

Date: May 13, 2015

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

Title of Hearing: "China's Relations with Southeast Asia."

Written Statement

Purpose and scope

This written testimony is divided into four sections responding to the specific questions asked to me by the Commission.

SECTION 1.

What strategy does China apply to its relations with countries in Southeast Asia and with ASEAN? What importance does China accord to Southeast Asia in its foreign policy? What changes have occurred in China's policy toward Southeast Asia since Xi Jinping assumed power?

This observer discerns no coherent Chinese strategy in the course of 65 years of People's Republic of China (PRC) interaction with Southeast Asia. The record shows repeated and often dramatic changes in the Chinese approach to Southeast Asia caused by sharp shifts in China's overall foreign policy priorities. As a rule, Southeast Asia has been an important arena where Beijing has pursued broader but often changing foreign policy goals. In that context, China has given decidedly secondary priority to fostering close and cooperative Chinese-Southeast Asian relations for their own sake.

Below please find a brief discussion of each of the remarkable twists and turns in China's approach to Southeast Asian nations since the founding of the PRC in 1949. ASEAN was founded in 1967 but did not figure very much in Chinese foreign policy calculations until the protracted crisis caused by armed struggle against the Vietnamese military occupation of Cambodia, 1979-1989. China's changing approach to ASEAN since that time is highlighted various subsections noted as *China and ASEAN*, below. Meanwhile, the final pages of this section deal with changes in Chinese policy under Xi Jinping

Cold War Developments

During the 40 years of the Cold War, the changing Chinese approaches went through dramatic shifts that repeatedly featured ruthless, violent and very disruptive Chinese behavior at the expense of its Southeast Asian neighbors.

- The PRC's initial revolutionary emphasis on resisting U.S.-led imperialism saw close Chinese collaboration with and strong logistical and military support for Vietnamese Communist armies in the defeat of U.S.-backed French forces in Indochina.

- China followed the post-Stalin (d. 1953) Soviet leadership in seeking an interlude of reduced tensions during a few years of so-called peaceful coexistence in the 1950s.
- That phase ended in 1958 with renewed Chinese militancy—e.g. confronting America in the Taiwan Strait, supporting Vietnamese Communist armed struggle against U.S.-backed South Vietnam, and breaking with the USSR because of among other things the latter's perceived overly accommodating posture to America and its allies, notably in Asia. Supporting armed resistance against its enemies, China provided large amounts of military supplies, training, financial assistance and political support to indigenous Communist Party led-insurgencies against Western leaning governments in Thailand, Malaysia, and the Philippines. Chinese clandestine support for the Communist Party of Indonesia (PKI), then the largest non-ruling Communist Party in the world, went hand in hand with China's active wooing of the radical militancy of the Indonesian regime of President Sukarno. A coup attempt in 1965 against the leadership of the Indonesian Armed forces led to an enormous backlash that saw one-half million deaths, including many thousands of ethnic Chinese, and that destroyed the PKI and Chinese influence in the country.
- China's Cultural Revolution begun in 1966 radicalized Chinese opposition to opponents world-wide, including in Southeast Asia. Support for armed insurgencies now also targeted Indonesia. Neutral Burma reacted violently against Chinese Maoist demonstrations in 1969, causing China to create, fully support and direct a fighting force of over 20,000 armed insurgents under the rubric of the Burmese Communist Party that represented the most serious security threat to Burma for the next 20 years. Strident anti-Soviet Red Guards disrupted the shipments of Soviet arms passing by rail through China to support the Vietnamese Communists against America, seriously alienating Vietnam.
- Mao Zedong's China came under heavy Soviet military pressure and saw the wisdom of a breakthrough with President Richard Nixon who sought rapprochement with Beijing for strategic reasons including seeking leverage against the increasingly powerful USSR. Chinese support for the Vietnamese Communists and the various insurgencies in Southeast Asia continued, but Hanoi became very suspicious of China's new direction with America and sought to rely more on the USSR. The latter move deepened Chinese suspicions of Vietnam.
- Soviet-backed Hanoi's victory over U.S.-supported South Vietnam in 1975 opened the path to 15 years of ruthless armed struggle between China and Vietnam. China solidified its longstanding clandestine support for the radical Khmer Rouge regime that defeated the U.S.-backed military regime in Cambodia in 1975. China sustained strong material and political support for the regime as it carried out its catastrophic consolidation of power (resulting in the deaths of 20 percent of the population of the country) and pursued armed challenges to Vietnam over territorial and other issues. As the Vietnamese prepared to invade Cambodia and topple the regime, it tried to purge Vietnam of ethnic Chinese, resulting in a massive exodus of hundreds of thousands of ethnic Chinese to China and neighboring countries.

