

CHAPTER 3

CHINA AND THE WORLD

SECTION 1: CHINA AND CONTINENTAL SOUTHEAST ASIA

Key Findings

- China's pursuit of strategic and economic interests in Burma (Myanmar), Thailand, Cambodia, and Laos often jeopardizes regional environmental conditions, threatens government accountability, and undermines commercial opportunities for U.S. firms.
- China has promoted a model of development in continental Southeast Asia that focuses on economic growth, to the exclusion of political liberalization and social capacity building. This model runs counter to U.S. geopolitical and business interests as Chinese business practices place U.S. firms at a disadvantage in some of Southeast Asia's fastest-growing economies, particularly through behavior that facilitates corruption.
- China pursues several complementary goals in continental Southeast Asia, including bypassing the Strait of Malacca via an overland route in Burma, constructing north-south infrastructure networks linking Kunming to Singapore through Laos, Thailand, Burma, and Vietnam, and increasing export opportunities in the region. The Chinese government also desires to increase control and leverage over Burma along its 1,370-mile-long border, which is both porous and the setting for conflict between ethnic armed groups (EAGs) and the Burmese military. Chinese firms have invested in exploiting natural resources, particularly jade in Burma, agricultural land in Laos, and hydropower resources in Burma and along the Mekong River. China also seeks closer relations with Thailand, a U.S. treaty ally, particularly through military cooperation.
- As much as 82 percent of Chinese imported oil is shipped through the Strait of Malacca making it vulnerable to disruption. To reduce this vulnerability, China has been investing in oil and natural gas pipelines across Burma, which will partially alleviate this problem, supplying China with up to 5 percent of its oil imports and 6 percent of its natural gas imports based on 2016 data.
- Chinese dams on the Mekong River threaten Laos, Cambodia, and Vietnam's food security by blocking sediment necessary for agriculture and restricting fish migration. Chinese dams are

poised to block half of the sediment in the river system and the dam network on the Lower Mekong is estimated to reduce the fish stock of the entire river system by 42 percent.

- Local resistance to Chinese development has stalled or closed several important Chinese projects, including the \$3.6 billion Myitsone Dam in Burma and a railway linking Kunming to the Indian Ocean. Protests against Chinese projects have emerged over environmental concerns, use of Chinese laborers, and contract terms that primarily benefit Chinese firms. Chinese business practices have created friction in Laos and Thailand where Chinese businesses have been closed by the government.
- Japan remains a competitor in continental Southeast Asia for infrastructure development. In 2016, Japan pledged to provide \$6.8 billion in infrastructure finance for Mekong River countries. Japan typically supports infrastructure projects that run east-west across the region while China constructs projects that run north-south.
- Cambodia has advocated for China's interests in the Association of Southeast Asian Nations (ASEAN), particularly regarding Chinese land reclamation in the South China Sea. In 2012 and 2016 Cambodia vetoed joint ASEAN resolutions containing language regarding the South China Sea objectionable to the Chinese government, reportedly in concert with Beijing. Beijing has contributed significantly more aid to Cambodia than the United States and other Western countries. Cambodia's government has also granted Chinese businesses special privileges in violation of its own regulations. These privileges appear linked to favors paid to Cambodian officials by Chinese firms.
- Laos has sought good relations with China and turned to China for infrastructure development and investment, but has grown uneasy over the influence China has gained through investment. This unease has caused Laos to rethink its relations with China. In 2016 the Lao People's Revolutionary Party removed Choummaly Sayasone, who was associated with granting economic concessions to Chinese firms as chief of the party.
- China faces a more complicated political landscape in Burma, including the National League for Democracy (NLD) government; the military, which retains considerable political power; and EAGs that control large segments of Burma and conduct military actions against the Burmese government and military. In response, China has leveraged its connections with all three groups to maximize its influence, establishing better relations with the NLD, maintaining contact with military leaders, and using its ties to EAGs to demonstrate its ability to influence Burma's peace process. In leveraging its ties with EAGs, China faces tension between securing stability in its borders and using EAGs and Burma's peace process to obtain influence over the NLD government.
- After U.S.-Thailand relations deteriorated following the 2014 coup, China and Thailand have signed a series of arms deals, including a \$393 million submarine purchase. Thailand may be following its historical tradition of balancing multiple powers in its closer military relationship with Beijing.

Recommendations

The Commission recommends:

- Congress increase economic and development assistance and public diplomacy resources to Southeast Asia commensurate with its importance to U.S. strategic, economic, and political interests. A significant portion of additional funding should be directed to democracy, civil society, and governance capacity programs.
- Congress direct the U.S. Department of State and the U.S. Agency for International Development to allocate sufficient funding for the Lower Mekong Initiative and maintain funding at a level consistent with its role as a platform for water policy coordination and as a provider of U.S. expertise for environmentally safe dam construction.
- Congress direct the administration to increase cooperation on infrastructure projects supported by U.S. partners and allies, such as Asian Development Bank programs and bilateral projects administered by the Japan International Cooperation Agency. U.S. cooperation should leverage U.S. technical expertise regarding engineering, management, and social and environmental safeguards.

Introduction

China's relations with continental Southeast Asia are rooted in a long history and shaped by several Chinese interests. The region is rich in natural resources, to which China would like greater access, and its geographical location presents an opportunity for China to create new trade corridors to access the Indian Ocean.¹ The region also shares a border with China that is thousands of miles long, and often porous and prone to instability, prompting Chinese concerns over securing its border.² Continental Southeast Asia intersects with China's interests in the South China Sea through its Association of Southeast Asian Nations (ASEAN) members.³ Chinese infrastructure projects in the region also integrate into China's larger "One Belt One Road" (OBOR) initiative.* To advance its regional objectives, China has promoted military ties and leveraged its significant economic engagement.

This section examines the relationship between China and the continental Southeast Asian countries of Burma (Myanmar), Cambodia, Laos, and Thailand with a focus on China's goals in the region and implications for the United States. It explores Chinese economic engagement with these countries as a group and considers China's diplomatic and military relations with each of them individually. In doing so, it draws on the Commission's June 2017 hearing on China's relations with Northeast Asia and continental Southeast Asia, unclassified briefings with U.S. officials, the Commission's May 2017 fact-finding trip to Thailand and Burma, consultations with experts on regional politics and U.S. policy, and open source research and analysis.

*China rebranded One Belt One Road in 2017 as the Belt and Road Initiative to reflect the initiative's multiple infrastructure networks. This section continues to use the original OBOR designation. Angela Stanzel, "China's Belt and Road—New Name Same Doubts?" *European Council on Foreign Relations*, May 19, 2017.

Chinese Economic Engagement with Continental Southeast Asia

China's proximity, robust economy, and growing infrastructure connections to the region have given it a dominant position in the region's markets, which China has used to pursue several overlapping objectives. The region's geography presents China with an opportunity to bypass transportation through the Strait of Malacca by building infrastructure connections through Burma to the Indian Ocean.⁴ The region is also rich in minerals, energy resources, and agricultural land that have attracted Chinese investment. China has launched a series of infrastructure projects to create a north-south corridor that will boost China's export competitiveness in the region by reducing transportation costs. While China has engaged in military cooperation with all four countries discussed in this section, its military engagement appears to be subordinate to economic and geostrategic goals.

Figure 1: China and Continental Southeast Asia



Source: Google Maps, edited by Commission staff. <http://maps.google.com>.

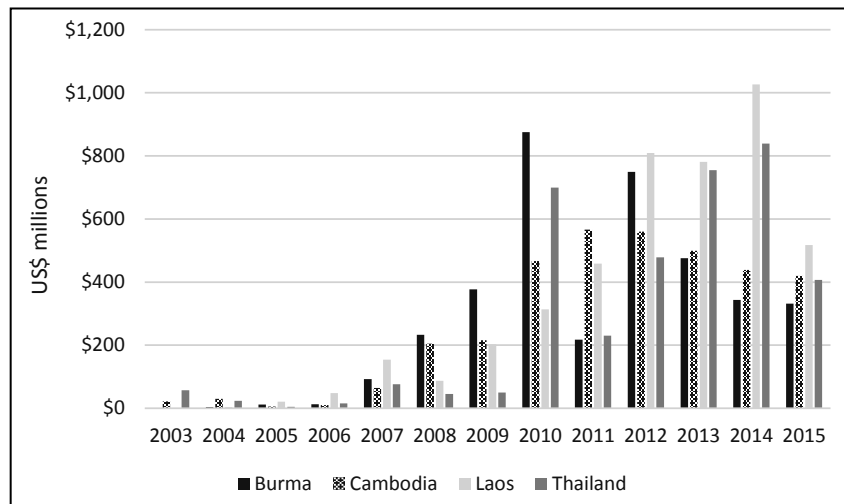
Chinese Trade and Investment in Continental Southeast Asia

Over the past 20 years, China has emerged as an important trading partner and source of foreign direct investment (FDI) and infrastructure financing for continental Southeast Asia. Since 2005, Chinese state and private companies have invested more than \$67 billion in continental Southeast Asian infrastructure and energy

projects.⁵ Since 2003, the first year for which Chinese data are available, Chinese FDI flows to the region have grown dramatically from \$80 million in 2003 to a peak of \$2.6 billion in 2014, an increase of 3,200 percent (see Figure 2).⁶ Between 2003 and 2015, Chinese total FDI to the region amounted to \$16.2 billion.⁷ In 2015, China was the top provider of FDI to Burma and Laos,^{*} and historically China has been the dominant source of FDI for Cambodia (see Figure 3).[†] With respect to trade, China is the top trading partner for both Cambodia and Burma (accounting for more than 50 percent of all of Burma's trade in goods in 2014 and 37 percent in 2016), and the second-largest trading partner for Laos (behind Thailand) (see Figure 4).⁸

China has a comparatively smaller economic footprint in Thailand, which has a more diversified group of trading partners. Although China is Thailand's largest trading partner, in 2015 it accounted for only 16 percent of Thailand's trade in goods, followed closely by Japan (12 percent) and the United States (9 percent).⁹ According to official Chinese sources, China provided 4 percent of Thailand's FDI in 2015.¹⁰ All four countries currently have a free trade agreement (FTA) with China through the China-ASEAN FTA and are negotiating parties to the Regional Comprehensive Economic Partnership.[‡]

Figure 2: China's Annual FDI Flows to Burma, Cambodia, Laos, and Thailand, 2003–2015



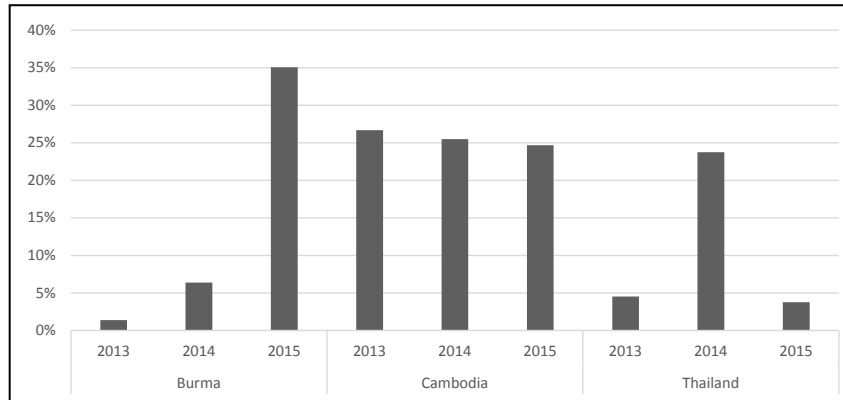
Source: National Bureau of Statistics via CEIC database.

^{*}China is the top provider of FDI to Burma by stock (26 percent of all FDI stock) and provided 39 percent of all FDI flows to Laos from 2011 to 2015. Myanmar Directorate of Investment and Company Administration, *Foreign Investment of Permitted Enterprises*; Laos Ministry of Planning and Investment, *All Approved Investment Projects by Country*.

[†]China was the top investor in Cambodia from 1995 to 2008, providing 24 percent of all FDI. Although Cambodia does not regularly provide FDI information by country, in 2015 China's FDI in Cambodia accounted for an estimated 25 percent of all FDI. Cambodian Investment Board, *FDI Trend*. <http://www.cambodiainvestment.gov.kh/why-invest-in-cambodia/investment-environment/fdi-trend.html>; National Bureau of Statistics via CEIC database; United Nations Conference on Trade and Development, "Country Fact Sheets 2016."

