

China's Influence in Southeast Asia: Implications for the United States

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Thank you for inviting me to appear before the Commission to discuss China's growing influence in Southeast Asia and its impact on U.S. interests in that region. This written presentation reflects my views, not those of my employer, the CNA Corporation. My views are shaped by my experience with the U.S. Department of State and as a Professor at the Naval War College working on Southeast Asia. I am now researching and writing a book on China's strategy and influence in that region, the reactions of Southeast Asians and their governments, and the implications for the United States of a changing dynamic among the United States, China, Japan and India in Southeast Asia.

Introduction

In Southeast Asia, China has sought to stabilize its southern periphery, minimize the possibility that another state could rally an anti-Chinese coalition, and gradually isolate Taiwan, while it both taps Southeast Asian funds and resources to contribute to China's economic modernization and portrays itself as an engine of growth for Southeast Asian economies.

In most Southeast Asian eyes, China has transformed itself from the state most often feared into, for most but not all, a perceived partner. This feat has been accomplished primarily through attentive and accommodating Chinese diplomatic leadership, from the top down, over the past decade. Chinese leaders have reassured Southeast Asian elites of their support for the political and territorial status quo. In addition, a booming trade relationship, which may shortly surpass that between Southeast Asia and the United States, and expectations that China's economic growth will also continue to contribute to their own prosperity, have moderated resentment over competition for foreign direct investment and export markets in developed countries. This does not mean Southeast Asian leaders are no longer wary of China, but it does mean that they are prepared to accommodate a larger role for China as one among several external powers with influence in their region.

China's emergence as a global economic power with increased economic, diplomatic and cultural influence in Southeast Asia does not signal the beginning of zero-sum competition between the United States and China in the region. Indeed, China's "rise" in Southeast Asia has had a more significant impact on Tokyo's status and influence, as the Japanese economy sputtered over the past decade, than Washington's. Moreover, tensions in the U.S.-Chinese relationship – over intellectual property rights, currency revaluation, trade, and Taiwan – have not directly "spilled over" into the region. This is, in part, because both China and America share an interest in a prosperous and stable Southeast Asia, because more specific Chinese and American goals and interests are seldom in direct conflict, and because Beijing and Washington bring different strengths and weaknesses to their relations with Southeast Asian states. Even more important is the fact that Southeast Asian states do not want to become caught in either an external power's embrace or in strategic competition between larger states.

China's ultimate intentions towards the region are now unfathomable. In the past decade, Chinese influence has gradually increased as Beijing has moderated its demands and

sought to woo Southeast Asian states and publics. Nonetheless, economic competition, China's energy requirements, and increased tensions between China and the United States could eventually sour several of China's current courtships in Southeast Asia.

The Setting

In debates over the implications for the United States of China's growing influence, the tendency to treat the Southeast Asian region as one state or economy distorts reality. Southeast Asia is neither a state, nor a nation, nor an economy. Instead, it is among the world's most ethnically, politically and economically diverse regions, and divided into eleven independent states. Ten of these states belong to the Association of Southeast Asian Nations (ASEAN), a regional organization. Unlike the European Union, ASEAN is designed primarily to reinforce individual state's sovereignty and territorial integrity. These sovereign states range from small, poor Laos, which shares a border with China, to Indonesia, a predominantly Muslim democracy nearly the size of the United States. Beijing's "charm offensive" and the economic pull of the Chinese economy have naturally had different impacts in different Southeast Asian states.

Most states in Southeast Asia do not believe they are faced with the choice of aligning with either the United States or China. Instead, most are able to engage with China and its booming economy on the one hand and, on the other, encourage other external powers to remain deeply involved. Moreover, Southeast Asian elites have often been adept in picking and choosing among the various components of Chinese, American and Japanese influence, and responding to different external powers' specific strengths. Thailand, for example, "bends with the wind." Thais consider China their "best friend" and refuse to consider China a "threat," yet are pleased to maintain the old U.S.-Thai alliance relationship and to recently be designated a "non-NATO ally" of the United States. The predominantly ethnic-Chinese city state of Singapore serves as a gateway for much of Southeast Asia's trade and investment in China and as a logistics hub for the U.S. armed forces. Even the Philippines, a U.S. treaty ally that has seen a massive increase in U.S. assistance in the connection with the war on terror, has reached agreement with China to jointly explore for oil in contested areas of the South China Sea and entered into a "strategic dialogue" with China. Indonesia, on which Beijing has recently lavished attention and investments, isn't going to be pushed around by anyone.

