

The Strategic Implications of China's Trade and Investment in Continental Asia

Testimony Before the U.S.-China Economic and Security Review Commission

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I am grateful to the Commission for the chance to testify today. I'm going to discuss the strategic implications for the United States of China's trade and investment in continental Asia. I will organize my presentation around five themes: the implications of Chinese trade and investment for (1) naval power projection, (2) counterterrorism, (3) India's rise, (4) democracy and human rights, and (5) Asian regionalism.

Naval power projection

The Pentagon has highlighted Beijing's design to construct a "string of pearls" of naval facilities stretching from Southeast Asia to the Persian Gulf--a project that will help China protect seaborne trade and project its influence in the Indian Ocean. China is constructing deep-water port facilities capable of berthing warships at Gwadar, Pakistan; Rangoon and Kyaukpyu, Burma; Chittagong, Bangladesh; Sihanoukville, Cambodia; and elsewhere. Chinese engineers are dredging Burma's Irrawaddy River to give China a usable waterway connecting Yunnan province to the Bay of Bengal, and China is considering building a canal across the Isthmus of Kra in Thailand.

All of these port construction projects are occurring in countries that enjoy deep economic relationships with China. They welcome investment from China to construct dual-use infrastructure along their coastlines that will expand ocean-going trade and facilitate the processing of energy imports. It should also be noted, as I will discuss more below, that all of these countries are weak states in which Chinese investment is not mediated by strong, democratic institutions and is often less than fully transparent, with implications for public accountability and political corruption.

The United States Navy is used to controlling the Indian ocean sea lanes that carry 70 percent of the world's oil supplies. Freedom of navigation in the Indian Ocean and its rimlands are essential to any U.S. strategy to secure Persian Gulf energy resources, resupply American forces in Afghanistan, contain Iran, project power in the wider Middle East, and conduct antiterrorism operations around the Horn of Africa. China's penetration of the Indian Ocean rimlands and

aggressive development of blue-water naval capabilities will transform the balance of power in a region central to American economic and security interests.

The U.S. government needs a combined civilian-military Indian Ocean strategy of the kind we have long had in East Asia, one that invests in strengthening weak states, expanding partnerships with key powers like India, Japan, and Indonesia, and sustaining naval power projection capabilities that enable us to control the balance in some of the world's most strategic waterways.

Counterterrorism

An important strategic question is whether China's close alliance with Pakistan, lubricated by heavy Chinese trade and investment in energy, infrastructure, and manufacturing, helps or hinders the attainment of American counterterrorism objectives there. Beijing has been selectively helpful in pressuring Islamabad on U.S. counterterrorism priorities, including Pakistan's turn from sponsoring the Taliban in the 1990s to cooperating with the United States in the war in Afghanistan to oust them in 2001. But China has tended to deliver these messages as coming from the Americans, rather than defining them in terms of China's own interests. China's defining interest in Pakistan appears to be to employ it to tie down and contain India, which, if freed from its military contest with Pakistan, would be free to more actively contest and balance Chinese power in Asia.

China's political sponsorship, official assistance, and trade and investment in Pakistan complicate American efforts to pressure Islamabad to take a harder line against Taliban and associated militants. American assistance that comes attached with tough conditionalities has historically led Islamabad to turn to Beijing for extra support, which means that close Sino-Pakistani relations undercut U.S. leverage in advancing our counterterrorism objectives in Pakistan. Pakistan is the top recipient of Chinese military sales, which also complicates American efforts to put pressure on the Pakistani army to reorient from an anti-India force posture to one that emphasizes the counterinsurgency capabilities necessary to defeat Pakistan's internal adversaries. China's economic and security interests in Pakistan have led Beijing to resist U.S. efforts to "multilateralize" diplomatic and aid strategies for Pakistan; China turned down the U.S. offer to host a "Friends of Pakistan" donors meeting in April.