[‡]The Regional Comprehensive Economic Partnership is a so-called "mega FTA" under negotiation that includes China, ASEAN, India, Japan, and several other countries comprising 31.6 percent of global gross domestic product (GDP). World Bank, "GDP (current US\$)."

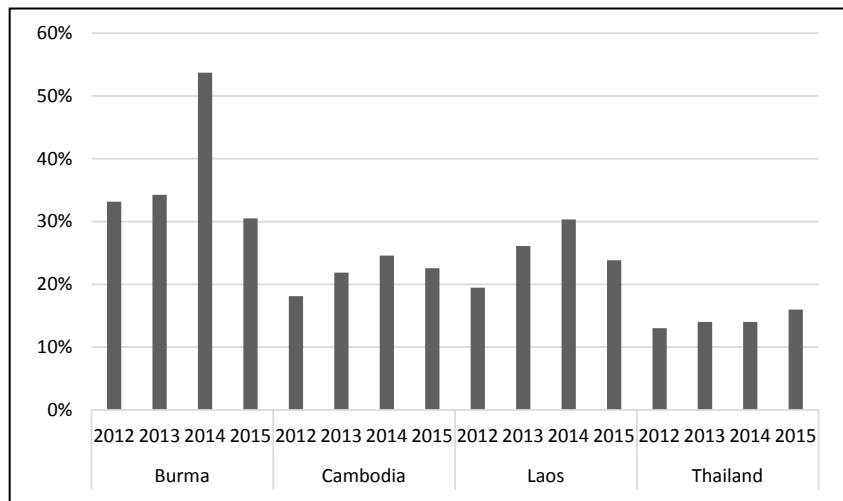
Figure 3: China's Share of Total FDI Flows in Burma, Cambodia, and Thailand, 2013–2015



Note: Laos is excluded, as Chinese and Laotian data on FDI are contradictory; in many years, China's reported FDI to Laos is more than twice that of Laos' total reported FDI. Nevertheless, both data sources show China to be the largest provider of FDI to Laos.

Source: Various.¹¹

Figure 4: China's Share of Total Goods Trade with Burma, Cambodia, Laos, and Thailand, 2012–2015



Source: United Nations Comtrade, "International Trade Statistics Database."

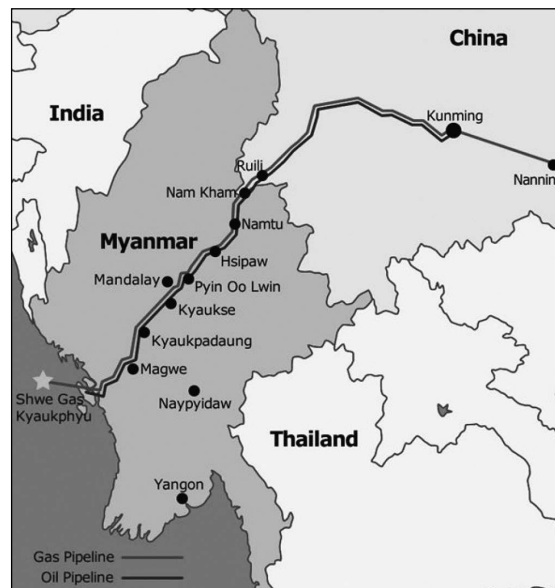
China and the "Malacca Dilemma"

The majority of China's crude oil imports (nearly 82 percent by some estimates) and a significant share of China's trade are transported through the Strait of Malacca—a narrow channel between the Malay Peninsula and the Indonesian island of Sumatra, which is vulnerable to disruption or naval blockade.* China's military strategists have

* China is dependent on energy imports to sustain its economy. In 2015, 62 percent of all crude oil consumed in China was imported. National Bureau of Statistics via CEIC database; Jeremy

noted that sea lanes such as the Strait of Malacca have become “lifelines” for China’s economic development and that in the event of war or maritime crisis these lines are likely to be cut off as China lacks effective control over them.¹² To alleviate this “Malacca Dilemma,” China has long sought to construct overland transportation corridors that will bypass the strait. One of these planned corridors would run across Burma, stretching from the Chinese city of Kunming to Kyaukphyu, a deepwater Burmese port on the Indian Ocean. Chinese firms have already constructed natural gas and oil pipelines along this corridor (see Figure 5) and are seeking an 85 percent share in the port at the pipelines’ terminus.¹³ While the pipelines will not alleviate China’s dependency on energy transported via the Strait of Malacca (the pipelines are capable of supplying oil and gas equal to 6 percent of China’s crude oil imports and 5 percent of China’s natural gas imports in 2016), several analysts have identified securing this transportation corridor as one of China’s key objectives in the region.¹⁴ Although China’s pipelines are operational, it has yet to fully develop this corridor. China sought to construct a railway along the length of this corridor, but this project was canceled in 2014 due to environmental concerns (for more on canceled Chinese projects, see “Resistance to Chinese Investment,” later in the section).¹⁵ During the Commission’s visit to Burma’s capital of Naypyidaw, Burmese Minister of State for Foreign Affairs U Kyaw Tin noted that China sought not only to build this railway, but also to exercise control over it, reflecting the strategic value of the Kunming-Kyaukphyu corridor.¹⁶

Figure 5: China-Burma Pipelines



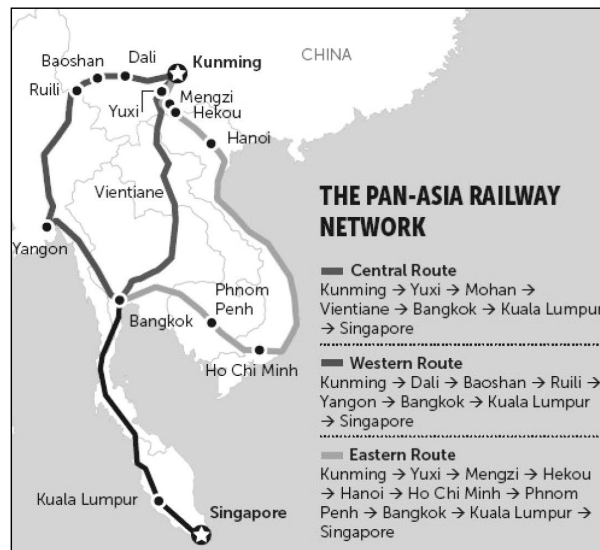
Source: Winnie Tsui, “Myanmar Rising: Opportunities in Asia’s Final Production Frontier,” *HK-TDC Research*, June 8, 2016.

Bender, “This Pentagon Map Shows What’s Really Driving China’s Military and Diplomatic Strategy,” *Business Insider*, May 13, 2015.

North-South Infrastructure Corridors

In total, Chinese firms have constructed or contracted to build \$29 billion worth of new road and rail projects in the region since 2006.¹⁷ Many of these projects help create economic corridors running north-south from Kunming to Singapore. China has begun negotiations to construct three railway lines passing through Burma, Laos, Thailand, Cambodia, and Vietnam (see Figure 6).¹⁸ To date, Chinese firms have begun construction on the line in Laos, and Thailand has reached a cost agreement on the first phase of its railway.¹⁹ These railways will facilitate the movement of goods and people, increasing China's export competitiveness in continental Southeast Asia. Additionally, as Murray Hiebert, senior advisor at the Center for Strategic and International Studies, noted in his testimony to the Commission, such infrastructure projects serve as an outlet for China's excess capacity, particularly sectors associated with construction, such as steel and cement.²⁰

Figure 6: Proposed Kunming to Singapore Railway Network



Source: Terry Frederickson, "Bangkok at the Center of Huge Future Rail Network," *Bangkok Post*, December 28, 2015.

Resource Acquisition

Chinese firms have launched many projects to obtain regional resources. In Burma, Chinese firms have been active in extracting minerals and timber, often illicitly with the assistance of the Burmese military and select ethnic armed groups (EAGs) (for more on EAGs, see the textbox "Ethnic Armed Groups in Burma" later in this section).²¹ Burma is estimated to contain 70 percent of the world's high-quality jade, and rising incomes in China have increased demand.²² Chinese firms have reportedly financed most jade mining operations in Burma and have facilitated smuggling jade across the Chinese border.²³ In a meeting with the Commission during its 2017 trip to Burma, an official in Burma's Ministry of Natural Resource-

es and Environmental Conservation noted most Chinese companies invest in extractive industries such as jade mining unofficially to circumvent laws restricting foreign investment.²⁴

Throughout the region, Chinese firms have invested at least \$1.9 billion in mining projects since 2005.²⁵ Mining and trade of Burmese jade has imposed large costs on Burmese workers and negatively impacted government revenues. In 2014, jade extraction was estimated to total \$31 billion—equal to half of Burma’s gross domestic product (GDP)—but 80 percent of this jade was extracted illegally and smuggled directly into China, depriving the Burmese government of tax sources.²⁶ In a meeting with the Commission, a Burmese Ministry of Natural Resources official singled out Chinese-owned mining firms as significant sources of economic, social, and environmental damage.²⁷ Chinese firms have been active in smuggling timber out of Burma as well, including almost \$500 million worth in 2014—although according to the environmental watchdog Environmental Investigation Agency, Chinese timber smuggling has since declined.²⁸

Chinese firms have also invested in regional agriculture. In Laos, Chinese firms have developed several plantations specializing in crops such as bananas for export to China.²⁹ The total number of Chinese plantations is not known, and some have triggered public and government complaints. For example, in 2017 the Laotian government closed Chinese banana plantations in 7 out of 17 provinces due to environmental concerns (for more on Chinese plantations in Laos, see “Laos-China Economic Relations,” later in this section).³⁰

Since 2005, Chinese companies have invested at least \$25 billion in regional energy projects.³¹ Much of this investment has been directed to hydropower projects. Chinese firms have constructed at least 63 hydropower projects in Burma and are contracted to construct 20 dams in the Mekong River system in Laos and Cambodia.³² Some of the dams under construction by Chinese firms are intended to transfer power back into China.³³ In Burma, the Chinese government negotiated to build several dams on the condition that 90 percent of the power generated be transmitted to China.³⁴ Public opposition to these conditions has resulted in the suspension of Chinese hydro projects, notably the Myitsone Dam, discussed later in this section.³⁵

Chinese Dams on the Mekong River

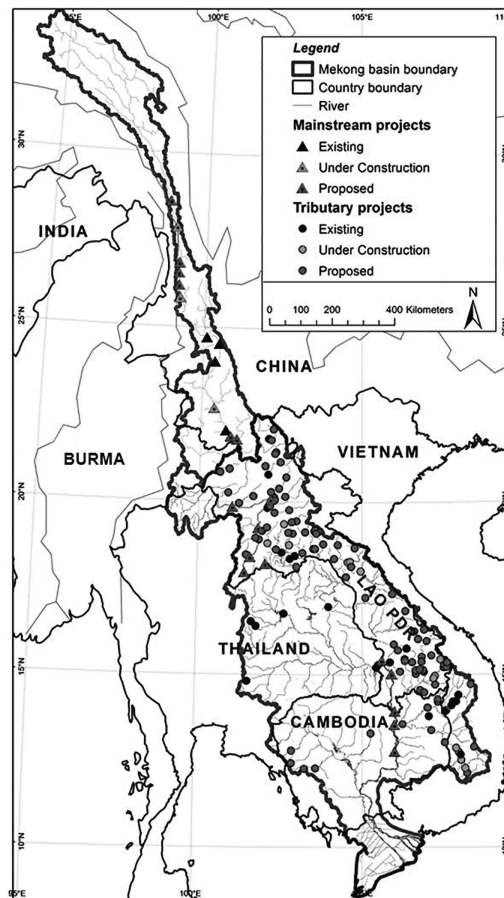
China has constructed many dams on the Mekong River that have the capacity to adversely transform regional livelihoods and economies. The Mekong River is the lifeline of Laos, Cambodia, and Vietnam, serving as a critical artery for transportation, agriculture, and fishing, and providing for the wellbeing of at least 60 million people.³⁶ The lower Mekong River basin supports one of the world’s largest freshwater fishing reserves,* and 60 percent of Laos and Cambodia’s populations rely exclusively on fish from the river for their nutritional protein needs.³⁷ The river is also vital for regional agriculture. Vietnam—which contains most of the Mekong River delta within its borders—relies on the

*According to the UN Food and Agriculture Organization, Mekong River countries caught 882,000 metric tons of freshwater fish in 2015, an amount 63 percent greater than the total freshwater fish caught in North and South America that year (540,000 metric tons). The Mekong River is estimated to account for more than 10 percent of global freshwater fishing. Brian Eyer, “China Needs to Change Its Energy Strategy in the Mekong Region,” *China Dialogue*, July 16, 2013; Food and Agriculture Organization of the United Nations, “Online Query Panels,” <http://www.fao.org/fishery/topic/16140/en>.

delta for 53 percent of its national rice production* and 70 percent of its fruit crop.³⁸ The Mekong not only supplies water for agriculture, but also deposits minerals carved from riverbanks upriver and fights salinization downriver by providing a steady flow of fresh water.³⁹

Within China, 6 dams have been constructed on the Mekong and another 14 are planned.⁴⁰ China's upriver dam system is capable of holding 50 cubic kilometers of water (equal to 73 percent of the volume of the Chesapeake Bay) and generating 31,460 megawatts of power.⁴¹ Downriver in Laos and Cambodia, Chinese firms are in the process of constructing 20 dams; in addition, over the next ten years Chinese firms may construct several of the 150 planned dams on the lower Mekong as subcontractors (see Figure 7).⁴²

Figure 7: Mekong River Basin Dams: Proposed, Operational, and Under Construction, 2013



Source: Harold Houba, "Saving a River: A Joint Management Approach to the Mekong River Basin," *Environment and Development Economics*, February 2013.