- The Vietnamese invasion of December 1978 destroyed the Khmer Rouge government but China insured that strong armed resistance by the guerrillas continued in Cambodia. Beijing worked with the United States and its allies and with ASEAN in opposition to the Vietnamese installed regime and the Vietnamese military occupation. Hundreds of thousands of Chinese forces invaded northern areas of Vietnam for several weeks in 1979 and Chinese forces fired artillery barrages and carried out other violent military operations along the Sino-Vietnamese border for the next ten years.
- The violence focused on Cambodia didn't end until the end of the Cold War. The weakened Soviet Union curbed support to Vietnam which in turn saw the need to end its military occupation and seek peace. The Chinese were eventually persuaded to pull back support for the Khmer Rouge, allowing a peace agreement to be reached in 1991.
 - *China and ASEAN.* The Cambodian struggle saw China's first substantial interaction with ASEAN. Heretofore, Beijing had been suspicious of ASEAN's pro-western leanings. China also was well aware that Indonesia and to a lesser degree Malaysia had grave reservations about how struggling against and weakening Vietnam would open the way to what Jakarta and Kuala Lumpur feared would be Chinese expansion in Southeast Asia at odds with their interests.

Post Cold War Developments

The collapse of the Soviet threat with the demise of the USSR in 1991 at the end of the Cold War greatly relieved the PRC's security concerns around its periphery including Southeast Asia. For this and other reasons, China has been less prone than during the Cold War to resort to armed struggle and gross violence. However, in reaction to the Tiananmen crackdown of 1989, the United States led efforts to isolate and pressure China, looming as a serious threat to continued communist rule in the country.

From this period up to the present, the PRC leadership has focused on important foreign policy priorities that are designed to sustain Communist rule, support Chinese economic and military development, enhance Chinese security and advance Chinese nationalistic sovereignty claims. As shown below, these goals often lead to conflicting Chinese policies and practices in Southeast Asia and elsewhere. Up to this point, Chinese foreign relations with Southeast Asian neighbors have gone through three distinct phases and seem to be entering a fourth phase under President Xi Jinping.. The shifts from one phase to the next have seen Chinese leaders reverse or revise policy actions and goals seen as having failed or otherwise become counterproductive for Chinese interests, and to add policy actions and goals better suited to advancing Chinese interests. Against this background, it seems prudent to expect continued shifting in China's policies and practices in Southeast Asia depending on circumstances in the region and on other broader influences in Chinese foreign policy making.

1989-1996. The first phase witnessed strong Chinese efforts to break out of the post Tiananmen isolation and pressure imposed by the United States and western aligned countries by means of more active Chinese diplomacy. Chinese diplomacy focused on neighboring countries and other developing states which were more inclined to deal with China pragmatically and without pressure regarding China's political system or other internal affairs.

- *China-ASEAN relations.* China in this period viewed positive interaction with ASEAN as increasingly important. It engaged actively with ASEAN in order to improve political relations, build collaborative mechanisms, and curb the ability of the United States to pressure China over human rights and other sensitive issues.

At the same time, however, China's imperative to protect and advance nationalistic sovereignty claims saw China pass a territorial law in 1992 asserting strongly claims to disputed territories, especially along China's eastern and southern maritime borders. The Chinese military and civilian security forces backed efforts by Chinese oil companies, fishing enterprises and others to advance Chinese claims in the Spratly Islands of the South China Sea against the expansion of such activities by Vietnam, the Philippines, Malaysia and other claimants.

- *China and ASEAN.* A major incident in 1995 saw the leading states of ASEAN stand against Chinese territorial expansion and the United States also publicly weighed-in in support peaceful resolution of regional disputes.

The nine months of off-and-on large-scale Chinese military exercises against Taiwan in 1995-1996 saw few of China's neighbors explicitly side with China or the United States. But many were seriously concerned with the implications for their interests of China's assertiveness and ambitions.

1996-2001. Trying to reduce regional fear of the "China threat," Chinese leaders in this period played down military actions and assertive commentary as they demonstrated more concern to reassure neighbors in Southeast Asia and other countries of Chinese peaceful intentions. They propounded principles related to a "new security concept" that built on the moderate approach China had adopted at times in the past regarding the so-called five principles of peaceful coexistence in international affairs. Chinese diplomacy was very active in bilateral relations, establishing various types of special partnerships and fostering good neighbor policies.

