borders fragmented in accordance with areas of comparative advantage. Over the last two decades, the share of Southeast Asia's intra-industry trade in total trade has climbed, and the share of domestic value added in total trade has declined. This is especially true in sectors such as electronics that are subject to increasing returns to scale.¹¹ Southeast Asian economies – especially

⁵ Data for 2023. The numerator in the trade-GDP ratio includes imports and exports of goods and services in current US dollars. Data taken from the World Bank's World Development Indicators. The EU's trade-GDP ratio is 95 percent.

⁶ Except for two small hiccups triggered by the global financial crisis in 2008 and the pandemic.

⁷ Based on data from UNCTAD Direction of Trade Statistics.

⁸ Southeast Asia's trade with the U.S. is 56 percent of its trade with China.

⁹ Complex value chains are when goods cross country borders at least twice in the process of production before sale to the final consumer.

¹⁰ Baldwin, Richard. 2016. "The Great Convergence: Information Technology and the New Globalization" (Cambridge, Mass.: Harvard university Press).

¹¹ These increasing returns are of three types: those within firms (internal economies of scale), those across firms producing similar products but located within clusters (external economies of scale), and those arising from firms producing differentiated products in an urban setting (urbanization economies). Alavi, Hamid, Ralph Van Doorn, and Vikram Nehru. 2012. "*Building a Neighborhood – One Policy at a Time: The Case for Deeper Economic Integration in East Asia*", in

those on the mainland – were able to leverage scale economies into international competitiveness which, in turn, attracted more investment that further enhanced competitiveness.

Southeast Asia's two fastest growing indirect exporters to China are Cambodia and Vietnam. Not to be left behind, resource-rich Southeast Asian economies are equally well integrated with the Chinese economy. Laos (copper — ore and refined, rubber, and electricity), Indonesia (palm oil, coal, nickel, coffee, tropical fruits) and Myanmar (gas, refined copper, rice, gems, jade, timber) offer China a wide range of energy, minerals, raw materials, and food products. China's export success could not have been possible without access to this large southern hinterland providing key components and raw materials for production, assembly, and even final consumption.

Third, in recent years, Southeast Asia's imports from China have grown faster than its exports to China. In fact, in 2023 Southeast Asia became China's largest export market, ahead of even the U.S. and the EU, and this gap increased in 2024.¹² Southeast Asia now runs a significant bilateral trade deficit with China (over \$190 billion). Four factors have contributed to this recent surge in China's exports to Southeast Asia: first, the facilitation of trade through the Regional Comprehensive Economic Partnership (RCEP), a trade agreement which came into force in 2022 and includes all ten members of ASEAN as well as China (together with four other Asia-Pacific economies);¹³ second, increased offshoring of Chinese manufacturing to Southeast Asia, with these firms reliant on machinery, equipment, and components imported from China; third, excess capacity in Chinese manufacturing placing pressure on Chinese firms to seek export markets, including in Southeast Asia; and fourth, the growth of Southeast Asia as a final market destination for Chinese-manufactured consumer goods. The consequences of this are explored later in this paper.

Services trade. Globally, trade in services over the past decade has grown faster than merchandise trade. But in Southeast Asia, services trade is a mere fifth of total merchandise trade and has grown more slowly. The reason is the high level of restrictive measures against services trade in virtually all Southeast Asian economies. These barriers have not only restricted services trade but are also responsible for the poor quality of domestically provided services, making them internationally uncompetitive. Nowhere is this more important than in health and education. A binding constraint in these sectors is often the shortage of skills needed for innovation, technological progress, economic transformation, and international competitiveness. Yet policies governing services trade restrict foreign skills from being imported to relieve such critical bottlenecks.

The notable exception in Southeast Asia is Singapore. Singapore is in fact a services powerhouse, trading services equivalent to 136 percent of its GDP in 2024.¹⁴ It is the portal through which many U.S. companies operate in Southeast Asia. Singapore's financial sector is the banker to Asia's corporations and elites (with many of those banks being American), its hospitals provide world class healthcare, its location makes it the preeminent port in the region, and it is the hub of most commercial airlines operating between Asia and Europe. Sixty percent of the Fortune 500

Takashi Shiraishi and Jiro Okamoto (eds.), "Engaging East Asian Integration: States, Markets and the Movement of People" (Singapore: ISEAS).

¹² Asia Society Policy Institute. 2025. "ASEAN Caught Between China's Export Surge and Global De-Risking", February 17, 2025; available at: <https://asiasociety.org/policy-institute/asean-caught-between-chinas-export-surge-and-global-de-risking>.

¹³ The four other economies are Japan, Korea, Australia, and New Zealand. The United States, on the other hand, has a free trade agreement with only one Southeast Asian economy – Singapore.

¹⁴ Department of Statistics, Singapore (<https://www.singstat.gov.sg/>).

companies have located their Asia-Pacific headquarters in Singapore.¹⁵ Singapore's international connectivity is ranked the highest in the world,¹⁶ its stock of world class transport and communications infrastructure, its well-developed legal system, and its skilled and well-educated workforce make it an attractive conduit for U.S. businesses seeking markets in the most dynamic and populous region in the world.

Domestic pressure groups and local unions have successfully sheltered their members from international competition to the detriment of growth in other sectors of the economy. There are obviously exceptions to such broad generalizations – Singapore's health and education sectors, as well as the Thai health system, being important examples.¹⁷ But by and large, Southeast Asian economies would benefit greatly if they were to liberalize their services sector and open them up to international competition.

Southeast Asian policies appear to be less restrictive of digital services trade. In many of these economies, the lack of government capacity could arguably be an important cause. The explosive growth of Southeast Asia's digital economy has partly been because government policies have not caught up with these new technologies. Singapore is an exception. Indeed, its regulations for digital services trade are considered best practice internationally, and it has concluded cutting edge international agreements on digital services trade with New Zealand, Chile, Australia, Korea, and the United Kingdom.

In other Southeast Asian countries, despite high levels of services trade restrictiveness, the explosive growth of the digital economy is among the most exciting economic developments in the region. Focused primarily in fintech, e-commerce, food delivery, transport, and online media, the digital economy has been growing at over 20 percent a year and giving rise to unicorns and some decacorns, mostly in Singapore and Indonesia. In 2014, there were just three unicorns in Southeast Asia; now there are 50 as well as 2 decacorns – and all of them operate in the digital economy. While Chinese investors provide the bulk of Southeast Asia's digital infrastructure, it is American high-tech companies by far that have the largest footprint in the region's digital economy (Amazon, Microsoft, Google, Facebook, WhatsApp, YouTube, Netflix, and so on).

Participation in trade agreements

Southeast Asia's high trade-GDP ratio is buttressed by a regional institutional architecture that is, in its scope and depth, unrivalled by any other developing region. All ten Southeast Asian nations are members of the Association of Southeast Asian Nations (ASEAN), a 55-year-old regional grouping that has a range of agreements covering trade in goods and services, as well as foreign investment, migrant workers, and mutual recognition of professional qualifications. In 2015, ASEAN created the ASEAN Economic Community, although its aim of establishing a single market for goods, services, investment, and skilled labor by 2025 is not going to be achieved (and a revised target date has not been set).

¹⁵ See <https://admissions.smu.edu.sg/mastersday/jan/about-singapore>.

¹⁶ See the DHL Connectedness Tracker available at: <https://www.dhl.com/global-en/microsites/core/global-connectedness/tracker.html>.

¹⁷ Indonesia's recently approved Omnibus Law promisingly opens the tertiary education sector and the hospital system to foreign direct investment. The government has yet to issue implementing regulations for the law, so the jury is still out on how effective this reform will be. Nevertheless, it represents a positive step in the right direction.

More importantly, Southeast Asian economies have – individually or as a group -- also entered into 49 regional trading arrangements with their main trading partners.¹⁸ None are perhaps as important as the Regional Comprehensive Economic Partnership (RCEP), which came into force in January 2022.¹⁹ It includes all ten Southeast Asian countries together with five of its major trading partners – Australia, Japan, New Zealand, South Korea, and – most significantly -- China.²⁰ Together, these 15 economies account for about a third of global GDP and a third of global exports, making it the world's largest regional trading agreement.

Some criticize RCEP as a “low ambition” agreement.²¹ True, it does not address many “behind-the-border” barriers. But RCEP does contain some important provisions worth highlighting. Investments located anywhere within the RCEP membership that produce goods with a cumulative 40 percent regional content (or more) can enjoy the same preferential tariffs no matter where in the RCEP region the product is manufactured or sold. This is expected to boost trade among member countries by about US\$90 billion annually.²²

In addition, RCEP requires all member countries to adopt a “negative list” for FDI which treat foreign and domestic investors the same and are subject to a “ratchet clause” – namely, the level of openness to foreign investment, once granted, cannot be reversed.²³

Finally, the RCEP touches upon some “behind-the-border” barriers. These include intellectual property rights, investment, competition policy, government procurement, small and medium enterprises, and e-commerce. Similarly, the agreement covers: the digital economy; paperless trade; electronic authentication and electronic signatures; personal information protection; rights and interests of online consumers; and a commitment to keep cross-border digital trade duty free.

The next most important regional trading arrangement in Southeast Asia is the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) which originally had 11 members of which four were Southeast Asian (Brunei, Singapore, Malaysia, and Vietnam). Its predecessor, the Trans-Pacific Partnership (TPP) lost some of its luster when the United States withdrew in January 2017.²⁴ In the absence of the United States, Japan assumed leadership of the process and the deal was eventually

¹⁸ The number has been derived by the author from ESCAP's "[List of Trade Agreements covered by the UNESCAP Regional Trade Agreement Analyzer](#)".

¹⁹ To come into force, the RCEP agreement required ratification by a minimum of six ASEAN members and three non-ASEAN signatories. This condition was met after Australia and New Zealand ratified the agreement in November 2021. Myanmar is now the only signatory that has yet to ratify the deal.

²⁰ India participated in the initial negotiations but eventually withdrew.

²¹ This term was used by former [Australian Prime Minister Malcolm Turnbull](#) when speaking to a U.S. audience in 2020.

²² Sheng, Bin and Chenxin Jin. 2022. “An Evaluation of the Regional Comprehensive Economic Partnership Agreement: Market Access and Trading Rules”, *China & World Economy*, Vol. 30, No. 5, pp 49-74.

²³ A “negative list” contains sectors prohibited or restricted for foreign investment without special regulatory approval. Seven of RCEP's 15 countries already use a negative list; the remaining eight are required to adopt one within 6 years of ratification.

²⁴ The estimated benefits of the pact would have been three times greater if the U.S. had remained in the agreement. See Peter A. Petri, Michael G. Plummer, Shujiro Urata and Fan Zhai. 2021. *The Economics of the CPTPP and RCEP: Asia Pacific Trade Agreements without the United States*, in Lee, Cassey and Prithish Bhattacharya (eds.). 2021. “The Comprehensive and Progressive Trans-Pacific Partnership: Implications for Southeast Asia” (Singapore: ISEAS Yusof Ishak Institute)

brought it into force in December 2018. Since then, the UK has joined the group (May 2024) and other countries – most notably China -- have expressed an interest in joining.

Many consider CPTPP the gold standard among regional trade agreements. Its multiple economic objectives and comprehensiveness are reflected in the agreement's thirty chapters. Yet, because it only has 12 members, the agreement's total estimated benefits are expected to be 40 percent of the RCEP's estimated benefits. Nevertheless, what it lacks in size it makes up with high-quality provisions that confront barriers to trade and investment that operate at—and behind—national borders. These include not just tariff, non-tariff, and technical barriers, but also intellectual property rights, policies toward state enterprises, investor-state dispute settlement arrangements, labor rights, and environmental protection

Singapore is the only Southeast Asian country which has a trade agreement with the United States, and the current administration's stance on trade suggests it will not consider fresh trade links to Southeast Asia any time soon. In contrast, China has actively sought to expand and deepen its economic links with Southeast Asia. Its participation in the RCEP already connects it to all Southeast Asian countries and the agreement has provisions for periodic enhancements. China is updating and upgrading some of its other trade agreements (such as the ASEAN–China Free Trade Area). Even so, the benefits of trade agreements should not be exaggerated. Markets, geography, and national policies do more to promote trade. Yet, trade agreements are useful because they lend certainty to investors that governments are bound by treaty to forego politically or economically expedient beggar-thy-neighbor protectionism. Indeed, even as protectionism spreads globally, Southeast Asia's web of trade agreements and regional global value chains has ensured its policymakers welcome foreign trade and investment.

Trends in foreign direct investment (FDI)

Trade and FDI tend to go hand in hand. Like trade, FDI into Southeast Asia (from the rest of the world) is booming. In 2022, the FDI stock in the region reached \$3.6 trillion, double the level in 2015 and three times the level in 2010.²⁵ FDI inflows reached \$224 billion in 2022 -- and if it were one country, it would be the world's largest developing country recipient of FDI, having surpassed China in 2021.²⁶

Just as China has come to dominate trade with Southeast Asia, the U.S. has been the region's dominant foreign investor, accounting for 13 percent of Southeast Asia's total FDI stock (\$480 billion) in 2022 and 16.5 percent of the 2022 inflow (\$37 billion). Southeast Asia's second most important FDI source is Japan, which accounted for almost 9 percent of Southeast Asia's 2022 stock (\$322 billion) and 12 percent of its flows (\$27 billion). China comes third, with its stock accounting for 4.3 percent (\$155 billion) and its 2022 flows for 6.7 percent (\$15 billion).²⁷

²⁵ ASEAN. 2023. "A Special ASEAN Investment Report 2023 -- International investment trends: Key issues and policy options." (Jakarta: ASEAN Secretariat), p. 5.

²⁶ In 2024, ASEAN's FDI inflows also appear to have exceeded China's. See <https://www.fdiintelligence.com/content/7af4ba12-7bae-5011-8df7-948a8e2d33d9>.

²⁷ Most of the FDI data in this section are taken from ASEAN. 2023 "ASEAN Investment Report 2023 - International investment trends: Key issues and policy options" (Jakarta: ASEAN Secretariat) December 2023.

While FDI inflows into Southeast Asia have been growing at a rapid clip, these resources have not been evenly spread around the region. Singapore is by far the largest recipient of FDI inflows into Southeast Asia, accounting for almost two-thirds of the region's total. But much of that money doesn't stay in Singapore; it is channeled eventually to other Asian destinations. In fact, for most Southeast Asian economies, Singapore is the largest FDI source.²⁸ Many, if not all multinational investors prefer to register their local operations in Singapore, thus making their contracts subject to Singaporean law and enforceable by Singaporean courts. Also, by locating in Singapore, they partially protect their assets from capricious, and sometimes corrupt court decisions in other Southeast Asian countries where their operations may be located and where judicial systems are less well developed.

The top three sectoral destinations of FDI into Southeast Asia – finance, manufacturing, and domestic trade -- reflect the most dynamic parts of the region's economy. Most FDI in finance and insurance is destined for Singapore which has successfully attracted financial companies and wealthy clientele from troubled Hong Kong, further establishing itself as "Asia's Switzerland". FDI in manufacturing is more broadly diversified across the region, but arguably the most preferred destination has been Vietnam which has successfully attracted manufacturers leaving the Chinese mainland on account of rising real wages and U.S. protectionist barriers against Chinese exports. Vietnam's proximity to China, and its relatively open trade and investment policies, productive and skilled labor force, and excellent logistics, have placed it in pole position to attract labor-intensive manufacturing from China and elsewhere. Finally, FDI in Southeast Asia's domestic trade has been largely triggered by the explosion in e-commerce activity and the rapid spread of digital technologies in the region.

Most Southeast Asian governments have welcomed Chinese FDI, even when they have close ties with the United States (for example, Indonesia and the Philippines). They see this investment as central for economic growth, especially if they can gain access to new technologies, such as EVs, solar panels, and batteries. A significant share of China's FDI in Southeast Asia is in EV-related manufacturing and the digital economy, and Chinese firms have been the largest foreign investors in Cambodia, the Lao People's Democratic Republic (PDR) and Myanmar. Nine of the top 10 global EV battery manufacturers, representing more than 90 per cent of global EV battery sales, operate in Southeast Asia, and most are Chinese and South Korean. Some have invested in nickel mining and smelting to secure critical supplies (see below).

For Chinese firms, investments in Southeast Asia provide access to critical raw materials (such as lithium and nickel) and rapidly growing markets. But there are also aspects of China's FDI that give Southeast Asian governments pause. Much of the value-added still takes place in China, limiting the positive effects of such investments on the host economy. In addition, compared to multinationals from advanced economies, Chinese-owned foreign invested enterprises tend to have greater vertical integration with firms on the Chinese mainland, rely more heavily on skilled labor from mainland China, and have lower environmental standards. As a result, such enterprises tend to have fewer linkages with local suppliers, stimulate less local employment, generate fewer technology spillovers, and impose higher environmental costs.