*Despite their relatively small populations, Vietnam and Cambodia were the sixth- and ninth-largest producers of rice in the world in 2016. Much of this rice production is dependent on the Mekong River system. Lanessa Cago, "10 Largest Rice Producing Countries," *World Atlas*, February 24, 2017.

China's dams on the upper Mekong block mineral sediments necessary for sustainable farming, posing a threat to the food security of Laos, Cambodia, and Vietnam. Roughly half of the sediment in the lower Mekong originates from the upper Mekong, and China's cascade of upriver dams is estimated to trap 94 percent of that sediment in China.⁴³ Downriver, Chinese dams have blocked migratory patterns of freshwater fish, preventing them from repopulating. Estimated losses from the proposed network of dams on the lower Mekong run as high as 42 percent of the river system's total fish reserves.⁴⁴

According to Brian Eyler, director of the Stimson Center's Southeast Asia program, China's electrical grid in Yunnan Province is currently at capacity, suggesting China may use its future upriver dams to address its own water needs rather than generate hydropower.* China's water consumption is likely to grow.† According to China Water Risk, a Hong Kong-based nongovernmental organization, China will have a water shortfall of 199 billion cubic meters annually in 2030, an amount equal to 41 percent of the United States' total water consumption in 2010.⁴⁵

This projected shortfall is driven by several factors. First, China will need water for electricity generation, largely due to China's reliance on coal power plants which require large amounts of water to run (China currently uses coal power plants for a majority of its power generation).‡ For example, in 2015, 93 percent of China's power generation required water for daily operation.⁴⁶ Second, China requires water for agriculture in the country's north, which has 63 percent of China's farmland but only 25 percent of the country's renewable water resources.§ China has already completed large-scale water diversion infrastructure projects within its borders, notably two corridors of the South-North Water Diversion Project that move water from the Yangtze River system north to Beijing and Tianjin.⁴⁷ Transfer or diversion of water in China out of the Mekong River system would have significant adverse effects on food security downriver—an area that relies on China for 45 percent of its water during the dry season.⁴⁸

*Distribution of power in Yunnan Province has been held up by disagreement between China's central government and Yunnan's provincial government over how to transmit power out of Yunnan and what prices should be charged. In 2016, 314 terawatt-hours of power went unused in Yunnan Province, enough to power almost 29 million U.S. homes for a year. Brian Eyler, Director, Stimson Center, briefing to Commission, Washington, DC, May 10, 2017; U.S. Energy Information Administration, *How Much Electricity Does an American Home Use?* <https://www.eia.gov/tools/faqs/faq.php?id=97&t=3>; Michael Standaert, "Hydro Overpowers Energy Needs in China," Bloomberg, June 8, 2017.

†According to the National Intelligence Council, as of 2012 some parts of China already suffer from low per-capita water resources creating "high water stress." "High water stress" is defined by the National Intelligence Council as renewable freshwater resources below 1,700 cubic meters per person. As a point of reference, U.S. per capita water use is roughly 2,500 cubic meters. National Intelligence Council, *Global Water Security*, February 2, 2012.

‡In the United States, thermoelectric power generation accounted for 45 percent of all water consumed in 2010. According to the International Energy Agency, China's energy consumption will likely grow at a slower rate in the future but will still increase by roughly 20 percent from 2017 to 2030. Xiaojie Xu, "China Energy 2020," *Chinese Academy of Social Sciences*, September 11, 2014; U.S. Geological Survey, *Total Water Use in the United States, 2010, 2014*; Simon Göß, "Power Statistics China 2016: Huge Growth of Renewables Amidst Thermal-Based Generation," *Energy BrainBlog*, February 9, 2017.

§In addition to the majority of China's agricultural resources, China's north also has 86 percent of the country's coal reserves and most of its coal power plants. Debra Tan, "Towards a Water and Energy Secure China," *China Water Risk*, April 2015.

Chinese dam construction has displaced several communities in Laos and Cambodia. According to Mr. Eyler, resettlement due to dam construction has become the primary cause of internal movement in Laos.⁴⁹ Chinese construction firms—which, like all construction firms in Laos, are responsible for resettling displaced persons—often resettle communities on land with insufficient farming or fishing resources and with inadequate financial compensation, creating challenging living conditions and adding to domestic unrest.⁵⁰

China is not a full member of the Mekong River Commission—an information-sharing multilateral body designed to coordinate management of the Mekong River that includes Cambodia, Thailand, Laos, and Vietnam.* It participates as a “dialogue partner” and is not required to provide information on the operation or construction of dams, and in the past has unilaterally constructed dams on the upper Mekong.⁵¹ The absence of an effective forum for discussing construction on the Mekong limits the ability of downstream countries to provide input on upriver Chinese dams that will affect them. During the Commission’s visit to Thailand, the Ministry of Foreign Affairs noted the need for a framework to guide dam construction on the Mekong.⁵²

To better facilitate water management and promote economic and social development, the United States in 2009 initiated the Lower Mekong Initiative (LMI), a diplomatic and development platform for the United States to partner with Burma, Cambodia, Laos, Thailand, and Vietnam to promote better cooperation in the Mekong River sub-region.† Through the LMI, the United States has improved the capacity of regional countries to analyze the effects of dams on the Mekong, supported regional dialogues on fisheries management, and provided U.S. engineering expertise on the construction of so-called “smart infrastructure” (i.e., dams and roads that minimize their impact on the environment).⁵³ On August 6, Secretary of State Rex Tillerson delivered opening remarks to the foreign ministers of Burma, Cambodia, Laos, Thailand, and Vietnam at the 10th LMI Ministerial Meeting.⁵⁴

In 2015, China created a counterpart to the LMI called the Lancang-Mekong Cooperation Mechanism (LMC), a forum including China, Vietnam, Cambodia, Thailand, and Laos focused on economic development, infrastructure construction, and water resource management.⁵⁵ China appears to have committed more resources to the LMC than the United States has to the LMI. In 2016, the Chinese government extended \$1.5 billion in concessional finance and a \$10 billion credit line to downriver countries through the LMC.⁵⁶ U.S. funding for the LMI has been smaller (averaging \$4.2 million per year from 2009 to 2016) and has been inconsistent over time (fund-

*The Mekong River Commission is an intergovernmental organization governed by the water and environmental ministers of Laos, Cambodia, Thailand, and Vietnam. The commission serves as an advisory body on the impact of water usage on the Mekong and functions as a platform for water diplomacy between member countries. The commission is mandated to create a development plan for the Mekong River basin that equitably allocates benefits among member countries. Mekong River Commission, “About MRC.” <http://www.mrcmekong.org/about-mrc/>.

†The LMI works across a broad spectrum of development issues including health, water management, environmental protection, agriculture, education, connectivity, and energy security. The LMI largely provides assistance through capacity building (including training, technical assistance, and educational exchanges) and establishing regional dialogue. Lower Mekong Initiative, “The Lower Mekong Initiative”; U.S. Department of State, *Lower Mekong Initiative*.” <https://www.state.gov/p/eap/mekong/>.

ing for the LMI dropped from \$11.5 million in 2015 to \$3 million in 2016—a 74 percent decline).⁵⁷

Resistance to Chinese Investment

Throughout the region, Chinese investments have sparked protests, occasionally resulting in delays or cancellations of Chinese projects. Chinese investment has been criticized for lacking proper environmental review procedures, utilizing imported Chinese workers, principally benefiting Chinese businesses, displacing communities without adequate compensation, extracting conditions favorable to China at the expense of regional countries' interests, and facilitating corruption.⁵⁸ Examples of pushback in continental Southeast Asia include:

- The Kyaukphyu-Kunming railway in Burma was canceled in 2014 over environmental concerns.⁵⁹ Like the Kyaukphyu-Kunming pipelines, the railway would have provided an avenue for Chinese trade to bypass the Strait of Malacca to access the Indian Ocean.
- The Thailand-China railway, a high-speed line connecting China, Laos, and Thailand, was subject to delays over cost negotiations; China's insistence on acquiring land concessions along the length of the railway; and concerns China would use Chinese—rather than Thai—engineers.⁶⁰ Thailand approved the first phase of the railway in 2017 after three years of negotiations, agreeing to use Chinese engineers.⁶¹
- The Areng Valley Dam in Cambodia would have been constructed in a protected forest containing several endangered species and possibly opened the forest to logging.⁶² After sustained pressure from protesting citizens and environmental nongovernmental organizations, Cambodia canceled plans to build the dam in 2017.⁶³

Despite local pushback, many Chinese projects continue to go forward. One example is the Chinese-constructed Lower Sesan 2 Dam in Cambodia, which was approved by Cambodia in 2012 and is scheduled to begin operations in 2017.⁶⁴ The dam has been the target of several protests since 2007 and is estimated to deplete the Mekong River's fish reserves by 9 percent and force 5,000 Cambodians to resettle.⁶⁵ In another case, the Leptadaung copper mine in Burma commenced operations in 2016, despite five years of protests over land seizures and concern for the mine's environmental effects.⁶⁶

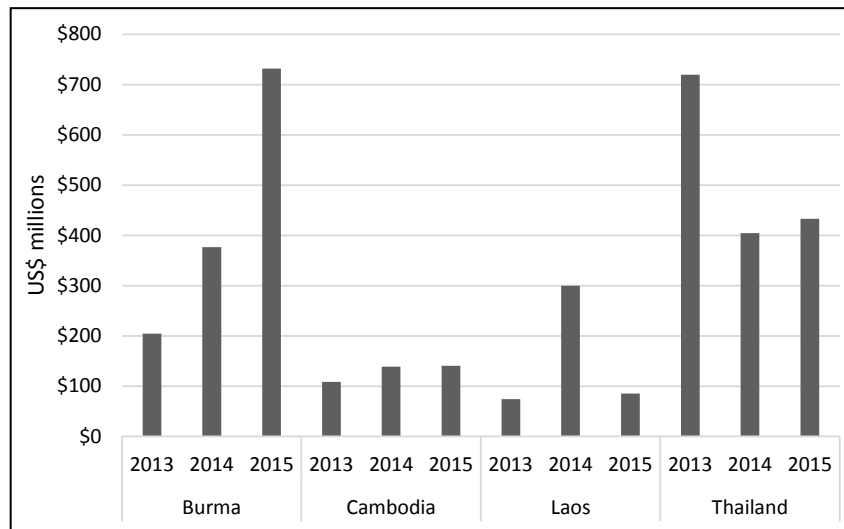
The Chinese government has responded to protests regarding some projects in the region by concealing information. For example, provincial authorities in Yunnan have obscured the location of a Kunming oil refinery built to process oil shipped through pipelines from Burma, removing the refinery from maps and instructing civil servants, students, and state-run media not to mention the refinery publicly.⁶⁷ Chinese public protests against the refinery and its production of paraxylene, a toxic chemical, erupted in 2013; however, according to the *South China Morning Post* most Kunming residents are unaware that the refinery will soon go into production.⁶⁸ Chinese authorities have also directed Chinese media to stop referring

to China's north-south Kunming-Singapore railway network as the "Trans-Asian Railway" as the term carried connotations of aggressive Chinese expansion into the region.⁶⁹

Alternative Investment Sources

While China is the region's dominant infrastructure and investment provider, continental Southeast Asian countries have access to other funding sources—particularly bilateral assistance from Japan. In 2016, Japan committed to a \$6.8 billion infrastructure package for Mekong River countries and a \$7.7 billion aid program for Burma to support peacebuilding and development.⁷⁰ Through its development agency, the Japan International Cooperation Agency (JICA) and its export credit agency, the Japan Bank for International Cooperation, Japan has provided \$3.7 billion in bilateral assistance and export loans since 2013 (see Figure 8).⁷¹ Where China's regional projects run north-south, Japan's run east-west.⁷²

Figure 8: Japan International Cooperation Agency and Japan Bank for International Cooperation Funding to Continental Southeast Asia, 2013–2015



Source: Various.⁷³

China's Relations with Burma

China's relations with Burma have transformed from Burma's dependency on Beijing to a new period of uncertainty as Burma engages with other countries in the international community and liberalizes politically. While Burma was under the rule of a military junta from 1989 to 2011, China became Burma's most important ally. Burma relied on China for military sales, economic development, and support from China's position on the UN Security Council.* Burma's military government was uneasy with

*In 2007 and 2009, Russia and China vetoed U.S.-backed UN resolutions calling on Burma to free political prisoners, end ethnic persecution, and adopt democratic governance. Mark Turner,

this dependency, fearing that China would dominate the entire country in the same way it has come to dominate its ancient capital of Mandalay, where China's economic and cultural presence is pervasive.* These concerns prompted Burma to start searching for alternatives.