- *China and ASEAN.* China also increased positive interaction with ASEAN, the ASEAN Regional Forum, and other Asian regional organizations.

Chinese trade relations with neighboring countries generally grew at twice the rate of China's rapidly growing economy. The Chinese economy remained stable amid the Asian economic crisis of 1997-1998. China did not devalue its currency, it sustained

economic growth, and it supported some international efforts to assist failing regional economies—developments that boosted China’s stature in the region.

Seeming at odds with China’s reassurance of its neighbors was the concurrent strong public opposition to perceived U.S. efforts to pressure and weaken China and strong public opposition to U.S. domination and “hegemonism” in various world areas, notably including Southeast Asia. Beijing told neighboring states that its “new security concept” opposed the archaic “cold war thinking” seen in U.S. efforts to sustain and strengthen alliance relations, including U.S. alliance relations or closer military relations in Asia, notably with Japan, South Korea, Australia, and some Southeast Asian nations. Beijing indicated that these states would be wise to follow China’s approach and to eschew closer alliance and military ties with the United States.

2001-2012. The coming to power of the George W. Bush administration coincided with another shift in China’s policy in Asia and elsewhere. The initially tough Bush administration approach to China involved supporting Taiwan, opposing China’s military buildup and Chinese proliferation practices, strengthening U.S.-Japan alliance relations and developing ballistic missile defenses in Asia. These steps did not elicit strident criticism by Chinese officials and in official Chinese media, whereas in the recent past, even less serious U.S. steps against Chinese interests were routinely denounced as perceived manifestations of US hegemonism and cold war thinking.

Over time, it became clear that China was endeavoring to broaden the scope of its ongoing efforts to reassure its neighbors that China was not a threat. The broadened efforts now included and focused on the United States. The previous Chinese efforts attacking U.S. policies and alliance structures in order to get Asian governments to choose between closer relations with China’s under the rubric of China’s new security concept and closer relations with the United States had failed and were put aside. In their place emerged a new and evolving Chinese emphasis focused on Washington as well as on Asian and other powers that China’s “rise” would be a peaceful one that represented many opportunities and no threat to concerned powers. China’s initial emphasis on “peaceful rise” eventually evolved into the even more moderate rubrics focused on “peaceful development” and seeking “harmony” in relations with all powers.

- *China and ASEAN.* The shift in China’s approach reinforced the positive momentum in China’s relations with Asian neighbors, notably in Southeast Asia and ASEAN. The webs of agreements China established with ASEAN and its member states grew rapidly. China initiated in 2002 an ASEAN-China Free Trade Agreement (ACFTA) that Japan, India, South Korea and other trading powers endeavored to duplicate in later years. It agreed that year in negotiations with ASEAN to the Declaration on the Conduct of the Parties in the South China Sea which set guidelines on how territorial disputes should be managed. China also prompted other powers to follow its lead in being the first to sign ASEAN’s Treaty of Amity and Cooperation (TAC) in 2003. It played an active role in ASEAN-convened international groups, with China’s preference at the time being ASEAN Plus Three (China, Japan and South Korea), which notably excluded the

United States. China worked closely with Malaysia in influencing the creation of the ASEAN convened East Asian Summit during Malaysia's tenure as ASEAN's annual chair in 2005. The plan was for China to host the 2006 meeting and for membership to be restricted to ASEAN Plus Three. The plan was thwarted because of opposition by Japan, Indonesia, Singapore and others, fearing Chinese dominance in the group. ASEAN's chair remained the host of the East Asia Summit and membership was opened to India, Australia and New Zealand, with Russia and the United States joining later.

Trade continued to grow rapidly and investment by Southeast Asian countries into China was substantial, while Chinese investment in those countries remained comparatively much smaller. China actively developed closer road, rail, river, pipeline, electric grid and other connections with bordering Southeast Asian countries.

- *China and ASEAN.* After the setback in seeking Chinese leadership in the East Asia Summit, China's attention to Southeast Asia and ASEAN appeared to decline. Although Chinese officials continued to talk about ASEAN taking the lead in Asian multilateralism, they also privately and sometimes publicly showed impatience with the slow pace of progress under the leadership of ASEAN governments, many of which were beset with fundamental problems of political unrest and instability. China's ability to advance relations with ASEAN and the region were postponed when Thailand had to cancel and reschedule the annual ASEAN summit and related meetings in late 2008 because of political turmoil in Bangkok that closed the airports in the city. The Chinese efforts faced an added setback when the rescheduled meeting in Thailand in April 2009 was canceled and foreign delegates evacuated as hostile demonstrators invaded the meeting site. In this period, China found itself following the United States and others rather than leading the foreign powers in interaction with ASEAN. Notably, China delayed as the United States considered and finally made the appointment of an ambassador to ASEAN. As a result, China's later appointment of an ambassador to ASEAN seemed to be following the U.S. lead rather than setting the pace as China did earlier in the decade in dealing with the ACFTA and signing the Treaty of Amity and Cooperation. China also followed the U.S. lead in setting up a representational office with the ASEAN headquarters in Jakarta.