²⁸ Singapore is also the biggest foreign investor in India as well as China (if one excludes roundtripping from Hong Kong).

Examples of the role of U.S. and Chinese FDI in key Southeast Asian industries: This section provides an overview across five of the most industrialized countries in the region (Indonesia, Malaysia, Thailand, Philippines, and Vietnam), and very briefly describes the crucial role that U.S. and Chinese FDI have played in developing their most important industries:²⁹

Indonesia's largest industries include:

- Automobiles: Japanese FDI has been key in developing Indonesia's automobile industry strong automobile manufacturing base. In more recent years, however, Chinese manufacturers of EVs have expanded their role in Indonesia and now dominate the EV market. Ford had a fluctuating presence in Indonesia, but now plans to invest in an EV manufacturing plant in Indonesia by 2025.³⁰
- Nickel processing: Indonesia's nickel and stainless-steel industry is dominated by Chinese enterprises, including the Tsingshan Group, Zhejiang Huayou Cobalt, and Jiangsu Delong Nickel Industry Co. Ltd; U.S. and European companies – including EV producers – have been late in recognizing the potential of Indonesia's reserves and are now playing catch up.
- Oil refining and petrochemicals: U.S. oil companies were instrumental in developing Indonesia's oil and petrochemical sector, starting with the very first investment in oil exploration by Standard Oil in 1898 in Sumatra. Today, Chevron and Exxon Mobil are the key oil companies that continue to operate there.
- Mining and mineral processing: U.S. companies – especially Freeport-McMoRan - have been most influential in shaping Indonesia's mining industry. The most prominent example is the Freeport's Grasberg mine in Papua, one of the world's largest copper and gold mines.

Malaysia's largest industries include:

- Electrical and electronics: U.S. technology companies, such as Intel, AMD, and Texas Instruments, were the first to establish operations in Malaysia. China's involvement has grown in recent years, with investments from companies like Huawei.
- Automobiles: Japan was the first to partner with Proton Holdings, Malaysia's state-owned car company but the company has struggled to be financially viable. More recently, Chinese companies like Geely have acquired stakes in Proton, facilitating technology exchange and expanding market reach. In November 2023, Ford, which had an earlier presence in Malaysia, announced that it planned to invest in Malaysia, but there has been no further developments since.
- Petrochemicals: The petrochemical sector is vital to Malaysia's economy, with the country being a leading exporter of petrochemical products. U.S. companies such as ExxonMobil and Dow Chemical have longstanding investments in Malaysia, contributing to the development of refineries and petrochemical plants. China has also invested in this sector, with companies participating in joint ventures and infrastructure projects, enhancing Malaysia's production capabilities.

²⁹ Singapore is excluded because it is largely focused on services, not industry and, in any case, as has been previously discussed, is heavily dependent on U.S. FDI.

³⁰ In preparation, Ford entered into a \$4.5 billion agreement in March 2023 with PT Vale Indonesia and China's Zhejiang Huayou Cobalt Company to develop a nickel processing plant that would provide inputs into its production of lithium-ion batteries.

- Palm oil processing: While the U.S. has been a major importer of Malaysian palm oil products, China has been an investor, with Chinese companies engaging in joint ventures to develop plantations and processing facilities.
- Medical devices: U.S. companies – for example Boston Scientific and Abbott Laboratories -- established manufacturing facilities that made Malaysia an important exporter of medical devices. China has started investing in the sector recently, but it has played a relatively minor role.

Thailand's key industries include:

- Automobiles: Thailand's automotive industry, developed largely through Japanese FDI, is the largest in Southeast Asia and the ninth largest globally. Chinese EV manufacturers have increased their presence substantially in recent years, challenging existing competitors. U.S. involvement has been primarily through Ford and GM, although their presence is comparatively limited.
- Electrical and electronics: U.S. companies – such as Western Digital and Seagate – were among the first foreign investors that established manufacturing operations in this sector, notably in data storage devices. Today, Chinese companies like Huawei have become an important presence.
- Petrochemicals: Dow Chemical's largest operations in the Asia Pacific are in Thailand's. The Map Ta Phut Industrial Estate, one of the largest petrochemical complexes globally, includes 13 of its manufacturing plants. Chinese firms have played a growing role building the sector's infrastructure, such as gas processing plants and pipelines.
- Food processing: China has been a large investor in agricultural processing (sugar, rubber, and fruit), with the bulk of its output destined to meet Chinese consumer demand. As a large market for Thai food products, the U.S. has focused on providing technical assistance to enhance food safety standards.

The Philippines' key industries include:

- Electronics: Big U.S. tech companies, such as Texas Instruments and Intel, established significant operations in the Philippines, making electronics the largest industrial subsector in the country. China's involvement has been relatively minor.
- Automobiles: Japanese and American brands like Toyota and Ford established assembly plants in the country, contributing to local manufacturing capabilities, but more recently, Chinese automobile companies, such as Chery and Foton, have entered the Philippine market, setting up assembly plants.
- Shipbuilding: The Philippines is the seventh-largest shipbuilding nation by gross tonnage. South Korean companies have been the principal foreign investors; U.S. and Chinese involvement has been limited.
- Aerospace components: U.S. companies such as Moog, with facilities in Baguio, manufacture parts for major U.S. aircraft manufacturers like Boeing and Airbus. China's role is minimal.

Vietnam's key industries include:

- Electronics and electrical: The role of American tech companies – such as Intel's investment in chip assembly and testing and Apple's manufacturing (part of its China+1 strategy) -- has been pivotal in Vietnam. Chinese firms -- especially components manufacturing and

assembly plants in electronics -- have also become an important presence, in part to circumvent U.S. tariffs on imports from China.

- Textile and garments: Numerous American retailers source apparel from Vietnam but there is U.S. investor presence is minimal. China is not only a major investor in Vietnam's textile manufacturing, but it is also a major supplier of raw materials.
- Agricultural processing: Neither U.S. nor Chinese companies are major investors in this sector although China has invested in connective infrastructure to facilitate China-Vietnam trade in processed agricultural goods.

U.S. and Chinese FDI in Southeast Asia's high-tech sectors

Technological change, interacting with trade and FDI policies, is rapidly changing the economic landscape in Southeast Asia and has been the scene of fierce competition between U.S. and Chinese companies. Nowhere is this more evident than in industries related to electronic vehicle manufacturing, where activities run from nickel mining and smelting to battery production to manufacturing of electric vehicles. Indonesia and the Philippines are among the top six countries that account for over 80 percent of global nickel reserves (nickel being a critical input into nickel-ion batteries for cars).³¹

Ten multinationals dominate the global electric vehicle battery market, all of them headquartered in China, South Korea, and Japan, and all with a presence in Southeast Asia.³² Similarly, all top ten manufacturers of electric vehicles (EVs) in the world -- including Tesla -- have a presence in Southeast Asia and some have already begun manufacturing or assembling EVs in the region.³³

Indonesia represents the epicenter of this fierce global competition to dominate the EV value chain. The groundwork was laid in 2009 when Indonesia introduced policies to restrict mineral ore exports, encourage domestic smelting and metals production, and gradually increase Indonesian ownership of foreign-owned mines. In 2014, Indonesia went a step further and banned the export of mineral ores (although the regulation was implemented in fits and starts). Its timing was fortuitous. Sharply growing demand for nickel-ion batteries on the back of a boom in EV production worldwide contributed to rapid growth in Indonesian nickel production and exports. This growth was underpinned by Chinese investors financed by China's state-owned banks, including the Export-Import Bank of China, the China Development Bank, Bank of China, and the Industrial and Commercial Bank of China, among others.

Indonesia now has several large industrial estates focused squarely on downstream nickel processing. Of these, three are operational.³⁴ The largest of them is the Indonesia Morowali Industrial Park

³¹ There are also around [3,000 nickel-based alloys](#), stainless steel being the most prominent among them.

³² The top ten EV battery manufacturers in 2023 were CATL (China), BYD (China), LG Energy Solution (South Korea), Panasonic (Japan), SK On (South Korea), CALB (China), Samsung SDI (South Korea), Gotion High Tech (China), EVE Energy (China), Sunwoda (China)

³³ Those that have started production or assembly of EVs are BYD (Thailand), GAC Aion (Thailand), Great Wall Motor (Thailand), Nissan (Thailand, Indonesia), Hyundai (Indonesia), and BMW (Thailand).

³⁴ They are Morowali (Central Sulawesi), Weda Bay (Halmahera, North Maluku) and Obi Island (South Halmahera, Maluku). A fourth major hub is in development in Konawe (Southeast Sulawesi). Over the last decade, China has invested more than \$29 billion in these industrial estates (see "[The Nickel Pickle](#)", May 8, 2023).

(IMIP) in which China's Tsingshan Group has a majority shareholding. A decade ago, the Morowali site was dense forest. Today, it stretches over 8,000 acres in Central Sulawesi, employs around 90,000 workers, and includes 20 nickel smelters, two high-pressure acid leach (HPAL) facilities, coal-fired power plants generating 1.9 GW (to be expanded soon to 2.9 GW), a planned project to produce 500 MW of solar panels (to improve its environmental footprint), a seaport, an airport, dedicated telecommunications including underwater cables, dormitories for workers, and a three-star hotel together with three mosques. Investments on a broadly similar scale are being made in the other two industrial estates in Sulawesi and North Maluku.

Strikingly, U.S. and European companies – including EV producers – have been late in recognizing the potential of Indonesia's reserves and are now playing catch up. Ford is the only U.S. company to have announced investments in nickel processing in Sulawesi, as have a few European companies (Volkswagen, BASF, and Eramet). From a strategic perspective, U.S. and European automobile manufacturers now rely on Chinese-controlled Indonesian nickel.

Like developments in the nickel industry, the rapid growth of Southeast Asia's digital economy (e-commerce, fintech, travel, transport, and digital media, among others) has led to rapid development in telecommunications infrastructure — where Southeast Asian countries have faced the choice of adopting technology platforms from the West (primarily Nokia and Ericsson) or China (primarily Huawei).³⁵ Even Singapore, while opting for Nokia/Ericsson as its principal technology option for telecommunications, has allowed the Singaporean Port Authority to use Huawei as a key high tech infrastructure provider. Besides Singapore, however, virtually every other Southeast Asian country has Huawei as the key telecom infrastructure provider, preferring its cheaper technology which has been offered with few restrictions. Even so, Nokia, Ericsson, and other telecom infrastructure providers have a significant presence in every Southeast Asian country, many of whom are still building their digital economies. So, the Southeast Asian market for telecommunication infrastructure remains open to purchasing western hardware and software if offered the right competitive mix of technology, price, and finance.

Cloud computing is another high-tech space where competition between Chinese and U.S. companies is intense and the competitive landscape changing rapidly. In 2023, western cloud computing companies (Amazon Web Services, Microsoft Azure, and Google Cloud) were well established as the prime suppliers of cloud computing services.³⁶ But with large investments in data centers, Chinese companies (Huawei, Tencent) have in a very short time come to dominate in several Southeast Asian countries (notably Thailand, Philippines, and Malaysia).³⁷ In Indonesia and Singapore, Chinese and U.S. companies have roughly equal shares of the market. Vietnam has chosen to avoid both sources and relied solely on home-grown companies, although Apple and Microsoft are exploring investment options there.³⁸ The top tech firms have already spent some \$70 billion on 500 data centers, and another 270 are expected to come online this year. Malaysia, with its

³⁵ Other significant telecom infrastructure providers in the region include Ooredoo Group (Qatar), First Pacific Company Limited (Hong Kong), Macquarie Group (Australia), OMS Group (Malaysia), ST Telemedia (Singapore), and YTL Power (Malaysia). But Huawei, Nokia, and Ericsson tend to be among the top three providers in every Southeast Asian country.

³⁶ See Lewis, James Andrew. 2023. "Cloud Computing in Southeast Asia and Digital Competition with China", CSIS, August 7, 2023 (<https://www.csis.org/analysis/cloud-computing-southeast-asia-and-digital-competition-china>)

³⁷ The Economist. 2024. "America v China: who controls Asia's internet?", October 8, 2024 (<https://www.economist.com/asia/2024/10/08/america-v-china-who-controls-asias-internet>).

³⁸ Primarily Viettel IDC and VNG Cloud, although there are others.

excellent tech ecosystem, has emerged as Southeast Asia's data center capital (for AI and cloud) where well-known tech names (AWS, Nvidia, Microsoft, and Bytedance, among others) are expanding their investments.

Drivers of Southeast Asia's FDI inflows and trade

Southeast Asia's FDI and trade trajectories have been driven by three forces: geography, markets, and most recently, trade and technology competition between the U.S. and China.

Most Southeast Asian countries are in close physical proximity to each other, providing appropriate conditions for rapid growth in intraregional trade. Over the last two decades (2003-2023) intra-ASEAN merchandise trade growth has averaged over 6.5 percent a year. But ASEAN's merchandise trade with China has grown at almost twice that pace (12.6 percent a year). China's size, location, and dynamism have created a strong gravitational force that is drawing into its orbit all the economies within close geographical proximity. In accordance with the laws of gravity, the economies of Southeast Asia that are closer to China – those on the mainland of the continent -- have seen their trade with China grow faster than those of maritime Southeast Asia (Indonesia and the Philippines).

Trade integration within Southeast Asia and between Southeast Asia and China began well before free trade agreements were negotiated. Initially, markets drove Asia's trade integration; policies arrived later to support it. The bulk of Southeast Asia's trade expansion reflected the rising importance of regional production networks in which different stages of the manufacturing process locate in different countries. Initially Southeast Asian countries offered raw materials (Indonesia, Cambodia, Laos, Vietnam) and components (Malaysia, Thailand), while China's competitive advantage lay in labor-intensive assembly together with some fabrication. This allowed firms to specialize, achieve scale economies, and locate where conditions suited them best.

Over the last two decades, however, these trade patterns gradually shifted as real wages climbed in China, skills improved, and technological capabilities increased, making the country less competitive in labor-intensive manufacturing and more competitive in higher value-added, more skill- and capital-intensive manufacturing, including design and fabrication. Firms located in China, mostly western and Japanese multinationals but in later years even Chinese firms, started shifting the labor-intensive part of their value chains to lower-wage economies, mainly in Southeast Asia. Much of this investment went to Vietnam which had the stability, policies, skills, and infrastructure to make it internationally competitive in labor-intensive manufacturing.

There is little doubt that Southeast Asia's geographical proximity to China turbocharged these market decisions. Proximity helps keep transport and communication costs low, shrinking economic distance between different production centers and allowing fragmentation of production across borders without loss of competitiveness. It is no accident that while trade between China and Southeast Asia grew very fast over the last four decades, it grew much faster for mainland—not maritime—Southeast Asia because of the former's geographical proximity. Vietnam was a preferred location for most firms migrating out of China because of its common border with China, complemented by low trade barriers, disciplined labor force, and political and economic stability.

The competitive advantage of firms relocating to Southeast Asia was further improved with transport and energy infrastructure investments that strengthened logistics within Southeast Asia while also reinforcing China's connectivity with the region. New highways have reduced transport costs from China to Southeast Asia as well as from Vietnam's east coast to Thailand's west coast; high speed rail has reduced freight times from China all the way to Malaysia; and port construction is proceeding apace in Indonesia, Cambodia, and elsewhere in Southeast Asia.

The rise of trade and technology tensions between the U.S. and China has only accelerated these trends. While the volume of trade between the U.S. and China has declined, trade between Southeast Asia and these two superpowers has increased. ASEAN's shares in the imports and exports of China and the U.S. have climbed. Vietnam gained the most. Not only did its share of U.S. imports climb, but so did its share of China's imports. Vietnam's exports of high-tech products and electronics to the United States doubled after Washington imposed tariffs and restrictions on imports of telecommunications equipment, semiconductors, and other high-tech products from China. Some of this export growth came from multinationals relocating from China to Vietnam to evade U.S. tariffs. But Chinese firms benefited too. In fact, Chinese firms were among the largest investors of newly registered FDI in Vietnam after 2019. There is also some evidence of increased transshipment from China to the U.S. through Vietnamese ports (see below).

Indonesia was another Southeast Asian country that benefited in the last five years from U.S.-China rivalry. Growth in Indonesia's nickel exports to China was the product of a scramble by Chinese nickel producers to relocate their production from the Chinese mainland to Indonesia. Their decision in part was caused by Indonesia's export ban on nickel ore, but another factor was their desire to gain an early-mover advantage by seizing nickel ore supplies ahead of potential competitors from the United States and other Western battery manufacturers.