Not all states in the region enjoy such flexibility. The repressive regime in Burma (Myanmar) is dependent on China, which has provided the junta with \$3 billion in military and economic assistance. Southeast Asian efforts to encourage internal reform, primarily by including Rangoon in ASEAN in 1997, have failed. China's opposition to external interference in "domestic affairs" and its role as an economic patron of the authoritarian regimes in Laos and Cambodia have also given Beijing a predominant voice in these countries. America's interest in promoting human rights is thus compromised, but the United States has few strategic or economic interests in these three isolated, desperately poor states. Vietnam presents a different situation. Acutely aware of China's looming presence and of its long history of resisting China, yet led by a communist party that has cultivated close ties to Beijing since "normalization" in 1991, Hanoi questions

the reliability of major external powers and places inordinate emphasis on ASEAN. Thus Vietnam will focus on the economic component of its relations with the United States to strengthen its capacity to resist Chinese pressures while avoiding offending Beijing.

The Smiling Dragon: China's Comprehensive Strategy

Over the past decade, Chinese leaders and officials have turned their approach to Southeast Asia on its head, replacing assertiveness with accommodating diplomacy in the search for common interests. This concerted campaign, now led by Premier Wen Jiabao, has not only assuaged Southeast Asian fears but also laid the groundwork for those who argued that Southeast Asians must participate in and profit from China's economic growth, rather than engage in a probably hopeless attempt to protect their own markets.

China's began by normalizing relations with all countries of the region, though Chinese denunciations of the "China threat" as a groundless, Western-inspired illusion had little impact until Beijing proposed initiatives and adopted policies designed to address Southeast Asian concerns. In 1997, during the Asian Financial Crisis that gutted the Thai economy and ultimately led to the overthrow of Indonesia's authoritarian leader, Beijing stepped forth to help prevent a deeper crisis by not devaluing its currency and by offering loans to ASEAN states, in stark contrast with the perceived harsh conditions attached to IMF aid. This led, in turn, to the founding of the ASEAN +3, a mechanism (excluding the United States) to develop regional solutions to East Asian problems. China also gradually gained confidence in the ASEAN Regional Forum (ARF), a "security" discussion process that it joined in 1994. In 2003, Beijing signed a Joint Declaration on Strategic Partnership for Peace and Prosperity and ASEAN's Treaty of Amity and Cooperation (TAC). In December of 2005, Malaysia will host a summit to establish the "East Asian Community," in which the United States will not participate. In addition, China has signed "Strategic Partnership" agreements with most Southeast Asian states, and most Southeast Asian leaders, on assuming office, now travel first to Beijing. The United States has not sought to compete, dismissing most of this evolving network as "talk shops" and focusing on the Asian Pacific Economic Community (APEC) Summit, which brings a U.S. President to Southeast Asia once every three or four years.

As Beijing's diplomatic leadership reassured its southern neighbors, China turned increasingly to supplementing diplomacy with economic ties, most dramatically in terms of trade. In many ways, its economic success has been as impressive as its diplomatic campaign because China and Southeast Asia are natural economic competitors, both for foreign direct investment (FDI) and developed markets in Japan, Europe and the United States. Early on, Beijing's invited ethnic Chinese Southeast Asians to invest in China, and subsequently went out of its way to include non-ethnic Chinese companies, principally from Malaysia and Thailand. Moreover, rapid increases in Sino-Southeast Asian trade helped pull the region out of the Asian Financial Crisis. In part to address concerns about China's accession to the WTO, Beijing first floated the idea of a China-ASEAN Free Trade Area (CAFTA) in 2000. Agreement has been reached that the goal is to remove all tariffs by 2015, though negotiations have not been completed. According to the CAFTA experts report, this free trade area contains more than 1.7 billion people, with

a combined GDP of \$2 trillion and trade of \$1.2 billion. In addition, China has agreed to “early harvest” measures, which are perceived in Southeast Asia to provide them with earlier and easier access to the Chinese market.