Changes under Xi Jinping (2012-present)

Beginning in 2009-2010, China adopted what many outside of China and some in China assessed as "assertive" practices particularly regarding territorial claims with its Southeast Asian and other neighbors and the United States. For a time, the Chinese actions were mixed with strong reaffirmations of reassurance and peaceful intent, creating a muddled situation regarding China's overall intent toward Southeast Asia.

In the lead up to and under the leadership of Xi Jinping since 2012, Chinese intentions in the South China Sea and other territorial disputes have become clearer. In effect, Beijing is playing a double game.

On the one hand, Chinese policy and practice is driven by domestic nationalism and demands for a less deferential and more activist Chinese foreign policy. Against this background, the Xi government is carrying out widely publicized policies that advance Chinese South China Sea claims at the expense of China's neighbors and in ways that seriously challenge and undermine America's position as a security stabilizer in the region. Rapidly expanding Chinese military and para-military capabilities along with impressive oil rigs, fishing fleets, dredging machines and construction abilities allow and probably prompt China's leaders to expand in areas that have long been claimed by China and have been seen as unjustly infringed upon by other claimants. Probably also driving the Chinese advance is reaction to the Obama government's rebalance policy which has seen the United States expand military, economic and diplomatic relations throughout the broad Asia-Pacific region in ways seen at odds with Chinese ambitions.

On the other hand, Xi's China has married its tough policy on South China disputes with visionary publicity surrounding China's proposed Silk Road Belt, Maritime Silk Road, and related proposals such as the still forming Asian Infrastructure Investment Bank (AIIB) and related economic initiatives. In effect, China has set forth a choice for the Philippines, Vietnam, other Southeast Asian disputants of China's South China Sea claims, ASEAN, and other governments and organizations with an interest in the South China Sea, notably the United States. It now seems clear that pursuit of policies and actions at odds with Chinese claims in the South China Sea will meet with more of the demonstrations of Chinese power seen in China's takeover of Scarborough Shoal from the Philippines in 2012, its deployment of an oil rig and a massive armada of defending ships near islands very sensitive to Vietnam in 2014, and its recent massive land reclamation for force projection in the far reaches of the South China Sea. At the same time, Southeast Asian and other neighbors' moderation and/or acquiescence regarding Chinese South China Sea claims would result in mutually beneficial development depicted in the massive publicity avowing Chinese economic largess.

- *China and ASEAN.* The lessons of the recent Chinese priorities and practice for ASEAN are that the now stronger Chinese territorial ambitions trump past emphasis on accommodation and reassurance. Notably, China manipulated Cambodia, the ASEAN chair in 2012, in a temporarily successful effort to keep the South China Sea disputes off the agenda of ASEAN and ASEAN-convened meetings like the ASEAN Regional Forum and the East Asia Summit. The manipulation resulted in an unprecedented public split in ASEAN unity. The manipulation along with the tough Chinese behavior on territorial disputes lays bear the reality that China's nationalistic ambitions to secure its territorial claims override China's concerns for cooperative relations with ASEAN and Southeast Asian governments. The latter concern is clearly secondary to the former.

An overall implication of the current Chinese double game in Southeast Asia and with ASEAN is that Beijing judges regional circumstances will require acceptance of China's new assertiveness. The Southeast Asian countries and ASEAN on their own are too weak to resist.

SECTION 2

What does China seek to achieve through its relationship with ASEAN? How constructive is China's role in the various ASEAN forums in which it participates and the East Asia Summit? How is China responding to increased U.S. engagement with Southeast Asia as part of the rebalance to Asia policy?

For now, the Chinese seem intent on pursuing existing and promised positive interchange with Southeast Asian governments and in ASEAN and ASEAN-led groups like the East Asian Summit provided they avoid challenging China on sensitive issues. The sensitive Chinese issues used to be limited to subjects like communist rule in China, Tibet, and Taiwan. As shown above, they have broadened recently to include territorial disputes in the South and East China Seas. Presumably, circumstances could cause China to broaden the list further to include close security cooperation with the United States and its allies, as China attempted to do in the late 1990s.