To end Western sanctions and gain political legitimacy, Burma's junta began the process of political reform in 2011, transitioning to a nominally civilian government led by former military leader Thein Sein, who began to loosen political controls imposed by the junta.† Under the Thein Sein government, Burma's dependence on China began to decline as Burma's relations with the West improved and many unpopular Chinese projects in Burma, such as the Myitsone Dam, were suspended (the Myitsone Dam is discussed in greater detail later in this section).⁷⁴ In 2015, Thein Sein's government was replaced by State Counsellor Aung San Sui Kyi's National League for Democracy (NLD), which won in a landslide election.‡ The NLD governs the country alongside the military, which retains considerable power under Burma's constitution, including a 25 percent share of Burma's parliament; the right to veto judicial, executive, and legislative decisions; control over the ministries of defense, home, and border affairs, as well as the national police and intelligence service; and the right to reassert complete control over the government and suspend political and civil rights by declaring a state of emergency.⁷⁵ Since the election, China faces a more complex political landscape in Burma, including the military, the NLD, and EAGs that control large segments of Burma and conduct military actions against the Burmese government and military.

China's central government seeks to advance two strategic goals in Burma. First, China aims to strengthen control across its 1,370-mile border with Burma and increase its leverage over the Burmese government.⁷⁶ The China-Burma border is porous, with individuals routinely crossing over for economic and other purposes. Fighting between the Burmese military and EAGs has spilled over into Chinese territory, claiming the lives of Chinese citizens.§ Conflict near the border has also sent tens of thousands of refugees into China.¶ Second, China seeks to control a Bur-

*China and Russia Veto UN's 'Arbitrary' Move on Burma," *Financial Times*, January 13, 2007; Voice of America, "Russia, China Veto UN Resolution on Burma," November 1, 2009.

†Following the defeat of China's nationalist forces in 1949, many Chinese immigrated to Mandalay to escape China's communist government. Today, descendants of those Chinese emigres, combined with waves of other Chinese nationals that have since moved into the city, effectively dominate Mandalay economically, aggravating tensions between ethnic Han Chinese and ethnic Burmese residents. Raju Gopalakrishnan, "China's Sway Runs Deep in Myanmar's Ancient Capital," Reuters, November 29, 2011; Jane Perlez, "Animosity in a Burmese Hub Deepens as Chinese Get Richer," *New York Times*, November 27, 2016.

‡The Thein Sein government is credited for releasing political prisoners and preparing free and fair elections in 2015. Jonah Fisher, "Myanmar's 2015 Landmark Elections Explained," BBC, December 3, 2015.

§While Burma's constitution prevents State Counsellor Suu Kyi from serving as president, she serves as a de facto head of state, occupying the position of state counsellor, foreign minister, and head of the NLD party. State Counsellor Suu Kyi's long-time aide Htin Kyaw currently serves as president. Simon Lewis, "Who Is Htin Kyaw, Burma's New President?" *Time*, March 14, 2016.

¶In 2015, ordnance from Burma fell into China during a conflict between the Burmese Army and the Kokang Army (an ethnically Han Chinese EAG), killing five Chinese citizens. James Pomfret, "Relief Camp in China Swells as Thousands Flee Conflict in Myanmar," Reuters, March 13, 2017.

¶In March 2017, fighting between the Kokang Army and the Burmese military in Shan State drove 20,000 Burmese refugees into China. Theingi Htike, "China Meets with Myanmar's Ethnic Armies in Attempt to Quell Fighting," Voice of America, March 15, 2017.

mese deepwater port on the Indian Ocean to provide an alternative to passage through the Strait of Malacca, which is vulnerable to disruption.⁷⁷ China's central government also seeks to advance large suspended projects such as the Myitsone Dam, although it may be willing to accept termination of the Myitsone Dam project in exchange for receiving approval for other strategic projects such as ownership of the port at Kyaukphyu.⁷⁸ In addition to the goals advanced by the central government, local Chinese actors in Yunnan have various objectives in Burma, including accessing Burmese natural resources, exploiting commercial opportunities, and reportedly utilizing Burmese EAGs to launder money.⁷⁹ To advance its goals, the Chinese government has supported and built connections with Burma's military, the NLD government, and EAGs—sometimes playing different sides in Burma's political environment against each other.

Ethnic Armed Groups in Burma

For nearly 70 years, Burma has been beset by conflict between the Burmese military and EAGs controlling various parts of the country.⁸⁰ These EAGs consist of several distinct groups, some of which have maintained close ties with China's military (for more on China's support for EAGs, see "China and Burmese EAGs," later in this section). EAGs also differ in their relations with Burma's government. While some are currently engaged in peace talks or have signed ceasefires with Burma's government, others remain in a state of ongoing or sporadic conflict.⁸¹ Three EAGs are of particular significance due to their size and proximity to China's border. While these three EAGs have had dialogues with Burma's government, they are currently not formally a part of State Counsellor Suu Kyi's Panglong peace process.⁸² These EAGs are:

- **The Kokang Army (MNDAA)**, an army led by Peng Jisheng, a former member of the now-dissolved insurgent Communist Party of Burma, which China backed until the 1980s as a vehicle for spreading communist ideology through revolution.⁸³ The Kokang are ethnic Han Chinese, and enjoy some degree of support from the Chinese public, successfully raising donations and supplies from Chinese citizens.⁸⁴ The territory controlled by the MNDAA lies on China's border and violence between the MNDAA and Burma's military has driven thousands of Kokang refugees into China; Chinese civilians have also been killed by ordnance landing in Chinese territory.⁸⁵ The MNDAA most recently clashed with Burma's military in March 2017 in an offensive that killed a Chinese teacher in Burma and resulted in several thousand refugees fleeing into China.⁸⁶ Despite the instability created by the MNDAA's clashes with Burma's military, China faces pressure to maintain a positive relationship with the MNDAA due to domestic sympathies for the Kokang related to shared ethnic Han Chinese her-

Ethnic Armed Groups in Burma—Continued

itage.⁸⁷ Under the Thein Sein government, the MNDAA was excluded from national peace talks with the Burmese government and has largely abstained from State Counsellor Suu Kyi's current peace initiative.⁸⁸

- **The United Wa State Army (UWSA)** is the most powerful EAG in Burma and has the closest relationship with China.⁸⁹ The UWSA is led by Bao Youxiang who also fought under the Burmese Communist Party.⁹⁰ The group controls a region the size of Belgium next to China's border and is heavily dependent on China both as an export market for raw materials and as a provider of most imported manufactured goods.⁹¹ Significant conflict between the UWSA and Burma's military has not occurred since 1989 and the UWSA occupies a position of implicit leadership among EAGs near its territory in Burma's Shan State, including the MNDAA.⁹² China grants the UWSA privileges denied to other EAGs, including the ability for UWSA leaders to travel to Kunming without advance approval from Beijing.⁹³ Much of the UWSA's income is believed to come from production of opium and methamphetamine.⁹⁴ In 2005, Bao Youxiang was indicted on drug trafficking charges by U.S. federal prosecutors, and in 2008, he and other UWSA commanders were designated as narcotics traffickers by the U.S. Department of the Treasury.⁹⁵ The UWSA began a bilateral peace agreement in 2011 that has yet to be fully concluded.⁹⁶ In 2017, the UWSA emerged as a leader among EAGs pushing for an alternative peace process to State Counsellor Suu Kyi's current framework for peace talks.⁹⁷
- **The Kachin Independence Army (KIA)** has sought support from Washington based on the historical alliance between the Kachin people and the United States. During World War II, Kachin rangers fought alongside the United States and United Kingdom against Japan.⁹⁸ Many Kachin are of the Baptist faith following missionary efforts in the 19th century.⁹⁹ Delegates from the KIA have frequently traveled to the United States to seek support for their cause, and the Kachin have proposed that the United States serve as an observer to its negotiations with the Burmese government.¹⁰⁰ According to Yun Sun, Senior Associate at the Stimson Center, China has a complicated relationship with the KIA. On the one hand, the KIA receives strong support from ethnic Kachin in China, which creates an incentive for positive relations with the KIA as local Chinese governments wish to pacify domestic ethnic groups for local stability.¹⁰¹ On the other hand, the KIA's outreach to the United States raises concerns for China, given the proximity of KIA territory to China's border (see Figure 9).¹⁰² The KIA has also opposed Chinese projects in Burma such as the Myitsone Dam.¹⁰³ Since 2011, the

Ethnic Armed Groups in Burma—*Continued*

KIA has been fighting a pitched battle with the Burmese military, resulting in the displacement of at least 100,000 persons.¹⁰⁴ Alongside clashes with Burma's military, the Kachin have been engaged in peace talks with Burma's government in a variety of fora.¹⁰⁵ Most recently the Kachin have joined with the UWSA in declining to participate in State Counsellor Suu Kyi's current peace process and insisting on a new framework for peace talks.¹⁰⁶

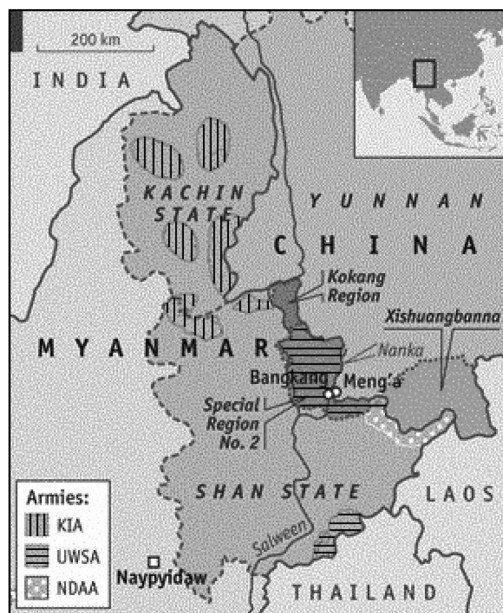
China and the Burmese Government

After the NLD's election, China has been careful to cultivate good relations with the NLD government while maintaining its ties with Burma's military. State Counsellor Suu Kyi has also demonstrated that she wants to maintain good relations with China. She made China her first visit to a country outside Southeast Asia after the NLD took power in 2016.¹⁰⁷ She also participated in Beijing's OBOR summit in May 2017 and President Htin Kyaw met with Chinese President and General Secretary of the Chinese Communist Party Xi Jinping in April 2017.¹⁰⁸ At both meetings China signed economic and development agreements with Burma.¹⁰⁹ Immediately prior to State Counsellor Suu Kyi's 2016 visit, a Chinese Communist Party official met with Burma's previous military leaders, former President Thein Sein and General Than Shwe, former leader of Burma under the junta government.¹¹⁰ China has also maintained an elevated level of arms sales to Burma's military since the NLD took power (for more on China's arm sales, see "Burma-China Defense Relations," later in this section).¹¹¹

China and Burmese EAGs

EAGs continue to control large portions of Burma's territory, and conflict between Burma's military and EAGs has persisted.¹¹² State Counsellor Suu Kyi has identified ending these conflicts as her government's top priority.¹¹³ China has longstanding ties to EAGs operating near its border, particularly the UWSA and the MNDAA (see Figure 9). Both of these groups have benefited militarily from their relationship with China. The UWSA reportedly hires Chinese mercenaries and uses arms that come from China.¹¹⁴ China has also permitted the MNDAA to use Chinese territory to outflank the Burmese military and collect donations from the Chinese public.¹¹⁵ During the Commission's 2017 trip to Burma, Burma-based analyst David Mathieson noted China has sold various weapons, including transport helicopters and light tanks, to the UWSA.¹¹⁶

Figure 9: EAGs Operating near the China-Burma Border



Source: *Economist*, "Myanmar's Border with China: Good Fences," November 25, 2010.