There is now consensus that foreign investors tend to employ four criteria when choosing their preferred investment location: the host country's market size, factor endowments (including natural resources, human capital, and infrastructure), economic and political stability, and institutional quality (as reflected in the policy environment for private investment). The countries of Southeast Asia offer these criteria in different degrees, and the calculus of investors is likely to differ depending on their sector of operation. Singapore's unique location, stability, and quality of human capital make it a natural choice as a transport hub, financial service center, biomedicine research and production, AI, advanced manufacturing, and robotics. In contrast, Vietnam's stability, disciplined labor, low trade barriers, solid infrastructure, and proximity to China make it a natural choice for industries seeking to diversify out of China or relocate the labor-intensive parts of their value chain. Indonesia's natural endowments interest investors in mining, plantations, minerals processing, or food processing, as well as footloose industries (footwear, garments) attracted by its large domestic market. The examples of Myanmar and Thailand demonstrate how political instability can deter private investors (domestic and foreign), while the examples of Cambodia and Laos demonstrate how weak institutions can do the same.

Policy levers which have lasting power in attracting foreign investment are those that enhance these criteria – but they are also the most difficult. Ensuring stability, increasing human capital, or improving institutional quality are long-term endeavors that require consistently clear policy direction and sound leadership – a big ask for the developing countries of Southeast Asia. On the other hand, quick fixes – such as tax holidays or other forms of subsidies – are usually poor

substitutes and empirical studies show that they have not had much impact on investor preferences.³⁹

Excess industrial capacity in China and its effect on Southeast Asia

The rapid growth of manufacturing capacity in China coupled with slowing domestic demand has generated widespread excess capacity in a range of sectors, including steel, petrochemicals, semiconductors, electrical machinery, electric vehicles (EVs), batteries and solar. To some extent, this is reflective of China's success in implementing its "dual circulation strategy" aimed at reducing China's dependence on the world while increasing the world's dependence on China. Their combined effect is reflected in China's manufacturing trade surplus which climbed from \$1 trillion in 2018 to \$1.8 trillion in 2023.⁴⁰

The consequences of this export surge are being felt globally, including in Southeast Asia, and policymakers are concerned that this could be exacerbated by the recent increase in U.S. tariffs on imports from China which would divert yet more Chinese exports to Southeast Asia (and other markets).⁴¹ To complicate matters for Southeast Asia, it is also the recipient of a substantial increase in Chinese FDI as Chinese firms seek to offshore their export capacity and take advantage of lower wages, avoid tariffs imposed by the U.S. and the EU, access raw materials, and tap rapidly growing local market demand. These Chinese firms, now located in Southeast Asia, are exerting pressure on indigenous Southeast Asian firms competing in the same industry, lowering returns, and in some cases, even leading to closures.

The combined effect of these two phenomena on Southeast Asia are complex. Both could potentially inject competitive pressure and stimulate improved efficiency among domestic producers, but only if Chinese products are not dumped in local or third-country markets.⁴² Policymakers fear, however, that export price deflation generated by Chinese manufacturers in domestic markets will drive Southeast Asian manufacturers out of business and seriously affect their industrialization process. The same could be true if Southeast Asian exporters compete with Chinese exporters in third-country markets.

Domestic Southeast Asian manufacturers have been experiencing the effects of cheap Chinese goods for some time. Some high-profile Indonesian textile businesses, for example, have gone bankrupt, although over-leveraging and mismanagement could also have been causes.⁴³ While the expected tsunami of cheap Chinese goods hasn't yet materialized, it is something Southeast Asian

³⁹ Klemm, Alexander and Stefan Van Parys. 2009. Empirical Evidence on the Effects of Tax Incentives, IMF Working Paper WP/09/136, Fiscal Affairs Department, July 2009

⁴⁰ Asia Society Policy Institute (2025), op. cit.

⁴¹ Pangestu, Mai and Shiro Armstrong. 2025. "ASEAN response to a Trump-generated Chinese economic tsunami", East Asia Forum, February 2, 2025 (VilBLE AT: <https://eastasiaforum.org/2025/02/02/asean-response-to-a-trump-generated-chinese-economic-tsunami/>).

⁴² Dumping is said to occur when a company sells a product in a foreign market at a price that is lower than the price it charges in its home market.

⁴³ Indonesian textile giant Sritex was declared bankrupt in October 2024 with the potential layoff of thousands of workers. Management blamed competition from China, but excessive debt and mismanagement could also have played a role. See Jakarta Post. 2025. "Analysis: Textile giant Sritex shuts down, leaving over 10,000 workers jobless", March 11, 2025. <https://www.thejakartapost.com/opinion/2025/03/11/analysis-textile-giant-sritex-shuts-down-leaving-over-10000-workers-jobless.html>.

economies are bracing for. Policymakers are considering imposing – or have already imposed -- restrictions on imports of textiles and ceramics. The post-2000 ‘China shock’ was managed by Southeast Asia through appropriate trade and macroeconomic policies. Rapid growth made adjustment possible, with new employment generated through Southeast Asian firms participating in regional value chains. Employment and capital were quickly redeployed from shrinking to expanding sectors. The current China shock is likely to be more severe and there is no certainty that Southeast Asian economies will be able to adjust as easily this time. Southeast Asian policymakers will be tested to ensure that any transitional unemployment and deterioration in the quality of bank balance sheets doesn’t spiral out of control and lead to systemic financial or social crises.

China-washing: Illegal transshipment of Chinese goods through Southeast Asia to the United States

Southeast Asian countries – especially Vietnam – have been illegal transshipment points for Chinese producers who wish to evade Section 301 tariffs imposed on Chinese-origin products. At its peak in 2020, the share of illegally transshipped products in Vietnam’s total exports to the U.S. ranged between 7.5 percent and 16 percent.⁴⁴ But this share had declined to 4.0 percent by 2022, or roughly \$5 billion, and has probably declined further as Chinese firms relocated to Vietnam or offshored their production to Vietnamese firms. Moreover, concerned with the reputational fallout, the Vietnamese authorities have improved their capacity to identify such cases and impose penalties on transgressors.⁴⁵ Perhaps for this or other reasons, there is some evidence to suggest that Chinese goods are also being rotated through other Southeast Asian countries – notably Thailand, Singapore, and Malaysia -- for transshipment to the U.S.⁴⁶ Much smaller amounts are also transshipped through the Philippines and Cambodia. The most transshipped export category is machinery and electronics,⁴⁷ and in Vietnam’s specific case, the product with the largest share of transshipment in 2020 was solar panels.⁴⁸

Potential penalties for firms transgressing Section 301 tariffs are many and severe, but the risks of being detected and penalized are low.⁴⁹ Even though Customs and Border Protection (CBP) are

⁴⁴ These two estimates come from two different studies that use similar methodologies but adopt different standards to define transshipment: the higher bound is taken from Iyoha, Ebehi et. al. 2024. “Exports in Disguise? Trade Rerouting during the U.S.-China Trade War”, Harvard Business School Working Paper 24-072; the lower bound is the central estimate from Freund, Caroline. “The China Wash: Tracking Products to Identify Tariff Evasion Through Transshipment.” Policy Report, UC San Diego School of Global Policy and Strategy, 21st Century China Center and Center for Commerce and Diplomacy, February 2025. Freund also reports upper and lower bounds using more conservative or liberal conditions. Both studies use product-level data (8-digit HS codes) to identify products where goods are shipped from China to a third country and then re-exported to the U.S. by that country. to the United States with little additional transformation.

⁴⁵ Reuters. 2019. “Vietnam to crack down on Chinese goods relabeled to beat U.S. tariffs” (<https://www.reuters.com/article/idUSKCN1TB0HY/>).

⁴⁶ Freund, op. cit. and Jennings, Ralph. 2025. “Malaysia and Thailand vow to back Trump’s China trade war - but analysts are sceptical”, South China Morning Post, January 20, 2025 (<https://www.scmp.com/economy/global-economy/article/3295508/malaysia-and-thailand-vow-back-trumps-china-trade-war-analysts-are-sceptical>). The estimated transshipment in 2022 for Thailand was about \$5 billion, Malaysia over \$4 billion, and Singapore close to \$3 billion.

⁴⁷ Equivalent to the HS (Harmonized System) code HS85.

⁴⁸ HS854140.

⁴⁹ The potential penalties are high because the U.S. can impose duties retroactively, apply additional anti-dumping and countervailing duties (which are higher than Section 301 tariffs and last for years), seize illegally transshipped goods and

increasingly export at identifying illegal transshipments, the process is difficult and expensive, often requiring onsite verification. The CBP uses factory inspections, supply chain audits, bill of lading analysis, and country of origin labeling inspections to determine if the rules of origin are being followed.⁵⁰ Based on press reports, it appears that the CBP has been successful in identifying only a handful of cases of illegal transshipment from Southeast Asia.⁵¹ The only way forward in improving the detection of illegal transshipments is through the active cooperation of the authorities in Southeast Asia.

Cross-border infrastructure finance

The geographical proximity between Southeast Asia and China has been shrunk further by transportation, energy, and communications infrastructure investments linking the two. This has helped further facilitate trade and investment flows between China and Southeast Asia. Oil and gas pipelines run through Myanmar from the Bay of Bengal to southern China. New highways from China to Southeast Asia and from Vietnam's east coast to Thailand's west coast have cut transportation costs. High-speed rail has reduced freight times from China all the way to Malaysia. Port construction is proceeding apace throughout the region. Launched in 2013, China's Belt and Road Initiative (BRI) financed a significant acceleration in these infrastructure investments, largely in Cambodia, Indonesia, Laos, the Philippines, and Vietnam.⁵² In the first three years, the focus was on physical connectivity—mainly transportation and energy infrastructure. BRI investments later diversified to include special economic zones and, during the pandemic, protective health equipment and vaccine production. More recently, BRI's focus has shifted to digital connectivity through telecommunications infrastructure and digital platforms—the so-called Digital Silk Road—which, on account of their low cost and rapid rollout, have proved to be popular in most Southeast Asian countries, notwithstanding the security risks they may involve. Recently announced U.S. controls on the export of advanced semiconductor chips might delay, but not derail, these Chinese initiatives. U.S. warnings about the potential data security and surveillance risks of Chinese ICT systems appear to have gained little traction in Southeast Asia.

The ambition and scope of Chinese-financed cross border infrastructure projects have triggered the United States and its partners to respond with infrastructure-financing initiatives of their own. In 2016, Japan launched the Expanded Partnership for Quality Infrastructure and allocated \$200 billion to be delivered through the Japan Bank for International Cooperation (JBIC). In 2018, the U.S. Congress passed the BUILD Act, creating the U.S. International Development Finance Corporation with a lending capacity of \$60 billion. More recently, in 2022 the G-7 launched the Partnership for Global Infrastructure and Investment (PGII), pledging \$600 billion in infrastructure financing for developing countries.⁵³ So far, the U.S. government has announced that of its \$200 billion pledge to

impose severe monetary penalties, ban imports under the Enforce and Protect Act (EAPA), and pursue criminal or civil penalties against transgressors.

⁵⁰ In countries which do not have a free trade agreement with the U.S., the substantial transformation rule says that the country of origin is where it undergoes substantial transformation.

⁵¹ Statistics on the number of cases identified by the CBP and details regarding the penalties imposed on transgressors are not publicly available.

⁵² Further information on this trend, including a breakdown of BRI projects by year, country, and status, is available in: International Institute for Strategic Studies (IISS), *Asia-Pacific Regional Security Assessment: Key Development and Trends, 2023* (London: IISS, 2023), 95.

⁵³ Of the \$600 billion pledged, the United States pledged \$200 billion, the EU pledged \$317 billion, and Japan pledged \$65 billion.

the PGII, \$60 billion in grants, federal financing, and private sector funding has been mobilized, and other G-7 members are expected to follow suit.⁵⁴

Viewed broadly, however, not only do these G-7 initiatives fall short of the funding that China has provided, but their implementation has been slow. Some have not even financed a single project.⁵⁵ Yet, if they do get off the ground, these initiatives will be welcomed by Southeast Asia for two important reasons. First, the demand for infrastructure in the region far exceeds the total financing currently available. Second, G-7 financing could compensate partly for a further slowdown in BRI-related financing, as China's faltering economy and the growing nonperforming loan portfolio of its banks begin to impinge on the lending capacity of the Chinese financial system.

China's influence in Southeast Asia relative to the United States

This section explores how the economic power of China and the United States translates into influence over public opinion in Southeast Asia. To do so, it draws on a rigorous and well-structured 2024 opinion survey of Southeast Asia's political, economic, and professional elite.⁵⁶ This demographic is particularly significant because public and elite opinion tends to shape future domestic and foreign policy in ways that would have differential effects on Southeast Asia's economic relations with the United States and China. Unfortunately, the survey was conducted in 2024 and there has been no such survey since the second Trump administration started. The results should, therefore, be interpreted with caution.

A question on the relative economic influence of the two countries places China well ahead of the United States in every Southeast Asian country. China's economic influence, however, grew between 2018 and 2023 but dipped slightly in 2024, while that of the United States waned in 2018-2023 but increased slightly in 2024. Furthermore, more respondents worry about China's growing strategic and economic influence than welcome it, while the opposite is true for the United States (although the number welcoming America's influence has shrunk). Southeast Asians consider both powers of broadly equal strategic relevance.

Interestingly, though unsurprisingly, Southeast Asians do not consider any global power as a champion of free trade (United States, 22 percent; China, 19 percent; EU, 14 percent). The survey doesn't provide a ringing endorsement of the United States and the EU as leaders of a rules-based international order (United States, 27 percent; EU, 17 percent), but the endorsement of China in this regard was even less (12 percent – although this was more than double the score in 2023). A large

⁵⁴ The U.S. contribution to these multilateral initiatives could yet fall victim to the ongoing cuts in spending initiated by the Trump administration.

⁵⁵ It is important to note that the PGII has not approved a single project in Southeast Asia, let alone completed a project. In contrast, by 2021, 90 BRI projects had been completed in Southeast Asia, 25 were ongoing, and 16 were planned. Implementation of BRI had slowed after 2020 on account of the pandemic.

⁵⁶ Seah, S. et al. 2024. "The State of Southeast Asia 2024 Survey Report" (Singapore: ISEAS - Yusof Ishak Institute, 2024). The survey covered 1,994 Southeast Asians from: (a) academia, think-tanks or research agencies; (b) private sector organizations; (c) civil society, NGO or media; (d) government; and (e) regional or international organizations. The survey was conducted completely online using a mixed sampling method.

majority (over 60 percent) were favorably inclined toward China’s vision of a “global community of common destiny”, considering it complementary to, and beneficial for, Southeast Asia.⁵⁷

Perhaps the most striking shift was when respondents were forced to choose between China and the United States. In 2023, it was no contest – they opted for the United States (61 percent to 39 percent); but in 2024, China emerged the winner in a squeaker (50.5 percent to 49.5 percent). Countries that benefitted mostly from the BRI increased their support for China (Malaysia, Indonesia, Laos, and Thailand), while the United States still enjoyed majority support in the Philippines, Vietnam, Singapore, Myanmar, and Cambodia. Yet only a third of the respondents expressed confidence in the United States as a strategic partner and provider of security.

Encouragingly, many more respondents felt confident or very confident that the United States would “do the right thing” (42 percent) compared to China (24 percent). More Southeast Asians trusted the United States than distrusted it (42 percent to 38 percent), while half as many respondents trusted China than distrusted it (25 percent to 50 percent).

In conclusion, China remains the dominant economic, political, and strategic force in the region, surpassing the United States by a considerable margin. If compelled to choose sides in the ongoing U.S.-China rivalry, most respondents leaned toward Beijing. Yet, this influence is accompanied by deep-seated concerns—half of those surveyed distrust China, fearing that its growing economic and military power could be leveraged to undermine their sovereignty and national interest.

Policy recommendations for the United States

The policy recommendations outlined here are designed to serve one overarching objective: advancing the long-term strategic and economic interests of the United States. A fundamental assumption underlying this objective is that a strong, prosperous, and stable Southeast Asia—one that remains open, competitive, and engaged with the United States—is in America’s best interest. Ensuring this outcome requires a strategic, whole-of-government approach to economic engagement that prioritizes mutual benefit, regulatory alignment, and high-standard trade and investment partnerships.

First, the United States must develop a coherent and enduring strategic framework for economic engagement with Southeast Asia. Previous initiatives, including Obama’s “pivot to Asia” and Biden’s Indo-Pacific Economic Framework (IPEF), have been overtaken by events. A new strategy must be comprehensive, institutionally embedded, and developed in close consultation with ASEAN, ensuring that the region’s priorities are fully integrated into U.S. economic diplomacy. ASEAN, as the region’s leading coordinating body, is well-positioned to facilitate this dialogue.