At one level of analysis, China has been successful in managing Southeast Asian affairs in pursuing its determination to advance territorial control in disputed areas and showing greater power and activism in foreign affairs. With the exception of the current Philippines government and to a degree Vietnam, Southeast Asian nations and ASEAN have been reluctant to publicly stand against China on South China Sea disputes. Vietnam's large-scale anti-China riots last year came as an unwelcomed surprise to Beijing and appear to have caused China to reassess and moderate to some degree its expansionism in the South China Sea. But as noted above, Beijing seems to judge that Southeast Asia overall is weak and divided and not prepared to resist China's recently stronger ambitions.

On the other hand, few if any Southeast Asian governments appear to be bandwagoning with China. Media used to characterize the Myanmar Junta as completely under China's sway, ignoring the generals' personal and protracted experience fighting the Chinese-created Burmese Communist Party insurgency. For these and other reasons, the generals more recently stopped big Chinese projects and moved to expand Myanmar's international options at China's expense. Cambodian leader Hun Sen maneuvers for advantage in relations with China, but this successful strongman almost certainly recalls that China deemed him enemy #1 for over a decade when he led the Vietnamese-backed regime in Phnom Penh while China strongly supported the Khmer Rouge guerrillas.

A prevailing pattern involves Southeast Asian government hedging their bets in dealing with a rising China that is adopting coercive measures and an increasing list of demands for its neighbors. In this context, the governments generally support the Obama government's stronger military, economic and military engagement in the area under the rubric of the rebalance policy toward the broad Asia-Pacific region. The more active U.S. policies and practices are the main deterrent to more aggressive Chinese behavior in Southeast Asia. China sharply criticizes the U.S. policy; China rightly sees American support as strengthening the resolve of Southeast Asian states to maneuver in order to

avoid falling under China's sway as they try to sustain their national interests even when at odds with China over the South China Sea or other issues.

At bottom, regional wariness of rising China will continue. The United States and its ally Japan seem best positioned to take steps on their own and with others including Australia and India to deter Chinese expansion and show China costs for its recent expansionist actions. And these steps can build on closer security cooperation with the United States sought not only by the Philippines and Singapore, but also Indonesia, Malaysia and Vietnam among others. Such demonstrations may cause China to recalibrate the strengths and weaknesses of its current policy and shift to a less challenging stance, as it did in 2001.

SECTION 3

How do individual Southeast Asian countries view China's growing trade and economic dominance in the region? What is your assessment of China's regional economic initiatives, such as the Asian Infrastructure Investment Bank (AIIB)?

While it's probably too early to give a definitive assessment of the impact of Xi Jinping's varied economic initiatives on Chinese relations with Southeast Asian states, the assessment provided below which is based heavily on the reservations of Chinese specialists and officials,¹ argues that it would be incorrect to assume that China is in a dominant economic position in Southeast Asia. The facts argue otherwise. Despite repeated Chinese pledges over the past decade to enhance investment in Southeast Asia with a \$10 billion fund, a \$3 billion fund and other initiatives, Chinese investment (including from Hong Kong) in ASEAN countries remains at modest levels—about 10 percent of foreign investment there according to ASEAN data. Investment by Japan and the European Union are much higher. A recent USCC study had the Chinese investment figure even lower than ASEAN figures. Chinese trade (including Hong Kong) is more important—close to 20 percent of ASEAN trade but again far from dominant, especially if one considers the following: More than half of Chinese foreign trade is controlled by foreign invested enterprises in China; China-ASEAN trade is active processing trade and eventual production of manufactured goods; only 22 percent of those goods are used in China or ASEAN countries; 60 percent of those goods are exports to and dependant on sales in other markets, mainly to the United States and Europe.

Available information and results of schemes in Chinese investment and economic interchange abroad in the last 15 years that are similar to Xi Jinping's current economic initiatives show a pattern of grandiose visions running up against difficult realities. The problem is exacerbated under Xi Jinping as his leadership puts stronger emphasis than previous Chinese governments on projecting an image of greater Chinese activism in world affairs. The assessment below argues that the very loud drumbeat from China's

¹ See the review in "China-Southeast Asia Relations," *Comparative Connections* (May 2015) www.csis.org/pacfor

massive propaganda enterprise of purported Chinese beneficence and largess moving Southeast Asians to forget their differences and bandwagon with China is misleading and far from reality.