China has sought to use its leverage with EAGs to exert influence over the NLD through Burma's ongoing peace process. China has officially adopted a position of support for Burma's peace process and contributed at least \$3 million to support peace talks between Burma's government and EAGs.¹¹⁷ More importantly, China has sought to show State Counselor Suu Kyi that it has the ability to bring nonparticipating EAGs to the negotiating table for peace talks. In a clear demonstration of China's influence over EAGs, in 2017 as State Counselor Suu Kyi held the second round of the 21st Century Panglong Peace Conference, Chinese officials independently organized a group of leaders from EAGs that have long refrained from participating in peace talks with the Burmese government and brought them to Naypyidaw during the Panglong Peace Conference to participate in sidebar conversations.¹¹⁸

China's engagement in Burma's peace process comes with many complexities. While a successful resolution to the Burmese government's conflict with EAGs would promote stability along China's border and win favor from the NLD, it may reduce China's leverage over the Burmese government through its influence with EAGs. To this end, China continues to prop up select EAGs as a way to enhance its influence over the Burmese government.¹¹⁹

The Chinese government has also expressed concern about U.S. involvement in Burma's peace process. In 2013, China and the Burmese government blocked a proposal by the KIA to invite the United States to serve as a witness to negotiations between the KIA and the central government, and in 2015 China's opposition reportedly prevented the United States from witnessing the signing of Burma's National Cease-fire Agreement.¹²⁰ The United States is a long-standing supporter of

Burma's peace process. Since 2012, the U.S. Department of State has allocated at least \$31 million for conflict and peace programs in Burma.¹²¹ U.S. assistance is designed to support local efforts for conflict resolution and reconciliation, promote democracy, build the capacity of local leaders and civil society, and empower women to participate in the peace process and national reconciliation efforts.¹²²

Chinese Infrastructure Projects in Burma

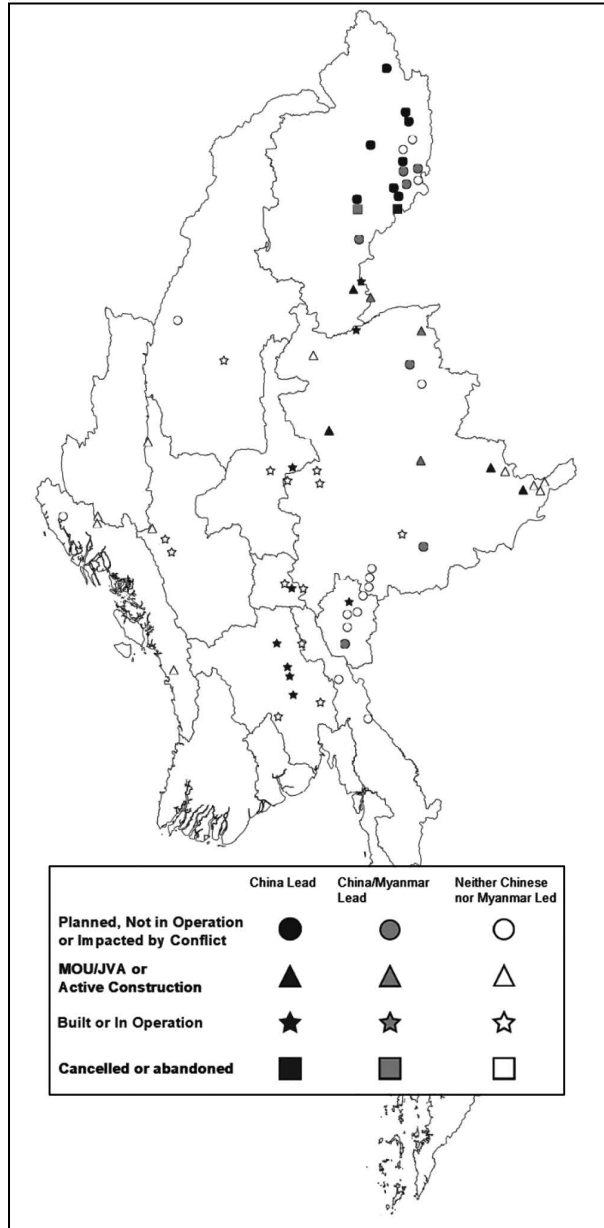
Key to the NLD's relations with China is the looming decision over whether to resume Chinese energy and infrastructure projects. Chief among these is the Myitsone Dam, a \$3.6 billion hydropower project on Burma's Irrawaddy River.¹²³ Construction on this dam began in 2009; however, due to local protests over the resettlement of thousands of people and construction terms that required 90 percent of the dam's power be sent to China, the project was suspended in 2011.¹²⁴ State Counselor Suu Kyi faces a difficult choice as she reviews the dam's suspension. On the one hand, the Myitsone Dam remains unpopular with the Burmese public, and her party will likely pay a political price if it resumes construction.¹²⁵ On the other hand, terminating the project would likely strain relations with China and cost the Burmese government \$800 million due to contractual obligations, a sum roughly equal to 38 percent of Burma's defense budget and 4 percent of its total government spending for 2017.¹²⁶ According to Sean Turnell, senior economic advisor to the government of Burma, the high costs associated with canceling the Myitsone Dam have placed the NLD government "over a barrel," indicating the leverage China has acquired over Burma through the project.¹²⁷ Burma also has great energy development needs. According to the development research organization International Institute for Environment and Development, only 34 percent of Burma's population has access to grid-quality electricity as of 2016.¹²⁸

The Chinese government appears eager to deepen China's investment in the port at Kyaukphyu. Ownership of this port would grant China greater control over the terminus of its overland economic corridor and a deepwater port on the Indian Ocean that would advance China's "string of pearls" strategy, wherein China expands its naval capacity in the Indian Ocean through the development of civilian port facilities.* According to some analysts, China may be willing to accept approval for its investment in the Kyaukphyu port project in exchange for cancellation of the Myitsone Dam.¹²⁹ This trade seems advantageous to China as the electrical grid in Yunnan Province where power from the Myitsone Dam would be sent appears to be at capacity, obviating the intended benefits of the dam to China.¹³⁰ Chinese companies have expressed their eagerness to reopen talks to construct a high-speed railway running from Kunming to Kyaukphyu, and are seeking an 85 percent ownership stake in the deepwater port at Kyaukphyu.¹³¹ Despite ongoing unrest in Rakhine State associated with the Rohingya crisis, China's port and pipeline projects in Rakhine State appear unthreatened by regional violence (for more on the Rohingya crisis and

*The "string of pearls" concept was coined by U.S. analysts in 2005 to describe possible Chinese naval strategy. For more on this strategy, see U.S.-China Economic Security Review Commission, Chapter 3, Section 1, "China and South Asia," in *2016 Annual Report to Congress*, November 2016, 313-346; Catherine Wong, "Five Things You Should Know About China-Backed Port in Myanmar," *South China Morning Post*, May 9, 2017.

China, see the textbox “The Rohingya and Rakhine State” later in this section). Although the Myitsone Dam is one of China’s largest projects in the country, it is just one of many Chinese dams planned or under construction throughout Burma (see Figure 10).¹³²

Figure 10: Chinese Hydropower Projects in Burma



Source: “Hydropower and Chinese Engagement in Myanmar,” *Envisage*, May 2017.

Chinese business practices have harmed China's image in Burma. According to Thant Myint U, chairman of the Yangon Heritage Trust, the environmental damage, displacement of communities, and corruption caused by Chinese investment has caused Burmese public opinion on China to "sour considerably over the last quarter century."¹³³

Burmese Regulatory Capacity

The NLD government appears to lack the administrative capacity to properly analyze foreign investment and infrastructure projects. According to an advisor to the Burmese government who met with the Commission during its trip to Burma, many junta-era government officials remain in positions even after the NLD came into power, resulting in the retention of many unqualified individuals.¹³⁴ An analyst with the Asia Foundation noted that most government officials lack the skills necessary to manage a large organization and that candidates with expertise are driven away from government service due to low salaries and the burden of living in Naypyidaw.¹³⁵ This lack of administrative expertise leaves Burma exposed to harmful and exploitative Chinese projects and slows the approval of beneficial projects in Burma.

The Rohingya and Rakhine State

Many of China's most important projects in Burma are located in Rakhine State on the Indian Ocean, including the port at Kyaukphyu and sections of the Kunming-Kyaukphyu pipelines. This region has been beset by turmoil due to ongoing conflict involving the Rohingya ethnic group. The Rohingya are a Muslim ethnic group who have resided in Burma for several hundred years but are denied basic rights by the Burmese government.¹³⁶ Under Burma's 1982 citizenship law, the more than 1 million Rohingya in Burma are not recognized as Burmese citizens and are restricted from education and employment opportunities, moving freely across the country, and obtaining marriage certificates.* Since 2012, when a group of Rohingya men were accused of raping and killing a Buddhist woman, thousands of Rohingya have been displaced from their homes due to violence from Burmese security forces and Buddhist nationalists.¹³⁷

Strife in Rakhine State increased following attacks by a Rohingya armed group on Burmese border posts and police facilities in October 2016 and August 2017.¹³⁸ The Burmese military has launched crackdowns in reprisal for the attacks.¹³⁹ According to witnesses and representatives from the UN High Commissioner for Refugees, following both attacks Burma's security forces

*Government-issued marriage certificates are required in Burma and marrying without one can result in a jail sentence of several years. Jack Kurtz, "More Burmese Persecution of Rohingya: Blocking Marriages," *Worlderunch*, May 27, 2015; Human Rights Watch, "Crimes against Humanity and Ethnic Cleansing of Rohingya Muslims in Burma's Arakan State," April 22, 2013.

The Rohingya and Rakhine State—*Continued*

and Buddhist vigilantes burned down Rohingya homes, conducted mass killings and widespread rape, and drove hundreds of thousands of Rohingya into hiding or across the border into Bangladesh.¹⁴⁰ As of September 2017 at least 422,000 Rohingya have fled into Bangladesh to escape the violence, many of them women and children.¹⁴¹ Bangladesh already hosts 300,000 to 500,000 Rohingya refugees who fled prior violence and persecution.¹⁴²

In responding to the Rohingya crisis, China has supported Burma's right to respond to internal security threats while also encouraging humanitarian assistance for Rohingya refugees and urging Bangladesh and Burma to cooperatively address the crisis.¹⁴³ According to Ms. Sun, China views the Rohingya crisis as an "opportunity" to "gain the potential friendship" of the NLD government, noting that from China's perspective "the Rohingya issue doesn't affect us and by supporting Aung San Suu Kyi we don't lose anything."¹⁴⁴ Following the August 2017 crackdown, Chinese Foreign Minister Wang Yi told UN Secretary General Antonio Guterres that China "understands and supports" Burma's efforts to protect itself against security concerns in Rakhine State. Similarly, Hong Liang, China's ambassador to Burma, noted that "China's position is very clear. We support the Myanmar government's effort to restore the peace and stability in Rakhine."¹⁴⁵ According to Burmese state media, Hong Liang told Burmese officials that China viewed Burma's actions as an "internal affair" and that it "welcomed" counterattacks against "extremist" groups in Rakhine State.¹⁴⁶ In April 2017, China offered to mediate between Burma and Bangladesh regarding a dispute over responsibility for the 69,000 Rohingya who fled into Bangladesh following the October 2016 crackdown.¹⁴⁷ This offer was declined by the NLD government.¹⁴⁸

China has used its position on the UN Security Council to shield Burma. In March 2017, China and Russia reportedly blocked a UN Security Council statement expressing concern regarding the treatment of Rohingya by Burma's military.¹⁴⁹ In September 2017, China reportedly blocked a UN Security Council proposal to support the right of Rohingya refugees to return to Burma.¹⁵⁰ While China agreed to a September 2017 UN Security Council statement that expresses concern about reports of violence associated with Burma's crackdown, China has largely refrained from criticizing the NLD and Burma's military or linking Burma's security forces with violence against Rohingya civilians.¹⁵¹