In 2003, both U.S.-ASEAN bilateral trade (\$130 billion), and Japanese-ASEAN bilateral trade (\$119 billion) exceeded Sino-ASEAN bilateral trade (\$78 billion). In 2004, Chinese officials claimed that Sino-ASEAN trade had reached \$100 billion, while U.S.-ASEAN trade had grown only marginally. Most experts believe Sino-ASEAN trade will surpass Southeast Asian-U.S. trade in late 2005 or 2006. But the evolving trade relationship holds as much potential for conflict as for cooperation. The wealthier countries – Singapore, Malaysia, and Thailand - hope to find niches in an evolving East Asian market, but many Southeast Asian elites worry that China’s often more efficient, low-cost production will flood them with cheaper Chinese goods, and that they will gradually become primarily providers of raw materials for China’s voracious manufacturers. Already Chinese exports have supplanted domestic businesses in providing many relatively cheap manufactured consumer goods and agricultural products. In addition, along China’s porous land borders with Southeast Asia, private trade and migration is transforming parts of Laos and northern Burma, which is now colloquially often referred to as “Yunnan South.” China’s major effort to develop its own Southwest through improved transportation links into mainland Southeast Asia, a project in which Beijing has been particularly eager to encourage participation by major Thai and Malaysian companies, will open new trade opportunities.

Moreover, Southeast Asians are already acutely aware of that China is sucking up most of the FDI that used to flow to them. In 1990, ASEAN attracted twice as much of the foreign direct investment (FDI) into the “developing Asia-Pacific” as China; in 2003, it attracted one-third as much. Southeast Asian states have started to respond by improving their investment climates, though the results have clearly been mixed. In addition, Southeast Asian officials have been concerned about an imbalance in Southeast Asian investment in China and Chinese investment in Southeast Asia. In 2002, one source had Southeast Asian investment in China at \$58 billion, compared to \$1.4 billion. But investment figures are notoriously inaccurate, and actual current Southeast Asian investment may be as low as \$30 billion. Moreover, Southeast Asian companies have not always found their investments in China to be as profitable as expected, and are now more hardheaded. However, Beijing has begun to recognize the problem, both arguing that China’s economic growth will lead to more investment in Southeast Asia in the future and promising to try to increase FDI now. And the Chinese appear to be following up on their promises, at least verbally. During Wen Jiabao’s 2005 visit to Indonesia, he said that China expects to invest \$10-20 billion in Indonesia over the next few years.

Most of that investment is likely to be to develop Indonesia’s natural, and primarily energy, resources. China is now seeking to acquire energy throughout much of the world, and Southeast Asia is no exception. China (and Taiwan) and four Southeast Asian countries claim parts of South China Sea, which are believed to contain substantial oil and gas resources, and Beijing appears to have made a strategic decision to focus on exploiting these resources, increasingly in cooperation with other claimants, rather than,

for now, pressing its territorial claims. Although China selected Australia over Indonesia as the supplier for an approximately \$10 billion dollar Liquefied Natural Gas (LNG) deal to supply China's first LNG terminal, Indonesia was compensated with smaller deals. Also, Beijing, in 2003, publicly committed to discuss possible future natural gas purchases with Indonesian leaders. Chinese companies have also recently acquired more than a billion dollar stake in Indonesian oil and gas fields. The current bid by the China National Offshore Oil Corporation (CNOOC) to acquire the California-based UNOCAL has become a political issue in the United States, though it has engendered little comment in Southeast Asia. As the press has reported, 70% of UNOCAL oil and gas reserves are in Asia, mostly under long-term contract to Asian nations like Thailand and Indonesia.