Assessing AIIB, Silk Road Fund, and China-Southeast Asian Relations

The China-initiated AIIB represents a work in progress. Chinese officials reportedly were surprised by the number of states seeking to join, despite reports of opposition by the United States. The Chinese Ministry of Finance announced on April 15 that 57 nations were approved as founding-members of the AIIB; they included all members of ASEAN. Official Chinese media reported China's commitment of \$50 billion to the bank, but the commitments of other nations, the rules and regulations of the body and a host of other issues are in the process of being resolved. Deliberations to decide on the distribution of each country's respective share of decision making power in the bank and the selection of leading bank officials reportedly are expected in meetings of representatives of the founding members later this year.

By contrast, the \$40 billion China Silk Road Fund is under direct Chinese control and has registered more concrete progress than the AIIB. The Fund was established on December 29, 2014 and began operation on February 16, 2015. The scope of the Fund's activities involves both the countries included in China's Silk Road Economic Belt (mainly countries West of China going overland as far as Europe) and countries included in China's 21st Century Maritime Silk Road Initiative (mainly countries along the sea routes from China through Southeast Asia and the Middle East to Europe). A map publicized by official Chinese television and print media on April 15 showed that the scope of the Silk Road Economic Belt and the 21st Century Maritime Silk Road involves all of the Southeast Asian countries as well as neighboring countries of the South Pacific.

Coincident with the Boao Forum on Asia Annual Conference and Xi Jinping's keynote address there emphasizing China's "common destiny" with Southeast Asian and other neighbors, Chinese authorities released on March 28 a new action plan suggesting steps to be taken under the rubrics of the Silk Road Economic Belt and the 21st Century Maritime Silk Road initiatives. The plan was created by the National Development and Reform Commission, the Ministry of Foreign Affairs and the Ministry of Commerce and was endorsed by the State Council. It was as much a vision statement as it was a plan for action. The main substance of the plan is in sections dealing with "framework" and "cooperation priorities" that detailed a very wide range of proposed or possible policies and practices. The details showed that while China has a focus on developing infrastructure projects connecting China more closely with its neighbors, Beijing is open to pursuing a broadly defined range of actions favored by China and neighboring states involving promoting enhanced policy coordination across the Asian continent, financial integration, trade liberalization and people-to-people connections.

Providing some clarity on what Southeast Asian and other neighbors can expect from Silk Road Fund, official Chinese media announced the first project supported by the Fund during President Xi Jinping's visit to Pakistan on April 20. The project involves

providing capital to build the Karot Hydropower project in northeastern Pakistan. That project is valued at \$1.65 billion. It is part of a very ambitious Chinese plan to build a \$46 billion 3,000 kilometer China-Pakistan Economic Corridor from China's Xinjiang Uyghur Autonomous Region through the Khunjerab pass (elevation 15,397 feet) in the Karakorum Mountain range into Pakistan's Baluchistan region to the Chinese built Gwadar Port on the far western Pakistan coast, thereby connecting China, Pakistan and the Arabian Sea. It remains very difficult at this early stage to determine how and if the \$46 billion Chinese plan will be implemented and paid for, but the overall figure is staggering. By comparison, the United States was the main provider of assistance to Pakistan during the long U.S. led war in Afghanistan since 2001. The total amount of U.S. assistance is about \$31 billion and the American assistance is forecast to decline sharply with the U.S. military pullback from Afghanistan.

According to official Chinese media, the hydropower project is emblematic of the kinds of medium to long term projects that will be supported by the Fund in Southeast Asia and elsewhere within the broad scope of the Fund. Specific information on the Pakistan project says that construction of the proposed power station will start at the end of 2015 and the station will be in operation by 2020. The station will be operated by a Chinese company for 30 years and then it will be transferred to the Pakistan government.

Chinese media reporting shows a diffusion of Chinese funding mechanisms both supporting the Pakistan power project and supporting the broad Silk Road Fund. The media reporting does not provide a clear figure on how much of the \$1.65 billion cost of the power project actually will be paid by the Fund. What it says is that the Fund will join "a consortium led by the Export-Import Bank of China" that is supplying the funding for the power station, according to a *China Daily* report of April 20. Meanwhile, the *China Daily* report also disclosed that the initial capital of the China Silk Road Fund amounts to \$10 billion coming from a variety of sources including \$6.5 billion from foreign exchange reserves; \$1.5 billion from the sovereign wealth fund, China Investment Corporation; \$1.5 billion from the Export-Import Bank of China; and \$500 million from the China Development Bank.