Washington should elevate Pakistan to the top tier of our diplomatic agenda with Beijing and encourage China to use its leverage to advance common objectives there. China has no interest in seeing the Taliban grow stronger and Pakistan more ungovernable. China has important economic equities to protect in Pakistan, including strategic infrastructure investments in Pakistani Kashmir and the port of Gwadar, which in addition to its military applications could become an important conduit for trade from western China to the sea. China has sponsored special economic zones in Pakistan not dissimilar to the Reconstruction Opportunity Zones America has proposed to boost development in the tribal regions of Afghanistan and Pakistan. China's economic interests in Pakistan can be tools Beijing can wield to move forward our common counterterrorism objectives in Pakistan.

India's Rise

The United States has defined an interest in facilitating India's rise as a regional and global power and an important contributor to an Asian equilibrium that is pluralistic rather than hegemonic. China's trade, investment, and foreign assistance to India's South Asian neighbors are perceived by Indian elites to be part of a containment strategy to box India into its subregion and prevent it from playing on the wider global stage in a way that could challenge China's preeminence.

Since the 1990s, the top three recipients of Chinese arms exports have been Pakistan, Burma, and Bangladesh; 90% of Chinese arms exports target India's neighbors in South Asia. In these countries, China has constructed strategic roads and railways along India's eastern and western flanks. China has also established extensive military supply and exchange relationships with Indian neighbors Nepal and Sri Lanka, countries where Beijing wields disproportionate influence. In 2006, India used its influence with the government of the Maldives to veto a Chinese request for naval access rights just off India's south coast. New Delhi was unsuccessful in pressuring Sri Lanka to prevent Chinese engineers from improving the port at Hambantota, which Indian officials expect to become a port of call for the Chinese navy only miles from India's coastline.

Indian military officials believe China's "string of pearls" strategy is designed to contain the Indian Navy's projection of power in what it considers its home seas. Pakistani officials have confirmed those anxieties, saying that China's future naval presence in South Asia will help to frustrate India's control of regional waterways. China's construction of port facilities and transport infrastructure that encircle India is "designed to put India in pincers," in the words of former Indian intelligence director Vikram Sood.

To the extent that America pursues a strategy for the Indian Ocean and East Asia that envisions India playing an active leadership role as a country with growing military capabilities and expanding diplomatic horizons, Chinese trade and investment in India's neighbors in ways that box India into its subregion is a complicating factor – one that is perhaps best countered by working with India to promote good governance in its region.

Democracy and human rights

Beyond Pakistan, Chinese trade and investment in and assistance to South Asia has unquestionably undermined political liberalization and accountability. In Sri Lanka, China is investing in the development of Hambantota, one of the best harbors in the Indian Ocean; Beijing gave Colombo a billion dollars in assistance last year, and China is the primary provider of arms to the Sri Lankan military. Its economic ties with China have helped insulate Sri Lanka from international pressure to spare civilian lives in the conflict with the Tamil Tigers, leading not only to the Sri Lankan military's decisive victory over the insurgents but also to the possible commission of crimes of war against innocent Tamil civilians.

In Burma, Chinese investment in and trade in offshore natural gas supplies and extensive road and rail development in Burma's interior have created perhaps the region's most acute economic dependency on China. Beyond its development of harbor facilities with dual-use purposes,

China is pursuing a design to connect landlocked Yunnan province to the sea through Burma, leading to extensive Chinese infrastructure investment. Along with sizable military assistance, the political effect of Chinese investment has been to insulate the Burmese junta from international pressure to pursue political liberalization and behave with impunity towards Burma's political and civic opposition. Interestingly, regional experts note a degree of Burmese popular resentment directed at China for its overweening presence in Burma, suggesting that a political transition from a junta dependent on Beijing to more legitimate leaders could threaten China's privileged position there.

Chinese economic penetration has also played an important political role in Bangladesh and Nepal. Chinese investment in Bangladesh's port and energy infrastructure, as well as extensive Chinese military assistance, has encouraged the country, part of India's natural economic hinterland, to maintain a closed border with India. China is working with a friendly Nepal, until recently led by Maoists with a questionable commitment to democratic norms, to construct railroad infrastructure connecting Katmandu, which sits on the south slope of the Himalayas very close to India's border, with mainland China. Combined with China's construction of road and rail networks just across the Indian border in Tibet, the trade and military implications of this development could transform India's security environment.