China has also started building dams for its own energy consumption on the Mekong River, which have had a negative impact downriver in Southeast Asia. China participates in a project supported by the Asian Development Bank to produce hydroelectric power by building dams on the Mekong, as well as improved transportation links. These dams have limited water flow downstream in Laos, Vietnam, and Cambodia, which had a particularly serious impact on Cambodia's food supply.

Within the next twenty years, it is estimated that two-thirds of China's petroleum imports, which will have quadrupled, will flow from the Middle East through Southeast Asian waters. About half of the world's oil and gas trade already flows through the Strait of Malacca, the world's most important maritime chokepoint. The United States Navy has dominated these waters since the end of the World War II. Proposals have been floated to construct oil and gas pipelines through Burma from the Indian Ocean to China and across the Kra peninsula between the Indian Ocean and the Gulf of Thailand.

As Beijing enmeshed itself in this new diplomatic and economic network, it narrowed its political goals. Topping a short list comes isolating Taiwan. It is difficult to distinguish the motivations behind Southeast Asian rebukes of Taiwanese President Chen for some of his statements and initiatives. The perception that Taiwan has become a greater risk to regional stability is probably a more important cause of this criticism than Beijing's increasingly firm pressures regarding Taiwan. But Chinese officials have blocked all visits by Taiwan's President to Southeast Asia and no head of state or government in Southeast Asia visited Taiwan in the new century. Moreover, Southeast Asian leaders and officials were increasingly reluctant to meet with their lower ranking Taiwanese counterparts. Beijing reacted sharply to an "unofficial" visit by Singapore's then deputy, but anointed, Prime Minister to Taiwan in 2004, before he assumed his new position. Singapore was believed to have subsequently cancelled a planned port visit by Taiwanese naval ships, while reportedly Malaysia assured Beijing that it would contemplate no such mistake. The last Southeast Asian cabinet minister to visit Taiwan was apparently an obscure Indonesian Cabinet minister in the spring of 2005. Still Taiwan is not yet road kill in Southeast Asia, where it retains significant investments. Moreover, the region's leaders would be deeply disturbed by Beijing's employment of force to resolve the Taiwan issue. However, the last thing any Southeast Asia country wants is to be dragged into a Chinese-U.S. military confrontation over Taiwan.

Security

The term “security” does not always have the same meaning for Southeast Asians and Americans. Southeast Asian leaders often stress the economic and “soft power” components of “resilience” or “comprehensive security” as much as pure military power. Beijing’s 1997 “new security concept,” which rejects “hegemony,” resonates well in Southeast Asia. It also helps China indirectly devalue the relevance of America’s role as the ultimate “security guarantor” in the region.

As diplomatic and trade ties have led Chinese efforts to knit itself together with Southeast Asia, Beijing has wisely allowed security relations to follow at a pace that individual Southeast Asian countries find comfortable. Even to reach this stage, Beijing had to at least temporarily set aside confrontation associated with its claims in the South China Sea, which conflict with those of several Southeast Asian states (and Taiwan). Clashes in these waters, which may include substantial energy resources, with the Philippines over Mischief Reef in 1995, were followed by more moderate reaction to a series of subsequent incidents. Finally, in 2002, ASEAN and China negotiated a code of conduct for the South China Sea, and in March 2005 Beijing further reduced tension by proposing joint technical work on oil resources in some areas of the Spratly Islands also claimed by Manila and Hanoi. China has also negotiated land border disputes with Laos and Vietnam, as well as the maritime dispute with Vietnam in the Gulf of Tonkin. Although some in Hanoi reportedly feel China got more than was fair, the overall message to the region was Chinese willingness to negotiate and compromise, rather than throw its weight around.

China has also been prepared to provide military equipment to some Southeast Asian countries. The close security relationship between Burma and China has been solidified with about \$1.6 billion in Chinese military assistance, and China is rumored to maintain some sort of listening post for the Indian Ocean on Burmese territory. China has also been prepared to sell military equipment to other Southeast Asian states, but most don’t appear to be very interested, and China’s large sales to Thailand in the 1970s have not been replicated elsewhere. In 2004, Malaysia acquired some missiles from China.