Motives, Risks and Implications for China-Southeast Asian Relations

Publicity surrounding the Boao Forum and President Xi's speech there and speeches on other recent occasions underlined Chinese motives seeking mutual benefit, peace, development and ever greater cooperation and integration with Southeast Asian and other neighbors. Chinese leaders and commentary also repeatedly disavowed seeking advantage in competition for influence with the United States, Japan and others.

Nevertheless, the surge of Chinese commentary also contained remarks by Chinese leaders and lower-level officials and commentators showing specific benefits China seeks from the Silk Road Fund, the AIIB and related efforts in dealing with Southeast Asian and other neighboring countries. There are economic benefits and strategic benefits.

The perceived economic benefits are:

- China's massive foreign exchange reserves are said to be better employed in infrastructure development and investments abroad in Asia than being employed in U.S. government securities and such other low-paying investments abroad.
- Asia's massive need for infrastructure meshes well with China's massive overcapacity to build infrastructure after 30 years of rebuilding China. Meshing the two will allow competitive Chinese construction companies to continue productive growth in building Chinese-funded infrastructure in neighboring countries.
- Connecting remote western and southern regions of China with neighbors through modern infrastructure in Asia will serve to develop these backward Chinese regions more rapidly and thereby help to bridge the wide economic development gap between interior and coastal provinces in China.
- The Chinese-supported infrastructure will allow many Chinese industries with excess capacity or facing higher wage demands or more stringent environmental restrictions in China to relocate to nearby Asian countries and continue to prosper and develop.
- The Chinese funded connection with neighbors will facilitate trade and the increased use of the Chinese currency in international transactions.
- Developing trade routes including road, rail and pipeline connections to China from the Arabian Sea through Pakistan, from the Bay of Bengal through Myanmar, and overland through Central Asian states and Russia is said to reduce China's vulnerability to possible foreign interdiction of sea borne shipments of oil and other needed goods to China. In particular, Chinese strategists worry about such vulnerability of Chinese imports and exports passing through the Indian Ocean and the Strait of Malacca.

The perceived strategic benefits are:

- Disputes over South China Sea territorial disputes and Chinese intimidation and divisive tactics in dealing with ASEAN and its member states have led to what some Chinese commentators see as "negativity" in recent China-Southeast Asian relations. The Silk Road Fund and related initiatives act to change the subject in China-Southeast Asian relations in ways that improve Chinese influence and image.
- The Chinese initiatives are seen as an effective way to use China's geographic location and large foreign exchange reserves in crafting policies and practices that off-set American efforts to advance U.S. regional influence and standing through the Obama government's rebalance policy in Asia.

While generally emphasizing the positive, the surge of Chinese commentary also contains statements by Chinese officials and commentators showing reservations about the Silk Road Fund and related initiatives, seeing notable risks. They involve economic risks and political risks.

The perceived economic risks are:

- Since the more viable investment opportunities in Asia have already been taken, China will be focused on less secure investment opportunities. Given this reality, some commentators warn against repeating the shortcomings seen in China's "going out" efforts using Export Import Bank and China Development Bank funding to seek energy and resources over the past decade. Those efforts had a mixed record, with responsible officials saying that over half of Chinese overseas investment projects are unprofitable and 80 percent of Chinese mining deals have failed.
- Beijing continues to emphasize it is a "developing" country with major internal needs. Thus, the win-win formula governing Chinese funding abroad usually requires assurance that the funding will be paid back in some way. The long term commitment to infrastructure development in less than secure countries heightens the chance for changes and unrest that have destroyed or undercut massive Chinese investments carried out or planned in places like Iraq before 2003, Libya, the Philippines, Nigeria, Myanmar, Mexico, Sri Lanka and Greece among many others. Chinese commentary also notes that longer term investment is more prone to loss due to corruption in such less than stable countries. All of the above undercut the likelihood of Chinese outlays being paid back.

The perceived political risks are:

- China's Asian neighbors are seen as wary of coming under China's sway as a result of the closer economic connections called for in the Silk Road Fund and related plans. Chinese commentators have warned Beijing against appearing like Japan did in the late 1980s as Tokyo prompted regional fears as it bought resources and deepened investment using its highly valued currency and other economic advantages.
- China also has a mixed reputation in its support for labor standards, environmental protection, the quality of work and sustaining large Chinese built infrastructure projects. Backlash has come in African and Latin American countries and is seen in changing attitudes working against China among rulers in Asian countries including Myanmar, the Philippines, Sri Lanka and others.