Second, the strategy must prioritize fair trade enforcement, particularly the elimination of illegal transshipment practices that allow Chinese goods to evade U.S. tariffs. ASEAN should implement a robust certification mechanism to verify that goods exported from its ports adhere to strict rules of origin, preventing tariff circumvention. In exchange, the U.S. should extend reciprocal assurances

⁵⁷ In 2013, China proposed a vision of a “global community of common destiny”. Over the years, China added different global initiatives including the Belt and Road Initiative, the Global Development Initiative, the Global Security Initiative, and the Global Civilization Initiative. These multilateral initiatives are part of China’s vision of building a “Global Community with a Shared Future for Mankind”.

that foreign-invested enterprises operating within ASEAN—so long as they comply with these certification rules—retain access to the U.S. market.

Third, the U.S. should establish a high-standard security framework to protect dual-use technologies, particularly in advanced semiconductor manufacturing. Only Southeast Asian countries that meet stringent security and verification standards should be permitted to host U.S. investment in such industries. This would align existing trade policies with broader national security objectives and ensure that sensitive technologies remain protected.

Fourth, Washington should be open to negotiating critical minerals agreements with countries such as Indonesia, provided stringent environmental and governance safeguards are in place. These agreements would grant the U.S. secure access to essential raw materials while offering Southeast Asian suppliers an opportunity to diversify their export markets beyond China. However, the agreements must also include provisions to prevent supply restrictions from being used as geopolitical leverage at a later stage.

Fifth, reducing restrictions on services trade should be a priority, allowing U.S. firms to compete on an even playing field in Southeast Asia's aviation, finance, healthcare, and education sectors, among others. Many ASEAN economies urgently require greater efficiency and modernization in these industries, creating a natural opportunity for mutually beneficial cooperation. Given the comparative advantage of U.S. firms in these sectors, such reforms would bolster regional economic capacity while expanding America's commercial prospects.

Sixth, beyond trade reforms, the U.S. should pursue high-standard bilateral investment treaties (BITs) that balance investor rights with regulatory sovereignty. Future BITs should go beyond merely offering protections against expropriation and instead incorporate strong labor, environmental, and dispute resolution mechanisms, ensuring a sustainable and rules-based investment environment.

Seventh, and finally, the U.S. should establish a regional framework for cross-border data governance. This should include data localization restrictions, cybersecurity safeguards, and enforceable personal data protection standards to ensure harmonized and secure digital trade across ASEAN. Given Southeast Asia's rapid digital transformation, setting high regulatory standards now will shape the future rules of digital commerce in the Indo-Pacific.

By advancing a strategic, rules-based economic partnership with Southeast Asia, the U.S. can offer a compelling alternative to China's state-led economic model. A well-calibrated approach—one that prioritizes investment, market access, and regulatory alignment—will ensure that Southeast Asia remains an open and competitive economic powerhouse, benefiting both regional prosperity and long-term U.S. strategic interests.

OPENING STATEMENT OF GUANIE LIM, ASSOCIATE PROFESSOR, NATIONAL GRADUATE INSTITUTE FOR POLICY STUDIES

DR. LIM: Thank you so much. Hearing co-chairs, Commissioner Price, Commissioner Schriver, and distinguished members of the Commission, I am grateful for this opportunity to provide testimony for the Commission's consideration.

My statement will primarily focus on the implications of China's economic engagement with Southeast Asia, as I know too little of the Pacific Islands to offer anything useful.

Here, in particular, I would like to discuss three themes. The first one, wider economic architecture linking Southeast Asia to the rest of the world; two, foreign direct investment flows; and three, the structural issues preventing higher quality growth within the region. After examining these three themes I will conclude with brief recommendations for your kind action.

First and foremost, the fact is there are very few regions within the Global South that have grown as steadily as Southeast Asia since the late 1990s. Its size, about 700 million people, relatively young demography, and generally pro-business attitude present major opportunities for transnational corporations, regardless of country of origin. It should, therefore, not be surprising that firms, like Huawei, BYD, and Lenovo are eyeing the region. The more important question here is, how are transnational corporations from the U.S. and other nations faring in this seemingly intensifying economic arena. That is the more important question.

And there is good news, of course. U.S. firms have been leading the way in the region, notwithstanding some alarmist narratives. You see that often in the popular press. U.S. businesses consistently out-invest their counterparts from China, Japan, and elsewhere, as my written paper will show.

We do not deny the great influence of China, Inc. Chinese business groups, they have indeed expanded their market share in the region. That is a fact. However, apart from the less-developed markets like Cambodia, like Myanmar, they are far from being a dominant force. In key industries, semiconductor and automotive, long-established Western and Japanese firms still set the standard.

However, staying ahead requires more than just pushing foreign direct investment flows. The U.S. must strengthen industrial partnerships, invest in workforce development, and ensure Southeast Asia remains an integral part of the global supply chain. By doing so, the U.S. and its allies can not only consolidate its economic presence but also create a "rising tide lifts all boats" effect for TNCs, transnational corporations, regardless of nationality, to continue growing the economic pie.

That is all I have. Thank you so much.

**PREPARED STATEMENT OF GUANIE LIM, ASSOCIATE PROFESSOR, NATIONAL
GRADUATE INSTITUTE FOR POLICY STUDIES**

Testimony before the US-China Economic and Security Review Commission

‘Crossroads of Competition: China in Southeast Asia and the Pacific Islands’

March 20, 2025

Dirksen Senate Office Building, Room 215, and Webex

Dr. Guanie Lim*

Associate Professor, National Graduate Institute for Policy Studies (GRIPS), Japan

Hearing Co-Chairs Commissioner Price, Commissioner Schriver, and distinguished members of the Commission:

I am grateful for this opportunity to provide statement for the Commission’s consideration on this important topic of ‘Crossroads of Competition: China in Southeast Asia and the Pacific Islands’. My statement will primarily focus on the implications of China’s economic engagement with Southeast Asia as I know too little of the Pacific Islands to offer anything useful. In particular, I want to discuss three themes: wider economic architecture linking Southeast Asia to the rest of the world; foreign direct investment (FDI) flows; and the structural issues preventing higher quality growth in the region. After examining these three themes, I will conclude with brief recommendations for US Congressional action.

First and foremost, there are very few regions within the Global South that have grown as steadily as Southeast Asia since the late 1990s. Its size (about 680 million people), relatively young demography, and generally pro-business environment present major opportunities for transnational corporations (TNCs), regardless of country of origin. It should, therefore, not be surprising that firms like Huawei, BYD, and Lenovo are eyeing the region. The more important question is – how are TNCs from the US and other nations faring in this seemingly intensifying economic competition?

The good news? US firms have been leading the way in the region, notwithstanding some alarmist narratives oft paddled by the popular press. US businesses consistently outinvest their counterparts from China, Japan, and elsewhere, as will be shown later on. This is not to deny the growing influence of China Inc. – Chinese business groups have indeed expanded their market share. However, apart from the less-developed markets like Cambodia and Myanmar, they are far from being a dominant force. In key industries – semiconductor and automotive – long-established Western and Japanese firms still set the standard in the region. However, staying ahead requires more than just FDI. The US must strengthen industrial partnerships, invest in workforce development, and ensure Southeast Asia remains an integral part of the global supply chain. By doing so, the US and its allies can not only consolidate its economic heft, but also create a ‘rising tide lifts all boats’ effect for TNCs – regardless of nationality – to continue growing the economic pie.

Southeast Asia as a Market for All

China and virtually all other nations share key economic interests with the US in Southeast Asia, particularly in investment, trade, and infrastructure provision. In general, the TNCs from all these economies – including the US – want to maintain open markets, strengthen supply chains, and expand cooperation.

One of the clearest ways such interest has unfolded is in the various economic partnership agreements (EPAs) that have come to fruition over the last decades. For example, there is the Trans-Pacific Partnership (TPP), which supposedly promotes high standards in trade liberalization, intellectual property, labor rights, and environmental protections.¹ While some analysts believe that the TPP, by excluding China, is created to counterbalance China's growing economic influence, this is not a universally agreed upon position.² In either case, there were fears that the TPP would collapse after US withdrawal in 2017. Instead of abandoning the agreement, the remaining 11 countries – led by the Japanese government – renegotiated the pact. It has since been salvaged and in 2018 was renamed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Since then, several other nations have either officially joined the CPTPP (i.e. the UK) or submitted formal applications to join (e.g. China and Ukraine). Despite the absence of the US, the CPTPP is still regarded as a blueprint for rules-based economic governance. It also complements the other mega EPAs in the region, especially the Regional Comprehensive Economic Partnership (RCEP). The latter connects the ten Association of Southeast Asian Nations (ASEAN) member states to the '+5 partners' with which ASEAN has existing EPAs (Australia, China, Japan, Korea and New Zealand).

While Chinese firms have deepened their presence in Southeast Asia through these EPAs, they still face significant competitive disadvantages compared to long-established Western and Japanese TNCs. One notable example is the automotive sector, where Japanese brands – Toyota, Honda, and others – continue to dominate. In 2023, Japanese automakers accounted for approximately 68% of passenger car sales in Southeast Asia, a testament to consumer trust in their high-quality products, reliable after-sales service, and strong resale value.³ These strengths have been developed over decades, during which period more established Western automotive brands fell behind in the region.

Could Chinese electric vehicle (EV) manufacturers, such as BYD, challenge Japan's dominance? Perhaps, but thus far their progress has been hampered by factors such as limited charging infrastructure, high import duties, and Southeast Asian loyalty toward Japanese automotive brands. Barring a significant market disruption, it will be difficult for the Chinese EV makers to dominate the market in the same way that the Japanese have.

Some Macrolevel Statistics

FDI is one of the most critical metrics for assessing economic influence in Southeast Asia. Figure 1 demonstrates that US firms have generally outinvested their contemporaries from the EU27, China, and Japan between 2012 and 2023. Although there was a sharp drop-off in 2018, US firms have rebounded strongly in the subsequent years. In 2023, US FDI even surpassed the combined investment of the EU27, China, and Japan. For Chinese FDI, it has definitely grown from a rather low base, but this pace of growth is modest, at least compared

¹ The 12 'original' TPP members include four Southeast Asian states.

² Mireya Solís, 'The Containment Fallacy: China and the TPP,' *Brookings*, 24 May 2013 <https://www.brookings.edu/articles/the-containment-fallacy-china-and-the-tpp/> (accessed 10 March 2025).

³ Japan Times, 'China's EV Makers are Facing a Reality Check in Southeast Asia,' *Japan Times*, 4 March 2025 <https://www.japantimes.co.jp/business/2025/03/04/tech/china-ev-makers-southeast-asia/> (accessed 10 March 2025).

to those of EU27, Japan, and US. In virtually every year since 2012, Chinese FDI also ranks the lowest in Southeast Asia.

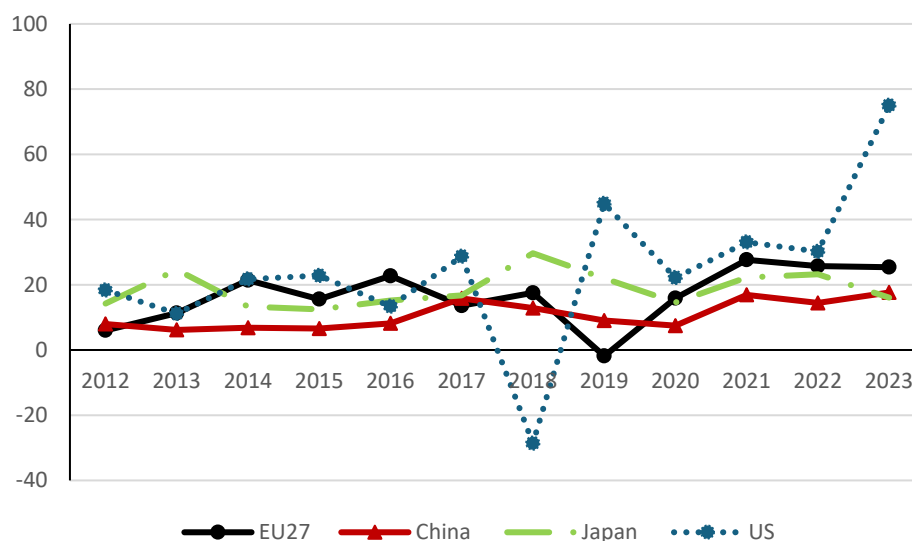


Figure 1: Flows of Inward Foreign Direct Investment into Southeast Asia, 2012-2023 (in Billion USD)

Source: ASEANstats.

What is more relevant here is to analyze the countries where Chinese FDI has exerted the most impact, and the broader relevance to Southeast Asia's economic architecture. To this end, Figures 2 and 3 show that Chinese FDI is a market leader only in two less developed economies of Southeast Asia: Cambodia and Myanmar.⁴ These nations, which have relatively underdeveloped economies and only joined the ASEAN bloc in the late 1990s, present opportunities that Chinese firms have been quick to exploit. In these markets, where less-than-mature institutional framework and business climate may deter more established TNCs, Chinese firms have found niches, particularly in labor-intensive industries like real estate and petty trading. However, this expansion has not been without controversy, as some Chinese projects have been linked to thinly-regulated sectors such as gambling, exacerbating governance challenges in these economies.⁵

⁴ My prior research, also utilizing data from ASEANstats, notes broad similarities in Cambodia, Myanmar, and Laos. However, there appears to be some statistical reclassification when I attempted to retrieve fresh FDI data on Laos recently. The data inconsistency means that it is best to exclude Laos from the comparison here. See Chengwei Xu and Guanie Lim, 'Chinese Investment in Southeast Asia: (How) Does It Matter?', *Eurasian Geography and Economics*, (2024), pp. 1-18.

⁵ Charlie Campbell, 'Is China Really Powerless to Stop the 'Scamdemic'? The Truth Is More Complex,' *Time*, 21 January 2025 <https://time.com/7208652/china-pig-butcher-scamdemic-crack-down/> (accessed 14 March 2025).

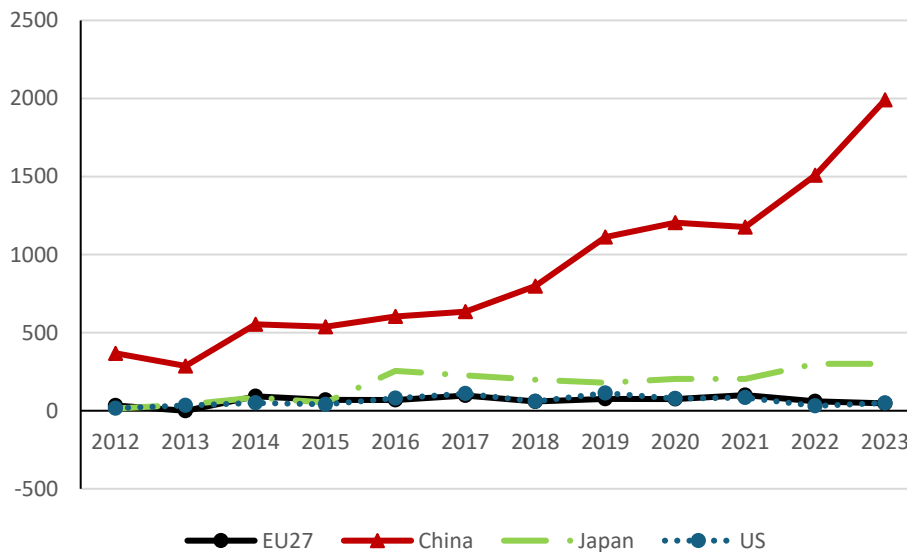


Figure 2: Flows of Inward Foreign Direct Investment into Cambodia, 2012-2023 (in Million USD)

Source: ASEANstats.

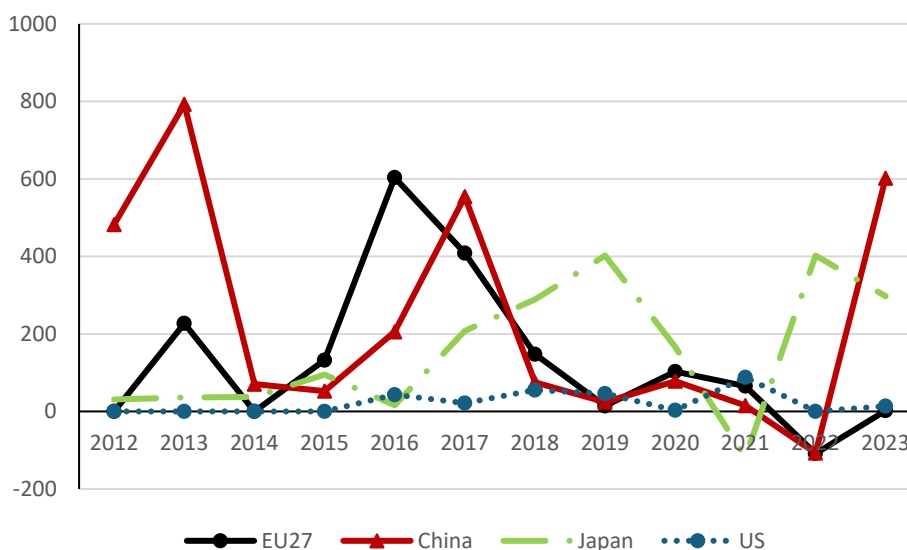


Figure 3: Flows of Inward Foreign Direct Investment into Myanmar, 2012-2023 (in Million USD)

Source: ASEANstats.