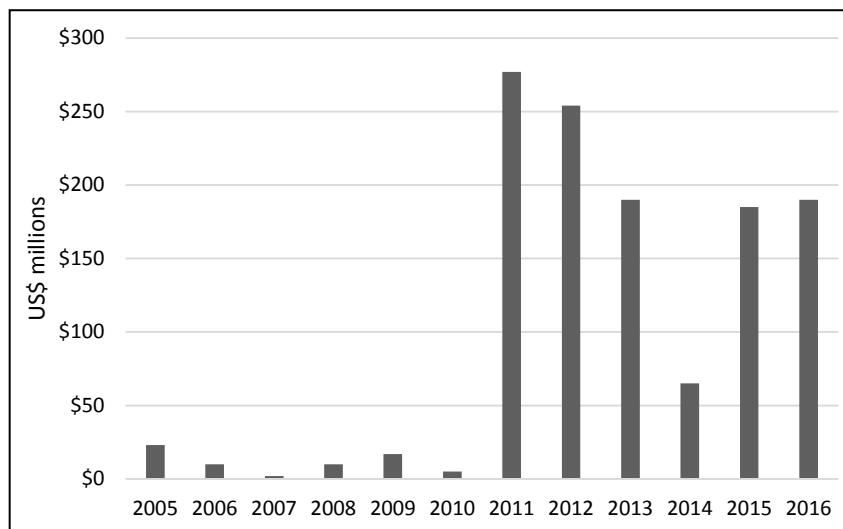
Although China's key infrastructure projects in Rakhine State do not appear to be currently threatened by instability in Rakhine State, the *Global Times*, a newspaper affiliated with the Chinese Communist Party, has stated that the key role of Burma in China's OBOR initiative serves as a motivation for Chinese involvement in the Rohingya crisis.¹⁵² The *Global Times* suggested China should continue to offer resolution be-

The Rohingya and Rakhine State—*Continued*

tween Burma and Bangladesh and increase humanitarian assistance for Rohingya refugees in Bangladesh.¹⁵³ The impact of the Rohingya crisis on Chinese investors is not clear. While the *Global Times* claims that Chinese investors are concerned that the crisis will disrupt their operations, according to Tun Khin, president of the Burmese Rohingya Organization UK, Chinese firms have at times benefited from Burma's crackdown, rebuilding on sites occupied by Rohingya after the military has driven them away.¹⁵⁴

Burma-China Defense Relations

China's increasing engagement with the Burmese military suggests China seeks to maintain good relations and influence with the military—the institution responsible for Burma's defense and defense policy—in the evolving political landscape in Burma.¹⁵⁵ In testimony before the Commission, Ms. Sun wrote, "China has paid special attention not to alienate the military while it pursues good relations with the civilian government and the [EAGs]."¹⁵⁶ This engagement could also give China leverage to counter Burma's turn toward Western and other international partners. China appears to be using arms sales to this end. Burma bought \$1.4 billion in arms from China from 2000 to 2016, the third-largest total for any of China's arms purchasers over that period (see Figure 11).¹⁵⁷ Approximately \$1 billion of these sales occurred since 2011, when then Burmese President Thein Sein took office.¹⁵⁸ Since 2011, China has accounted for more than 60 percent of all arms sales to Burma.¹⁵⁹ Moreover, Burma and China have conducted military exchanges at the highest level. Notably, in September 2016, Xu Qiliang, vice-chairman of China's Central Military Commission, met Burmese Commander-in-Chief Min Aung Hlaing to promote training and bilateral exercises and highlight the importance of Burma's peace process and improving stability on China's border.¹⁶⁰ In June 2017 Central Military Commission member General Fang Fenghui met Commander-in-Chief Hlaing to deepen military cooperation and bilateral ties.¹⁶¹ These high-level meetings, combined with the powerful position Burma's military enjoys in Burma's government, reflect a deep political relationship between the People's Liberation Army (PLA) and Burma's military that extends beyond military affairs.

Figure 11: Chinese Arms Sales to Burma, 2005–2016

Source: Stockholm International Peace Research Institute, "SIPRI Arms Transfers Database." <https://www.sipri.org/databases/armstransfers>.

China's Relations with Cambodia

China's relations with Cambodia have changed dramatically over time. Although Cambodia was initially adversarial toward China due to Beijing's support for the Khmer Rouge regime from 1975 to 1979, since the early 2000s Prime Minister Hun Sen has emerged as one of China's most reliable advocates in Southeast Asia. On at least two occasions, Cambodia has single-handedly blocked ASEAN from issuing statements critical of China's activity in the South China Sea.* In 2012, Cambodia prevented ASEAN foreign ministers from issuing a joint communiqué referring to the China-Philippines confrontation over Scarborough Reef, and reportedly shared early drafts of the communiqué with Chinese officials.† In 2016, after the Permanent Court of Arbitration in The Hague issued a ruling invalidating China's territorial claims in the South China Sea, Cambodia refused to support an ASEAN joint communiqué referring to the ruling.¹⁶²

Cambodia-China Economic Relations

Since 2013, the Chinese government has pledged \$13 billion worth of loans and grants to Phnom Penh.¹⁶³ By comparison, from 2013

*As ASEAN operates on a consensus basis, the objection of one country is sufficient to block ASEAN decisions or statements. Le Hong Hiep, "Can ASEAN Overcome the 'Consensus Dilemma' over the South China Sea?" *ISEAS-Yusak Ishak Institute of Southeast Asian Studies*, October 24, 2016.

†In June 2012, after a two-month standoff between Chinese and Philippine vessels, China established de facto control over Scarborough Reef, a land feature disputed with the Philippines but previously unoccupied, and began preventing access to the area. According to Manila, China backtracked on an agreement to simultaneously withdraw from the area. China has maintained control over the area ever since. U.S.-China Economic and Security Review Commission, *2012 Annual Report to Congress*, November 2012, 231–233; Ernest Bower, "China Reveals its Hand on ASEAN in Phnom Penh," *CSIS Commentary*, July 20, 2012.

to 2015 Cambodia received \$2.36 billion in official development assistance from multilateral organizations and Organization for Economic Cooperation and Development (OECD) countries.* In 2016, several days prior to blocking ASEAN's communiqué regarding The Hague ruling, Cambodia received \$600 million in aid from China.¹⁶⁴ Cambodia is strongly bound to China commercially, which may increase Chinese influence. China has consistently been Cambodia's largest trading partner and investor, accounting for 23 percent of Cambodia's trade in goods in 2016 and 25 percent of Cambodia's FDI in 2015.¹⁶⁵

Chinese firms have benefited from close relationships with Cambodian officials. In 2009, a Chinese firm headed by a former PLA officer received permission from Prime Minister Sen to develop property in a national park after making a donation of 220 motorcycles to Prime Minister Sen's military bodyguard unit.¹⁶⁶ Chinese firms have also been granted land concessions significantly larger than the 100-square-kilometer limit established by law.¹⁶⁷

Cambodia-China Military Relations

China's defense relationship with Cambodia is growing at the expense of U.S. and regional interests. The following are notable examples of China-Cambodia defense engagement:

- *Education programs:* China funds and sends Chinese PLA advisers to teach at a military academy for Cambodian military personnel.¹⁶⁸ Roughly 200 Cambodian military personnel attend the school each year.¹⁶⁹ Since 2012, China has also offered Chinese language training to Cambodian military personnel at the Confucius Institute of the Royal Academy of Cambodia.¹⁷⁰
- *Bilateral exercises:* From December 11 to 23, 2016, Cambodia hosted its first-ever bilateral exercise with China, the Golden Dragon 2016 exercise in humanitarian assistance and disaster relief (HA/DR) operations. Ninety-seven PLA and 280 Royal Cambodian Armed Forces troops participated.¹⁷¹ As Cambodia has initiated exercises with China, it has rolled back its cooperation with the United States. In January 2017, Cambodia scrapped the annual U.S.-Cambodia Angkor Sentinel HA/DR exercise for 2017 and 2018, and in April 2017, the U.S. Embassy in Cambodia announced the Cambodian government would "postpone indefinitely" the humanitarian assistance mission of the U.S. Navy Mobile Construction Battalion ("Seabees").¹⁷² According to the embassy, "20 planned [Seabee] projects, including maternity wards and school bathrooms" will be canceled.¹⁷³
- *Arms transfers:* In 2013, Cambodia accepted a \$195 million concessionary loan from China to buy 12 Chinese Harbin Z-9 helicopters.¹⁷⁴ In 2014, China donated 26 trucks and 30,000 military uniforms.¹⁷⁵ In 2015, China reportedly delivered 44

*Comparing development assistance from OECD countries to Chinese aid is difficult, as Chinese aid lacks transparency and may contain more loans than grants given on less generous terms. For more on China's development aid, see Sabrina Snell, "China's Development Finance: Outbound, Inbound, and Future Trends in Financial Statecraft," *U.S.-China Economic Security Review Commission*, December 16, 2015; Organization for Economic Cooperation and Development, Development Assistance Committee, "Development Aid at a Glance: Statistics by Region, Asia," 2017.

military vehicles, including rocket-launcher-mounted trucks and anti-aircraft guns.¹⁷⁶

China's Relations with Laos

As a small, landlocked country of 6.75 million people, Laos has been careful to maintain good relations with its larger neighbors despite concerns over falling into a position of complete dependency.¹⁷⁷ Since first taking control of the country in 1975 (with Vietnamese assistance), the Lao People's Revolutionary Party has had a special relationship with Vietnam that caused friction with China following China's 1979 invasion of Vietnam.* In the years that followed, Laos reduced its diplomatic relations with China from the ambassador to the chargé d'affaires level, and China reportedly began training resistance forces to oppose the Laotian government in Yunnan Province.¹⁷⁸ Laos' diplomatic relations with China have since normalized, allowing China to pursue investment and business opportunities in Laos and incorporate the country into its regional infrastructure network.

China's growing presence in Laos recently appears to have caused Laos to rethink its political relationship with China. In 2016, the Lao People's Revolutionary Party Congress removed Choummaly Sayasone as chief of the party and replaced him with Vice President Bounnhang Vorachith.¹⁷⁹ Choummaly Sayasone was instrumental in facilitating economic concessions to Chinese businesses during his tenure, and his removal is seen as a pivot away from China toward Vietnam motivated by concern over China's significant economic presence in the country.¹⁸⁰ In the Commission's May 2017 meeting with the National Defense Studies Institute in Bangkok, the participants highlighted the impact of China's presence in Laos, noting that as Chinese migrants and investment move into Laos, Laos is losing its ability to stand up to China.¹⁸¹

Laos-China Economic Relations

China has developed an expansive economic footprint in Laos, and is Laos' top export market and source of FDI.¹⁸² Chinese business interests in Laos include several shopping complexes, malls, mining facilities, plantations, transportation networks, and hydropower projects.¹⁸³ This investment has been encouraged by the Chinese government, which reportedly offers Chinese farmers up to \$200,000 to develop plantations in Laos to export agricultural products back to China.¹⁸⁴ However, China's economic presence has sparked friction between Laotian communities and Chinese firms. For example, Chinese banana plantations have been blamed for improperly using pesticides, causing 63 percent of plantation workers in northern Laos to fall ill, according to the Laos Agriculture and Forestry Institute.¹⁸⁵ Dam construction has also displaced several communities, resulting in protests over poor Chinese resettlement policies.¹⁸⁶

*In 1979, at least 200,000 Chinese troops invaded northern Vietnam to punish the country for its intervention in Cambodia to remove the China-backed Khmer Rouge. The invasion cost 50,000 lives and increased tension between China and Vietnam—the two would not reestablish diplomatic relations until 1990. Xuan Loc Doan, "27 Days of Hell: When China and Vietnam Went to War," *National Interest*, February 26, 2017; Michael Sullivan, "Ask the Vietnamese about War, and They Think China, Not the U.S.," *National Public Radio*, May 1, 2015.