China has occasionally also tried to chip away at American security dominance, though it has toned down its criticism of the U.S. military presence in the region since 2001, when U.S.-China relations began to improve. During the negotiations that culminated in the Code of Conduct, Chinese officials tried to use the discussion to raise the possibility of restrictions on US naval exercises in the area. China also hosted a 2004 a Security Policy Conference with the ASEAN Regional Forum (ARF), in part as an alternative to an annual US-backed high-level security forum, inaugurated in Singapore in 2002. On the other hand, Beijing’s stance on U.S. military forces conducting counter-terrorism training in the southern Philippines and to high-profile U.S. efforts to improve security in the Strait of Malacca, the world’s most important maritime chokepoint, has been low-key and moderate.

Finally, China and ASEAN have agreed to work together to combat non-traditional security threats, such as transnational crime, terrorism, piracy and drug trafficking, on which further progress is expected this year.

The bottom line is that China has little ability to project military power beyond its land borders, and faces overwhelming U.S. naval dominance in the waters between China and Southeast Asia through which European colonial powers attacked China in the 19th century. ASEAN states have given little thought to the possible implications of China's military modernization, though they have urged greater transparency and encouraged military exchanges and discussions in ARF and other organizations. China has every reason to downplay security in its relations with Southeast Asian states, and to portray China's rise as an economic rather than a security challenge.

The Ambivalent Giant: The United States in Southeast Asia

Those who question China's influence in Southeast Asia point to the fact that China has, in fact, asked little of Southeast Asians. They also question the relevance of image, perceptions and other elements often grouped, with economics, under the label "soft power." Given the fuzziness of this term, it is tempting to agree with Secretary of Defense Rumsfeld, who is alleged to have claimed that he didn't know what "soft power" meant. But an attempt to dismiss China's economic/diplomatic influence by pointing to America's continued military dominance in Southeast Asia does little to meet Southeast Asian pleas for reassurance that Washington understands their priorities of domestic economic development and political stability. One journalist, perhaps exaggerating, called the difference in perceptions "one earth, separate planets."

The United States is entrenched in Southeast Asia. The dominant military force in the region, it competes with Japan as the economic power, in terms of trade, investment and aid. China may move to the top as a trade partner, but both cumulative Japanese and American investment and both countries' annual aid far outstrips China's. Despite diminished credibility in the past four years, America retains a political and cultural appeal among many Southeast Asians, from human rights activists to nationalistic military officers. Washington has also devoted more high-level attention to Southeast Asia, albeit exclusively in the context of counter-terrorism, than it has for over thirty years, since the American withdrawal from Vietnam.

At one point Washington labeled Southeast Asia the "second front" in the Global War On Terror (GWOT). It has intelligently designed a plan to combat terrorism in the region, based on cooperation with and assistance to relevant Southeast Asian states. This campaign has worked well, though many Southeast Asian Muslims remain dubious about American intentions. These doubts are primarily a consequence of the U.S.-led invasions of Afghanistan and Iraq, and the continued insurgency in the latter. Muslim majority democracies, such as Indonesia and Malaysia, have had to balance popular antipathy to the current U.S. administration with their desire to cooperate against the regional terrorist network aligned with al Qaeda.

Although Washington has appropriately focused on countering terrorism, the “rise of China” may eventually prove to be a second challenge for the United States in the region. Washington’s current response has been ambivalent and ambiguous. Southeast Asia tends to be treated as a footnote to larger issues in the U.S.-Chinese relationship. Most experts agree that an American attempt to portray Southeast Asia as a battleground in a zero-sum contest with China is misleading and could turn into a self-fulfilling prophecy. But the United States has so long seen itself as the unchallenged, benign superpower in the region, that there is a whiff of complacency in the air.

In any case, both Tokyo and Washington have been slow to react to China’s “rise.” Beyond combating terrorism, American policy is disjointed, as demonstrated by the fact that seven Southeast Asian states remain either under or threatened with U.S. sanctions. Southeast Asians are often both impressed with America’s support for “reforms” and annoyed with the way Washington presents its demands.