Similarly, it is important to stress that the larger and more mature Southeast Asian economies (i.e. Indonesia, Malaysia, Philippines, Singapore, and Thailand) continue to attract substantial capital from EU27, Japan, and the US, notwithstanding China's increasing FDI presence (see Figure 4). Over the period analyzed, there is no clear sign that Chinese FDI has definitively usurped the more 'traditional' investors. The dominance of these traditional investors underscores the resilience of their corporate networks, which extend beyond automotive

manufacturing to high-tech industries such as semiconductors, software, and consumer electronics. Iconic brands like Apple, Microsoft, and Coca-Cola enjoy deep-rooted consumer loyalty, reinforcing US economic influence in the region.

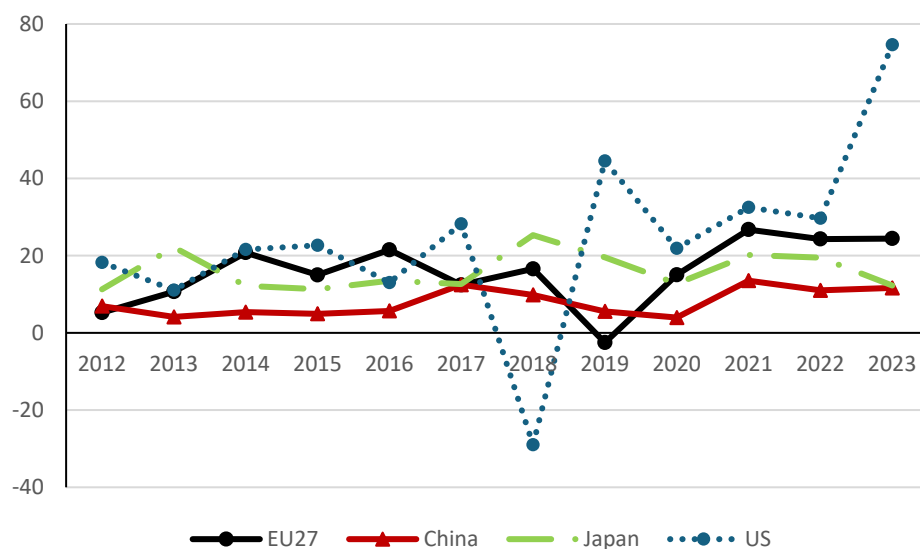


Figure 4: Flows of Inward Foreign Direct Investment into Indonesia, Malaysia, Philippines, Singapore, and Thailand, 2012-2023 (in Billion USD)

Source: ASEANstats.

Structural Issues of Southeast Asian Industrialization

Southeast Asian states have largely adopted a pro-trade and -FDI development model. This approach is especially noticeable in technology- and capital-intensive industries such as precision engineering, semiconductor manufacturing, and petrochemicals. This model has fostered rapid economic integration, but it has also entrenched a reliance on turnkey contractors and modular manufacturing, often at the expense of local capability-building.⁶ Consequently, domestic firms in the region often function as junior partners, rather than independent industry leaders capable of driving technological innovation.

With the partial exception of Singapore, virtually none of the Southeast Asian countries have groomed firms with sufficient internal capabilities to compete internationally in high-value segments of manufacturing. If anything, the openness to FDI has indirectly trapped these nations in a 'technology-less' development trajectory, where domestic firms participate in some 'superficial' activities in seemingly high-technology industries.⁷ As Western/Japanese TNCs retain proprietary knowledge on critical inputs, factory design, and manufacturing workflow, these Southeast Asian firms are forced to rely on the former in a virtually perpetual basis.

⁶ Kenichi Ohno, *The Middle Income Trap: Implications for Industrialization Strategies in East Asia and Africa* (Tokyo: GRIPS Development Forum, 2009).

⁷ Kunio Yoshihara, *The Rise of Ersatz Capitalism in South-East Asia* (New York: Oxford University Press, 1988).

Notably, Chinese firms are increasingly replicating the same business models long employed by Western and Japanese TNCs. While Chinese TNCs may not yet possess the same level of technological sophistication as their Western and Japanese counterparts, their operational strategy in Southeast Asia follows a familiar pattern: maintaining control over key knowledge and processes while limiting technology spillovers to local firms. A case in point is the Alliance Steel integrated steel mill in Malaysia. It is a USD1.5 billion joint venture involving Guangxi Beibu Group and Guangxi Shenglong Metallurgical. It is also one of the biggest projects in Malaysia ever since the Belt and Road Initiative (BRI) was announced in 2013. Operational since 2018, the facility produces high-speed wire rods, bar rods, and H-beam steel – long steel products primarily used in construction. However, studies show that the facility has generated only minimal spillover, with expertise largely retained within the Chinese firms and their affiliates.⁸ Furthermore, Malaysian steel players have complained that Alliance Steel is dumping certain specifications of steel in the local market, leading to financial losses.⁹

At first glance, it may appear that Southeast Asian countries have been effective in attracting Chinese investment, particularly as TNCs seek to diversify beyond China. However, merely offering pro-business policies is not enough to ensure long-term industrial competitiveness. Without deliberate efforts to deepen global-local linkages and facilitate technological upgrading, Southeast Asian firms risk being locked into low-value added activities. The real challenge lies in positioning domestic companies strategically within global value chains – enabling them to transition from low-margin activities to higher-value functions such as product design and branding. This challenge has become even more urgent as rising business costs in the region erode the competitiveness of traditional low-cost production models.

Implications and Recommendations

Virtually all Chinese investors, much like their Western and Japanese counterparts, operate in Southeast Asia with a clear business rationale: maximizing efficiency while retaining control over critical know-how. By the same token, the dynamics of FDI-driven growth in the region are not fundamentally different today than in previous decades. Consequently, the priority should be fostering deeper and more generous forms of cooperation with host economies, helping their firms hone human capital and institutional capacity. To achieve this, US policymakers must ensure that human capital development is directly tied to the long-term upgrading imperative of US firms and local stakeholders. US companies are well-positioned to lead this effort, provided there is sufficient policy encouragement. After all, the know-how of some of the world's most technology-intensive industries – ranging from aerospace to semiconductors – remain firmly in US hands. Furthermore, US soft power in Southeast Asia remains unmatched, offering a strategic advantage over other global players.

Japan offers a compelling model in this regard. In late 2023, Tokyo launched the ASEAN-Japan Co-Creation Initiative for the Next Generation Automotive Industry, backed by a USD1 billion fund to build a stronger EV production and sales ecosystem in the region.¹⁰ This joint strategy

⁸ Alvin Camba, Guanie Lim, and Kevin Gallagher, 'Leading Sector and Dual Economy: How Indonesia and Malaysia Mobilised Chinese Capital in Mineral Processing', *Third World Quarterly* 43(10), (2022), pp. 2375-2395.

⁹ Jose Barrock and Liew Jia Teng, 'Long Steel Players Urge Close Scrutiny of Alliance Steel,' *The Edge*, 16 January 2024 <https://theedgemalaysia.com/node/696725> (accessed 14 March 2025).

¹⁰ Jayanty Nada Shofa, 'Japan to Provide \$1b for ASEAN's Regional EV Ecosystem,' *Jakarta Globe*, 18 December 2023 <https://jakartaglobe.id/news/japan-to-provide-1b-for-aseans-regional-ev-ecosystem> (accessed 14 March 2025).

encompasses workforce training, decarbonized manufacturing, mineral resource procurement, and investments in emerging fields such as biofuels.¹¹ The broader implication is clear: a more dynamic Southeast Asian automotive industry will also push Chinese EV players to raise their standards. This, in turn, boosts the entire economic pie – creating a win-win scenario for all stakeholders.

Biodata

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¹¹ Reuters, 'Japan and ASEAN Plan Joint Strategy on Auto Production, Nikkei Reports,' *Reuters*, 20 May 2024 [https://www.reuters.com/business/autos-transportation/japan-asean-plan-joint-strategy-auto-production-nikkei-reports-2024-05-19/#:~:text=May%2020%20\(Reuters\)%20%2D%20Japan,Nikkei%20newspaper%20reported%20on%20Monday](https://www.reuters.com/business/autos-transportation/japan-asean-plan-joint-strategy-auto-production-nikkei-reports-2024-05-19/#:~:text=May%2020%20(Reuters)%20%2D%20Japan,Nikkei%20newspaper%20reported%20on%20Monday) (accessed 14 March 2025).

PANEL III QUESTION AND ANSWER

CHAIR PRICE: [Audio interruption] -- and then Co-Chair Schriver, and then we will do it in alphabetical order from there.

I want to go to some of the recommendations, or back to some of the recommendations, Dr. Nehru. You left at the point where you said what the policy recommendations would be about. But can you go into some of the detail on, I think you have seven of them, if there are one or two that are your top recommendations, and can you talk a little bit about them.

DR. NEHRU: One or two top recommendations. Well, let me start by suggesting that rather than the United States trying to emulate China, it should instead focus on areas where it has a commanding comparative advantage, and that is very largely in services and the areas of high tech, advanced chips manufacturing, in telecoms, in aerospace, and so forth.

It is an interesting point that one of the reasons why services trade in Southeast Asia is relatively small -- it is just about a fifth the size of merchandise trade -- is because most Southeast Asian countries, with the exception of Singapore, have very high services trade restrictiveness measures. The STRI, the Services Trade Restrictive Index, for most Southeast Asian countries ranked them very highly in the world, amongst the highest restrictions. And that seriously erodes the competitive advantage of U.S. service providers.

So one area where I believe the United States can engage seriously with Southeast Asian policymakers is to try and bring down these restrictions, reduce them in ways that U.S. companies can then compete, while forcefully bring their expertise but also bring their scale economies, which will not only benefit, of course, U.S. companies and the United States but will benefit Southeast Asia. Southeast Asian services' quality is extremely weak. It is, in some sense, the Achilles heel. Health, education, those sorts of areas are where service providers provide very, very poor quality services, and would benefit enormously from expertise, not just from the United States but also from other countries.

So I would suggest that services is one area where the U.S. could engage Southeast Asian policymakers.

The second I think that I would mention is the idea of introducing bilateral investment treaties. The idea that investments by U.S. investors, but not just U.S. investors, other investors, as well, are subject to protections, which are considered standard across the world, but unfortunately are not necessarily enforced in Southeast Asia, and to make sure that those investors have the same advantages as domestic investors and that any privileges given to them then cannot be ratcheted back by any future legislation. So some kind of bilateral investment treaty that would significantly improve the advantage to U.S. investors but also investors from elsewhere.

I think all seven, frankly, are quite important, but let me just stop after having mentioned those two.

CHAIR PRICE: Okay, and we might get to some of those, as well.

Dr. Lim, in your recommendations, implications and recommendations, and as you mentioned, you talked about policymakers needing to ensure human capital development is tied to long-term upgrading imperatives, and that U.S. companies are well-positioned to lead this effort. What would that look like to you?

DR. LIM: What would that look like to me? I think, at least for me, I think if you observe the news over the last few days you realize that there was some news revolving around, one, the American chip company, Intel. The new CEO, I think he is no longer Malaysian, but was

Malaysia born. And that is an outcome of American engagement over the decades.

So I wouldn't say doing more of the same, but you have got to do the same things while do other things that the previous presenter was saying about. So I think that is one way that this is manifesting itself. A lot of Malaysians were quite happy to get the news that, hey, one of us, formerly, eventually became the boss of Intel. So I think that is one way.

And I think over a period of a few decades, sometimes engagement has been a bit less, a bit at arm's length, and I think this is a good time to tighten the partnerships, whether through bilateral or multilateral. And one of the things that a lot of Southeast Asian felt somewhat surprised was that the American government was supposed to be part of what we call the CPTPP, and it was pulled out, of course.

So I think that part also ties in with what Dr. Nehru was saying. He was saying tie in certain provisions and increase the services trade. And the CPTPP does some of that, at least the original version, and it was, of course, watered down a bit. So I think that was actually quite good, and more such engagement is very worthwhile, in my opinion. So that is what I have to say on that matter. Thank you.

CHAIR PRICE: And thank you. Co-Chair Schriver?

VICE CHAIR SCHRIVER: Thank you. Dr. Nehru, I wanted to ask a couple of questions on transshipment. You made a comment in your oral statement, and it is probably in here somewhere in your written statement, that you expected -- now I am rephrasing my words -- you expected the problem of transshipment to attenuate a bit because of the cooperation of Southeast Asian countries in helping us deal with the problem.

We have had meetings and travel where actually just the opposite was suggested, and it could have been the particular interlocutors, but it was basically transshipment is your problem. If we are making money off this, of course we are going to do it.

So I just wanted to get your assessment on the appetite for cooperation truly on the part of our Southeast Asian friends and partners.

DR. NEHRU: Well, my statement that Southeast Asian authorities wanted to reduce transshipment is based on press reports that I have been able to read. I don't have any direct contact with the authorities in those countries specifically focused on this. But especially in Vietnam, when this was brought to the attention of the Vietnamese, the Vietnamese made it a policy commitment of theirs, at least as far as these press reports were concerned, made it a policy commitment of theirs to try and reduce transshipment because they recognized that it had a big impact on the reputation of all Vietnamese exporters, and there were large reputational risks for the country. And I think the same would apply to Malaysia and certainly to Singapore. Those are also, incidentally, two countries which are seen as operating as transshipment ports.

Just a quick point about the estimate of transshipment. This estimate is just an estimate. These are difficult things to identify specifically, which is why the CBP finds it so difficult to actually identify and detect them. What the analysts did was used very detailed trade data, down to eight-digit harmonized system levels, which is like ball point pens or whatever have you, and seeing whether, within a quarter, you had a sharp increase in imports into a country and then a sharp increase in exports, and that the lower amount of the two was then seen as subject to potential transshipment.

So the lower bound that we have, of 7.5 percent, the upper bound, of 16 percent, the 16 percent is probably an overestimation. The 7.5 percent is probably a very conservative estimation. But these are just estimates based on trade data, because it is very difficult to actually get a handle on specifics on this, unless domestic authorities are seriously involved in detecting

this kind of activity.

VICE CHAIR SCHRIVER: Thank you for that clarification. That is the basis for the question is how confident can we be to have their cooperation.

I think there is sufficient concern in Congress about this issue that there is an interest in addressing it, perhaps through legislation. And if you could expand a bit on the difficulty of detecting, accounting for, measuring, because it seems to me there is a spectrum of some final product comes in from China and you slap a label on it that says it is from Vietnam, not from China, and you send it along its way. That is clearly sanctions evasion, tariff evasion, illegal.

But if China comes in and invests, builds a factory, hires people, builds something, and it is Chinese capital but it is produced now somewhere else, Vietnam, that is perfectly fine. But there is a middle ground of what if they are sending component parts for final assembly and then ship it?

So if you were to have a recommendation to the Congress, or have us make a recommendation to the Congress, what is the problem that we should be cracking down on, and how do you build this sort of infrastructure for detecting and then leveling penalties?

DR. NEHRU: This is an age-old problem of international trade and international trade agreements to determine what are called "rules of origin" or ROOs. And virtually all trade agreements normally have a minimum amount of value added that needs to take place in a country before it can avail itself of, say, lower tariffs under the trade agreement.

The problem in the case of the United States is it doesn't have a trade agreement with Southeast Asian economies. It withdrew from the TPP. But if it had stayed within the TPP, as currently, for example, RCEP has a 40 percent rule. There is a 40 percent value-added requirement. If that requirement is met within RCEP, then a product can be produced anywhere within the RCEP members and can be exported to any country within the RCEP membership, and still avail itself of the RCEP special tariffs.

The United States has to reach an agreement of what it considers to be an appropriate level of value-added locally before it can avail itself of its tariffs, or zero tariffs, or whatever have you, within the United States. And that requires negotiation and agreements so that both sides are clear on level of the rule as well as how it is to be determined, because that, too, requires a significant amount of expertise and sort of technical determination, because these are also not necessarily easy things. But there are now -- I looked at it -- something over 300 trading arrangements now in the world, and virtually all of them have rules of origin and methods by which rules can be determined.