Like Pakistan, all of these countries – Sri Lanka, Burma, Bangladesh, and Nepal – suffer from weak governance and underdeveloped state institutions. These have magnified China's economic penetration and the political implications of China's trade and investment in them. Both Washington and New Delhi have a compelling interest in investing for the long term in the infrastructure of good governance and rule of law in these countries, both for intrinsic reasons and because transparency and accountability will render them less susceptible to Chinese political influence.

Asian regionalism

The United States has an interest in strengthening Asian regional institutions that promote regional economic and diplomatic cooperation and sustain a pluralism of power by uniting lesser states that fear falling under the influence of giant neighbors – starting with China. Beijing has employed regional institutions, especially the Shanghai Cooperation Organization (SCO) and the ASEAN Plus Three grouping, to expand its regional influence and promote a form of closed regionalism that excludes the United States.

In the SCO, Beijing has pursued economic agreements that privilege its trade and investment interests in Central Asia, and has worked with Russia to stake out a special claim of influence in a region of immense strategic importance to the United States. China has favored using ASEAN Plus Three as the leading vehicle for Asian economic integration, through special trade, investment, and currency arrangements that privilege a form of closed Asian regionalism at the expense of the open regionalism favored by the United States, Japan, India, and Australia.

Interestingly, however, politics in Asia does not always follow economics. Some Southeast Asian states fear that the China-ASEAN free trade agreement risks hollowing out their manufacturing economies. Leading ASEAN countries, including Singapore and Vietnam, are very worried by China's deep economic penetration of Burma, Laos, and Cambodia and are

hedging against it by moving closer to the United States. China has surpassed the United States as India's largest trading partner, but Sino-Indian tensions – over their long-standing border dispute, India's new relationship with Washington, and other issues – have intensified, not diminished, as this has occurred.

Washington should participate actively in Asian regional institutions to give alleviate the concerns of Asian states about the political and military implications of overdependence on China's economic miracle – by giving them equally compelling avenues to partner with America, Japan, India, and other powers. A continuing U.S. commitment to trade liberalization in APEC, passage of the pending free trade agreement with South Korea, an enhanced U.S. economic partnership with ASEAN, a U.S.-India framework for liberalized trade and investment, and the U.S. move to join the East Asia Summit would all constitute important steps in the direction of balancing the influence China derives from its trade and investment relationships with these countries, and its use of regional forums to advance them, sometimes to the detriment of outside powers.

Conclusion

Great powers as they rise define and pursue their interests within an expanding sphere. This was true of the great power rise of Spain, France, Great Britain, Russia, Germany, Japan, and other nations – including the United States in the 19th and 20th centuries. China is rising in a very different kind of international system that than which nurtured the geopolitical ascent of previous great powers. The scale of economic and informational globalization, the widespread embrace of universal norms of democracy and human rights, the continuing preeminence of the United States, and the simultaneous ascent of India and other powers creates important constraints on China's ability to pursue the kind of hegemonic pathways of great power predecessors across modern history.

However, the United States and its partners can only sustain an international system conducive to universal values, economic openness, and cooperative relations between developed and rising powers if we jointly hold China to high standards on these issues. An important test of China's rise as a responsible global power will be its commitment to basic standards on trade and investment that promote rather than undermine good governance and define security in shared rather than zero-sum terms. In the meantime, the United States and other liberal powers should invest in good governance and strong institutions in continental Asia as a bulwark against the political effects of overdependence on Chinese trade and investment, while at the same time aggressively pursuing trade liberalization and foreign assistance strategies that give Asia's lesser states a broad choice of economic partners. Expanding trade and investment relations between China and the United States, and between China and other major powers, should give Beijing an even greater stake in an international system of which it has been a leading beneficiary.

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