Washington’s response to China’s growing economic influence has consisted of the anemic Enterprise for ASEAN Initiative announced in 2003 and negotiations on three free trade agreements exclusively with the richer members of ASEAN, that is Singapore, Thailand and Malaysia, two of which have been concluded. But perhaps the most striking trend involves image. Some of this is Southeast Asian infatuation with the “new” China, and it will wear off. However, America’s reputation and credibility is at its lowest level in the region in thirty years. For example, polls taken in Thailand in 2003 showed seventy-six percent of respondents considered China their best friend, while nine percent picked the United States. The polling is similar, if less dramatic, elsewhere in the region. The American outpouring of assistance, both public and private, in the wake of the Indian Ocean Tsunami, dwarfed China’s contribution. It is much appreciated, but one demonstration of the impressive capacity of the U.S. Navy and of the generosity of the American people hasn’t overcome years of perceived neglect.

Recommendations for U.S. Policy

The United States should not overreact to China’s re-emergence as one of several major economic and diplomatic powers in the region. Southeast Asians, moreover, will resist attempts to include their region in any Chinese-U.S. strategic competition that may be based on issues elsewhere. However, the United States could more effectively employ its extensive political, economic and security assets in the region if it paid more attention, identified U.S. priorities beyond countering terrorism, and focused on non-traditional security issues that are important for both America and Southeast Asia.

1) Establish Priorities

After 9/11, Washington designed a cost-effective, largely successful counter-terrorism policy for the region, though it never seemed to dawn on American policy makers that U.S. actions in other parts of the Muslim world would undercut America’s image and influence in much of Southeast Asia. Beyond that, the long list of stated American interests includes promoting human rights and democracy, maintaining regional peace

and stability, maintaining a U.S. presence and close relations with allies, maintaining freedom of navigation, maintaining trade and investment relations, and so forth. The strength and balance of America's entrenched position in much of Southeast Asia has permitted individual constituencies to push their own agendas, with priorities usually sorted out in an ad hoc fashion based on their impact on individual bilateral relationships. The result is that the United States often appears to lack a regional policy. Some experts argue that more emphasis should be placed on the premier regional organization, but ASEAN lacks the capacity to serve as a partner in implementing policies that cut across national boundaries. The U.S. needs to design a regional strategy.

2) Pay More Attention

Responsible for the national security of a global superpower now bogged down in Iraq, Washington's policy makers apparently see little beyond North Korea and China when their gaze occasionally turns eastward. The assumption seems to be that the United States can rely on allies and friends to protect its interest in Southeast Asia, which are unlikely to suffer more than gradual erosion in the short term. But Australia, Japan and India, not to mention America's friends and allies in Southeast Asia, have their own limitations and their own interests. Moreover, Southeast Asia requires a hands-on approach. Secretary of State Rice's decision this month to substitute a 6-hour visit to Thailand for the annual ASEAN/ARF meeting that U.S. Secretaries of State have attended for the past twenty years was counter-productive, as many regional leaders publicly noted. Deputy Secretary Zoellick appears prepared to become "Mr. Southeast Asia" for the administration, but if he becomes distracted the most senior U.S. official that Southeast Asian leaders see regularly will become the commander of U.S. forces in the Pacific. No matter how talented, no military officer should be asked to shoulder the burden of advancing American trade, investment or aid interests.

The blasé American response to the evolving network of East Asian regional organizations, from which the United States is now often excluded, could also eventually prove costly. If economic trends gradually tilt the playing field against American firms, the refusal to "play the game" could eventually leave America attempting to influence important decisions from the margins.

3) Focus on Non-traditional Issues

The massive American response to the Indian Ocean tsunami reminded Southeast Asians of America's ability to help them. If the United States focused on non-traditional issues that cut across national boundaries, it could help itself by helping others. For example, anti-terrorism could be expanded to include maritime security and the United States has a wealth of talent to devote to combating potential epidemics such as avian flu. Finally, many Southeast Asians are now flocking to Chinese universities. Americans have an interest in ensuring that Harvard and Berkeley remain the destination of choice for Southeast Asia's best and brightest.