So this is not something that is new. It has been done in the past, and it can be done in the case of Southeast Asia.

VICE CHAIR SCHRIVER: Thank you.

CHAIR PRICE: And Commissioner Brands.

COMMISSIONER BRANDS: Dr. Nehru, you advocated in your written testimony that the U.S. pursue a framework for economic engagement with Southeast Asia, and we consistently hear that there is a strong demand signal from Southeast Asian countries for expanded economic ties. Of course, we are also in a world where sort of big trade deals seem unfeasible politically.

So could you just sketch out a little bit of sort of what that framework looks like in your mind, within the limits of the politically possible at the moment?

DR. NEHRU: Well, as Dr. Kuok this morning mentioned, there already is the Indo-Pacific Economic Framework, which has these four pillars -- trade, supply chains, clean economy, and inclusive economy. I think those are the four pillars. And I am not suggesting that

the IPEF necessarily continue, but that provides a useful benchmark against which to measure any new arrangement that may be negotiated.

The point is that even in the trade pillar, where very little progress, frankly, has been made under IPEF, the objective should be to try and move towards a trade agreement of the kind where you have rules of origin determined, you have transshipment issues laid out, and so forth. But recognizing that we are not going to get there, simply because of the atmosphere on both sides of the Pacific, if you wish, but that should be the ultimate objective, and one should then measure progress in baby steps along that way.

So I think my one sort of suggestion would be to be patient with respect to negotiations, make small steps towards this agreement, and that is about the only thing that I can suggest, given the lack of enthusiasm for a trade agreement with Southeast Asia.

COMMISSIONER BRANDS: A couple of the additional recommendations you made in your written testimony involved a sort of high-standard security framework to protect dual-use technologies and critical minerals agreements. So could you just expand a little bit more on what you have in mind there?

DR. NEHRU: Well, as you know, the policy under the CHIPS Act was that the U.S. could not import any critical minerals as well as any components unless they were from countries with which the United States had a free trade agreement. And yet many of those critical minerals are, in fact, produced in Southeast Asia. Southeast Asia, especially Indonesia, suggested that there be a limited critical minerals agreement with the United States, but this was, I think, rejected out of hand.

It is possible, for example, in Japan, to provide inputs into these sensitive industries because Japan has the appropriate safeguards to ensure the technology is not leaked to adversaries. But not even Korea is included in that very privileged group.

What I was suggesting was that the United States should work with at least some of these countries, the more advanced countries which have a greater likelihood of introducing those safeguards, to work with them to make sure that those safeguards reach a standard which are acceptable to the United States, so that these countries can then participate in the supply chain for these very sensitive industries. So that is what I was referring to with respect to the high tech as well as what I was referring to with respect to the critical minerals arrangement.

I think the critical minerals arrangement issue, by the way, can very quickly be resolved. I don't think it should be a big issue. It unfortunately, I think, was rejected out of hand earlier.

COMMISSIONER BRANDS: Thank you very much.

CHAIR PRICE: Commissioner Friedberg.

COMMISSIONER FRIEDBERG: Thank you. Dr. Nehru, in your written testimony you talked about the question of whether Chinese companies were beginning to establish production facilities in third countries, particularly in Southeast Asia, rather than simply transshipping. To what extent are Chinese companies that are involved in this kind of activity transferring technology or knowledge or skills that may allow for the development of indigenous capacity in those countries?

DR. NEHRU: Well, I don't have any particular insight into how much of that technology spillover is taking place, but the experience of Southeast Asia in the past, especially in Vietnam, has been that those spillovers can be pretty significant if these companies are located coterminously, if you wish, if there are agglomeration economies, where technological spillover simply takes place with respect to observing, conversations outside work, and so forth and so on.

I mean, Southeast Asia is a very good example of how foreign direct investment,

especially if located within industrial states where there is a high concentration of firms and cluster economies, can lead to significant technology spillovers. But we must recognize that technology spillovers take an extremely long time, because technology is appropriately protected and IPR and all of the rest of it. But there is also learning by doing that takes place. Personnel who work in these companies learn and take that knowledge outside those companies, and that is how ideas and technologies spread.

So I am pretty confident that as Chinese companies invest in Southeast Asia, as many Western companies have, that those technologies are likely to have the same dissemination across the economy, over time.

COMMISSIONER FRIEDBERG: This is another question for you but also for Dr. Lim, if he would care to comment. I believe, in your written testimony -- I'm sorry, now I am not sure which of you it was -- made the point that Western companies, in fact, have not always done very well at transferring skills or technology to the countries in which they locate facilities. So China may not be unique if it is withholding some of that technology.

DR. NEHRU: I can respond and then we can go to our other presenter.

In fact, I would suggest it may be the other way around. One of the big complaints I pick up from policymakers in Southeast Asia is that quite often Chinese investors demand that their skilled workers, their middle managers are all from Mainland China. They claim it is because of language and because they have the skills, and so forth. But one of the consequences is that there are very few technological spillovers that take place.

I will give you one example and that is the famous Morowali Industrial Estate that I mentioned in my paper, 35,000 hectares, huge numbers of smelters and so forth. There is a Chinese hotel. There are Chinese dormitories. There are Chinese workers. There are Chinese managers. And while there are obviously some Indonesians there, the bulk of the technological capacity is Chinese. And I don't believe that much effort, even on the part of the Indonesians, are trying to extract some of that technological knowledge for the benefit of their own workers and managers.

COMMISSIONER FRIEDBERG: And again, do you have any insight into how that would compare with the behavior of other Western companies?

DR. NEHRU: Well, obviously Western companies are not that keen to give up their technologies. But on the other hand, they recognize that in order to be efficient, one of the reasons why they locate in these countries is to get access to cheap labor, to get access to cheap management. And so they have to train them. They have to give them those skills in order to be competitive and to make that investment a productive investment. And so it is in the very nature of the model of foreign direct investment that you have to give up some of that technical capacity to local workers and to local managers.

And so I think, as I said, Southeast Asia is an exemplar of how these technologies spread, and much of that investment so far has been by Western investors, not by Chinese investors.

COMMISSIONER FRIEDBERG: Thank you. Dr. Lim?

DR. LIM: Thank you. I think with regard to that question, the last question, was that I would say virtually all transnational corporations will not really need transfer technology to whichever place that they invest in. I think that is simply capitalism. Whether you are European, Japanese, American, Chinese, it doesn't really matter. A lot has to go down to willpower from the domestic states. I think if you look at Morowali, which was mentioned just now, you see basically, in a sense it is a very free market. Because it is so free market, Chinese investors get to do what was mentioned, right, bringing in their own laborers, middle managers. Of course, there

are reasons for that, because Morowali is kind of far away, and to quickly commission a project you need people, and a lot of them are from the home economies.

But how this will evolve in 3 years' time, 5 years' time, we don't really know. If you look at most of the transnational corporations in Southeast Asia, at the beginning there will be quite a huge influx of people from the home country, and over time they will hire more locals. So with regards to the Chinese, I think they may evolve on that pathway, because bringing all your people is not cheap. So that is a key consideration.

And the other thing is if you consider the example of Japan, in very recent times, what they did -- and this was in late 2023; it was the launching of the ASEAN Japan procreation initiative for the next generation of the automotive industry -- this is where supposedly Japan and the various Southeast Asia governments, they come together and they decide to build the next generation vehicle. You can call it EV or by other means. I think this is something that can be considered. So there is policy encouragement, policy inducement, because you can't really force companies to do what you want them to do. They have to be willing partners. So this is one way of doing it.

I think Japan is quite good in this, and you can see that in the streets of most Asian cities. Most of the cars that you see are essentially Japanese. BYD, yes, one or two, but generally it is Japanese castle. A Korean guy used to tell me that, yeah, this is a Japanese castle. We cannot touch the Japanese castle. Thank you.

CHAIR PRICE: And Commissioner Goodwin.

COMMISSIONER GOODWIN: Thank you, Madam Chair, and again my appreciation to the witnesses for their testimony.

Dr. Nehru, I want to return to the discussion of the policy recommendations you make in your testimony, and as you introduce them you point out that the recommendations would all be designed to serve one overarching objective, which is the long-term strategic and economic best interests of the United States. And then you point out that a fundamental assumption underlying that strategic objective is that a strong, stable, and prosperous Southeast Asia, one that is open, engaged, and even competitive with the United States, is in the United States' best interest.

Do you think the U.S. accepts that premise? That is, do you think that our policies currently reflect that assumption?

DR. NEHRU: Well, the nature of policy recommendations are what they should be as opposed to what they actually are. But I think to a very large extent, over the last 30 to 40 years - and I have been working on Southeast Asia for that length of time -- I think there has been a consistent effort, except for a few notable periods, where, yes, the United States has worked for the prosperity of Southeast Asia. It is true there are many Southeast Asian economies and are part of the WTO. One of the reasons why Southeast Asia seems so comfortable with the world economic order is because they have benefitted greatly from it, just as China has benefitted greatly from it. An order in which there are rules for trade, for investment, and so forth. And as I say in my testimony, as I mentioned earlier, Southeast Asia has one of the highest trade-to-GDP ratios in the world, even higher than the EU.

So clearly the world order has significantly helped, and the United States has been a prime mover of that world order. So my submission would be, my sense is that the United States has, over the last several decades, tried to achieve the prosperity of Southeast Asia, recognition of the fact that that would also serve the interests of the United States. I am not sure whether you would agree with me on that. I would be interested in your views.

COMMISSIONER GOODWIN: Well, yeah, the benefit of today's proceedings is you are

on the hot seat and I get to ask these tough questions.

I do want to follow up. What about the countries in the region. That is, do you think they believe that we believe that? You touched on some of the public polling that came out in 2024, and shifting trends with regard to views of the United States, China. So do you think countries and policymakers in the region believe that we believe that their economic prosperity and security is in the world's best interests?

DR. NEHRU: So one must start with the premise, of course, and it is worth constantly reemphasizing this, that Southeast Asia is made up of ten extremely diverse economies with very diverse views on this issue. And there are clearly countries in Southeast Asia which are completely within the orbit of the Chinese and are unwilling to accept anything other than the dominance of the Chinese. And I am referring here primarily to Laos and Cambodia and Myanmar, for example.

And there are also countries, like Singapore, now Vietnam, the Philippines, where there is a strong view about the critical importance of the United States as underpinning the economic and security order within Southeast Asia. And I would place somewhere in between the countries like Indonesia, Thailand, and Malaysia, where I think they recognize the critical importance of the United States, their relations are always hedged between the United States and China. But they also recognize the fact that China is geographically close. It is growing very rapidly. It provides critical technologies. It helps these countries with their aspirations to become high-income economies.

But ultimately, I think there is this variety of views within Southeast Asia with respect to the United States. Some would agree with the view that the United States is working to benefit Southeast Asia, and others might not have that same view and would provide the same rubric to the Chinese. I am not sure if that answered your question.

COMMISSIONER GOODWIN: No, that is very helpful. Thank you.

CHAIR PRICE: Commissioner Kuiken.

COMMISSIONER KUIKEN: Thank you. Dr. Nehru, thank you for coming, and thank you to all the witnesses. I have got to remember to keep my glasses on when I am reading questions.

Dr. Nehru, what role is Southeast Asia playing in sanctions and export control evasion, in your view?

DR. NEHRU: Could you repeat that?

COMMISSIONER KUIKEN: Sure. What role is Southeast Asia playing in sanctions and export control evasion?

DR. NEHRU: What role is Southeast Asia playing in --

COMMISSIONER KUIKEN: Sanctions and export control evasion.

DR. NEHRU: -- sanctions and export control evasion. That is evasion of export controls imposed by the United States?

COMMISSIONER KUIKEN: Yes.

DR. NEHRU: I am not aware of any such evasions, but I haven't kept a very close eye on this. I am not sure exactly whether you are referring to a particular issue here.

COMMISSIONER KUIKEN: Okay. That's fine. Let me ask you another question then. How has expansion investment in Southeast Asia contributed to the global economies of scale for Chinese firms?

DR. NEHRU: Chinese firms have attained global scale well before they started investing in Southeast Asia. I think one must recognize, by the way, that a lot of the relocation of

manufacturing investments in China to Southeast Asia were, in fact, from Western companies, not Chinese companies. These are American companies, Japanese companies, European companies who initially found the rise in real wages was simply making them internationally uncompetitive, and therefore chose to relocate to Southeast Asia, primarily Vietnam but also to some other countries, to regain their competitive advantage.

This process was then accelerated by some of the tensions between China and Japan initially, where Japan introduced the China Plus One policy, trying to move some of their investments out. And subsequently, of course, with the introduction of tariffs in 2018, the U.S. tariffs I am talking about in 2018, which accelerated that process even further.

So this has been a long-standing process, and it is not just, as I mentioned, Chinese firms. It very much initially were Western firms. Chinese firms have now been relocating, in part, stimulated by the U.S. tariffs.

COMMISSIONER KUIKEN: Thank you, and I will give back the balance of my time.

CHAIR PRICE: Commissioner Miller.

COMMISSIONER MILLER: Thank you. Dr. Nehru, I would like to go back to the discussion you were having with Commissioner Brands about a critical mineral deal. We just returned from the region. We are going to be going back to the region in a few weeks. There weren't 10 minutes that went by that we didn't hear some sort of talk about how important a critical minerals deal should be. But we had a very difficult time actually getting to what that would mean and what could actually get us across the finish line. Certainly there is an appetite on the U.S. side for more critical minerals. There is an appetite on Southeast Asian countries, Indonesia, for example, obviously, for an export market that would allow them to diversify away from their reliance on China.

But what else is needed to push this across the finish line? And I am asking because this sounds like a great idea, but it is not deemed attractive enough to get the attention of this Administration, at least yet. If you were given the mandate to try to help get this thing over the finish line, what recommendation would you have? Would it be based on constraining Chinese operations in the country, providing more transparency around what the Chinese processors are doing? Would it be based more around proactive steps to create a bigger export market in the Indonesias of the region in order to create more potential exports coming in from the United States? How would you advise getting past the finish line?

DR. NEHRU: My suggestion is very simple actually. There are seven industrial estates that have been set up in Indonesia to promote downstream nickel processing, and not just nickel processing but processing of other minerals which can no longer be exported from the country. Only three of those are currently operational -- Halmahera, Morowali, and there is one island of Gebe. Four are not yet operational.

My suggestion would be that if the United States can reach an agreement with Indonesia to get one of those industrial estates for only U.S. investors, the U.S. investors can install environmental standards which are in consonance with United States standards. The U.S. investors can introduce investments which meet the governance standards and the transparency standards, which the U.S. demands. Just as China dominates these three, the United States could potentially get one of these industrial estates where it can get sufficiently large amounts of U.S. investment, U.S. standards, and then you can have verification of those standards for those products to be exported to the United States. There is absolutely no reason why this cannot be achieved.

COMMISSIONER MILLER: Thank you. I think that is very helpful. Let's go back to

30,000 feet and talk about Belt and Road. This is a question for both of you. Belt and Road is very different now than it was when it was first created over a decade ago and when Xi Jinping first put his stamp of approval on it. The Chinese financial backdrop is very different. There were enormous amounts of forex reserves, 4 trillion or so, with another trillion in the banking system.

So the dynamic for wanting to get Belt and Road going was about not just recycling excess surpluses, forex for commodities, other things. It is different now. The Chinese state is much more capital constrained. And what we have been seeing around the world has been sort of a de-emphasis of Belt and Road, a lot of failures associated with bad managerial oversight of Belt and Road. So it is a very different environment.

That said, what has been very clear in your testimonies has been that it plays a very strong role in Southeast Asia. Perhaps around the road, Belt and Road isn't what it once was, or it doesn't have the emphasis in Beijing of what it once was. But in Southeast Asia, it still plays a very important role.

Obviously, Southeast Asia is the near abroad for China, but how would you distinguish your view of how Belt and Road is doing right now, in 2025, in Southeast Asia, versus perhaps the rest of the world where there is maybe a declining emphasis?

DR. NEHRU: I will answer your question but with some caveats. It is always very difficult to define what is a Belt and Road project as opposed to what is not, especially in the past. But given that, there has been a transition in the kinds of projects that the BRI has been supporting. The first have been primarily transport -- it's rail, it's roads, ports, and airports. But there has been a significant shift, recognizing precisely the point that you are making, that many of these projects have not been as successful as they were originally thought. There has been some pushback on the part of countries, especially countries like Malaysia and Indonesia and elsewhere.