Laos has turned to China to update its underdeveloped infrastructure, most notably approving a \$6 billion high-speed rail network connecting Laos to China in the north and Thailand in the south.¹⁸⁷ The railway faces significant criticism: it is anticipated to utilize mostly Chinese workers, with few benefits accruing to Laos.¹⁸⁸ The railway is also expensive relative to the Laotian economy—the total price of construction is equal to 37 percent of Laos' GDP in 2016.¹⁸⁹

In northern Laos, Chinese investment has created a territory where political control between the Laotian government and Chinese businesses is occasionally ambiguous. In the Golden Triangle Special Economic Zone, an area under a 99-year lease to a Chinese casino firm, Chinese security guards appear to have primary law enforcement responsibility, and while Laotian police are present, according to Jeremy Douglas, the regional representative of the UN Office of Drugs and Crime in Bangkok, it is not clear to what extent they are active.¹⁹⁰ The area appears to function as a de facto Chinese enclave, with Chinese currency being the principal method of exchange, clocks set an hour ahead to Beijing time, street signs written in Chinese, and passports processed by both Chinese and Laotian inspectors.¹⁹¹ The Environmental Investigation Agency described the zone as an “illegal wildlife supermarket” for providing Chinese consumers access to products processed from endangered animals, notably tiger skins and tiger bone wine.¹⁹² The area is also situated in a region central to the Southeast Asian drug trade, estimated to be worth at least \$31 billion in 2013, nearly twice Laos' 2016 GDP.¹⁹³

Laos-China Military Relations

The defense relationship appears to be a relatively minor aspect of the overall China-Laos relationship. Little public information is available on their defense relationship, which is composed of people-to-people exchanges, border security and counter drug and human trafficking operations, and arms transfers.¹⁹⁴ Despite many joint statements in recent years by Chinese and Laotian officials pledging to deepen military cooperation, the two countries do not appear to have taken concrete actions to expand their defense ties.¹⁹⁵ In what appears to be China's only arms transfer to Laos since 2013, it gave office equipment to the Laos Ministry of Defense.¹⁹⁶

Violence against Chinese nationals in Laos is the most prominent issue affecting the China-Laos defense relationship. The following are selected cases of attacks against Chinese nationals in Laos in the last two years. In all cases, the identities of the assailants are unclear.

- In January 2016, two Chinese nationals died and one was injured in a bomb attack. One of the victims was an employee of a Chinese mining company.¹⁹⁷
- In March 2016, a Chinese worker was killed and three other Chinese workers were wounded in a shooting attack on a logging company.¹⁹⁸ The company was reportedly linked to a Chinese dam project in the area.¹⁹⁹

- Later in March 2016, six Chinese nationals were wounded in a shooting attack on a passenger bus.²⁰⁰

The connection of many of the victims to Chinese companies operating in Laos suggests the violence reflects local resentment of China's growing economic presence and poor Chinese business practices.²⁰¹ In May 2016, China and Laos announced they would increase military cooperation to ensure "the safety of each other's people, organizations, and important projects."²⁰² This statement reflects a trend in China's global security engagement toward greater involvement of the Chinese military in protecting China's economic interests abroad.²⁰³

China's Relations with Thailand

In his testimony to the Commission, Karl Jackson, professor of Southeast Asian Studies at Johns Hopkins University, noted Thailand has historically prioritized its national interests through a careful strategy of "cultivating relations simultaneously with ... opposing coalitions of powers."²⁰⁴ While Thailand has been a U.S. treaty ally since 1954,* according to Panitan Wattanayagorn, advisor to Thailand Defense Minister Prawit Wongsuwan, Thailand has fostered a working relationship with China since at least the 1980s when Thailand purchased tanks and naval frigates from the Chinese military.²⁰⁵

U.S. relations with Thailand entered a rocky phase following the 2014 coup, when General Prayuth Chan-ocha became prime minister after seizing control of the government.²⁰⁶ Consistent with U.S. law, in response to the coup the United States immediately suspended Foreign Military Financing and International Military Education and Training funds for Thailand.† The United States also limited the scope of its annual Cobra Gold joint military exercises to cover only HA/DR.²⁰⁷ In 2015, Thailand's junta government accused the United States of meddling in its political affairs after a visiting U.S. official called for an end to martial law.‡ U.S.-Thai diplomatic and military ties have begun to gradually improve since 2015. In December 2015, the United States and Thailand conducted their first high-level strategic dialogue in three years, and in April 2017 President Donald Trump invited Prime Minister Chan-ocha to visit the White House.²⁰⁸

Thailand may be responding to China's growing economic and military power and pivoting accordingly. According to Dr. Jackson,

In Thailand regimes and constitutions come and go. But Thailand persistently hedges its bets, by tilting toward whatever

*The basis for the United States' treaty alliance with Thailand is the 1954 Manila Pact of the Southeast Asian Treaty Organization. Although the organization was disbanded in 1977, the Manila Pact remains in force. Prashanth Parameswaran, "Oldest U.S. Ally in Asia: Thailand or the Philippines?" *Diplomat*, February 17, 2017.

† On average, from 2011 to 2013 Thailand received \$5.3 million from the United States in Foreign Military Financing and International Military Education and Training, most of which went to training programs. U.S. Department of State, *Response to Coup in Thailand*, May 28, 2014; U.S. Department of State, "Foreign Military Financing Account Summary"; U.S. Department of State, *Foreign Military Training: Fiscal Years 2011 and 2012*, 2012; U.S. Department of State, *Foreign Military Training: Fiscal Years 2013 and 2014*, 2014.

‡ Assistant Secretary of State for East Asia Daniel Russell delivered these remarks in January 2015. Amy Sawitta Lefevre, "Thailand Accuses U.S. of Meddling in Its Politics," Reuters, January 28, 2015.

*power is emerging in Asia (once Great Britain, subsequently the U.S., and now China) but without abandoning relationships with other powers who might be needed to preserve Thai sovereignty in some future scenario.*²⁰⁹

China's goals in Thailand include building a north-south economic corridor stretching to Singapore, increasing exports into Thailand's market, and establishing better diplomatic and military relations with a U.S. treaty ally. According to Dr. Jackson, China's goals in Thailand mirror its ambitions in continental Southeast Asia overall in drawing "these smaller but strategically placed countries into [its] economic, diplomatic, and cultural orbit," and replacing the United States as "the most influential outside power in Southeast Asia."²¹⁰

Chinese Soft Power Projection in Thailand

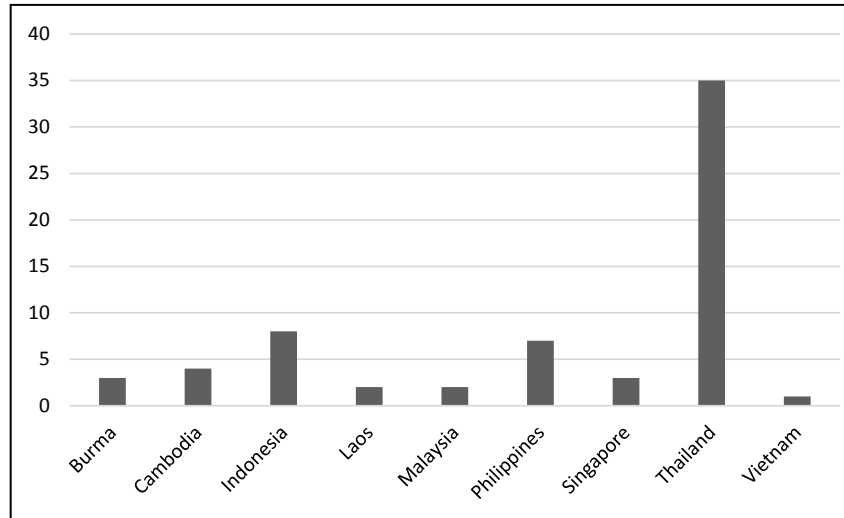
To boost its influence, China has committed significant soft-power resources to Thailand. Thailand hosts 35 Confucius Institute facilities (see Figure 12), more than any other Southeast Asian country.* These facilities are key to China's soft power efforts, promoting Chinese culture and giving the Chinese government influence in Thai colleges and secondary schools.† China's Confucius Institutes in Thailand reach a wide audience—one Confucius Institute currently has 50,000 Thai students enrolled in Chinese language and culture programs.²¹¹ The United States does not have a comparable program in Asia. In 2015 China announced it would send 1,800 Chinese language instructors to Thailand that year.²¹² By contrast, as of 2015 there were only 22 Fulbright teaching assistants in Thailand.²¹³

China also leverages the large population of ethnic Han Chinese living in Thailand to promote its interests. Roughly 14 percent of Thailand's population is ethnic Chinese and many Thai-Chinese have a prominent place in Thailand's business community.²¹⁴ During his meeting with the Commission in May 2017, Mr. Wattanayagorn, advisor to Thailand's minister of defense, noted that the Chinese government frequently targets Thai-Chinese businessmen to advance Chinese business interests, inviting them back to Beijing to meet with high-level government officials who encourage them to promote Chinese firms.²¹⁵ According to Mr. Wattanyagorn, China has tried to use its economic reach and soft power in regional countries as tools of coercion.²¹⁶

*The Confucius Institute is a nonprofit education organization funded by the Chinese government. Its purpose is to promote Chinese influence and soft power through language training and cultural exchanges. Hanban, "About Confucius Institute/Classroom." http://english.hanban.org/node_10971.htm.

†The influence of Confucius Institutes has caused some U.S. academics to express concerns and call for their removal from U.S. universities. John Sudworth, "Confucius Institute: The Hard Side of China's Soft Power," BBC, December 22, 2014.

Figure 12: Confucius Institutes and Confucius Classrooms in ASEAN Countries



Source: Hanban, "About Confucius Institute/Classroom." http://english.hanban.org/node_10971.htm.

Thailand-China Economic Relations

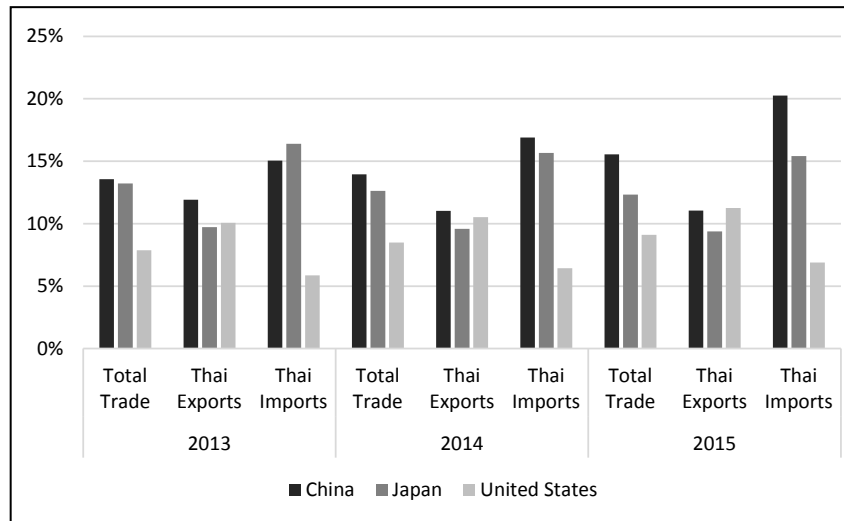
China has devoted significant efforts to incorporating Thailand into its planned north-south economic corridor stretching from Kunming to Singapore. The centerpiece of this corridor is the Kunming-Singapore high-speed railway. The Thai section of this railway was delayed several times due to disputes over cost, use of Chinese engineers, and China's demand for concessions to develop commercial property at railway stations and on a stretch of land extending on both sides of the railway along its length.²¹⁷ The initial phase of this railway was approved for construction in July 2017.²¹⁸ From Laos and China's perspective, securing approval for the Thai section of the railway was critical, as without it the Laos section of the railway would fail to connect to areas with high economic activity, throwing the economic value of the \$6 billion China-Laos railway into doubt.²¹⁹

Thailand's economy is heavily dependent on foreign trade but is broadly diversified across several trading partners.* While China is Thailand's largest trading partner, it accounts for a smaller portion of Thailand's goods trade compared to its share in Burma, Laos, and Cambodia.²²⁰ In 2015 China claimed 16 percent of Thailand's total trade (see Figure 13), followed closely by Japan (12 percent) and the United States (9 percent).²²¹ China is Thailand's second largest market for exports, falling just behind the United States (in 2015, 11.25 percent of all Thai goods exports

*In 2015, goods exports accounted for 53 percent of Thailand's GDP. Including service exports such as tourism, exports may account for 61 to 72 percent of Thailand's economy. United Nations Comtrade, "International Trade Statistics Database;" The World Bank, "GDP (current US\$)." <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>; World Travel and Tourism Council, "Travel and Tourism, Economic Impact 2015," 2016.

went to the United States and 11.05 percent went to China).²²² China's share of Thailand's total goods trade has increased over time, growing from 13 percent in 2012 to 16 percent in 2015.²²³ China's goods exports to Thailand consist mostly of manufactured goods, with an emphasis on computers and communication devices.*

Figure 13: U.S., Japanese, and Chinese Share of Thailand's Goods Trade, 2013-2015



Source: United Nations Comtrade, "International Trade Statistics Database."