Meanwhile, data and assessments provided by ASEAN, *The Economist*, and the *China-Latin America Economic Bulletin* show that the Chinese record of actual investment abroad has amounted to much less than anticipated by Chinese and foreign media highlighting for many years a variety of multi-billion dollar Chinese investment schemes similar to the Silk Road Fund. The data and assessments show that China's actual investment in Southeast Asia, Africa and Latin America has amounted to a significant but still modest amount for these areas ranging from about 10 percent for ASEAN to around 5 percent each for Africa and Latin America. Even when one takes into account underreporting by the Chinese government of investment abroad, China's low percentage of investment after many years of pledges and plans to increase investment is a notable finding.

Against the background of the above realities, prominent Asia-Pacific economic and political expert, Zhang Yunling of China's Academy of Social Sciences advised *China Daily* on March 9 that the new Chinese investment plans may take a long time "20 years, 50 years, or even 100 years to accomplish." He warned that the potential risks include "political instability in some countries, terrorism, global competition and concerns about China's growing presence in some regions."

Taken as a whole, the above assessment shows that despite China's disavowals of seeking advantage at others' expense, China does seek a number of advantages in using recent economic initiatives to advance its relations and influence in Southeast Asia at the expense of the United States, Japan and their allies and associates. At the same time, knowledgeable Chinese officials and specialists appear realistic about the risks involved in these economic initiatives. And, specialists in China and abroad argue on the basis of Chinese experience over the past decade that the actual Chinese impact of the recent investment initiatives may remain limited and far from dominant for some time to come. An implication for the United States is that basing judgments on Chinese visions in action plans and pervasive publicity regarding Chinese largess has been off-target in the recent past and in view of prevailing realities would be off-target today.

SECTION 4.

Recommendations

- The evidence above of China's "double game" in promising largess while taking territory in Southeast Asia seems to reinforce rising American criticism of China playing a similar double game toward America. Beijing seeks summitry and dialogues publicly fostering cooperative ties while actively exploiting and undermining American influence in Asia, in international economics and other sensitive areas. In particular, the Chinese behavior reinforces this observer's support for calls in Congress for the articulation of an administration strategy to deal with Chinese territorial advances in Asia even as Beijing propounds its alleged intention of seeking a new type of cooperative great power relationship with the United States. The weakness of Southeast Asian countries and ASEAN relative to China and the close Chinese attention to U.S. regional moves shows that under current circumstances the United States, with the support of Japan and some others, determines whether or not China will be deterred from continued expansion at neighbor's expense.
- A major challenge facing U.S. policy makers involves dealing realistically with the widely publicized Chinese visions and plans for investment and assistance abroad. To do so U.S. policy makers need
 - An assessment of the achievements and failures of similarly ambitious Chinese schemes for investment and assistance in developing countries seen over the past 15-20 years. How many of these schemes announced with great fanfare in the past have failed to be implemented? What caused the failures? Do conditions prompting failures in the past persist up to the present? What is the basis for Chinese officials saying that over half of Chinese investments abroad are unprofitable? Optimally, such a study should be done by the U.S. intelligence community, if necessary using classified information but also allowing for an unclassified version to be shared openly with the Congress, American opinion leaders and media. The study also could be done by organizations capable of conducting what appears to be a large scale research and analysis enterprise such as the Government Accountability Office, The RAND Corporation and others.
 - An assessment of the significance of various shortcomings and risks seen by Chinese and international specialists regarding the major recent investment and assistance initiatives of the Xi Jinping government. How significant are these obstacles and how are they likely to affect the implementation of the Chinese development schemes? This study also seems to require the type of large scale research and analysis noted above and to require at least U.S. government involvement to be sure that relevant classified information is used effectively.
 - Given China's ongoing practice of continuing to receive foreign assistance from Western countries and from Western-backed international economic

institutions like the World Bank and the Asian Development Bank, how and to what degree will China seek such international support for China's ambitious international investment and assistance plans under the AIIB, The Silk Road Fund, The New Development Bank of the so-called BRICS countries (Brazil, Russian India, China, and South Africa), the \$46 billion China-Pakistan Economic Corridor, and other such plans? What will be the impact of the Chinese plans on longstanding U.S. efforts in international assistance to foster sustainable development through good governance and avoiding unsupportable over extension of economic commitments? If as anticipated China seeks the support of World Bank, Asian Development Bank and other international economic institutions for investment and assistance plans that clearly benefit China at the expense of U.S. policy goals, Congress should press the Administration for a strategy that would deal effectively with this aspect of what is seen by critics as part of China's "double-game" toward America.