And so there has been this shift to what is now considered to be, in fact, an even higher priority as far as China is concerned, and that is the Digital Silk Road, that is focusing on investments in the digital sector. And I am talking about literally the last couple of years, there has been a very substantial increase in investments, not just, by the way, on the part of China but also on the part of the United States, quite separately.

So there is this intense competition for Southeast Asian markets. Some of that competition, unfortunately, is now waning simply because the United States has incentives, U.S. investors have incentives now to locate within the United States because of some of the barriers introduced. So China has somewhat more of an open playing field with respect to Southeast Asia, but that is where a lot of the action of the BRI is.

And questions like localization laws, privacy concerns, management of the data, data governance, these are all issues at which China is at the discussion table, not the United States, unfortunately, because China is the one introducing many of these investments.

And I will be very frank with you, that the leaders of Southeast Asian economies find China's use of many of these high-tech surveillance instruments are very useful for their own purposes. So there is a meeting of the minds as to how data should be used, both for the stability of the state as well as for the promotion of the market. And that makes for a relatively easy discussion between Southeast Asian leaders and the Chinese.

COMMISSIONER MILLER: Do we have time for Dr. Lim to respond? Dr. Lim?

DR. LIM: Thank you. With regards to the Belt and Road, I think I agree with Dr. Nehru in the sense that it is basically a catch-all, and I have never yet come across a Chinese project or a Chinese firm that says, "Hey, I'm not from the Belt and Road," because it is just a signaling

thing and everyone wants to be in rather than out, right.

And if you were to look at a longer-term evolution you realize that there has been a lot of waste at the early stages, if you count 2013. And between 2013 and 2025, today, there has been some projects, a lot of projects, I would say, that are basically wasteful and inefficient. And I think the companies themselves, the Chinese companies themselves and their affiliates, they are learning to rationalize, to experiment, basically learning by doing, and as a result the projects have become more and more rationalized, and that is not a bad thing.

If you look at, say, Japan, Japan in the '80s was basically seen as a rival by some Western governments, and over time that worry is no longer a worry, no longer a concern, simply because there is a lot of learning by doing, as well. There is a lot of experimenting. And I think the Japanese companies, they learned how to manage basically this pot of money in foreign environments. I think people kind of not noticed the similarity between Japan and China in this regard. And to a smaller extent you could extend the argument to the New Southbound Policies of Korea and Taiwan. Similarly, large capital surplus, and you can recycle it or channel it abroad. And, broadly speaking, they have seen the same evolution that we tracked. At the start it is big, even boastful at one point, but over a period of, say, 10 years, 20 years, they have become more and more attuned to the market's sentiments.

And before we forget, if you just proxied the Belt and Road, whatever the definition is, if we just look at foreign direct investment, it is not particularly that big in Southeast Asia. It has become bigger. But the others have also maintained a presence, or even increased their presence. I think American FDI is one of them. Japanese FDI is also one of them.

So in that sense, you could say that everyone wins in this exercise, and that is my comment on this. Thank you.

COMMISSIONER MILLER: Thank you.

CHAIR PRICE: Thank you. And Commissioner Stivers.

COMMISSIONER STIVERS: Dr. Nehru, you mentioned, and I totally agree, that the U.S. should lean into our commanding advantages and not try to emulate China, especially on economic and trade policy. I think this is a common theme that we have gotten from all of our panels.

So on foreign direct investment, we have heard a lot over the years about how this is a commanding advantage from the U.S., Japan, our allies, that we have in Southeast Asia over China. But in our previous panel, or one of our previous panels, it was said that the FDI advantage was not so significant because it was concentrated so much in Singapore. And I would like to get your views on if you agree with that. Is FDI from U.S. and our allies, is that a commanding advantage, and if so, how do we lean into it?

DR. NEHRU: Well, yes, I believe it is a commanding advantage, and yes, you are quite right that Singapore receives the bulk of U.S. investment in Southeast Asia. But Singapore is, if you will pardon the expression, a transshipment point for that investment. Singapore happens to be the largest foreign direct investor in the rest of Southeast Asia. So the same companies that get capital from the United States or elsewhere, then reinvest that money in Southeast Asia. And they use, of course, Singapore's proximity to manage those investments in Southeast Asia, but they also use the Singaporean court system to resolve disputes. They are supported by Singaporean law, they are supported by Singaporean requirements for governance and standards, and that is why they choose to locate in Singapore.

Having said that, there are still big challenges because in many countries in Southeast Asia judicial standards, standards for governance, transparency are unfortunately extremely

weak. I will give you an example. You can have a case which is resolved in a Singaporean court, but to implement the judgment you actually have to go then, say, to an Indonesian court or to a court in another Southeast Asian country. And getting judgments implemented is extremely difficult when it is a cross-border decision of this kind. So it is not always easy.

One of the big things that the U.S. government can do to support U.S. service providers is by reaching agreements on some of the ways by which dispute resolution can be done in ways that are transparent and fair and clear. The judgements made, say, in Singaporean courts, should be implemented with alacrity, if you wish, quickly, et cetera.

So there are all sorts of ways by which the U.S. government can support private sector service providers from the United States in the rest of Southeast Asia. And as I mentioned, there are a litany of restrictions on service providers in the rest of Southeast Asia. It is surprising to me that these countries have not seen the advantages of allowing foreign investors, especially U.S. service providers coming in, to improve the quality of services in Southeast Asian economies.

COMMISSIONER STIVERS: Thanks. I want to expand that a little bit but also kind of focus it on trade and bring in Dr. Lim. I agree with Commissioner Brands that we shouldn't spend too much time on multilateral trade agreements at this point because they are just not realistic in this political environment, for good or for bad.

But it should be noted that only 4 of the 10 or 11 ASEAN countries are part of CPTPP. And Indonesia, the largest economy in ASEAN, is not part of that, Thailand, the Philippines, and they are worried that they will be at a disadvantage in an environment where the more wealthy countries join a multilateral trade agreement and the middle-income or low-income countries do not.

But this gets directly to the issue of standards in trade. If bilateral trade agreements are possible with the U.S. and possibly some of our larger allies like Japan, do these, especially the middle-income countries -- I am thinking the Philippines and Indonesia and Thailand, in particular -- do they have the basic customs enforcements or standards that can enable them to enter into a trade agreement that could hopefully be mutually advantageous, and does it make sense for the U.S. to provide that technical capacity-building support to help these countries have higher standards? Maybe we can start with Dr. Lim on this one.

DR. LIM: Thank you. I think you are right. A lot of us, we may not have the capacity to do better standards of trade, better standards of governance. We do not really have that. And I think if you look at capacity-building, I think one guy that always is there is Japan. Japan provides quite generous ODA, and some of that ODA goes back to capacity-building and all those.

So in that sense I think if you look at the American aid, I know there is a lot happening behind, but over the last 10 or 20 years, it has not really been that much channel over to Southeast Asia. So I think that is something worth considering. It may not be the same thing, but if a close enough substitute can be found, that should be good. But again, I don't know American politics that well, but I do know that this is something that has to be considered.

And I think it is also a very gradual process, because it is not so realistic if we say, okay, let's do this today, and if there are no results in 6 to 8 months' time then we chuck the whole initiative out. I think that is very reactionary, very, very reactionary.

So it would be good to have a longer-term perspective. And again, Japan is actually quite good in that. I know some people say, yeah, the Chinese do, but I think if you look at Japan, Japan does it quite okay, as well. And believe me or not, a lot of what the Chinese do actually, I wouldn't say copycats but there is a lot of policy emulation from Japan. So I think that is

something that could be referenced, whether it is trading, capacity-building, and all those things.

So I will end there. Thank you.

COMMISSIONER STIVERS: Dr. Nehru?

DR. NEHRU: I would differentiate between a trade agreement focusing on merchandised goods and one focusing on services. On merchandised goods, as you well know, tariffs tend to be very low, on average, even in Southeast Asia, particularly in Southeast Asia. It is behind-the-border barriers that is the real issue. And to be honest, the Southeast Asians are very good at introducing behind-the-border barriers in ways that restrict imports, but where they aren't overt, and therefore they can't be brought to account, so to speak.

But the case of the United States is to have agreements actually on services trade, which is where it has its comparative advantages, and there the issues are very different. You don't need customs to determine whether services can be provided or not. For example, setting up design companies, accountancy companies, architectural companies in Southeast Asia, U.S. companies that is, that should be allowed. These are services provided which should be allowed. They are not, in many instances.

To allow companies in Southeast Asia to hire financiers, top managers, other service providers, legal experts, and so forth, these are quite often not allowed because the worry is that domestic expertise will not be used.

So there are many ways by which you can actually level the playing field for service providers in these countries, which do not require customs. They just require a change in regulations, and an observance of those regulations, that is true. But that is much easier to police, so to speak, than is required for merchandised goods.

COMMISSIONER STIVERS: Thank you.

CHAIR PRICE: Do any Commissioners have any further questions?

COMMISSIONER STIVERS: Sorry. I hate to be the last question, but I do have one other question, back on trade, RCEP. It was the trade agreement between countries in ASEAN and China, which I believe went into effect in, what, 2022?

DR. NEHRU: It was ratified in 2022.

COMMISSIONER STIVERS: Okay. So according to your testimony and the statistics that I have seen, China's exports to the region skyrocketed since that time and wiped out any natural trade advantages and a trade surplus that many countries in ASEAN had with China. Is this timing just a coincidence, or did RCEP and the tenets of that trade agreement contribute to this change in the trade relationship between China and these countries?

DR. NEHRU: Well, I am well aware that there are many experts on the Chinese economy in this room, and I am not.

COMMISSIONER STIVERS: Of which I am not one.

DR. NEHRU: Okay. My view is that it is a combination of the introduction of RCEP -- yes, it certainly facilitated trade enormously -- but it is also a reflection of the fact that the post-pandemic stimulus that was provided by the Chinese authorities have led to a substantial increase in investments, which have led to excess capacity, which has nothing to do with Southeast Asia, nothing to do with RCEP, and everything to do with the stimulus.

I have worked a lot in China, by the way, and one of the unfortunate features of the Chinese system is that the stimulus measures that they are capable of introducing quickly tend to be on the supply side, not on the demand side. And so, unfortunately, the supplies may increase very substantially; demand has not. Now they are trying to play catch-up, trying to introduce measures to increase demand, to try and soak up some of that excess capacity.

So it is a combination of both, the RCEP as well as the stimulus.

COMMISSIONER STIVERS: And there is a lot more stimulus coming, in terms of --

DR. NEHRU: I don't believe so. I don't believe there is a lot of stimulus coming. I believe they now have to work off this excess capacity which exists in a wide range of areas, particularly in real estate, which has nothing to do with trade at all. But the excess capacity tends to be in battery production, in EVs, in petrochemicals, in a whole range of those sorts of products.

But I think what is going to happen is there is going to be a shake-out, just as there was a shake-out in the real estate industry. There is going to be a shake-out in the EV industry. There is going to be a shake-out in the battery industry. There is even going to be a shake-out in petrochemicals. And by the way, that shake-out is not restricted to firms just within China. They would include firms that have invested in Southeast Asia. So there could be some fallout for Southeast Asia as that shake-out takes place.

COMMISSIONER STIVERS: Thank you.

CHAIR PRICE: Dr. Lim, did you have any final remarks or final thoughts?

DR. LIM: No, not at all.

CHAIR PRICE: Okay. So in closing, I want to thank Dr. Lim for participating in the middle of the night with us today, and to Dr. Nehru, thank you for being here in person. And to all of our witnesses that we heard from today, I want to thank them, as well, for their testimonies. We are going to use all of this to inform our deliberations and preparations of our report this year.

You can find these testimonies as well as the recording of the hearing on our website.

I would like to note that the Commission's next hearing will take place on Thursday, April 3rd. That hearing is titled, "The Rockets' Red Glare: China's Ambitions to Dominate Space."

And with that we are adjourned.

[Whereupon, the above entitled matter went off the record at 3:00 p.m.]

STATEMENT FOR THE RECORD

**RESPONSE OF ALVIN CAMBA, CRITICAL MATERIALS SPECIALIST,
ASSOCIATED UNIVERSITIES INCORPORATED**

Alvin Camba
Critical Materials Specialist
Associated Universities Incorporated

The U.S.-China Economic and Security Review Commission
Crossroads of Competition: China in Southeast Asia and the Pacific Islands
March 20, 2025

Questions for you to address in your testimony:

What are the strategic and economic goals behind China's development finance to the Pacific Islands? What are the main economic priorities for Pacific Islands host countries in negotiating for development finance from China?

China's strategic aims in the Pacific Islands revolve around several key objectives. First, China seeks to expand its political influence among Pacific Island leaders, providing an avenue to secure strategic resources and establish a foothold beyond the "first island chain," a maritime barrier stretching from Japan and Taiwan through the Philippines to Indonesia. While resources in the Pacific Islands are limited—aside from notable exceptions such as Papua New Guinea—their strategic geographic location offers China opportunities to enhance its military and strategic footprint. By developing naval access points, logistical hubs, and dual-use infrastructure, China can project power further into the Pacific, potentially circumventing constraints imposed by the United States and its regional allies. Should Pacific Island nations actively invite Chinese military bases or strategic port development, there would be few legal avenues for the U.S. or Australia to counteract, as these sovereign states have the right to independently choose their strategic partners.

Second, China's growing influence in the Pacific Islands directly affects the United States' capability to maintain freedom of navigation, protect vital maritime routes, and uphold regional security alliances. If China successfully establishes strategic ports or dual-use facilities, the Chinese navy could significantly expand its operational range, monitor U.S. naval activity, and challenge American maritime dominance. Such developments would be especially consequential in a potential crisis involving Taiwan, complicating U.S. naval deployments, disrupting critical access routes, and hindering the American military's ability to respond effectively to threats affecting Taiwan, Japan, the Philippines, and other regional allies.

Finally, China is actively encouraging Pacific Island states to shift diplomatic recognition from Taiwan (the Republic of China) to the People's Republic of China. As of March 2025, most Pacific Island countries—including Papua New Guinea, Fiji, Samoa, Solomon Islands, Vanuatu, Tonga, the Federated States of Micronesia, Kiribati, and the Cook Islands—officially recognize the PRC. Currently, only three Pacific Island nations—Palau, Tuvalu, and the Marshall Islands—continue formal diplomatic relations with Taiwan, highlighting China's significant diplomatic achievements in the region.

What are the costs and benefits of Chinese development finance for Pacific Islands economies? How does Chinese development finance to the Pacific Islands differ from other traditional financing partners including Japan, Australia, and the United States? What gaps exist between the perception by host countries of Chinese development finance and the actual impact on economic development in Southeast Asia and the Pacific Islands?

The benefits and costs for Pacific Island economies associated with Chinese development finance are as follows. Chinese development finance allows Pacific Island elites to legitimize their rule through

infrastructure projects, reinforcing their authority in the eyes of Pacific Islanders. Infrastructure projects often come with a sense of grandeur and are strategically leveraged by politicians linked to these developments. Practically, such projects empower elites by allowing them to distribute benefits to allies—for instance, choosing project locations, suppliers, and service providers. Consequently, Chinese development finance becomes a source of external patronage that incumbents exploit to solidify their power. Examples include the \$13 million Stinson Parade Bridge in Fiji, benefiting local supporters of the Fijian government, and the \$71 million National Stadium in the Solomon Islands, which Prime Minister Manasseh Sogavare used as justification to postpone national elections from May 2023 to April 2024, seeking to host the games prior to elections. The costs associated with Chinese development finance in the Pacific are primarily political, rather than economic, as the amounts involved are relatively small compared to China's spending elsewhere.

Comparatively, these projects in the Pacific are less expensive than China's expenditures in other regions. Notable projects include the \$66 million Huawei Mobile Towers project in the Solomon Islands aimed at enhancing telecommunications, the \$26 million Vatuwaqa Bridge and \$117,446 for equipment at Navua Hospital in Fiji, and Samoa's \$20 million National Broadband Highway fiber-optic network. Additionally, China funded the \$5 million FSM-China Friendship Sports Center, the \$19 million Apia Park Stadium renovation, Kiribati's \$5.5 million Betio Sports Complex providing modern facilities, and the \$4 million Cook Islands-China Strategic Partnership strengthening bilateral cooperation in infrastructure, trade, and investment.

Compared to initiatives by the US, Japan, and Australia, Chinese projects predominantly focus on physical infrastructure leveraged politically rather than aimed at genuine developmental advancement. Essentially, Chinese projects often become 'white elephants' with minimal developmental impacts. In contrast, Australia's investments include financial services support such as the \$1.2 billion loan to ANZ Bank to enhance financial connectivity and \$89 million allocated to security and policing. The US invested \$37 million in undersea cable projects for telecommunications enhancement, while Japan, together with the US International Development Finance and Australia's Export Finance Australia, provided a \$50 million credit guarantee assisting Australian telecommunications company Telstra in acquiring Digicel Pacific, serving Papua New Guinea, Fiji, Nauru, Tonga, Samoa, and Vanuatu.