The Thai government has attempted to position Thailand as a regional trading hub, where foreign companies invest in manufacturing facilities and regional headquarters to produce goods for export to the rest of Southeast Asia.²²⁴ This strategy has attracted investment from Chinese manufacturing firms, including Chinese appliance-maker Haier, which is expanding its factories in Thailand, and SAIC Motor, China's largest automaker, which is currently spending nearly \$1 billion to construct a second factory in Thailand (with cars manufactured there destined for export to ASEAN countries).²²⁵ High real estate prices in China have also caused many Chinese investors to turn to Thailand's comparatively more affordable market. Thai realtors report a significant increase in sales to Chinese buyers either as an investment or a rental unit for tourists: according to Chinese property portal Juwai.com, in the first half of 2017 Thailand was the third most-searched real estate market for Chinese investors, up from its position as the sixth-most searched market in 2016.†

* In 2015 broadcasting equipment accounted for 6.3 percent of all Chinese exports to Thailand, followed by computers (4.9 percent) and telephones (3.7 percent). Observatory of Economic Complexity, "What Does China Export to Thailand (2015)?"

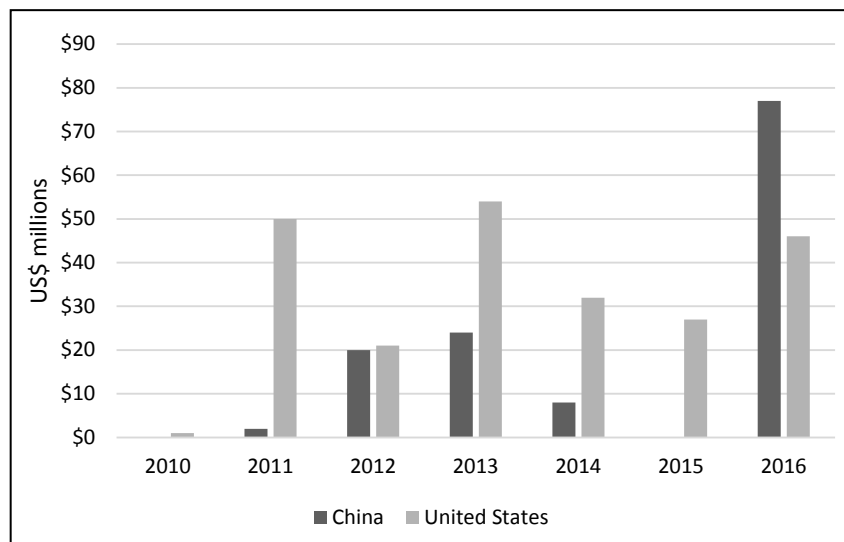
† In 2016, the first and second most-searched markets were the United States and Australia, respectively. Juwai.com, "Where Chinese Are Looking Globally?"; Donna Airola, "Priced Out from Home Market, Chinese Swoop in to Buy Thai Real Estate," Reuters, August 2, 2017.

China has become an important source of tourists to Thailand, an industry key to Thailand's economic growth.* From 2014 to 2015, Chinese tourism to Thailand increased 71 percent and Chinese tourists currently account for 27 percent of Thailand's tourism sector by revenue.²²⁶ While tourism is vital to Thailand's growth, Chinese tourism has created friction between Thailand and China. The Thai government claims Chinese tourism does not benefit Thai workers, as Chinese tour operators spend most of their expenses on Chinese vendors associated with Chinese-conducted tours.²²⁷ In 2017, the Thai government shut down several low-cost Chinese tourism agencies operating in Thailand that it claimed do not contribute to the local economy.²²⁸

Thailand-China Military Relations

Following the 2014 military coup, China-Thailand military engagement has increased. Chinese arms sales to Thailand grew from \$20 million in 2012 to \$77 million in 2016, exceeding U.S. arms sales to Thailand by \$30 million for that year, the largest margin since 1995 (see Figure 14).²²⁹

Figure 14: Estimated U.S. and Chinese Arms Sales to Thailand, 2010–2016



Source: Stockholm International Peace Research Institute, "The SIPRI Arms Transfers Database." <http://www.sipri.org/databases/armstransfers>.

Recent Thailand-China military cooperation includes:

- ***New submarines:*** The junta government purchased a Yuan-class diesel-electric submarine for \$393 million from China in 2017—Thailand's first submarine purchase in 50 years—and is planning to purchase two more.²³⁰ Members of Thailand's two ma-

*By some measures, tourism is Thailand's largest sector, accounting for 19 percent of its economy. In 2015, without expansion in Thailand's tourism sector the economy would have registered no growth at all. *Fortune*, "For Thailand's Economy, Bombs Aren't the Biggest Problem," August 18, 2015; World Travel and Tourism Council, "Travel and Tourism, Economic Impact 2015," 2016.

for civilian political parties have criticized the purchase as a mismanagement of government resources.²³¹ Furthermore, according to Thailand's Ministry of Foreign Affairs, the Gulf of Thailand is too shallow for effective submarine operations.²³² According to Mr. Wattanayagorn, Thailand's submarine purchase will cultivate a long-term relationship with China as China will provide maintenance for Thailand's submarine fleet.²³³

- *Small arms and tank sales:* Thailand has committed to purchasing 38 Chinese VT-4 tanks to upgrade its aging stock of U.S.-built tanks and is exploring joint military manufacturing facilities to maintain its Chinese equipment and produce small arms.²³⁴
- *Bilateral exercises:* Thailand and China launched their first-ever joint air force exercises in 2015 and have recently expanded their joint naval drills, which first began in 2010.²³⁵

Some military projects—such as a multi-billion-dollar Chinese deal to renovate Thailand's Sattahip naval base—remain under negotiation.²³⁶ According to a U.S. diplomat, agreements between the United States and Thailand preventing Chinese maintenance crews from inspecting U.S. weapons systems may prevent China and Thailand from running joint projects at facilities that have sensitive U.S. military equipment.²³⁷

Implications for the United States

During the Commission's 2017 trip to Burma, a member of the American Chamber of Commerce in Myanmar noted continental Southeast Asia's position—situated between the largest population centers on Earth, including India, China, and Indonesia—makes it an important nexus of regional trade.* With sufficient infrastructure development, the region could emerge as an important logistics and trade hub. This position as a crossroads between the world's largest population centers and trading routes from the Indian and Pacific Oceans has already attracted significant U.S. investment. As Vice President Mike Pence noted during his April 2017 visit to ASEAN's secretariat, the stock of U.S. FDI in ASEAN countries stood at \$274 billion in 2015, an amount greater than the stock of U.S. FDI in China, India, and Japan combined.²³⁸

China's engagement in these countries constitutes an effort to shape the economic future of the region toward its own interests and away from those of the United States and other countries. China's facilitation of corruption puts U.S. firms at a disadvantage and the close relationship between Chinese firms and some regional leaders threatens to crowd out U.S. firms. While Chinese firms already enjoy an advantage over U.S. firms due to their geographical proximity, China's north-south infrastructure projects are enhancing that advantage by creating low-cost transportation corridors that

* In 2015, Danny Quah, professor of economics and international development at the London School of Economics, calculated the smallest circle that could be drawn over the globe that would contain half of the world's population. The circle was centered over Mong Khet in Burma with a radius of 2,000 miles. Danny Quah, "The World's Tightest Cluster of People," *London School of Economics*, December 16, 2015; Member of the American Chamber of Commerce in Myanmar, meeting with Commission, Rangoon, Burma, May 24, 2017.

will direct trade away from the United States and other countries to Beijing.

In her testimony before the Commission, Ms. Sun noted China promotes a model of development in Burma that “prioritizes economic development at the cost of political liberalization,” in contrast to the U.S. approach that has advanced governance, social justice, and capacity building as the bedrock for improving livelihoods.²³⁹ Throughout the region, China provides aid with no robust governance or environmental or social standards, facilitating a political and economic environment prone to corruption.* For example, in both Laos and Cambodia, government officials have personally benefited from promoting Chinese economic engagement.²⁴⁰

The development model promoted by China places U.S. firms at a disadvantage. To the extent that China’s engagement with the region facilitates unaccountable political systems prone to corruption, such an environment will deny U.S. businesses commercial opportunities in some of ASEAN’s most dynamic economies. While Burma, Cambodia, and Laos rank among ASEAN’s smallest economies, they are also among the fastest growing: In 2016, Laos grew faster than any other ASEAN country, with 7 percent GDP growth, while Cambodia and Burma grew at 6.9 percent and 6.5 percent, respectively, the third- and fourth-highest growth rates in ASEAN.²⁴¹ Since 2012, these three countries have averaged 7.4 percent growth every year.²⁴² Over time, these high growth rates will result in richer economies and will increase commercial opportunities for U.S. firms. For example, the Asian Development Bank estimates that at its current growth rates, Burma’s economy will increase by a factor of two to four by 2030, and enjoy a GDP per capita roughly equal to Indonesia, ASEAN’s largest economy.²⁴³

The United States also has an interest in promoting democratic institutions in the region. The state of democracy in the region is challenged: Burma is transitioning away from military rule, but the army retains significant political power under the constitution; Thailand has been under martial law for three years following a coup; Cambodia’s Hun Sen has used violence and other coercive practices to win elections, arrested the leader of Cambodia’s political opposition on treason charges, closed independent media organizations, and expelled the U.S.-backed National Democratic Institute;²⁴⁴ and Laos has long functioned as a dictatorship.²⁴⁵ China’s focus on economic development in the region at the expense of political liberalization runs counter to U.S. values of promoting democracy and sustainable growth.

Despite the significant economic and governance needs of these countries, the United States allocates a relatively small share of its non-military assistance to the region. According to the U.S. Agency for International Development (USAID), from 2011 to 2015 Thailand, Cambodia, Laos, and Burma received approximately \$1.3 billion, or 0.8 percent, of the \$161 billion of world-wide U.S. non-military foreign assistance.²⁴⁶ Over the same period, the United States

*In 2016, Transparency International rated Cambodia as having the highest perceived corruption levels in Southeast Asia, and Global Witness has reported on several Cambodian businesses owned by Prime Minister Sen’s family members that have benefited from his patronage. “Corruption Perceptions Index 2016,” *Transparency International*, January 25, 2017; “Hostile Takeover: The Corporate Empire of Cambodia’s Ruling Family,” *Global Witness*, July 2016.

allocated around 3 percent of its non-military assistance to ASEAN countries.²⁴⁷ Available estimates of Chinese assistance to the region suggest that it eclipses U.S. support. In 2011 and 2012 China's government pledged or distributed an estimated \$12 billion to Burma, Cambodia, Laos, and Thailand.* While it is difficult for the United States to match China's assistance to these countries, the ability of regional countries to follow a model of development that is consistent with U.S. interests and international governance, social, and economic standards hinges on the availability of alternative sources of support.

Although China exceeds the United States in financial assistance, the United States has improved its relations with some regional countries, particularly Burma. According to Ms. Sun, China has perceived U.S. relations with continental Southeast Asian countries as zero-sum and believes stronger connections between the United States and regional countries come at China's expense.²⁴⁸ China has most strongly perceived increased U.S. influence in Burma due to the opening up of the country to the West during the Obama Administration.† Chinese concerns over U.S. influence, combined with the region's strategic importance to China, may make the region an area of greater geopolitical competition between the United States and China in the future.

China's close relationship with Cambodia has undercut ASEAN's ability to promote freedom of navigation in the South China Sea. Cambodia's objections have prevented ASEAN from supporting The Hague's finding invalidating China's nine-dash line and from adopting a joint position regarding China's activity at Scarborough Shoal, although the Philippines' decision not to take advantage of the Hague decision to press China on its behavior now contributes to ASEAN's inertia on the South China Sea.²⁴⁹ Although the United States does not support any claimant regarding territorial disputes in the South China Sea, U.S. officials have repeatedly expressed support for freedom of navigation and have stated that China's land reclamation increases regional instability.²⁵⁰

*China's assistance to other countries is opaque and often difficult to classify. According to AidData, an organization that tracks Chinese projects, in 2011 and 2012 China distributed or pledged more than \$12 billion to Burma, Cambodia, Laos, and Thailand in loans, grants, and official investment. Of this \$12 billion, \$822 million was estimated to be on concessional terms equivalent to OECD official development assistance criteria. AidData, "Tracking Chinese Development Finance."

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