The key exception is Papua New Guinea, where China has invested substantially, including a \$414 million Port Moresby Infrastructure Development, a \$1.3 billion loan supporting the liquefied natural gas sector, and the acquisition of the Frieda River Mining Project. Projects in Papua New Guinea typically focus on mining, are extremely large-scale, and cost hundreds of millions to billions of dollars.

What are the main Chinese banks, companies, and government organizations involved in development finance in the Pacific Islands? To what extent is are these entities implementing the Chinese government's priorities as opposed to pursuing commercial or other incentives?

The largest Chinese banks involved in the Pacific Islands include the China Export-Import Bank, the China Development Bank, and the major state-owned "Big Five" banks. Prominent Chinese firms active in the region include China Communications Construction Company (CCCC), China Harbour Engineering Company (CHEC), China Railway Construction Corporation (CRCC), and China Civil Engineering Construction Corporation (CCECC), alongside major telecommunications firms such as Huawei and ZTE. Additionally, hundreds of smaller private Chinese enterprises operate independently in the retail and wholesale sectors. Beyond these commercial actors, several organizations affiliated with the Chinese Communist Party (CCP) are also involved. These include the International Department of the CCP Central Committee, the Chinese People's Association for Friendship with Foreign Countries, and the United Front

Work Department, which engage extensively with local Chinese communities, build business networks, disseminate information, and expand China's overall influence in the region. All these entities operate through a blend of strategic and commercial motivations. Investments and development projects help expand China's geopolitical footprint and manage domestic industrial overcapacity. In Papua New Guinea specifically, large-scale infrastructure projects strategically provide Chinese firms with greater access to valuable natural resources, including gold, copper, nickel, cobalt, chromite, and significant reserves of liquefied natural gas.

In the context of the Belt and Road Initiative (BRI), what strategies do host countries employ to extract concessions from Chinese investors? How has the balance of power between China and recipient countries in Southeast Asia and the Pacific Islands shifted over the past few years?

There are two common strategies host country elites employ to extract concessions from China under the Belt and Road Initiative (BRI). First, host country leaders cooperate closely with Chinese state officials, policy banks, and firms, often by providing political concessions. At a minimum, these concessions include switching diplomatic recognition from Taiwan to China, conducting state visits to China, and hosting Chinese leaders. Such political gestures are critical because the BRI's funding model depends largely on Chinese policy banks and major state-owned or private firms, whose investment decisions require approval and backing from the Chinese state. To gain this support, host country elites often portray themselves as cooperative, friendly, and politically accommodating partners by avoiding criticism of China's sensitive domestic issues, including policies related to Xinjiang, Hong Kong, Taiwan, or disputes in the South China Sea.

For example, in the Philippines, former presidents Gloria Macapagal Arroyo and Rodrigo Duterte accommodated Chinese interests in the South China Sea, enabling China's Coast Guard and maritime militia to assert de facto control over the Philippines' exclusive economic zones, leading to increased militarization. This political alignment made Chinese policy banks more willing to finance projects politically beneficial for both Arroyo and Duterte. Similar dynamics occurred during Najib Razak's tenure in Malaysia and Joko Widodo's administration in Indonesia, where close economic ties with China constrained these leaders from openly confronting China, leading them instead to renegotiate projects quietly or maintain cordial diplomatic relations. Conversely, when incumbents, such as Benigno Aquino III and Ferdinand Marcos Jr. of the Philippines, resisted China's actions in disputed territories, Chinese state actors and policy banks withdrew their previous financing commitments.

Second, incumbents sometimes strategically leverage competition among foreign investors to extract better terms from China. An example is Indonesia's Jakarta-Bandung high-speed railway. Initially, Japan offered a loan-based model, but Indonesia preferred foreign direct investment to facilitate technology transfer and reduce budgetary impact. When China presented a competing offer aligned with these preferences, President Joko Widodo's government successfully secured a more favorable deal.

Incumbents may also exploit their strategic value to China to achieve concessions even in controversial areas. A notable case involved online gambling operations in the Philippines under Duterte's presidency. Although China viewed these operations as criminal enterprises and wanted to halt their activities, Duterte protected them due to their financial contributions to his political campaign. Given Duterte's strategic alignment with Beijing at that time, China chose not to aggressively pursue these operations.

In recent years, the balance of power between China and Southeast Asian and Pacific Island nations has become more symmetric. Between 2014 and 2019, China emerged as a dominant regional actor, fueled by optimism around the BRI. However, controversies surrounding Chinese-funded projects, growing local backlash, and recent economic challenges in China have led to a reduction in Chinese investments and a

shift toward greater caution among recipient nations. Host countries and their domestic opposition parties have become increasingly aware of the political risks associated with heavy reliance on Chinese financing, reducing China's dominance. Exceptions remain in more autocratic or junta-led states such as Cambodia, Myanmar, and Laos, where China's influence continues to hold significant sway.

Do local constituencies in the region perceive a difference between investments by smaller, ostensibly private Chinese firms compared with large state-led BRI projects? Does this have implications for U.S. investment in the region?

Local constituencies sometimes perceive a difference between smaller Chinese investments and large-scale, state-led Belt and Road Initiative (BRI) projects, although this distinction is not always evident. Often, smaller Chinese investments take the form of joint ventures with local companies, making it less apparent that they have Chinese backing. These firms typically adapt to local business practices, employ local labor extensively, and actively downplay their Chinese identities to avoid controversy. In the Philippines, for instance, there are more than 9,000 registered Filipino companies with some Chinese investment. Most feature majority Philippine ownership, while the Chinese investors hold smaller stakes, significantly reducing their visibility as "Chinese" enterprises. This contrasts sharply with large, state-backed projects, which frequently involve substantial publicity from host-country governments and often rely on imported Chinese workers, generating more local controversy. Smaller-scale Chinese projects, especially those related to education or agricultural research, generally do not provoke similar skepticism or concern among local communities. Initiatives such as Chinese-funded language education grants in the Philippines or Chinese disaster-relief support in Indonesia are typically viewed positively, without the suspicion often attached to large infrastructure investments. For the United States, this differentiation in local perceptions suggests that the strategic focus should not be on scrutinizing small-scale Chinese investments. Instead, U.S. investors should emphasize transparency, good governance, local job creation, and adherence to local regulatory standards. By doing so, the U.S. can effectively build a positive local image and differentiate itself from large, controversial Chinese state-led projects.

What is the role of host governments in Southeast Asia and the Pacific Islands in attracting Chinese BRI investment? What domestic economic and political considerations do they take into account when choosing to work with Chinese banks and construction firms?

As discussed above, host-country governments often provide political concessions to China, subsequently allowing them to secure economic projects beneficial to the Chinese state. However, the nature of these arrangements varies by sector. In Indonesia, for example, substantial nickel reserves in Sulawesi and President Joko Widodo's policy of banning nickel ore exports encouraged Tsingshan, a leading Chinese conglomerate, to relocate smelters and refineries to Indonesia. This provided Tsingshan with a comparative advantage in accessing both raw and refined nickel products over competitors operating within the country.

In other instances, Chinese policy banks and firms seek assurances that host-country governments will protect their investments from domestic political opposition. For example, Indonesia's Jakarta-Bandung High-Speed Railway (also known as Whoosh) was structured as a joint venture between Indonesian and Chinese firms, ensuring the involvement of Indonesian state interests and thus reducing political risk. Similarly, in the Philippines, China's telecommunications investments took the form of Dito Telecommunity, a joint venture with the Philippine firm Dito CME Holdings Corporation, a subsidiary of Udenna Corporation owned by Dennis Uy, a major financier and supporter of then-President Rodrigo Duterte. Uy's close connection to Duterte provided China assurance that the incumbent administration would safeguard the project against potential local opposition. However, such assurances do not always guarantee success: despite Malaysian Prime Minister Najib Razak's initial strong support and political

backing, Chinese EXIM Bank's loan to Malaysia's East Coast Rail Link faced significant domestic opposition, forcing renegotiation.

For host-country elites, interactions with Chinese investors typically yield a combination of political and economic advantages. Political benefits frequently hold greater immediate importance, as Chinese-funded projects enable leaders to legitimize their rule, reward political allies through project-related contracts, or demonstrate their ability to deliver tangible development. Nevertheless, development impact remains crucial. Host-country governments also carefully consider potential domestic backlash, especially if Chinese firms exert significant control over key benefits such as employment or if the projects carry sensitive geopolitical implications, as is often the case with infrastructure investments in sectors such as telecommunications and ports.

To what extent have Chinese companies provided equipment and investment in critical infrastructure in the region? Please touch on:

In Southeast Asia and the Pacific Islands, Chinese companies have significantly influenced infrastructure development across multiple sectors. Between 2010 and 2019, Chinese firms invested around \$11 billion into port infrastructure in Southeast Asia, driven largely by state-owned enterprises (SOEs) such as COSCO Shipping Ports and China Merchants Ports. Other notable enterprises like China Communications Construction Company (CCCC) and its subsidiary, China Harbour Engineering Company (CHEC), along with China Railway Engineering Corporation (CREC) and China Railway Construction Corporation (CRCC), have also provided considerable expertise and financial resources for developing port terminals, roads, and railways. Prominent examples include Malaysia's Kuantan Port, Cambodia's Sihanoukville Port, Myanmar's Kyaukphyu Deep Sea Port, and Papua New Guinea's substantial Port Moresby Infrastructure Development Project.

In the energy sector, Chinese involvement has been extensive, especially in hydropower, oil, and gas. By 2017, Chinese companies had participated in approximately 41% of all foreign hydropower projects in Southeast Asia. Key energy companies include China National Petroleum Corporation (CNPC), China Petroleum & Chemical Corporation (Sinopec), and China National Offshore Oil Corporation (CNOOC), which lead major oil and gas exploration, refining, and pipeline initiatives. Additionally, Power Construction Corporation of China (PowerChina), China Three Gorges Corporation (CTG), China General Nuclear Power Group (CGN), and State Grid Corporation of China (SGCC) have played central roles in renewable energy, hydropower, nuclear power, and electricity transmission. Notable projects include Laos's Nam Ou River Cascade Dams developed by PowerChina, Myanmar's Shwe Gas Project spearheaded by CNPC, and electricity grid investments by SGCC in the Philippines.

In telecommunications, Chinese companies, particularly Huawei Technologies and ZTE Corporation, have established extensive digital infrastructure, including fiber-optic networks and advanced 5G systems across Southeast Asia and the Pacific Islands. China Mobile and China Telecom further expanded telecom services and data center capacities, reinforcing China's digital presence under the Digital Silk Road initiative. Notable telecommunications projects include Dito Telecommunity's network in the Philippines, Huawei's extensive telecommunications infrastructure across Southeast Asia, and submarine fiber-optic cable projects linking Papua New Guinea and Vanuatu.

In contrast, Chinese investments in the Pacific Islands have been comparatively modest, totaling approximately \$1.17 billion in construction contracts in 2023, primarily targeting infrastructure projects in port and energy sectors, with fewer direct investment engagements compared to Southeast Asia.

How has China's desire to lock in natural resource inputs impacted Chinese BRI and other forms of investment in the region?

China's acquisition of natural resources in Southeast Asia and the Pacific Islands directly influences its Belt and Road Initiative (BRI) and other development finance strategies in three ways. First, China's acquisition of natural resources in Southeast Asia and the Pacific Islands significantly shapes the Belt and Road Initiative (BRI) and other forms of development finance. A key strategy involves targeting the auxiliary physical and digital infrastructure projects, including roads, railways, sea lanes, internet connectivity, and telecommunications. These projects are designed to increase economies of scale and lower transaction costs for companies operating in resource-rich areas. Well-developed infrastructure, such as bridges, highways, and ports, facilitates the efficient transportation of raw materials, making extraction more cost-effective. For example, when robust road and port systems link mining operations to distribution centers and export hubs, companies can streamline logistics, reduce transportation expenses, and improve overall efficiency. Furthermore, securing control over the auxiliary infrastructure surrounding large-scale physical projects effectively excludes competing actors and forces them to operate within the Chinese economic ecosystem. In Indonesia, for example, U.S. and European investments in industrial parks ultimately grant them access to China's dominance over nickel resources. This dynamic creates a spillover effect, where Western investments inadvertently reinforce Chinese firms' control over supply chains. By structuring these industrial zones to favor Chinese companies, China gains the ability to dictate terms, limit competition, and potentially exclude rival investors from direct resource access.

Second, Chinese investments in the region are characterized by vertical and horizontal integration, particularly in the natural resource sector. Specific Chinese firms dominate different resources within China, ensuring control over entire supply chains. Zijin Mining, which operates over 60 subsidiaries within China, leads copper extraction. Tianqi Lithium holds major lithium investments in Chile and Australia, while Tsingshan Holding Group dominates nickel production. This domination extends outside China, affecting their investment pattern elsewhere. These companies also extend beyond extraction, investing across various industries and infrastructure projects to consolidate their market position.

A prime example of this strategy is Tsingshan's joint venture with Bintang Delapan, an Indonesian mining company, which led to the creation of a massively integrated industrial park. This park includes ports, an airport, a five-star hotel, refineries, smelters, and processing plants, employing over 100,000 workers, primarily Indonesians. The industrial ecosystem surrounding the park consists of Tsingshan-linked companies that control construction, port operations, mining, and logistics, ensuring that every aspect of production remains within the company's network. A similar pattern can be observed with Tianqi Lithium's investments in Chile and Australia, which span mining, construction, distribution, and shipping, reinforcing Chinese firms' dominance over critical mineral supply chains.

Third, when faced with domestic opposition or regulatory barriers, Chinese companies often resort to informal extraction methods to maintain access to resources. In the Philippines, for example, Chinese firms have been blocked by both domestic and Western mining companies. In response, they have bypassed regulations by partnering with local elites, including mayors, governors, and warlords, to facilitate illicit extraction through artisanal and small-scale mining (ASM). This practice exacerbates informal economies, strengthens warlordism, and contributes to unregulated grey-sector activities. Similar patterns have been observed in Indonesia, Peru, Ghana, and the Democratic Republic of Congo, where Chinese firms have taken advantage of legal loopholes and informal networks to maintain their hold over valuable resources.

In sum, China's development finance and BRI investments in Southeast Asia and the Pacific Islands are closely tied to resource extraction strategies that integrate infrastructure, logistics, and processing under

Chinese state and private control. While these projects enhance China's supply chain efficiency and resource security, they also raise concerns regarding debt sustainability, environmental degradation, and political instability in host countries. The ability of local governments to regulate these investments and balance foreign influence will play a crucial role in shaping the long-term economic and geopolitical impact of Chinese development finance in the region.

The Commission is mandated to make policy recommendations to Congress based on its hearings and other research. What are your recommendations for Congressional action related to the topic of your testimony?

I propose the following recommendations. First, the U.S. should substantially increase funding for the U.S. International Development Finance Corporation (IDFC). Over the past decade, a key challenge has been the inability of the U.S. to compete effectively with China in economic projects, largely because the U.S. model relies heavily on private-sector-driven investments without direct government involvement. Typically, the U.S. government tries to incentivize private firms by pairing them with host-country partners and providing limited IDFC support, often through feasibility studies or small grants, to reduce transaction costs. However, U.S. companies invest only when significant returns (ROI) and bankability are evident. In contrast, Chinese firms often benefit from extensive state support, including substantial upfront subsidies and long-term financing guarantees. By increasing the IDFC's budget from its current \$7 billion to approximately \$100 billion, U.S. firms would have far stronger incentives to invest abroad. This dramatic increase in funding would reshape the investment landscape, empowering U.S. companies to more effectively compete with Chinese enterprises.

Second, the U.S. should incorporate American businesses into diplomatic dialogues, specifically through platforms facilitated by the State Department. Historically, the U.S. has engaged primarily with NGOs or civil society groups through diplomatic channels, which, while valuable, often prioritize agendas that might not align directly with enhancing economic development or increasing capital inflows. Including U.S. businesses in these diplomatic processes would substantially lower their transaction costs by helping them establish partnerships and navigate local business environments at an early stage, thereby promoting greater investment opportunities.

Finally, it remains crucial for the U.S. to prioritize collaboration with civil society organizations and NGOs to ensure that development projects meaningfully address local needs. Actively involving civil society groups in consultation, planning, and implementation will enhance project legitimacy, help ensure projects align with local needs, and build deeper, sustainable ties with communities across Southeast Asia and the Pacific Islands.